

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 14-041

**LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP.
D/B/A LIBERTY UTILITIES**

2014 Cast Iron/Bare Steel Replacement Program

Order Approving Revised Distribution Rate

ORDER NO. 25,684

June 27, 2014

APPEARANCES: Sarah Knowlton, Esq., for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities; and Alexander F. Speidel, Esq., and Michael Sheehan, Esq., for the Staff of the New Hampshire Public Utilities Commission.

In this order we approve an increase in Liberty's base natural gas distribution delivery rates to provide an additional \$330,245 in annual revenue. This increased revenue is necessary for Liberty to recover approximately \$2.65 million it invested in the Cast Iron/Bare Steel Replacement Program during fiscal year 2014. The impact on a typical residential heating customer is an increase of \$1.64 per year.

I. PROCEDURAL HISTORY

Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities (Liberty), filed its fiscal year (FY) 2014 Cast Iron/Bare Steel (CIBS) Replacement Program Report. Ex. 1. Attached to the report was the testimony of Liberty employees Gwyn M. Cassetty, Richard G. MacDonald, and Mark Savoie, with various schedules. The FY 2014 report covered the period April 1, 2013, through March 31, 2014. Liberty requested an increase in its base distribution rates to raise \$330,245 in additional annual revenue, effective July 1, 2014. Liberty made this

filing pursuant to the settlement agreement approved by the Commission when Liberty acquired the system. *See National Grid USA*, Order No. 25,370 at 25 (May 30, 2012).

The Commission issued an order of notice scheduling a hearing for June 25, 2014. No other parties intervened and the hearing was held as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty notified Commission Staff (Staff) in early 2013 that it intended to replace 3.23 miles of natural gas pipelines at an estimated cost of \$3.4 million as part of the CIBS program for FY 2014. Ex. 1 at 5. In its filing, Liberty reported that it actually replaced 3.51 miles of pipe at a cost of \$3,968,404. *Id.* After certain adjustments and removal of the \$500,000 base amount that Liberty cannot recover under the terms of the settlement agreement, *National Grid USA*, Order No. 25,370 at 25, the total amount Liberty sought to add to its rate base was \$2,651,795. *Id.*; Ex. 1 at 40. Liberty stated that its annual revenue requirement would have to increase by \$330,245, effective July 1, 2014, to recover those costs. *Id.* at 5, 41. Liberty proposed to spread that increase on a pro rata basis among all customer classes. *Id.* at 41. The impact on a typical residential heating customer would be an increase of \$1.64 per year, or 0.15%. *Id.* at 44, 51. Liberty filed annotated tariff pages incorporating these proposed increases in distribution rates.

Liberty's filing also provided an explanation for the difference between its projected and actual mileage of main replacement and related costs, the status of its pending litigation against the cities of Manchester and Concord regarding road degradation fees and how those fees were treated in this filing, a description of a favorable tax deduction that reduced the requested revenue increase, and a description of the pipes actually removed and associated soil samples which will be used to help select pipes to be replaced in future years.

Through informal communication prior to the hearing, Liberty notified Staff that it increased its FY 2015 CIBS projects from 4.4 to 5.4 miles. Ex. 1 at 27, 51. During the hearing, Liberty stated that it agreed with the goal of eliminating all cast iron and bare steel pipes over the next 10 years. In addition to its stated intention to replace 5.4 miles in FY 2015, Liberty testified that it planned to replace nine miles in FY 2016 and 12 miles in FY 2017.

In response to Staff's testimony regarding Liberty's sales efforts to acquire new customers along the route of CIBS projects, described below, Liberty agreed to conduct market research and propose a comprehensive marketing plan by the end of 2014.

B. Staff

Staff filed the testimony of Randall S. Knepper, Director of the Safety Division, Ex. 2, and Stephen P. Frink, Assistant Director of the Gas & Water Division, Ex. 3.

Mr. Knepper's testimony provided a history of the six-year-old CIBS program. Mr. Knepper believes Liberty should accelerate the program to have all cast iron and bare steel replaced within the next 10 years. Ex. 2 at 15. Mr. Knepper noted with approval that Liberty has increased its projected mileage for this year from 4.4 to 5.4 miles. *Id.* at 13; *see* Ex. 1 at 27, 51. Mr. Knepper recommended that Liberty continue to increase its CIBS program to have all the pipe replaced within ten years. Ex. 2 at 15.

Mr. Knepper expressed Staff's concerns about degradation fees and overhead costs associated with the CIBS program, along with the missed opportunity to add customers that could be realized if Liberty were to aggressively pursue potential customers along replacement mains. Ex. 2 at 11-12. Last, Mr. Knepper asked that Liberty file CIBS program reports and accompanying petitions to adjust rates by April 15 of each year. Ex. 2 at 15.

Mr. Frink recommended that the Commission approve Liberty's proposed rate increase. Ex. 3 at 1. After a thorough review of Liberty's filing, three sets of data requests, and three technical sessions, Mr. Frink testified that Staff believes the proposed rates are fair and reasonable. *Id.* at 6. Mr. Frink also supported Liberty's efforts to increase customer growth adjacent to CIBS projects.

III. COMMISSION ANALYSIS

Based upon our review of the record presented in this docket, we find that Liberty's proposed adjustments will result in rates that are just and reasonable as required by RSA 378:7. Specifically, we approve the addition of \$2,651,795 to Liberty's rate base and the related increase in its annual revenue requirement of \$330,245. We also find the proposed annotated tariff pages filed by Liberty on June 2, 2014, to be consistent with our determination in this Order, and therefore approve them.

Staff requested that Liberty make future CIBS filings by April 15 of each year. Liberty agreed with that new date during the hearing. We find the request reasonable and will direct Liberty to meet the April 15 deadline beginning with its FY 2015 CIBS filing.

We support the discussions between Staff and Liberty toward accelerating the CIBS program so that the remaining leak-prone pipe may be removed within 10 years. We encourage Staff and Liberty to propose the most efficient method for achieving that goal.

Finally, we urge Liberty to continue its diligent work to manage overhead costs and to acquire new customers along the mains being replaced under the CIBS program. New customers increase Liberty's long-term revenues and help pay for the CIBS program. To that end, we expect Liberty to provide Staff with a report by the end of 2014 documenting the results of its

market research conducted during this construction season and its plans for marketing to new customers going forward.

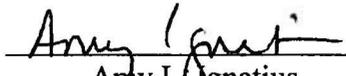
Based upon the foregoing, it is hereby

ORDERED, that Liberty be permitted to increase its base distribution rates to increase annual revenues by \$330,245, effective July 1, 2014, on a service rendered basis; and it is

FURTHER ORDERED, that Liberty file future CIBS program-related reports and rate requests by April 15; and it is

FURTHER ORDERED, that Liberty shall file tariffs that conform to this order within 30 days pursuant to New Hampshire Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of June, 2014.


Amy L. Ignatius
Chairman


Martin P. Honigberg
Commissioner

Attested by:


Lori A. Davis
Assistant Secretary