STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 13-251

ENERGYNORTH NATURAL GAS, INC.
d/b/a LIBERTY UTILITIES

Winter 2013-2014 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,591

October 31, 2013

APPEARANCES: Sarah B. Knowlton, Esq., for EnergyNorth Natural Gas, Inc. d/b/a Liberty Utilities; Rorie E.B. Hollenberg, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and Alexander F. Speidel, Esq. and Michael J. Sheehan, Esq. for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 3, 2013, EnergyNorth Natural Gas, Inc. d/b/a Liberty Utilities (Liberty), a public utility distributing natural gas in 28 cities and towns in southern and central New Hampshire and in the City of Berlin in northern New Hampshire, filed its proposed cost of gas (COG) and other rate adjustments for the 2013-2014 winter period. Liberty's filing included the direct testimony and supporting attachments of Utility Analyst Mark G. Savoie, Senior Director of Energy Procurement Francisco C. DaFonte, and Environmental Program Manager Mary E. Casey. Exhibit 1 at 1 (Savoie Testimony), 22 (DaFonte Testimony), and 40 (Casey Testimony). Liberty updated its filing on October 22, 2013. Exhibit 3.[1]

The Commission issued an order of notice scheduling a hearing for October 22, 2013. The Office of Consumer Advocate (OCA) notified the Commission of its participation on behalf

[1]Exhibits 1 and 3 contain information for which the rules require confidential treatment pending a later determination of confidentiality should a non-party request disclosure. N.H. Admin. Rules, Puc 201.06(a)(26). Liberty filed redacted versions of Exhibits 1 and 3, marked Exhibits 2 and 4, which are available for public review. Tr. at 6-7.

of residential ratepayers pursuant to RSA 363:28. There were no intervenors. The hearing was held as scheduled during which the above witnesses adopted their pre-filed testimony, with corrections, Transcript of October 22, 2013 Public Hearing (Tr.) at 9-10 (DaFonte), 10-11 (Casey), and 14-26 (Savoie), and provided additional live testimony.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

As set out more fully below, Mr. Savoie and Mr. DaFonte addressed: (1) the calculation of the proposed COG rate and fixed-price option (FPO) rate and the resulting customer bill impacts; (2) the reasons for the change in COG rates; (3) explanation of Liberty's supply reliability and price stability through its hedging program; (4) Liberty's proposed changes to its hedging policy; (5) the proposed transportation rates, allocators, other charges, and short term debt limits; and (6) Liberty's proposed changes to the local distribution adjustment charge (LDAC). Ms. Casey described the status of site investigation and remediation efforts at various manufactured gas plant (MGP) sites in New Hampshire.

1. Calculation of the Proposed COG Rates and Bill Impacts

Pursuant to its COG clause, Liberty may adjust its rates to recover the costs of gas supplies, capacity, and certain related expenses as specified in Liberty's tariff. Liberty proposed a winter 2013-2014 COG rate of $0.8895 per therm. Tr. at 26. This represents a $0.1215 per therm increase compared to the weighted average residential rate of $0.7680 per therm last winter. Tr. at 27 and 51. The impact of the COG rate, coupled with other changes in the LDAC, is an overall increase in the average residential heating customer's winter costs over last winter of approximately $82, or 10.4 percent. Tr. at 29; Exhibit 3 at Schedule 8. Liberty's proposed commercial and industrial (C&I) low winter use and high winter use COG rates are $0.8807 and $0.8908 per therm, respectively. Savoie Testimony at 3; Tr. at 26.

Liberty's updated filing proposed an FPO rate of $0.9095 per therm, which Liberty set by adding $0.02 to the proposed COG rate, the method approved in *EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England*, Order No. 24,529 (Oct. 14, 2005). Savoie Testimony at 9. The proposed FPO rates for C&I low winter and high winter use are $0.9007 and $0.9108 per therm, respectively. *Id*. After accounting for other charges, the estimated winter bill for an average residential heating customer using the FPO would be about $13, or 1.5 percent, higher than under the proposed COG rate, assuming no later adjustments are made to the COG rate. *Id.* at 9-10; Exhibit 3 at Schedule 23.

2. Reasons for the Increase in the COG Rates

Liberty stated that the increase in the COG rates for this winter was driven mostly by an increase in commodity costs. Savoie Testimony at 6. According to Liberty, its total cost of gas will increase $15.5 million, $14.4 million of which is from an increase in projected commodity costs. The remaining $1.1 million increase consists of higher indirect gas costs ($0.1 million), higher adjustments ($1.3 million), and lower demand costs ($0.3 million). *Id.*at 6-7.

The $1.3 million in higher adjustments included last winter's under-collection of $5,118,679, which was partially offset by an increase in broker revenues, capacity release and off system sales. *Id.* Mr. Savoie testified that the under-collection was the result of sharp increases in gas prices in Tennessee's Zone 6 market area where Liberty bought a substantial amount of its natural gas supplies last winter. This price spike was caused by increased demand from gas-fired electric utilities, reduction in LNG imports, and a continued lack of new pipeline infrastructure to bring shale gas into New England. *Id.* at 8.

3. Supply Reliability and Price Stability - Hedging

Liberty described the availability of its supply from Canada, the Gulf coast, shale gas, and from Liberty's own storage capacity. Liberty stated that its LNG and propane facilities provide gas when incremental pipeline resources are not available. DaFonte Testimony at 3-10.

Mr. DaFonte testified that Liberty's hedging program of various financial risk tools and underground storage provides more stable prices and locks in the cost of gas for FPO customers. *Id.* at 12. Liberty's current goal is to hedge about two-thirds of its gas during the four coldest months (December through March), one-half of its needs during November and April, and 40 percent during October and May. *Id.* at 13. Mr. DaFonte testified that Liberty's hedging program is not intended to reduce customers' overall gas costs, *Id* at 12, but to minimize price volatility, *id.* at 14. Liberty intends to meet its hedging goal and have all of its available storage filled by December 1, 2013. *Id.* at 8.

4. Liberty's Proposed Changes to its Hedging Policy

Liberty proposed two changes in its hedging policy. Mr. DaFonte stated that the commodity price for gas has remained stable since the arrival of shale gas several years ago and is predicted to remain so for the next few years, a marked change from the volatility before 2008. *Id.* at 14-16; Tr. at 36. Because of this stability, the current hedging program, which is designed to minimize price volatility in supply area purchases, does not provide customers meaningful benefits. DaFonte Testimony at 16; Tr. at 36-37. It is the basis differential, the difference between the commodity costs (such as the NYMEX price) and the prices Liberty must pay when the gas arrives in New England during peak periods, that causes volatility for Liberty's customers. Tr. at 36. Mr. DaFonte testified that Liberty cannot economically hedge against this basis differential. DaFonte Testimony at 15; Tr. at 36-37. Liberty thus proposed two changes in its hedging program; first, to eliminate the hedge for the "shoulder" months of May and October and, second, to reduce the November through April monthly hedging by 50 percent. DaFonte Testimony at 17; Tr. at 104.

Mr. DaFonte's pre-filed testimony recommended eliminating the hedging and FPO programs if participation in the FPO program continues to decline. DaFonte Testimony at 17. Mr. DaFonte testified at the hearing that Liberty may propose other revisions to the hedging and FPO programs for Commission approval in a future proceeding. The Company is considering a revision to the hedging plan that would eliminate financial hedges and contract for a limited amount of winter peaking supply at a fixed price. A revision to the FPO program would be to limit participation to residential customers only as a means to provide a fixed rate option to those customers. Tr. at 34 and 64. Because delivery only service is available to commercial and industrial customers, those customers have the opportunity to purchase their natural gas suppliers from competitive suppliers at a fixed price.

5. Transportation Rates, Allocators, Other Charges, and Debt Limits

Liberty's proposed firm transportation COG rate is \$0.0022 per therm, an increase from last winter's rate of \$0.0002 per therm, due to prior period under-collection and anticipated use of LP this winter. Savoie Testimony at 9; Tr. 26; Exhibit 1 at 61 and 74. As to other charges, the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, beginning with the November billing month. *See Gas Restructuring-*

Unbundling and Competition in the Natural Gas Industry, Order No. 23,652 (March 15, 2001). Supplier balancing charges relate to daily imbalances in each supplier's resource pool at Liberty delivery points (city gates). The suppliers pay Liberty's supplier balancing charges as compensation for costs incurred by Liberty to stay within daily operational balancing tolerances on the Tennessee Gas Pipeline. Peaking service demand charges reflect Liberty's peaking resources and associated costs.

Liberty proposed to increase the supplier balancing charge from $0.19 per MMBtu to $0.21 per MMBtu of daily imbalance volumes, and to increase the peaking service demand charge from $18.62 per MMBtu of peak maximum daily quantity (MDQ) to $21.00 per MMBtu of peak MDQ. Exhibit 3 at 65R and 78R. Finally, the capacity allocator percentages, which are used to allocate pipeline, storage, and local peaking capacity to a customer's supplier under the mandatory capacity assignment required by New Hampshire for non-grandfathered firm transportation service, have been updated to reflect Liberty's supply portfolio for the upcoming year, together with Liberty's company gas allowance factor percentage. Exhibit 3 at 78R.

In Order No. 24,824 (February 29, 2008), the Commission established a formula to determine annual short term debt limits to be reviewed as part of Liberty's Winter COG. The short term debt limit for fuel financing is set at 30% of total gas costs for the projected winter period, and the short term debt limit for non-fuel financing purposes is set at 20% of net plant. Liberty's proposed short term debt which comply with these limits are $20,314,633 and $46,622,765, respectively. Savoie Testimony at 14; Exhibit 3 at Schedule 24.

6. LDAC

Liberty's filing proposed a per therm LDAC of $0.0290 for the residential classes (an increase from $0.0258 per therm) and $0.0357 for the Commercial and Industrial classes (an increase from $0.0187 per therm) to be billed from November 1, 2013 through October 31, 2014. Savoie Testimony at 13; Exhibit 1 at 64 and 77; Tr. at 56-57. The LDAC is a combined rate of various surcharges by Liberty including the energy efficiency charge, the environmental surcharge for MGP remediation, and the residential low income assistance program (RILAP).

Regarding the energy efficiency charge, which recovers expenses to administer Liberty's energy efficiency programs, Liberty proposed in its updated filing a residential rate of $0.0197 per therm, an increase of $0.005 per therm from the current rate, and a C&I rate of $0.0264 per therm, an increase of $0.0188 per therm from the current rate. Savoie Testimony at 13; Exhibit 1 at 64 and 77.

Liberty seeks approval for the environmental surcharge for MGP remediation to be increased from $0.0011 to $0.0018 per therm for November 1, 2013 until October 31, 2014. Savoie Testimony at 16; Exhibit 1 at 62 and 75. Ms. Casey provided background regarding Liberty's ongoing MGP environmental remediation efforts at several sites in New Hampshire. Casey Testimony at 2-10; Tr. at 11-13 and 49-51.

For the RILAP, which recovers administrative and other costs relating to discounts for low-income customers, Liberty proposed a charge of $0.0075 per therm, an increase of $0.0002 from the current rate. Savoie Testimony at 14; Exhibit 1 at 64 and 77.

Liberty did not include any Temporary Rate Reconciliation Adjustment resulting from its last base rate case because it projects a modest over collection by October 31, 2013, the end of the current LDAC charge, signaling the end of that temporary rate charge. Savoie Testimony at 18; Exhibit 1 at 63, 64 and 76.

B. OCA

The OCA stated that it had no objection to Liberty's COG rates as presented to the Commission. Tr. at 99.

C. Staff

Staff stated that it supports Liberty's proposed 2013-2014 winter period COG rates as filed. Tr. at 100. Staff noted that Liberty finalized its winter supply contracting after submitting its COG forecast which did not require a revised COG filing, but did require Liberty to file a revised tariff page reflecting the updated peaking demand charges. Staff reports that Liberty will reflect other minor adjustments in the first monthly over/under report. *Id.*

Staff stated that the Commission Audit Staff reviewed the 2012-2013 winter period COG reconciliation and found a number of exceptions that have all been addressed by Liberty, and that Liberty will include the resolution of some of these Audit exceptions as prior period adjustments in the 2013-2014 Winter Cost of Gas Reconciliation. *Id.*

Staff reported that the sales forecast for the 2013-2014 peak period COG is consistent with past experience, that the supply plan is based on the principles of least cost planning and the direct gas costs are based on actual or hedged prices and projected pricing that reflects market expectations. Because there will be a reconciliation of forecasted and actual gas costs for the 2013-2014 peak period that will be filed prior to next winter's COG proceeding, any concerns that may arise related to the 2013-2014 gas planning and dispatch may be raised and addressed next year. Tr. at 100-101.

The LDAC is comprised of a number of surcharges, all of which have been established in other proceedings, with the actual rate determined in the winter COG proceeding and effective for one year. Staff reviewed the LDAC energy efficiency rate mechanism and related calculations. Audit Staff completed its review of the environmental remediation costs. One issue was identified and resolved to the satisfaction of Audit Staff. Staff thus recommended approval of the revised LDAC rate and the proposed COG rates as just and reasonable. Tr. at 101.

Staff reviewed the updated proposed supplier balancing charges, the company gas allowance factor, and the capacity allocator percentages for this year for reasonableness and accuracy, and recommended Commission approval for these charges. *Id.*

Finally, Staff supported Liberty's proposed changes in its hedging policy. Specifically, Staff supported Liberty's proposal to stop hedging the "shoulder" months of October and May, and to reduce by 50 percent the hedging for the months of November through April. *Id.*

III. COMMISSION ANALYSIS

Based upon our review of the record presented in this docket, we find that Liberty's proposed adjustments will result in just and reasonable rates as required by RSA 378:7. Specifically, we approve the proposed 2013-2014 winter period COG, FPO and Transportation COG rates. We also approve Liberty's LDAC rate components (including the conservation charge, environmental cost recovery charge, and residential low income assistance program charge), transportation supplier balancing rate, transportation peaking service demand rate, and transportation capacity allocators. Because COG rates are reconciled year over year, any adjustments needed as a result of further inquiry into these matters can be made in Liberty's next winter COG proceeding for 2014-2015.

Liberty's proposed changes to reduce the use of financial hedges are reasonable given the limited impact the current hedging program has on rate volatility. Liberty has suggested further revisions it may propose and we encourage the Company to work with Staff and the OCA in developing a more cost effective means to address rate volatility and/or rate options for customers that desire rate certainty. Proposed revisions to the current programs should be filed in time to allow for Commission review and approval prior to next winter's COG filing.

Based upon the foregoing, it is hereby

ORDERED, that Liberty's 2013-2014 winter COG and FPO per therm rates for the period November 1, 2013 through April 30, 2014 are APPROVED, effective for service rendered on or after November 1, 2013 as follows:

	Cost of Gas	**Maximum COG**	**Fixed Price**
Residential	$0.8895	$1.119	$0.9095
C&I, low winter use	$0.8807	$1.1009	$0.9007
C&I, high winter use	$0.8908	$1.1135	$0.9108

and it is

FURTHER ORDERED, that Liberty may, without further Commission action, adjust the COG rates upward by no more than 25 percent and downward so far as is necessary based upon its projected over- or under-collection, consistent with *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 24,963 (April 30, 2009); and it is

FURTHER ORDERED, that Liberty shall provide the Commission with its monthly calculation of its projected over- or under-collection, along with resulting revised COG rates for the subsequent month, if applicable, not less than five business days prior to the first day of the subsequent month. Liberty shall include a revised tariff page 87, Calculation of Firm Sales Cost of Gas Rate, and revised rate schedules if it elects to adjust the COG rates; and it is

FURTHER ORDERED, that any over- or under-collection shall accrue interest at the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates; and it is

FURTHER ORDERED, that Liberty's proposed 2013-2014 LDAC per therm rates for the period November 1, 2013 through October 31, 2014, are APPROVED effective for service rendered on or after November 1, 2013 as follows:

	Envir.	**Energy Efficiency**	**Low Income**	**Total LDAC**
Residential	$0.0018	$0.0197	$0.0075	$0.0290
Commercial & Industrial - Sales	$0.0018	$0.0264	$0.0075	$0.0357
Commercial & Industrial - Transportation	$0.0018	$0.0264	$0.0075	$0.0357

and it is

FURTHER ORDERED, that Liberty's proposed firm transportation winter COG rate of $0.8895 per therm for the period November 1, 2013 through April 30, 2014, is APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed transportation supplier balancing charge of $0.21 per MMBtu of daily imbalance volumes, is APPROVED; and it is

FURTHER ORDERED, that Liberty's capacity mitigation fee of 15 percent of the proceeds from the marketing of capacity for mitigation is APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed transportation peaking service demand charge of $21.00 per MMBtu of peak MDQ, is APPROVED; and it is

FURTHER ORDERED, that Liberty's company gas allowance factor of 1.3 percent is APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed transportation capacity allocators as filed in Proposed Second Revised Page 156, Superseding First Revised Page 156, are APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed short term debt limits of $20,314,633 for fuel financing and $46,622,765 for non-fuel financing for the period November 1, 2013 through October 31, 2014 are APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed changes to its hedging program as described herein are APPROVED; and it is

FURTHER ORDERED, that Liberty shall file properly annotated tariff pages in compliance with this order no later than 15 days from the issuance date of this order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2013.

Amy L. Ignatius
Chairman

Michael D. Harrington
Commissioner

Robert R. Scott (KNS)
Commissioner

Attested by:

Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

a) **Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:** DEBRA A HOWLAND
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b) **Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**

c) **Serve a written copy on each person on the service list not able to receive electronic mail.**