STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 09-052

NORTHERN UTILITIES, INC.

2009 Summer Season Cost of Gas

Order Approving Cost of Gas Rate

O R D E R N O. 24,961

April 30, 2009

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

I. PROCEDURAL HISTORY

On March 13, 2009, Northern Utilities, Inc. (Northern or the Company) filed proposed rate adjustments pursuant to the Cost of Gas (COG) clause in its tariff for the period May 1, 2009 through October 31, 2009 (2009 summer period COG), applicable to Northern's natural gas operations in the southeastern and seacoast areas of New Hampshire. The filing was accompanied by supporting schedules and the direct testimony of James D. Simpson, Vice President for Concentric Energy Advisors, on behalf of Northern, and Francis X. Wells, Senior Energy Trader for Unitil Service Corp., an affiliate company of Northern.

On March 20, 2009, the Commission issued an order of notice scheduling a hearing for April 15, 2009. On March 24, 2009, Northern refiled Attachments NUI-FXW-2 through NUI-FXW-6. On March 26, 2009, the Office of Consumer Advocate (OCA) filed its notice of participation on behalf of residential ratepayers consistent with RSA 363:28. On March 30, 2009, Susan S. Geiger, Esq., Orr & Reno, P.A., entered an appearance on behalf of Northern Utilities, Inc.

On April 9, 2009, Staff filed the direct testimony of Robert J. Wyatt, Senior Utility Analyst, Public Utilities Commission. On April 13, 2009, Northern filed a revised proposed COG rate for the summer season and the hearing was held as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witnesses Simpson and Wells addressed: (1) calculation of the proposed COG rates, (2) reasons for the proposed rate decrease and customer bill impacts, and (3) new and revised COG attachments.

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

Pursuant to its COG clause, Northern may, subject to the Commission's jurisdiction, adjust on a semiannual 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. The average COG rate, which is the COG rate payable by residential customers, is calculated by dividing total costs of approximately $6.8 million by projected summer season sales of approximately 9.2 million therms. Costs include: anticipated indirect gas costs, consisting of working capital, bad debt, and overhead charges; anticipated direct costs, consisting of pipeline transportation capacity, storage capacity and commodity charges; and adjustments, consisting of a prior period under-collection, interest and anticipated gains or losses from price hedging.

Northern proposes a 2009 summer season residential COG rate of $0.7385 per therm, which represents a decrease of $0.3797 per therm from the average weighted 2008 summer season residential COG rate of $1.1182 per therm. The impact of the proposed firm sales COG rate is a decrease in the typical residential heating customer's summer gas costs of $119, which represents a 22 percent decrease below last summer's rates.

Northern proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates that were determined using the simplified market-based allocation (SMBA) methodology as follows: $0.6785 per therm for the LW COG rate and $0.8355 per therm for the HW COG. Also, Northern stated that the Company supported the change recommended by Staff relative to the COG adjustment mechanism.

2. Reasons for the Decrease in the Residential COG Rate

The decrease in the proposed residential COG rate, as compared to last summer's rate, can be primarily attributed to a decrease in projected commodity costs.

3. New and Revised COG Attachments

Northern has transitioned from being owned and managed by NiSource to its new ownership and management by Unitil. As the Unitil management team becomes more familiar with Northern's systems and methodologies, the Company expects to incorporate efficiencies wherever possible. According to the Company, the new management team was not encumbered by old integrated forecast models and system formats used by multiple affiliate companies and thus was able to take a fresh look at where changes may be beneficial. One example that was incorporated into this COG forecast was the removal of unbundled transportation load from both the demand forecast and the supply requirements. Northern does not provide supply commodity to its transportation customers and was able to remove the transportation load and related supply requirements from this COG forecast. Other changes to this forecast were less transparent, but similarly logical. Linked spreadsheets were combined into one multi-layer spreadsheet which was then organized into more logical worksheets, then re-ordered by major function. The Company explained that these changes to the COG forecast will allow for better "quality control" and will enable it to more readily perform variance analyses at the end of each COG period to determine the reasons for differences between forecast and actual results.

B. Office of Consumer Advocate

The OCA did not object to the Company's filing. The OCA supported Staff's proposed 25 percent upper limit on the monthly adjustment bandwidth and took no position on Staff's proposal to remove the lower bandwidth limit. The OCA noted that it had raised concerns in the EnergyNorth summer COG proceeding (Docket No. DG 09-050) regarding what RSA 378:3, :5, and :7 require in terms of notice to customers, but expressed confidence that the Commission would balance those notice requirements with the desire to be administratively efficient.

C. Staff

Mr. Wyatt testified that Staff had completed its review of the Northern COG forecast for the upcoming summer period and recommended approval of the proposed rates. Staff noted that the forecast is consistent with those filed and approved in previous summer periods. Also, Staff stated that it had reviewed and audited the 2008 COG reconciliation and found the costs to be reasonable and accurately reported. Staff noted that actual gas costs will continue to be fully reconciled, reviewed and audited at the end of each COG period.

Staff also recommended a modification to the monthly over/under adjustment mechanism. Mr. Wyatt testified that currently, without further Commission action, Northern, as well as the other regulated gas utilities in New Hampshire, can adjust the COG rate upward or downward within a +/- 20 percent bandwidth of the initially approved COG rate in order to reduce monthly over- or under-collections in the period. In support of his proposal, using EnergyNorth as an example, he explained that during the 2008 summer period, EnergyNorth experienced substantial fluctuations in actual and projected gas costs. The company increased the COG rate to the maximum allowed and filed a revised COG calculation to establish a rate that would eliminate the projected under collection. Following a duly noticed hearing, the Commission approved the proposed rate increases effective August 1, 2008. *See* Order No. 24,881 (July 31, 2008). Subsequent to the filing, actual and projected gas costs dropped to such an extent that reducing the approved rates by the maximum allowed without further Commission action was insufficient to eliminate the projected over-collection. Because of the limited time remaining in the summer period there was insufficient time to file and process a second revised COG.

Staff’s proposed modification is slightly different from one proposed, then tabled for further study, in the winter 2008-2009 COG proceeding (Docket No. DG 08-115). The new proposal is to increase the upper bandwidth adjustment limit to 25% of the initially approved rate and eliminate the lower bandwidth adjustment limit. Northern, as well as the other gas utilities, would continue to file the required monthly over/under reports five business days before the beginning of each month during each COG period.

Mr. Wyatt testified that the modification will enable the Company to more efficiently react to gas price volatility in the same period in which it occurs, thus reducing end-of-period revenue imbalances and associated carrying costs which are carried forward to future COG periods. The extra 5% added to the upper bandwidth will allow for additional adjustment range when tracking upward market price volatility, helping to reduce projected under-collections. By eliminating the lower bandwidth limit completely, the Company will be able to lower gas rates as much as necessary to track downward movement in market prices, helping to reduce over-collections. In cases where a revised COG filing can be avoided, it would reduce administrative costs and increase administrative efficiency.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, for the reasons stated by Staff in its recommendation, we approve the proposed 2009 summer season COG rate as a just and reasonable rate pursuant to RSA 378:7.

As noted, Staff and the Company have both supported a change, to which the OCA does not object, to the upper limit of the "bandwidth" applicable to the COG rate from twenty to twenty-five percent of the established rate. We note that this type of adjustment to the COG rate without further Commission action was introduced in 1998 and has been in existence, in some form, for over 10 years. *See, e.g., EnergyNorth Natural Gas, Inc.,* Order 22,890 (March 31, 1998). It has generally proved to be a useful means to limit or eliminate over- and under-collections, match costs to the period in which they are incurred, and reduce "rate-shock" and carrying costs, all while reducing administrative costs for the Company as well as the Commission. Further, changes to the COG rate serve the goal of matching prices to fluctuations in the natural gas markets – a matter substantially out of the control of the Company.

The use of the "bandwidth" to match costs and recoveries, while generally successful has, on occasion, been amended to accommodate changes in energy markets. For example, the bandwidth was once established at 10 percent above or below the set rate, but in 2000 was revised to the current 20 percent. *See Northern Utilities, Inc.*, Order 23,581 (October 31, 2000). This was done to account for increased volatility in the marketplace which had rendered the 10 percent limit unsuitable. In recent history, the volatility in the marketplace has again necessitated a review of the bandwidth to determine whether it meets the goals for which it has been established. Our review of this recent history demonstrates that the bandwidth may no longer supply sufficient flexibility to fulfill its intended purposes.

As noted by Mr. Wyatt, in the Summer 2008 period, another natural gas utility, EnergyNorth, adjusted its COG rate to the maximum allowed in repose to rapidly rising prices and was still unable to match the prices in the marketplace. EnergyNorth, therefore, filed for a mid-period revised COG. Once the mid-period COG rate was approved, prices dropped precipitously and EnergyNorth was restricted by the 20% lower bandwidth adjustment limit which was not sufficient to match the drop. The result was an over-collection for the period. Similar fluctuations occurred in the Winter 2008/2009 period with similar results. In such a marketplace, providing companies such as Northern greater flexibility would permit them to better fulfill the intent of the COG bandwidth. Should the markets appear to stabilize in the future, we may revisit this matter. For the time, however, we conclude that increasing the upper bandwidth limit from twenty to twenty-five percent of the approved rate is proper.

With regard to the lower limit, the OCA raised an issue about eliminating the lower limit entirely. OCA stated that setting the lower limit as “no limit” might not comply with the requirements of RSA 378:7 pertaining to a change in rates. April 9, 2009 Transcript of EnergyNorth Natural Gas, Inc. COG (DG 09-050) Hearing (Trans.) at 57. OCA suggested that the statutory requirements could be satisfied "if you identified the lower limit as '100 percent limit,' as opposed to a 'no limit.'" Trans. at 57.

RSA 378:7 provides, in pertinent part:

> Whenever the commission shall be of opinion, after a hearing had upon its own motion or upon complaint, that the rates, fares or charges demanded or collected, or proposed to be demanded or collected, by any public utility for service rendered or to be rendered are unjust or unreasonable, or that the regulations or practices of such public utility affecting such rates are unjust or unreasonable, or in any wise in violation of any provision of law, or that the maximum rates, fares or charges chargeable by any such public utility are insufficient, the commission shall determine the just and reasonable or lawful rates, fares and charges to be thereafter observed and in force as the maximum to be charged for the service to be performed . . . .

The OCA does not contend that the rates, fares or charges, or that the regulations or practices of the Company are, or would be, unjust, unreasonable or in violation of law if the Company lowered its rates under the proposed adjustment mechanism. Instead, the OCA suggests only that the objectives of proper notice and hearing may not be met in the absence of an undefined lower limit. We do not understand RSA 378:7 to impose such a requirement.

First, we note that while a hearing is contemplated by the statute, notice is not discussed or defined. Notice is, however, referenced in another statute related to rates and charges. RSA 378:3 states:

> *Unless the commission otherwise orders*, no change shall be made in any rate, fare, charge or price, which shall have been filed or published by a public utility in compliance with the requirements hereof, except after 30 days' notice to the commission and such notice to the public as the commission shall direct.

(Emphasis added). Under this provision, notice of 30 days is required prior to a change in rates, unless otherwise ordered by the Commission. For years, notice that COG rates could be raised or lowered was contained in the Commission's orders setting the rate and the bandwidth for a given period. The Commission has thus “otherwise ordered” what notice is necessary. There is no contention that this notice has been insufficient. The issue appears to be that without a firm lower number, customers would not have notice of exactly how low their rates may go.

Initially, it is not clear how a notice stating a 100 percent lower limit would be functionally different that stating that there is no lower limit. In either case, the COG rate could be lowered to the extent necessary to reflect the price of gas in the marketplace, regardless of what that price might be. Customers would, in either event, be on notice that the commodity portion of their bills could be lowered to the degree necessary to track the prices in the marketplace. Moreover, we are not persuaded that stating that the lower limit is a “100 percent limit” would provide any more informative notice to customers than an indication that there simply is no lower limit.

Accordingly, because there is no contention that having no lower limit would result in rates that are unjust or unreasonable or in violation of law, or that they would otherwise violate RSA 378:7, we conclude that a defined lower limit is not required by that statute. Furthermore, as RSA 378:3 permits the Commission, by order, to alter the notice required, and as the Commission has been doing so in COG matters for many years, we conclude that the notice provided by this order that the COG rate may be lowered so far as is necessary, is appropriate. For the same reasons stated in reference to the alteration of the upper limit, we conclude that a change to the lower limit is justified. Thus, we will order that the Company’s COG rate for the Summer 2009 period is may be adjusted up by 25 percent over the approved rate without further Commission action, and that the Company may adjust the rate downward so far as is necessary without further Commission action. Should such latitude in rate adjustments become unnecessary or inappropriate in the future, we may revisit the matter for further adjustments and refinements.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2009 summer season COG rates for the period of May 1, 2009 through October 31, 2009 are APPROVED, effective for service rendered on or after May 1, 2009 as follows:

	Cost of Gas	**Maximum COG**
Residential	$0.7385	$0.9231
C&I, Low Winter Use	$0.6785	$0.8481
C&I, High Winter Use	$0.8355	$1.0444

and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates based upon the projected over-/under-collection for the period, the adjusted rates to be effective the first of the month and not to exceed a maximum rate of 25 percent above the approved rates and without limitation on its reduction in rates; and it is

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall 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 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. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2009.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Clifton C. Below Commissioner

Attested by:

Debra A. Howland
Executive Director