STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 19-054

In the Matter of:
Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Cast Iron & Bare Steel Replacement Program

Direct Testimony

of

Stephen P. Frink
Director – Gas & Water Division

May 24, 2019

New Hampshire Public Utilities Commission

Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities

Cast Iron & Bare Steel Replacement Program

DG 19-054

Testimony of
Stephen P. Frink

Q. Please state your name, occupation, and business address.

A. My name is Stephen P. Frink and I am employed by the New Hampshire Public Utilities Commission (Commission) as Director of the Gas & Water Division. My business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

Q. Please summarize your educational and professional experience.

A. I joined the Commission in 1990 as a member of the Audit Team and worked as a Utility Analyst and Senior Utility Analyst before becoming the Assistant Finance Director in 1998. In 2001, Commission operations were restructured and I became the Assistant Director of the Gas & Water Division, primarily responsible for the administration of the financial aspects of the regulation of the gas utilities. On February 1, 2018, I became Director of the Gas & Water Division.

Prior to joining the Commission, I worked as a Budget/Financial Analyst for the cities of Austin and Dallas, Texas. I have a Bachelor of Arts and a Master’s in Business Administration from the University of New Hampshire.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present Staff's analysis and recommendation regarding the Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities (Liberty or Company) proposed Cast Iron and Bare Steel (CIBS) 2019 Fiscal Year (FY) step increase and Liberty's response to Staff's recommendation to discontinue CIBS annual step adjustments beyond this year. Staff witness Randall S. Knepper, Director of the Safety Division, will address Staff's engineering review of the CIBS filing and overview of the CIBS program.

Q. Please summarize Staff's findings and recommendations on these issues.

A. The Commission should approve a $1,020,832 increase in Liberty's annual revenue requirement for CIBS 2019 FY (April 1, 2018 through March 31, 2019) spending.

Recovery of future CIBS spending should be done under traditional rate making, meaning through general rate filings, rather than annual step increases. Liberty intends to file for an increase in delivery rates in 2020 and is expected to seek recovery of capital investments made in 2019 and 2020 as part of that filing, which would encompass all 2019 and 2020 CIBS spending. Annual adjustments for CIBS replacement spending should be discontinued beyond 2019.

Q. Please explain Staff's recommendation to increase Liberty's annual revenue requirement by $1,020,832 to recover CIBS 2019 FY spending, and the expected bill impact.

A. The recommended increase complies with the Settlement Agreement in Docket DG 11-040, approved by Order 25,370 (May 31, 2012), that defines eligible costs and other parameters of the CIBS program. A typical residential customer using 778 therms per year can expect to see a $4.33 (0.37%) increase in annual gas costs (approximately $1,170). ***See Attachment SPF-1.***

Q. How does Staff's proposed increase compare to Liberty's proposal?

A. The Staff proposal is $300,282 less than Liberty's proposed revenue increase of $1,321,114.

Q. Please explain the difference between the Staff and Liberty revenue requirements.

A. The Liberty revenue requirement includes carryover costs in excess 5% of CIBS 2019 FY spending, a cost that is prohibited for recovery under the terms of the CIBS Settlement Agreement without Safety Division approval. The Safety Division, consistent with its position in prior CIBS step adjustments proceedings, denied approval of recovery of the carryover costs in excess of 5%. The cost carryover provision is described in the DG 11-040 Settlement Agreement, Attachment J, Section 20(d)2.7, as follows:

> **20. Cast Iron Bare Steel Replacement Program**
> (d) Categories of spending that are not included in the CIBS:
> 2.7. Carryover costs in aggregate exceeding 5% of the approved estimated total expenditures under the CIBS program for the construction year, unless approved by the Safety Division. Such carryover costs include items such as restoration costs not incurred during the construction year.

Q. Has the CIBS 2019 FY spending been audited?

A. A Staff audit is in progress but has not been completed. The analyst conducting the audit has not uncovered any issues to date. Staff will update the Commission on the status of the CIBS audit and the audit conclusions at the hearing on the merits scheduled for June 6th.

Q. Please explain Staff's recommendation to discontinue CIBS annual step adjustments.

A. As stated in Staff's recommendation filed on February 14, 2019, further CIBS annual step adjustments should be discontinued for the following reasons:

- Public safety risks due to leaks and pipe failures have been substantially reduced, as evidenced by a significant decline in system leaks.
- Regulatory burden and expense will be reduced by eliminating CIBS annual step adjustments.
- Recovery of CIBS qualifying costs for 2019-2020 will be achieved through Liberty's anticipated 2020 rate proceeding causing minimal delay in cost recovery.
- Administrative efficiency will be gained by addressing 2019-2020 CIBS spending as part of Liberty's 2020 rate proceeding.
- Discontinuation of Liberty's CIBS program is consistent with the Commission's decision in Order No. 23,576 to discontinue step adjustments through Northern's Bare Steel Replacement Program due to reduced leaks and a similarly anticipated general rate filing.

Q. What is the Company's response to Staff's recommendation?

A. On March 15, 2019, the Company filed a response to Staff's recommendation, condensing the five factors cited in Staff's recommendation to two: (1) gains in administrative efficiency by eliminating the separate CIBS proceedings and addressing the next two years of CIBS recovery through the expected 2020 rate case; and (2) Liberty's current situation is analogous to that of Northern Utilities (Northern) in 2000 when the Commission terminated Northern's program.

Liberty objected to Staff's recommendation, arguing that the gains in administrative efficiency would be minor and that the condition of Liberty's remaining CIBS pipe is different than the bare steel that remained in Northern's distribution system at the time Northern annual bare steel step adjustments were discontinued.

Q. Does Staff agree that the administrative efficiency gained by discontinuing the CIBS annual step adjustments will be minor?

A. No. Under the CIBS replacement program Liberty currently provides Staff with its preliminary plans for the upcoming CIBS replacement program in January and a final plan is provided in May. The Liberty CIBS replacement program plan for this summer provided on May 1, 2019 consists of 37 projects, replacing 12.68 miles of pipe at a projected cost of $20,459,276 and includes 21 CIBS replacement projects that were not completed during the CIBS 2019 FY and are scheduled to be completed this summer at an estimated cost of $5,089,745. The Safety Division typically reviews each of these projects in detail, along with the projects that were completed in the prior year and for which Liberty is seeking cost recovery through the CIBS step adjustment. In addition to the Safety Division's review of the completed and proposed projects, the rate filing entails other components of a typical rate case, such as administrative processing, notice, review, testimony, hearing, deliberations, and a final order.

Liberty expects to file a general rate case in April 2020 and, under the terms of the Settlement Agreement establishing the current CIBS replacement program, will be filing for a CIBS step adjustment on May 1, 2020. If a CIBS 2020 FY is filed, not only will the Commission's review of the CIBS rate filing be duplicative of the review being conducted in the Liberty general rate filing, the general rate filing will need to include additional adjustments to account for the proposed CIBS replacement program and rate recovery. It is worth noting that in the last Liberty general rate filing, Docket No. DG 17-048, the CIBS adjustments contributed to errors in the rates contained in the compliance tariffs.

Q. Does Staff agree that the condition of the remaining Liberty CIBS pipe in not analogous to the remaining Northern bare steel pipe when the Commission discontinued annual step adjustments for Northern?

A. No. Liberty reaches that conclusion based on its comparison of the number of leaks per mile (leak rate) of CIBS pipes with the number of leaks per mile of Northern's bare steel pipes. The leak rates cited by Liberty are based on very limited data and are not statistically valid. Furthermore, as seen in the Table 1 below, the annual leak rates as calculated by Liberty in its response to Staff's recommendation fluctuate widely from year to year. Table 1 also includes miles of CIBS mains remaining as reported on Bates page 66 of Liberty's April 15, 2019 CIBS filing.

Table 1

CIBS Remaining & Annual Leaks			
Year	Leaks per Mile	Percent Change	Miles Remaining
2004	1.22		
2005	1.25	2.46%	
2006	1.66	32.80%	
2007	1.17	-29.52%	
2008	0.90	-23.08%	149.80
2009	1.28	42.22%	142.00
2010	1.17	-8.59%	137.40
2011	1.18	0.85%	132.10
2012	1.40	18.64%	126.30
2013	1.98	41.43%	120.88
2014	2.53	27.78%	113.96
2015	2.00	-20.95%	106.46
2016	1.16	-42.00%	93.18
2017	1.82	56.90%	78.65
2018	2.17	19.23%	68.74
2019 (Est.)			55.36
Total	22.89		
Years	15.00		
Average	1.53		
Median	1.28		

Comparing the 2018 leak rate (second highest of the 15 years) with the 2007 leak rate does not accurately portray the risk associated with the remaining CIBS pipe. It is also counter intuitive. If the majority of CIBS pipes are 50-100 years old and the Company is aggressively replacing the most problematic pipes each year, even with another year of aging one would expect a declining leak rate. Liberty's claim that the CIBS leak rate is increasing invites further scrutiny of the data and consideration as the reasons behind the annual fluctuations. Based on its review of the data and Liberty's reasoning, Staff concludes that the claimed increase in the CIBS leak rate is not a valid reason justifying continuation of annual CIBS step adjustments.

The Commission order discontinuing Northern's annual bare steel replacement step adjustments stated that the Northern CIBS program was implemented to minimize active corrosion and gas leaks and that it had accomplished those objectives. While the Commission analysis acknowledges the leak rates, the decision appears to be based primarily on the overall reduction of gas leaks across Northern's gas distribution system.

Q. Have Liberty's corrosion and gas leaks declined?

A. Liberty has drastically reduced the number of leaks on its system, as detailed in Staff's recommendation and acknowledged by Liberty in its response. Under the CIBS replacement program, Liberty has reduced the amount of CIBS on its system from 155 miles in 2007 (Liberty response filed March 15, 2019, Bates page 3) to 69 miles (see Liberty April 15, 2019 CIBS filing, Bates page 66, row 12). Assuming corrosion leaks occur only on CIBS pipes and that all CIBS leaks are corrosion leaks, corrosion leaks should also have seen a significant reduction. Although Staff has concerns regarding the leak data provided in Liberty's response, that data indicates that in addition to an overall reduction on leaks, the CIBS replacement program should produce a significant reduction in corrosion leaks. Liberty provided 15 years of CIBS leak history with a median leak rate of 1.28, applying the median CIBS leak rate to miles of CIBS pipes, in 2007 there would have been 197 (1.28*155) corrosion leaks and in 2019 only 88 (1.28*68). While that may not have been the case in 2018, that should be the outcome over time.

Q. If annual CIBS step adjustments are discontinued, does Staff expect further declines in active corrosion and gas leaks?

A. Yes. Liberty estimated that it will be eliminating another 13 miles of CIBS from its system in 2019 and that there will be 55 miles of CIBS mains remaining by year end. Assuming a similar decrease in 2020, by the end of next year there should only be 42 miles of CIBS mains remaining.

Q. Would you please summarize Staff's recommendations?

A. Staff recommends that the Commission:

- Deny Liberty's proposed recovery of CIBS FY 2019 carryover costs;
- Approve a $1,020,832 increase in Liberty's annual revenue requirement effective July 1, 2019 for CIBS FY 2019 spending; and
- Discontinue future CIBS annual step adjustments.

Q. Is the anything else you would like to add?

A. Yes. Liberty is expected to recover 2019 and 2020 CIBS spending through its general rate filing so there will be very little, if any, impact on Liberty's earnings over the next two years as a result of discontinuing CIBS step adjustments.

Replacing leak prone pipe is a normal utility expense and should be recovered through traditional rate making, as was the case prior to implementing the annual CIBS step adjustments. The Northern bare steel replacement program was implemented for safety reasons and resulted in a significant decrease in leaks. Northern was allowed to recover bare steel replacement costs through annual step adjustments for ten years, with the last bare steel step adjustment occurring in 2000, after which Northern's bare steel replacement program continued until all bare steel was eliminated from its distribution system in 2018. Northern did not file a rate case during the ten years in which it was able to recover the cost of its bare steel replacements through annual step adjustments. Those annual rate increases alleviated earning attrition and forestalled Northern's need to file a general rate case, avoiding the cost of the general rate proceeding that would ultimately have been borne by its ratepayers.

Liberty filed general rate cases in 2014 and 2017 and intends to file another in 2020. In the meantime, the Company will have increased delivery rates annually through the CIBS step adjustments each year throughout the 2014-2020 timeframe. As a result, the annual CIBS step adjustments have provided no discernable benefits to ratepayers in terms of eliminating the need to file rate cases during that time, as occurred in Northern's experience. The frequency of Liberty's general rate filings also means there will be little or no earnings attrition due to CIBS replacement efforts through 2020 and only limited earnings attrition thereafter if CIBS annual step adjustments are discontinued.

Q. Does that conclude your testimony?

A. Yes.