STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 18-145

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

2018/2019 Winter Cost of Gas

Order Denying Cost of Gas Rates as Filed
and Approving Rates Proposed by Staff

O R D E R N O. 26,184

October 30, 2018

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

In this order, the Commission approves 2018/2019 winter cost of gas rates for Liberty's Keene Division for the period November 1, 2018, through April 30, 2019. The initial non-fixed price will be $1.3802 per therm, and the fixed-price throughout the 2018/2019 winter period will be $1.3743 per therm. The impact of the cost of gas rate changes is an overall decrease of $26 or 4.3 percent in the typical residential heating customer's winter costs relative to last year's winter costs. A typical residential heating customer can also expect an additional $178 in seasonal savings due to consolidation of the Keene Division's distribution system rates with Liberty's EnergyNorth Division's distribution system rates.

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 19, 2018, Liberty-Keene filed its proposed cost of gas (COG) rates for the

2018/2019 winter period using forecasted propane prices reflecting market expectations as of September 6, 2018. When the Company developed its forecasted cost calculations for the upcoming winter, it had planned to begin serving some of its existing customers using compressed natural gas (CNG) delivered through the existing underground distribution system in Keene. As a result, the proposed COG rates in the Company's petition included CNG supply costs.

The Company's filing included direct testimony and supporting schedules. On September 25, 2018, 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 the Company in a technical session on October 8, 2018.

On October 9, 2018, Staff submitted testimony recommending COG rates that (1) exclude the higher supply cost of CNG, and (2) include increased forecasted propane prices that reflect market expectations as of October 2, 2018. A public hearing was held on October 16, 2018.

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/2018/18-145.html.

II. COST OF GAS ADJUSTMENT MECHANISM

The 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, which is an unregulated commodity. Similarly, it has limited control over items such as fuel transportation rates, including pipeline rates, which are set by the Federal Energy Regulatory Commission.

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 market based on actual costs to date and projected costs for the remainder of the period.

As in prior years, Liberty-Keene offers customers the opportunity to lock in a specific price per therm for gas supply through its Fixed-Price Option (FPO) program. Under the FPO, 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

1. Proposed Rates

Liberty-Keene proposed a non-fixed-price winter COG rate of $1.4056 per therm and an FPO rate of $1.4256 per therm, which reflect an overall decrease of $15 or 2.5 percent on average over the 2017/2018 winter period. The FPO rate includes a $0.02 premium over the non-fixed price for the customer benefit of price certainty. According to the Company, the primary driver of the overall decrease on average in the proposed rates for the upcoming winter period was an over-collection of supply costs from customers from last winter that slightly exceeded an overall increase in supply costs forecasted for the coming winter period.

2. Production Costs

At hearing, Liberty-Keene supported approval of the COG rates proposed by Staff, but recommended that those rates be increased to recover "normal production costs," although the Company did not provide a calculation of the amount of the costs proposed to be recovered. The Company testified that Keene production costs are not recovered through delivery rates, and that Order No. 26,122 in Docket No. DG 17-048 entitles Liberty-Keene to recover production costs through the Keene COG rates. The Company stated that the cost of keeping the Keene propane plant and blower system running around-the-clock last year totaled $180,000 and that "normal production costs" – excluding around-the-clock staffing – would be significantly less than that total. Hearing Transcript of October 16, 2018 (Tr.) at 95-96.

3. CNG

At the time of its filing, the Company expected to begin operating its CNG facilities in Keene this winter, but because there is no longer sufficient time to convert customers before the winter season starts, CNG will not be used during the 2018/2019 winter period. Tr. at 106. Because it will not be using CNG, the Company asked the Commission to reconsider its ruling in Order No. 26,122 that around-the-clock staffing of the Keene production plant is not just and reasonable, stating that it plans to continue around-the-clock staffing as advised by its engineer. Tr. at 33.

4. Fixed Price Option Program

The Company proposed to reopen its FPO program until the end of October in recognition of recent changes in market prices for propane and, as proposed by Staff, the exclusion of CNG in its forecast calculations.

B. OCA

The OCA stated that some degree of production costs may be appropriate for inclusion in the COG during the next reconciliation, but not the costs associated with around-the-clock staffing of the plant, in accordance with the Commission's determination on that matter in Order No. 26,122. Tr. at 93-94.

C. Staff

Staff recommended denying the Company's proposed COG and FPO rates as filed and approving, instead, a COG rate of $1.3802 per therm and an FPO rate of $1.3743 per therm. Staff testified that the supply plan filed by Liberty-Keene included CNG demand and commodity costs that were substantially higher than available propane supplies and therefore was not an economic – or least cost – supply plan. Staff proposed COG rates based on a least cost supply plan that includes an updated non-fixed rate to reflect more current propane market price forecasts, and excludes the higher cost of CNG supply. Exhibit 3, Bates page 3. Staff's proposal would result in an overall decrease for customers on average of $26 or 4.3 percent in the typical residential heating customer's winter costs over last year's winter costs. Tr. at 70.

Staff echoed the OCA's position that the Company should not include the cost of staffing its propane blower system 24 hours per day 7 days a week. Tr. at 76. Staff noted the pending Staff audit of last year's winter COG supply costs and stated that any material findings would be reported to the Commission when filed. Tr. at 57.

Staff recommended the FPO rate be adjusted to exclude CNG without updating the price of propane. According to Staff, the FPO is designed to be a set rate which does not fluctuate with changes in market prices once the rate is offered and as such, the FPO rate should not be updated to reflect more recent propane futures prices. Staff recommended that the Company notify FPO customers that the final approved FPO rate differs from, and is lower than, the rate in the Company's original letter on which FPO customers based their enrollment. Tr. at 91. Staff, however, advised against reopening the FPO enrollment period. Tr. at 57-586, 83-87.

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.

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 for service on Liberty-Keene's distribution system. We recognize that, while Liberty-Keene forecasted the use of CNG this winter, the introduction of CNG into the Keene system will not occur until after this winter period. Thus, we will not approve the proposed 2018/2019 winter COG rates as filed by the Company. Rather, we approve the COG rates proposed by Staff, which removes CNG costs to reflect the use of propane throughout the upcoming season, and updates the non-FPO rate to reflect more current propane futures prices.

Although the FPO rate being approved is lower than the non-FPO rate that will apply at the beginning of November 2018, Liberty-Keene will be adjusting the non-FPO rate on a monthly basis to reflect the actual costs it incurs and updated futures prices for the remaining months. The non-FPO rate that we are approving is based on futures prices as of October 2, which were higher than the September 6 future prices used in the initial filing. At the hearing, the Company witnesses testified that the most recent propane futures prices are lower than both the September 6 and October 2 futures prices. Tr. at 39-40. As has been the case for a number of years, the Company may adjust its COG rate up by no more than 25 percent from its initial rate. There is no limit on how far the rate may be adjusted down if costs are significantly lower than projections. If costs continue to be lower than were expected, the non-FPO rate will go below the FPO rate during the course of the winter.

In Order No. 26,122, in DG 17-048, we found the cost of continuously staffing the Keene production plant to be unjust and unreasonable. The Company requested reconsideration of that decision in this proceeding. No new evidence was submitted to support the Company's request, and we are not persuaded that decision should be revisited. Accordingly, we will not allow the inclusion of those costs in COG rates. We do, however, agree with the Company that our Order in DG 17-048 allows recovery of normal production costs that do not include recovering the costs of around-the-clock staffing of the plant. Therefore, we approve the recovery of those costs.

Finally, we agree with Staff that it is not necessary to reopen the FPO program and that the Company should issue a letter of notice to enrolled FPO customers advising them of the revised final FPO rate.

Based upon the foregoing, it is hereby

ORDERED, that Liberty's 2018/2019 winter period COG per therm rates effective for service rendered on or after November 1, 2018, are approved as set forth in this order, as follows:

Customer Class	2018-2019 Winter COG	2018-2019Winter Maximum COG
Non-FPO	$1.3802	$1.7253
FPO	$1.3743	$1.3743

and it is

FURTHER ORDERED, that Liberty-Keene may, without further Commission action, adjust the non-FPO COG rates based on the projected over- or under-collection for the winter 2018/2019 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 rate change to customers and to the Commission's Director of Consumer Services and External Affairs.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of October, 2018.

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

Attested by:

Debra A. Howland
Executive Director