

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 16-819

NORTHERN UTILITIES, INC.

2016-2017 Winter/Summer Cost of Gas Filing

Order Approving Cost of Gas Rates and Other Charges

ORDER NO. 25,959

October 26, 2016

APPEARANCES: Patrick H. Taylor, Esq., for Northern Utilities, Inc.; John S. Clifford, Esq., for the Staff of the Public Utilities Commission.

In this order, the Commission approves Northern Utilities, Inc.'s, proposed 2016-2017 winter and 2017 summer cost of gas rates. The initial residential rate for the winter period (November 1, 2016 – April 30, 2017) will be \$0.7558 per therm with a local delivery adjustment charge (LDAC) of \$0.0483 per therm effective November 1, 2016, and an LDAC of \$0.0489 per therm effective January 1, 2017. The rate for residential customers during the summer period (May 1, 2017 – October 31, 2017) will be \$0.4055 per therm. A typical residential heating customer will see an average monthly bill of \$191 per month in winter 2016-2017 compared to \$175 for winter 2015-2016 and an average monthly bill of \$46 in summer 2017 compared to \$45 for 2016.

PROCEDURAL HISTORY

Northern Utilities, Inc. (“Northern” or the “Company”), 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 16, 2016, Northern filed a proposed rate adjustment pursuant to its cost of gas (COG) clause and other rate adjustments, in its tariff for the 2016-2017

winter and summer periods. The filing included the direct testimony of the Company's agents and supporting schedules. Northern and Commission Staff conducted discovery and met in a technical session on October 3, 2016. A final hearing was held on October 11, 2016. There were no petitions for intervention filed in the docket and no person appeared at the final hearing to provide public comment either in support of or in opposition to the proposed COG rates. 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/2016/16-819.html>

I. COST OF GAS ADJUSTMENT MECHANISM

The cost of gas adjustment mechanism was implemented in 1974 during a time of rapidly changing prices as a way to immediately pass on to consumers price increases and decreases in energy supply costs without having to go through extended proceedings to change delivery rates. Supply costs make up approximately 50% of a residential heating customer's annual bill and consist of commodity prices (the cost of gas), 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. Similarly, it has no price control over pipeline transportation rates, which are set by the Federal Energy Regulatory Commission. The COG mechanism allows the Company to directly and efficiently pass along those costs to its customers without mark-up or profit. COG rates are initially set using projected costs and sales for the upcoming winter and summer periods. The majority of natural gas storage and pipeline costs are incurred to meet winter demand and, although billed evenly throughout the 12-month period, those costs are allocated to the winter period and recovered through winter COG rates. 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.

Another rate the Commission sets within the context of COG proceedings is the local delivery adjustment charge, or 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 through the COG proceeding. Those expenses include costs associated with Northern's low-income financial assistance and regulatory assessment costs (RLIARA) rate, the energy efficiency charge (EEC) and the environmental response cost (ERC) rate. The RLIARA allows the Company to recover the revenue discounts associated with customers participating in the Residential Low Income Assistance Program as well as the costs associated with administering that program as approved by the Commission in Order No. 24,508 (September 1, 2005). The EEC charge is designed to recover projected expenses associated with the Company's energy efficiency programs. The ERC rate includes costs for environmental remediation related to manufactured gas plants. The LDAC also includes the non-distribution portion of the annual New Hampshire PUC regulatory assessment to the Company. The Commission is approving a new rate mechanism for inclusion in the LDAC called the Lost Revenue Rate (LRR). This rate mechanism is being established in accordance with Order No. 25,932 (August 2, 2016) approving a Settlement Agreement which provides for the implementation of an adjustment mechanism to recover lost revenue due to the installation of energy efficiency measures beginning in January 2017.

II. 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 \$0.7558; \$0.7696 and \$0.6801 respectively. The following table displays the expected bill impact based on last winter's average use of each customer class.

Winter 2016-2017 (Projected)

Customer Class	2016-2017	2015-2016	% Change
R-3 Residential Heating	\$1,076	\$986	9.13%
G41 – C&I Medium High Winter	\$18,648	\$16,248	14.77%
G51 – C&I Medium Low Winter	\$10,716	\$10,156	5.51%

Summer 2017 (Projected)

Customer Class	2017	2016	% Change
R-3 Residential Heating	\$255	\$248	2.99%
G41 – C&I Medium High Winter	\$3,074	2,842	8.17%
G51 – C&I Medium Low Winter	\$4,374	\$4,125	6.02%

A typical residential heating customer will see an average monthly bill of \$191 per month in winter 2016-2017 compared to \$175 for winter 2015-2016 and an average monthly bill of \$46 in summer 2017 compared to \$45 for 2016.

Northern's filing proposed a per therm LDAC of \$0.0483 per therm for the residential classes and \$0.0294 for C&I classes effective November 1, 2016. Beginning in January 2017,

the Company proposes to increase the LDAC to reflect the new LRR mechanism. Effective January 1, 2017, Northern proposes an LDAC for residential classes of \$0.0489 per therm and \$0.0296 for C&I customers.

B. Staff

At the hearing, Staff expressed support for approval of the 2016-2017 COG and LDAC rates as filed, subject to reconciliation and the approval of a single COG filing along with the implementation of the new LRR rate in the LDAC. Staff indicated that it had reviewed and supports Northern's proposed supply balancing charges, the Company's gas allowance factor percentage, and the capacity allocator percentages and recommended the Commission approve them.

III. COMMISSION ANALYSIS

The Commission has broad statutory authority to set rates in addition to "powers inherent within its broad grant" of express authority. *Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64-65 (2005) (citations omitted). The Commission applies the "just and reasonable" ratemaking standard of RSA 374:2 and 378:7 when setting COG rates. *Northern Utilities, Inc.*, Order No. 25,891 (April 29, 2016). Based on our review of the record in this docket, we approve the proposed 2016-2017 winter and summer COG rates as just and reasonable. We also approve Northern's LDAC rate components. Since the COG rates and LDAC rate components 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 filing for 2017-2018.

Pursuant to *Northern Utilities, Inc.*, Order No. 25,891, the approved rates may be adjusted downward so far as needed and upward by no more than 25 percent, without further Commission action.

Based upon the foregoing, it is hereby

ORDERED, that Northern's 2016-2017 winter period COG per therm rates effective for service rendered on or after November 1, 2016, and rates for 2017 summer season effective on May 1, 2017, are approved as set forth in this Order, as follows:

Customer Class	2016-2017 Winter Cost of Gas	2016-2017 Winter Maximum COG	2017 Summer Cost of Gas	2017 Summer Maximum COG
Residential	\$0.7558	\$0.9448	\$0.4055	\$0.5069
C&I High Winter Use	\$0.7696	\$0.9620	\$0.4465	\$0.5581
C&I Low Winter Use	\$0.6801	\$0.8501	\$0.3589	\$0.4486

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 day 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 Calculation of the Firm Sales Cost of Gas Rate tariff pages, and revised rate schedules under separate cover letter if Northern elects to adjust 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 LDAC per therm rates for the period November 1, 2016, through December 31, 2016, effective for service rendered on or after November 1, 2016 are as follows:

Residential	\$0.0483
C&I	\$0.0294

and it is

FURTHER ORDERED, that Northern’s proposed LDAC per therm rates effective January 1, 2017, are to include the LRR of \$0.0006 per therm for residential classes and \$0.0002 for C&I classes; effective for service rendered on or after January 1, 2017 are as follows:

Residential	\$0.0489
C&I	\$0.0296

and it is

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 \$20.82 per MMBtu of peak maximum daily quantity is approved; and it is

FURTHER ORDERED, that Northern’s proposed gas allowance factor of 1.22 percent is approved; and it is

FURTHER ORDERED, that Northern’s proposed transportation capacity allocators as filed, are approved; and it is


FURTHER ORDERED, that Northern's proposed Firm Sales Service Re-Entry Fee Bill Adjustment fee schedule as filed, is approved; and it is

FURTHER ORDERED, that Northern shall promptly 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; and it is

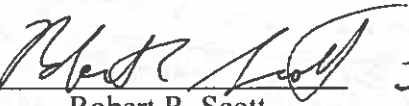
FURTHER ORDERED, that Northern shall file its proposed notice of rate change to customers with the Director of the Consumer Services and External Affairs Division, which office shall approve the form of notice to be submitted by Northern to its customers; and it is

FURTHER ORDERED, that Northern 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.

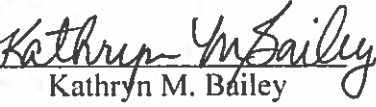
By order of the Public Utilities Commission of New Hampshire this twenty-sixth day of October 2016.



Martin P. Honigberg
Chairman




Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director