

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-346

**LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP. d/b/a LIBERTY
UTILITIES**

Annual Retail Rate Adjustment

Order Approving Rate Adjustments

ORDER NO. 25,892

April 29, 2016

APPEARANCES: Michael J. Sheehan, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a/ Liberty Utilities, the Office of the Consumer Advocate by Nicholas Cicale, Esq., on behalf of residential customers; and Paul B. Dexter, Esq., on behalf of Commission Staff.

In this Order, the Commission approves Liberty's annual retail rates for recovering stranded costs and transmission costs for a twelve-month period beginning May 1, 2016. The resulting rate impact for residential customers using 650 kWh per month is a monthly bill decrease from \$123.62 to \$110.58 (10.55%) from rates currently in effect.

I. BACKGROUND AND PROCEDURAL HISTORY

On March 21, 2016, Liberty Utilities (Granite State Electric) Corp. d/b/a/ Liberty Utilities (Liberty or the Company) filed a request for approval of its Stranded Cost Adjustment Factor and its Transmission Service Cost Adjustment. Liberty asked that the rates be effective on a service-rendered basis on and after May 1, 2016. The Company's March 21, 2016, filing is Exhibit 1 in this proceeding. The next day, the Office of Consumer Advocate (OCA) filed a letter of participation pursuant to RSA 363:28. The Commission issued an Order of Notice on April 7, 2016, scheduling a hearing for April 18.

On April 14, 2016, Liberty filed a revised filing, which changed 18 of the 54 pages contained in Exhibit 1. The April 14 filing is Exhibit 2. On April 21, Liberty again revised the filing to correct monthly regional load data used to calculate transmission costs, resulting in changes to the proposed rates.¹ Liberty's filing and subsequent docket filings, other than any documents for which confidential treatment has been requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-346.html>.

Liberty's Stranded Cost Adjustment Factor recovers contract termination charges billed by New England Power Company (NEP) in connection with the termination of NEP's all-requirements power contracts with National Grid prior to the advent of retail competition in the Company's service territory. The Commission approved the applicable recovery mechanisms in *Granite State Electric Co.*, Order No. 23,041, (October 7, 1998). Liberty Utilities acquired Granite State Electric Company and associated obligations from National Grid in 2012. *See* Order No. 25,370 (May 30, 2012).

Liberty's Transmission Service Cost Adjustment includes costs that the Company incurs in providing transmission service. Through the Transmission Service Cost Adjustment, Liberty recovers costs billed to it by the Independent System Operator-New England (ISO-NE) and NEP through the ISO-NE Transmission, Markets and Services Tariff. It also includes an adjustment factor that reconciles transmission rates and revenues from the prior service period. In addition,

¹ The Commission admits the April 21, 2016, complete revised filing as Exhibit 6 in this matter. Also on April 21, Liberty submitted its response to a record request and on April 29, it revised this response. This revised response is Exhibit 3 in this proceeding.

as part of its Transmission Service Cost Adjustment, Liberty proposed to credit customers for excess Regional Greenhouse Gas Initiative (RGGI) allowance auction revenues.²

II. POSITIONS OF THE PARTIES

A. Liberty Utilities

1. Stranded Cost Adjustment Factor

The proposed Stranded Cost Adjustment Factor consists of two components: (1) a uniform per kWh charge Liberty collects from all customers reflecting contract termination charges assessed by NEP, and (2) rate-class specific adjustment factors reflecting the reconciliation of any excess or deficiency in stranded cost recovery from the prior year. The Company's filing proposed an increase to the Stranded Cost Adjustment Factor from a credit of 0.150 cents per kWh to a charge of 0.040 cents per kWh (excluding rate-class specific factors) for the period beginning May 1, 2016.³

Pursuant to the directive of the Commission in Order No. 25,745 (December 30, 2014), Liberty explored a buy-down of the remaining stranded costs with the goal of eliminating this recurring charge to customers. Liberty reported that it had preliminary, unproductive discussions with National Grid and noted that any buy-down would need to be approved by the Federal Energy Regulatory Commission (FERC).

2. Transmission Service Cost Adjustment

The filing proposes a change in Liberty's Transmission Service Cost Adjustment, which is designed to allow Liberty to recover transmission costs it incurs. The Company is permitted to recover costs billed to it by ISO-NE and NEP, including full reconciliation of transmission

² Liberty's initial filing included a credit for borderline sales to Massachusetts Electric Company of \$.00001, which was subsequently revised to \$.00000, when rounded to five decimal places, and thus was eliminated from the Transmission Service Cost Adjustment calculation.

³ On January 29, 2016, NEP filed a contract termination charge report with the Commission, which is under review in Docket No. DE 16-216.

revenue and expenses for any over- or under-recovery of transmission costs from prior reconciliation periods. Liberty's proposed Transmission Service Cost Adjustment for effect May 1, 2016, consists of two components: (1) an average transmission service rate⁴ of 2.393 cents per kWh; and (2) a reconciling credit of 1.098 cents per kWh. This results in a total Transmission Service Cost Adjustment of 1.295 cents per kWh.

To obtain transmission service, the Company enters into service agreements with entities authorized by the FERC to provide transmission service in New England. NEP and ISO-NE assess transmission charges to Liberty to cover the cost of providing transmission over regionally networked facilities, more commonly known as Pool Transmission Facilities or bulk transmission facilities. The service provided over those facilities is referred to as regional network service. The regional network service rate recovers network costs on a regionalized basis, and is determined annually based on an aggregation of transmission revenue requirements of each transmission owner in New England, calculated in accordance with a FERC-approved formula. The Company is also billed for transmission over NEP's local transmission facilities, which are not considered bulk transmission facilities. The service provided by those facilities is referred to as local network service.

The Company explained that Liberty's transmission and ISO-NE expenses for 2016 are projected to be \$22.9 million, a net increase of \$357 thousand from the 2015 forecast. Liberty said that the largest portion of the increase is in regional network service transmission charges, estimated to increase \$1,713,468 as compared to the 2015 forecast. This is largely offset by an estimated reduction in local network service charges of \$1,437,153. Liberty calculated an average proposed transmission service rate of 2.393 cents per kWh, a decrease over the current effective average transmission rate of 3.156 cents per kWh.

⁴ This rate varies by class.

The reconciliation presented in this proceeding reflects actual transmission revenues and expenses for the period October 2014 through January 2016 and forecasted transmission revenues and expenses for the months of February through April, 2016. The Company's proposed 2016 reconciling credit is 1.098 cents per kWh reflecting an over-collection of \$10,517,396 from the prior reconciliation period. The credit was calculated by dividing the over-collection of the transmission service expense as of April 2016 by the forecasted 957,563,085 kWh sales for the year beginning May 1, 2016.

Liberty testified that the \$10,517,396 over-collection as of April 30, 2016, resulted from three items. First, the 2015 Transmission Service Cost Adjustment was based on an estimated transmission cost of \$22.8 million and the actual costs for 2015 were \$20.9 million, or \$1.9 million lower than estimated. Second, the reconciliation of the prior period costs included approximately \$400,000 of over-recovery from the months of October through December, 2014, which had not been included in prior reconciliations. Third, four additional months of transmission costs (January through April 2015) were included in the calculation of the rate that was charged effective May 1, 2015, as approved in Order No. 25,745. The Company described this rate calculation (which reflected 16 months of costs applied to only 12 months of revenue recovery) as an inadvertent error, which resulted in a substantial over-collection of costs.

In addition, the calculation of the proposed Transmission Service Cost Adjustment in this case includes a credit of 0.213 cents per kWh which refunds to customers RGGI allowance auction amounts above \$1.00 per allowance pursuant to Order No. 25,664 (May 9, 2014).

Liberty stated that for residential customers using 650 kWh of default service per month, the average monthly residential customer use, bills would decrease from \$123.62 per month to \$110.58 per month, or 10.55%, from rates currently in effect.

B. OCA

The OCA said that it had no objection to the methodology used by Liberty in calculating the rates and that it participates in FERC proceedings involving transmission rates charged to Liberty.

C. Staff

Staff raised several issues with the Company's presentation. Regarding stranded costs, Staff questioned whether the efforts of the Company to achieve a buy-down of the remaining stranded costs were sufficient to satisfy Commission Order No. 25,745.

Regarding transmission costs, Staff noted that the ISO-NE Tariff Section II Charges and the ISO Tariff IV.A Administrative Charges were estimated using the highest monthly regional network load data over a two year period - 2014 and 2015. Staff questioned the appropriateness of using the highest monthly load data over a two year period as opposed to averaging the data or using the most current year's load data. Staff noted, and Liberty agreed, that in the 2015 forecast presented last year, the Company used the most recent 12 month actual load data in the calculation. Also, Staff noted, and Liberty agreed, that the load data used to estimate transmission costs for the months of January, October and November 2015 did not match the underlying load data. Liberty corrected those errors in Exhibits 3 and 6.

Staff questioned whether NEP local network service charges should be adjusted downward consistent with a reduction in NEP's planned investment for 2016, when, according to Liberty, an upward adjustment had been made in prior years when NEP was planning increases in transmission investments. Staff questioned how the postponement of a rate increase for 2015 transmission costs had resulted in a large over-collection, when all other things being equal, postponement of a rate increase should have reduced any over-collection.

Staff noted, and Liberty agreed, that the transmission charge is developed on a class specific basis with each rate reflecting the class's contribution to underlying cost, while the factor which reconciles over- and under-collections is uniform across all rate classes. Finally, Staff noted, and Liberty agreed, that in this case, where the over-collection is so large, the rate design objective of assigning costs to rate classes based on class responsibility for those costs is diluted by refunding the over-collection using a uniform factor applied to all rate classes.

Staff supported the proposed rates, once the calculations were revised to reflect the corrected monthly load data.

III. COMMISSION ANALYSIS

RSA 374:2 and RSA 378:7 authorize the Commission to determine whether rates charged to retail utility customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4, VIII(a), further authorizes the Commission to “order such charges and other service provisions and to take such other actions that are necessary to implement [electric industry] restructuring and that are substantially consistent with the principles” set forth in RSA 374-F. Among the principles relevant to this proceeding are the objectives of providing “clear price information on the cost components of generation, transmission, distribution and any other ancillary charges” pursuant to RSA 374-F:3, III, and recovery of stranded costs through a “non-bypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, [and] consistent with the promotion of fully competitive markets” pursuant to RSA 374-F:3, XII (d).

The underlying policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, Order No. 23,041, (October 7, 1998), approving the rate adjustment mechanisms reflected in the Company's current proposal. Each rate component deserves a brief discussion.

Liberty's proposed Stranded Cost Adjustment Factor is an increase of 0.190 cents per kWh, from a credit of 0.150 cents per kWh, to a charge of 0.040 cents per kWh. Typically, NEP files the final contract termination charge reconciliation report in December of each year to allow Staff to verify the stranded cost charge proposed by the Company. The Commission received the final contract termination charge report on January 29, 2016, but Staff has not yet concluded its review of the report. Therefore, we will conditionally approve the stranded cost charge. We direct Staff to complete its review of the contract termination charge report to verify the rate. Staff shall report its findings to the Commission once it completes its analysis.

Regarding the buy-down of the remaining stranded costs, the Commission finds that the Company's brief explanation of its efforts in this regard provide insufficient information to conclude whether the Company followed the Commission's suggestion that it explore a buy-down. The Commission again urges Liberty to explore a buy-down of the remaining stranded costs and directs the Company to provide a detailed account of its efforts in next year's filing.

The proposed Transmission Service Cost Adjustment incorporates two components: (1) an average charge of 2.393 cents per kWh, which represents the forecasted transmission expenses for 2016; and (2) the reconciling credit of 1.098 cents per kWh attributable to an over-recovery from the prior period. The transmission costs in question are derived from FERC-approved tariffs and subject to FERC jurisdiction. Those costs are then applied in accordance with the rate mechanism approved in Order No. 23,041. Accordingly, we approve Liberty's proposed Transmission Service Cost Adjustment (including the RGGI credits discussed above).

Liberty requests that the proposed rate changes be effective with services rendered on and after May 1, 2016. With the combined changes, a residential customer using 650 kWh per month in default service, the average monthly usage by residential customers, would experience a monthly bill decrease.


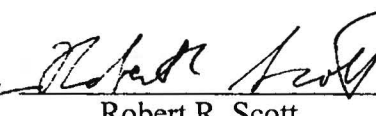
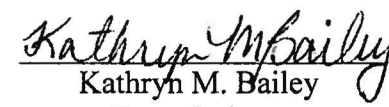
The Company has currently over-collected nearly one half of 2016's forecasted transmission costs, apparently partially as a result of its use of the highest monthly load data of the two most recent years. In order to more accurately estimate transmission costs in the future, we direct the Company to use the most recent twelve months of actual network regional monthly load data when forecasting the ISO-NE regional and administrative charges, rather than using the highest of the two most recent years, as the Company did here.

Based upon the foregoing, it is hereby

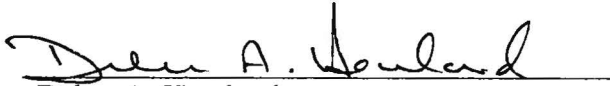
ORDERED, that, as detailed above, the retail rates proposed by Liberty in Exhibit 6, filed April 21, 2016, are hereby APPROVED effective for the period May 1, 2016, through April 30, 2017; and it is

FURTHER ORDERED, that Liberty file appropriate tariff changes that conform to this order within 30 days hereof pursuant to N.H. Code Admin Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2016.

		
Martin P. Honigberg Chairman	Robert R. Scott Commissioner	Kathryn M. Bailey Commissioner

Attested by:


Debra A. Howland
Executive Director