

STATE OF NEW HAMPSHIRE
Inter-Department Communication

DATE: April 13, 2018
AT (OFFICE): NHPUC

FROM: Rich Chagnon *TCF*
Utility Analyst – Electric Division

SUBJECT: DE 18-016, Liberty Utilities (Granite State Electric) Corp. d/b/a
Liberty Utilities
Sale of Electric Water Heater Rental Program

NHPUC 13APR'18PM3:19

TO: Commissioners
Debra Howland, Executive Director

CC: Tom Frantz, Director, Electric Division
Amanda Noonan, Director, Consumer Services and External Affairs
Les Stachow, Assistant Director, Electric Division
Rory Patterson, Assistant Director, Consumer Services and External
Affairs
Lynn Fabrizio, Staff Attorney

Summary

On February 8, 2018, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (the “Company” or “Liberty”), pursuant to RSA 374:30, filed for approval to sell its Electric Water Heater Rental Program (Program) to Grand HVAC Leasing USA, LLC (“GHL”), a company whose core mission is to sell and rent water heaters and related products.

The Company asks the Commission to find that the sale of the Program is for the public good and to approve the proposed sale without a hearing. In the alternative, the Company asks the Commission to approve the sale by order *nisi*.

Staff recommends that the Commission find that the proposed sale of Liberty’s Program to GHL is for the public good and that the Commission approve the sale without a hearing.

Staff also recommends that the Commission require Liberty to submit a final report within three months of the date of the transaction close, detailing the resulting deemed net book value of the Program assets on the date of the transaction close of the Program for Staff review.

Background

On February 8, 2018, Liberty filed for leave to sell its Program to GHL. The Program has been in existence for several decades and has been administered by Liberty and the predecessor owners of Granite State Electric Company. Under the Program, Liberty provides electric water heating rental equipment, maintenance, and emergency service to 1,502 electric water heater units among its residential and small business customers. Participating customers are charged a monthly fee on their electric bills for participating in the Program and are ensured that any type of maintenance or emergency repair work to the rental equipment will be fully covered and serviced by the Company. Liberty currently relies on a network of service providers to fulfill service delivery to its participating customers.

The key challenge for Liberty in delivering the Program has been the coordination with qualified contractors to perform the water heater installations, service, and repair work. As a regulated electric distribution utility, Liberty is not organized to install water heaters or perform service and repair work directly for customers and must outsource this function. In outsourcing this function, the Company has had complications in partnering with contractors who are capable of servicing Liberty's geographic territory and who agree to meet specific requirements. Since 2014, the Company has experienced a year-over-year decline in participation, and an increase in water heater repairs and replacement expenses. The Company estimates that it lost approximately \$14,754 in operating the Program over its most recently completed calendar year of 2016 where information is fully available.

The proposal is for Liberty to transfer ownership of the assets of its Program to GHL in exchange for compensation of the full, deemed net book value of the remaining program assets at the date of the transaction close, as determined mutually by Liberty and GHL. The final sale price of the transaction will be the net book value of the portfolio adjusted for (1) any new additions to the portfolio, (2) any defections, customer accounts in arrears, or customer accounts which have not accepted assignment to GHL, and (3) any water heaters purchased in on-hand inventory. As of September 30, 2017, the Total Net Book Value of the program is \$131,279.36.

GHL is the American subsidiary of Grand HVAC Leasing Ltd, a Canadian company, and specializes in delivering bundled HVAC and water heating solutions to residential, commercial, and multifamily customers and housing providers throughout North America. GHL provides alternative solutions for customers to acquire heating, water heating and cooling equipment upgrades, conversions and replacements, as well as providing bundled warranties for service and labor parts, and delivering scheduled and preventative maintenance work.

The rental of water heating equipment is not a core utility function for Liberty, and the monthly rates paid by customers are not included in the Company's tariff. The existing rental rates of \$8 or \$9 per month, depending on the size of the tank, have been

unchanged since at least the 1990s, and perhaps longer. Although the Program is not a regulated activity, it has always been accounted for as an above-the-line activity. Thus, the costs of the Program, including the capital cost of the water heaters, the operation and maintenance expenses, and the rental revenue received from customers have all been taken into consideration in distribution rate cases. The Company states that as a component of rate base, the water heaters are considered part of Granite State's "works or system" so Commission approval of the transaction is required¹.

After approval of the sale agreement by the Commission, Liberty and GHL will implement a sequence of direct mail letters to customers over a period of weeks in order to provide proper notification of the planned Program transition and to allow customers reasonable time to decide on continuing with the Program under GHL or opting out. Liberty's Program manager will be available to directly answer any customer questions and will be accessible via the Company's dedicated Program hotline phone number. Also, outreach via phone and door hangers will be performed to customers who do not respond to the direct mail notification letters.

Customers will have the option to remain in the Program and become customers of GHL or terminate their participation. Liberty and GHL will determine an official Program transition date by which existing Program participants will need to decide whether they want to continue in the Program or not. However, GHL will accept, without penalty, any customers that come back to GHL after the transition date.

If a customer chooses to terminate participation prior to the agreed Program transition date, that customer will have two options. First, a customer can purchase the existing rental hot water heater "As-Is" at a price equal to the higher of the following amounts: (a) the fair market value of the hot water heater, or (b) the "book value," which is the value the Company has given to the hot water heater in its accounting records. The second option is that a customer can decide to have the hot water heater removed. If a customer chooses the second option, the Company will coordinate the draining, disconnection, and removal of the water heater from the customer's property and will cover the costs associated with this work.

Customers who want to continue to be served in the Program under GHL will need to formally communicate their affirmation through the execution of GHL's equipment rental agreement and payment procedures. Phone and door hanger outreach will be undertaken to notify customers who do not respond to any of the direct mail communications to ascertain whether they intend to continue in the program. Customers who transition over to GHL will continue to receive the same service and support they are currently being provided by Liberty, but will be billed directly by GHL for the rental hot water heater.

¹ RSA 374:30, I. Any public utility may transfer or lease its franchise, works, 16 or system, or any part of such franchise, works, or system, 17 exercised or located in this state, or contract for the operation of its works and system located in this state, when the commission shall find that it will be for the public good and shall make an order assenting thereto, but not otherwise...

To ensure customer confidentiality and privacy, Liberty will transfer to GHL via a secure file transfer protocol, the names, site addresses, mailing addresses, phone numbers, and current water heater rental rates of Program participants who have chosen not to opt-out of the Program at the time of the Program close date.

Liberty and GHL anticipate a two to three month program transition period following approval by the Commission of the proposed sale. Based on GHL's experience acquiring similar programs with other utilities, Liberty and GHL expect this to be adequate time to facilitate a full customer transition, including setup of new contracts and billing arrangements with customers who wish to continue with GHL.

As outlined in Liberty's February 8, 2018 filing in Attachment EMS/SEM-1, Page 8 of 41, Section 4.2. Terms of Transaction "*GHL has committed to maintaining the existing customer rental agreement rates for at least 12 months following the approval by the Commission.*"

Liberty requested approval of the sale of the Program by March 31, 2018, to limit the amount of time after this filing for the transaction to be completed, given the transition period for customers following Commission approval, and to limit the amount of operating losses that might otherwise be incurred by the Company.

Analysis and Recommendation

Staff has had multiple meetings with Liberty since April 2017 regarding its Electric Water Heater Rental Program. We agree that the rental of water heating equipment is not a core utility function. Staff's primary goals in any potential sale of this Program is for Program participants to receive sufficient notification of a Program sale, how to opt-in to or opt-out of the Program, and to have at least 12 months protection from rental cost increases. The proposal filed by Liberty to transfer ownership of the assets of its Program to GHL covers these initial concerns of Staff.

As a condition of the sale of the Program, GHL is committing to provide the same level of service to existing Program participants at the customer's existing monthly rental fee for at least 12 months after the date of the sale of the Program. As a result, Liberty has ensured that existing Program participants can continue to receive an affordable equipment rental option that offers dependable and reliable maintenance service during that time, giving Program participants enough time to weigh future options regarding their continued participation.

The sale amount to GHL will be the deemed net book value of existing Program assets on the date of the transaction close. The sale amount, which is a breakeven transaction, will result in a credit to plant for accounting purposes.

The Company asked the Commission to approve the sale without a hearing, and find that the sale of the Program is for the public good.

Staff recommends that the Commission find that the proposed sale of Liberty's Program to GHIL is for the public good and that the Commission approve the sale without a hearing. Staff also recommends that the Commission require Liberty to submit a final report within three months of the date of the transaction close, detailing the resulting deemed net book value of the Program assets on the date of the transaction close of the Program for Staff review.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov
amanda.noonan@puc.nh.gov
donald.kreis@oca.nh.gov
james.brennan@oca.nh.gov
leszek.stachow@puc.nh.gov
lynn.fabrizio@puc.nh.gov
michael.sheehan@libertyutilities.com
ocalitigation@oca.nh.gov
richard.chagnon@puc.nh.gov
tom.frantz@puc.nh.gov

Docket #: 18-016-1 Printed: April 13, 2018

FILING INSTRUCTIONS:

a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST. SUITE 10
CONCORD NH 03301-2429

b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.

c) Serve a written copy on each person on the service list not able to receive electronic mail.