# BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

**Docket No. DE 23-081**
**Petition of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Request for Approval of Revenue Decoupling Adjustment for July 2022 through June 2023**

Technical Statement of
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January 17, 2024

The Department of Energy (Department or DOE) has conducted a review of the submissions made by Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty (Liberty or the Company) to the Public Utilities Commission (Commission) in this proceeding. These submissions include the testimony and accompanying attachments provided by Tyler J. Culbertson and Adam R. Yusuf, as well as the proposed tariff pages. Collectively, these materials constitute the Company's formal request and support for an adjustment to its Revenue Decoupling Adjustment Factor (RDAF).

As discussed in more detail below, the Department does not believe that the Company has the authority to revenue decouple given that the distribution rates, effective July 1, 2023, did not include an RDAF rate.  In addition, the Department is concerned that the Company's enterprise software conversion affected the actual revenues and equivalent bills for the decoupling year. Given these two major concerns, the Department recommends against approval of the Company's RDAF rate. If the Commission moves forward with the Company's revenue decoupling, and allows Liberty to collect an RDAF rate, then, as outlined below, the DOE believes that the Company's submission, with errors corrected and with updates provided in discovery, complies with the requirements set forth in the Settlement Agreement in DE 19-064, Liberty's last rate case, as approved in Order No. 26,376 and as outlined in the tariff that was revised in Docket DE 22-052 and approved in Order No. 26,748.

## Background

The RDAF was established to recover the base revenue requirement precisely as approved in the Company's most recent base-rate proceeding, regardless of changes in sales due to factors outside of the utility's control, such as conservation and energy efficiency programs.[1] The Company's initial decoupling year, which concluded in June 2022, experienced a shortfall of $1,752,926, with $337,913 exceeding the 3% cap and, as a result, being deferred.[2]

Pursuant to the terms outlined in the Settlement Agreement in DE 19-064, as approved in Order No. 26,376, and in alignment with the Company's current tariff, the following key points have

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[1] See, e.g., Docket No. DE 19-064, Tab 4, Testimony of Gregg Therrien at Bates II-279 – 280; Docket No. DE 22-052, Tab 17, Order No. 26,748 at 3; and Docket No. 23-081, Tab 4, Commencement of Adjudicative Proceeding and Notice of Prehearing Conference and Hearing.
[2] See Docket No. DE 22-052, Tab 17, Order No. 26,748.

been identified concerning the review of the Revenue Decoupling Mechanism:

1. The Revenue Decoupling Adjustment (RDA) should use a Revenue Per Customer (RPC) model to reconcile monthly actual and authorized RPC by rate class.
    a. The RDA shall exclude Rates M, LED-1, LED-2, D-11, EV, EV-L, and EV-M.
2. Monthly Target Revenues Per Customer (Monthly Target RPC) amounts will be set for each rate class by:
    a. Allocating the annual allowed revenue requirement to each applicable rate class, by month, in proportion to the test year.
    b. Dividing each class monthly target revenue number by the number of monthly equivalent bills from the test year.
3. Monthly Actual RPC is determined using monthly actual revenues by rate class divided by the actual number of equivalent bills for each rate class during that month.
4. The Monthly Actual RPC will be compared to the Monthly Target RPC for each rate class, with the difference being multiplied by the actual number of equivalent bills for each rate class to determine the monthly revenue shortfall/surplus for each rate class. The sum of these amounts constitutes the monthly revenue shortfall/surplus.
    a. At the end of the reconciliation period, the monthly amounts are summed to determine the cumulative annual revenue shortfall/surplus.
5. Subject to the 3 % cap, the allowed shortfall/surplus should then be allocated to the applicable rate classes using the Rate Class Allocations.
6. The RDAF rate calculation for the applicable rate classes is determined by dividing the Annual Allowed Revenue Decoupling Adjustment revenue shortfall/surplus, plus prior period RDAF rate over- or under-recoveries (including interest), by the rate class sales for the Billing Year.
7. The RDA should be capped at 3 % of the allowed revenue requirement over the relevant Measurement Period for over- and under-recoveries. Any amount exceeding the cap should be deferred with carrying costs accrued monthly at the Prime Rate. The Prime Rate used should be based on the quarterly reports in The Wall Street Journal. Deferred amounts will be added to the aggregate decoupling adjustment amount of the following periods until recovered or refunded such that there is a maximum adjustment of 3% refunded or charged each year.

**Potential Issues**

The Department has overarching concerns with Liberty's RDAF filing because of the following issues: 1) the temporary distribution rates, effective on July 1, 2023, did not include approval of the continuation of an RDAF rate; and 2) Liberty's billing system change in October 2022 has impacts on the actual revenues per customer and resulting RDAF during this period.

The current distribution rates, effective on July 1, 2023 were not approved to include an RDAF component. In Order No. 26,855 in DE 23-039, the Commission approved temporary distribution rates in Liberty's on-going rate case, which indicated that the total volumetric distribution rate for residential customers would be $0.06635/kWh, as compared to the total distribution rate at the time of $0.05848/kWh. This rate would result in a total volumetric distribution rate increase of 13.5% and an overall bill increase of 1.48%. The approved rates, an agreement presented at the hearing, and the Department's letter of June 29, 2023, were all based on the schedules filed by the Company on June 26, 2023. In the June 26, 2023, Company filing as shown on Attachment KMJ/DSD/GHT-TEMP-2 (Settlement), Page 2 of 2, Bates p. II- 083 for Rate Class D (residential customers), the total distribution rate proposed does not include an RDAF rate but does include an REP/VMP adjustment factor. The Department notes that the Company filed updated schedules on July 5, 2023, and a compliance tariff which both included an RDAF rate, but these total distribution rates do not match the total distribution rates approved in Order No. 26,855 in DE 23-039 nor the rates agreed to by the Department.[3] Based on the Commission order, the Company's June 26, 2023, filing, the Department's letter regarding the Company's June 26, 2023, filing, and the discussion above, the Department believes that the Company should have ceased revenue decoupling at the time of the approval of the temporary rates. Therefore, based on these filings and the Commission approval, the Department does not believe that the Company has authority to proceed with revenue decoupling and does not have authority to collect an RDAF rate at this time. Authority to continue revenue decoupling and authority to collect an RDAF rate could be restored by Commission approval in the on-going distribution rate case (Docket DE 23-039).

The Company's implementation of the SAP enterprise software conversion during this revenue decoupling year affected the revenues collected, which is a result of the Company's actions, not customers'. Liberty implemented the SAP enterprise software during the decoupling year, and the Company has indicated that bills were delayed during the conversion. (See Attachment 1—data response DOE 1-1.) Given that actual revenues per customer were affected by the billing system change, the Department believes that the Company should not be allowed to revenue decouple during the subject revenue decoupling year. Actions taken by the Company affected the actual revenues per customers, not actions taken by the customer, such as for energy efficiency or reduced consumption for other reasons, which was the intent of revenue decoupling. The Company indicated that the effects of the SAP system conversion (and the ensuing billing delays) would wash out but was unable to show the "wash out." See Attachment 2 for a data response (DOE TS 1-7) showing how a delay in bills would affect the revenue decoupling for one customer. Since many bills were affected (and many delayed) by the SAP conversion, the impacts to the revenue decoupling are unknown, but this example shows that the SAP conversion impacts the revenue decoupling.

Given these two major issues, the Department recommends against approval of the Company's RDAF rate and recommends that Liberty cease revenue decoupling as of July 1, 2023. Decoupling could be further explored and potentially approved in DE 23-039, Liberty's on-going rate case, or in another future docket. In addition, if the Commission agrees that RDAF should have ceased as of July 1, 2023, then the Department recommends that the Company be required to return any revenues related to RDAF collected since July 1, 2023. If instead the Commission determines that the review of the Company's RDAF filing should proceed, then the remainder of this statement provides our analysis and observations.

**DOE's Analysis**

The DOE examined the materials furnished in the Company's filing concerning the RDAF. Additionally, a discovery process was conducted, including two rounds of data requests, and pertinent details were discussed with the Company during a Technical Session. Below, we present an overview of DOE's review for each of these elements.

[3] The Department notes that the Company did not receive approval for the rates presented in the July 5, 2023, filing, and the Department's letter recommending approval for the rates was based on the June 26, 2023, schedules, which did not include an RDAF component.

1. Revenue per customer model- The Settlement Agreement states the Company shall use an RPC model to reconcile monthly actual and authorized RPC by rate class. The Company's filing and supporting spreadsheets confirm that the proposed RDA utilizes this methodology, and that certain classes, such as street lighting (Rates M, LED-1, and LED-2), battery storage pilot (Rate D-11) and electric vehicle (Rates EV, EV-L, and EV-M), are excluded from the RDA Reconciliation.

    a. Monthly RPC Targets: Liberty's current tariff states:

       *"If distribution rates change during the Decoupling Year, the monthly Target Revenue per Customer for the remaining months of the Decoupling Year will be revised and filed with the Commission."*

       It is unclear to the Department whether the Company has filed the appropriate revised RPC targets associated with the multiple rate changes that went into effect during the decoupling year. Despite approved rate changes on October 29, 2021; July 29, 2022; March 1, 2023; and May 31, 2023, it appears that the company only filed revised RPC targets in April 2023. Further, the targets used in this filing do appear to match those presented in the April 6, 2023 filing made by the Company in DE 22-035.[4]

       In addition, in response to DOE TS 1-13, the Company acknowledged neglecting to exclude revenues collected from its VMP rate from its actual revenue when calculating its decoupling shortfall, resulting in a double collection of vegetation management revenue through the RDAF. The Company stated that $6,258 of vegetation management revenues were incorrectly included as part of actual revenues. However, the Company has not yet provided the DOE with the adjusted Actual Revenues or adjusted Actual Revenues per Customer dollar amounts, or the supporting workpapers needed to verify such adjusted values. See Attachment 3.

    b. Monthly Actual RPC: Given the information provided, the Monthly Actual RPC appears to be calculated following the Company's tariff and the terms laid out in the Settlement Agreement. However, an integral component of the Actual RPC calculation is the use of equivalent bills, and as mentioned above, the deployment of SAP resulted in delayed customer bills, significantly affecting the equivalent bill counts as shown below. Additionally, the DOE has concerns that the actual revenue figures themselves are misstated due to issues with the SAP conversion.

[4] Docket No. DE 22-035, Tab 47, Attachment HMT-2.

*Figure 1. Actual Equivalent Bills from DOE TS 1-20. See Attachment 4*

| Actual | | Domestic | Domestic - Opt. Peak | General TOU | General Long Hour | General Service | Limited All Electric | Ltd Comm Space Heating | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | DOD2 | D10 | G01 | G02 | G03 | T00 | V00 | |
| Equivalent Bills | | Values below are inputs, and represent actual monthly bills adjusted to equivalent bills | | | | | | | |
| 7 | Jul-22 | 37,035 | 437 | 148 | 953 | 5,835 | 859 | 16 | 45,283 |
| 8 | Aug-22 | 36,819 | 438 | 155 | 938 | 5,832 | 842 | 16 | 45,040 |
| 9 | Sep-22 | 33,235 | 418 | 162 | 958 | 5,408 | 613 | 16 | 40,810 |
| 10 | Oct-22 | 39,550 | 412 | 104 | 851 | 5,735 | 967 | 16 | 47,635 |
| 11 | Nov-22 | 38,229 | 457 | 137 | 1,022 | 6,101 | 830 | 16 | 46,792 |
| 12 | Dec-22 | 37,442 | 409 | 147 | 1,015 | 5,905 | 732 | 17 | 45,667 |
| 1 | Jan-23 | 38,705 | 461 | 182 | 992 | 6,169 | 927 | 15 | 47,451 |
| 2 | Feb-23 | 39,051 | 486 | 162 | 1,071 | 6,171 | 982 | 17 | 47,940 |
| 3 | Mar-23 | 37,381 | 440 | 179 | 1,015 | 5,940 | 838 | 16 | 45,809 |
| 4 | Apr-23 | 36,729 | 429 | 168 | 970 | 5,774 | 757 | 16 | 44,843 |
| 5 | May-23 | 37,730 | 462 | 147 | 994 | 5,958 | 869 | 16 | 46,176 |
| 6 | Jun-23 | 35,257 | 444 | 141 | 1,008 | 5,862 | 732 | 16 | 43,460 |
| | | 447,163 | 5,293 | 1,832 | 11,787 | 70,690 | 9,948 | 193 | 546,906 |

In addition, during discovery the Company disclosed that some of the ‘Actual Distribution Revenues’ used in its Actual RPC calculation were in fact estimates, and that optional demand revenues were not included for the G-1 and G-2 rate classes for October 2022 through January 2023. See Attachment 5 – Supplemental Response to DOE 1-3 for more details regarding these corrections. Other corrections to the equivalent bills and revenues are described in Attachment 6, which is the Company’s response to DOE TS 1-5.

2. Revenue Shortfall/Surplus: The Company’s testimony and supporting documentation calculated a revenue shortfall of $3,406,450. Changes made to the ‘Monthly Actual RPC’ as mentioned above resulted in an updated revenue shortfall of $3,617,781; see Attachment 4 pg. 13 for the Company’s updated calculation. With the updated information provided, the shortfall appears to be calculated according to the applicable language in the Company’s tariff.

3. Cap/Deferral: During the discovery process, the Department identified an error in the Company’s calculation of the 'Annual Allowed Adjustment', where the prior year’s deferral balance was excluded resulting in an understated request for the ‘Annual Allowed Adjustment.’ Additionally, the Company acknowledged that the deferral balance provided in the Company’s initial filing incorrectly omitted interest. Below is a comparison of the amounts presented in the initial filing versus those disclosed in the Company’s most recent discovery responses. See Attachment 4 for more details. The calculation provided on December 20, 2023, calculates the Annual Allowed Adjustment and Amount in excess of the Cap correctly according to the applicable language in the Company’s tariff.

*Figure 2. Adjustment/Deferral Calculation. See Attachment 4*

| | Annual Deferral Calculation: DY 2 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | E | F | G | H | I | J |
| | | | A + B | | C / D | | | (E - F) or (E - G) | D * H | C - I |
| | Current Year Adjustment | Prior Years' Deferral Balance | Total Adjustment | Total Company Target Revenues | Percent of Total | "Soft" Cap | | Amount in excess of Cap % | Amount in excess of Cap $ | Annual Allowed Adjustment |
| Initial Filing | $ (3,406,450) | $ (337,913) | $ (3,744,363) | $ 46,020,950 | -8.14% | -3.00% | 3.00% | -5.14% | $ (2,363,735) | $ (1,042,715) |
| As of 12/20/2023 | $ (3,617,781) | $ (460,653) | $ (4,078,434) | $ 46,020,950 | -8.86% | -3.00% | 3.00% | -5.86% | $ (2,697,805) | $ (1,380,629) |
| | | | | | | | | | Deferral of excess to next year's calculation | Refund / (Charge) to Customers |

4. Allocation / Rate Calculation: The Settlement and current tariff language specify that the Annual Allowed Adjustment revenue will be allocated across the applicable rate classes using the agreed-upon Rate Class Allocation. The Company’s filing and supporting documentation confirm that the calculation was performed in accordance with the terms outlined above.

**Other Observations**

While reviewing the information provided throughout the course of this docket, the DOE made some concerning observations that they believe the Commission should keep in mind regarding revenue decoupling.

In Liberty's initial testimony supporting the creation of its RDAF[5] and in subsequent RDAF filings,[6] the Company has emphasized the necessity of decoupling to eliminate the disincentive for utilities to promote conservation and energy efficiency programs while briefly describing the added benefit of new customer revenues being retained to fund the Company's investments required to support the addition of additional customers to its distribution system.[7] The Company has also stated in those same filings that, "[R]evenue 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."[8] While conducting a review of the information provided by Liberty, the Department asked the Company why it felt $49,278,336 accurately represented the revenue the Company should have collected in the July 2022- June 2023 decoupling year, despite the allowed revenue from the rate case for that decoupling year being $46,020,950. The Department also inquired about the extent to which the Company believed the revenue per customer shortfall was attributable to declining use per customer. In response to the Department's inquiries, the Company explained that the figure of $49,278,336 is a direct result of the decoupling calculation and goes on to explain that only $149,000 of the requested $3.4 million adjustment is attributable to declining use per customer. See Attachment 7 for the full response. While the Department acknowledges that the Company appears to have adhered to the relevant Settlement and Tariff language regarding decoupling, the DOE is uncertain about whether the decoupling mechanism is serving its intended purpose.

The Department also notes that the Rate Class Allocation being utilized in this mechanism appears to lead to significant cost shifting between rate classes. For example, in the Company's filing nearly half of the decoupling shortfall collection will come from Rate D, yet Rate D accounts for only 23.45% of the decoupling year shortfall. See Attachment 8 for more details on this observation.

The Settlement Agreement and resulting tariff language state that the monthly target revenues per customer amounts will be set by "allocating each year's allowed revenue requirement to each rate class, by month, in proportion to the test year...." It is unclear to the Department how this is applied when there are multiple rate changes throughout the decoupling year, as in this case. It appears that the targets end up disproportionate to the test year. See Attachment 9.

**Conclusion**

In conclusion, the Department has reviewed Liberty's submissions regarding the Revenue Decoupling Adjustment Factor (RDAF). While acknowledging the Company's adherence to certain aspects of the Settlement and Tariff language, significant concerns arise. The absence of an approved RDAF rate in the temporary distribution rates effective from July 1, 2023, and

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[5] See Direct Testimony of Gregg H. Therrien in Docket No. DE 19-064.
[6] See Direct Testimony of E. Menard, M. Samenfeld and G. Therrien in Docket No. DE 22-052.
[7] See Direct Testimony of Gregg H. Therrien in Docket No. DE 19-064, Bates II-265, line 3.
[8] See Direct Testimony of Tyler J Culbertson and Adam R.M. Yusuf, Bates 005, line 21.

uncertainties in the accuracy of the data provided stemming from Liberty's enterprise software conversion lead the Department to recommend against RDAF approval.

If the Commission proceeds, contingent on corrections and updates, the Department believes Liberty has complied with specified decoupling mechanisms. However, overarching concerns prompt a recommendation to halt revenue decoupling until thorough exploration in the rate case or an appropriate docket has been completed. The Department emphasizes potential cost-shifting between rate classes, urging caution and equity in Rate Class Allocation. In summary, despite compliance, and because Liberty proposed and received approval of temporary rates in DE 23-039 that did not include an RDAF rate and concerns with utility-imposed impacts on the revenues and equivalent bills resulting from the software conversion, the Department advises against RDAF approval in this docket, advocating instead for a comprehensive exploration of the identified issues before proceeding.