

STATE OF NEW HAMPSHIRE



PUBLIC UTILITIES COMMISSION

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April 10, 2015

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

NHPUC 10APR15pm1:05

Re: DG 15-083 Northern Utilities, Inc.  
Petition for Step 2 Distribution Rate Adjustment  
Staff Recommendation for Approval

Dear Ms. Howland:

Staff recommends Commission approval of the Northern Utilities, Inc. (Northern or the Company) petition, filed in the above-captioned docket, by order *nisi*. Staff, having reviewed the petition, is of the opinion that Northern has complied with the terms of the Settlement Agreement (Settlement) in Docket No. DG 13-086 regarding the Step 2 Distribution Rate Adjustment (Step Adjustment), as approved by Commission Order No. 25,653 (issued on April 21, 2014). A summary of the filing and Staff's review are provided below.

On February 27, 2015, in accordance with Commission Order No. 25,653 and the Settlement, Northern submitted a filing to the Commission requesting a step adjustment in its present rates which would result in a \$1,823,611, or 6.8%, increase in its annual distribution revenues. For a typical residential heating customer, based on monthly average usage for that customer class, the annual bill impact is an increase of \$43.57, or 3.1%.

The step increase is designed to recover the annual revenue requirement associated with the Company's capital investments in Eligible Facilities of up to \$12,000,000 (capped amount) during calendar year 2014. The filing requirements and calculation of the Step Adjustment are defined in the Settlement, which also included an illustration of the revenue requirement based on Northern's 2014 capital budget (\$9,435,353) and at the capped amount. The illustration at the capped amount produced a revenue requirement of \$1,856,455.<sup>1</sup> The Step Adjustment filing identifies \$13,684,364

<sup>1</sup> DG 13-086 Exhibit 3, Settlement Agreement Exhibit 4 (provided in "Attachments" section), page 3 of 4.

of eligible facilities as being placed in service during calendar year 2014 and uses the capped amount in calculating the revenue requirement of \$1,823,611.

The Settlement provides for recovery of 2014 capital investments in Eligible Facilities, with the revenue requirement to be determined by using a specific rate of return on investments tied to customer growth and recovery of depreciation and property tax expenses associated with the investments. Staff reviewed the filing, conducted discovery and performed an audit. Staff's findings regarding each of the components used in calculating the revenue requirement are as follows:

Eligible Facilities: Attachment 2 of the filing lists the Eligible Facilities projects that were closed to plant in 2014, totaling \$13,684,364, well in excess of the capped amount. The filing included all gas main extension projects, whereas the Settlement does not allow for recovery of gas main extension projects costing less than \$30,000 through the Step Adjustment. Removing the main extension projects costing less than \$30,000 reduces the total investment in eligible facilities by \$237,257, for a corrected total of \$13,411,107. The corrected investment is still well in excess of the capped amount used in calculating the revenue requirement and therefore has no impact on the proposed increase. Staff also reviewed the \$1,958,605 of 2014 eligible facilities comprised of main extension projects carried over from 2013 and placed in to service in 2014. Five projects were primarily responsible for the carry over and in response to Staff discovery, the Company explained why each of the projects was carried over. Staff also determined that the carry over in 2014 is consistent with project carry overs in other years.

Return on Investment: The Settlement provides for a return on equity (ROE) based on the customer growth in 2014 as measured by the number of customers added. Customer growth of 4 to 5 percent requires using an ROE of 9.50% in calculating the Step Adjustment revenue requirement, an ROE of 9.25% if growth is below 4 percent and an ROE of 9.75% if growth exceeds 5 percent. Customer growth in 2014 was 3.1% and the Company applied the required 9.25% ROE in calculating the revenue requirement. (Although the Company did not achieve the targeted growth as measured by customers added, weather-normalized therm sales did increase by 5.5% in 2014).

Depreciation: The Settlement provides for recovery of depreciation on eligible facilities up to the capped amount. Staff verified that depreciation rate used in calculating the revenue requirement was the weighted average of the depreciation rates applicable to the eligible facilities placed in service and that the deferred taxes related to the depreciation were correctly calculated and deducted from the capped amount.

Property Taxes: The Settlement provides for recovery of property taxes on eligible facilities up to the capped amount. Staff verified that weighted average tax rate of the

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Company's investment in the communities served and applicable tax rates were used in determining the property tax expense used to calculate the proposed revenue requirement.

In summary, in Staff's view, Northern has complied with the terms of the Settlement and is eligible for Commission approval of its proposed Step Adjustment. Please contact me if you have any questions regarding the filing or Staff's recommendation.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen P. Frink", with a long, sweeping horizontal line extending to the right.

Stephen P. Frink  
Assistant Director, Gas & Water Division

Cc; Service List

**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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**Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.**

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Docket #: 15-083-1      Printed: April 10, 2015

**FILING INSTRUCTIONS:**

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND  
EXECUTIVE DIRECTOR  
NHPUC  
21 S. FRUIT ST, SUITE 10  
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**