

THE STATE OF NEW HAMPSHIRE

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NHPUC 8AUG18PM3:15

August 8, 2018

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, New Hampshire 03301

Re: DG 17-070, Northern Utilities, Inc.
Petition for Rate Increase
Northern Rate Case Expense Filing
Staff Recommendation for Approval following Reconciliation

Dear Ms. Howland:

On May 30, 2018 Northern Utilities, Inc. (Northern) made a Rate Case Expense Filing, providing an accounting of the rate case expenses and supporting invoices for which it is seeking recovery under the terms of the approved Settlement Agreement.¹ The rate case expense invoice index summarizing Northern's rate case costs by vendor was inadvertently omitted and filed on May 31, 2018.

As provided in the Settlement Agreement, Northern's Rate Case Expense is being recovered over a twelve month period through a uniform charge of \$0.0029 per therm, in accordance with the provisions of Northern's Local Delivery Adjustment Charge tariff. The rate was calculated by dividing the estimated rate case expense of \$217,125 by forecasted therm sales for May 2018 through April 2019 and the rate case expense (RCE) surcharge became effective on May 1, 2018.² The Northern Rate Case Expense filing reports a total rate case expense of \$217,462.

On June 21, 2018, The Commission Audit Staff (Audit) issued a **Final Audit Report (attached)** on its review of Northern reported rate case expenses. Audit reviewed the Northern procurement process for selecting outside consultants used to prepare specialized studies for the rate case, supporting rate case expense invoices and the allocation of rate case expenses between the Northern New Hampshire and Maine

¹ Order 26,129 issued May 2, 2018.

² Settlement Agreement – Section 2.6 (Bates pages 10-11) and Exhibit 5 (Bates page 129).

divisions. Audit found one exception to the reported rate case expense, finding that \$136 of temporary help costs were incorrectly allocated to New Hampshire and Northern agreed with Audit's finding. The adjusted rate case expense total is \$217,326.

The actual audited rate case expense total of \$217,326 compares to the estimated total of \$217,125 used to calculate the RCE surcharge of \$0.0029 per therm. Under the terms of the Settlement, on or before June 30, 2019, Northern is to file a reconciliation of the rate case expense and RCE surcharge revenue (Reconciliation), along with a recommendation for treatment of any under- or over-recovery, for Commission review and approval.

Pursuant to RSA 365:38-a, the Commission may allow recovery of costs associated with utility proceedings before the Commission, provided that recovery of costs for utilities and other parties shall be just and reasonable and in the public interest. The Commission has historically treated reasonable, prudently-incurred rate case expenses as a legitimate cost of business appropriate for recovery through rates.

Staff reviewed the supporting documentation to assess whether, in light of the applicable standards, the rate case expenses for which the Company is seeking recovery are reasonable and prudently incurred. Based on its investigation, Staff recommends that the Commission allow the Company to recover \$217,326 of rate case expenses. Commission approval is not required at this time and should be granted as part of the Commission's review and approval of the proposed treatment of any Reconciliation under- or over-recovery.

Sincerely,



Stephen P. Frink

Director, Gas & Water Division

cc: Service List

STATE OF NEW HAMPSHIRE
Inter-Department Communication

DATE: June 21, 2018
AT (OFFICE): NHPUC

FROM: Bridget Heffernan, NHPUC Examiner

SUBJECT: Northern Utilities, Inc.
Rate Case Expenses for DG 17-070
Final Audit Report

TO: Steve Frink, Director Gas/Water Division
Jayson Laflamme, Assistant Director
Karen Moran, Chief Auditor

Introduction

Northern Utilities (Northern or NU) filed for a permanent rate increase, which was docketed as DG 17-070. On May 2, 2018, Order 26,129 approved a settlement agreement allowing the recovery of prudently incurred rate case expenses. Per Puc 1905.02 the request for recovery of rate case expenses shall be filed with the commission no later than 30 days after the commission's final order. The filed calculations were received by the Commission on May 29, 2018.

In accordance with Puc 1904.01, it does not appear that any rate case expense cost has been recovered from customers. The costs have been accumulated in a deferred asset account, pending Commission determination of the recovery amount and manner.

Puc 1905.01 requires the utility to file, at the beginning of the rate case and every 90 days during the pendency of the rate case, a detailed description of rate case expenses incurred and projected to be incurred, a list of services to be rendered by vendor, and the total estimated costs of each service. The original projected rate case expenses were filed on Schedule RevReq-7 on June 5, 2017. Additional rate case expense reports were filed on September 5, 2017, November 29, 2017 and March 6, 2018

Request For Proposal

Northern engaged in a procurement process to obtain outside expert consultants to prepare several specialized studies for the rate case. Per NU, *"The Company's procurement process for its outside consultants includes issuing a Request for Proposal ("RFP"), analyzing the bids, selecting the winning bidder, and executing engagement*

letters for the outside consultants chosen; Management Applications Consulting and ScottMadden. The fee proposals, availability, qualifications and experience of each bidder, technical approach, and proposal quality are all considered in selecting the winning bidder."

Northern provided Audit with their procurement procedure and selection process. The RFP was issued to eight consulting firms by email. Each of these firms was contacted via phone by NU prior to issuing the RFP. Based on those phone calls NU anticipated six bids for the various work areas. Five bids were received by Northern. Evaluation teams were established and rated the bids received. The recommended bid winners were sent to the CFO for final approval.

Management Applications Consulting was selected to provide NU with the Accounting Cost Study, Marginal Cost Study, Depreciation Study, Lead-Lag Study, and Rate Design. ScottMadden was selected to provide services for the Return on Equity. These two firms were selected due to their cost, availability to provide the services and experience working with Unital in the past among other items.

Audit reviewed the evaluation notes from the RFP proposals without exception.

Audit reviewed the signed MAC and ScottMadden contracts in detail. Hourly rates and total expenses not to be exceeded were verified to the MAC and ScottMadden invoices.

Rate Case Expense Summary

Northern provided the Invoice Index on May 31, 2018 in the amount of \$217,462.16. Audit reviewed all of the reported expenses and verified each to a deferred general ledger account, 30-40-00-00-182-03-40 Regulatory Asset – Rate Case – 2017 – NH. The expenses summarized by category were reported to be:

Accounting Cost Study	\$ 36,375.00
Marginal Cost Study	\$ 6,800.00
Depreciation Study	\$ 29,262.50
Lead Lag	\$ 15,775.00
Rate Design	\$ 16,687.50
Return on Equity	\$ 61,032.50
Printing	\$ 1,006.19
Temporary Help	\$ 24,710.97
NHPUC Consultant	<u>\$ 25,812.50</u>
	\$ 217,462.16

Accounting Cost Study \$36,375

Six MAC invoices totaling \$36,375 were reviewed in detail by Audit. Audit recalculated the invoice total by taking the hours per MAC employee times the stated rate. The supporting detail for the hours was broken out by date and the task completed, except for one MAC employee. The one employee who did not have their hours broken out by date, provided the total hours for the month and a brief description of the work completed.

Invoices were dated for the five weeks ending March 31, 2017 through the four weeks ending February 23, 2018. All invoices listed the work order number and had approvals from NU for payment.

The invoices for the four weeks ending May 26, 2017, noted a total of \$225 for Technical Services. The proposal presented to NU by MAC did not note an hourly rate for Technical Services. Audit was unable to confirm that hourly rate charged was accurate.

Marginal Cost Study \$6,800

Four invoices totaled the \$6,800 in charges for the Marginal Cost Study. All four invoices were from MAC for the period of the five weeks ending March 31, 2017 through the five weeks ending September 29, 2017. Work order numbers were listed on all invoices and supporting detail and NU's approval for payment was present on each invoice.

Audit recalculated the MAC employees' hours by the rate and verified it to the supporting hourly detail. The invoice for the five weeks ending September 29, 2017 has three hours for one employee noted as NU-ME. The NU employee who approves the invoices for payment changed ME to read NH and initialed the correction.

Depreciation Study \$26,262.50

Seven MAC invoices were reviewed by Audit in the amount of \$26,262.50 for the depreciation study. Invoices were dated from the period ending March 31, 2017 through the period ending March 30, 2018. Audit recalculated all of the hours multiplied by the rate without exception.

Supporting documentation was reviewed for all hours charged.

All seven invoices noted the correct work order number. Supporting documentation for the three and a half hours charged on the invoice for the four weeks ending February 23, 2018 noted a work order number that was off by one digit. The title of the work order correctly noted the NH depreciation study.

Six of the seven invoices had the proper NU approval and general ledger coding on them. The invoice for the five weeks ending March 30, 2018 did not contain an approval for payment or the general ledger account to which it should be charged; however, it was verified to the deferred regulatory account without exception.

Lead Lag \$15,775

MAC issued three invoices to NU for the Lead-Lag study. Invoices were for the period of the five weeks ending March 31, 2017 through the four weeks ending May 26, 2017.

All invoices were recalculated without exception. The work order number was on all invoices and supporting documentation. All three invoices were approved by NU and contained the general ledger account to which the expenses were booked.

No exceptions were noted with the review of the three invoices for the Lead-Lag study.

Rate Design \$16,687.50

Eight invoices were issued by MAC for the rate design. Invoices were dated from the period ending May 26, 2017 through the period ending February 23, 2018.

All invoices contained the work order number and the approval for payment by NU. The hours were recalculated by Audit and verified to the supporting documentation.

No exceptions were noted with the review of the MAC invoices for the rate design.

Return on Equity \$61,032.50

Eight invoices were received from ScottMadden, Inc. for the return on equity testimony. Invoices were for the months of April 2017 through February 2018 and contained a project number. Audit recalculated the invoices by multiplying the hours by the rate and verified the invoices to the supporting hourly detail. All invoices were approved for payment by NU and contained the rate case general ledger account.

No exceptions were noted for the eight Scott Madden invoices for the return on equity testimony.

Printing \$1,006.19

One invoice from Staples was reviewed by Audit for printing in the amount of \$1,006.19. The invoice, dated May 30, 2017, was coded and approved for payment by NU.

The invoice was for 12 of each of the volume 1, 2 and 3 NH binders. Audit recalculated the invoice by multiplying the quantity by the given price. The total invoice was one cent lower than Audit's recalculation.

No exceptions were noted with the Staples invoice.

Temporary Help \$24,710.97

NU noted that *"The expenses for KBW were for temporary employees to support the revenue requirement schedules, discovery and other specific regulatory assignments. Due to the highly analytical and specialized nature of these services, careful selection procedures were required including interviews with candidates. The Company does not believe these services could have been acquired through an RFP process."*

Northern provided Audit with the name of the one employee hired through KBW to assist with the rate case. Audit reviewed the weekly invoices that were dated from February 28, 2017 through October 10, 2017.

The KBW total amount was allocated to Maine and New Hampshire using the Intracompany Allocation Factors. During Audit's review of the invoices it was noted that the allocation percentages used on the invoices were not accurate. Northern noted that when allocating the KBW rate case expenses, the 2016 allocation rate was used instead of the 2017 rate.

Both Audit and Northern recalculated all of the KBW rate case expense invoices and determined that the rate case expense total was overstated by \$136.

NHPUC Consultant \$25,812.50

Audit reviewed three invoices from the NH PUC for consultant fees. Two invoices were from Blue Ridge Consulting for work in February 2018 and April 2018. Audit recalculated the hours and rate and verified a project number was present. The two invoices totaled \$6,572.50 and no exceptions were noted.

A third PUC consulting invoice was reviewed from J. Randall Woolridge, Ph.D. in the amount of \$19,240. This was the first and final invoice for the period of August 1, 2017 through February 1, 2018. Audit recalculated the hours and rate and verified it to the work detail. No exceptions were noted.

Summary

Based on a review of the reported rate case expenses, in compliance with the settlement agreement approved by Order 26,129, and in accordance with the NH Puc 1900 rules, Audit recommends that the reported expenses of \$217,462.16 be adjusted as follows:

	<u>Filing Amount</u>	<u>Recommendation</u>	<u>Adjusted Amount</u>
Accounting Cost Study	\$ 36,375.00	\$ 0	\$ 36,375.00
Marginal Cost Study	\$ 6,800.00	\$ 0	\$ 6,800.00
Depreciation Study	\$ 29,262.50	\$ 0	\$ 29,262.50
Lead Lag	\$ 15,775.00	\$ 0	\$ 15,775.00
Rate Design	\$ 16,687.50	\$ 0	\$ 16,687.50
Return on Equity	\$ 61,032.50	\$ 0	\$ 61,032.50
Printing	\$ 1,006.19	\$ 0	\$ 1,006.19
Temporary Help	\$ 24,710.97	\$(136)	\$ 24,574.97
NHPUC Consultant	<u>\$ 25,812.50</u>	<u>\$ 0</u>	<u>\$ 25,812.50</u>
	\$ 217,462.16	\$(136)	\$217,326.16

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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Docket #: 17-070-1 Printed: August 08, 2018

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.