

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 and any costs incurred to hedge the price of energy procured directly from the ISO-NE.*

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.

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

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Default Service Solicitations

Department of Energy Data Requests – DR #1-5

Date Request Received: 6/5/24  
Request No: DOE 1-5

Date of Response: 6/14/24  
Respondent: Adam Yusuf

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**REQUEST:**

Reference Schedule 4 P4-1 and P4-2 (Bates 28 and 29) where there is a “footnote” reference regarding Bad Debt Expense which states “Allocated Based on Methodology in DR 95-169. DOE understands this to be a reference to a Granite State Electric Rate Case which concluded with PUC Final Order 22,141 dated 5/13/1996 which approved Settlement. That Final Order does not appear to include the specific details related to Bad Debt allocation. Presumably such details are included in the Settlement and/or related attachments. If available, please provide a copy of the materials relevant to allocation of Bad Debt expense between large and small customer groups.

**RESPONSE:**

Liberty concurs with the conclusion reached regarding the reference to DR 95-169, which was reflected in previously approved reconciliations. That is, it is unclear how DR 95-169 is relevant to the allocation of supply-related bad debt.

Furthermore, upon initial review of previously used and accepted reconciliation models, it was clear to the witnesses that these factors appear to over-allocate bad debt to Large Customer Group. Lastly, it is unclear why a general allocation factor would ever be used for splitting bad debt between Large and Small Customer Groups, when they can be directly assigned. Knowing that the initial May 28 filing of the reconciliations would be updated with May actuals in its June 20 filing, Liberty retained the reference and allocation factor previously utilized and accepted in its May 28 filing as a placeholder and has used the interim period to develop a direct assignment methodology for dividing bad debt between the Small and Large Customer Groups, which will be reflected in its June 20 filing.

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

DE 24-061  
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Department of Energy Data Requests – DR #1-7

Date Request Received: 6/5/24  
Request No: DOE 1-7

Date of Response: 6/17/24  
Respondent: Pamela Moriarty

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**REQUEST:**

Reference Excel Spreadsheet titled “2024.05.28 DE 24-061 Default Service Solicitations May Reconciliation.xlsx” at the Tab labelled “Comm O-U Calc” which is a “work paper” rather than a Schedule included as an attachment to testimony. Do the monthly “Bad Debt” amounts shown in Row 31 for the months included in this reconciliation filing (Aug-23 through Jul-24) represent a portion of Bad Debt from some other recorded amount? If so, what are the monthly total amounts of Bad Debt and what portion is allocated to Energy Service to be collected via the ESCRAF?

**RESPONSE:**

No. The monthly “Bad Debt” amounts shown in the tab “Comm O-U Calc” reflect 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 to total revenues by (b) the current month’s purchased power expenses. In the May 28 filing, these monthly Energy Service bad debt totals were then split between the Large and Small Customer Groups as discussed in Liberty’s response to DOE 1-5. As noted in its response to DOE 1-5, in its June 20 filing, Liberty expects to utilize a direct assignment methodology, applying ratios described in subpart (a) above based on previous 12 months of write offs and revenues for the Large and Small Customer Groups, respectively.

The Bad Debt amount is recorded as a credit to the Provision for Uncollectible Accounts, thereby reducing the remaining bad debt reserve amount to be recorded in that month. This method recognizes that a portion of a customer’s account balance is comprised of energy service, although both the reserve and the write-off amounts do not identify the components of the customer’s account balance to be written off. My file applied (multiplied) the ratio of 12-months write-offs to 12-months total revenue to the current month’s purchased power expenses to determine the current month accrual/reserve for bad debt expense.

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LIBERTY UTILITIES

Second Revised Page 25  
Superseding First Revised Page 25  
Terms and Conditions

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 and any costs incurred to hedge the price of energy procured directly from the ISO-NE.

On an annual basis, the Company shall perform two reconciliations for Energy Service. In the first reconciliation, the Company shall reconcile its power supply cost of providing Energy Service with its Energy Service revenue associated with the recovery of power supply costs, and the excess or deficiency, including interest at the interest rate paid on customer deposits, shall be returned to, or recovered from, all Energy Service customers over the following 12 months through the Energy Service Adjustment Factor. In the second reconciliation, the Company shall reconcile its administrative cost of providing Energy Service with its Energy Service revenue associated with the recovery of administrative costs, and the excess or deficiency, including interest at the interest rate paid on customer deposits, shall be reflected in the subsequent year’s Energy Service Cost Reclassification Adjustment Factor pursuant to the Energy Service Cost Reclassification Adjustment Provision. The Company may file to change the Energy Service Adjustment Factor at any time should significant over- or under- recoveries of Energy Service costs occur. For purposes of this reconciliation, Energy Service revenue shall mean all revenue collected from Energy Service customers through the Energy Service rate for the applicable 12 month reconciliation period together with payments or credits from suppliers for the provision of Energy Service. The power supply cost of providing Energy Service shall mean all payments to suppliers and the Independent System Operator associated with the provision of Energy Service.

Administrative costs of providing Energy Service shall mean all labor and consultant costs in arranging and administering Energy Service, any payments related to the cost of providing contract security, Energy Service-related working capital cost, and Energy Service-related bad debt cost.

Any adjustment to the Energy Service Adjustment Factor under the Company’s applicable rates shall be in accordance with a notice filed with the Commission setting forth the amount of the increase or decrease and the new Energy Service Adjustment Factor. The notice shall further specify the effective date of such adjustment, which shall not be earlier than thirty days after the filing of the notice, or such other date as the Commission may authorize.

This provision is applicable to all Retail Delivery Service rates of the Company.

Issued: XX XX, XXXX  
Effective: XX XX, XXXX

Issued by:                                                 /s/ Neil Proudman                                                  
Neil Proudman  
Title:                                                 President

NHPUC NO. 21 - ELECTRICITY DELIVERY  
LIBERTY UTILITIES

First-Second Revised Page 25  
Superseding Original-First Revised Page 25  
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Issued:	<del>xx/xx/xxxx</del> XX XX, XXXX	Issued by:	_____/s/ Neil Proudman
			Neil Proudman
Effective:	<del>July 1, 2024</del> XX XX, XXXX	Title:	<u>President</u>

Authorized by NHPUC Order No. ~~26,984~~XX,XXX in Docket No. DE ~~23-04424-061~~, dated ~~March 29, 2024~~XX XX, XXXX