Before the New Hampshire Public Utilities Commission
DE 23-039
Liberty Utilities (Granite State Electric) Corp. D/B/A
Liberty

Request For Change in Distribution Rates

NH Department of Energy Data Requests- Set 7

September 8, 2023

The following data requests reference the Direct Testimony of Philip Q. Hanser:

7-1. Please comment on the incentive properties of earnings sharing mechanisms. Does the inclusion of an earnings sharing mechanism improve or hinder the Company's incentive to find efficiencies over the three-year Multi-Year Rate Plan (MYRP)? Please expand on your response.

7-2. On page 17 of his direct testimony, Bates II-225 line 16-18, Mr. Hanser states "These contrasting impacts on the utility explain why several jurisdictions implementing MYRPs also use decoupling mechanisms." Please provide the jurisdictions Dr. Hanser is referencing.

7-3. On page 11 of his direct testimony, Bates II-219 line 8, Mr. Hanser states: "Deadbands that are too wide are no different than a rate case stay out." Please explain whether you view rate stay out periods as problematic.

7-4. On page 12 of his testimony, Bates II-220 lines 13-14, Mr Hanser states "Liberty has proposed a three-year rate year (RY) forecast, annually from July 2023 through June 2026." Please confirm that Liberty's MYRP involves a forecast of spending for each individual year, beginning July 1, 2023.

7-5. On page 14 of his testimony, Bates II-222 lines 1-4, Mr. Hanser states "The deadband[…] is sufficiently sized considering that any adjustments are skewed to customer benefit (i.e., Liberty covers 50% of under-earnings, customers receive 50% of over-earnings)." Please explain how a 50-50 split of over- and under-earnings is skewed in the customer's favor.

7-6. On page 14 of his testimony, Bates II-222 lines 4-7, Mr. Hanser states "Importantly, Liberty's proposed MYRP preserves the incentives for cost control by setting rates based on realistic utility-specific forecasts and providing for the possibility of a reward if the utility can outperform forecasts while requiring that the utility absorb most of the loss if it underperforms."
   a. Please confirm that underspending on capital projects is returned to customers and overspending can be recovered up to 20%. *See* DeCourcey and Therrien Direct pages 18 and 21 of their direct testimony, Bates II-118 and II-121, respectively.

b. How is the revenue requirement in a given rate year adjusted if projects are completed under budget?
c. Please explain how the company is rewarded if it can spend less than its own capital forecasts.
d. Please explain how the company provides assurance that its spending forecast is not overstated.

7-7. On page 14 of his testimony, Bates II-222 line 20, referencing the typical timeframe for a MYRP, Mr. Hanser states "The most common term I have seen is three years[.]". Please confirm and provide support that indexed cap (i.e., price cap or revenue cap) multi-year plans are most often five years or longer.

7-8. On page 15 of his testimony, Bates II-223 lines 17-19, Mr. Hanser states "[..] the step adjustment methodology previously used in New Hampshire only addressed annual step adjustments to a defined scope of capital projects." Please provide a citation for this and/or explain why the previous methodology only addressed a defined scope of capital projects.

7-9. On page 20 of his testimony, Bates II-228 lines 18-21, Mr. Hanser states "Review of several PIM plans in the U.S. indicates that the maximum penalty amount for PIMs ranges from less than 40 basis points (Commonwealth Edison in Illinois) to more than 150 basis points (Consolidated Edison in New York). Rewards for PIMs are less common than penalties." Please provide a list of all utilities reviewed and cite the docket under which the PIMs were created.

7-10. On page 25 of his testimony, Bates II-233 lines 2-4, Mr. Hanser states "For example, the State of Illinois has had a variety of so-called "smart grid" metrics for its utilities related to customer participation in various forms of time-varying pricing programs."
a. Please confirm that this metric provides rewards and/or penalties to the utility for customer adoption of time varying rates.
b. Please provide the adoption rate threshold associated with the utility's reward.

7-11. On page 25 of his testimony, Bates II-233 lines 5-7, Mr. Hanser states "Similarly, Xcel Minnesota proposed a PIM for the percentage of E.V. owners enrolled in managed charging rates and another PIM for the percentage of E.V. charging taking place during off-peak hours (compared to total E.V. charging)." Please confirm that this proposed PIM was not adopted.

7-12. On pages 27-28 of his testimony, Bates II-235 lines 18-19 and II-236 line 1, regarding the Interconnect PIM, Mr. Hanser states "It has only a reward since it appears that Liberty is already achieving what it requires in this area." Please explain why the Company should be rewarded for continuing to accomplish what it already has managed to accomplish with no reward.

7-13. On page 20 of his testimony, Bates II-228 line 10, Mr. Hanser's fourth criteria for a PIM is that PIMs "include a financial incentive structure[…]" Please confirm that the reporting metric associated with Electric Vehicle (EV) adoption does not have any financial penalty or reward associated with it.

7-14. On Page 21 of his testimony, Bates II-229, lines 16-18, Mr. Hanser states, "In practice, penalties (and not rewards) tend to be attached to traditional PIMs, and rewards (frequently without penalties) tend to be attached to emerging PIMs and other policy goal-related PIM-like measures (e.g., energy efficiency)." Please explain why the reliability PIM should include a reward, as well as a penalty.

7-15. On page 22 of his testimony, Bates II-230, lines 1-5, Mr. Hanser states, "For example, a penalty-only incentive design can be justified if the targeted performance level for a subject PIM is at the point where regulators believe that marginal cost roughly equals marginal benefits. This means that utilities should make expenditures to meet this level to satisfy customers but that customers do not place additional value (benefit) on higher levels of service." Please provide an explanation of the analysis Liberty Utilities performed to determine that the marginal cost of enhanced reliability roughly equals the marginal benefit to customers. Please provide workpapers used in this analysis.

The following data requests reference the Direct Testimony of Matthew DeCourcey and Gregg Therrien:

7-16. Please confirm that, except for vegetation management, cybersecurity, and pension costs, the forecast revenues set forth in this petition would not be adjusted during the MYRP for changes in operating expenses.

7-17. Confirm that vegetation management is treated externally from the rest of the MYRP (i.e. flowed through as a separate component).

7-18. Please provide the percentage of total O&M accounted for by vegetation management.

7-19. On page 17 of their testimony, Bates II-117, Mr. DeCourcey and Mr. Therrien state that the existing capital projects mechanism involves a discovery period and a "fairly substantial investigative process," (line 11) and that the proposed plan employs "many of the same elements to review and reconcile capital spending[.]" (line 15.) How does maintaining this process promote greater efficiency?

7-20. On page 20 of their testimony, Bates II-120 lines 13-15, Mr. DeCourcey and Mr. Therrien describe limitations on capital projects being put into service early, as follows: "no more than three months early and no more than 10% of the approved, total capital spend for any RY may be placed into service prior to date indicated in the capital plan." What purpose do these restrictions serve?

7-21. How was the cap on upward adjustment to rate base (20% for individual projects, 10% for the total change) determined? *See* page 21, Bates page II-121 lines 5-7.
   a. Please provide any empirical analysis that was performed to obtain this value of the cap.
   b. Please also answer the question as it relates to cybersecurity projects.

7-22. If the company must give back underspending, what is its incentive to beat the forecast? If the Company can recover 20% over the forecast, what is its incentive to contain costs below the 20% cap?

7-23. The proposed plan allows for cost recovery of individual projects if costs are subsequently deemed to be prudently incurred. How does the company anticipate this will reduce regulatory burden relative to the status quo?

7-24. According to the testimony, capital spending that exceeds the applicable limits can be carried in a variance account to be recovered at the end of the MYRP term. Please explain how this mechanism differs from traditional cost of service regulation, and what incentives the utility has to become more efficient if costs can be recovered at the end of the PBR term.

7-25. Referencing page 28, Bates II-128, if the reserve held for depreciation and deferred taxes requires adjustments as a result of changes to the UPIS, do these changes occur annually during the MYRP term, or after the end of the MYRP term ends?

7-26. On page 28 of their testimony, Bates II-128 lines 12-15, Mr. DeCourcey and Mr. Therrien state "[I]f the Company were to seek recovery of deferred revenues, the Commission could open an evidentiary proceeding that included the provision of additional information, discovery, a hearing, testimony, or other any proceeding it deemed necessary or useful to the review of the reasonableness of Liberty's request." Please clarify whether, in the Company's opinion, the Commission could open an evidentiary hearing at the end of any rate year or whether this evidentiary hearing would take place strictly after the three-year MYRP.

7-27. On page 28 of their testimony, Bates II-128 lines 17-18, Mr. DeCourcey and Mr. Therrien state "The reserve held for depreciation and deferred taxes could require adjustments if the UPIS changed." Would the Company expect the depreciation *rate* to change if the UPIS changes?

7-28. Referencing page 31, Bates II-131, please confirm that Liberty's current decoupling mechanism adjusts the total allowed revenue requirement for customer growth.

7-29. On page 33 of their testimony, Bates II-133 lines 19-20, Mr. DeCourcey and Mr. Therrien state "Liberty is proposing an asymmetric ESM […]".On page 12, Bates II-220 lines 3-11 of the Direct Testimony of Philip Q.Hanser and on page 8 Bates II-170 line 9 of the Direct Testimony of Erica L. Menard, Mr. Hanser and Ms. Menard characterize the proposed ESM as symmetric. Please clarify whether the ESM is symmetric or asymmetric.

7-30. Referencing page 35, Bates II-135, 6lease comment on the efficiency incentives of an ESM that returns 75% of earnings greater than 200 bps above the authorized ROE and collects 75% of revenue deficiencies from its customers when ROE falls below 200 bps of the target.

7-31. On page 37 of their testimony, Bates II-137 lines 16-21, Mr. DeCourcey and Mr. Therrien state "In this instance, no meaningful incentive can be applied because the Company has no effective control over outcomes. Creating earnings impacts by limiting the degree to which over- or under-spending is reconciled to budgets and then returned to customers <u>is creates</u> [emphasis added] no incentive for performance if the result is beyond a utility's control. As such, there is no reasonable basis to create financial risk for the company or its customers."

   a. Please correct this sentence and clarify its meaning.
   b. What is meant by "there is no reasonable basis to create financial risk" for the utility's customers? If uncontrollable costs are entirely flowed through to customers, isn't the customer bearing 100% of the financial risk?

7-32. Please confirm that operations expenses associated with cybersecurity will be passed through to customers on an annual basis through a cost tracker mechanism. Additionally, please confirm that these costs will be included as a component of the ERAM.

7-33. Referencing page 41, Bates II-141, please confirm that only capital spending beyond the project limit *and above the 20% cap* will be subject to a prudency review following RY3.

7-34. Please confirm that the penalties or rewards of PIMs are recovered after the calculation of the company's ESM.

7-35. Please provide examples of other MYRPs with re-openers that have no empirical threshold for triggering the re-opener.

7-36. Please list the qualities of the proposed plan that provide improved cost efficiency incentives over the status quo.

7-37. Please explain the prudency review process for collecting revenue related to overspending, which is proposed to take place at the end of the MYRP term.

The following data requests reference the Direct Testimony of Erica L. Menard:

7-38. On page 9 of her testimony, Bates II-171 lines 14-16, Ms. Menard states "And some PIMs may not include financial incentives at all but instead require the collection and reporting of performance data, one goal of which is to incent the utility to operate effectively by enhancing transparency and accountability." Please provide examples of PIMs employed by other utilities that do not include financial incentives.

7-39. Please explain the "incentive mechanism" related to performance of the Performance Reporting PIM and clarify how it differs from voluntarily reporting utility information with no incentive mechanism (for example, how does this differ from an information-only scorecard?).

7-40. On pages 6-7 of her testimony, Bates II-168 line 21 to II-169 line 2, Ms. Menard states "An MYRP improves regulatory efficiency by reducing the frequency of rate proceedings, provides timely rate recognition, and better aligns utility revenues and performance with customer and policy goals."

Please explain how this proposed MYRP better aligns utility revenues and performance with customer goals. Please specify the customer goals to which this statement refers.

7-41. On page 13 of her testimony, Bates II-175 lines 1-4, Ms. Menard states "Unless otherwise noted, the SAIFI and SAIDI measures reported in the remainder of this section of my testimony are the metrics that exclude Major Event Days ("MEDs"), which are periods of extreme weather. Using data that exclude MEDs is typical for purposes similar to one proposed by the Company."

Please confirm that the EIA 861 data for utilities other than Liberty Utilities (for example, Table 2 and Table 3) also excludes MEDs.

7-42. On page 18 of her testimony, Bates II-180 lines 3-5, Ms. Menard states "[T]he Company proposes that the incentive be equal to the value of a 25 basis points ("bps") return on Liberty's rate base for the year most recently ended."

a. Please provide any analysis that was performed to quantify the marginal benefit of the added reliability achieved by this PIM.
b. Please provide any information used by Liberty Utilities to determine the magnitude of this reward.

7-43. On page 23 of her testimony, Bates II-185 line 19, Ms. Menard states "Liberty proposes to create an incentive-only PIM […]" Please confirm that "incentive-only" means that the utility will only have the possibility to earn a reward, and not face any potential penalties.

7-44. On page 25 of her testimony, Bates II-187 lines 5-8, Ms. Menard states "The Company is proposing to earn an incentive payment for any year in which the average time to process Supplemental Reviews is 25 days or less. The incentive payment, if earned, would be equal to the value of 10 bps of the rate base of the rate year that is subject to the reconciliation filing."

a. Please provide any analysis that was performed to quantify the marginal benefit of the improved interconnect time incented by this PIM.
b. Please provide any information used by Liberty Utilities to determine the magnitude of this reward.

The following data requests reference the Direct Testimony of Melissa F. Bartos

7-45. In Table 1 (page 1 of her testimony, Bates II-759 line 16), the Total Marginal Costs by Rate Class do not align with Attachment MFB-10. For example, the "Share of Total Annual Marginal Cost Inc. Fixture" for Domestic D is 56.83% in Attachment MFB-10 (line 27) while Table 1 indicates the share should be 48.10%. It appears that the discrepancy stems from the capacity related costs. Please clarify or correct this discrepancy.

7-46. Please provide data and SPSS or other code used to carry out all the analyses conducted as part of the testimony. Note that Attachment DOE 1-1.19 includes the marginal cost regression results. The values in Attachment DOE 1-1.19 do not always match the attachments submitted with the testimony (e.g., MFB-10 p1). This attachment also does not provide any underlying data or code used to estimate any of the regressions.

The following data request references the Direct Testimony of Gregory W. Tillman

7-47. On page 19 of his testimony, Bates II-887 lines 18-20, Mr. Tillman states "The capacity related generation costs are then allocated to the Peak, Mid-Peak, and Off-Peak periods based on a probability of peak analysis." Please provide the probability of peak analysis and underlying data.