

**NORTHERN UTILITIES, INC.
NEW HAMPSHIRE DIVISION
2014/2015 WINTER PERIOD
COST OF GAS ADJUSTMENT FILING
PREFILED TESTIMONY OF
JOSEPH F. CONNEELY**

1 **I. INTRODUCTION**

2

3 **Q. Please state your name, business address, and position.**

4 A. My name is Joseph F. Conneely. My business address is 6 Liberty Lane West,
5 Hampton, New Hampshire.

6

7 **Q. For whom do you work and in what capacity?**

8 A. I am a Senior Regulatory Analyst for Unitil Service Corp. (“Unitil Service”), a
9 subsidiary of Unitil Corporation that provides managerial, financial, regulatory
10 and engineering services to Unitil Corporation’s principal subsidiaries Fitchburg
11 Gas and Electric Light Company, d/b/a Unitil (“FG&E”), Granite State Gas
12 Transmission, Inc. (“Granite”), Northern Utilities, Inc. d/b/a Unitil (“Northern”),
13 and Unitil Energy Systems, Inc. (“UES”) (together “Unitil”). In this capacity I
14 am responsible for managing and filing reporting requirements.

15

16 **Q. Please summarize your professional and educational background.**

17 A. I graduated from Saint Anselm College, Manchester, New Hampshire in 1999
18 with a Bachelor of Arts degree in Financial Economics. Before joining Unitil, I
19 worked for the Royal Bank of Scotland- Sempra Energy Trading Corp. joint
20 venture (“RBS”) in Greenwich, Connecticut as a senior electricity and natural gas

1 trader. Prior to working for RBS, I was employed as a mid-term electricity and
2 natural gas trader at Morgan Stanley in New York City. Before this position at
3 Morgan Stanley, I ran an energy trading book at Shell Gas and Energy Trading
4 North America in La Jolla, California. I joined Unitil in November 2008.

5
6 **Q. Have you previously testified before the New Hampshire Public Utilities**
7 **Commission?**

8 A. Yes. I have testified in a similar role several times in the Company's Cost of Gas
9 Adjustment proceedings.

10
11 **II. PURPOSE OF TESTIMONY**

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony is to introduce and describe Northern's proposed
14 changes to its Local Delivery Adjustment Clause ("LDAC") tariff (Page No. 59).
15 Northern is proposing changes to its rates for effect November 1, 2014 for the
16 following items: the Residential Low Income Assistance and Regulatory
17 Assessment Costs ("RLIARA") Rate, the Demand Side Management ("DSM")
18 Rate and the Environmental Response Cost ("ERC") Rate. I will also discuss
19 the impact that the proposed Cost of Gas ("COG") will have on bills of the
20 Company's typical residential heating gas customer.

1 **Q. What are the surcharges that will be billed under the LDAC?**

2 A. The Company is submitting for approval an LDAC of \$0.0649 for the residential
3 class, and \$0.0437 for the commercial/industrial class. The surcharges currently
4 billed under the LDAC are the DSM Rate, the ERC Rate, the RLIARA Rate, the
5 Rate Case Expense Rate (RCE) and the Reconciliation of Permanent Rates
6 (RPC). The Interruptible Transportation Margin (ITM) Rate is currently
7 \$0.0000per therm.

8
9 **Q. Please describe the purpose of the RLIARA Rate.**

10 A. The purpose of this rate is to allow the Company to recover the revenue discounts
11 associated with customers participating in the Residential Low Income Assistance
12 Program, as well as the associated administrative costs of that program, pursuant
13 to DG 05-076. This rate also recovers the non-distribution portion of the annual
14 NHPUC Regulatory Assessment to the Company pursuant to DG 11-069. The
15 RLIARA Rate is charged on all firm gas sales and firm delivery service
16 throughput billed under the Company's sales and delivery service rate schedules.

17
18 **Q. Please describe the proposed change to the RLIARA rate.**

19 A. Northern is proposing to increase the RLIARA Rate from \$0.0065 to \$0.0078 per
20 therm effective November 1, 2014.

21

22

1 **Q. Could you describe the derivation of the proposed RLIARA Rate?**

2 **A.** The RLIARA Rate is derived by estimating the Company's Low-Income Program
3 and Regulatory Assessment costs and the account balance as of October 31, 2014.

4 The Low-Income Program costs are estimated to be \$436,791 and are shown on
5 Schedule 16 RLIARA, Page 1 of 3, Line 21. Lines 1 -19 explain the derivation of
6 these costs.

7 Also, in Docket DG 11-069, the Commission authorized the Company to begin
8 recovery of the actual non-distribution portion of the annual NHPUC Regulatory
9 Assessment in its RLIARA. The estimated 2015 Assessment, \$211,607, is shown
10 on Schedule 16 RLIARA, Page 1 of 3, Line 24 and is based on the NHPUC
11 invoice dated August 13, 2014. The proposed cost component is derived as
12 explained below.

13 Lastly, the projected over-collection balance of the RLIARA is (\$163,883) as of
14 October 31, 2014 and is derived as shown on Page 2 of 3.

15 The total amount of these three factors is \$484,564 and is divided by the
16 estimated weather normalized firm therms billed for the twelve months ended
17 October 31, 2015 to derive the proposed RLIARA charge of \$0.0078.

18
19 **Q. How did the Company derive the projections for the non-distribution portion**
20 **of the NHPUC Regulatory Assessment?**

21 **A.** As the Commission is aware, Senate Bill 324 became effective July 1, 2014.

22 Among a number of other changes, this Bill designates the rate components by

1 which public utilities are to recover their annual regulatory assessment costs from
2 customers. Assessments of gas distribution utilities (consisting of the assessment
3 amounts based on the revenues of competitive natural gas suppliers and the
4 assessment amounts against gas distribution utilities) are to be collected through
5 the distribution rates of the gas distribution utilities, and a rate recovery
6 mechanism is to be established for each gas distribution utilities which will adjust
7 annually to recover any change in a utility's annual assessment.

8 The Company proposes to implement these changes as follows: First, the current
9 level of assessment cost in base distribution rates is proposed to be set as the fixed
10 amount against which any changes in the Company's annual assessment may be
11 identified. The Company's last rate case Order, DG 13-086, was issued on April
12 21, 2014, establishing base rates effective May 1, 2014. The Company proposes
13 to use the amount of the assessment included in its cost of service in DG 13-086,
14 or \$91,075, to establish the baseline amount of assessment recovered. Second,
15 the balance of any assessment, greater or lesser than the amount identified above,
16 is proposed to flow through to all distribution customers via the reconciling rate
17 mechanism of the Company's LDAC, via the RLIARA, as a charge or a credit.
18 Accordingly, the Company proposes that \$211,607 of its current assessment be
19 recovered in the LDAC through a charge to the RLIARA.

20

21

22

1 **Q. What is the purpose of the DSM charge?**

2 A. The purpose of the DSM charge is to establish a procedure that allows the
3 Company to adjust the Conservation Charge applicable to firm gas sales and firm
4 delivery service throughput on an annual basis in order to recover from firm
5 ratepayers Energy Efficiency Program costs, pursuant to Order No. 24,109 in
6 Docket DG 02-106.

7

8 **Q. What are the changes being proposed to the DSM charges?**

9 A. The Company is proposing to decrease the DSM charge for the residential classes
10 from \$0.0393 to \$0.0350 per therm, and also increase the charge for the
11 commercial and industrial customer classes from \$0.0131 to \$0.0138 per therm
12 effective November 1, 2014.

13

14 **Q. Please describe the reason for these proposed changes to and the derivation**
15 **of the DSM Rates.**

16 A. The proposed changes to the DSM Rates are necessitated by the implementation
17 of Northern's calendar year 2015 energy efficiency program budget. That
18 budget is provided in Schedule 16 DSM, Page 1 of 4. The proposed changes also
19 include over-collections in the beginning balance largely due to actual
20 throughput being higher than forecasted for both classes of customer over this
21 past year.

1 The DSM Charge Factor Calculation is provided in Schedule 16 DSM, Page 2 of
2 4. As shown the rate is derived by customer class and includes an annual
3 reconciliation of the program costs and share-holder incentive with an adjustment
4 for the low-income discount costs. Information regarding the development of the
5 proposed DSM rate for the residential classes is provided in Schedule 16 DSM,
6 Page 3 of 4. Schedule 16 DSM, Page 4 of 4 provides the support for the
7 proposed DSM rate for the commercial and industrial classes.

8

9 **Q. Please explain the purpose of Northern's ERC Rate.**

10 **A.** The purpose of the ERC Rate is to recover expenditures associated with former
11 manufactured gas plants. The ERC Rate is applied to all firm gas sales and firm
12 delivery service throughput billed under the Company's sales and delivery service
13 rate schedules. The costs submitted for recovery through the ERC cost recovery
14 mechanism are presented in the ERC Filing submitted in this Docket under
15 separate cover. The environmental investigation and remediation costs that
16 underlie these expenses are the result of efforts by the Company to respond to its
17 legal obligations with regard to the sites located in Exeter and Rochester New
18 Hampshire. In total, the Company has incurred environmental remediation costs
19 of \$40,881 from July 2013 through June 2014. A summary sheet and detailed
20 backup spreadsheets are provided in the ERC Filing that supports the 2013-2014
21 costs that the Company is submitting. The Company is prepared to provide

1 additional testimony and exhibits, if necessary, to further support recovery of
2 these amounts after the Commission Staff has completed its review of these costs.

3
4 **Q. Please describe the change to Northern's ERC Rate that is proposed for**
5 **effect November 1, 2014.**

6 A. The current ERC Rate is \$0.0031 per therm. Northern proposes to decrease this
7 charge to \$0.0018 per therm.

8
9 **Q. Please explain the calculation of the proposed ERC Rate.**

10 A. As stated above, during the period July 1, 2013 through June 30, 2014, ERC
11 expenses totaled \$40,881. Northern is allowed to recover one-seventh of the
12 actual response costs incurred by the Company in a twelve-month period ending
13 June 30 of each year until fully amortized, plus any insurance and third-party
14 expenses for the year or \$5,840 (see table below). Thus, the ERC rate typically
15 includes the current year and six prior years of unamortized amounts. Any
16 insurance and third-party recoveries or other benefits for the year are used to
17 reduce the unamortized balance. The \$149,548 figure shown on Schedule 1 in the
18 Environmental Response Cost filing and Schedule 16-ERC in this filing is
19 comprised of the following:

1/7th ERC costs incurred July 2013 - June 2014	\$33,280
1/7th ERC costs incurred July 2012 - June 2013	\$ 18,247
1/7th ERC costs incurred July 2011 - June 2012	\$ 27,097
1/7th ERC costs incurred July 2010 - June 2011	\$ 17,316

1/7th ERC costs incurred July 2009 - June 2010	\$ 22,717
1/7th ERC costs incurred July 2008 - June 2009	\$ 25,058
1/7th ERC costs incurred July 2007 - June 2008	<u>\$ 5,840</u>
Total	\$149,548*

*As shown on Schedule 16-ERC Page 1 of 2.

The prior period reconciliation of ERC costs is an estimated over collection of \$37,340. This over collection is included in the annual ERC costs resulting in net ERC costs to be recovered from customers during the period of November 2014 through October 2015 of \$112,208. Dividing these recoverable ERC costs by projected total annual sales of 62,481,366 therms yields an ERC Rate of \$0.0018 per therm. This calculation is illustrated in Schedule 16 ERC, Page 1 of 2.

The primary reason for the decrease in the ERC rate is the decrease in ERC costs.

Q. Does the proposed LDAC include a credit for Interruptible Transportation Margins?

A. No. The Company has not provided any Interruptible Transportation service during the past year and therefore, has not earned any margins to credit back to sales customers.

Q. Is the Company proposing to change the RCE and RPC Rates?

1 **A.** No. These rates were set in DG 13-086 to recover the Company's rate case
2 expense and reconciliation of permanent rates over a 12 month period from May
3 1, 2014 through April 30, 2015.

4
5 **Q.** **Have you prepared typical bill analyses showing the impacts of the proposed**
6 **COG and LDAC rate changes for effect on November 1, 2014 for typical**
7 **residential heating gas customers?**

8 **A.** Yes, Schedule 8 provides the analyses. It shows that a typical residential heating
9 customer consuming 633 therms during the 2014/2015 Winter Season will expect
10 a bill of \$1,196.30. This is an increase of \$225.81 or 23% compared to the
11 2013/2014 Winter Season bill with the same consumption. If one excludes the
12 increase in base rates from last Winter Period, the proposed COG and LDAC Rate
13 changes result in an increase of \$140.22 or 14% increase to the Winter Period
14 typical residential heating customer.

15
16 **Q.** **Does this conclude your testimony?**

17 **A.** Yes, it does.