STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 08-135

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Tariff Filing Revising Line Extension Policy

Order Approving Settlement Agreement

O R D E R   N O. 25,046

November 20, 2009

Appearances: Gerald M. Eaton, Esq. on behalf of Public Service Company of New Hampshire; Kendall L. Buck on behalf of the Homebuilders and Remodelers Association of New Hampshire; Office of Consumer Advocate by Meredith A. Hatfield, Esq. on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL BACKGROUND

On November 3, 2008, Public Service Company of New Hampshire (PSNH or Company) filed a revised tariff to establish a new line extension policy applicable to developers and customers requesting extension of the Company's existing facilities in order to receive service under a residential rate or small business rate (Rate G or Rate G-OTOD). PSNH filed the revised tariff pursuant to the settlement agreement approved in PSNH's last delivery service rate proceeding, Docket No. DE 06-028, *Public Service Company of New Hampshire*, Order No. 24,750 (May 25, 2007) 92 NH PUC 124. In that settlement agreement, the parties and Staff agreed to review the cost of initiating service to new customer locations compared to the distribution revenue to be received from such customers and to develop a line extension policy to better align the costs and revenues related to new customer locations. PSNH prepared an analysis, reviewed the results of its analysis with Staff and the Office of Consumer Advocate (OCA) and, with Staff and the OCA, filed a report on November 1, 2007. In that report, PSNH indicated that it would make a filing in 2008 to seek approval of a new line extension policy. The resultant filing is PSNH's November 3, 2008 submittal in the instant docket. With its petition, PSNH filed supporting testimony, related exhibits and proposed tariff pages.

On November 26, 2008, the Commission issued Order No. 24,915 suspending the proposed tariffs and scheduling a prehearing conference for December 22, 2008[1]. The Homebuilders & Remodelers Association of N.H. (Homebuilders) filed a motion to intervene on December 4, 2008. On December 9, 2008, the OCA filed a letter stating that it would participate in the proceeding on behalf of residential ratepayers pursuant to RSA 363:28.

On February 9, 2009, Staff filed a proposed procedural schedule with the Commission, which was approved by secretarial letter on February 10, 2009. On April 9, 2009, Staff filed a letter reporting that the parties had reached settlement on certain aspects of the filing. Staff requested that the Commission suspend the procedural schedule to enable the parties and Staff to attempt to resolve the remaining issues in dispute. The Commission consented to the request in a secretarial letter issued on April 17, 2009.

The New Hampshire Housing Financing Authority filed a letter with the Commission on May 4, 2009 expressing its concern about the impact of the proposed line extension policy on moderate income home buyers. On May 7, 2009, NeighborWorks Greater New Hampshire filed a letter also expressing its concern about the PSNH's proposed line extension policy.

On September 18, 2009, PSNH filed a settlement agreement signed by the Company, the Homebuilders, the OCA and Staff along with tariff pages reflecting the terms of the settlement

[1] The prehearing conference was subsequently rescheduled and held on February 5, 2009 in order to accommodate the efforts of PSNH to restore power to customers following the December 2008 ice storm.

agreement. The Commission issued a secretarial letter on September 21, 2009 scheduling a hearing on the settlement agreement on October 6, 2009.

II. PSNH'S PETITION

In its petition, PSNH explained that its current line extension policy has been in place since July 31, 1979, with some cost updates over time. Under the existing policy for residential and small business customers, PSNH provides a dedicated pole-mounted transformer (if necessary), an overhead service drop and up to 300 feet of distribution facilities at no cost to the customer. According to the Company, the current policy provides that any installation requiring underground service and/or more than 300 feet of distribution facilities is subject to a line extension charge. PSNH testified that the current charge is based on: a) whether the line extension is built along a public highway or on private property; and b) the type of construction – overhead single-phase, overhead three-phase, underground single-phase or underground three-phase. PSNH said that line extension costs are based on an average cost per foot, updated from time to time, typically during a rate proceeding, and subject to Commission review.

PSNH said that, under its current line extension policy, how customers pay for line extensions differs depending on whether the line extension is on private property or along a public highway. Customers with line extensions on private property are required to make an up-front payment for the estimated cost of the line extension. For line extensions along public highways, customers pay the cost of line extensions over a sixty-month period. For underground single-phase facilities along a public highway, the customer pays the overhead single-phase charge over the sixty-month period and must make an up-front payment for the excess cost of placing the facilities underground. For overhead three-phase facilities along a public highway, a customer must pay the overhead single-phase monthly surcharge plus 2% of the cost of the two additional phases less a credit of $525, again paying over a sixty-month period. Underground three-phase facilities are paid for in the same manner as overhead three-phase facilities with the addition of an up-front payment for the excess cost of placing the facilities underground.

PSNH testified that, under the current policy, if a line extension is built on private property, the line extension cost is based on the estimated installed cost. According to the Company, field technicians develop the estimated costs and payment is required before installation. If a line extension runs along the public highway and private property, PSNH's field technicians have to apply the different methodologies appropriately which, according to PSNH, can be a complicated matter.

PSNH said current policy requires each customer requesting a line extension to sign a line extension agreement that outlines the charges and related payment terms. In addition, if a new service is installed on an active line extension – i. e., an extension made within the prior five years – the policy dictates that the line extension costs must be reallocated between the original customer and the new customer.

PSNH explained that the impetus to change its line extension policy came as a result of its last distribution rate case[2] when it became apparent that existing customers were subsidizing the costs of providing service to new customer locations because the distribution revenue PSNH received from new customers did not cover the actual cost of initiating service. Consequently, as part of the resolution of that case, the parties and Staff agreed to review in more detail the actual cost of providing service as compared with the revenue received from new customers with the goal of better aligning costs and revenues.

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[2] See Docket No. DE 06-028, *Public Service Company of N.H*, Order No. 24,750 (May 25, 2007) 92 NH PUC 124.

PSNH explained that it was mindful of several goals in developing the new policy. First, the new line extension policy should minimize any subsidization occurring between existing customers and new customers. Second, the policy should promote efficiency by reducing the amount of time PSNH spends administering, estimating and monitoring line extensions. Finally, the policy should be more straightforward and easier to understand and to explain to customers.

The main change, according to PSNH, is the elimination of the 300-foot overhead distribution facility allowance per customer. Under the new policy, PSNH would provide a dedicated overhead or pole-mounted transformer and an overhead service drop to a customer at no charge, but the customer would no longer receive the 300-foot allowance. In addition, since the costs to construct distribution facilities are the same whether built along a public highway or on private property, PSNH determined that it was not necessary to have separate policies.

For further simplification, and rather than using multiple methods to calculate the cost of line extensions, PSNH developed an average cost per foot methodology for each of the different types of construction – overhead single-phase, overhead three-phase, underground single-phase and underground three-phase. Using an average cost per foot would allow the field technicians to calculate line extension costs by simply multiplying the average cost per foot for the type of construction by the length of the line extension for such construction. In addition, PSNH said it would request payments before construction commenced, eliminating payment over five years. Finally, PSNH also proposed to eliminate the reallocation of costs for new customers taking service from a live line extension.

III. SETTLEMENT AGREEMENT

At hearing, PSNH presented the settlement agreement that it signed along with the Homebuilders, the OCA and Staff. According to PSNH, the settlement agreement incorporated three major changes to the policy it had proposed in its prefiled testimony. First, for overhead and underground single-phase facilities, increases in the average cost per foot charges would be phased in over three years to alleviate the impact of the new policy on customers requesting line extensions. PSNH explained that phasing in the cost increases would lessen the impact to the housing industry. Second, for overhead and underground three-phase facilities, the settlement agreement allows those costs to be based on customer-specific job requirements rather than use an average cost per foot methodology. PSNH supported this change because it was lacking a large sample of comparable jobs to determine average costs.

The settling parties agreed that, consistent with the existing policy, there shall be no separate charge for a pole-mounted transformer that PSNH determines is necessary to serve the customer's load. In addition, a customer would not be charged for an overhead or underground service drop, which is the final span of cable from a utility pole that provides secondary voltage to the customer's meter or point of attachment, whichever is applicable. Overhead service drops, while not having a stated length limitation, would be otherwise limited by load and terrain considerations. Underground service drops will be provided at no charge up to a length of the final run of cable of 125 feet, with any excess beyond 125 feet included in the cost of the line extension.

Pursuant to the settlement agreement, line extension construction costs for overhead single phase facilities will be calculated by multiplying the length of the distribution facilities by the appropriate average cost per foot. The length of the distribution facilities will be the length of the single-phase primary and secondary line to be installed, excluding the length of the secondary line installed for any overhead service drops. The settlement agreement provides that the charges would be phased in as follows:

Effective Date	Average Cost per Foot
Tariff Effective Date – 3/31/2011	$8.40
April 1, 2011 – March 31, 2012	$9.90
April 1, 2012 – March 21, 2013	$11.40

For overhead three-phase facilities, the line extension costs will be based on customer-specific job requirements and will include all costs including design, inspection, labor, researching and recording easements, materials, traffic control, tree trimming, blasting and overheads.

The cost of underground single-phase line extensions will be calculated by multiplying the length of distribution facilities by an average cost per foot as follows:

Effective Dates	Average Cost per Foot
Tariff Effective Date – 3/31/2011	$11.46
April 1, 2011 – March 31, 2012	$13.08
April 1, 2012 – March 31, 2013	$14.71

Construction costs for underground single-phase facilities will include the costs of any pad-mounted transformers planned for the facility that exceed the costs of an equivalent pole-mounted transformer. The length of the distribution facilities will be the length of the single-phase primary and secondary line to be installed, excluding the length of the secondary line installed for any underground service drops. The settlement agreement provides that PSNH will determine the excess cost on the basis of average cost formulas consistently and equitably applied to all underground installations.

Regarding underground three-phase line extensions, construction costs will be calculated based on the customer-specific job requirements and will include all costs related to the construction of the distribution facilities including, but not limited to, design and inspection, construction labor, researching and recording easements, materials, traffic control, tree trimming, blasting, overheads and the cost of any pad-mounted transformer to the extent the cost exceeds the cost of an equivalent pole-mounted transformer.

The settlement agreement also provides that PSNH will collect information over the three-year phase-in period so that actual cost data can be used to calculate the average cost per foot for all four types of construction – overhead single–phase, underground single-phase, overhead three-phase and underground three-phase – going forward. PSNH explained that it would use the actual data to develop a cost per foot for construction type beginning on April 1, 2013. Thereafter, by March 1 of each year, PSNH will provide a report to the settling parties to demonstrate the calculation of average costs per foot by construction type with the new charges effective on April 1 of that year. The settlement agreement also provides that the actual cost of each line extension completed during 2010 and 2011 (years 1 and 2) shall be adjusted for inflation so that the costs of those extensions more closely represent 2012 (year 3) costs.

In accordance with the settlement agreement, line extension costs will be reduced by the cost of an overhead service drop, and the total length of the installed distribution facilities will be reduced by 125 feet. For single-phase installations (overhead and underground), the initial single-phase service drop cost will be $464 and for three-phase installation the initial three-phase service drop cost will be $627. Those initial service drop costs will be in effect for the period January 1, 2010 through March 31, 2011, and updated in March 2011. The updated service drop costs would be effective April 1, 2011, with annual updates thereafter.

PSNH said the modifications of the settlement agreement to its initial filing improve the originally proposed policy by better aligning costs and revenues, minimizing the subsidization that currently occurs between existing customers and new customers, and updating the average charge per foot of line extension on an annual basis based on actual costs rather than only updating the costs during a rate case. In addition, PSNH said the simplified policy will allow for a more efficient use of its resources as it will reduce the amount of time spent administering and monitoring line extensions. Finally, PSNH said the proposed policy, as modified by the settlement agreement, will improve customer service and will be more easily understood by customers and PSNH field technicians than the current policy.

PSNH, the Homebuilders, the OCA and Staff all expressed support for the settlement agreement and requested that the Commission approve it.

IV. COMMISSION ANALYSIS

Pursuant to N.H. Code Admin Rules Puc 203.20(b), the Commission will approve a disposition of any contested case by settlement if the Commission determines that “the result is just and reasonable and serves the public interest.” As set forth below, we find that the settlement agreement satisfies these standards and we therefore approve it.

Pursuant to Order No. 24,750 and the settlement agreement in Docket No. DE 06-028, PSNH was required to examine its line extension policy and the level of subsidization that existed between new customers and existing customers. As a result of that examination, PSNH made the instant filing to address the subsidization issue and to develop a policy that better aligned the costs and revenues associated with new line extensions. PSNH's proposed new line extension policy, as modified by the settlement agreement, works to eliminate the subsidy over time and requires customers benefiting from the line extension to pay the associated costs.

In addition, the settlement agreement establishes a process whereby PSNH will make annual adjustments, after an initial phase-in period, to the average per foot costs for service, by type of construction, based on a review of actual costs for such services in prior years. The result is a policy that is fair to new customers and existing customers as it phases out a long-standing policy that has allowed for a level of subsidization. We find that eliminating the subsidy of current customers for new line extensions, and requiring new customers to pay the actual cost of such service, is reasonable and in the public interest, and we approve the settlement agreement.

This is a significant change in existing policy as noted by the Homebuilders at the prehearing conference in this proceeding. Transcript of February 5, 2009 at 6-7. The settlement agreement addresses this concern by requiring PSNH to phase in the cost increases over a period of three years, which is a reasonable solution for developers and customers that have been accustomed to paying the costs of line extensions over a five-year period. Based on the considerations noted herein, we find the settlement agreement to be just and reasonable and in the public interest.

Based upon the foregoing, it is hereby

ORDERED, that the petition of Public Service Company of New Hampshire to modify its line extension policy and tariff as modified by the settlement agreement filed on September 18, 2009 is hereby APPROVED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariff pages in conformance with this Order within 30 days hereof.

By order of the Public Utilities Commission of New Hampshire this twentieth day of November, 2009.

Thomas B. Getz
Chairman

Clifton C. Below
Commissioner

Amy L. Ignatius
Commissioner

Attested by:

Debra A. Howland
Executive Director