

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

October 1, 2014 - 1:34 p.m.
Concord, New Hampshire

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RE: DG 14-180
LIBERTY UTILITIES (ENERGYNORTH NATURAL
GAS) CORP. d/b/a LIBERTY UTILITIES:
Notice of Intent to File Rate Schedules.
(Prehearing conference)

PRESENT: Commissioner Robert R. Scott, Presiding
Commissioner Martin P. Honigberg

Sandy Deno, Clerk

APPEARANCES: Reptg. Liberty Utilities (EnergyNorth Natural
Gas) Corp. d/b/a Liberty Utilities:
Sarah B. Knowlton, Esq.

Reptg. Iberdrola USA Enterprises, Inc.:
David L. Schwartz, Esq. (Latham & Watkins)

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Office of Consumer Advocate

Reptg. PUC Staff:
Michael J. Sheehan, Esq.
Alexander F. Speidel, Esq.
Stephen P. Frink, Asst. Dir./Gas & Water Div.
Al-Azad Iqbal, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

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P R O C E E D I N G

CMSR. SCOTT: Good afternoon.

MR. HALL: Good afternoon.

MS. KNOWLTON: Good afternoon.

CMSR. SCOTT: I'd like to open the prehearing conference on DG 14-180, which is Liberty Utilities (EnergyNorth Natural Gas) Corp., doing business as Liberty Utilities. The prehearing conference addresses the delivery rate filing requesting permission to implement new permanent delivery rates for natural gas service, and to implement temporary delivery rates pursuant to RSA 378:27, effective with service rendered on or after September 1, 2014. Liberty also requested Commission approval for a step increase for investments made through March 31st, 2015, to go into effect concurrent with permanent rate -- with the permanent rate increase. With this filing, Liberty moves also for confidential treatment of certain salary information regarding its President and one of its directors.

So, I think I'd like to start with appearances.

MS. KNOWLTON: Good afternoon, Commissioners. My name is Sarah Knowlton. And, I'm here today on behalf of Liberty Utilities (EnergyNorth Natural

1 Gas) Corp. And, with me from the Company today, to my
2 right, is Steven Mullen, Manager of Rates and Regulatory,
3 and to his right, Stephen Hall, Director of Regulatory and
4 Government.

5 CMSR. SCOTT: Thank you. In the back
6 please.

7 MR. SCHWARTZ: Good afternoon. My name
8 is David Schwartz, from Latham & Watkins, LLP, in
9 Washington, D.C., on behalf of the Iberdrola USA
10 Enterprises, Inc.

11 CMSR. SCOTT: Thank you.

12 MR. SCHWARTZ: Thank you.

13 MS. HOLLENBERG: Good afternoon. Rorie
14 Hollenberg, here for the Office of Consumer Advocate.

15 MR. SHEEHAN: Good afternoon. Mike
16 Sheehan, Staff counsel for Staff at the PUC. With me is
17 Stephen Frink, Assistant Director of the Gas and Water
18 Division; Alexander Speidel, co-counsel; and Al-Azad Iqbal
19 of the Gas and Water Division. Thank you.

20 CMSR. SCOTT: Thank you. I think I'll
21 start with statement of the parties, unless there's a
22 general -- I know we have a motion from Iberdrola, and we
23 have a letter received from the OCA very recently, for the
24 Commissioners anyways. Is there any sentiment? Do we

1 want to address that first?

2 MS. HOLLENBERG: Sure.

3 MR. SHEEHAN: I don't think there's
4 going to be much controversy. So, it could be taken up at
5 any time.

6 CMSR. SCOTT: Okay. Well, why don't we
7 start with that then. So, obviously, we've read the
8 motion from Iberdrola. We have the letter from OCA. We
9 haven't heard from any of the other parties yet, though,
10 on that Motion for Intervention.

11 MS. KNOWLTON: The Company has no
12 objection.

13 CMSR. SCOTT: No objection.

14 MR. SHEEHAN: Staff has no objection
15 either.

16 CMSR. SCOTT: Okay.

17 CMSR. HONIGBERG: Does either the Staff
18 or Liberty have any position on appropriate limitations on
19 Iberdrola's participation in the docket?

20 MS. KNOWLTON: My view is that the
21 intervention, if granted, is short-lived. There is a
22 hearing on October 30th in DG 14-155, which is the
23 acquisition docket involving Iberdrola and Liberty. If
24 that acquisition is approved, then there would be no need

1 for Iberdrola's continued intervention after that date.

2 CMSR. SCOTT: Okay.

3 MR. SHEEHAN: And, we have a similar
4 position. I spoke very briefly with Mr. Schwartz. I
5 think their intent is simply to keep a tab on what's going
6 on. They have no intention really to do much of anything,
7 other than to monitor. And, as Ms. Knowlton said, if the
8 transaction goes through, then they will withdraw as a
9 party. If it doesn't go through, then the concerns raised
10 in the Petition, which are rates, won't happen, because
11 then the New Hampshire Gas will not be part of the Liberty
12 system. So that they would just continue on as their
13 existing, independent utility, in which case would
14 continue on its own path. So, I see it simply as their
15 attempt to keep an eye on this proceeding, with very
16 little participation at all.

17 CMSR. SCOTT: Technology being what it
18 is, and the fact that we are at least partly into the 21st
19 Century technologywise here, I mean, it is possible for a
20 nonparty to keep track of a docket fairly readily. But,
21 Mr. Schwartz, you want to say anything?

22 MR. SCHWARTZ: Sure. Yes. Our interest
23 is clearly just to watch and monitor during the time frame
24 that Iberdrola USA Enterprises, Inc. retains ownership of

1 New Hampshire Gas. Until such time as closing occurs, we
2 would be happy to seek to withdraw, if the parties would
3 prefer that we do so. Our interests are not, you know, we
4 do not have an interest to participate actively. We don't
5 have an interest at this point in submitting testimony or
6 asking discovery. It's really a monitoring role.

7 The reason that an intervention seems a
8 little more appropriate, in our view, is that, in the
9 unlikely event that there were to be some type of effort
10 to impact the rates of New Hampshire Gas during the time
11 frame that Iberdrola USA Enterprises owns it, then
12 Iberdrola USA Enterprises would like the opportunity to
13 raise that. And, if we were to seek to intervene at that
14 time, we would be concerned that it would be untimely.

15 (Cmsr. Scott and Commissioner Honigberg
16 conferring.)

17 CMSR. SCOTT: Okay. We've, obviously,
18 just caucused. And, we agree to grant your intervention
19 within the bounds of what you just articulated. And, so,
20 if you want to go beyond that, we'll readdress that.

21 MR. SCHWARTZ: The bounds I articulated
22 is fine, and I appreciate that. Thank you.

23 CMSR. SCOTT: Okay. Thank you. All
24 right. With that, I think we'll start with the utility.

1 We would like to hear the statement from the parties.

2 MS. KNOWLTON: Good afternoon. On
3 August 1st, 2014, Liberty Utilities (EnergyNorth Natural
4 Gas) filed an increase -- requested increase in its
5 distribution rates on both a permanent and a temporary
6 basis. This filing was anticipated by the Settlement
7 Agreement that Liberty entered into with National Grid and
8 Staff and OCA and other parties in DG 11-040. And, the
9 timing of this case is consistent with the rate case
10 stay-out period that's set forth in that Settlement
11 Agreement.

12 The permanent rate request consists of
13 an approximate 13.4 million revenue deficiency, which is
14 based on a rate base of approximately \$172 million. The
15 test year is April 1st, 2013 through March 31st, 2014.
16 The Company seeks rates to take effect on a service
17 rendered basis as of September 1st, 2014. And, the
18 increase represents an approximate 8.04 percent increase
19 for a residential heating customer using 797 therms per
20 year, and that roughly comes to a \$110 increase over the
21 course of a year.

22 The Company is seeking this request
23 because it is not earning its allowed return of 7.31
24 percent. It's current return is approximately

1 4.49 percent, and thus it is underearning significantly.

2 The Company also seeks a step increase
3 to recover an annual revenue deficiency of an additional
4 \$2.6 million, and that is based on additional capital
5 spending of approximately \$16.6 million for the 12-month
6 period ending March 31st, 2015. That will result in an
7 increase of approximately \$22 for a residential heating
8 customer, or a 1.58 percent increase.

9 The Company has requested that the
10 Commission grant it temporary rates in the amount of
11 \$8.3 million, which would be an approximate 5.16 percent
12 increase, again, for a residential heating customer. We
13 ask that those rates take effect September 1st, 2014.

14 The drivers behind this request for a
15 rate increase is a \$93 million investment in capital since
16 the Company's last rate case, which was Docket DG 10-017.
17 So, between July 1st, 2009 and the end of the test year in
18 this case, the Company has spent \$93 million, most of
19 which is for infrastructure replacement. That includes
20 such things as over 100,000 feet of new main, 44,000 feet
21 of replaced main, 1,760 new residential services, and 350
22 new C&I customers, among other investments. In addition,
23 this investment includes the capital necessary to create
24 the Liberty system so that it could function independent

1 of National Grid. This includes things like the Customer
2 Information System, outage management, SCADA, GIS, and
3 other systems.

4 In this case, the Company has also
5 proposed a decoupling mechanism that will delink the
6 volumes of gas delivered from the Company to its customers
7 from its revenues and earnings. In this mechanism, the
8 Company proposes to establish a target amount of revenue
9 per customer for three customer groups, which will be
10 compared twice a year to the Company's actual revenue per
11 customer within those groups and adjusted accordingly.
12 So, for example, if we had a cold winter, like we did last
13 year, and sales were higher, customers would get a rate
14 adjustment credit, and vice versa if the target were
15 lower. This is certainly not a new concept. There are 51
16 gas LDCs in the United States across 22 states that have
17 revenue decoupling mechanisms. And, we think it's time in
18 New Hampshire that we implement that feature.

19 We also believe that revenue decoupling
20 is beneficial to provide the proper incentive to promote
21 energy efficiency. In calendar year 2013, EnergyNorth's
22 shareholder incentive payment under the energy efficiency
23 program was approximately \$457,000, but the foregone
24 revenues were approximately a million, which resulted in a

1 loss to the Company of \$580,000, as a result of promoting
2 energy efficiency programs to its customers. It's also
3 important to consider decoupling in this docket because
4 the EERS is on the horizon. And, by all accounts, I think
5 it sounds as though that will likely encourage or require
6 utilities to increase their energy efficiency offerings to
7 their customers.

8 The Company is fully prepared to
9 cooperate with the Staff and the OCA in this docket, to
10 provide them all the information necessary to do their
11 investigation and review of the case. And, in fact, the
12 Company has already responded to the first set of
13 discovery requests from the Staff.

14 With that, we look forward to working
15 with the Staff and the OCA in the docket, and coming up
16 with a procedural schedule in the technical session to
17 follow this prehearing conference. Thank you.

18 CMSR. SCOTT: Thank you. Mr. Schwartz,
19 did you have anything beyond what you've already added?

20 MR. SCHWARTZ: No. No, your Honor.

21 CMSR. SCOTT: Okay. Thank you. OCA.

22 MS. HOLLENBERG: Thank you. At this
23 time, the OCA does not have a position on the Company's
24 filing. We will be hopefully hiring some consultants to

1 assist us with a few of the issues that have been
2 presented, including decoupling. We do already have a
3 cost of service/rate design consultant retained at this
4 point in time, but our RFP for the other consultants has
5 just gone out. It is also possible that we would retain a
6 return on equity consultant as well, depending on whether
7 or not other parties retain that.

8 So, I look forward to working with the
9 parties, as always. And, I'll leave it at that. Thank
10 you.

11 CMSR. SCOTT: Thank you. Staff.

12 MR. SHEEHAN: Thank you. In July of
13 2012, Liberty acquired EnergyNorth Natural Gas and Granite
14 State Electric from National Grid, subject to a number of
15 conditions laid out in the approved settlement in that
16 docket, DG 11-040. Among other things, Liberty agreed not
17 to seek recovery of the acquisition premium, nor of its
18 transaction and transition costs. Liberty agreed to a cap
19 on the IT capital expenditures to be recovered, and agreed
20 to a stay-out provision for the Natural Gas Division.
21 There was no stay-out provision for Granite State
22 Electric, which filed for a rate case in 2013, Docket
23 13-063.

24 In that case, the electric case, largely

1 due to the 24-month transition process in converting from
2 National Grid to Liberty, its management systems, the
3 Audit Staff was unable to resolve all of the issues
4 identified in its report, and Staff questioned the
5 accuracy of certain test year expenses and adjustments in
6 that case. Although the test year in this filing is
7 further along in that transition process, the test year
8 still includes operations under two different ownership
9 and management organizations.

10 By necessity, a great deal of Liberty's
11 time and effort has been spent on that transaction
12 process, especially since Liberty had never operated a
13 natural gas utility prior to its acquisition of
14 EnergyNorth. There have been system changes, changes in
15 policies and management, changes in how affiliate charges
16 are determined, and relocation of headquarters. Liberty
17 recently announced a new president, its third since
18 acquiring EnergyNorth. Liberty entered into a special
19 contract to serve a compressed natural gas facility, which
20 has yet to begin service, and has asked the Commission to
21 approve its acquisition of New Hampshire Gas in Keene.

22 Because of the unique issues arising
23 from the transition and Liberty's recent and proposed
24 acquisitions, Staff is concerned that the test year

1 expenses and proforma adjustments may not be
2 representative of the annual cost of service going
3 forward. Staff will thus perform a thorough review of the
4 Company's books and records to ensure accuracy and
5 compliance with the terms of the acquisition settlement
6 agreement.

7 Staff also has concerns over the need
8 for the proposed step adjustment, given Liberty already is
9 allowed accelerated recovery of mains and services through
10 the Cast Iron/Bare Steel Replacement Program.

11 Staff has concerns regarding Liberty's
12 decoupling proposal, which seeks to recover more than lost
13 sales due to energy efficiency measures, and how the
14 proposed decoupling impacts the financial risks to the
15 Company and the return on equity.

16 Staff is in the preliminary stages of
17 its review and looks forward to working with the parties
18 to address these concerns. Staff intends to present its
19 findings and recommendations to the Commission through the
20 testimony. Thank you.

21 CMSR. SCOTT: Thank you. Okay. Before
22 we, the Commissioners, depart, are there any other
23 outstanding procedural issues that we need to address?

24 MS. KNOWLTON: The only other issue is

1 the Motion for Protective Treatment. But my understanding
2 is that the Commission would protect the information in
3 its possession until it rules on that motion.

4 CMSR. HONIGBERG: That's correct.

5 CMSR. SCOTT: Okay. With that, we
6 understand, we'll leave the parties to have discussions
7 after our departure.

8 **(Whereupon the prehearing conference was**
9 **adjourned at 1:50 p.m., and the parties**
10 **held a technical session thereafter.)**
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