

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-277

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

**Calendar Year 2015 Reliability Enhancement Plan and Vegetation Management Plan
Report and Reconciliation**

Order Following Hearing

ORDER NO. 25,904

May 27, 2016

APPEARANCES: Michael J. Sheehan, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a/Liberty Utilities; and Paul B. Dexter, Esq., on behalf of Commission Staff.

In this Order, the Commission approves Liberty's Reliability Enhancement Plan ("REP") and Vegetation Management Plan ("VMP") Report and Reconciliation for calendar year 2015, including an adjustment factor of \$0.00038 per kilowatt hour to recover expenses associated with the VMP, and an additional \$55,605 in revenue requirement associated with REP capital investment. Liberty calculated that these changes would increase the monthly bill of an average residential customer using 650 kWh by about 41 cents.

I. PROCEDURAL HISTORY

On March 15, 2016, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities ("Liberty" or "the Company") filed a Report describing its REP and VMP for calendar year 2015. 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 general 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 schedules and proposed tariffs.¹ Liberty initially proposed to collect \$279,097 in revenue requirement for capital expenditures for its REP, and \$346,184 of incremental O&M expenses for its VMP.

On March 30, Liberty filed a Technical Statement of Heather M. Tebbetts to revise several of her schedules. The technical statement detailed errors that had been made in the March 15 filing regarding tax depreciation and the rate base calculation. Correcting those errors reduced the requested revenue requirement for the 2015 REP capital expenditures from \$279,097 in the March 15 filing to \$248,953 in the March 30 filing. In addition, the March 30, filing corrected the revenue requirement for the 2014 REP capital expenditures resulting in a further reduction to the requested revenue requirement of \$44,099, leaving an amount of \$204,854 to be collected in this proceeding.

March 31, 2016, the Commission issued Order No. 25,876 suspending the proposed tariffs and scheduling a hearing for April 20, 2016. Liberty failed to publish notice of the hearing as directed causing the Commission to cancel the hearing. On April 21, 2016, the Commission issued a Supplemental Order of Notice rescheduling the hearing for May 10, 2016.

On May 6, 2016, Liberty again updated its filing through a Technical Statement of Steven E. Mullen and Heather M. Tebbetts. Liberty updated book depreciation rates and property tax rates for both 2014 and 2015, which further reduced the requested revenue requirement for the REP capital expenditures to \$71,923. Through the May 6 changes, the revenue requirement request for 2015 investments was revised down to \$175,355. Further, \$103,432 was deducted from that amount related to the corrections and updates to the 2014 figures, leaving \$71,923 to be collected in this proceeding.

¹ Mr. Brouillard, Mr. Carney and Ms. Tebbetts work for Liberty Utilities Service Corp., an affiliate of Liberty that provides various services to the Company.

To account for the one month delay in rate implementation caused by the postponed hearing, the May 6 filing updated the calculation of the VMP Adjustment Factor to \$.00038 per kWh for effect June 1, 2016.

After the hearing on the merits, on May 25, 2016, Liberty again filed updated schedules (Schedules HMT-1 through HMT-5) to reflect further updated property tax amounts. This update reduced the revenue requirement for REP investments to \$55,605. On May 26, Staff requested that the updated schedules be admitted as Exhibit 5. Staff's request is hereby granted and the record is reopened pursuant to N.H. Code of Admin. Rules Puc 203.30 for the limited purpose of accepting this late filed exhibit.

Liberty's revised Report, revised testimony, two technical statements and revised schedules included: (1) a detailed account of actual 2015 REP capital spending and VMP Operations and Maintenance ("O&M") expenses, including an explanation of the difference between the actual and budgeted amounts, (2) a request to recover \$346,184, the incremental O&M spending over the \$1,360,000 base amount included in current base rates, (3) a request to recover \$55,605, the revenue requirement associated with \$1,051,792 in 2015 capital investment and \$269,663 in 2014 capital investment that was placed in service in 2015, (4) tariffs to effect the proposed rate changes, and (5) a summary of reliability performance for 2015. As finally revised, the \$346,184 of incremental VMP O&M expense would be collected from customers through a \$.00038 per kWh factor included in Liberty's distribution charge and the \$55,605 of REP capital investment revenue requirement would be collected by increasing base distribution rates by 0.16%.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty stated that the Settlement Agreement approved in Order No. 25,638 specifies that an O&M base amount of \$1,360,000 be included in distribution rates and spent on VMP activities each year. To the extent that the Company spends a different amount, the difference is reflected in rates after Commission approval. The Settlement Agreement also authorizes a \$1,000,000 target for REP capital investments annually, and authorizes the Company to recover the revenue requirement associated with the actual investments after Commission approval.

The REP capital and VMP O&M budgets are premised on the idea that specified spending levels are necessary to maintain the safety and reliability of the Company's electrical distribution system. Each November, the Company submits a budget, which Staff reviews with the Company. REP/VMP activities for 2015 include spacer cable expansion, bare conductor replacement, spot and planned tree trimming, hazard tree removal, and right-of-way clearing.

VMP O&M Expense. For 2015, Liberty proposed a VMP O&M budget of \$1,572,282, which was more than the annual base amount of \$1,360,000.² The Company's actual spending for VMP O&M in 2015 was \$1,706,184, or \$133,902 more than the budgeted amount.

According to Liberty, the higher costs were due to higher than anticipated needs associated with trouble calls and outage restoration, traffic control, hazard tree removals, and interim tree trimming. Some of the over-runs were offset by reductions in right-of-way clearing expense.

Liberty proposes a VMP Adjustment Factor of \$0.00038 per kWh to recover these VMP O&M expenses.

² Liberty bills FairPoint Communications for re-imbursement for some VMP O&M expenses. According to Liberty, FairPoint has paid all invoices through April 2016. In this Order, the O&M figures are net of FairPoint reimbursements.

Capital Costs. Liberty budgeted for nine single-phase reclosers, eighteen units of trip savers, and replacement of two miles of bare primary conductors. Liberty explained that the investments would improve reliability by isolating faults down to the smallest single-phase segment possible. Replacement of bare primary conductors with spacer cable 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 power outages.

In 2015, Liberty spent \$1,051,792 on REP capital investments. In addition to requesting recovery for the 2015 capital investment, Liberty seeks recovery of \$269,663 in revenue requirement for 2014 capital investments that were placed in service in 2015. Liberty said that the carryover from 2014 was attributed to timing delays as plant costs were invoiced to vendors and processed. Liberty said that to improve the timing of the accounting treatment of these jobs, it established an account 106 (Completed Construction Not Classified) and holds monthly meetings to review the status of pending capital projects.

The total revenue requirement for the capital costs (after correcting the 2014 depreciation, property taxes, and reserve for deferred taxes, as discussed above) is \$55,605 or an increase of 0.16% in distribution rates.

Performance/Reliability. The Report analyzed Liberty's reliability performance over the past five years and showed continued improvement in reliability metrics over time. Liberty's 2015 performance was significantly better than 2014, aided somewhat by the weather in 2015, which was more moderate than in 2014. Liberty met its System Average Interruption Frequency Index ("SAIFI") and System Average Interruption Duration Index ("SAIDI") targets for 2015, which are based on a 5-year rolling average.

Cash vs. Accrual Methods for O&M. Liberty requested approval to change its method of reporting and recovering VMP O&M expenses. Since the inception of the program, Liberty has reported costs in the year the costs are paid for, i.e., on a cash basis. Liberty proposes to report and recover costs on an accrual basis, whereby at the end of a reporting period, an accrual would be made for expenses incurred but not yet paid. Those accruals would be reversed in the following year, as the bills were paid. Liberty's O&M proposal in this case of \$1,706,184 includes \$273,674 of expense incurred in 2014 but not paid until 2015. Liberty states that by using an accrual method, O&M costs would be reported for recovery in the year in which they were incurred.

B. Staff

Staff questioned Liberty's calculation of revenue requirement on REP capital additions, which used plant figures as of December 31, 2015, when, as the Company agreed, the plant would be placed in service throughout the year. Staff also questioned the calculation of the depreciation and property tax rates used in the revenue requirements calculation. Those rates were developed using average plant numbers, resulting in higher rates than if year-end plant numbers had been used; but the rates were applied to year-end plant numbers. Liberty responded that the calculations were consistent with those approved as part of a Settlement Agreement in Liberty's most recent distribution rate case (Docket DE 13-063), and also were carried over from calculations done when the REP/VMP was established pursuant to a Settlement in Docket DG 06-107 *See* Order No. 24,777 (July 12, 2007) at 76.

Staff noted that Liberty proposes to lower rates in this case to correct errors made to the 2014 revenue requirement for REP capital costs. Customers would begin to realize the fruits of the corrections beginning June 1, 2016, even though the un-corrected rates had been in effect

since May 1, 2015. Staff noted that the Company was not proposing to credit customers any interest or carrying charges for this time lag. Liberty responded that the rates for the 2014 program were reviewed and approved by the Commission in 2015 and, in this proceeding, the Company proposed the corrections “for the good of the customers,” but Liberty did not support reimbursement for related interest.

Staff concluded that Liberty appropriately set REP/VMP priorities and appropriately conducted the REP/VMP program. Accordingly, Staff expressed support for the corrected rates as proposed, concluding that the rates are just and reasonable.

Staff opposed implementation of the accrual method for VMP O&M. Staff stated that any changes to the REP/VMP Program should be done in the current Liberty general distribution rate case (Docket DE 16-383), where Liberty seeks continued approval of the REP/VMP (with increases in base and target amounts).

III. COMMISSION ANALYSIS

We find that Liberty’s annual REP/VMP Report and the Company’s REP/VMP activities during calendar year 2015 were consistent with the goals and parameters of the reliability enhancement and vegetation management programs.

Regarding cost recovery, we approve the proposed VMP Factor of \$.00038 per kWh to be included in Liberty’s distribution rates. Further, we allow Liberty to recover the revenue requirement of \$55,605 associated with the 2015 REP capital investments (which includes the corrections related to 2014). We find both rate changes to be just and reasonable, pursuant to RSA 378:7. These changes combined will increase the monthly bill of an average residential customer using 650 kWh by 41 cents.

At this time, we do not approve the Company’s proposal to move from a cash basis to an accrual basis for reporting and recovering O&M expenses in the VMP program beginning with

2016 expenses. The Company states it has reported and recovered these expenses on a cash basis since the program's inception. We concur with Staff's position that this change should be addressed in the Company's pending general distribution rate docket, in conjunction with Liberty's request to continue the REP/VMP program.

Based upon the foregoing, it is hereby

ORDERED, that the 2015 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 \$55,605 in revenue requirement associated with REP capital investment is hereby APPROVED; and it is

FURTHER ORDERED, that that the VMP Adjustment Factor of \$.00038 per kWh is hereby APPROVED; and it is

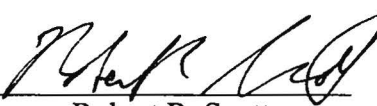
FURTHER ORDERED, that the rate adjustments approved above shall be effective with rates for services rendered on and after June 1, 2016; and it is

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

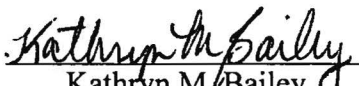
By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of May, 2016.



Martin P. Honigberg
Chairman

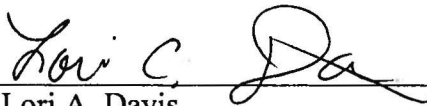


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Lori A. Davis
Assistant Secretary