

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 22-059

NORTHERN UTILITIES, INC.

2022-2023 Winter and 2023 Summer Cost of Gas

Order Establishing Cost of Gas Rates

ORDER NO. 26,713

October 27, 2022

In this order, the Commission approves Cost of Gas (COG) rates for the 2022-2023 winter period and for the 2023 summer period. The costs for the winter and summer periods are reflective of the competitively bid commodity prices, hedging, and the Northern pipeline, storage, and peaking strategy.

Residential Rates
(per therm)

	Winter Rates			Summer Rates		
	<u>Proposed Rates</u>	<u>Prior Year Rates</u>	<u>Change</u>	<u>Proposed Rates</u>	<u>Prior Year Rates</u>	<u>Change</u>
Cost of Gas	\$1.1289	\$0.9691	16.5%	\$0.6916	\$0.8781	-21.2%
LDAC ¹	\$0.1850	\$0.0702	163.4%	\$0.1850	\$0.0816	126.7%
Distribution	\$0.9266	\$0.7603	21.9%	\$0.9266	\$0.6782	36.6%
Total	\$2.2405	\$1.7996	24.5%	\$1.8032	\$1.6379	10.1%

This winter residential customers can expect to pay 16.5% more than last winter and 21.2% less this summer as compared to last summer for COG, based on weighted-average rates in the prior year periods. See Hearing Exhibit 13.

¹ The proposed LDAC includes Reconciliation of Permanent Charges of \$0.1206 only effective for a year starting November 2022.

Gas commodity costs incurred by Northern in making purchases to serve its customers are passed through without a markup in the COG tariff rates. The Commission does not administratively set the prices offered by wholesale gas suppliers or ancillary service providers to serve Northern's customer load. These prices are set by the suppliers and service providers themselves, informed by prevailing market conditions, where Northern endeavors to procure a reliable gas supply at the lowest cost. The Commission does oversee this procurement process as part of this proceeding and approves the resultant rates under the governing statutory standards.

I. BACKGROUND AND OVERVIEW OF NORTHERN'S COG PETITION

On September 16, 2022, Northern Utilities, Inc. (Northern or the Company) filed a winter 2022/2023 and summer 2023 cost of gas (COG) filing outlining its proposed COG for the winter period (November 1, 2022, through April 30, 2023) and the summer period (May 1, 2023, through October 31, 2023), including proposed LDAC charges for the period of November 1, 2022, through October 31, 2023. *See* Hearing Exhibit 2. Northern also submitted its Environmental Cost Report filing on September 16, 2022. The Office of the Consumer Advocate (OCA) filed its letter of participation on September 21, 2022. The Commission issued a Commencement of Adjudicative Proceeding and Notice of Hearing order on September 30, 2022, scheduling a hearing on this matter for October 20, 2022. There were no intervenors. The hearing was held on October 20, 2022, as scheduled, where representatives of the Company, the New Hampshire Department of Energy (DOE), and the OCA appeared.

On September 23, 2022, Northern made a Supplemental COG Rate Filing, *see* Hearing Exhibit 4. On October 4, 2022, the Company made a Second Supplemental COG Rate Filing, *see* Hearing Exhibit 5. The Company also presented record exhibits combining its initial and supplemental filings, and showing the updates arising therefrom, *see*

Hearing Exhibit 7. These updates were made to reflect adjustments to Northern's COG reconciliation figures, and rate case expenses to be included in the LDAC.

Northern's COG filings included the proposed tariff pages, schedules, and pre-filed testimony and related attachments from Christopher A. Kahl, Francis X. Wells, S. Elena Demeris, and Daniel T. Nawazelski. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at

<https://www.puc.nh.gov/Regulatory/Docketbk/2022/22-059.html>

The COG adjustment mechanism was implemented in 1974 during a time of rapidly changing prices to reflect increases and decreases in energy supply costs in customer rates without having to go through extended proceedings to change fuel delivery rates. Northern has limited control, if any, over the market price of natural gas, which is an unregulated commodity. Similarly, it has limited control over items such as fuel transportation and storage costs. The COG adjustment mechanism allows the Company to pass those costs onto customers directly and efficiently without mark-up or profit. COG rates are initially set using projected costs and sales for the upcoming winter period, which runs from November 1 through April 30 and the summer period, which runs from May 1 through October 31. Through the COG adjustment mechanism, the COG may adjust COG rates monthly to incorporate changes in the natural gas markets based on actual costs to date and projected costs for the remaining period.

While there is no limitation on reductions to COG rates, rates may be adjusted upward without Commission action up to a cumulative maximum of 25 percent above the approved rate. To the extent that adjustments are based on projected costs, they are subject to periodic reconciliation, after all actual costs are known and reported. As

a result, the COG rate fluctuates with market prices and is subject to monthly increases or decreases.

The Commission also has historically set the LDAC within the context of COG proceedings. The Commission is investigating the potential for separating LDAC and COG reviews in the context of its Investigation in Docket No. IR 22-053. The LDAC allows for recovery of expenses the Commission has approved in prior dockets through a per therm charge to be determined and implemented through annual COG proceedings. LDAC expenses include costs associated with Northern's Gas Assistance Program (GAP) and Regulatory Assessment Adjustment Mechanism (RAAM) rates – formerly known as the combined Residential Low Income Assistance Regulatory Assessment (RLIARA) rate. LDAC expenses also include the Energy Efficiency Charge (EEC), the Environmental Response Cost (ERC) rate, rate case expenses, the recoupment of the difference between temporary and permanent rates, referred to as the Reconciliation of Permanent Charges (RPC) rate, the Property Tax Adjustment Mechanism (PTAM) rate, and the Lost Revenue Rate (LRR).

The impacts of the Company's proposals on the winter and summer bills of a typical residential heating customer are summarized in the tables below.

Winter Bill	Proposed 2022-23	2021-22	Proposed vs 2021-22	
			\$	%
Base Rate	\$672.83	\$575.98	\$96.85	16.81%
COG	\$657.45	\$564.38	\$93.07	16.49%
LDAC	\$107.74	\$40.90	\$66.84	163.40%
Winter Total	\$1,438.02	\$1,181.26	\$256.76	21.74%
Average				
Monthly Total	\$239.67	\$196.88	\$42.79	21.74%

Summer Bill	Proposed	2023	2022	Proposed vs 2022	
				\$	%
Base Rate		\$247.81	\$228.73	\$19.08	8.34%
COG		\$85.57	\$108.64	-\$23.07	-21.24%
LDAC		\$22.89	\$10.10	\$12.79	126.72%
Summer Total		\$356.27	\$347.47	\$8.80	2.53%
Average					
Monthly Total		\$59.38	\$57.91	\$1.47	2.53%

Several surcharges are included in the proposed LDAC of \$0.1850 per therm for residential customers and \$0.0493 per therm for C&I customers, compared to the \$0.0816 per therm and \$0.0504 per therm rates, respectively, that are currently in effect. See Hearing Exhibit 5, Bates Page 8. The proposed ERC is \$0.0058 per therm, compared to the \$0.0056 per therm rate currently in effect. The proposed EEC was proposed by the Company to remain unchanged at \$0.0499 per therm for residential customers, and \$0.0247 per therm for C&I customers. (The EEC will be discussed further below). The proposed GAP charge to recover expenses related to the Gas Assistance Program is \$0.0037 per therm, compared to the \$0.0033 per therm rate currently in effect. The LRR is proposed at \$0.0000 (zero) per therm for both residential and C&I customers, compared to the respective \$0.0066 per therm for residential and \$0.0006 per therm for C&I customers.² Due to recent legislative changes, the Company proposes a PTAM of \$0.0000 (zero) per therm for both residential and C&I customers, compared to the \$0.0135 per therm PTAM currently in effect. Northern proposes a RAAM of \$0.0002 per therm for both residential and C&I

² Northern has transitioned to decoupling as of August 1, 2022, pursuant to the terms of Order No. 26,650 (July 20, 2022), in Docket No. DG 21-104; see Order No. 26,650 at 13-14, and 21.

customers, compared to the RAAM rate of \$0.0027 per therm currently in effect. Hearing Exhibit 5 at Bates Page 8.

Northern is updating, and decreasing, its Company Allowance Calculation (for lost and unaccounted for gas and Company use of gas) for the period of November 2022 through October 2023 to 0.97 percent. See Hearing Exhibit 2 at Bates Page 29. It also proposes changes to its supplier balancing charge, peaking service demand charge, re-entry surcharge, conversion surcharge, and capacity allocator percentages. See Hearing Exhibit 7 at Bates Pages 29-31.

II. POSITIONS OF THE PARTIES

The DOE, in a letter dated October 10, 2022, made a recommendation regarding the EEC charge treatment to be applied for this upcoming COG year. The DOE advocated for an approach where the current EEC of \$0.0499 per therm for residential customers and \$0.0247 per therm for C&I customers should be approved for November and December, 2022, and should be used as a monthly placeholder for the months of January 2023 through October 2023 for the purposes of the Calculating the Company's 2022-2023 LDAC to be effective on November 1, 2022.

The Company, through its EEC rate request structure, essentially concurred with the DOE, and at hearing, Northern indicated that it supported Commission approval of the EEC rates as proposed, for the entire November 2022-October 2023 LDAC rate period, pending further developments in 2023.

Northern also proposes a Rate Case Expenses (RCE) LDAC charge of \$0.0048 per therm for both residential and C&I customers to recover expenses incurred as part of the Company's full distribution rate case, Docket No. DG 21-104. There is no RCE charge currently in place for the Company's LDAC. See Hearing Exhibit 5, Bates Page 8. At hearing, the DOE brought attention to the \$145 recommended disallowance for

rate case expenses brought forward by the DOE Audit Division as part of the DG 21-104 rate case, and noted that the Company's RCE calculation likely incorporated this \$145 in additional money. The DOE did indicate at hearing that it would not object to the Company's proposed RCE rate being approved as filed, subject to future reconciliation.

Also in connection with its DG 21-104 full distribution rate case, the Company proposes an RPC component of the LDAC rate of \$0.1206 per therm for residential customers and \$0.0101 per therm for C&I customers. *Id.*

In a statement made at hearing, the DOE indicated that it was generally supportive of the Company's COG and LDAC proposals, but expressed its preference for a separate Commission consideration of the proposed summer 2023 COG rates, in a separate proceeding in spring 2023, due to the recent trend of increasing gas-commodity volatility.

The OCA, in its statement made at hearing, likewise expressed its preference for a separate proceeding to review the Northern proposal for summer 2023 COG rates, but also supported Commission approval of the winter 2022-2023 COG rates proposal by the Company.

In its final statement made at hearing, the Company expressed its preference for approval of both the winter and summer COG proposed rates as part of this proceeding, but did agree to provide its perspectives regarding the potential impacts of a separate summer COG review proceeding, which was provided in a Record Request response on October 24, 2022. *See* Hearing Exhibit 14.

III. COMMISSION ANALYSIS

As a threshold matter, the Commission does not administratively fix the market prices for gas commodities or ancillary services for Northern or any other gas utility in

our State; the offering prices of the wholesale gas, transportation, and storage suppliers participating in the North American³ gas market, responding to prevailing market conditions, drive this outcome. The Commission does, however, oversee the process used by Northern for its gas portfolio development, and its calculation of the resultant COG rates, for compliance with industry standards, Commission statutes, rules, and orders, and accuracy, to ensure just and reasonable rates within this market-driven framework. Likewise, the Commission oversees the Company's calculation of the LDAC components, and the accuracy thereof, to ensure just and reasonable rates.

The Commission has broad statutory authority to set rates in addition to “powers inherent within its broad grant” of express authority. *See Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64-66 (2005) (citations omitted). The Commission applies the “just and reasonable” ratemaking standard of RSA 374:2 and RSA 378:7 when setting COG rates. *See Northern Utilities, Inc.*, Order No. 25,891 (April 29, 2016). In circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8.

Based on our review of the record in this docket, we find the proposed 2022-2023 winter and 2023 summer COG rates just and reasonable and therefore approve them. We also approve Northern's LDAC rate components. Because the COG rate components are reconciled each year, any adjustments needed to reconcile actual costs and revenues will be made in Northern's next winter COG filing for 2023-2024. In addition, with regard to Northern's LDAC rates, we note that some of the rate elements may be adjusted by Commission decisions in other dockets during the

³ The United States and Canadian gas supply and transportation system is fully integrated. Northern secures gas supply, storage, and transportation from U.S. and Canadian market participants to serve its customers' load.

course of the LDAC rate period, November 1, 2022, to October 31, 2023. If those Commission decisions impact the LDAC rate, further proceedings for an interim rate adjustment during the LDAC period will be held as appropriate. In particular, we will approve the RCE component of the LDAC rate with the understanding that the small \$145 discrepancy in the Company's rate case expenses can be dealt with in a future reconciliation, and will approve the EEC component of the LDAC rate as proposed by the Company and the DOE for the entire LDAC rate year with the understanding that future adjustments may be forthcoming in 2023.

In issuing our approvals, we defer questions of the advisability of re-instituting separate winter and summer COG review proceedings to the IR 22-053 investigation. For the time being, we expect that any issues of volatility, as indicated by the Company, can be dealt with by the COG rate features discussed below.

Pursuant to *Northern Utilities, Inc.*, Order No 24,961 (April 30, 2009), Northern may, without further Commission action, adjust its approved COG rates based on the projected over- or under-collection for the period, the adjusted rate to be effective the first day of the month and not to exceed 25 percent above the approved rate.

The Commission commends Northern for its hedging and well-considered pipeline, storage, and peaking strategy which minimized ratepayer costs in a very difficult commodity environment.

Based upon the foregoing, it is hereby

ORDERED, that Northern Utilities, Inc.'s 2022-2023 winter period COG per therm rates effective for service rendered on or after November 1, 2022, and its 2023 summer period per therm rates effective on and after May 1, 2023, after approved as indicated in the table that follows; and it is

Rates in \$/therm	Winter 2022-2023	Winter Maximum Rates	LDAC
Residential	\$1.1289	\$1.4111	\$0.1850
C& I - LLF (High winter use)	\$1.1428	\$1.4285	\$0.0493
C& I - HLF(Low winter use)	\$1.0536	\$1.3170	\$0.0493

Rates in \$/therm	Summer 2023	Summer Maximum Rates	LDAC
Residential	\$0.6916	\$0.8645	\$0.1850
C& I - LLF (High winter use)	\$0.7383	\$0.9229	\$0.0493
C& I - HLF(Low winter use)	\$0.6331	\$0.7914	\$0.0493

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

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall also include revised Calculation of the Firm Sales COG Rate Tariff pages, and revised rate schedules under separate cover letter if Northern elects to adjust COG rates, with revised Tariff pages to be filed as required by New Hampshire Code of Administrative Rules Part Puc 1603; and it is

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

FURTHER ORDERED, that Northern's LDAC per term rates effective for service rendered on or after November 1, 2022, through October 31, 2023, are \$0.1850 and \$0.0493 for residential and C&I customers respectively, subject to interim adjustment of the LDAC as set forth herein above; and it is

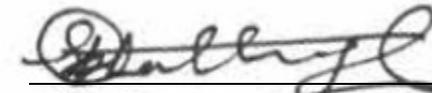
FURTHER ORDERED, that Northern's proposed gas allowance factor of 0.97 percent is approved, as are the other changes contained in the COG filing; and it is

FURTHER ORDERED, that Northern shall file annotated tariff pages as required by N.H. Code Admin. R., Puc 1603 conforming to this order within fifteen (15) days of the date of this order, or November 11, 2022.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of October, 2022.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner

Service List - Docket Related

Docket#: 22-059

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