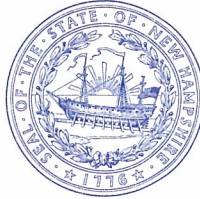


THE STATE OF NEW HAMPSHIRE

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June 20, 2013

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429



Re: Liberty Utilities - Line Extension Policy
Staff Request to Open an Investigation Pursuant to RSA 365:5 and 374:4

Dear Ms. Howland:

On May 15, 2013, EnergyNorth Natural Gas, Inc. d/b/a Liberty Utilities (Liberty or the Company) filed the results of its Fiscal Year 2013 Cast Iron/Bare Steel (CIBS) Replacement Program. This filing was reviewed in Docket No. DG 13-149. The CIBS Program provides for a step adjustment to allow for cost recovery related to the accelerated replacement of leak prone pipe in Liberty's system. During the discovery process in Docket No. DG 13-149, Staff issued a number of interrogatories related to Liberty's efforts to add new customers adjacent to CIBS-related work sites. The cost to add an additional service to serve a new customer along a CIBS line replacement segment would be significantly less than would otherwise be the case, due to much of the excavation work required to install the new service being performed as part of the CIBS replacement work. Cost effective addition of new customers, especially through such complementary construction work, would increase the Company's earnings, which would tend to reduce the need for rate increases by the Company. In addition, new customers can be expected to realize significant energy savings from converting to natural gas, in light of current fuel oil and propane prices.

The Liberty Line Extension Policy, a mandatory provision of Liberty's approved tariff, subjects all service requests to the 25% test, whereby a customer contribution in aid of construction (CIAC) is required if the capital costs exceed four years of revenues (customer and delivery charges). *See Attachment 1, Liberty Utility Tariff pages 10-12, Service and Main Extensions.* Order No. 24,972, dated May 29, 2009, and issued in Docket No. DG 08-009, approved the current Line Extension Policy. In that docket, National Grid, the predecessor parent company of this gas utility,¹ proposed that all

¹ Order No. 25,370, dated May 30, 2012, and issued in Docket No. DG 11-040, approved the proposed transfer of ownership from National Grid to Liberty; ownership was transferred on July 3, 2012.

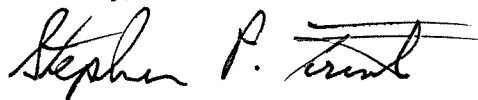
customer requests for new services be subject to a discounted cash flow (DCF) methodology and that customer contributions be calibrated to satisfy National Grid's internal rate of return. The Commission did not approve use of the DCF methodology but did allow the Company to modify its line extension policy to eliminate the provision for extensions of 80 feet or less at no charge to the customer. In all other respects the long-standing Line Extension Policy and use of the 25% test remained unchanged.

In the CIBS filing, the Company's response to Staff Data Request 1-6 states, "Customer contributions are being calculated using an Internal Rate of Return model. Currently, residential customers are charged \$900 for a standard residential service connection where no abnormal conditions are present." *See Attachment 2, Liberty Response to Staff 1-6.*

If the Liberty response is correct, the Company is in violation of its approved tariff. Failure to comply with the approved Line Extension Policy could have serious repercussions on expanding natural gas service in New Hampshire, denying access to customers to the detriment of potential and existing customers. An Internal Rate of Return model is likely to generate higher extension costs for customers than the 25% test, and there is no provision for a standard residential service connection charge in the approved tariff. Furthermore, customers that have made contributions in aid of construction for service extensions may have been overcharged by the Company due to the improper calculation of CIAC requirements.

Staff recommends that the Commission open a formal investigation, pursuant to RSA 365:5 and 374:4, regarding this matter, and order Liberty to cease its use of a standard residential customer charge of \$900 and its use of an Internal Rate of Return model to calculate CIAC for line extensions. Through this investigation, Staff will endeavor to: identify businesses and residents that were misquoted CIAC requirements, and work to ensure that Liberty will provide corrected responses to those inquiries; determine the amount Liberty customers have been overcharged for CIAC (including carrying costs); develop a recommendation for any appropriate refunds to be made to customers for such overcharges; and develop a recommendation as to whether penalties and/or fines should be imposed for the Company's failure to comply with this important provision of its approved tariff. Staff welcomes public comments regarding this recommendation through July 8, 2013.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen P. Frink", with a stylized flourish at the end.

Stephen P. Frink
Assistant Director, Gas & Water Division

cc: Liberty Utilities
Office of the Consumer Advocate

I. GENERAL TERMS AND CONDITIONS**7 - SERVICE AND MAIN EXTENSIONS**

- 7(A) Service and Main Extensions. In areas where the Company is authorized to operate, subject to the Application for Service provisions of this tariff, service is available as follows:
- 1) No Contribution in Aid of Construction Required. Service is available without a contribution in aid of construction when the 25 percent test is met and there are no abnormal costs.
 - 2) Contribution in Aid of Construction Required. A contribution in aid of construction is required when the 25 percent test is not met or when there are abnormal costs. Except as provided hereinafter, the contribution is required to be made prior to installation.
- 7(B) Failure to Use Gas Facilities. If a customer fails, within nine months after the date a service requested by him is installed, either in whole or in part, to make use of the service, the customer will reimburse the Company for all costs of constructing, removing and retiring the service less any contribution in aid of construction made by him for the service, which will be forfeited.
- 7(C) Easements, Etc. The Company is not required to construct extensions other than in public ways unless the customer provides, in advance and without expense or cost to the Company, all necessary permits, consents, authorizations and right-of-way easements, satisfactory to the Company, for the construction, maintenance and operation of the pipeline.
- 7(D) Shortest Distance. Services are run the shortest practical safe distance to the meter location. However, a customer may have the Company install a longer alternate service provided that the customer defrays in advance of installation the extra expense.
- 7(E) Extra Footage. The charge (contribution in aid of construction) for extra footage is the historical average cost per foot for the most recent twelve month period for which such cost has been computed by the Company; the cost will be updated annually; and the most recent annual computation will be used in calculating extra footage charges.
- 7(F) Winter Construction. Ordinarily, no new service pipes or main extensions are installed during the winter conditions (when frost is in the ground) unless the customer defrays the extra expenses.
- 7(G) Time For, and Refund Of, Contribution. Except as otherwise agreed by the Company under unusual circumstances, any required contributions in aid of construction will be made prior to installation by the Company of a service. To help cover the Company's expenses, damages and lost business, ten percent (10%) of the contribution will be forfeited to the Company and not be subject to being returned, where substantial construction of the building or buildings for which gas service has been sought is not commenced by the earlier of (1) November³⁰th next following submission of the application; and (2) the date when the Company commences construction of the main and service concerned prior to withdrawal of the application. Except as provided in the last preceding sentence and in Clause (D) above, the entire contribution will be refunded if and when the application is withdrawn. A new application may be submitted at any time.
- 7(H) Definitions. The following are definitions of terms used in these provisions relative to main and service extensions and are applicable only in such provisions.

Dated: July 03, 2012
Effective: July 03, 2012

Issued by: /s/ Victor D. Del Vecchio
Victor D. Del Vecchio
Title: President

Authorized by Docket No. DG 11-040, NHPUC Order No 25,370, Dated 05/30/2012

I. GENERAL TERMS AND CONDITIONS

7 - SERVICE AND MAIN EXTENSIONS (Cont'd)

- 1) 25 Percent Test. The 25 percent test is calculated as follows:

The estimated annual margin must be equal to or greater than 25 percent of the estimated construction costs for the main and service extension, subject to the provision of the following sentence. Abnormal costs are charged separately and are not included in the cost of the extension for the purpose of calculating the 25 percent test.

Subject to the provision of the last preceding paragraph, the customer(s) requesting the extension will be required to pay to the Company, in advance, any amount by which the estimated construction cost of the main and service extension exceeds four times the estimated annual margin. The contribution will be required to be made by the customers requesting the extension proportionally according to their respective estimated annual gas use.

Upon completion of the work and the expiration of twelve (12) months thereafter, the Company will recalculate the required contribution based upon the actual construction costs incurred and the actual annual margin. In the event that the recalculation results in a required contribution that is less than that originally made by the customer(s), the excess will be refunded to the customer(s) who originally made the contribution. In the event that the recalculation results in a required contribution that is more than that originally made by the customer(s), the difference shall be promptly contributed to the Company by the customer(s) who requested the extension.

If, during the period five (5) years immediately following the date of completion of construction of a particular main and/or service extension for which a contribution was required and made because of the 25 percent test, additional customers are connected to the extension, the contribution requirements will be recalculated, taking into account the estimated annual margin from the new customers; and the new customers will be required to pay the Company their proportional share of the contribution. The Company will make pro rata refunds to the customers who made the original payments, to the extent of the total amount of such shares of such new customers less any forfeitures. If the inclusion of such new customers would increase the estimated annual margin to such an extent that the 25 percent test is met, all unforfeited contribution payments will be returned to the customers who made them if and when the actual annual margin satisfies the 25 percent test

- 2) Estimated Annual Margin. The estimated annual margin is equal to the estimated revenue to be derived from the monthly Customer Charge and delivery charge to be received from the customer for gas service utilizing the particular main and/or service extension concerned during the first twelve (12) months after completion of the extension. The estimated annual margin does not include revenue received by the Company for the cost of gas and local distribution adjustment factor. The Company shall recalculate the estimated annual margin for a twelve (12) month period at least once within a year of completion of the installation.
- 3) Cost of Construction. The cost of construction of mains and/or services includes not only the cost of labor and materials for such construction, but also miscellaneous costs incidental thereto or associated therewith.

Dated: July 03, 2012
Effective: July 03, 2012

Authorized by Docket No. DG 11-040, NHPUC Order No 25,370, Dated 05/30/2012

Issued by: /s/ Victor D. Del Vecchio
Victor D. Del Vecchio
Title: President

I. GENERAL TERMS AND CONDITIONS

7 - SERVICE AND MAIN EXTENSIONS (Cont'd)

- 4) Abnormal Costs. Abnormal costs are service and/or main construction costs that are attributable to frost, ledge, ditching, backfill and/or other conditions not uniformly encountered in service and/or main construction and that are peculiar to the particular service and/or main construction concerned. Abnormal costs are to be paid by the customer.
- 5) Main and Service Extensions. This term refers to the service and, if a main is required to be extended, the main extension, required to be constructed to provide requested gas service.
- 7(I) Reasonable Duration and Non-Discrimination. Under none of the foregoing provisions will the Company be required to install service pipes or to contract main extensions where the business to be secured may not be of reasonable duration or will tend, in any way, to constitute unreasonable discrimination.
- 7(J) Title. Title of all extensions constructed in accordance with the above shall be vested in the Company.
- 7(K) Other Requirements. The Company generally will not approve any application or, if it shall have given such approval, will not proceed or continue with main and/or service construction unless the Company is satisfied
- 1) That the final site plans, sub-division plans and plans and specification for building or buildings to be served by the main and/or service concerned, including plans for waste disposal, water and other associated systems and facilities, have been prepared and approved by owner;
 - 2) That all permits, exceptions, approvals and authorizations of governmental bodies or agencies required for construction of such building or buildings and associated systems and facilities have been obtained;
 - 3) That the customer is proceeding or plans promptly to proceed with such construction; and
 - 4) That nothing has occurred or failed to occur which will or is likely to prevent or interfere with such construction.

Dated: July 03, 2012
Effective: July 03, 2012

Issued by: /s/ Victor D. Del Vecchio
Victor D. Del Vecchio
Title: President

Authorized by Docket No. DG 11-040, NHPUC Order No 25,370, Dated 05/30/2012

DG 13-149
Cast Iron/Bare Steel Step Adjustment
Liberty Response to Staff Set 1

Date Request Received: May 28, 2013
Request No. Staff 1-6

Date of Response: June 7, 2013
Witness: Gwyn Cassetty
William T. Sherry

REQUEST:

For the FY 2013 CIBS program, please describe what efforts were undertaken by the Company to add customers along the mains to be replaced. Please provide a copy of all written correspondence (including door hangers), the number of telephone contacts and location visits to each customer, number of visits in which a customer was home, and the customer contribution requirement calculation for each of the potential customers.

RESPONSE:

National Grid administered the growth plan as it related to the FY 2013 CIBS program. Any potential customers that expressed interest in natural gas service contacted National Grid via the existing sales/marketing lead intake group. All new sales leads were then routed to the appropriate sales personnel for follow up.

One new customer was added to the customer base along the mains replaced under the FY 2013 CIBS program.

Liberty is not able to quickly ascertain the number of return phone calls for residential inquiries since that is now and will be managed through National Grid at least until September 2013. Liberty Utilities does not currently perform residential field visits.

Customer contributions are calculated using an Internal Rate of Return model. Currently, residential customers are charged \$900.00 for a standard residential service connection where no abnormal conditions are present.