



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

Docket No. DE 18-____

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Annual Retail Rate

DIRECT TESTIMONY

OF

DAVID B. SIMEK

March 30, 2018

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and position.

A. My name is David B. Simek. I am the Manager, Rates and Regulatory Affairs for Liberty Utilities Service Corp. (“Liberty”), which provides services to Liberty Utilities (Granite State Electric) Corp. (“Granite State” or “the Company”). I am responsible for providing rate and regulatory-related services for the Company.

Q. Please briefly describe your educational background and training.

A. I graduated from Ferris State University in 1993 with a Bachelor of Science in Finance. I received a Master’s of Science in Finance from Walsh College in 2000. I also received a Master’s in Business Administration from Walsh College in 2001. In 2006, I earned a Graduate Certificate in Power Systems Management from Worcester Polytechnic Institute.

Q. What is your professional background?

A. In August 2013, I joined Liberty Utilities as a Utility Analyst. I was promoted to a Lead Utility Analyst in December 2014, and to my current position in August 2017. Prior to my employment at Liberty Energy Utilities (New Hampshire) Corp., I was employed by NSTAR Electric & Gas (“NSTAR”) as a Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy Supply at NSTAR, I was a Senior Financial Analyst within the NSTAR Investment Planning group from 2004 to 2008.

1 **Q. Have you previously testified before the New Hampshire Public Utilities**
2 **Commission (“Commission”)?**

3 A. Yes. I have testified on numerous occasions before the Commission.

4 **II. PURPOSE OF TESTIMONY**

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

6 A. The purpose of my testimony is to present Granite State’s proposed rate adjustments for
7 2018 in accordance with the Company’s reconciliation and adjustment provisions of its
8 tariff, and the Company’s Amended Restructuring Settlement Agreement approved in
9 Docket No. DR 98-012 (“Amended Settlement Agreement”). The reconciliations and
10 adjustments described in my testimony relate to the Stranded Cost Charge and
11 Transmission Charge.

12 The purpose of the reconciliation analyses is to determine the difference between
13 revenues collected under each charge and the Company’s actual expenses. For each of
14 the charges, the Company calculates an adjustment factor based on the result of each
15 reconciliation, which is used to determine whether a refund to or recovery from
16 customers is necessary.

17 **Q. Did you perform your analyses consistent with processes and procedures for similar**
18 **filings in previous years?**

19 A. Yes. I have performed my analyses consistent with past methods and practices.
20 Additionally, I have added a recovery mechanism for lost distribution revenue due to net
21 metering for calendar years 2016 and 2017. I have also determined that the methodology

previously used to true-up projected values against actual values was flawed. I have corrected those methods in this filing, and have made correcting adjustments that I will discuss below as a result of inaccurate data used in our filing last year in Docket No. DE 17-049.

Q. Are there months in the schedules that do not have actual expenses and revenues?

A. Yes. To address the fact that the filing is made two months prior to rates going into effect, and, thus, actual expenses and revenues are not available as of the filing date, I have included projections for the months of February, March, and April 2018.

Q. Please summarize the results of the adjustments and reconciliations which Granite State proposes to implement in 2018.

A. The Company proposes to implement the following adjustments to its rates beginning May 1, 2018, for usage on and after that date. The table below illustrates the current and proposed rates:

| <u>Average charge (\$ / kWh)</u> | <u>Current</u> | <u>Proposed</u> | <u>Increase (Decrease)</u> |
|--------------------------------------|----------------|-----------------|--------------------------------|
| Stranded Cost Charge | \$ 0.00040 | \$ (0.00040) | \$ (0.00080) |
| Stranded Cost Adjustment Factor | \$ 0.00009 | \$ (0.00052) | \$ (0.00061) |
| Transmission Service Charge | \$ 0.02240 | \$ 0.02585 | \$ 0.00345 |
| Transmission Service Cost Adjustment | \$ (0.00414) | \$ 0.00557 | \$ 0.00971 |
| RGGI Auction Proceeds Refund | \$ (0.00137) | \$ (0.00090) | \$ 0.00047 |
| LRAM due to Net Metering | \$ - | \$ 0.00008 | \$ 0.00008 |

Schedule DBS-1 presents the proposed stranded cost and the transmission rates.

1 **III. STRANDED COST CHARGE AND THE STRANDED COST ADJUSTMENT**

2 **FACTOR**

3 **Q. Please discuss, in general terms, the Company’s proposed adjustment and**
4 **reconciliation of its Stranded Cost Charge.**

5 A. Granite State’s Stranded Cost Charge is the sum of two components. The first is a
6 uniform charge per kilowatt-hour (“kWh”) that the Company charges all customers,
7 which reflects the Contract Termination Charge (“CTC”) assessed by New England
8 Power Company (“NEP”) for 2018. The second component is the Stranded Cost
9 Adjustment Factor (“SCAF”), which is specific to each rate class. Both of these
10 components are in accordance with the Company’s Stranded Cost Adjustment Provision
11 on Pages 19-20 of the Company’s tariff.

12 **Q. What changes are the Company proposing to the components of the Stranded Cost**
13 **Charge?**

14 A. Granite State is proposing to decrease the uniform charge per kWh related to the CTC
15 assessed by NEP from a charge of \$0.00040 per kWh to a credit of (\$0.00040) per kWh
16 for the period beginning May 1, 2018. With respect to the SCAF, Granite State is
17 proposing to change the factor from a uniform charge of \$0.00009 per kWh to a credit
18 that varies by class, but on a load-weighted average is (\$0.00052) per kWh.

19 **Q. Please describe the purpose of the CTC assessed by NEP.**

20 A. In 1996, the New Hampshire Legislature enacted RSA 374-F, a statute which directed the
21 Commission to develop a restructuring plan to implement electric retail choice for all
22 customers (“Restructuring”). Prior to Restructuring, Granite State customers were served

1 by generation assets owned by the Company's then affiliate, NEP. During the
2 Restructuring process, Granite State, NEP, and other parties agreed to a divestiture of
3 NEP's generation assets. As part of its Electric Utility Restructuring Offer of Settlement
4 in Docket No. DR 96-150 ("Restructuring Settlement"), the CTC was established to
5 recover stranded costs associated with this divestiture, with such recovery terminating in
6 2020.

7 **Q. Please describe the changes to the Stranded Cost Charge resulting from the changes**
8 **in the CTC assessed by NEP for 2018.**

9 A. In the 2018 CTC Reconciliation Report filed in Docket No. DE 18-010, NEP provided
10 the reconciliation report to the Commission and to the signatories to the Amended
11 Settlement Agreement in accordance with Section 3.5 of the Wholesale Settlement
12 approved by the Federal Energy Regulatory Commission. In that filing, NEP calculated
13 the revised CTC rate for 2018 to be a credit of (\$0.00040) per kWh as compared to the
14 2017 CTC of \$0.00040. The Company's proposal with respect to the uniform per kWh
15 component of the Stranded Cost Charge is simply a reflection of the change in the CTC
16 rate.

17 **Q. Please describe the Stranded Cost adjustment factors and the reconciliation used to**
18 **determine those factors.**

19 A. The Company performs an annual reconciliation of its revenues from the Stranded Cost
20 Charge billed to customers and recorded in its general ledger with the CTC expenses paid
21 to NEP to arrive at adjustment factors for each rate class. Details for the reconciliation
22 for the period May 2017 through April 2018 are in Schedule DBS-2.

1 **Q. Please explain the Stranded Cost correction mentioned above.**

2 A. In Docket No. DE 17-049, the Company calculated a true-up for the months of March
3 and April 2016 in the stranded cost reconciliation, which were projections at the time of
4 the prior year's filing in Docket No. DE 16-346. As a result of a flawed methodology
5 used to reconcile these two months, the amounts used for those months in Docket No. DE
6 17-049 did not correctly reconcile the projected numbers to the actual numbers. The
7 impact of this adjustment is that the stranded cost reconciliation in DE 17-049 had a
8 projected under collected balance May 1, 2017, of \$86,067, but the correct May 1, 2017,
9 balance (included in this filing) is an over collection of (\$145,071). The calculation of
10 this correction is shown on Schedule DBS-7.

11 **Q. Has the Company prepared a reconciliation analysis for Stranded Cost revenues**
12 **and expenses?**

13 A. Yes. Schedule DBS-2, page 2 of 4, presents a reconciliation of actual stranded cost
14 revenues and expenses for the period May 2017 through February 2018 and forecasted
15 stranded cost revenues and expenses for the period March 2018 through April 2018.
16 Pages 3 and 4 of Schedule DBS-2 allocate the reconciliation to the various rate classes.

17 **Q. Has the Company calculated proposed SCAFs for 2018?**

18 A. Yes. Schedule DBS-2, page 1 of 4, calculates a SCAF per kWh, specific to each rate
19 class, to be applied to all retail delivery service customers' bills for the period May 1,
20 2018, through April 30, 2019.

1 **Q. Why does the proposed SCAF portion of the Stranded Cost Charge vary by rate**
2 **class as compared to the existing SCAF that is the same for each rate class?**

3 A. The SCAF has historically been calculated on a class-by-class basis. However, due to the
4 small under-collection that was at issue in the DE 17-049 proceeding, it was not efficient
5 to calculate a separate SCAF for each rate class as the allocated dollars for some rate
6 classes were under \$5. This topic was discussed during the DE 17-049 hearing¹, as well
7 as the fact that the use of a class-specific SCAF or a uniform SCAF rate would depend on
8 the annual results of the reconciliation process.

9 **Q. Why is there a projected over-collection of \$473,154 on May 1, 2018?**

10 A. The over collection is primarily the result of the mismatched periods in which NEP and
11 Granite State update their rates. As stated above, in Docket No. DE 18-010, NEP filed an
12 updated CTC rate of (\$0.00040), which means that effective January 1, 2018, Granite
13 State will be invoicing NEP (\$0.00040) per kWh every month rather than paying amounts
14 to NEP. Granite State's retail rates will not reflect this decrease until May 1 due to the
15 four-month delay of implementation of rate changes as directed in Docket No. DE 14-
16 340, which means that customers will continue to be billed \$0.00049 per kWh for the
17 months of January 2018 through April 2018, yet the Company will be billed by NEP at
18 (\$0.00040) per kWh. The growth in the over-collection due to the four-month mismatch
19 is clearly demonstrated on Schedule DBS-2, page 2 of 4, in the "Monthly (Over)/Under"

¹ See Transcript of April 11, 2017, hearing in Docket No. DE 17-049 at 20 – 22.

1 column. Because of this mismatch, annual over- or under-collection balances will be
2 highly dependent on changes in the CTC rate and the significance of such changes.

3 **IV. TRANSMISSION SERVICE COST ADJUSTMENT CHARGE**

4 **Q. Please describe the Company's Transmission Service Cost Adjustment ("TSCA")**
5 **charge.**

6 A. The Company recovers its transmission-related expenses pursuant to the TSCA, which
7 allows the Company to recover costs billed to it by ISO-New England and NEP through
8 the ISO-New England Inc. Transmission, Markets, and Services Tariff ("ISO Tariff").
9 The TSCA charge is comprised of two components: a component for base transmission
10 costs for the prospective period plus a component for the reconciliation of transmission
11 revenue and expense for the previous period.

12 **Q. What is the TSCA charge that the Company is proposing for effect on May 1, 2018?**

13 A. The Company is proposing an average TSCA charge of \$0.03142 per kWh for effect May
14 1, 2018, and is comprised of the base cost component of \$0.02585 per kWh and the
15 reconciliation component of \$0.00557 per kWh. This TSCA charge is an increase of
16 \$0.01316 from the charge that is currently in effect.

17 **Q. Please describe the reconciliation analysis for transmission revenues and expenses**
18 **for the previous period.**

19 A. Schedule DBS-3, page 3, presents a reconciliation of actual transmission revenues and
20 expenses for the period May 2017 through January 2018 and forecasted transmission
21 revenues and expenses for the period February 2018 through April 2018. This

1 reconciliation also provides an adjustment that reconciles forecasted revenues and
2 expenses for January 2017 through April 2017, as calculated in Docket No. DE 17-049,
3 against actual revenues and expenses.

4 **Q. How was the reconciliation component of the TSCA charge derived?**

5 A. The reconciliation component of the TSCA recovers under-recoveries of transmission
6 costs or refunds over-recoveries of transmission costs, along with associated interest at
7 the prime rate. This component of the TSCA charge was calculated by adding the
8 projected under-collection of transmission expense as of April 30, 2018, from Schedule
9 DBS-3, page 3, of \$2,750,752, to the amount of the excess refund that was credited to
10 customers for the prior period, explained further below, of \$2,286,290 as shown on DBS-
11 3, page 4, plus the working capital of \$13,193 calculated on DBS-3, page 6.

12 **Q. Please explain the \$2,750,752 under-collection that is calculated on page 3 of**
13 **Schedule DBS-3.**

14 A. The under-collection of \$2,750,752 is driven by the reconciliation of prior period
15 estimated and actual costs and revenues resulting in an under-collection balance of
16 \$234,133, and a May 1, 2017, through April 30, 2018, estimated expense to revenue
17 under-collection including interest of \$2,516,619.

1 **Q. Please explain the \$2,286,290 of excess refund that is shown on Schedule DBS-3,**
2 **page 4.**

3 A. This separate under-collection of \$2,286,290 is the amount of additional refund including
4 interest paid to customers from May 1, 2017, through April 30, 2018, that was in excess
5 of the May 1, 2017, beginning over-collected balance of (\$1,441,393).

6 **Q. Why does the transmission charge reconciliation have a May 1, 2017, balance of**
7 **\$234,133 when the estimated May 1, 2017, balance was (\$3,354,364) in Docket No.**
8 **DE 17-049 Schedule HMT-3, page 3?**

9 A. The (\$3,354,364) reported on Schedule HMT-3, page 3, in DE 17-049 was derived by
10 summing a May 1, 2016, through April 30, 2017, estimated revenue to expense over-
11 collection including interest of (\$1,069,071) and a May 1, 2016, beginning over-collected
12 balance of (\$2,285,293). However, upon review of the schedules, the Company has
13 determined that the May 1, 2016, beginning balance of (\$2,285,293) included an
14 additional (\$2,532,375) of over-recovery that had been incorrectly calculated. This was
15 the result of an inadvertent double counting of the revenue and expense for the months of
16 February 2016 through April 2016. Additional details concerning the calculation of this
17 previously reported and refunded incorrect amount of over-collection are provided in
18 Schedule DBS-7.

19 **Q. Did the Company refund customers this excess amount of \$2,286,290 from May 1,**
20 **2017, through April 30, 2018?**

21 A. Yes. The TSCA charge that went into effect May 1, 2017, included the incorrect over-
22 collected balance of (\$3,354,364). If the transmission adjustment factor had included the

1 correct May 1, 2016, over-collected balance of (\$729,741), the TSCA charge would have
2 been higher and the refund variance would have been closer to zero.

3 **Q. How will the reconciliation component of the TSCA charge be implemented?**

4 A. The reconciliation component of the TSCA charge will become effective for usage on
5 and after May 1, 2018. This proposed component will be applied to bills of all customers
6 taking delivery service.

7 **Q. Why is the Company proposing new base transmission rates at this time?**

8 A. The TSCA portion of the Company's tariff states that the base transmission rates shall be
9 calculated annually based on a forecast of transmission costs to be incurred by the
10 Company for the prospective period to provide transmission service to its retail delivery
11 service customers. The rate at which these costs are collected is calculated separately for
12 each of the Company's rate classes based on an allocation of transmission costs to each
13 class using each class' contribution to coincident peak.

14 **Q. What is the forecast of 2018 transmission costs?**

15 A. As discussed in the testimony of John D. Warshaw included in this filing, the Company's
16 transmission costs are estimated to be \$23,441,852 in 2018. This forecast of transmission
17 expense yields an average rate of \$0.02585 per kWh, as compared to the currently
18 effective average transmission rate of \$0.02240 per kWh exclusive of the reconciliation
19 component. Based on these estimates, the Company is proposing new base transmission
20 rates effective May 1, 2018, to recover the projected transmission costs to be incurred in
21 the prospective period.

1 **Q. Why is the Company including a working capital calculation in its filing?**

2 A. The settlement agreement in Docket No. DE 16-383 provided, in part, that the Company
3 may recover cash working capital on transmission costs through the transmission cost
4 adjustment mechanism included in the Company's Annual Retail Rate Adjustment filing.
5 In accordance with that settlement, the Company has included a transmission cash
6 working capital amount in the calculation of its proposed transmission rates.

7 **Q. What is the total amount of transmission working capital included in this filing?**

8 A. The total working capital included in the TSCA charge is \$13,193 as shown on Schedule
9 DBS-3, page 6. The detailed calculation of the expense lag is shown on Schedule DBS-3,
10 page 7. The detailed calculation of the revenue lag is shown on Schedule DBS-3, page 8.

11 **Q. How does the Company propose to design the base transmission rates effective May**
12 **1, 2018?**

13 A. Since base transmission rates are unique by rate class, the first step in designing the
14 proposed base transmission rates is to allocate forecasted transmission costs to each rate
15 class. The Company implemented the same allocation methodology accepted by the
16 Commission in previous Annual Retail Rate Adjustment filings, which is to allocate
17 based on each rate class's contribution to system peak. The contribution to system peak
18 by class is presented on Schedule DBS-3 on page 2, and the allocation of transmission
19 cost to each class is shown on Schedule DBS-3, page 1.

1 **V. RGGI AUCTION PROCEEDS**

2 **Q. How does the Company propose to refund RGGI auction proceeds to delivery**
3 **service customers?**

4 A. Consistent with Order No. 25,664 (May 9, 2014) in Docket No. DE 14-048, the Company
5 will credit the RGGI rebate amount it receives from the allocation on a per kWh basis
6 through its retail rate reconciliation mechanism that is adjusted on an annual basis. The
7 Company has included a credit of (\$0.00090) cents per kWh for RGGI auction proceeds
8 in its transmission service charge for 2018, as shown on Schedule DBS-4.

9 **VI. NET METERING LOST REVENUE ADJUSTMENT MECHANISM**

10 **Q. Why is the Company seeking recovery of displaced distribution revenue associated**
11 **with net metering?**

12 A. Due to the increasing number of customer-generator energy systems, primarily
13 photovoltaic (PV), also known as solar energy systems, the Company is receiving less
14 distribution revenue than it would have received were it not for the energy generated by
15 these systems.

16 **Q. Under what authority is Granite State allowed to collect lost revenue due to net**
17 **metering?**

18 A. In accordance with New Hampshire Code Admin. Rules Puc 903.02(o) and RSA 362-
19 A:9, and consistent with the methodology set forth in Docket DE 15-147, approved by
20 NHPUC Order No. 25,991 (Feb. 21, 2017), in which Unitil Energy Systems petitioned to
21 recover displaced distribution revenue due to customer net-metered generation, Granite
22 State may recover lost revenue due to net metering in 2016 and 2017. Additional

1 information regarding the history and authority to collect lost revenues due to net
2 metering can be found in the Direct Testimony of Heather M. Tebbetts, which is included
3 in this filing.

4 **Q. How did you estimate the amount of energy produced by net metered customers?**

5 A. The Company utilized the PVWatts model to estimate the amount of energy produced by
6 net metered customers.

7 **Q. What is the PVWatts Model?**

8 A. The National Renewable Energy Laboratory, which is the only federal laboratory
9 dedicated to research, development, commercialization, and deployment of renewable
10 energy and energy efficiency technologies, developed the PVWatts Model. It estimates
11 the energy production and cost of energy of grid-connected PV energy systems
12 throughout the world. The PVWatts Model is a common and well-respected tool used to
13 estimate the energy generated in PV energy systems. Because of its accuracy and ease of
14 access, and because this methodology was accepted and approved in Unitil Docket No.
15 DE 15-147, the PVWatts Model was used in this analysis.

16 **Q. Please describe how you calculated the displaced distribution revenue associated**
17 **with net metering.**

18 A. The PVWatts model was used to estimate the energy produced by each net metered
19 customer on a monthly basis. This was compared to actual billing usage data to calculate
20 the amount of displaced kWh due to net metering by individual customer each month.
21 These kWh were multiplied by the distribution rate in effect at the time of energy

1 generation and billing. It is important to note, any energy surplus was excluded from this
2 calculation. That is, if a customer exported energy to the grid because they generated
3 more energy than was consumed in a billing cycle, only the energy that was actually
4 used, and not “banked,” was counted in this analysis.

5 **Q. What are the results of this analysis?**

6 A. The Company experienced a total of \$71,022 in lost distribution revenue; \$14,098 in
7 2016 and \$56,924 in 2017. These results are detailed in DBS-5.

8 **Q. How will this \$71,022 be recovered?**

9 A. The Company is proposing to implement an increase to base transmission rates of
10 \$0.00008 effective May 1, 2018, as detailed on DBS-5, page 1.

11 **VII. EFFECTIVE DATE AND RATE IMPACTS**

12 **Q. How and when is the Company proposing that these rate changes be implemented?**

13 A. Consistent with the Commission’s rules on the implementation of rate changes, the
14 Company is proposing that all of the above rate changes be made effective for usage on
15 and after May 1, 2018.

16 **Q. Has the Company proposed a rate change for any other bill components to be
17 effective on that same date?**

18 A. Yes. On March 16, 2018, the Company filed its annual REP/VMP Reconciliation in
19 which it requested a rate increase to its distribution rates for capital expenditures and
20 vegetation management expenses from calendar year 2017. The Company also filed on

1 March 16, 2018, its rate case expense and capital step compliance requirements from
2 Docket No. DE 16-383. Additional rate design compliance requirements from Docket
3 No. DE 16-383 will be filed on or before March 30, 2018.

4 **Q. Has the Company determined the impact of these rate changes on customers' bills?**

5 A. Yes. A bill comparison for an Energy Service residential customer with an average kWh
6 usage of 650 has also been included in this filing in Schedule DBS-6. The net total bill
7 impact of the rates proposed in this filing, as compared to rates in effect today, is a
8 monthly bill increase of \$8.48, or 7.04%.

9 **VIII. CONCLUSION**

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

11 A. Yes, it does.