STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 13-257

NORTHERN UTILITIES, INC.

Winter 2013-2014 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,590

October 31, 2013

APPEARANCES: Orr & Reno, P.A., by Rachel Goldwasser, Esq., on behalf of Northern Utilities, Inc.; Rorie E.P. Hollenberg, Esq. of the Office of 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 16, 2013, Northern Utilities, Inc. (Northern), a public utility providing natural gas service to approximately 29,000 customers in the seacoast region of southeastern New Hampshire, filed its cost of gas (COG) and other rate adjustments for the 2013-2014 winter period, November 1, 2013 through April 30, 2014. Exhibit 1. Northern's filing included the pre-filed testimony of Christopher A. Kahl (Kahl Testimony), a Senior Regulatory Analyst for Unitil Service Corp., an affiliated service company providing services to Northern, Francis X. Wells (Wells Testimony), Manager of Gas Supply for Unitil Service Corp., and Joseph F. Conneely (Conneely Testimony), a Senior Regulatory Analyst for Unitil Service Corp.[1]

On September 23, 2013, the Office of Consumer Advocate (OCA) notified the Commission, consistent with RSA 363:28, of its participation in the docket on behalf of

[1] Northern also submitted as part of its COG filing certain information as confidential exhibits (within Exhibits 1 and 4), filed pursuant to N.H. Admin. Rules, Puc 201.06(a)(25). This information comprised supplier commodity pricing and special terms of supply agreements.

residential ratepayers. On September 19, 2013, the Commission issued an order of notice scheduling a hearing for October 23, 2013. On October 8, 2013, Northern provided an affidavit of publication stating that the order of notice had been published on September 25, 2013. On October 17, 2013, Northern submitted a revised COG filing that updated many of the rates and charges in the original filing. Exhibit 3.

On October 21, 2013, Assistant Director Robert J. Wyatt of the Commission's Safety Division submitted written pre-filed testimony regarding Staff's examination of certain Northern practices relating to management of its commodity supply contracts, and other matters. *See* Exhibit 5, Direct Testimony of Robert J. Wyatt (Wyatt Testimony). On October 23, 2013, the hearing was held as scheduled. No other parties intervened in the docket.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

As set out more fully below, Northern's witnesses Kahl, Wells and Conneely testified to: (1) the calculation of the proposed COG rate and the resulting customer bill impacts; (2) the reasons for the change in COG rates; (3) Northern's gas supplies and hedging; (4) refunds and legal expenses related to the Portland Natural Gas Transmission System (PNGTS) rate cases; (5) the local distribution adjustment charge (LDAC); and (6) other COG related charges and short term debt limits.

1. Calculation of the Proposed Firm Sales COG Rates and Bill Impacts

Pursuant to its COG clause, Northern may adjust on a semi-annual basis its firm gas sales rates in order to recover the costs of gas supplies, capacity and certain related expenses, net of applicable credits, as specified in Northern's tariff. For the winter 2013-2014 period, the proposed average COG rate, which is the rate payable by residential customers, was calculated by adding the anticipated direct costs of $25,588,625 and anticipated indirect costs of ($1,796,492), then dividing the total costs by the projected winter period firm sales volume of 27,891,158 therms. Direct costs are those related to pipeline transportation capacity, storage capacity and commodity charges, while indirect costs include working capital, bad debt and overhead charges. These costs are also subject to certain allowed adjustments and the indirect costs include a prior period over-collection of ($2,128,249), which will be discussed in greater detail below.

Northern's revised filing (Exhibit 3) proposes a winter 2013-2014 residential rate of $0.8530 per therm, a $0.1143 per therm increase compared to the weighted average residential rate of $0.7387 per therm last winter. The impact of the proposed firm sales COG rate, coupled with changes in the LDAC, is an overall increase for the average residential heating customer using 743 therms per year of $80.81, or 9.8%, compared to last winter. *See* Exhibit 3, Schedule 8. Northern's proposed revised commercial and industrial (C&I) low winter use and high winter use COG rates are $0.7762 and $0.8664 per therm respectively, which represent comparable increases from last year's rates. Exhibit 3, Summary Schedule, at Lines 79 and 99.

2. Reasons for the Increase in the COG Rates

The increase in Northern's rates is driven primarily by increased forecasted commodity costs. Wells Testimony at 40-42. These increases are offset by the prior-period over-collection of ($2,128,249), an expected refund related to the PNGTS rate cases (discussed *infra*), applied as a credit to the COG of ($543,335) (*see* Exhibit 3, Summary Schedule, at Line 27), and

Northern's capacity release and asset management revenues, applied as a credit to the COG amounting to ($4,673,935) (*see* Exhibit 3, Summary Schedule, at Line 16).

3. Gas Supply and Hedging

Consistent with its hedging program approved in the Commission's Docket No. DG 13-119, by Order No. 25,547 (July 18, 2013), Northern has hedged approximately 70% of its winter gas supply. *See* Transcript of October 23, 2013 Hearing (Tr.) at 30.

In addition to its hedged supplies, Northern also addressed other matters relating to its gas supply portfolio. Northern has contracted for pipeline delivered peaking supplies and Liquefied Natural Gas supplies. Wells Testimony at 34-37.

4. Legal Expenses and Refund Related to PNGTS Rate Cases

Northern proposes to recover extraordinary legal and consulting costs incurred in its opposition to two proposed rate increases by PNGTS in Federal Energy Regulatory Commission (FERC) Docket No. RP08-306, and in a more recent rate filing in FERC Docket No. RP10-729. In opposing PNGTS, Northern was joined with other customers of PNGTS in the PNGTS Shipper Group. Wells Testimony at 43-47. In opposing the PNGTS rate increases, Northern states that it incurred $22,988 in litigation costs attributable to the New Hampshire Division's share. Wells Testimony at 45. Rather than include these charges in the LDAC, Northern reflected these costs as a deduction from Asset Management revenues. Kahl Testimony at 14. This treatment means that all customers for whom Northern manages capacity (e.g., firm sales and capacity assigned transportation customers) are responsible for the costs. Northern noted that it had considerable success in the Docket No. RP08-306 FERC rate case litigation; in anticipation of final FERC approval (on rehearing) of a PNGTS refund to Northern ordered in this case, Northern applied a credit of ($543,335) to the New Hampshire Division's COG accounting for this winter period. Exhibit 3, Summary Schedule, at Line 27; *see also* Wells Testimony at 43-47.

5. LDAC

Northern's updated filing proposes a per therm LDAC of $0.0489 for residential customers, a decrease from $0.0551, and $0.0227 for C&I customers, a decrease from $0.0266. The LDAC is a combined rate of various surcharges by Northern including those relating to the residential low income assistance and regulatory assistance program (RLIARA), demand side management (DSM), and environmental response costs.

As to the specific components of the LDAC, Northern is proposing to decrease the charges relating to the RLIARA from $0.0104 to $0.0065 per therm for all classes, to eliminate a prior-period over-collection in the program. Conneely Testimony at 50-51.

Regarding DSM, which covers Northern's energy efficiency programs, Northern proposes decreasing the charge from $0.0403 to $0.0393 per therm for residential customers and increasing it from $0.0118 to $0.0131 per therm for C&I customers. These adjustments incorporate Northern's $70,000 proposed increase, requested in the 2013-2014 Core proceeding, Docket No. DE 12-262, in its gas energy efficiency budget.

Finally, Northern also proposes to reduce the environmental response charge (ERC) from $0.0044 to $0.0031 per therm, for all classes. Under this charge, Northern is permitted to recover environmental response costs. The decrease in this ERC charge is due to a decrease in costs. Conneely Testimony at 53-58.

6. Other Charges and Short Term Debt Limits

In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652 (March 15, 2001), the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, commencing with the November billing month. Supplier balancing charges relate to daily imbalances in each supplier's resource pool at Northern delivery points (city gates). The suppliers pay Northern's supplier balancing charges as compensation for costs incurred by Northern to stay within daily operational balancing tolerances. Northern proposes to maintain, unchanged, the supplier balancing charge at $0.77 per MMBtu of daily imbalance volumes, and to increase the peaking service demand charge from $11.88 per MMBtu of peak maximum daily quantity (MDQ) to $14.89 per MMBtu of peak MDQ. *See* Exhibit 3 at Proposed Thirteenth Revised Tariff Page 154. The increase in the peaking service demand charge is based on an update of volumes and costs used in calculating the charges.

Also, 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 Northern's supply portfolio for the upcoming year. *See* Exhibit 3 at Proposed Twelfth Revised Tariff Page 169. Finally, the firm sales service re-entry fee has been reduced from a monthly unit charge of $7.70 per MMBtu to $4.91 per MMBtu to reflect updated costs. *See* Exhibit 3 at Proposed Sixth Revised Tariff Page 170-b.

In Order No. 25,289 (November 18, 2011), the Commission established a formula to determine annual short term debt limits to be reviewed as part of Northern'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 15% of net plant. The proposed short term debt limits are $14,719,000 and $41,559,000, respectively. Exhibit 1 at Schedule 24.

B. OCA

OCA stated that it did not object to the rates in Northern's revised COG filing. Tr. at 65.

C. Staff

Staff supported Northern's revised COG rates as filed, noting that the Commission's Audit Staff had reviewed the reconciliation from last year's winter period and found no exceptions. Tr. at 65. Staff also reiterated its intention to continue to examine the matters discussed in Mr. Wyatt's testimony, in cooperation with Northern and the OCA. *Id.* Staff praised Northern for its ongoing efforts to address Staff's concerns related to an over-reliance of delivered supply resources from the New England market while at the same time entering into asset management agreements that in some cases restricted Northern's access to supply resources in more attractive market areas. Wyatt Testimony at 6-7; Tr. at 65. Staff also recommended that Northern's proposed LDAC rate be implemented along with the COG rates on November 1. Tr. at 66. Staff recommended that Northern's proposed supplier balancing charges and capacity allocators be approved as it appeared they were accurate and reasonable. *Id.*

III. COMMISSION ANALYSIS

Based upon our review of the record presented in this docket, we find that Northern'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 and Transportation COG rates. We note that Staff has ongoing interest in certain supply portfolio and asset management issues and are confident that Staff will bring these to the attention of the Commission in future COG proceedings as necessary. We also approve Northern's LDAC rate components consisting of the environmental cost recovery, DSM, and RLIARA charges, transportation supplier balancing rate, transportation peaking service demand rate, transportation capacity allocators, and the firm sales service re-entry fee. Because COG rates are reconciled year over year, any adjustments needed as a result of further inquiry into these matters can be made in Northern's next winter COG proceeding, including any adjustments to the DSM necessitated by decisions rendered in the 2013-2014 Core proceeding, Docket No. DE 12-262.

As to the issue of the PNGTS litigation costs, which are not, strictly speaking, matters of either the COG rates or the LDAC, we approve the recovery of prudently incurred costs to this point. Northern has incurred the costs as part of a group of shippers that hold pipeline capacity on PNGTS and have intervened at the FERC in an effort to control costs. We condition our approval on the ground that recovery of these costs occurs in the manner described by Northern. Specifically, the costs will be treated as a deduction from Asset Management revenue, which is apportioned to Northern customers for whom PNGTS capacity is held. To the extent Northern incurs further costs, we will review those in a future filing. Finally, we note that our approval shall not establish any precedent for similar future recoveries.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2013-2014 Winter period COG rates of $0.8530 per therm for Residential, $0.7762 per therm for C&I low winter use and $0.8664 per therm for

C&I high winter use for the period November 1, 2013 through April 30, 2014 are APPROVED, effective for service rendered on and after November 1, 2013; and it is

FURTHER ORDERED, that Northern 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; and it is

FURTHER ORDERED, that Northern (1) provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COG rates for the subsequent month, not less than five business days prior to the first day of the subsequent month and (2) include revised tariff pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates; and it is

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

	RLIARA	**DSM**	**ERC**	**Total LDAC**
Residential	$0.0065	$0.0393	$0.0031	$0.0489
C&I	$0.0065	$0.0131	$0.0031	$0.0227

and it is

FURTHER ORDERED, that Northern's proposed transportation supplier balancing charge of $0.77 per MMBtu of daily imbalance volumes is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation peaking service demand charge of $14.89 per MMBtu of peak MDQ is APPROVED; and it is

FURTHER ORDERED, that Northern's company gas allowance factor of 0.6 percent is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation capacity allocators as filed in Proposed Twelfth Revised Page 169, Superseding Eleventh Revised Page 169, are APPROVED; and it is

FURTHER ORDERED, that Northern's proposed annual firm sales service re-entry fee per unit charge of $4.91 per MMBtu is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed short term debt limits of $14,316,000 for fuel financing and $41,559,000 for non-fuel financing for the period November 1, 2013 through October 31, 2014 are APPROVED; and it is

FURTHER ORDERED, that Northern's proposal to deduct $22,988 from Asset Management revenues for external legal and consulting expenses incurred by Northern in opposing PNGTS's proposed rate increases before the FERC is APPROVED as conditioned above; and it is

FURTHER ORDERED, that Northern 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. 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

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director

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