STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 18-064

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

2018 Cast Iron/Bare Steel Replacement Program Results

Order Approving Revised Delivery Rates

O R D E R N O. 26,154

June 29, 2018

APPEARANCES: Michael J. Sheehan, Esq., on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities; the Office of the Consumer Advocate by Brian Buckley, Esq., on behalf of residential ratepayers; and Lynn Fabrizio, Esq., on behalf of Commission Staff.

In this order, the Commission approves an increase in Liberty Utilities (EnergyNorth Natural Gas) Corp.'s base delivery rates effective July 1, 2018, to collect an additional $762,488 annually, which will allow the Company to recover approximately $9,720,506 that it invested in the Cast Iron/Bare Steel Replacement Program during fiscal year 2018. This rate change will result in about a $3 annual increase for the typical residential heating customer and about a $9 annual increase for the typical commercial heating customer.

I. PROCEDURAL HISTORY

On April 16, 2018, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (Liberty or the Company), submitted its Fiscal Year 2018 Cast Iron/Bare Steel Replacement Program Results Filing. The Cast Iron/Bare Steel (CIBS) program was established by a settlement agreement the Commission approved as part of the merger of National Grid and EnergyNorth. *See National Grid,* Order No. 24,777 at 27 (July 12, 2007). Liberty took over the CIBS program, when it acquired the EnergyNorth system. *See National Grid USA*, Order

No. 25,370 at 25 (May 30, 2012). In its filing here, Liberty sought a $762,488 increase in its base delivery rates to recover $9,720,506 in qualifying capital costs spent in fiscal year (FY) 2018 (April 1, 2017, to March 31, 2018) to replace cast iron and bare steel pipes. Liberty requested authority to implement the rate increase effective July 1, 2018.

In support of its request, Liberty filed the joint testimony of David B. Simek, Manager of Rates and Regulatory Affairs, and Catherine A. McNamara, Rates and Regulatory Affairs Analyst; and the joint testimony of Shawn D. Furey, Manager of Gas Operations (Construction), and Brian R. Frost, Senior Engineer. Liberty filed revisions to the joint testimony of Mr. Simek and Ms. McNamara on June 1, 2018.

The Commission issued an order of notice scheduling a hearing for June 12, 2018, and on June 8, 2018, the Commission issued a secretarial letter rescheduling the hearing for June 25, 2018. On May 30, 2018, the Office of the Consumer Advocate (OCA) filed a letter notifying the Commission of its participation in this proceeding on behalf of residential customers pursuant to RSA 363:28. No other parties intervened. At the hearing, Liberty offered the pre-filed and live testimony of Mr. Simek, Ms. McNamara, Mr. Furey, and Mr. Frost in support of its request. Commission Staff (Staff) offered the pre-filed and live testimony of Randall S. Knepper, Director of the Commission's Safety Division.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-064.html.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty stated that it replaced 11.6 miles of cast iron and bare steel pipe during the CIBS fiscal year 2018 at a total cost of $15,313,206. Exhibit (Exh.) 1 at 8. It seeks to add $9,720,506 to its rate base. Exh. 2 at 50R. Liberty excluded from its rate base calculation the base spending level of $527,275 under the terms of the settlement agreement that created the CIBS program. Estimated carryover costs from FY 2017 to FY 2018 totaled $2,718,259, compared to $585,800 from FY 2016 to FY 2017. According to Liberty, the increased carryover costs from FY 2017 to FY 2018 are due to the inclusion of City of Manchester degradation fees and an increased complexity in projects undertaken. For example, during the year, Liberty dealt with asbestos contamination on the CIBS project site in Hudson and municipal permit constraints on work hours. Exh. 1 at 10-11.

Liberty sought and was granted approval of CIBS-related carryover costs from FY 2017 as a step adjustment in Commission Order No. 26,122 in Docket No. DG 17-048, leaving a remaining balance of $579,887 in excess carryover costs to be reviewed. Liberty requested approval of the remaining $579,887 incurred in the 2017-2018 CIBS construction season, consisting of final paving restoration work completed after CIBS pipe removal and replacement. The requested carryover costs exceeded the 5 percent limit on such costs agreed to in the CIBS settlement agreement approved in Docket No. DG 11-040.[1] Liberty maintained that the total incremental expenditure of $9,720,506 it proposes to include in rate base would result in a revenue deficiency requirement of $762,488. Exh. 2 at 51R-52R. Liberty requested authority to implement a permanent increase in delivery rates as of July 1, 2018, on an equal percentage basis among all customer classes. Liberty estimated that the bill impact would be an increase of $3.26

[1] *See* Letter filed by Liberty on 6/21/18 in this docket.

per year on a typical residential heating customer and an increase of $9.11 per year for a typical commercial heating customer. Exh. 2 at 54R.

Liberty also asserted that the marketing of new service to potential customers along CIBS project routes is difficult due to high existing customer saturation rates, homeowner aversion to natural gas, and equipment conversion requirements. Exh. 1 at 17. Liberty contended that the CIBS marketing requirement has cost too much given how many customers have been added, and proposed to notify all customers along CIBS project routes in the future, rather than continue to exert more aggressive marketing efforts as suggested by previous Commission CIBS orders. Exh. 1 at 19-20.

B. OCA

The OCA generally supports the Company's filing, subject to a number of caveats. The OCA agrees with several of Staff's recommendations (see below), including the denial of carryover costs in excess of the CIBS settlement agreement, the continued auditing of the CIBS program on an annual basis, and further examination of the existing CIBS program to determine how the program mechanism can continue to provide the best use of ratepayer dollars.

With respect to Liberty's marketing efforts to customers along the CIBS replacement project lines, the OCA, in deference to the Company's business judgment, is sympathetic to Liberty's recommendation that it cut back on its marketing efforts. However, the OCA believes that the compromise approach suggested by the Commission during the June 25 hearing, in which Staff and the Company will consider possible changes to the marketing plan while maintaining current targeted marketing efforts, could be a useful.

C. Staff

In his pre-filed testimony and at hearing, Mr. Knepper stated that the Company completed 25.6 percent fewer projects than it initially forecasted it would complete. Mr. Knepper was also concerned with the high level of carryover costs resulting from the Company's failure to complete 27 of 38 projects in which mains and services were installed.

Mr. Knepper acknowledged that the Company replaced the largest amount of leak-prone mains and services ever in a single year during the CIBS program, leaving a total of 78.6 miles remaining after FY 2018. Further, he noted the Company's accelerated rate of replacing an average of 9.9 miles per year during the last 5 years, compared to an average of 7.89 miles per year over the past 10 years. Mr. Knepper testified that the continued submission of degraded pipe samples assists Staff in the Safety Division's ongoing oversight of Liberty's system. He also expressed cautious optimism that Liberty could meet its 2024 total replacement goal. Finally, Mr. Knepper testified that Liberty's customer marketing efforts could be improved through more targeted direct marketing in areas where the Company is undertaking CIBS replacement projects.

With respect to the Safety Division's disallowance of $579,887 in carryover costs, Mr. Knepper confirmed that approval of carryover costs beyond the five percent cap is within the discretion of the Safety Division under the settlement agreement. Mr. Knepper indicated that recovery of those costs may be considered in Liberty's next rate case. Mr. Knepper further testified that weather restrictions, municipal regulatory constraints, contracting issues, and personnel limitations were all known restrictions to Liberty when it agreed to the terms of the settlement agreement, and that Liberty is responsible for taking the necessary steps to ameliorate such issues in order to avoid potential disallowances. He expressed his understanding that the disallowance provision was designed as an incentive for Liberty to limit carryover costs. Mr. Knepper also noted that Liberty, with its recent 2017 rate case, has not suffered a long regulatory lag prior to recovery of CIBS-related carryover costs. Mr. Knepper also stated that the April 15 submission of FY 2019 CIBS program-related reports and a full audit of the CIBS program should continue. Staff supported recovery of the scaled-back incremental revenue requirement of $762,488.

Mr. Knepper indicated that Staff sent an official request to Liberty to explore terminating or suspending the CIBS program beginning fiscal year 2020.

III. COMMISSION ANALYSIS

Based on the record in this docket, we find that Liberty's proposed adjustments, excluding $579,887 in carryover costs denied by the Safety Division pursuant to the terms of the CIBS settlement agreement, will result in rates that are just and reasonable, as required by RSA 374:2 and RSA 378:7. Specifically, we approve the addition of $9,720,506 to Liberty's rate base and the related increase in its revenue requirement of $762,488. While we exclude $579,887 in this case, Liberty is not precluded from seeking a just and reasonable return on that portion of the CIBS investments in its next full distribution rate case.

We concur with the Safety Division that Liberty should file its FY 2019 CIBS program results by April 15, 2019, and that a full audit of the CIBS program should be conducted of those results. We also agree that Liberty should continue its direct marketing efforts for new customers along CIBS routes at least for the next year. Therefore, we repeat our requirement from the past few years that Liberty provide Staff with a report by the end of 2018 documenting the results of its market research conducted during the 2019 CIBS program, and its plans for marketing to new customers going forward. We recognize Liberty would like to scale back its marketing to non-gas customers in areas where CIBS projects are active. Nonetheless, we were not convinced by Liberty's proposal in this docket. We encourage Liberty to include in its next CIBS filing a more detailed marketing alternative.

Based upon the foregoing, it is hereby

ORDERED, that Liberty be permitted to increase its base delivery rates to add $762,488 to its annual revenues, effective July 1, 2018, on a service rendered basis; and it is

FURTHER ORDERED, that Liberty file its FY 2019 CIBS program results by April 15, 2019; and it is

FURTHER ORDERED, that Liberty provide Staff with a report by the end of 2018 documenting the results of its market research and marketing efforts conducted during the 2019 CIBS year and its plan for marketing to new customers going forward; and it is

FURTHER ORDERED, that Liberty file properly annotated tariff pages with the Commission by July 14, 2018, as required by N.H. Code Admin. Rules Puc 1603 and consistent with this Order.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of June, 2018.

Martin P. Honigberg Chairman	Kathryn M. Bailey Commissioner	Michael S. Giaimo Commissioner

Attested by:

Debra A. Howland/mes

Debra A. Howland
Executive Director