

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-383

**LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.
D/B/A LIBERTY UTILITES**

Request for Step Increase in Distribution Revenue Requirements

Order Following Hearing

ORDER NO. 26,141

May 31, 2018

APPEARANCES: Michael Sheehan, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities; Office of Consumer Advocate by Brian Buckley, Esq., on behalf of residential ratepayers; Paul B. Dexter, Esq., and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this order, the Commission authorizes Liberty to recover through distribution rates effective June 1, 2018, the revenue requirement of \$289,348 associated with \$2.4 million in capital investment placed in service in 2017. In addition, the Commission authorizes Liberty to recover an additional \$48,039 in rate case expense associated with its 2016 distribution rate case. This would result in a 0.87 percent increase in base distribution rates for residential customers.

Liberty's base distribution rates will change effective June 1, 2018, for several other items, including Docket No. DE 18-034 dealing with reliability enhancement and vegetation management; Docket No. DE 18-050 involving a rate reduction to pass on to ratepayers recent reductions in corporate tax rates; and Docket No. DE 18-051 involving transmission costs and stranded costs. The cumulative effect of the four changes is an increase in monthly bills between 5 and 6 percent for residential consumers using 650 kWh per month.

I. PROCEDURAL HISTORY

On March 16, 2018, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty or the Company) filed a distribution rate adjustment letter pursuant to the Settlement Agreement (Settlement Agreement) approved by the Commission in Docket No. DE 16-383, Liberty's most recent distribution rate case. *See* Order No. 26,005 (April 17, 2017). Liberty's request was for a 0.91 percent increase to distribution rates effective May 1, 2018. Liberty filed tariff pages to implement the rate design change approved by Order No. 26,005 on March 31, 2018.

The Office of Consumer Advocate (OCA) previously filed a letter of participation in this docket on May 2, 2016. The Commission issued an Order of Notice on April 19, 2018.

On May 4, 2018, Commission Staff (Staff) indicated by letter that Liberty's rate filing failed to comply with the requirements of N.H. Code Admin. Rules Puc 1605.02. Staff requested that Liberty file testimony and additional supporting information by May 10, 2018. Staff also asked to move the hearing in this matter to May 17, 2018. Liberty made an additional filing on May 10, 2018.

At the May 17, 2018, hearing, the Commission made a record request (designated as Hearing Exhibit 26) requiring Liberty to file additional information related to the capital investment made in 2017. Liberty responded on May 24, 2018.

The Commission issued additional questions to Liberty on May 30, 2018, to which Liberty responded on May 31, 2018.¹ The petition and subsequent docket filings, other than any information for which confidential treatment has been requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-383.html>.

¹ The responses to the May 30 questions were designated as Exhibit 27 and are filed in this docket.

II. POSITIONS

A. Liberty

Liberty requested the rate adjustment pursuant to Section II, subsections B and D, of the Settlement Agreement. Liberty said the adjustment would result in a 0.87 percent increase to distribution rates.

The Settlement Agreement provides for two annual step adjustments, effective May 1, 2018, and May 1, 2019. The step adjustments allow Liberty to recover the revenue requirement associated with the Pelham and Charlestown substation capital additions that are in service, and used and useful, as of December 31, 2017, and December 31, 2018, respectively. No amount is included in this step adjustment for the Charlestown substation.

With an estimated two years of construction, the Settlement Agreement placed a budget limit for 2017 of \$2 million for the Pelham substation and \$400,000 for the Pelham 14L4 feeder. Instead of conducting a phased approach as budgeted, Liberty performed all the necessary substation construction in 2017. According to Liberty, accelerating construction was justified because it allowed Liberty to remain on National Grid's 115kV substation construction schedule.² As a result, Liberty spent over \$4.8 million in capital expense on the Pelham substation in 2017.

The Settlement Agreement limits the 2018 step increase to \$2.4 million in capital spending. As such, the Company requests a step adjustment of \$289,348 to recover the revenue requirement associated with \$2.4 million in capital expense. The remaining capital investment

² National Grid continues to own and maintain certain infrastructure located within the Pelham substation including transformers and a transmission tap line. National Grid's infrastructure is interconnected with Liberty's at this location. Both Liberty and National Grid are undertaking concurrent improvements to the substation. Because National Grid accelerated its schedule for completion Liberty had to do the same in order to coordinate the work.

will be recovered through the second step increase in 2019, or in Liberty's next distribution rate case, expected to be filed in 2019.

In addition, Liberty requested an adjustment to its rate case expense recoupment for its 2016 rate case. Liberty stated that Section II, D of the Settlement Agreement, allows Liberty to recover all actual rate case expenses through distribution rates, beginning May 1, 2017, through December 31, 2018. An estimated rate case expense of \$444,700 was included in rates effective May 1, 2017. A Commission Staff audit reported the actual rate case expense was \$48,039 higher than the estimated amount. As a result, Liberty requested authority to recover the additional amount, as provided by the Settlement Agreement, effective June 1, 2018.

As noted above, Liberty provided additional information after the hearing, demonstrating that it had made sufficient capital investment in 2017 to qualify for the maximum 2018 step allowance of \$2.4 million. Exhibit 27 shows that various components of the Pelham substation were placed in service between July and December 2017, and the capital investment in those components exceeded the \$2.4 million cap. On that basis, consistent with the Settlement Agreement, Liberty would be eligible to recover the revenue requirement associated with \$2.4 million in capital investment through distribution rates.

B. OCA

The OCA stated that it neither supported nor opposed Liberty's filing, but would support an audit of expenses and prudence of expenditures. The OCA added that it would review the information contained in Liberty's post-hearing submissions.

C. Staff

Staff said that the step increase request is not a compliance filing, but a rate adjustment which should be accompanied by the appropriate information to support an increased rate.

According to Staff, Liberty provided insufficient information to determine when the capital investment was used and useful and whether the expense was prudently incurred. Staff recommended an audit of expenses and the prudence of expenditures used to calculate the requested rates. Staff concluded it was unable to determine whether Liberty's proposal resulted in just and reasonable rates.

III. COMMISSION ANALYSIS

Based on our review of the information Liberty provided post-hearing, we conclude that Liberty properly calculated the revenue requirement associated with 2017 capital investment. In Exhibit 27, Liberty provided detailed information supporting its claim that the capital investment exceeded the \$2.4 million cap agreed to in the Settlement Agreement for this step increase and that more than \$2.4 million of the investment was in service as of December 31, 2017. Based on that information, we find that the investment is used and useful and authorize Liberty to recover through distribution base rates the revenue requirement of \$289,348 associated with the \$2.4 million investment. We also conclude that Liberty appropriately calculated the rates associated with this investment.

Subject to the review and any reconciliation recommended by Commission's Audit Staff, we approve the calculation of the step increase proposed in Liberty's filing and find that the resulting rates are just and reasonable as required by RSA 378:5 and RSA 378:7. We approve the rates for effect with services rendered on and after June 1, 2018.

Regarding rate case expenses, we approve Liberty's recovery of the additional \$48,039 in expenses discovered during the audit. As explained in the order being issued separately today in Docket No. DE 18-050, however, that amount is not approved as part of this step adjustment. Instead, it will be dealt with the way the Company has proposed for the vast majority of its rate

case expenses incurred during the 2016 rate case, by setting it off against the moneys being returned to ratepayers as a result of lower corporate tax rates.

Finally, we remind the Company that it has the burden of proving that capital investments are in service and used and useful. Liberty should understand that the mere assertion it invested capital and is entitled to a return associated with the maximum capital investment provided by the Settlement Agreement is insufficient to support its claim for recovery. We expect Liberty will provide sufficient information regarding the capital investment placed in service during the 2018 period for its 2019 step increase with its initial petition.

Based upon the foregoing, it is hereby

ORDERED, that the step increase to be added to distribution rates, as calculated by Liberty's filing and supplemented by testimony and record request responses for its 2017 capital investments is hereby APPROVED; and it is

FURTHER ORDERED, that Liberty may recover the additional \$48,039 in rate case expenses, however, that amount is not approved as part of this step adjustment, instead, it will be recovered along with the balance of its 2016 rate case expenses and temporary rate recoupment, and offset by the moneys being returned to ratepayers as a result of lower corporate tax rates in Docket. No. DE 18-050; and it is

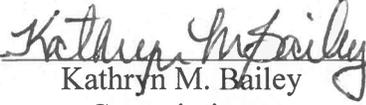
FURTHER ORDERED, that Liberty is authorized to implement the rates approved herein on a service-rendered basis effective June 1, 2018; and it is

FURTHER ORDERED, that the Commission Audit Division conduct an audit of the expenditures associated with the capital investment claimed in this filing; and it is

FURTHER ORDERED, that Liberty shall file tariff pages as required by N.H. Code Admin. Rues Puc 1603 conforming to this order within 15 days hereof.

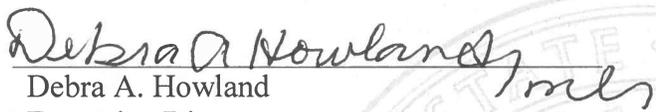
By order of the Public Utilities Commission of New Hampshire this thirty-first day of
May, 2018.

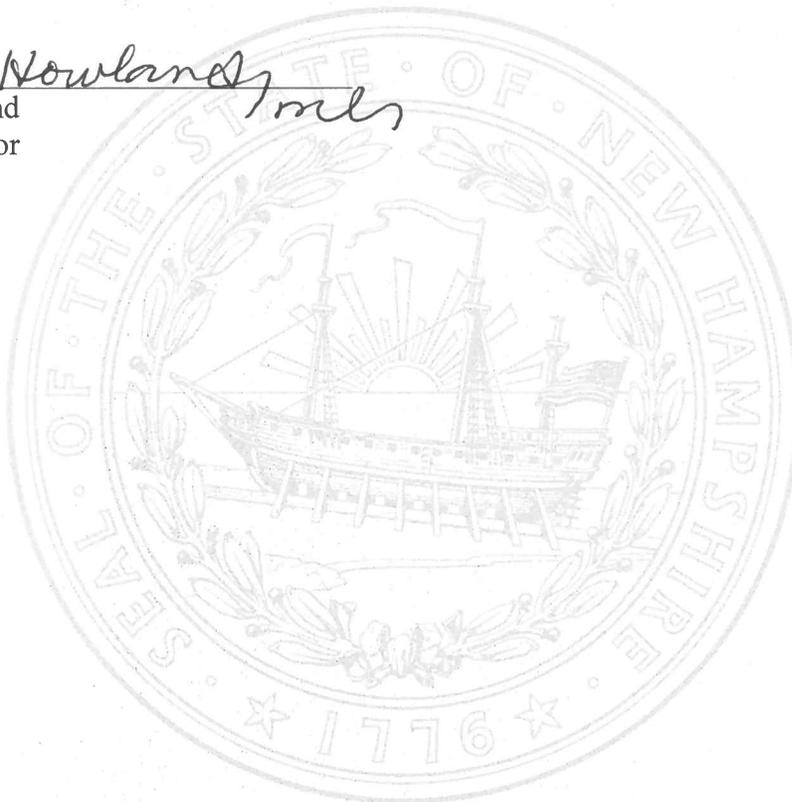

Martin P. Honigberg
Chairman


Kathryn M. Bailey
Commissioner


Michael S. Giaimo
Commissioner

Attested by:


Debra A. Howland
Executive Director



SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:
- DEBRA A HOWLAND
EXEC DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.