

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 17-070

NORTHERN UTILITIES, INC.

Petition for Step Increase in Distribution Rates

Order Approving Step Increase

ORDER NO. 26,246

May 2, 2019

APPEARANCES: Gary Epler, Esq., on behalf of Northern Utilities, Inc.; the Office of the Consumer Advocate by D. Maurice Kreis, Esq., on behalf of residential ratepayers; and Paul B. Dexter, Esq., on behalf of Commission Staff.

In this order, the Commission approves a step increase in distribution rates effective May 1, 2019, for Northern Utilities to recover recent plant investments. A typical residential heating customer who uses 103.0 therms per month in the winter and 22.7 therms per month in the summer is expected to see an increase of \$26.45 per year or 1.93 percent of the customer's total bill.

I. PROCEDURAL HISTORY

The Commission approved a settlement agreement (Settlement) which allowed Northern Utilities, Inc., (Northern or the Company), a permanent increase in distribution rates effective May 1, 2018. Order No. 26,129 (May 2, 2018) at 14-15. The Commission also approved a step increase in rates effective May 1, 2018, with the option of a second step increase effective May 1, 2019. *Id.* at 9, 14-15.

Northern filed a request for a second step increase on February 28, 2019. Its filing included an affidavit, with related attachments, from Todd R. Diggins, the Director of Finance for Unitil Service Corp. (Unitil Service), an affiliated company which provides administrative and other services to Unitil Corporation's public utility subsidiaries, including Northern.

Northern's initial filing and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://puc.nh.gov/Regulatory/Docketbk/2017/17-070.html>.

On March 12, 2019, the Commission issued a Supplemental Order of Notice scheduling a hearing on April 9, 2019. Northern subsequently filed the joint testimony of Todd R. Diggins, Christopher J. LeBlanc, Vice President of Gas Operations for Unitil Service, and Kevin E. Sprague, Vice President of Engineering for Unitil Service, with related attachments.

After reviewing the joint testimony, Commission Staff (Staff) issued several data requests regarding budget variances among the five largest projects. Northern made a supplemental filing on April 8, 2019, which reflected a revenue requirement \$31,623 lower than its initial filing on February 28. On April 9, 2019, Commission Audit Staff filed their final audit report after conducting an audit of Northern's requested step increase.

The April 9 hearing began as scheduled, but it was continued to April 17, 2019, to allow the parties and Staff to hold a technical session on April 9. During the April 9 technical session, the parties and Staff reviewed Northern's data responses and the final audit report.

At the April 17 hearing, appearances were entered by Northern, the Office of the Consumer Advocate (OCA), and Staff. There were no requests to intervene. Northern's witnesses adopted their pre-filed testimony during the hearing. Staff and the OCA introduced several exhibits at the hearing.

Following the April 17 hearing, Northern made a revised supplemental filing on April 25, 2019. In that revised filing, Northern corrected some of the figures contained in its April 8 supplemental filing, resulting in a revenue requirement that was \$4,751 lower than that stated in the April 8 filing. Northern also introduced additional evidence in response to a number of record requests.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

In its February 28 filing, Northern stated that the Settlement provided that the Company could request a step adjustment for effect May 1, 2019, based on investments made during 2018 in eligible facilities, up to a revenue requirement cap of \$2,215,273, using the same method of calculation approved for the May 1, 2018, step adjustment for 2017 eligible facilities. Hearing Exhibit (Exh.) 9 at Attachment 2, p. 1 of 4. In the February 28 filing, Northern requested a step increase to collect a revenue requirement of \$1,431,349, based on \$10,031,783 of investments. *Id.* Eligible facilities were defined in the Settlement as Gas Main Extensions, the New Hampshire Main Replacement Program, Gas Highway projects, and the Rochester Reinforcement Project. Northern stated that the impact of its requested step adjustment for Residential Heating customers ranged from 1.9 percent to 4.1 percent of the total bill, depending on a customer's usage level. *Id.* at 2 of 4.

In testimony submitted on March 22, 2019, Northern explained its capital budgeting and spending process and procedures. Exh. 10 at 9-12. Northern stated that over 70 percent of the eligible facility spending in 2018 was for Gas Highway projects. Gas Highway projects are those that replace gas facilities required to be relocated by city or state roadway projects, or municipal infrastructure projects such as sewer work. In addition, Northern provided details about the six largest projects undertaken that, in total, represented about 74 percent of the eligible facility spending in 2018 that was included in the requested step adjustment, including the Gas Highway project on Whitehouse Road in Rochester, where Northern spent over \$5 million to relocate 6,700 feet of existing gas main and 25 gas services, at the city's request. *Id.* at 16-17. Also, Northern provided construction authorizations and cost records for each project included in the step adjustment.

In its April 8 Supplemental Filing, Northern reduced its request to \$1,399,726, by removing Gas Main Extension projects costing less than \$30,000, the cost threshold for step adjustment recovery, as required by the Settlement. Exh. 11. In its April 24 Revised Supplemental Filing, Northern reduced the revenue requirement request to \$1,394,975 to correct an error in the depreciation calculation.

B. OCA

The OCA recommended that costs incurred for incremental Saturday (\$76,995) and Sunday (\$14,122) work on Whitehouse Road, be disallowed for recovery in the step adjustment stating that better planning by Northern in identifying ledge in the construction path would have obviated the need for Northern to incur the extra weekend costs. Exh. 13. The OCA noted that each test boring for ledge cost about \$500 and that the impact of undetected ledge on this project was significant and therefore, more complete pre-construction testing was warranted.

The OCA also requested that Northern be required, within 60 days of an order in this proceeding, to file a procedure for pre-construction test borings for review and approval by the Commission. Finally, the OCA supported the disallowances related to Contributions in Aid of Construction (CIACs) proposed by Staff, as discussed below.

C. Staff

Staff stated that this was a difficult filing to review because the initial filing provided insufficient detail to evaluate the eligible facilities. Sufficient detail was provided with the March 22 testimony and attachments, but that was almost halfway through the two-month period for review established under the terms of the Settlement Agreement. Staff also noted that the Company's initial request of February 28 and its testimony and attachments filed March 22, contained information for many projects that were not eligible for recovery in the step increase,

under the unambiguous terms of the Settlement.¹ Further, Staff alerted Northern at the April 9 technical session that its depreciation calculation was based on incorrect plant numbers, but Northern did not correct that error until its April 25 Revised Supplemental Filing.

Staff recommended two disallowances to the step adjustment (and permanent rate base) related to projects involving customer CIACs. Specifically, Staff maintained that Northern received an insufficient CIAC of \$110,481 for the 201 Atlantic Avenue, North Hampton project and received no CIAC for the 10 Hampshire Road, Salem project. Exh. 10, Attachment 5, pages 21 and 33 of 268. Staff stated that both of those projects encountered significant budget increases as construction progressed, resulting in CIAC requirements for the two projects of \$214,013 and \$45,950 respectively. Exhs. 20 and 19. No additional CIAC was sought or obtained by Northern from those customers, despite a provision in the customer service contract allowing for CIACs to be adjusted upward to reflect actual construction costs and giving those customers the opportunity to decide whether to proceed. Exh. 16.

Staff's position is that Northern's other customers should not be required to make up for the CIAC shortfalls (equal to \$149,482) through higher base rates. Thus, Staff recommended permanent rate base disallowances so that customers would not be required to bear the CIAC shortfalls through rates set in a future rate case.

D. Northern's Reply to OCA and Staff

The OCA and Staff made several recommendations at the April 17 hearing, as discussed above. In response to issues raised by the OCA, Northern stated that it did not support a Commission review of its test boring practice, but that it was reviewing the procedures itself to identify and correct any shortcomings in its process. Further, Northern opposed any

¹ The Settlement limits eligible facilities for Gas Main Extension projects to projects costing more than \$30,000, yet both the February 28 filing and nearly 300-page attachment to the March 22 testimony contained information about projects costing less than \$30,000. Northern excluded those projects from its April 8 filing (Exh. 11) but never re-filed the large attachment to the March 22 testimony with the smaller project details removed.

disallowances for incremental Saturday and Sunday costs on the Whitehouse Road project, stating that Northern acted quickly and appropriately to bring the project to completion once it encountered ledge during excavation, and that it needed to work weekends to meet deadlines imposed by the city of Rochester.

Concerning Staff's recommended disallowance of customer CIACs, Northern stated that it should have flexibility to decide what CIAC it charges customers, and that, when viewed as a portfolio, all of its 2018 projects generated a sufficient internal rate of return so that, in total, net benefits would be returned to other customers from those main extensions. In the alternative, Northern requested that if the Commission disallows the CIAC shortfalls, the disallowance not be permanent. Rather, Northern requested that it be allowed to show in its next rate case that those main extensions are providing net benefits to all customers, and that the disallowance be reversed.

III. COMMISSION ANALYSIS

Step adjustments are a mechanism the Commission has approved for limited use between rate cases to allow a utility to collect additional revenue on investments that are generally non-revenue producing and are made to improve safe and reliable service. Step adjustments are generally limited in scope and allow recovery for investments similar to those that have been reviewed in the underlying rate case that established the step adjustment provision.

The review period for a step adjustment is significantly shorter than that of a general rate case. Accordingly, it is important that an initial step adjustment filing be complete. In this case, Northern's filing had to be supplemented and revised several times, in order to allow Staff and the OCA to conduct a complete review and for the Commission to see the complete impact of the step increase on rates. Utilities have the burden of showing that capital investments included in step adjustments are prudent, in service, and used and useful. The mere assertion that

investments were made up to an established cap is insufficient to support a claim for cost recovery. *Liberty Utilities (Granite State Electric) Corp.*, Order No. 26,141 at 6 (May 31, 2018). At hearing, Northern agreed that initial filings in future step adjustment requests will include testimony with sufficient detail to allow review of the investments and related costs.

Concerning the incremental costs for work done on Saturdays and Sundays on the Whitehouse Road project in Rochester, we decline to adopt the OCA's recommended disallowance. While undetected ledge delayed the project and caused considerable additional cost, Northern performed ten pre-construction test borings and all showed no presence of interfering ledge. We find that it was not unreasonable for Northern to rely on that information and decline to penalize Northern under the circumstances. We expect, however, the Company will be mindful of the location and number of boring tests conducted in the future. While we do not see the need to review Northern's test boring policy at this time, we strongly encourage Northern, on its own initiative, to analyze its policies and practices to better identify the presence of ledge and mitigate the cost of removal.

Concerning the issue Staff raised with Northern's CIACs for the Atlantic Avenue, North Hampton project, and the Hampshire Road, Salem project, we agree that the shortfall amounts should not be recovered through the step adjustment. We adopt the recommended disallowance for purposes of this step adjustment. Because events surrounding main extensions can change with time, (for example, additional customers may take service) we will allow Northern to make a presentation in its next rate case demonstrating why the full cost of those main extensions should be included in rate base at that time.

The approved recalculated revenue requirement for the step adjustment, reflecting the CIAC-related disallowances of \$149,482, is \$1,373,158. *See* Appendix 1 to this order. The resulting approved rates and bill impacts on a typical residential heating customer are shown in

Appendix 2 and Appendix 3, respectively, to this order. We find those rates to be just and reasonable, pursuant to RSA 374:1, RSA 374:2, RSA 378:7 and RSA 378:28.

Based upon the foregoing, it is hereby

ORDERED, that Northern is authorized to begin recovery of the 2019 step adjustment in the amount of \$1,373,158 in rates effective with services rendered on and after May 1, 2019; and it is

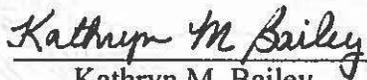
FURTHER ORDERED, that the rates contained in Appendix 2 are approved effective with services rendered on and after May 1, 2019; and it is

FURTHER ORDERED, that Northern shall file a compliance tariff within 15 days of the date of this Order.

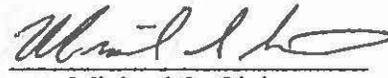
By order of the Public Utilities Commission of New Hampshire this second day of May, 2019.



Martin P. Honigberg
Chairman

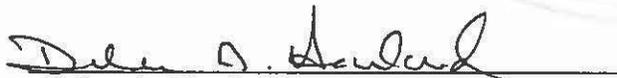


Kathryn M. Bailey
Commissioner



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Attested by:



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