

STATE OF NEW HAMPSHIRE

Inter-Department Communication

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FROM: *SEM*
Steven E. Mullen
Assistant Director – Electric Division

SUBJECT: DE 08-135 – Public Service Company of New Hampshire
Line Extension Policy

Staff Recommendation re: March 1, 2013 Rate Filing

TO: Chairman Amy Ignatius
Commissioner Michael Harrington
Commissioner Robert Scott
Executive Director Debra Howland

Background

On March 1, 2013, Public Service Company of New Hampshire (PSNH), pursuant to the terms of a Settlement Agreement¹ approved by the Commission in Order No. 25,046 (Nov. 20, 2009) in the above docket, filed a report (Report) on its line extension policy consisting of a technical statement and proposed tariff pages. Pursuant to the Settlement Agreement, PSNH was to phase in, over three years, new line extension charges based upon a specified cost per foot. The phase-in period ran until March 31, 2013, after which time the Settlement Agreement provided a method for calculating the cost per foot that would apply to line extensions beginning April 1, 2013. The Settlement Agreement also required PSNH to provide a report to the settling parties summarizing cost and other information relating to line extensions by March 1 of each year, beginning in 2013.

On March 28, 2013, the Commission issued Order No. 25,481 in which it noted PSNH's calculated increases in the cost per foot rates for both overhead and underground single-phase line extensions. In that order, the Commission determined that more time was needed for Staff to examine the data on actual line extension costs and, accordingly, suspended the proposed tariff pages. On October 8, 2013, PSNH filed a letter regarding its pending proposed line extension tariff. In its letter, PSNH referenced RSA 378:6, I(b) and stated that the Commission can suspend the taking effect of a rate schedule for a period "not to exceed 3 months from the date of the order of suspension, but if the investigation cannot be concluded within a period of 3 months, the commission in its discretion and with reasonable explanation may extend the time of suspension for 5 additional months." PSNH noted that three months from the date of Order No. 25,481

¹ The signatories to the Settlement Agreement were PSNH, the Homebuilders & Remodelers Association of NH, the Office of Consumer Advocate and Commission Staff.

was June 28, 2013, and that an additional five months would elapse on November 28, 2013. With that latter date in mind, PSNH stated that it waived “any right it may have had to implement the underlying rate schedule on or after June 28, 2013 and consents to an extension of the suspension of the suspension until November 28, 2013 to permit the Commission to complete its review.

Summary of PSNH’s March 1, 2013 Report

In its Report, PSNH stated that it followed the methodology described in the Settlement Agreement to record the actual cost of each line extension that was initiated and constructed during the period January 1, 2010 through December 31, 2012, including whether the line extension involved an overhead or underground service drop and the total length of the line extension, including the service drop, when applicable. The report states that PSNH also included the actual costs associated with each line extension, except for the cost of transformers, consistent with the terms of the Settlement Agreement. In addition, in calculating the rate, PSNH made adjustments to the 2010 and 2011 line extension costs to reflect the annual average Consumer Price Index.

Based on its analysis of the actual costs of line extensions constructed during calendar years 2010 – 2012, PSNH calculated the following changes for line extensions for effect April 1, 2013:

- single-phase overhead line extensions: the cost per foot will increase by \$9.31 from \$11.40 to \$20.71.
- single phase underground line extensions: the cost per foot will increase from \$14.71 to \$15.48.

PSNH explained that there are several reasons for the increase in single-phase overhead line extension costs. First, PSNH stated that although its actual costs for this construction type were \$13.09 per foot in 2008, the Settlement Agreement provided for a three-year phased-in cost that reached a peak of only \$11.40 in the third year (April 2012 – March 2013). In addition, PSNH said that costs increased, in part, due to the fact that prior to 2010 PSNH did not include tree trimming costs in line extension charges. According to PSNH, the inclusion of those costs, as allowed by the Settlement Agreement, added \$3.13 per foot to the updated cost per foot rate. PSNH said that the increased costs were also due to higher costs of labor, material, vehicles and overheads.

Analysis

The process for determining the average cost per foot for overhead and underground single-phase line extensions was a component of the Settlement Agreement and reads as follows:

To calculate the average cost per foot by construction type for the period April 1, 2013 through March 31, 2014, PSNH will record the actual cost of each line extension (defined as an extension of PSNH’s distribution

system to serve one or more prospective customers, but excluding extensions that are exclusively service drops) that was initiated and completed during the period January 1, 2010 (or the effective date approved by the Commission) through the end of 2010 and the two calendar years which follow. In addition, PSNH will record whether the line extension includes an overhead or underground service drop and the total length of the line extension, including the service drop, if applicable. Other than the cost of transformers, the actual cost will include all other costs associated with the line extension construction, including the cost of any overhead or underground service drops, if applicable. The line extensions will be segregated into the following construction type categories: overhead single-phase construction, overhead three-phase construction, underground single-phase construction and underground three-phase construction. Line extensions utilizing more than one type of construction (i.e. using both overhead and underground construction or using both single-phase and three-phase construction) will be eliminated from the data base used for the calculations. The adjustments described below in paragraphs (a) and (b)² will be made to the actual cost of each line extension (“Adjusted Line Extension Cost”) and to the total length of each line extension (“Adjusted Line Extension Length”). The average cost per foot by construction type will be calculated by summing the Adjusted Line Extension Costs and the Adjusted Line Extension Lengths by construction type and dividing the sum of the Adjusted Line Extension Costs by the sum of the Adjusted Line Extension Lengths by construction type.

PSNH’s tariff describes the costs associated with the line extension construction as “including but not limited to design and inspection and construction labor; researching and recording easements; materials; traffic control; tree trimming; blasting and overheads.”³

Staff has reviewed the Report and supporting calculations along with the Settlement Agreement and PSNH’s line extension tariff. In addition, Staff was provided with cost data for each line extension constructed during the years 2010 – 2012 organized by construction type (i.e., single-phase overhead, single-phase underground, three-phase overhead and three-phase underground). The data included the work order number, length of the line extension, the total cost, and adjustments to take into account service drops. From that information, Staff selected a sample of line extensions from all three years and all construction types and requested detail by individual cost components.

² (a) and (b) refer to an “Inflation Adjustment” and a “Service Drop Adjustment,” respectively. The inflation adjustment is based on a Consumer Price Index specific to the Northeast Region. The service drop adjustment involves reducing the cost and length of a line extension by the installed cost of a single-phase overhead service drop of 125 feet in length.

³ PSNH Tariff NHPUC No. 8, Original Page 27.

The total number of line extensions completed during the years 2010 – 2012 and the number sampled are shown in the table below:

<u>Construction Type</u>	<u>Total Line Extensions</u>	<u># Sampled</u>
Overhead, Single-Phase	241	13
Overhead, Three-Phase	19	6
Underground, Single-Phase	203	15
Underground, Three-Phase	43	8
Totals	506	42

Staff reviewed the detailed cost information provided by PSNH and found that the types of costs included were consistent with the specified categories of costs.

Consistent with the Settlement Agreement and PSNH's tariff, charges for overhead and underground three-phase line extensions have historically been calculated based on customer-specific job requirements, and that practice will continue.

Recommendation

Based on its review, Staff recommends that that revised tariff pages incorporating cost per foot charges of \$20.71 and \$15.48 for overhead single-phase and underground single-phase line extension construction, respectively, be approved and allowed to go into effect beginning November 28, 2013. The charges were calculated consistent with the terms of the Settlement Agreement approved by the Commission in Order No. 25,046. Considering that the Commission has previously approved the Settlement Agreement and PSNH's March 1, 2013 filing was submitted in compliance with that agreement, Staff recommends that the Commission approve the revised per foot charges for line extensions via the issuance of a secretarial letter.

Staff has two additional recommendations. First, Staff notes the recent passage of RSA 370:12 which was effective August 17, 2012 and reads as follows:

Installation of Power Line Extensions. – Any New Hampshire utility customer that requires a power line extension located on private property may hire a contractor who is licensed in the state of New Hampshire and is approved by the utility. Such contractor shall supply and install materials specified by the local utility for underground and overhead line extensions, the cost of which shall be borne by the utility customer.

PSNH's tariff pages, which pre-date the passage of that law, should be updated to clearly inform customers and developers of their options with respect to line extensions on private property pursuant to RSA 370:12. Staff recommends that such update be incorporated into the filing of tariff pages to update the per foot charges described above.

Finally, Staff recognizes the significant increase in the average per foot charges for single-phase overhead line extensions. As mentioned above, a material portion of that increase relates to the inclusion, by agreement, of tree trimming expenses in the average costs, a component that was not previously included in the calculation. Given that some overhead line extensions require tree clearing while others do not, Staff recommends that PSNH take into future consideration the implementation of average per foot costs for single-phase overhead line extensions both with and without tree trimming. As part of this recommendation, the averages would still be calculated using the above described methodology. Staff understands that such dual calculations were not a part of the Settlement Agreement and would result in a) a lower per foot rate than the current single average rate for single-phase line extensions without tree trimming, and b) a higher per foot rate than the current single average rate for single-phase line extensions with tree trimming. However, considering the material impact that the inclusion of tree trimming expenses has on the average per foot cost of installation, Staff feels it is reasonable to explore such an enhancement to PSNH's line extension policy.

Please let me know if you have any questions regarding this recommendation.

cc: Service List