

# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

**DATE:** November 18, 2010

**AT (OFFICE):** NHPUC

**FROM:** Stephen P. Frink<sup>SPF</sup>  
Assistant Director, Gas & Water Division

**SUBJECT:** DG 08-048  
Final Report – Granite State Gas Transmission Study

**TO:** Commission



### Background

On March 31, 2008, Unitil Corporation (Unitil) and Northern Utilities, Inc. (Northern) filed a joint petition for approval of Unitil's acquisition of Northern. Under the proposed transaction, Unitil also acquired Granite State Gas Transmission, Inc. (Granite), a federally regulated interstate pipeline located in Maine, New Hampshire and Massachusetts, serving Northern's distribution system in Maine and New Hampshire.

On August 15, 2008, a settlement agreement between Unitil, Northern, Commission Staff, the OCA, and N.H. Legal Assistance through Mary Polcheis was filed. At a hearing held on August 19, 2008, Staff testified that Granite primarily serves Northern, which holds 93% of Granite's subscribed capacity through capacity charges which are passed through to Northern's customers. The settlement agreement required Unitil to conduct a comprehensive study of Granite and Northern operations in collaboration with the settling parties to determine if Northern customers are best served by Granite as presently configured (Granite Study). Staff testified that if other parties or Staff did not agree with the recommendations in the final report, the Commission might be asked to open an investigation into the results of the study and whether an alternative pipeline operating structure would better serve the public interest.

On October 10, 2008, the Commission issued Order No. 24,906 approving the settlement agreement. Regarding the Granite Study, the Commission stated, "The study ... will allow Unitil to carefully consider how Granite and Northern might be operated and organized differently for the benefit of customers at the outset of its management." See Order No. 24,906 at 38. The Commissioners further noted that since Northern is entirely dependent on Granite's pipeline, Northern's level of safety and reliability is inherently dependent upon Granite's. And since Northern is by far the largest customer of Granite, accounting for approximately 93% of throughput, most of Granite's costs are ultimately passed through to Northern's customers.

On February 26, 2010, Unitil filed its Final Report – Granite State Gas Transmission Study, which concluded, among other things, that filing for an exemption from U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) regulation and Federal Energy Regulatory Commission (FERC) jurisdiction is not the most effective long-term solution for Northern’s and Granite’s customers, nor would these customers be better served by modifying the physical, operational, regulatory and corporate structure necessary for state regulation of Granite.” *See* Granite Study at 1. Staff notes that although the study was intended to be a collaborative effort, the conclusions set forth in the Granite Study are attributable exclusively to Unitil.

On June 29, 2010, Granite filed a request with the FERC for a rate increase of 113% and a capital cost tracker and capital cost surcharge to recover an estimated \$12.7 million on three major construction projects to be completed between January 2011 and December 2013. The proposed tracker included three categories of eligible costs: 1) replacement of six miles of deteriorated pipe, referred to as disbonded pipe, at an estimated cost of \$6.5 million; 2) capital costs to comply with PHMSA requirements at an estimated cost of \$2.2 million, and 3) relocation of pipe associated with the New Hampshire Department of Transportation’s Little Bay Bridge Crossing Project at an estimated cost of \$2.7 million. Granite also requested that it be allowed to recover its rate case expenses for the FERC proceeding, an estimated cost of \$528,000. Approximately one week prior to Granite making its FERC filing, Unitil telephoned Staff to inform them of the intended filing.

On July 9, 2010, the Commission filed a notice of intervention with the FERC in the Granite proceeding. The Maine Commission and Maine Office of the Public Advocate also filed to intervene. Northern, Granite’s affiliate and primary customer, did not intervene.

### **Issues**

Staff is unable to determine that it is in the long-term interest of customers to maintain the current physical, operational, regulatory structure of the Granite pipeline, as concluded by Unitil in the Granite Study. In particular, Staff is concerned that the capital investments for which Granite has requested FERC approval to recover through a capital cost surcharge significantly larger than what was stated in the Granite Study and may not be the most cost effective means to meet the regulatory requirement to provide safe and reliable service. Furthermore, the Granite Study did not consider the cost to replace disbonded pipe in reaching its conclusions, as Granite determined that the disbonded pipe must be replaced under all circumstances (Granite Study at 26). Granite is beginning to incur significant operating expenses and intends to make substantial capital investments in 2011 to replace the disbonded pipe although that cost could be avoided if Granite were to abandon that pipe in place and reconfigure the existing system to achieve more cost effective operation and management. Staff believes that future costs of maintaining the pipeline as a transmission line may be higher than what was originally estimated. Staff is also concerned that the proposed \$12.7 million in capital investments for a pipeline currently valued at approximately \$17 million are unnecessary and unreasonable. Staff believes that further inquiry into these issues is warranted.

### **Recommendation**

Staff recommends the Commission open an investigation regarding, among other things, the results and conclusions of the Granite Study and whether some other physical, operational, regulatory and/or corporate structure applicable to the Granite pipeline would better serve the public interest. Staff recommends that the investigation also consider the impact on New Hampshire ratepayers of the capital investments proposed by Granite, and the feasibility and implications of integrating the Granite pipeline with Northern, and the possibility and implications of state regulation of the pipeline, including whether state jurisdiction would result in lower regulatory costs and more effective oversight of pipeline safety concerns.

Staff further believes it would be appropriate and in the public interest for the Commission to review Granite's analysis regarding its proposed replacement of disbonded pipe before Granite irrevocably commits to the proposed replacement. Staff therefore recommends that the Commission issue an expedited decision regarding the prudence of that investment.

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