



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DE 19-064

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

REBUTTAL TESTIMONY

OF

ANTHONY STRABONE

AND

HEATHER M. TEBBETTS

January 30, 2020

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1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. Mr. Strabone, please introduce yourself.**

3 A. My name is Anthony Strabone, my business address is 9 Lowell Road, Salem, New
4 Hampshire, and I am employed by Liberty Utilities Service Corp. I am the Manager of
5 Electrical Engineering for Liberty and I am responsible for the electric capital work plan
6 whereby I manage engineering and construction resources for capital projects. Please see
7 the Direct Testimony of Joel Rivera, Anthony Strabone, and Heather M. Tebbetts, filed
8 April 30, 2019, for a description of my educational background and work experience.

9 **Q. Ms. Tebbetts, please state your full name, business address, and position.**

10 A. My name is Heather M. Tebbetts, my business address is 15 Buttrick Road, Londonderry,
11 New Hampshire, and I am employed by Liberty Utilities Service Corp. I am Manager of
12 Rates and Regulatory Affairs and am responsible for providing rate-related services for
13 the Company. Please see the Direct Testimony of Joel Rivera, Anthony Strabone, and
14 Heather M. Tebbetts, filed April 30, 2019, for a description of my educational
15 background and work experience.

16 **II. PURPOSE OF TESTIMONY**

17 **Q. What is the purpose of your testimony?**

18 A. Our testimony is provided in rebuttal to the testimony of Staff witnesses Jay E. Dudley
19 and Kurt Demmer related to cost recovery of various capital projects and step
20 adjustments for capital investments in 2019 and beyond. Specifically, we address

1 Messrs. Dudley and Demmer's recommendations that the Commission disallow
2 approximately \$6 million of capital project spending that occurred during 2017 and 2018.

3 **III. CAPITAL PROJECTS**

4 **Q. Has Staff recommended any disallowance of projects included in the Company's**
5 **proposed revenue requirement?**

6 A. Yes, Staff has recommended exclusion of approximately \$6 million in capital project
7 spending, which are described further in this testimony.

8 **Q. Please explain, by project, why Staff's recommended disallowances are not**
9 **appropriate.**

10 A. Staff witness Dudley seeks to disallow the costs for the projects listed below for what he
11 refers to as either an alleged lack of documentation or other reasons as will be described
12 below.¹ However, the record shows that the Company provided the necessary
13 documentation to support recovery of these project costs. In addition, some of the
14 recommended cost disallowances are for projects that were not yet in service at the end of
15 2018 and, therefore, are not included in rate base or the Company's proposed revenue
16 requirement, rendering Staff's recommended reduction wholly inappropriate for those
17 cost amounts. For all of the reasons discussed herein, the recommended reductions
18 should be rejected by the Commission as unwarranted.

¹ December 6, 2019, Direct Testimony of Jay E. Dudley at Bates 000060.

<u>Project No.</u>	<u>Description</u>	<u>Year</u>	<u>Amount</u>
8830-1832	Replace 6L2 No. Main Hanover	2018	\$ 1,070,593
8830-C42930	Install Service to Tuscan Village	2018	\$ 674,260
8830-C18620	Charlestown 32 Dline	2018	\$ 104,750
8830-1830	Misc. Capital Imprv. Londonderry	2018	\$ 25,649
8830-1865	Rockingham Sub Transmission**	2018	\$ 575,354
8830-1866	Salem Depot Feeder Getaways	2018	\$ 1,356,000
8830-1845	Golden Rock Dist. Feeders	2018	\$ 16,978
8830-1744	Golden Rock Substation	2018	\$ 309,324
8830-CD0291	Sky View URD	2017	\$ 49,394
8830-C18620	Charlestown 32 Dline	2017	\$ 183,289
8830-C36424	Mt. Support New 16L3 Feeder	2017	\$ 467,937
8830-C36425	Mt. Support New 16L5 Feeder	2017	\$ 555,143
8830-1867	Rockingham Sub Transmission	2017	\$ 175,504
8830-C42921	Install Splices 6L2 & 6L4	2017	\$ 203,305
Total			\$ 5,767,480

Bates 000060 of Mr. Dudley's testimony: ***Note: The total cost for the land purchase associated with Project #8830-1864 Rockingham Substation in the amount \$1,568,870 is not included above. This amount is not currently in rate base but instead is posted on Liberty's books as "Plant held for future use." As discussed in Section V. above, Staff recommends that the Commission disallow the expenditure.* The Company includes this project in its discussion below.

Each of these capital projects is discussed below.

8830-1832 – Replace 6L2 No. Main Hanover

Mr. Dudley recommends disallowance of the costs for this project on the basis that: (1) the Company allegedly could not provide instances of failures of the cross-linked polyethylene ("XLPE") aluminum cables elsewhere; (2) the Company did not provide specific documentation evidencing failure in the Company's service territory; and (3) there are alleged defects in the 2018 business case, including that the business case was signed and dated in 2017. He also claims that there was not a need to replace these cables. However, none of these claims are correct or warranted.

1 First, Attachment ST-1 provides a history of failures since 2009 for different mainline
2 primary underground cables. The 14L1, 14L2, 14L3, 13L2, 6L2, and 10L2 feeders were
3 1970s vintage, direct buried XLPE cable, known to be prone to electrical tree growth and
4 to fail prematurely. The cables had previously failed — some on more than one
5 occasion. Also, the Company replaced the Salem Depot underground cables because the
6 cables were direct buried XLPE cables that will be repurposed as underground getaway
7 cables for the new Rockingham Substation. The Pelham Substation underground cables
8 were replaced as part of the substation upgrade project. Attachment ST-2 provides a
9 summary of some of the problems experienced with the Company’s direct buried XLPE
10 cables. Moreover, these are the mainline exit cables for the feeders leaving a substation.
11 Therefore, it is not considered acceptable practice for Liberty to subject customers to the
12 repeated risk of cable failures and outages for the entire feeder. Attachment ST-3
13 provides additional details regarding replacement of the Hanover 6L2 cables.
14 Replacement of the 13L2 cable getaways is still pending.

15 Second, there is no “imprudence” conclusion whatsoever that can reasonably be drawn
16 from the fact that the business case for a 2018 project was signed in 2017. Without more
17 specific reasoning, detail, or demonstration regarding an unreasonable action taken by the
18 Company, such a claim of imprudence is completely unsubstantiated.

19 Third, Mr. Dudley has not explained or demonstrated reasoned justification describing
20 why a particular cable should or should not be replaced from an engineering perspective,
21 which is the perspective that is embedded in the Company’s entire capital planning effort.

1 A challenge to the Company's replacement decisions must arise from or relate to the
2 engineering basis for the replacement. If the Company's replacement decision can be
3 invalidated without reference to any engineering analysis or justification, then the
4 Company is constrained from moving forward *with any project* on the basis of
5 engineering judgment, which would paralyze the electric system.

6 Conversely, the Company has demonstrated the prudence of the project and none of Mr.
7 Dudley's claims undermine this showing. By way of background, Dartmouth College
8 was combining its north and west campuses and installing its own connections in the
9 area. The Company worked with the College and the Town of Hanover to replace this
10 cable as it was 1970s vintage, prone to failure, and provides the backup supply to
11 Dartmouth's north and west campuses. This cable is a significantly important piece of
12 the Company's infrastructure in Hanover.

13 Due to the significant costs of paving, it made sense for the Company to replace the cable
14 prior to the College completing its work, which saved paving costs and continued to
15 provide safe and reliable service to the campus without placing the vintage cables at risk
16 of failure in the near future. The Company eliminated a second stage of the project slated
17 to be completed in 2018 on Maynard Street in Hanover because neither the town nor the
18 College were working in the area. The Company would have incurred substantial paving
19 and other road-related costs if it performed the work without others sharing the costs of
20 working in the street at the same time. Thus, the Company canceled the second phase of

1 the project and shifted the dollars slated for that phase of the project to the initial phase 1
2 of the project.

3 Lastly, it should be noted that, in September 2019, there was a failure on the same cable
4 further down Maynard Street, which then required the Company to splice and make
5 repairs to the cable until phase 2 is undertaken. The fact that this very same cable failed
6 is complete affirmation that the Company's concerns about the cable were valid and that
7 its replacement was prudent.

8 **8830-C18620 Charlestown 32 Dline**

9 Mr. Dudley cited a documentation deficiency as the basis for his recommendation to
10 disallow the costs of this project. As explained below, Mr. Dudley has an incorrect view
11 as to whether a 2018 business case was required for this project.

12 The Company provided explanations for the increased cost of the project. In 2017, the
13 business case noted an estimate of \$316,992, which was generated using our internal
14 estimating tool. The final bids from contractors came in higher than expected and, thus,
15 the total project cost was higher due to no fault of the Company. The project close-out
16 form and change order form, which were both provided to Staff, provided the explanation
17 for the higher costs. That is, the 2018 costs were associated with materials for the project
18 charged in 2018, rather than in 2017, although the project went into service in 2017. As
19 such, a 2018 business case was not required for the 2018 costs because the project was
20 completed. The 2018 project close-out form was provided to Staff. Under these

1 circumstances, there was no unreasonable action taken by the Company and no
2 foundation for a finding of “imprudence” and associated cost disallowance.

3 **8830-C42930 Install Service to Tuscan Village**

4 Mr. Dudley again cited a documentation deficiency related to this project.

5 The original budget for this project as provided in the 2018 business case was \$900,000,
6 which matches the amount shown on the 2018 E-22 form filed with the Commission.

7 The final project close-out form shows the total actual cost was **under budget** by
8 \$225,739.88. The Company explained during a technical session that the amount shown
9 in its attachment to a discovery response (Attachment Staff 1-2.xlsx) should have shown
10 \$900,000, not \$400,000, but nevertheless Staff disregarded this clerical error and
11 included this project in its list of project costs to be disallowed. Again, without an
12 unreasonable action taken by the Company, there is no valid claim of “imprudence” and
13 cost disallowance.

14 **8830-1830 Misc. Capital Imprv. Londonderry**

15 Mr. Dudley cites a lack of change orders related to this project. As provided in the
16 Company’s response to Staff TS 1-14, the original budget was a place holder for projects
17 that have the potential to arise during the year. Change order forms were not required for
18 this project number because the project scope did not change. That is, the capital
19 expenditure form attached to the business case describes the project as being for
20 improvements to the location that may include work on the building and/or systems
21 required to operate the Londonderry facilities. The LU Capital Expenditure Planning and

1 Management Policy effective October 23, 2018, Section 6.3 Change Orders, requires a
2 change order when the spend change is due to a factor outside of the original scope of
3 work. These work orders were within the scope of work, and thus *no change orders were*
4 *required.*

5 **8830-1866 – Salem Depot Feeder Getaways**

6 Staff's testimony states that this project should be disallowed because the getaway cables
7 cannot be repurposed once Rockingham Substation is in service. However, this is a
8 matter of engineering analysis and judgment, which Mr. Dudley has not refuted.

9 More specifically, Mr. Dudley's observation is incorrect as these feeders will be
10 repurposed to be the main line out of Rockingham Substation because the end point of
11 the feeders is in Tuscan Village. For the 9L2 feeder, 1020 feet were installed and 180
12 feet will be retired, leaving 840 feet (82%) in service. For the 9L3 feeder, 1395 feet were
13 installed and 200 feet will be retired once Rockingham Substation is built, leaving 1195
14 feet (or 85%) in service. The Company chose to complete this project now, rather than
15 wait until Rockingham Substation was built, because gas and water services are to be
16 installed in the area and it was most cost effective for Liberty to install these cables when
17 the road was open, thus saving substantially on road restoration and paving costs, even
18 though very small sections would need to be retired once the new substation was built.
19 Mr. Dudley has not demonstrated that any action taken by the Company was
20 unreasonable or unwarranted.

1 Mr. Dudley also notes in his testimony that this capital investment was not included in
2 the list of capital projects in the 2018 budget. As described in Ms. Fleck's testimony, and
3 as mentioned above in relation to the Maynard Street project in Hanover, the Company
4 occasionally has projects that arise during the year on an unexpected basis, requiring a
5 decision to reduce or cancel other projects to obtain funding within budget parameters.
6 Though this particular project was not in the original 2018 budget, it was included in the
7 budget in June 2018, which was provided to Staff in a response to a data request
8 (Attachment Staff 9-3.9.xlsx). To fund this project in 2018, the following projects were
9 canceled or reduced in scope, for a total reallocation of \$1,130,000 used to fund
10 the Salem Depot feeder getaways project:

- 11 • 8830-1856 Install 13L3-9L3 Feeder Tie: \$180,000
- 12 • 8830-1841 Feeder Getaway Cable Replacement: \$250,000
- 13 • 8830-1839 IE-NN URD Cable Replacement: \$500,000
- 14 • 8830-1849 NN ERR/Pockets of Poor Perf: \$100,000
- 15 • 8830-1842 Amerductor Replacement Program: \$100,000

16 **8830-CD0291 – Sky View URD**

17 Staff contends that it was not provided the data for the customer's Contributions in Aid of
18 Construction (CIAC) and the breakdown of the work orders associated with the project,
19 and thus concluded that the project costs should be disallowed. In fact, the Company *did*
20 provide the information to Staff on November 5, 2019; however, it appears that a file
21 handling issue occurred on Staff's end. The Company was unaware that Staff could not
22 locate the response until Staff so advised the Company during the January 14, 2020,
23 technical session. This issue would have been avoided had Staff earlier notified the

1 Company of not having Attachment Staff TS 2-10. The Company immediately provided
2 the subject discovery response and attachment during the technical session. Immediately
3 following the January 14, 2020, technical session, the Company also provided Staff with
4 proof that the Company had timely uploaded the discovery response to the Staff's
5 discovery site on November 5, 2019. The Company does not know what may have
6 happened with the files after they were uploaded to the Commission's site, but certainly
7 no penalty is warranted for these circumstances.

8 Given that that the supporting documentation exists and was properly provided to Staff,
9 and Staff has the necessary information, Staff's recommendation to disallow the costs
10 related to this project is unwarranted.

11 **8830-C36424 – Mt. Support New 16L3 Feeder/8830-C36425 – Mt. Support New**
12 **16L5 Feeder**

13 Although it is not clear in Mr. Dudley's testimony, it appears he is recommending
14 disallowance of the costs of these feeder projects due to alleged documentation
15 deficiencies. As discussed with Staff during the 2016 rate case proceedings, the
16 Company provided justification for the Mt. Support feeders as the feeders were
17 recommended in the Lebanon Area Study Report. Pages 4 and 5 of the Study discuss the
18 area problems that are addressed by the study recommendation, including the installation
19 of two additional feeders at Mt. Support substation. The additional feeder capacity
20 provided by the project is one of the key solutions to a number of operating problems that
21 occur under normal and emergency conditions. System redundancy is the primary driver

1 of the project as reflected in the Lebanon Area Study. However, system redundancy
2 provides other planning, operations, and maintenance flexibilities including reduction of
3 customers exposed to a single contingency, flexibility of system maintenance requiring
4 circuit outages, and speed of outage restoration. The solutions recommended in the study
5 would not be possible without the additional feeder capacity.²

6 Mr. Dudley does not challenge the engineering conclusions of the study, which have to
7 be addressed by the Company. Mr. Dudley has made no connection between the alleged
8 documentation “deficiency” and the execution of the project for it to be “imprudent” and
9 warranting cost disallowance. Without such a connection, any alleged concern about a
10 documentation deficiency related to this project has no impact on the necessity for the
11 project, nor the Company’s prudent execution of the project construction and completion.

12 **8830-C42921 – Install Splices 6L2 & 6L4**

13 Mr. Demmer’s testimony argues that the splices should not have been capitalized because
14 it is his opinion that the splices do not extend the life of the cables. However, there have
15 been seven reported lockouts on Hanover Substation feeders due to failures on
16 underground equipment. The history of outages, condition of equipment, and issues with
17 workmanship have led the Company to replace XLPE direct buried underground cables
18 on the 6L2 and splices on the 6L2/6L4. Attachment ST-1 provides a history of the
19 outages. In response to Staff TS 2-9, the Company provided the accounting backup for
20 these types of devices. Accordingly, the Company has correctly capitalized the cost of

² DE 16-383 Distribution Service Rate Case, Staff Data Requests – Set 4, Response to Staff 4-26.

1 these installations and Mr. Dudley has not provided any facts or documentation
2 substantiating his assertion that the splices do not extend the life of the cable. It is not
3 sufficient for the claim to be alleged. To support cost disallowance, the claim must be
4 substantiated with facts, engineering expertise, or other documentation.

5 **8830-1845 – Golden Rock Dist. Feeders/8830-1744 – Golden Rock Substation**

6 Staff's testimony recommended that the costs related to this project should be disallowed
7 because, in Staff's view, the project was unnecessary. However, this project is not yet in
8 service and is not included in the Company's proposed rate base or associated revenue
9 requirement. Liberty understands that Staff now agrees its recommendation on this topic
10 is without merit. These projects were placed in service in 2019, which is part of the
11 request for the 2019 step adjustment.

12 **8830-1864 – Rockingham Substation**

13 Staff testified that the Company's purchase of a parcel of land within the Tuscan
14 development to locate the Rockingham Substation was imprudent. The costs associated
15 with this purchase are not part of this rate case as the Rockingham Substation has not
16 been built and is not in service. The Company will present, in its next rate case, evidence
17 showing that the Company evaluated other sites for the Rockingham substation and that
18 its selection of this particular site was prudent.

19 **8830-1865/1867 - Rockingham Sub Transmission (2017 & 2018)**

20 This is another project that is not in rate base as the line has not been built. The project is
21 only in the engineering phase. Mr. Dudley's reduction of rate base for the costs of this

1 project is thus improper. Although Staff testified as to its views regarding the necessity
2 of the project, those costs are not presented in this case for review.

3 **IV. STEP ADJUSTMENT/MULTI-YEAR RATE PLAN (MYRP)**

4 **Q. What is Staff's position regarding the Company's proposed Multi-Year Rate Plan?**

5 A. Staff contends the 2019 step adjustment is inappropriate because they have not had the
6 chance to review the 2019 projects since, at the time of Staff's testimony, the calendar
7 year 2019 had not ended and thus final amounts for projects in service at the end of 2019
8 were not available. Staff also contends there was not enough time for an audit prior to
9 the end of this case. Further, Staff opposes the Company's proposed MYRP including
10 future step adjustments.

11 **Q. Does the Company agree with Staff's position?**

12 A. No. Staff does not agree with MYRPs and does not explain why MYRPs would be
13 detrimental to ratepayers' interests. Step adjustments are key components of multi-year
14 rate plans and provide utilities with the financial flexibility to do necessary and
15 significant plant construction beyond the rate year without the need to file for an
16 immediate base rate increase. Customers benefit in many ways too. Multi-year rate
17 plans provide customers with rate stability and predictability. Multi-year rate plans avoid
18 rate shock by providing for smaller annual increases rather than larger increases at greater
19 intervals. They also keep costs down by delaying or avoiding resource intensive base
20 rate reviews. The Commission retains its full authority to review capital projects for
21 prudence and, by reviewing projects annually, can complete its review more quickly.

1 Customers are protected because recovery is permitted only after the respective projects
2 have been placed into service and are used and useful.

3 **Q. Have there been other rate cases where the Staff has agreed to step increases for**
4 **capital projects that were completed during the pendency of the rate case?**

5 A. Yes, in the Company's prior rate case (Docket No. DE 16-383, which used a 2015 test
6 year), the Commission approved a Settlement Agreement that provided for recovery of
7 certain capital investments put into service over each of the three years following the test
8 year. *See* Orders No. 26,005 (Apr. 21, 2017), No. 26,141 (June 1, 2018), and No. 26,424
9 (Apr. 30, 2019). The Commission reviewed the Company's targeted investments and
10 held an abbreviated proceeding prior to authorizing the Company to increase rates to
11 recover its prudently incurred costs.

12 **Q. As a general premise, has the Commission supported step increases as part of**
13 **MYRPs in other situations?**

14 A. Yes. There are numerous examples. There is recent precedent for MYRPs in New
15 Hampshire for both of the other electric distribution utilities regulated by the
16 Commission.³ The Commission approved a MYRP for Public Service Company of New
17 Hampshire in Docket No. DE 09-035 for an annual change to rate levels to recover 80%
18 of changes to non-REP net plant for 2011, 2012, and 2013. Order No. 25,123 (June 28,
19 2010).

³ See the Rebuttal Testimony of Steven E. Mullen for additional information on MYRPs approved in New Hampshire.

1 The Commission approved a similar plan for Unitil in Docket No. 16-384. *See* Order No.
2 26,007 at 8 (Apr. 20, 2017) (“The [second] step adjustment will be for the revenue
3 requirement associated with 80 percent of changes in Net Plant in Service made in
4 calendar year 2017. Similarly, the 2019 Step Adjustment will recover no more than 80
5 percent of changes in Net Plant in Service made in calendar year 2018. The sum of the
6 2017, 2018, and 2019 Step Adjustments will not exceed \$4.5 million.”). The order
7 established a process to implement these step increases,⁴ and contained a “stay out”
8 provision and an earnings sharing mechanism to protect customers. The Company is
9 open to discussing those provisions and other potential terms as part of a MYRP.

10 These and similar MYRPs have been the norm in New Hampshire over the past 20 years.
11 *See* Rebuttal Testimony of Steven E. Mullen.

12 **Q. Did the OCA’s consultant Mr. Nelson also reject a MYRP for Liberty beyond 2019?**

13 A. Yes. Mr. Nelson stated in his testimony that a MYRP “beyond 2019 is a significant
14 regulatory change.” As provided in April 30, 2019, joint Direct Testimony of Joel
15 Rivera, Anthony Strabone, and Heather Tebbetts, in the Rebuttal Testimony of Mr.

⁴ For each of the Step Adjustments, Unitil will submit compliance filings on the last day of February of 2017, 2018, and 2019. The compliance filing for the Step Adjustment to be effective with rates on May 1, 2017, in the amount of \$900,194 is shown in Attachment 1 to the Settlement Agreement. The step adjustment will recover the distribution revenue requirement associated with 80 percent of the annual change in Net Plant in Service.² The Step Adjustment revenue will be the sum of (1) the Pre-Tax Rate of Return applied to the annual change in Net Plant in Service, multiplied by the factor of 80 percent; (2) Depreciation expense on annual Plant Additions multiplied by the factor of 80 percent; and (3) property taxes on the Change in Net Plant in Service multiplied by the factor of 80 percent. The Settling Parties agreed that the amount of the step adjustments is subject to review by Staff and the OCA, and subject to the approval of the Commission.

Order No. 26,007 at 10.

1 Mullen, and as stated above, that is clearly not the case. The other two investor-owned
2 electric utilities in New Hampshire, and many other utilities regulated by the
3 Commission, have received approval for multiple step increases going back decades.
4 Approval of an MYRP is not a significant regulatory change.

5 **V. CONCLUSION**

6 **Q. Please summarize the Company's position on Staff's disallowance of the presented**
7 **projects.**

8 A. There is no valid basis for a disallowance in relation to any of the projects cited by Staff.
9 In each case, the Company has presented the requisite information documenting the
10 reasons that projects were undertaken and how the costs were accounted for. Without a
11 showing that the Company has taken an unreasonable action to cause the costs of the
12 project at issue to be unwarranted, there is no basis for a claim of imprudence. It is not
13 sufficient for Staff to make broad, vague claims that something is wrong with a given
14 project or a group of projects. For a claim of imprudence to be substantiated, there must
15 be a demonstration of a specific action or decision that the Company has taken or made
16 that was unreasonable under the particular circumstances and that caused the costs to be
17 higher than necessary. There is absolutely no instance raised by Staff that meets this
18 standard. Moreover, for the projects that Staff has included as reductions to the revenue
19 requirement that were not included in the Company's rate base calculation, there is no
20 basis whatsoever for a cost disallowance.

1 **Q. Does this conclude your testimony?**

2 **A. Yes.**

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