STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 22, 2018 - 1:41 p.m.
Concord, New Hampshire

RE: **DG 18-143**
NORTHERN UTILITIES, INC.:
Annual Cost of Gas Adjustment
Winter & Summer Seasons 2018/2019.

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

Sandy Deno, Clerk

APPEARANCES: **Reptg. Northern Utilities, Inc.:**
Patrick H. Taylor, Esq.

Reptg. Direct Energy Business Marketing:
Laura Jean Hartz, Esq. *(Orr & Reno)*

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

Reptg. PUC Staff:
Lynn Fabrizio, 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 are here this afternoon in Docket DG 18-143, which is Northern Utilities' cost of gas proceeding.

Before we do anything else, let's take appearances from the Company, the OCA, and Staff.

MR. TAYLOR: Good afternoon, Commissioners. Patrick Taylor, on behalf of Northern Utilities, Inc. With me today, as witnesses for the Company on the stand, are Christopher Kahl, Francis Wells, and Joseph Conneely.

MR. BUCKLEY: Good afternoon, Mr. Chairman and Commissioners. My name is Brian D. Buckley. I am the Staff attorney for New Hampshire Office of the Consumer Advocate. To my left is Dr. Pradip Chattopadhyay, the Assistant Consumer Advocate. And we are representing the interests of residential ratepayers.

MS. FABRIZIO: Good morning **[**afternoon**?]**, Mr. Chairman, Commissioners. Lynn Fabrizio, on behalf of Commission Staff.

With me today is Utility Analyst Iqbal Al-Azad.

CHAIRMAN HONIGBERG: All right. Let's talk intervenor.

MS. HARTZ: Thank you. Good afternoon. My name is Laura Hartz. I'm from Orr & Reno. And I represent Direct Energy Business Marketing.

CHAIRMAN HONIGBERG: All right. Does anyone have a position to state on the intervention petition? Mr. Taylor?

MR. TAYLOR: I have no objection.

CHAIRMAN HONIGBERG: Anyone?

MS. FABRIZIO: Staff has no objection.

MR. BUCKLEY: The OCA has no objection.

CHAIRMAN HONIGBERG: We'll grant the intervenor status here.

What do we need to know before we get started, Mr. Taylor?

MR. TAYLOR: We have three exhibits that we'd like to mark today. Hearing Exhibit 1 will be the confidential version of our filing; Hearing Exhibit 2 will be the redacted version of our filing; and Hearing Exhibit 3 will be the updated schedules and tariff sheets that the Company submitted on October 17th reflecting certain corrections to the Company's proposed Lost Revenue Rate.

(The documents, as described, were herewith marked as **Exhibit 1**, **Exhibit 2**, and **Exhibit 3**, respectively, for identification.)

CHAIRMAN HONIGBERG: Anything else in the way of preliminaries, before we have the witnesses sworn in?

[No verbal response.]

CHAIRMAN HONIGBERG: Mr. Patnaude, would you do the honors please.

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

CHAIRMAN HONIGBERG: Mr. Taylor.

CHRISTOPHER A. KAHL, SWORN

FRANCIS X. WELLS, SWORN

JOSEPH F. CONNEELY, SWORN

DIRECT EXAMINATION

BY MR. TAYLOR:

Q For each member of the panel, starting with Mr. Kahl, could you please give your name and position with the Company.

A (Kahl) Christopher Kahl, Senior Regulatory Analyst for Northern Utilities.

A (Wells) My name is Francis Wells. I'm the Manager of Energy Planning for Unitil Service Corp., on behalf of Northern Utilities.

A (Conneely) Joseph Conneely, Senior Regulatory Analyst with Unitil Service Corp.

Q Mr. Kahl, if you could refer to what I had marked as "Hearing Exhibit 1", and turn to the tab containing your testimony. And was this testimony prepared by you?

A (Kahl) Yes, it was.

Q And do you have any changes or corrections to your testimony today?

A (Kahl) I do not.

Q And could you identify for the Commission the schedules in the filing that are associated with your testimony?

A (Kahl) Yes. Schedules 1A, 1B, Schedule 3,

Schedule 4, Schedule 9, Schedule 10A, Schedule 10B, Schedule 10C, Schedule 14, Schedule 15, Schedule 18, Schedule 21, Schedule 22, Schedule 23, Schedule 24.
Q And did you prepare these schedules or were they prepared under your direction?
A (Kahl) Yes.
Q And with respect to your testimony, if you were asked the same questions in your prefiled -- that were asked you in your prefiled testimony today, would your answers be the same?
A (Kahl) Yes.
Q Mr. Wells, could you turn to your testimony please.
A (Wells) Yes.
Q And was this testimony prepared by you or under your direction?
A (Wells) It was.
Q And could you identify the schedules that were submitted that were prepared by you?
A (Wells) Certainly. Schedule 2 was prepared by me. Schedule 5A and 5B, as well as the attachments were prepared by me. All of Schedule 6 was prepared by me. The Attachments

1 through 3 of Schedule 10 were prepared by me -- excuse me, that was the Attachments 1 through 3 of Schedule 10B were prepared by me. Schedule 11 was prepared by me. Schedule 12, as well as Schedule 13, and Schedule 19, as well as Schedule 20. Those were the schedules prepared by me.

Q And do you have any corrections or changes to your testimony or schedules today?

A (Wells) No.

Q And with respect to your testimony, if you were asked the same questions today that you were asked in your testimony, would your answers be the same?

A (Wells) Yes.

Q Mr. Conneely, can you turn to your testimony please?

A (Conneely) Yes.

Q Was this testimony prepared by you or under your direction?

A (Conneely) Yes.

Q And are there any schedules associated with your testimony?

A (Conneely) Schedules 8, 16, and 17.

Q And did you prepare these schedules or were they prepared under your direction?

A (Conneely) Yes.

Q Are there any corrections or changes that you'd like to identify in any of the schedules that were appended to your testimony?

A (Conneely) No.

Q On October 17th, the Company submitted some corrections in connection with the Company's Lost Revenue Rate. Could you just explain those briefly?

A (Conneely) Yes. Last week, a error in the calculation to the Company's LRR was discovered. And specifically, the annualized therm savings on Schedule 16-LRR, Page 6 of 6, were inadvertently input as therms, instead of dekatherms. This resulted in a understatement of the LRR for January '19 through October '19 by approximately $15,500.

Q With respect to your testimony, if you were asked the same questions today that you were asked in your testimony, would your answers be the same?

A (Conneely) Yes.

MR. TAYLOR: Thank you. I have no further questions.

CHAIRMAN HONIGBERG: Ms. Hartz.

MS. HARTZ: I have no questions.

CHAIRMAN HONIGBERG: Mr. Buckley.

CROSS-EXAMINATION

BY MR. BUCKLEY:

Q Mr. Conneely, at Bates Page 082, you describe the residential bill impacts attributable to the cost of gas rates requested for approval in this proceeding as a 3 percent increase during the winter compared to the previous winter, and a 1 percent forecasted decrease in the summer compared to the previous year.

Is it your belief that, after considering the resource needs of the company, the various supply options available to the Company, and the forecasted cost of various supplies, that this is the least cost option for the customers?

A (Wells) I believe that I would be a more appropriate witness to answer that question. And I would say "yes".

Q Thank you. I guess maybe the rest of my questions are also directed towards you, Mr. Wells, as well. At Bates 049, you mention lost and unaccounted for gas numbers. And in my reading of the filed tariff or the revised tariff, at Page 141 of that tariff, and actually according to the Commission's Order of Notice, I notice that the lost and unaccounted for gas allowance goes from 1.26 percent to 1.48 percent with this change in the cost of gas filing. By my math, that's something of an increase of around 17 percent. Would you agree with that?

A (Wells) I won't venture to do math in my head. But I will say that my recollection is the Company gas allowance was 1.26 percent, and it is going to the number that you cited, which I believe was 1.46 percent.

Q Okay, 1.46, my mistake. I think I had noted "1.48".

A (Wells) If I may be allowed to clarify the difference between the two. I was citing the lost and unaccounted for separate from Company-use. The 1.48 percent would be inclusive of Company-use. So, in total, gas that's not consumed by consumers would be 1.48 percent greater than the amount that we would require would be 1.4 percent -- pardon me -- 1.48 percent higher than what was consumed.

Q And I think you reference a schedule in your testimony, Schedule 10B, Attachment 3, which for those who would want to follow along, it's Bates 206, which says how this lost and unaccounted gas number is calculated. Would it be correct to say that it's based on a 48-month average of historical lost and unaccounted for gas?

A (Wells) Yes, it is.

Q And can you think of a reason why that amount would change by 17 percent in selecting a new 12 months as part of that 48-month average?

A (Wells) I haven't conducted an analysis of the change in Company gas allowance. But I will say that, you know, many factors can affect the Company gas allowance. I mean, I will point out that the sales data that is used is bill cycle sales data, as opposed to calendar sales data. So, it is very possible that the -- just that the bill cycle may have been longer for that 48-month period in the prior year than this year.

I wouldn't necessarily attribute the change in Company gas allowance to a change in the efficiency of our distribution system. And I would -- I find that -- just generally, based on the history, in my experience of observing these numbers, I wouldn't find that to be an alarming change in Company gas allowance.

I mean, it would be something that, you know, certainly, if we saw another increase, you know, then that might warrant further investigation. But at this time, I feel that the Company gas allowance hasn't said anything to me that would be alarming.

Q So, it's your belief that this change (a) is somewhat in line with historical changes in the lost and unaccounted for gas over an annual period, and (b) that it wouldn't necessarily be attributable to actual efficiency of the distribution system, but is impacted by other factors?

A (Wells) I think that's a fair characterization of my testimony, yes.

Q Now, moving on to the Peaking Service Demand Charge that was something of a -- I think a point of contention in the last cost of gas filing. At Page 070 of your testimony, you describe the changes the Company has made to its Peaking Service Demand Charge. Given that allocation of costs relating to Peaking Service Demand Charge was something of a point of contention in the last cost of gas proceeding, I'm wondering if you could summarize for me the changes that you've made and why this should no longer be a point of contention moving forward?

A (Wells) So, the changes that we are proposing are that, to the extent that the Company acquires additional LNG supply midwinter or after the notification to retail marketers of the volumes of LNG to be assigned to them via our Capacity Assignment Program, the costs and benefit of such volumes would be accrued only to Sales Service customers. In essence, no amount of midwinter LNG purchases would be assigned to retail marketers through our Capacity Assignment Program.

Q And so, that would likely resolve the concerns we heard in the last proceeding, is that correct? In other words, --

A (Wells) That --

Q Go ahead.

A (Wells) I mean, my understanding of the marketer's position is that would resolve their issues, and we find the solution to be acceptable.

Q And that's language that says that the -- both the costs and the benefits of a mid-season or midwinter purchase will only accrue to the Sales Service customers, that's in the tariff, is that correct?

A (Wells) In the proposed tariff page, it says, to my understanding, my recollection is, it says merely that the amount that would be assigned to retail marketers would only be that volume which was designated prior to the winter season.

Q So, they would not have any access to the additional capacity, because they were not considered as part of the equation when the Company made the decision to purchase the

additional capacity?
A (Wells) That is correct.
Q And would it be fair to say that this is either embodied or the sentiment of it is embodied in the tariff at First Revised Page 124?
A (Wells) Yes.
MR. BUCKLEY: Thank you. No further questions.
CHAIRMAN HONIGBERG: Before Ms. Fabrizio starts, can we -- we were keeping score up here of the schedules and who owns them. Which of you own 7? And which of you owns 8?
WITNESS CONNEELY: Schedule 8 is mine.
CHAIRMAN HONIGBERG: Commissioner Giaimo is concerned that one of them is orphaned.
WITNESS KAHL: Seven (7) would be mine.
CHAIRMAN HONIGBERG: Ms. Fabrizio.
MS. FABRIZIO: Thank you.
BY MS. FABRIZIO:
Q Before I launch into my questions,

Mr. Conneely, when you were describing the filing that came in on October 18th, I heard you say that the correction was made because the units were "inadvertently input as therms, rather than MMBtus", whereas the cover letter to that filing says the opposite.

A (Conneely) Correct. It's MMBtu, rather than therms. So, it's off by a function of ten.

Q So, it was corrected to reflect therms?

A (Conneely) Correct.

Q Thank you. My first question goes to Mr. Kahl. Could you, just for clarity sake, could you please identify specifically what rates you're asking the Commission to approve today and where we would find those rates in the filing?

A (Kahl) Yes. I think it would be easiest if you turn to the Tariff Pages section of the filing. This does bring a list of all the tariff pages that we're asking approval of. And me and Mr. Conneely will identify which pages have actual rates that we are looking for approval of.

First Revised Page Number 42 and 43 are the proposed cost of gas rates for the winter and summer periods. And, Joe, do you want to --

A (Conneely) Yes. So, the LDAC rates can be found on First Revised Page 62 in the Tariff section of the filing. This tariff sheets provides the proposed rates for the Residential Low Income, EEC, the LRR, and the ERC.

A (Kahl) We are also asking approval of the Supplier Balancing Charge and Peaking Service Demand Charge, which are listed on First Revised Page 141. And we are also asking approval of the Re-Entry rate and Conversion rate, which are listed on First Revised Page 158.

In addition, we are also asking for approval of Tariff Pages First Revised 40 and 41. Those are the cost of gas -- the projected cost of gas for the winter and summer seasons respectively. We're also asking for approval of Tariff Pages First Revised 85 through First Revised 88. Those are summaries which include the proposed cost of gas and LDAC rates, along with the currently effective distribution rates.

We are also asking for approval of First Revised Page 124, which is language pertaining to the Delivery Service terms and conditions that Mr. Wells had just been discussing. And lastly, First Revised Page 156, this is the allocation of capacity to marketers.

Q And just to clarify, the LDAC rate, you were looking at the revised filing that was submitted on October 18?

A (Conneely) Correct.

Q Those are the rates we should be looking at?

A (Kahl) Yes.

A (Conneely) And the typical bill --

[Court reporter interruption.]

BY THE WITNESS:

A (Conneely) The typical bill impacts that were filed on October 17th as well, we'd be referring to as well, that include the LDAC correction.

BY MS. FABRIZIO:

Q Great. Thank you. That was very helpful. Okay. Another, this is more of a general question, how do the proposed 2018/19 Winter Cost of Gas rates compare to last year's seasonal averages?

A (Kahl) Well, compared to the seasonal average, the winter rate is a little bit higher, and that is really due to higher demand costs. And the reason for that is due in part to last year we had the final year of the PNGTS refund. So, we don't have that in this year's rate. The refund has been completed.

Also, for this year's filing, in our reconciliation balance, we have a projected under-collection. Last year, we had a projected over-collection in the rates. And also, we have overall just higher demand costs than we did last year.

For the summer period, rates are a little bit lower, about 3 cents lower. And it's due to a combination of lower commodity costs; there is no more -- there is no more impact from the PNGTS refund, it expired on May 1st of 2018, so it was not included in the current rates right now; and demand costs were a bit lower for the summer period.

Q Great. Thank you. And then, just to sort of sum up, what is the resulting rate impact on the typical customer bills at this point, point us to those numbers?

A (Conneely) This can be found on Revised Schedule 8, filed on October 16th, Exhibit 3.

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (Conneely) Sorry. On October 17th, the Company filed a revised -- corrections and the revised typical bill analysis. It's labeled "Revised Schedule 8, Page 1 of 10". This typical residential heating customer for the 2018-2019 Winter Period, using 618 therms, can expect to pay $1,093.60. This is $77.04 more than the 2017-18 Winter Period, or 7.6 percent.

Looking to the Summer Period of '19, the same customer, using 136 therms, can expect to pay $267.08. This is $2.80 less, or one percent less than the Summer 2018.

BY MS. FABRIZIO:

Q Thank you. So, I'm turning to Mr. Wells at this point. How has your supply portfolio changed, if at all, compared to last year?

A (Wells) Yes. Thank you. In my prefiled testimony, on Bates Page 055 of 291, I provide an overview of the changes for the upcoming portfolio for the 2018-19 Winter Period, compared to the 2017-18 Winter Period.

So, first, we have more off-system peaking contract demand than we did prior, in the prior year. It's an increase from 32,386 dekatherms to 39,860 dekatherms. This increase is due to the higher Design Day requirements that are forecasted based on the colder weather that was experienced in the prior year, giving us better data for estimating design.

Northern has also increased its Portland baseload supply from -- or, rather, Portland is adding a Portland baseload -- I'm tongue-tied today. Northern is adding a Portland baseload supply for the '18-19 Winter Period, for the December to February period of 7,500 dekatherms per day that we did not have for the '17-18 Period. And we are extending the duration of our Maritimes baseload supply from December through February to November through March. These increased baseload supply purchases will decrease the exposure to daily spot prices, as they continue to be very volatile in the New

England region.

I would also like to add that the Dawn Supply path capacity contracts for last winter are being aggregated with what was -- what remains of the Washington 10 storage capacity to come up with a Union Dawn Storage capacity path for the upcoming winter. So, basically, we had some TransCanada, Union, and Portland capacity that we were buying supply for at Dawn last winter. And instead of filling that with purchased supply, we'll be using that to fill that with Union Dawn Storage withdrawals.

I'd also add that our supply plan for our Tennessee Zone 0 and Zone L capacity, we had previously been purchasing that supply in Zone 4, at a point that was in path of our capacity. We are actually going back to buy that gas at the Pool for the entire portion of that contract, as we believe that there has been a trend in secondary impact capacity being interrupted when there are compressor failures on Tennessee. And so, in order to get a higher priority of service through the winter, we're going to be purchasing at our primary receipt points for the upcoming winter.

And then, lastly, we are increasing the capability of our LNG contract from three trucks per day to five trucks per day, so that we can maintain the deliverability of our Lewiston LNG plant during cold weather events, such as we experienced last winter.

Q Great. Thanks. And speaking of winter, did the 7-Day Storage Requirement change this year, compared to last?

A (Wells) It did not. After the technical conference, I reviewed my calculations and confirmed that the test -- the number of effective degree days that we were using for our 7-Day Storage analysis was still the highest that we had recorded. And it was actually back in the Winter of 1979. And referring to that Schedule 11E, that's on Page 216, you can see that that was a total 7-Day Effective Degree Days of 479 Effective Degree Days. Last winter, the peak 7-Day Cold Snap was 462 Effective Degree Days. So, we will continue to use the previous 7-Day Cold Snap Test for our storage analysis.

Q Thank you. I think this may be for Mr. Wells as well. Approximately what percentage of the gas supplies in the Company's forecast are hedged, pre-purchased, or otherwise tied to a predetermined fixed price?

A (Wells) Yes. So, as you know, Northern no longer has a NYMEX hedging program. So, the only hedges of fixed price gas in our portfolio for the '18-19 Winter would be the underground storage capacity -- or, the underground storage inventory, rather. That would be approximately 40 percent of our forecasted normal weather winter requirements.

Q Thank you. Mr. Kahl, I think this goes to you. How does the Company use NYMEX futures prices to forecast commodity prices for the coming year?

A (Kahl) Actually, I think the question is based for Mr. Wells.

Q Okay.

A (Wells) So, for the forecast, I used -- referring to Schedule 5, that is on Attachment to Schedule 5A, Page 1, that's Page 104 **[103?]** On Bates stamp, I provide the NYMEX Settlement prices for August 29th, 2018. These are the NYMEX prices that I use throughout my commodity cost forecast for the initial filing. And we will periodically update those to reflect the more current NYMEX prices in our monthly updates.

Q Okay. And how do those prices compare to the most recent NYMEX futures prices for the recent months?

A (Wells) The prices that we had originally forecast are somewhat lower than the most current NYMEX, as of when I checked it this morning for Friday's settlement, approximately -- I want to say approximately 30 cents per dekatherm.

Q And how, if we use those numbers, how would that impact the cost of gas rates?

A (Kahl) I had tested out a change in NYMEX on the cost of gas rate. And it was actually quite small, penny to a penny and a half. And part of that reason is due to what Mr. Wells was talking about, having a large portion of the portfolio locked in with storage gas.

Q Right. Okay. Thank you. So, do the proposed maximum rates provided here in the filing, the Company's filing, allow enough flexibility to absorb this and other normal price fluctuations through monthly rate adjustments without adjusting the rate at this time?

A (Kahl) Yes. The ability to increase our rates up to 25 percent should provide enough flexibility to handle that, what we will call "normal" fluctuations. There's always a chance for something very abnormal. But I think, for a typical winter, the 25 percent should be ample.

Q Great. Thank you. And I believe the next goes to Mr. Conneely. Please provide a brief account of the changes in environmental remediation compared to last year.

A (Conneely) The former gas sites continue progress towards closure. Additional remediation work was conducted over the year, and the Company will continue to monitor the soil and the water. The Company believes that the last of the significant remediation projects at the former sites in New Hampshire have been completed.

And the Company anticipates future ERC-related costs to be limited to the long-term remediation projects in Rochester and Somersworth. The Company believes that these costs will be significantly lower going forward, estimated to be between 50 and 60,000 for next year, and then, after that, under $25,000 a year.

Q Great. And what were the total environmental remediation costs incurred for the year ending June 30th, 2018?

A (Conneely) Through June 30th, 2018, this can be found on Schedule 17, Bates stamp 263, Line 8. The total costs were $283,143. This was made up of remediation and consulting expenses at the Exeter, Rochester, and Somersworth sites.

Q Great. Thank you. Okay. I think I'm back to Mr. Wells. What is the total anticipated capacity exempt sendout forecast for this winter?

A (Wells) You can find -- so, the design day for capacity exempt is actually on Schedule 19, Page 2. That's Page 266 overall. The Capacity Exempt Delivery Service total divisional design

day is estimated to be about 7,400 dekatherms. I also provide an annual sendout forecast of about 2.6 million dekatherms per year.
Q And what is the amount of capacity exempt load expected to switch to firm Sales Service this winter?
A (Wells) We don't expect any capacity exempt sales -- Capacity Exempt Delivery Service to switch to Sales Service.
Q Okay. And did you have any last year?
A (Wells) We did not. Actually, you can find on Schedule 7 Mr. Kahl provides the amount of conversion rate revenue and volumes. And conversion rate revenue and volumes would be attributable to capacity exempt customers that would have returned to Sales Service. And as you can see from that schedule, there were no volumes or revenues for the last -- going back to December 17, indicating no capacity exempt customers have returned to Sales Service.
Q Great. Thank you. I think the Company went through a process to align New Hampshire and Maine capacity allocation and tariffs in the last few years, would you please update the

Commission on the status of those, that process?

A (Wells) Certainly. So, Maine capacity assignment has been -- it will go to 100 percent beginning next year. The only other real area of -- that the tariffs are currently out of alignment would be the Peaking Service Demand Charge request that we have made to the New Hampshire -- to change our New Hampshire tariff. We actually made that tariff previously in Maine, and that has already been approved. Other than that, the tariffs are, for all the substantive issues, are in alignment with regards to capacity assignment.

MS. FABRIZIO: Great. Thank you. That completes my questions. Thank you.

CHAIRMAN HONIGBERG: Commissioner Bailey.

CMSR. BAILEY: Good afternoon.

WITNESS KAHL: Good afternoon.

WITNESS WELLS: Good afternoon.

WITNESS CONNEELY: Good afternoon.

BY CMSR. BAILEY:

Q Could you explain to me the NYMEX hedging

program that you have terminated?
A (Wells) Yes. Previously, we had a -- it was actually an -- we would buy options contracts for the difference between our November through March volumes that were below 70 percent hedged. Our experience with the program was that the strike prices for the NYMEX were routinely higher than what the actual NYMEX prices were coming in at. And so, we determined that it didn't seem to be of great value for consumers to be hedging the NYMEX.
We believe that the real area of concern is the spread between NYMEX and New England delivered prices. And so, we've been focusing our efforts on hedging that portion of the commodity price. And the most common ways to hedge that are either pipeline capacity, which we've been trying to steadily acquire since we've gotten resolution in the -- on capacity assignment in Maine. Also, you can do year-to-year delivered prices that have -- that you lock in the spread between the delivered price and the NYMEX price.
Q So, in your experience, that hedging program

was losing customers money?

A (Wells) Yes.

Q Okay. If your 7-Day Storage is based on the colder heating degree days from the 1970s than last year, --

A (Wells) Uh-huh.

Q -- then why did you need to go out and buy that emergency amount last year?

A (Wells) So, one thing that we learned last year, you know, our design standards are based on, you know, historic weather. But, when we looked at our more recent -- if you look at, prior to last winter, we hadn't had a severe cold weather event since, you know, in some time.

Q Well, we've had the polar vortex in '14-15?

A (Wells) Yes, I understand. But when we were looking at what we projected for demand and what that would mean for a design winter and a design -- and particularly the design day, we found that -- we found that the demands were much higher than we would have forecasted.

So, to put it in context, when we looked at what our design days would have been for this past winter, they're much -- going into the past winter, they were much lower than what we actually experienced. So, you know, for Sales Service, our design day forecast was just under -- it was just over 100,000, Maine and New Hampshire combined. We experienced that at a lower-than-design effective degree day. And so, if we had to recast what our design day would have been under those circumstances under last winter, it would have been more on the order of 108,000 dekatherms.

And so, it isn't that our weather standard has changed so much as our customers' responsiveness to weather we feel was more so in those extreme cold weather circumstances than we had previously observed.

Q So, did you adjust your storage this year for that?

A (Wells) We only have so much storage. There are a couple of adjustments that we made to our portfolio to adjust for that. One is that our off-system peaking is no longer based on daily spot prices. It's based on the NYMEX, which we find to be a much less volatile index to be buying gas at.

The second thing that we've done, as I mentioned, was that we now have the ability to get three trucks -- five trucks a day of LNG, rather than only three. That way that will maintain the ability to keep the limited amount of storage that we have full through a cold weather event.

CMSR. BAILEY: Okay. Thank you.

CHAIRMAN HONIGBERG: Commissioner Giaimo.

BY CMSR. GIAIMO:

Q So, maybe -- well, it sounds like you've updated truck loads from three to five?

A (Wells) Yes.

Q Can you explain the Lewiston facility's role in that and how it -- does it serve both -- it serves both New Hampshire and Maine customers?

A (Wells) So, it does serve both Maine and New Hampshire customers, insofar as we have a combined portfolio. It being located on the upper north end part of our system, supply does not necessarily, out of that LNG plant, make it all the way to New Hampshire. But, when we run that plant, it allows us to divert supply that would otherwise be going to Maine into the New Hampshire Division.

So, we look at it as a global, you know, it's part of the portfolio, and it allows other supplies that can get into New Hampshire to be utilized there, rather than in Maine.

And, you know, it is also the only part of our portfolio that we can -- that we can utilize after the day ahead, you know, nominations are made. So, when we're in the gas day, a decision could be made to bring the LNG plant on line, if either the weather is colder than was forecast or consumer demands are higher than were forecast based on the weather. So, it provides flexibility that is very unique relative to the other parts of our portfolio.

Q Okay. Speaking of your portfolio, Bates 054 you talk a little bit about Atlantic Bridge. I was wondering if you can elaborate and explain what happens if Atlantic Bridge is available post 2020? How does that affect your plan moving forward?

A (Wells) Well, at this point, the Company, as far as I understand, we would have the right to terminate the Precedent Agreement after that time. And, you know, I haven't -- you know, I am not sure exactly what the Company will do at that point. That would be a decision we would have to make at that time.

My understanding is that Enbridge expects to receive all of the approvals necessary and be able to deliver by November 2020 on that Precedent Agreement. But again, if that proves not to be the case, you know, we will evalue -- excuse me, evaluate that situation and make the best decision we think going forward at that time.

Q Okay. Commissioner Bailey talked a little bit about or questioned you a little bit about the NYMEX hedging methodology that you've used. And it sounds like you said that, historically, it's actually come at a cost to the ratepayers. Can you explain, was there a hedge last year built into the 2017 cost of gas? And if so, did it actually cost the ratepayers money?

A (Wells) There actually was not a hedging program for last winter as well.

Q Okay. And that was under the same theory that it was costing money, so it wasn't worth the --

A (Wells) Yes. So, the decision to terminate the NYMEX hedging program had been made previously, based on the fact that the program had not been, you know, had been, in net, losing money for customers. And also the view that the volatility of the NYMEX was relatively low, and that our efforts were best focused on, you know, on the spread between the NYMEX and delivered prices in New England.

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

WITNESS WELLS: You're welcome.

CHAIRMAN HONIGBERG: And I have no questions that haven't already been answered.

Mr. Taylor, do you have any follow-up for your panel?

MR. TAYLOR: I don't. Thank you.

CHAIRMAN HONIGBERG: All right. I assume there are no other witnesses?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. So,

without objection, we'll strike ID on Exhibits 1, 2, and 3.

Is there anything we need to do before the parties sum up?

[No verbal response.]

CHAIRMAN HONIGBERG: Seeing nothing, Ms. Hartz.

MS. HARTZ: Thank you. I have a statement here to read on behalf of my client.

Commissioners and Chairman, Direct Energy Business Marketing, as you know is a registered Competitive Natural Gas Supplier here in New Hampshire serving commercial and industrial gas consumers. Direct Energy is a subsidiary of Centrica plc, a Fortune Global 500 company, based in the UK, formerly known as British Gas. It is one of the largest competitive retail and wholesale providers of electricity, natural gas, solar design and installation services, and home energy services in North America, with nearly 5 million customer relationships and multiple brands in 46 states, the District of Columbia, and 10 Canadian provinces.

We're here today to intervene in this proceeding to monitor changes in the tariff affecting Direct Energy's customers and to ensure consistency between the tariffs in the states of Maine and New Hampshire. Since Direct Energy intervened in DG 17-144 last winter, relative to the Peaking Service Demand Charge, Direct Energy has worked closely with Northern Utilities to resolve concerns about allocation of peaking service demand capacity and communication between Northern and gas marketers. Direct Energy is pleased to see that this in this proceeding Northern has proposed language that aligns and harmonizes with their settlement agreement in Maine and our informal discussions in New Hampshire. For these reasons, Direct Energy supports Northern's filings before you today.

Last year, when Direct Energy intervened in DG 17-144 here in New Hampshire and in Docket 2017-00202 in Maine regarding the increase in the Peaking Service Demand Charge as a result of Northern's purchase of additional supply assets on behalf of all of its sales customers, all of Northern's customers and Direct Energy's customers, this was after the abrupt and prolonged cold snap in late December 2017 and early January 2018. This purchase caused an unanticipated spike in the Peaking Service Demand Charge that Direct Energy was forced to pass on to its customers, even though it had already planned and secured its supply for the winter season. This issue was compounded when Direct Energy received little notice of the impending increase.

At that time, and before both public utility commissions, Direct Energy opposed Northern's proposed cost increase and their lack of effective communication and collaboration with gas marketers. The New Hampshire PUC held a hearing and approved the Peaking Service Demand Charge. And, in Maine, Direct Energy, Northern, and the Office of the Public Advocate entered into settlement negotiations that resulted in constructive changes to the tariff, delivery service terms and conditions, to sections 14.3.1 and 14.3.2. Those changes are before you today.

The changes require that Northern exclude contracts not previously specified when it calculates the commodity charge for gas marketers like Direct Energy. In effect, this change separates out the planning and capacity assignment that Northern and Direct Energy use before the start of the winter, eliminating duplicative effort and creating greater operational efficiency that inures to the benefit of commercial and industrial consumers. Direct Energy supports this proposed change to the terms and conditions.

And the change to 14.3.1 and 14.3.2 are important because they align the tariffs in Maine and New Hampshire. Harmonized tariffs are especially important for gas marketers like Direct Energy whose supply and customer base span multiple jurisdictions.

Direct Energy is also supportive of these tariff changes in the Cost of Gas filing as it reflects an enhanced level of communication between Northern and gas marketers. Over the past year, there's been a high level of collaboration between Northern and gas marketers like Direct Energy. Most notably, Northern arranged and conducted a highly constructive Gas Marketer meeting at its Hampton, New Hampshire office on July 10, 2018, where it discussed various proposed changes for the upcoming winter season and sought input from gas marketers. This meeting, along with timely e-mail correspondence, demonstrates Northern's willingness and commitment to enhance communication with marketers active on their system well in advance of the effective date of a change. Direct Energy appreciates this heightened level of communication and hopes that it will continue into the future furthering a well-functioning market that benefits all parties, especially end-use customers.

In short, Direct Energy supports Northern's proposed tariff changes, both in terms of its substance and as well as the manner in which it was communicated to marketers. Accordingly, Direct Energy urges the Commission to adopt the tariff changes reflected in Northern's Cost of Gas filing.

Thank you.

And I'd be happy to take any questions you may have.

CHAIRMAN HONIGBERG: All right. Off the record.

[Brief off-the-record discussion ensued.]

CHAIRMAN HONIGBERG: Back on the record. Did you need to intervene to provide us with those thoughts? It sounds like you were all on board. That sounds like it could have been a letter.

I understand that that wouldn't necessarily become part of our official record. But I'm not sure you're closing is any more than that.

MS. HARTZ: Noted. Thank you. Again, our effort was just to align the tariffs and to make sure that that process was complete.

As you may recall, last year we had attempted to align the tariffs and resolve this dispute before it came to the PUC. So, this was an effort to continue that process.

CHAIRMAN HONIGBERG: Okay. Thank you.

Mr. Buckley.

MR. BUCKLEY: The Office of the Consumer Advocate sees the rates and tariff changes as set forth in the instant Petition as just and reasonable, and recommends their approval by the Commission.

CHAIRMAN HONIGBERG: Ms. Fabrizio.

MS. FABRIZIO: Thank you, Mr. Chairman. Staff supports the cost of gas rates and tariff changes proposed by the Company as amended by the October 18th filing of the Revised Schedule 16 Lost Revenue Rate.

CHAIRMAN HONIGBERG: Mr. Taylor.

MR. TAYLOR: Commissioners, thank you for the opportunity to present our filing to you. We appreciate the Commission's time today, as well as the support of the Staff and the intervenors in this case.

As is often the case with the annual cost of gas, we submitted a very straightforward filing for your consideration. We made every effort to include as much information as possible in testimonies and schedules to be of use to you.

The only element to the filing that could perhaps be considered atypical is the Company's proposed change to its Peaking Service Demand Charge. I think that's been covered already. So, I won't go into any length about that. The tariff, as revised, has the support of Staff, as well as the intervening marketer.

Direct Energy, I'm not going to address everything in Direct Energy's statement, except to say that I don't necessarily agree with everything in it, particularly with respect to effective communication. Many of or all of Direct Energy's concerns were adjudicated in Maine, and also they were given a voice in last year's cost of gas. And so, those issues are not at issue in this case.

CHAIRMAN HONIGBERG: She seems happy now.

MR. TAYLOR: Oh, I was just going to say, I agree with all the nice things they said. So, we'll leave it at that.

We believe that the filing merits the Commission's approval. Thank you.

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

With that, we will close the record, take the matter under advisement, and issue an order as quickly as we can. We are adjourned.

(Whereupon the hearing was adjourned at 2:36 p.m.)