

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 15-393

NORTHERN UTILITIES, INC.

Winter 2015-2016 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

ORDER NO. 25,836

October 30, 2015

APPEARANCES: Patrick H. Taylor, Esq., for Northern Utilities, Inc.; 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 Northern Utilities, Inc.'s, proposed 2015-2016 winter cost of gas rates, including a residential rate of \$0.6570 per therm, and the proposed residential local delivery adjustment clause of \$0.0374 per therm. For residential customers, this represents a \$0.3219 per therm decrease from the rate in effect during the 2014-2015 winter period, and a \$0.0072 per therm decrease from the current local delivery adjustment clause rate. 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 \$192, or 17 percent, assuming gas supply conditions are as the company projects and normal weather conditions prevail.

I. PROCEDURAL HISTORY

Northern Utilities, Inc. (Northern), is a public utility distributing natural gas in the seacoast region of New Hampshire, serving approximately 31,000 customers in its New Hampshire Division. On September 17, 2015, Northern 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 Christopher A. Kahl, Francis X. Wells, and Joseph P. Conneely, and the supplemental testimony of Christopher A. Kahl.¹ Northern'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/2015/15-393.html>.

The Commission issued an order of notice scheduling a hearing for October 20, 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 held a technical session, which representatives of the OCA attended. The hearing was held as scheduled at which Northern's witnesses adopted their pre-filed testimony and provided additional live testimony.

See Transcript of October 20, 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 an extended proceeding to change rates. Supply costs make up approximately 70% of a residential heating customer's annual bill and consist primarily of commodity prices (the cost of the natural gas itself), the cost to transport the gas over the pipelines, and storage costs. Northern has no control over the price of natural gas, which is an unregulated commodity, or over pipeline transportation rates, which are set by the

¹ Exhibit 1 is the confidential version of Northern's filing. Exhibit 2 is a copy of the same document redacted to protect those sections for which Northern sought confidential treatment. Exhibit 3 is the supplemental testimony of Christopher A. Kahl, filed on October 15, 2015.

Federal Energy Regulatory Commission. The COG mechanism allows the Company to directly pass those costs 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, by up to 25 percent, 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 clause (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 Northern's low-income financial assistance and energy efficiency programs, environmental remediation related to manufactured gas plants (MGPs), 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.

III. POSITIONS OF THE PARTIES

A. Northern

Northern proposed residential, commercial/industrial (C&I) high winter use, and C&I low winter use, winter COG per-therm rates of \$0.6570, \$0.6616, and \$0.6462, 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 rates approved by the Commission in Docket No. DG 15-083.

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	0.9789	0.6570	(0.3219)	626	420	(206)	-33%
	LDAC	0.0649	0.0374	(0.0275)	41	24	(18)	-42%
	Delivery	0.7157	0.7641	0.0483	457	488	31	7%
	Total	1.7594	1.4583	(0.3010)	1,124	932	(192)	-17%
G-41 C&I Medium Annual High Winter	COG	0.9950	0.6616	(0.3334)	18,656	12,405	(6,251)	-34%
	LDAC	0.0437	0.0223	(0.0214)	819	418	(401)	-49%
	Delivery	0.2555	0.2727	0.0173	4,790	5,114	324	7%
	Total	1.2942	0.9566	(0.3375)	24,266	17,937	(6,329)	-26%
G-51 C&I Medium Annual Low Winter	COG	0.8755	0.6462	(0.2293)	10,467	7,725	(2,741)	-26%
	LDAC	0.0437	0.0223	(0.0214)	522	267	(256)	-49%
	Delivery	0.2257	0.2409	0.0152	2,698	2,880	182	7%
	Total	1.1448	0.9094	(0.2354)	13,686	10,872	(2,814)	-21%

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. Kahl testified that the lower COG for the 2015-2016 winter period is primarily due to , lower demand and commodity costs, and to a \$2 million over-collection during the winter 2014-2015 period. Exhibit 1 at 6-27. Mr. Kahl also provided testimony regarding the methodology, approved in Docket No. DG 15-090, by Commission Order No. 25,816 (Sept. 22, 2015), for a \$10.4 million refund to New Hampshire Division customers in connection with a refund from PNGTS. Exhibit 1 at 20-21. Mr. Kahl testified that the expected offset credit granted to Northern customers would be \$0.1536 per therm for residential customers, \$0.0759 per therm for C&I high winter load customers, and \$0.1548 per therm for C&I low winter load customers. Exhibit 3.

2. Supply Reliability and Price Stability – Hedging

Northern described the availability of its supply from Canada, the Gulf coast, and shale gas, and from Northern's own storage capacity. Mr. Wells stated that Northern's LNG and propane facilities provide gas as peaking resources. Exhibit 1 at 36-40. Mr. Wells also summarized the status and results of Northern's RFPs for various sources of gas supplies. *Id.* Mr. Wells described the supply and reliability risks associated with the potential peak period return of significant numbers of Northern's capacity-exempt transportation customers, commonly referred to as reverse migration, in light of differences between Maine and New Hampshire capacity-allocation practices, and the recent return of Portsmouth Naval Shipyard to Maine Division supply service. Tr. 20-31. Mr. Wells also testified that approximately 70 percent of Northern's gas purchases will be at a known price going into the winter. Tr. at 32.

3. Other Charges and Allocators

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 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 on interstate pipelines that supply Northern. Peaking service demand charges reflect Northern's peaking resources and associated costs.

Northern's proposed supplier balancing charge is \$0.77 per MMBtu, the same charge as is currently in effect. Northern proposed to increase the peaking demand charge from \$18.86 per MMBtu of peak maximum daily quantity (MDQ) to \$23.40 per MMBtu of Peak MDQ, a \$4.54 increase. *See Proposed Second Revised Tariff Page 153, Exhibit 1 (Tariffs Tab)*. Northern's firm sales re-entry fee has been decreased from a monthly unit charge of \$5.79 to \$5.18 per MMBtu to reflect updated costs. *See Proposed Second Revised Page 171, Exhibit 1 (Tariffs Tab)*. 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 Northern's supply portfolio for the upcoming year. *See Proposed Second Revised Tariff Page 168 Exhibit 1 (Tariffs Tab)*. Northern revised its company gas allowance factor, to account for the difference between total sendout and throughput of gas. *See Second Revised Page 153, Exhibit 1 (Tariffs Tab)*. Northern also updated its fee schedule for Firm Sales Service Re-Entry Fee Bill

Adjustments, to reflect updated costs. *See* Proposed Second Revised Tariff Page 171, Exhibit 1 (Tariffs Tab).

4. Local Delivery Adjustment Clause (LDAC)

Northern's filing proposed a per therm LDAC of \$0.0374 for the residential classes (a decrease from \$0.0446 per therm), and \$0.0223 for the Commercial and Industrial classes (a decrease from \$0.0234 per therm), to be billed from November 1, 2015, through October 31, 2016. The LDAC is a combined rate of various surcharges by Northern, for energy efficiency, environmental remediation and residential low income assistance (RLIARA). Exhibit 1 at 54-62.

Regarding the energy efficiency charge, which recovers expenses to administer Northern's energy efficiency programs, Northern proposed a residential rate of \$0.0297 per therm (a decrease from \$0.0350 per therm), and a C&I rate of \$0.0146 (an increase from \$0.0138 per therm). Exhibit 1 at 58.

Northern seeks approval for the environmental surcharge for MGP remediation to be reduced to a (\$0.0022) per therm credit, from a \$0.0031 per therm charge, for November 1, 2015, until October 31, 2016, due to a prior-period over-collection. Exhibit 1 at 60-61.

For the RLIARA, through which Northern recovers administrative and other costs relating to discounts for low-income customers, Northern proposed a charge of \$ 0.0099 per therm (an increase from \$0.0078 per therm) for all customer classes. Exhibit 1 at 56-57.

5. Single Annual Cost of Gas Filing Concept

Mr. Kahl, in response to Staff questioning, indicated that Northern is contemplating yearly, as opposed, to semi-annual, COG filings. Tr. at 39. Northern indicated its willingness to work with Staff regarding such a concept. *Id.*

B. OCA

The OCA stated that it did not object to the COG rate proposal made by Northern. Tr. at 49.

C. Staff

Staff expressed its support for approval of the 2015-2016 COG and LDAC rates as filed, subject to reconciliation. Tr. at 49-50. Staff also indicated that it had reviewed Northern's proposed supply balancing charges, the Company gas allowance factor percentage, and the capacity allocator percentages, and recommended Commission approval for these COG filing elements. Tr. at 50. Staff also indicated that it looked forward to exploring with Northern a single annual filing system for COG proceedings in the future. *Id.*

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 Northern'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 Northern'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 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.

Based upon the foregoing, it is hereby

ORDERED, that Northern’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	\$0.6570	\$0.8213
C&I, high winter use	\$0.6616	\$0.8270
C&I, low winter use	\$0.6462	\$0.8078

and it is

FURTHER ORDERED, that Northern 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 Northern 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. Northern shall include revised tariff page 43, Calculation of Firm Sales Cost of Gas Rate, and revised rate schedules under separate cover letter if Northern 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 Northern’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:

	RLIARA	DSM	ERC	Total
Residential	0.0099	0.0297	(0.0022)	0.0374
Commercial & Industrial	0.0099	0.0146	(0.0022)	0.0223

FURTHER ORDERED, that Northern’s proposed supplier balancing charge of \$0.77 per MMBtu of daily imbalance volumes is APPROVED; and it is

FURTHER ORDERED, that Northern’s proposed transportation peaking service demand charge of \$23.40 per MMBtu of peak MDQ is APPROVED; and it is


FURTHER ORDERED, that Northern’s company gas allowance factor of 0.98 percent is APPROVED; and it is


FURTHER ORDERED, that Northern’s proposed transportation capacity allocators as filed in Proposed Second Revised Page 168, Superseding First Revised Page 168 are APPROVED; and it is

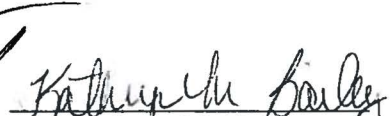
FURTHER ORDERED, that Northern's proposed Firm Sales Service Re-Entry Fee Bill Adjustment fee schedule as filed in Proposed Second Revised Page 171, is APPROVED; and it is

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.

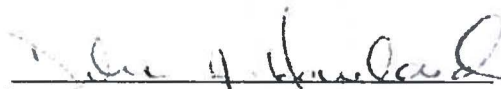
By order of the Public Utilities Commission of New Hampshire this thirtieth day of October, 2015.


Martin P. Honigberg
Chairman


Robert R. Scott
Commissioner


Kathryn M. Bailey
Commissioner

Attested by:


Debra A. Howland
Executive Director