STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 17-049

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

Annual Retail Rate Adjustment

Order Approving Rate Adjustments

O R D E R N O. 26,010

April 25, 2017

APPEARANCES: Michael J. Sheehan, Esq., on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a/ Liberty Utilities; 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, 2017. The resulting impact for residential customers using 650 kWh per month is a monthly bill increase from $101.88 to $106.16 or 4.20 percent from rates currently in effect.

I. PROCEDURAL HISTORY

On March 23, 2017, 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 requested that the rates be effective on a service-rendered basis on and after May 1, 2017. The Company's March 23, 2017, filing is Exhibit 1 in this proceeding. The Commission issued an Order of Notice on March 29, 2017, scheduling a hearing for April 11.

At the April 11th hearing, Liberty filed a revised Schedule HMT-2 (Exhibit 2) and revised Schedules HMT-4 and HMT-5 (Exhibit 3). Liberty's initial 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/2017/17-049.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 expenses and revenues from the prior service period. In addition, as part of its Transmission Service Cost Adjustment, Liberty proposes to credit customers for excess Regional Greenhouse Gas Initiative (RGGI) allowance auction revenues and a final refund related to past sales to customers of Massachusetts Electric Company (MECO) on the Massachusetts/New Hampshire border.

II. POSITIONS OF THE PARTIES AND STAFF

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) a stranded-cost adjustment factor reflecting the reconciliation of any excess or deficiency in stranded cost recovery from the prior year. The Company's filing proposes no change to the uniform charge per kWh and thus this charge would remain at 0.040 cents per kWh for the period beginning May 1, 2017.[1] Exhibit 1 at 41. Liberty proposes an increase in the stranded cost adjustment factor to 0.009 cents per kWh to recover an under collection from the previous year. Exhibit 1 at 41.

Pursuant to the directive of the Commission in Order No. 25,745 (December 30, 2014) and Order No. 25,892 (April 29, 2016), Liberty explored a buy-down and/or buy-out of its remaining stranded costs with the goal of eliminating this recurring charge. Liberty reported that due to significant uncertainties in future charges (or credits) that may come through the Contract Termination Charge ("CTC") related to items such as nuclear decommissioning, environmental response, and litigation costs, a buy-down or buy-out is not feasible. Further, NEP, citing the same uncertainties, stated that it is not in a position to pursue a buy-down or buy-out of these costs with Liberty. Exhibit 1 at 64-69.

2. <u>Transmission Service Cost Adjustment</u>

Liberty's filing proposes a change in its 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 revenues and expenses for any over- or under-recoveries from prior reconciliation periods. Liberty's proposed Transmission Service Cost Adjustment for effect May 1, 2017, consists of three components: (1) an average transmission service rate[2] of 2.240 cents per kWh; (2) a

[1] On January 30, 2017, NEP filed a contract termination charge report with the Commission, which is under review in Docket No. DE 17-015.
[2] This rate varies by class.

reconciling credit of 0.414 cents per kWh; and (3) a RGGI credit of 0.137 cents per kWh. Exhibit 1 at 41, 44, 48.

To obtain transmission service, the Company enters into service agreements with entities authorized by the Federal Energy Regulatory Commission ("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 ("LNS").

The Company explained that its transmission expenses for 2017 are projected to be $21.3 million, a net decrease of $1.6 million from the 2016 forecast. Exhibit 1 at 19. Liberty attributed this largely to a decrease in LNS charges, as compared to the 2016 forecast. Liberty used its actual 2016 LNS costs to estimate the LNS costs for 2017. *Id.* at 15-16.

The reconciliation credit of 0.414 cents per kWh presented in this proceeding reflects three items: Transmission Service (Over)/Under Collection, Working Capital (on transmission costs) and Border Sales. Exhibit 1 at 48. The Transmission Service (Over)/Under Collection has two components. First, actual transmission revenues and expenses for the period February 2016 through December 2016 and forecasted transmission revenues and expenses for the period January through April, 2017 produce a projected over-collection of $3,354,364. *Id.* at 46.

Liberty testified that the $3,354,364 over-collection resulted from two items. Regarding the first item, the Transmission Service Cost Adjustment that went into effect May 1, 2016, was based on estimated transmission costs of $22.9 million while the current projection for the 12 months ending April 30, 2017 (based largely on actuals), is $20.5 million. *Id.* at 19, 46. As for the second item, during the period January through April 2016, Liberty's transmission rates to its customers were higher than for the rest of 2016. *Id.* at 35. Liberty stated that this $3.3 million over-collection is significantly lower than the $10.4 million over-collection from this time last year that is reflected in the current rates. Thus, even though transmission costs are forecasted to decrease, the proposed rates represent an increase over currently effective rates.

Second, the projected over-collection is added to the remaining refund of an over-collection present as of May 1, 2016, when the current rates were set. This remaining over-collection is calculated to be $653,315 for a total over-collection of $4,007,679 to be returned to customers in this case. *Id.* at 47, 48.

Liberty proposes to recover $77,144 of working capital on its transmission costs. *Id.* at 48. This component had been included in base rates until the Company's most recent base rate case (Docket No. 16-383). Consistent with the approved settlement in that case, the item has been shifted to the Transmission Service Cost Adjustment. Order No. 26,005 (April 12, 2017) at 8.

Finally, the transmission reconciliation includes a final refund of $9,286 in revenue from MECO for past sales made by Liberty on MECO's behalf to customers on the Massachusetts/New Hampshire border, which ended in 2014. Liberty included this refund in the transmission reconciliation factor because the amount was too small for a stand-alone rate, as had been done in past years. Exhibit 1 at 37.

The Company's proposed 2017 reconciling credit is 0.414 cents per kWh. The credit was calculated by dividing the net over-collection/refund amount of $3,939,821 by the forecasted 950,922,952 kWh sales for the year beginning May 1, 2017. Exhibit 1 at 48.

In addition, the calculation of the proposed Transmission Service Cost Adjustment in this case includes a credit of 0.137 cents per kWh, which refunds to customers RGGI allowance auction amounts above a $1.00 per allowance, pursuant to RSA 125-O:23 and Order No. 25,664 (May 9, 2014), resulting in a total Transmission Service Cost Adjustment for the Residential Rate D customer of 2.011 cents per kWh. Exhibit 1 at 41; Exhibit 3 at R052.

Based on the proposed Stranded Cost Adjustment Factor and Transmission Service Cost Adjustment, residential customers using 650 kWh of default service per month would see an increase to their monthly bills of $4.28; from $101.88 per month to $106.16 per month, or 4.2 percent Exhibit 3 at R053.

B. Staff

Staff questioned the terminology used in Exhibit 1 as compared to the Company's tariffs, noting that use of inconsistent terms for the same charge made it difficult to review the Company's proposal. For example, under Liberty's tariff, the Stranded Cost Adjustment Factor includes contract termination charges from NEP *and* the reconciliation of these costs whereas on Exhibit 1, the equivalent charge is labeled "Net Stranded Cost Charge." *Compare* Exhibit 5 at 91 *with* Exhibit 1 at 41. Further, the charge on Exhibit 1, which is labeled "Stranded Cost Adjustment Factor" refers only to the reconciliation piece. Exhibit 1 at 41-43.

Regarding the Stranded Cost Adjustment Factor, Staff questioned the beginning under-collected balance of $1,952 on the schedule used to reconcile past revenues and expenses. Exhibit 1 at 42. Liberty corrected that balance to $2,687. Exhibit 2 at R042.

Regarding the Transmission Service Cost Adjustment, Staff questioned the inclusion of a one-day lag for "Payment Processing and Bank Float" in the calculation of working capital on transmission costs, when no such lag had been included in the detailed lead/lag study presented by Liberty's expert witness in its recent base rate case, Docket No. 16-383. Liberty responded that for future filings it would examine whether this float should be included. Liberty further stated that if this item were excluded in this case, the effect on the proposed working capital amount was small enough that it would not affect the proposed Transmission Service Cost Adjustment, due to rounding.

In addition, Staff questioned the RGGI refund rate presented on Exhibit 1 at 52 (0.118 cents per kWh), noting that it did not match the rate proposed for approval on Exhibit 1 at 41 (0.137 cents per kWh). Liberty updated the filing so that both schedules reflect the proposed rate of 0.137 cents per kWh. Exhibit 1 at 41; Exhibit 3 at R052.

Staff also questioned some of the rates used for the Typical Residential Customer Bill Comparison. Exhibit 1 at 53. Liberty submitted a revised bill comparison with corrections made to the customer charge and the transmission charge. Exhibit 3 at R053.

Staff supported the proposed rates, once the corrections on Exhibits 2 and 3 were made. In addition, Staff stated that, in its view, Liberty had sufficiently explored the issue of buying down or buying out its remaining stranded cost obligations and Staff recommended that the Commission find that Liberty satisfied the Commission's previous directives.

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 increases to 0.009 cents per kWh from a charge of 0.040 cents per kWh, to a charge of 0.049 cents per kWh, for all rate classes except Streetlights.[3] The portion of the charge that recovers the NEP contract termination charges remained unchanged at 0.040 cents per kWh. The Commission received a CTC report from NEP on January 30, 2017, but Staff has not yet concluded its review of the report. Therefore, we will conditionally approve Liberty's Stranded Cost Adjustment Factor. We direct

[3] The Stranded Cost Adjustment Factor proposed for Streetlights is also 0.049 cents per kWh, up from 0.039.

Staff to complete its review of the CTC 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 explanation of its efforts demonstrates that a buy-down or buy-out of these costs is not practical due to uncertainties in the costs involved, which NEP also cited as a reason it will not pursue a buy-down or buy-out of these costs. Accordingly, we find that Liberty has satisfied the Commission's directives concerning this issue.

Liberty's proposed Transmission Service Cost Adjustment incorporates two components: (1) an average charge of 2.240 cents per kWh, which is designed to recover forecasted transmission expenses for 2017; and (2) the reconciling credit of 0.414 cents per kWh attributable primarily to over-recoveries 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. The Commission notes that Liberty forecasted its transmission costs using the most recent 12 months of actual network regional monthly load data, as directed in Order No. 25,892. Accordingly, we approve Liberty's proposed Transmission Service Cost Adjustment (including the RGGI credits, the working capital amount and the border sales refund discussed above) for effect with services rendered on and after May 1, 2017. With the combined changes, a residential customer using 650 kWh per month in default service would experience a monthly bill increase of $4.28 or 4.20 percent.

Based upon the foregoing, it is hereby

ORDERED, that, as detailed above, the retail rates proposed by Liberty in Exhibit 1 at 41, filed March 23, 2017, are hereby APPROVED effective for the period May 1, 2017, through April 30, 2018; 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-fifth day of April, 2017.

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

Attested by:

Debra A. Howland
Executive Director