STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

IR 22-053

ELECTRIC AND GAS UTILITIES

Investigation of Energy Commodity Procurement (Renewable Portfolio Standard; Default Service Electric Power; Cost of Gas) Methodology and Process

Northern Utilities, Inc. Technical Statement (Cost of Gas)

I. Introduction

On September 6, 2022, the New Hampshire Public Utilities Commission (the "Commission") issued an Order of Notice opening an investigation "to examine all pertinent aspects of RPS [Renewable Portfolio Standard], Default Service, and COG procurements in New Hampshire, and related Commission processes." *Id*. Northern Utilities, Inc. ("Northern" or the "Company") and other interested parties provided initial comments to the Commission on September 26, 2022. On October 11, 2022, the Commission issued a Procedural Order indicating that it would engage in two lines of inquiry in this docket: "one, for the electric utility issues surrounding default service and [RPS] procurements; and the second, for the gas utility issues surrounding cost of gas procurements." In connection with the second line of inquiry the Commission requested technical statements from the New Hampshire Local Distribution Companies ("LDCs") in response to the inquires set forth in Section II.

As explained in the Company's initial comments, Northern maintains a portfolio of gas supply contracts to assure that it will have adequate and sufficient supply to meet its projected demand. The Company secures most of its gas supply and asset management services through an annual request for proposals ("RFP") for terms beginning April 1 and running through March 31 each year. As necessary, Northern looks to supplement its gas supply with short-term peaking supplies

to meet higher winter demand. Accordingly, Northern combines competitively procured supplies with more directly purchased and managed supplies as is necessary to assure a reliable, adequate, and uninterrupted supply of natural gas for its customers at reasonable prices. Northern's supply planning and procurement practices are described in detail in the Company's periodic Least Cost Integrated Resource Plan and annual Cost of Gas filings.

Northern appreciates the opportunity to provide information to the Commission in connection with its investigation, and offers the following responses to the Commission's inquiries.

II. Responses to Commission Inquiries

(i) Consolidated Procurement: What is the viability of a regionally harmonized and/or a state-wide approach to gas procurement?

a. Please identify the constraints of a possible unification of existing procurement practices.

Northern does not support a "regionally harmonized and / or a state-wide approach to gas procurement," whether accomplished as a joint effort by local distribution companies ("LDCs") or by a state agency. A paramount consideration for Northern and its Massachusetts affiliate Fitchburg Gas and Electric Light Company ("FG&E"), is reliability of supply and service to serve their customers. See Northern Utilities, Inc., DG 22-059, Order No. 26,713 at 2 (October 27, 2022) ("Northern endeavors to procure a *reliable* gas supply at the lowest cost.") (emphasis added); Northern Utilities, Inc., Maine PUC 2016-00229, Order at 21 (March 2, 2017) ("Regulatory policy places a *high emphasis on reliability of supply* to serve gas utility customers because the consequences of supply interruptions are serious for both the comfort and safety of affected customers.") (emphasis added); Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 19-02, Final Order at 32 (January 13, 2020) ("[T]he Department does not evaluate a gas company's procurement of supply purely based on price, but on reliability and adequacy at the lowest possible

cost.") (emphasis added). Each LDC is individually responsible for ensuring, to the best of its ability, reliable, safe, and adequate service for its customers. RSA 374:1. Mandating a coordinated approach to gas procurement, whether on a joint basis by the State's two LDCs or by a state agency, would potentially put reliability at risk, as one or both LDCs could be compelled to accept a supply choice that it may not otherwise have selected. It is essential that each LDC retain the flexibility to conduct its own procurements and maintain a gas supply portfolio tailored to meet the needs of its customers in a manner that is consistent with the strategies and judgement of its management.

In addition to essential reliability considerations, there are fundamental logistical impediments to a coordinated or agency-administered procurement. Unlike the regional power market, which is centrally managed by ISO New England, Inc., the gas market is comprised of distribution companies who must independently manage their capacity commitments on federally regulated pipelines, may operate their own peaking facilities and must arrange for gas supply to their systems. Northern and EnergyNorth Natural Gas ("EnergyNorth") maintain very different capacity portfolios. Northern's capacity portfolio accesses different supply sources than EnergyNorth, resulting in different capacity demand and gas supply costs.

Prices also can differ between delivery points on the same pipeline due to constraints (e.g, lateral constraints) on the system, the structure of procurements, and the design of contract pricing. Northern considers it to be essential that it have the ability to maintain control over these and other gas supply contracting parameters as reliability of service is the sole responsibility of Northern. Moreover, LDCs may enter into asset management agreements ("AMAs") and such AMAs are necessarily unique to the capacity portfolio of each LDC. For example, Northern is currently party to separate asset management agreements for its Atlantic Bridge Ramapo, Iroquois Receipts, Algonquin Receipts, Niagara, Tennessee Zone 0/L, PXP Dawn Hub, WXP Dawn Hub and Dawn

Hub Storage capacity paths, whereas the majority of all of EnergyNorth's pipeline capacity is on the Tennessee system with the exception of a small portion of its portfolio utilizing PNGTS capacity. Even to the extent that capacity contracts within the LDC's respective portfolios may have access to some of the same supply sources, differences in delivery points, demand profiles and non-commodity price gas supply contract parameters could result in materially different valuations by potential asset managers. As such, asset managers will value each capacity portfolio differently and potentially structure their agreements differently. The Company does not believe the AMA process, which is conducted through requests for proposals in conjunction with gas supply procurement, is one that can be conducted on a coordinated or statewide basis across LDCs in a manner that maximizes value for customers as these agreements are not standard across LDCs due to different locations on the gas pipeline network of each LDC as well as differences in portfolios, demand profiles and LDC management.

That said, there may be circumstances in which the LDCs could voluntarily work together on an *ad hoc* basis for the benefit of customers. For example, a new gas pipeline project may require multiple subscribers to be financially viable. Incremental capacity commitments such as a new gas pipeline project would likely have long term favorable impacts on gas supply costs, although such benefits would need to be weighed against the fixed cost to support infrastructure expansion. LDCs could also, at some time in the future, see value in voluntarily coordinating to obtain peaking supplies from liquefied natural gas ("LNG") supplier that requires a commitment of volumes that a single LDC could not meet on its own. However, it is essential that each LDC have the discretion and flexibility to evaluate such opportunities in the context of their respective portfolios and projected requirements to ensure reliable service.

Putting aside the question of whether a regionally harmonized or state-wide approach to

gas procurement is viable, the Commission should consider, as a foundational issue, whether such an approach is necessary. Northern respectfully submits that the current process followed by New Hampshire LDCs is sound, and enables each company to provide reliable service to its customers at the lowest reasonable cost. The Company does not believe that a coordinated or agency-administered approach will result in greater efficiencies or lower pricing; rather, it may do the opposite.

b. Given that asset management is currently optimizing resources across utilities and states, could the use of state-of-the-art asset management tools enhance the possibility of a consolidated procurement process?

It is not clear what "state of the art asset management tools" the request contemplates and therefore, the Company cannot comment on the effectiveness of such tools. It also is not clear to the Company that "asset management is currently optimizing resources across utilities and states." The Company enters into unique AMAs for its Northern Utilities customers in New Hampshire and Maine and for the Massachusetts customers of its affiliate LDC FG&E system. See Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 20-73, Stamp-Granted Approval (October 1, 2020) (approving a three-year supply services contract with Emera Energy Services using FG&E's TGP storage and transportation assets). Northern and FG&E do not coordinate AMA contracting, because each company has a unique portfolio and each is subject to regulation by different regulatory bodies in different jurisdictions.[1] To the extent the request concerns the business and management practices of the asset managers with which Northern contracts, the Company is not able to speak to such practices. Nonetheless, from the Company's perspective, wholesale gas suppliers (potential asset managers) who can offer the best value, in

[1] Although Northern is subject to rate regulation in different jurisdictions, the states of New Hampshire and Maine, Northern maintains a single capacity portfolio and regulators in both states have agreed to a common cost allocation process.

terms of asset management fees, operational flexibility and financial and operational reliability, provide the best possible financial outcome without exposing the LDC and its customers to financial risk.

c. How could consistency among jurisdictions pertaining to legal requirements be achieved?

Respectfully, the Company accepts that each jurisdiction exercises regulatory oversight upon the LDCs within its authority based on unique statutory history and requirements, physical advantages and limitations such as proximity to interstate natural gas pipelines and the robustness of supplies available on those pipelines, and the relation of the gas market to other heating and energy infrastructure in their jurisdictions. Northern is a rare example of one LDC who serves customers in multiple states, and Northern's regulators in New Hampshire and Maine must therefore coordinate to some degree in terms regulatory oversight. However, a goal of achieving consistency in legal requirements regarding the procurement and management of natural gas supply, beyond those directed by the Federal Energy Regulatory Commission, does not seem feasible or valuable.

Given the dual oversight of Northern, the Commission should consider that Northern maintains a single capacity portfolio and allocates gas supply costs across jurisdictions pursuant to a cost allocation process accepted by both New Hampshire and Maine. Any action taken by the Commission relative to Northern's gas supply procurement and AMA processes in New Hampshire would necessarily affect Northern's customers in Maine, and thus be subject to the scrutiny of the Maine Public Utilities Commission. This further complication supports maintaining the current procurement framework. To the extent the Commission were to direct the Company to depart from its current procurement practices, the Commission's requirements should not conflict with Maine law or prejudice Northern's Maine operations or its customers.

Coordination among the New Hampshire and Maine Public Utility Commissions may be required to accomplish any such changes.

(ii) Cost of Gas Practices: Each company is requested to share a detailed outline as well as supporting process documents on the practices that they have adopted by their affiliates in their various jurisdictions.

a. Northern Utilities Maine

Northern maintains a single gas supply portfolio and allocates supply cost among its New Hampshire and Maine divisions. As such, there is no distinction to be drawn with respect to procurement practices in New Hampshire and Maine. Northern most recently explained its procurement practices, and the manner in which it allocates costs between its New Hampshire and Maine divisions, in DG 22-059: https://www.puc.nh.gov/Regulatory/Docketbk/2022/22-059.html. In terms of Cost of Gas rate filings, in Maine the Company makes biannual cost of gas filings for the summer and winter periods.[2]

b. FG&E

In Massachusetts, FG&E files a Forecast and Supply Plan every two years, providing the company's five year planning load requirements and a supply plan for meeting those requirements reliably at the lowest cost. At the time of FG&E's last Forecast and Supply Plan Filing,[3] the company's resource portfolio included pipeline supplies and underground storage with Tennessee Gas Pipeline ("TGP"), delivered to FG&E via interstate pipeline transportation on TGP. The Company also operates local production facilities, which include LNG storage/vaporization facility and a propane air facility that provide peaking supply and pressure support to maintain system reliability. FG&E's pipeline supplies and peaking supplies are

[2] See Maine PUC Dockets 2022-00044 (Summer 2022 Cost of Gas Factor) and 2022-00256 (Winter 2022-23 Cost of Gas Factor).
[3] https://fileservice.eea.comacloud.net/FileService.Api/file/FileRoom/13062110

acquired through an RFP process with the goal of maintaining reliability and flexibility of supply through acquisitions from diverse supply sources. As in New Hampshire (and Maine), FG&E uses AMAs to realize additional value from capacity that is not used at any given time to meet customer requirements while still providing reliable supplies to meet customer demand.

As referenced above, FG&E entered into a three-year AMA for the period 2020-2021 through 2022-2023. As with Northern's AMAs, FG&E releases its pipeline and underground storage capacity to the asset manager and the asset manager provides city-gate delivered supply. Pursuant to M.G.L. c. 164 § 94A, FG&E must seek Department approval of any contract for the purchase of gas with a term in excess of one year, and as such FG&E has filed the AMA with the Massachusetts Department of Public Utilities for approval. See Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 20-73, Stamp-Granted Approval (October 1, 2020).

FG&E submits biannual cost of gas adjustment factor filings for the peak (winter) period, November 1 through April 30, and the off-peak period, May 1 through October 31. The process followed by FG&E is prescribed in 220 CMR 6.00 and FG&E's tariff, M.D.P.U. No. 203.[4] The gas adjustment factors may be revised during the six month period during which they are in effect due to changes in the market price for natural gas or other factors. FG&E's biannual cost of gas filings in Massachusetts are straightforward adjustment filings that require very little process. The filings comprise schedules supporting the company's seasonal Cost of Gas Adjustment Clause calculations, without witness testimony. FG&E typically does not receive discovery in connection with these filings, and they are routinely approved prior to the effective

[4] "The purpose of 220 CMR 6.00 is to establish a procedure that allows gas companies subject to the jurisdiction of the Department of Public Utilities (Department) to adjust, on a semi-annual basis, their rates for firm gas sales in order to recover costs of firm sendout gas, to reflect the seasonal variation in the cost of gas, and to credit all nonfirm sales margins and supplier refunds to firm ratepayers." 220 C.M.R. 6.01; M.D.P.U. No. 203, Sheet 2 (adopting similar language in FG&E's tariff). The costs allowable for recovery through FG&E's Cost of Gas Clause include costs of firm gas, local gas costs, supplier refunds, bad debt costs, and inventory finance charges. M.D.P.U. No. 203, Sheets 2-4; see also 220 C.M.R. 6.03.

date of new rates without a hearing. See, e.g., Fitchburg Gas and Electric Light Company d/b/a Unitil, 22-PGAF-FGE, Order at 1-3 (October 31, 2022).

(iii) Miscellaneous: Explore possibilities to implement more proactive market-based measures by adjusting the intervals, frequencies, timing, and scale of procurements[5] as well as any other issues that could improve the cost of gas approval process with the goal of reducing utility rates in New Hampshire

Northern's long-standing gas supply objective has been to limit exposure to New England delivered supply spot prices (Algonquin city-gates or Tennessee Zone 6, delivered index prices) due to the volatility of these daily prices, which is attributable to the scarcity of pipeline capacity into New England during cold weather events. To meet this objective Northern has entered into several pipeline expansion projects that access supply points with more stable and lower pricing. Northern will continue to explore pipeline expansion and multi-year peaking supply contracts in order to secure access to future supplies at a reasonable cost.

In addition, Northern suggests considering expanded methods of hedging as a tool to mitigate short-term gas price volatility. Currently, Northern hedges 75% of its projected November through March city-gate volumes utilizing underground storage and locking NYMEX for a portion of pipeline baseload purchases. There may also be value to hedging the summer period gas costs in light of the experience this past summer.

[5] Considering the upward trend of the prices in the market, of note is a recent proactive procurement by one of the gas companies for an extended period of time covering seasonal fluctuations.