

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 23-085

NORTHERN UTILITIES, INC.

2023-2024 Winter and 2024 Summer Cost of Gas

Order Establishing Cost of Gas Rates

ORDER NO. 26,897

October 31, 2023

In this order, the Commission approves Cost of Gas (COG) rates for the 2023-2024 winter period and for the 2024 summer period. The costs for the winter and summer periods are reflective of the competitively bid commodity prices, hedging, and the Northern pipeline, storage, and peaking strategy.

Residential Rates
(per therm)

	Winter Rates			Summer Rates		
	<u>Proposed Rates</u>	<u>Prior Year Rates</u>	<u>Change</u>	<u>Proposed Rates</u>	<u>Prior Year Rates</u>	<u>Change</u>
Cost of Gas	\$0.7282	\$0.6902	5.5%	\$0.5117	\$0.3708	38.0%
LDAC	\$0.0883	\$0.1871	(-53%)	\$0.0883	\$0.1871	(-53%)
Distribution	\$0.9693	\$0.9266	4.6%	\$1.0330	\$0.9266	11.5%
Total	\$1.7858	\$1.8039	<u>-1.00%</u>	\$1.6330	\$1.4845	<u>10.00%</u>

Turning from the rates in the table above to bill impacts, Northern's residential heating customers can expect to pay 13.7% less than last winter and 5.5% more than last summer, based on weighted-average rates in the prior year periods.

Gas commodity costs incurred by Northern in making purchases to serve its customers are passed through without a markup in the COG tariff rates. The Commission does not administratively set the prices offered by wholesale gas suppliers or ancillary service providers to serve Northern's customer load. These prices are set

by the suppliers and service providers themselves, informed by prevailing market conditions, where Northern endeavors to procure a reliable gas supply at the lowest cost. The Commission does oversee this procurement process as part of this proceeding and approves the resultant rates under the governing statutory standards.

I. PROCEDURAL HISTORY

On September 15, 2023, Northern Utilities, Inc. (Northern or the Company) filed a winter 2023/2024 and summer 2024 cost of gas (COG) petition outlining its proposed COG for the winter period (November 1, 2023, through April 30, 2023) and the summer period (May 1, 2024, through October 31, 2024), including proposed Local Delivery Adjustment Clause (LDAC) charges for the period of November 1, 2023, through October 31, 2024. *See* Hearing Exhibit 2. Northern also submitted its Environmental Cost Report filing on September 15, 2023. *See* Hearing Exhibit 3. The Office of the Consumer Advocate (OCA) filed its letter of participation on September 25, 2023. The Commission issued a Commencement of Adjudicative Proceeding and Notice of Hearing order on October 4, 2023, scheduling a hearing on this matter for October 26, 2023. There were no intervenors. The hearing was held on October 26, 2023, as scheduled, where representatives of the Company, the New Hampshire Department of Energy (DOE), and the OCA appeared. (A representative of Northern, Ms. S. Elena Demeris, appeared remotely at the October 26 hearing, pursuant to a motion made by Northern and a Commission procedural order approving this motion issued on October 20, 2023).

On October 6, 2023, Northern made a Revised COG Tariff Filing, *see* Hearing Exhibit 4. The revised Tariff Pages included the Revenue Decoupling Adjustment Factor (RDAF) figures, approved on an interim basis by the Commission in Docket No. DG 23-086, on a *nisi* basis in Order No. 26,896, for rates effective on November 1,

2023. Northern also made a request at hearing for the Commission's late acceptance of its affidavit of publication, which was granted by the Commission from the bench, with no objection being made by the DOE or by the OCA.

Northern's COG filings included the proposed tariff pages, schedules, and pre-filed testimony and related attachments from Christopher A. Kahl, Francis X. Wells, S. Elena Demeris, and Daniel T. Nawazelski. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at

<https://www.puc.nh.gov/Regulatory/Docketbk/2023/23-085.html>

II. BACKGROUND AND OVERVIEW OF NORTHERN'S COG REQUESTS

The COG adjustment mechanism was implemented in 1974 during a time of rapidly changing prices to reflect increases and decreases in energy supply costs in customer rates without having to go through extended proceedings to change fuel delivery rates. Northern has limited control, if any, over the market price of natural gas, which is an unregulated commodity. Similarly, it has limited control over items such as fuel transportation and storage costs. The COG adjustment mechanism allows the Company to pass those costs onto customers directly and efficiently without mark-up or profit. COG rates are initially set using projected costs and sales for the upcoming winter period, which runs from November 1 through April 30 and the summer period, which runs from May 1 through October 31. Through the COG adjustment mechanism, the COG may adjust COG rates monthly to incorporate changes in the natural gas markets based on actual costs to date and projected costs for the remaining period.

While there is no limitation on reductions to COG rates, rates may be adjusted upward without Commission action up to a cumulative maximum of 25 percent above

the approved rate. To the extent that adjustments are based on projected costs, they are subject to periodic reconciliation, after all actual costs are known and reported. As a result, the COG rate fluctuates with market prices and is subject to monthly increases or decreases.

The Commission also has historically set the LDAC within the context of COG proceedings. The LDAC allows for recovery of expenses the Commission has approved in prior dockets through a per therm charge to be determined and implemented through annual COG proceedings. LDAC expenses include costs associated with Northern's Gas Assistance Program (GAP) and Regulatory Assessment Adjustment Mechanism (RAAM) rates – formerly known as the combined Residential Low Income Assistance Regulatory Assessment (RLIARA) rate. LDAC expenses also include the Energy Efficiency Charge (EEC), the Environmental Response Cost (ERC) rate, rate case expenses, the recoupment of the difference between temporary and permanent rates, referred to as the Reconciliation of Permanent Charges (RPC) rate, the Property Tax Adjustment Mechanism (PTAM) rate, the Lost Revenue Rate (LRR), and the Interruptible Transportation Margin Charge (ITMC) rate.

The impacts of the Company's proposals on the winter and summer bills of a typical residential heating customer are summarized in the tables below.

Bill Impact

Winter

	Proposed 2023-24	2022-23	Difference	Change %
Base Rate	\$606.03	\$585.20	\$20.83	3.56%
COG	\$355.22	\$487.99	(\$132.78)	-27.21%
LDAC	\$43.07	\$91.03	(\$47.96)	-52.68%
Total	\$1,004.32	\$1,164.22 ¹	(\$159.91)	-13.74%

¹ DOE Technical statement wrongly used the 2022-23 numbers as the Total proposed bill, both for the Winter and Summer Column (See table 7, on page 5).

Summer	Proposed 2024	2023	Difference	Change %
Base Rate	\$247.86	\$236.02	\$11.84	5.02%
COG	\$56.80	\$41.16	\$15.64	38.00%
LDAC	\$9.80	\$20.77	(\$10.97)	-52.81%
Total	\$314.46	\$297.95	\$16.52	5.54%

Several surcharges are included in the proposed LDAC of \$0.0883 per therm for residential customers and \$0.0362 per therm for C&I customers, compared to the \$0.1871 per therm and \$0.0503 per therm rates, respectively, that are currently in effect. See Hearing Exhibit 2, Bates Page 26. The proposed ERC is \$0.0023 per therm, a reduction from the \$0.0058 per therm ERC rate currently in effect. The proposed EEC was proposed by the Company to remain unchanged at \$0.0520 per therm for residential customers, and \$0.0257 per therm for C&I customers. The proposed GAP charge to recover expenses related to the Gas Assistance Program is \$0.0061 per therm, an increase from the \$0.0037 per therm rate currently in effect. The LRR is proposed to remain unchanged at \$0.0000 (zero) per therm for both residential and C&I customers, due to the advent of the RDAF decoupling rate.² Due to recent legislative changes, the Company proposes a PTAM of \$0.0000 (zero) per therm for both residential and C&I customers, unchanged from the zero PTAM rate currently in effect. Northern proposes a RAAM of \$0.0010 per therm for both residential and C&I customers, compared to the RAAM rate of \$0.0002 per therm currently in effect. The proposed ITMC rate is unchanged at \$0.0000 (zero) per therm from the ITMC rate currently in effect. Hearing Exhibit 2 at Bates Page 26.

² Northern has transitioned to decoupling as of August 1, 2022, pursuant to the terms of Order No. 26,650 (July 20, 2022), in Docket No. DG 21-104; see Order No. 26,650 at 13-14, and 21.

Northern also proposes a Rate Case Expenses (RCE) LDAC charge of \$0.0000 (zero) per therm for both residential and C&I customers, as the Company’s expenses incurred as part of the Company’s full distribution rate case, Docket No. DG 21-104, have been fully recovered through the LDAC. This is a reduction from the \$0.0048 per therm RCE rate currently in effect. Hearing Exhibit 2 at Bates Page 26. Also, in connection with its DG 21-104 full distribution rate case, the Company proposes an RPC component of the LDAC rate of \$0.0269 per therm for residential customers and \$0.0011 per therm for C&I customers, compared to the \$0.1206 and \$0.0101 per therm RPC rates for residential and C&I customers, respectively, currently in effect. *Id.*

LDAC

	Residential			C&I		
	Current	Proposed	Difference	Current	Proposed	Difference
GAP	\$0.0037	\$0.0061	\$0.0024	\$0.0037	\$0.0061	\$0.0024
EEC	\$0.0520	\$0.0520	\$0.0000	\$0.0257	\$0.0257	\$0.0000
LRR	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
ERC	\$0.0058	\$0.0023	-\$0.0035	\$0.0058	\$0.0023	-\$0.0035
ITMC	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
RCE	\$0.0048	\$0.0000	-\$0.0048	\$0.0048	\$0.0000	-\$0.0048
RPC	\$0.1206	\$0.0269	-\$0.0937	\$0.0101	\$0.0011	-\$0.0090
PTAM	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
RAAM	\$0.0002	\$0.0010	\$0.0008	\$0.0002	\$0.0010	\$0.0008
Total	\$0.1871	\$0.0883	-\$0.0988	\$0.0503	\$0.0362	-\$0.0141

Northern proposes to reduce its Company Allowance Calculation (for lost and unaccounted for gas and Company use of gas) for the period of November 2023 through October 2024 from 0.97 percent to 0.72 percent. *See* Hearing Exhibit 2 at Bates Page 31. It also proposes changes to its supplier balancing charge, peaking service demand charge, re-entry surcharge, conversion surcharge, and capacity allocator percentages. *See* Hearing Exhibit 2 at Bates Pages 31-33.

III. POSITIONS OF THE PARTIES

The DOE filed, on October 23, 2023, a Technical Statement by Dr. Faisal Deen Arif and Mr. Ashraful Alam, Gas Director and Utility Analyst in the DOE's Division of Regulatory Support, respectively, outlining the DOE's positions regarding the Company's COG filing. *See* Hearing Exhibit 5. The DOE recommended that the Commission approve Northern's COG proposals; the DOE also recommended that Northern make an updated COG filing in March 2023 for Summer 2024 rates, for the DOE's assessment and comment, and potentially, review through a Commission hearing. Hearing Exhibit 5 at Bates Page 7. In a statement made at hearing, the DOE indicated that it would prefer to have available the option of a March review proceeding to consider summer period COG rates for Northern, with the benefit of updated pricing data and the most recent DOE Audit Division audit of the Company's COG accounting. Dr. Arif also provided oral testimony to that effect at the hearing, stating that "it would be useful" to have an updated summer period COG rate filing in the early spring of 2024 for Commission and DOE review. On Commissioner questioning, the DOE agreed to provide a filing outlining its proposals for COG process changes in a separate, to-be-determined, docket. The DOE did state that it supported Commission approval of Northern's COG and LDAC rate proposals as filed, subject to reconciliation.

The OCA, in its statement made at hearing, stated that it supported approval of the Company's COG and LDAC rate proposals, and that the OCA was open-minded about future process improvements for COG review.

In its final statement made at hearing, the Company expressed its strong preference for maintaining the current review structure for the COG and LDAC review processes, and strenuously objected to any potential implication that Commission

approval of these rates was in any way contingent or conditional on the future results of the DOE Audit Division's findings. The Company also did acknowledge that in COG proceedings, COG reconciliation balances could be adjusted, on order of the Commission, based on new data arising during the COG year.

IV. COMMISSION ANALYSIS

As a threshold matter, the Commission does not administratively fix the market prices for gas commodities or ancillary services for Northern or any other gas utility in our State; the offering prices of the wholesale gas, transportation, and storage suppliers participating in the North American³ gas market, responding to prevailing market conditions, drive this outcome. The Commission does, however, oversee the process used by Northern for its gas portfolio development, and its calculation of the resultant COG rates, for compliance with industry standards, Commission statutes, rules, and orders, and accuracy, to ensure just and reasonable rates within this market-driven framework. Likewise, the Commission oversees the Company's calculation of the LDAC components, and the accuracy thereof, to ensure just and reasonable rates.

The Commission has broad statutory authority to set rates in addition to "powers inherent within its broad grant" of express authority. *See Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64-66 (2005) (citations omitted). The Commission applies the "just and reasonable" ratemaking standard of RSA 374:2 and RSA 378:7 when setting COG rates. *See Northern Utilities, Inc.*, Order No. 25,891 (April 29, 2016). In circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8.

³ The United States and Canadian gas supply and transportation system is fully integrated. Northern secures gas supply, storage, and transportation from U.S. and Canadian market participants to serve its customers' load.

Based on our review of the record in this docket, the procurement process employed by the company, and the supporting review provided by the DOE, we find the proposed 2023-2024 winter and 2024 summer COG rates just and reasonable and therefore approve them. The process employed by Northern is market-based and the resulting rates reflect current conditions in the natural gas market. We also approve Northern's LDAC rate components. Because the COG rate components are reconciled each year, any adjustments needed to reconcile actual costs and revenues will be made in Northern's next winter COG filing for 2024-2025. In addition, with regard to Northern's LDAC rates, we note that some of the rate elements may be adjusted by Commission decisions in other dockets during the course of the LDAC rate period, November 1, 2023, to October 31, 2024. If those Commission decisions impact the LDAC rate, further proceedings for an interim rate adjustment during the LDAC period will be held as appropriate. As a side note, we have approved the RDAF rate component for inclusion in the November 1 rates, as ordered in Docket No. DG 23-086, pursuant to the terms of Order No. 26,896, subject to any future reconciliation arising from that proceeding, and have approved interim implementation of the Tariff pages appended thereto.

Regarding the question of a future March 2024 Summer COG rate filing, we rule that there is not an urgent need for such a filing at this time. For the time being, we expect that any issues of volatility, as indicated by the Company, can be dealt with by the COG rate features discussed below. Furthermore, we note that in the past, COG reconciliation adjustments have been made on order of the Commission in response to information brought forward by the DOE, or by its analytical predecessor before 2021, Commission Staff. It is the Commission's expectation that the DOE, or the Company itself, would bring forward proposed necessary COG reconciliation

adjustment items to the Commission's attention during any given COG year, or at the next COG adjustment proceeding. The Commission would assess each request for reconciliation adjustments on its own merits. If assented to by the Company, the adjustment could be effectuated through the next COG proceeding, if the Commission finds such adjustments to be just and reasonable. If not assented-to, the Commission could launch an investigation, on the motion of the DOE, or on its own motion, to assess the request and give the Company and other parties an opportunity to respond. *See, e.g.*, Order No. 25,431 (October 29, 2012), in Docket No. DG 12-131 (Order approving settlement agreement in Maine-New Hampshire Northern capacity allocation investigation, which arose in the context of a Northern COG review proceeding, Docket No. DG 12-068). In any event, COG reconciliation adjustments are not automatic, whether they arise from Audit findings or otherwise.

Pursuant to *Northern Utilities, Inc.*, Order No 24,961 (April 30, 2009), Northern may, without further Commission action, adjust its approved COG rates based on the projected over- or under-collection for the period, the adjusted rate to be effective the first day of the month and not to exceed 25 percent above the approved rate.

Based upon the foregoing, it is hereby

ORDERED, that Northern Utilities, Inc.'s 2023-2024 winter period COG per therm rates effective for service rendered on or after November 1, 2023, and its 2024 summer period per therm rates effective on and after May 1, 2024, are APPROVED as indicated in the table that follows; and it is

Rates in \$/therm	Winter 2023-2024	Winter Maximum Rates	LDAC
Residential	\$0.7282	\$0.9103	\$0.8883
C& I - LLF (High winter use)	\$0.7402	\$0.9253	\$0.0362
C& I - HLF(Low winter use)	\$0.6587	\$0.8234	\$0.0362

Rates in \$/therm	Summer 2024	Summer Maximum Rates	LDAC
Residential	\$0.5117	\$0.6396	\$0.0883
C& I - LLF (High winter use)	\$0.5622	\$0.7028	\$0.0362
C& I - HLF(Low winter use)	\$0.4443	\$0.5554	\$0.0362

FURTHER ORDERED, that Northern may, without further Commission action, adjust its approved COG rates based on the projected over- or under-collection for the period, the adjusted rate to be effective the first day of the month and not to exceed a maximum rate of 25 percent above the approved rate (said maximum rates identified in the table above), with no limitations on reductions to the COG rates; and it is

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall also include revised Calculation of the Firm Sales COG Rate Tariff pages, and revised rate schedules under separate cover letter if Northern elects to adjust COG rates, with revised Tariff pages to be filed as required by New Hampshire Code of Administrative Rules Part Puc 1603; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the prime interest rate as reported by the Wall Street Journal on the first date of the

month preceding the first month of the quarter, with the interest rate to be adjusted quarterly; and it is

FURTHER ORDERED, that Northern's LDAC per therm rates effective for service rendered on or after November 1, 2023, through October 31, 2024, are \$0.0883 and \$0.0362 for residential and C&I customers respectively, subject to interim adjustment of the LDAC as set forth herein above; and it is

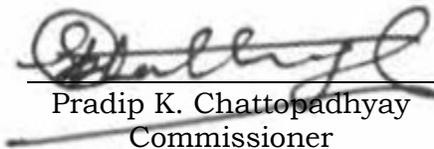
FURTHER ORDERED, that Northern's proposed gas allowance factor of 0.72 percent is approved, as are the other changes contained in the COG filing; and it is

FURTHER ORDERED, that Northern shall file annotated tariff pages as required by N.H. Code Admin. R., Puc 1603 conforming to this order within fifteen (15) days of the date of this order, or November 15, 2023.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2023.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner



Carleton B. Simpson
Commissioner

Service List - Docket Related

Docket#: 23-085

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