

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 19-051

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

**Calendar Year 2018
Reliability Enhancement Program and Vegetation Management Plan**

Request for Approval of Reconciliation

Order Approving Reconciliation

ORDER NO. 26,244

April 30, 2019

APPEARANCES: Michael J. Sheehan, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities; 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 Liberty's reconciliation of costs and revenues associated with the 2018 reliability enhancement program and vegetation management plan, effective May 1, 2019, except for a reconductoring project on Mammoth Road in Pelham, for which Liberty may seek recovery in an upcoming rate case. In addition, the Commission approves a rate proposal filed by Liberty on April 26, 2019, which avoids an additional rate adjustment on June 1, 2019. The net result of approving the reconciliation and the April 26 rate proposal, is a 0.87 percent decrease to Liberty's distribution rates for reliability enhancement and a 0.052 cents per kilowatt hour (kWh) Vegetation Management Plan Adjustment Factor.

Concurrent with the issuance of this order, the Commission approved two additional rate changes for Liberty all for effect on May 1, 2019. The cumulative effect of the three orders,

(Order Nos. 26,242, 26,243, and 26,244) is a decrease in monthly bills of \$4.65, or 3.76 percent, for residential default service customers using 650 kWh per month.

I. PROCEDURAL HISTORY

On March 15, 2019, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty or the Company) filed a report describing the results of its reliability enhancement program (REP) and vegetation management plan (VMP) for calendar year 2018. Liberty filed the report pursuant to a settlement agreement (Settlement) approved in Order No. 26,005 (April 12, 2017), which largely continued the terms of a prior settlement agreement approved in Order No. 25,638 (March 17, 2014). The Company also filed supporting testimony and related schedules which detailed the reconciliation of the REP and VMP cost and revenues.

The Office of the Consumer Advocate (OCA) filed a letter of participation on March 22, 2019, pursuant to RSA 363:28. An order of notice was issued on March 29, 2019, scheduling a hearing for April 16, 2019. At the hearing, Liberty presented the testimony of the following employees of its affiliate, Liberty Utilities Service Corp.: Joel Rivera, Manager of GIS and Electric System Planning; Heather Green, Program Manager of Inspections and Vegetation; and David B. Simek, Manager of Rates and Regulatory Affairs.

The report, testimony, schedules, and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted at <http://www.puc.nh.gov/Regulatory/Docketbk/2019/19-051.html>.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

According to Liberty, the REP and VMP are premised on the understanding that annual spending on both capital and operations and maintenance (O&M) activities is necessary to

maintain the safety and reliability of the electric distribution system. Liberty presented statistics demonstrating that the reliability of its system has steadily improved since the REP/VMP was implemented. The Settlement set an annual target REP investment amount of \$1.5 million, and an annual base amount (i.e., the amount included in base rates) of \$1.5 million for VMP O&M expense. Liberty filed the REP and VMP reconciliations of its estimated and actual expenditures for 2018.

The vegetation management activities undertaken in 2018 included planned cycle tree trimming, interim and spot tree trimming, and hazard tree removal. After deducting contributions by Consolidated Communications, Liberty reported actual spending of \$1,944,301 for VMP O&M costs in 2018. Liberty requested recovery of \$444,301 of O&M costs representing the incremental spending above \$1.5 million already recovered in rates. Accounting for a prior period over-recovery of \$11,822, Liberty proposed a 0.047 cents per kWh VMP Adjustment Factor.

With respect to REP investments, Liberty stated that it develops a safety and reliability work plan each year that incorporates spending for proposed asset replacement, system capacity, performance initiatives, individual capital projects, and work activities required to comply with franchise or tariff requirements. Required work activities include pole relocations, response to unit damage and failures, and new business construction. Liberty then prioritizes those projects and reviews the plan to arrive at a budget that will improve performance in a cost-effective manner.

Most of the 2018 REP capital budget was associated with reconductoring approximately one mile of line in Lebanon and 1.5 miles in Walpole with spacer-cable. The REP capital budget also included the installation of a single-phase tripping recloser in Pelham. According to

Liberty, the projects were designed to increase reliability and reduce cost. Total capital spending for which recovery is sought in this case is \$1,087,416, consisting of \$654,126 of investments installed and closed to plant in 2018 and \$433,290 of investment made in 2017 but closed to plant in 2018 (2017 Carryover). The 2017 Carryover included \$331,053 for 5,000 feet of bare conductor replacement on Mammoth Road in Pelham. Liberty calculated the annual revenue requirement to recover its 2018 and 2017 Carryover capital investments to be \$199,645. Liberty also requested that it be permitted to recover an additional revenue requirement of \$48,274 associated with its 2017 REP investments, because the revenue requirement for 2018 was understated by that amount due to the use of an incorrect cost of debt in the calculation. In total, Liberty seeks to recover an annual revenue requirement of \$247,919, which would result in a 0.61 percent increase to distribution rates.

During the April 16 hearing, Liberty stated that it planned to request a rate reduction effective June 1, 2019, to remove \$552,114 of VMP O&M expenses from rates, necessitated by the pass-back of federal tax reductions, as approved in Docket No. DE 18-050. After consulting with Staff and OCA, by letter dated April 26, 2019, Liberty instead proposed to reflect that planned decrease in the rates proposed in this proceeding, obviating the need for an additional rate adjustment on June 1.

As a result, Liberty proposed a slight increase in the proposed VMP Adjustment Factor from 0.047 cents to 0.052 cents per kWh, and a decrease in base rates of 0.74 percent.

B. OCA

The OCA stated that, with the exception of recovery of \$112,083 related to police details and \$135,490 for hazard tree removals, Liberty's REP investments and VMP activities, and the

resulting proposed rates, are just and reasonable. The OCA recommended disallowing the portion of police details and hazard tree removal costs that exceeded budgeted amounts.

According to the OCA, the Commission should signal to cities and towns that utility companies cannot be viewed as a limitless source of funding for police work. The OCA further asserted that the budget exceedances related to hazard tree removal occurred because Liberty did not have a well thought-out plan delineating which trees actually presented a hazard requiring removal.

The OCA supported Liberty's April 26 proposal for handling the \$552,114 reduction in rates in this proceeding, rather than for effect on June 1.

C. Staff

Staff stated that Liberty's 2018 REP and VMP activities are appropriate for cost recovery as proposed, and that the proposed rates are appropriately calculated, except for the 2017 Mammoth Road reconductoring project in Pelham. Staff recommended that the Mammoth Road investment not be included for recovery through the REP program, because Liberty never presented the project for review prior to installation, as the Settlement contemplates. Staff met with Liberty prior to the 2017 and 2018 construction seasons to review the planned REP/VMP activities, but the Mammoth Road project was never identified. Staff noted that Liberty's upcoming rate case will use 2018 as a test year and that the Mammoth Road project could be included in the proposed rate base in that case, in which Staff would have a full opportunity to review the prudence of the project.

Staff also expressed concern that actual REP/VMP costs frequently exceed budgeted amounts, and indicated that it intends to review the need for continuing the REP/VMP program,

especially given the significant improvements in reliability shown by the statistics. Staff stated that it would consider proposing alternative approaches in the upcoming rate case.

Staff also supports the rate proposal for handling the \$552,114 in 2018 VMP O&M expense, as discussed above.

III. COMMISSION ANALYSIS

We find that Liberty's annual REP and VMP report and its REP/VMP activities during 2018 are consistent with the program goals and parameters authorized by the Commission, with the exception of the reconductoring project on Mammoth Road in Pelham. Under the Settlement, Liberty is required to present a detailed budget of proposed REP investments for Staff's review. We understand that Staff is not empowered under the Settlement to conduct a formal pre-approval process. The purpose, however, of the annual pre-season review is for Staff and Liberty to discuss the scope, priority, and cost of planned projects prior to their execution. Such a discussion cannot take place if a project is not presented.

The Mammoth Road project is a major investment, constituting almost one mile of reconductoring with a cost in excess of \$300,000. Yet, the project was not referenced in either the meeting regarding 2017 investments, when the project was undertaken, or for the 2018 investments, when the project was closed to plant. We therefore approve Staff's recommendation that at this time the Mammoth Road project be excluded from the specialized rate treatment afforded to REP investments that have been appropriately presented through the process established under the Settlement. Liberty instead may seek traditional rate base treatment for that investment in its upcoming rate case.

With respect to the OCA's request for disallowance of police detail costs and hazard tree removal costs in excess of budgeted amounts, we find there is insufficient evidence on which to

base that exclusion from recovery. Both items were budgeted and part of the plan as presented. The police details were required of Liberty by the various towns where tree trimming and removals occurred. We will allow Liberty to recover those costs, and we continue to urge Liberty to take all reasonable steps to minimize such costs.

Were it not for the April 26, 2019, cost recovery proposal submitted by Liberty, we would approve its original proposal to change the adjustment factor to 0.047 cents per kWh for VMP O&M expense recovery. In addition, we would authorize Liberty to recover the revenue requirement of \$149,538 associated with its 2018 REP capital investments (which amount reflects exclusion of the Mammoth Road project costs), and \$48,274 to correct the calculation error from last year's filing, for a total amount of \$197,812, which would have resulted in a rate increase of 0.49 percent.

Instead, we approve the April 26 alternative rate proposal, which combines recovery of 2018 REP/VMP costs with the planned June 1, 2019, rate reduction to reflect proper federal tax rate reductions approved in DE 18-050. Accordingly, in this proceeding we approve a VMP Adjustment Factor O&M expense of 0.052 cents per kWh and, after removing the \$331,053 Mammoth Road reconductoring project costs, we authorize Liberty to recover the revenue requirement associated with \$756,363 of capital investment. We therefore approve a rate decrease for REP investments of 0.87 percent, which includes the \$552,414 pass-back of tax rate reduction benefits. We find those rates to be just and reasonable, as required by RSA 374:1, RSA 374:2, and RSA 378:7, to be effective on May 1, 2019.

Based upon the foregoing, it is hereby

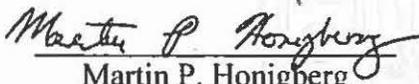
ORDERED, that Liberty shall reduce base rates by 0.87 percent, effective on and after May 1, 2019, which reduction allows recovery of \$197,812 in revenue requirement associated

with REP capital investments as described in the body of this order, and removes from base rates \$552,414 of 2018 VMP O&M expense relating to the pass-back of tax rate reduction benefits approved in Docket DE 18-050, as described in Liberty's April 26, 2019, alternative rate proposal; and it is

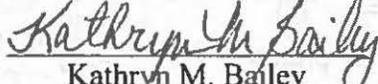
FURTHER ORDERED, that Liberty is authorized to recover an adjustment factor of 0.052 cents per kWh for costs associated with VMP in 2018, effective with rates on and after May 1, 2019; and it is

FURTHER ORDERED, that Liberty shall file tariff pages conforming to this order pursuant to Puc Part 1603, within 15 days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2019.



Martin P. Honigberg
Chairman

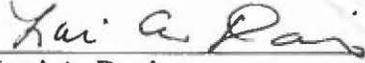


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