STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 17-141

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

2017-2018 Winter Cost of Gas Filing
Order Denying Cost of Gas Rates as Filed
and Directing the Filing of Modified Rates

ORDER NO. 26,067

October 31, 2017

APPEARANCES: Michael J. Sheehan, Esq., for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities – Keene Division; Brian D. Buckley, Esq., of the Office of the Consumer Advocate on behalf of residential ratepayers; Paul B. Dexter, Esq., for the Staff of the Public Utilities Commission.

In this order, the Commission requires Liberty to re-file proposed 2017-2018 winter cost of gas rates for its Keene Division and bill impact analyses that replace costs for compressed natural gas with propane.

I. PROCEDURAL HISTORY

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities - Keene Division ("Liberty-Keene" or the "Company") is a public utility distributing propane air gas in Keene. On September 15, 2017, Liberty-Keene filed its proposed cost of gas ("COG") rates for the 2017-2018 winter period. During the forecast period, Liberty-Keene plans to begin serving some of its existing propane air customers using compressed natural gas ("CNG") delivered through the existing underground distribution system. The Company's proposed COG rates include CNG costs.

The filing included direct testimony and supporting schedules. On October 2, 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 and the OCA conducted discovery and met with Liberty-Keene in a technical session on October 2, 2017.

On October 11, Liberty-Keene filed a technical statement wherein it noted that the cost of gas for the upcoming winter would be higher than what was presented on September 15 due to summer demand charges in its contract to purchase CNG that were not reflected in the September 15 rates. Liberty proposed to allocate these demand charges to the winter COG. Liberty did not propose revised rates to reflect the increased CNG costs but, instead, proposed to include those costs in a subsequent COG reconciliation filing.

A public hearing was held on October 13.

Liberty-Keene'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/2017/17-141.html.

II. 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 pass on to consumers price increases and decreases in energy supply costs quickly, without having to go through extended proceedings to change delivery rates. Supply costs are expected to make up approximately half of a residential heating customer's annual bill. Liberty has no control over the price of propane or CNG, which are unregulated commodities. The COG mechanism allows the Company to pass along those costs to its customers directly and efficiently without mark-up or profit. COG rates are initially set using projected costs and sales for the upcoming winter period. The Company may adjust COG rates monthly to take into account changes in the gas market based on actual costs to date and projected costs for the remainder of the period.

The Company's 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 reconciliation are reflected in the COG rates 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.

As in prior years, Liberty-Keene offers customers the opportunity to lock in a specific price per therm for gas supply called the Fixed-Price Option (FPO) program. Under the FPO, a customer pays one price per therm for the gas supply portion of their bill from November 1 through April 30. The non-FPO rate fluctuates with market prices and is subject to monthly increases or decreases depending on the actual cost paid for the supply.

III. POSITIONS OF THE PARTIES AND STAFF

A. Liberty-Keene

1. Proposed Rates

Liberty-Keene proposed a non-fixed-price winter COG rate of $1.2208 per therm, and a fixed-price option rate of $1.2408 per therm. The FPO rate reflects a $0.02 premium. The proposed rates are approximately 29 cents per therm less than last winter's initial non-FPO rate, and fixed FPO rate. The primary driver of the decrease in rates is the small prior period overcollection of $28,411 included in the calculation of this year's rate as compared to the significant under-collection of $406,518 present at the start of the prior winter period.

2. Rate Change on a Bills Rendered Basis

Liberty-Keene requested a waiver of N.H. Code Admin. Rules Puc 1203.05, which requires rate changes to be implemented on a service-rendered basis, so that Liberty-Keene can charge the new rates on a bills-rendered basis, as Liberty-Keene has done since acquiring the Company, and as its predecessor company had done. According to Liberty-Keene, it would be less confusing to its customers who are accustomed to rate changes being implemented on a bills-rendered basis, and billing system upgrades would be needed to effect the rate change on a service rendered basis. Such upgrades would involve substantial cost.

3. CNG

Liberty-Keene stated that although the pure fuel cost of CNG on a dollars per gallon basis is higher than propane, the total cost of CNG would be lower than propane given labor savings that would accrue when the Company no longer runs its propane air blower system. Tr. at 14-15, 25. In addition, the Company stated that safety issues informed its decision to serve Keene with CNG. Tr. 14-15.

B. OCA

The OCA questioned Liberty-Keene about its proposal to include CNG costs in the COG. The Company testified that in the upcoming winter, only commercial customers would be served with CNG, but that the costs of the CNG would be spread across all customers. Tr. at 11-15. Further, on a per gallon basis, the CNG was more costly than propane. *Id.* Based on these statements, the OCA requested that the Commission require Liberty to revise its filing to include only propane costs. The OCA stated that even if the Commission granted Liberty's request for a declaratory ruling that no new franchise would be needed to serve customers using CNG in Keene, the OCA would still be concerned about cross subsidization of the commercial customers by the residential customers due to the introduction of CNG to commercial customers in Keene. Tr. at 44.

C. Staff

Staff stated support for the proposed rates, but requested the opportunity to adjust the rates in a future reconciliation filing pending resolution of the CNG issues. Staff noted that the labor savings cited by Liberty-Keene as a basis for its conclusion that CNG was a lower cost option than propane, are base rate items and are under review in Liberty's pending distribution rate case. Staff argued that if the labor costs are found to have been unneeded in the first place, those same labor costs should not be used to justify a switch to CNG. Tr. at 44-45.

IV. 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.

Concerning the introduction of CNG to Keene, the Commission notes that its recent ruling in DG 17-064 (Order No. 26,065 issued on October 20, 2017, after the hearing in this docket) determined that the Company does not need a new franchise to provide CNG service, but required Liberty-Keene to satisfy safety requirements <u>before</u> any CNG is used. Whether the conditions regarding safety required in Order No. 26,065 will be met during the upcoming winter is not clear. Furthermore, whether CNG represents the best choice for Keene is an open question. The record in this case shows that for the upcoming winter, on a fuel-only per gallon basis, continued use of propane is the lower cost option. The Company counters that when labor savings are included, CNG is the lower cost choice. Liberty also claims that safety is improved with CNG. Staff argues that the labor costs may not have been prudent in the first place and that eliminating them should not be used to justify CNG. Staff notes that the prudence of the labor costs is at issue in the pending Liberty rate case (DG 17-048) which will not be decided until 2018. We can envision that the introduction of CNG into an existing propane air distribution system may cause some additional non-fuel costs, which may offset the labor savings cited. Clearly, many issues surrounding the introduction of CNG to Keene remain unresolved and this is not the docket in which to decide them.

We recognize that while Liberty-Keene is forecasting the use of CNG this winter, the introduction of CNG into the Keene system will not occur by the proposed effective date of these rates (November 1) due to the safety requirements laid out in our order in DG 17-064. Thus, we will not approve the proposed 2017-2018 winter COG rates as filed and will require Liberty-Keene to refile COG rates that remove any costs of CNG. The revised COG rates should reflect use of propane only throughout the upcoming season, based on propane prices presented in the record. The Commission will review and approve such refiled rates as expeditiously as possible.

We approve Liberty-Keene's waiver request so that it may adjust any rates ultimately approved in this case on a bills-rendered basis consistent with waivers the Commission has granted to the Company's predecessors and to prevent excessive expenditures to replace existing billing systems.

Based upon the foregoing, it is hereby

ORDERED, that Liberty Keene's 2017-2018 winter period COG per therm rates effective for service rendered on or after November 1, 2017, are denied, and it is

FURTHER ORDERED, that Liberty-Keene shall refile, as quickly as possible, its proposed COG rates with all costs related to CNG removed and replaced with propane costs; and it is

FURTHER ORDERED, that Liberty-Keene shall file bill impact analyses to show the impact of these rates on customers, in a format similar to that used in its initial filing of September 15; and it is

FURTHER ORDERED, that Liberty-Keene may, without further Commission action, adjust any non-FPO COG rates ultimately approved in this case 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 Liberty-Keene 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-Keene shall include revised tariff pages and revised rate schedules under separate cover letter if Liberty-Keene 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 Liberty-Keene shall submit its notice of any rate change to customers, to the Director of Consumer Services and External Affairs; and it is

FURTHER ORDERED, that Liberty-Keene is granted a waiver of N.H. Code Admin. Rules Puc 1203.05 so that it may render its customers' invoices at rates ultimately approved in this case on a bills-rendered basis.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2017.

Martin P. Honigberg Chairman	Kathryn M. Bailey Commissioner	Michael S. Giaimo Commissioner

Attested by:

Debra A. Howland
Executive Director