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August 23, 2022

Daniel C. Goldner, Chairman
New Hampshire Public Utilities Commission
21 South Fruit Street
Concord, NH 03301

Re: DG 22-028; Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty;
Request for Step Adjustment; Department of Energy Recommendations

Dear Chairman Goldner:

As discussed at the hearing held in this matter on August 16, 2022, the Department of Energy (Department) provides its recommendations for resolving this proceeding.

2021 Plant Additions:

Liberty Utilities (EnergyNorth Natural Gas) Corp. (Liberty) requests a step adjustment in distribution rates designed to recover \$2,539,784 annually. Hearing Exhibit (Exh.) 4 at 2. This request is based on recovery of the revenue requirement for \$27,046,715 in 2021 plant additions. *Id.* at 1, Line 20 and at 2, Line 1.

The Department recommends approval of a lower step adjustment, designed to collect \$2,066,083 in revenues, and disallowing step adjustment recovery for the following capital projects:¹

Purchase Misc. Capital Equipment & Tools	-	\$ 247,679
IT	-	\$ 63,515
Transportation	-	\$ 970,393
Meters	-	\$ 1,232,846

This step adjustment was established in a settlement agreement in Liberty’s recent distribution rate case. DG 20-105, Exh. 49. The Commission approved this settlement in pertinent part in Order No. 26,505, issued July 30, 2021. The rate case settlement included a list of specific projects eligible for recovery in this step adjustment. DG 20-

¹ The Department’s recommended disallowance for recovery applies only to this step adjustment. The Department believes that any project disallowed from this step adjustment would be eligible for review and possible rate base inclusion in the Company’s next base distribution rate case.

105, Exh. 49 at 30. The settlement allowed Liberty to substitute similar, non-growth projects if the listed projects were not deployed. *Id.* at 9-10.

All the projects listed in the settlement agreement were deployed, except possibly the Dresser Coupling Replacement, as testified to by Liberty on August 16, where Liberty witnesses described each of the listed projects. Thus, arguably, no project substitutions are warranted. Several of the listed projects were under-budget.

Any substitute project needs to be similar to the listed projects. Liberty testified that all the listed projects provide direct improvement in customer service in that they are undertaken to repairs or prevent leaks (safety) or allow more reliable service and help avoid outages, especially in cold weather (reliability).

After consideration, the Department recommends that the Commission interpret settlement language to allow substitute projects that are similar to those listed in the settlement in that they directly improve customer safety or reliability, as testified to by Liberty.² Specifically, the Department recommends that recovery be allowed for the following substitute projects:

Meter Protection Program	-	\$484,378
Cathodic Protection Program	-	\$511,291
Replacement Services Random	-	\$605,038

Based on the above, using the spreadsheet provided as Exh. 4 at 2, the Department calculates the recommended step adjustment to allow recovery of \$2,066,083 on an annual basis. The Department's calculation is included as an attachment to this letter.

Depreciation Expense:

The Department supports the depreciation expense reduction of \$660,216 per year through this step adjustment, as shown by Liberty in Exh. 4 at 2. The Department also supports approval of the proposed depreciation rates contained in Exh. 2 at 79.

Consistent with the opinion of Liberty's depreciation expert (Paul M. Normand of Management Applications Consulting, Inc.) the Department supports:

1. continued amortization of the reserve imbalance;
2. continued examination of the appropriate level of cost of removal based on two additional years actual experience;

² In making this recommendation, the Department disagrees with Liberty's conclusion on August 16 that all the proposed substitute projects are "similar" to the listed projects, as required by the settlement, because they all involve "replacing old stuff."

3. booking retirements on a timely basis (also recommended by Mr. Normand in Liberty's 2016 depreciation study). Exh. 2 at 22.

The Department believes that it is critical that Liberty maintains in its books and records such that a full depreciation study can be performed for use in future adjustments to cost of removal, accrual rates, and reserve imbalance amortization.

Consistent with the Commission's *Temporary Changes in Filing Requirements* (March 17, 2020) this letter is being filed only in electronic form.

Sincerely,

/s/ *Paul B. Dexter*

Paul B. Dexter
Staff Attorney/Hearings Examiner

Cc: Service List