STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 11-207

NORTHERN UTILITIES, INC.

Winter 2011-2012 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R   N O. 25,282

October 28, 2011

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 ratepayers; and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 2011, Northern Utilities, Inc. (Northern or Company), a public utility providing natural gas service to approximately 29,000 customers in the seacoast region of New Hampshire, filed its cost of gas (COG) and other rate adjustments for the 2011-2012 winter period, November 1, 2011 through April 30, 2012. Northern's filing included the pre-filed testimony of Christopher A. Kahl, a Senior Regulatory Analyst for Unitil Service Corp., an affiliated service company providing services to Northern, Francis X. Wells, Manager of Gas Supply for Unitil Service Corp., and Joseph F. Conneely, a Senior Regulatory Analyst for Unitil Service Corp.[1]

On September 21, 2011, the Commission issued an order of notice scheduling a hearing for October 20, 2011. On September 27, 2011, the Office of Consumer Advocate (OCA)

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[1] Northern also submitted, as part of its COG filing, certain information as confidential exhibits, filed pursuant to N.H. Admin. Rules, Puc 201.06(a)(25). This information comprised supplier commodity pricing and special terms of supply agreements.

notified the Commission, consistent with RSA 363:28, of its participation in the docket on behalf of residential ratepayers. No other parties intervened in the docket. On October 12, 2011, Northern provided an affidavit of publication stating that the order of notice had been published on September 26, 2011. On October 17, 2011, Northern submitted a revised COG filing that updated many of the rates and charges in the original filing. Northern also submitted a corrected schedule to the updated filing, related to its Residential Low Income Assistance Program, on October 19, 2011. On October 20, 2011, a hearing before the Commission was held as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

As set out more fully below, Northern's witnesses Kahl, Wells and Conneely testified to: (1) the calculation of the proposed COG rate and the resulting customer bill impacts; (2) the reasons for the change in COG rates; (3) Company gas supplies and hedging; (4) legal expenses related to the Portland Natural Gas Transmission System (PNGTS) rate cases; (5) the local distribution adjustment charge (LDAC); and (6) other COG related charges.

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

Pursuant to its COG clause, Northern may adjust on a semi-annual 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. For the winter 2011-2012 period, the proposed average COG rate, which is the rate payable by residential customers, was calculated by adding the anticipated direct costs of $28,899,546 and anticipated indirect costs of $2,112,605 and then dividing the total costs by the projected winter period firm sales volume of 28,614,458 therms. Direct costs are those costs relating to pipeline transportation capacity, storage capacity, and commodity charges, while indirect costs include working capital, bad debt, and overhead charges. These costs are also subject to certain allowed adjustments and the indirect costs include a prior period under-collection of $973,628.

Northern's revised filing proposes a winter 2011-2012 residential rate of $1.0837 per therm, a $0.0458 per therm decrease compared to the weighted average residential rate of $1.1295 per therm last winter. The impact of the proposed firm sales COG rate, coupled with other changes in the LDAC, is an overall decrease for the typical residential heating customer using 1,250 therms per year of $20.19, or 1.4%, compared to last winter. Northern's proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates are $0.9232 and $1.1166 per therm respectively, which represent comparable decreases from last year's rates. These rates incorporate the introduction of increased temporary base rates approved in Docket No. DG 11-069, *see Northern Utilities, Inc.*, Order No. 25,252 (July 22, 2011), *see also* Hearing Exhibit 1, Direct Testimony of Christopher Kahl at 4.

2. Reasons for the Decrease in the COG Rates

The decrease in the Company's rates is driven primarily by decreases in peaking demand cost, hedging losses, and miscellaneous overhead costs. These decreases are partly offset by an increase in pipeline-related demand costs, especially transportation costs. *See* Hearing Exhibit 1, Direct Testimony of Christopher Kahl at 24. Northern noted that it supplied calculations for its purchased gas Working Capital Allowance based on its proposals brought forward in the Docket No. DG 11-069 rate case (specifically, Northern's lead-lag study filed in that proceeding). *See* Hearing Exhibit 1, Direct Testimony of Christopher Kahl at 3 and 17-18. Northern also noted that it applied a methodology for the calculation of commodity Bad Debt expense proposed in its Docket No. DG 11-069 rate case for the purposes of this COG filing. *See* Hearing Exhibit 1, Direct Testimony of Christopher Kahl at 18-19.

3. Gas Supply and Hedging

Consistent with its hedging program approved in the Commission's Docket No. DG 09-141, by Order No. 25,087 (March 30, 2010), Northern has hedged a portion of its winter gas supply through financial and supply hedges. *See* Hearing Exhibit 1, Direct Testimony of Francis Wells at 17.

In addition to its hedged supplies, Northern also addressed other matters relating to its gas supply portfolio; specifically, the Company has released a portion of its pipeline capacity because its forecast showed that some of that capacity was not needed to meet its system demand requirements. *See* Hearing Exhibit 1, Direct Testimony of Francis Wells at 10. Northern also entered into three new peaking supply arrangements for the upcoming winter heating season, together with a replacement contract for Liquefied Natural Gas. *See* Hearing Exhibit 1, Direct Testimony of Francis Wells at 11.

4. Legal Expenses Related to PNGTS Rate Cases

Northern proposes to recover extraordinary legal and consulting costs incurred in its opposition to two proposed rate increases by PNGTS in Federal Energy Regulatory Commission (FERC) Docket No. RP08-306, and in a more recent rate filing in FERC Docket No. RP10-729. In opposing PNGTS, Northern was joined with other customers of PNGTS in the PNGTS Shipper Group (PSG). *See* Hearing Exhibit 1, Direct Testimony of Christopher Kahl at 8, and Direct Testimony of Francis Wells at 17-20. In opposing the PNGTS rate increases, Northern states that it has incurred $878,225 in costs, slightly less than half of which is the New Hampshire division's share, totaling $414,873. *See* Hearing Exhibit 1, Direct Testimony of Francis Wells at 19. Rather than include these charges in the LDAC, Northern has reflected these costs as a deduction from Asset Management revenues. *See* Hearing Exhibit 1, Direct Testimony of Christopher Kahl at 8. This treatment means that all customers for whom Northern manages capacity (e.g., firm sales and capacity assigned transportation customers) are responsible for the costs. Northern noted that it has had considerable success in the Docket No. RP08-306 FERC rate case litigation; Northern expects a refund of approximately $1.2 million, plus interest, if a FERC decision in that case is upheld. *See* Hearing Exhibit 1, Direct Testimony of Francis Wells at 18-19.

5. LDAC

Northern's filing proposes a per therm LDAC of: $0.0422 for residential customers, a decrease from $0.0456, and $0.0185 for C&I customers, a decrease from $0.0249. The LDAC is a combined rate of various surcharges by the Company including those relating to the residential low income assistance program (RLIAP), demand side management (DSM) and environmental response costs.

As to the specific components of the LDAC, Northern is proposing to increase the charges relating to the RILAP from $0.0043 to $0.0056 per therm for all classes, but it does not propose any change to the program at this time. The reason Northern proposes to change the RILAP rate despite not changing the program is to cover increases in estimated program costs and participation. *See* Hearing Exhibit 3, Corrected RLIAP Schedule 16 filed October 19, 2011.

Regarding DSM, which covers the Company's energy efficiency programs, Northern proposes reducing the charge from $0.0359 to $0.0315 per therm for residential customers and decreasing it from $0.0152 to $0.0078 per therm for C&I customers. Northern proposes these reductions to properly target DSM collections to meet its energy efficiency program budget. *See* Hearing Exhibit 1, Direct Testimony of Joseph Conneely at 4.

Finally, Northern also proposes to slightly adjust the environmental response charge from $0.0054 to $0.0051, for all classes. Under this charge, the Company is permitted to recover environmental response costs. The decrease in this charge is due, in part, to a prior over-collection. *See* Hearing Exhibit 2, Supplemental Direct Testimony of Joseph Conneely at 3-4.

6. Other Charges

Northern is also proposing to update its supplier balancing charge. In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652 (March 15, 2001), the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, commencing with the November billing month. Supplier balancing charges relate to daily imbalances in each supplier's resource pool at Northern delivery points (city gates). The suppliers pay Northern's supplier balancing charges as compensation for costs incurred by Northern to stay within daily operational balancing tolerances. Northern proposes to increase the supplier balancing charge from $0.75 per MMBtu to $0.78 per MMBtu of daily imbalance volumes and to reduce the peaking service demand charge from $17.68 per MMBtu of peak maximum daily quantity (MDQ) to $10.15 per MMBtu of peak MDQ. The decrease in the peaking service demand charge is based on an update of volumes and costs used in calculating the charges. Also, the capacity allocator percentages, which are used to allocate pipeline, storage and local peaking capacity to a customer's supplier under the mandatory capacity assignment required by New Hampshire for non-grandfathered firm transportation service, have been updated to reflect Northern's supply portfolio for the upcoming year. Finally, the firm sales service re-entry fee has been increased from a monthly unit charge of $4.823 per MMBtu to $8.00 per MMBtu to reflect updated costs.

B. OCA

OCA stated that it did not generally object to the rates in the Company's revised COG filing; however, similar to the position it took in Docket No. DE 11-192 concerning National Grid, the OCA opposed the Company's proposed reduction of the DSM charge. *See* Transcript of October 20, 2011 Hearing (Tr.) at 46-47. After making inquiries to the Company at the hearing, OCA took no position regarding Northern's application of commodity bad debt expense and working capital figures based on Northern's proposals brought forth in the DG 10-069 rate case, with the understanding that these calculations are subject to reconciliation if the Company's proposals are not accepted on a final basis by the Commission. Tr. at 46.

C. Staff

Staff supported the Company's revised COG rates as filed, subject to the review by the Commission's Audit Staff of the Company's recent edits to the reconciliation from last year's winter period. Tr. at 48. Staff also supported the Company's sales forecasting and supply planning for the upcoming peak season. Tr. at 48. Staff stated that the Company's projected purchased gas Working Capital Allowance and commodity Bad Debt expense methodologies were subject to final Commission approval in the Company's current rate case, and that these calculations used by the Company in its COG filing were subject to future reconciliation on the basis of the outcome of these issues in the rate case. Tr. at 48-49. Staff also recommended that the Company's proposed LDAC rate be implemented along with the COG rates on November 1. Tr. at 49-50. Staff noted that its review of some rates, such as those related to the environmental remediation costs, had not yet been completed, but that the rates relative to those costs should be allowed to go into effect, subject to future adjustments if any material errors were found. Tr. at 49-50. Finally, Staff recommended that the Company's proposed supplier balancing charges and capacity allocators be approved as it appeared they were accurate and reasonable. Tr. at 50.

III. COMMISSION ANALYSIS

Based upon our review of the record presented in this docket, we find that Northern's proposed adjustments will result in just and reasonable rates as required by RSA 378:7. Specifically, we approve the proposed 2010-2011 winter period COG and Transportation COG rates. We also approve Northern's LDAC rate components consisting of the environmental cost recovery and RILAP charges, transportation supplier balancing rate, transportation peaking service demand rate, transportation capacity allocators, and the firm sales service re-entry fee. Since the COG rates are reconciled year over year, any adjustments needed as a result of further inquiry into these matters can be made in Northern's next winter COG proceeding, including any adjustments related to our review of the Northern's proposed rate methodologies in the DG 11-069 rate case.

With regard to the LDAC DSM component, we note that Northern's energy efficiency budgets are examined in the 2011 CORE Electric Programs and Natural Gas Energy Efficiency Programs proceeding (CORE Docket), Docket No. DE 10-188, and note that the CORE Docket is the proper forum for the examination of energy efficiency budgeting by Northern. The proposed DSM rate reflects a charge for Northern's 2012 energy efficiency budget and a credit for a projected over recovery, or under spending, related to prior years. The 2011 Northern energy efficiency recoveries and spending related to the 2011 budget approved in the CORE Docket will not be final until after year end. Because the final result of the 2011 energy efficiency recoveries and spending is presently not known and measurable, we will not reflect the projected outcome in the 2011-2012 LDAC charge. Any over or under recovery related to the 2011 energy efficiency reconciliation can be readily addressed in next year's winter COG filing. Furthermore, by not crediting the projected over recovery in this proceeding the actual over or under recovery related to the 2011 budget can be addressed in the CORE Docket, which involves all interested parties. Prior to Northern's 2012-2013 winter COG we will expect a recommendation from the parties in the CORE docket regarding the 2011 program over or under recovery, which we will consider in setting the 2012-2013 LDAC rate. If the parties are unable to reach an agreement on treatment of the over or under recovery, or fail to file a recommendation, we instruct the Company to reflect the over or under recovery as of December 31, 2011 in its DSM rate calculation. Accordingly, we instruct the Company to eliminate the beginning over recovery balance from the DSM reconciliation adjustment reflected in its DSM rate calculation in Exhibit 2, which results in a slightly lower decrease in the DSM rate than that proposed by the company and thereby increases the per therm residential LDAC rate by $0.0018 , to $0.0440 , and the per therm C&I LDAC rate by $0.0048 , to $0.0233 , instead of the $0.0422 residential and $0.0185 C&I LDAC rates proposed by the Company.

As to the issue of the PNGTS litigation costs, which are not, strictly speaking, matters of either the COG rates or the LDAC, we approve the recovery of prudently incurred costs to this point. Northern has incurred the costs as part of a group of shippers that hold pipeline capacity on PNGTS and have intervened at the FERC in an effort to control costs. Recovery of these costs requires that they be treated as a deduction from Asset Management revenue, which is apportioned to Northern customers for whom PNGTS capacity is held. To the extent Northern incurs further costs, we will review those in a future filing. Finally, we note that our approval shall not establish any precedent for future, similar recoveries.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2011-2012 Winter period COG rates of $1.0837 per therm for Residential, $0.9232 per therm for C&I low winter use and $1.1166 per therm for C&I high winter use for the period November 1, 2011 through April 30, 2012 are APPROVED, effective for service rendered on and after November 1, 2011; and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates upward by no more than 25 percent and downward so far as is necessary based upon its projected over- or under-collection; and it is

FURTHER ORDERED, that Northern (1) 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 business days prior to the first day of the subsequent month and (2) 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's 2011-2012 LDAC per therm rates for the period November 1, 2011 through October 31, 2012 are APPROVED, effective for service rendered on and after November 1, 2011 as follows:

	Low Income	Demand Side Management	Environmental Remediation	LDAC
Residential	$0.0056	$0.0333	$0.0051	$0.0440
Commercial & Industrial	$0.0056	$0.0126	$0.0051	$0.0233

and it is

FURTHER ORDERED, that Northern's proposed transportation supplier balancing charge of $0.78 per MMBtu of daily imbalance volumes is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation peaking service demand charge of $10.15 per MMBtu of peak MDQ is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation capacity allocators as filed in Proposed Tenth Revised Page 169, Superseding Ninth Revised Page 169, are APPROVED; and it is

FURTHER ORDERED, that Northern's proposed annual firm sales service re-entry fee per unit charge of $8.00 per MMBtu is APPROVED; and it is

FURTHER ORDERED, that Northern's proposal to deduct $414,873 from Asset Management revenues for external legal and consulting expenses incurred by Northern in opposing PNGTS's proposed rate increases before the FERC is APPROVED as conditioned above; 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. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of October, 2011.

Thomas B. Getz
Chairman

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director