STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 15-353

LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP.
d/b/a LIBERTY UTILITIES

Winter 2015-2016 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,833

October 30, 2015

APPEARANCES: Ronald J. Ritchie, Esq., for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities; Susan Chamberlin, Esq., Consumer Advocate, on behalf of residential ratepayers; and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

In this order, the Commission approves Liberty Utilities (EnergyNorth Natural Gas) Corp.'s proposed 2015-2016 winter cost of gas rate and fixed-price option rate, which are \$0.7516 per therm and \$0.7716 per therm, respectively, and the proposed residential local delivery adjustment charge of \$0.1014 per therm. For non-fixed-price customers, the cost of gas rate is \$0.2025 per therm lower than the weighted average residential cost of gas rate of \$0.9541 per therm in effect during the 2014-2015 winter period. The local delivery adjustment charge is being increased by \$0.0077 per therm. The impact of the cost of gas rate decrease, coupled with other proposed rate changes and previously approved increases in base distribution rates, is an overall decrease in the typical residential heating customer's winter costs over last winter of approximately \$73, or 7.7 percent, assuming gas supply conditions are as the company projects and normal weather conditions prevail.

I. PROCEDURAL HISTORY

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (Liberty) is a public utility distributing natural gas to approximately 90,000 customers in southern and central New Hampshire and in the city of Berlin. On August 28, 2015, Liberty filed proposed rate adjustments pursuant to the cost of gas (COG) clause in its tariff, and other rate adjustments for the 2015-2016 winter period from November 1, 2015, through April 30, 2016. The filing included the direct testimony and supporting schedules of Francisco C. DaFonte, Mary E. Casey, and David B. Simek.[1] Liberty's filing and subsequent docket entries, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at http://www.puc.nh.gov/Regulatory/Docketbk/2015/15-353.html.

The Commission issued an order of notice scheduling a hearing for October 23, 2015. The Office of the Consumer Advocate (OCA) notified the Commission of its participation on behalf of residential ratepayers pursuant to RSA 363:28. There were no intervenors.

Commission Staff (Staff) conducted discovery and a technical session, which representatives of the OCA attended. The hearing was held as scheduled at which Liberty's witnesses adopted their pre-filed testimony and provided additional live testimony, including the testimony of Steven E. Mullen. *See* Transcript of October 23, 2015, Public Hearing (Tr.).

II. COST OF GAS ADJUSTMENT MECHANISM

The cost of gas adjustment mechanism was implemented in 1974 during an era of rapidly changing prices to provide a way to immediately pass on to customers any price increases and decreases in supply costs without having to go through extended proceedings to change rates. Supply costs make up approximately 70% of a residential heating customer's annual bill and

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[1] Exhibit 1 is the confidential version of Liberty's filing. Exhibit 2 is a copy of the same document redacted to protect those sections for which Liberty sought confidential treatment.

consist primarily of commodity prices (the cost of the natural gas itself), the cost to transport the gas over the pipelines, and storage costs. Liberty has no control over the price of natural gas, which is an unregulated commodity, or over pipeline transportation rates, which are set by the Federal Energy Regulatory Commission. The COG mechanism allows the Company to pass those costs directly to customers, but prohibits any mark-up of, or profit on, those costs. COG rates are initially set using projected costs and sales for the upcoming summer or winter period. The Company may adjust COG rates monthly to take into account changes in the natural gas market, based on actual costs to date and projected costs for the remainder of the period.

All supply costs and revenues are reconciled semi-annually. During each winter COG rate proceeding, the Commission reconciles the actual costs and revenues from the prior winter period. Likewise, during each summer COG proceeding, the Commission reconciles the actual costs and revenues of the prior summer. The results of the reconciliations are reflected in the COG rate going forward. A more detailed description of supply costs and how rates are set can be found on the Commission website at http://www.puc.nh.gov/Gas-Steam/ratevolatility.htm and http://www.puc.nh.gov/Gas-Steam/howgasratesareset.htm.

Another rate the Commission sets within the context of COG proceedings is the local delivery adjustment charge (LDAC). The LDAC allows for recovery of expenses the Commission has approved in prior dockets through a per therm surcharge to be determined and implemented in a COG proceeding. These expenses include costs associated with Liberty's low-income financial assistance and energy efficiency programs, environmental remediation related to manufactured gas plants, and costs related to distribution rate cases such as rate case expenses and reconciliation of temporary and permanent rates. The expenses approved for recovery, and revenues collected through the surcharge, are reconciled and future rates are adjusted accordingly. The Commission typically reviews and adjusts the LDAC during the winter COG proceeding, although the LDAC may be adjusted during the summer period as well. The specific components of the LDAC are discussed below in section III.A.4.

III. POSITIONS OF THE PARTIES

A. Liberty

Liberty proposed residential, commercial/industrial (C&I) high winter use, and C&I low winter use, winter COG per-therm rates of $0.7516, $0.7454, and $0.7647, respectively.[2] The following table compares the proposed rates with the weighted average rates for last winter and the expected bill impact based on last winter's average use of those customer classes. The table also incorporates the proposed changes in the LDAC, and the increase in permanent delivery rates approved by the Commission in Docket No. DG 14-180.

Per Therm Rates (weighted average) & Bill Impacts (average usage) in Dollars								
Rate					Average Cost to Customer over 6 months			
Class	Charge	2014-15	2015-16	Change	2014-15	2015-16	Change	% Change
R-3 Residential Heating	COG	0.9541	0.7516	(0.2025)	594	468	(126)	-21%
	LDAC	0.0772	0.1014	0.0242	48	63	15	31%
	Delivery	0.4909	0.5522	0.0614	306	344	38	13%
	Total	1.5218	1.4049	(0.1169)	948	875	(73)	-8%
G-42 C&I Medium Annual High Winter	COG	0.9528	0.7454	(0.2074)	11,360	8,887	(2,473)	-22%
	LDAC	0.0628	0.0685	0.0057	749	817	68	9%
	Delivery	0.3542	0.3712	0.0170	4,223	4,426	203	5%
	Total	1.3698	1.1851	(0.1847)	16,332	14,130	(2,202)	-13%
G-52 C&I Medium Annual Low Winter	COG	0.9360	0.7647	(0.1713)	9,442	7,714	(1,728)	-18%
	LDAC	0.0628	0.0685	0.0057	634	691	58	9%
	Delivery	0.2470	0.2631	0.0161	2,492	2,654	162	7%
	Total	1.2458	1.0963	(0.1495)	12,567	11,059	(1,508)	-12%

[2] The C&I "high winter" and "low winter" COG rates reflect the cost differential to serve those customer classes as determined through a Market Based Allocation COG analysis that established ratios to be used in setting summer and winter COG rates.

1. Reasons for the Decrease in the COG Rates

Mr. Simek testified that the lower COG for the 2015-2016 winter period is due to current and projected market conditions, and to a $3.6 million over-collection during the winter 2014-2015 period. Exhibit 1 at 23-39. Mr. Simek explained that the over-collection occurred because of a sharp decrease in gas costs. *Id.* at 31.

2. Supply Reliability and Price Stability – Hedging

Liberty described the availability of its supply from Canada, the Gulf coast, the shale gas region, and from Liberty's own storage capacity. Mr. DaFonte stated that Liberty's LNG and propane facilities provide gas when the other sources are not available. Exhibit 1 at 3-12.

Mr. DaFonte also summarized the status and results of Liberty's RFPs for various sources of gas supplies. Exhibit 1 at 8-9. Mr. DaFonte described the supply and reliability risks associated with the potential peak period return of significant numbers of Liberty's capacity-exempt transportation customers, commonly referred to as reverse migration. Tr. 23-25. Mr. DaFonte also testified that approximately 46 percent of Liberty's gas purchases will be at a known price going into the winter. Tr. at 30.

3. Transportation Rates, Allocators, and Other Charges

Liberty's proposed firm transportation COG rate is a credit to customers of ($0.0007) per therm. Exhibit 1 at 25. As to other charges, the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, beginning with the November billing month. *See Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652 (March 15, 2001). Supplier balancing charges relate to daily imbalances in each supplier's resource pool at Liberty delivery points (city gates). The suppliers pay Liberty's supplier balancing charges as compensation for costs incurred by Liberty to stay within daily operational balancing tolerances on the Tennessee Gas Pipeline. Peaking service demand charges reflect Liberty's peaking resources and associated costs.

Liberty proposed to reduce the peaking demand charge from $18.22 per MMBtu of peak maximum daily quantity (MDQ) to $12.89 per MMBtu of Peak MDQ, a $5.33 decrease. Exhibit 1 at 38. The capacity allocator percentages, which are used to allocate pipeline, storage and local peaking capacity to high and low load factor customers under the mandatory capacity assignment requirement for firm transportation service, have been updated to reflect Liberty's supply portfolio for the upcoming year. Finally, Liberty's company allowance factor, to account for the difference between total sendout and throughput of gas, was calculated to be 1.7 percent. Exhibit-1 at 37 and 226

4. Local Distribution Adjustment Charge (LDAC)

Liberty's filing proposed a per therm LDAC of $0.1014 for the residential classes (an increase from $0.0937 per therm), and $0.0685 for the Commercial and Industrial classes (a decrease from $0.0793 per therm), to be billed from November 1, 2015, through October 31, 2016. The LDAC is a combined rate of various surcharges by Liberty, for energy efficiency, environmental remediation, residential low income assistance (RLIAP), and rate case expenses. Exhibit 1 at 32-33.

Regarding the energy efficiency charge, which recovers expenses to administer Liberty's energy efficiency programs, Liberty proposed a residential rate of $0.0585 per therm (a decrease from $0.0646 per therm), and a C&I rate of $0.0256 (a decrease from $0.0502 per therm). Exhibit 1 at 33.

Liberty seeks approval for the environmental surcharge for Manufactured Gas Plant (MGP) remediation, assessed on all classes of customers, to be increased from $0.0055 to

$0.0144 per therm for November 1, 2015, until October 31, 2016. Exhibit 1 at 34-35. Ms. Casey provided background regarding Liberty's ongoing MGP environmental remediation efforts at several sites in New Hampshire. Exhibit 1 at 15-21.

For the RLIAP, assessed on all classes of customers, which recovers administrative and other costs relating to discounts for low-income customers, Liberty proposed a charge of $0.0145 per therm (an increase from $0.0091 per therm). Exhibit 1 at 33-34.

Liberty also seeks approval of a Rate Case Expense surcharge of $0.0140 (a decrease from $0.0145), assessed on all classes of customers, in connection with the rate case and recoupment expenses approved in Docket No. DG 14-180, Liberty's last permanent rate case. Exhibit 1 at 36.

5. Concord Legacy Manufactured Gas Site

Regarding local interest in the renovation of the 19th-century brick gasholder structure at the Liberty Concord MGP site for historical preservation, Liberty stated that renovation costs, beyond those costs required for environmental remediation or stabilization, would need to be covered by third parties. Tr. at 36-38.

6. Single Annual Cost of Gas Filing Proposal

Mr. Simek described Liberty's intention to file a single annual COG filing in the future, with reduced administrative burden and the provision of different winter and summer COG semi-annual rates. Exhibit 1 at 38-39. Liberty expressed hope that by working together with Staff and the OCA, an annual COG filing plan could be approved by the Commission in advance of the 2016-2017 filing period. *Id.* at 39; Tr. at 31-32.

7. iNATGAS

At the hearing, in response to OCA and Staff questioning, Liberty provided some factual details regarding delays in the commencement of operations until the spring of 2016 by iNATGAS, a Liberty customer located in Concord. Tr. at 15-23; 32-34. Liberty confirmed that the delay would actually result in lower forecasted demand and lower demand-related costs for Liberty's residential and C&I customers in this upcoming winter COG period. Tr. at 15-16. Liberty expects iNATGAS to commence operations by June 1, 2016, and provided a narrative explanation of the contractual and financial safeguards in place to protect Liberty's investment to date, of approximately $3 million, in iNATGAS-related physical plant. Tr. at 15; 17-23. Liberty committed to continue sharing information with Staff regarding the status of iNATGAS. Tr. at 54.

B. OCA

The OCA stated that it did not object to the COG rate proposal made by Liberty. Tr. at 52.

C. Staff

Staff expressed its support for approval of the 2015-2016 COG and LDAC rates as filed, subject to reconciliation. Tr. at 52. Staff also indicated that it would continue to monitor the iNATGAS situation. *Id.* Regarding the Concord gasholder at the MGP site, Staff expressed its position that only direct environmental remediation costs should be recoverable through customer rates, and that historical preservation efforts were beyond the scope of recoverable costs. Tr. at 53.

IV. COMMISSION ANALYSIS

The Commission has broad statutory authority to set rates. The Commission applies the "just and reasonable" ratemaking standard of RSA 378:7 when setting COG rates. *Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities,* Order No. 25,658 (Apr. 30, 2014). Based on our review of the record in this docket, we approve the proposed 2015-2016 winter period COG rates as just and reasonable. We also approve Liberty's LDAC rate components (including the energy efficiency charge, environmental cost recovery charge, and residential low income assistance program charge), the updated peaking service demand rate, and the proposed transportation capacity allocators. 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 Liberty's next winter COG proceeding for 2016-2017.

We note that pursuant to *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH,* Order No. 24,963 (Apr. 30, 2009), the approved rates may be adjusted downward so far as is needed, and upward by no more than twenty-five percent, without further Commission action.

We concur with Staff and Liberty that a move towards a single annual COG filing, with semi-annual rate adjustments for winter and summer, may be in the interest of administrative efficiency. Therefore, we order the parties to explore such reform. Also, we concur with Staff and Liberty that Liberty is under no obligation to renovate the Concord legacy gasholder structure, beyond work required for ongoing environmental remediation and public safety, and that historical-preservation expenditures for the gasholder would not be prudent expenses recoverable in rates from Liberty gas customers. Given the unique historical value of the structure, however, we encourage Liberty to work with any interested parties who may be willing to fund such an endeavor.

Based upon the foregoing, it is hereby

ORDERED, that Liberty's 2015-2016 winter period COG per therm rates, for November 1, 2015, through April 30, 2016, are APPROVED as set forth in this Order, effective for service rendered on or after November 1, 2015, as follows:

Customer Class	2015-16 Winter Cost of Gas	2015-16 Winter Maximum COG
Residential	$0.7516	$0.9395
C&I, high winter use	$0.7454	$0.9318
C&I, low winter use	$0.7647	$0.9559

and it is

FURTHER ORDERED, that Liberty's FPO 2015-2016 winter COG per therm rate of $0.7716 per therm for the period November 1, 2015 through April 30, 2016, is APPROVED, effective for service rendered on or after November 1, 2015;

FURTHER ORDERED, that Liberty may, without further Commission action, adjust the COG rates based on the projected over- or under-collection for the period, the adjusted rate to be effective the first of the month and not to exceed, cumulatively, a maximum rate of 25 percent above the approved rate with no limitation on reductions to the COG rates; and it is

FURTHER ORDERED, that Liberty shall provide the Commission with its monthly calculation of the projected over- or under-collection, 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. Liberty shall include revised tariff page 76, Calculation of Cost of Gas Adjustment, and revised rate schedules under separate cover letter if Liberty elects to adjust the COG rates, with revised tariff pages to be filed as required by N.H. Code Admin. Rules Puc 1603; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the prime rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates, the rate to be adjusted monthly; and it is

FURTHER ORDERED, that Liberty's proposed 2015-2016 LDAC per therm rates for the period November 1, 2015, through April 30,2016, effective for service rendered on or after November 1, 2015, are APPROVED as follows:

	Environmental Remediation	Energy Efficiency	Residential Low Income	Rate Case Expense	Total
Residential	$0.0144	$0.0585	$0.0145	$0.0140	$0.1014
Commercial & Industrial	$0.0144	$0.0256	$0.0145	$0.0140	$0.0685

and it is

FURTHER ORDERED, that Liberty's proposed firm transportation winter COG rate credit of ($0.0007) per therm for the period November 1, 2015, through April 30, 2016, is APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed supplier balancing charge of $0.24 per MMBtu of daily imbalance volumes is APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed transportation peaking service demand charge of $12.89 per MMBtu of peak maximum daily quantity is APPROVED; and it is

FURTHER ORDERED, that Liberty's company gas allowance factor of 1.7 percent is APPROVED; and it is

FURTHER ORDERED, that Liberty's proposed transportation capacity allocators as filed in proposed First Revised Page 144, Superseding Original Page 144 are APPROVED; and it is

FURTHER ORDERED, that Liberty 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 October, 2015.

Martin P. Honigberg Chairman	Robert R. Scott Commissioner	Kathryn M. Bailey Commissioner

Attested by:

Debra A. Howland
Executive Director