DE 13-063

Liberty Utilities

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August 5, 2014

NHPUC AUG06'14 AM10:46

Via First Class and Electronic Mail

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

Re: Docket No. DE 13-063: Granite State Electric Company Distribution Rate Case

Dear Ms. Howland:

On behalf of Liberty Utilities (Granite State Electric) Corp., I am writing in response to the July 29, 2014 memorandum from Staff in which the Staff recommends that the Commission order Liberty to reduce its current rate for the step increase and rate case expense approved in Order 25,638. The Company requests that the Commission hold a hearing on Staff's request prior to taking any action. The Company is confident that it will demonstrate that it is entitled to recover in rates the costs of the six projects in question, all of which have been in service since at least December 31, 2013.

The Staff's Audit Report confirms the Company's position. Page 4 of the Final Audit Report dated July 8, 2014 lists the projects and relevant dates as follows:

Project	**"In Service" per Engineering**	**PUC Audit noted charges continued through:**
Michael Ave Substation	6/2013	12/2013
1L4 Lebanon	3/2013	5/2013
Craft Hill	6/2013	12/2013
Hanover	5/2013	12/2013
Enfield	5/2014	12/2013
7L1 Line Regulator Upgrade	6/2013	3/2013
Michael Ave Gateway	6/2013	11/2013

As demonstrated by the Audit Report, in every case except the Enfield project[1], the facilities and equipment installed by the Company were in use and providing service to customers prior to December 31, 2013. The Audit Report criticizes the Company for continuing to accrue AFUDC for some of the projects beyond the date the projects went into service, itself a tacit acknowledgment by Audit Staff that the projects were, in fact, in service.

The Audit Report also notes that the Company provided Audit Staff with updated calculations of AFUDC that corrected the amount previously booked by removing all AFUDC that accrued subsequent to the in-service date of each project.

Despite the unequivocal evidence that the projects were used and useful prior to December 31, 2013, Staff has recommended that the projects not be allowed in rates because the accounting records stated that the projects were in the Construction Work in Progress account. Staff's position elevates form over substance, and is not supported by the law. RSA 378:30-a, "Public Utility Rate Base; Exclusions," provides as follows:

> "Public utility rates or charges shall not in any manner be based on the cost of construction work in progress. <u>At no time shall any rates or charges be based upon any costs associated with construction work if said construction work is not completed</u>. All costs of construction work in progress, including, but not limited to, any costs associated with constructing, owning, maintaining or financing construction work in progress, shall not be included in a utility's rate base nor be allowed as an expense for rate making purposes until, and not before, said construction project is <u>actually providing service to consumers</u>" (emphasis added).

The only prohibitions in the statute are that the costs of construction cannot be included in utility rate base if the construction work is not complete, and that the project is actually providing service to customers. All of the projects met both of these standards as of the data of commencement of cost recovery (April 1, 2014). There is nothing in the statute requiring that projects be booked in a certain fashion in order to obtain rate recovery. To remove these projects from the Company's authorized rates because they were in the wrong plant account would be legal error.

The Company would note that these projects in question had been left in the Construction Work in Progress (CWIP) account because although the projects were complete, the Company

[1]The Audit Report states that the Enfield project was placed in service in May 2014. The Company's engineers will testify that the Enfield project consisted of two phases and that the first phase of the project consisted of installing poles and conductor along approximately one third of the total 7.5 mile route. The first phase was placed in service on December 31, 2013 and was available to provide backup supply to customers in the Enfield area if a prolonged contingency, such as storm damage, was sustained on the existing supply line to Enfield.

had not received final invoices from all of the contractors working on the projects. The Company was attempting to act prudently and correctly by ensuring that, before the jobs were removed from CWIP, all costs incurred were properly recorded. In order to avoid this issue, utilities maintain an "Account 106 - Completed Construction not Classified" which is used to transfer all completed jobs so that late invoices can be charged to the job. Account 106 acts as a temporary holding account for capital projects until such time all relevant charges are recorded and the project can then be reclassified to individual Plant in Service accounts. The Company met with the Audit Staff on July 2, 2014 and explained that a modification to the Company's accounting system regarding Account 106 was in progress. Since meeting with the Audit Staff on this matter, the Company has established an Account 106 which should prevent this issue from recurring.

The Staff's July 29, 2014 memorandum also seems to call into question the total costs of the projects. As stated in the memorandum, "…the anticipated capital investments based on the order were $7,462,500, but Liberty could only verify $5,947,984." The fact of the matter is that there were no more costs to verify. The actual costs came in lower than the estimated costs and the explanations for the variances were provided to the Audit Staff and reproduced in Staff's memorandum.

The Audit Report states that "Audit Staff cannot and did not verify Liberty's claim that the remaining $5,270,157 of capital investments were in service by December 2013." Audit Staff's inability to verify that capital investments are in service appears to be based on their position that costs that are recorded in the CWIP account cannot be plant in service. In fact, the projects were indeed in service notwithstanding Audit Staff's inability to verify the data filed by the Company.

The Audit Report also notes that the Company spent less on rate case expense ($318,944) than the rate case expense cap ($390,000) established in DG 11-040. The Company would note that the Audit Staff verified that 100% of the rate expense submitted by the Company was supported by the Company's records. The Company agrees that the April 2014 rate surcharge should be reduced to reflect this actual amount of rate case expense.

The Company looks forward to presenting this matter to the Commission and appreciates its consideration of this request.

Very truly yours,

Sarah B. Knowlton

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cc: Service List