

Liberty Utilities (Granite State Electric) Corp. and Liberty Utilities (EnergyNorth Natural Gas)
Corp. both d/b/a Liberty

IR 22-048

Investigation of Step Adjustment Methodology and Process

NHPUC Record Requests – March 21, 2023

Date Request Received: 3/21/23
Request No. RR 1

Date of Response: 4/20/23
Respondent: Erica Menard

REQUEST:

- A. From the perspective of each participant, what were the historical contexts and justifications for the introduction of step adjustments?
- B. Given the resources and time required to review and adjudicate step adjustment and full distribution rate cases, do the participants have thoughts or suggestions regarding how to most effectively utilize utility and regulatory resources?
- C. Do the participants have recommended timeframes or methodologies for formulating step adjustment petitions?

RESPONSE:

- A. Step adjustments first appeared in New Hampshire in the late 1990s or early 2000s. Before that time, there was no common practice for utilities to seek rate relief between rate cases. As of the 1990s to early 2000s, utilities had been investing in capital projects that were becoming increasingly costly, such as water treatment plants, electric substations, and replacing aging infrastructure that had served well for many years but had reached the point of needing replacement. The prior approach of the utilities trying to make things work financially between rate cases, which were based on historic test years, just was not sufficient for timely recovery for these substantial investments. It became widely understood and accepted that a new approach was needed. The solution was the current practice of concluding rate cases with multi-year settlements that contained step increases for certain plant adjustments. The basic goal was to avoid more frequent rate cases but still allow reasonably timely recovery of significant capital investments.
- B. Recognizing that the time to prepare, litigate, review, and adjudicate rate cases far exceeds the time to process step adjustments, Liberty believes steps could be taken to further streamline the step adjustment process. If the step adjustment is based on a list of projects agreed as prudent choices at the time of settlement, then the review can center on those projects whose costs varied the most from the estimates contained in the settlement. If the step adjustment is based on changes in net plant, then the review can center on an agreed number of randomly chosen projects to confirm prudence. In either case, the

Commission and parties can agree in advance on what information the utility must file in support of the step adjustment filing to simplify and accelerate discovery.

- C. In addition to the comments above, and since step adjustments typically happen each year for a number of years following the rate case and are often based on calendar year investments, then the timeframe for the step filing should begin some months after the end of the year, say April 1, to be followed by a brief adjudicatory process of discovery, the opportunity for testimony, and hearing. If the parties can agree to what must be included in the original filing and can agree to a reasonably limited scope of review (e.g., selected projects as described above), then a several-month-long docket seems reasonable, which is the practice now.

Liberty Utilities (Granite State Electric) Corp. and Liberty Utilities (EnergyNorth Natural Gas)
Corp. both d/b/a Liberty

IR 22-048
Investigation of Step Adjustment Methodology and Process

NHPUC Record Requests – March 21, 2023

Date Request Received: 3/21/23
Request No. RR 2

Date of Response: 4/20/23
Respondent: Erica Menard

REQUEST:

What feedback do the participants have on changes such as multi-year rate plans, or other solutions that could reduce or eliminate the need for annual step adjustments or decrease the frequency of rate filings?

RESPONSE:

First, the existing step increase process comprises a form of a multi-year rate plan. The typical settlement agreement in New Hampshire that provides for a specified number of annual rate increases in the form of “step adjustments” is, in effect, a “multi-year rate plan.” Second, as part of a rate case the Commission could approve future rate increases based on projected test years, to be confirmed through a streamlined process in each of the future years, a process also called a multi-year rate plan.

A multi-year rate plan with an annual reconciliation within a tolerance would lead to reduced frequency of distribution rate filings and a more efficient and streamlined administrative process. Standardization of reporting requirements would also allow for more efficient review by parties.

Liberty Utilities (Granite State Electric) Corp. and Liberty Utilities (EnergyNorth Natural Gas)
Corp. both d/b/a Liberty

IR 22-048

Investigation of Step Adjustment Methodology and Process

NHPUC Record Requests – March 21, 2023

Date Request Received: 3/21/23
Request No. RR 3

Date of Response: 4/20/23
Respondent: Erica Menard

REQUEST:

Why are regular rate cases (on a rationally paced basis) not sufficient to always cover non-emergency utility capital investments, made pursuant to a utility's long-term capital plan?

RESPONSE:

A large portion of a utility's long-term capital plan is for investments in "non-revenue producing" assets, i.e., investments do not result in new revenues. This is true for most asset replacement projects. A gas utility's replacement of leak-prone pipe, for example, rarely results in new customers. Rather, those projects simply replace 100-year-old cast iron pipe with new plastic pipe serving the same customers on the same streets. Using cast iron replacement as an example, if a utility files a rate case every four years, the first in 2020 based on a 2019 test year and the second in 2024 based on a 2023 test year, the utility will not begin recovering for the millions of dollars spent on cast iron replacement in 2020 until 2024 and will never recover the amount of depreciation on that 2020 asset that occurred between 2020 and 2024. This regulatory lag impairs the utility's opportunity to earn its approved rate of return. Given that the majority of Liberty's capital spending, both gas and electric, is for such non-revenue-producing assets, and without growth in customer and revenue to fully support the investments, it becomes plain that there is a need for interim rate relief.

Liberty Utilities (Granite State Electric) Corp. and Liberty Utilities (EnergyNorth Natural Gas)
Corp. both d/b/a Liberty

IR 22-048
Investigation of Step Adjustment Methodology and Process

NHPUC Record Requests – March 21, 2023

Date Request Received: 3/21/23
Request No. RR 4

Date of Response: 4/20/23
Respondent: Erica Menard

REQUEST:

What factors should be considered when evaluating the relationship between a step increase program and a company's LCIRP planning process?

RESPONSE:

LCIRPs and step adjustments are fundamentally different proceedings. The LCIRP planning process is forward-looking: what is the Company's expected demand over the coming years and how will the Company meet that demand and safely and reliably serve its customers. The basic questions for the Commission when reviewing a step increase are backward looking -- whether the Company should have undertaken the particular project, and whether the Company prudently executed that project. Liberty submits that the execution of a particular project has no relationship to the LCIRP planning process.

However, when reviewing the utility's decision to do Project A versus Project B as part of its prudence review during a step adjustment docket, Liberty believes it is fair for the Commission to ask whether Project A is consistent with the planning contained in the LCIRP. That Project A is consistent with the LCIRP should weigh in favor of a finding of prudence during the step adjustment review. Of course, the opposite is not always true. The Commission should recognize that prioritizing projects that are not consistent with the LCIRP planning could still be prudent and that the prudence of each project ultimately depends on many case-specific factors that may not have been relevant or known at the time of the LCIRP. The prudence standard, after all, looks at what the utility knew at the time it undertook the project. Thus, consistency with the LCIRP would be but one of those many factors to weigh during a step adjustment proceeding.

Liberty Utilities (Granite State Electric) Corp. and Liberty Utilities (EnergyNorth Natural Gas)
Corp. both d/b/a Liberty

IR 22-048
Investigation of Step Adjustment Methodology and Process

NHPUC Record Requests – March 21, 2023

Date Request Received: 3/21/23
Request No. RR 5

Date of Response: 4/20/23
Respondent: Erica Menard

REQUEST:

Please provide the following information (in Excel format) for all rate cases in New Hampshire since 2000:

- A. Total rate base
- B. Total revenue requirement
 - 1. Total return on rate base
 - 2. Total expenses
- C. Gross Rate base increase in each step adjustment
- D. Net Rate base increase in each step adjustment
- E. Revenue requirements increase in each step adjustment and basis of the calculations (ROR, net or gross rate base, etc.)
- F. Indicate if LRAM, Decoupling, or any similar rate mechanism/adjustments were implemented
- G. Any other adjustments in revenue requirements (e.g. trackers - rate base increase, cost increase, etc.) between two rate cases. Provide details of any such changes for each year.

RESPONSE:

Please see Attachment RR 5.xlsx for the information requested in parts A through G.

Liberty Utilities (Granite State Electric) Corp. and Liberty Utilities (EnergyNorth Natural Gas)
Corp. both d/b/a Liberty

IR 22-048
Investigation of Step Adjustment Methodology and Process

NHPUC Record Requests – March 21, 2023

Date Request Received: 3/21/23
Request No. RR 6

Date of Response: 4/20/23
Respondent: Erica Menard

REQUEST:

Please provide the following information (in Excel format) for the most recent rate cases in other jurisdictions in which the company's affiliates operate, as applicable:

- A. Total rate base
- B. Total revenue requirement
 - 1. Total return on rate base
 - 2. Total expenses
- C. Gross Rate base increase in each step adjustment
- D. Net Rate base increase in each step adjustment
- E. Revenue requirements increase in each step adjustment and basis of the calculations (ROR, net or gross rate base, etc.)
- F. Indicate if LRAM, Decoupling, or any similar rate mechanism/adjustments were implemented
- G. Any other adjustments in revenue requirements (e.g. trackers - rate base increase, cost increase, etc.) between two rate cases. Provide details of any such changes for each year.

RESPONSE:

Please see Attachment RR 6 for a listing of information readily available for parts A through G.