STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 09-167

NORTHERN UTILITIES, INC.

Winter 2009-2010 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,035

October 29, 2009

APPEARANCES: Susan S. Geiger, Esq., Orr & Reno, P.A., on behalf of Northern Utilities, Inc.; Kenneth Traum of the Office of Consumer Advocate, on behalf of residential ratepayers; and Matthew J. Fossum, Esq., for the Staff of the Public Utilities Commission

I. PROCEDURAL HISTORY

On September 15, 2009, Northern Utilities, Inc. (Northern or Company), a public utility providing natural gas service to approximately 26,000 customers in the seacoast region of New Hampshire, filed its cost of gas (COG) and other rate adjustments for the 2009-2010 winter period. Northern's filing included the pre-filed testimony of James D. Simpson, Vice President of Concentric Energy Advisors, a consulting firm working for Northern, Francis X. Wells, Senior Energy Trader for Northern, and Todd M. Bohan, Senior Regulatory Analyst for Unitil Service Corp., an affiliated service company providing services to Northern.

On September 18, 2009, the Commission issued an order of notice scheduling a hearing for October 20, 2009. On September 23, 2009, the Office of Consumer Advocate (OCA) notified the Commission, consistent with RSA 363:28, of its participation in the docket on behalf of residential ratepayers. No other parties intervened in the docket. On October 15, 2009, Northern submitted a revised COG filing that updated many of the rates and charges in the original filing. On October 20, 2009, a hearing before the Commission was held as scheduled with Robert Furino, Director of Energy Contracts for Unitil Service Corp., adopting Mr. Wells' pre-filed testimony as his own.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

As set out more fully below, Northern's witnesses Simpson, Furino and Bohan testified to: (1) the calculation of the proposed COG rate and the resulting customer bill impacts; (2) the reasons for the change in COG rates; (3) Company gas supplies and hedging; (4) legal expenses related to the Portland Natural Gas Transmission System (PNGTS) rate case; (5) the local distribution adjustment charge (LDAC); and (6) other COG related charges. In addition, throughout their testimony Northern's witnesses noted various changes that have been made to the Company's COG filing in consultation with Staff in order to make the filing more useful and readily reviewable.

1. Calculation of the Proposed Firm Sales COG Rates and Bill Impacts

Pursuant to its COG clause, Northern may adjust on a semi-annual basis its firm gas sales rates in order to recover the costs of gas supplies, capacity and certain related expenses, net of applicable credits, as specified in Northern's tariff. For the winter 2009-2010 period, the proposed average COG rate, which is the rate payable by residential customers, was calculated by adding the anticipated direct costs of $27,339,807 and anticipated indirect costs of $3,926,955 and then dividing the total costs by the projected winter period firm sales volume of 28,473,787 therms. Direct costs are those costs relating to pipeline transportation capacity, storage capacity and commodity charges, while indirect costs include working capital, bad debt and overhead charges. These costs are also subject to certain allowed adjustments and the indirect costs include a prior period under-collection of $2,944,781.

Northern's revised filing proposes a winter 2009-2010 residential rate of $1.0980 per therm, a $0.0986 per therm decrease compared to the weighted average residential rate of $1.1966 per therm last winter. The impact of the proposed firm sales COG rate, coupled with other changes in the LDAC, is an overall decrease for the typical residential heating customer using 1,250 therms per year of $86.47, or 5.73%, over last winter. Northern's proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates are $1.0630 and $1.1058 per therm respectively, which represent comparable decreases from last year's rates.

2. Reasons for the Decrease in the COG Rates

As with other gas utilities, the decrease in the rates is driven primarily by the decrease in gas commodity costs. Northern's filing indicates that the cost of its total gas supplies has fallen by more than 40% over last winter. This decrease in costs is offset, in part, by a 2008-2009 winter period under-collection of almost $3,000,000. The change in commodity rates is also offset by changes in the LDAC, as discussed below.

3. Gas Supply and Hedging

Northern's filing indicates that it projects approximately $2,000,000 in hedging losses resulting from the decrease in commodity prices. The Company has proposed various changes to its hedging program aimed at reducing such losses in the future. Those proposed changes are addressed in the Commission's Docket No. DG 09-141, and are not at issue in this matter. Despite the projection in the Company's filing, according to Mr. Furino, the recent rise in natural gas futures prices has reduced the amount of the loss the Company will experience on its hedging program. Transcript of October 20, 2009 Hearing (Tr.) at 36-37. Northern stated that between its supply hedges and its financial hedges, it has fixed approximately 87% of its winter gas supply costs. Tr. at 37-38.

In addition to its hedged supplies, Northern also addressed other matters relating to its gas supply portfolio; specifically, storage supplies and metering issues related to PNGTS, an interstate gas pipeline serving Northern. Regarding storage supplies, the Company's filing states that it has taken advantage of current low storage costs in purchasing its storage supplies for the 2009-2010 winter period. In addition, the Company has released a portion of its storage and pipeline capacity because its forecast showed that some of that capacity was not needed to meet its system demand requirements and because the Company believes it will, if necessary, have access to competitively priced supply alternatives in the marketplace. Tr. at 37-41.

As to the PNGTS metering error, Northern stated that during an investigation into unaccounted-for gas in New Hampshire, it discovered that PNGTS, from which Northern receives a substantial portion of its gas supplies, had overcharged Northern for 758,502 Dekatherms (Dth) of gas. This overcharge was directly related to a metering error at the point of transfer between the PNGTS and the Granite State interstate pipelines. Northern's parent company, Unitil Corp., owns the federally-regulated Granite State pipeline. *See generally Unitil Corporation and Northern Utilities, Inc.*, Order No. 24,906 (October 10, 2008). Under an agreement between PNGTS and Northern, PNGTS began repaying the overcharged volumes with in-kind gas in November 2008. Based upon Northern's estimates and schedule, the pay-back is to be complete in early December, 2009. Northern stated that it has been updating Staff on the status of the pay-back and that it will provide a final accounting when the pay-back is complete. Tr. at 41-42.

4. Legal Expenses Related to PNGTS Rate Case

Northern proposes to recover extraordinary legal and consulting costs incurred in its opposition to a proposed rate increase by PNGTS in Federal Energy Regulatory Commission (FERC) Docket No. 08-306. According to the filing, Northern is part of "an ad hoc group of companies" opposing the rate increase. Northern estimates that the initially proposed increase in its transportation rates could be $600,000 to $700,000 per year over the remaining 10 years of its contract with PNGTS. Tr. at 24, 46-47. Additionally, should PNGTS prevail on all matters before the federal government, including those regarding its transportation rates, Northern's costs could increase by as much as $5,500,000 per year. Tr. at 47-48. In opposing the PNGTS rate increase, Northern states that it has incurred $434,095.14 in costs, a little less than half of which is the New Hampshire division's share. The Company estimates that an additional $115,000 could be added to the New Hampshire division's share before the matter is completed. Tr. at 25. Rather than include these charges in the LDAC, Northern has reflected these costs as a deduction from Asset Management revenues. This treatment means that all customers for whom Northern manages capacity (e.g., firm sales and capacity assigned transportation customers) are responsible for the costs. Tr. at 23-24. Northern notes that it does not intend any cost recovery to establish precedent for future cases.

5. LDAC

Northern's filing proposes a per therm LDAC of: $0.0297 for residential customers, an increase from $0.0255, and $0.0166 for C&I customers, a decrease from $0.0211. The LDAC is a combined rate of various surcharges by the Company including those relating to the residential low income assistance program (RLIAP), demand side management (DSM) and environmental response costs.

As to the specific components of the LDAC, Northern is proposing to increase the charges relating to the RILAP from \$0.0039 to \$0.0055 per therm for all classes, but it does not propose any change to the program at this time. The reason Northern proposes to change the RILAP rate despite not changing the program is to eliminate a projected under-collection.

Regarding DSM, which covers the Company's energy efficiency programs, Northern proposes raising the charge from \$0.0113 to \$0.0185 per therm for residential customers and decreasing it from \$0.0069 to \$0.0054 per therm for C&I customers. At the time of the hearing, Commission Staff had not yet completed its review of the Company's proposed DSM charge. Tr. at 51-52.

Finally, Northern also proposes to adjust the environmental response charge from \$0.0103 to \$0.0057, a decrease of nearly half, for all classes. Under this charge, the Company is permitted to recover a portion of its actual environmental response costs. The decrease in this charge is due, in part, to a prior over-collection, though the amount of the over-collection was at issue during the hearing. Tr. at 42-44. A request was made of the Company to supply documentation supporting the over-collection and resulting decrease in the DSM charge. Tr. at 43-44.

6. Other Charges

Northern is also proposing to update its supplier balancing charge. In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652 (March 15, 2001), the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, commencing with the November billing month. Supplier balancing charges relate to daily imbalances in each supplier's resource pool at Northern delivery points (city gates). The suppliers pay Northern's supplier balancing charges as compensation for costs incurred by Northern to stay within daily operational balancing tolerances. Northern proposes to leave the supplier balancing charge unchanged at $0.75 per MMBtu of daily imbalance volumes, but to decrease the peaking service demand charge from $16.82 per MMBtu of peak maximum daily quantity (MDQ) to $15.078 per MMBtu of peak MDQ. The decrease in the peaking service demand charge is based on an update of volumes and costs used in calculating the charges. Also, the capacity allocator percentages, which are used to allocate pipeline, storage and local peaking capacity to a customer's supplier under the mandatory capacity assignment required by New Hampshire for non-grandfathered firm transportation service, have been updated to reflect Northern's supply portfolio for the upcoming year. Finally, the firm sales service re-entry fee has been reduced from a monthly unit charge of $5.336 per MMBtu to $4.823 per MMBtu to reflect updated costs.

B. OCA

OCA stated that it did not object to the rates in the Company's revised COG filing. Tr. at 49. OCA questioned the Company about the recovery of its PNGTS litigation costs to clarify that the costs would, in fact, be borne by both sales and capacity assigned C&I customers on Northern's system. Tr. at 23-25. OCA also stated that it did not object to the recovery of these expenses so long as Northern made its recovery in the manner described. Tr. at 50. OCA also clarified with the Company the projected impact of the litigation expenses. Tr. at 25-26. With regard to hedging, the Company agreed with the OCA that, subject to check, the migration of some customers to transportation service would result in an increase of about $2 - $3 in the bills of each residential customer over the period. Tr. at 26-27.

C. Staff

Staff supported the Company's revised COG rates as filed, subject to the review by the Commission's Audit Staff of the Company's recent edits to the reconciliation from last year's winter period. Tr. at 50. In questioning the Company, Staff addressed numerous places in the filing to which the Company had made changes in an attempt to clarify and update the COG filing since the Company was taken over by Unitil Corp. Tr. at 27-31, 33. *See Unitil Corporation and Northern Utilities, Inc.*, Order No. 24,906 (October 10, 2008). Regarding its supply portfolio, the Company explained its recent capacity releases in both pipeline supplies and storage supplies, and that it believed such releases would be beneficial to ratepayers. Tr. at 39-41.

Staff stated that while the Company's hedging program had offered stability in a volatile market, the proposed changes to that plan would be reviewed in the docket relating to the hedging plan. Tr. at 51. Staff also recommended that the Company's proposed LDAC rate be implemented along with the COG rates on November 1. Tr. at 51-52. Staff noted that its review of some rates, such as those related to the environmental remediation costs, had not yet been completed, but that the rates relative to those costs should be allowed to go into effect, subject to future adjustments if any material errors were found. Tr. at 52. On October 23, 2009, Staff submitted a memorandum stating that the Company had filed revised information relating to the charges under review and that the charges were appropriate. Staff's memorandum, therefore, recommended that the charges be approved. Finally, Staff recommended that the Company's proposed supplier balancing charges and capacity allocators be approved as it appeared they were accurate and reasonable. Tr. at 52.

III. COMMISSION ANALYSIS

Based upon our review of the record presented in this docket, we find that Northern's proposed adjustments will result in just and reasonable rates as required by RSA 378:7. Specifically, we approve the proposed 2009-2010 winter period COG and Transportation COG rates. We also approve Northern's LDAC rate components (consisting of the DSM charge, environmental cost recovery charge, and RILAP charge), transportation supplier balancing rate, transportation peaking service demand rate, transportation capacity allocators, and the firm sales service re-entry fee. Since the COG rates are reconciled year over year, any adjustments needed as a result of further inquiry into these matters can be made in Northern's next winter COG proceeding.

With regard to Northern's filing generally, we anticipate continued improvements as Unitil gains further experience in managing Northern's gas supplies and works with Staff to develop reports and schedules more informative to the Company and responsive to the Commission's review of the related costs and activities. We are satisfied that many of the Company's changes are meant to more accurately assign costs to the Company's New Hampshire and Maine divisions, as well as to improve allocations to the various rate classes.

As to the Company's management of its supply, the Company's hedging losses appear substantial and we will review the Company's hedging policy in Docket No. DG 09-141. As to the issue of the PNGTS litigation costs, which are not, strictly speaking, matters of either the

COG rates or the LDAC, we approve the recovery of prudently incurred costs to this point. Northern has incurred the costs as part of a group of shippers that hold pipeline capacity on PNGTS and have intervened at the FERC in an effort to control costs. Moreover, it appears that the costs incurred are far less than what the rates would have been had Northern not elected to challenge PNGTS. We condition our approval on the ground that recovery of these costs occurs in the manner described by Northern. Specifically, the costs will be treated as a deduction from Asset Management revenue, which is apportioned to Northern customers for whom PNGTS capacity is held. To the extent Northern incurs further costs, we will review those in a future filing. Finally, we note that our approval shall not establish any precedent for future, similar recoveries.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2009-2010 Winter period COG rates of $1.0980 per therm for Residential, $1.0630 per therm for C&I low winter use and $1.1058 per therm for C&I high winter use for the period November 1, 2009 through April 30, 20010 are APPROVED, effective for service rendered on and after November 1, 2009; and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates upward by no more than 25 percent and downward so far as is necessary based upon its projected over- or under-collection, consistent with *Northern Utilities, Inc.*, Order No. 24,961 (April 30, 2009) ; and it is

FURTHER ORDERED, that Northern (1) provide the Commission with its monthly calculation of the projected over- or under-calculation including correction of the credit error associated with metering issues, along with the resulting revised COG rates for the subsequent month, not less than five business days prior to the first day of the subsequent month and (2) include revised tariff pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates; and it is

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

FURTHER ORDERED, that Northern's proposed 2009-2010 LDAC per therm rates for the period November 1, 2009 through October 31, 2010 are APPROVED, effective for service rendered on and after November 1, 2009 as follows:

	Low Income	**Demand Side Management**	**Environmental Remediation**	**LDAC**
Residential	$0.0055	$0.0185	$0.0057	$0.0297
Commercial & Industrial	$0.0055	$0.0054	$0.0057	$0.0166

and it is

FURTHER ORDERED, that Northern's proposed transportation supplier balancing charge of $0.75 per MMBtu of daily imbalance volumes is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation peaking service demand charge of $15.078 per MMBtu of peak MDQ is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation capacity allocators as filed in Proposed Eighth Revised Page 169, Superseding Seventh Revised Page 169, are APPROVED; and it is

FURTHER ORDERED, that Northern's proposed annual firm sales service re-entry fee per unit charge of $4.823 per MMBtu is APPROVED; and it is

FURTHER ORDERED, that Northern's proposal to deduct $206,028.50 from Asset Management revenues for external legal and consulting expenses incurred by Northern in opposing PNGTS's proposed rate increase before the FERC is APPROVED as conditioned above; and it is

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

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of October, 2009.

Thomas B. Getz
Chairman

Clifton C. Below
Commissioner

Amy L. Ignatius
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Attested by:

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10/29/09 Order No. 25,035 issued and forwarded to all parties.
Copies given to PUC Staff.

Docket #: 09-167 Printed: October 27, 2009

FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),

WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:

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