

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DE 21-049

LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.
d/b/a LIBERTY

Reliability Enhancement Plan and Vegetation Management Plan

Record Request – Exhibit 6

REQUEST:

Reference page 98 of the transcript of the April 27, 2020, hearing in Docket DE 20-036, where Commissioner Giaimo stated:

Okay. So I know transmission owners, there was a big discussion about 15, 20 years ago when transmission investment was far exceeding initial estimates. And through the ISO tariff and one of the attachments they have an objective formula that they use, which is then used to determine whether or not some of the investments were, for lack of a better term, prudent, and whether or not they overspent and were so far off budget. I guess I would suggest that maybe the Company consider some sort of similar format to provide guidance. It may be helpful.

Has the Company considered a similar format to provide guidance?

RESPONSE:

While Commissioner Giaimo provided insight in to how the ISO tariff works, the ISO tariff guides investments from many different entities whose costs are recovered from all New England electric customers, so creating a formula for all transmission companies to follow provides guidance and continuity when reviewing investments for prudence. Nonetheless, the Company's estimating and budgeting processes, described below, provide a similar format to keep project costs within the overall budget.

As described in the testimonies of Mr. Strabone in Docket No. DE 19-064, the Company uses a formula whereby estimated costs for bare conductor projects are based on the previous years' spending trend. Since the Company obtains competitive bids for this work, the pricing of which the Company cannot control, it is reasonable to budget on this past experience for similar projects. The Company uses that prior data to create a scope of work for the overall REP project,

which is comprised of multiple jobs, when creating a project level budget and business case. In some years, bids come in lower than anticipated, in other years higher than anticipated. When bids come in near the expected per mile cost, all of the jobs are likely to be completed in that year. In years that bids come in higher than anticipated, the scope of the overall project as described in the business case must be reduced to accommodate the Commission's expectation that bare conductor projects will cost approximately \$1.5 million. In 2020, bids came in significantly higher than expected, so the Company reduced the number of jobs to be completed in 2020 to stay in line with the overall REP budget presented to Staff in November 2019 and approved in the Company's overall capital budget. The Company does not have visibility into why the bids come in higher, the same, or lower than anticipated each year because the bidders have their own circumstances and considerations as to why they have offered their specific bid prices.

This issue has come up in the past, specifically in Docket No. DG 20-049, where Commissioner Bailey and the Company's witness Brian Frost discussed estimating costs versus actual spending and why the Company would not simply "overestimate" the specific jobs to make it easier to come in under budget:

(Comm. Bailey)

Q. But my question is why not assume the worst, the most expensive scenario in your estimating?

(Frost)

A. Oh, understood. That I would think would present challenges, too. Sometimes it's better to control the construction process going upwards to a degree rather than give the impression that the project is supposed to cost a large amount at the outset. The Company tries to estimate a realistic number if no problems or only the anticipated problems are covered so that we can keep an eagle eye on the amount of extras that come up during the job.

(Comm. Bailey)

Q. But as you said, you can't do anything about the extras that come up during the job. So I still don't understand. I think what you're saying is that if you overestimate the job, the spending will creep up to that much even if it doesn't need to? Is that why you're reluctant to overestimate and come in under budget?

(Frost)

A. I wouldn't say the spending is going to creep up necessarily. But that is the slight concern, that I want to make sure that the jobs are -- you know, that the supervisors in the field, the expectation is that they need to meet the numbers based on a good-faith average estimate plus or minus 10 percent. And it would need to be documented fully why the estimates were to go elsewhere, or the actuals were to go elsewhere.

Transcript of June 18, 2020, hearing in Docket No. DG 19-064, at 43-44.

The Company believes it is best to develop a realistic estimate for each project as described above, to build the overall REP budget based on those realistic estimates, and then to manage to that overall budget, as the Company did with the projects addressed in this docket. Thus, the Company believes that is already following Commissioner Giaimo's suggestion to incorporate a formula based on previous years' spending trends for similar bare conductor projects.