



Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

Staff Data Requests - Set 1

Date Request Received: 5/27/16
Request No. Staff 1-8

Date of Response: 6/3/16
Respondent: Christian Brouillard
Stephen Hall

REQUEST:

Re: Brouillard at 7; Brouillard/Hall at 5, 9-12; Mullen/Gorman at Temp Rates 4. Brouillard and Hall discuss constraints on the Company's revenue and sales growth as primary drivers for the rate case, but also point out that many of the capital projects are necessary to accommodate present and future load growth in some parts of Liberty's service territory. Table 2 in Brouillard/Hall p. 5, indicates a clear up-trend in gross sales. Please explain this apparent contradiction in the testimony.

RESPONSE:

The referenced section of Mr. Brouillard's testimony states that the projects are necessary to provide additional capacity in areas that have experienced load growth and are expected to see load increases in the future. Some parts of the Company's service territory have experienced spot load growth although, overall, there has not been significant load growth. Moreover, "load growth" as used in the testimony refers to increased kilowatt demand, not an increase to kilowatt-hour sales.

The Company does not agree that the table in the testimony indicates a clear upward trend in kWh sales. Kilowatt-hour sales since 2013 have been flat. July 1, 2013, was the date used for recoupment in the Company's last rate case and, as stated in the testimony of Brouillard/Hall, 2015 sales were at approximately the same level as 2013. The compound annual growth rate in sales since 2011 is about one-half of one percent.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

Staff Data Requests - Set 2

Date Request Received: 6/9/16
Request No. Staff 2-3

Date of Response: 6/10/16
Respondent: Christian Brouillard

REQUEST:

Follow up to response to Staff 1-8: Given Liberty's flat or near flat sales growth since 2011, and the fact that some capital projects are discretionary, why hasn't Liberty re-prioritized its capital spending so that it is more in line with current sales trends instead of continuing on the same robust glide path since the last rate case?

RESPONSE:

Liberty takes into account many different investment drivers when developing its overall capital investment plan. Included are obligations to meet electric system peak demand growth (both overall and spot loading); mandatory requirements such as pole relocations due to roadway reconstruction and third party attachment driven upgrades; response to damage to and or failure of our equipment; upgrades to improve reliability and manage delivery system supply and distribution contingency risk; replacement of assets that are beyond their useful economic lives; and investment in non-infrastructure projects to support the business.

Please refer to Liberty's response to Staff 1-9 for additional context to Liberty's approach to future capital investment in its delivery system.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

Staff Data Requests - Set 2

Date Request Received: 6/9/16
Request No. Staff 2-4

Date of Response: 6/10/16
Respondent: Christian Brouillard

REQUEST:

Follow up to response to Staff 1-9: Should Staff interpret your response to mean that Liberty acquired a system that contained a significant backlog of reliability, performance, and capacity projects and that that accounts for in part for Liberty's aggressive posture in capital planning and expenditures over the last three years?

RESPONSE:

The capital investments and projects that Liberty has undertaken following the acquisition reflect certain legacy projects, previously identified by National Grid, but completed by Liberty, to address system underperformance/capacity limitations. These include projects that could be categorized as "backlogged" due to budgeting, permitting, ISO-NE approvals, and business priorities as managed by National Grid. Further, as a New Hampshire-based utility with a smaller resource base, Liberty has re-focused its approach to reliability improvement and delivery system planning to provide opportunities for improved response of the delivery system to customer reliability expectations, storm response, and operational performance requirements.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

Staff Data Requests - Set 2 .

Date Request Received: 6/9/16
Request No. Staff 2-2

Date of Response: 6/10/16
Respondent: Tisha Sanderson

REQUEST:

Follow up to response to Staff 1-3: Ref: Attachment Staff 1-3xlsx. The 2014 capital budget contains numerous and significant cost overruns. Please provide accounting detail and explanations for the cost overruns involving the following projects:

8830-CNN015 -\$1.5M
8830-CNN016 -\$754,409
8830-CNN014 -\$1.4M
8830-CNN017 -\$891,296
8830-FINANCE -\$2.4M
8830-C18603 -\$1.1M
8830-C18710 -\$416,710
8830-C18720 -\$1.2M
8830-C18740 -\$383,410
8830-IT -\$5.8M
8830-C36324 -358,794
8830-CD0376 -\$1M

Please identify in Attachment Staff 1-3xlsx which projects were carryover projects from 2013 to 2014. Were any projects put on hold or delayed until 2015 or later?
Please provide accounting detail and explanations for the cost overruns on the following 2015 projects:

8830-CNN014 -\$1.65M*
8830-CNN015 -\$857,039*
8830-C36435 -\$500,444
8830-CNN011 -\$1.3M
8830-IT -\$506,293*

*Projects and overruns also reported in 2014.

Please identify in Attachment Staff 1-3xlsx which projects were carryover projects from 2014 to 2015. Were any projects put on hold or delayed until 2016 or later?

Project #	Project_Description	2014 Budget	2014 Actual	Variance	Overrun/Underrun	Explanation
8830-CNN015	GSE-Dist-Reliability Blanket	\$193,000	\$1,716,402	-\$1,523,402	Overrun	Over-charging of blanket projects occurred in 2014 due in part to the conversion of the work management system from NG TSA based STORMS system to LU based Quadra and WennSoft systems. This made establishment of timely work orders under specific projects difficult to establish and charge, resulting in use of established blanket projects to capture job charging.
8830-CNN016	GSE-Dist-Load Relief Blanket	\$26,000	\$780,409	-\$754,409	Overrun	Over-charging of blanket projects occurred in 2014 due in part to the conversion of the work management system from NG TSA based STORMS system to LU based Quadra and WennSoft systems. This made establishment of timely work orders under specific projects difficult to establish and charge, resulting in use of established blanket projects to capture job charging.
8830-CNN014	Dist-Damage&Failure Blanket	\$500,000	\$1,896,007	-\$1,396,007	Overrun	Charges were made to this damage/failure blanket instead of other blankets or the reliability or asset replacement blankets. See previous notation regarding conversion of work management system from NG to LU.
8830-CNN017	GSE-Dist-Asset Replace Blanket	\$220,000	\$1,111,296	-\$891,296	Overrun	We believe that charges were made to this asset replacement blanket instead of to specific projects and/or other blankets. See previous notation regarding conversion of work management system from NG to LU.
8830-FINANC	Finance Accrual		\$2,414,654	-\$2,414,654	Overrun	This project was used to capture year end capital accruals.
8830-C18603	Bare Conductor Replacement Program	\$800,000	\$1,883,152	-\$1,083,152	Overrun	Carryover of approximately \$1.23M from 2013 into 2014. CY2014 expenditures were \$971,298 vs. budget of \$970,000, well within project grade tolerance.
8830-C18710	RTU Installations - LU/NG Substations	\$300,000	\$716,710	-\$416,710	Overrun	Scope and Complexity of conversion from NG based system to LU only stand-alone system exceeded original estimate.
8830-C18720	Refreshing Existing Buildings GSE(Capital)	\$250,000	\$1,447,179	-\$1,197,179	Overrun	Phase II of Lebanon Building rebuild was accelerated from 2015 to 2014. Construction was significantly more expensive due to the age of the building, foundation conditions, and asbestos abatement. This project likely capture some charges that were originally estimated under project C18760.
8830-C18740	Customer Walk In Centers (Salem & Lebanon)	\$100,000	\$483,410	-\$383,410	Overrun	Construction proved to be more complex than originally estimated due to the age of the building relative to the last time that it was renovated, some 35 years ago.
8830-IT	IT	\$0	\$5,797,089	-\$5,797,089	Overrun	IT Budget was held at Corporate level creating a variance due to charges being held on local books.
8830-C36324	MICHEAL AVE SUBSTATION	\$150,000	\$508,794	-\$358,794	Overrun	Unplanned Carryover Costs from CY2013 into CY2014. This project was jointly constructed substation with National Grid. Billings from the vendor and National Grid continued into 2014. Close Out of Project resulted in punch list in 2014
8830-CD0376	ENFIELD SUPPLY	\$1,300,000	\$2,305,671	-\$1,005,671	Overrun	There was substantial carryover work, beyond that which was budgeted for in the fall of 2013, due to delays in the permitting and construction of the project. Engineering of the spacer cable system required additional engineering resources after the original vendor failed to follow through on the completion of construction support and final designs for the project. Re-designs were required for highway crossings and additional pole replacements were required on the adjacent circuit to re-configuration of the new line. Pole and anchor sets were more involved and costly than originally estimated. FAA permitting resulted in higher than estimated engineering costs and delays to the project.
8830-CNN014	Dist-Damage&Failure Blanket	\$ 400,000	\$ 2,050,909	\$ (1,650,909)	Overrun	Equipment failed in service beyond the budgeted amount. Replacement required to restore the system to normal operation configuration.
8830-CNN015	GSE-Dist-Reliability Blanket	\$ 100,000	\$ 957,039	\$ (857,039)	Overrun	Reliability work beyond the budgeted amount. Budget was significantly lower than historical average
8830-C36435	Lebanon Area Low Voltage Mitigation	\$ 50,000	\$ 550,444	\$ (500,444)	Overrun	Carryover work from 2014 for Potato Road
8830-CNN011	GSE-Dist-New Bus-Comm Blanket	\$ 575,000	\$ 1,848,086	\$ (1,273,086)	Overrun	Additional growth jobs were identified and released in support of growth strategy and GPM Guidelines
8830-IT	IT	\$ -	\$ 506,293	\$ (506,293)	Overrun	Corporate IT based initiatives charged out to Operating company less than anticipated

RESPONSE:

Explanations for the variance are provided in Attachment Staff 2-2.xlsx. Due to the extremely short time frame for providing this response, detailed accounting information has not been provided with this response but can be reviewed during the course of this proceeding.

The project variances in 2014 and 2015 were driven largely by four different scenarios. In 2014, the budget for Information Technology Upgrades was held at the Corporate Level, while actual charges were pushed down to the divisions creating one of the variances that you have noted. Project variances were also the result of carryover costs. These carryover costs can result from permit timing, resource shortages, or site issues and cause the charges to cross over into a new year after the budget has been submitted, causing a variance. The project selection also included two projects with a variance due to unknown site issues at aging buildings that were renovated. The fourth category of project variances included additional capital expenditures resulting from emergent work.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

Staff Data Requests - Set 2

Date Request Received: 6/9/16
Request No. Staff 2-5

Date of Response: 6/10/16
Respondent: John Peellegoda

REQUEST:

Follow up to response to Staff 1-4(a):

- a. Ref. 2015 FERC F-1 cash reserves, at 110, line 35, of \$48 and \$534 (2014). Are these year-end cash reserve amounts typical as compared with other NH utilities?
- b. Why is it part of Liberty's capital funding strategy to rely exclusively on internally generated cash flows as opposed to utilizing short-term debt or a credit line facility?
- c. Wouldn't use of a credit line reduce the level of cash burn that Liberty has been experiencing since the last rate case?

RESPONSE:

- a. Liberty always has sufficient cash available due to the availability of a revolving credit facility. The reserves reported in the FERC Form 1 are due to the timing of cash receipts. Liberty strives to maintain as low of a cash position as possible, applying any excess cash to repay its credit facility.
- b. Liberty's funding strategy is predicated on maintaining a BBB high credit rating. We use internally generated cash, debt and equity in proportions that meet this objective.
- c. Liberty has available to it a fully committed revolving credit facility. Cash needs are primarily met by draws on this credit facility. Any periodic excess cash is used to repay the facility where possible.