



**Liberty Utilities
(Granite State Electric) Corp.
Rate Case Executive Summary**

June 15, 2023

Docket No. DE 23-039

Agenda

Introductions 5 min

Case Overview

Erica Menard 40 min

Multi-Year Rate Plan and PBR

Erica Menard & Gregg Therrien 60 min

Questions & Answers



Case Overview



Liberty's 2023 Distribution Rate Case

Alternative Ratemaking Framework with Key Innovative Elements

- ✓ Multi-Year Rate Plan (MYRP) and Performance Based Ratemaking (PBR)
- ✓ Calendar year 2022 historical test year with three-year Rate Plan
- ✓ Historical investments in integrated customer systems and distribution infrastructure
- ✓ New, modernized rate offerings – time-of-use and electric vehicle demand charge alternatives
- ✓ Secure, reliable and resilient grid investments including Automated Metering Infrastructure (AMI), Battery Storage, Cybersecurity and Asset Replacements and Upgrades
- ✓ Operating expense plan including vegetation management, pension, cybersecurity, distribution and customer operating costs
- ✓ Rate stabilization plan to levelize rate impacts over the MYRP



Why Propose an Alternative Regulation Framework?

Requirement from Liberty's Last Rate Case, DE 19-064

The Settling Parties stipulate and agree that it is in the public interest for Liberty to explore transitioning away from the strict application of traditional cost-of-service ratemaking principles in favor of a performance-based ratemaking (“PBR”) approach.

“Performance-based ratemaking” means a process of defining regulatory **goals**, specifying **outcomes** toward the achievement of those goals, applying **performance metrics** that measure such achievement, and establishing **revenue adjustment mechanisms** that support safe and reliable utility service, while **rewarding** utility shareholders for the achievement of performance metric benchmarks and **penalizing** them for failing to achieve such benchmarks.



Liberty's Rate Proposal

Benefits

Utility-Customer Benefits

- Aligns utility's incentives with those of its customers in terms of operational efficiencies, achievement of policy objectives, and quality of service
- Holds Company to performance standards
- Modernization of investments and rate offerings resulting in a more resilient grid and options for customers to control costs

Regulatory Efficiency

- Reduce the time and resources required to administer a utility's ratemaking while still allowing full oversight

Alignment with industry standards and energy policy goals

- Secure, reliable and resilient energy system
- Innovation



MYRP Impacts by Rate Year

Multi-Year Rate Plan increases, without phase-in

	RY1 (7/1/23-6/30/24)	RY2 (7/1/24-6/30/25)	RY3 (7/1/25-6/30/26)
Revenue Requirement	\$61.4M	\$64.0M	\$67.0M
Revenue increase (\$)	\$15.5M	\$2.6M	\$3.0M
Rate Base	\$195.9M	\$210.3M	\$223.2M
Total OpEx	\$41.6M	\$42.6M	\$44.5M
O&M Expenses	\$22.1M	\$22.0M	\$22.6M
Depreciation & Amortization	\$12.4M	\$13.2M	\$14.4M
Taxes, non-Income	\$7.2M	\$7.3M	\$7.4M
Capital Structure	Equity = 55.00% ROE = 10.35% Debt Cost = 6.03%	Equity = 55.00% ROE = 10.35% Debt Cost = 6.14%	Equity = 55.00% ROE = 10.35% Debt Cost = 5.84%



Mitigating Price Impacts

Rate Year 1 Mitigation with Phase-in Proposal

- MYRP creates the option to Option to moderate rate impacts by levelizing rates over the multi-year rate plan
- Defer \$6.2 million of Rate Year 1 increase over the remaining rate years

Multi-Year Rate Plan, no Levelization

	Rate Year 1	Rate Year 2	Rate Year 3
Revenue Increase	\$15.5M	\$2.6M	\$3.0M
Cumulative	\$15.5M	\$18.1M	\$21.1M

Multi-Year Rate Plan, with Levelization

	Rate Year 1	Rate Year 2	Rate Year 3
Revenue Increase	\$9.2M	\$9.2M	\$9.2M
Cumulative	\$9.2M	\$18.5M	\$27.7M



Residential Customer Bill Impact

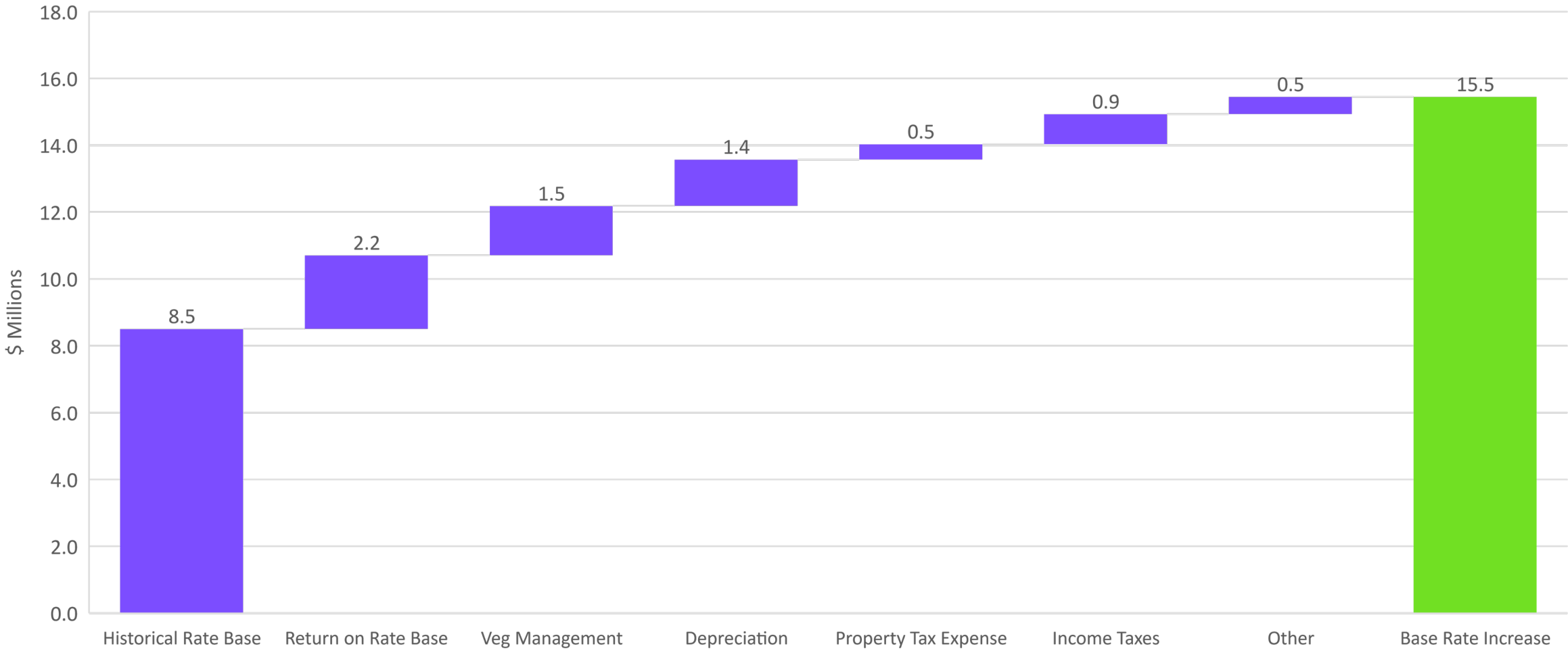
Comparison of Permanent Rates vs. Current Rates
Residential Bill Impact
Proposed Permanent Rates

Usage: 650 kWh

	Current Rates	Proposed Permanent Rate	Current Bill	Proposed Bill at Permanent Rates
Customer Charge	\$14.74	\$17.89	\$14.74	\$17.89
Distribution Charge per kWh	\$0.05627	\$0.07541	\$36.58	\$49.02
Reliability / Vegetation Management	\$0.00001	\$0.00001	\$0.01	\$0.01
Stranded Costs	-\$0.00051	-\$0.00051	-\$0.33	-\$0.33
Storm Rider	-\$0.00202	-\$0.00202	-\$1.31	-\$1.31
Decoupling	\$0.00281	\$0.00000	\$1.83	\$0.00
System Benefits Charge	\$0.00700	\$0.00700	\$4.55	\$4.55
Consumption Tax	\$0.00000	\$0.00000	\$0.00	\$0.00
Transmission	\$0.03635	\$0.03635	\$23.63	\$23.63
Subtotal: Retail Delivery Services			\$79.68	\$93.45
Energy Services	\$0.22007	\$0.22007	\$143.05	\$143.05
Total Bill			\$222.73	\$236.49
\$ Increase in 650 kWh Total Residential Bill			\$13.76	
% Increase in 650 kWh Total Residential Bill			6.18%	



Rate Year 1 Drivers

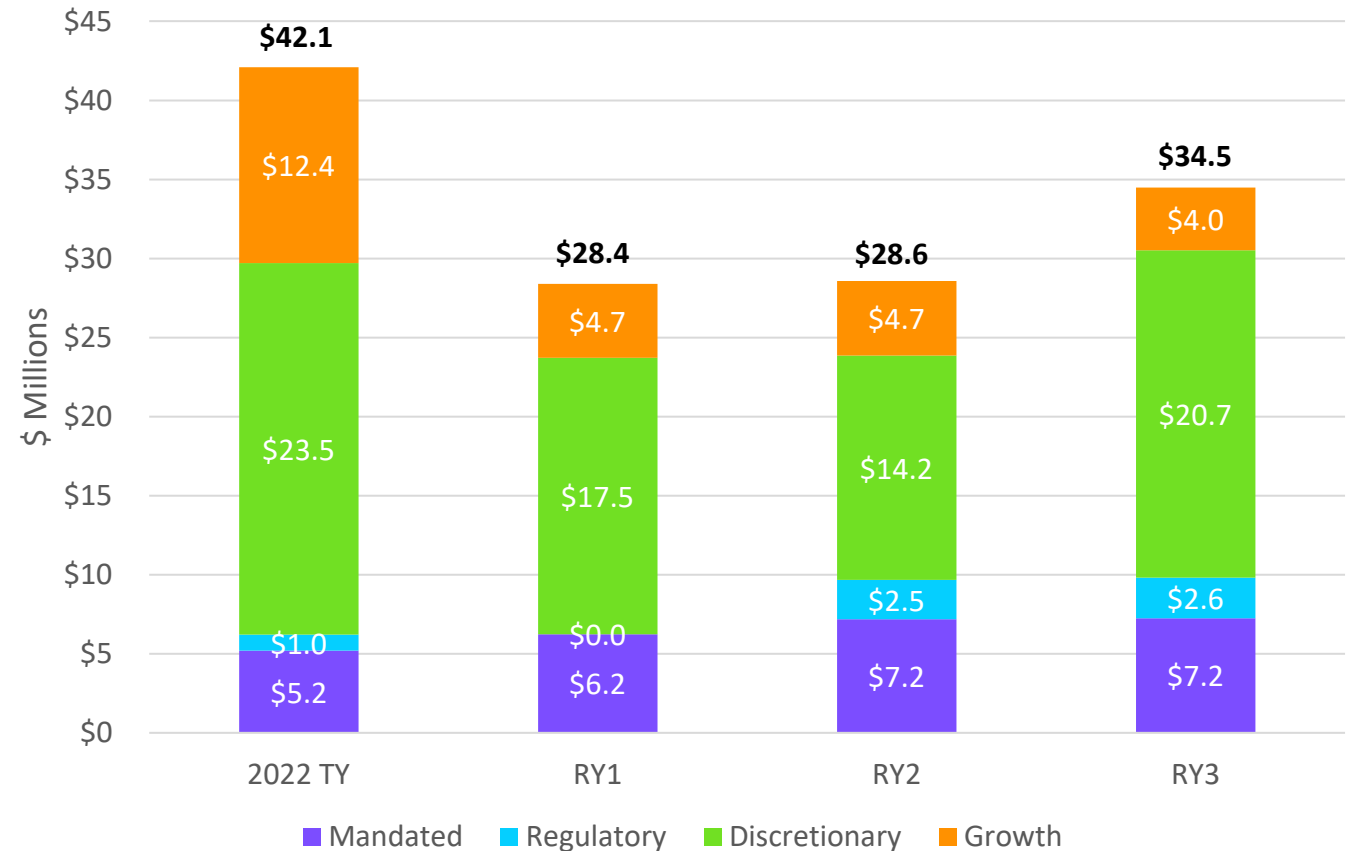


Spending and Investments

CapEx

- Mandated includes investments to meet statutory or regulatory compliance such as emergent damage or equipment failure, public requirement or reliability investments
- Regulatory includes regulatory programs such as replacing bare conductor
- Discretionary includes all other investments to meet the needs of the system including transportation, upgraded circuits, reliability projects battery storage, AMI, IT system upgrades, etc.
- Growth includes investments to support new business

Plant In Service



2022 TY actual spending includes \$6.3M for Rockingham Substation and \$13.6 million for SAP software system

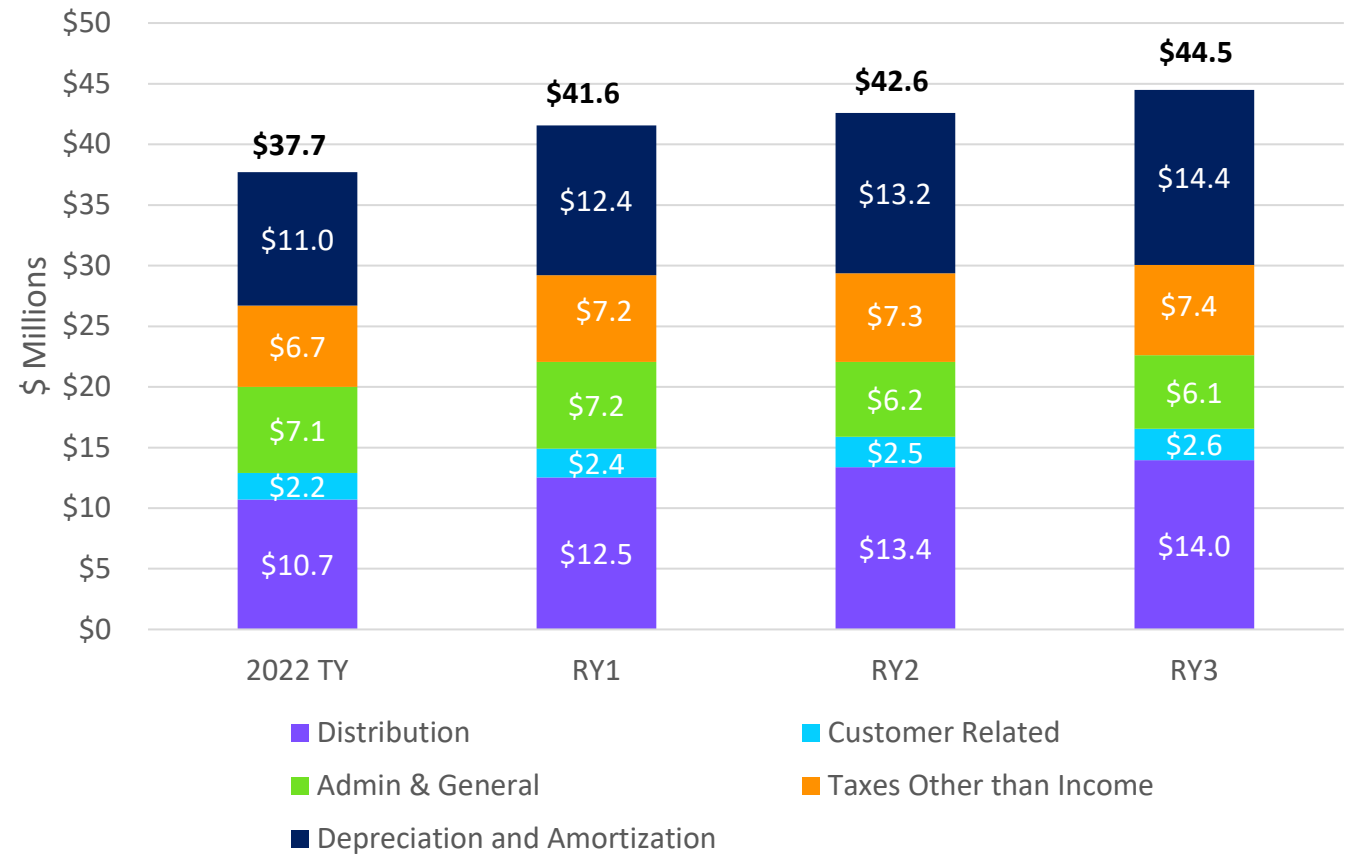


Spending and Investments

OpEx

- Increases in OpEx due to:
 - Vegetation Management
 - Property Taxes
 - Bad Debt Expense
 - Pension & Benefits
 - Depreciation expense
 - Payroll
 - Inflation adjustment

Operating Expense



Innovative Rate and Customer Program Offerings



Rate Offerings

Residential and C&I Time of Use Rates

- Seasonal On Peak, Mid Peak, Critical Peak
- Best Bill Guarantee
- Customer Outreach and Education

Electric Vehicle TOU Rates

- Energy-only alternative rates (EV-L, EV-M)



Payment Options

Arrears Management Program

- Forgiveness of up to \$1,200 annually to eligible low-income customers
- \$100 in monthly arrearage forgiveness for each timely payment
- Alternative to disconnection, avoids write-offs and bad debt expense



Battery Storage

Behind-the-meter devices

- Expansion of existing program
- 150 customers, 300 batteries included in capital investment plan in RY2 and RY3

Bring Your Own Device (BYOD)

- Eligible for Liberty TOU rates
- 150 customers over three years



System Reliability and Resiliency

- Capital Investment Plan
 - Safety and Reliability focused investments
 - Cybersecurity investments
 - Automated Metering Infrastructure (AMI)
 - \$129 million forecasted throughout the MYRP
- Vegetation Management
 - 5-year trim cycle
 - Full reconciliation of costs
- Storm Preparedness
 - Expansion of pre-staging criteria



Tariff Changes

Line Extensions

- Consolidation and simplification of policy
- No charge for first 300 feet

Reconciling mechanisms

- New comprehensive mechanism
- Consolidation of reconciling mechanisms
- New mechanisms for MYRP

Rate Schedules

- Simplification of language



MYRP and PBR



Alternative Regulation Concepts

Performance Based Ratemaking (PBR) and Multi-Year Rate Plan (MYRP)

PBR	MYRP
Enhancement to traditional Cost of Service (COS) regulation	Ratemaking framework establishing rates over multiple periods
Disassociate revenues/rates from COS	Revenues/rates are set at prescribed levels
Adjustment to distribution rates based on industry efficiency adjustment, such as an inflation adjustment	Adjustment to distribution rates based on certain known plan adjustments
Customers benefit from long-term lower costs from efficiency gains	Customers benefit from rate certainty
Shareholders benefit from financial incentive opportunities	Shareholders benefit from reduced regulatory lag



Liberty's Rate Proposal

PBR and MYRP

- MYRP establishing rates over a three-year rate period based on an historical test year

Rate Year 1	July 1, 2023 – June 30, 2024
Rate Year 2	July 1, 2024 – June 30, 2025
Rate Year 3	July 1, 2025 – June 30, 2026

- Review at the end of each RY with adjustments to revenues based on
 - Limited capital spending variances
 - Sharing of earnings variances
 - Performance Incentives
- Review PBR/MYRP pilot at the end of RY2 to provide guidance for next rate case
- Next rate case filed prior to end of RY3 for rates effective July 1, 2026, using a base period of CY 2025



MYRP Adjustment Mechanism

Annual Reconciliation

- Annual reconciliation filing on September 1 after completion of RY
- Variances from approved capital spending plan and impact on rate base
- Net Operating Income and Earned Return
- Reconciliation of OpEx
- Earnings Sharing Mechanism
- Performance Incentive Mechanism review and penalties/rewards
- Calculation of volumetric rate adjustment by class
- 60-day review period
- Rates effective November 1



MYRP Adjustment Mechanism

Capital Review

- For the rate year Jul-Jun, the list of projects is reviewed, including all supporting documentation
- Projects scheduled to be in service during a RY but were not will be removed from rate base
- Replacement projects for cancelled or delayed projects will be identified and proposed for inclusion, subject to prudence review at the end of the Rate Plan
- Variances between approved and actual will be reviewed
- Variances above specified limit are deferred for review at end of rate plan with carrying charges applied
- Variances that decrease rate base will be reconciled without limit
- Individual project plant in service adjustment is capped as follows:
 - Specific Projects: non-Cybersecurity 20%, Cybersecurity 25%
 - Annual/Blanket Projects: 20% based on pro-rata share
- Overall plant in service adjustment limit: 10%
- Rate base adjusted for depreciation and deferred taxes are included in overall earned return calculation



MYRP Adjustment Mechanism

Capital Review Illustrative Example

Specific Projects

	a	b	$c=b-a$	$d=c/a$	$e=\text{Min}[c, a*20\%]$	$f=a+e$	$g=b-f$
Project	Approved Cost (\$MM)	Actual Cost (\$MM)	Variance (\$MM)	Variance (%)	Adjustment (\$MM)	Adjusted UPIS (\$MM)	Defer (\$MM)
A	\$1.00	\$1.30	\$0.30	30%	\$0.20	\$1.20	\$0.10
B	\$2.00	\$2.10	\$0.10	5%	\$0.10	\$2.10	\$0.00
C	\$3.00	\$2.25	(\$0.75)	-25%	(\$0.75)	\$2.25	\$0.00
Total	\$6.00	\$5.65			(\$0.45)	\$5.55	\$0.10

Annual/Blanket Projects

	a	b	$g=(b-a)/a$	$h=b/\Sigma b$	$i=f*h$	$j=b+i$	$k=b-j$
Project	Approved Cost (\$MM)	Actual Cost (\$MM)	Variance (%)	Project Share (%)	Pro-Rata Reduction (\$MM)	Adjusted UPIS (\$MM)	Defer (\$MM)
D	\$4.00	\$4.20	5%	18%	(\$0.10)	\$4.10	\$0.10
E	\$7.00	\$7.45	6%	32%	(\$0.17)	\$7.28	\$0.17
F	\$10.00	\$12.00	20%	51%	(\$0.28)	\$11.72	\$0.28
Total	\$21.00	\$23.65				\$23.10	\$0.55
c	10%	Limit on total variance for UPIS additions in a rate year					
$d=\Sigma a * (1+c)$	\$23.10	Total allowable UPIS additions for the rate year					
$e=\Sigma b$	\$23.65	Actual costs on approved projects					
$f=d-e$	(\$0.55)	Required deferral					



MYRP Adjustment Mechanism

Net Operating Income / Earned Return on Equity and Earnings Sharing Mechanism

ACTUAL RATE OF RETURN ILLUSTRATIVE EXAMPLE

Distribution operating revenues, 12 months ended	\$46,000,000	<i>a</i>
Distribution operating expenses*, 12 months ended	26,000,000	<i>b</i>
Net distribution operating income	<u>\$20,000,000</u>	<i>c = a - b</i>
Rate base, computed using 5-quarter average	<u>\$200,000,000</u>	<i>d</i>
Actual After-Tax Weighted Average Cost of Capital	10.00%	<i>e = c / d</i>
Authorized LTD Percentage	45.00%	<i>f</i>
Authorized Cost of LTD	6.03%	<i>g</i>
Authorized Weighted Avg Cost of Debt	2.72%	<i>h = f * g</i>
Actual Weighted Avg Return on Equity	7.28%	<i>i = e - h</i>
Authorized Equity Thickness	55.00%	<i>j</i>
Authorized ROE	10.35%	<i>k</i>
Authorized Weighted Average ROE, after-tax	5.69%	<i>l</i>
Actual ROE, after-tax	13.24%	<i>m = i / j</i>
Variance to Authorized ROE	2.89%	<i>n = m - k</i>
ROE Basis Points above/(below) threshold	289	<i>o = n * 10,000 (1 bps = 0.01%)</i>
Equity Earnings over/(under) target	3,184,463	<i>p = n * d * j</i>

*Operating expenses reflect actual OpEx for vegetation management, cybersecurity and Pension and Other Postemployment Benefits (OPEB) expense

EARNINGS SHARING MECHANISM

Outcome	Action
If earned ROE is	
125 bps or more above authorized	100% of excess <u>returned</u>
More than 50 bps but less than 125 bps above authorized	60% of excess <u>returned</u>
Earned ROE withing 50 bps of authorized	None
More than 50 bps but less than 150 bps below authorized	40% of deficit <u>collected</u>
More than 150 bps below authorized	50% of deficit <u>collected</u>

ESM is a standard element for multi-year ratemaking. Designed to support incentives for the company to control costs while facilitating sharing of financial risks between a utility and customers.



MYRP Adjustment Mechanism

Performance Incentive Mechanism

PERFORMANCE INCENTIVE MECHANISMS¹

1 bp ≈ \$10K

Reliability²	<i>Reward/Penalty +/- 25 bps</i>
<p>Compare SAIDI, SAIFI against a group of New England utilities. Reward or penalty if performance is significantly better or worse than the group</p> <p><u>Approach</u>: Enhanced Vegetation management, system investments</p>	
DER Interconnections	<i>Reward-only 10 bps</i>
<p>Reduce time required to process interconnection application, focused on the category for residential solar. Target reduction from 40 to 25 days.</p> <p><u>Approach</u>: Evaluate and enhance processes, technology investments</p>	
TOU rate penetration	<i>Reward-only 10 bps</i>
<p>Incentives to recruit customers for new TOU rates, which will create savings for all customers, including the ones who don't switch</p> <p><u>Approach</u>: Marketing, outreach, customer education</p>	

1. Reporting only financial PIMs, the Company is also committing to reporting-only PIMs that do not affect financial outcomes
2. Reliability PIM will not be used until RY2 due to the timing of the release of SAIDI and SAIFI data



Questions

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