

DG 03-191

NORTHERN UTILITIES

Petition for Step Increase for Automatic Meter Reading
Order Approving Step Adjustment and Settlement Agreement

O R D E R N O. 24,231

October 31, 2003

APPEARANCES: Patricia M. French, Esq. for Northern Utilities;
and, Marcia A.B. Thunberg, Esq. for the Staff of the New
Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY AND BACKGROUND

On September 30, 2003, Northern Utilities, Inc.
(Northern or Company) filed with the New Hampshire Public
Utilities Commission (Commission) a petition for approval of a
step adjustment to recover expenses associated with its
Automated Meter Reading (AMR) installation and meter replacement
program.

In Northern's rate case, Docket No. DG 01-182, the
Commission approved installation of the AMR and meter
replacement program and recovery of associated expenses via a
step adjustment. *See Northern Utilities, Inc., Order No. 24,075*
(October 28, 2002). In particular, the Commission directed
Northern to pursue installation of an AMR and have it fully
operational by September 1, 2003.

The Petition proposes a one-time step adjustment
increase of \$235,707 to the Company's annual revenue

requirement, effective on a service rendered basis on or after November 1, 2003.

On October 6, 2003, the Commission issued an Order of Notice setting a hearing date of October 23, 2003. An affidavit of publication of the Order of Notice in a newspaper of statewide circulation was filed with the Commission on October 23, 2003. A duly noticed hearing on the merits was held on October 23, 2003.

On October 31, 2003, Staff filed a letter with the Commission indicating Northern had submitted the remaining documentation to support \$1,613,481 in plant addition expenses. Staff reiterated its support of Northern's request for a step adjustment in the amount of \$151,658.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witness, Joseph A. Ferro, Manager, Regulatory Policy, summarized the benefits of AMR, including the expected savings of \$162,500 annually. He explained the calculation of the proposed step adjustment and summarized the reasons for the significant reduction in the step adjustment proposed in the original filing and the step adjustment proposed at the hearing in the form of settlement schedules. Northern originally proposed recovering \$235,707 but that figure included estimated costs for August and September 2003. Northern had expected to

present its final step adjustment revenue requirement and resulting proposed rates by no later than the hearing. Exh. 1 at 47. After assessing its final costs and the documentary support issues raised by the Commission's audit, however, Northern found it could not adequately document all of the expenses. Northern thus requested Commission approval of a step increase of \$151,658.

B. Staff

Staff stated it had examined the initial filing as well as the updated summary of the proposed step adjustment. Staff concluded that the updated schedules in Exhibit 2 reasonably reflect costs that the Commission typically deems allowable. Staff recommended the Commission approve Northern's revised proposed annual step adjustment revenue increase of \$151,658 for effect November 1, 2003.

Staff understood that the \$151,658 expense figure was less than what Northern had originally believed it would document but respected the Company's decision not to take time to secure the documentation and to move forward with the proposed effective date of November 1, 2003. Staff filed a letter with the Commission acknowledging that Northern had supplied the Commission with documentation of \$1,613,481 in plant addition expenses.

III. COMMISSION ANALYSIS

A. Savings to Customers

In Commission Order No. 24,075 (October 28, 2002), we noted the installation of the AMR system was expected to: reduce the issuance of bills based on estimated meter readings; improve meter reading accuracy; send more accurate price signals to customers; reduce ongoing meter reading costs; and allow Northern to issue bills based on actual monthly meter readings. *Northern Utilities, Inc.*, Order No. 24,075 (October 28, 2002) slip at 16. These benefits were quantified as a \$162,500 annual savings to customers. These savings were subtracted from Northern's proposed step increase to its annual revenue requirement. Exh. 2 at 2.

B. Development of Proposed Revenue Increase

Northern's pre-filed testimony of Mr. Ferro indicated the parties agreed in Northern's rate case settlement, Docket No. 01-182, that the recovery of any capital investment associated with the AMR system would be based on a return on the plant investment (net of depreciation), annual depreciation, less the anticipated annual savings, with the net amount grossed up for taxes. Exh. 1 at 45. Northern has followed that methodology in calculating its step adjustment.

According to the settlement schedules in this docket, Exhibit 2, total plant additions for the AMR were \$1,613,481.

Plant additions included approximately 26,400 residential AMR units and approximately 750 commercial AMR units which Northern purchased and installed. Northern explained at the hearing, however, that approximately 300 meters had not been installed yet and were not included in the proposed step adjustment amount. Hearing Transcript of October 23, 2003 ("10/23/03 Tr.") at 17 lines 11-17. Plant additions were offset by deferred income taxes of \$38,972 resulting in a rate base of \$1,574,509, producing a return on rate base and income taxes amounting to \$176,188. Depreciation in the amount of \$134,403 is added, certain operations and maintenance costs related to truck lease costs of \$3,567 is added, and savings of \$162,500 is deducted. This yields a total step adjustment revenue requirement of \$151,658. Exh. 2 at 2.

The deferred income tax expense was calculated by attributing a seven-year depreciation life for tax purposes, or 14.29 percent depreciation rate, to plant additions versus a twelve-year life for book purposes, or 8.33 percent. Exh. 1 at 48. Exh. 2 at 4.

The annual depreciation expense was calculated by attributing a twelve-year depreciation life, or an 8.33 percent depreciation rate, on plant additions. All plant additions were classified in Account 397, Communications Equipment. Software expenses were included in the original proposal but were removed

in the settlement schedules due to lack of documented support. 10/23/03 Tr. at 23 lines 20-21. The elimination of software costs accounted for most of the reduction in the annual revenue requirement sought. This reduction in software expenses also necessitated an elimination of amortization expense and the related reduction in return and income tax amounts.

We agree with Northern that the calculation of the proposed step adjustment is consistent with the methodology contemplated in Commission Order No. 24,075 (October 28, 2002) in Docket No. DG 01-182. We find these costs reasonable.

C. Impact of Step Adjustment Upon Customers

According to Northern's petition, the proposed step adjustment is applied to customers in conformance with Northern's revenue neutral rate redesign approved by the Commission in Docket No. DG 00-046. *Northern Utilities, Inc.*, 86 NH PUC 229 (2001). In that order, the Commission approved a rate design which moved each customer rate class closer to actual costs for that class. The goal was to send more accurate price signals to customers. Northern's Report of Proposed Rate Change for the proposed step adjustment indicates an equal 0.27 percent increases to all customer classes and thus does not change the rate design approved in Docket No. DG 00-046. Exh. 2 at 29.

Assuming a typical, single-family residential heating customer using 1,250 therms a year, the proposed step adjustment would increase their bill of \$3.62 a year. A residential non-heating customer using 159 therms would see an increase in their bill of \$0.73 per year. Exh. 2 at 30 and 31.

IV. CONCLUSION

We find that the documented costs associated with the AMR installation and meter replacement programs are reasonable and have been prudently incurred. We find also that the capital additions for which recovery is sought are used and useful in the provision of utility service.

We note that the cost of the AMR installation requires only a modest increase because of the offsetting stipulated yearly savings of \$162,500 in meter reading costs. This modest increase in yearly customer bills will provide benefits for all customers. Customers will now benefit from accurate and timely bills, fewer erroneous or estimated bills, and the ability to make conservation and consumption decisions based on accurate information. We will thus approve Northern's proposed implementation of the step adjustment and the resulting customer rate impacts.

Based upon the forgoing, it is hereby

ORDERED, that Northern's petition for a step adjustment revenue increase amounting to \$151,658 is approved for service rendered on or after November 1, 2003; and it is

FURTHER ORDERED, that Northern file annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by NH Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary