

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: February 14, 2019
AT (OFFICE): NHPUC

FROM: Stephen Frink, Director – Gas & Water Division ^{SAF}
Randall Knepper, Director – Safety Division *Randy Knepper*

SUBJECT: DG 11-040
Liberty Utilities (EnergyNorth)
Termination of Annual CIBS Rate Adjustments

TO: Commissioners
Docket File
Service List

SUMMARY OF STAFF RECOMMENDATION

Following the July 1, 2019 annual step adjustment for Liberty’s Bare Steel and Cast Iron (CIBS) replacement program investments and costs, future CIBS investments and costs should be recovered through the normal rate process and not through annual step adjustments. Staff believes that recovery under the CIBS program should be terminated but that Liberty should continue to replace cast iron and bare steel pipelines within its distribution systems under traditional rate recovery mechanisms.

BACKGROUND

Previous applicable Northern Utilities replacement programs

Order No. 20,546 (July 21, 1992) approved a settlement agreement between Staff and Northern Utilities, Inc. (Northern) which provided for annual step adjustments for certain defined investments related to Northern’s Bare Steel Replacement Program. The program was implemented in order to minimize active corrosion and gas leaks. The approved settlement agreement provided Staff the right to recommend, at any time after implementation of the initial step adjustment on November 1, 1992, that base rate treatment of bare steel investments be accomplished through a general rate case as opposed to step adjustments.

Order No. 23,576 (October 30, 2000) approved a settlement agreement between Staff and Northern which provided for one additional Bare Steel Replacement Program step adjustment. The settlement agreement stated that there had been a significant improvement in corrosion leaks and the possibility of a Northern general rate case proceeding in 2001. Based upon its review of the record, the Commission found as follows:

“...the replacement program was implemented in order to minimize active corrosion and gas leaks and has accomplished those objectives. As the magnitude of the problem has decreased, the risk to public safety has been substantially reduced and the program design and cost should be continually reevaluated in the light of these objectives and results. Accordingly, we direct Staff to monitor Northern’s activities with regard to bare steel replacement activities and advise the Commission periodically of the status of replacement.

While the investments under this program have been prudent, we find that the factors which contributed to our approval of the step adjustment in Docket DR 91-081 have been minimized and we approve this step adjustment as the last step adjustment...”¹

Northern completed its bare steel replacement program in 2018.

Current EnergyNorth Natural Gas (Liberty) replacement program

Order No. 24,777 (July 12, 2007) approved a settlement agreement establishing a CIBS program for EnergyNorth Natural Gas, Inc., d/b/a National Grid NH (National Grid NH), to accelerate the replacement of cast iron and bare steel pipes as those pipes were determined to be the ones most likely to leak or fail.

Order No. 24,996 (July 31, 2009) approved a settlement agreement on the amount of the initial CIBS step adjustments and further defined CIBS replacement program terms and conditions. In approving the settlement, the Commissioners noted that the CIBS program is important for ensuring safe and reliable service of natural gas in New Hampshire, as the Company is able to remove from service those pipes most likely to endanger public safety by leaking or failing, while permitting the Company the ability to recover the reasonable costs of replacing pipe without being subject to the degree of regulatory lag often associated with the replacement of such assets.

Order No. 25,370 (May 30, 2012) approved a settlement agreement in which Liberty acquired the National Grid NH operations and continuation of the CIBS program, with revised terms and conditions, including a provision that the CIBS Program would continue until terminated by the Commission or by mutual agreement at the end of a construction year.²

In testimony submitted in 2018 in Docket DG 18-064, Staff raised for consideration the possibility of terminating or suspending the CIBS program.

¹ *Northern Utilities, Inc.*, Order No. 23,576 at 9 (October 30, 2000) (approving bare steel step adjustment and settlement agreement). During the period of 1990 through 1999, Northern replaced nearly one-half of its bare steel mains under the CIBS program, and the number of corrosion leaks declined from 174 in 1990 to 45 in 1999.

² DG 11-040 Settlement Agreement, Attachment J, Section 1, item 20, subsection (i). Bates page 527.

In a letter to Liberty dated June 22, 2018, Staff requested a technical session be held in late summer 2018 to conduct an examination of the effectiveness of the CIBS program and whether the basis of the current program warrants review.

On August 8, 2018, members of Staff, the Office of the Consumer Advocate (OCA) and Liberty met in a technical session to consider the impacts of altering or terminating the CIBS Program. At the technical session, Staff informed Liberty that it supported a step adjustment in 2019 for qualifying CIBS investments made during the CIBS 2019 Fiscal Year (FY) (April 1, 2018 to March 31, 2019) but opposed further CIBS step adjustments.

On January 10, 2019, Liberty provided Staff with its CIBS replacement program plan for FY 2020 (April 1, 2019 to March 31, 2020). The plan proposal provides for the replacement of 12.7 miles of pipe at an estimated cost of \$18.4 million and includes a proposal to spend \$5.1 million to complete prior year CIBS projects, resulting in total projected CIBS spending of \$23.5 million in CIBS FY 2020.

STAFF FINDINGS

In Docket DR 91-081 (Northern petition for a permanent rate increase), Staff testified that the replacement of bare steel on the Northern system would take years and a substantial investment by the Company, and therefore recommended the use of annual step adjustments to ensure the bare steel was replaced promptly and to reduce the regulatory expense of annual rate increase requests. In that docket, the Commission approved a settlement providing for bare steel replacement step adjustments. Annual step adjustments were approved from 1992 through 2000 and Northern did not file a general rate case during that period. In anticipation of Northern filing a general rate case in 2001, Staff and Northern entered into a settlement agreement for one final step adjustment in 2000. The Commission approved the settlement (Order No. 23,576) and Northern filed for a general rate increase in 2001 (Docket DG 01-182). The Northern Bare Steel Replacement Program, which commenced in 1990, was completed in 2018.

The Liberty CIBS replacement program that provides for recovery of qualifying costs through annual step adjustments was first approved in 2007. There have been annual CIBS step adjustments from 2009 through 2018, under both Liberty and its predecessor, National Grid. Liberty made its first CIBS step adjustment filing in 2013 (Docket DG 13-149) and has testified that its goal is to replace all cast iron and bare steel pipes by the end of 2024.³ The results of the current CIBS replacement program are provided in ATTACHMENT 1.⁴

In addition to the annual CIBS rate adjustments from 2009 through 2018, there have been three other adjustments to base rates resulting from general rate filings (Dockets DG 10-009, DG 14-180, and DG 17-048). Liberty intends to file a general rate case in 2020.

³ Docket DG 14-041, Order No. 25,684 (June 27, 2014) at 3 (approving revised distribution rates).

⁴ Docket DG 18-064, Exhibit 2, Revised Attachment DBS/CAM-1, page 1 of 4 (Bates page 58R) and page 4 of 4 (Bates page 61R).

Liberty has seen a significant reduction in outstanding leaks. Since reporting 1,445 outstanding leaks in March 2011, Liberty has seen a steady decline in leaks and reported only 50 outstanding leaks in November 2018, 49 of which were classified as Class III (non-hazardous) leaks.⁵ A summary of reported leaks is provided in ATTACHMENT 2.

STAFF RECOMMENDATIONS

The Commission should allow recovery of qualifying capital costs spent in CIBS FY2019 to replace cast iron and bare steel pipes through a final step adjustment effective July 1, 2019, at which time the CIBS program approved for Liberty in Order No. 25,370 should be terminated. Although Liberty's CIBS replacement should continue as part of the Company's normal course of business, its capital spending on CIBS replacements beyond March 31, 2019, should be addressed through general rate proceedings and traditional rate recovery mechanisms, rather than through annual step adjustments, for the reasons stated below.

Following the 2019 CIBS step adjustment, further CIBS annual step adjustments should be discontinued for the following reasons:

- Public safety risks due to leaks and pipe failures have been substantially reduced, as evidenced by a significant decline in system leaks.
- Regulatory burden and expense will be reduced by eliminating CIBS annual step adjustments.
- Recovery of CIBS qualifying costs for 2019-2020 will be achieved through Liberty's anticipated 2020 rate proceeding causing minimal delay in cost recovery.
- Administrative efficiency will be gained by addressing 2019-2020 CIBS spending as part of Liberty's 2020 rate proceeding.
- Discontinuation of Liberty's CIBS program is consistent with the Commission's decision in Order No. 23,576 to discontinue step adjustments through Northern's Bare Steel Replacement Program due to reduced leaks and a similarly anticipated general rate filing.

Staff believes that now is the most opportune time to terminate the program, prior to the start of an upcoming construction season combined with the coalescing of eligible cost recovery of incurred expenditures with an expected rate case filing in 2020 that will effectively eliminate the regulatory burden that occurs due to the continual need for annual examination of Liberty's CIBS performance through the CIBS accelerated recovery program.

Under the terms of CIBS settlement agreement reached in Docket DG 11-040, the CIBS program can be terminated by the Commission or by mutual agreement. The Office of the Consumer Advocate supports Staff's recommendation to terminate the CIBS

⁵ A Class III leak is a leak that is non-hazardous at the time of detection and can be reasonably expected to remain non-hazardous but must be surveyed and re-evaluated at least once per calendar year (Puc 508.04(m)(3)).

program. Liberty has informed Staff that it does not agree that the CIBS program should be terminated.

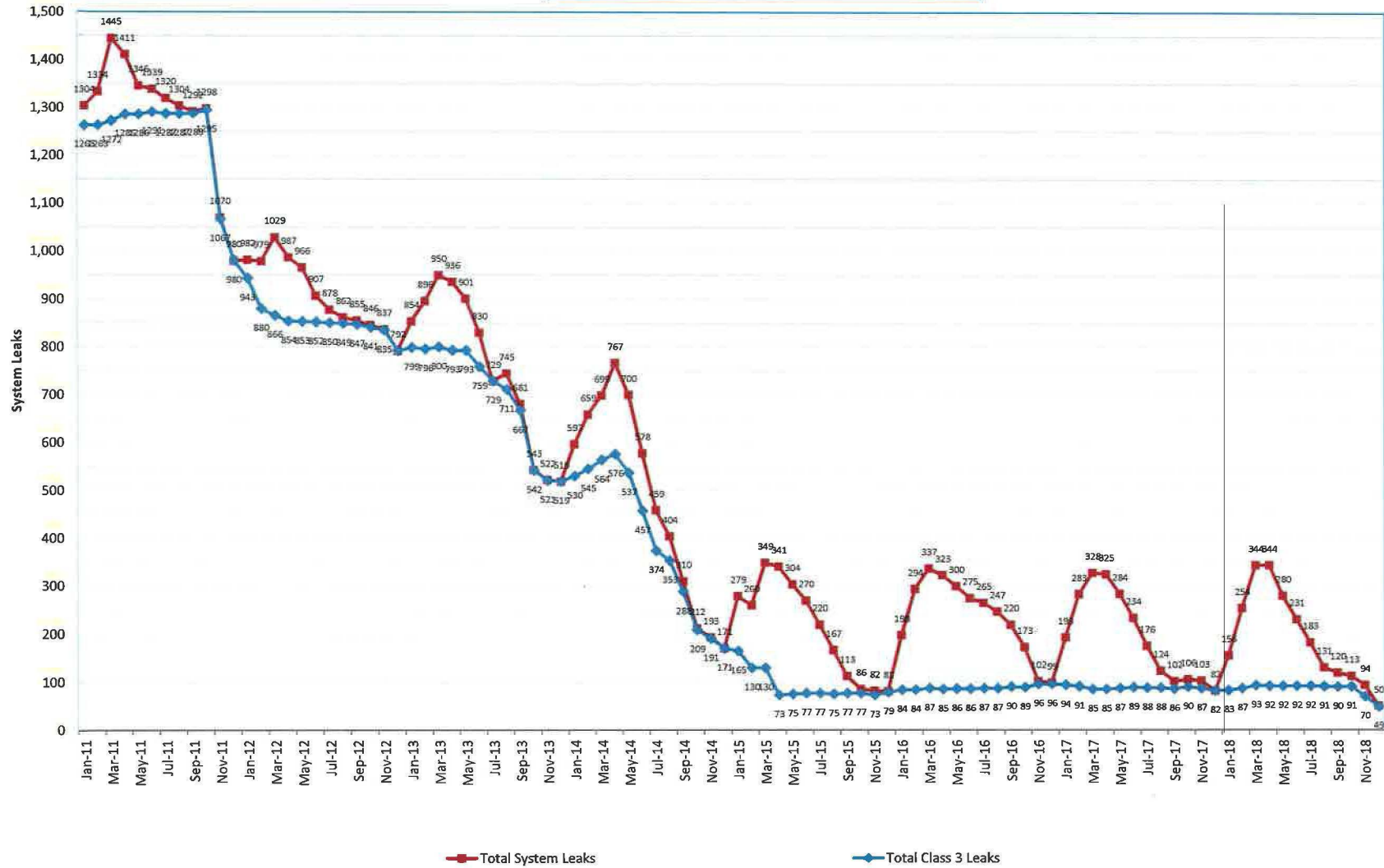
The Commission should issue a secretarial letter opening the CIBS FY 2019 docket at this time and require Liberty to file preliminary CIBS FY 2019 replacement program results no later than March 15, 2019, and respond to Staff's findings and recommendation in its preliminary filing.

Following Liberty's filing of its preliminary CIBS FY 2019 results, an order of notice should be issued to schedule a prehearing conference on the proposed rate change and Staff's proposal to discontinue annual CIBS adjustments. An updated CIBS FY 2019 replacement program filing should be made no later than April 15, 2019.

Liberty Utilities (EnergyNorth Natural Gas) Corp.
Cast Iron/Bare Steel Replacement Program Results
Source: DG 18-064 Exhibit No. 2

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	
	Actual	July 1, 2009 through March 31, 2010 9 Months	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Estimate	
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	
<u>Incremental Investment</u>												
1	CIBS Program Actual Spend-Mains	1,736,153	4,049,995	3,391,069	1,570,208	2,174,813	2,781,140	3,006,856	3,304,532	5,204,619	\$8,858,559	-
2	CIBS Program Actual Spend-Service	729,463	798,555	668,631	352,005	161,352	370,655	776,086	705,984	1,209,322	\$1,389,222	-
3	CIBS Program Estimated Spend-Mains											12,130,000
4	CIBS Program Estimated Spend-Service											3,000,000
5	Base Spending Amount	500,000	482,110	500,000	500,000	500,000	500,000	506,240	514,244	520,965	527,275	527,275
6	Incremental Amount	1,965,616	4,366,440	3,559,700	1,422,213	1,836,165	2,651,795	3,276,702	3,496,272	5,892,976	9,720,506	14,602,725
7	Cumulative CIBS Program Spend Since July 1, 2009		4,366,440	7,926,140	9,348,353	11,184,518	13,836,312	17,113,015	20,609,287	26,502,263	36,222,769	50,825,494
8												
29	<u>Revenue Requirement Calculation</u>											
30	Year End Rate Base	1,517,779	2,537,969	4,548,272	5,267,951	6,211,273	7,627,082	9,469,924	11,301,006	14,497,173	20,977,200	33,730,743
31	Pre-Tax ROR	11.53%	11.53%	11.63%	11.63%	11.63%	11.50%	10.22%	9.87%	9.87%	8.51%	8.51%
32	Return and Taxes	175,003	292,628	528,964	612,663	722,371	877,114	967,826	1,115,409	1,430,871	1,785,160	2,870,486
33	Book Depreciation	49,836	98,794	179,335	212,059	249,951	307,352	384,247	464,177	600,433	814,476	1,155,761
34	Property Taxes 2.80%	37,347	88,340	194,259	231,198	241,265	359,366	503,369	490,290	727,379	921,535	1,298,049
35	Annual Revenue Requirement	262,185	479,762	902,558	1,055,920	1,213,587	1,543,832	1,855,442	2,069,876	2,758,683	3,521,171	5,324,296
36												
37	Prior Year Annual Revenue Require	-	-	479,762	902,558	1,055,920	1,213,587	1,543,832	1,855,442	2,069,876	2,758,683	3,521,171
38												
39	Incremental Annual Rate Adjustmen	262,185	479,762	422,796	153,362	157,667	330,245	311,610	214,434	688,807	762,488	1,803,126
40												
41												
42												
43	<u>Miles of Cast Iron/Bare Steel Main Replaced through CIBS</u>											
44	Annual	2.96	3.98	2.79	1.56	1.65	3.51	5.00	5.05	10.26	11.58	13.83
45	Cumulative	2.96	6.94	9.73	11.29	12.94	16.45	21.45	26.50	36.76	48.34	62.17
46												
42	Total Remaining	149.8	142	137.40	132.10	126.30	120.88	113.96	106.46	93.18	78.65	63.65
43												
44	Services Replaced											
45	Annual	101	127	282	81	84	174	316	291	572	584	1,042
46	Cumulative	101	228	510	591	675	849	1,165	1,456	2,028	2,612	3,654

Liberty Utilities Natural Gas Leak Data



The monthly leak monitoring data shown was provided by Liberty as required by Puc 509.15.

Prepared by PUC 1/16/19

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

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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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.**