

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 18-051

**LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.
d/b/a LIBERTY UTILITIES**

Annual Retail Rate Adjustment

Order Approving Rate Adjustments

ORDER NO. 26,140

May 31, 2018

APPEARANCES: Michael J. Sheehan, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a/ Liberty Utilities; the Office of the Consumer Advocate by Brian D. Buckley, Esq., on behalf of residential ratepayers; and Paul B. Dexter, Esq., on behalf of Commission Staff.

In this order, the Commission approves Liberty's annual retail rates for recovering stranded costs and transmission costs for an eleven-month period beginning June 1, 2018. The impact for residential customers using 650 kilowatt hour (kWh) per month would be a monthly bill increase of \$8.48, from \$120.55 to \$129.04, or 7.04 percent from rates currently in effect.

Liberty's base distribution rates will change effective June 1, 2018, for several other items, including Docket No. DE 18-034 dealing with reliability enhancement and vegetation management; Docket No. DE 18-050 involving a rate reduction to pass on to ratepayers recent reductions in corporate tax rates; and Docket No. DE 16-383 concerning a step increase for capital investments since the last rate case. The cumulative effect of the four changes is an increase in monthly bills between 5 and 6 percent for residential consumers using 650 kWh per month.

I. PROCEDURAL HISTORY

On March 30, 2018, Liberty Utilities (Granite State Electric) Corp. d/b/a/ Liberty Utilities (Liberty or the Company) requested approval of its Stranded Cost Adjustment Factor and its Transmission Service Cost Adjustment, effective on a service-rendered basis on and after May 1, 2018. On April 5, 2018, Liberty asked to postpone the effective date until June 1, 2018. Liberty stated that the one month delay would allow sufficient time for review of all rate changes.

An Order of Notice, issued on April 23, 2018, and scheduled a hearing for May 9, 2018. The Office of Consumer Advocate (OCA) filed a letter of participation on April 30, 2018, pursuant to RSA 363:28.

Liberty's initial filing and subsequent docket filings, other than any documents for which confidential treatment has been requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-051.html>.

II. POSITIONS

A. Liberty

1. Stranded Cost Adjustment Factor

Liberty's Stranded Cost Adjustment Factor recovers contract termination charges billed by New England Power Company (NEP) in connection with termination of NEP's all-requirements power contracts with National Grid, prior to the advent of retail competition in the Company's service territory. The Commission approved the applicable recovery mechanisms in *Granite State Electric Co.*, Order No. 23,041 (October 7, 1998). Liberty Utilities acquired Granite State Electric Company and the associated obligations from National Grid in 2012. *See National Grid USA, et al*, Order No. 25,370 (May 30, 2012).

The proposed Stranded Cost Adjustment Factor consists of two components: (1) a uniform per kWh charge Liberty collects from all customers reflecting contract termination charges assessed by NEP; and (2) a stranded-cost adjustment factor reconciling any excess or deficiency from the prior year. Liberty proposes to change the uniform charge per kWh from the current charge of 0.040 cents per kWh to a credit of 0.040 cents per kWh¹ effective June 1, 2018.² The stranded cost adjustment reconciling factor will decrease to a credit of 0.055 cents per kWh, reconciling an over-collection from the previous year.

2. Transmission Service Cost Adjustment

Liberty's Transmission Service Cost Adjustment includes costs incurred for transmission service. Through this adjustment, Liberty recovers costs charged by ISO New England, (ISO-NE), the operator of the regional power grid, and NEP through the ISO-NE Open Access Transmission Tariff. It also includes an adjustment factor that reconciles transmission expenses and revenues from the prior service period.

As part of its Transmission Service Cost Adjustment, Liberty proposes to credit customers for Regional Greenhouse Gas Initiative (RGGI) allowance auction revenues. It also proposes to collect for lost revenues associated with customer generators participating in Liberty's net metering program.

Specifically, Liberty's proposed Transmission Service Cost Adjustment has four components: (1) an average transmission service rate of 2.585 cents per kWh;³ (2) a reconciling charge of 0.557 cents per kWh; (3) a RGGI credit of 0.090 cents per kWh; and (4) a net metering lost revenue charge of 0.008 cents per kWh.

¹ Credits have the effect of lowering customer bills.

² On January 30, 2018, NEP filed a contract termination charge report with the Commission, which is under review in Docket No. DE 18-010.

³ This rate varies by customer class.

To obtain transmission service Liberty enters into service agreements with entities authorized to provide transmission service by the Federal Energy Regulatory Commission (FERC). NEP and ISO-NE assess transmission charges to Liberty to cover the cost of providing transmission over regionally networked facilities, more commonly known as pool transmission facilities or bulk transmission facilities. The transmission service provided over those facilities is referred to as regional network service (RNS).

The regional network service rate recovers network costs on a regionalized basis. Determined annually, the charge is based on an aggregation of transmission revenue requirements of each transmission owner in New England, calculated in accordance with a FERC-approved formula. Liberty is also billed for transmission over NEP's local transmission facilities, which are not considered bulk transmission facilities. The transmission service provided by those facilities is referred to as local network service (LNS).

The Company explained that its transmission expenses for 2018 are projected to be \$23.4 million, a net increase of \$2.1 million from the 2017 forecast. Liberty attributed this increase to infrastructure investments by transmission providers.

The requested transmission reconciliation charge of 0.557 cents per kWh reflects two items: working capital on transmission costs, and transmission service over/under collection. Two components in turn make up the transmission service over/under collection: actual transmission revenues and expenses from January 2017 through January 2018, and forecasted transmission revenues and expenses from February 2018 through April 2018, which combine to produce a projected under-collection of \$2,750,752. Liberty testified that the \$2,750,752 under-collection reflected a correction of inadvertent revenue and expense double counting for the

months of February, March, and April 2016.⁴ Due in large part to this correction the May 1, 2017, balance is an under-collection of \$234,133. Further, the Company stated that transmission costs were projected to be \$21.3 million last year and actual costs were \$22.5 million. Liberty stated that the \$2,750,752 under-collection balance projected for May 1, 2018, in this case will contribute to higher rates this year, as current rates reflect a \$3,354,364 million over-collection from Docket No. DE 17-049.

The second component of transmission service over/under collection is the prior under-collection, which is also affected by the double counting present in last year's filing. Adding this prior period under-collection of \$2,286,290 to the projected under-collection of \$2,750,752 yields a total under-collection of \$5,037,042, to be recovered from customers through the rates set in this case.

Liberty plans to perform a complete audit of its over/under collected balance of transmission costs and stranded costs, starting with Liberty's acquisition of National Grid in 2012. According to Liberty, it will review revenues, expenses, and associated interest to determine an accurate over/under collected balance for use in next year's filing, including balances inherited from National Grid. Liberty testified that it had performed a similar review for its gas distribution affiliate, EnergyNorth Natural Gas, concerning over/under collections of gas costs.⁵

The Company proposes to recover \$13,193 of working capital, the second item in the reconciliation charge, in its transmission costs. This component had been included in base rates until the Company's most recent rate case, Docket No. DE 16-383. Consistent with the approved

⁴ This double counting was the result of an error in the prior year's filing, reviewed in Docket No. DE 17-049.

⁵ These reviews involved balances identified by the Commission Audit Staff during routine Cost of Gas audits in 2013 and 2014.

settlement in that case, the item has been shifted to the Transmission Service Cost Adjustment. Order No. 26,005 at 8 (April 12, 2017).

The Company's proposed 2018 reconciliation charge is 0.557 cents per kWh. The charge was calculated by dividing the total under-collection amount of \$5,037,042 plus the working capital of \$13,193, a total of \$5,050,235, by the forecasted 906,561,361 kWh sales for the year beginning May 1, 2018.

In addition, the proposed Transmission Service Cost Adjustment includes a credit of 0.090 cents per kWh, refunding RGGI allowance auction amounts above \$1.00 per allowance, pursuant to RSA 125-O:23 and Order No. 25,664 (May 9, 2014). This results in a total Transmission Service Cost Adjustment for the Residential Rate D customer of 3.460 cents per kWh.

Finally, Liberty proposes a charge of .008 cents per kWh to allow recovery of \$71,022 in lost revenues associated with customer generators participating in Liberty's net metering program. Liberty proposed this recovery pursuant to N.H. Admin. Code Puc 903.02(o) and Order No. 26,029 (June 23, 2017), authorizing the methodology for such revenue. According to Liberty, it used the authorized method to calculate the proposed charge and the net metering lost revenues for 2016 and 2017.

Based on the proposed Stranded Cost Adjustment Factor and Transmission Service Cost Adjustment, the impact for residential customers using 650 kilowatt (kWh) per month is a monthly bill increase of \$8.48, from \$120.55 to \$129.04 per month, or 7.04 percent from rates currently in effect.

B. OCA

The OCA supported the proposed rates as just and reasonable. The OCA agreed with the Commission directive of exploring reductions in peak electric load, to Liberty and other New Hampshire electric utilities.

C. Staff

Staff supported the proposed rates, however, questioned the corrections Liberty made to the prior over/under-collected transmission and stranded costs balances. Staff submitted pages from Liberty's FERC Form 1 for the year ending December 31, 2017, and asked Liberty to compare the transmission over/under collection balance in that report to the balances presented in this filing. Liberty responded that the FERC Form 1 showed an under-collection of approximately \$8 million at the end of 2017. According to Liberty, that figure is relatively close to the approximately \$5 million requested for recovery when the balance of about \$3.5 million inherited from National Grid, not included in this filing, is taken into account.

Staff indicated full support of an audit of over/under collected balances by both Liberty and Commission Audit Staff, to achieve an accurate balance to be used in next year's filing.

III. COMMISSION ANALYSIS

The Commission is authorized to determine whether rates charged to retail utility customers in New Hampshire are just, reasonable, and lawful. *See*: RSA 374:2 and RSA 378:7. The Commission is also authorized to "order such charges and other service provisions and to take such other actions that are necessary to implement [electric industry] restructuring and that are substantially consistent with the principles" set forth in RSA 374-F. The relevant principles include providing "clear price information on the cost components of generation, transmission, distribution, and any other ancillary charges" pursuant to RSA 374-F:3, III, and recovery of

stranded costs through a “non-bypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, [and] consistent with the promotion of fully competitive markets” pursuant to RSA 374-F:3, XII(d).

Granite State Electric Co., Order No. 23,041, contained the relevant, underlying policy determinations and approved the rate adjustment mechanisms reflected in the Company’s current proposal. Each rate component deserves a brief discussion.

Liberty’s proposed Stranded Cost Adjustment Factor decreases by 0.144 cents per kWh, and thus converts that rate component from a charge of 0.049 cents to a credit of 0.095 cents per kWh for the credit for Residential (Rate Class D) customers. Other rate classes will see similar decreases. The portion of the charge that recovers the NEP contract termination charges converts from a charge of 0.040 cents per kWh to a credit of 0.040 cents per kWh for all rate classes. The Commission received a contract termination charge (CTC) report from NEP on January 30, 2018, but Staff has not yet concluded its review of the report. Therefore, we conditionally approve Liberty’s Stranded Cost Adjustment Factor. We direct Staff to complete its review of the CTC report to verify the rate. Staff shall report its findings to the Commission once it completes its analysis.

Liberty’s proposed Transmission Service Cost Adjustment incorporates two components: (1) an average charge of 2.2585 cents per kWh, designed to recover forecasted transmission expenses for 2018; and (2) the reconciling charge of 0.557 cents per kWh attributable primarily to under-recoveries from the prior period, as corrected for prior errors. We are concerned about the magnitude of the errors disclosed in this proceeding. According to Liberty, the rate presented last year for approval should have been a credit of 0.151 cents per kWh compared to the proposed (and approved) credit of 0.414 cents per kWh. This discrepancy is significant. We

direct the Company to perform the audit as described and we authorize the Commission Audit Staff to conduct an independent audit. We support the goal of determining the correct over/under recovered balances for both transmission and stranded costs that the Company and Staff can agree on, to use as a starting point for next year's filing.

The transmission costs in question are derived from FERC-approved tariffs and are subject to FERC jurisdiction. Those costs are then applied in accordance with the rate mechanism approved in Order No. 23,041. Accordingly, we approve Liberty's proposed transmission service cost adjustment, including the RGGI credits, the working capital amount and the lost revenues associated with net metered customers for effect with services rendered on and after June 1, 2018.

At the hearing, we noted that the allocation of regional transmission costs to New Hampshire electric utilities are a function of peak load and questioned Liberty's peak load reduction strategy. Liberty described its proposed battery storage program and cited work with a large customer in the Lebanon area to improve that customer's load shape. Liberty stated that its energy efficiency programs implemented, pursuant to the energy efficiency resource standard (EERS) as approved by Order No. 25,932 (August 2, 2016), do not include programs specifically targeted to reduce peak load. We urge Liberty to continue efforts it has taken to reduce peak load and to explore new efforts, including the energy efficiency programs implemented pursuant to the EERS and report to the Commission on its efforts in its next annual filing.

With the combined changes in stranded cost and transmission charges, a residential customer using 650 kWh per month taking default service would experience a monthly bill increase of \$8.48 or 7.04 percent. The Commission is issuing simultaneous orders pertaining to Liberty rate adjustments effective June 1, 2018: in Docket No. DE 18-034; in Docket No. DE

18-050; in Docket No. 16-383; and in this docket. The cumulative effect of the four changes is an increase in monthly bills between 5 and 6 percent for residential consumers using 650 kWh per month.

Based upon the foregoing, it is hereby

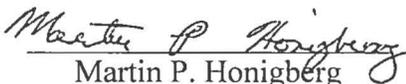
ORDERED, that, as detailed above, the retail rates proposed by Liberty in Exhibit 1 at 43, filed March 30, 2018, are hereby **APPROVED** effective for the period June 1, 2018, through April 30, 2019; and it is

FURTHER ORDERED, that Liberty shall conduct an audit of its over/under collection accounts for transmission costs and stranded costs. The audit should reconcile the accounts from the date Liberty acquired Granite State Electric Company to the present time, establishing accurate balances of over/under recovered transmission costs and stranded costs for use in next year's filing; and it is

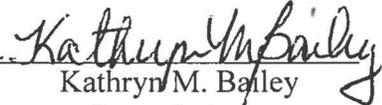
FURTHER ORDERED, that Commission Audit Staff shall conduct an audit of Liberty's reconciled over/under collection accounts for transmission costs and stranded costs for use in next year's filing; and it is

FURTHER ORDERED, that Liberty file appropriate tariff changes that conform to this order within 20 days hereof pursuant to N.H. Code Admin. Rules Puc 1603.

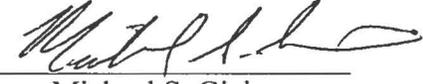
By order of the Public Utilities Commission of New Hampshire this thirty-first day of
May, 2018.



Martin P. Honigberg
Chairman

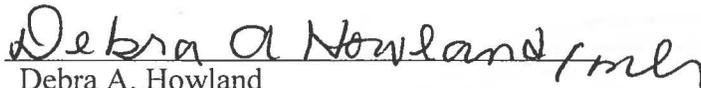


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director