

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

Docket No. DE 24-051

**Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty
Petition for Approval of Retail Rate Adjustments and
Property Tax Adjustment**

Technical Statement of Jay E. Dudley & Scott T. Balise
Department of Energy, Division of Regulatory Support

April 16, 2024

On March 27, 2024, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty (Liberty or the Company) filed its Petition for Approval of Retail Rate Adjustments and Property Tax Adjustment for 2024 with testimony and attachments (Petition) with the Public Utilities Commission (PUC or Commission). On April 2, 2024, the Commission requested that the New Hampshire Department of Energy (DOE or Department) submit its analysis and recommendation for the Petition on April 16, 2024. On April 5, 2024, Liberty notified the Department by electronic mail that errors in the calculations for the property tax adjustment mechanism (PTAM) had been discovered by Liberty and that an update to the Petition would be filed on April 8, 2024. Liberty filed the correction to the PTAM calculation on April 8, 2024, as part of a revised filing. A technical session was held on April 11, 2024, after which Liberty represented that it would provide written follow-up responses to the DOE's questions prior to the Department issuing this technical statement. On April 12, 2024, Liberty filed its second revised Petition in response to questions raised by the DOE at the tech session; however, Liberty did not provide this filing to the docket service list.

The Department has reviewed the revised Petitions, revised filings, and the Company's responses to inquiries made at the technical session and cannot recommend that the Commission approve Liberty's revised Petition as filed. Instead, the DOE recommends that the Commission delay ruling on the Petition until the Audit Division has completed its audit of the Petition and the Department has reviewed the audit report, as further explained below.

The revised Petition contains: the direct testimony of Christopher M. D. Green with attachments and the revised direct testimony of Robert Garcia and Adam R. M. Yusuf with attachments, including live Excel spreadsheets.

Department Analysis

A. Transmission Service Costs

Liberty's transmission costs include several main components under the ISO New England, Inc. (ISO-NE) Transmission Markets and Services Tariff: i) Regional Network Service (RNS) under Section II (ISO-NE cost of providing service), ii) Administrative Services under Section IV.A (individual transmission owners costs), and iii) Local Network Service (LNS) under Section II, Schedule 21 (scheduling and dispatch costs).¹ The Company estimates that total transmission expenses for 2024 will increase by \$2.75 million for a total of \$30.8 million as compared with \$28 million in 2023.² Liberty represents that this increase was driven primarily by an increase in the posted RNS rate of 8.2%, and a 23.1% increase in costs for New England Power (NEP) both resulting in a forecasted total increase of \$2.5 million.³ The Department has reviewed the Company's methodology and calculations contributing to the proposed Transmission Charge of \$0.03273, representing an increase of \$0.00241, to be effective May 1, 2024, through April 30, 2025.⁴ The DOE finds that Liberty's detailed spreadsheets appear to provide support for their calculation of total Transmission Service Costs of \$30.8 million and concludes that the calculations appear to be correct on a mathematical basis.

B. Stranded Cost Charge

The Department has reviewed the Company's methodology and calculations for the resulting Stranded Cost Charge of (\$0.00037) to be effective May 1, 2024, through April 30, 2025. The DOE finds that Liberty's detailed spreadsheets appear to support their calculation of the Stranded Cost Adjustment Factor (SCAF) and concludes that the calculations appear to be correct on a mathematical basis.⁵ In addition, the Contract Termination Charge (CTC), which is a credit of (\$0.00040), was reviewed by the Department in Docket DE 24-024 and accepted by the Commission on March 29, 2024; therefore, the Department has no reason to dispute this rate for the purposes of this Technical Statement.⁶

¹ Direct Testimony of Christopher M.D. Green at Bates 2R-005, and Schedule CMDG-1 at Bates 2R-019.

² *Id.* at Bates 2R-011-2R-012.

³ *Id.* at Bates 2R-012.

⁴ Second Revised Direct Testimony of Robert Garcia and Adam R.M. Yusuf at Bates 2R-030 and 2R-034.

⁵ The DOE requests that in future filings the Company provide a clearer description of the Stranded Cost Adjustment Factor. On Bates page 2R-032, the SCAF is discussed but there is little description as to what this Factor represents.

⁶ *See* Docket No. DE 24-024, New England Power Company d/b/a National Grid 2023 CTC Reconciliation Report, New Hampshire Department of Energy Technical Statement of Scott T. Balise at 2, and Procedural Order Re: Closing Docket.

C. RGGI Auction Proceeds

The DOE has reviewed Liberty's methodology and calculations for the resulting RGGI Refund Rate of (\$0.00396) effective May 1, 2024, through April 30, 2025.⁷ The RGGI rebate refund shown for June 2023 is comprised of two quarterly amounts – one that Liberty received in April 2023, and one Liberty received in June 2023. The Department proposes that Liberty revise the calculation to show the March auction refund the Company received in April when it was actually received. In addition, Liberty does not explain why the Beginning Balance of the amount of the refund is over \$1 million. If Liberty uses the same methodology as used in their detailed spreadsheet and calculations with the revisions noted above, the Department believes that the calculation methodology appears to be consistent with the settlement agreement approved in Docket No. DE 14-048.

D. PTAM

On April 12, 2024, Liberty filed the Second Revised Direct Testimony of Robert Garcia and Adam R.M. Yusuf to correct errors in Liberty's original Property Tax Adjustment Mechanism (PTAM) calculation filed on March 27, 2024, and Liberty's first revised filing dated April 8. In the Company's original filing, Liberty had calculated a PTAM rate credit of (\$0.00009), then revised that to a rate charge of \$0.00006 on April 8, and then further revised to a rate charge of \$0.00002 on April 12. Among the errors discovered by Liberty was that actual total property tax billed for 2023 was \$4.63 million and not \$4.7 million as originally reported.⁸ Liberty also represented that it did not adjust the Base Rate amount from \$4.8 million to \$4.66 million to account for the impact of temporary rates approved by the Commission on June 30, 2023, in Docket DE 23-039, and downward adjustments to Liberty's third step adjustment approved by the PUC on May 30, 2023, in Docket DE 22-035.⁹ In addition, the Company neglected to remove a \$28,183.50 prior year adjustment discovered by the Audit Division in its audit of the PTAM in Docket DE 23-037.¹⁰ According to the revised filing, after taking into account the step adjustment and temporary rates, those adjustments amounted to \$697,427 for property taxes in base rates for May 1, 2023, through July 31, 2023, and \$3.88 million for property taxes in base rates covering August 1, 2023 through April 30, 2024, for a total adjusted Base Rate for property taxes of \$4.5 million.¹¹ Total property taxes billed in 2023 came to \$4.63 million and after deducting Audit's adjustment of \$28,184, total

⁷ The DOE requests that in future filings the Company provide a clearer description of the rationale for how RGGI Auction amounts are booked periodically throughout the year.

⁸ Second Revised Direct Testimony of Robert Garcia and Adam R.M. Yusuf at Bates 2R-038 and Direct Testimony of Robert Garcia and Adam R.M. Yusuf at Bates 37.

⁹ Second Revised Direct Testimony of Robert Garcia and Adam R.M. Yusuf at Bates 2R-037-2R-038. Also Docket No. DE 22-035, Order No. 26,836 dated May 30, 2023.

¹⁰ *Id.* at Bates 2R-038.

¹¹ *Id.* Attachment 5 at Bates 2R-056.

property taxes billed for the purposes of annual rates came to \$4.6 million resulting in a variance (under-collection) of \$13,978.¹²

The Department has reviewed the Company's revised methodology and calculations for the proposed PTAM rate of \$0.00002 (previously \$0.00006) to be effective May 1, 2024, through April 30, 2025. The DOE finds that Liberty's descriptions of the added adjustments to the PTAM contained in the second revised filing of April 12 are unclear in terms of the downward revision of the Base Rate property tax amount used in Docket DE 23-037 from \$4.8 million (established by Audit) to \$4.3 million, including the descriptions for the adjustments made to account for the effects of Liberty's third step adjustment and temporary rates approved in Docket DE 23-039. This problem is nearly identical to that found in the Company's first revised filing of April 8. At the technical session held on April 11, Liberty's responses to these issues remained imprecise, particularly in relation to the actual start dates for rate changes associated with the step adjustments and temporary rates, including the fact that the Company was incorrect about the effective date of the temporary rates in Docket DE 23-039.¹³ The Company's second revised filing of April 12 provides no additional clarity on these issues. The fact that Liberty had to file a second revised filing provides no additional comfort to the Department in terms of the accuracy of Liberty's PTAM calculations. As a result, the DOE cannot fully substantiate or support the Company's revised PTAM request and recommends that the Audit Division undertake a full examination of Liberty's revised PTAM methodology as part of its review of the Company's annual rate adjustment request.

Further, it should be noted that this filing marks the last time that Liberty will be eligible to recover property tax expense under the PTAM as part of the Company's annual retail rates adjustment filing. The origin of the PTAM was provided in HB 700 which established a unified methodology for valuing utility distribution assets for property tax purposes, and was codified as RSA 72:8-d and -e, for implementation in August 2019. Under RSA 72:8-d, VI (a), an implementation period for the "unified method" was established to be "implemented over a 5-year period." Under RSA 72:8-e, Recovery of Taxes by Electric, Gas and Water Utilities, "the implementation period" was to terminate "with the property tax year effective April 1, 2024." Liberty's proposed PTAM rate of \$0.00002 is to recover 2023 property tax over the 12-month period from May 1, 2024, to March 30, 2025; however, the statutory period for recovering property tax adjustments under the implementation period officially ended on April 1. Now, with the full implementation of the "unified method of valuing utility company assets" having been achieved, the statutory basis for these annual rate adjustments through the PTAM is null and void, and starting with the 2024-2025 tax year, utilities must revert back to the traditional method of recovering their respective property tax burdens through the periodic filing of rate cases.

¹² *Id.*

¹³ At the technical session, Liberty noted that the property tax calculations in its first revised filing were based on a DE 23-039 temporary rate with an effective date of August 1, 2023. The DOE clarified that those rates were effective July 1, 2023, and the Company incorporated that corrected date in the PTAM calculations in its second revised filing.

E. Monthly Bill Impact

The Company's revised filing provides a monthly bill impact for a typical residential customer using a total of 650 kilowatt hours to be an increase of \$3.05 per kWh or an increase of 2.25%.¹⁴

Department's Recommendation

On December 13, 2023, in Docket No. DE 23-039, the Department filed a Motion to Dismiss Rate Filing effectively requesting the Commission to dismiss Liberty's rate case based in large part on the findings of the Audit Division contained in its Final Audit Report dated October 25, 2023, which states "The Audit Report contains many indications that Liberty's test year books and records do not form a reliable basis for setting rates in this case."¹⁵ As the audit report outlines in detail, this issue arose in part from mapping errors of accounting data experienced by Liberty in converting the new SAP operating system in 2022. In two subsequent hearings related to DOE's motion held by the PUC on January 4, 2024, and January 23, 2024, the Commission learned that corrections to these mapping errors had been made throughout 2023 on the Company's 2023 books and that corrections were continuing into 2024,¹⁶ calling into question the reliability of the 2023 numbers. Further, as part of Liberty's proposed scope for its proposed accounting review of the 2022 test year to be conducted by PricewaterhouseCoopers, the Company included a review of 2023 accounting data that may have been impacted by the SAP mapping issues.¹⁷

In the present docket, Liberty relies in part on the prior year's actual costs (2023) as a basis for its reconciliation calculations (Stranded Cost Charge, Transmission Service Costs, and calculation of transmission cash working capital) and forecasting its 2024 annual rates. The Department does not have reason to question the reliability of Liberty's loading data or coincident peak data used in the forecasts. However, all invoicing and expense data associated with the various costs incurred in 2023 and included for recovery in the Transmission Charge are run through the SAP accounting system. It is important to note that the Department's analysis above involved only mathematical verification of the rate calculations provided by Liberty in their spreadsheets and did not include whether the posting of certain charges to Liberty's general ledger were performed correctly or processed correctly by the SAP system. We rely on the Department's Audit Division to review Liberty's general ledger and confirm the numbers serving as the basis for Liberty's proposed annual rates. Consequently, the Department is unable to confirm that the proposed rates are just and reasonable and recommends that the Commission

¹⁴ *Id.* at Bates 2R-039 and Attachment 6.

¹⁵ See Docket No. DE 23-039, Tab 90, Department of Energy Motion to Dismiss Rate Filing at Bates 6.

¹⁶ See Docket No. DE 23-039, Tab 110, Transcript dated 01/04/2024 at 19-20, 37-39, and 77-79. Also, Tab 116, Transcript dated 01/23/2024 at 197-202, 242, and 258-259.

¹⁷ See Docket No. DE 23-039, Tab 126, Response to Department of Energy Motion for Clarification, Attachment 1.

postpone its ruling on approval or disapproval of the Company's annual rate request until such time as the PUC rules on the reliability of all 2022 and 2023 accounting data and the Department's Audit Division has completed its review of the annual rates filing. In the interim period until the Commission's ruling, given that Liberty's annual rates approved in Docket DE 23-037 expire on April 30, 2024, the Department recommends that the Commission continue and extend those rates to remain in effect until the Commission issues its final order.