

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 18-143

NORTHERN UTILITIES, INC.

2018-2019 Winter/Summer Cost of Gas Filing

Order Approving Cost of Gas Rates and Other Charges

ORDER NO. 26,186

October 31, 2018

APPEARANCES: Patrick H. Taylor, Esq., for Northern Utilities, Inc.; the Office of the Consumer Advocate by Brian D. Buckley, Esq., on behalf of residential ratepayers; Laura Hartz Esq., for Direct Energy Business Marketing, LLC; and Lynn Fabrizio, Esq., on behalf of Commission Staff.

In this order, the Commission approves 2018/2019 winter and 2019 summer cost of gas rates proposed by Northern Utilities. The initial residential rate for the winter period, November 1, 2018, through April 30, 2019, will be \$0.8271 per therm with a local delivery adjustment charge of \$0.0691 per therm, effective November 1, 2018. The rate for residential customers during the summer period, May 1 through October 31, 2019, will be \$0.3670 per therm. A typical residential heating customer will see an average monthly bill of \$182 per month in winter 2018/2019, and \$44 per month in summer 2019. The revised winter rates are approximately 3 percent higher than the rates approved last year, while the summer rates are more than 1 percent lower than the prior summer period.

I. PROCEDURAL HISTORY

Northern Utilities, Inc. (Northern or the Company), is a public utility distributing natural gas in the seacoast region of New Hampshire, serving approximately 31,000 customers in the state. On September 17, 2018, Northern filed a proposed rate adjustment pursuant to its cost of

gas (COG) tariff and other rate adjustments for the 2018/2019 winter and summer periods. Northern's filing included the pre-filed testimony and supporting schedules of: Christopher A. Kahl, Senior Regulatory Analyst for Unitil Service Corp.;¹ Francis X. Wells, Manager of Energy Planning for Unitil Service Corp.; and Joseph F. Conneely, Senior Regulatory Analyst for Unitil Service Corp. The Office of the Consumer Advocate (OCA) filed its letter of participation on September 25, 2018.

Northern, the Office of the Consumer Advocate (OCA), and Commission Staff conducted discovery and met in a technical session on October 17, 2018. On October 18, 2018, Northern filed a revised Schedule with adjusted Lost Revenue Rates (LRRs). The adjustments corrected an error in the calculations submitted with the testimony of Mr. Conneely in the Company's initial filing.

Direct Energy Business Marketing, LLC (Direct Energy), filed a timely petition for intervention in the docket. A hearing on the merits was held on October 22, 2018. During that hearing, the Commission granted Direct Energy's intervention request.

Northern's filing and subsequent docket entries, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-143.html>.

II. COST OF GAS ADJUSTMENT MECHANISM

The COG adjustment mechanism was implemented in 1974 during a time of rapidly changing prices as a way to reflect increases and decreases in energy supply costs in customer rates without having to go through extended proceedings to change applicable fuel delivery rates. Supply costs comprise approximately half of a residential heating customer's annual bill and

¹ Unitil Service Corp. is a subsidiary of Unitil Corporation. Unitil Service Corp. provides managerial, financial, regulatory, and engineering services to Unitil Corporation's other subsidiaries, including Northern.

consist of commodity prices (the COG), the cost to transport the gas, and storage costs. Northern has little control over the price of natural gas, which is an unregulated commodity. Similarly, it has little control over pipeline transportation rates, which are set by the Federal Energy Regulatory Commission. The COG adjustment mechanism allows the Company to pass those costs on to its customers directly and efficiently without mark-up or profit. COG rates are initially set using projected costs and sales for the upcoming winter and summer periods. Through the COG adjustment mechanism, the Company may adjust COG rates monthly to take into account changes in the natural gas market based on actual costs to date and projected costs for the remainder of the period.

Another rate the Commission sets within the context of COG proceedings is the local delivery adjustment charge, or LDAC. The LDAC allows for recovery of expenses the Commission has approved in prior dockets through a per therm surcharge to be determined and implemented through the COG proceeding. Those expenses include costs associated with Northern's Residential Low Income Assistance and Regulatory Assessment (RLIARA) rate, the Energy Efficiency Charge (EEC), the Environmental Response Cost (ERC) rate, rate case expenses (RCE), and the recoupment of the difference between temporary and permanent rates referred to as the Reconciliation of Permanent Changes (RPC). The RLIARA allows the Company to recover the revenue discounts associated with customers participating in the Residential Low Income Assistance Program as well as the costs associated with administering that program as approved by the Commission in *Investigation of the Benefits of a Low Income Assistance Program for Natural Gas Customers*, Order No. 24,508 (September 1, 2005). The EEC charge is designed to recover projected expenses associated with the Company's energy efficiency programs. The ERC charge recovers costs for environmental remediation related to manufactured gas plants. The LDAC also includes the non-distribution portion of the

Company’s annual regulatory assessment. The Lost Revenue Rate (LRR), approved in Order No. 25,932 (August 2, 2016), is also included in the LDAC proposal. The RCE charge and RPC credit approved in *Northern Utilities, Inc.*, Order No. 26,129 (May 2, 2018) terminate on April 30, 2019, resulting in a reduction in the LDAC effective May 1, 2019.

III. POSITIONS OF THE PARTIES

A. Northern

Northern proposed per therm rates for winter 2018/2019 of \$0.8271, \$0.8424, and \$0.7254 for residential, commercial and industrial (C&I) high winter use, and C&I low winter use customer classes, respectively. The corresponding proposed rates for summer 2019 are \$0.3670, \$0.3958, and \$0.3269 for the same customer classes. The following tables display the expected bill impacts relative to the average seasonal use for each customer class in last year’s winter and summer periods.

Winter 2018/2019 Projected Seasonal Bill Impacts

Customer Class	2017/2018	2018/2019	Percent Change
R-3 Residential Heating	\$1,017	\$1,093	7.6%
G41 – C&I High Winter	\$19,119	\$20,022	4.72%
G51 – C&I Low Winter	\$10,223	\$10,559	3.28%

Summer 2019 Projected Seasonal Bill Impacts

Customer Class	2018	2019	Percent Change
R-3 Residential Heating	\$269	\$267	-1.04%
G41 – C&I High Winter	\$3,757	\$3,670	-2.32%
G51 – C&I Low Winter	\$5,126	\$4,973	-2.99%

With the proposed rate adjustments, a typical residential heating customer will see an average monthly bill of about \$183 in winter 2018/2019 compared to \$170 for winter 2017/2018,

which reflects higher demand costs during the winter season, as well as an over-collection last year in the COG rates and the completion on May 1, 2018, of customer refunds from the Portland Natural Gas Transmission System (PNGTS).² The monthly impact on the typical residential customer bill is expected to be an increase of approximately \$12.86 or 7.6 percent compared to the 2017/2018 winter period. A typical residential customer will see an average monthly bill of \$44 in summer 2019, which is slightly lower than the monthly bill was in 2018, due to lower commodity costs and lower demand costs. Monthly residential customer bills are expected to be \$3 less, or 1 percent lower than the 2018 summer period.

Northern's filing proposed an LDAC of \$0.0691 per therm for the residential classes and \$0.0396 for C&I classes effective November 1, 2018, through April 30, 2019, and \$0.0675 per therm for the residential classes and \$0.0380 for C&I classes effective May 1, 2019, through October 31, 2019.

Northern proposed that if it purchases additional liquefied natural gas (LNG) supply mid-winter, after the notification to retail marketers of the volumes of LNG to be assigned to them through the Company's Capacity Assignment Program (CAP), the costs and benefits of such volumes will accrue only to Sales Service customers. No mid-winter LNG purchases will be assigned to retail marketers through the CAP because they will not have been considered as part of the equation when the Company makes the decision to purchase the additional LNG supply. Those marketers will be assigned only the volume assigned to them prior to the start of the winter season. Transcript of October 22, 2018 (Tr.) at 15-17.

² In 2013, the Federal Energy Regulatory Commission ordered Portland Natural Gas Transmission System to refund certain pipeline supply revenues to flow through to ratepayers. The refund covered a four-year period of over-collection from 2010 through 2015. See *Portland Natural Gas Transmission System*, Opinion and Order on Initial Decision, 142 FERC ¶ 61,197 (2013) (FERC Docket No. RP10-729, Opinion No. 524 (March 21, 2013)).

Northern also proposed: (1) a supplier balancing charge of \$0.71 per MMBtu;³ (2) an on-site peaking demand charge of \$50.35 per Dth;⁴ (3) a gas allowance factor of 1.48 percent;⁵ (4) transportation capacity allocator;⁶ (5) a firm sales service re-entry and conversion surcharge schedule;⁷ and short-term debt limits of \$21,352,000 for fuel financing and \$64,685,000 for non-fuel financing for the period November 1, 2018, through October 31, 2019.⁸

B. Office of the Consumer Advocate

At hearing the OCA stated its view that the proposed rates are just and reasonable and recommended Commission approval. Tr. at 45.

C. Direct Energy Business Marketing, LLC

Direct Energy supported the Company's filings, noting that the proposed changes in tariff language and corresponding rates align with a settlement agreement reached with Northern in Maine. From its position as a gas marketer, Direct Energy supported the revised tariff terms and conditions for delivery service, which separate the planning and capacity assignments that Northern and Direct Energy use prior to each winter season. Direct Energy stated that continued collaboration and communications between Northern and gas marketers furthers a well-functioning market that benefits all parties. Tr. at 39-43.

D. Staff

At the hearing Staff stated its support for the COG rates and tariff changes proposed by the Company as amended by the October 18 filing of the Revised Schedule 16 Lost Revenue Rate. Tr. at 45.

³ Hearing Exhibit 1 at Bates Page 39.

⁴ *Id.*

⁵ *Id.* at 206.

⁶ *Id.* at 265-66.

⁷ *Id.* at 66-67, 267-68.

⁸ *Id.* at 291.

IV. COMMISSION ANALYSIS

The Commission has broad statutory authority to set rates in addition to “powers inherent within its broad grant” of express authority. *See Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64-65 (2005) (citations omitted). The Commission applies the “just and reasonable” ratemaking standard of RSA 374:2 and RSA 378:7 when setting COG rates. *Northern Utilities, Inc.*, Order No. 25,891 (April 29, 2016). Based on our review of the record in this docket, we approve the proposed 2018/2019 winter and summer COG rates as just and reasonable. We also approve Northern’s LDAC rate components. Since the COG rates and LDAC rate components 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 filing for 2019/2020.

Pursuant to *Northern Utilities, Inc.*, Order No. 24,961 (April 30, 2009), the approved rates may be adjusted downward as needed and upward by no more than 25 percent without further Commission action.

Based upon the foregoing, it is hereby

ORDERED, that Northern’s 2018/2019 winter period COG per therm rates effective for service rendered on or after November 1, 2018, and rates for 2019 summer season effective on May 1, 2019, are approved as set forth in this order, as follows:

Customer Class	2018-2019 Winter COG	2018-2019 Winter Maximum COG	2019 Summer COG	2019 Summer Maximum COG
Residential	\$0.8271	\$1.0339	\$0.3670	\$0.4588
C&I High Winter Use	\$0.8424	\$1.0530	\$0.3958	\$0.4948
C&I Low Winter Use	\$0.7254	\$0.9068	\$0.3269	\$0.4086

and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates based on the projected over- or under-collection for the period, the adjusted rate to be effective the first day of the month and not to exceed, cumulatively, a maximum rate of 25 percent above the approved rate with no limitation on reductions to the COG rates; and it is

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-collection, 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. Northern shall include revised Calculation of the Firm Sales COG Rate tariff pages, and revised rate schedules under separate cover letter if Northern elects to adjust COG rates, with revised tariff pages to be filed as required by N.H. Code Admin. Rules Puc 1603; and it is;

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

FURTHER ORDERED, that Northern's proposed LDAC per therm rates effective for service rendered on or after November 1, 2018, through April 30, 2019, are \$0.0691 and \$0.0396 for residential and C&I respectively; and it is

FURTHER ORDERED, that Northern's proposed LDAC per therm rates effective for service rendered on or after May 1, 2019, through October 31, 2019, are \$0.0675 and \$0.0380 for residential and C&I respectively; and it is

FURTHER ORDERED, that Northern's proposed supplier balancing charge of \$0.71 per MMBtu of daily imbalance volumes is approved; and it is

FURTHER ORDERED, that Northern's proposed transportation peaking service demand charge of \$50.35 per MMBtu of peak maximum daily quantity is approved; and it is

FURTHER ORDERED, that Northern's proposed gas allowance factor of 1.48 percent is approved; and it is

FURTHER ORDERED, that Northern's proposed transportation capacity allocators as filed, are approved; and it is

FURTHER ORDERED, that Northern's proposed Firm Sales Service Re-Entry Fee Bill Adjustment fee schedule as filed, is approved; and it is


FURTHER ORDERED, that Northern's proposed short-term debt limits of \$21,352,000 for fuel financing and \$64,685,000 for non-fuel financing for the period November 1, 2018, through October 31, 2019, are approved; and it is

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

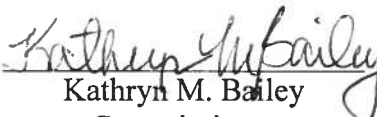
FURTHER ORDERED, that Northern shall file its proposed notice of rate change to customers with the Commission's Director of the Consumer Services and External Affairs Division, who shall approve the form of notice to be submitted by Northern to its customers; and it is

FURTHER ORDERED, that Northern is authorized pursuant to RSA 378:3 and RSA 374:2 to modify its COG Adjustment Clause and tariff as outlined in its revised tariff pages.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of
October 2018.



Martin P. Honigberg
Chairman

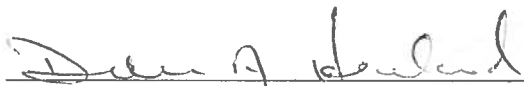


Kathryn M. Bailey
Commissioner

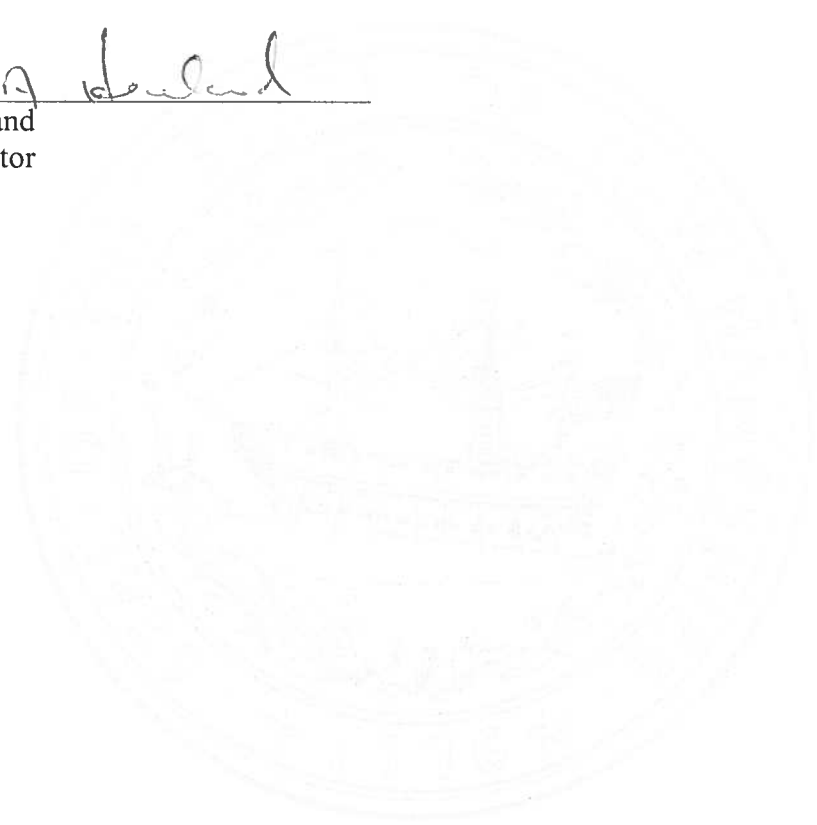


Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director



SERVICE LIST - EMAIL ADDRESSES- DOCKET RELATED

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

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:** DEBRA A HOWLAND
EXEC DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**