UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

MARK H. COLLIN

New Hampshire Public Utilities Commission

Docket No. DE 16 - 384

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I. INTRODUCTION

Q. Please state your name and business address.

A. Mark H. Collin, 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q. What is your position and what are your responsibilities?

A. I am Sr. Vice President and Chief Financial Officer of Unitil Corporation. I am also the President of Unitil Service Corp. ("Unitil Service"), which provides centralized utility management services to Unitil Corporation's utility subsidiaries, and Sr. Vice President of Unitil Energy Systems, Inc. ("Unitil Energy" or the "Company"). My management responsibilities are primarily in the areas of financial and regulatory services.

Q. Please describe your business and educational background.

A. I have over 30 years of professional experience in the utility industry including an extensive financial management and regulatory background. I have held a number of progressively senior management positions with Unitil Corporation in the areas of finance, administration and regulation. Prior to joining Unitil Corporation, I was employed as an economist and utility analyst in the Economics Department of the New Hampshire Public Utilities Commission ("Commission"). I earned a Bachelor of Arts in Economics and a minor in Management from the State University of New York at Cortland in 1981 and a Master of Arts in Economics from the University of New Hampshire Whittemore School of Business and Economics in 1984.

Q. Have you previously testified before this Commission or other regulatory agencies?

A. Yes. I have testified before this Commission on several occasions on various financial, rate making and utility regulation matters. I have also testified before the Maine Public Utilities Commission, the Massachusetts Department of Public Utilities and the Federal Energy Regulatory Commission.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony and how is it organized?

A. The purpose of my testimony is to provide an overview of Unitil Energy's request for an increase in electric distribution revenues and associated rate making proposals for which the Company is seeking the Commission's approval in this proceeding. First, I provide a description of the Unitil Companies. Next, I provide a brief description of the Company's request for rate relief and the other major components of this filing, including temporary rates for effect July 1, 2016, a proposed multi-year rate plan (the "2016 Rate Plan") and rate design proposals and changes. I explain the reasons why Unitil Energy is filing for a distribution base revenue increase at this time. I then review the approved long-term rate plan that Unitil Energy operated under following its last base rate case in Docket DE 10-055 (the "2010 Rate Plan"), and the Company's request to reinstate a multi-year rate plan, the 2016 Rate Plan, substantially similar to the one previously approved by the Commission. Finally, I introduce the other Company witnesses in this proceeding and conclude my testimony.

A. THE UNITIL COMPANIES

Q. Please describe the Unitil Companies.

A. Unitil Corporation is a public utility holding company. Unitil Corporation's principal business is the retail distribution of electricity and natural gas throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil Corporation is the parent company of three distribution utilities: Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire; Fitchburg Gas and Electric Light Company ("FG&E"), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and, Northern Utilities, Inc. ("Northern"), which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine. In addition, Unitil Corporation is the parent company of Granite State Gas Transmission, Inc., an interstate natural gas pipeline company located in New Hampshire and Maine. Together, Unitil Corporation's three distribution utilities service approximately 104,000 electric customers and 79,000 natural gas customers. Unitil Energy serves approximately 75,000 electric customers in New Hampshire in the capital city of Concord as well as parts of 12 surrounding towns and all or part of 18 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow.

Q. Are the utility service territories of Unitil Corporation's three distribution operating utilities contiguous or otherwise connected?

A Unitil Corporation's two electric distribution utilities, Unitil Energy and FG&E, are not geographically connected. Furthermore, Unitil Energy provides electric service in two distinct and non-contiguous service territories in New Hampshire through its "Seacoast" and "Capital" operating centers. Unitil Energy's "Seacoast" electric service territory overlaps with portions of Unitil Corporation's local gas distribution utility, Northern, in several New Hampshire communities. All of Unitil Corporation's utility service territories are shown on Schedule MHC-1. While the Unitil companies primarily operate in non-contiguous service territories, they are managed and operated on a centralized and integrated basis as if they were a single entity in many areas of their utility business. Unitil Corporation has structured its utility business operations in this way in order to achieve system-wide efficiencies through economies of scale by eliminating duplicate functions, sharing services and systems, and employing best business practices consistently across all the utilities. At the hub of this organizational structure is Unitil Service, a subsidiary of Unitil Corporation, which provides a wide variety of shared business functions to its utility affiliates on an "at-cost" basis.

Q. Does Unitil Corporation have any other subsidiaries?

A. Yes. In addition to Unitil Service, Unitil Corporation's other subsidiaries are: Unitil Power Corp., Unitil Resources, Inc. and Unitil Realty Corp. Unitil Power

Corp. is a FERC-regulated wholesale power company that formerly provided all the wholesale power requirements to Unitil Energy in New Hampshire. As a result of industry restructuring and the introduction of retail choice in New Hampshire, Unitil Power Corp. has divested substantially all of its long-term power supply contracts and is currently winding up its business operations and obligations. Unitil Resources, Inc. is a wholly-owned non-regulated subsidiary with two additional subsidiaries: Usource, Inc. and Usource, L.L.C. (collectively "Usource"), which provides electric and natural gas energy brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty Corp. owns the corporate office building in Hampton, New Hampshire.

III. OVERVIEW OF DISTRIBUTION RATE CASE

A. DESCRIPTION OF REQUEST

Q. What level of rate relief is the Company requesting?

A. Unitil Energy is requesting an increase in electric distribution base revenues of $6,255,276, which represents an increase of 3.6% over the Company's total revenue under present rates. In conjunction with this request for permanent rate relief, the Company is also seeking initial authorization to implement a temporary distribution base revenue increase of $3,010,561 effective as of July 1, 2016. The revenue collected under temporary rates would be subject to refund or recoupment based on the Commission's final decision in this proceeding on permanent rates. The development of the Company's revenue requirement used to determine the requested increase in distribution base revenues and the calculation of the temporary rate amount is detailed in the pre-filed testimony of Company witness Mr. David Chong.

Q. Please summarize the development of the Company's revenue requirement.

A. As calculated and supported by Company Witness Mr. David Chong, the revenue requirements analysis was developed using a proforma test year approach for the period ending December 31, 2015. This approach utilizes "per books" data adjusted for known and measurable changes to develop normalized revenues, expenses and net operating income for ratemaking purposes. The adjusted net operating income is compared to the required operating income, based on the overall rate of return applied to test period rate base, to determine the deficiency, before taxes. This deficiency is then increased for state and federal income taxes to determine the total revenue deficiency, including income taxes. All adjustments to the test year cost of service are based upon known and measurable changes in revenues and expenses, or upon changes that will become known and measurable during the course of this proceeding.

Q. Please explain how the temporary rate amount was derived.

A. The amount of the temporary rate request was developed based on Company witness David Chong's revenue requirement calculation, but conservatively excludes the known and measurable expense adjustments used to derive permanent rates. Consistent with the permanent rate revenue requirement calculation, the temporary rate calculation uses year-end rate base and the major addition of the Kingston substation in early 2016 that has been in service prior to the effective date of temporary rates. The cost of capital used in the calculation is based on the rate case capital structure and debt costs. However, the cost of equity used in establishing temporary rates was set at 9.67% (as opposed to the 10.30% requested in this proceeding for permanent rates), which is the last authorized return from the Company's most recent rate case, DE 10-055.

Q. Is the Company also proposing to implement a long term rate plan similar to the one approved by the Commission in its last rate case?

A. Yes. As more fully discussed below, in this filing Unitil Energy is also seeking authorization to implement the 2016 Rate Plan. The 2016 Rate Plan would allow for future annual changes in Unitil Energy's distribution rates without the filing of a comprehensive general rate case. The 2016 Rate Plan is similar to the multi-year plan approved by the Commission for the Company following its last rate case in 2010, and is correspondingly structured around a capital cost recovery adjustment mechanism.

Q. Is the Company proposing any changes to the design of its rates, or any new rates and tariffs?

A. Yes, the Company is proposing to build upon the rate design improvements made in its last rate case by continuing to move towards cost based distribution rates.

As detailed in the pre-filed testimony of Company witness Mr. H. Edwin Overcast, Director of Black and Veatch Management Consulting, the emphasis of the Company's proposal is to design rates to recover a greater portion of predominately fixed costs associated with the provision of distribution service through the fixed customer charge component or rates. In addition, the Company is proposing to implement a new DER Tariff and Outdoor Lighting LED Tariff.

B. SUMMARY OF REASONS FOR RATE CASE

Q. Why is Unitil Energy filing for an increase in its distribution base rates at this time?

A. Unitil Energy operated under the 2010 Rate Plan following its last rate case, which was filed in April 2010 based on a 2009 test year ending December 31, 2009. The 2010 Rate Plan worked reasonably well to offset earnings attrition and keep the Company out of base rate cases up until now, or a period of about 6 years. However, the 2010 Rate Plan effectively ended in 2014, when the last base distribution adjustment under the 2010 Rate Plan occurred in May of that year. The Company will have invested in an additional three years of utility rate base without making any adjustment to rates by the time permanent rates from this proceeding go into effect. The primary driver of this rate relief is the need to bring distribution base revenues in line with the Company's operating costs and rate base, including substantial increases in rate base that are being driven by non-revenue producing investments the Company is making but have not been included in rates. The Company's investments in utility plant and equipment will continue to have a substantial impact on rate base growth in the foreseeable future. The requested rate relief in this proceeding is critical to allow the Company a reasonable opportunity to earn a fair return, maintain its financial strength and credit quality and provide the Company with continued access to capital on reasonable terms to support its ongoing capital expenditure programs.

Q. Please briefly summarize the Company's ongoing investment in non-revenue producing system improvements and upgrades.

A. As more fully described in the testimony of Company witness Mr. Kevin Sprague, major portions of Unitil Energy's capital expenditures are directed toward non-revenue producing improvements to the existing distribution infrastructure for reliability, maintenance replacement, mandated system improvements and other projects. These non-revenue producing projects are necessary to allow the Company to continue providing its customers with safe and reliable electric service, fully capable of meeting customer's requirements and expectations for electric service at a reasonable cost. Mr. Kevin Sprague's testimony provides additional detail concerning this work.

Q. Please explain what you mean by "earnings attrition"?

A. Earnings attrition, as a utility ratemaking concept, occurs when a utility's costs rise faster than its revenues over time. In Unitil Energy's case, its fixed costs including depreciation, property taxes and return associated with its increasing utility rate base investments are rising faster than its revenues. Add to these fixed cost increases, the effect of inflationary pressures on other operating and maintenance costs, and the gap between revenues and costs widens even further. Many of these cost pressures come in the form of contractual obligations, such as union wage increases, vendor agreements, and employee and retiree benefit plans. Certain expenses such as health care costs have a history of increasing at a rate well above the rate of inflation despite continued efforts by the Company to control these costs. The traditional rate-making premise is that the increase in revenues, plant and operating expenses would be "matched" over a period of time following a rate case – they would move together. The revenues from the increased sales after the test year would offset, at least for a while, the cost of increased plant and the inflationary pressure on operating expenses in between rate cases. Revenues and costs, however, are now no longer "matched." Costs are rising, but increases in revenues have been essentially flat, resulting in the more rapid onset of earnings attrition following a rate case.

Q. How are Unitil Energy's revenues and costs no longer "matched"?

A. Since the filing of the Company's last base rate case in 2010 through the end of 2015, the number of customers served by the Company has grown at an annual rate of only 0.5 percent. Kilowatt-hour (kWh) unit sales have been essentially flat over this same period (see Schedule MHC-2). Substantially all of the Company's distribution revenues are derived from these two factors, or in the case of volumetric kWh unit sales, by functionally related kilowatt (kW) demand units. In contrast, Unitil Energy's rate base has grown from $130.8 million at the beginning of 2010 to $153.0 million at the end of 2015, reflecting an annual growth rate of 3 percent per year. As indicated, rate base growth is far outpacing customer and kWh unit sales growth and associated distribution revenue growth during this period. Given the Company's rate base and cost growth and lack of corresponding distribution revenue growth, the Company is facing earnings attrition.

Q. How has energy efficiency contributed to Unitil Energy's relatively flat sales growth since the Company filed its last rate case in 2010?

A. The Company has experienced substantial sales decreases as a result of energy efficiency savings resulting from the Company's programs and other energy efficiency factors impacting customer's energy usage. From 2009 to 2015, the Company's funding of energy efficiency programs totaled $19.4 million, which corresponds to a cumulative savings of 50,987,866 kWh. See Schedule MHC-3. This cumulative kWh savings reflects 4.2 percent of 2015 actual unit sales, which has clearly contributed to bending the sales curve downward during this period. In addition to the Company's energy efficiency programs, market factors such as improvements in the efficiency of the stock of end use appliances and equipment, changes in consumer choices and behaviors all have contributed to lower sales and distribution revenues.

Q. Are you making any proposals in this filing to address earnings attrition?

A. Yes. Company Witness Mr. David Chong describes in detail the various adjustments made to the cost of service, all of which are designed to offset earnings attrition. One notable adjustment made to the cost of service is a post-test year adjustment to rate base to reflect $9.9 million of plant in service related to the Kingston substation which went into service in April of 2016 and is further discussed by Company Witness Mr. Kevin Sprague. The Kingston substation is required because the existing substation will exceed its base case and extreme peak rating by the summer of 2016. The Company believes the Kingston substation adjustment is appropriate because it is in service before the date of temporary rates, and because it represents a considerable amount of the Company's rate base and revenue requirement. The Kingston substation reflects 6.5 percent of the Company's rate base, and represents $1.7 million, or over 27 percent, of the Company's $6.3 million revenue requirement. Without this adjustment to add Kingston to rate base, the Company will significantly under-earn when permanent rates go into effect.

Q. Please describe the efforts Unitil Energy has undertaken to offset attrition.

A. The Company has a strong culture of cost control. As part of its annual budgeting process, functional managers develop detailed operating budgets which are reviewed by senior management. Functional managers are expected to maintain their costs within their approved annual budget. Annual operating budgets are reviewed monthly for variances, and functional managers are expected to explain any significant budget variances. In addition, since the last rate case Unitil Energy has implemented several specific cost control measures. Specifically, effective January 1, 2010, Unitil Corporation closed its pension plan to new non-union hires; and effective June 1, 2012, the pension plan was closed to new union employees. The Company also made specific changes to its post-retirement benefits other than pension plan in 2010 and 2012, which is further described in detail by Mr. Long. The Company also continues to emphasize its centralized management structure. For example, in 2010 the electric dispatch function of all of Unitil Corporation's utility operating companies was centralized under Unitil Service Corp. This centralization resulted in the reduction of 2 operating personnel, while providing for 24/7 coverage of electric outages, which was previously only available during normal workday hours.

Q. Are there other sources of information demonstrating that Unitil Energy has been successful at managing utility operating costs?

A. Yes. Unitil Energy regularly benchmarks it operating and financial performance metrics against a peer group of regional electric utilities. Some of these metrics are particularly appropriate for evaluating Unitil Energy's cost management. For example, the Company benchmarks its O&M cost per customer against peer New Hampshire utilities. As shown on Schedule MHC-4, Unitil Energy is in the lowest of its New Hampshire peers on an O&M per customer basis. Schedule MHC-5 compares the same distribution operating costs, but this time on a cost per MWH sold. As shown in this benchmarking cost analysis, Unitil Energy is once again the lowest at a cost per MWH of $17.24.

Q. Are there any other performance metrics that you feel are important to evaluating Unitil Energy's success in managing costs?

A. Yes. A performance metric that Unitil Energy greatly values is the customer loyalty survey results that measures the customer's perception of the overall service that Unitil Energy is providing to them. Twice a year, Unitil Energy sends surveys to a random selection of residential customers with questions covering the four key components of our service: Reliability, Price, Service and Community. Emphasis is put on the one question that summarizes the overall views of Unitil Energy: "How satisfied are you with the service, excluding price, that you are receiving from Unitil?" Results are calculated and compared against the sum of those responses provided through national survey results. In 2009, 81% of the Unitil Energy residential customers responded that they were satisfied with our service which compared favorably to 73% of the national survey results. Customer satisfaction has gone up since 2009. In 2015, 87% of the Unitil Energy residential customers responded that they were satisfied with our service which compared favorably to 84% of the national survey results. This achievement in the area of customer satisfaction is important to consider alongside Unitil Energy's cost performance and demonstrates that cost savings are not being achieved at the expense of customer service.

Q. How has electric reliability been trending for Unitil Energy?

A. Unitil Energy benchmarks its electric reliability using an industry standard index – SAIDI (system average outage duration). SAIDI represents the total length of time that the "average" customer is without electric service during the year, measured in minutes. Unitil Energy's goal is to maintain system reliability, adjusted for customer density, at a level competitive with other regional utilities. As explained by Company witness Mr. Kevin Sprague in his testimony, SAIDI has improved 50% from 225 minutes in 2010 to 113 minutes in 2015. This again helps demonstrate that cost saving are not being achieved by lowering the quality of service to customers.

Q. How do Unitil Energy's distribution rates compare to those of other utilities in the region?

A. Unitil Energy has consistently provided its customers with electric distribution service at rates below those of most other utilities in the region. Schedule MHC-6 compares the distribution component of Unitil Energy's typical residential 600 kWh bill against typical bills for New Hampshire's major utilities. As shown in Schedule MHC-6, Unitil Energy's current distribution charge for a typical residential customer bill is $32.44, which is the lowest in New Hampshire. This rate comparison analyses together with the O&M benchmarking analyses summarized above demonstrates measurable and verifiable quantification that Unitil Energy's distribution cost to serve its customers compare very favorably with other utilities in the state. Unitil Energy has consistently provided its customers with electric distribution service at rates below that of most other utilities in state as well as the New England region. By maintaining a low cost structure, and aggressively pursuing cost savings and synergies, Unitil Energy has been able to consistently provide its customers with safe and reliable service at a reasonable cost.

IV. OVERVIEW OF 2010 RATE PLAN

Q. Please describe the long term rate plan established in the Company's last rate case, NHPUC Docket No. DE 10-055.

A. The 2010 Rate Plan approved in the Company's last rate case provided three distinct step adjustments to distribution base rates on May 1 of 2012, 2013 and 2014 of approximately $1.5 million, $2.8 million and $1.5 million, respectively, or a total of $5.8 million over this three year period. The distribution rate adjustments that occurred in each of these years averaged less than 1.5 percent of total revenues, and modest bill impacts to the Company's customers. The 2010 Rate Plan was a comprehensive mechanism that provided resources to the Company to implement an enhanced and advanced vegetation management program, fund new reliability enhancement capital spending, and obtain timely recovery of 75% of all other net utility plant additions to rate base over a three year period. The 2010 Rate Plan enabled the Company to increase vegetation management expense almost seven-fold from $0.7 million in 2009 (test year for DE 10-055) to $4.8 million in 2015. The 2010 Rate Plan also helped the Company to recover and finance growing rate base investments through December 2013, which was the last calendar year for recovery under the 2010 Rate Plan. Again, as I mentioned earlier, the Company has not obtained recovery of its capital spending after 2013, nor has it recovered any O&M cost increases since its last rate case, while customer and unit sales increases have essentially been flat.

Q. Were there any customer protections included in the 2010 Rate Plan?

A. Yes. The 2010 Rate Plan required a comprehensive report and filing every year, which was subject to Commission review and approval. Additionally, there was a stay-out provision which prevented the Company from filing a base rate case for effect before May 1, 2016. There was also an ROE collar which allowed the Company to file a base rate case before May 1, 2016 if ROE was under 7 percent, but provided for earnings sharing of 75 percent if ROE was greater than 10 percent. Lastly, there were provisions for certain categories of exogenous costs.

Q. How did the Company perform financially during the years it was under the 2010 Rate Plan?

A. The Company's "per books" ROE as filed in its F-1 statements was 7.9 percent, 7.7 percent, 8.0 percent, and 8.4 percent in calendar years 2012, 2013, 2014, and 2015, respectively. Overall, the Company under-earned each year of the 2010 Rate Plan in comparison to the 9.67 percent ROE authorized by the Commission in DE 10-055.

Q. So did the 2010 Rate Plan provide sufficient revenue to offset earnings attrition during the period?

A. The 2010 Rate Plan provided nearly six million of rate relief – almost the same amount requested in this proceeding. So clearly without the 2010 Rate Plan, the Company would have had the need to file base rate cases during the period the 2010 Rate Plan was in effect. The Company believes that the 2010 Rate Plan was successful at preventing any such base rate case filing. However, the Company did continue to under-earn during the stay-out period. One reason for this would be because the 2010 Rate Plan limited recovery to 75% of other plant additions besides reliability capital spending. This 75% factor recognizes that a portion of the Company's capital spending is growth-related, but at the end of the day, the Company believes that this 75% factor was not sufficient to recover rising depreciation, property taxes, return and other fixed costs associated with rate base growth. In addition, the 2010 Rate Plan did not track non-vegetation management O&M costs, which are subject to inflationary pressures such as annual wage and benefit increases.

Q. After reflecting on the efficacy of the Company's last rate plan, are you proposing a new rate plan?

A. Yes. I firmly believe that absent a long-term rate plan, the Company will have no choice but to file frequent rate cases. It is mathematically impossible to allow the Company a reasonable opportunity to earn a fair return, maintain its financial strength and credit quality and provide the Company with continued access to capital on reasonable terms if customer and unit sales do not keep pace with rate base and operating cost growth. I have recommendations for a new rate plan, the

2016 Rate Plan, that will provide the Company with a reasonable opportunity to achieve these critical financial objectives and continue to meet its obligations to customers.

V. 2016 RATE PLAN

Q. Please summarize the 2016 Rate Plan being proposed in this filing.

A. The Company proposes a new five-year rate plan, with distinct step adjustments to distribution base rates occurring on May 1 of 2017, 2018, 2019, 2020, and 2021 for calendar years 2016, 2017, 2018, 2019, and 2020, respectively. For example, the first revenue step adjustment would occur on May 1, 2017 (coinciding with permanent rates from this proceeding) and would reflect the revenue requirement associated with 2016 plant additions (excluding the major Kingston substation addition since it is included as a proforma adjustment to the 2015 test year for ratemaking purposes).

Q. What additions to plant will be eligible for recovery?

A. The 2010 Rate Plan established under DE 10-055 provided for two categories of plant for recovery. The first category was reliability enhancement plant additions, which were recovered at 100%. The second category was all other plant additions, which were recovered at 75%. In the 2016 Rate Plan, rather than stratifying reliability enhancement plan additions, the Company proposes to fold this spending into just one category of recovery – all plant additions – at a rate of 80%. This percentage is supported by Company witness Mr. Kevin Sprague and is based on the percentage of non-growth related spending in the Company's capital budget. Furthermore, the rate of 80% will help bridge the gap between earned ROEs and the authorized ROE that the Company experienced under the 2010 Rate Plan.

Q. Are you proposing any additional O&M expenses to be included in the 2016 Rate Plan?

A. No. Despite inflationary pressures, the Company is not proposing any adjustments to O&M costs absent the need for an exogenous cost adjustment as further explained by Company witness Mr. David Chong. As such, the Company is incentivized to control its costs which directly impact its earned ROEs.

Q. Would vegetation management and reliability enhancement O&M expenses continue to be reconciled?

A. Yes. The Company would continue to file annual compliance reports, and would continue to reconcile actual vegetation management and reliability enhancement O&M expenses in the Company's External Delivery Charges as is done now.

Q. What is the purpose of the 2016 Rate Plan?

A. The 2016 Rate Plan is designed to provide Unitil Energy with a reasonable opportunity to earn its authorized rate of return without the need to file frequent rate cases. The proposed 2016 Rate Plan will allow the Company to recover the costs associated with non-revenue producing capital expenditures and additions on a timely basis, while at the same time the Company continues to invest to improve the system to serve new customers. Given the size and duration of the Company's capital expenditure programs, absent timely recognition of costs in rates through this administratively efficient capital cost recovery mechanism, Unitil Energy will have a continuing need for base rate cases. The administrative costs and regulatory lag associated with such rate cases undermines the credit quality and financial strength of Unitil Energy, results in the need for postponements in the timing of investments and higher financing and administrative costs over time. The need to obtain timely recovery of the costs to replace and upgrade the Company's distribution system through periodic rate adjustments is exacerbated by the non-revenue producing nature of these investments, which accelerates the earnings attrition the Company faces almost immediately after new rates are put into effect.

Q. How will the 2016 Rate Plan benefit the Company's customers?

A. As this proceeding demonstrates, under traditional ratemaking, Unitil Energy must complete the replacement and improvement to its distribution infrastructure and then initiate formal general base rate case filings to recover the costs associated with these capital expenditures and additions to rate base. This process entails preparing, filing, supporting and presenting general rate cases over a period of a year or more. A base rate case is an expensive undertaking for the Company, the Commission, and the Consumer Advocate, and all of those costs are ultimately borne by the Company's customers. This traditional process also increases regulatory lag and regulatory uncertainty. This will result in a deterioration of the Company's credit quality and increases the costs of financing necessary to support these required investments. These higher financing costs are ultimately borne by customers. Over the long run, the 2016 Rate Plan will help lower costs and rates to Unitil Energy's customers.

Q. Does the Company's proposed 2016 Rate Plan include other customer benefits and protections?

A. Yes. As discussed in more detail by Company witness Mr. David Chong, in addition to the capital cost recovery aspects of the 2016 Rate Plan, the 2016 Rate Plan includes additional customer benefits and protections. These include a limitation on the annual increase in revenues associated with the annual rate adjustments to 2 percent of total operating revenue; a balanced 50/50 annual earnings sharing mechanism with customers; a general rate case filing stay out provision through 2021; and other defined limitations and conditions for base rate changes.

VI. RATE DESIGN

Q. Please summarize the Company's rate design proposals.

A. The Company is also proposing to build upon the rate design improvements made in Docket DE 10-055 by continuing to move towards cost based distribution rates. As detailed in the testimony of Mr. Overcast, the emphasis of the Company's proposal is to design rates to recover a greater portion of predominately fixed costs associated with the provision of distribution service through the fixed customer charge component of rates. This design is consistent with the goal of establishing cost based rates. The proposed rate design achieves the following important rate design objectives that benefit the Company and its customers by: i) aligning the interest of the Company and its customers on energy efficiency matters; ii) reducing the effect of weather fluctuations on customer bills and Company revenues; iii) and creating more stable and predictable customer bills and revenues that evenly allocate the recovery of fixed costs across the seasons and from year to year.

Q. Why is the Company proposing a DER tariff in this proceeding?

A. Given the recent focus on expanding the state's net metering policy and implementing rate design changes to properly value DG, the Company believes it is important to address the design of rates required to recover the cost of providing utility services to the DG class of customers, and also to address the cross-subsidies resulting from current net metering rate design in this filing. Customers installing and using DG represents a new and distinct class of customers who will use the utility system much differently than traditional consumers. In his testimony, Company witness Mr. Thomas Meissner further details what makes DG customers a distinct class of customers and provides further policy support and discussion of this topic. The DG Tariff is presented and supported by the Company's witness, Mr. Overcast, with Black & Veatch.

Q. Why is the Company proposing an LED tariff in this proceeding?

A. As explained in more detail by Company witness Mr. John Closson, there is growing interest among Unitil Energy's customers to adopt LED lighting. LED lighting is much more efficient and can offer its customers significant savings over traditional lighting. To meet this customer demand, the Company has designed a tariff offering its customers the choice of conversion to LED lighting. This tariff is further described and detailed by Mr. Overcast with Black & Veatch.

Q. Please summarize the other pre-filed testimony being submitted in support of Unitil Energy's filing.

I. Unitil Energy's direct presentation includes testimony by both Company witnesses and outside experts. The witnesses filing testimony in this proceeding are as follows:

- Mr. David L. Chong, Director of Finance and Treasurer, who will present the overall revenue requirements for the Company, including various pro forma adjustments and known and measureable changes to the test year. Mr. Chong also derives the Company's temporary revenue requirement. In addition, Mr. Chong details the mechanics and calculations of the Company's proposed 2016 Rate Plan;
- Mr. Thomas P. Meissner, Unitil Corporation's Chief Operating Officer, presents testimony describing the impact to the Company of DER, and the need for revised rate design and a tariff to properly recover the Company's cost of service from DER customers;

- Mr. John Closson, Director of Shared Services, presents testimony to discuss the need for the Company to offer LED street lighting as an option;
- Mr. George E. Long, Vice President of Administration, presents testimony that supports Unitil's salary and wage policies and employee and retiree benefit plans included in the Company's cost of service, including proforma adjustments;
- Mr. Kevin E. Sprague, Director of Engineering, presents testimony describing the Company's annual planning and capital budgeting process and the positive effect this approach has had on the reliability of the electric system for Unitil Energy's customers. Mr. Sprague also describes and supports two system supply substation additions, one of which went into service in April 2016 and the other is planned to go into service in early 2017;
- Ms. Sara Sankowich, System Arborist, presents testimony describing the Company's need to continue its vegetation management and storm resiliency programs and the ability to reconcile annually actual program costs through the External Delivery Charge;
- Mr. Daniel V. Main, Assistant Controller, presents testimony describing the need for the Company to obtain recovery of hardship-protected accounts receivables;

- Mr. Robert Hevert of Sussex Economic Advisors presents testimony to support and justify the proposed allowed return on equity of 10.30% for Unitil Energy;
- Mr. Paul M. Normand of Management Applications Consulting presents testimony supporting Unitil Energy's O&M lead-lag study;
- Mr. H. Edwin Overcast of Black & Veatch presents testimony to support (a) the accounting cost of service study, (b) the marginal cost of service study, (c) distribution rates for each class to achieve long-standing rate design goals and objectives, (d) a DER tariff and rates, and (e) an LED tariff and rates; and
- Mr. Douglas Debski presents testimony regarding the Company's proposed new tariff pages, changes to existing tariff pages and the bill impacts on customers resulting from the proposed increase in electric distribution base revenue.

VII. CONCLUSION

Q. Do you have anything further to add?

A. Yes. Unitil Energy is commited to making the investment necessary to maintain a safe and reliable state-of-the-art electric distribution system, which will benefit the State of New Hampshire and energy consumers for years to come. Part of this rate filing is to assure sufficient support for the funding and financing of the Company's capital investment program at a reasonable cost. That is why, as further explained in the Testimony of Mr. Hevert, the Company believes that a Return on Equity ("ROE") of 10.30 percent reflects a fair and reasonable cost of equity capital. The Company has a large capital expenditure plan to improve and expand electric services to its customers. As a result, the Company will be accessing debt and equity financing in capital markets on a regular basis over many years. The Commission's authorized ROE in this proceeding can send the necessary message to investors that the Company has appropriate regulatory support for the safety and reliability-related replacements and improvements the Company is making to provide service to its New Hampshire customers. The ROE authorized for Until Energy in this proceeding, which will be established for the duration of the 2016 Rate Plan, should take into account the Company's operating performance and service quality, and ongoing needs to access the capital markets at a reasonable cost to continue to provide this level of service for the benefit of its customers.

In addition, this rate filing is intended to limit future procedural and administrative costs through the adoption of the proposed 2016 Rate Plan, which will avoid expenses of general rate cases and will reduce customer rate impacts from Unitil Energy's non-revenue producing capital expenditures and additions to rate base. Finally, this rate proceeding is intended to further design distribution base rates with cost based principals in order to send the appropriate price signals to Unitil Energy's electric customers and achieve a number of other important rate design objectives to benefit customers and the Company.

Q. Does this conclude your testimony?

A. Yes, it does.