STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 16-447

LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP.
d/b/a LIBERTY UTILITIES

Managed Expansion Program Rates

Order Approving Rates and Tariffs

O R D E R N O. 25,933

August 4, 2016

APPEARANCES: Michael J. Sheehan, Esq., for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities; Donald M. Kreis, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and Paul B. Dexter, Esq., and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

In this order, the Commission approves rates and tariffs for managed expansion, as proposed by Liberty and modified by Staff. These rates and tariffs are designed to allow for the orderly economic expansion of gas service to new areas.

I. PROCEDURAL HISTORY

On April 15, 2016, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (hereinafter "Liberty" or "the Company") filed a "Petition To Amend Tariff to Include Managed Expansion Program Rates" seeking approval to implement rates that add a premium to the Company's regular distribution rates for customers that require a main extension to initiate natural gas service. The managed expansion program ("MEP") rates allow customers to pay most or all of any required cost of construction for the main extension over time. With the Petition, Liberty filed the testimony of William J. Clark, Business Development Professional, and David Simek, Lead Utility Analyst. Exhibit 1. Both Mr. Clark and Mr. Simek are employed by Liberty Utilities Service Corp., which provides regulatory support services to the Company.

On May 6, 2016, in Order No. 25,893, the Commission suspended the proposed tariffs until August 5, to allow for investigation. On May 9, the Office of Consumer Advocate ("OCA") notified the Commission that it would be participating in this matter. By Secretarial Letter dated June 3, the Commission adopted a procedural schedule, which was amended by a Secretarial Letter dated July 7.

On July 12, 2016, Staff filed the testimony of Stephen P. Frink, Assistant Director of the Gas & Water Division, which recommended approval of the MEP rates with six modifications. The Commission held a hearing on July 18, to consider the merits of Liberty's proposal. At the hearing, Mr. Clark and Mr. Simek of Liberty testified that the Company agreed to the six changes Mr. Frink set forth in his testimony. At the conclusion of hearing, the Company, Staff, and the OCA all supported the adoption of the MEP rates and tariffs, as presented by the Company and subject to the modifications outlined in Mr. Frink's testimony.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty's MEP involves a rate structure that is designed to allow for economic expansion of natural gas service within existing service areas and in future franchise areas. Exhibit 1 at 4. Currently, under its Service and Main Extension Policy, Liberty uses a revenue test to evaluate main and service line extensions. Liberty's revenue test compares a project's estimated annual revenue from customer charges and delivery charges to the estimated construction costs. The comparison is made over an eight year period for residential customers and over a six year period for commercial customers. If the estimated cost exceeds the estimated revenues, then a Contribution in Aid of Construction ("CIAC") is required from the customer. In addition to accounting for the full revenues and costs expected from committed customers, the Company assumes that 60% of uncommitted premises along a proposed main extension will take service. Liberty's Service and Main Extension Policy provides for free service lines (up to one hundred feet in length) to all new residential heating customers. Exhibit 1 at 5-6.

Liberty designed its proposed MEP rates as a 35% premium on regular gas distribution rates. The premium would be in effect for 10 years from the time a main extension is placed in service and the first customer takes service off that main. Liberty stated that the MEP rates would be presented as an option to the regular distribution rates, but once a project was designated as an MEP project (based on customer choice), all customers served under that project would be required to take MEP rates. A property along an MEP project would be charged the MEP rates for the full ten years, regardless of property ownership. If such a property were sold, the new owner would continue to pay the MEP rate for the remainder of the 10-year period. Customers beginning or ending service part way through the 10-year period would pay MEP rates for less than the full 10 years. Liberty stated that an average residential customer using 850 therms per year currently has a yearly bill of approximately $1,079. Under MEP rates, that customer's yearly bill would be approximately $1,271, or about an 18% increase over the current distribution rates. *Id.* at 11-14.

According to Liberty, a CIAC is typical in a situation where a gas main must be extended down a side street from a street where a gas main is already in place. When added to customer conversion costs (estimated at $450-$1,000 for propane customers and up to $10,000 for oil customers), a CIAC can be overly burdensome to potential customers, and the MEP rates are designed to alleviate that burden by charging a rate premium which, in essence, allows for the CIAC to be spread over time. *Id.* at 6-7. Liberty believes that the MEP rates will help to avoid situations where a developer may opt to install propane equipment to avoid paying a CIAC.

Under the MEP rates, the customers, who would enjoy the cost savings of natural gas versus propane or oil, would pay for the cost of the construction through the MEP premium, rather than the developer paying through a CIAC. *Id.* at 7.

In implementing the MEP, Liberty stated that it plans to use a tool called Strategic Intelligence Management System ("SIMS"), developed for it by ICF International to analyze target areas. The SIMS tool will allow Liberty to target areas for expansion by providing information such as the number of homes over a certain size that currently heat with propane and are situated within a given number of feet from an existing gas main. *Id.* at 9. Also, ICF will create a Gas Availability Tool to be placed on Liberty's website that will assist customers in deciding whether to convert to gas by providing estimated fuel savings and factoring in available rebates. *Id.* at 10.

Liberty estimated that residential heating customers switching from propane to natural gas could save $1,638 per year under the MEP rates, while oil customers would pay an additional $21 per year. *Id.* at 60.

B. Office of Consumer Advocate

The OCA supports the proposed MEP, as modified by Staff's conditions, as discussed below.

C. Staff

Staff supports the MEP rates and tariffs proposed by Liberty, with six modifications. First, Staff proposed that MEP rates be set at a 30% premium over regular distribution rates, instead of the 35% premium proposed by Liberty. Staff recommended the 30% premium for two reasons. (1) While the MEP rates offer large savings for customers converting from propane, the savings for oil customers are minimal under current prices. Reducing the premium will make the MEP rates more attractive to oil customers. (2) The reduced premium will work to limit the number of prospective MEP expansions, which will limit cross-subsidies if the MEP program proves to be un-economic, and will lessen the competition for Company resources between growth projects such as MEP and main replacement projects such as cast iron and bare steel replacement. Exhibit 2, at 11-12. At the July 19 hearing, Liberty supported this change in the premium, noting that it plans to file for a base rate increase next year and this will likely serve to offset any reduced revenues from the lower premium.

Second, Staff proposed that the MEP be implemented on a four-year pilot basis, whereby after three construction seasons of experience, Liberty would submit a request to the Commission to extend or modify the program. Exhibit 2 at 9-11. At the hearing, Liberty agreed to implement MEP as a pilot program. Liberty noted that although the program could be discontinued after four construction seasons, any property on MEP rates would remain on MEP rates for 10 years.

Third, while Staff supported the revenue test described above for most main extensions, Staff recommended that Liberty employ a discounted cash flow ("DCF") methodology for extensions costing over $1,000,000. Exhibit 2 at 8-9. Staff argued that DCF is a better tool for evaluating major capital projects because it examines a longer time frame than the revenue test, it encompasses more revenue and cost factors, and it uses the net present values of cost and revenues. *Id*. At the hearing, Liberty supported using a DCF analysis to evaluate expansion projects costing more than $1,000,000.

Fourth, Staff recommended that Liberty report to the Commission annually on the results of the pilot program. For each project, Staff recommended that Liberty provide estimated and actual construction costs, the type of fuel from which the customer is converting, the date of the conversion, and the annual revenue realized from the conversion. Also, Staff requested that Liberty compare its MEP rates to oil and propane prices on an ongoing basis. Exhibit 2 at 10. During the hearing, Liberty agreed to provide such reports annually.

Fifth, Staff supported expanding the current policy of installing 100 feet of service line at no cost to residential heating customers who convert to gas heat. Staff recommended that this provision be extended to residential non-heat customers who commit to taking service prior to a main extension or replacement. *Id.* at 12. Liberty agreed to this change, noting that it is far less expensive to install a service line during an extension project than otherwise. Liberty stated that a customer who may not be ready to convert its heating equipment due to the large cost, may be willing to switch water heating or cooking equipment while a gas main is installed on their street and then, at a later date, convert to gas heat.

Finally, Staff proposed that Liberty not start construction on an expansion project unless enough prospective customers have committed to take service such that 25% of the projected revenue for the project is committed. Exhibit 2 at 8. At the hearing, Liberty and Staff agreed that pre-construction commitments in revenue, sufficient to cover 25 % of the projected cost of the project, would be an appropriate threshold.

III. COMMISSION ANALYSIS

In this case, Liberty proposes a program, rates and tariffs that are designed to promote economic expansion of gas service in Liberty’s service territory. Staff suggests six changes to the proposal, to which Liberty has indicated agreement. OCA supports approval of the MEP rates and tariffs, as modified by Staff. While no settlement agreement has been presented for review, we are presented an un-contested proposal and will review it like a settlement.

We encourage parties to settle issues through negotiation and compromise. *Liberty Utilities (EnergyNorth Natural Gas) Corp.*, Order No. 25,797 at 11 (June 26, 2015); *see* RSA 541-A:31, V(a) ("informal disposition may be made of any contested case … by stipulation [or] agreed settlement"). Even when the parties join a settlement, however, we must independently determine that the result comports with "applicable standards." *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 24,972 at 48 (May 29, 2009) ("we must scrutinize settlement agreements thoroughly regardless of whether a party appears at hearing to raise objections"). We conduct this analysis to ensure that a just and reasonable result has been reached. *Id.; see* N.H. Code Admin. Rules Puc 203.20(b) ("The commission shall approve a disposition of any contested case by stipulation [or] settlement … if it determines that the result is just and reasonable and serves the public interest").

The "applicable standard" governing this case is whether the proposed rates and tariffs are just and reasonable. RSA 374:2 and 378:7. In addition, in Order 25,983 suspending the proposed tariffs, we noted that the proposal raised issues about fostering orderly expansion of Liberty's system for the benefit of Liberty's customers and whether the proposed tariffs would properly guard against cross subsidization.

We support Liberty's efforts to economically expand natural gas service to more customers. We agree that reducing CIACs should further this effort and thus we support the 30% premium on regular distribution rates and offering 100 feet of free service extensions to any residential customer who commits to taking service prior to installing a new or replacement main, irrespective of whether they take heating service. Based on the comparisons with other competing fuels, we find the rates incorporating the 30% premium to be just and reasonable. Exhibit 3. We support the safeguards recommended by Staff to prevent the cross-subsidization of expansion customers by existing customers, including the 25% threshold before undertaking expansion construction and using a DCF analysis for expansion projects estimated to cost $1,000,000 or more.

Likewise, we support the reporting requirement recommended by Staff and structuring MEP as a pilot program. This will allow Liberty (and Staff and the OCA) to evaluate empirical evidence regarding the success or failure of the program, which can then be used in determining whether to continue the program beyond the initial four years. If the program is to continue, the information will allow the parties to recommend changes to address any concerns that may arise or to enhance the program.

In summary, we find that the proposed rates and tariffs, as modified by the conditions outlined by Staff, are just and reasonable and are designed to limit cross subsidization of expansion by existing customers.

Based upon the foregoing, it is hereby

ORDERED, that the proposed Managed Expansion Project proposal, and associated rates and tariffs, are approved as modified by Staff's conditions for rates effective immediately; and it is

FURTHER ORDERED, that Liberty shall file properly annotated tariff pages (including any changes to Liberty's Main and Service Extension Policy required to implement the MEP as discussed herein) in compliance with this Order no later than 15 days from the issuance of this Order, consistent with N.H Admin Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this fourth day of August, 2016.

Martin P. Honigberg	Robert R. Scott	Kathryn M. Bailey
Chairman	Commissioner	Commissioner

Attested by:

Debra A. Howland
Executive Director