STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 19-116

<u>In the Matter of:</u>

<u>NORTHERN UTILITIES, INC.</u>
<u>Petition for Approval of Precedent Agreements for the Westbrook XPress Phase III Project</u>

Direct Testimony

of

Al-Azad Iqbal
Utility Analyst – Gas & Water Division

September 10, 2019

Q. Please state your name, current position, and business address.

A. My name is Al-Azad Iqbal. I am employed by the New Hampshire Public Utilities Commission (Commission) as a Utility Analyst. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire, 03301.

Q. Please summarize your educational and professional background.

A. My educational and professional backgrounds are summarized in Appendix AAI-1.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Staff's recommendation on the request of Northern Utilities, Inc. d/b/a Unitil (Northern or the Company) for the Commission's approval of precedent agreements with three separate transporters -- Portland Natural Gas Transmission System (PNGTS), TransCanada Pipelines Limited (TransCanada), and Enbridge Gas, Inc. (Enbridge) (collectively, the WXP Agreements, or Agreements) that will establish a firm natural gas pipeline transportation path as part of PNGTS' proposed Westbrook XPress Phase III (WXP III) Project.

Q. Please summarize Staff's findings and recommendations on these issues.

A. Staff believes that the Commission should approve the Company's proposed acquisition of pipeline capacity through the WXP III Project with the understanding that recovery of costs related to the associated Agreements will be addressed in future rate proceedings. The construction of Project facilities and the regulatory approvals necessary for the pipeline to provide the capacity requested under the Agreements are still pending, and there are a number of decision points in the future at which Northern could elect to terminate the Agreements, which would limit the cost risks to the Company and its ratepayers.

Based on the Company's assessment of its supply needs and the options available in the market, Staff believes that it is reasonable and in the public interest for Northern to enter into the Agreements at this time. However, it would be premature for the Commission to rule on the prudency of cost recovery, pending a request by the Company and consideration of future decision related to the proposed cost recovery.

Q. How do these Agreements differ from other pipeline capacity agreements that Northern has entered into in the past?

A. For the most part, the Agreements are routine contracts for a modest increase in capacity, typically addressed through the cost of gas (COG) proceedings. The Agreements are very similar to the Portland XPress (PXP) Precedent Agreement for an additional 10,000 Dth/day of capacity that Northern entered into with PNGTS, with an expected in-service date in November 2020. Northern did not request prior Commission approval of that agreement, as there is no requirement that it do so. Northern will seek recovery of PXP Precedent Agreement capacity costs in future COG filings.

What sets the WXP Agreements apart from routine capacity contracts are the applicable cancelation fees and the magnitude of those fees, potentially tens of millions of dollars for which Northern could be responsible under the terms of the Agreements. That additional cost risk is why Northern has requested Commission approval of the Agreements and is the focus of Staff's review as described below.

Northern's Petition

Q. Please describe the Company's petition.

A. The Company is requesting the Commission to find that Northern's decisions to enter into the WXP Agreements, with their associated costs, are prudent, reasonable and consistent with the public interest.

According to the petition, the Agreements will provide Northern the ability to contract for the transport of up to 10,000 Dth/day of natural gas from the Dawn Hub (Dawn) in Ontario to the Granite State Gas Transmission, Inc. (Granite) interconnects in Westbrook, Maine for a 15-year initial term, with an option to extend. Based on the Company's latest design-year forecast for the 2022-2023 gas year, approximately 4,200 Dth/day of the proposed capacity will be used by Northern's New Hampshire Division customers.

The petition consists of three separate but interlinked agreements – with PNGTS for the transport of up to 10,000 Dth/day, with TransCanada for the transport of up to 10,104 Dth/day, and with Enbridge for the transport of up to10,308 Dth/day. Enbridge capacity is available between Dawn and Parkway receipt points (located near Milton, Ontario); TransCanada will transport the capacity from Dawn to the Parkway interconnect in East Hereford, Québec; and PNGTS will transport from there to Dracut, Massachusetts.

Under the similar PXP Precedent Agreement, PNGTS contracted with TransCanada and Enbridge for the upstream capacity to Dawn, Ontario. That capacity was assigned to the associated Project shippers for effect on the Project's in-service date;

as a result, no risk of project cancelation fell on the shippers. By contrast, under the WXP Agreements, project shippers are required to acquire the upstream capacity directly from TransCanada and Enbridge. The WXP Agreements essentially shift the risk of project cancelation costs associated with the upstream projects to the shippers.

Q. Are there any differences between the Agreements?

A. There are several differences other than small capacity variances (variances related to fuel reimbursement from the shippers to the transporters). PNGTS rates are fixed, whereas TransCanada and Enbridge will charge tariff rates. In that context, the PNGTS Agreement is similar to other precedent capacity agreements that the Company is party to and recovering associated cost through Commission approved COG rates.

The most significant difference with the TransCanada and Enbridge agreements is the cancelation charge provision, under which Northern and other shippers will be liable for project costs as a result of cancelation. Cancelation could occur as a result of failures of shippers or transporters to meet conditions in the Agreements. In the case of PNGTS, Northern, as a shipper, will be liable for its proportionate share of Project costs. Northern's liability will be limited to circumstances in which one or more of the Agreements are terminated either due to bankruptcy on the part of Northern or Northern's failure to comply with material terms of any one of the Agreements.

Another difference involves Northern's option to terminate each Agreement. If Northern chooses to terminate the Agreement with TransCanada at any time during the pre-service period, it will be subject to applicable cancelation costs. Under the agreements with Enbridge and PNGTS, Northern does not have an option to terminate either of those agreements after October 31, 2019 without liability.

Q. What is the Company's rationale supporting the petition?

The Company stated that the proposed capacity would reduce 2022-23 gas-year design day reliance on delivered supply from thirty-nine percent (39%) to thirty-two percent (32%) thus somewhat reducing the risk of inconsistent availability and high demand costs and/or volatile price spikes of delivered supply.[1] The Company also mentioned access to the Dawn Hub, underground storage, and interconnects with major pipelines as benefits of the Agreements. Northern evaluated other pipeline offerings from TransCanada and PNGTS, as well as delivered supply alternatives. The Company concluded that the WXP capacity offered through the Agreements is the preferred supply option.

Staff analysis

Q: What are Staff's concerns regarding the cancelation fees included in the Agreements?

A. Staff is concerned about the cancelation fees, because they make the Agreements riskier for the Company compared to traditional precedent agreements. In traditional precedent agreements, all terms and costs are known and the transporters are liable for pre-service cost in case of project cancelation. Staff believes that the cancelation fees

[1] Furino Testimony, page 10.

introduce a significant financial risk and need to be comprehensively analyzed and evaluated for several reasons:

a. The rationale underlying the Agreements is to reduce the risk of inconsistent availability and high demand costs and/or volatile price spikes of delivered supply. Cancelation fees conversely introduce a new risk on the shippers. Therefore, in the case of cancelation, shareholder and/or ratepayers would bear the burden of the cancelation fees and the risk of volatility would remain unless an alternative solution is found.

b. The actual amount of the applicable cancelation charges at any point prior to service under the Agreements is not known to Northern before a cancelation event occurs. Depending on the time of cancelation, the liability for Northern could be prohibitively significant under the agreements.

Q: Do you have other concerns?

A: Yes. Staff believes that the way the Agreements (with cancelation fees) are structured puts substantial financial risk on the shippers, with minimal risk on the transporters. Asymmetric risk does not match control over the decisions to be made – transporters could cancel agreements without any financial loss,[2] which is not true for shippers; whereas successful completion of the Project depends solely on the transporters. An individual shipper's decisions would have a significant impact on transporters' decisions and could initiate cancelation of the entire Project. One shipper's decision could have a considerable financial impact on the remaining shippers. Due to

[2] Up to the liability cap. In the unlikely event that actual cancelation costs exceed the shipper liability caps, the transporters would be liable for such costs. See DR response Staff 1-6, and DR response 4-2 in Attachment AAI-1.

confidentiality, the shippers cannot make group decisions, as they do not know who the other shippers are or their corresponding stakes or interests in the Project.

Q: Does Northern address the cancelation risk in its initial filing?

A: In its initial filing the Company noted the past success of the transporters participating in the WXP Project in placing expansion projects in service and concluded that the probability of the Project's cancelation is low.[3] Northern did not provide a risk analysis and stated that it is unaware of any such risk analysis undertaken by the transporters or other shippers.[4] The Company provided lists of projects in the last ten years by each of the transporters to support its conclusion.[5]

The Company believes that project cancelation risk is driven by obtaining regulatory approvals and permits. The Company assumed that risks associated with the projects are already assessed by the transporters' internal review as the projects have already received internal funding approvals. According to Northern, the transporters' experience in managing regulatory issues, internal project risk assessment, and mitigation reduces the cancelation risk.[6]

In response to Staff discovery requests, the Company provided further details underlying the Agreements, including decision points, specific decision criteria, probability and consequences of cancelation at each decision point, and cost considerations at each decision point[7].

[3] Furino Testimony, page 50, section 3.
[4] DR response Staff 1-4 in Attachment AAI-1.
[5] DR response Staff 3-1 in Attachment AAI-1.
[6] DR response Staff 1-4, 1-5 in Attachment AAI-1.
[7] DR response Staff 4-2 in Attachment AAI-1.

Q: What is Staff's view on the analysis provided by the Company?

A: The Company's analysis provided clarity of the cancelation risk exposure for Northern, and its assessment of probable cancelation by calendar-year quarters for the duration of each contract.[8] According to the Company, the risk of cancelation significantly diminishes after regulatory approvals are in place. It anticipates that approvals will be acquired by the transporters by the end of next year. At that point, Northern's exposure to potential cancelation fees will be approximately one-sixth of the estimated maximum cancelation fees. Although the Company provided clarity to the cancelation scenarios, future decisions by the Company play an important role in its risk exposure as the approval process and project development move forward.

Q: Did the Company include the cancelation risk in its analysis of alternatives?

A: The Company did not include the risk of cancelation in its economic analysis of alternatives.[9] The exclusion of a significant risk of one option and comparison risk with other options without such risks raises questions about the analysis.

Q: What are your concerns, other than the cancelation risks, regarding the Agreements?

A: As evident from the risk analysis, the Company will have to make future decisions that could have significant consequences on shareholders and/or ratepayers. Other than capacity and demand rates, other elements and potential impacts under the

[8] DR response Staff 4-2, 4-3 in Attachment AAI-1.
[9] DR response Staff 1-3(d) in Attachment AAI-1.

Agreements are unknown at this time, due to the risk of cancelation and corresponding financial consequences at each decision point. Minimizing the financial risk will depend on the Company and its actions at different decision points of the projects. The prudency of the Company's decisions to continue or terminate the Agreements will need to be evaluated in light of existing circumstances at each decision point.

Q: Do you have any other observations?

A: Staff believes the planning approach Northern took is reasonable and consistent with its integrated resource plan. While Northern failed to adequately assess the financial risk of the cancelation fee provisions in its initial filing, that failure was subsequently addressed through the discovery process. Although the projected maximum cancelation charge in the initial filing appear to be prohibitive, the probability of the Project's cancelation at later points in the process is low.

The amount of capacity contracted for under the Agreements is not excessive in relation to the Company's current and projected supply requirements. The length of the Agreements and the amount of capacity that Northern is contracting for under them limit the risk that customers could be paying for excessive excess capacity well into the future.

Staff Recommendation

Q: What are Staff's recommendations?

A: Based on the information and analysis reviewed in this proceeding, Staff recommends that:

- The Commission issue an order finding that Northern's decision to enter into the Agreements is prudent, reasonable and consistent with the public interest.
- The Commission clarify in its order that recovery of any future costs associated with the terms of the Agreements will be determined in future rate proceedings and are largely dependent on future Company decisions in response the changing circumstances.

Q. Does that conclude your testimony?

A. Yes.