

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

January 5, 2011 - 10:08 a.m.
Concord, New Hampshire

NHPUC JAN25'11 PM 4:04

RE: DE 10-292
UNITIL ENERGY SYSTEMS, INC.:
Tariff Filing for Step Adjustment for
Distribution Energy Resources.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: Reptg. Unitil Energy Systems, Inc.:
Gary Epler, Esq.

Reptg. Residential Ratepayers:
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
George R. McCluskey, Electric Division

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

P R O C E E D I N G

CHAIRMAN GETZ: Good morning, everyone. We'll open the hearing in Docket DE 10-292. On November 1, 2010, Unitil Energy Systems filed tariff pages for effect on or after January 1, 2011 to recover its distributed energy resources investment in the Exeter SAU 16 Solar Photovoltaic and Micro Turbine Project. The Company indicates that the bill impacts associated with the rate change for a residential customer using 600 kilowatt-hours per month will be an increase of 4 cents per month, or 0.05 percent of the total bill. And, we issued an order on November 17 suspending the tariff and scheduling the hearing for this morning.

Can we take appearances please.

MR. EPLER: Good morning, Mr. Chairman and Commissioners, and Happy New Year. Gary Epler, on behalf of Unitil Energy Systems, Inc.

CHAIRMAN GETZ: Good morning.

MR. TRAUM: Good morning, Mr. Chairman and Commissioners. The OCA is just going to be observing, not actually formally participating in today's proceeding.

CHAIRMAN GETZ: Good morning.

MS. AMIDON: Good morning. Suzanne Amidon, for Commission Staff. With me today is George

1 McCluskey, an Analyst in the Electric Division.

2 CHAIRMAN GETZ: Good morning. We
3 apparently have a witness.

4 MR. EPLER: We have a witness.

5 CHAIRMAN GETZ: Are you ready to
6 proceed, Mr. Epler?

7 MR. EPLER: We're ready to proceed, Mr.
8 Chairman. Thank you. Mr. Chairman, I would ask that the
9 filing that was made, I believe as you indicated, on
10 November 1st, consisting of the cover pages and tariff
11 sheets and other pages, be premarked as "Unitil Exhibit
12 1".

13 CHAIRMAN GETZ: So marked.

14 (The document, as described, was
15 herewith marked as **Exhibit 1** for
16 identification.)

17 MR. EPLER: And, I would also orally
18 amend the request for relief that's stated in the cover
19 letter. We asked for an effective date "on and after
20 January 1, 2011." We would amend that to "the first of
21 the month following issuance of your order."

22 CHAIRMAN GETZ: All right.

23 MR. EPLER: Okay. Thank you.

24 (Whereupon **George R. Gantz** was duly

[WITNESS: Gantz]

1 sworn and cautioned by the Court
2 Reporter.)

3 **GEORGE R. GANTZ, SWORN**

4 **DIRECT EXAMINATION**

5 BY MR. EPLER:

6 Q. Mr. Gantz, could you please state your job position
7 with Unitil.

8 A. Yes. I am the Senior Vice President for Distributed
9 Energy Resources for Unitil.

10 Q. Thank you. And, was the -- do you have a copy of the
11 document that's been premarked as "Unitil Exhibit 1" in
12 front of you?

13 A. I do.

14 Q. And, was this material either prepared by you or under
15 your direction?

16 A. Yes.

17 Q. And, do you have any changes or corrections to this
18 document?

19 A. There's one item that might -- that I'd like to address
20 as I discuss, you know, the filing and the material in
21 it.

22 Q. Okay. But, in terms of the filing itself, were there
23 any technical mistakes or anything of that matter --

24 A. No.

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 Q. -- in here that needs corrections? And, is it correct
2 that the Company has had an opportunity to discuss the
3 filing with the Commission Staff?

4 A. Yes.

5 Q. Okay. Could you please describe the filing.

6 A. Sure. The filing in Exhibit 1 was our filing of a step
7 adjustment for our investment in the Exeter SAU 16
8 Project. That investment and, in fact, the filing
9 itself was authorized by the Commission in its final
10 Order Number 25,111, dated June 11th, 2010, in docket
11 DE 09-137.

12 With the approval of the Project in that
13 proceeding, we worked with the developer and the
14 customer to finalize the customer agreement, that was
15 finalized and signed on August 17th, and is included as
16 an attachment in Exhibit 1. The developer did complete
17 construction of the facilities. And, the Company
18 issued letters authorizing the interconnected operation
19 of the micro-turbine on August 17th and a letter
20 authorizing interconnected operation of the solar PV
21 array on August 31st. At that point, the solar PV
22 array was at roughly 75-kilowatt levels, some
23 additional panels and arrays were installed. And, on
24 or about the 22nd of September, the solar facility

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 achieved its full size of 100 kW.

2 Additionally, I can note that in the
3 fall the Solar PV Project was approved by the
4 Commission for purposes of generating renewable energy
5 certificates. And, with that in place, the investments
6 having been made, the facilities in operation, the
7 Company then turned to the development and filing of
8 the step adjustment request in Exhibit 1.

9 In that process, we did look at the
10 details of Order Number 25,111. We wanted to make the
11 filing as simple and clean as possible. We used as a
12 model for the step adjustment the step adjustment
13 process utilized subsequent to the Company's last base
14 rate case. For reference purposes, there was a step
15 adjustment, Part 1, in DE 05-178. That's essentially
16 the template that we used to put together the step
17 adjustment request, both the calculation of revenue
18 requirement and the subsequent filtering of that
19 revenue requirement into the rates. So, I think we had
20 a precedent to use in doing that.

21 In terms of the revenue requirements
22 included, that -- those revenue requirements were
23 specified in Attachment 2 to the filing in Exhibit 1.
24 And, the revenue requirements included a return on

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 investment for the investment in the facility. The
2 total included was the \$200,000 invested, plus a
3 1 percent factor for general overheads. And, the
4 return calculated was a pre-tax rate of return based
5 upon the Company's latest cost of capital and
6 capitalization ratios. And, a rate of return on equity
7 of 9.67 percent, which was the last authorized return
8 on equity from the rate case in DE 10-0 -- excuse me,
9 DE 05-178.

10 So that, based upon that calculation,
11 there was a return and the related income taxes in the
12 filing of \$22,807. In addition, there is an item for
13 the amortization of the investment: The micro-turbine
14 is amortized over 15 years, the PV facility over 20,
15 resulting in an amortization amount of \$11,020. We
16 also included the amortization of the start-up
17 expenses. These were the costs associated with the
18 outside consultant that we utilized in the proceeding
19 to assist us in DE 09-137 with respect to that
20 proceeding. And, that amount being amortized over five
21 years in the filing is an amount of \$36,736. And,
22 then, finally, in accordance with the Commission's
23 order, we included a calculation for lost base
24 revenues.

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 In a conversation with Staff, they noted
2 that the calculation of lost base revenues was based
3 upon rates as filed in the Company's pending rate case
4 DE 10-055. And, in looking at that, we think it would
5 be more appropriate to calculate the lost base revenues
6 based upon the rates in effect at this time. So that
7 one change would result in a decrease in the requested
8 revenue requirement for the step adjustment of about
9 \$752, or thereabouts. And, clearly, since the rate
10 case has not been concluded at this point, you know, it
11 would be appropriate to make that adjustment.

12 In addition, the Staff issued two data
13 requests in this proceeding, and might be appropriate,
14 you know, to have those marked for inclusion in the
15 record. One of the data requests was asking about
16 whether the Company was requesting in the step
17 adjustment any costs associated with ongoing program
18 management and reported costs. That had been a
19 category of costs that the Commission had identified in
20 its order and had declined to approve for recovery.
21 And, at the same time, perhaps keeping open the
22 possibility for the Company to make such a request.

23 We, as indicated in the response to the
24 Staff data request, which is Staff Request 1, we

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 indicated the Company is not requesting in this filing
2 any costs in the category that we had labeled "Ongoing
3 Program Management and Reporting Costs". And, noted
4 that we've made every effort to minimize the expenses
5 that would fall into that category. And, our
6 understanding of the Commission's order, our desire to
7 make this step adjustment filing simple, not to try and
8 re-litigate an issue that the Commission had decided,
9 we determined it was appropriate not to attempt to
10 recover those costs in this step adjustment filing at
11 this point.

12 In our conversation with Staff, I think
13 we've discussed the appropriateness of having some
14 additional conversation about this category of costs
15 and how that category of costs potentially should be
16 addressed in future filings. And, I think the Company
17 and the Staff have indicated that we would be willing
18 to have those conversations going forward. But, at
19 this point, that category of costs is not included in
20 this, in this request.

21 MR. EPLER: Mr. Chairman, I apologize.
22 I didn't realize my witness was going to request that this
23 be made an exhibit. So, I don't have additional copies.
24 I have one copy here. I will have copies made and provide

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 it to the Clerk and to the court reporter. And, if the
2 Chair or the Commissioners would like to see the
3 responses, it's a single page, I can provide that to you
4 now.

5 CHAIRMAN GETZ: Yes, why don't you. I
6 think the substance of it is already in the record, it
7 sounds like, but --

8 (Atty. Epler handing document to Chrmn.
9 Getz.)

10 CHAIRMAN GETZ: Are there two?

11 MR. EPLER: I think that's just one, one
12 copy.

13 CHAIRMAN GETZ: Okay. But it's --

14 MR. EPLER: But I can have additional
15 copies made once we break.

16 CHAIRMAN GETZ: But it's Staff 1-1 and
17 Staff 1-2, which is here?

18 MR. EPLER: Yes, that's correct.

19 CHAIRMAN GETZ: So, we'll mark this for
20 identification as Exhibit Number 2, and wait you providing
21 copies to the Clerk.

22 (The document, as described, was
23 herewith marked as **Exhibit 2** for
24 identification.)

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 MR. EPLER: Thank you, Mr. Chairman.

2 **BY THE WITNESS:**

3 A. And, one additional note relative to our use of the
4 step adjustment template from the prior rate case.
5 We've used it for this purpose, because we think it's
6 appropriate, given that that's kind of the last model
7 that was in place. But that we agree that, should the
8 Commission change the methodology of calculating a
9 particular step adjustment for investments going
10 forward, that's an issue that may come up in the
11 context of the current rate case, if there were a
12 change in that process going forward, then the Company
13 would expect that any future filing pursuant to RSA
14 374-G would follow that precedent, and not necessarily
15 be constrained to the model that we're -- that we used
16 for purposes of this filing.

17 MR. EPLER: Okay. Thank you, Mr.
18 Chairman. I have no additional questions of the witness.

19 CHAIRMAN GETZ: Thank you. Ms. Amidon.

20 MS. AMIDON: Thank you. Good morning.

21 **CROSS-EXAMINATION**

22 BY MS. AMIDON:

23 Q. You indicated that you had discussions with Staff
24 concerning the potential recovery of some of the

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 ongoing program management costs, correct?

2 A. Yes.

3 Q. Are you seeking recovery of any of these costs in the
4 current distribution rate case, Docket 10-055?

5 A. No. The costs in question in that, that would fall in
6 that category are not included in the test period
7 expenses for the current rate case.

8 Q. Okay. They're not in the test year, and otherwise you
9 are not seeking any recovery of those costs in that
10 docket, is that correct?

11 A. Correct.

12 MS. AMIDON: Okay. Thank you. I have
13 nothing further.

14 CHAIRMAN GETZ: Thank you. Commissioner
15 Ignatius.

16 CMSR. IGNATIUS: Thank you. Good
17 morning, Mr. Gantz.

18 WITNESS GANTZ: Good morning.

19 BY CMSR. IGNATIUS:

20 Q. You were describing the change on your Attachment 2 to
21 reduce the lost base revenues amount to reflect current
22 prices, correct?

23 A. Yes.

24 Q. And that dropped it by about \$750?

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 A. Yes.

2 Q. Is that figure an annual projected amount looking
3 forward?

4 A. It's an annual amount based upon anticipated production
5 from the facilities and the resulting reduction in
6 demand charge cost recovery from these customers.

7 Q. And, at the conclusion of the rate case, if rates are
8 different, would this number be changed yet again?

9 A. We would not propose to make such a change. It would
10 be, you know, a fairly nominal change, and probably
11 would cost more to conduct a proceeding to implement
12 such a change than the revenues would be worth. So,
13 our concept was to make this step adjustment filing a
14 one-time filing. In the context of a future base rate
15 case down the road, we would expect, as normally
16 happens with step adjustment, that all of those things
17 get rolled into the then rate case, then active rate
18 case. So, this would be a one-time filing. Not
19 anything that we would need to revisit, other than in
20 the normal course of events in the next base rate case.

21 Q. So, these figures won't have a reconciliation process
22 to true up against actuals at the end of the 12-month
23 period or anything like that?

24 A. That's correct. And, that is, as we understood the

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 context of the Commission's order in DE 09-137, was the
2 appropriate procedure.

3 Q. One other question. If, in future years, there are
4 more investments in this category that are approved,
5 will there be any way to track the cumulative impact on
6 rates as a result of these investments or would one
7 have to go through file-by-file and add them up?

8 A. One would -- that's a complicated -- not a complicated
9 question, but a complicated calculation. As the
10 Commission's aware, normally we would not be tracking
11 in detail the revenue requirements and expenses
12 associated with particular items of capital. It gets
13 brought together in the context of a rate case. You
14 have your original investment, your book depreciation,
15 the depreciation reserve, the deferred tax
16 calculations, all of those things done essentially by
17 asset classes. To do an individual investment,
18 essentially parse that out and looked at that and say
19 "all right, what's the revenue requirement here? And,
20 how does that fit in?" That would require kind of a
21 separate analysis that, you know, would involve some
22 time and some estimates, just because of the way the
23 Company's accounting works.

24 Q. If we were to be given a request, say, five years down

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 the road from a legislator or a reporter saying "how
2 many investments have been made and what has been the
3 rate impact and the lost revenues as a result under
4 this statutory provision?" It sounds like there's no
5 easy way to pull that up. And, you would have to kind
6 of do some rough calculations, looking at what each of
7 the projects entailed, rather than sort of tell the
8 computer what you need and have it churn that out and
9 give it to you in a fairly easy way?

10 A. Yes. I think we would start with the filings, and, for
11 example, this filing has, you know, it has the
12 investment at the starting point, it's got a schedule
13 of amortizations, you know, so you could construct from
14 that starting point, you know, a projected revenue
15 requirement, you know, based upon the original filing,
16 you could sort of construct a pro forma of that to do
17 that calculation. And, five years out it's going to
18 be, you know, this and ten years out it's going to be
19 this. And, you could do that for every one of these
20 filings the Company would make in subsequent years.
21 And, that might be the easiest way to sort of address
22 it in a -- you know, address the question.

23 It's harder, it's much harder if you
24 want to try and calculate over time the relationship

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 between those costs and the benefits. You know,
2 that's, again, from the standpoint of simplicity, we
3 think it makes sense to have a step adjustment that's a
4 one-time, and not attempting to, you know, create an
5 administrative process that's going to track things
6 going forward. But there are the -- both the benefits
7 to the customer, in terms of avoided energy or demand
8 charges, the aggregate benefits to our customers in
9 terms of any other value that's avoided, in terms of
10 purchases, the value of the RECs that will, you know,
11 accumulate over time, you know, the value of the
12 dispatchability of the micro-turbine. These are
13 difficult things to quantify. And, they would be very,
14 you know, it would be difficult to sort of create an
15 administrative and accounting process to be able to
16 track this whole thing through time.

17 So, you know, I think that would be a
18 difficult thing to do. I think the best you could do
19 is to use reasonable estimates, as we did when we
20 prepared the original cost-effectiveness analysis that
21 the Commission reviewed up front. You know, that sort
22 of -- that's certainly the best estimates at the time.
23 And, you could sort of revisit, five years, ten years
24 down the road you could sort of revisit the assumptions

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 that had come into play. But it would be a very hard
2 exercise to do with any degree of accuracy.

3 Q. That's helpful. I've forgotten, our order may have
4 addressed this and I just don't remember, is there a
5 plan in place for review of this investment, and
6 similarly those down the road that may be approved, to
7 see if they are cost-effective, if they're performing
8 in -- similar to the projections that were made when
9 they were first filed for here?

10 A. Well, there's -- we have a fiduciary responsibility
11 pursuant to the contract that we signed, the agreement
12 that we signed with the customer. And, so, in
13 accordance with that, we're, you know, we'll be
14 following, you know, good utility practice, good
15 accounting practice, you know, to follow up on those
16 things. But we don't have any specific plan for
17 generating reports or analyses. And, the difficulty is
18 that all of those kinds of activities fall into that
19 category of ongoing program management and, you know,
20 that for which we don't have a clear avenue for cost
21 recovery at this point. And, so, you know, it's very
22 important for us to minimize those types of costs at
23 this point. There may be a way of, you know,
24 clarifying that down the road, and that would be one of

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 the items that we would discuss with Staff.

2 I think, you know, you could look at the
3 model of the way the Company handles its normal
4 distribution investments, where, you know, the
5 predominant concerns are, you know, the reliability
6 that's coming out of the system, you know, the process
7 of, you know, good planning that goes into it, into
8 making those choices, making those investments. But
9 it's not a, you know, an asset-by-asset kind of
10 detailed administrative review.

11 On the other end of the spectrum you
12 have energy efficiency, where we've got, you know,
13 detailed budgets by program, we've got evaluations,
14 we've got a process, you know, of filing annual reports
15 and working with Staff and other parties, you know,
16 it's a very administratively intensive process. You
17 know, so those are, you know, kind of two ends of the
18 spectrum, in terms of which choices you want to make
19 about how to look at, you know, DER as a future
20 contributor to, you know, to reliability of the
21 distribution system. And, you know, those are kind of
22 the two ends of the spectrum.

23 And, I think the difficulty that we
24 have, and I think the reason -- one of the reasons we

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 think it's good to have further conversation, is that
2 part of the issue here is the whole question of
3 "bootstrapping". We've got a -- we've got a new set of
4 ideas, potentially valuable for meeting future growth
5 requirements in the system without putting investments
6 in the distribution system, potentially valuable, but
7 it's an entirely new kind of activity, a new area. It
8 requires research, it requires analysis, it requires
9 assessment. It's a very different kind of exercise
10 than has ever been done as part of conventional
11 distribution utility planning. And, in order to get
12 that ball rolling, it will involve some significant
13 expenses, some significant costs. And, yet, if we
14 attempt to, for example, if we had estimated an
15 annualized cost in that category about 135,000, if you
16 were to add that to the cost-effectiveness for the SAU
17 16 Project, it wouldn't have -- it would fail.

18 So, that's the bootstrapping problem
19 that I think we're looking at, with respect of, you
20 know, how you get this new thing started, you know,
21 with a very different kind of analysis, very different
22 kind of studies, in a context that, you know, is very
23 different from the traditional distribution utility
24 system planning. You know, how do you get that

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 started? It may be that, you know, 10 years, 15 years
2 down the road, there's enough of a portfolio of
3 demand-side activity going on that it will be large
4 enough to easily sustain that, and you wouldn't have a
5 problem with the cost-effectiveness. I think, you
6 know, energy efficiency works that way. Those
7 administrative activities or program planning are all
8 built into the costs that are incurred by the Company,
9 and then they get layered into the cost/benefit
10 calculation and the effective programs are passed.
11 But, you know, energy efficiency is a different animal
12 than, you know, distributed generation or, you know,
13 demand response programs.

14 And, one of the other difficulties is
15 that every one of these new initiatives, it's not
16 exactly clear what the cost recovery or financial
17 implications are. When you have a distribution utility
18 investment, it's very clear. You know, it's a capital
19 investment, it's a long-lived asset. It's
20 predominantly investment, and then the company has
21 expenses it can capture in the context of a base rate
22 case. But, if you're doing a demand response program
23 or a time-of-use program or maybe you want to give
24 incentives for distributed investments, is it capital?

{DE 10-292} {01-05-11}

[WITNESS: Gantz]

1 Is it expense? You know, how does this cost recovery
2 process work? You know, and what about things like the
3 lost base revenue or lost, you know, investment
4 opportunities? It's a complicated animal. And,
5 there's no clear pathway to figuring out how to get
6 that bootstrapping process accomplished. So, that's, I
7 think, for further discussion.

8 Q. One other clarification, and I think the answer is
9 "there's no change needed", but I want to be certain.
10 The minor reduction in lost base revenues that you
11 spoke to does not change the projected rate impact,
12 does it?

13 A. It's an insignificant change. We would expect,
14 however, in compliance with the Commission order in
15 this proceeding, file compliance tariffs that would fix
16 the numbers precisely.

17 Q. But your estimate of an increase to a 600 kilowatt-hour
18 per month bill of 4 cents per month wouldn't change,
19 would it?

20 A. No. No, that wouldn't change.

21 CMSR. IGNATIUS: Thank you.

22 CHAIRMAN GETZ: Anything further,

23 Mr. Epler?

24 MR. EPLER: No, Mr. Chairman. Thank

[WITNESS: Gantz]

1 you.

2 CHAIRMAN GETZ: Then, you're excused.
3 Thank you, Mr. Gantz.

4 WITNESS GANTZ: Thank you.

5 CHAIRMAN GETZ: Any objection to
6 striking the identifications and admitting the exhibits
7 into evidence?

8 (No verbal response)

9 CHAIRMAN GETZ: Then, hearing no
10 objection, they will be admitted into evidence. Anything
11 else before opportunity for closings?

12 (No verbal response)

13 CHAIRMAN GETZ: Hearing nothing, then,
14 Mr. Traum, do you have anything?

15 MR. TRAUM: No, sir.

16 CHAIRMAN GETZ: Thank you. Ms. Amidon.

17 MS. AMIDON: Thank you. Staff reviewed
18 the filing, and we believe the step adjustment requested
19 by the Company is consistent with RSA 374-G and the
20 Commission's Order 25,111, in docket DE 09-137, which
21 approved the investment in the Exeter Project. And,
22 therefore, we recommend the Commission approve the filing,
23 with the minor modification that the witness described
24 today related to the lost base revenues. And, that

{DE 10-292} {01-05-11}

1 concludes our statement.

2 CHAIRMAN GETZ: Thank you. Mr. Epler.

3 MR. EPLER: Thank you, Mr. Chairman.

4 The only thing the Company would like to note is that we
5 really appreciate the opportunity we've had to work with
6 Staff on this, since this is really a new area, and we're
7 kind of the first ones out of the gate on this. It's been
8 very helpful to have this ongoing dialogue with Staff and
9 we appreciate that opportunity. That's it. Thank you
10 very much.

11 CHAIRMAN GETZ: Okay. Thank you. Then,
12 we'll close the hearing and take the matter under
13 advisement.

14 (Whereupon the hearing ended at 10:41
15 a.m.)

16

17

18

19

20

21

22

23

24