STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 12-273

NORTHERN UTILITIES, INC.

Winter 2012-2013 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,434

October 30, 2012

APPEARANCES: Gary Epler, Esq., and Orr & Reno, P.A., by Susan S. Geiger, Esq. and Rachel Goldwasser, Esq., on behalf of Northern Utilities, Inc.; Rorie E.P. Hollenberg, 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 14, 2012, Northern Utilities, Inc. (Northern), a public utility providing natural gas service to approximately 29,000 customers in the seacoast region of southeastern New Hampshire, filed its cost of gas (COG) and other rate adjustments for the 2012-2013 winter period, November 1, 2012 through April 30, 2013. 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 20, 2012, the Office of Consumer Advocate (OCA) notified the Commission, consistent with RSA 363:28, of its participation in the docket on behalf of residential ratepayers. On September 21, 2012, the Commission issued an order of notice

[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.

scheduling a hearing for October 17, 2012. On October 15, 2012, Northern submitted a revised COG filing that updated many of the rates and charges in the original filing; Northern also submitted inadvertently-omitted tariff pages for its updated filing on October 15, 2012. *See* Hearing Exhibit 5, Updated Northern COG Filing, and Hearing Exhibit 6, Missing Updated Tariff Pages, October 15, 2012.

On October 15, 2012, Robert J. Wyatt of the Commission's Gas and Water Division submitted written pre-filed testimony regarding Staff's concerns with certain practices of Northern relating to management of its commodity supply contracts. *See* Hearing Exhibit 7, Staff Testimony of Robert Wyatt, October 15, 2012. On October 17, 2012, at the scheduled hearing, Northern informed the Commission that it had failed to publish the order of notice, thereby necessitating publication of a second order of notice on October 17, 2012, scheduling a hearing on October 25, 2012. On October 22, 2012, Northern provided an affidavit of publication stating that the second order of notice had been published on October 19, 2012. On October 25, 2012, a full hearing before the Commission was held as scheduled. No other parties intervened in the docket.

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) Northern's 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 2012-2013 period, the proposed average COG rate, which is the rate payable by residential customers, was calculated by adding the anticipated direct costs of $24,795,720 and anticipated indirect costs which are a credit of ($2,516,893) and then dividing the total costs by the projected winter period firm sales volume of 27,305,924 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 over-collection causing a credit of ($3,105,739), which will be discussed in greater detail below.

Northern's revised filing proposes a winter 2012-2013 residential rate of $0.8159 per therm, a $0.3359 per therm decrease compared to the weighted average residential rate of $1.1518 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 $226.62, or 15%, compared to last winter. Northern's proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates are $0.7507 and $0.8279 per therm respectively, which represent comparable decreases from last year's rates. These rates incorporate the introduction of increased permanent base rates approved in Docket No. DG 11-069, *see Northern Utilities, Inc.*, Order No. 25,352 (April 24, 2012), *see also* Hearing Exhibit 3, Direct Testimony of Christopher Kahl at 20-21.

2. Reasons for the Decrease in the COG Rates (Including Settlement in DG 12-131 Investigation)

The decrease in the Northern's rates is driven primarily by the application of an over-collection of ($3,105,739) for the 2011-2012 Winter Season COG reconciliation. This over-collection was mostly accounted for by the application of an adjustment of ($4,101,779), as part of the settlement agreement approved in Docket No. DG 12-131, by Order No. 25, 431 (October 29, 2012). This settlement agreement resulted from the investigation, in Docket No. DG 12-131, of certain accounting errors related to Northern's allocation of gas costs between its Maine and New Hampshire Divisions, and included terms for the refund of approximately $4.1 million to New Hampshire Division customers through COG reconciliation credits. *See* Order No. 25,431.

Secondary factors leading to decreases in Northern's rates include decreases in pipeline demand and commodity costs, a reduction in PNGTS litigation costs, as well as an increase in offsetting credits for asset management and capacity-release revenues generated by Northern. *See* Hearing Exhibit 3, Direct Testimony of Christopher Kahl at 24. Northern noted that it supplied updated calculations for its purchased gas Working Capital Allowance based on its proposals brought forward, and approved, in the rate case, Order No. 25,352. *See* Hearing Exhibit 3, Direct Testimony of Christopher Kahl at 18-19. Northern also noted that it applied the new methodology for the calculation of commodity Bad Debt expense proposed, and approved, in its rate case, Order No. 25,352, for purposes of this COG filing. *See* Hearing Exhibit 3, Direct Testimony of Christopher Kahl at 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 approximately 70% of its winter gas supply through financial and supply hedges. *See* Transcript of October 25, 2012 Hearing (Tr.) at 55.

In addition to its hedged supplies, Northern also addressed other matters relating to its gas supply portfolio; specifically, Northern has contracted for baseload supply contracts deliverable to its city gates via the Tennessee Gas Pipeline and the Maritimes Northeast Pipeline for the upcoming winter period. Northern has contracted for pipeline delivered peaking supplies and Liquefied Natural Gas supplies. *See* Hearing Exhibit 3, Direct Testimony of Francis Wells at 10-11. In response to Staff's testimony regarding its new Tennessee Gas Pipeline Zone 6 baseload supply contract, Northern rejected Staff's criticisms, stating that the financial results of this contract should be assessed in the context of offsetting sales revenues generated by Northern during the course of the upcoming year. Tr. at 78-83.

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 3, Direct Testimony of Christopher Kahl at 11, and Direct Testimony of Francis Wells at 16-19. In opposing the PNGTS rate increases, Northern states that it has incurred $151,922 in costs attributable to the New Hampshire Division's share. *See* Hearing Exhibit 3, Direct Testimony of Francis Wells at 18. Rather than include these charges in the LDAC, Northern has reflected these costs as a deduction from Asset Management revenues. *See* Hearing Exhibit 3, Direct Testimony of Christopher Kahl at 11. 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, with approximately $600,000 credited to Northern's New Hampshire Division. *See* Hearing Exhibit 3, Direct Testimony of Francis Wells at 16-17.

5. LDAC

Northern's updated filing proposes a per therm LDAC of: $0.0720 for residential customers, an increase from $0.0642; and $0.0435 for C&I customers, unchanged from the current C&I LDAC rate. The LDAC is a combined rate of various surcharges by Northern including those relating to the residential low income assistance and regulatory assessment (RLIARA), 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 RLIARA[2] from $0.0089 to $0.0104 per therm for all classes, to cover increases in estimated program costs and participation, and to eliminate a prior-period undercollection in the program. *See* Hearing Exhibit 3, Direct Testimony of Joseph Conneely at 2-3.

Regarding DSM, which covers Northern's energy efficiency programs, Northern proposes increasing the charge from $0.0333 to $0.0403 per therm for residential customers and decreasing it from $0.0126 to $0.0118 per therm for C&I customers. Northern proposes these

[2] In Docket DG 11-069, the Commission authorized Northern to begin recovery of the non-delivery portion of the annual NHPUC assessment through the LDAC. The RLIARA rate, previously known as RLIAP rate, reflects the new cost allocation of the assessment fee.

reductions to properly target DSM collections to meet its energy efficiency program budget.[3] *See* Hearing Exhibit 3, Direct Testimony of Joseph Conneely at 3-4.

Finally, Northern also proposes to reduce the environmental response charge from $0.0051 to $0.0044, for all classes. Under this charge, Northern is permitted to recover environmental response costs. The decrease in this charge is due to a decrease in costs. *See* Hearing Exhibit 3, Direct Testimony of Joseph Conneely at 4-5.

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 reduce the supplier balancing charge from $0.78 per MMBtu to $0.77 per MMBtu of daily imbalance volumes and to reduce the peaking service demand charge from $13.10 per MMBtu of peak maximum daily quantity (MDQ) to $11.88 per MMBtu of peak MDQ. *See* Hearing Exhibit 6 at 2. 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

[3] Northern's gas energy efficiency budget is separately approved as part of the CORE Energy Efficiency Program. *See* Docket No. DE 12-262

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 reduced from a monthly unit charge of $8.00 per MMBtu to $7.70 per MMBtu to reflect updated costs. *See* Hearing Exhibit 6 at 4.

B. OCA

OCA stated that it did not object to the rates in Northern's revised COG filing. Tr. at 89.

C. Staff

Staff supported Northern's revised COG rates as filed, noting that the Commission's Audit Staff had reviewed the reconciliation from last year's winter period and found no exceptions. Tr. at 89. Staff also generally supported Northern's sales forecasting, but shared concerns related to the Company's supply planning for the upcoming peak season for the purposes of this COG, and indicated its plan to engage in further examination of the issues related to certain of Northern's contracts. Staff's concerns, related to the reduced ability of Northern to dispatch its supply portfolio on a least cost basis because of the configuration of the new Tennessee Gas Pipeline Zone 6 baseload supply contract. This issue was outlined in Staff's testimony prepared by Robert Wyatt and further explained at the hearing. *See* Hearing Exhibit 7, Tr. at 61-77, 90. Staff also recommended that Northern's proposed LDAC rate be implemented along with the COG rates on November 1. Tr. at 90. Staff recommended that Northern's proposed supplier balancing charges and capacity allocators be approved as it appeared they were accurate and reasonable. Tr. at 91. Finally, Staff recommended that the Commission consider opening a generic docket to consider annual COG filing schedules for Northern and other gas utilities in New Hampshire, to allow for more time for required review and analysis. Tr. at 91-92.

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 2012-2013 winter period COG and Transportation COG rates, including the application of the credit related to the settlement agreement approved in Docket No. DG 12-131, by Order No. 25,431. We note that Staff has concerns regarding certain supply portfolio issues, and are confident that Staff will bring these to the attention of the Commission in the next COG proceeding if advisable. We expect Northern to apply principles of least cost planning to its dispatch decisions and will review such decisions, including its Tennessee Zone 6 delivered baseload supply contract, as part of its next COG proceeding. We also approve Northern's LDAC rate components consisting of the environmental cost recovery and RLIARA 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.

As to the issue of the PNGTS litigation costs, which are not 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. We condition our approval on the ground that recovery of these costs occurs in the manner described by Northern. Specifically, the costs will 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.

We also agree with Staff that annual review of COG filings for gas utilities, including Northern, may be warranted. To that end, we will consider opening a generic docket to consider the potential for single annual COG rate adjustment filings in early 2013.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2012-2013 Winter period COG rates of $0.8159 per therm for Residential, $0.7507 per therm for C&I low winter use and $0.8279 per therm for C&I high winter use for the period November 1, 2012 through April 30, 2013 are APPROVED, effective for service rendered on and after November 1, 2012; 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 including correction of the credit error associated with metering issues, 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 2012-2013 LDAC per therm rates for the period November 1, 2012 through October 31, 2013 are APPROVED, effective for service rendered on and after November 1, 2012 as follows:

	Low Income & Reg. Assess	Demand Side Mngmnt	Environ-mental Remediation	Rate Case Expense	Temp vs Perm Rate Reconcilation	LDAC
Residential	0.0104	0.0403	0.0044	0.0046	0.0123	0.0720
Commercial & Industrial	0.0104	0.0118	0.0044	0.0046	0.0123	0.0435

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 $11.88 per MMBtu of peak MDQ is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation capacity allocators as filed in Proposed Eleventh Revised Page 169, Superseding Tenth 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 $7.70 per MMBtu is APPROVED; and it is

FURTHER ORDERED, that Northern's proposal to deduct $151,922 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 thirtieth day of October, 2012.

Michael D. Harrington
Commissioner

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director