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

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

Docket No. DE 24-061

2024 Default Services Solicitations

Technical Statement of Robert Garcia and Adam R.M. Yusuf

August 7, 2024

A. Purpose of Technical Statement

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty ("Liberty" or "the Company") submits this technical statement in response to the Commission's request for (1) additional written detail regarding the changes that Liberty made to the methodology for allocating Bad Debt between the Large and Small Customer Groups, and (2) a continuation of the monthly pricing approach for the Large Customer Group, as directed in Order No. 27,027 (June 27, 2024). In light of the Commission's directive in that order to submit a plan for the direct ISO-New England procurement of at least 30% of supply for the Small Customer Group and 100% of supply for the Large Customer Group, and "[t]he potential for a futures-based element along the lines discussed in the Tyr Energy White Paper," this technical statement also identifies the need for additional tariff revisions to support the recovery of any hedging strategies approved and implemented for future procurements, as well as the need for further review and consideration of the current ratemaking and cost reconciliation processes for Energy Service.

The Company also wants to clarify that there were not any changes made to the "Bad Debt accounting," as noted in the Order. *Id.* at 8 and 12. Rather the Company only made modifications in the way that the Bad Debt was allocated between the Large and Small Customer Group customers for ratemaking purposes.

B. Bad Debt Allocation

As discussed at the June 25, 2024, hearing, while preparing their May 29, 2024, filing of the reconciliation adjustments, the Company witnesses discovered that the previously utilized and approved methodology for allocating Bad Debt between the Large and Small Customer Group ESCRAFs (Energy Service Cost Reclassification Adjustment Factor) was based on a methodology reportedly stemming from Docket No. DR 95-169 that could not be validated. In addition, the prior methodology resulted in an allocation of 41.55% of total Bad Debt to the Large Customer Group and 58.45% to the Small Customer Group, which was disproportionate. With limited time left before the May 29 filing, the decision was made to continue using these allocation factors and to later develop new allocation factors, utilizing a more direct assignment of Bad Debt, for the June 20 filing to update the reconciliations. *See* Attachment 1, Liberty Responses to DE 24-061 DOE Data Request 1-5 and 1-7.

The total monthly "Bad Debt" amount, as presented in Schedule 4 P4, reflects accruals for potential write-offs of the Energy Service component of customers' account balances. The monthly amount is calculated by multiplying (a) the rolling 12-month ratio of total write-offs, net of recoveries, to total monthly revenue by (b) prior month Energy Service power purchases, on a one-month lag. As clarified above, the calculation of total Bad Debt was not changed in Liberty's June 20 filing; only the allocation to the Large and Small Customer Groups was revised.

The changes made in the June 20 filing to the allocation of Bad Debt, as calculated above, between the Large and Small Customer Groups, are shown on Schedules 4 P4-1 and 4 P4-2, respectively. As noted in those schedules Liberty utilized a direct assignment methodology to allocate the Bad Debt by applying the ratios described in subpart (a) above based on the previous 12 monthly Net Write-Offs for the Large and Small Customer Groups, respectively. The new allocation factors provide more reasonable ratios, as the larger commercial and industrial customers tend to have lower occurrence of bad debt than residential and small commercial customers: 15.77% and 84.23%, for Large and Small Customer Groups respectively, versus the 41.55% and 58.45% used in the May 29 filing). The allocation is calculated for each Customer Group for each month as follows:

- Calculate the Rolling 12 Month Bad Debt Percentage of each customer group's Net Write-Offs. This percentage is derived by:
    - Taking the sum of the 12 months of Net Write-Offs preceding said month of Net Write-Off of the corresponding customer group;
    - Dividing that sum in the bulleted item above by the sum of the 12 months of Total Electric Revenues preceding said month;
- The Rolling 12 Month Bad Debt percentage produced above is then multiplied by the Total Purchase Power Costs for said month to produce the Bad Debt for LCG and SCG, respectively.

The sum of the twelve monthly Bad Debt allocations for a Customer Group divided by the Total Bad Debt for the same period produces the composite Bad Debt allocation factors for the twelve-month period (15.77%/ 84.23%). Using this new allocation methodology for the period August 2023 through July 2024, 15.77% of the $166,007 of Bad Debt (or $26,182) was allocated to Large Customer Group, while 84.23% ($139,825) was allocated to the Small Customer Group in calculating the ESCRAFs. *See* Schedule P4-1 and P4-2 (June 20, 2024).

C. Pricing for Large Customer Group

In Order No. 27,027, the Commission seems to seek confirmation of the continuation of the current monthly pricing approach for the Large Customer Group. *Id.*, at page 10. Liberty hereby confirms that it will continue to implement its current monthly rate design, where separate per kilowatt hour rates are set for consumption during each month of the six-month period, February 1 through July 31, 2025.

D. Ratemaking Implications of Direct Market Procurement and Hedging Strategies

The Commission's directives to (a) move away from fixed-price, full-requirements supply procured through an RFP toward more direct market procurement through the hourly ISO-New England market, and (b) consider hedging strategies to control the costs incurred introduces new rate and cost recovery issues that require both immediate and future changes to Liberty's tariff and further consideration in the near future.

1. Proposed Tariff Revisions to Authorize Recovery of Hedging Costs

While Liberty has not proposed to pursue a strategy to hedge the prices for the portions of its supply procured directly through the market for Small and Large Customer Groups, it is conceivable that such strategies may be pursued for the subsequent (August 1, 2025 through January 31, 2026) procurement cycle – or may be ordered by the Commission to do so for the upcoming procurement cycle (February 1, 2025 through July 31, 2025) in the instant portion of this proceeding. However, Liberty's tariff does not expressly provide for the recovery of such costs in the ESAF (Energy Service Adjustment Factor), along with power purchase costs. Therefore, Liberty seeks Commission approval of the following tariff revisions pursuant to Puc 1605.02, which are also submitted in clean and redline versions in Attachment 2:

> *45. Energy Service Adjustment Provision*
> *Energy Service shall be procured by the Company pursuant to a competitive bidding process or as otherwise directed by the Commission, and the rates for Energy Service shall be based on short-term market prices and include an estimate of administrative costs associated with the provision of Energy Service* *<u>and any costs incurred to hedge the price of energy procured directly from the ISO-NE</u>.*

2. Future Ratemaking Considerations

Additional consideration should be given to the implications of direct market procurement on the current ratemaking and cost recovery processes for setting default supply rates. Supply costs and rates are fairly closely aligned today because supply is procured primarily through full requirements supply contracts at monthly fixed prices per megawatt hour, supply costs and rates are fairly closely aligned more so for the Large Customer Group, where monthly supply rates are set based directly on the monthly supply prices, than for the Small Customer Group, where the six monthly prices are load weighted to derive a single fixed rate for the six-month period. However, increased reliance on direct market procurement creates an inherent disconnect between supply costs and supply rates, as the bases for Energy Service rates become increasingly reliant on forecasts. While hedging strategies may mitigate the risk of exposure to extreme price spikes, they create additional fixed costs and likely will leave room for variance between the forecasted and actual market supply prices on a daily basis. If left unchecked over the current twelve-month period between reconciliations, this variance may cause deferral balances (whether over or under recoveries) to grow.

With stagnant migration rates, any such increase in deferral balances can be managed by the existing reconciliation and rate setting processes. However, with additional customer switching driven largely by Community Power Aggregation, comes added uncertainty regarding how many customers, and how much load will remain between annual reconciliations in order to reasonably spread such deferred amounts. In an extreme and highly unlikely scenario, 100% customer migration would lead to stranded costs or refunds, as no customer or load would remain after the annual reconciliation. In a more plausible scenario, deferred balances left unchecked for up to a year between reconciliations may result in default supply rates that are unacceptably high or low (e.g., negative) because there are too few customers or load remaining on default supply service. Combined with a period of particularly volatile rates or poor forecasts, this scenario portends a tense decision on who should pay for the residual costs from a virtually abandoned default service.

Liberty appreciates the Commission's concern regarding the impact of "Community Aggregation accelerating" on continued procurement through full-requirement contracts and its desire to explore expanded direct procurement through ISO-New England. *Id.*, at page 9. Liberty also appreciates the Commission's desire to continue the "spreading-out of reconciliation costs in ES rates to a full 12-

month cycle." *Id.*, at 10. However, these two objectives are seemingly incompatible in light of the potential direction of the retail market in New Hampshire.

Liberty recommends that in addition to changes in the procurement process, further consideration should be given to an "exit strategy" for default service ratemaking. The potential solutions range from, e.g., changes to the rules or policies governing customer switching to and from competitive supply (in order to stabilize the number of default supply customers) to changes in default supply rate design to seasonal and time of use rates (in order to more closely align with forecasted market prices). Illinois, for example, implemented all of these policies for non-residential customers and some of them for residential customers. At a minimum, and as a far less drastic first step, more timely true-ups and updates are needed to set default rates where both the costs and the number and load of customers are uncertain and changing, in order to recover (or refund) costs to the cost causer in a more timely manner. Liberty intends to consider whether additional tariff changes may be needed to implement a more timely process and to propose such changes as part of its December filing in this proceeding.