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DG 18-145

# STATE OF NEW HAMPSHIRE

# PUBLIC UTILITIES COMMISSION

**DG 18-145**

**In the Matter of:**
**Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities Keene Division 2018-2019 Winter Cost of Gas**

**Direct Testimony**

**of**


**Stephen P. Frink**
**Director – Gas & Water Division**


**October 9, 2018**

**New Hampshire Public Utilities Commission**

**Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities**

**Keene 2018-2019 Winter Cost of Gas**

**DG 18-145**

**Testimony of**
**Stephen P. Frink**

**Q. Please state your name, occupation, and business address.**

**A.** My name is Stephen P. Frink and I am employed by the New Hampshire Public Utilities Commission (Commission) as Director of the Gas & Water Division. My business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

**Q. Please summarize your educational and professional experience.**

**A.** I joined the Commission in 1990 as a member of the Audit Team and worked as a Utility Analyst and Senior Utility Analyst before becoming the Assistant Finance Director in 1998. In 2001, Commission operations were restructured and I became the Assistant Director of the Gas & Water Division, primarily responsible for the administration of the financial aspects of the regulation of the gas utilities. On February 1, 2018, I became Director of the Gas & Water Division.

Prior to joining the Commission, I worked as a Budget/Financial Analyst for the cities of Austin and Dallas, Texas. I have a Bachelor of Arts and a Master's in Business Administration from the University of New Hampshire.

**Q. What is the purpose of your testimony in this proceeding?**

**A.** The purpose of my testimony is to present Staff's analysis of the Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities (Liberty or Company) supply planning for Keene and Staff's recommendation regarding the Company's proposed Cost of Gas (COG) and Fixed Price Option (FPO) rates.

**Q. Please summarize Staff's findings and recommendations on these issues.**

**A.** The Commission should not approve Liberty's proposed 2018-2019 Winter COG rate of $1.4056 per therm and FPO rate of $1.4256 per therm; instead, the Commission should approve a COG rate of $1.3802 per therm and FPO rate of $1.3743 per therm.

Liberty's supply plan includes Compressed Natural Gas (CNG) to meet this winter's forecasted demand requirement, which is significantly more expensive than the propane supply options available to meet that load. Consequently, the Company's supply plan does not provide customers with service at the lowest reasonable cost.

**Q. How did Staff calculate the recommended COG rate?**

**A.** Staff used the Company's schedules and October 2, 2018 propane futures prices (the initial filing used September 6, 2018, propane futures prices) and removed the CNG volumes and costs from the supply plan. ***See Attachment SPF-1 (Staff DR 2-1).***

**Q. How did Staff calculate the recommended FPO rate?**

**A.** Staff used the Company's schedules and removed the CNG volumes and costs from the supply plan.

**Q. Why aren't updated propane futures prices used to calculate the FPO rate?**

**A.** The FPO program is designed to provide customers the option of locking in a rate that protects against rate changes due to increases in energy prices, and once a rate is offered it should not be adjusted for changes in projected energy prices on which the rate was calculated

Liberty mailed a letter to all customers on October 1 advising them of the program, proposed rate, and the procedure to enroll. Applications are to be submitted by October 18, 2018. ***See Attachment SPF-2.***

**Q. Why is the cost of CNG significantly higher than the cost of propane to serve Keene?**

**A.** The CNG costs include both demand and projected commodity charges, and the demand charges are high, given the limited volumes procured.

**Q. What is Liberty's justification for planning to use higher cost supplies?**

**A.** Although not explained in the immediate filing, in last year's winter COG proceeding (Docket DG 17-141) Liberty stated that although the pure fuel cost of CNG on a dollars per gallon basis is higher than propane, the total cost of CNG would be lower than propane, given the labor savings that would accrue when the Company no longer runs its propane air blower system. In addition, the Company stated that safety issues informed its decision to serve Keene with CNG. [1]

**Q. What is Staff's position regarding labor savings and safety issues related to the use of CNG?**

**A.** The labor savings are related to a change in plant staffing when the propane air blower system is in operation, which was implemented following a blower failure incident in December 2015. In addition to immediate around-the-clock staffing of the plant, Liberty implemented a number of other safety measures that reduced the risks associated with the operation of the blowers. The new safety measures reduced the risk of a similar incident occurring to such an extent that the excessive cost of manning the plant around the clock during the winter period is no longer justified.

**Q. Did the Commissioners address the safety and cost issues related to CNG?**

**A.** Yes, in its Order denying Liberty's 2017-2018 Keene COG rates as filed and directing the filing of modified rates, the Commission analysis states:[2]

> 'Staff argues that the labor costs may not have been prudent in the first place and that eliminating them should not be used to justify CNG. Staff notes that the prudence of the labor costs is at issue in the pending rate case (DG 17-048) which will not be decided until 2018. We can envision that the introduction of CNG into an existing propane air distribution system may cause some additional non-fuel costs, which may offset the labor savings cited. Clearly, many issues surrounding the introduction of CNG to Keene remain unresolved and this is not the docket in which to decide them.'

In its Order approving Liberty's delivery rates and consolidation of the Keene Division (Docket DG 17-048), the Commission ruled that around-the-clock staffing of the Keene production plant is not just and reasonable.[3]

**Q. Is Staff aware of any other potential cost savings from the use of CNG this winter?**

**A.** No. While there may be some reduction in costs related to not operating the blowers, such as savings on the electricity to run the blowers, there may well be added costs related to the use of CNG, such as costs to receive, monitor, and meter CNG deliveries. Whether there is an increase or decrease in personnel costs and ancillary costs from the use of CNG this winter, those costs are distribution costs that are not included in a COG filing and thus are not subject to review at this time. Similarly, even if there were production cost savings realized from the

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1 Order 26,067 (October 31, 2017), page 4.

use of CNG this winter, Keene ratepayers would not share in those savings because distribution rates were just set in DR 17-048.

**Q. If the Commission approves a different FPO rate should a new notice be issued and the enrollment period reopened?**

**A.** No. It is Staff's belief that customers that have enrolled, or will be enrolling, in the 2018-2019 FPO program are seeking price certainty to avoid market risks and would make the same decision if the offered rate were $1.3743 per therm, as recommended by Staff.

**Q. Should customers that enroll in the FPO program be charged the $1.4256 rate cited in the letter?**

**A.** No. The FPO program provides customers the option of locking in a rate that protects against rate increases due to fluctuations in energy prices. In this instance, the change in rates is due not to changes in energy prices but to the results from Liberty putting forth a supply plan that does not use the most economic resources available to serve projected winter demand. Ratepayers, regardless of whether an FPO or non-FPO customer, should not be responsible for the Company's failure to put forth the most cost effective supply plan. Customers that enrolled in the FPO program should be charged $1.3743 per therm and notified, either when receiving their first bill or before, that the lower rate has been approved by the Commission.

**Q. Is Liberty precluded from using CNG if the Commission approves the lower rate?**

**A.** No. In fact, if Liberty has the authority to use CNG, it should make use of those supplies if the commodity price is less than the cost of alternative supplies. As can be seen on the

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2 Order 26,067 (October 31, 2017), page 6.
3 Order 26,122 (April 27, 2018), page 41.

Company's Confidential Schedule C, line 24, the forecasted CNG commodity rate compares favorably to the actual and projected costs of the Company's other supply options, but when factoring in the CNG demand charges, CNG is far more expensive on a per unit basis. The CNG demand charges are a sunk cost, and Liberty has a contractual obligation to pay those costs regardless of whether it uses CNG or not. As a result, Liberty should make use of CNG if the commodity rate is lower than spot propane purchases, but should not be allowed to recover any more of the overall CNG costs that what it would have paid if the other supply options had been used. Under this proposal customers will pay no more than what the COG cost would have been under the least cost supply plan or actual costs, and Liberty may be able to recover a portion or all of its CNG demand costs depending on this winter's propane prices.

**Q. If Liberty does use CNG this winter, how will the amount to be recovered through next winter's COG rate be determined?**

**A.** Liberty should be required to file two detailed cost of gas reconciliations -- one based on actual costs, including CNG demand charges, and one calculated on what the winter cost would have been using only propane. Liberty should be allowed to recover the lower of the two cost reconciliations -- the actual costs using CNG or the hypothetical cost consistent with the economic supply plan that uses only propane.

**Q. What are the bill impacts of approving the lower rates?**

**A.** The COG rate of $1.3802 per therm is a $0.0617 per therm decrease compared to last winter's typical non-FPO residential COG rate of $1.4419 per therm, which decreases a typical non-FPPO residential heating customer's winter bill by approximately $26 (4.3%).

By way of comparison, Liberty's proposed COG rate of $1.4056 per therm is a

$0.0363 per therm decrease compared to last winter's weighted average non-FPO residential rate, which would decrease a typical non-FPO residential heating customer's winter bill by approximately $15 (2.5%).

**Q. Would you please summarize Staff's recommendations?**

**A.** Staff recommends that the Commission:

- Deny Liberty's proposed COG and FPO rates;
- Approve a COG rate of $1.3802 per therm;
- Approve a FPO rate of $1.3743 per therm;
- Require Liberty to notify FPO customers of the difference between the FPO rate offer and the approved rate on or before their first winter bill; and
- If Liberty uses CNG this winter, require Liberty to file a detailed cost of gas reconciliation based on actual costs and a hypothetical cost of gas reconciliation based on the 'propane only' supply plan, with recovery limited to the lower cost reconciliation.

**Q. Does that conclude your testimony?**

**A.** Yes.