

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 18-041

LIBERTY UTILITIES (GRANITE STATE ELECTRIC) D/B/A LIBERTY UTILITIES

Solicitation of Energy Service

Order Approving Solicitation Process and Resulting Rates

ORDER NO. 26,150

June 25, 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 D. Maurice Kreis, Esq. on behalf of residential ratepayers; and Paul B. Dexter, Esq. on behalf of Commission Staff.

In this order, the Commission approves Liberty Utilities' competitive solicitation of energy supply for its large and small customer groups. The Commission authorizes Liberty to recover the costs of that supply through an energy service rate of 8.299 cents per kWh for its residential and small commercial customer group. This energy service rate includes over-collections from the prior year, which offset increases in the competitive energy market caused by increases in wholesale electricity and natural gas prices. As a result of those offsets, even though the power supply costs are higher, a residential customer who uses Liberty's energy service will experience an overall decrease in its monthly bill of \$4.11 (from \$127.55 to \$123.44), or about 3.22 percent.

I. PROCEDURAL HISTORY

On March 23, 2018, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty) filed notice of its forthcoming schedule for requesting approval of its solicitation and

procurement of default energy service for 100 percent of power supply requirements for the six-month period August 1, 2018, through January 31, 2019.

On June 18, 2018, Liberty filed the results of its solicitation along with supporting testimony, related exhibits, and proposed rates to recover the costs of power supply. The solicitation requested power supply for Liberty's large and medium commercial customers (Large Customer Group)¹ and its small commercial and residential customers (Small Customer Group)² for the six-month period beginning August 1, 2018. The filing was made pursuant to a settlement agreement approved by the Commission in Order No. 24,577 (January 13, 2006), as modified by Order No. 24,922 (December 19, 2008), Order No. 25,601 (November 27, 2013), and Order No. 25,806 (September 2, 2015). Consistent with Order No. 25,806, Liberty shifted its default service periods to provide that each six-month period includes one of the two winter months (January and February) when the region traditionally experiences high energy prices.

Liberty's filing included the testimony of John D. Warshaw, Manager, Electric Supply for Liberty Utilities Service Corp. Mr. Warshaw's testimony describes the default service procurement process. The attachments to the testimony contain information which Liberty claims is confidential pursuant to New Hampshire Code Admin. Rule Puc 201.06(a)(15), including the Company's master power agreement transaction confirmations with the winning suppliers, bid evaluation and summary information, and compliance with New Hampshire's Renewable Portfolio Standard (RPS) requirements.

¹ The Large Customer Group includes customers taking service under the General Long-Hour Service Rate G-2, or General Time-of-Use Rate G-1, under the Company's Retail Delivery Tariff.

² The Small Customer Group includes customers taking service under Domestic Service Rate D, Domestic Service-Optional Peak Load Pricing Rate D-10, Outdoor Lighting Service Rate M, Limited Total Electrical Living Rate T, General Service Rate G-3, or Limited Commercial Space Heating Rate V, under the Company's Retail Delivery Tariff.

On May 16, 2018, Liberty filed its initial rate reconciliation calculation. The May 16 filing included the testimony and related exhibits of Jaime L. Urban and David B. Simek, both with Liberty's Rates and Regulatory Affairs department. The testimony and exhibits included the result of the reconciliation of (1) energy service power supply expense and applicable revenue, (2) costs and revenues associated with compliance with the RPS requirements, and (3) administrative costs and associated revenues incurred in connection with providing energy service for the period.

Liberty's reconciliation filing also proposed an adjustment to the RPS adder that the Company uses to procure compliance with New Hampshire's RPS law. Liberty filed an updated reconciliation calculation on June 18, 2018, and also filed energy service rates for effect August 1, 2018. The updated reconciliation provided the most current information available regarding the factors that are included in the calculation of the proposed energy service rates for both the Small and Large Customer Groups.

The Office of the Consumer Advocate (OCA) filed a letter of participation on behalf of residential customers pursuant to RSA 363:28 on April 2, 2018.

The Commission issued an order of notice on April 19, 2018, scheduling a hearing on June 21, 2018. The hearing was held as scheduled.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-041.html>.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

1. RFP Process

Liberty said it conducted its solicitation process consistent with the terms of the settlement agreement approved in Order No. 24,577. It issued a request for proposals (RFP) on May 1, 2018, to approximately 25 potential suppliers. It also distributed the RFP to all members of the New England Power Pool Markets Committee and posted the RFP on its energy supply website. The RFP requested fixed pricing for each month of service on an as-delivered energy basis.

Liberty received indicative proposals on June 5, 2018, and final bids one week later. Liberty evaluated the bids received and for each customer group, chose the supplier that (1) provided a bid that was conforming to the RFP, (2) had the lowest price, (3) met the credit requirements described in the RFP, and (4) passed Liberty's qualitative evaluation.

On June 13, 2018, Liberty entered into a wholesale Transaction Confirmation with NextEra Energy Marketing, LLC (NextEra), as the winning bidder to provide power supply to the Large Customer Group for the three-month period August 1, 2018, through October 31, 2018; and to the Small Customer Group for the six-month period August 1, 2018, through January 31, 2018. A copy of the Transaction Confirmation, with confidential sections redacted, is attached as an exhibit to Mr. Warshaw's testimony. Liberty filed the NextEra Master Power Agreement in Docket No. DE 07-012, one of its prior energy service proceedings.

Also on June 13, 2018, Liberty entered into a wholesale Transaction Confirmation with Vitol, Inc. (Vitol), as the winning bidder to provide energy service to the Large Customer Group for the three-month period November 1, 2018, through January 31, 2019. A copy of the Master

Power Agreement between Liberty and Vitol was filed in connection with Liberty's 2017 energy service proceeding (Docket No. DE 17-058). Liberty also attached the Transaction Confirmation between Liberty and Vitol, with certain sections redacted, as an exhibit to Mr. Warshaw's testimony.

According to Liberty, as a result of its bid selections, the load-weighted average of the energy service power supply costs for the Large Customer Group for the period beginning August 1, 2018, and ending January 31, 2019, is 8.556 cents per kilowatt hour (kWh) as compared with the load-weighted average of 7.593 cents per kWh for the six-month period ending July 31, 2018. The load-weighted average of the power supply costs for the Small Customer Group for the six-month period beginning August 1, 2018, is 8.913 cents per kWh compared to the load-weighted average of 8.079 cents per kWh for the six-month period ending July 31, 2018. Liberty said that the increase in supply costs reflect the increase in electric wholesale and natural gas prices.

2. RPS Adder

The energy service period covered in this filing includes parts of the 2018 and 2019 compliance years. Liberty stated that its 2018 RPS compliance requirement is 18.7 percent of its load, and that the percentage will increase to 19.7 percent in 2019. Liberty calculated an RPS compliance adder for the energy service period beginning August 1, 2018, of 0.462 cents per kWh for 2018, and 0.557 cents per kWh for January 2019, for both the Small and Large Customer Group.

3. Retail Rates

Liberty calculates the base energy rate for both customer groups using applicable loss factors and then adjusts the rates by including the RPS adder, the Energy Service Adjustment

Factor (ESAF), and the Energy Service Cost Reclassification Adjustment Factor (ESCRAF). Liberty testified that the ESAF and ESCRAF included several significant prior period adjustments which had been over-collected by more than \$5 million. The adjustments were made to address issues that were discovered during an internal review of these accounts. Returning those over-collections to ratepayers serves to reduce the rates proposed in this case. With the inclusion of the RPS adder, the reconciliation factors, and reversal of prior year accruals, Liberty calculated an energy service rate of 8.299 cents per kWh for the Small Customer Group for the six-month period beginning August 1, 2018. The result for a residential customer using 650 kWh is a 3.22 percent decrease in monthly bills, from \$127.55 to \$123.44, as compared with rates ending July 31, 2018.

For the Large Customer Group, Liberty develops base energy service rates that vary by month. Liberty then adjusts those rates using the reconciliation factors and the RPS adders, to calculate a total energy service rate for each month in the energy service period. As a result of those calculations, Liberty derived the following monthly rates for customers in the Large Customer Group.

August 2018	5.941 cents per kWh
September 2018	6.223 cents per kWh
October 2018	7.009 cents per kWh
November 2018	7.210 cents per kWh
December 2018	9.323 cents per kWh
January 2019	11.976 cents per kWh

In response to concerns raised by Staff, Liberty stated that it supported a Commission Staff audit of the reconciliation accounts. In addition, it stated that in future filings it would remove the one-day payment processing and bank float lag used in the working capital calculation related to energy service. Liberty stated, however, that the inclusion of the lag was ordered in DE 09-010 and that its removal would require a Commission order. Liberty did not

support removal of the one-day float in this reconciliation case because the effect on the proposed rates would be insignificant.

B. OCA

The OCA stated that it supported approval of the proposed rates because the rates resulted from a competitive solicitation and are just and reasonable.

C. Staff

Staff supported approval of the rates and, like the OCA, noted that the power supply was procured through a competitive solicitation process, and that the rates were just and reasonable. Staff recommended that the Commission Audit Staff conduct an audit of the reconciliation accounts that feed into the ESAF and the ESCRAF, including a review of the various prior period adjustments that were made to these accounts, as described in this case.

Concerning the working capital calculation, Staff recommended that the results of a lead lag study from Liberty's most recent distribution rate case be used. Liberty included a one-day payment processing and bank float in calculating its revenue lag (the number of days between when Liberty provides service to customers and when it receives payment for that service). Staff noted that the lead lag study filed in Liberty's most recent rate case did not include such a float and recommended that it be removed from future energy service proceedings. Staff recommended that future energy service reconciliation calculations use the results of the most recent lead lag study (which are required to be filed in distribution rate cases), updated for current results (such as the current accounts receivable balances and current monthly sales).

III. COMMISSION ANALYSIS

We find that Liberty complied with the procedures approved in the settlement agreement approved in Order No. 24,577, as amended in subsequent dockets, regarding its issuance of the

RFP, its analysis of the bids, and its selection of the winning bidders. We are also satisfied that Liberty took appropriate steps to solicit multiple potential suppliers in order to receive competitive bid responses. We find that the results are consistent with the requirements of RSA 374-F:3, V(c) that default service be procured through the competitive market, and that the resulting rates are just and reasonable as required by RSA 374:2.

We further find that Liberty's evaluation of the bids and its selection of suppliers were reasonable and appropriate. Liberty's testimony and its bid evaluation report indicate that bid prices reflect expected market conditions for the six-month period beginning August 1, 2018. Finally, based on the testimony and other information provided by Mr. Warshaw, we approve the RPS adder and the proposed rates.

We authorize the Commission Audit Staff to conduct an independent audit of the ESAF and the ESCRAF and related accounts and balances in such timeframe as to allow the results of the audit to be reflected in next year's reconciliation filing.

Concerning the use of lead lag study results in future solicitations, we agree with Staff that the Company should use the results of its most recent distribution rate case lead lag study (updated with recent information and adjusted for energy service, where applicable).³ If a payment processing and bank float lag no longer exists, we see no reason to continue to reflect such a lag in the Company's working capital calculation.

Based upon the foregoing, it is hereby

ORDERED, that the Master Power Agreement and Transaction Confirmation entered into between Liberty Utilities (Granite State Electric) Corp. and NextEra Energy Marketing, LLC, for the six-month power supply for the Small Customer Group and the three-month power

³ Lead lag studies are required to be filed in distribution rate case proceedings for utilities with gross revenues over \$50 million. Liberty satisfies this requirement. N.H. Code Admin. Rules Puc 1604.07(t).

supply block that begins August 1, 2018, for the Large Customer Group, and the resulting energy service rates are hereby APPROVED; and it is

FURTHER ORDERED, that the Master Power Agreement and Transaction Confirmation entered into between Liberty Utilities (Granite State Electric) Corp. and Vitol, Inc., for the three-month block of power supply beginning November 1, 2018, for the Large Customer Group and the resulting energy service rates are hereby APPROVED; and it is

FURTHER ORDERED, that Liberty, in future energy service reconciliation filings, shall use the results of its most recent distribution rate case lead lag study (updated for more recent information and adjusted for energy service, where applicable); and it is

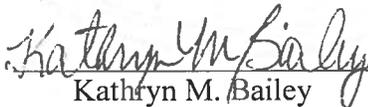
FURTHER ORDERED, that an audit be conducted of the ESAT and the ESCRAF and related accounts and balances in time to allow the results to be reflected in next year's reconciliation filing; and it is

FURTHER ORDERED, that Liberty shall file conforming tariffs within 30 days of the date of this Order, consistent with N.H. Code Admin. Rules Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of June, 2018.



Martin P. Honigberg
Chairman

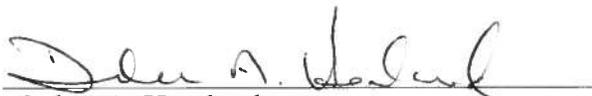


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director