

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 16-309

NORTHERN UTILITIES, INC.

2016 Summer Period Cost of Gas Adjustment

Order Approving Cost of Gas Rates

ORDER NO. 25,891

April 29, 2016

APPEARANCES: Patrick Taylor, Esq., for Northern Utilities, Inc.; Nicholas Cicale, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and Alexander Speidel, Esq., for the Staff of the Public Utilities Commission.

In this order, we approve Northern's proposed 2016 Summer Period Cost of Gas rates including a residential rate of \$0.3196 per therm. The increased COG rate, combined with other rate changes since last summer, is expected to increase a typical residential heating customer's total bill for the six month summer period by approximately \$2.33, or less than one percent, compared to a total bill during the summer of 2015.

I. PROCEDURAL HISTORY

Northern Utilities, Inc. ("Northern"), is a public utility distributing natural gas to approximately 30,000 customers in the southeastern and seacoast regions of New Hampshire. On March 16, 2016, Northern filed proposed rate adjustments pursuant to the cost of gas ("COG") clause in its tariff for the period May 1 through October 31, 2016. The filing included the direct testimony and supporting schedules of Christopher Kahl and Joseph Conneely. Exhibits 1 and 2.¹ Northern's filing and subsequent docket filings, other than any information

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 pursuant to N.H. Code of Admin. Rules Puc 201.06.

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/2016/16-309.html>.

The Commission issued an order of notice scheduling a hearing for April 19, 2016. 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. The hearing was held as scheduled at which Northern's witnesses corrected and adopted their pre-filed testimony and provided additional live testimony.

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 pass on to customers immediately any price increases and decreases in supply costs without having to go through an extended proceeding to change delivery 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 Federal Energy Regulatory Commission. The COG mechanism allows Northern to pass those costs directly to consumers, but prohibits any mark-up of, or profit on, those costs. The costs of gas purchased, transported, and stored during the summer to meet winter demand are recovered through winter rates. COG rates are initially set using projected costs and sales for the upcoming summer or winter period, and may be adjusted in certain circumstances. The Commission has authorized Northern to adjust COG rates monthly, upward to a limit of 25%, or downward in any amount, to take into account changes in the natural gas market, based on actual

costs to the date of the adjustment and projected costs for the remainder of the period in Order No. 24,961 (April 30, 2009).

All supply costs and revenues are reconciled semi-annually. During each summer COG rate proceeding, the Commission reconciles the actual costs and revenues from the prior summer period. Likewise, during each winter COG proceeding, the Commission reconciles the actual costs and revenues of the prior winter. 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/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 set in a COG proceeding. Those expenses include costs associated with Northern’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.

III. POSITIONS OF THE PARTIES

A. Northern

Northern proposed residential, commercial/industrial (“C&I”) high winter use, and C&I low winter use, summer COG per-therm rates of \$0.3196, \$0.3619, and \$0.2832, respectively.² The following table compares the expected bill impact based on last summer’s average use of those customer classes. The table also reflects LDAC adjustments approved in Order No. 25,836 (Oct. 30, 2015), and delivery rates approved in Order No. 25,779 (April 15, 2015). Northern did not propose any change in its LDAC as part of this summer COG proposal. The proposal does incorporate a refund from Portland Natural Gas Transmission System (PNGTS), which totals approximately \$128,190 for the summer 2016 COG period, calculated pursuant to the methodology approved by the Commission in Order No. 25,816 (Sep. 22, 2015).

Bill Impacts Based on Average Usage in Dollars over 6 month Summer Period					
Class	Charge	2015	2016	Change	% Change
R-3 Residential Heating	COG	43	46	3	8%
	LDAC	6	5	(1)	-16%
	Delivery	207	207	0	0%
	Total	256	258	2	1%
G-41 C&I Medium Annual High Winter	COG	1,169	1,393	224	19%
	LDAC	90	90	0	0%
	Delivery	1,805	1,805	0	0%
	Total	3,063	3,288	224	7%
G-51 C&I Medium Annual Low Winter	COG	1,843	2,316	474	26%
	LDAC	191	191	0	0%
	Delivery	2,099	2,099	0	0%
	Total	4,134	4,607	473	11%

Reasons for the Increase in the COG Rates. The proposed residential COG rate is \$0.3196 per therm, an increase of \$0.0234 per therm from the weighted average residential COG

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.

rate of \$0.2962 for the 2015 summer COG season. The C&I COG rates are increasing by a similar amount. Mr. Kahl testified that the increases are due primarily to slightly higher demand costs, driven by a reallocation by Northern of more demand costs to the summer COG as opposed to the winter COG (offset somewhat by more favorable Canadian exchange rates for Canada-based transportation and supply, lowering costs), and having to reconcile an under-collection in the 2015 summer period compared to an over-collection the prior year. Exhibit 2 at 24; Transcript of April 19, 2016 Hearing (Tr.) at 21-22.

Supply Reliability. Northern provided an overview of its supply portfolio for the summer COG season, noting that no changes to Northern's gas supply portfolio have been made since the winter 2015-2016 COG season. Exhibit 2 at 27-29. Northern stated that it continued to own an LNG facility in Lewiston, Maine, that supplies the Northern system. *Id.* at 29.

Notice to Customers. At the hearing, Northern committed to filing its notice to customers of the rate change with the Commission's Consumer Services and External Affairs Division. Tr. at 40.

B. OCA

The OCA stated at the hearing that it found the summer COG rate proposed by Northern to be a just and reasonable rate for residential customers. Tr. at 46. The OCA encouraged Northern, going forward, to "fill its filing with as much comparison models from summers previous when applicable and winters previous when applicable" for analysis purposes. *Id.*

C. Staff

Staff requested that the Commission approve the Northern summer COG rate proposal as filed, subject to reconciliation and audit. Tr. at 47.

IV. COMMISSION ANALYSIS

The Commission has broad statutory authority to set rates in addition to “powers inherent within its broad grant” of express statutory authority. *Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64, 64-65 (2005) (citations omitted). The Commission applies the “just and reasonable” ratemaking standard of RSA 374:2 and RSA 378:7 when setting COG rates.

Northern Utilities, Inc., Order No. 25,783 (April 30, 2015). Based on our review of the record in this docket, we approve the proposed 2016 summer period COG rates as just and reasonable.

We note that pursuant to *Northern Utilities, Inc.*, Order No. 24,961 (April 30, 2009), the approved rates may be adjusted downward so far as is needed, and upward by no more than 25%, without further Commission action.

Based upon the foregoing, it is hereby

ORDERED, that Northern’s revised 2016 summer period COG rates per therm, for May 1 through October 31, 2016, are **APPROVED** as set forth in this Order, effective for service rendered on or after May 1, 2016, as follows:

Customer Class	2016 Summer Cost of Gas	2016 Summer Maximum COG
Residential	\$0.3196	\$0.3995
C&I, high winter use	\$0.3619	\$0.4524
C&I low winter use	\$0.2832	\$0.3540

and it is

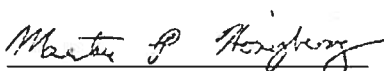
FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates based upon the projected over- or under-collection for the period, the adjusted rate to be effective for the first of the month and not to exceed, cumulatively, a maximum rate of 25% above the approved rates with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

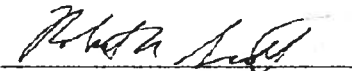
FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rates for the subsequent month, not less than five business days prior to the first day of the subsequent month. Northern shall include revised tariff pages 43, 96 & 97 – Calculation of Cost of Gas Adjustment 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

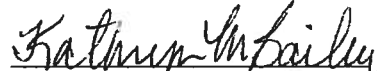
FURTHER ORDERED, that the over- or under-collection shall accrue interest at the prime rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates, the rate to be adjusted each month; and it is

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.

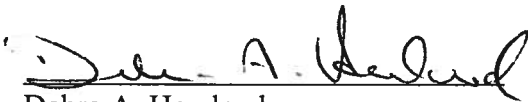
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2016.


 Martin P. Honigberg
 Chairman


 Robert R. Scott
 Commissioner


 Kathryn M. Bailey
 Commissioner

Attested by:


 Debra A. Howland
 Executive Director