

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DG 13-257

Northern Utilities, Inc.

2013/14 Winter Period

Cost of Gas
Forecast

Direct Testimony

of

Robert J. Wyatt

Assistant Director – Safety Division

October 18, 2013

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Robert J. Wyatt. I am employed by the New Hampshire Public Utilities
3 Commission (Commission) as the Assistant Director of the Safety Division. My business
4 address is 21 South Fruit Street, Suite 10, Concord, New Hampshire 03301.

5 **Q. Please describe your educational and professional background.**

6 A. Please refer to attachment RJW-1.

7 **Q. Have you testified as a Staff witness before this Commission in previous dockets?**

8 A. Yes I have, in cost of gas, cost of (steam) energy and other gas and steam related
9 proceedings. I have also filed testimony specific to gas dispatch, cost of service and rate
10 design segments of base rate cases (DG 03-160, DG 10-017 and DG 11-069).

11 **Q. What is the purpose of your testimony in this proceeding?**

12 A. My testimony will address the following areas:

- 13 • Highlights of Staff's review of Northern's 2013/14 cost of gas filing that was filed
14 on September 16, 2013, including its demand and supply forecast for the
15 upcoming winter period;
- 16 • Staff update related to its concerns raised in testimony filed in Northern's
17 2012/13 cost of gas proceeding (DG 12-273);
- 18 • Results of Staff review and analysis of Northern's 2012/13 winter period cost of
19 gas results;
- 20 • A progress report on aspects of the Company's supply contracting and Asset
21 Management Agreements that Staff sees much improvement; and
- 22 • Goals for next year and other issues related to cost of gas filings.

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Q. Before you share the results of Staff’s review and analysis, would you please provide a brief description of the Northern’s 2013/14 cost of gas forecast that supports the proposed rates in the filing?

A. Yes. Northern operates a single natural gas distribution system that includes territories (divisions) in both New Hampshire and Maine. Although is demand forecast, supply planning and contracts begin as a single system forecast, Northern’s cost of gas filings methodically separate demand and allocate gas supply-related costs to its Maine and New Hampshire divisions based on the forecast requirements of each division. A more detailed description of the process is provided by Company witnesses Wells, Kahl and Conneely.

Q. What are the results of Staff’s review of the Northern’s winter 2013/14 cost of gas forecast?

A. Overall, Staff supports the Company’s cost of gas forecast and the proposed rates in the filing. Staff understands that Northern has just filed a revised forecast with various updates and corrections, some of which typically come to light through discovery or technical session discussions. Staff will review the revised cost of gas forecast prior to the hearing and note the results of that review at the hearing.

Q. Do you support the winter 2013/14 cost of gas forecast and the winter 2012/13 reconciliation?

A. Yes. Assuming there are no material adverse changes in the revised cost of gas schedules and proposed tariff rates I support the cost of gas forecast. I have also reviewed the results of the prior winter period and the Company was able to provide supporting

1 information through its discovery responses and additional clarification at the technical
2 session.

3 **Q. Please describe the primary issue of concern you raised in last year's winter cost of**
4 **gas proceeding.**

5 A. My concern at that time related to the Company's supply forecast for the 2012/13 winter
6 period. Based on my experience it appeared the Company's forecast did not reflect least
7 cost planning with regard to a new delivered winter base load supply contract. The
8 contract was priced at the monthly NYMEX Henry Hub settlement plus a winter period
9 basis that was locked in for the November-March period. My concern was actually two-
10 fold: the forecast unit cost of the supply was higher than other available resources in
11 Northern's portfolio; and the demand requirements did not appear to support the need for
12 this incremental base load resource.

13 **Q. After your review of the 2012/13 cost of gas reconciliation and related discovery**
14 **provided by the Company what were you able to determine related to these**
15 **concerns?**

16 A. My review has been able to determine that Northern's rate-payers were not harmed by
17 addition of this supply contract in last year's winter cost of gas forecast. Northern was
18 able to offset both of those concerns related to the supply mix in last winter's cost of gas
19 forecast. The additional supply costs related to the delivered baseload contract and the
20 under-utilization of existing contracts were offset by numerous off-system sales
21 transactions throughout the period. I credit the hard work of Northern's gas supply team
22 that clearly took advantage of market conditions throughout the winter period to sell
23 quantities of its supply resources off-system when the resources were not needed to meet

1 on-system requirements. Additionally, the New England gas supply market experienced
2 a significant level of gas supply shortages for end-users without firm pipeline capacity,
3 resulting in price volatility due to higher demand levels and numerous interstate pipeline
4 constraints. During the January-February period alone, Northern completed 47 off-
5 system sales transactions where the sale price was at least double the unit cost of its base
6 load contract. These off-system sales have successfully mitigated Staff's concerns
7 related to the delivered base load supply, a contract that I had previously pointed out as
8 higher priced when Northern's other available resources were taken into consideration.

9 **Q. Please share the results of your review and analysis of Northern's 2012/13 winter**
10 **period cost of gas reconciliation?**

11 A. My review of the reconciliation focused on FORM III, Schedule 4, pages 9 through 12.
12 Last year I asked the Company to expand the schedule from what was essentially a
13 summary of the New Hampshire Division's allocated demand and commodity costs and
14 volumes (re. pages 1-4). The expanded version of the schedule includes a similar 4-page
15 summary for the Maine Division allocations (re. pages 5-8) plus a 4-page summary of the
16 total Northern Costs and volumes (re. pages 9-12).

17 **Q. Has the additional information from these pages been a complimentary addition to**
18 **the reconciliation?**

19 A. Yes and no. Now that I have seen this level of detail I have come to the conclusion that
20 the most critical information is from pages 9-12, because the total Northern information
21 will tie back to invoices and contracts. Although many of the supplier line items contain
22 combined information from multiple contracts, the Company and Staff plan to meet
23 sometime after this proceeding to discuss how best to give Staff the supporting

1 documentation necessary to complete its review. By having this information available at
2 the same time the reconciliations are filed, Staff will be able to get a head start on the
3 review process and the Company will not need to put the information together in
4 response to data requests.

5 **Q. Is Staff proposing another change to FORM III, Schedule 4 of the cost of gas**
6 **reconciliations?**

7 A. Yes. At the technical session I recommended a fine tuning adjustment that would
8 eliminate pages 1-8. Then it would be necessary to apply the New Hampshire Division's
9 allocation factors to Northern's sum total costs as necessary at the bottom of the
10 remaining pages. The factors could also be applied to the line item totals if it is
11 determined the information is necessary. The Company has agreed to meet with Staff
12 off-period to discuss these proposed changes as needed to finalize the appearance of the
13 schedules.

14 **Q. Earlier you mentioned that there have been some areas of progress that have an**
15 **impact on Northern's cost of gas. Would you please share your findings?**

16 A. Yes. In its review of this year's cost of gas filing Staff has observed several changes that
17 address some of the more passionate issues of discussion between Staff and the Company
18 in recent years. First, Northern has restructured some of its asset management
19 agreements so that this year, Northern will be able to fully utilize its pipeline capacity
20 without restriction, in each supply path back to the more liquid supply points. This will
21 allow Northern to reduce its exposure to gas purchases from the more volatile New
22 England market. Staff has expressed to the Company its appreciation for these changes
23 and believes the ratepayers will benefit through the cost of gas.

1 Northern has also eliminated the delivered winter base load contract from this year's
2 plan. Staff believes this will allow the Company to more efficiently use its existing
3 resources. It will likely result in less off-system sales activity throughout the winter
4 period, but Staff views this as a positive for both the Company and its customers.

5 **Q. Are there any issues that you consider to be a work in progress?**

6 A. Yes. I have already mentioned ongoing changes to the reconciliation, off-system sales,
7 and asset management agreements. These are areas where Staff and the Company have
8 expended a tremendous amount of time and resources in the discovery process to allow
9 Staff to better understand how the associated costs and credits flow through the
10 reconciliations. I believe we are making remarkable progress on the types of information
11 that will help Staff to evaluate complex asset management agreements as well as the off-
12 system sales transactions,. Staff will be able to follow the costs and credits logically
13 through the reconciliations with a level of transparency that has been missing. Resolving
14 these issues in a manner that is efficient for both the Company and Staff is where we plan
15 to be this time next year.

16 **Q. Were the parties able to come up with a possible solution to the timing issues related**
17 **to receiving and reviewing multiple cost of gas filings at the same times each year?**

18 A. No. We have had further discussions at the cost of gas tech sessions, but we have not had
19 the sufficient time to come up with a plan.

20 **Q. Are there any other issues related to the cost of gas that you would like to comment**
21 **on at this time?**

1 A. Yes. I would like to express my appreciation to the Company for its full cooperation
2 throughout this expedited review process. The Company provided a large volume of data
3 in its responses to Staff's inquiries as well as to inquiries from Audit Staff and OCA.

4 **Q. Does this conclude your testimony?**

5 A. Yes.