STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 23-039

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty
Distribution Service Rate Case
Performance Based Ratemaking and Performance Incentive Mechanisms

DIRECT TESTIMONY

OF

ERICA L. MENARD

May 5, 2023

Liberty™

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I. INTRODUCTION

Q. Please state your full name and business address.

A. My name is Erica L. Menard. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

Q. On whose behalf are you submitting this testimony?

A. I am submitting testimony on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty ("Liberty" or "the Company").

Q. Please describe your educational and professional background.

A. I joined Liberty Utilities Service Corp. ("LUSC") in March 2022. Prior to joining LUSC, I held various positions at Eversource Energy from 2003 to 2022 with my last position being the Manager of Revenue Requirements for New Hampshire responsible for the rate and regulatory filings presented to the New Hampshire Public Utilities Commission (the "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. Please describe your duties at Liberty.

A. I am employed by LUSCo as the Senior Director of Rates and Regulatory Affairs. LUSC provides local utility management, shared services, and support to Liberty and the other regulated water, wastewater, natural gas, and electric utilities commonly owned and operated by Liberty Utilities, Co. as affiliates of the Company. In my position, I am responsible for providing rate-related services to the Company.

Q. Have you previously testified in regulatory proceedings before this Commission?

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

II. PURPOSE OF TESTIMONY AND EXECUTIVE SUMMARY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss at a high level the Company's performance-based ratemaking ("PBR") framework to establish distribution rates over a multi-year period with an incentive structure that provides benefits to Liberty, our customers, and our regulatory stakeholders.

Q. Why is Liberty proposing a PBR pilot?

A. Liberty's last rate case, Docket No. DE 19-064, was resolved through a settlement agreement approved by the Commission in Order No. 26,376 (the "Settlement Agreement"). The Settlement Agreement included a determination that it is in the public interest for Liberty to explore transitioning away from the strict application of traditional cost-of-service ("COS") ratemaking principles in favor of a PBR approach.

Q. Please define PBR.

A. The Settlement Agreement defined PBR as 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.[1]

Q. Is Liberty's PBR pilot consistent with that definition?

A. Yes, the Company's proposal is consistent with the definition of PBR included in the settlement agreement.

Q. Does Liberty believe that the Commission has the authority to implement a PBR pilot?

A. Yes. Implementation of a PBR pilot was specifically contemplated by the Settlement Agreement approved by the Commission. In addition, RSA 374:3-a provides the Department of Energy and the Public Utilities Commission with the authority to approve alternative forms of regulation other than the traditional methods which are based upon cost of service, rate base, and rate of return where any such alternative results in just and reasonable rates and provides the utility the opportunity to realize a reasonable return on its investment.

[1] Settlement Agreement, § II(C).

Q. Were there any other stipulations agreed to in the Settlement Agreement with respect to the PBR?

A. Yes. The Settlement Agreement included three step adjustments to allow the Company to recover the costs associated with certain capital additions placed into service during 2019, 2020, and 2021.[2] As a prerequisite to obtaining approval of the third step increase, the Company was required to: (1) present proposals to the Department of Energy ("DOE") (previously Commission Staff), the Office of the Consumer Advocate ("OCA"), and New Hampshire Department of Environmental Services ("NHDES") for PBR mechanism(s) for inclusion in the Company's next distribution rate case through meetings or technical sessions commenced at least nine months prior to the April 6, 2022, step adjustment filing; and (2) in good faith consider the comments of DOE and the OCA in determining the details of the PBR mechanisms before finalizing and proposing a PBR mechanism in the next distribution rate filing.

Additionally, in the Settlement Agreement Liberty agreed to develop an Advanced Rate Design Road Map, including (1) an explanation of how Liberty plans to leverage the functionality of its existing and planned investments, particularly meters, to maximize ratepayer benefits, and (2) Liberty's plans for the future of rates for each customer class, including the extent to which the utility plans to rely on innovative rate design techniques such as time-of-use rates, critical peak pricing, etc.[3] Liberty agreed to submit the Advanced Rate Design Roadmap to DOE, OCA, the City of Lebanon, Clean Energy New

[2] Settlement Agreement, § II(B).

[3] Settlement Agreement, § II(F)(1).

Hampshire ("CENH"), and NHDES by April 6, 2022, and to include the plan in the next filed Least-Cost Integrated Resource plan or Integrated Distribution Plan filed and the Company's next rate case, as appropriate. This testimony is submitted in support of that next distribution rate filing.

Q. What efforts did the Company make with respect to these stipulations?

A. The Company met with stakeholders on several occasions beginning in the fall of 2021. Initial meetings focused on PBR education and general discussions. In September 2021, Liberty met with stakeholders regarding the contexts within which PBR has been applied in other jurisdictions and to discuss benefits associated with PBR plans and mechanisms. Liberty presented several types of performance metrics that could support a PBR regimen and sought stakeholders' feedback to inform the Company's development of more specific, actionable proposals.

In April 2022, the Company presented a PBR framework and Advanced Rate Design Roadmap. The PBR framework further defined a PBR pilot proposal with key elements of the proposal including a multi-year rate plan ("MYRP"), an earning sharing mechanism ("ESM"), and performance incentive mechanisms ("PIMs"). Additionally, an advanced rate design framework was presented to outline a phased approach to advanced rate design including a foundational investment in Automated Metering Infrastructure ("AMI") within the multi-year rate plan to allow for more advanced rate design capabilities. The Company received stakeholder feedback at the April 2022 meeting regarding the development of the PBR pilot and the phased Advanced Rate Design approach.

In May 2022, the Company hosted a stakeholder meeting to receive input on PIMs. The Company spent the next several months engaging an outside advisor to educate and assist the Company with developing the PBR framework including the MYRP, ESM, and PIMs. In December 2022, the Company hosted an educational meeting with stakeholders on PBR and presented the Company's proposal for the PBR pilot.

In January and February 2023, the Company and stakeholders met to further discuss the Company's proposed PBR pilot and PIMs. The PBR plan presented in this docket incorporates the feedback and suggestions from those stakeholder engagement meetings. The MYRP and Earning Sharing Mechanism elements of the PBR Plan proposal are discussed in more detail in the testimony of Company Witnesses Matthew DeCourcey and Gregg Therrien; the overall PBR Plan is further supported by the testimony of Company Witness Philip Hanser.

Q. Please explain why a PBR framework as an alternative to traditional COS regulation is reasonable and beneficial to the regulatory process, the Company, and its customers.

A. As discussed in Mr. Hanser's testimony, traditional ratemaking is no longer adequate as utilities generally shift from larger and more infrequent investments (*e.g.*, building large-scale power plants) to smaller, more frequent investments (*e.g.*, grid improvement and distributed energy resource investments). 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. Mr. Hanser addresses the reasonableness of the PBR framework as an alternative to traditional COS regulation and the benefits it can provide to the regulatory process, customers, and Liberty.

Q. Please explain the guiding principles Liberty considered in designing the PBR pilot presented.

A. Liberty's design of the PBR pilot considered a framework that balances customer interests, regulatory and administrative efficiency to the utility, stakeholders, and customers, and supports maintaining the utility's financial health while facilitating state policy goals. With the proposed framework, the Company is still able to meet its core obligation to provide safe, reliable electric service to all customers at reasonable rates while maintaining a reasonable opportunity to recover the costs necessary to do so. This plan provides Liberty a reasonable opportunity to earn a fair rate of return through the prudent deployment of capital while also working toward achieving New Hampshire's ten-year state energy policy goals and objectives.

This PBR pilot does not change the applicable regulatory standards and protections that New Hampshire has in place with respect to regulatory oversight and ratemaking principles.

Q. Please define the period covered by Liberty's PBR pilot.

A. Liberty's PBR plan consists of a three-year period based on a historical test year for the 12-month period ended December 31, 2022, a bridge period from January 1, 2023, through June 20, 2023, and forward-looking rate years beginning July 1, 2023, July 1, 2024, and July 1, 2025 (the "Rate Years"). The Rate Years are discussed further in the Direct Testimony of Messrs. DeCourcey and Therrien.

Q. Please provide a high-level summary of the ESM being proposed by the Company as part of the PBR pilot.

A. The MYRP includes a symmetrical ESM that shares an earnings surplus or deficit with customers if the Company's adjusted earnings exceed or fall below a certain level, also known as a deadband. Within the deadband, there is no sharing mechanism with customers. Outside of the deadband, sharing occurs. The specifics associated with the MYRP and ESM including the timing of review, how earnings are calculated and what earnings are eligible for sharing and the mechanism for sharing the excess with customers are described in more detail in the Direct Testimony of Messrs. DeCourcey and Therrien[4].

III. PERFORMANCE INCENTIVE MECHANISMS

Q. Please summarize this section of your testimony.

A. In this section, I summarize the Company's proposal to create three PIMs that create financial incentives for Liberty to achieve high levels of reliability, promote the adoption

[4] DeCourcey-Therrien Direct Testimony at pgs. 34–37.

of time of use ("TOU") rates that have the potential to save customers' money, and to reduce the time required to evaluate and approve applications for distributed generation. For each PIM, I describe the parameters, explain why the Company believes that its approval will create benefits for customers, and discuss how the approach proposed by the Company is consistent with industry best practices in jurisdictions that regulate electric utilities via PBR. In addition, I also propose one PIM that requires the Company to regularly collect and report performance data and explain the basis for that proposal.

Q. What are PIMs?

A. PIMs are ratemaking tools that create incentives for certain outcomes that are deemed to be beneficial or desirable. Mechanics vary and incentives can be applied in different ways. Some PIMs create a financial reward for a utility's strong performance and/or a penalty for poor performance. Others create an incentive for beneficial behavior by allowing a utility to share the economic benefits its performance creates with customers. 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.

Q. Is the Company proposing each of those types of PIMs?

A. Yes. As described below, the Company is proposing PIMs that utilize each of the financial incentive mechanisms and one reporting-only PIM. The Company's proposed PIMs are summarized in Table 1 below.

Table 1. *Summary of Proposed PIMs*

PIM	Target criteria	Incentive
Reliability	Reliability performance compared to a defined group of peer utilities	Financial reward and penalty
TOU rate adoption	Education and promoting of TOU rate program, increasing TOU rate adoption	Reward only
Interconnect times	Reduction of times required to process interconnection applications for DERs	Reward only
Performance reporting	Collection and reporting of EV penetration rates	Reporting only

Q. In his testimony, Mr. Hanser identifies four key components that are recognized as underlying industry best practices in the specification of PIMs in a PBR setting. Does the Company's proposal align with these principles?

A. Yes, the proposed PIMs are designed to reflect the principles that Mr. Hanser explains in his testimony[5].

Q. Did any other overarching principles guide the Company's development of its proposal?

A. Yes. Generally speaking, the Company's proposed PIMs are intentionally conservative first steps in the sense that they are unlikely to lead to dramatic results. The Commission's acceptance of Liberty's proposal will create new, meaningful incentives for the Company to innovate, to seek efficiencies, and to generally perform at a high level for its customers and we are excited about the opportunities that framework will create.

[5] Direct Testimony of Philip Q. Hanser at p. 19.

At the same time, Liberty is cognizant that PBR is a new concept in New Hampshire and so this element of our proposal reflects an incrementalist perspective. In the future, we expect that our experience with PBR, perhaps with the experiences of other New Hampshire utilities, will help to inform the development of PIMs that may be broader, better targeted, or more impactful. In the meantime, the Company believes that the PIMs described below strike an appropriate balance between incenting performance that creates value for customers while minimizing the potential for unintended consequences.

Q. Did the Company seek input from any experts to develop these PIMs?

A. Yes. The Company engaged its advisors at The Brattle Group, Mr. William Zarakas and Mr. Philip Hanser in particular, and also solicited input from key external stakeholders including the DOE, OCA, the City of Lebanon, Clean Energy New Hampshire, and NHDES. As described previously, the PBR Working Group met five times to educate parties on PBR, learn which elements of a PBR were important to stakeholders, discuss incentive mechanism proposals, and narrow down the list of possible incentive metrics. Ultimately, most of our proposed PIMs were either discussed at length with the Working Group or were proposed by one of the parties.

A. Reliability PIM

Q. Please summarize Liberty's reliability PIM proposal.

A. Liberty proposes to compare its reliability performance to a group of other electric utilities in New Hampshire, Maine, and Massachusetts on an annual basis. If Liberty's performance is among the top performers in the group, the Company will be eligible for an incentive payment. If Liberty's performance is among the worst performers, the Company will be assessed a penalty.

Q. On what basis will the reliability performance of this group be measured?

A. Reliability performance will be measured using two widely utilized metrics. The first is the System Average Interruption Frequency Index ("SAIFI"), which measures the frequency with which customers experience outages and is calculated as the number of customers affected by an outage over some period divided by the number of customers on a system. The second is the System Average Interruption Duration Index ("SAIDI"), which measures the length of outages and is calculated by customers' aggregate outage times divided by the number of customers on a system[6]. Mr. Strabone's Direct Testimony discusses SAIFI and SAIDI and their relevance in detail.

Q. Has the Company shared its plan to utilize SAIFI and SAIDI for this purpose with its key stakeholders?

A. Yes, the topic was discussed at meetings of the PBR Working Group and the use of these metrics for a PIM focused on reliability performance appears to have general support.

Q. Where will the SAIFI and SAIDI data come from?

A. Each year, the Energy Information Administration ("EIA") publishes data collected via Form 861, otherwise known as the *Annual Electric Power Industry Report* ("Form 861"). SAIFI and SAIDI are included among the data that can be accessed through the EIA's

[6] Customers' aggregate outage times can be thought of as the average duration of outages multiplied by the number customers who experienced an outage.

website[7]. 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.

Q. To which utilities will the Company compare its performance?

A. The Company will compare its performance to certain utilities that operate in New Hampshire or the states adjacent to New Hampshire. The identified utilities are Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource") and Unitil Energy Systems ("UES") in New Hampshire; Fitchburg Gas & Electric Light Company d/b/a Unitil ("FG&E") and NSTAR Electric Company d/b/a Eversource Energy ("NSTAR") in Massachusetts; and Central Maine Power Co. ("CMP") and Versant Power ("Versant") in Maine.

Q. Have any of those utilities changed names recently?

A. Yes, NSTAR is part of Eversource Energy and does business in Massachusetts under the Eversource brand name, as does its New Hampshire affiliate. For purposes of clarity in my testimony, references to Eversource are to the utility that operates in New Hampshire while NSTAR refers to the Massachusetts electric utility. Similarly, Versant used to be called Emera Maine. For simplicity, all references to Versant below include the period in which the company was called Emera Maine.

[7] https://www.eia.gov/electricity/data/eia861/

Q. Why are these appropriate utilities to use for comparison?

A. These utilities were selected primarily because they are all Investor-Owned Utilities ("IOUs") that do business in or around New Hampshire. The Form 861 data include all three IOUs in New Hampshire and the two in Maine. The data for Massachusetts includes the companies listed above as well as two utilities owned by National Grid that were excluded because they report SAIFI and SAIDI using a different standard; the same was true for Green Mountain Power, the only IOU in Vermont.[8]

Q. Did Liberty consider using data for utilities located farther away?

A. Yes, Liberty considered using data for utilities located farther away and ultimately decided to utilize data for the selected states because they may be more likely to reflect the regional conditions that affect reliability and because they are less likely to be impacted by exogenous seasonal weather affects, which could influence the results of the comparisons.

Q. Have you collected recent SAIFI and SAIDI data from the Form 861s?

A. Yes. Annual data for the period 2017–2021 are shown below.

[8] The EIA reports SAIFI and SAIDI using a standard established by the Institute of Electrical and Electronics Engineers ("IEEE") as well as the same metrics that were measured using other standards, as applicable. Most utilities use the IEEE standard; however, National Grid in Massachusetts and Green Mountain Power in Vermont do not use the IEEE standard. Exclusion of the non-IEEE standard data is intended to better facilitate comparisons on an equivalent basis.

Table 2. *SAIFI Without MEDs, 2017–2021 (interruptions per customer)*

		2017	2018	2019	2020	2021
NH	Liberty	1.3	1.0	0.9	1.0	0.9
	Eversource	1.1	1.1	0.7	0.8	0.8
	UES	1.3	1.2	0.8	1.6	1.0
MA	FG&E	1.3	1.6	1.2	1.3	1.3
	NSTAR[9]		0.8	0.7	0.7	0.7
ME	CMP	1.8	1.9	1.5	2.0	2.0
	Versant	2.2	2.5	2.0	2.4	2.0

Table 3. *SAIDI Without MEDs, 2017–2021 (total outage duration per customer)*

		2017	2018	2019	2020	2021
NH	Liberty	157.1	158.1	115.7	100.9	108.7
	Eversource	118.6	119.9	82.6	95.8	96.8
	UES	112.7	115.8	82.5	120.0	102.8
MA	FG&E	74.8	108.0	83.6	64.9	77.1
	NSTAR	74.3	85.0	70.3	65.0	75.8
ME	CMP	202.2	235.8	189.8	220.8	219.6
	Versant	368.0	397.0	302.0	319.0	218.0

Q. With reference to these data, what performance improvements is the Company seeking to incent with the Reliability PIM?

A. Compared to other utilities in this group, Liberty's SAIFI was lower (better) than most over this period, but its SAIDI compares less favorably. The Reliability PIM is thus designed to create an incentive for the Company to maintain its strong SAIFI score relative to this group, while continuing to improve its SAIDI score.

[9] SAIFI data for NSTAR was not reported for 2017.

Q. How would the PIM work?

A. Following the end of each rate year ("RY"), beginning with RY2, the Company will compare its SAIDI and SAIFI scores reported by EIA to those of the other utilities shown above. If it has achieved either the lowest or second lowest (best) scores in both categories, it will collect an incentive reward. If its SAIFI and SAIDI are both either the highest or second highest (worst) among this group, it will be assessed a penalty. For all other outcomes, no incentive or penalty would apply.

Q. When will that comparison be made?

A. Following each rate year, Liberty will submit the reconciliation filing that is described in the Direct Testimony of Messrs. DeCourcey and Therrien. The comparison of the performance and the calculation of the penalty or incentive payment will be included in that reconciliation filing.

Q. Will the comparison be made based on a previous rate year?

A. No. For simplicity, the Company proposes to compare SAIFI and SAIDI based on the previous Calendar Year ("CY").

Q. Why is the Company proposing a Calendar Year comparison?

A. The Company is proposing to perform the comparison on a CY because this is consistent with how the EIA reports the Form 861 data. Each October, data for the previous year are published. For example, the most recent data released were for CY 2021 and were made available in October 2022. The Company could combine multiple years' data to synthesize a period that could better match the rate year periods proposed elsewhere in this proceeding but doing so would be complex and subject to uncertainties as to whether any of the data that are reported for a CY are consistent throughout that year. Such adjustments also serve no specific purpose in terms of supporting the Company's incentive to perform.

Q. Will the use of CY data for this purpose make the Reliability PIM any less effective?

A. No, there is no reason to think that it would. Accounting for the exclusion of a reconciliation following RY1, which I describe below, the Commission's acceptance of the recommended PIM would create a financial incentive for reliability performance throughout the period for which rates will be set in this proceeding.

Q. Why is the Company proposing to exclude the PIM from the reconciliation of RY1?

A. The Company is proposing to begin measuring the reliability PIM in the reconciliation filing for RY2. This delay will allow the Company time to align the incentives created by the penalty/reward structure in the PIM, the Company's ability to respond to those incentives, and the timing of the release of the relevant data by the EIA. The Company is proposing that RY1 end in June 2024. The next release of the Form 861 data would be the following October and include data for CY 2023. Since 2023 is already well underway and will be nearly or fully complete by the time this case is completed and the PIMs are established, a new penalty/reward structure for 2023 applied at that time cannot create a meaningful incentive for the Company to improve performance. For that reason, Liberty proposes that the Reliability PIM first be applied following the end of RY2 using SAIFI and SAIDI data reported for CY 2024, which will be available at that time.

Q. Please describe the proposed incentive and penalty.

A. The proposed mechanism is symmetrical in the sense that the incentive and the penalty are the same size. For both, the 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. The incentive or penalty would be calculated based on the rate base established after all the adjustments and reconciliations described in the Direct Testimony of Messrs. DeCourcey and Therrien. The incentive or penalty would subsequently be recovered or refunded, respectively, via the Electric Reconciliation Adjustment Mechanism ("ERAM"), described further in the Regulatory Issues Direct Testimony of Company Witness Erica Menard.

Q. Is a reliability PIM necessary when the Commission already oversees the reliability of the service that Liberty provides its customers?

A. The intent of the PIM, and PBR in general, is to create incentives that will result in utility behaviors that benefit customers. In this case, the Company believes that there are currently few incentives for a utility to outperform industry standards or not underperform industry standards. Outperforming industry standards occurs when the Company achieves SAIFI and SAIDI scores higher than similar utilities. Put another way, there is currently no incentive for a utility to improve performance where it is meeting industry standards. However, meeting industry standards may not translate to customer satisfaction. The PIM, therefore, is designed to bridge the gap between the incentives that are provided for within the current framework (i.e., incentives to meet the industry standard) and create better outcomes for customers.

Q. Is that why Liberty is proposing a PIM that focuses on reliability even when other witnesses testifying on its behalf assert that its reliability performance is already strong?

A. Yes, in large part. The Company also sought input from participants in the Working Group who generally support the concept of new PIMs indexed to SAIFI and SAIDI. Additionally, Liberty's core mission is to provide customers with safe, reliable electric service and that, as such, it was important in this proceeding to directly tie its financial outcomes from implementing PBR to the level of reliability performance it can deliver.

Q. Is the Reliability PIM consistent with how PBR is implemented across the electric industry?

A. In his Direct Testimony, Mr. Hanser explains that it is. There, Mr. Hanser concludes that the proposed mechanism, the use of a two-way incentive/penalty mechanism, and the size of the financial component are all consistent with industry best practices and are thus likely to create benefits for customers[10].

B. TOU Rate Adoption PIM

Q. Please summarize the proposed the TOU Rate Adoption PIM.

A. In the testimony of Company Witness Gregory Tillman, the Company is proposing to offer new, opt-in TOU rates to its Residential (Class D) and Small Commercial (Class G-

[10] Hanser Direct Testimony, p. 22

3) customers.[11] Mr. Tillman's testimony describes the parameters of the new rates, the bill guarantee that the Company will be offering customers who switch to TOU rates, and the way that benefits are likely to accrue to all of Liberty's customers, including the ones who choose not to switch to a TOU rate. Among those are lower bills, including for those customers who do not opt for TOU service. Liberty is proposing a PIM centered around customer adoption of TOU rates. The TOU Rate Adoption PIM will allow Liberty to earn an incentive as more customers sign up for TOU rates, which will create an incentive for the Company to promote the program.

Q. How will the implementation of TOU rates create savings opportunities for Liberty's customers?

A. As Mr. Tillman explains in his testimony, time-of-use rates (sometimes referred to as time-varying rates) create incentives for customers to switch their usage from high-priced periods to lower-priced periods. By doing so, the Company's peak demand is lowered, reducing the amount of capacity and transmission that must be purchased from the wholesale market, and allowing energy purchases to be transacted at a lower price[12].

Q. Who benefits from the cost reductions associated with reducing peak demand?

A. All of Liberty's customers can benefit from a reduction in peak demand. Customers that opt-in to the TOU rates benefit directly by shifting their energy consumption to lower-

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[11] As Mr. Tillman explains in his testimony, there are a small number of residential customers who already have access to TOU rates under Rate Class D-10. Those customers will have the option of moving to the new residential TOU rate or to returning to non-TOU residential service.

[12] Tillman Direct at p. 7

priced periods. All customers, including customers that do not opt-in to TOU rates, also benefit from reductions in the charges for capacity and transmission which result from the lower system peaks caused by the TOU customers[13]. Additionally, more efficient consumption reduces emissions, which creates societal benefits and potentially avoiding the need for a future capital investment in the system.

Q. How can Liberty encourage its customers to switch to TOU rates?

A. Mr. Tillman's testimony describes Liberty's two-part customer outreach plan, which includes efforts to educate our customers regarding TOU rates and its benefits generally, and a subsequent, targeted initiative to recruit program participants[14].

Q. Does the Company believe that its TOU Rate Adoption PIM creates a meaningful incentive for the Company to enroll more customers into TOU rates?

A. Yes, it does as it encourages the Company through an incentive to use multiple channels to educate customers on what time-of-use rates are and how customers can potentially save money by enrolling in TOU rates.

Q. Does the TOU Rate Adoption PIM create financial risks or burdens for any of Liberty's customers?

A. No. The only financial reward the Company will be able to receive will be an incentive if a certain percentage of customers sign up for the TOU rate. And since TOU rates are intended to shift consumption to off-peak periods, lowering costs to the customers and

[13] *Id.* at p. 7

[14] Tillman Direct Testimony, p. 13–14

creating potential benefits to the system, the Company's proposal represents a "win-win" for it and its customers.

Q. Is there precedent in New Hampshire for the creation of a financial reward designed to incent utility support for the penetration of a program that will create customer savings?

A. Yes. The New Hampshire Triennial Energy Efficiency Plan contains performance incentives ("PI") that promote the achievement of New Hampshire's Energy Efficiency Resource Standard ("EERS") goals and contain metrics designed to encourage income-eligible participation in energy efficiency programs and to encourage peak load reductions. At a high level, the performance incentives contain three to five metrics with an incentive weighting, a minimum threshold, a maximum performance incentive level, and a method of verification. The underlying principles of the PI framework are[15]:

- It uses metrics that are <u>transparent</u> – e.g., performance is incentivized within separate key metric areas that are clear and well-defined, and aligned with EERS goals.
- It is <u>administratively expedient</u> – e.g., provides an easy-to-use one-page template based on the existing data compilation methods used by the utilities.
- It increases <u>focus</u> on targets and promotes various policy objectives by applying incentives to each performance component separately - e.g., peak demand.

[15] New Hampshire Energy Efficiency Calculation of Performance Incentive Beginning in 2020 Report Issued by the NH Performance Incentive Working Group (July 31, 2019) - https://www.puc.nh.gov/EESE%20Board/EERS_WG/20190913-EERS-WG-PI-FINAL-REPORT.pdf

- It establishes minimum thresholds for each performance indicator to encourage performance on each of the targets.
- It preserves effective elements of the existing minimum PI requirements - e.g., baseline target and cap, BCR, actual savings, etc.
- It uses a portfolio approach, which provides the utilities with greater flexibility in terms of program implementation and innovation and increasing low-income participation through fuel-neutral measures.

Q. Have other utilities had success utilizing PIMs in a manner similar to the one proposed by Liberty?

A. Yes. Mr. Hanser notes that,

> the State of Illinois has a variety of so-called "smart grid" metrics for its utilities related to customer participation in various forms of time-varying pricing programs. 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).[16]

C. Interconnect PIM

Q. Please describe Liberty's third proposed PIM, the Interconnect PIM.

A. Liberty proposes to create an incentive-only PIM that will create a financial reward if Liberty can reduce processing times for interconnection applications for certain types of Distributed Energy Resources ("DERs").

[16] Hanser Direct Testimony at p. 25.

Q. What currently establishes the required processing times for interconnection applications?

A. Section 52 of the Company's Electric Delivery Service Tariff (the "Tariff") sets the interconnection standards for inverter-based facilities sized up to 100 kilovolts-ampere ("kVA"), including interconnection timelines.

Q. How long does the Tariff provide for the Company to evaluate interconnect applications for those types of resources?

A. There are two separate application processes, which are summarized on page 48 of the Tariff. For resources that are 10 kVA or less, and which meet certain other screening criteria, the maximum application processing time is 20 days. For resources that are greater than 10 kVA (but less than 100 kVA), or which otherwise do not meet the screening criteria, a Supplemental Review of the application is required, the primary purpose of which is to evaluate whether modifications to the distribution system would be required and, if so, what the costs of those modifications would be. The Tariff requires that a Supplemental Review be completed within 40 days. In all instances related to interconnection processing, timelines refer to business days under normal Company operating conditions.[17]

[17] Tariff at p. 42.

Q. Which timeline would the Interconnect PIM seek to improve?

A. The Interconnect PIM would incentivize the Company to shorten the existing 40-day time required to complete Supplemental Reviews.

Q. What is the Company's proposal?

A. 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. The incentive payment will be recovered through the ERAM in the same manner as any incentive payment earned pursuant to the Reliability PIM. If the average time spent in the queue is greater, no reward will be recovered.

Q. Why has the Company chosen to target a reduction in the time to process interconnect applications for projects greater than 10 kVA?

A. Stakeholders expressed concerns during the PBR Working Group sessions regarding the time required to process applications for projects greater than 10 KVA. These concerns have also been raised regularly in discussions that Company staff has with customers and other stakeholders in its normal course of business. One reason the issue is of particular concern is that many residential Photovoltaic ("PV") systems require Supplemental Review before they can be connected. The increasing popularity of such installations creates an impetus to improve Liberty's responsiveness to customers in this area, if possible. This appears to be an industry-wide concern. In his testimony, Mr. Hanser explains that regulators in other jurisdictions are creating new mechanisms to incent faster processing times of interconnect applications for similar reasons.[18]

Q. Why is a PIM an appropriate tool to reduce interconnect application processing times?

A. The Company is currently in compliance with its Tariff regarding interconnection application timelines. This makes it difficult for the Company to support a request to the Commission for an increase in its cost of service to devote more resources to improvement despite reasonable concerns from stakeholders and customers. Liberty believes that the issue is thus an ideal target for a PIM and is consistent with the descriptions of the goals for PBR outlined in the Settlement Agreement. In particular, the Settlement Agreement identified PBRs that "reward[] utility shareholders for the achievement of performance metric benchmarks" that support policy objectives.[19] Facilitating interconnection is consistent with policy objectives related to the diversity of resources and the Interconnect PIM will facilitate this objective. Application of the PIM will also create additional data that can be used to evaluate the effectiveness of performance incentive metrics for subsequent rate proceedings for Liberty and for other utilities in New Hampshire.

[18] Hanser Direct Testimony, p. 24

[19] DE 19-064 Settlement Agreement, Bates 006

Q. Why is the Company proposing an incentive-only mechanism instead of one that includes a penalty as well?

A. The Company is not proposing a corresponding penalty because the Company's interconnection application performance is governed by tariff and the Company should not be penalized if its performance complies with the Tariff. In addition, the Commission is already authorized to impose sanctions for tariff violations and thus any penalty associated with this PIM would be duplicative.

Q. How will the Company report change in application processing times?

A. In the same annual reconciliation filing in which it will report data related to earnings and the other PIMs, Liberty will report for the average time required to complete Supplemental Reviews for the previous calendar year. The Company will also provide relevant supporting documentation, if any, and indicate the change to the ERAM required to collect the incentive payment, if applicable.

D. <u>Reporting PIMs</u>

Q. What are reporting PIMs?

A. Reporting-only PIMs create requirements for a utility to collect and report new data on an ongoing basis. As part of its PBR proposal, the Company is recommending one PIM that will require new reporting designed to enhance transparency and accountability, provide insights that may be useful to the Commission and our customers, and potentially support the development of PIMs or other policy-oriented mechanisms in future proceedings. Reporting PIMs do not include performance rewards or penalties.

Q. Are reporting PIMs typical in the electric industry?

A. Yes, as discussed in Mr. Hanser's testimony, reporting PIMs are typical, particularly in jurisdictions that are in the early stages of implementing PBR.[20]

Q. How did the Company select the reporting PIM that it is recommending?

A. The reporting PIM was primarily based on feedback received during the stakeholder sessions that I describe above. In particular, during the meeting held on February 2, 2023, participants presented their own PIMs recommendations. Attached as Attachment ELM-PBR-1 is a summary prepared by the OCA and its advisor setting forth its recommendations presented to the Working Group. The Working Group discussed the proposed PIMs in detail, but ultimately did not select any PIMs on the list for inclusion in the proposed PBR pilot and PIM Plan.

Q. Is the Company recommending all the PIMs listed in Attachment ELM-PBR-1?

A. No. Some of the PIMs listed in Attachment ELM-PBR-1 would be duplicative in the sense that they would collect data that is already reported elsewhere. Others are not relevant for this case or would require data that the Company does not currently have access to. Additional discussion on the basis for the selection of the Reporting PIM follows later in this section of my testimony.

[20] Hanser Direct Testimony at p. 25–26.

Q. If the Commission orders the implementation of the proposed reporting PIM, how will the Company report the relevant information?

A. The Company will report on the results of PIM performance as a separate addendum to the annual PBR reconciliation filing. This addendum would provide a written summary of the numerical results along with required descriptions and clarifications. Where necessary and appropriate, the Company would also provide related documentation, calculation, workpapers, and other relevant supporting materials.

Q. Is the Company requesting that the Commission order the implementation of the reporting PIM precisely as it is described below?

A. No. The Company proposes that the Commission accept the recommended PIM. The Company would then engage with stakeholders to reach a consensus about how the PIM will be implemented. Following this engagement, the Company would make a compliance filing that proposes the appropriate details and reflect the Commission's relevant findings in this case.

Q. Why is that additional stakeholder process necessary?

A. An additional process is necessary because a number of important details remain unresolved, and the Company believes that continuing the collaborative approach begun by the Working Group before this proceeding would be most effective. During those sessions, the parties made good progress identifying areas of significant interest, as reflected in the list of proposed PIMs that follows. The Company thinks the Working

Group is well positioned to finalize the relevant details and that this collaborative process will enable efficient future review of the resulting data.

Q. How many reporting PIMs is the Company recommending?

A. The Company is recommending one reporting PIM related to EVs at this time.

Q. Please summarize the reporting PIM related to EVs proposed by the OCA.

A. The OCA recommends that Liberty report the percentage of total EV charging during off-peak hours that is undertaken by customers who are either on TOU rates or who take service under a managing charging program whereby the charging of EVs is managed to reduce unnecessary burden on the grid.[21]

Q. Does the Company agree?

A. Yes, subject to confirmation of data availability and subject to the additional Working Group process described above to reach an agreement on the acceptability of the data. The Company is not currently proposing any managing charging programs; therefore, the Company expects that this PIM will report only off-peak charging for customers on TOU rates.

[21] Attachment ELM-PBR-1 includes a reference to Xcel Energy that the Company believes is a typographical error. It has assumed, for purposes of this discussion, that that reference is to Liberty.

Q. Why is the Company not proposing to apply a financial incentive or penalty to the reporting PIM for EVs?

A. Currently, the Company has very limited EV TOU rate data and is proposing changes to EV TOU rates. For this reason, the Company would expect to track consumption data in order to develop a target in the future.

Q. Regarding the PIMs proposed in Attachment ELM-PBR-1 that the Company is not proposing to adopt, can you please explain why not?

A. Yes. The Company considered all proposed PIMs. However, Attachment ELM-PBR-1 includes several proposed PIMs related to the Company's planned AMI investment and customer engagement. Because of the timing of Liberty's AMI investment, which is discussed in the Direct Testimony of Company Witnesses Dmitry Balashov and Anthony Strabone, Liberty does not expect this data to be available until the end of the period for which rates will be established in this proceeding, if at all. For this reason, the Company determined that establishing reporting for these metrics is more appropriate in a future rate case. Similarly, the Company is not specifically proposing any Non-Wires Alternatives ("NWAs") at this time and therefore does not agree that it should adopt the proposed PIM related to savings from NWA metrics. Insofar as the evaluation of NWAs is currently a focus of the Least Cost Integrated Resource Planning ("LCIRP") plans that New Hampshire utilities are required to make at regular intervals, the Company believes that it would be appropriate and efficient to leave the evaluation and reporting of the benefits of NWAs to those proceedings.

Q. Are there any PIMs proposed in Attachment ELM-PBR-1 that focus on data that the Company is already collecting and reporting elsewhere?

A. Yes. Attachment ELM-PBR-1 includes proposals for PIMs to track customer complaint totals, the amount of demand reduction capacity installed on the Company's system, customer arrearage amounts, customer outage data and response times and other information that is already reported elsewhere. Liberty is generally supportive of incorporating these and other reporting requirements into the PBR framework; however, without Commission orders that obviate the need to report these data in other contexts, creating new reporting PIMs would only create redundancy and unnecessarily increase administrative burdens.

IV. <u>RECONCILIATION ADJUSTMENT CHARGE</u>

Q. What is the purpose of this section of your testimony?

A. The purpose of this section of my testimony is to introduce a new charge as part of the Company's PBR Pilot, the Revenue Adjustment Charge ("RAC") to be included in the ERAM rate as described in more detail in my Regulatory Issues Direct Testimony[22].

Q. Please describe the RAC.

A. The RAC is a component within the ERAM rate that reflects the results of an annual filing that reports detailed information on Liberty's financial and operational performance and the reconciliation of variances to the authorized budget, within limits, of its capital spending and also reconciles spending on the limited number of categories of expenses

[22] Menard Regulatory Issues Direct Testimony at 15

which cannot be reasonably predicted, and which cannot be controlled by Company management.

Q. How would PIMs results be reflected in the RAC?

A. In the annual reconciliation filing, the Company would report its performance on the approved PIMs and calculate the resulting incentive or penalty. The reward or penalty would be combined with all other variances as part of the RAC and a resulting rate would be calculated and applied to all customers on a per kilowatthour basis.

V. <u>CONCLUSION</u>

Q. Please summarize your testimony.

A. My testimony provides the historical context behind the Company's PBR Pilot as presented in this rate case, an overview of the guiding principles used to establish the key elements of the PBR Plan including a three-year MYRP, an Earning Sharing Mechanism to reconcile forecasted Rate Years with Actuals, and proposed Performance Incentive Mechanisms, and presents a new tariff component to collect or refund costs based on actual performance.

Q. Does this conclude your pre-filed Direct Testimony?

A. Yes.

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