

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 16-564

NORTHERN UTILITIES, INC.

Petition for Revision to Cost of Gas Adjustment Clause

Order Granting Petition

ORDER NO. 25,940

August 25, 2016

In this order, the Commission grants the request of Northern Utilities, Inc., for a revision to the Cost of Gas Adjustment Clause in its tariff and a change in the way it implements seasonal cost of gas reconciliation filings. Under the revised tariff, Northern Utilities will make a cost of gas filing by September 16 each year, which is 45 days ahead of the start of the winter season on November 1. The annual filing will include both winter and summer period adjustments for the 12 months beginning November 1 and ending October 31.

I. SUMMARY OF PETITION

On June 15, 2016, Northern Utilities, Inc. (“Northern Utilities” or “the Company”) filed a Petition pursuant to RSA 374:2 and RSA 378:3 to amend the Cost of Gas (“COG”) Adjustment Clause in its tariff. The Company seeks to amend its COG Adjustment Clause to provide for a single annual COG petition instead of two seasonal petitions. The Company currently submits two petitions per year to set COG rates for the winter season and summer season respectively. The winter period runs from November 1 through April 30 and the summer period runs from May 1 through October 31. 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. Likewise, during each summer COG proceeding, the Commission reconciles the actual costs and revenues of the prior summer.

Under its proposal, the Company will make a single annual COG filing containing both winter and summer season rates. There will be no change in the allocation of gas costs to the summer and winter season; however, there will no longer be separate COG reconciliations for the winter and summer seasons. There will only be an annual COG reconciliation. The Company will submit its annual COG filing at the same time it currently submits its winter season COG filing – at least 45 days before November 1 (the effective date of winter season rates).

The Company is proposing a new methodology for minimizing the COG reconciliation ending balance and determining if a monthly COG rate adjustment is needed. Under the existing methodology, the target COG reconciliation is for end of season balances of \$0 for both the summer and winter seasons. With an annual COG filing and reconciliation, the target ending balance is also zero, but this will apply only at the end of the COG year (October 31).

Northern Utilities uses New York Mercantile Exchange (“NYMEX”) pricing to forecast and set the gas rates for each season. Using these market pricing signals, the Company is able to adjust COG rates upward by up to 25% of the Commission’s initial season rates or downward by any amount. In general, the Company will adjust monthly COG rates upward or downward when the estimated COG reconciliation revenue is over or under projected total costs by 2% in the winter and by 4% in the summer season, thereby realigning projected revenues so that the COG reconciliation ending balance is at, or close to, zero. In practice, Northern Utilities allocates most of its gas demand costs to the winter season. This practice reflects the fact that

storage contracts and pipeline costs are incurred primarily during the winter season, but are billed evenly throughout the 12-month period. The majority of costs are recovered during the winter season resulting in an over collection by the end of the winter season. During the summer season, a smaller portion of the demand costs are collected resulting in an under collection. This results in an annual COG collection ending balance which is at, or close to, zero by the end of the summer season.

With an annual filing, Northern Utilities will establish a target COG reconciliation balance for the end of the winter season – April 30. Each month thereafter, the Company will update its expected COG reconciliation ending balance and compare that to the target COG ending balance. This updated balance will reflect actual costs and revenues as well as any prospective changes in NYMEX prices. If the projected COG ending balance varies from the target by 2% or more of projected winter season costs, monthly COG rates will be adjusted to equate the COG reconciliation to the target balance. As is the current practice, any over and under collections during winter season will accrue interest at the prime rate. Northern Utilities will use an expanded variance range, meaning that the summer season calculations will incorporate the actual winter season's reconciliation. The goal is to minimize the annual COG reconciliation ending balance. If the winter season has a variance which results in an over collection – the typical case – then a larger under collection in the summer season can be tolerated without needing to adjust rates. This helps off-set the winter season over collection variance and minimizes the annual COG reconciliation ending balance. Conversely, if the winter season has a projected end of season variance that results in an under collection, then a larger over collection in the summer can be tolerated without the need to adjust COG rates. Consistent

with its current general practice ending balance variances of 4% or more will trigger a rate adjustment.

According to the Company, this change in calculation and methodology will not have any material impact on rates paid by customers. Revising the COG Adjustment Clause so that there is only one annual filing will be more efficient because it will result in the expenditure of fewer resources by both the Commission and the Company.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at: <http://puc.nh.gov/Regulatory/Docketbk/2016/16-564.html>.

II. SUMMARY OF STAFF REVIEW

On July 15, 2016, the Commission issued an order suspending the tariff pages filed by Northern Utilities pending the Commission's investigation. *See* Order No. 25,924 (July 15, 2016). Staff propounded one set of data requests on the Company, and the Company, Staff and the Office of Consumer Advocate, participated in a pre-hearing conference and a technical session on August 9. All parties were in agreement that Until should proceed with revising its tariff so that the Company could be permitted to make one annual COG filing that will reconcile both winter and summer season rates. No intervenors were present at the hearing and no one objected to the proposed changes. Northern Utilities submitted draft revised tariff pages on August 18 reflecting additional changes suggested by Staff.

Staff issued a recommendation to approve the petition on August 19. *See* Staff Recommendation of Al-Azad Iqbal. The Company submitted final revised tariff pages on August 22. Staff agreed that the proposed changes would have no material impact on customer

rates and that changing from two COG filings to one would be more administratively efficient and would conserve Commission and Company resources. By submitting one annual COG filing, Northern Utilities will eliminate the repetition contained in the summer COG filing.


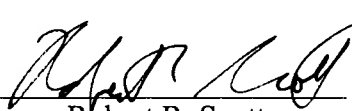
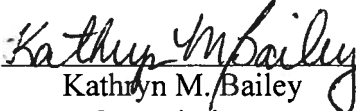
III. COMMISSION ANALYSIS

The parties have demonstrated the inherent efficiencies to be gained by changing the COG Adjustment Clause so that there is only one filing per year. An annual COG filing is more efficient, less cumbersome, and provides the same information as the two current seasonal filings. In addition, an annual reconciliation simplifies the record keeping, tracking, and analysis of revenues and costs. The Commission agrees that the tariff change will have no material adverse effects on the COG rates paid by customers and finds it just and reasonable.


Based upon the foregoing, it is hereby

ORDERED, that Northern Utilities is authorized pursuant to RSA 378:3 and 374:2 to modify its COG Adjustment Clause and tariff as outlined in its revised tariff pages amending the COG Adjustment Clause.

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

 <hr style="width: 100%; border: 0.5px solid black;"/> Martin P. Honigberg Chairman	 <hr style="width: 100%; border: 0.5px solid black;"/> Robert R. Scott Commissioner	 <hr style="width: 100%; border: 0.5px solid black;"/> Kathryn M. Bailey Commissioner
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Attested by:



 Debra A. Howland
 Executive Director