

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

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ORIGINAL

RE: DG 16-309
NORTHERN UTILITIES, INC.
NEW HAMPSHIRE DIVISION
2016 SUMMER COST OF GAS

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

APPEARANCES:

Reptg. Northern Utilities, Inc.:
Patrick H. Taylor, Esquire

Reptg. Office of Consumer Advocate:
Nicholas Cicale, Esquire
Jim Brennan, Dir. of Finance

Reptg. PUC Staff:
Alexander F. Speidel, Esquire
Al-Azad Iqbal, Gas & Water Division

COURT REPORTER: SUSAN J. ROBIDAS, N.H. LCR NO. 44

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I N D E X

WITNESSES: CHRISTOPHER A. KAHL
JOSEPH F. CONNEELY

DIRECT EXAMINATION PAGE

By Mr. Taylor 5

CROSS-EXAMINATION

By Mr. Cicale 7

By Mr. Speidel 11

INTERROGATORIES BY COMMISSIONERS

By Cmsr. Scott 20

By Cmsr. Bailey 27

By Chairman Honigberg 40

CLOSING STATEMENTS BY:

Mr. Cicale 46

Mr. Speidel 47

EXHIBITS PAGE

1 CONFIDENTIAL VERSION of 4
2016 Summer Cost of Gas filing

2 REDACTED VERSION of 4
2016 Summer Cost of Gas filing

P R O C E E D I N G S

CHAIRMAN HONIGBERG: Good morning.

We're here in Docket DG 16-309, which is Northern Utilities 2016 Summer Cost of Gas Adjustment filing for the period May 1 through October 31. The Order of Notice is in the record. No one wants to hear me read from it, so I won't. Let's take appearances.

MR. TAYLOR: Good morning. I'm Patrick Taylor, representing Northern Utilities, Inc. With me today are Joseph Conneely and Christopher Kahl.

MR. CICALÉ: Good morning, Commissioners. Nicholas Cicale, with the Office of Consumer Advocate. Along with me is Director of Finance, Jim Brennan, on behalf of residential ratepayers.

MR. SPEIDEL: Good morning, Commissioners. Alexander Speidel, representing the Staff of the Commission. And I have with me Al-Azad Iqbal, utility analyst for the Gas and Water Division.

CHAIRMAN HONIGBERG: Are there any preliminary matters we need to deal with?

1 (No verbal response)

2 CHAIRMAN HONIGBERG: Doesn't seem
3 like there are.

4 Mr. Taylor, why don't you have
5 your witnesses take the stand.

6 (WHEREUPON, CHRISTOPHER A. KAHL and JOSEPH
7 F. CONNEELY were duly sworn and cautioned by the
8 Court Reporter.)

9 MR. TAYLOR: And before I begin
10 questioning the witnesses, would the Commission
11 like me to mark our exhibits into the record?

12 CHAIRMAN HONIGBERG: Why don't we do
13 that.

14 MR. TAYLOR: We have two exhibits
15 today. The first is the confidential version
16 of the Summer Cost of Gas filing. We're going
17 to ask that that be marked as Hearing
18 Exhibit 1. The second exhibit is the redacted
19 version of the same filing, and we'll ask that
20 that be marked as Hearing Exhibit 2.

21 (Exhibits 1 and 2 were marked for
22 identification.)

23 CHAIRMAN HONIGBERG: All right.
24 Those are marked. You may proceed.

1 EXAMINATION

2 BY MR. TAYLOR:

3 Q. For each member of the panel, starting with
4 Mr. Kahl, please give your name and position
5 with the Company.

6 A. (Kahl) Christopher Kahl, senior regulatory
7 analyst with Unitol Services Corp.

8 (Court Reporter interrupts.)

9 A. (Kahl) Christopher Kahl. I'm a senior
10 regulatory analyst with Unitol Services Corp.

11 A. (Conneely) Joseph Conneely. I'm a senior
12 regulatory analyst with Unitol Service Corp.

13 Q. And I just have a few questions for the both
14 of you, starting with Mr. Kahl.

15 Have you previously testified before the
16 Commission?

17 A. (Kahl) Yes, I have.

18 Q. And if you could please refer to Hearing
19 Exhibit 1, which is the confidential version
20 of the filing. Do you have that before you?

21 A. (Kahl) Yes, I do.

22 Q. Could you please turn to the tab containing
23 your testimony. Was this testimony prepared
24 by you?

1 A. (Kahl) Yes, it was.

2 Q. Do you have any changes or corrections that
3 you'd like to make to your testimony today?

4 A. (Kahl) I do not.

5 Q. Could you please identify the schedules in
6 the filing that are associated with your
7 testimony.

8 A. (Kahl) All schedules except for Schedule 8.

9 Q. And did you prepare these schedules or were
10 they prepared under your direction?

11 A. (Kahl) Yes.

12 Q. And with respect to your testimony, if you
13 were asked the same questions in your
14 prefiled testimony today, would your answers
15 be the same?

16 A. (Kahl) They would.

17 Q. Thanks.

18 Mr. Conneely, could you also refer to
19 Exhibit 1, the confidential version of the
20 filing. Please turn to the tab containing
21 your testimony.

22 A. (Conneely) I'm there.

23 Q. Was this testimony prepared by you?

24 A. (Conneely) Yes.

1 Q. Do you have any changes or corrections that
2 you'd like to make to your testimony today?

3 A. (Conneely) No.

4 Q. And which schedules in the filing are
5 associated with your testimony?

6 A. (Conneely) I produced Section 8 of the
7 filing.

8 Q. Okay. And that schedule was produced by you
9 or under your direction?

10 A. (Conneely) Correct.

11 Q. And if asked the same questions that appear
12 in your prefiled testimony today, would you
13 have the same answers?

14 A. (Conneely) Yes.

15 MR. TAYLOR: I have no further
16 questions of the witnesses.

17 CHAIRMAN HONIGBERG: Mr. Cicale.

18 EXAMINATION

19 BY MR. CICALÉ:

20 Q. Mr. Kahl, what role do the NYMEX futures play
21 in the forecasted commodity cost of gas rate
22 in your filing?

23 A. (Kahl) The NYMEX futures give us an
24 indication of -- or I should say they

1 influence what the total commodity prices
2 are, especially in the Summer Cost of Gas
3 filing. In the Winter Cost of Gas filing,
4 obviously you have storage costs. And when
5 you get into the winter period, you've
6 already purchased your gas, so any change in
7 NYMEX doesn't impact storage costs. You may
8 also have contracts that have an agreed-upon
9 price in the winter. Generally in the
10 summer, the purchases are tied to the NYMEX;
11 so when that NYMEX moves, it is going to
12 influence and impact your commodity costs.

13 Q. In doing the forecasting for the summer cost
14 of gas, what is the long game for the
15 Company? Does it look two to three years, or
16 does it just look at the season at hand in
17 your forecasting?

18 A. (Kahl) Yeah, for cost of gas purposes, we are
19 looking just for that one season.

20 Q. Okay. And one specific question for you
21 gentlemen. I probably need you both, each of
22 your attention, Mr. Kahl and Mr. Conneely.

23 In your testimony, Mr. Kahl, on Bates
24 Pages 23 and 24, on the bottom of Page 23 --

1 I'll wait for you to get there.

2 On the bottom of Page 23 it reads that
3 Schedule 9 indicates projected summer period
4 average cost of gas rate at about 31 cents
5 per therm and is about a little over a penny
6 per therm higher than the actual 2016 summer
7 period total adjusted cost of gas rate of 30
8 cents per therm.

9 Now, turning to Mr. Conneely's testimony
10 on Bates Pages 40 to 41, it says the proposed
11 residential heating 2016 summer period rate
12 of 31 cents per therm is a little over 2
13 cents per therm higher than the weighted
14 residential heating average 2016 summer
15 period rate of a little over 29 cents per
16 therm.

17 Between you gentlemen, can you explain
18 what the difference is between the actual
19 rate and the weighted average rate that are
20 exhibited between your two testimonies?

21 A. (Kahl) First of all, in my testimony, which
22 is on -- the section of my testimony
23 pertaining to Bates Pages 23 and 24, I'm
24 pertaining to just the cost of gas, as

1 opposed to the entire bill. So this is only
2 for that. And I think, as everyone knows, in
3 New Hampshire we can adjust rates if we
4 foresee that our ending balance is going to
5 be greater than a certain percentage off by
6 the end of the season. So, generally, the
7 rule we use for the summer period is if we
8 simply are going to be off by about 4 percent
9 or more, we will adjust the rates, which we
10 have the authority to do by as much as
11 25 percent, or we could lower them by any
12 amount. And so what we do when we look at
13 the reconciliation and we look back and we
14 determine how much our costs actually were --
15 because the rates did change last summer at
16 least one time -- and from that, when we look
17 at the actual costs, we can come out with
18 what the average rate was, even though that
19 rate wasn't a posted rate, because you have
20 to combine what you started with on May 1 of
21 2015 and then combine that with when the
22 rates changed. Let's just say hypothetically
23 it was June 1st. So you have to average
24 those two rates.

1 MR. CICALÉ: That's all for OCA,
2 Commissioners. Thank you.

3 CHAIRMAN HONIGBERG: Mr. Speidel.

4 EXAMINATION

5 BY MR. SPEIDEL:

6 Q. I'll direct these questions to the panel.
7 Whoever would like to answer them may answer
8 them.

9 Are there any differences in the
10 methodology the Company used to calculate the
11 initial Summer 2016 Cost of Gas Rate from the
12 methodology used to calculate the initial
13 Summer of 2015 Cost of Gas rate? If so,
14 please describe these and explain the
15 reasoning for them.

16 A. (Kahl) There is a minor difference in the
17 initial filed 2015 rate. But that was with
18 the initial filing only, and that pertained
19 to the PNGTS refund. And the difference was
20 that we had initially proposed to refund it
21 in even increments over a three-year period.
22 However, when we went to our revised filing,
23 we had changed that to be half of the refund
24 would be credited back the first year,

1 30 percent the second, and 20 percent the
2 third year. And so when we looked at the
3 final approved rates, there is no change in
4 the methodology.

5 Q. Thank you. How does this summer's demand
6 forecast compare to last summer's?

7 A. (Kahl) We can look at -- well, actually,
8 there are several places in my testimony that
9 pertain to the growth rate of this summer's
10 demand compared to last summer. And I think
11 a good place for reference is Bates Page 25.
12 We do look at about a 5-percent growth rate.

13 Q. Is the demand forecast weather-normalized?

14 A. (Kahl) Yes, it is.

15 Q. Okay. And so this 5-percent increase is
16 expected due to organic growth and the load
17 of the Company?

18 A. (Kahl) Yes.

19 Q. Have there been any changes in supply points
20 or supply paths for this summer supply plan
21 compared to last summer's?

22 A. (Kahl) No, no changes.

23 Q. Is the Company satisfied that it has
24 sufficient supply for the summer period?

1 A. (Kahl) Yes, it is.

2 Q. There is a matter related to currency
3 exchange rates, Canadian and U.S. rates and
4 this summer's cost of gas. What is the
5 impact, and could you briefly describe that
6 matter?

7 A. (Kahl) Yes. In my testimony I do discuss
8 that we did update the demand costs for this
9 Summer Cost of Gas filing because of a change
10 in the Canadian exchange rate.

11 Also, I believe in my testimony I do
12 mention that often we leave demand costs
13 alone once we establish them for the winter
14 period. But if we do see something that
15 influences demand costs a significant amount,
16 we will update those demand costs for the
17 Summer Cost of Gas filing. And what we had
18 noticed was that the exchange rate was
19 falling. I believe the rate we used was
20 approximately 79 cents per Canadian dollar,
21 and that had actually fallen to about 69
22 cents. So we looked at the impact of that,
23 and we came up with about \$1.4 million based
24 on that. So we felt it would be best to

1 reflect those updated costs.

2 One thing to keep in mind is, of the
3 1.4, of course that is for total Northern.
4 Only roughly about half is going to be
5 allocated to New Hampshire, and then a
6 relatively small portion will be allocated to
7 the summer period. So the impact is not that
8 large, but we thought it would be best to
9 flow that through.

10 Q. And thank you for that.

11 I'm sure you're familiar with the
12 monthly rate adjustments that are known as
13 "trigger filings" and which allow the Company
14 to increase the cost of gas rate by up to
15 25 percent and decrease the rate without
16 limitation. Do you agree that these
17 adjustments will suffice in allowing the
18 Company to manage price fluctuations
19 throughout the summer without further
20 Commission action?

21 A. (Kahl) Yes, I do. I think it's really best
22 to say that what this ability does to raise
23 and lower rates is to help minimize
24 end-of-season balances, and so that when we

1 flow in from our reconciliation, the
2 under/over collection, we try to keep it as
3 small as possible, and this does help do
4 that.

5 Q. Are there any changes contemplated within
6 this filing to the LDAC components?

7 A. (Kahl) The Company is not proposing any
8 changes to the LDAC components at this time.

9 Q. Okay. Thank you.

10 And one of the LDAC components is the
11 line item related to PNGTS refunds. That's
12 continuing this year as usual; correct?

13 A. (Kahl) Yes.

14 Q. Okay. Thank you.

15 How will the Company communicate to
16 customers changes to the summer cost of gas
17 rate?

18 A. (Kahl) Our bills that will go out with
19 reflecting the May 1 rate will have a note on
20 them saying that the summer cost of gas rates
21 are in effect and listing what they are per
22 rate class. We also include what we call a
23 little "brochure" showing all of the rates,
24 because our base -- many of our base rates do

1 change in the summer also. So this kind of
2 gives the customer an opportunity to see, you
3 know, not just your cost of gas, but also the
4 base rates themselves.

5 Q. Is there some communication of the
6 seasonality of the gas cost structure, in
7 that there tends to be lower prices in the
8 summer and then higher prices in the winter
9 just due to the dynamics of the gas markets
10 and the scarcity in the winter? Is that
11 communicated to the customer somehow?

12 A. (Kahl) We basically do convey that, you know,
13 it's the summer rates. And, you know, I
14 would have to check specifically if we say,
15 you know, they're lower typically in the
16 summer. I'm not aware of the exact language,
17 but we do let them know summer rates are in
18 effect and here they are. And like I said,
19 we also provide that brochure showing all
20 rates. We do that both for the summer and
21 for the winter when those bills are sent out.

22 Q. And so that's a bill insert kind of brochure
23 stuck in the back?

24 A. (Kahl) Yes.

1 Q. Okay. Well, there's been mention of "organic
2 growth" on the distribution system. What are
3 the current expectations for customer growth
4 during the summer construction season? Has
5 there been a roll-out of new customer
6 expansions in eastern New Hampshire that you
7 can refer to in some detail? Not anything
8 specific, just incremental things.

9 A. (Kahl) No. You know, we've taken a look at
10 what's happened in 2015 for customer growth
11 and kind of compared that with what we
12 projected for this past year. And, you know,
13 we've seen about maybe 500 additional
14 residential meters added and roughly about
15 140 commercial and industrial meters added.
16 So we are continuing to see growth on the
17 system. But, you know, we generally look at
18 when we start to put together our next
19 forecast. So that will be basically in about
20 six to eight weeks is when we really get into
21 looking at all the details at that time. But
22 at this time we are still seeing growth on
23 the system.

24 Q. Thank you. Could you please give a capsule

1 summary of the Maine-New Hampshire Interstate
2 Capacity Allocation issue. There's an open
3 docket here at the Commission. We don't have
4 to go into overwhelming detail, but perhaps
5 you could shed some light on what's going on
6 in Maine right now with the marketers up
7 there, and perhaps what the Company's
8 thinking about in the summer period as we
9 approach some resolution, hopefully, of the
10 capacity allocation issue.

11 A. (Kahl) The capacity allocation issue, as you
12 may know, was initially filed back in 2014, I
13 believe around the first of May. And last
14 year there was a settlement that was approved
15 for Phase 1. So there's two phases that were
16 proposed. And what Phase 1 does is basically
17 follow a very similar methodology that New
18 Hampshire uses for how capacity is assigned;
19 whereas, before the Phase 1 went into effect
20 in Maine, all capacity was managed, and it
21 was assigned as either a storage or a peaking
22 resource, and prices were estimated, for the
23 most part. Now, with Phase 1 in effect,
24 capacity is assigned as either pipeline

1 storage or peaking resource, and it can be
2 released as opposed to only managed. So, for
3 instance, if you have a Tennessee contract
4 from the Gulf, that will simply be released
5 so that the marketer will have that capacity
6 and deal directly with the Tennessee
7 Pipeline. Contracts such as those that flow
8 through Canada, using Canadian resources,
9 those will still be managed. Also, the costs
10 associated with this capacity will really be
11 tied to their actual costs. There's no
12 estimates involved. So, in that respect,
13 it's similar to the New Hampshire program.

14 Phase 2 really deals with how much
15 capacity is going to be assigned. And the
16 Company and marketers have not been able to
17 agree at this time. So this issue went to
18 hearing on April 6th, and briefs are due this
19 Friday, the 22nd. And that's the latest on
20 that.

21 Q. So, in general terms, the Company is trying
22 to advocate for a system in Maine that
23 enables it to plan a little bit more for its
24 capacity needs and those of its primary

1 customers; is that correct?

2 A. (Kahl) That's correct. The Company would
3 like to have, as it does in New Hampshire, a
4 hundred-percent capacity assignment for those
5 customers that are assigned capacity. Right
6 now, it's a 50-percent assignment.

7 Q. So there's some guesstimation involved, where
8 you have to kind of make an educated guess as
9 to how much the marketers are going to need,
10 and there's a danger of over-purchase or
11 under-purchase?

12 A. (Kahl) Yes, that's correct.

13 MR. SPEIDEL: Okay. Staff has no
14 further questions of the witnesses. Thank you
15 very much.

16 CHAIRMAN HONIGBERG: Commissioner
17 Scott.

18 INTERROGATORIES BY CMSR. SCOTT:

19 Q. Good morning.

20 A. (Kahl) Good morning.

21 A. (Conneely) Good morning.

22 Q. Mr. Kahl, on Bates 24 of your testimony, you
23 talk about -- you made reference to "slightly
24 higher demand costs."

1 A. (Kahl) Hmm-hmm.

2 Q. Obviously, it's nice that I've been able to
3 cross off different questions I have because
4 they've already been asked. So you've
5 already talked about the Canadian exchange
6 rates which would reduce costs, but yet,
7 you're still saying there's "slightly higher
8 demand costs" overall. So I assume that's
9 one of the factors that slightly increased
10 this cost compared to last year at this time?

11 A. (Kahl) Yes.

12 Q. So can you explain where does that come from,
13 the "slightly higher demand costs"? What
14 drives that?

15 A. (Kahl) I believe what's happening is that
16 every year, you know, in the winter period
17 when we take the costs and we take our
18 forecast, you know, the first thing we do is
19 break them out by division. But the second
20 thing we do is break them out by season. And
21 I believe what's happening in the '15-'16
22 year is that a larger portion of the costs
23 are being assigned to the summer period as
24 opposed to the winter. And this is based

1 partially on just how the demand forecasts
2 allocate -- is allocated among the months, so
3 a larger share of that planning load being
4 allocated to the summer period. If you go
5 back and look at the prior years, you'll see
6 a smaller percentage allocated for the summer
7 months. This would be Schedule 1A.

8 Q. Thanks for that. All right. I'll go to a
9 different topic then.

10 On Bates 23 you talk about "bad debt
11 write-off."

12 A. (Kahl) Yes.

13 Q. I guess you talk about half a million dollars
14 for the winter period. And it looks like you
15 take the same and kind of pro rated it for
16 the summer; is that correct?

17 A. (Kahl) Yes. Yes.

18 Q. So the half-million for the winter, is that a
19 normal thing? Or is that high, low?

20 A. (Kahl) It's pretty normal, actually. Yeah,
21 it's about right.

22 Q. So that's kind of the historical average then
23 for --

24 A. (Kahl) Yes, it has fluctuated. I know it's

1 been higher in the past. And, you know, I
2 can't explain what really impacts that
3 behavior on write-offs. But 500,000 is, I'd
4 say, about average, maybe a little on the low
5 side from what I've seen historically.

6 Q. Okay. On Bates 36 you talk about "hedging."
7 And there's no hedging for this period;
8 correct?

9 A. (Kahl) That's correct.

10 Q. So, generally speaking, though, you discuss
11 "hedging" a fair amount in here. I was
12 curious. Do you do a look-back on -- you do
13 a hedging program during the winter. You
14 have a portfolio and you hedge a certain
15 percentage. Is it 70 percent? Is that
16 correct?

17 A. (Kahl) Yes.

18 Q. Do you retroactively look back and compare
19 that to if you hadn't hedged, et cetera? How
20 do you judge if the hedging program was
21 worthwhile?

22 A. (Kahl) I think we look at the hedging program
23 like an insurance program, really. And so we
24 don't tend to look back, you know. We just

1 look at it as if, okay, well, if prices take
2 off, let's have some protection there. And,
3 you know, we did change it this time because
4 the odds of anything happening were pretty
5 slim. And so the amount you were investing
6 in the program was really just -- it was very
7 unlikely you would hit the target price and
8 get that protection. So we opted to change
9 that to spend a little bit more money, but
10 bring down the target price so that, you
11 know, there would be a higher likely
12 probability that we could use or utilize that
13 hedge.

14 Q. So how do you know that 70 percent is a good
15 number? How do you -- why not 65 or 73? I'm
16 just wondering.

17 A. (Kahl) That's been around for a long time,
18 and I know it's been discussed. But, you
19 know, the Company is comfortable with that
20 percentage, so...

21 Q. Thank you for that.

22 And there's no storage for the summer
23 period? You're not --

24 A. (Kahl) No. Summer is, you know, when you're

1 buying your gas to store, and it's designed
2 to be used in the winter.

3 Q. So, obviously this winter was, my
4 understanding, the warmest on record,
5 anyways. So I assume there were stocks left
6 in storage. Did that have an impact on the
7 summer program at all?

8 A. (Kahl) There would be less to purchase. I
9 believe the Washington 10 storage, because we
10 operate that with an asset management
11 agreement, we are able to simply not have to
12 worry about injecting and withdrawing that
13 storage. So I think we are protected from
14 that scenario of having to worry about excess
15 gas stuck in storage.

16 Q. Okay. And you talk a little bit about
17 potential -- you were asked about potential
18 customer growth earlier, and I think you
19 referred to 2015 numbers.

20 A. (Kahl) Over 2015, yes.

21 Q. I was just curious. Obviously, the price of
22 heating oil is considerably lower than it has
23 been historically in recent years. Do you
24 think that will have a damping effect on the

1 number of new customers?

2 A. (Kahl) I'm not an expert on fuel switching.
3 My guess is that that would take a prolonged
4 period of time to have customers rethink
5 their energy choices. I think for a number
6 of years now people are saying, you know, gas
7 is a cheaper option. Of course, it has the
8 added benefit of being a cleaner option. So
9 in my opinion, I think it would take a
10 significant amount of time for very low oil
11 prices to impact people's decisions on how
12 they would heat their homes.

13 Q. I have one more crystal ball question for you
14 since you're polishing it right now.

15 What's your best guess on what we'll see
16 for next winter? Do you think prices will be
17 high for gas or lower?

18 A. (Kahl) I think they'll be a little bit higher
19 at this point. But it's really anyone's
20 guess. There's a possibility that some
21 producers will get out of the market or find
22 a way to "shut in" to avoid the situation
23 that they've had this past winter. So...

24 CMSR. SCOTT: Thank you. That's all

1 I have, Mr. Chairman.

2 CHAIRMAN HONIGBERG: Commissioner
3 Bailey.

4 CMSR. BAILEY: Thank you.

5 INTERROGATORIES BY CMSR. BAILEY:

6 Q. Good morning. Do either of you know what the
7 current price per therm, cost per therm of
8 gas is right now, this month?

9 A. (Kahl) The NYMEX price?

10 Q. The price that I can compare to the price
11 that you're proposing to be collected. So
12 you say .3196 is the cost per therm.

13 A. (Kahl) Yes.

14 Q. What is the equivalent price right now, at
15 this moment, that you're buying it for?

16 A. (Kahl) That we're buying it for? What are we
17 charging customers right now?

18 Q. Sure.

19 (Discussion between witnesses.)

20 A. (Kahl) I believe what Northern is charging
21 right now for residential customers is up
22 around 80 cents. That's for the month of
23 April only. Now, earlier I was mentioning
24 how the Company has the ability to increase

1 rates up to 25 percent or lower them by any
2 amount. For April we did boost our rates up,
3 and actually pretty close to the 25-percent
4 border. We were projecting an
5 under-collection. And I believe that was due
6 to the warm weather that we were having.

7 One thing I will note is that when you
8 get down to where you have one month left to
9 change your rates, that will impact the rates
10 a greater amount because you have fewer
11 therms that you're dividing that dollar
12 difference that you see by. So if we think
13 that we're \$500,000 under-collected, if we
14 think that's the case and we have two months
15 left to recover it, that will give us one
16 price. If we have one month left to recover
17 it, which is the case with the April rate
18 increase, that rate is twice as high. So the
19 rates did take a jump up.

20 Q. Did you say 80 cents?

21 A. Eighty cents.

22 Q. Compared to this rate of about 32 cents?

23 A. Correct. So that is a winter rate also.

24 Q. I understand, I understand. And what was it

1 the month before that you made this
2 25-percent increase?

3 A. (Kahl) I think we were in the 60 to 65 cent
4 rate. Yeah.

5 Q. Okay. I'm trying to understand why the cost
6 in the summer of 2016 is higher than the
7 price per therm in 2015. And the actual
8 price was about 29 cents in 2015? That's
9 what you said; right?

10 A. (Kahl) Hmm-hmm.

11 Q. And your proposal is about 32 cents. And I
12 heard two different things: One, that it was
13 based on the change in the exchange rate.
14 And in response to a question that
15 Commissioner Scott asked you, you said that
16 the exchange rate would lower the price. So
17 let me just ask you a question about that.

18 Last year you could buy 79 Canadian
19 cents for a dollar?

20 A. (Kahl) I think you could buy a dollar for 79
21 U.S. cents.

22 Q. One Canadian dollar cost 79 U.S. cents. So
23 now one Canadian dollar costs 69 cents. So
24 that should lower the rate.

1 A. (Kahl) Yes.

2 Q. Okay. And the second thing you said had an
3 impact was you allocated the demand charges
4 more in the summer.

5 A. (Kahl) Yes.

6 Q. Okay. Can we look at Schedule 1A? Can you
7 show me where that one is?

8 A. (Kahl) Yes. So I can show you where the
9 percentages for summer and winter are drawn.

10 Q. Is that on Page 47?

11 A. (Kahl) This is on Bates Page 47.

12 Q. Looks like 50/50 to me.

13 A. So if we look down on Line 73, for
14 instance --

15 Q. For storage and peaking?

16 A. Yeah, and peaking. So you're seeing that
17 about 4.57 percent is being allocated to the
18 summer.

19 Q. Right. That's really small.

20 A. (Kahl) Right. So last year, I believe that
21 percentage was smaller.

22 Q. Oh, you're saying -- so it's not the
23 difference between summer and winter; it's
24 the difference between summer this year and

1 summer last year.

2 A. (Kahl) Yeah.

3 Q. Okay.

4 A. (Kahl) So that is one part why rates are
5 higher.

6 Q. That's really a small piece of it, seems
7 like.

8 A. (Kahl) And then we also have a smaller --

9 Q. Do you have the commodity price somewhere in
10 this filing that you are going to expect to
11 be part of this 32 cents?

12 A. (Kahl) Yes. If we turn to Bates Page 163,
13 and if you look, you can see on Lines 13 and
14 14 both show NYMEX price. And you can see it
15 right there for May. That price was about a
16 dollar -- roughly \$1.79.

17 Q. And so why does it go up to \$2 in the summer?

18 A. (Kahl) Where are you referring to?

19 Q. Well, 1.996 is almost \$2. \$2.046 in the same
20 line that you're reading, only going across
21 the table for June, July, August.

22 A. So these are the NYMEX prices that we pulled,
23 and so this is what the market is indicating.
24 I'm not an expert on why NYMEX prices move

1 the way they do. But I would speculate that
2 we have a glut of gas right now. And
3 typically you would not expect to see prices
4 increasing in the summer, but I think the
5 market is projecting that glut's going to get
6 worked off and we'll get up to a higher
7 level.

8 Q. How do I convert \$1.90 to a price per therm
9 of .3196? What goes into that .3196 of the
10 \$1.90?

11 A. (Kahl) This... trying to think of the best
12 way to explain that. And we really want to
13 look at the total commodity cost. That NYMEX
14 price gives you a piece of total commodity
15 costs. And then...

16 (Discussion between witnesses.)

17 A. (Kahl) So what Schedule 22 does is shows us
18 the cost that Northern is projecting it's
19 going to incur over the summer, and it used
20 that price in determining what its costs were
21 going to be. So --

22 Q. Well, what's the unit, \$1.90?

23 A. (Kahl) Per decatherm.

24 (Discussion between witnesses.)

1 A. (Kahl) Right. So this is the Henry Hub
2 price, which is the benchmark for
3 establishing prices.

4 Q. Okay. But what -- so if it's \$1.90 -- you
5 think it's per decatherm. So is 19 cents
6 what is attributable to this price in the
7 rate of .3196? That's what I'm trying to
8 figure out.

9 A. (Kahl) Right. That NYMEX price, if we look
10 down on Line 19, we're seeing total pipeline
11 costs. You can see Line 20 is storage costs,
12 and there's nothing there. Line 21 is
13 peaking costs, and that is LNG boil-off. So
14 what we have in the summer is just gas that
15 we're purchasing at those prices. And that
16 shows us that the Company is spending a year
17 about \$40 million dollars, but for the
18 summer, only about \$5 million.

19 Q. Well, how did you get the -- how did you use
20 the \$1.90 in that calculation? Is that --
21 you must multiply it by some amount of usage.

22 A. (Kahl) Right. So usage would be what you see
23 on Line 2. So those are your supply volumes.

24 Q. So if I multiply Line 2 by Line 13, I should

1 get Line 17? I don't have my calculator.

2 (Witness calculating)

3 A. (Kahl) It should be correct.

4 Q. And that's described as "pipeline costs"?

5 A. (Kahl) Right, because it is serving Northern
6 through pipelines that could come from as far
7 as the Gulf of Mexico or from a shorter
8 distance. Could come from the Marcellus area
9 or --

10 Q. But that's the actual volume, what you pay
11 for the volume of gas that you're buying.

12 A. (Kahl) Right.

13 Q. Okay. And then, again, I mean, if you divide
14 it by the usage, you're back to a \$1.90. So
15 I still don't understand. Is it 19 cents
16 that is the piece that -- maybe you can't
17 answer my question today. Maybe you could --

18 A. (Kahl) Actually, why don't we take a look
19 back up to the front. And we can see here --

20 Q. The front of what?

21 A. (Kahl) I'm sorry. The front of the filing,
22 Bates Page No. 3. And if we look, we can see
23 how much the -- this is three lines -- Line
24 63. So we can see here what the commodity

1 cost of gas rate is.

2 Q. There we go. Thank you.

3 A. (Kahl) So, my apologies for not getting there
4 sooner.

5 Q. Okay. And so then I would expect that the
6 demand cost of gas of .0939 cents is higher
7 by maybe, I don't know, a couple cents than
8 last year, if I compare this to last year,
9 because that's where the price difference is?

10 A. (Kahl) Now, I know when I talked about why
11 this year's price is higher than last
12 year's -- and I want to turn to that part of
13 my testimony where I discuss this. This is
14 Bates Page 24. So on Lines 2 through 6, I
15 said, "The overall change in the proposed
16 2016 Summer Period average rate compared to
17 the 2015 Summer Period actual average rate is
18 primarily due to a slightly higher demand
19 cost and an under-collection in the 2015
20 summer reconciliation compared to an
21 over-collection in the prior year."

22 So if we turn to our reconciliation, we
23 see we had an under-collection of about
24 \$23,000. And I believe last year we had a

1 fairly significant over-collection. Last
2 winter was cold, and because of the
3 additional demand we were over-collected. So
4 that's a part of why costs are higher. And
5 that might actually be the biggest reason
6 that costs are higher is due to that
7 difference.

8 Q. So last year you were -- the price that
9 customers were paying was reduced because of
10 an over-collection. So you collected too
11 much in the wintertime, and so you reduced
12 the summer rate.

13 A. (Kahl) That's correct.

14 Q. Okay. So if I look back last year at the
15 demand rate and the commodity rate, they
16 should be about the same or -- I mean, would
17 you expect this year's commodity rate to be a
18 little bit lower than last year's?

19 A. (Kahl) I'm just trying to remember what we
20 had last year for our rate.

21 Q. Yeah.

22 A. (Kahl) I would think so.

23 Q. Okay. And the under-collection, is that the
24 .0154 per therm that is on that line that

1 gets added to -- it's not labeled. Looks
2 like Line 68, indirect cost of gas maybe, or
3 69? I'm sorry. On Page 3.

4 A. (Kahl) So that would go, yes, into the
5 indirect cost of gas.

6 Q. What is the indirect cost of gas? Is that
7 your over- or under-collection?

8 A. That's part of it, yes. If you look on Page
9 1, actually, of the summary, this will show
10 you the components of your indirect cost of
11 gas. And as you see, starting around Line
12 22 --

13 Q. So there's the \$23,000 in under-collection.
14 And you're going to -- let's see. The
15 interest, why does that get taken out?

16 A. (Kahl) The interest?

17 Q. Yeah.

18 A. (Kahl) That is just included. That's an
19 additional cost. So it's just negative
20 interest.

21 Q. But it looks -- it looks like in Column C
22 you're subtracting 335 from 23,260.

23 A. (Kahl) Yes. Like I said, that interest
24 number is a negative.

1 Q. You've under-collected, so customers owe you
2 interest on the money that you haven't
3 collected; is that right?

4 A. (Kahl) Yes, but that interest could be due to
5 a number of factors.

6 Q. Oh, okay. So the indirect cost of gas is
7 \$22,925 -- 23,000 rounded. That's the
8 indirect cost of gas that's going to be
9 collected in the .0154 per therm rate on
10 Page 3?

11 A. (Kahl) All right. I'd like to just clarify.
12 When we talk about the "indirect cost of
13 gas," we're talking about several items,
14 okay. One of them is the prior period
15 over/under. We have some interest. We also
16 have working capital and we have bad debt.
17 Both bad debt and working capital are
18 themselves a net number because we do take
19 the prior year's balance and factor that in.
20 You can see that again on Page 1, Line 34,
21 showing you the reconciliation of working
22 capital. Line 4 is showing you
23 reconciliation on bad debt.

24 And then we also have costs that are

1 determined during rate cases. This is the
2 miscellaneous overhead on Line 45. Line 43
3 shows local production that -- again, this is
4 primarily LNG and storage capacity. That
5 shows no values for the summer because it's
6 all allocated. But there are other costs
7 that are determined in the base rate case
8 proceeding. And again, we consider this an
9 indirect cost because we're not basing these
10 off of invoices that we are receiving
11 directly. So when you get to Line 47,
12 there's your total indirect cost of gas. And
13 then that, when you flip back to the other
14 page, Page 3, that will tie out with the
15 number on Line 66.

16 Q. Okay. Just for my education, can you give me
17 an idea of what's the "miscellaneous
18 overhead"? I know that was already approved
19 in a rate case, but I'm just curious.

20 A. (Kahl) I think there are costs that could be
21 tied to scheduling of gas, nominations of
22 gas. That would include, you know, costs for
23 employees, those types of items. So, those
24 responsibilities that have a direct

1 connection with the cost of gas.

2 Q. Okay. Thank you. Mr. Conneely, maybe this
3 question is for you. Do you know if a copy
4 of the billing insert brochure that you're
5 going to put in your May 1st bill has been
6 sent to our Consumer Affairs Division?

7 A. (Conneely) I don't believe it has yet. We
8 are still in the process of internal review
9 of the bill insert.

10 Q. Okay. Will you make sure that she gets a
11 copy of that?

12 A. (Conneely) Sure, we will.

13 Q. As well as any statements that's going to go
14 on the bill.

15 A. (Conneely) We will.

16 CMSR. BAILEY: Okay. Thank you.

17 INTERROGATORIES BY CHAIRMAN HONIGBERG:

18 Q. Mr. Kahl, can you identify some of the other
19 factors that affect the interest credit
20 that's shown on Page 1, Line 24? Because my
21 instincts were the same as Commissioner
22 Bailey's, that if you under-collected, then
23 your customers owe you money and some
24 interest. It seems like that number should

1 be a positive number rather than a negative
2 number. But you said there are other
3 factors. What are the other factors that go
4 into that?

5 A. (Kahl) I think if we take a look at Bates
6 Page 56, which is a lot of numbers...

7 Q. Which of those numbers is the number we would
8 want to be looking at?

9 A. (Kahl) Yes, I'm trying to find a good place
10 to point you to, so bear with me for one
11 minute.

12 (Witness reviews document.)

13 A. (Kahl) I'll do my best to explain this. But
14 if we look down on page -- sorry -- Line 102,
15 we're seeing net costs minus revenues. And
16 so as we look across there, we're seeing --
17 you can see some negative values. So there's
18 certain months when we are over-collecting.
19 And the last line will show interest tied to
20 that, and so that carries across on Line 115.

21 Q. So the short answer, without identifying
22 specific factors, are that there are other
23 elements of interest either owed or that are
24 owed to you than are just associated with the

1 under-collection for that line -- for that
2 entry on Page 1; is that correct?

3 A. (Kahl) Yes.

4 Q. All right. You said another thing that
5 confused me a little in your discussion, I
6 think it was with Commissioner Scott, about
7 the over-collection that was given back in
8 part to customers last summer, that it was
9 associated with over-collections in the
10 winter. And I was fairly certain that you
11 reconciled summer to summer and winter to
12 winter. Is that right?

13 A. (Kahl) That's correct. If I said it
14 pertained to the winter, that -- yeah, that
15 would be mistaken. It's summer to summer.
16 And I think I did start to mention last
17 winter, but it's really last summer.

18 Q. I mean, it occurred to me that, quote,
19 unquote, "winter" lasted a long time in 2015.
20 So it's conceivable that what we colloquially
21 think of as winter having continued a long
22 time could have affected things into the
23 spring. But I'm not sure that's what you
24 meant.

1 A. (Kahl) No, you're correct. The
2 over-collection from -- this would really be
3 the 2014 summer is what was -- what had
4 flowed into the 2015 rates.

5 Q. Okay, I feel better then.

6 A. (Kahl) Okay.

7 Q. And ultimately what we're talking about here
8 today is not something you're making a profit
9 on; right?

10 A. (Kahl) That's correct.

11 Q. And this full reconciliation, which is fairly
12 significant, is a significant issue. It is
13 the way that we make sure that at the end of
14 the day neither the Company nor its
15 ratepayers is better or worse off as a result
16 of what's going on; correct?

17 A. (Kahl) That's correct.

18 Q. All right. I don't think I have any other
19 questions.

20 Mr. Taylor, do you have any further
21 questions for your witnesses?

22 MR. TAYLOR: I have no further
23 questions for the witnesses.

24 I do have one issue I thought

1 I would raise before we go into closing
2 statements. I do have just one clean-up
3 issue that I actually raised during the
4 preliminary matters. I can take it up either
5 in advance of closing statements or not.
6 It's not anything I need the witnesses for.

7 CHAIRMAN HONIGBERG: All right. Then
8 why don't we wrap up with the witnesses.

9 Thank you. You're excused.
10 You can either stay where you are or return
11 to the table.

12 I assume there's no objection
13 to the striking of I.D. on Exhibits 1 and 2.

14 MR. CICALÉ: None.

15 CHAIRMAN HONIGBERG: Seeing none --
16 thank you, Mr. Cicale. So we'll strike the
17 I.D. for Exhibits 1 and 2.

18 Mr. Taylor, what is the no
19 longer preliminary, but other matter you want
20 to talk about?

21 MR. TAYLOR: As I said, it's really
22 seen as a clean-up issue. When we made the
23 filing this year, we submitted it with a cover
24 letter just indicating that certain elements

1 were confidential, consistent with Rule 201.06.
2 They're the same elements that we've
3 traditionally marked as confidential. There
4 was subsequently a small amount of discovery
5 from the Staff. One of the discovery
6 responses, we had provided some material,
7 copies of asset management agreements. In the
8 cover letter submitting the discovery, we
9 indicated that we would submit a motion at or
10 before the hearing consistent with 203.08, but
11 prior to the hearing today we determined that
12 the material that was submitted actually fell
13 within the Rule of 201.06, elements that are
14 presumptively confidential. Specifically,
15 201.06 (a), (b) and (f) are -- actually (g), I
16 believe, were the specific elements that we
17 believe that it fell under. So I'm only
18 raising that because in the cover letter we had
19 indicated there was going to be a motion
20 forthcoming. We believe the rule obviates the
21 need for that motion. And so, just for the
22 sake of a clean record proceeding, we wanted to
23 bring that up.

24 CHAIRMAN HONIGBERG: Mr. Speidel, is

1 there any action we need to take?

2 MR. SPEIDEL: (No verbal response.)

3 CHAIRMAN HONIGBERG: I didn't think
4 so. And do you have any -- do you disagree at
5 all, Mr. Cicale, Mr. Speidel, with the issue of
6 what Mr. Taylor just said?

7 MR. SPEIDEL: No.

8 CHAIRMAN HONIGBERG: All right. So
9 we don't need to take any action. We're good
10 at that.

11 All right. Let's give you a
12 chance to sum up. Mr. Cicale, you get to go
13 first.

14 MR. CICALÉ: The Office of Consumer
15 Advocate believes that the Unitil Northern
16 Utilities Cost of Gas for the Summer Period is
17 at a just and reasonable rate. Going forward,
18 we encourage the Company to fill its filing
19 with as much comparison models from summers
20 previous when applicable and winters previous
21 when applicable for clarity of the Commission
22 and for the Staff and Office of Consumer
23 Advocate to analyze and assess. And once
24 again, thank you for your time today. The

1 Office of Consumer Advocate rests.

2 CHAIRMAN HONIGBERG: Mr. Speidel.

3 MR. SPEIDEL: Thank you, Mr. Chairman
4 and Commissioners. Staff of the Commission
5 requests approval of the Northern Utilities
6 Summer Cost of Gas rates as filed, subject to
7 reconciliation and audit. Thank you very much.

8 CHAIRMAN HONIGBERG: Mr. Taylor.

9 MR. TAYLOR: I have nothing to add
10 that my witnesses haven't already addressed.
11 We very much appreciate your time this morning
12 and ask that the Commission approve the filing
13 as it's been submitted.

14 CHAIRMAN HONIGBERG: Commissioner
15 Scott.

16 CMSR. SCOTT: What date is this
17 needed?

18 MR. TAYLOR: I believe if we could
19 have an order before May 1, that would be very
20 helpful.

21 CHAIRMAN HONIGBERG: Thank you all.
22 We'll take this under advisement and issue an
23 order as quickly as we can.

24 (Hearing adjourned at 10:10 a.m.)