

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 21-104

NORTHERN UTILITIES, INC.

Request for Change in Rates

Order Suspending Proposed Tariffs, Convening an Adjudicative Proceeding, and Providing Notice of a Prehearing Conference

O R D E R N O. 26,511

August 29, 2021

This order suspends Northern Utilities, Inc.'s proposed tariffs for temporary and permanent rate increases for 12 months, pending further investigation. The Commission's investigation will occur through an adjudicative proceeding. This Order convenes the adjudicative proceeding and provides notice of a prehearing conference scheduled for September 16, 2021 at 1:30 pm.

On June 30, 2021, Northern Utilities, Inc. (Northern or the Company) filed a notice of intent to file rate schedules. The Office of the Consumer Advocate (OCA) filed a letter of participation on July 8, 2021.

Northern submitted its petition for permanent and temporary rates on August 2, 2021. In addition to permanent and temporary rate increases, Northern requested approval to implement: (1) a multi-year rate plan with three annual step adjustments, starting on August 1, 2022; (2) a full Revenue Decoupling Mechanism (RDM); and (3) an Arrearage Management Program (AMP). Northern provided pre-filed testimony of several Company witnesses,

various schedules and attachments, and proposed tariffs for permanent and temporary rates in support of its petition. Northern also filed a motion for protective order and confidential treatment. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted at <https://www.puc.nh.gov/Regulatory/Docketbk/2021/21-104.html>.

Northern requested a permanent rate increase, effective with service rendered on and after September 1, 2021, which would increase its annual revenues in the amount of \$7,782,950, the revenue deficiency that Northern calculated based on a calendar year 2020 test year. This amount represents an increase of approximately 8.1 percent in total revenues, after accounting for changes to other reconciling mechanisms. If approved, the proposed permanent rate increase would result in an overall rate of return of 7.75 percent. Northern has proposed a capital structure of 52.47 percent common equity and 47.53 percent long-term debt and requested a return on equity (ROE) of 10.30 percent.

According to the Northern, it requested a permanent rate increase because it had experienced significant earnings attrition associated with unrecovered capital investments during and since the Company's last multi-year rate plan. Northern's total rate base of \$188.72 million includes approximately \$57.03 million of gross plant additions since December 2018, the rate year of the last step adjustment in Docket No. DG 17-070. Since the Company's last step adjustment became effective in the second calendar

quarter of 2019, Northern represented that its earned ROE has been well under the 9.50 percent authorized in Docket No. DG 17-070. Other factors underlying Northern's request for a permanent rate increase included the need to timely recover future capital investments in plant and equipment required to improve and expand the Company's distribution system, and the provision of ratepayer protections to mitigate rate effects.

If Northern's request for a permanent rate increase is approved without modification, a typical residential heating customer with R-5 service would see an average increase in monthly bills of 13.5 percent. The monthly bill of a typical residential non-heating customer with R-6 service would increase approximately 29.3 percent. The monthly customer charge for both residential heating customers with R-5 service and residential non-heating customers with R-6 service would increase from \$22.20 to \$27.84 per month. The charge per therm, for all therms, would increase from \$0.6099 to \$0.8491 per therm for R-5 customers. For R-6 customers, the charge per therm, for all therms, would increase from \$0.6470 to \$1.1208 per therm.

During the suspension of its permanent rates tariff, Northern requested approval of temporary rates effective with service rendered on and after October 1, 2021. If approved, the temporary rates would result in an increase of \$3,220,742 in annual revenues, a 3.6 percent increase in current revenues. Northern claimed that its under-earning is likely to be exacerbated by increased expenditures, which are anticipated to occur over the next several months, so that it is in need of immediate rate relief.

Northern proposed establishing as temporary rates the rates set forth in Supplement No. 1 to NHPUC No. 12, which was submitted as part of its rate case filing. The proposed temporary rate increase, if approved, would result in a typical residential heating customer with R-5 service seeing an average increase in monthly bills of 4.7 percent. A residential non-heating customer with R-6 service would see an average increase of 3.0 percent.

The proposed three annual step adjustments to be implemented as part of Northern's multi-year rate plan are designed to recover the revenue requirement associated with certain "non-growth" capital additions to rate base. These non-growth projects include: pipe replacement programs, other replacement programs, system improvements, highway projects, asphalt restoration, farm tap replacement, and reinforcement projects in the Rochester area. Northern would make a compliance filing with the Commission each March 31, beginning in 2022, to recover the revenue requirement associated with eligible plant additions made during the prior calendar year.

The first step adjustment would be implemented on August 1, 2022, the second step adjustment would be implemented on August 1, 2023, and the third step adjustment would take effect on August 1, 2024. Northern proposed a Revenue Requirement Cap limiting the three-year step adjustment cumulative revenue increase to \$10.50 million, with an ROE collar that would require the Company to split earnings above 11 percent between customers and shareholders. Subject to certain exogenous factors and other considerations, Northern would not seek base rate relief during the three-year

step adjustment period, but the ROE collar would permit the Company to file a rate case before 2024 if the ROE was lower than 7 percent.

Northern's second request is to implement a full Revenue Decoupling Mechanism (RDM). In Order No. 25,932 (August 2, 2016), the Commission directed gas and electric utilities, including Northern, to seek approval of a decoupling or other lost revenue recovery mechanism as an alternative to the Lost Revenue Adjustment Mechanism no later than in their first distribution rate case after the first Energy Efficiency Resource Standard triennium. *Id.* at 60. Northern noted that this is the first time the Company has proposed a decoupling mechanism.

Northern's proposed RDM would reconcile monthly actual and authorized revenues per customer by rate class. Authorized revenues per customer would be adjusted annually to reflect the three step increases on August 1, 2022, August 1, 2023, and August 1, 2024. The RDM would apply to the following customer classes: Residential Heating and Non-Heating Service, Schedules R-5 and R-10 combined, and R-6; and Commercial and Industrial Service, Schedules G-40, G-50, G-41, G-42, G-51, and G-52.

The proposed RDM would entail a two-step process: (1) the Company would record the monthly variances and then aggregate them over the 12-month period from August through July; and (2) it would file the applicable RDM adjustment factor with the Commission 45 days before the proposed effective date of November 1. The first adjustment period would be the 12-month period from November 1, 2023 to October 31, 2024. The RDM

adjustment factor would be used to either refund customers the amount of revenues exceeding authorized levels or surcharge customers if actual revenues fell below authorized levels. Any surcharge would be capped at 2.50 percent of total revenue from delivered sales over the 12-month period ending July 31.

Finally, Northern requested permission to implement an Arrearage Management Program (AMP), beginning on August 1, 2022, at which time the Company believes that the proposed permanent rates would be in effect. The AMP would provide flexible payment arrangements and arrears forgiveness for qualifying residential customers who are having trouble paying their natural gas bills. It would also assist customers with learning how to manage their payments more effectively.

The filing raises and the Commission's proceeding will involve issues related to whether the proposed temporary and permanent rates are just, reasonable, and lawful, as required by RSA 374:2, RSA 378:5, and RSA 378:7; whether the proposed increases will yield a just and reasonable return on the prudent cost of plant, equipment, and capital improvements used and useful in Northern's provision of service to the public, less accrued depreciation, as required by RSA 378:27 and RSA 378:28; the prudence of certain investments; whether Northern's requested 10.30 percent ROE will produce rates that are just, reasonable, and lawful, as required by RSA 374:2, RSA 378:5, and RSA 378:7; whether the three proposed annual step adjustments will result in just, reasonable, and lawful rates, as required by RSA 374:2, RSA 378:5, and RSA 378:7; whether the implementation of the proposed RDM will result in just,

reasonable, and lawful rates, as required by RSA 374:2, RSA 378:5, and RSA 378:7; and how the effectiveness of the AMP should be measured. Accordingly, an adjudicative proceeding will be convened to address these issues.

Any individual partnership, corporation, association, governmental subdivision, or public or private organization may petition to intervene and seek to be admitted as a party in this adjudicative proceeding. Each named party in this proceeding has the right to have an attorney represent the party at the party's own expense.

Although the state of emergency declared as a result of the COVID-19 pandemic has lapsed, the Commission is aware that not all potential parties, including various regulated utilities, have returned to full in-person work environments. Therefore, and for the foreseeable future, the Commission intends to continue providing a hybrid approach to its proceedings in order to accommodate those who wish to remain remote and those who desire to be physically present. In order to facilitate this hybrid approach, individuals in the Commission's hearing room will be broadcast on a web-enabled platform. Parties and the public will be able to participate or observe Commission proceedings in-person or do so remotely using the Commission's web-enabled platform.

Based upon the foregoing, it is hereby

ORDERED, that the proposed tariff pages are suspended for a period of 12 months pursuant to RSA 378:6, I(a), pending investigation and further order of the Commission; and it is

FURTHER ORDERED, that an adjudicatory proceeding be commenced for the purpose of investigating and resolving the issues articulated above under the Commission's authority granted in RSA 541-A:31 through 541-A:36, RSA 378:7, and Puc Rules Chapter 200, , and the Commission's procedural rules contained in N.H. Admin. R. CHAPTER Puc 200; and it is,

FURTHER ORDERED, that the Commission will hold a prehearing conference, pursuant to N.H. Admin. R., Puc 203.15, at its offices located at 21 S. Fruit St., Suite 10, Concord, New Hampshire, on September 16, 2021 at 1:30 p.m, at which each party will provide a preliminary statement of its position with regard to the petition and any of the issues set forth in N.H. Admin. R., Puc 203.15. Members of the public who wish to access the prehearing conference remotely may do so by [clicking here](#). **If you have any difficulty obtaining access to this remote event, please notify the Commission by calling (603) 271-2431 as soon as possible.** Parties and members of the public wishing to attend the prehearing conference in person are encouraged to register in advance, on or before September 14, 2021, by calling (603) 271-2431; and it is

FURTHER ORDERED, that any person may petition to intervene and seek to be admitted as a party in this adjudicative proceeding. Each named party has the right to have an attorney represent the party at the party's own expense; and it is

FURTHER ORDERED, that, consistent with N.H. Admin. R., Puc 203.17 and Puc 203.02, any person seeking to intervene in this proceeding shall file

with the Commission a petition to intervene with copies sent to Northern, the Department of Energy, and the Office of the Consumer Advocate on or before September 13, 2021. The petition shall state the facts demonstrating how the petitioner's rights, duties, privileges, immunities, or other substantial interests may be affected by the proceeding, consistent with N.H. Admin. R., Puc 203.17; and it is

FURTHER ORDERED, that any party objecting to a petition to intervene make said objection on or before September 16, 2021; and it is

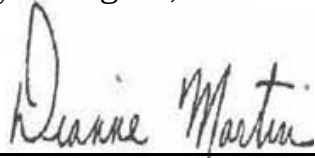
FURTHER ORDERED, that any proposed exhibits, written testimony, motions, or other documents to become part of the record in this proceeding, be filed by the proponent directly with the Commission. Following the creation of the Department of Energy, the Commission does not have access to information provided only to the Department of Energy. Pursuant to the secretarial letter issued on March 17, 2020, which is posted on the Commission's website at <https://www.puc.nh.gov/Regulatory/Secretarial%20Letters/20200317-SecLtr-Temp-Changes-in-Filing-Requirements.pdf>, all Commission rules requiring the filing of paper copies are suspended until further notice. Parties may elect to submit any filing in electronic form unless otherwise ordered by the Commission. Filings will be considered filed as of the time the electronic copy is received by the Commission; and it is

FURTHER ORDERED, that routine procedural inquiries may be made by contacting the Commission's Clerk's Office at ClerksOffice@puc.nh.gov. All

other communications with the Commission shall be in writing and filed as provided above. *Ex parte* communications are forbidden by statute; and it is

FURTHER ORDERED, that pursuant to N.H. Admin. R., Puc 203.12, Northern shall notify all persons desiring to be heard at this prehearing conference by publishing a copy of this order and notice on its website no later than two business days after the date of issue, such publication to be documented by affidavit filed with the Commission on or before September 13, 2021. In addition, the Clerk shall publish this order and notice on the Commission's website no later than two business days after the date of issue.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of August, 2021.



Dianne Martin
Chairwoman



Daniel C. Goldner
Commissioner

Service List - Docket Related

Docket# : 21-104

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