

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 13-063

LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.

Order Approving Settlement Agreement

ORDER NO. 25,738

November 26, 2014

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

In this Order, the Commission approves a Settlement Agreement that decreases Liberty's distribution rates based on Staff's audit. As a result of this order, a residential customer using 679 kilowatt hours per month, the average residential customer use, will experience a monthly bill decrease of \$1.05 for the period from December 1, 2014, through April 30, 2015.

I. PROCEDURAL HISTORY

On March 17, 2014, the Commission issued Order No. 25,638 approving a settlement agreement in the 2013 Liberty Utilities (Granite State Electric) Corp. (Liberty or Company) distribution rate case. The settlement agreement was signed by Liberty, the Office of Consumer Advocate (OCA), and Commission Staff (Staff). The Order granted among other things (1) a permanent increase of approximately \$9.76 million to Liberty's distribution revenues, and (2) the Company's request for an estimated \$1.115 million step increase constituting the revenue requirements associated with an anticipated \$7,462,500 capital investment in service as of December 31, 2013. Both the permanent rate increase and the step increase took effect with rates for services delivered on and after April 1, 2014, pursuant to the settlement agreement. In addition, the Order approved the Company's request to recover no more than \$390,000 in rate

case expense over a 2-year period. The step increase and recovery of rate case expense were conditioned on an audit by Staff.

On July 29, 2014, Staff filed a memorandum regarding Staff's Audit of the step increase and rate case expense. The final audit report stated that Liberty's actual rate case expense was \$318,944. With respect to the step increase, Staff's audit verified \$5.9 million in plant in service as of the end of December 2013, but noted that only \$677,827 of that investment was allocated to the correct Federal Energy Regulatory Commission (FERC) account, and most of the capital investment was instead posted to the FERC account representing construction work in progress. Staff's memorandum stated that there should be a reduction to Liberty's distribution revenues as a result of Staff's audit.

Liberty filed a response to Staff's memorandum and requested a hearing on the proposed reduction to revenues. The OCA also recommended that the Commission hold a hearing on the issue.

Staff issued a supplemental audit on September 25, 2014. In that report, Audit Staff revised the total plant costs to \$5,896,598 after certain adjustments. From that total, the Company removed costs related to a portion of a project that was not included in the original request for a step adjustment contemplated by the distribution rate case settlement agreement. After removing those amounts, Liberty proposed recovery of revenue requirements associated with the addition of \$4,803,459 in plant in service as of December 31, 2013.

Following discovery and discussions among the parties, Staff filed a Settlement Agreement on October 30, 2014, signed by Liberty, the OCA, and Staff. The Commission held a hearing on the Settlement Agreement on November 6, 2014.

II. SETTLEMENT AGREEMENT

With respect to the step increase, the parties agreed to a reduction in the Company's revenue requirement from the estimated \$1,115,000, which was based on \$7,462,500 in additional capital investment, to \$719,224, the revenue requirement associated with \$4,803,459, the verified amount of capital investment in service as of December 31, 2013. The parties also agreed that the Company should only be allowed to recover the actual rate case expense of \$318,944 instead of the estimated expense of \$390,000, and that the Commission should authorize a temporary reduction attributable to the over-recovery. Under to the Settlement Agreement, Liberty would refund the over-collection of both the step increase and the rate case expense to customers through a reduction in rates for the period of December 1, 2014, through April 30, 2015. The effect on rates for a residential customer using 679 kWh per month, the average use by the Company's residential customers, would be a decrease of \$1.05 per month from \$164.50 to \$163.45.

III. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty stated that it supported the Settlement Agreement. The Company apologized for the accounting error and the resulting time required by Staff, the OCA, and the Commission to correct the matter. Liberty stated that it recognized the importance of proper FERC accounting.

Liberty explained that the problem regarding the FERC accounts identified in the Staff audit resulted primarily from timing issues. According to the FERC Chart of Accounts, projects under construction are recorded in Account 107, Construction Work in Progress. These amounts are moved into another account, Account 106, Completed Construction Not Classified, once construction is complete. When all final invoices are received, the amounts in Account 106 are

moved into Account 101, FERC Plant Accounts. Hearing Transcript November 6, 2014 (Tr. 11/6/2014) at 10-11.

According to Liberty, when it acquired Granite State Electric from National Grid, Account 106 was cleared to facilitate the transfer. Consequently, at the time Liberty established its book of accounts, no amounts were recorded in Account 106. When Liberty set up its computer system, all projects in Account 107, Construction Work in Progress, were transferred directly to Account 101, bypassing Account 106. Liberty testified that the projects in Account 101 were actually placed in service, but the Company never made the proper entries. *Id.* at 11-12. Liberty stated that in July 2014, procedures were put in place so that as soon as a project is placed in service, it is moved from Account 107, Construction Work in Progress, to Account 106, Completed Construction not Classified. The Company said that this correction along with ongoing review of the FERC accounts should avoid such problems in the future.

B. OCA

The OCA said that it supports the Settlement Agreement but emphasized that the improper accounting mistake should not have happened.

C. Staff

Staff stated that it had participated in the settlement discussions and supports the Settlement Agreement. Staff also commented on the accounting errors and recommended that the Company continue to scrutinize accounting matters to avoid mistakes.

IV. COMMISSION ANALYSIS

Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order by stipulation, agreed settlement, consent order or default. N.H. Code Admin. Rules Puc 203.20(b) requires the Commission to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest. We have reviewed this Settlement Agreement and find that it is consistent with the public interest, because it properly implements the rate case agreement we approved in Order No. 25,638 (March 17, 2014) at 16-17. The Settlement Agreement results in a decrease in rates for Liberty's customers and we find that the resulting rates are just and reasonable as required by RSA 378:7. Based on the foregoing, we approve the Settlement Agreement.

We are nonetheless concerned about Liberty's failure to properly record entries regarding plant investment the various FERC accounts. We remind Liberty of its accounting obligations and we direct Staff to keep us informed of any issues related to improper accounting by the Company.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the Settlement Agreement filed on October 30, 2014, and signed by Liberty, the OCA and Staff, regarding the results of Staff's audit as well as the resulting rates are hereby APPROVED; and it is

FURTHER ORDERED, that Pursuant to the Settlement Agreement, Liberty shall rebate the over-collections related to its step adjustment and rate expense beginning with rates effective December 1, 2014; and it is

FURTHER ORDERED, that Liberty shall file a tariff conforming to this order pursuant to New Hampshire Code Admin. Rules Puc 1600.

By order of the Public Utilities Commission of New Hampshire this twenty-sixth day of November, 2014.

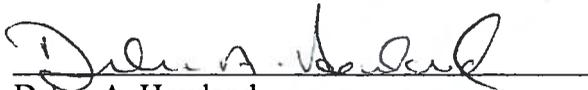


Robert R. Scott
Commissioner



Martin P. Honigberg
Commissioner

Attested by:



Debra A. Howland
Executive Director