STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

February 26, 2018 - 1:45 p.m.
Concord, New Hampshire

RE: **DG 17-144**
NORTHERN UTILITIES, INC.:
2017-2018 Cost of Gas.
(Hearing regarding increase to the Peaking Service Demand Charge)

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Kathryn M. Bailey
Commissioner Michael S. Giaimo

Clare E. Howard-Pike, Clerk

APPEARANCES: **Reptg. Northern Utilities, Inc.:**
Gary Epler, Esq.

Reptg. Direct Energy Business Marketing, LLC:
Douglas L. Patch, Esq. (Orr & Reno)
Laura Hartz, Esq. (Orr & Reno)

Reptg. Residential Ratepayers:
Brian D. Buckley, Esq.
Pradip Chattopadhyay, Asst. Cons. Adv.
Office of Consumer Advocate

Reptg. PUC Staff:
Alexander F. Speidel, Esq.
Al-Azad Iqbal, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

I N D E X

E X H I B I T S

P R O C E E D I N G

CHAIRMAN HONIGBERG: We're here in Docket DG 17-144, which is Northern Utilities' Cost of Gas docket. They filed a proposal to change their Peaking Service Demand Charge, which drew an intervention petition. We're here to consider the request and whatever else you need to tell us.

Before we do anything else, let's take appearances.

MR. EPLER: Good afternoon, Mr. Chairman and Commissioners. Gary Epler, the Chief Regulatory Counsel for Unitil, appearing on behalf of Northern Utilities.

Thank you.

MR. PATCH: Good afternoon, Commissioners. Doug Patch, with Orr & Reno, and Laura Hartz, also with Orr & Reno, and with me here this afternoon from Direct Energy Business Marketing, LLC, is Deb Dwyer, who is the Manager of Operations.

MR. BUCKLEY: Good afternoon, Mr. Chairman and Commissioners. My name is Brian D. Buckley. I'm a staff attorney with the New

Hampshire Office of the Consumer Advocate. To my left is Dr. Pradip Chattopadhyay, the Assistant Consumer Advocate. And we are here representing the collective interests of residential ratepayers.

MR. SPEIDEL: Good morning, Commissioners. Alexander Speidel, representing the Staff of the Commission. And I have with me Al-Azad Iqbal, a Utility Analyst in the Gas and Water Division.

CHAIRMAN HONIGBERG: All right. We have an intervention petition. Anyone have any position they want to give us on the petition?

Mr. Epler?

MR. EPLER: No objections.

CHAIRMAN HONIGBERG: Mr. Buckley and Mr. Speidel?

MR. BUCKLEY: No objection.

MR. SPEIDEL: No objection.

CHAIRMAN HONIGBERG: It seems logical that Direct Energy would be an intervenor here, if they wanted to. So, Mr. Patch, your client is in.

What else do we need to do in the way

of preliminary matters? Anything?

Mr. Epler.

MR. EPLER: Mr. Chairman, thank you. We have a filing that we made on January 29th, a five-page filing, including the cover letter. I would propose that this be premarked as "Northern Exhibit Number 1". And I have --

MS. HOWARD-PIKE: It's "3".

CHAIRMAN HONIGBERG: It's "3".

MR. EPLER: I'm sorry?

MS. HOWARD-PIKE: "Three".

CHAIRMAN HONIGBERG: "Three".

MR. EPLER: My apologies.

(The document, as described, was herewith marked as **Exhibit 3** for identification.)

MR. EPLER: And I have two witnesses that I would propose -- and I have two witnesses that I propose to call, and those witnesses can address this filing.

CHAIRMAN HONIGBERG: Anything else in the way of preliminaries?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. Why

don't we have the witnesses move into position.

Do we expect any other witnesses, besides the two who are going up there right now? Mr. Patch?

MR. PATCH: Probably not, but I couldn't say "definitely not". You know, this is -- as you may or may not know, we had a settlement -- a partial settlement agreement that not all parties have bought into. And, so, we're kind of -- this is kind of happening not the way we anticipated, for some of us anyway. So, --

CHAIRMAN HONIGBERG: As is often the case, Mr. Patch, we always know less than everybody else.

MR. PATCH: Okay. Well, anyway, I might want to call Deb Dwyer, depending on how things go.

CHAIRMAN HONIGBERG: Okay. And Mr. Buckley and Mr. Speidel are conspicuously silent on this one.

So, Mr. Patnaude.

(Whereupon ***Christopher A. Kahl*** and ***Francis X. Wells*** were duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Epler.

MR. EPLER: Thank you, Mr. Chairman.

CHRISTOPHER A. KAHL, SWORN

FRANCIS X. WELLS, SWORN

DIRECT EXAMINATION

BY MR. EPLER:

Q I would like to ask the witnesses to identify themselves and their positions with the Company.

A (Kahl) I am Chris Kahl, Senior Regulatory Analyst, Northern Utilities.

A (Wells) My name is Francis Wells. I'm the Manager of Energy Planning for Northern Utilities.

Q Okay. Mr. Kahl and Mr. Wells, I draw your attention to what's been premarked as "Northern Exhibit Number 3", which is a five-page document, including a cover letter, two pages of tariff changes, and an Attachment 1. Were these prepared by you or under your direction?

A (Kahl) They were.

Q And do you have any changes or corrections?

A (Kahl) I'd like to make one minor correction.

Q Sure. Please go ahead.

A (Kahl) This is on Attachment 1, the "Summary of Rate Revision". I believe it's about the fifth of the heading lines down, I mention it's "Docket No. DG 17-174". That's wrong. It's "144".

Q Thank you. And with that, do you have any other further changes or corrections?

A (Kahl) No.

Q And do you adopt this as your testimony in this proceeding?

A (Kahl) Yes.

Q Mr. Wells?

A (Wells) Yes.

MR. EPLER: Okay. Thank you. Mr. Chairman, I have no further questions. The witnesses are available for cross-examination.

CHAIRMAN HONIGBERG: Mr. Patch.

MR. PATCH: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. PATCH:

Q With regard to the Peaking Service Demand Charge modification that was done here, has the Company ever done something like this before?

A (Wells) No. We have never proposed to change the rate mid-season, as we have in the proceeding today.

Q Is it something that the Company sees happening going forward in future winter seasons?

A (Wells) I would say that, generally speaking, we endeavor to purchase sufficient supplies to cover the winter season, whether they be LNG demand costs that would be recoverable through the Peaking Service Demand Charge or just overall supplies for the -- that might not be allocated to the delivery service customers. Generally, we plan to, you know, have a portfolio that is sufficient to meet the, you know, our projected winter supply needs.

You know, regrettably, this past winter, we just had a very -- a very significant demand on our system that was due to some extreme weather that was experienced in late December and early January of this year that prompted the Company to reevaluate its supply portfolio for the winter. We engaged in several purchases of additional supply in response to that event, including LNG.

But I would not say that it's, generally speaking, our plan to make midwinter LNG purchases.

Q And in terms of your tariff terms and conditions, how recently did you go through those and update them?

A (Wells) I don't remember the exact docket number, but I know that we just updated our delivery service terms and conditions, I believe it was in the last couple of years.

Q And can you point to me anywhere in those terms and conditions where it indicates that the Company anticipated making a purchase like the one that you made this winter?

A (Wells) I don't believe the tariff really speaks to our purchasing strategy or plan at all.

Q So, this, again, this was a very unusual occurrence. Do you see it as a one-time occurrence or do you see it as a recurring one?

A (Wells) I think I -- I do think I -- I feel like I already answered that question, --

Q Okay.

A (Wells) -- when I said that --

CHAIRMAN HONIGBERG: You were certainly asked it.

WITNESS WELLS: Okay.

CHAIRMAN HONIGBERG: So, do you have anything you want to add to the previous answer?

WITNESS WELLS: I do not. Thank you.

BY MR. PATCH:

Q And I think, Mr. Wells, you know the position that Direct Energy has taken in discussions that we've had at a tech session, and you know that Direct believes that it's not an appropriate charge and doesn't really support the charge, *per se*. Is that fair to say?

A (Wells) That would be a fair understanding of my -- of Direct's position.

Q And in terms of the way in which Direct and any other marketers were notified about this, could you give us a little bit of detail about that, including dates?

A (Wells) So, and I'm going to get the dates -- I'm going to get the dates wrong, I don't have the dates right in front of me. But I will say that I want to say that we entered into the LNG contract, we signed that, it may have been January 22nd or 23rd, and then the following day we sent a notice to the marketers of our intention to request an increase to the Peaking Service Demand Charge in both Maine and New Hampshire.

Q And how did that date relate again to when you entered into the contract? That was after you entered into the contract, right? You didn't consult with Direct or any marketers prior to entering into the contract?

A (Wells) That's correct. We did not consult with marketers prior to entering in the contract. As I previously stated, we notified the marketers of the LNG purchase the day after we had signed the contract.

Q And is it your understanding that Direct Energy has an issue with this being established as some sort of precedent going forward? That it's their position that this kind of thing really shouldn't happen again. That they should be -- that the Company, meaning your company, Northern, should not be in the

business of making purchases for them under these circumstances. Do you understand that to be their position?
A (Wells) I would have to say that, while I -- I'm not usually asked by a party to tell them what my understanding of their position is. But, generally speaking, I would say, subject to correction, and you obviously have the expert with you today on Direct's position, but I would say that it is fair. I would acknowledge that that would be my understanding of Direct's position.
Q And do you understand it to be Direct's position that they may have some issues with the way in which this was communicated to them? Again, I asked you the question about whether or not you were part of discussions that we had during the tech session and since then.
CHAIRMAN HONIGBERG: Mr. Epler.
MR. EPLER: Well, I mean, the witness can give his understanding of the position. I think it's a little awkward for a way to try to establish, if we're trying to establish facts at this point.

CHAIRMAN HONIGBERG: Well, I understand that. I'm going to overrule the objection, and ask -- and just tell Mr. Wells "don't work so hard". You have some understanding of what their complaint. Maybe you're right, maybe you're wrong. He's asking you what you understand their position to be, you give them what your understanding is.

WITNESS WELLS: Okay. Thank you.

CHAIRMAN HONIGBERG: Do you remember the question?

WITNESS WELLS: No.

CHAIRMAN HONIGBERG: Mr. Patch.

BY MR. PATCH:

Q My question was, based on the discussions that you have been a party to between Direct and the Company, some of which were held during the technical session, is it your understanding that Direct had some issues with the manner in which and the timing of the communication of the existence of this contract, after the contract had been entered into?

A (Wells) Yes. I do understand that Direct had expressed concerns about the timing of the notice.

MR. PATCH: I have a question for Staff. Again, since we're doing this a little bit on the fly, I know there were some responses to data requests that the Company made in response to Staff data requests. I think they were 1 through 7. And I didn't know, Mr. Speidel, if you intended to introduce them? And if not, I think I would like to have them marked as an exhibit.

MR. SPEIDEL: Staff was going to ask a few general questions along the lines of what was asked in the data requests of Mr. Wells and Mr. Kahl, as they are the responsive parties. But we were not planning to have them entered into the record as exhibits.

But, if you would like to submit them as such, we would not object.

CHAIRMAN HONIGBERG: Yes. Mr. Patch, if you want to use them, go ahead.

MR. PATCH: Unfortunately, Mr. Chairman, again, since this has happened rather quickly, I do not have sufficient copies to make them available to the Commissioners. I wasn't planning to ask questions about them right now. I can certainly get copies and give them to the Commission later. But it's happened so quickly, I didn't have time to do that.

CHAIRMAN HONIGBERG: Off the record.

[Off-the-record discussion ensued, followed by a short pause as copies were made.]

CHAIRMAN HONIGBERG: Mr. Patch.

MR. PATCH: Thank you. I appreciate your indulgence, Commissioners. I apologize for the delay.

[Ms. Howard-Pike distributing documents.]

BY MR. PATCH:

Q Do you have in front of you a copy of those responses to data requests, Mr. Wells?

A (Wells) Yes.

Q And based on your review of those, are those the responses that the Company -- that Northern Utilities, Inc., provided to Staff in this docket?

A (Wells) Yes.

Q And are there any corrections you want to make to any of those at this point?
A (Wells) No.
Q And I believe there's some information in one of these, I believe it's actually the response to 1-3, that talks about some of the timeframes that you were talking about, in terms of when the Company entered into the supply contract. You know, because I think you weren't 100 percent sure about some of those dates. But I think they're actually found in the response to 1-3. Is that correct?
A (Wells) I believe 1-3 only speaks to the term, the delivery term of the agreements. It does not speak to the date that the transaction confirmations would have been signed.
Q Oh, okay. All right. But at least it was your understanding that they were signed on -- what was the date again, could you help us?
A (Wells) I wanted to say it was January 22nd or January 23rd.
Q But I believe it's the LNG Contract 3 that is the one that is giving rise to the Peaking Service Demand Charge increase in this docket,

is that correct?
A (Wells) That is correct.
Q Could you describe for the Commission whether that is an incremental supply to Northern Utilities, "incremental" in the sense of incremental as compared with current or as of that point in time, current, planned on-system peaking service?
A (Wells) So, LNG Contract 3 did not increase the daily -- the maximum daily quantity that the LNG plant could produce. What it did provide was additional supply that would be available to the -- to be vaporized at the LNG plant.
Q So, it was supply, it was not capacity?
A (Wells) That's correct.
Q And was it being done to refill Northern Utilities' existing on-system space that had been used earlier than expected due to the colder-than-normal weather?
A (Wells) In the text of 1-3, I explain our, you know, our objectives and strategies and what we were trying to accomplish with all of the incremental purchases, including the LNG contract. And I don't discuss -- I don't

discuss the lowering of our LNG inventory. Our LNG plant only has about 12,000 dekatherms of inventory. And our initial contract for the winter period was 105,000 dekatherms. So, we hadn't, at the point of the purchase, actually used up the entire 105,000 dekatherms. But we were concerned that, based on the weather at the time, and based on what a design weather pattern for the balance of the winter might bring, that we could be in a position where we would be out of supply by the end of the winter.

And, so, that is part of the reason why we entered into the LNG Contract 3, was to make sure that we had sufficient volumes available to purchase for the plant. That it would really not be correct to say that we were replacing LNG inventory, because, even under normal operating circumstances, we don't have enough inventory to make it through, you know, two days of, you know, of operation.

Q But, if I understand you correctly, it was entered into in order to -- in anticipation of there being reduced volume at some point after,

after you entered into the contract, correct?

A (Wells) It was in anticipation of the possibility that we would be -- that there was insufficient -- you know, part of -- I just want to point out that, in my response to 1-3, I provide my analysis, which is an attachment in Excel format. And it shows the data that we were looking at in order to derive our projected requirements, you know, including the other contractual commitments that were set forth in the response.

So, the LNG Contract 3 was part of a comprehensive purchase, you know, portfolio purchases that we made facing, you know, very, you know, what was looking to be -- what could have been a very severe winter at the time of the purchase, and severe weather that we had experienced up to that point in the winter.

Q If it was done, though, in anticipation of refilling exist -- if the volume was found to be deficient at some point going forward, then can you explain to the Commission why the commodity rate, rather than the reservation demand charge, is the one that should not be adjusted? What's the appropriateness of charging suppliers, as compared to the sales customers, if it's really about the volume?

A (Wells) So, if we had an LNG, you know, LNG storage that was, you know, I mean, there are utilities in New England that have, you know, have a Bcf of storage in their LNG plant; we have 12,000 dekatherms. So, we, unlike other utilities, we are relying on winter deliveries in order to meet our design winter conditions.

So, we don't -- you know, your questions are presuming that there's -- that we have a full, you know, that we have a tank that's full of all the volume that we would need for the entire winter, and it's just not the case. Our supply plan relies on midwinter deliveries. And, so, when we are looking at the volume, we're not necessarily look at our inventory volume, although that's important, we're looking at the remaining volume on our winter LNG contract. And we're looking at, based on that volume, if we're projecting forward into the winter, and we are -- you know, we continue at a design, you know, we continue at a design winter rate, "do we have sufficient supply in order to meet the demands of our customers?"

Q At this point in time, is it fair to say that if you knew then what you know now, in terms of how the winter would play out, that you would not have made that purchase?

A (Wells) So, as a utility, we do have an obligation to plan for design winter standards. And, so, if I were to engage in the hypothetical of "what if I knew the weather was going to be", you know, I think it's pretty clear the weather has been a lot warmer than whatever our design scenario would be. But that having been said, at the time of the purchase, you know, the utility has to presume that, you know, design weather is our standard for planning.

So, we don't have the -- you know, I think it would be -- I don't think it would be a good planning practice to assume something other than planning for your design. And, so, that's why, you know, we -- when we evaluated our purchases, and you'll notice in the attachment to 1-3, we're looking at -- we're looking at planning towards our design scenario. In fact, the response references a worksheet within that attachment that's labeled "Design Dispatch Analysis". And it's because, when we buy gas, we need to make sure that, you know, our portfolio can meet design, our design criteria.

Q   Could you focus for a second on the response to Staff 1-7. And if I'm reading that correctly, then the forecast which you had as compared to the actual for November, December and January, the actual -- the peaking demand resource usage data indicates that the forecasts were in excess of the demand in all three months. Is that fair to say?

A   (Wells) That was an accurate way of -- that is accurate, yes.

Q   Do you recall, I believe it was during the technical session that we had here at the Commission, Mr. Frink asking you a question about whether there was a way to try to recover some of the costs that you incurred to purchase this contract this winter, in the event that it's not something that's needed? And could you -- I remember you gave a response to that, I don't remember all the detail, but I think it might be useful for the Commission to hear that?

A (Wells) I'll admit that I don't actually recall my precise response. And, so, I'm just going to respond to it like the way I feel I should right now, rather than --

Q That's fair. No. I don't recall it exactly either, but --

A (Wells) But, you know, when we operate the system, to the extent that it is operationally and economically feasible, we do pursue off-system sales transactions in order to manage costs for our sales service customers. And, so, you know, those revenues, to the extent that those revenues exceed, you know, our costs, that is an offset to any demand charges that we would -- that we incur in the delivery of supply to our customers.

Q Could you tell the Commission when Northern Utilities first became aware that there was a pressure deficiency at the --

[Court reporter interruption.]

BY MR. PATCH:

Q -- a pressure deficiency at the TGP interconnect with GSGT? And if you want to explain those acronyms, feel free to do so.

A (Wells) So, just as a, you know, a first order like response, I'd say that, first, Tennessee's tariff prescribed a certain level of delivery pressure that I am not aware that they have ever violated. What I would say, however, that there are times when Tennessee's pressure at the inlet between Granite State and Tennessee, we commonly refer to as "Pleasant Street", it's actually in Haverhill, Massachusetts, there are times that the pressure is not sufficient to meet Granite's design capacity at that meter. And that -- I can't tell you exactly when the Company became aware that that -- that that sometimes happens. But I can tell you that Granite pretty regularly last winter posted reductions to its operating capacity due to low pressure in -- on the upstream pipeline, which in this chase would be Tennessee. And actually, I think even as recently as this winter, I believe, in the Maine discovery response, that, you know, I did attach a copy of the notice that Granite had issued citing low pressure as a reason for lowering its operating capacity for a day during the '17-18 Winter.

Q But you don't recall exactly when you became aware of that, but vis-a-vis your decision to enter into the LNG contract?

A (Wells) It was -- I can say that it has been known for since -- I knew about this way before I considered buying extra LNG for the '17-18 Winter. And I think anybody who has been active on Granite is aware that capacities at Pleasant Street have been lowered. I wouldn't say as on a routine basis, but not infrequently in recent history.

Q And, so, when you say "way before", was that in your preseason planning, which you typically do?

A (Wells) Yes.

Q So, before September 15th?

A (Wells) Yes. We knew that sometimes Granite pressures are low, and that Granite has lowered its operating capacity below its design on numerous occasions prior to our September 15th plan for capacity assignment.

Q And, so, how did that affect your planning vis-a-vis the marketers then at that point in time, if you're aware of that?

A (Wells) It had no bearing on our planning for the marketers.

Q Did it have any bearing on any planning that you did at that point in time?

A (Wells) I mean, generally speaking, regardless of the -- you know, regardless of -- the other thing that one needs to bear in mind with the interconnection between Tennessee and Granite is that, regardless of the operating pressure, you know, Granite itself is, you know, an 87-mile pipe without compression that at some points is only 8 inches in diameter. And, so, really, even with operating pressure that's sufficient to meet its design, you know, you kind of have to have the gas where the load is. And, you know, we -- as you know, Maine is over, you know, is well over 50 percent of our total system demands. And, so -- and even in New Hampshire, we have sufficient demand on the northern part of our system, sort of north of

Newington, that, you know, realistically, you need to have supplies to -- to operate in Northern, you need to be prepared to have supplies that are either at Granite's PNGTS interconnects with Portland or Westbrook, or at Northern's Maritimes interconnect at Lewiston, Maine. Because that really is where the majority -- the vast majority of our load is really served off of those interconnects, regardless of the operating pressures on Tennessee.

So, as a practical matter, you know, would there be an opportunity to get a little bit more through the Pleasant Street meter, if we always knew that, you know, that the Tennessee point, which is kind of at the end of its line, would always have pressure sufficient to meet Granite's design capacity? I suppose it would be. But the reality is that the majority of the demands on Northern's system, even with that, are going to be off of Portland and Maritimes, because that's just where our customers are. And the Granite -- there's not enough capacity on Granite to move volumes from

Pleasant Street into the northern part of our system with a lot of regularity. Pipe is just not big enough.

Q Is it generally true that the Company tries to have terms and conditions in Maine that are very similar to those in New Hampshire?

A (Wells) I would say, as a practical answer to that question, our terms and conditions in Maine are very similar to the terms and conditions in New Hampshire. We have endeavored to, you know, we first went through a process of changing our tariff in Maine. There were a lot of changes that were made in Maine that were somewhat different than what we did in New Hampshire. And we -- our most recent like change, the substance of the delivery service terms and conditions, did really bring those two tariffs so that they're very closely, you know, aligned with one another.

Q And you have a similar request before the Maine Commission, don't you, as the one that is at issue here today?

A (Wells) Well, I mean, the question about the

Peaking Service Demand rate, yes. That the two -- we have made a similar request in Maine.

Q And is it your understanding that there's a settlement that has been agreed to in Maine?

A (Wells) I don't know that -- I don't know that I can answer that question. I don't know if we've signed it or -- I really don't know the answer to that question. I think there is -- it's certainly possible that there's a settlement in Maine. But I'm not at liberty to say affirmatively that that's happened.

CHAIRMAN HONIGBERG: Can you clarify what you just said? You seemed to say two different things. One of which was "I don't really know" and the other one was "I know, but I'm not at liberty to say". Those are two different things.

WITNESS WELLS: I apologize. I don't know.

BY MR. PATCH:

Q Do you think there's value in having this issue resolved in the same way in both states?

A (Wells) There certainly is value in having the situation resolved the same way in both states.

But I wouldn't say that it is absolutely necessary. You know, we've had capacity assignment -- even if Maine and New Hampshire come out with different answers on this question, you know, our capacity -- the capacity assignment provisions of the two divisions have differed by a lot more than this would be, than the result of this would be.

But, you know, I would say that the Company, you know, generally speaking, we seek solutions that, you know, make sense in both states, and we think the solutions that we advocate make sense in both states. So, generally speaking, if we like something in one state, we would also like it in another.

Q And I don't -- I'm not asking you this question to elicit any details about it. But is it fair to say that at least Direct and Northern had arrived at a settlement agreement in this docket?

MR. EPLER: I'm going to object. I mean, we certainly have had settlement discussions. But I don't think you could characterize it as "arriving at a settlement", because there is no signed document.

CHAIRMAN HONIGBERG: Mr. Patch.

MR. PATCH: That's fine, if that's the position the Company wants to take. I mean, I guess I see it a little differently. But I can't argue with that, if that's the Company's position.

CHAIRMAN HONIGBERG: I think that's probably right.

MR. PATCH: Yes.

BY MR. PATCH:

Q And could you tell me, Mr. Wells, what the impact would be if the proposed changes that are before the Commission here were not approved at this time?

A (Wells) I am almost certain that there is a data response that goes to that question. And I just need to identify it. Staff 1-4 provides a response to the question that you are asking. But, just high level, the amount that would be allocated to the marketers would be approximately $57,000, if this proposed rate were to go into effect. And that, if it does not go into effect, that $57,000 approximately would be -- would flow through the cost of gas reconciliation. And, so, sales service customers would pay it.

Q And on a going-forward basis, how would you say that Northern views its role as a purchaser of LNG, as it did this winter, on behalf of marketers and sales service customers? Does it view it differently, given what's happened this winter and given the process we've been through in this docket? Or, do you see yourselves doing the same thing again?

A (Wells) Well, I would say that, you know, every year the Company learns something about how things went the year before. You know, each winter provides a unique set of circumstances and opportunities and challenges. And we always try to get a little bit better at what we do. I would say that we have not really drawn any conclusions about how we would do things differently going forward, because we're still in the winter.

You know, typically, we try to, you know, after -- while we are also -- there's always a feedback loop as we go through. But, you know, I would want to -- I really want to like take the opportunity to really consider the winter in whole as to how it went.

But I don't know that anything to this point has led us to believe that we will do, you know, make dramatic changes to the way we buy LNG for the plant going into next winter. But, that said, you know, we haven't really completed, you know, an exhaustive and thorough discussion of -- internal discussion of like what, you know, what we will ultimately do for LNG for next winter.

Q I mean, I think you heard -- I heard you say "going into next winter", it won't change your planning going into next winter. But I guess I'm asking about, if you're in the middle of a winter, I mean, are you planning at this point to make purchases next year or the year after or any time in the future in the same way that you did this winter?

A (Wells) Well, I think, if you really look at my response to 1-3, I said pretty clearly that, you know, our purpose was to, you know, avoid exposure to, you know, a very high index --

daily index pricing for New England-based supplies. And it was also to make sure that we could reliably serve our customers for the balance of the winter. So, those were the two objectives. And, you know, I expect that those will continue to be our objectives going into future winters.

You know, I want to point out, you know, we could have just as easily bought this LNG, you know, bought this extra LNG. It would have been an incremental demand cost. Not propose to allocate it to sales and delivery -- or, propose just to -- you know, not propose to any change to the Peaking Service Demand rate. But we thought that, you know, the LNG plant is a company-managed resource under our Capacity Assignment Program, and we thought that it was important that we raise this issue up, that, you know, sometimes, when we are looking at our resources and looking at the best decisions, sometimes it ends up being, you know, resulting in supply for a resource that's company-managed.

And while I respect Direct's position in this case, you know, it's our feeling that, because it's, you know, company-managed under the terms and conditions, it was at least worth raising this issue to the Commission of whether or not these costs should be allocated between sales and delivery service customers. I think it would have been, you know, it would have been very easy for us to simply not raise this issue, leave things exactly the same for the marketers, and just sort of under the rug all this cost goes to the sales service customers. But we really are committed to try and do the right thing for both our sales service and delivery service customers.

And, so, you know, that may be a long-winded response to your question, but, you know, we really thought it was important to, you know, when we went through and figured out what the best resources were, you know, like I've said previously, in previous technical discussions, we didn't, you know, say "Gee, we feel like the marketers need some more supply". We bought what we thought were the best supplies, and one of the identified supplies we felt that that was allocable to the retail marketers.

Q Do you recall that in one of the data requests, Staff 1-6, Staff asked you to explain what steps that the Company has taken or is planning to take to avoid repetition of similar mid-season rate changes?

A (Wells) Yes.

Q And do you have anything you want to change in that response or is that still the Company's response today?

A (Wells) I mean, one thing that we could do, you know, that might -- that has -- that we would consider is we could also potentially adjust our peaking service rule curve. And let me explain that a little bit further. So, each year we provide the marketers with a list of all of the capacity contracts that would be assignable to them and give them a general idea of what percentage of each that they would be getting based on pipeline, storage, and peaking percentages. We also provide them with the amount of -- the amount of supply that's available as peaking service, which would only be the LNG plant at Lewiston. And, so, with that annual contract quantity, we provide a -- what's known as a "peaking supply" or "peaking service rule curve". And it's really a percentage of their allocated ACQ that they would need to -- that would be the minimum amount that they needed to have remaining.

So, for example, if we say, for January 2018, that there was a peaking service -- the peaking service rule curve was 60 percent, if they were allocated 10,000 over the season, they couldn't use more -- they would have to have at least 6,000 remaining at the end of January. And this is a way for the utility to manage the marketer's utilization of that resource, to make sure that there's sufficient LNG for the plant at the end of the season.

And, so, one alternative to allocating midwinter purchases would potentially be to have a higher -- to adjust the peaking service rule curve so that it would, you know, it would make -- so the Company would know that the marketer's portion, their allocation, would still be available at the end of the winter. And that's a -- that is one possibility that the Company would -- that the Company would consider as a potential solution to this issue going forward.

But, you know, I think it's -- I think it's a little early. Obviously, it is something that we would want to have all the parties to this proceeding be comfortable with. And, so, you know, that's how I would supplement -- in any event, that's how I would supplement, you know, the response to 1-6.

Q And at the beginning of your response to that question, you talked about various kinds of information that you provide to marketers. And can you just to be clear for the record when you provide that information each year?

A (Wells) The tariff I believe states that we will provide that September 15th of each year for the period November through October.

Q And when is your next IRP filing?

A (Wells) I want to say it's June of 2019. But I would have to -- subject to check.

Q And, so, the kind of planning that you've described today, I mean, just to be clear for the record, as you've indicated, the step that you took this winter was a very unusual step. Is that fair to say? Not something that had been done before?

A (Wells) I wouldn't -- I think the circumstances, it was a very unusual winter. And, so, I would agree that the steps we took are probably not going to happen -- are probably not going to usually happen.

MR. PATCH: If I could just have a second, I apologize.

(Atty. Patch conferring with Ms. Dwyer.)

MR. PATCH: Mr. Chair, if I could ask your indulgence, Deb Dwyer has one question she would like to ask. And she's better informed than I am. If I try to ask it, I think I'll botch it. And, so, maybe if I ask her, would that be acceptable?

CHAIRMAN HONIGBERG: If it draws an objection, we'll deal with it. Ms. Dwyer, why don't you go ahead.

MR. PATCH: Thank you.

BY MS. DWYER:

Q So, the question I have relates to the answer 1.3 -- 1-3. And in the response, it discusses that there was a Tennessee contract that was priced at Gas Daily or an index. And it was either the purchases that you chose, which may include the LNG, as a way of avoiding the purchasing of gas at the higher indexes for sales customers. Is that a fair statement?

A (Wells) I would take some issue with that. Generally speaking, I would agree. I would say that the contract we were talking about is not a Tennessee contract, but rather we had supply contracts, but not necessarily deliverable to Tennessee, it was deliverable to the other interconnects with our system. They were indexed to Tennessee Zone 6.

One of the issues with buying gas on PNGTS and Maritimes is that there really isn't a published index for those delivery points, because there really aren't -- there really isn't sufficient trade volume and counterparties that are trading on those pipes in order to -- in order to be able to buy gas that would be an index that was particular to PNGTS or Maritimes.

So, often sometimes when we're doing our off-system peaking supply deals, we'll pick, you know, we'll pick another New England-based index. Usually, the two most commonly used ones would be Tennessee Zone 6 or Algonquin Citygates. And those indexes are often used as proxies under these types of -- types of transactions, because there really isn't an index for Portland and Maritimes.

But, generally speaking, you know, I stand by my response, which was that we had two objectives: One was to assure reliability and the other was to protect against further exposure to Tennessee Zone 6 index pricing.

Q And that was -- that was for the sales customers?

A (Wells) Yes. My analysis that led us to the purchases we made were considering sales service customer volumes.

BY MR. PATCH:

Q In response to a question that I asked earlier, you had indicated that you typically provide information about the upcoming winter to gas marketers sometime before September -- well, I think you said actually in the October/November timeframe, but sometimes it's before September 15th. But it's in the fall, before the winter season really begins, is that fair to say?

A (Wells) I'm sorry, I don't -- I want to make sure I understand the question.

Q Okay.

A (Wells) Could you please repeat it.

Q The information that you provide to marketers before the season begins, when does that take place?

A (Wells) It's mid-September.

Q And how do you communicate that?

A (Wells) Via email.

Q Have you ever had any meetings with gas marketers before the season?

A (Wells) I usually -- usually, marketers that have questions will either email or call me, based on the information that I provide.

Q Is that something that you object to doing, if the marketers found that of value?

A (Wells) No. I guess there's nothing I would -- I guess I wouldn't object to meeting with marketers. You know, I want to -- I do want to interject just a little. You know, this issue is really about company-managed supply. And I want to remind you guys that, you know, we have actually done a lot to try to reduce the amount of company-managed supplies overall. Because I think that really is the issue in this case, isn't it? Is that, you know, we have a resource that we can't just release to you, and sometimes we have to make decisions that affect you, that -- and there's really very little way to avoid that.

And, so, you know, we actually went out of our way, you know, we're starting a contract, you know, we're starting a very big, you know, for us at least, storage contract next month with Union Gas. And we specially negotiated those contracts to be releasable to marketers, because we knew how important it was for the market, in order to -- for marketers to be able to have physical control of the resources that they're assigned.

And, so, you know, right now, this is the last winter where company-managed, for our largest storage asset, will be the form of assignment. And I think it's indicative of the commitment the Company has made to try to balance these, you know, balance these needs. Believe me, our trader is not too crazy about releasing all that capacity. You know, there's advantages to the utility of company-managed process and form of assignment. And, you know, but we also understand the reality is we want to do what's right for our customers. And some of our customers want to buy from retail marketers, and we want them to have the full value of what they're paying for.

And, so, you know, I do feel like we may differ on this issue here. But, you know, the principle of trying to get as much, you know, trying to minimize the impact of company-managed on retail marketers is a principle that the Company not only, you know, believes in, but has practiced. I don't know if there's anybody who has done more to reduce company-managed in its capacity assignment programs that I'm aware of.

MR. PATCH: That's all our questions. Thank you.

CHAIRMAN HONIGBERG: Mr. Buckley.

MR. BUCKLEY: Thank you, Mr. Chairman.

BY MR. BUCKLEY:

Q Mr. Wells, in Exhibit 3, Attachment 1, paragraph 3, it summarizes how LNG demand costs were allocated, noting that a portion of those costs assigned to non-exempt delivery service customers would be recovered through the Peaking Service Demand Charge. Can you describe for me in greater -- in a greater degree of detail how such costs were assignable to those non-exempt delivery service customers?

A (Wells) I apologize. I just -- that was a very lengthy cross-examination. I do need -- if you don't mind repeating --

CHAIRMAN HONIGBERG: Mr. Wells, do you need a break?

WITNESS WELLS: I think I'm okay. I just had this one moment where I may not have been fully engaged in your question. I do want to give it the attention it deserves. And I think I missed the reference to --

CHAIRMAN HONIGBERG: All right. Mr. Buckley will do it again for you.

MR. BUCKLEY: Absolutely.

WITNESS WELLS: I apologize.

MR. BUCKLEY: Not a problem.

BY MR. BUCKLEY:

Q In Exhibit 3, Attachment 1, paragraph 3, --

A (Wells) Okay.

Q There's a --

A (Wells) Got it.

Q There's a summary. Can you just briefly say what that summarizes?

A (Wells) Generally, we just talk about or I talk about the proposal to increase the Peaking Service Demand rate. The fact that we have bought additional LNG and the cost associated therewith. And the fact that we are proposing that those costs be allocated between sales service and delivery service customers. And then just sort of an update of the rates themselves.

Q Thank you. And can you describe for me in slightly more detail than is available in that summary paragraph how such costs were assignable to those non-exempt delivery service customers?

A (Wells) Do you mean the method or do you mean the rationale?

Q Both, if possible.

A (Wells) Okay. In the discovery, we do provide some citations to the tariff on why those charges are assignable to delivery service customers. I refer you to Section 14.3 of the tariff. And then I also would refer you to Section I, basically saying that we have the -- you know, but that we can propose changes to the PUC.

But I would also say just generally, you know, just transitioning from my prior statements, ultimately, the supply that we bought is associated with the LNG plant. And the LNG plant, because it can't be released, is a resource that is assigned via company management. And, so, just generally speaking, you know, while I stand by my earlier statement that, when we evaluated our supply needs, we were looking at sales service customer demands. When we looked at -- when we looked at "well, this is a demand cost that pertains to a company-managed resource", it was, you know, apparent to us that that cost should be allocated between sales and delivery service customers. And that's, you know, that was really the -- you know, our reasoning for allocating the costs in that manner.

Now, as far as methodology -- Yes. Thank you. So, I had prepared, and I prepare in each cost of gas winter filing -- I guess that's an annual filing now, I apologize, I provide a calculation of the Peaking Service Demand rate, and usually that's presumed on recovering the peaking supply and capacity costs associated with the LNG plant over a six-month period. And I calculate that by taking the total cost, dividing it by 6,500, which is the rating of the plant, and then dividing that by six, for the number of months that we recover it by. Marketers would be allocated prorated based on the volume of peaking service they were assigned.

And, so, when we calculated the update, we basically said "okay, we're recovering a prorated portion of this additional cost or we're recovering this additional cost over a two-month period", and so we just sort of, you know, adjusted the rate. And you can see, in Attachment 2 of -- I want to say it's "Exhibit 3", but --

A (Kahl) Yes.

A (Wells) I'm never good at remembering those exhibit numbers. I apologize for that. But you can see where I basically prorated the prior, you know, the costs that were communicated prior to the winter period, I sort of allocated or prorated them over the two-month period, and then, you know, put the incremental cost, I inserted that into the two-month period, and came up with sort of a blending of those two things to come up with a revised rate.

And, so, marketers would get allocated that portion based on the maximum daily peaking quantity that they're assigned, which I communicate them based on their customer pool and based on the capacity allocators that were part of the annual winter cost of gas filing.

Q So, I think I heard you say earlier that the sales service customers were an important piece of consideration in acquiring this additional piece of the portfolio?

A (Wells) Yes.

Q But is that to say that delivery service customers would not also benefit from the incremental purchase to the portfolio?

A (Wells) Well, I would say that they -- I would agree that they do. One thing that we were concerned about, it doesn't necessarily come across in the quantitative analysis that I provided in 1-3, is, you know, the concern that the Company had that, if the weather pattern were to continue for a significant amount of time, that we would potentially not have LNG for the plant. And, you know, the LNG plant provides value really to all customers, even, you know, I would argue even, you know, non-capacity-assigned delivery service customers have some indirect benefits from the plant, just because it enables the Company to have a resource that can be dispatched throughout the day in order to meet swings in demand that could happen as a change in, you know, result in changing weather and result in where supplies are coming into the system. Potentially, you know, if there were an emergency situation where, you know, some capacity wasn't available, or any number of reasons that, you know, certainly delivery service customers, you know, in our view, benefit from the availability of the LNG plant.

In addition to that, you know, we did, as soon as practical, make available, you know, the incremental volumes to purchase under peaking service.

So, I would say that, in those two respects, both the indirect benefit of, you know, just the overall condition of the system, and then the direct benefit of having access to that additional supply, that there were benefits to, you know, capacity-assigned delivery service customers.

Q Thank you, Mr. Wells.

A (Wells) You're welcome.

Q So, I want to return to something that you mentioned a few moments ago, which was the adjustment to the peaking service rule curve.

A (Wells) Sure.

Q So, if this were adjusted, would that avoid the scenario imagined in 1-4, Staff -- response to Staff 1-4, where sales service customers would end up shouldering the burden of costs, which at least in the instant Petition, were equitably assigned to -- at least in part to delivery service customers?

A (Wells) Well, it would -- it certainly wouldn't change the math here, right? If you look at my response to 1-3, as I've acknowledged, you know, we looked at, you know, design demands for sales service customers relative to the supply available for sales service customers, and determined that incremental supplies were needed. So, it certainly wouldn't change this calculation here.

What I would argue, though, and, you know, I think this concept may need to be more further developed, but if we were potentially to be requiring marketers to have higher volumes on hand for the end of the winter, then, you know, and they would also not get the -- you know, the direct benefit of, you know, the lower cost supply, in that circumstance they would need to go out and buy additional supply, if, you know, that was what -- if they were to run, you know, low on our peaking service, you know, the peaking service offering to us, then they would have to go buy the gas out in the market and pay whatever that market price would be.

So, conversely, there is an offset, in that, you know, the sales service customers would have access to more of the supply, in the case that, you know, we were to adjust our midwinter allocation process, if you will.

Q So, and just to clarify, I think maybe you've already said this, but just to clarify, that if the proposed Peaking Service Delivery Rate changes as set forth in this Petition were not approved, would that allocate costs, which, at least in the Petition, were on delivery customers, would that allocate those costs onto sales customers?

A (Wells) Yes, it would. And I would just add that the circumstances this winter, you know, while I -- you know, this discussion of what might happen, it didn't happen this year. I mean, we hadn't adjusted those peaking service rule curves. So, you know, we still feel that, you know, our proposal is appropriate, given the facts that we are presented with this year.

You know, there is a dialogue between the Company and Direct about how we can address this going forward. And, you know -- and, obviously, you know, we want to include the other parties, the Staff and the OCA, in that discussion. You know, there may be multiple solutions to how to address this going forward. I mean, including potentially doing it the way we're doing it right now. I just -- you know, I feel like, though, for this winter, you know, the facts that we -- you know, we still stand by our recommendation for this winter, regardless of any discussions that, you know, we've had this morning.

MR. BUCKLEY: Thank you very much, Mr. Wells. No further questions.

CHAIRMAN HONIGBERG: Mr. Speidel, do you mind if we take a break before you ask your questions?

MR. SPEIDEL: No problem. No problem at all, sir.

CHAIRMAN HONIGBERG: All right. We'll break for ten minutes.

(Recess taken at 3:03 p.m. and the hearing resumed at 3:17 p.m.)

CHAIRMAN HONIGBERG: Mr. Speidel.

MR. SPEIDEL: Thank you, Mr. Chairman.

BY MR. SPEIDEL:

Q I would like to direct the first question to Mr. Kahl. Mr. Kahl, you had a role in preparing this filing to the Commission, correct?

A (Kahl) That's correct.

Q And in general terms -- I just want to double check to make sure I'm not missing anything. Let's see here. You had a response to Staff 1-1. And I think it's putatively been marked for introduction as "Hearing Exhibit 4".

MR. SPEIDEL: If it hasn't, I'd like to recommend that it be marked as "Hearing Exhibit 4".

CHAIRMAN HONIGBERG: All right. That sounds like a good idea.

(The document, as previously described, was herewith marked as **Exhibit 4** for identification.)

BY MR. SPEIDEL:

Q And in general terms, you indicate that the Company believes that it would have the authority to seek revision of this rate under the terms of RSA Chapter 378, is that fair to say?

A (Kahl) Yes.

Q And you stand by that conclusion, correct?

A (Kahl) Correct.

Q So, the Company doesn't necessarily accept the premise that, if the tariff doesn't specifically say "you may change this to reflect additional costs", that it is precluded, the Company is precluded from seeking revision of a rate. You tend to have

the position that the rate may be revised at the Commission's own discretion, correct?
A (Kahl) That is correct.
Q Okay. Thank you. Mr. Wells, just stepping back a tiny little bit. The peaking plant or the LNG plant, you've used those terms interchangeably, that's located in Lewiston, correct?
A (Wells) Yes.
Q So, Northern has a consolidated distribution system that spans two states, all the way from central Maine and roughly the Androscoggin River Region of Lewiston/Auburn, down through the seacoast of New Hampshire, to Salem and Plaistow, right?
A (Wells) Yes.
Q So, that's a pretty big geographic area, and it has one peaking plant to serve that entire geographic area?
A (Wells) Yes.
Q And that's the one in Lewiston?
A (Wells) Correct.
Q So, in the Company's opinion, it's been seeking recovery over the years from both New Hampshire

and Maine customers for the operations of the Lewiston plant, because it views there -- that there is an existence of a benefit from the Lewiston plant for both divisions, is that fair to say?

A (Wells) Well, we operate a single portfolio that covers the entire geographic region. And the LNG plant is part of that, is part of that portfolio. And it does provide benefits to both Maine and New Hampshire customers. That is correct.

Q So, the LNG plant's operations were at a fairly high tempo in late December and early January of this past year, correct?

A (Wells) Yes.

Q And that operational tempo is related to the weather conditions that were prevailing at the time?

A (Wells) Yes.

Q And, so, not meaning to rehash any of the Company's statements, but it's fair to say at one point the Company made a decision to seek incremental LNG supplies to be delivered by truck to the Lewiston plant on an ongoing basis, to prepare for the possibility that the cold winter weather conditions would continue to prevail. Is that fair to say?

A (Wells) That is fair to say.

Q Okay. So, the roughly $700,000 in costs that have been referenced in this filing in connection with the LNG, those are strictly the demand costs, right? They're not the commodity costs?

A (Wells) That's correct.

Q And why has the Company elected not to include the commodity costs of the LNG in this filing?

A (Wells) So, in Section 14 of the tariff provides the commodity charge. And generally speaking, we have -- to my knowledge, we've never sought approval of the peaking service commodity rate. We basically charge the suppliers, I want to say that the tariff provides that we provide suppliers the commodity at our cost, generally speaking. So, we are doing that, and we have been doing that since February 1st, the first month after the -- you know, the first that we had actually procured the additional LNG. So, yes, and it's at the weighted average cost of the existing LNG contract and the new LNG contract.

Q So, this general figure, before we get into the specifics, the general figure, in the Company's estimation, it is appropriate to include the demand cost component into the Peaking Service Demand Charge under the terms of the tariff?

A (Wells) Yes.

Q And that general cost of 700,000 can be further broken down into two elements, New Hampshire Division and Maine Division, right?

A (Wells) Yes.

Q And that allocation is done under the prevailing cost allocation factor that has been developed by the Commission, and the New Hampshire slice is being assessed here as part of this charge, right?

A (Wells) That is correct.

Q And, so, drilling down, is it fair to say that the $57,269 figure that is referenced in the response to Staff 1-4 in Hearing Exhibit 4, that's a rough proxy for the cost causation that, in the opinion of the Company, can be fairly allocated to the marketers for New

Hampshire Division specific costs related to planning for Lewiston LNG operations in this winter?

A (Wells) Yes.

Q So, therefore, recovery would be just and reasonable and appropriate as part of this charge?

A (Wells) Yes.

Q Is Direct Energy the only marketer active in the State of New Hampshire for your division here?

A (Wells) No.

Q It is not. So, there are a couple others maybe?

A (Wells) Yes.

Q And this $57,000 figure, we'll call it maybe an "undercollection", this is enough, this amount of money is enough to cover this shortfall for the entire winter's operation related to the Lewiston LNG plant, is that right, for the marketers' slice?

A (Wells) Yes.

MR. SPEIDEL: Thank you. Staff has no further cross-examination questions. Thank you, Commissioners.

CHAIRMAN HONIGBERG: Commissioner Bailey.

CMSR. BAILEY: Good afternoon.

WITNESS WELLS: Good afternoon.

WITNESS KAHL: Good afternoon.

CMSR. BAILEY: I have to confess, I'm not sure I understand this. So, my questions are probably going to be pretty basic. I'm trying to understand it, and just when I think I get it, I don't get it. So, --

WITNESS WELLS: I appreciate your effort. And I'll do my best to be concise and direct in my answers.

CMSR. BAILEY: Okay. All right.

BY CMSR. BAILEY:

Q So, you paid $700,000 for what you said are "demand costs", not the commodity. What do you get for that?

A (Wells) We get the right to buy an additional 35,000 dekatherms of LNG, at a price that is confidential, but the price is stipulated in the contract.

Q That's the commodity price?

A (Wells) That's correct.
Q So, this is sort of a reservation of a certain number of dekatherms of supply?
A (Wells) Yes.
Q And what happens if you don't use it?
A (Wells) If we don't use it, then we would just pay the -- we would pay the demand charge, and not incur a further cost.
Q Okay. So, you pay the 700,000, but you wouldn't pay anything for commodity?
A (Wells) Yes.
Q Okay. And what do delivery service customers -- how do they benefit from this demand cost?
A (Wells) So, they would benefit two-fold in our view. One, we were concerned, when we entered into this contract, that we may literally run out of LNG at the rate we were -- at the rate we were burning through the existing LNG contract. So, we had concerns about the overall system integrity. So, delivery service customers clearly benefit from their being system integrity we feel.
Q Can you explain a little bit about what that

means? Does that mean maintaining a certain pressure on the system?

A (Wells) There isn't the same pressure issue in Lewiston as there might be at some other LNG installations. This is more about end-of-day balancing, about there being a -- just a secondary source of supply, in the event that there may be, you know, interruptions of service due to, you know, we've had compressor failures, we could have -- you know, we've had potentially delays on LNG ships coming in that might be backing other supplies. And, so, we just think that overall the availability of the LNG plant is good for system reliability.

Q So, if you had a compressor station failure, you would still be able to run the peaking plant?

A (Wells) Yes.

Q And maintain a certain level of supply in the pipeline?

A (Wells) Yes.

Q That's the purpose. Okay. And can you tell me how many marketers you -- or, how many delivery service customers you have or is that confidential?

A (Wells) No. The number of customers, delivery service customers, I want to say is somewhere around a thousand in the New Hampshire Division. But the number of marketers that we would assess this charge to currently are two.

Q Oh, I see. All right. And, so, of the $57,000 at stake, is it roughly split 50/50 or -- I don't want you to --

A (Wells) No. I would not say it's --

Q Okay.

A (Wells) I would not say it's a 50/50 split.

Q All right. And why do you -- did I hear you say that, if you didn't increase the demand charges to marketers today, then the $57,000 would flow through the cost of gas reconciliation process?

A (Wells) Yes.

Q And would the marketers have an opportunity to dispute that? I mean, is there any legitimate reason that they would not have to pay that?

A (Kahl) Excuse me, I think, because you have two questions there. And one is, if the marketers don't incur that 57,000, that would flow to the

sales customers. That was your --
Q Oh, and I didn't understand that. Okay. So, --
A (Kahl) In the reconciliation of the cost of gas.
Q Oh, because marketers don't pay cost of gas?
A (Kahl) Correct.
Q Okay. But their -- no, their customers wouldn't pay it either, because -- okay, I see, because they bill their customers. The marketers bill their customers. Okay. You said that there was very significant demand on the system this year, and this was the only time that you've ever had to make this additional kind of purchase. What happened in the year of the polar vortex, when it was much colder?
A (Wells) So, I want to be clear. We did actually have to buy extra LNG that year as well, but we had a much lower -- but the circumstances under which we needed to purchase it were very different. We just went in with a much lower volume that year to begin with. And, so, even in a polar vortex year, when you

look at the year in totality, it was not necessarily driven by -- we weren't breaking, you know, we weren't breaking records of system demand like six times in, you know, 13 days. It was really cold for a sustained period of time, but it wasn't necessarily system, you know, system record-breaking severe cold necessarily throughout that event.

We did buy extra LNG, and we did not propose at that time to change the Peaking Service Demand rate. And I really can't tell you why we -- why we elected not to do that at the time. But, you know, we did buy extra LNG under that, in that year. But the volume the, overall volume that we bought was a lot -- was a lot lower going into the winter. And we also had, you know, our capacity assignment program was somewhat different then, insofar as the LNG was only -- was a smaller part of our overall peaking service.

Q You said you had "a lower volume going into the winter".

A (Wells) Yes.

Q I don't understand what that means.

A (Wells) You know, so, in this current winter, we had 105,000 dekatherms of available supply, and in that winter we only had about 10,000. And part of the reason for that was, if I recall, and this was some time ago, it was the Winter of '13/14, so, I want to say that we just had really high cost LNG offers at the time, and decided to just to buy enough to keep the plant, you know, keep the tanks cool, rather than to be using it directly for supply. And I don't even -- and, candidly, I don't remember during that winter exactly how much more we bought or what the cost was, but we -- at the time we didn't seek a change.

So, and just to be clear, this is the first time we've really bought more LNG because we felt that the system demand was what was driving that incremental need, as opposed to just needing the additional gas to, you know, maintain the availability of the plant.

Q And have you actually bought additional LNG or just the capacity?

A (Wells) At this point, we've only bought the capacity. You know, following our entering into that contract, the weather has been significantly warmer than both what our design conditions were and what the forecast weather was at the time of the purchase. So, we haven't seen the demands that we were concerned we would have on the system since that time. So, we haven't actually used that supply at this point.

CMSR. BAILEY: Okay. I think that's all I have. Thank you.

CHAIRMAN HONIGBERG: Commissioner Giaimo.

CMSR. GIAIMO: Good afternoon.

WITNESS WELLS: Good afternoon.

WITNESS KAHL: Good afternoon.

BY CMSR. GIAIMO:

Q So, is there a reason why you wouldn't talk with the likes of Direct in advance of executing the contract?

A (Wells) Well, yes. I mean, LNG -- any contract negotiation is very sensitive. And, so, we don't -- we just didn't think it was appropriate to involve multiple parties beyond the LNG supplier and ourselves in that decision.

Q So, I don't think that I would necessarily ask you to have them involved in the execution of the contract. But would you be willing to let them know that you're in communications with and you're potentially going down this route like you went this year?

A (Wells) At the risk of -- I want to say that at some point between this proceeding and the proceeding in Maine, we've been asked that question. And, you know, we just -- we really didn't feel that -- the answer is "no". We just didn't think it was -- we didn't think it was appropriate to even indicate that we were considering this purchase.

Q Is there a larger concern that it could impact the negotiation you're having?

A (Wells) Yes.

Q Okay. Can you -- I'm looking at Exhibit 4 now, the last page, Staff 1-7. So, it's my understanding that the contract was for 35,000 dekatherms?

A (Wells) Yes.

Q Just as I'm looking at the forecast and actual

for November, December, and January, they're all below the 35,000 level?
A (Wells) Yes.
Q Am I missing something here?
A (Wells) So, this was out of -- you know, in pointing to our decision to buy the LNG, one thing I would point out is that we were looking at it as an entire portfolio. So, we weren't necessarily focused on the LNG plant. We were looking at overall volumes for sales service customers, what we had available for supplies through the end of the season. So, the decision to buy LNG was not necessarily based on where we thought we were versus that contract, but, you know, where we were versus the entire -- it was more of a comprehensive look at the portfolio.
And then, additionally, we were concerned that we could potentially be in the scenario where the utilization rate got the LNG available to the system at a very low level, which would, you know, prevent, you know, we were concerned about the availability of the LNG plant at all. Because, you know, keeping

LNG in those tanks is vital to the overall, you know, feasibility of using the plant.

Q And to what extent does the global cost of LNG affect -- what effect did it have on the amount of LNG that was contracted for in that issue, I mean, in this situation?

A (Wells) I don't -- I mean, I'm not an expert on the global LNG market. But I would say that the -- you know, the price we paid was high relative to the price we paid for the contract going into the season.

Q Okay. My understanding is that, during the polar vortex, New England's LNG costs were among the highest globally, may have been the highest, and that would have given reason to, I think you said, not fill up beyond just "keeping the tanks cool", I think you said.

A (Wells) Correct.

Q So, I was wondering to what extent that the global market has on the contracting and the filling of the tanks?

A (Wells) Certainly, I think the -- certainly, there were, you know, we were aware that there were competitive pressures on the global LNG, you know, on the parties that had LNG import capability. There were other markets for the gas. And that my understanding generally is that the cargoes that came in and backed our contract and the contract of other utilities in New England was really one that was bought in the spot LNG market globally.

CMSR. GIAIMO: That's all the questions I have. Thank you.

WITNESS WELLS: You're welcome.

BY CHAIRMAN HONIGBERG:

Q Is another difference between this year and the polar vortex year that the polar vortex happened later in the winter, and that the decision-making you were engaged in this year, you still had a lot of winter in front of you at that point. Whereas, a few years -- four years ago, you could sort of see the light at the end of the tunnel?

A (Wells) That is actually very true. One of the big concerns we had was the timing of that cold snap. You know, when we -- you know, when we were entering these -- all of these contracts, it was mid-January. And, so, we were really not quite halfway through, you know, the winter. And, so, the possibility of another event like that, now, was on our minds. And so that, you know, we knew it would be -- you know, utilities never like having to come in for midwinter rate changes, because they're usually increases.

But what we really wanted to prevent is we would come back and say -- well, you know, having to come back a second time was really high on our minds. You know, we wanted really to take care and make sure that, you know, should we experience similar weather, that we would have a different result.

CHAIRMAN HONIGBERG: All right. I don't have any other questions.

Mr. Epler, do you have any further questions for your witnesses?

MR. EPLER: No, I do not.

CHAIRMAN HONIGBERG: Gentlemen, I think you can return to your seats.

Mr. Patch, are you going to have your witness testify?

MR. PATCH: No.

CHAIRMAN HONIGBERG: All right. Are there any other witnesses we're going to be hearing from then?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. Seeing none. Anything else we need to do before we go the wrap-up activities?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. Without objection, we'll strike ID on Exhibits 3 and 4, and have the parties sum up.

Mr. Patch, why don't you go first.

MR. PATCH: Thank you, Mr. Chairman, Commissioners. I appreciate your indulgence today, and it took longer than I think it would have otherwise if we had planned it differently. But we are where we are.

And the main concern that my client has is that this kind of purchase is not precedent-setting going forward. It had never been done before. As I think you heard in response to some questions that I asked, it wasn't anticipated in the tariff. And, so, when we first saw it, we questioned whether they had the authority to be able to impose these charges on marketers, and ultimately their customers.

And, so, it's a question of making sure that this kind of purchase doesn't happen in the future. We had concerns about communication, as I think we indicated through some questions we asked today.

That having been said, we had worked well with the Company in the last week or so to try to come up with a resolution of this that we had hoped to be able to put forward today. But, ultimately, that didn't work as not all the parties would sign onto it.

But we just believe, on a going-forward basis, that there are other ways to address this, and that this is not the way to do it. And as a matter of precedent, we would want to -- certainly want to work with the Company in the future to avoid this ever happening again.

And in terms of the charges, you know, for this winter, as you've heard, the number may not be a large one, but, again, there's a precedent issue there. And we do question whether they had the authority to charge it.

But our main concern going forward is one of making sure that, you know, that if you're in a competitive market and you're a marketer, then the Company shouldn't be purchasing these kinds of supplies for you. You know, the marketers are fully prepared to do that.

The Company also, as they said, makes what we think is a good of effort to notify us or to notify marketers in the fall, in September, as they are required to do under their tariff. And, so -- but then to find out, on short notice, that they have gone out and purchased a contract that our clients were never notified about, you know, was the disturbing piece here.

And, so, but again, we're trying hard to work with the Company on a going-forward basis to make sure that there's some different approach taken in the future.

Thank you.

CHAIRMAN HONIGBERG: I guess I would ask, Mr. Patch, what would you like us to do with the request before us?

MR. PATCH: Well, absent a settlement agreement, our position is that they don't really have the authority to impose those charges on us.

But, if you determine otherwise, we would certainly like for you to instruct, you know, perhaps the parties, to instruct Direct Energy, the Staff, the OCA, and the Company to work together to see if they can come up with some future process that works better, in terms of avoiding the need to purchase on behalf of marketers that are already in the competitive market, are familiar with how it works, and can do that on their own, to try to come up with some way to avoid this in the future.

CHAIRMAN HONIGBERG: All right. Thank you, Mr. Patch.

Mr. Buckley.

MR. BUCKLEY: Thank you, Mr. Chairman and Commissioners.

The Office of the Consumer Advocate

views the rate change as requested in the Company's Petition of January 29th as just and reasonable and recommends its approval by the Commission.

To the extent that the Commission believes Direct Energy's concerns regarding cost allocation warrant further inquiry, we are open to working with the parties involved through a process outside of today's hearing to address those concerns on a going-forward basis.

Thank you.

CHAIRMAN HONIGBERG: Mr. Speidel.

MR. SPEIDEL: Thank you, Commissioners.

The Staff also approves of the Company's request for a rate adjustment in its Peaking Service Demand Charge as being a just and reasonable approach to this situation. We appreciate the Company being proactive in trying to fairly allocate a proxy of the costs allocatable to suppliers and to also to its own service customers in a fair way.

I would say that, in general terms,

the Company has made an effort to be open and responsive to the Staff and the other parties in answering questions that we've had regarding this.

But what we're faced with is the need for the Company to be able to recover reasonably incurred costs in connection with its reasonable approach to preparing for a potential situation that was unfolding at the time in the winter. And Staff views the Company's approach to have been reasonable. And we view that the Company had the authority under RSA Chapter 378 to seek adjustment of the charges with the Commission, as it has done so.

And, so, therefore, we support the Company's Petition. And I think Staff is interested in perhaps further discussing this issue with the marketers and interested parties and the Company and the OCA, to try to maybe come up with a better mousetrap for this going forward. But, right now, we have to look at what occurred this winter, and whether the charges sought are just and reasonable, and we do agree with that.

Thank you.

CHAIRMAN HONIGBERG: Mr. Epler.

MR. EPLER: Yes. Thank you, Mr. Chairman, Commissioners.

As indicated, by looking at what's been marked as "Exhibit 4", the circumstances that led to these charges are certainly unique, or the system hit new peaks and so on. The Company acted reasonably in securing these supplies. We believe that the tariff enables us to allocate the costs as we've proposed, and so that it's reasonable to assign a portion of these costs to the suppliers serving customers.

There's uncontroverted testimony that the LNG supplies provide benefit to all customers, and that gives an additional reason to allocate these costs.

We agree with the statement of Mr. Patch that the Company and Direct have worked well together in the past and continue to have good dialogue on this issue. And we will certainly work with Direct and with the OCA and Staff, to try to address the concerns that are raised this time, and see if we can avoid this going forward.

But that, nonetheless, in the unique circumstances, we believe the tariff does give us the authority to allocate these costs in the manner that we propose. And we would not want to concede that ability, because we just don't know what circumstances might be in the future. But, certainly, we do want to try to avoid these circumstances.

CHAIRMAN HONIGBERG: All right. Thank you, Mr. Epler.

If there's nothing else, we will close the record, take the matter under advisement, and issue an order as quickly as we can. Thank you.

(Whereupon the hearing was adjourned at 3:47 p.m.)