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NH PUBLIC UTILITIES COMMISSION

April 26, 2012

TO: Commissioners

FROM: F. Anne Ross, Hearing Examiner

RE: DG 12-068 Northern Utilities, Inc.
2012 Summer Period Cost of Gas Adjustment

HEARING EXAMINER'S REPORT

At your request, I presided over the April 19, 2012 hearing in the above referenced case.

On March 15, 2012 Northern (Company) filed an estimate of its 2012 Summer Period Cost of Gas (COG) Adjustment together with the testimony of Christopher A. Kahl, Francis X. Wells and Joseph F. Conneely and a motion for confidential treatment of certain material in the filing. On April 16, 2012 the Company filed an updated 2012 Summer Period cost of gas. The Company's proposed COG rate for the Summer of 2012 with a proposed effective date of May 1, 2012 is: $0.4264 per therm for residential customers; $0.3835 per therm for commercial/industrial low winter use customers; and $0.4597 per therm for commercial/industrial high winter use customers.

Appearances

Susan Geiger for Northern
Alex Speidel for Commission Staff

Intervention Requests

None

Hearing

Exhibits marked for identification and admitted as full exhibits at the close of hearing:

1. Northern's Affidavit of Publication showing publication on March 28, 2012
2. Northern's March 15, 2012 public filing with confidential material redacted
3. Northern's March 15, 2012 filing of selected pages from schedule 5A of the cost of gas filing marked as confidential

4. Northern's April 16, 2012 Revised Summer 2012 cost of gas filing
5. Northern's Data Responses to Staff 1-2 and 1-4 through 1-12, dated April 13, 2012
6. Northern's Data Responses to Staff 1-1 and 1-3, dated April 16, 2012
7. Northern's Attachment to Data Response Staff 1-4, dated April 17, 2012

The Company presented its three witnesses as a panel and presented its pre-filed written testimony with certain corrections to conform to the April 16, 2012 revised cost of gas filing.

Mr. Conneely concluded by stating that the 2012 Summer Cost of Gas rate for residential customers will be $0.4264 per therm compared to the 2011 seasonal average rate of $0.6218. The Company indicated that it has not received the final Staff Audit Report of the 2011 Summer Cost of Gas and will adjust for any changes required as part of the monthly reconciliation.

Staff cross examined all three witnesses, beginning with Mr. Conneely. When asked to summarize the seasonal dollar impact of the proposed cost of gas rate for a typical residential customer, Mr. Conneely referred to Exhibit 4, revised schedule 8, Bates page 152 of 238. The schedule shows that for a typical residential heating customer, the 2012 summer period gas bill would be $339.01. This compares to $396.53 for the same period in 2011 and shows a reduction of $57.52, a net change of 14.51 percent. When asked to compare the proposed cost of gas rate to the prior summer period rate, he stated the 2012 rate is $0.4264 per therm compared to $0.6218 for the 2011 seasonal average cost of gas rate, a reduction of $0.1954 per therm. Mr. Wells confirmed that the proposed rate includes some hedged volumes for the months of May and October. Mr. Conneely noted that the audit of the prior summer period reconciliation has not been finalized, but he was unaware of any substantive issues related to the audit. Related to page 7 of his testimony, Mr. Kahl, with assistance from Mr. Wells, summarized the Company's decision to include updated capacity-related demand costs in the allocation calculation for the summer 2012 period. Normally, these costs are updated once annually and the fixed-cost allocation factors begin with the winter period cost of gas.

Further, in response to Staff's questioning the Company stated that it had not completed its reconciliation of the Tennessee Gas Pipeline refund yet, but that when it completed its reconciliation and allocated the credits to summer vs. winter cost of gas periods and to the Maine Division vs. the New Hampshire Division, the refund is expected to be included in either the May 1 or June 1, 2012 cost of gas rate calculations. The Company also stated it would provide the proper support documentation to Staff when the refund analysis is completed.

Staff then presented a series of questions to the witness panel to provide additional background related to page 20 of Mr. Kahl's testimony, where he describes recent corrections in variable commodity cost allocations between its Maine and New Hampshire customers. In response to a Staff question asking the Company to explain "Company managed supply resources", the Company explained that when mandatory capacity assignment delivery terms and conditions were implemented over its system, some capacity and supply resources were not eligible for capacity release, making these supply resources "unassignable" under Northern's delivery Terms and Conditions tariff provisions. Because Northern was not able to assign portions of these contracts to transportation customers on its system, it was necessary to develop a method to track and manage these resources in a way that essentially mimicked traditional capacity release and assignment.

The Company testified that, based upon its interpretation of instructions from NiSource following Unitil's acquisition of Northern, which was effective December 1, 2008, the Company has been using only the New Hampshire volumes of company managed supplies in its calculation of the allocation of commodity costs between its Maine and New Hampshire divisions. The Company further explained that by not using Maine's portion of company managed supplies to determine its monthly commodity cost allocators, Northern has disproportionately allocated a greater percentage of its system wide commodity costs to the New Hampshire Division. Recently, in the spring of 2011, the Company realized the apparent mismatch and determined that the cost allocation should include the company managed volumes used to serve Maine transportation customer load. The Company testified that it corrected the allocation on a going-forward basis, beginning with the November 1, 2011 cost of gas period.

A revised variable cost allocation adjustment is included in the 2011 Summer Cost of Gas reconciliation filing to correct a separate error related to unaccounted for volume percentages used for each division. Since company managed supply resources are primarily related to winter period transportation customer requirements, the allocation adjustments referenced on page 16, lines 18-20 of Mr. Kahl's testimony that are included in the 2011 off-peak summer cost of gas reconciliation are insignificant in relation to the proposed summer 2012 cost of gas rate.

The Company testimony offered no proposal to correct any of the historical Company-managed supply cost allocation errors. When Staff asked the Company if it could put a dollar amount on the value of these company managed supplies that are assigned to transportation customers during a twelve month period, Mr. Wells estimated "several million dollars." The Company stated that mandatory capacity assignment was implemented in New Hampshire in 2001 and that he believed it has been in place in Maine since 2006. The Company also confirmed that prior to Maine implementing capacity assignment in 2006, Company-managed supply resources, along with the associated costs, were only required to serve capacity assigned transportation customers in New Hampshire. The Company also confirmed that since the Company was acquired by Unitil, Company-managed supply resource allocated costs have been assigned exclusively to New Hampshire.

Closing Statements

Based upon its review of the Company's filing and responses to Staff data requests, Staff recommended that the Commission approve the cost of gas rates requested, subject to reconciliation. Staff indicated, during its cross-examination of Company witnesses, that the proposed customer refund for the estimated Tennessee Gas Pipeline rate case can be handled through an upcoming monthly reconciliation as proposed by the Company. Staff noted that it would review a reconciliation of refund amounts to allocated amounts when the data is available. Staff also stated that, given the highly technical nature of the Company-managed supply allocation issue, and the potentially large sums of customer monies involved, it would be advisable for the Commission to open a separate investigative docket regarding this matter.

The Company concluded by stating that its COG rates are reasonable and asked that the Commission approve the filing for rates effective on May 1, 2012. The Company stated that it would cooperate with Staff concerning adjustments to its cost allocation between New Hampshire and Maine customers, but asked that the matter be handled within the existing cost of gas docket rather than transferred to a new docket.

Motion for Confidential Treatment

Northern seeks protection from disclosure of information in its filing setting forth commodity and demand charges, or information leading to such charges. The Company claims that release of such information could lead to less advantageous or more expensive gas supply contracts in the future due to competitors becoming aware of the Company's expectations regarding supply costs or other contract terms.

Recommendations

I recommend that the Commission grant the Company's motion for confidential treatment.

I recommend that the Commission approve the Company's proposed cost of gas for the 2012 Summer Period with the modifications included in the April 16th filing and presented by Mr. Conneely at hearing.

I recommend that the Commission open a separate docket to investigate the Company's Maine-New Hampshire cost allocation methodology, including allocations for both fixed and variable costs.

By______________________________
F. Anne Ross, Hearing Examiner