STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 22-XXX

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty
Revenue Decoupling Adjustment for July 2021 through June 2022

DIRECT TESTIMONY

OF

ERICA L. MENARD,

MELISSA B. SAMENFELD,

AND

GREGG H. THERRIEN

September 1, 2022

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I. INTRODUCTION AND BACKGROUND

Q. Ms. Menard, please state your full name, business address, and position.

A. My name is Erica L. Menard. My business address is 15 Buttrick Road, Londonderry, New Hampshire. I am employed by LUSC as Director, Rates and Regulatory Affairs. LUSC provides local utility management, shared services, and support to Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty ("Liberty," "Granite State," or "the Company"), Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty ("EnergyNorth") and other regulated water, wastewater, natural gas, and electric utility affiliates.

Q. Please describe your professional and educational background.

A. I joined LUSC in March 2022. Prior to joining LUSC, I held various positions at Eversource Energy from 2003 to 2022. Most recently, I was the Manager of Revenue Requirements for New Hampshire responsible for the rate and regulatory filings presented to this Commission. I also held various positions at Eversource responsible for financial planning and analysis of operational and capital expenditures, business planning functions, sales forecasting, and performance management. Prior to my employment at Eversource, I was employed by ICF Consulting in Fairfax, Virginia, from 1997 to 2003 with responsibilities for implementing load profiling and load settlement software for various utilities worldwide. I hold a Bachelor of Arts in Economics and Business Administration from the University of Maine and a Master of Business Administration from the University of New Hampshire.

Q. Have you previously testified before the New Hampshire Public Utilities Commission ("NHPUC" or the "Commission")?

A. Yes, I have testified on numerous occasions before the Commission.

Q. Ms. Samenfeld, please state your full name, business address, and position.

A. My name is Melissa B. Samenfeld, and my business address is 15 Buttrick Road, Londonderry, New Hampshire. I am a Rates Analyst II in the Rates and Regulatory Affairs department for Liberty Utilities Service Corp. ("LUSC") and am responsible for providing rate-related services for Granite State and EnergyNorth.

Q. Please describe your educational background and training.

A. I graduated from Southern New Hampshire University in 2014 with a Bachelor of Science degree in Business Administration, with a concentration in Organizational Leadership.

Q. Please describe your professional background.

A. I joined Liberty in December 2016. Prior to my current position, I was employed by LUSC as an Electric Service Representative from 2017 to 2019, and an Electric Operations Coordinator from 2016 to 2017. Prior to my employment at LUSC, I was employed by PSNH as a Utility Worker from 2012 to 2016, a Representative A from 2007 to 2012, and a Customer Service Representative III in the Credit and Collections Department from 2001 to 2007.

Q. Have you previously testified before the Commission?

A. No, I have not.

Q. Mr. Therrien, please state your name, address, and position.

A. My name is Gregg H. Therrien. I am a Vice President with Concentric Energy Advisors, 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts. My professional qualifications and experience have been provided in Attachment GHT-1 to this testimony.

Q. Have you testified previously before the Commission?

A. Yes, I have. I previously provided written and oral testimony in Docket No. DG 17-048, EnergyNorth's distribution service rate case. I have also provided written testimony in Docket No. DE 19-064, Granite State's distribution service rate case. In both of these cases, I served as Liberty's rate design and decoupling expert witness.

Q. What is your responsibility in this proceeding?

A. In this proceeding, I am responsible for reviewing the proposed Granite State decoupling compliance filing and attesting that the compliance calculation comports with the Stipulation and Settlement Agreement ("Settlement Agreement") in Docket No. DE 19-064.

II. PURPOSE OF TESTIMONY

Q. Please summarize your testimony.

A. Liberty is seeking approval of the following items in this Application:

1. The Revenue Decoupling Adjustment, by rate class, designed to recover an under-collection of $1,415,013;
2. Defer $942,118 to a future Revenue Decoupling Adjustment ("RDA") year(s), and

3. A revised Revenue Decoupling Adjustment tariff that comports with the revenue decoupling calculation approved in the Settlement Agreement.

Q. What is the purpose of your testimony?

A. Liberty is submitting for approval its Revenue Decoupling Adjustment reconciliation filing for its first decoupling year of July 1, 2021, through June 30, 2022, in accordance with Section I of the Settlement Agreement in Docket No. DE 19-064, approved by Order No. 26,376 (June 30, 2020). The Settlement Agreement provides, in part:

> The Company will make a reconciliation filing by September 1 following the completion of each decoupling year (July 1 to June 30), in which Liberty will calculate the rate increase or rate refund arising from the just completed decoupling year, and request approval for any adjustment to go into effect on November 1 for the following twelve months. (*Settlement Agreement at Bates 12)*

The purpose of this testimony is to explain the methodology for calculating the Revenue Decoupling Adjustment, provide support for the requested change in rates to recover the revenue shortfall that the Company experienced for the decoupling year ending June 30, 2022, and request approval to defer the decoupling revenue shortfall amount in excess of the annual decoupling cap. In addition, the Company is seeking approval of a revised decoupling tariff that i) more clearly represents the approved decoupling calculation from the Settlement Agreement and ii) removes some tariff language that was proposed at the inception of the DE 19-064 proceeding and should have previously been removed as it is no longer applicable. The proposed revenue shortfall would be recovered through an increase in distribution rates over a twelve-month billing period from November 1, 2022, to October 31, 2023.

In the decoupling year ending June 30, 2022, the Company experienced a revenue under-collection of $2,357,131. Since this under-collection amount exceeds the 3% cap on the amount refunded or charged to customers, the Company proposes to recover the maximum annual amount of $1,415,013 (3% of Granite State's base revenues) from customers beginning November 1, 2022. The remaining under collection will be deferred and recovered in a future Revenue Decoupling Adjustment period(s).

III. <u>REVENUE DECOUPLING</u>

Q. What is revenue decoupling?

A. Revenue decoupling is a ratemaking mechanism that is designed to eliminate the dependence of a utility's revenues on system throughput (sales). Historically, a utility's revenues were a function of its sales. When customers consumed more, revenues increased, and when customers consumed less, revenues decreased. Consumption may be affected by a number of factors including weather, conservation, economic cycles, distributed generation sources, and other causes. By eliminating the link between customer consumption and Company earnings, decoupling removes the disincentive for utilities to promote conservation and energy efficiency programs. Revenue decoupling allows a utility to recover the base revenue requirement approved in its most recent base-rate proceeding – no more and no less – despite fluctuations or reductions in sales due to conservation or other factors outside of the utility's control.

Q. How does the implementation of revenue decoupling benefit customers?

A. Revenue decoupling benefits customers because it breaks the link between a utility's sales and revenues and thus removes the utilities' disincentives to invest in energy efficiency. Historically, if a utility invested in energy efficiency or encouraged its customers to do so, it was at its own financial risk because rates are traditionally set per unit of sales to recover the approved revenue requirement over an expected level of sales. If sales fall below the level expected in the design of base rates, the utility does not recover its authorized revenue requirement, regardless of any actions that it may take to manage costs. Therefore, utilities would be naturally disinclined to undertake initiatives like energy efficiency that would have a direct, negative impact on sales. Revenue decoupling eliminates this disincentive and creates a situation in which utilities can support energy efficiency investments without experiencing a detrimental financial impact. "Decoupling eliminates certain perverse incentives for the Company to encourage usage of gas by its customers, by adjusting rates to ensure a certain level of recovery by Liberty." Order No. 26,122 at 54 (Apr. 27, 2018) (Order approving Liberty's decoupling mechanism in Docket No. DG 17-048).

Q. Does the Revenue Decoupling Mechanism replace the Lost Revenue Adjustment Mechanism (LRAM) for net metering and energy efficiency?

A. Yes. As part of the Settlement Agreement in DE 19-064, the LRAM was discontinued after the calendar year 2020 and was no longer in effect when the Revenue Decoupling Mechanism ("RDM") became effective in July 2021.

IV. GRANITE STATE'S DECOUPLING MECHANISM

Q. Please describe the decoupling methodology approved for Granite State.

A. The approved RDM includes an adjustment between actual and allowed revenues using a revenue per customer ("RPC") methodology. This methodology was provided as Attachment 9 to the Settlement Agreement (Bates pages 112–117) and is included here as Attachment MST-1 for reference.

Q. What is a "Decoupling Year" and what period is the Company requesting recovery/refund for?

A. The "Decoupling Year" is the 12-month period for reconciliation of target revenues and actual revenues collected from July 1, 2021, through June 30, 2022, as stipulated in the Settlement Agreement in DE 19-064, and as approved by the Commission in Order 26,376 on June 30, 2020.

Q. How is the RDA determined for Granite State?

A. The RDA is calculated annually using monthly accruals. The monthly accruals are determined by (a) calculating the difference between the Target RPC and Actual RPC for that month by rate class, and (b) multiplying the difference by the number of equivalent bills rendered for each rate class during that month. The resulting monthly revenue shortfall/surplus for each class is combined to form the total monthly revenue shortfall/surplus. At the end of the decoupling year, the monthly amounts are summed to determine the cumulative annual revenue surplus or shortfall.

There is a 3% cap on the amount refunded or charged to customers.[1] The RDA will be recovered or refunded during the following year up to the 3% cap. Any amounts over the 3% cap will be deferred and recovered or refunded in future periods, as determined by the Commission. Any amount deferred shall carry interest at the prime rate.

Q. How did the Company calculate the monthly Target RPC?

A. The monthly Target RPC amounts were determined in the Settlement Agreement, Attachment 9. These monthly Target RPC values are the product of first allocating each year's allowed revenue requirement to each rate class, by month, in proportion to the test year.[2] Each class' monthly baseline distribution revenues allowed in the Settlement Agreement were then divided by the number of monthly customer bills from the test year to derive the monthly Target RPC.

Q. How did the Company calculate the monthly Actual RPC?

A. The monthly Actual RPC is calculated as the actual monthly distribution revenues for each rate class divided by the actual number of equivalent bills for each rate class rendered during that month.

Q. Please describe the importance of "equivalent bills" in the Target RPC and Actual RPC calculations.

A. The term "equivalent bills" is a term used in ratemaking to establish annualized monthly billing determinants. This is the result of reviewing and adjusting actual test year bills to

[1] The 3% cap shall be equal to 0.03 times the allowed revenue requirement subject to annual adjustments.

accurately reflect the month in which service is rendered. Adjustments are necessary for short, long, initial, and final bills, when the monthly fixed charge is pro-rated. As a result, the "equivalent bills" are the number of customer charges rendered for the rate class in a given month or year and thus match the revenue stream. The Target RPC was developed using rate year equivalent bills. To provide an accurate RPC comparison, Actual RPC must also use equivalent bills. Therefore, the proposed decoupling adjustment uses equivalent bills in both the Target RPC and Actual RPC calculations.

Q. How will any shortfall/surplus be allocated?

A. Subject to the 3% cap described above, the Annual Allowed Adjustment revenue shortfall/surplus will be allocated to the classes using the Rate Class Allocation percentages shown on line 71 of Settlement Agreement Attachment 9 (page 6 of 6, Bates 117). These percentages represent the contribution of class distribution revenues to total system distribution revenues.

Q. What Rate Classes are included in the mechanism?

A. All rate classes are included in the mechanism, except for Rate classes M, LED-1, and LED-2 (street lighting). These classes were excluded because at the time the RDM was being considered, the street lighting classes did not contain volumetric charges as part of the rate design and therefore would not be candidates for revenue decoupling. The D-11 (Battery Pilot Program) and EV (electric vehicle) rate classes were also not included as they were new rate classes. The D-11 rates were not included as there are only 100 customers participating. For the EV rate classes, the Company has very few customers on the rate and the availability of the EV rate is only in addition to being on Rate D as customers must have a second meter to the home to take service under this rate, so their Rate D usage is included in the decoupling mechanism. The inclusion of these rate classes will be re-evaluated in the next rate case.

Q. Does Liberty's RDM include a weather normalization adjustment?

A. No. The issue of weather normalization is less significant in the case of electric sales and as a result, the RDM does not include a weather-related adjustment in the RDM calculation.

V. REVENUE REQUIREMENT

Q. What is the distribution revenue requirement associated with the decoupling year?

A. As shown in Attachment MST-2, page 1, the distribution revenue requirement subject to decoupling is $47,199,069, which includes the 2020 Base Revenue of $47,107,244 authorized in Order No. 26,376 and a Step Adjustment of $91,825 that went into effect per Orders 26,494, dated July 1, 2021, and 26,537 dated October 29, 2021.

Q. How did the Company calculate the revenue deficiency?

A. The Company took the sum of the differences between the monthly revenue per customer using the test year billing determinants and rates in effect during the decoupling year against and the actual monthly revenue per customer using the decoupling year billing determinants and rates in effect, for each rate class to determine the total of $2,357,131 revenue deficiency. Attachment MST-2 is a detailed calculation of the proposed RDAF, consistent with the Settlement Agreement calculation presented in Attachment MST-1.

Q. What is the amount of the decoupling cap in Decoupling Year 1?

A. Per the Settlement Agreement in DE 19-064, the 3% cap is equal to 0.03 times the allowed revenue requirement subject to annual adjustments. For Decoupling Year 1 the revenue requirement of $47,167,102 multiplied by 0.03 equals the $1,415,013 cap, consistent with the amount the Company is asking to recover in Decoupling Year 1.

Q. What happens to the remaining amount above and beyond the 3% cap?

A. The $942,118 in excess of the 3% cap will be deferred for recovery in subsequent decoupling period(s).

Q. What is the bill impact to residential customers?

A. Attachment MST-3 provides the proposed resulting distribution charges effective November 1, 2022. As shown in Attachment MST-4, a residential customer using 650 kWh per month and taking energy service from the Company's default service offering will see an increase to their bill of approximately $1.61 per month.

VI. THE DECOUPLING TARIFF

Q. Does the current Granite State approved Revenue Decoupling tariff accurately represent the decoupling calculation in the Settlement Agreement?

A. No, it does not.

Q. Why not?

A. The current tariff includes nonapplicable language carried forward from Liberty's natural gas decoupling tariff, which was included in the Company's original decoupling proposal in Docket No. DE 19-064 and should have been deleted and modified for the Granite State decoupling calculation outlined in the Settlement Agreement. Instead, the current tariff language mistakenly includes both that nonapplicable language and the correct language from the Settlement Agreement which, when read together, admittedly creates some inadvertent confusion. The current tariff was not filed contemporaneously with the Settlement Agreement. Rather, the Parties to the Settlement Agreement decided to first establish rate year one base rates and further, decided as part of the Settlement Agreement to delay the introduction of decoupling by one year in recognition of the potential impacts of the COVID-19 pandemic on utility sales. As a result of this delay, the tariff was not properly and fully updated. As stated above, although the appropriate language from the Settlement Agreement was included in the tariff, other nonapplicable language should have been either deleted or revised and was not.

Q. Has the Company drafted a revised decoupling tariff for the Commission's approval?

A. Yes, a revised tariff is presented for approval as Attachment MST-5. This revised tariff now comports with the calculations contained in Attachment 9 of the Settlement Agreement. The revised tariff removes the revenue decoupling language from Section 39, Transmission Charge, and creates a new section to specifically describe the revenue decoupling adjustment calculation, independent of the Transmission Charge. The Revenue Decoupling Adjustment Clause was initially included in the Transmission Charge section because the Revenue Decoupling Adjustment was to be included in the Retail Rates filing. The timing of the annual Revenue Decoupling Adjustment filing was subsequently moved to a September 1 filing with rates effective November 1 and therefore is no longer linked to the Retail Rates filing and the revised tariff language fixes that issue. In addition to adding a new separate section for Revenue Decoupling Adjustment, the tariff was updated as explained above to describe the methodology for calculating the revenue decoupling adjustment and resulting rates in accordance with the DE 19-064 Settlement Agreement.

Q. Please address the concerns raised in Order No. 26,494 (July 1, 2021) regarding the tariff and the RPC targets.

A. During the hearing on the 2020 step adjustment held on June 24, 2021, an issue was raised by the Office of Consumer Advocate ("OCA") regarding the need to correct the decoupling tariff and requested RPC targets reflecting any approved step increase be filed. The OCA requested that an exhibit number be held open in Docket No. DE 19-064 as a placeholder for the requested information. In Order No. 26,494, the Commission included language in the Commission analysis section that encouraged OCA, Staff (now Department of Energy or "DOE"), and Liberty to review the tariff in more detail and propose changes as appropriate. Exhibit 82 was reserved at hearing if needed following discussions between Liberty, DOE, and OCA.

The Company engaged in an information discussion with DOE and OCA on August 31, 2022, and explained that the Company acknowledged there were issues with the tariff and that those issues had been resolved as described previously in this testimony, that the Company would be filing a revised tariff as part of its September 1, 2022, filing, and would be willing to discuss any outstanding issues through the discovery process. Additionally, Attachment MST-2 provides the RPC targets also requested by the OCA as those targets are necessary to calculate the revenue decoupling adjustment. Therefore, the Company believes that the information requested to be provided in Exhibit 82 in Docket No. DE 19-064 is contained within this filing.

VII. CONCLUSION

The Company is requesting to adjust its base distribution rates effective November 1, 2022, to recover a revenue shortfall in the amount of $1,415,013 for the decoupling year ending June 30, 2022, and defer the remaining $942,118 shortfall for recovery in a future period(s). Additionally, the Company seeks approval of its revised tariff language to comport with the Settlement Agreement calculation.