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

**DE 14-340**

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

**Annual Retail Rate Adjustment**

**Order Approving Rate Adjustments**

**O R D E R N O. 25,745**

**December 30, 2014**

**APPEARANCES**: Sarah B. Knowlton, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities; the Office of Consumer Advocate by Susan W. Chamberlin, Esq., on behalf of residential customers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission approves Liberty's annual retail rate reconciliation of its stranded cost and transmission charges for a twelve-month period beginning May 1, 2015. The resulting rate impacts for residential customers using 665 kWh per month is a monthly bill increase from $160.30 to $168.35 (5.02%). While Liberty had asked that the increase take effect January 1, 2015, the Commission is postponing the change until May 1, 2015, to avoid an additional increase to high energy prices this winter.

## I. BACKGROUND AND PROCEDURAL HISTORY

On November 25, 2014, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty or Company) filed a request for approval of retail rate adjustments related to its stranded cost charge and its transmission service charge. Liberty asked that the rates be effective on a service-rendered basis on and after January 1, 2105. In addition, Liberty proposed to refund customers a one-time credit associated with a borderline sales agreement with Massachusetts Electric Company (MECO), and included in its rate calculation a credit of certain excess Regional Greenhouse Gas Initiative (RGGI) allowance auction revenues to customers. The Commission issued an Order of Notice on December 2, scheduling a hearing for December 16, 2014. Also on December 2, the Office of Consumer Advocate (OCA) filed a letter of participation pursuant to RSA 363:28.

Liberty's stranded cost charge recovers the Contract Termination Charge (CTC) billed by New England Power Company (NEP) in connection with the 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, 83 NH PUC 532 (October 7, 1998). Liberty Utilities acquired Granite State Electric Company and associated obligations from National Grid in 2012. *See* Order No. 25,370 (May 30, 2012).

Liberty's transmission service charge adjustment (TSCA) includes costs that the Company incurs in providing transmission service. Through the TSCA, Liberty recovers costs billed to it by the Independent System Operator-New England (ISO-NE) and NEP through the ISO-NE Transmission, Markets and Services Tariff. In this filing, Liberty also includes an adjustment factor that reconciles transmission rates and revenues from the prior service period.

## II. POSITIONS OF THE PARTIES

### A. Liberty Utilities

#### 1. <u>Stranded Cost Adjustment Charge</u>

The proposed stranded cost charge consists of two components: (1) a uniform per kWh charge Liberty collects from all customers reflecting the CTC assessed by NEP, and (2) rate-class specific adjustment factors reflecting the reconciliation of any excess or deficiency in stranded cost recovery from that rate class in the prior year. Liberty testified that the proposed adjustments comply with its tariff, which provides for adjustments to the stranded cost charge as a result of any changes in the CTC assessed by NEP, as well as the rate-class specific reconciliation. The Company's filing proposed a decrease to the uniform stranded cost charge from 0.080 cents per kilowatt hour (kWh) to a credit of 0.150 cents per kWh (excluding rate class-specific adjustment factors) for the period beginning January 1, 2015. As of the time of Liberty's filing, NEP had not filed the final CTC report.

**2. <u>Transmission Service Cost Adjustment</u>**

The filing included a change in transmission-related rates for costs incurred by Liberty and recovered through the TSCA in its tariff. The Company testified that base transmission rates are established annually using a forecast of costs incurred by the Company to provide transmission service to its retail delivery service customers. To obtain transmission service, the Company enters into service agreements with entities authorized by the Federal Energy Regulatory Commission (FERC) to provide transmission service in New England.

NEP and ISO-NE assess transmission service charges to Liberty to cover the cost of providing transmission over regionally networked facilities, more commonly known as Pool Transmission Facilities (PTF), or bulk transmission facilities. The service provided over those facilities is referred to as Regional Network Service (RNS). The ISO-NE RNS rate recovers RNS costs on a regionalized basis, and is determined annually based on an aggregation of the transmission revenue requirements of each transmission owner in New England, calculated in accordance with a FERC-approved formula. The Company is also billed for transmission over

NEP's local transmission facilities, considered non-PTF facilities. The service provided by the non-PTF facilities is referred to as Local Network Service (LNS).

Through the TSCA, the Company is permitted to recover costs billed to it by ISO-NE and NEP. The TSCA permits full reconciliation of transmission revenue and expenses, including adjustments for any over- or under-recovery of transmission costs from prior reconciliation periods. The 2013 reconciliation reflects actual transmission expenses for the period October 2013 through September 2014. To more accurately reflect and match transmission revenue with expenses, the September 2014 usage that was billed in October 2014 is included in this year's reconciliation.

Liberty's proposed transmission service charge for 2015 consists of two components: (1) a uniform transmission service adjustment factor of 0.24 cents per kWh, which is the reconciling mechanism in the transmission service charge; and (2) an average transmission service rate of 2.342 cents per kWh that varies by rate class, for a total transmission rate of 2.582 cents per kWh. The Company's estimated 2015 transmission service adjustment factor of 0.24 cents per kWh reflects a transmission service under-collection of $2,319,113 from the prior reconciliation period. The factor was calculated by dividing the under-collection of the transmission service expense at September 2014 by the forecasted 963,111,161 kWh sales for 2015. Liberty testified that the under-collection for 2014 resulted from the fact that the Company's estimate developed for 2014 did not take into account NEP's planned transmission projects, and instead assumed that the 2014 costs would be similar to actual costs incurred in 2013. Liberty explained that, for future filings, the Company will review NEP's planned transmission projects when it develops the LNS estimate.

The Company explained that Liberty's transmission and ISO-NE expenses for 2015 are projected to be $22.6 million, a net increase of $4.1 million from the 2014 forecast. Liberty said that the increase is due to PTF plant additions anticipated to be in place in 2015 across New England. The Company stated that the largest portion of the increase is in LNS rates, due to a $4 million increase in the total expense that NEP will charge to Liberty in 2015. Liberty calculated an average proposed transmission service rate of 2.342 cents per kWh, an increase over the current effective average transmission rate of 1.948 cents per kWh.

Liberty explained that this filing includes a one-time credit of 0.012 cents per kWh due to a payment received from MECO pursuant to a settlement regarding past borderline sales between MECO and Liberty. In addition, the calculation of the proposed rate changes includes a credit of 0.053 cents per kWh to refund to customers RGGI allowance auction amounts above $1.00 per allowance pursuant to Order No. 25,664 (May 9, 2014).

Liberty stated that for residential customers using 665 kWh of electricity per month, the average monthly residential customer use, bills would increase from $160.30 per month to $162.56 per month, or 1.41%. Liberty said that to avoid another rate increase during the winter months, the Company was willing to defer the implementation of the rate, provided that the overall recovery included the carrying costs associated with the deferral. In addition, in response to Staff's suggestion, the Company said that it would consider pursuing a potential buy-down of the CTC charges.

Following the hearing, on December 17, Liberty filed a response to a record request (Exhibit 2) made at hearing. Liberty made an additional filing on December 18, which showed the calculation of the subject rates, including associated carrying costs, in the event that the

Commission decided to postpone the effective date of the rates until May 1, 2015. Liberty asked that the December 18th filing be included in the hearing record and identified as Exhibit 3. Liberty presented two scenarios in the December 18th filing. Both assumed a delay in the implementation of the rate increase to May 1, 2015. In the first scenario, recovery would take place over twelve months, through April 2016, and the average monthly residential bill would increase to $168.35 (5.02%). In the second scenario, recovery would go only through December 2015, and the average monthly residential bill would increase to $172.20 (7.42%).

**B. OCA**

The OCA said that it had no objection to the methodology used by Liberty in calculating the rates. The OCA suggested that it would be appropriate for the Company to postpone implementation of the rates to avoid another increase to already-high winter rates.

**C. Staff**

Staff said that it had reviewed the filing and determined that Liberty had appropriately calculated the rates, and that the resulting rates would be just and reasonable. Staff did not express an opinion on postponing the implementation of the rates for a later date. Staff recommended that the Commission approve the petition.

## III. COMMISSION ANALYSIS

RSA 378:7 authorizes the Commission to determine whether rates charged to retail utility customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4, VIII(a), further authorizes the Commission 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. Among the principles relevant to this proceeding are the objectives of 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).

The underlying policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, Order No. 23,041, 83 NH PUC 532 (October 7, 1998), approving the rate adjustment mechanisms reflected in the Company's current proposal. Each component deserves a brief discussion. We also address the timing of rate implementation.

Liberty's proposed stranded cost charge is a decrease of 0.230 cents per kWh from 0.080 cents per kWh, to a credit of 0.150 per kWh. Typically, NEP files the final CTC reconciliation report in December of each year to allow Staff to verify the stranded cost charge proposed by the Company. To date, the Commission has not received the final CTC report. Therefore, we will conditionally approve the stranded cost adjustment rate. We direct Staff to review the CTC report when it is filed to verify the rate. Staff shall report its findings to the Commission once it completes its analysis of the CTC report.

Because the rate is decreasing over time, we believe there is merit to Staff's suggestion that Liberty pursue the negotiation of a buy-down of its CTC obligations. The preparation of the stranded cost portion of the filing adds complexity to the filing and is time consuming for both the Company, which prepares the filing, and Staff in its review. Recognizing that there are administrative efficiencies associated with the buy-down of CTC obligations, we encourage the Company to explore such a buy-down.

The proposed average transmission service charge incorporates two components: (1) the transmission service adjustment factor of 0.24 cents per kWh attributable to an under recovery from the prior period; and (2) a charge of 2.342 cents per kWh, which represents the forecasted rate calculation of transmission expenses for 2015. The transmission service costs in question are derived from FERC-approved tariffs and 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 request to increase the transmission service adjustment factor and the average transmission charge.

We also approve including the one-time credit resulting from the borderline sales agreement between Liberty and MECO, and the inclusion of the RGGI credit in the calculation of rates in this filing.

Liberty originally requested that the rate change be effective with services rendered on and after January 1, 2015. With the combined changes in this rate, a residential customer using 665 kWh per month in default service, the average monthly usage by residential customers, would experience a monthly bill increase of $2.26 from $160.30 to $162.56. Although this difference represents a modest 1.41% increase in monthly bills, the fact is that Liberty default service customers experienced a significant increase in the energy portion of their bill effective November 1, 2014. Energy prices are expected to remain high for the remaining winter months, including the months of January and February 2015.

Based on the discussion about the rate impact on customers during the winter period, Liberty recalculated rates in the event that the Commission chose to delay the effective date of increases to stranded costs and transmission rates until May 1, 2015. Liberty filed its recalculated rate on December 18, 2014, and asked that it be admitted into evidence in this docket. We accept the filing and admit Liberty's December 18 filing as Exhibit 3 in this proceeding. In Exhibit 3, Liberty recalculated the rates with an effective date of May 1, 2015, and depicted rate recovery over two periods, as follows: (1) the seven-month period from May 1 through December 31, 2015; and (2) the twelve-month period from May 1, 2015, through April 30, 2016. Liberty chose the effective date of May 1, 2015, to coincide with its next default service rate change when energy prices are forecast to decline from the current winter-period market rates which form the basis for Liberty's default service rates. Liberty included associated carrying costs in its calculation of rates.

Having reviewed the options presented by Liberty, we find that it is in the public interest to postpone the rate approved in this filing to May 1, 2015, and to allow Liberty to recover the rates, with associated carrying costs, over a twelve-month period. Although the costs subject to recovery will increase due to the addition of carrying costs, the impact of the retail rate reconciliation on monthly bills will be mitigated by the lower energy prices expected in May. Moreover, postponing the effective day of the rate will keep winter rates at their current level, avoiding another increase in this high energy price period.

We appreciate the willingness of the Company to consider deferring rate implementation in this proceeding. Because winter energy rates are also expected to be high for next winter, we direct Staff to meet with the Company to determine whether Liberty can schedule its retail rate reconciliation to take effect at a time other than the winter months.

**Based upon the foregoing, it is hereby**

**ORDERED**, that, as detailed above, the retail rate adjustments and adjustment factors proposed by Liberty in its filing of November 25, 2014, are hereby APPROVED effective for the period May 1, 2015, through April 30, 2016; and it is

**FURTHER ORDERED**, that Liberty file appropriate tariff changes that conform to this order within 30 days hereof pursuant to N.H. Code Admin Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of December, 2014.

Martin P. Honigberg
Chairman

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director

## 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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