STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

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Concord, New Hampshire

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RE: **DG 19-154**
NORTHERN UTILITIES, INC.:
2019-2020 Annual Cost of Gas.

PRESENT: Cmsr. Kathryn M. Bailey, Presiding
Cmsr. Michael S. Giaimo

Sandy Deno, Clerk

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

Reptg. Residential Ratepayers:
Christa Shute, Esq.
Pradip Chattopadhyay, Asst. Cons. Adv.
Office of Consumer Advocate

Reptg. PUC Staff:
Paul B. Dexter, Esq.
Stephen Frink, Dir./Gas & Water Div.
Al-Azad Iqbal, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52
(Transcribed from audio file)

CERTIFIED
ORIGINAL TRANSCRIPT

I N D E X

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	2019-2020 Annual Cost of Gas filing (09-17-19) ***{CONFIDENTIAL & PROPRIETARY}***	5
2	2019/2020 Annual Cost of Gas filing, consisting of Tariff Pages, Table of Contents, Testimony of Christopher A. Kahl, Testimony of Francis X. Wells, Testimony of S. Elena Demeris, and Schedules (09-17-19) *[REDACTED - For PUBLIC Use]*	5
3	Northern Utilities, Inc. corrected cover letter to the initial Petition filed on 09-17-19 (10-07-19)	5

P R O C E E D I N G

CMSR. BAILEY: Good morning. We're here today in Docket Number DG 19-154, Northern Utilities' Cost of Gas filing for the next twelve months.

Let's take appearances.

MR. TAYLOR: Good morning, Commissioners. Patrick Taylor, on behalf of Northern Utilities, Inc.

MS. SHUTE: Good morning, Commissioners. Christa Shute, on behalf of the Office of the Consumer Advocate and New Hampshire ratepayers.

CMSR. BAILEY: Welcome.

MS. SHUTE: Thank you.

MR. DEXTER: Good morning, Commissioners. Paul Dexter, on behalf of the Commission Staff. And I'm joined today by Steve Frink and Al-Azad Iqbal from the Gas Division.

CMSR. BAILEY: Good morning. All right. Are there any preliminary matters we need to address?

MR. TAYLOR: None that I'm aware of.

MS. SHUTE: No.

MR. DEXTER: None.

CMSR. BAILEY: Okay. So, we're going to go right to the panel? Is that right? You ready to go?

MR. TAYLOR: We're ready to go. We have some exhibits to mark. They're all exhibits that are already in the docket. I can run through those with you?

CMSR. BAILEY: That would be great.

MR. TAYLOR: So, Exhibit 1 is the confidential version of the Company's Cost of Gas filing; Exhibit 2 is the redacted version of that filing; and Exhibit 3 is a corrected cover letter that was submitted to the Commission on October 8th.

Those are our only exhibits.

CMSR. BAILEY: Okay.

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

CMSR. BAILEY: Would the witnesses

please raise your right hand.

(Whereupon ***Christopher A. Kahl***, ***Francis X. Wells***, and ***S. Elena Demeris*** were duly sworn by Cmsr. Bailey.)

CMSR. BAILEY: All right. Mr. Taylor, you may proceed.

MR. TAYLOR: Thank you.

CHRISTOPHER A. KAHL, SWORN

FRANCIS X. WELLS, SWORN

S. ELENA DEMERIS, SWORN

DIRECT EXAMINATION

BY MR. TAYLOR:

Q Good morning. I'd like to ask for each member of the panel, starting with Mr. Kahl, please give your name, the company that you're employed by, and your positions with the Company?

A (Kahl) Christopher Kahl. I'm a Senior Regulatory Analyst with Unitil Service Corp.

A (Wells) Good morning. My name is Francis Wells. I am the Manager of Energy Planning for Unitil Service corp.

A (Demeris) Elena Demeris. I'm a Senior

Regulatory Analyst at Unitil Service Corp.

Q Thank you. And I'll start with Mr. Kahl. Mr. Kahl, before I ask you any questions about your testimony or your exhibits, has the format of the Company's filing changed at all this year from previous years?

A (Kahl) Yes. The filing has been reorganized, in an effort to make it easier to follow for all parties. And if you have it in front of you, if you look at the Table of Contents, you'll see it is organized into four sections.

The first section really just covers the rate summary, how it compares to last year's rates, and then the bill impact. The second section covers the actual cost of gas calculations. The third section covers the gas supply costs that support the cost of gas calculations. And the fourth and final section, that covers ancillary rates and other supporting information.

I also should note that every schedule has the initials of the witness after it. So, my testimony -- I'm sorry, the schedules I support are the first two in Section 1, all of them in

Section 2, and Schedules 27 through 29 in Section 4.

Q So, thank you, Mr. Kahl. Now, turning to your testimony and the schedules that you've just referenced. Was your testimony, and the schedules that are associated with your testimony, prepared by you or under your direction?

A (Kahl) Yes.

Q Do you have any changes or corrections to your testimony or those schedules that you'd like to make on the record today?

A (Kahl) Yes, I do. And the first one is on Bates Page number 004. And that's on Line 4, at the bottom of the table, where it says "Schedules 3 and 16 through 25", that should say "Schedules 3, 16 through 26, and 30 through 39".

I also have some corrections on the labels in -- on Table 1 and 2. Table 1 is on Bates Page number 005. And, in the first column, it says "Residential Non-Heat". That should say "Residential Heat and Non-Heat". Also, after "Non-Heat", it shows Rate Schedules "R-6", "R-6" again, and "R-10". The first one should be an "R-5". And, on Bates Page number 006, we have the -- the same corrections would apply.

Also, both on Tables 1 and 2, in the third column, I list the years "2018/2029", that should be "2018/2019". And, also on Table 2, in the last column, it says "Percent Change From Winter", and that should be "From Summer".

And, then, I have two additional changes. Those are on Bates Page 31. Line 5, it says "Schedule 38", that should be "Schedule 37". And, on Line 8, it says "Schedule 29", and that should be "28".

Q Thank you, Mr. Kahl. Mr. Wells, turning to your testimony. Is your testimony, and the schedules that are associated with that testimony, were they prepared by you or under your direction?

A (Wells) Yes.

Q And do you have any changes or corrections to your testimony that you'd like to make today?

A (Wells) No.

Q Thank you. Ms. Demeris, you probably know what questions I'm going to ask. So, looking at your testimony, and the schedules that are associated with that testimony, were those prepared by you or under your direction?

A (Demeris) Yes.

Q Do you have any changes or corrections that you'd like to note on the record?

A (Demeris) I do. On Bates Page 065, Line 12, the reference should be to "Schedule 3". On Bates Page 247, Line 29, the reference should be to "Schedule 17-FXW". And, on Bates 262, --

MR. DEXTER: Excuse me. If I could ask the Bench to ask the witness to do that a little slower, so we could catch up.

WITNESS DEMERIS: I'm sorry.

MR. DEXTER: I got the first one.

CMSR. BAILEY: I didn't get the first one. So, can you go over it again? And give us time to get to the page. Over here, on the Bench.

CONTINUED BY THE WITNESS:

A (Demeris) Bates 065, Line 12, the reference should be to "Schedule 3". And, then, Bates 247, Line 29, the reference should be to "Schedule 17-FXW". I believe it says "10B" right now. And that same correction on Bates Page 262.

MR. DEXTER: Could she repeat the last one?

BY MR. TAYLOR:

Q Ms. Demeris, could you --

A Page 262. The reference should be to "Schedule 17-FXW".

MR. DEXTER: Which line?

WITNESS DEMERIS: There isn't a line number. Oh, no. It's 260. Page 260. Sorry. Where it says "Forecasted Firm Sales and Firm Transportation Volumes (Attachment 2 to Schedule 10B", "10B" should be "17-FXW".

BY MR. TAYLOR:

Q Does that conclude --

A (Demeris) That's it.

MR. TAYLOR: Okay. Then, I have no further questions for the witnesses.

CMSR. BAILEY: All right. Ms. Shute.

MS. SHUTE: Thank you, Commissioners.

CROSS-EXAMINATION

BY MS. SHUTE:

Q So, my first question is whether you could just comment on the savings to residential ratepayers that the cost of gas reflects?

A (Demeris) The lost revenue savings?

Q No. I'm actually specifically just asking for you to identify the savings to residential ratepayers.

CMSR. BAILEY: From the reduced rates?

MS. SHUTE: From the reduced rates.

BY THE WITNESS:

A (Kahl) Yes. In Schedule 3-SED, there is a -- in the center of that table, the column that is bordered, does show approximately a $134 savings, or about 12 percent, if you compare this year's bill to last year's bill.

BY MS. SHUTE:

Q And could you identify or help us understand the difference between that and the testimony on Bates Page 065, with the "156"?

A (Kahl) Yes. Also, on that table I just referenced, we do show the cost of gas change itself. This is somewhat towards the center of the page, of $156.

Q And the response to Staff Request 1-4 indicated or summarized that there is a 1 percent increase in use per meter, that's weather-normalized sales.

So, two questions. One, does the -- do the savings reflect the increase in use per meter? And do you believe that the increase is going to continue over time? I mean, obviously, we're trying to decrease the use of fossil fuels. So, do you -- (a) does the savings reflect the increase in use per meter? And (b), do you project that increased rate to continue into the next year?

MR. TAYLOR: Could I approach the witness and provide them a copy of Staff 1-4, if they don't have it? I don't believe it's been marked into --

WITNESS KAHL: We have it.

WITNESS WELLS: We have it.

CMSR. BAILEY: Ms. Shute, just so you know, we don't have data responses.

MS. SHUTE: Oh. Okay.

CMSR. BAILEY: But you can ask the question, and decide whether you need us to have that as an exhibit.

MS. SHUTE: Okay.

BY THE WITNESS:

A (Wells) Good morning. This is Francis Wells. I would say that, having prepared the -- just had to refamiliarize myself with the response. This response compares 2018/2019 weather-normalized utilization and sales to 2017/2018 sales.

And I would -- I would say that, if you refer to Schedule 16-FXW, you can see the sales forecast actually reflects a lower use per meter. If you look at Bates Page 141, for winter, summer, and annual total use per meter across the system, we see a modest decrease in use per meter reflected in our forecast.

BY MS. SHUTE:

Q Okay. Great. Thank you very much. And the last question, Northern files quarterly Interruptible Transportation Reports, in compliance with Order 19,181, issued in DR 88-083, but is has not served any transportation customers since 2008. And, therefore, it's requested a Commission approval to change the reporting requirement from quarterly to only when interruptible customers are served and revenues are collected.

Would you please explain when and why interruptible service was introduced? What type and number of customers used interruptible service? And when and why customers stopped using interruptible service?

And, then, I'll have just a short follow-up question to that.

CMSR. BAILEY: Do you want her to ask you one question at a time?

MS. SHUTE: Sorry.

CMSR. BAILEY: Is that --

WITNESS DEMERIS: I think I'm okay.

CMSR. BAILEY: Okay.

BY THE WITNESS:

A (Demeris) We believe that interruptible service started when rates were unbundled in the 1990s. I looked back to -- I have access to records back to 2004, when Northern was owned by NiSource. And we had five interruptible customers at that time; a hospital, two accounts at a boarding school, a linen service, and a manufacturing plant.

Was there another, something else? I don't have any information on why those customers ended interruptible service and went to firm.

BY MS. SHUTE:

Q Okay. Does anyone?

A (Wells) In my experience, what we found was that, when natural gas became cheap relative to oil, that ultimately the firm rate was lower than the interruptible rate. And, so, it made economic sense for customers, even if they had dual fuel capability, to convert to firm service, in order to save money, versus the interruptible service.

Q Okay. And is it possible to review this tariff as a potential demand response mechanism? And are you open to demand response as a resource?

MR. TAYLOR: I'm going to object to the question, just in that I think it addresses something that is not -- in that I think that it addresses an issue that's outside of the scope of this docket. You know, I'm not -- I don't object to the witnesses' responding, to the extent that they can. But, in terms of their response, I don't think it actually has any bearing on this proceeding.

CMSR. BAILEY: Ms. Shute.

MS. SHUTE: I think it's relative, to the extent that there's been a request to approve the change in the reporting requirements, and that brings in whether or not reviewing the tariff, and for the potential use for other reasons, makes sense.

CMSR. BAILEY: I'm going to allow you to answer it, to the extent that you can.

BY THE WITNESS:

A (Wells) Certainly. My understanding is that our interruptible transportation tariffs are all premised on dual-fuel capability. And, so, it would not necessarily be demand response in the context -- in a more modern understanding of what demand response might be, that would not necessarily require the ability to switch fuels.

So, to the extent that it is responsive to demand, you know, it is a demand that could be removed from the system, that's certainly true. I would say that, you know, customers, you know, in my prior response I had said "customers may still maintain dual service" -- you know, "dual-fuel capability", they certainly can, and some do, switch fuels, even though they're on a firm transportation service.

So, I'm not sure that a customer needs the interruptible transportation tariff in order to be -- to have a demand response resource. And I'm not sure that the interruptible transport would necessarily be the best avenue to pursue, you know, future demand response for the Company.

The Company is certainly open to the concept of "demand response", but we have not really pursued, to this point, exactly what that would look like, but are certainly open to, you know, different technologies and approaches, in order to address, really, the remaining, you know, resource need for the Company.

MS. SHUTE: Thanks very much. Commissioners, I have no further questions.

CMSR. BAILEY: Okay. Mr. Dexter.

MR. DEXTER: Thank you.

BY MR. DEXTER:

Q So, is it correct to say that this filing represents costs of gas that are significantly lower than what was approved in this corresponding proceeding last year?

A (Kahl) Yes, it is.

Q And, if I wanted to get an idea of the comparison between the costs from last year versus this year, could I look at, there's no Bates page number on this, but it's called "Second Revised Page 40"? It's about 20 pages into the filing, under tab "Tariff Pages".

CMSR. BAILEY: Where is it under the "Tariff Page" tab?

MR. DEXTER: It's called "Second Revised Page 40", and it's a red-lined version that shows changes.

WITNESS KAHL: Yes. Just to clarify, all the clean tariff pages are in numerical order, followed by the red-lined tariff pages.

MR. DEXTER: So, under the tab "Tariff Pages" in the front, I would say it's about twelve pages in.

CMSR. BAILEY: I have it. Thanks.

MR. DEXTER: Okay.

BY MR. DEXTER:

Q Can you outline for me, just in general, sort of broad terms, the different types of gas costs that are set forth on this page? And, then, we'll go through the changes and the reasons for the changes.

A (Kahl) Yes. The major factors that are going to influence whether your rates go up or down are all working towards lowering rates. So, your demand costs are lower, your commodity costs are lower, your sales are higher, and your reconciliation balance was an over-collection, compared to the prior year where you had an under-collection. So, your demand costs are about $4.4 million lower. And this is due, to a large extent, to higher revenues the Company receives for asset management agreements.

Q And just to interrupt you for a second. Mr. Kahl, could you point me to the line on Second Revised Page 40 where demand cost reductions are shown?

A (Kahl) On -- did you say "Line 40" or "Page 40"?
Q Page 40. I just want to follow along the page. When you were talking about the demand costs, mentioned a "$4 million decrease", and I wanted you to just point me in that direction where I can see the 4 million.
A (Kahl) Yes. So, if we're looking at -- there's various ways to look at this. If we look at this page, and we look at "Total Anticipated Direct Cost of Gas", on the right we're seeing a difference of looks like about 5 plus million dollars there.
Q Okay. And I think you were going to give me the elements of that 5 million.
A (Kahl) So, I mean, you can see where it says, for instance, "Capacity Release", you're seeing last year you had about $3 million in revenues, now we have $6 million in revenues. And, as I had mentioned before, that was really your largest component to that decrease of your demand costs.
Q Is that what you referred to as "asset management" earlier?

A (Kahl) Yes.

Q Okay. And, then, moving on to the "Indirect Cost of Gas", are there similar reductions?

A (Kahl) Yes. As I mentioned, we show a reconciliation balance of 1.4 million credit, the year before a half a million dollar under-collection. And those are the major components.

If we turn to Tariff Page 42, again, this is the red-lined version, and we see the projected sales, you can see -- you can see we have 34.9 million last year, this year we're up around 36 million.

Q And what line is that on? I'm just not finding it.

A (Kahl) The second line down.

Q Thank you. And projected increased sales will result in a decreased rate, I think is what you're saying?

A (Kahl) Yes.

Q Okay. Are there other major elements to the proposed decrease in rates that you could highlight for us?

A (Kahl) If we look back on Page 40, if we look at our supply costs, under "Storage and Peaking: Commodity Costs", you're seeing approximately a $1 million savings.

Q And, then, just to follow up on two of those elements. You had mentioned "capacity release" and also referred to it as "asset management", could you explain what led to the $3 million increase in capacity? These are negative costs or revenues, is that right?

A (Kahl) That's correct.

Q So, could you explain that, the reasoning for the $3 million or doubling increase in these revenues?

A (Wells) The increase in asset management revenue is due to an increase in the asset management revenue we saw in the most recent RFP that we issued for service beginning in April through March. So, we issued an RFP in February. The results reflected substantially higher asset management revenue than we had seen in the prior asset management revenue -- excuse me -- asset management agreements. And, so, we are reflecting those higher revenues in this cost of gas proceeding.

Q Is there anything in the gas supply markets that you could point to that might have led to that increase in the RFP results?

A (Wells) It would be hard for me to answer that question without getting into matters that we consider to be confidential.

But, generally speaking, higher asset management agreement revenues reflect a higher -- generally higher New England area prices, more volatility in the market area relative to the areas that one can buy gas at with our assets.

Q And, turning to the storage and peaking gas, Mr. Kahl indicated there was a million dollar drop in the -- in the demand costs, if I have this right. Could you explain what led to that?

A (Wells) So, I discuss demand costs in my testimony. So, pipeline and storage demand costs, for Northern as a company, are decreasing about $3 million. You know, a portion of those -- so, in my testimony, I talk about Northern as an entire company, including the Maine Division. So, I just want to make clear, we've been looking at a schedule that relates to costs related to the New Hampshire Division. So, my numbers are going to be -- are looking at the total company.

The biggest reason for the decrease is a decrease in TransCanada pipeline demand costs. That decrease took place on February 2019, and it reflects rates that will remain in effect through December 2020.

The primary reason for that decrease was an over-collection by TransCanada. And that -- that over-collection is basically being refunded through lower tolls that will take effect until the end of 2020.

Q Would you expect either the decrease in the pipeline demand capacity costs or the capacity release increased revenues to continue in years forward?

A (Wells) I can't answer that question. I don't know what to expect. But, as far as asset management revenue goes, it's going to be a function of how the market values our capacity when we issue our RFP next year.

I mean, I believe that our asset

management -- I believe that our assets will still be valuable. But I can't -- I can't tell you whether I believe that, you know, that they will continue at the current high values.

I would say that, generally speaking, right now the value is historically high. And, so, I think, over time, it would be surprising to me that they maintained that historically high level.

As far as TransCanada rates, those also represent a, you know, a historically high over-collection, and an historically low period to refund that over-collection. I don't expect, generally speaking, that those rates will continue to be quite as low as they are now. But I do expect them to continue to be competitive, compared to our alternatives.

Q And your filing today reflects NYMEX future prices in the cost of gas, is that right?

A (Kahl) That is correct.

Q And as of what date were those prices incorporated?

A (Kahl) August 30th, 2019.

Q And have you rechecked those prices since

August 30th, to see what's happened with the NYMEX futures prices?

A (Kahl) Yes. I looked at the closing prices on Wednesday, two days ago, and took an average of the six-month period. And the average was 4 cents lower than the prices on August 30th.

Q And 4 cents per what? Is that decatherm?

A (Kahl) Yes.

Q And how did that compare to the six-month average price? I'm just trying to get an idea whether the 4 cents is very significant or very insignificant? I'm guessing you're going to say it's "fairly insignificant".

A (Kahl) It's insignificant. I tested out our cost of gas model with the updated NYMEX strip, and came up with about one and a half tenths of a cent.

Q Okay. So, I'd like to turn for a moment to the sales forecast. And I'd like to look at Bates Page 037.

And, if I understand the figures that are presented here, it looks like there was a significantly lower projected sales growth for 2019-20 versus the prior year. Am I reading that right?

A (Wells) So, Table 1 compares the 2019-20 forecast to both the 2018-19 weather-normalized actuals and the 2017-18 weather-normalized actuals. And the annual sales, for 2019-20, are 0.6 percent higher than the '18-19 weather-normalized sales, and 3.4 percent higher than the '17-18 weather-normalized sales. So, I think it would be reasonable to conclude that that reflects a lower growth rate overall for sales.

Although, in the way of explanation, I would actually refer you to Schedule 16-FXW, that begins on Bates Page 141. I would add a couple of comments on our sales forecast relative to '18-19.

I'd say, you know, to start, if you look at the middle section, beginning on Line 28 through 47, that provides a, you know, that provides a total -- a summary of the meter counts. And we see very healthy and consistent meter count increases on our system for the New Hampshire Division for the upcoming year. You know, so, a good two percent, a consistent 2.2

percent increase in meters. So, the lower use per meter is really what is affecting the percent, you know, the relatively lower sales growth for '19-20 versus '18-19.

The other -- the other comment I would have is that, you know, weather-normalization is an imperfect science. You know, it is a statistical calculation. And we don't know, it is our best estimate of what customers would have used under weather-normalized or normal weather scenarios. It's certainly, while it is our best estimate, what we've noticed over time is that, when you are in a scenario where actual temperatures were colder than normal, those weather-normalized results end up being a little higher. And, when it's warmer than normal, you end up with slightly lower weather-normalized results.

And, so, I would say that, when comparing our forecast to weather-normalized, that's another thing to keep in mind, is that, you know, '18-19 weather-normalized sales, you know, it was relatively cold last winter. And, so, those weather-normalized results may be a little bit higher than what we would actually see in a normalized -- in a weather-normal scenario.

And, finally, I would add that, you know, this is a -- this forecast that I present, I presented November through October. But it's actually prepared by our Finance Department, and their focus is more on calendar year, because they're looking at, you know, the financial performance of the Company, and that's the primary purpose of the forecast. And, so, they're not necessarily focused on the November through October actuals like we are, or the November through October forecasts like we are in a cost of gas proceeding.

And, so, I would say that the 2020 forecast, relative to 2019, reflects more of a, you know, a 1.5 to 2 percent increase, as opposed to a 0.6 percent increase.

And, so, we see the -- you know, I guess it's a long way of saying, we see that the growth of the system is, you know, we still see steady growth in the system, both in meter counts and calendar year sales.

Q And both the forecast and the weather-normalized historics, they're both done on a weather-normalized basis, correct?

A (Wells) That's true.

Q And the same weather applies to both the forecast and when you weather-normalize the actuals, correct?

A (Wells) Yes. We're using the same weather-normalized -- we're using the same weather pattern for both weather-normalization and the forecast. That is true.

Q Okay. Has the Company been experiencing switches of customers from transportation to sales service on the recent past? And I guess I'll break it into two parts. So, I'll leave that question as is.

A (Wells) Yes. So, over the last year, we have seen more customers switching from transportation service to sales service than from sales service to transportation service. But it hasn't been a -- while it is -- I wouldn't say it's been at historically high levels of migration. It's been steady.

Q Is that steady migration from transportation to sales projected forward into the 2019-2020 period?

A (Wells) No. I take the -- I take the current sales service customers at a point in time, I think I talk about this in my prefiled testimony, beginning on Bates Page 038.

So, to summarize this, you know, what I specifically do is I identify the customers that are currently on transportation service, I project their utilization, and I deduct that from the overall distribution system forecast. So, I actually, rather than trying to project whether customers are going to be migrating into transportation or out of transportation, I really just lock down what the current levels of transportation are and project those forward.

Q Okay. So, in your testimony on Page 44, you discuss a change in how Maine customers are assigned transportation capacity. Can you explain that change in a little bit more detail please?

A (Wells) Certainly. In the Maine capacity assignment proceeding, 2014-132, Northern applied for, and it was ultimately received an -- a modification to its Maine delivery service terms and conditions, that provided for the eventual increase of Maine's capacity assignment, from 50 percent of the design day of the affected transportation customers, to 100 percent. And, so, that actually takes effect November of 2019.

So, prior years, when a Maine sales customer migrated to transportation service, we took half of their design day to calculate the amount of capacity that would be assigned to the retail marketers. Beginning November 2019, we will account for 100 percent of the design day for all transportation customers -- capacity-assigned, excuse me, transportation customers in the Maine Division, which will be consistent with what New Hampshire Division's delivery service terms and conditions are.

Q Does that have the effect of reducing the capacity costs that are sent to Maine sales customers?

A (Wells) It does. Mr. Kahl actually performs the Modified Proportional Responsibility allocator. But, generally speaking, when I calculate the design year, basically, capacity costs are allocated based on design year sendout for Maine and New Hampshire Divisions of the planning load. And, so, by increasing Maine planning load from 50 to 100 percent of capacity-assigned customers, that's going to be a higher determinant for the Maine Division relative to our portfolio.

So, even though our demand portfolio is not changing dramatically this year compared to last year, the portion of that that's being picked up by the Maine Division is higher because of this change in the delivery service terms and conditions in Maine that's being effective this year.

Q And is it therefore correct to assume that the proportion sent down to New Hampshire customers is lower?

A (Wells) That's correct.

Q Okay. Is that a significant change? That lead to the fairly significant drop in overall costs in this filing?

A (Wells) It contributes to it. But I wouldn't say it's -- you know, to put it in -- to put this into perspective, Maine customers, transportation service capacity-assigned customers, their design day is approximately 14,000 decatherms. And, so, the amount of additional capacity that would be assigned to them is about 7,000.

Now, if you look at our portfolio, which I summarize -- well, fortuitously, I'm opening up to the correct schedule number. I knew it from heart, I memorized it on the old system, but Schedule 19-FXW, Page 150.

And, so, this provides an overview of Northern's portfolio. And, so, --

Q And this is, to interrupt, this is Northern-New Hampshire and Maine, correct?

A (Wells) That is correct. And, so, you can see that our total design day capacity is 135,000 decatherms. But you can also see that Granite capacity is a substantial portion of that. So, in -- under the heading "Peaking Capacity Paths", you see "Maritimes Baseload", "Portland Baseload", --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (Wells) "Maritimes Delivered Baseload", "PNGTS Delivered Baseload", "Peaking Contract 1", and "Additional Granite Capacity". So, the sum of these capacities are -- I want to make sure I get the sum of those correct for you.

BY MR. DEXTER:

Q Sure.

A (Wells) I actually added together in a different schedule. You know what? I don't believe I do add them together in a different schedule. But, if I'm going to go do math in my head, which I do normally try to avoid on the stand, it is approximately -- it's over 60,000 decatherms, if you add those four line items together. And, so, of that 135,000, a solid third of that capacity is just Granite capacity. We don't actually assign the supply components of those line items that I read to you to marketers, in either Maine or New Hampshire. So, we're talking about a change in capacity assignment of 7,000 decatherms.

But getting back to the 14,000 that we were, you know, of the design day of the Maine

Division capacity-assigned transport. And, relatively speaking, while we have a capacity -- total capacity of 135,000, a substantial portion of that is just Granite capacity, without anything upstream of it.

And, so, on a supply basis, the -- you know, the change in our portfolio is really only relative to the portion of that 7,000 that's not Granite capacity. So, it's actually more like a change of about 4,000 in the overall portfolio of the Company going into this winter.

So, it's a relatively modest change. Even though 50 to 100 percent is a doubling of capacity, relative to the overall portfolio, it's relatively small. So, it's only the portion of that 7,000 that actually relates to upstream resources of the Company. Which, based on -- you know, a substantial portion of it is just Granite.

Q Uh-huh. So, each year the cost of gas reconciliations are audited by Commission Staff, correct?

A (Kahl) That's correct.

Q And has the Company been provided with a draft audit report or a final audit report from the Audit Staff for last year's reconciliation?

A (Kahl) We have not. This hearing is actually held a bit earlier in the month than typical, I'd say about ten days earlier. And, in the past, we often will get at least a draft report somewhere near the 20th of the month. And it's just too early to have that at this time.

We have received seven separate requests for information, and some of those requests have multiple parts. And we have one response outstanding, and we hope to have that submitted today.

And I did check this morning, and I don't see any additional requests.

MR. DEXTER: Okay. That's all the questions Staff has. Thank you.

CMSR. BAILEY: Okay. Commissioner Giaimo.

CMSR. GIAIMO: Good morning.

WITNESS WELLS: Good morning.

WITNESS DEMERIS: Good morning.

BY CMSR. GIAIMO:

Q So, in the discussion with the Consumer Advocate, there was a number of "$134" discussed. Where is that on the schedule? Is it -- the reference at the time was Bates Page 077?

A (Demeris) Bates Page 077.

Q Okay.

A (Demeris) Yes. That's on Line 54. And that's the reduction in the winter bill from -- for the current period, compared to the prior period. It's in the middle, in the boxed-in area.

Q Thank you. I didn't see it on the page at the time. So, thank you for pointing that out.

Mr. Kahl, can you explain the difference in "high load factor" and "low load factor"? I think I know the answer, but Table 1 and Table 2 have slightly different results. I'm on Page 5 and 6. In one, in the winter, the high load factor seems to be more expensive than the low load factor, and in the summer that flips. So, I just was hoping to have you better -- have you explain that so I can understand it better.

A (Kahl) I don't think I can provide a very simple explanation. But, in the calculation of your seasonal rates, they can vary from year to year, based on what resources are being assigned to those rate classes and based on the portfolio that you have. So, it's entirely possible that the mix of resources changed enough from year to year, when looking at a high load factor rate class to a low load factor rate class, to flip that difference. It is very similar, in that you're comparing, you know, 5.5 versus 4.9, basically.

But, you know, every year, when we calculate them, some years the difference between a high load factor rate and a low load factor rate is going to vary. And, again, it's based on the mix of resources in the portfolio, and the prices of those for that particular year.

Q Is it traditional that, in the winter, a high load factor would have higher prices? And is that a function of the resources having -- being on for more high-priced hours?

A (Kahl) So, let me see.

(Short pause.)

BY THE WITNESS:

A (Kahl) So, I think, at this time, I would like to point out yet one other slight correction. And that is, in that table, they are reversed. So, the high load factor is the "0.4950", and the low factor is the "0.6082".

BY CMSR. GIAIMO:

Q Okay. But Table 2 looks correct?

A (Kahl) Yes. And I'll confirm that in one second.

(Short pause.)

CONTINUED BY THE WITNESS:

A (Kahl) Yes. That is correct.

BY CMSR. GIAIMO:

Q Okay. Thank you. With respect to the allocation, the allocation is, according to Bates 013, is 58/42. I'm wondering, off the top of your head, has that been -- are those numbers consistent throughout the past couple of years, more or less?

A (Kahl) Well, it's important to note that this is reflecting, and, again, we are talking about the PR allocator, that this is the first year where Maine is being assigned 100 percent. So, that is going to increase Maine's, and lower New Hampshire's.

Q But what I thought I heard was it's actually relatively small, it represents about 3,000 decatherms of 130,000.

A (Wells) Right.

Q So, I'm guessing the numbers have remained relatively consistent, in that 60/40 --

A (Wells) So, I would say that, on a design year, because the capacity costs are allocated on a design year, generally speaking, transportation customers have a higher load factor. So, their design year impact is going to be generally higher than the design day impact that I was talking about in my response.

Q Okay.

A (Wells) So, I want to say, and I'm -- I want to say that the prior year was like 45 percent for the New Hampshire Division, the PR allocator. It was -- it was significantly lower than -- or, excuse me, it was significantly higher last year than it was this year. You know, two or three percent is a relatively big jump for the

MPR.

A (Kahl) Yes. And, now that I have the numbers in front of me, we've got 41.84 percent. Last year, I believe it was 44.11 percent. And that's the biggest jump we've seen. Before that, we would see small movements.

Q Okay. But, so long as the 50 to 100 remains, next year we would likely see something similar?

A (Kahl) To this year, yes.

Q Okay. Thanks.

A (Wells) For the record, it will remain. That's --

Q Okay.

A (Wells) Yes.

Q That's the way going forward?

A (Wells) That is the way going forward.

Q Thank you. Moving forward in the exhibit, Page 42, Mr. Wells, 9 of 21. And let me caveat this by saying, if this -- if in any way you can back out information which you deem confidential, have that in the back of your mind before answering. I'm wondering where the Lewiston facility finds itself on Table 3?

A (Wells) Yes.
Q And, again, if that sort of shows anything that shouldn't be shown, let me know.
A (Wells) Okay. No, the Lewiston LNG plant is actually under the "Peaking Capacity Paths". It's labeled "LNG On-System".
Q Okay. So, it's the LNG On-System. Thank you. Can you explain how that facility is used and optimized?
A (Wells) It's a peaking facility. So, we use that whenever -- whenever we see cold in the forecast. You know, typically, a rule of thumb is anything of 50 EDD or higher, our Manager of Gas Supply is going to be working with the Gas System Operations folks, to make sure that that plant will be available. You know, coordinate any truck deliveries that might need to be made when the plant is utilized, and make sure that the facility is properly staffed to be able to provide supply.
But, once we have the logistics in place to have the plant operational, the advantage of the plant is that you don't have to worry about the upstream pipeline nomination deadlines.

You can either go up or down on your projected utilization as the actual conditions warrant.

Q Okay. That's helpful. On Page 44, Mr. Wells, you say "Northern expects Atlantic Bridge to go into service effective November 2020." That still remains your position and the position of the Company?

A (Wells) Yes.

Q You have great comfort that that will happen or more probable than not?

A (Wells) Well, my understanding is that Enbridge has received all the approvals needed in order to go into service. Obviously, if there is a delay in the construction, we will notify all of the -- we'll notify the Staff and the OCA if we believe that that's no longer the case.

But, as far as we know, what we have been told, what we have seen, we are comfortable with the November 2020 start date.

Q Okay. And the issues with respect to the --

[Court reporter interruption.]

CONTINUED BY CMSR. GIAIMO:

Q -- the Weymouth compressor station, again, you'll just go back to -- that, to the best of your knowledge, you're under the assumption is on time/on schedule for the November 2020?

A (Wells) That is my understanding.

Q Okay. Thank you. Ms. Demeris, I'm on Page 4 of your testimony, which is Bates 058. And this is referring to the EEC that you discuss starting on Line 16. I'm wondering if you can explain why the Residential EEC decrease is significantly smaller than the C&I, or at least it appears that way?

A (Demeris) And I believe that has to do with a prior period over-/under-collection. If you go to my Schedule 38, Bates Page 251.

Q Okay. I'm sorry, 38. Bates Page what?

A (Demeris) 251.

Q 251. Thank you. Okay.

A (Demeris) Hmm. I'm going to have to take another look at that and get back to you. Can I take that as a data request or a --

CMSR. GIAIMO: Okay.

CMSR. BAILEY: All right.

Mr. Taylor, do you understand the question?

MR. TAYLOR: Perhaps if we could just have it repeated back, that would be helpful.

CMSR. GIAIMO: My question was, why it appears as if the EEC, for the Residential customer class, the decrease is smaller than that of the C&I customers?

MR. TAYLOR: And the question is "why is that the case?"

CMSR. GIAIMO: Well, it sounds like the first thing we need to do is check to make sure the numbers are accurate. And, then, if they are accurate, why is that the case?

CMSR. BAILEY: All right.

MR. TAYLOR: All right. Thank you.

CMSR. BAILEY: We'll reserve Exhibit 4 for that.

(Exhibit 4 reserved)

BY CMSR. GIAIMO:

Q And I had a similar question for the LRR. But that seemed like it was far more proportional. So, now, I'm on Page 60, where, at Lines 12 through 16, you talk about the "LRR". And that seemed proportional between C&I and Residential, which is why I was inquisitive about the EEC, and how they are treated differently.

A (Demeris) Yes. And, I think, when I first answered, I was thinking of the LRR, because I see a miss on Line 1, the Residential class is under-collected and the C&I class is over-collected. So, I misspoke earlier when I referred to the EEC.

Q So, do we want to take a second? It sounds like you might be able to answer the question without a data request? Is that what your statement --

A (Demeris) No. I still have to analyze that.

CMSR. GIAIMO: Okay. Yes. I'm all done. Thank you.

CMSR. BAILEY: Okay. I only have a few questions.

BY CMSR. BAILEY:

Q Mr. Kahl, can we look at your testimony, Bates Pages 005 and 006? And I want to look at the tables with the rates.

So, let's start with Table 1. I went back to the order that we issued last year, and found that the starting rate that we approved for the Winter Period was 0.8271. And that compares really well with the average rate listed in the "2018/2019" column. I'm just looking at the residential rate. So, you were really close in your original estimate of that rate.

But, if you go to the summer rate, on the next page, the rate that we authorized was 0.3670, and the actual rate was "0.2987". Do you think that that's because you were predicting or calculating the rate, the proposed rate, so far in advance of the summer period?

A (Kahl) We're talking about here in Table 2? I just want to clarify.

Q Yes. Yes. So, the winter rate that we started with last year, that we approved, was really close to the actual.

A (Kahl) Uh-huh.

Q But the summer rate that we approved, --

A (Kahl) Okay.

Q -- which I'm looking at on Table 2, was off by a lot more.

A (Kahl) Yes. So, this is just reflecting the average rate. Because, as you know, the rate does change from --

Q Yes.

A (Kahl) It can change on a monthly basis. So, I've factored in that change, and done a straight average. So, the rate did come down earlier this year, I believe, effective July 1.

Q My question is, do you think it's reasonable to set the summer rate now? I mean, we used to do this twice a year, right, and we decided that it was more efficient to do it once a year and set the summer rate. And do you set the summer rate a little higher than you think it might be, because it's so far in advance, or do you set it based on the actual futures that are projected now that might change over the next year?

A (Kahl) Yes.

A (Wells) I can say that my forecast of summer gas supply costs has not changed. My process hasn't changed since we originally went to an annual cost of gas proceeding.

I would just say, as a general rule, summer rates are going to be more dependent on the NYMEX fluctuation. And you are, by setting it in advance, allowing that fluctuation for a greater period of time. So, I think it was anticipated that the summer cost of gas, you know, the potential of the needing of a higher variance between what we project today and what we ultimately end up charging would be there.

You know, but I think we're still within -- we still, you know, we still need to come back, if we're going to be increasing the rate by more than 25 percent of what we project here.

Q Okay.

A (Wells) So, I, you know, personally, I'm comfortable with this. I think that the tradeoff between administrative efficiency and setting the appropriate price is -- it's a good balance. And, ultimately, the price we charge in May is going to be based on the NYMEX prices that we are seeing when we start to bill in May. And, if -- of course, if we are projecting to have to -- if we need to increase the rate by more than our threshold, we'll come back, if it's needed.

Q Okay. Thank you. Mr. Kahl, while we're there, on Page 6, Line 6 through 7, you say "A more detailed comparison of the '19/20 residential cost of gas rates to the" -- do you mean "actual 2018/19 residential rates", on Line 7, rather than "'19/20"?

A (Kahl) Yes. That's correct.

Q Okay. And, finally, now that I know where the $134 number came from on Page -- Bates Page 077, Ms. Shute was trying to make a point, I think, about comparing that number to the $156 savings in the testimony, I think, Page 65. Can you go over that again please?

And, on Line 6, I think she was saying that the decrease was "$156", But, on the schedule, it shows "$134". What's the difference?

A (Demeris) I believe that difference is the cost of gas change only.

Q Oh. The cost of gas is a $156 decrease?

A (Demeris) Yes. Right.

Q But the overall bill is 134?

A (Demeris) Yes.

CMSR. BAILEY: Okay. Thank you very much.

All right. I think that's all I

have. Mr. Taylor, do you have any redirect?

MR. TAYLOR: I do have a minor piece of redirect. I was wondering if I might have a moment to confer with Mrs. Demeris, just to see if there's a way that we perhaps get the question that Commissioner Giaimo asked earlier answered today? If not, we still have the record request. But if I could consult for just a few moments?

CMSR. BAILEY: All right. Why don't we take a break, until 10:30.

MR. TAYLOR: Thanks.

(Recess taken at 10:23 a.m., and the hearing resumed at 10:35 a.m.)

CMSR. BAILEY: And Mr. Taylor.

MR. TAYLOR: Thank you. I just have some brief redirect.

REDIRECT EXAMINATION

BY MR. TAYLOR:

Q The first question is for Mr. Kahl. Mr. Kahl, earlier, if you could go -- I'm sorry, if you could go to Page 5 of your testimony, and take a look at Table 1. And earlier you had indicated that, under the column for "Class", "C&I - High Load Factor" and "C&I - Low Load Factor" should be flipped, right?

A (Kahl) That is correct.

Q Okay. But, to confirm, the numbers that are reflected in the table here, to the extent that they're also reflected in the tariff, that there needs to be no change in the tariff, correct?

A (Kahl) That is correct. The High Load Factor rate would be "0.4950", and the Low Load Factor rate would be "0.6082". That can be verified by looking at Tariff Page 42. As the Commission might be aware, it can get a little confusing because, on the tariff page, instead of saying "load factor", they -- it's listed as "winter use". So, "low winter use" equals "high load factor", and, you know, vice versa.

Q My next question is for Ms. Demeris. Ms. Demeris, if you could please reference Schedule 38, Bates Page 251.

And, earlier Commissioner Giaimo had asked you why the -- "why the EEC rate for Residential customers" -- or, I'm sorry, "why the decrease in the EEC rate for Residential customers was smaller than that for C&I customers?" And, so, I have really two questions for you following up on that.

One, over the break, did you have an opportunity to take a look at this schedule and confirm that the numbers are accurate?

A (Demeris) Yes, they are.

Q And, so, the second question is, knowing that the numbers are accurate, why is the decrease in the EEC rate for the Residential class smaller than the decrease for the C&I class?

A (Demeris) The Residential class is under-collected. And, so, with your forecasted sales, you're still collecting from the prior period. The C&I class is over-collected. And, so, in addition to forecasted sales in the upcoming period, you're refunding from the prior period.

Q And, just to clarify, could you just please point out in the schedule where we would see the under-collection for the Residential and the over-collection for the C&I?

A (Demeris) The third line down is the

over-collection -- the under-collection, excuse me, is "216,763" for Residential. And, third line down on the bottom half of the page, it's negative "224,633" for C&I.

MR. TAYLOR: I don't have any further questions. And, so, I don't know if the Commissioners have any follow-up based on the clarification we just made, and whether it answered the question or not. And, if it did answer the question, then I guess we wouldn't do the record request.

CMSR. BAILEY: Okay. That did answer the question, and we will not need the record request. So, we'll not have an "Exhibit 4".

(Reserved Exhibit 4 withdrawn.)

CMSR. BAILEY: Thank you.

MR. TAYLOR: Thank you. I have nothing further.

CMSR. BAILEY: All right. Okay. Without objection, we'll strike ID then on Exhibits 1, 2, and 3.

And I think that leaves us with closing arguments. Ms. Shute.

MS. SHUTE: Thank you, Commissioners.

The OCA appreciates the opportunity to work with the Company in analyzing its cost of gas filing in this docket. We are pleased that the cost of gas has decreased this year.

We would flag that interruptible rates could be looked at in greater depth, to see and identify whether or not consumers can take advantage through demand response. We appreciate the Company's willingness to engage in this issue going forward.

We do recommend to the Commission that the Commissioners approve this cost of gas filing, subject to the audit.

Thank you.

CMSR. BAILEY: Mr. Dexter.

MR. DEXTER: Thank you.

Likewise, Staff recommends approval. We have reviewed the cost of gas filing, including the Environmental Response Cost Report. And we recommend approval of the rates, the supply balancing charges, the gas allowance factor, the capacity allocation percentages, and the short-term debt limits, as laid out in the filing. We also support the

Company's proposed change in the interruptible transportation reporting requirement.

Similarly, Staff has reviewed the LDAC rates, designed to recover the costs, as provided in prior dockets, and recommends approval of those.

And we note that the Company's supply planning and supply dispatch has been very similar in prior years, and the cost allocations between Maine and New Hampshire, with the exceptions that the witnesses talked about, are consistent with prior years. And the allocations were done according to prior approved methodologies.

We do recommend approval, subject to the results of the audit that's ongoing.

CMSR. BAILEY: Mr. Taylor.

MR. TAYLOR: Thank you. We appreciate the Commission's time today, as well as the support of the Staff and the Consumer Advocate.

As is often the case with the cost of gas, we submitted or we attempted to submit a very straightforward filing for your consideration. And we've made every effort to include as much information as possible in the testimonies and schedules that we presented to you.

We believe that the Company's filing merits the Commission's approval. And, like the Consumer Advocate and the Staff, we recommend that the Commission approve the filing as submitted.

Thank you.

CMSR. BAILEY: Thank you. All right. With that, we will close the record, take the matter under advisement, and issue an order as quickly as possible. We are adjourned.

MR. TAYLOR: Thank you.

(Whereupon the hearing was adjourned at 10:40 a.m.)