

**State of New Hampshire**  
**Public Utilities Commission**

**DG 17-048**

**Liberty Utilities (EnergyNorth Natural Gas) Corp.**  
**Petition for Permanent and Temporary Rates**

**Response to Liberty Utilities' Motion for Clarification**

On May 25, 2018, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a/ Liberty Utilities (Liberty or the Company) filed a Motion for Clarification in this matter concerning five issues addressed in Order No. 26,122 (April 27, 2018) (the Order) in the case: Average Service Lives, Depreciation for Keene, Training Center, iNATGAS, and Fuel Inventory. Staff of the Public Utilities Commission (Staff) hereby responds to this Motion and states as follows:

1. Average Service Lives: Capitalized Software Liberty requests clarification that the Order approved three disaggregated average service lives (ASLs) for Account 303.00 Capitalized Software, rather than a composite ASL of 6.2 years that would apply to the entire account. The Order at 15-16 clearly adopts Mr. Norman's proposed ASLs, which are listed on a schedule to Mr. Norman's testimony - Hearing Exhibit (Exh.) 10 at 422, entitled "SUMMARY OF PROPOSED ACCRUAL RATES AND NET SLAVAGE FACTORS." On that schedule, Capitalized Software, Account 303.00 shows a proposed ASL of 6.2 years.

Elsewhere in Mr. Norman's testimony, he states that whole life accrual rates of 33.33 percent, 20.00 percent and 10.00 percent (developed using 3, 5 and 10 year ASLs) should

be approved for new investment dollars on capitalized software additions. Exh. 10 at 421 and 436. In other summary schedules provided at 464 and 468, Mr. Normand lists the proposed ASL for Capitalized Software as 6.2 years. In live testimony, Mr. Normand was asked: “And this is an instance where the existing service life is 7 years, and you’re proposing 6.2 years; is that right?” Mr. Normand answered: “That’s correct. It’s a dollar-weighted average.” 3/26/18, Tr. at 149.

Staff submits that the Order is clear; the ASL approved for Capitalized Software is 6.2 years. Order at Appendix 6. (It seems that Mr. Normand’s testimony that was not entirely clear). However, intuitively, using three underlying ASLs (and accrual rates) for Account 303 would be more accurate than using a weighted average rate. For this reason, Staff does not object to Liberty’s requested clarification. Staff suggests that if the disaggregated ASLs (and accrual rates) are approved, then Liberty be required to document and clearly explain how the various pieces of new software are assigned the various ASLs and accrual rates.

Average Service Lives: Account 392 – Transportation Equipment; Account 396 – Power

Operated Equipment: Again, the Order clearly adopted Mr. Norman’s proposed ASLs. Appendix 6 to the Order used the ASLs listed in Exh. 10 at 422. That schedule did not include ASLs for accounts 392 and 396. Proposed ASLs for these two accounts appear in Exh. 10 at 464 and 468 (5.0 years for both accounts). Staff supports Liberty’s request that the Order be clarified to adopt 5.0 year ASLs for accounts 392 and 396.

2. Depreciation for Keene: Liberty requests that the Order be clarified to state that Keene and EnergyNorth depreciation and amortization rates be aligned for accounts that are used by both companies and that Keene assets be subject to group depreciation, as specified in the Liberty/OCA Settlement (Exh. 29 at 6). Liberty also requests that the Order be clarified to approve a 20 year ASL and a 5 percent depreciation rate, with no net salvage for Account 319, Gas Mixing Equipment, which is used by Keene but not by EnergyNorth. Motion at 2-3.

The Order approved consolidation of the Keene Division and EnergyNorth distribution rates. Order at 38. It follows logically that the same depreciation rates apply to like assets in each company and that like assets be grouped for purposes of calculating depreciation. Therefore, Staff supports Liberty's requested clarification regarding aligning depreciation rates and group depreciation for Keene. Concerning account 319, the Liberty/OCA Settlement lists account 319 with an ASL of 20 years and depreciation rate of 5 percent (and 0.0% percent Net Salvage Value). Exh. 29 at 17. Although Staff does not find any support for this ASL and depreciation rate in the record, these figures were used in Keene's last rate case, DG 09-038. Therefore Staff does not oppose Liberty's requested clarification regarding Account 319.

3. Training Center: On May 10, 2016, Liberty Utilities filed with the Commission in Docket DA 16-560, pursuant to RSA 366:3 (which applies to transactions between affiliates) a lease agreement between Liberty Utilities (EnergyNorth Natural Gas ) Corp. and Liberty Utilities (Granite State Electric) Corp. concerning the Company's training

center. On May 24, 2017, the Commission consolidated DA 16-560 into DG 17-048.

Liberty requests that Commission clarify the Order to state that “the lease agreement may remain in effect under its existing terms and conditions.” Motion at 3. Liberty notes that the Order acknowledges the existence of the lease and allows EnergyNorth to recover through rates set in this case, the operation and maintenance (O&M) expenses related to the center. Order at 19 and 25.

Staff does not support the requested clarification. RSA 366:3 requires that Liberty file the lease with the Commission, which it did. “Approval” of the lease as requested by Liberty is its Motion is neither required under RSA 366:3 nor essential to the setting of EnergyNorth’s rates in this case. However, RSA 366:5 provides the Commission the authority to investigate the lease, and if, after notice and hearing, the Commission finds the lease is unjust or unreasonable, the Commission may issue a reasonable order as the public good requires. In this instance, the Commission investigated and found that Liberty failed to demonstrate that a significant portion of its investment in the training was prudent and the Commission ordered a corresponding rate base exclusion. Order at 25.

The lease provides that Granite State Electric shall pay EnergyNorth a proportionate share of EnergyNorth’s annual cost of ownership, including EnergyNorth’s return on its investment in the training center. Staff suggests that the Order be clarified to approve the lease, subject to an amendment providing that Granite State Electric shall pay EnergyNorth its proportionate share of EnergyNorth’s annual cost of ownership,

including EnergyNorth's return on its **prudently incurred investment in its training center as determined in Docket DG 17-047, \$2,347,000**. With such amendment, Staff agrees that the Order should indicate Commission approval of the lease, pursuant to 366:3 and 366:5.<sup>1</sup> Staff recognizes that the revenue requirement in this case reflects lease payments from Granite State Electric at the EnergyNorth's full investment level, but estimates the impact on EnergyNorth's revenue requirement to be *de minimus* (about \$19,000) per year.

4. iNATGAS: In its Order, the Commission reviewed a litany of errors and omissions concerning the CNG facility Liberty built pursuant to a special contract with iNATGAS. Order at 28-32. The Commission concluded by adopting Staff's position which had the effect of allowing less than one-half of Liberty's investment in the facility in the rates set in this case, plus O&M expenses (for a revenue requirement reduction of \$400,391). Order at 32 and Appendix 2 at 1. The Commission recognized that the facility appears to be used and useful and has the potential to provide net benefits to customers in the future and thus, rather than ordering a full, permanent rate base exclusion, adopted Staff's proposal which put the customers in the position they were in when the special contract was approved. *Id.* at 31-32.

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<sup>1</sup> The Commission's letter of May 24, 2017 consolidating the two dockets referred to RSA 370:30, which states that "[a]ny public utility may transfer or lease its franchise, works, or system, or any part of such franchise, works, or system ... when the commission shall find that it will be for the public good and shall make an order assenting thereto, but not otherwise ...." Liberty views this statute as not relevant to the lease. Exh. 13 at 11.

Liberty incorrectly claims that the “Order also allowed Liberty to request recovery of the annual \$400,391 reduction in the future if the iNATGAS revenue would justify such a request.” Motion at 4. Then, Liberty requests clarification to allow deferral of the \$400,391 disallowance and seeks to establish a test by which the recovery of this deferred amount and future recovery of the full cost of the facility would be determined. Motion at 4-5.

Staff opposes these clarifications. First, nowhere does the Order state that Liberty may seek to recover the \$400,391 disallowed in this case. The Order simply states that “[w]e will re-evaluate this investment in Liberty’s next rate case and may consider putting more of the investment in rate base at that time.” Order at 32. A future rate base restoration would be forward looking. The Commission should flatly reject any notion that disallowance in this case was not final and is somehow subject to “recall”. Had the Commission intended to provide for deferral of the \$400,391 disallowance, the Order would have clearly provided for such.

Concerning the test for recovery in the next case, no precise formula was stated. If the Commission had intended to establish such a test in this case, it would have clearly done so.

5. Fuel Inventory: Liberty requests clarification that the Order provides for recovery of carrying costs on fuel inventory through the Company’s Cost of Gas (“COG”) mechanism, rather than base rates. Liberty correctly notes that the revenue requirement

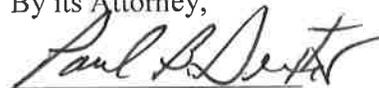
calculations contained in the appendices to the Order show fuel inventories being removed from base rates. Order at Appendix 1, p. 2 line 5 and p. 9, line 7. Staff agrees that the Order does not specifically state that EnergyNorth can recover these costs in the COG (although it does for the Keene Division). Order at 39. Staff believes COG recovery was the intent behind removing these items from rate base and thus Staff supports Liberty's requested clarification.

**WHEREFORE**, for the reasons set forth hereinabove, the Staff requests that the Commission grant Liberty Utilities' Motion for Rehearing in this matter as it concerns Average Service Lives, Depreciation for Keene, and Fuel Inventories. Further, Staff requests that the Commission deny Liberty's Motion as it concerns iNATGAS. Finally, Staff requests that the Order be clarified as it concerns the Liberty's Training Center, consistent with Staff's suggestions outlined in Section 3 above.

Respectfully submitted,

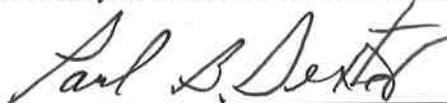
Staff of the Public Utilities Commission

By its Attorney,



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I hereby certify that, on June 8, 2018, a copy of this Objection has been hand delivered to the Commission and has been sent electronically to the Service List in this matter.



Paul B. Dexter