STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 15-087

LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.
D/B/A LIBERTY UTILITIES

Calendar Year 2014 Reliability Enhancement and Vegetation Management Plan Results and Reconciliation

Order Following Hearing

O R D E R N O. 25,785

April 30, 2015

APPEARANCES: Sarah B. Knowlton, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities; the Office of the Consumer Advocate by Susan W. Chamberlin; Esq., on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission approves Liberty's revised filing of its Reliability Enhancement and Vegetation Management Plan Results and Reconciliation for calendar year 2014, with the condition that Liberty excludes from rates the money that FairPoint owes Liberty for vegetation management services. Liberty calculated the rate impact of the reconciliation to be an increase of 0.75% to distribution rates, or an increase of $1.21 per month for an average residential customer using 655 kWh per month.

In addition, the Commission approves Liberty's proposal to commence recovery of certain transmission costs approved by the Commission in Order No. 25,745. With the transmission costs included in rates, the total bill impact of this filing is an approximate increase of $9.15 in average monthly residential customer bills. When the adjustments approved in this Order are combined with the reduction in the energy service rate approved by the Commission in Order No. 25,770, residential customers will experience approximate average monthly bill reductions of 29.8%, from $158.01 to $111.98, effective May 1, 2015, as compared with the period ending April 30, 2015.

I. PROCEDURAL HISTORY

On March 13, 2015, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty or Company) filed a report describing its reliability enhancement plan (REP) and vegetation management plan (VMP) for calendar year 2014. The filing was made pursuant to a settlement agreement approved by the Commission in Order No. 25,638 (March 17, 2014) in Liberty's most recent distribution rate case. With its filing, Liberty provided supporting testimony of Christian Brouillard, Director of Engineering; Jeffrey Carney, Vegetation Supervisor; and Heather M. Tebbetts, Utility Analyst; along with related exhibits and proposed tariffs. Mr. Brouillard, Mr. Carney, and Ms. Tebbetts work for Liberty Energy Utilities (New Hampshire) Corp. (Liberty Energy NH), an affiliate of Liberty that provides various services to the Company.

With the testimony, Liberty filed (1) a report on the actual spending on REP and VMP operation and maintenance (O&M) and REP capital investment for 2014, including an explanation of the difference between the actual amounts and the budgeted amounts reviewed by Commission Staff (Staff), (2) a request to recover from customers $35,166, the incremental O&M spending over the $1,360,000 base amount for 2014, (3) a request to recover the revenue requirement associated with $971,298 in 2014 capital investment and $1,230,601 of 2013 capital investment placed in service in 2014, and (4) a summary of reliability performance for 2014.

In addition, Liberty proposes to implement a rate increase related to its transmission charges beginning with service rendered on and after May 1, 2015. *See* Order No. 25,745 (December 30, 2014). With the inclusion of the transmission costs, assuming all of Liberty's proposed changes were approved, the total bill impact on residential customers using 655 kWh per month, the average use by residential customers over the 12 months ending January 1, 2015, would be an increase of approximately $9.15 per month.

The Office of the Consumer Advocate (OCA) filed a letter on March 20, 2015 indicating its participation in this docket pursuant to RSA 363:28.

On April 1, 2015, the Commission issued an order suspending the proposed tariff and scheduling a hearing on April 14, 2015. Liberty filed revised schedules to the testimony of Ms. Tebbetts on April 10, 2015. The schedules were revised to correct certain factors contained in the original calculation of rates, but the corrections had minimal impact on the calculation of rates in the initial filing.

Commission hearings examiner Michael Sheehan, Esq., conducted the hearing. Attorney Sheehan filed a hearing examiner's report on April 17, 2015.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

The REP and VMP budgets are premised on the idea that specified levels of annual spending on capital and O&M activities are necessary to maintain the safety and reliability of the Company's electrical distribution system. REP/VMP O&M activities include (1) protection or replacement of conductors, installation of reclosers, and other measures on low-performing feeders (feeder hardening), (2) augmented tree-trimming and hazard tree removal, (3) asset replacement (including the replacement of bare mainline conductors), and (4) inspection and maintenance.

The settlement agreement approved in Order No. 25,638 specified that a base amount of $1,360,000 would be included in distribution rates and spent on O&M activities associated with the VMP during the year. To the extent that the Company spending differed from the agreed-upon base O&M budget in a given year, the difference would be credited to or included in rates, at the discretion of the Commission (REP/VMP Adjustment Factor). The settlement agreement also authorized the Company to spend $1,000,000 on REP capital investments for each year, and to recover the revenue requirement associated with those investments in distribution rates.

The REP/VMP process begins with a discussion between Staff and Liberty of the Company's REP/VMP activity plan for the forthcoming year. For 2014, Liberty presented plans to the Staff that proposed an O&M budget of $1,432,700, which was more than the annual base amount of $1,360,000 for O&M expense. O&M expenses include costs associated with hazard tree removals and general increases to vegetation management costs. The Company's actual spending for REP/VMP O&M in 2014 was $1,395,166, or $37,534 less than the budgeted amount. According to Liberty, the lower costs were due to lower bid prices for cycle pruning. In addition, the Company spent less than anticipated for spot tree trimming, trouble and restoration calls, and tree planting, which are activities driven by demand. On the other hand, Liberty spent more than anticipated on interim tree trimming and other costs associated with work to address tree-related reliability issues on portions of the Pelham 14L2 circuit. Liberty calculated the REP/VMP adjustment factor to be a credit to customers of 0.017 cents per kWh.

Liberty explained that it has a contractual agreement with FairPoint whereby the two companies share costs of tree-trimming conducted by Liberty. According to Liberty, FairPoint has not paid amounts owed for Liberty's 2013 and 2014 vegetation management services. For those two years, Liberty believes that FairPoint owes $444,442. In its filing, Liberty proposed to recover that amount from its customers. The Company explained that once it receives payment from FairPoint, it will credit those receipts to customers. Liberty said that it was appropriate to recover the FairPoint debt from customers, pending payment by FairPoint, because customers benefited from the reliability effects of vegetation management. The REP/VMP Adjustment Factor, including the FairPoint debt, would result in a charge of 0.006 cents per kWh for customers.

In 2014, Liberty spent $1,130,601 on capital investment described in detail in its report. Liberty installed two single-phase reclosers and eighteen units of trip savers and replaced two miles of bare primary conducts. Liberty explained that the single-phase reclosers and trip savers target circuit segments that would realize reliability benefits from single-phase tripping and reclosing, and from isolating faults down to the smallest single-phase segment possible. The replacement of bare conductors was performed in an area prone to tree-related outages where it would be too costly to rely on vegetation management alone to mitigate the possibility of outages.

In addition to requesting recovery of the revenue requirement associated with the 2014 capital investment, Liberty sought recovery of the revenue requirements associated with $1,230,601 in 2013 capital investment placed in service in 2014. Liberty said that the carryover from 2013 was attributed to a timing issue that delayed 2013 plant in service from being processed through the Company's accounting system. Liberty said that it had taken a number of steps to improve the timing of the accounting treatment of these jobs, including establishing and using appropriate accounts, and holding monthly meetings to review the status of pending capital projects. The total associated revenue requirement for 2013 and 2014 is $377,950, or an approximate increase of $1.21 per month for residential customers using 655 kWh per month.

Liberty included an analysis of its reliability performance over the past five years in its filing. As shown in that analysis, the Company said it continues to improve its reliability metrics over time, with the 2014 performance being slightly better than that of 2013. Liberty said that the Company did not meet its System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) targets for 2014, due to three weather events. Liberty said the outages associated with those three events contributed to 33% of the total SAIDI and 23% of the total SAIFI metrics.

In Order No. 25,745 (December 30, 2014), the Commission directed the Company to implement revised transmission and stranded cost charges on May 1, 2015, rather than the originally proposed date of January 1, 2015, because of the Commission's concern over high energy service prices during the winter period. As ordered by the Commission, Liberty included those costs in the calculation of rates. While the stranded cost charge is a small credit to customers, the average transmission charge approved by the Commission is 2.342 cents per kWh, an approximate 68% increase in transmission charges over the current average charge of 1.946 cents per kWh.

B. OCA

The OCA did not object to the general capital costs associated with the REP. In addition, the OCA said that it understood that the Company was addressing the timing issue associated with the 2013 capital carryover and had no objection to the inclusion of the associated revenue requirements in rates.

The OCA characterized FairPoint's non-payment of its share of vegetation management costs as a contract dispute between Liberty and FairPoint, and argued that the electric customers have no duty to pay that money to Liberty pending Liberty's recovery of the debt from FairPoint. Accordingly, the OCA objected to Liberty's proposal to recover from electric ratepayers the amount the Company is owed by FairPoint.

C. Staff

Staff concluded that Liberty appropriately set REP/VMP priorities and appropriately conducted the REP/VMP program. Staff also concluded that the Company had authority to include transmission costs in rates effective May 1, 2015, pursuant to Commission order.

Staff agreed with the OCA that the Company should not recover from ratepayers the money FairPoint owed them for vegetation management services. Staff said that if the Company were allowed to recover the approximately $450,000 from customers, there would be less incentive to pursue FairPoint for the amounts owed. Staff said if the FairPoint amounts were excluded from the calculation of rates, the resulting rates would be just and reasonable.

III. HEARINGS EXAMINER REPORT

The Hearings Examiner report noted that neither the OCA nor Staff objected to or questioned any of the REP/VMP activities undertaken by Liberty during 2014. With respect to cost recovery, the Hearings Examiner made the following specific recommendations.

1. That the Commission approve Liberty's request to add $377,950 to distribution rates to recover the revenue requirement associated with REP capital investment in 2013 and 2014;
2. That the Commission deny Liberty's request to recover $35,166 in O&M expense;
3. That the Commission order Liberty to decrease its annual distribution rates by $210,585 (the difference between $35,166 and the amount owed by FairPoint for 2014); and
4. That the Commission allow Liberty to renew its request for the FairPoint money owed for 2014 and 2013 in next year's REP/VMP filing, if necessary, after Liberty exhausts reasonable collection efforts.

IV. COMMISSION ANALYSIS

We first address Liberty's annual REP/VMP report and the Company's REP/VMP activities during calendar year 2014. We find that the activities performed by the Company during 2013 were consistent with the goals and parameters of the reliability enhancement and vegetation management programs.

Regarding cost recovery, we allow Liberty to recover the revenue requirement of $377,950 associated with the capital investment made in 2013 and 2014. We understand that the Company has taken steps to address accounting and timing issues.

Regarding the FairPoint debt, we take a somewhat different view than the Hearings Examiner. According to Liberty, pursuant to the contract between Liberty and FairPoint, FairPoint owes Liberty $198,691 for VMP services performed in 2013 and $245,751 for VMP services performed in 2014. Liberty only included the $245,751 from 2014 in this filing. Liberty did not seek to recover the $198,691 from 2013 in this or in last year's filing. We find it is not just and reasonable to allow Liberty to add any of the FairPoint debt in its calculation of customer rates. We thus instruct Liberty to remove $245,751 from the calculation of the REP/VMP adjustment factor when it files complying tariffs with the Commission. If the FairPoint debt is omitted from the calculation, the resulting rate is a credit of 0.017 cents per kWh. With this adjustment, we find that the resulting rates are just and reasonable pursuant to RSA 378:7

Liberty should vigorously pursue its contractual rights to recover the amounts owed for 2013 and 2014 from FairPoint. Further, we note that the Hearings Examiner said in his report that "[c]ustomers will ultimately pay if FairPoint does not …." Hearings Examiner Report, at 9. We do not necessarily agree with this statement. It is premature to determine what recourse Liberty may have in the event it is unable to collect from FairPoint.

Based upon the foregoing, it is hereby

ORDERED, that the 2014 reliability enhancement plan and vegetation management plan report of Liberty, is hereby APPROVED; and it is

FURTHER ORDERED, that the request of Liberty to recover $377,950 in revenue requirements associated with 2013 and 2014 capital investment is hereby APPROVED; and it is

FURTHER ORDERED, that the REP/VMP adjustment factor, calculated without the inclusion of the FairPoint debt as described above, is hereby APPROVED; and it is

FURTHER ORDERED, that the rate adjustments approved above shall be effective with rates for services rendered on and after May 1, 2015; and it is

FURTHER ORDERED, that Liberty shall file tariff pages conforming to this Order pursuant to Puc Part 1603, within 20 days hereof.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2015.

Robert R. Scott/LD

Martin P. Honigberg
Chairman

Robert R. Scott
Commissioner

Attested by:

Kimberly Nolin Smith

Kimberly Nolin Smith
Assistant Secretary