STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 19-153

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

Winter 2019-2020 Cost of Gas

Order Approving Cost of Gas Rates

O R D E R N O. 26,305

October 31, 2019

APPEARANCES: Steven Mullen, for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities – Keene Division; the Office of the Consumer Advocate by D. Maurice Kreis, Esq., on behalf of residential ratepayers; and Mary Schwarzer, Esq., on behalf of Commission Staff.

This order approves Liberty-Keene's proposed winter 2019-2020 cost of gas rates for the period November 1, 2019, through April 30, 2020, on a provisional basis. A portion of the rate is subject to refund should the Commission later determine that Liberty-Keene's conversion from propane-air to compressed natural gas was imprudent. The initial non-fixed price for the period will be $0.9492 per therm, and the fixed-price throughout winter 2019-2020 will be $0.9692 per therm. The impact of the cost of gas rate change is an overall decrease of approximately $232 or 23 percent in the typical residential heating customer's winter cost compared to last year's winter cost. The primary reason for the change in rates is the temporary removal of propane production costs from the cost of gas rate.

I. PROCEDURAL HISTORY AND BACKGROUND

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 and natural gas in

Keene, New Hampshire.[1] On September 16, 2019, Liberty-Keene filed its proposed cost of gas (COG) rate and fixed-price option (FPO) rate for winter 2019-2020.

When seeking Commission approval for its acquisition of Keene in 2014, Liberty mentioned future plans to convert the existing Keene propane-air gas system to a natural gas system. On October 4, 2019, Liberty-Keene began providing compressed natural gas (CNG) service to approximately twenty customers located in the Monadnock Marketplace. Exhs. 1 and 2. This is the first winter period in which Liberty-Keene will be using CNG to meet some Keene customer supply requirements. Exhs. 7 and 8. The Company's blended forecasted prices include, and combine, propane and natural gas supply costs.

The Commission issued an Order of Notice on September 20, 2019. Commission Staff (Staff) conducted discovery and held a technical session on September 23. On October 17, Staff submitted testimony. On the same day, Liberty filed revised pages updating the tariff, testimony, and bill impact schedules to incorporate a revision to the revenue decoupling adjustment factor (RDAF) in the Company's local distribution adjustment charge (LDAC), and to revise Schedule B to specify the separate costs of propane and CNG pursuant to Order 26,241. On October 18, 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 Commission held a hearing on October 22, 2019. At the hearing, Liberty-Keene filed a copy of its revised filing, highlighted to show where the Company had made revisions. Exhs. 3 and 9.

[1] Liberty Utilities is comprised of multiple divisions, with a single COG for all divisions other than the Keene Division. The cost of gas for those divisions is referred to as the EnergyNorth COG. The LDAC rates and distribution rates are applicable to all Liberty customers. LDAC rates effective November 1 are determined in EnergyNorth's annual COG proceeding.

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://puc.nh.gov/Regulatory/Docketbk/2019/19-153.html.

II. COST OF GAS ADJUSTMENT MECHANISM

The Cost of Gas (COG) adjustment mechanism was implemented in 1974 during a time of rapidly changing prices as a way to reflect increases and decreases in energy supply costs in customer rates without having to go through extended proceedings to change fuel delivery rates. Supply costs are expected to comprise approximately half of a residential heating customer's annual bill. Liberty-Keene has limited control over the market price of propane and CNG, which are unregulated commodities. Similarly, it has limited control over items such as fuel transportation. The COG adjustment mechanism allows the Company to pass those costs on 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, which runs from November 1 through April 30. Through the COG adjustment mechanism, the Company may adjust COG rates monthly to take into account changes in the propane and natural gas markets based on actual costs to date and projected costs for the remainder of the period. While there is no limitation on reductions to COG rates, rates may be adjusted upward without Commission action up to a cumulative maximum of 25 percent above the approved rate.

As in prior years, Liberty-Keene offers customers the opportunity to lock in a specific price per therm for gas supply through its FPO program. Under the program, a customer pays one price per therm for the gas supply portion of the monthly bill from November 1 through April 30, regardless of market price fluctuations. In contrast, the non-FPO rate fluctuates with market prices and is subject to monthly increases or decreases, depending on the actual cost paid for the gas supply required to serve customers.

III. POSITIONS OF THE PARTIES AND STAFF

A. Liberty-Keene

Liberty-Keene proposed a non-fixed-price 2019-2020 winter COG rate of $0.9492 per therm comprised of the expected costs for propane blended with the expected costs for CNG (blended rate). The Company also proposed an FPO rate of $0.9692 per therm. The FPO rate includes a $0.02 premium over the initial non-fixed price rate for the customer benefit of price certainty.

The non-FPO rate reflects an overall decrease of about $232, or 23 percent, for a typical residential customer over the 2018-2019 winter period. According to the Company, the primary driver of the overall decrease in the proposed blended rates for the upcoming winter period was removal of propane production costs from the COG, and the absence of CNG production costs. These non-supply costs were removed from Liberty-Keene COG rates by agreement in a prior docket, will be determined in Liberty Utilities' next distribution rate case, and then recovered in Liberty-Keene COG rates after that determination is made. Hearing Transcript of October 22, 2019 (Tr.) at 32 and Exh. 7 at Bates Page 5.

On October 4, 2019, the Company began operating its CNG facilities, having recently converted approximately twenty Keene customers from propane-air to CNG service. *Id.* at 26. The Company has contracted for CNG deliveries to provide service to this small section of its Keene system, representing approximately 15 percent of the forecasted Keene winter demand. *Id.*

Liberty-Keene confirmed that the Commission Audit Staff had issued a final report on its review of the Company's winter 2018-2019 COG reconciliation. The only issue identified was the inclusion of certain production costs, which was set-aside when production costs were temporarily eliminated from the COG reconciliation.

At the hearing, the Company wished to address that portion of Staff's testimony recommending that the Commission require Liberty-Keene to calculate and report the incremental supply savings or costs from using natural gas in place of propane. The Company argued that the incremental savings or costs should not be determined solely on commodity costs, but that consideration should also be given to non-supply related costs, such as production costs. The Company's witness, Deborah M. Gilbertson, stated her belief that the Commission had already found the conversion to CNG and expansion to new customers prudent. *Id.* at 19.

B. OCA

The OCA stated its support for Staff's recommendation that Liberty-Keene calculate and report the incremental supply savings or costs resulting from the use of CNG in place of propane in the Company's COG reconciliations. With that caveat, the OCA supported approval of the proposed COG and FPO blended rates.

C. Staff

Staff recommended that the Commission approve the Company's proposed COG and FPO rates, and recommended that the Commission require Liberty-Keene to calculate and report the incremental supply savings or costs, including non-supply costs such as production costs, resulting from the use of CNG in place of propane in its COG reconciliations. Staff argued that any increased cost resulting from the use of CNG should be refunded if the Commission ultimately finds that Liberty-Keene's conversion to CNG was imprudent. Staff used the

Company's calculations regarding what the projected Keene winter supply costs would have been if the Company were using spot propane instead of CNG. Staff determined that the "propane-only" cost would save ratepayers $112,201 as compared to Liberty-Keene's projected winter COG blended rate. That savings is $0.0997 per therm. By way of comparison, were the CNG conversion and the CNG supply contract eventually found to be imprudent, for winter 2019-2020 the proposed COG blended rate of $0.9492 would be replaced with a COG rate of $0.8495 for propane-air service.

Staff explained that in other dockets related to the Liberty-Keene conversion, the Company claimed that the conversion from propane to natural gas would result in lower rates for customers in the long term. Exh. 7 at Bates Page 5. At hearing, Staff stated that, because the Commission has yet to determine whether the conversion (including the CNG supplier contract) is prudent, it is appropriate to allow the Company to recover CNG costs through Liberty-Keene COG blended rates on a provisional basis only. According to Staff, if Liberty-Keene cannot demonstrate that its decision to convert its propane-air system to CNG was prudent, then incremental supply costs resulting from the use of CNG and recovered through COG rates should be subject to refund to avoid burdening Keene ratepayers. *Tr.* at 63-65. With qualifications as described above, Staff found the Company's COG to be reasonable and recommended that the Commission approve the proposed FPO and non-FPO rates.

IV. COMMISSION ANALYSIS

The Commission has broad statutory authority to set rates in addition to "powers inherent within its broad grant" of express authority. *See Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64-66 (2005) (citations omitted). The Commission applies the "just and reasonable" ratemaking standard of RSA 374:2 and RSA 378:7 when setting COG rates. We approve the proposed winter 2019-2020 COG rates as just and reasonable under RSA 374:2 and RSA 378:7 on a provisional basis. The Commission has yet to find the use of natural gas in Keene to be consistent with a least cost supply, or otherwise prudent. *See* Order 26,294 at 11 (September 25, 2019) ("Liberty must justify the cost-effectiveness and ensure the just and reasonable rate impacts for each phase of conversion and expansion of the Keene gas system"). In marked contrast, the Commission has found that the economic viability and cost structure of Liberty's conversion/expansion plans is unknown. *See* Order No. 26,122 at 38. The Commission has already imposed specific requirements to protect EnergyNorth's distribution customers from potential over-capitalization and cross subsidization of the Keene Division. *See id. at 38-40*; and Order 26,294 at 14-15. To date, Liberty-Keene has not sought recovery of conversion/expansion costs, provided the financial analysis to demonstrate that ratepayers are not burdened with unfair or unwarranted costs, or sought a prudence review from the Commission.

Accordingly, our approval is contingent on Liberty-Keene tracking the incremental costs associated with the use of CNG and contingent on the refund of incremental costs if Liberty-Keene's conversion to CNG, including its CNG supply contract, is determined to be imprudent. We require this in light of the Company's recent introduction of CNG into the Keene system, its forecasted use of CNG this winter, and a projected blended COG that exceeds the projected COG using propane-air.

In the event that Liberty-Keene decides to meet some Keene customer's supply needs with LNG, the Company shall also track the incremental costs associated with the use of LNG. Such incremental costs shall be subject to refund if the conversion to and use of LNG is determined to have been imprudent. *See* Order 26,294 (September 25, 2019) (existing Liberty-Keene franchise permits both CNG and LNG).

We require Liberty-Keene to calculate and report the incremental supply savings and costs in the Company's COG reconciliations. The incremental supply savings and costs will be determined by comparing the individual CNG and LNG supply cost at the time of delivery with spot propane prices at that time. Whether non-supply costs, including production costs, are ultimately used in calculating incremental savings and costs will be determined in Liberty's next distribution rate proceeding, and distribution and COG rates will then be adjusted accordingly. *See* Order No. 26,241.

The Commission has already concluded that the economic analysis required as a condition of approving rate consolidation must include non-supply production costs. *See* Order No. 26,122. We further order that the economic analysis of non-supply costs must also track costs by separate fuel including propane-air, CNG, and LNG. Depending on the outcome of our eventual prudence review, Liberty-Keene may be required to refund all or a portion of CNG and LNG incremental costs, including production and supply costs, through an adjustment to COG blended rates.

Based upon the foregoing, it is hereby

ORDERED, that Liberty-Keene's winter 2019-2020 period COG per therm blended rates effective for service rendered on or after November 1, 2019, are conditionally approved as set forth in this order, as follows:

Customer Class	2019-2020 Winter COG	2019-2020 Winter Maximum COG
Non-FPO	$ 0.9492	$ 1.1865
FPO	$ 0.9692	$ 0.9692

and it is

FURTHER ORDERED, that Liberty-Keene track and report incremental natural gas savings and costs in COG reconciliations to be determined by comparing the individual CNG and LNG supply cost at the time of delivery with spot propane prices at that time; and it is

FURTHER ORDERED that if the Commission ultimately finds that conversion of the Liberty-Keene system from propane-air to CNG, or any other natural gas, was imprudent, then all incremental costs related to the conversion and recovered through the COG will be subject to refund through a future Liberty-Keene COG; and it is

FURTHER ORDERED that Liberty-Keene may, without further Commission action, adjust the non-fixed price option COG rates based on the projected over- or under-collection for winter 2019-2020, 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 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 Liberty-Keene shall file its proposed notice of rate change to customers with the Director of the Consumer Services and External Affairs Division, prior to delivery to its customers.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2019.

Kathryn M. Bailey
Commissioner

Michael S. Giaimo
Commissioner

Attested by:

Debra A. Howland
Executive Director

ExecutiveDirector@puc.nh.gov
deborah.gilbertson@libertyutilities
james.bonner@libertyutilities.com
Kelly.esposito@Libertyutilities.cor
Paul.Maffa@Libertyutilities.com
catherine.mcnamara@libertyutilitie
david.simek@libertyutilities.com
deborah.gilbertson@libertyutilities
donald.kreis@oca.nh.gov
karen.sinville@libertyutilities.com
maureen.karpf@libertyutilities.con
ocalitigation@oca.nh.gov
pradip.chattopadhyay@oca.nh.gov
steven.mullen@libertyutilities.com
michael.sheehan@libertyutilities.co
al-azad.iqbal@puc.nh.gov
amanda.noonan@puc.nh.gov
F.Ross@puc.nh.gov
jayson.laflamme@puc.nh.gov
Mary.Schwarzer@puc.nh.gov
steve.frink@puc.nh.gov