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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 5, 2013 - 1:10 p.m.
Concord, New Hampshire

ORIGINAL

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RE:

**DG 13-086 NORTHERN UTILITIES, INC.
Notice of Intent to File Rate Schedules
Prehearing Conference**

PRESENT:

Chairman Amy L. Ignatius, Presiding
Commissioner Michael D. Harrington
Commissioner Robert R. Scott

Sandy Deno - Clerk

APPEARANCES:

**Reptg. Northern Utilities, Inc.
d/b/a Liberty Utilities:**
Gary Epler, Esq.

Reptg. Residential Ratepayers:
Rorie Hollenberg, Esq.
(Consumer Advocate)
Stephen Eckberg

Reptg. PUC Staff:
Alexander Speidel, Esq.
Stephen Frink, Asst. Dir./Gas & Water Div.
Les Stachow

COURT REPORTER: SUSAN J. ROBIDAS, N.H. LCR NO. 44

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P R O C E E D I N G S

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2 CHAIRMAN IGNATIUS: I'd like
3 to open the hearing in Docket DG 13-086.
4 This is Northern Utilities' permanent rate
5 case, accompanied by a request for a
6 temporary rates and implementation of a
7 targeted infrastructure replacement
8 adjustment mechanism and some other changes
9 to its tariff.

10 We had an order of notice
11 issued on May 6th, 2013, scheduling a
12 prehearing conference for this afternoon,
13 beginning at 1:00.

14 So let's begin first with
15 appearances, please.

16 MR. EPLER: Thank you. Good
17 afternoon. My name's Gary Epler. I'm
18 appearing on behalf of Northern Utilities.
19 And with me today from the Company is Mark
20 Collin, chief financial officer and senior
21 vice-president of Unitil; to his right is
22 David Chong, who is the director of finance;
23 in back of David is Benjamin Coons, senior
24 financial analyst; and to Ben's left is

1 George Simmons, manager of regulatory
2 services. Thank you.

3 CHAIRMAN IGNATIUS: Thank you.

4 MS. HOLLENBERG: Good
5 afternoon. Rorie Hollenberg and Stephen
6 Eckberg for the Office of Consumer Advocate.

7 CHAIRMAN IGNATIUS: Good
8 afternoon.

9 MR. SPEIDEL: Good afternoon,
10 Commissioners. Alexander Speidel,
11 representing the Staff of the Commission.
12 And I have with me Stephen Frink, the
13 assistant director of the Gas and Water
14 Division, and Les Stachow, who is an analyst
15 with the Commission Staff as well. Thank
16 you.

17 CHAIRMAN IGNATIUS: Good
18 afternoon. This is a prehearing conference,
19 and so we'll want to take preliminary
20 positions of the Company and others on this
21 docket as it begins. We also would entertain
22 any intervention requests. And I've seen
23 nothing in the file from any intervenors -- a
24 notice from the OCA, obviously, of its intent

1 to precipitate -- but nothing -- there's no
2 one else here today. Are we aware of anyone
3 else who's seeking intervention?

4 MS. HOLLENBERG: No.

5 MR. EPLER: Not aware of any.

6 CHAIRMAN IGNATIUS: I also
7 note there's a motion for protective
8 treatment that's been filed, and I wanted to
9 know if there are positions on the request
10 for treatment that we can take up today. And
11 if not, we can -- if people haven't yet
12 looked at it, we can pick it up at another
13 time. But while we're here, it makes sense.

14 Have people reviewed the
15 April 15th motion for protective order?

16 MS. HOLLENBERG: I am looking
17 at it now, Madam Chairman, and I don't -- it
18 looks as though there are two types of
19 information the Company is seeking protective
20 treatment for. The request for the Excel --
21 the electronic version of the cost-of-service
22 studies is a typical request that we've been
23 aware of having been granted in the past by
24 the Commission. And I'm not as familiar with

1 the request for the forecast information, and
2 I could get back to you on that within a
3 moment, if you would give me a moment.

4 CHAIRMAN IGNATIUS: Well,
5 perhaps, Mr. Epler, if you wanted to
6 summarize the information that you're seeking
7 protection on.

8 MR. EPLER: As pointed out by
9 Attorney Hollenberg, it's two particular
10 documents or sets of documents: The first is
11 the Accounting Marginal Cost Study models
12 prepared by Mr. Normand, and that's just
13 proprietary models. And we have asked for
14 confidential treatment of that similar type
15 of information in other rate cases, and it
16 has been approved. So the hard copies are
17 available. Those are not confidential. It's
18 just that the Excel version is basically his
19 models, his formulas and so on, and that's
20 proprietary. So that's the reason for that
21 particular request.

22 The forecast information, there's some
23 forward-looking forecast information that's
24 in Volume 4 of the supplemental filing. And

1 because it is forward-looking, it's
2 confidential financial information of the
3 Company, and it could impact the markets.
4 That's information that the Company keeps
5 confidential and doesn't release it to any
6 outsiders, but it can be provided in the
7 context of a rate proceeding so that the
8 Commission and intervenors are aware of our
9 internal projections. And again, I believe
10 this is similar information that we've
11 requested confidential treatment of in the
12 past, and it's been granted.

13 MS. HOLLENBERG: I don't have
14 any objection to the requests that they
15 include in the motion.

16 CHAIRMAN IGNATIUS: Mr.
17 Speidel, position on the motion?

18 MR. SPEIDEL: Yes, Madam
19 Chairman. Staff had a look at the motion and
20 examined the materials for which protective
21 treatment was requested, and Staff's view is
22 very much congruent with the motion that had
23 been filed in DG 11-069, and on that basis,
24 Staff has no objection to the motion for

1 confidential treatment.

2 CHAIRMAN IGNATIUS: Thank you.

3 All right. I think we also
4 find it within the realm of things that are
5 standard protection that has been granted and
6 appropriate under the 91-A standards. So we
7 will approve the motion.

8 Anything else we should pick
9 up before doing positions of parties?

10 MR. SPEIDEL: Maybe it would
11 be helpful, Commissioners, to be aware that
12 the parties have informally conferred
13 regarding a potential procedural schedule,
14 and we had expected the possibility of an
15 intervenor. There doesn't appear to be an
16 intervenor. So in that instance, we'll have
17 a letter filed under Staff's signature, with
18 the concurrence of OCA and the Company,
19 proposing a schedule for the remainder of
20 this docket either today or early tomorrow.

21 CHAIRMAN IGNATIUS: And does
22 that include a hearing date for a temporary
23 rate request?

24 MR. SPEIDEL: That is correct.

1 The hearing date that's being contemplated
2 right now is the 17th of June, at 10:00 in
3 the morning.

4 CHAIRMAN IGNATIUS: All right.
5 Thank you.

6 MR. SPEIDEL: Thank you.

7 CHAIRMAN IGNATIUS: Then let's
8 move to positions.

9 Mr. Epler.

10 MR. EPLER: Thank you,
11 Chairman Ignatius, Commissioners.

12 On Monday, April 15th,
13 Northern Utilities filed its request for a
14 distribution rate increase to allow it to
15 recover its investments in safety and
16 reliability-related replacements and
17 improvements to its natural gas distribution
18 system, while also allowing increases to its
19 investment to expand and grow its customer
20 base, and to bring distribution revenues in
21 line with current operating costs and rate
22 base.

23 The Company is not currently
24 earning its authorized rate of return. And

1 due to continuing investments in a
2 non-revenue-producing plant in the future, it
3 expects its earned return on equity to
4 continue to decline.

5 As to the specifics of the
6 increase, the Company is requesting
7 Commission approval, beginning with service
8 on and after May 15th, 2013, for an annual
9 increase of \$5,171,302 in revenues, based
10 upon a test year ending December 31, 2012,
11 and an overall rate of return on rate base of
12 8.54 percent, and known and measurable
13 adjustments for test year revenues, expenses
14 and rate base. As discussed in the testimony
15 and schedules, if the full amount requested
16 is approved, it will result in an increase of
17 approximately 9 percent over test year
18 operating revenues.

19 The Company is also requesting
20 temporary rates pursuant to the provisions of
21 R.S.A. 378:27, and consistent with Commission
22 precedent, to produce an increase in annual
23 revenues of approximately two-and-a-half
24 million dollars, effective with service

1 rendered on and after July 1, 2013, and until
2 a final, non-appealable order on permanent
3 rates is issued.

4 Finally, Northern is
5 requesting approval to implement a multi-year
6 rate plan, including a capital cost recovery
7 mechanism to allow future changes to
8 Northern's distribution rates without the
9 need to file a general rate increase case
10 prior to April 2017.

11 The Company looks forward to
12 working cooperatively with the Commission
13 Staff, Office of Consumer Advocate and any
14 other intervenors, if there are any, to
15 resolve this matter fairly and efficiently,
16 and consistent with public interest. Thank
17 you.

18 CHAIRMAN IGNATIUS: Mr. Epler,
19 can I ask you just to clarify.

20 MR. EPLER: Sure.

21 CHAIRMAN IGNATIUS: I was
22 looking at our order of notice, and it only
23 pulls little pieces of information out of a
24 multi-volume document. So I'm sure the

1 pieces are all there. But can you explain to
2 me why the increase -- I think you said it
3 was a 9 percent increase in revenues -- leads
4 to a 10.7 percent increase in annual bills
5 for heating customers and 31.3 percent
6 increase in non-heating customers? Well,
7 mostly the second. You know, why is there
8 such a huge difference in the percentage
9 increases for those heating and non-heating
10 customers?

11 MR. EPLER: Would it be all
12 right if I turn to one of our witnesses here,
13 Mr. Collin?

14 CHAIRMAN IGNATIUS: That would
15 be fine.

16 MR. COLLIN: Thank you, Madam
17 Chairman, for the question.

18 The 9 percent is an overall
19 average for the entire revenue requirement of
20 the Company versus its operating revenue.
21 The class percentage changes that you discuss
22 really reflect two allocations that happen
23 relative to that total revenue requirement.
24 The first is the interclass revenue

1 allocation. So we take the total revenue,
2 and we allocate it between the major customer
3 classes: Residential, commercial or
4 industrial. And based on the cost-of-service
5 study, there's differences in terms of how
6 that 9 percent average is allocated to each
7 of the classes based on cost-based analysis
8 that happens through our marginal
9 cost-of-service study, which is primarily
10 used for the interclass allocation.

11 In addition to that, there is
12 what may be more defined as "intraclass," or
13 looking at the residential class. There is
14 an intraclass allocation that takes place
15 that is different between a heating customer
16 in this case and a non-heating customer. And
17 the Company has made proposals to change some
18 of the rate design components within those
19 classes, that the end result is that a
20 certain customer class -- in this case, the
21 non-heating -- does receive a higher than
22 average increase.

23 I'll point out that one of the
24 things that we will be presenting during the

1 course of this proceeding and talking with
2 the others in this proceeding is that, while
3 the percentages appear high, particularly on
4 the non-heating class because of the
5 relatively low level of the bills for
6 non-heating customers using gas, the dollar
7 impact is not very large. So there is some
8 differences that go on there.

9 But that's generally an
10 overview of why you're seeing different
11 percentage increases.

12 CHAIRMAN IGNATIUS: And all of
13 that would be, through the cost-of-service
14 study, would be explored on how you got to
15 those allocations?

16 MR. COLLIN: Yes, I expect
17 that to be a significant topic of
18 discussions.

19 CHAIRMAN IGNATIUS: All right.
20 Thank you. And the information that was --
21 over which protection was sought involves
22 that cost study; correct?

23 MR. COLLIN: Yes.

24 CHAIRMAN IGNATIUS: Everyone

1 will have access. The public, in fact, will
2 have access to the hard copies of that study.
3 It's only the models themselves you wanted
4 to -- let's say Staff and OCA wanted to
5 manipulate those and run their own input.
6 They would have the ability to do that under
7 a protective order, but the general public
8 would not; is that correct?

9 MR. EPLER: Yes, that is
10 correct.

11 CHAIRMAN IGNATIUS: Thank you.
12 Ms. Hollenberg.

13 MS. HOLLENBERG: Thank you.
14 The Office of Consumer Advocate at this time
15 doesn't have a position on the Company's
16 request for rate relief, and we look forward
17 to participating with the Staff and the
18 Company in this proceeding to bring the
19 Commission the appropriate information for it
20 to make the best decision. Thank you.

21 CHAIRMAN IGNATIUS: Thank you.
22 Mr. Speidel.

23 MR. SPEIDEL: Thank you very
24 much. The Staff would like to make note of

1 the fact that the Company has proposed a rate
2 recovery mechanism, very similar to the
3 National Grid Bare Steel/Cast Iron Placement
4 Program, that will allow for annual step
5 adjustments as part of a rate plan that also
6 includes a stay-out provision. The Staff
7 does not have an initial position on these
8 proposals but will be conducting extensive
9 discovery regarding all aspects of the
10 proposal and the underlying revenue cost and
11 sales factors and rate design issues. Staff
12 will also be reviewing Northern's line
13 extension policy and Northern's plans on how
14 to expand natural gas service to customers
15 not located on eastern -- not located on
16 existing mains in its eastern New Hampshire
17 service territory. Thank you.

18 CHAIRMAN IGNATIUS: Thank you.
19 Commissioner Scott.

20 CMSR. SCOTT: Thank you.

21 CMSR. SCOTT: Probably for Mr.
22 Epler, or that side of the room, anyways. I
23 was just curious. I think it's Mr. Collin's
24 testimony that makes reference to -- I'm

1 losing it at the moment -- but to expansion
2 and alludes to a willingness to discuss
3 changes in policy to facilitate reaching
4 under-served areas. And perhaps that's what
5 Staff was just referring to. I was curious
6 if you'd elaborate a little bit so I
7 understand a little bit more what that
8 comment was talking about.

9 MR. COLLIN: Yes. Thank you,
10 Commissioner. I think I can answer that.

11 The current policy that the
12 Company operates on for extending services to
13 a customer is based on an economic evaluation
14 model that basically ensures that any
15 incremental cost that is incurred to serve a
16 new customer is borne by the new customer and
17 not by existing customers. This is a
18 traditional pricing policy that has been used
19 just about as long as I can remember, in
20 terms of the expansion of the gas system,
21 where there is concern that as you expand
22 your gas system to serve new customers, that
23 somehow existing customers are subsidizing
24 that expansion. So we have a rigorous model

1 that looks at that. And in general what
2 you'll find is that those customers that are
3 located along the main -- in fact, we have a
4 standard offer under that, that basically
5 says if you're located along the main and
6 you're within 100 feet of the main, then
7 there is no required contribution, because we
8 have shown that your revenues will cover that
9 incremental cost. If you're beyond 100 feet,
10 we'll do a -- we actually do a separate
11 evaluation. And in some instances, your
12 revenue is still sufficient enough to cover
13 the cost, and in some instances it's not.
14 When it's not, the requirement is that the
15 customer makes what is termed a "Contribution
16 In Aid of Construction" or CIAC. That CIAC
17 contribution is used to offset the cost of
18 the expansion to the new customer and
19 ensures, again, that existing customers do
20 not subsidize that new customer.

21 As a result of essentially the
22 revolution that's going on in the gas
23 industry right now, the availability of a
24 very low-cost gas, particularly in the

1 Marcellus region and in the neighboring Utica
2 region here in the East, there is a real
3 opportunity to bring more gas at low cost to
4 more customers in the New England region and
5 significantly reduce their cost of energy,
6 particularly those customers who have either
7 not had an alternative and a competitive
8 price of natural gas, have not had that
9 alternative and are on heating oil, is
10 probably the major other product that
11 competes with natural gas.

12 So with that opportunity,
13 there's been new desire to look at those line
14 extension policies, to look at those
15 practices, and to determine whether or not
16 there may be ways to either roll in -- one
17 way -- let me just give you a couple
18 examples, because I don't know that we have a
19 position yet, because it takes a lot of back
20 and forth in discussion.

21 One is what they call "roll-in
22 pricing," where the cost of expanding the
23 system to new areas, "greenfield areas,"
24 would be more spread out across all your

1 customers. And the argument that the first
2 customers to come to be served aren't
3 necessarily -- it's not necessarily -- they
4 don't somehow share in the expansion of the
5 system as you go forward. So, rolled-in
6 pricing are different ways of looking at that
7 and may be appropriate in certain instances
8 where public policy or regulatory policy
9 would like to encourage the expansion. And
10 the best way to do that would be through that
11 type of pricing mechanism.

12 Another method is to have,
13 really not in a negative way, but to actually
14 have price discrimination, what would be
15 called "discriminatory pricing." And again,
16 that sounds negative. But basically what
17 you're arguing for is that the existing
18 customers continue to be priced for the
19 services that they have, but we have another
20 price for new customers who are on specific
21 expansion routes. And that new price is
22 basically designed to recover the incremental
23 cost of that group of customers over a longer
24 period of time, so there's not such an

1 up-front contribution requirement. You're
2 essentially financing that through the
3 utility bill, through normal ratemaking.

4 So you have two tiers of
5 pricing: You have the vintage pricing of the
6 original customers, and then you may have a
7 special surcharge or a little higher price on
8 a new customer group that you're bringing in.
9 From the customer's perspective, they're
10 still seeing economic benefits versus other
11 choices that they have.

12 And so those are two concepts.
13 And there are many others and many other
14 thoughts. Ultimately, when we look at it, it
15 comes down to an evaluation and some public
16 policy discussions relative to the sharing of
17 costs between existing and new customers.
18 And we would be -- as I stated in my
19 testimony, we think that this is the time
20 that public policy officials, utilities,
21 regulators should be having that discussion
22 and should be talking about how to
23 incentivize, promote or just overall
24 encourage the growth of natural gas in New

1 England, and particularly here in New
2 Hampshire.

3 CMSR. SCOTT: Well, thank you.
4 That was helpful.

5 Two other quick questions, I
6 hope. If I understand right, the Bare Steel
7 Replacement Program is scheduled to have an
8 effect until 2017; is that correct?

9 MR. COLLIN: Yes.

10 CMSR. SCOTT: Are you calling
11 it the TARA, TIRA?

12 MR. COLLIN: TIRA, T-I-R-A.

13 CMSR. SCOTT: The Target
14 Infrastructure Replacement Adjustment, is
15 that expected to change the target date?

16 MR. COLLIN: It's not. It's
17 not designed to accelerate the actual
18 construction period. It would still be --
19 that end date would be our anticipated
20 completion date, yes.

21 CMSR. SCOTT: Thank you.

22 And lastly, at least from me,
23 there's some testimony from Mr. Meissner --
24 is that how you pronounce it --

1 MR. COLLIN: Yes. He's our
2 chief operating officer.

3 CMSR. SCOTT: -- regarding
4 SCADA upgrades. I would just -- I think
5 that's great. I assume there's also somebody
6 looking at the cyber security impacts of that
7 type of work also. That was a statement, I
8 guess.

9 MR. COLLIN: Yes,
10 Commissioner. Cyber security is really a top
11 priority among the industry in general. But
12 at Unitil, we have it on the top of our list.

13 CMSR. SCOTT: Thank you.

14 CHAIRMAN IGNATIUS: All right.
15 Unless there's anything further, we will
16 leave you to a technical session and await
17 the submission of the procedural schedule.
18 Because the proposed date for the temporary
19 rate hearing is only a little over 10 days
20 away, we ought to get that locked in and out
21 in public notice as soon as we can. So if
22 that can be submitted today or tomorrow, that
23 would be outstanding.

24 And with that, we are

1 adjourned. Thank you.

2 MR. EPLER: Thank you.

3 (Whereupon the prehearing conference
4 was adjourned at 1:32 p.m. and a technical
5 session was conducted thereafter.)

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C E R T I F I C A T E

1
2 I, Susan J. Robidas, a Licensed
3 Shorthand Court Reporter and Notary Public
4 of the State of New Hampshire, do hereby
5 certify that the foregoing is a true and
6 accurate transcript of my stenographic
7 notes of these proceedings taken at the
8 place and on the date hereinbefore set
9 forth, to the best of my skill and
10 ability under the conditions present at
11 the time.

12 I further certify that I am neither
13 attorney or counsel for, nor related to or
14 employed by any of the parties to the
15 action; and further, that I am not a
16 relative or employee of any attorney or
17 counsel employed in this case, nor am I
18 financially interested in this action.
19
20

21 Susan J. Robidas, LCR/RPR
22 Licensed Shorthand Court Reporter
23 Registered Professional Reporter
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