

THE STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DG 13-086

NORTHERN UTILITIES, INC.

DIRECT TESTIMONY OF
MARK H. COLLIN

EXHIBIT MHC-1

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

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

5 A. I am the Chief Financial Officer and Treasurer of Unitil Corporation and the
6 Treasurer of Northern Utilities, Inc. (hereinafter referred to as “Northern” or the
7 “Company”). My management responsibilities are primarily in the areas of
8 finance and regulation.

9 **Q. Please describe your business and educational background.**

10 A. I have held a number of progressively senior management positions with Unitil
11 Corporation and its subsidiaries in the areas of finance, administration and
12 regulation. I have been Treasurer of Unitil Corporation’s subsidiaries since 1993,
13 the Treasurer of Unitil Corporation since 1998, and the Chief Financial Officer of
14 Unitil Corporation since 2003. Prior to joining Unitil Corporation, I was
15 employed as an economist and utility analyst in the Economics Department of the
16 New Hampshire Public Utilities Commission. I hold a Bachelor of Arts degree in
17 Economics and a minor in Management from the State University of New York at
18 Cortland and a Master of Arts degree in Economics from the University of New
19 Hampshire Whittemore School of Business and Economics.

1 **Q. Please provide a brief overview of Unitil Corporation and Northern.**

2 A. Northern is a wholly-owned utility subsidiary of Unitil Corporation. Unitil
3 Corporation is a public utility holding company and is the parent company of
4 three distribution utilities, including: Northern, which provides natural gas
5 service in southeastern New Hampshire and portions of southern and central
6 Maine; Unitil Energy Systems, Inc., which provides electric service in the
7 southeastern seacoast and state capital regions of New Hampshire; and Fitchburg
8 Gas & Electric Light Company, which provides both electric and natural gas
9 service in the greater Fitchburg area of north central Massachusetts. In addition,
10 Unitil Corporation is the parent company of Granite State Gas Transmission, Inc.,
11 an interstate natural gas pipeline company that provides natural gas pipeline
12 access and transportation services to Northern and other suppliers in New
13 Hampshire and Maine. Together, Unitil Corporation's three distribution utilities
14 service approximately 101,700 electric customers and 73,700 natural gas
15 customers.

16 Unitil Corporation acquired Northern from Bay State Gas Company (a subsidiary
17 of NiSource, Inc.) in December 2008, and since that time has fully integrated the
18 Company into its utility operations to provide safe, reliable and efficient natural
19 gas service to a growing number of customers. Northern has two operating
20 divisions, one operates entirely in New Hampshire, and the other operates entirely
21 in Maine. As of December 31, 2012 the Company's New Hampshire Division

1 served 29,505 customers in its service territory, including the towns of Atkinson,
2 Dover, Durham, East Kingston, East Rochester, Exeter, Gonic, Greenland,
3 Hampton, Hampton Falls, Kensington, Madbury, Newington, North Hampton,
4 Plaistow, Portsmouth, Rochester, Rollinsford, Salem, Seabrook, Somersworth and
5 Stratham. The New Hampshire Division accounted for 43 percent of Northern's
6 total operating revenues in 2012.

7 **II. PUPOSE OF TESTIMONY**

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to summarize the primary reasons for the
10 distribution base rate relief being requested and to comment on key aspects of the
11 Company's filing. I will place the request for a distribution rate increase in the
12 context of Northern's ongoing investment in safety and reliability related
13 replacements and improvements to its natural gas distribution system in New
14 Hampshire, while at the same time substantially increasing its investment to
15 expand under a larger strategic plan to grow its customer base. I will also identify
16 and summarize the testimony of the Company's witnesses supporting and
17 detailing this request for rate relief.

1 **Q. Please briefly identify the witnesses the Company is presenting and the**
2 **subjects on which they are testifying.**

3 **A.** The Company's direct presentation will include testimony by Company witnesses
4 and outside experts. As discussed above, I will summarize the rate case filing.

5 The other witnesses in this proceeding are as follows:

- 6 • Mr. Thomas P. Meissner, Jr., Senior Vice President and Chief Operating
7 Officer of Unitil Corporation, who will describe the Company's progress on
8 the bare steel mains replacement program and other projects the Company is
9 undertaking to replace aging and outdated infrastructure and make safety and
10 reliability improvements. In addition, he will summarize Northern's plans to
11 grow its customer base in New Hampshire.
- 12 • Mr. David L. Chong, Director of Financial Services, who will present the
13 overall revenue requirements for the Company, including various pro forma
14 adjustments.
- 15 • Mr. George E. Long, Vice President of Administration, who will present the
16 salary and wage policies and employee and retiree benefit plans included in
17 the Company's cost of service, including pro forma adjustments.
- 18 • Mr. Paul M. Normand of Management Applications Consulting, who will
19 present the Allocated Accounting Cost of Service Study and Marginal Cost of
20 Service Study prepared in support of distribution base revenue responsibility
21 and distribution rates proposed in this proceeding.

- 1 • Mr. Douglas J. Debski, Senior Regulatory Analyst, who will present rate
- 2 impacts on customer bills, revised tariff sheets reflecting the proposed rates
- 3 and a few tariff housekeeping changes.
- 4 • Mr. James D. Simpson of Concentric Energy Advisors, who will present the
- 5 Company's long-term alternative rate plan structured around a capital cost
- 6 recovery mechanism with a rate cap, earnings sharing, exogenous factor, rate
- 7 case stay-out provisions and proposed rate design.
- 8 • Dr. Samuel C. Hadaway of FINANCO, who will supports and recommends
- 9 the proposed allowed return on equity of 10.0 percent for the Company.

10 In addition, the Company's filing includes the required Puc 1604.01(a) materials
11 provided in separate volumes.

12 **Q. Please summarize why the Company is filing for rate relief at this time.**

13 A. The Company's current gas distribution base rate levels are not sufficient to allow
14 Northern a reasonable opportunity to recover its cost of service and earn its
15 allowed return on the capital it has invested to provide safe, reliable and cost-
16 effective service to its customers. Northern's per books return on equity on a
17 weather normalized basis was 5.8 percent in 2012 – well below Northern's
18 authorized return on equity of 9.5 percent, which was established in the
19 Company's most recent rate case, Docket No. DG 11-069 (the "2011 Base Rate
20 Case"). As a result, the primary driver of this rate relief is the need to bring
21 distribution base revenues in line with the Company's current operating costs and
22 rate base, including substantial increases in rate base that have been driven by

1 non-revenue producing investments Northern is making to replace and improve
2 the safety and reliability of its existing gas distribution system. At the same time,
3 the Company is investing in the expansion of its natural gas distribution system to
4 serve the growing demand for natural gas in New Hampshire. These investments
5 will continue to have a substantial impact on the Company's capital expenditures,
6 rate base and financing program for the foreseeable future. The requested rate
7 relief in this proceeding is critical to allow the Company a reasonable opportunity
8 to earn a fair return, maintain its financial strength and credit quality and provide
9 the Company with continued access to capital on reasonable terms to support its
10 system improvement and growth programs.

11 **Q. Please summarize the rate relief being requested in this filing.**

12 A. The Company is requesting Commission approval for an annual increase of
13 \$5,171,302 in revenues based upon a test year ending December 31, 2012, an
14 overall rate of return on rate base of 8.54 percent, and known and measurable
15 adjustments to test year revenues, expenses and rate base. This rate relief will
16 result in a 9.4 percent increase in the Company's test year operating revenues.

17 In conjunction with this rate request, Northern is also requesting approval to
18 implement a multi-year alternative rate plan (the "Rate Plan"). This plan will
19 allow for future changes to Northern's distribution rates without the need to file a
20 general rate case prior to April 2017. The plan is structured around a proposal to
21 implement a capital cost recovery mechanism to recover the costs of targeted

1 improvements and upgrades to the Northern's gas distribution system, including
2 the Company's replacement of aging and outdated gas mains and other non-
3 revenue producing system improvements. Although the Company had proposed
4 to implement a capital cost recovery mechanism in in the 2011 Base Rate Case,
5 the parties were not able to reach agreement on that mechanism, and instead
6 settled on a one-time base rate step adjustment to address its capital spending at
7 that time. However, the costs of the accelerated bare steel mains replacement
8 program, other mains and services replacement and system improvements require
9 the Company to file for this rate relief and to renew the effort to gain acceptance
10 and approval of an effective capital cost recovery mechanism. The need to obtain
11 timely recovery of the costs to replace and upgrade the Company's distribution
12 system through periodic rate adjustments is exacerbated by the non-revenue
13 producing nature of these investments, which accelerates the earnings attrition the
14 Company faces almost immediately after new rates are put into effect.

15 The Company's proposal for a capital cost recovery mechanism is called the
16 Targeted Infrastructure Replacement Adjustment or "TIRA". The Company's
17 proposed Rate Plan improves upon the capital cost recovery mechanism presented
18 in the 2011 Base Rate Case. Key components of the Rate Plan include: (i) a
19 limitation on the annual increase in revenues associated with the TIRA; (ii) an
20 earnings sharing mechanism; (iii) an effective rate period during which Northern
21 would not to file a general rate case seeking a change in base rates; and, (iv) other

1 important limitations and conditions governing rates changes. The Company's
2 proposed Rate Plan is a balanced ratemaking approach that provides customer
3 benefits and protections, allows Northern a reasonable opportunity to earn a fair
4 return and avoids the filing of frequent, costly and time consuming rate cases.

5 The Company is also proposing to build upon the rate design improvements made
6 in the 2011 Base Rate Case by continuing to move towards cost based distribution
7 rates. As detailed in the Testimony of James D. Simpson and the Testimony of
8 Paul M. Normand, the emphasis of the Company's proposal is to design rates to
9 recover a greater portion of predominately fixed costs associated with the
10 provision of distribution service through the fixed customer charge component or
11 rates.

12 Finally, as presented in the testimony of David L. Chong, the Company is also
13 requesting Temporary Rates to recover revenue of \$2,518,576 on an annualized
14 basis, commencing on July 1, 2013. The revenue collected under Temporary
15 Rates would be subject to refund or recoupment based on the Commission's final
16 decision in this proceeding.

17 **Q. Please summarize the Company's ongoing investment in system**
18 **improvements and upgrades.**

19 A. As more fully described in the Testimony of Thomas P. Meissner, a major share
20 of Northern's capital expenditures in New Hampshire has been directed toward
21 non-revenue producing replacements and safety and reliability improvements to

1 Northern's existing distribution infrastructure. As part of Unitil Corporation's
2 acquisition of Northern in 2008, the Company agreed to replace all its bare steel
3 mains in New Hampshire within nine years beginning in calendar year 2009. As
4 agreed to in the settlement, the Company undertook an accelerated bare steel
5 replacement program beginning in calendar year 2009, and expects all
6 replacement to be completed by 2017. In addition, Northern is replacing cast and
7 wrought iron mains, unprotected coated steel mains, unprotected steel services,
8 and regulator components as well as facilities that are replaced due to state and
9 municipal infrastructure projects. Replacement of these additional facilities is
10 either mandated, in the case of state and municipal infrastructure projects, or
11 premised on the same criteria, including improved safety and reliability, that
12 supported the Commission's finding that the bare steel replacement program is
13 reasonable and in the public interest. Over the next five years the Company
14 expects to invest \$34 million in these types of projects. These non-revenue
15 producing projects are necessary to allow the Company to continue providing its
16 customers with safe and reliable gas service with a state of the art distribution
17 system, fully capable of meeting the growing demand for natural gas in New
18 Hampshire. Mr. Meissner's testimony provides additional detail concerning this
19 work.

1 **Q. How has the Company responded to the growth in demand for natural gas**
2 **service?**

3 A. Northern shares the desire expressed by many public officials, business and
4 community leaders to expand the availability of natural gas and is committed to
5 meeting the increased demand for natural gas in New Hampshire. Changing gas
6 industry fundamentals, primarily reflecting the remarkable speed and scale of
7 shale gas development in the United States, have heightened the awareness of the
8 many benefits of natural gas over other competing fuel sources and lowered gas
9 supply prices to historic lows. Current and forecasted natural gas prices now
10 make it economically attractive for residential and business customers to convert
11 from oil, propane or other energy resources. Switching to domestically produced
12 natural gas also has broader public benefits, such as energy efficiency, a cleaner
13 environment and economic development. Broader availability of safe and
14 efficient natural gas service will have significant benefits, both economic and
15 environmental, for New Hampshire families and businesses, and for the State as a
16 whole.

17 Given the relatively low saturation rate of natural gas in Northern's New
18 Hampshire service territory and the higher cost of competing fuels, market
19 conditions are very favorable to the Company's plans to market natural gas to
20 new customers. Northern will invest more than \$83 million over the next five
21 years to ensure that the Company's natural gas distribution infrastructure in New

1 Hampshire is able to safely and reliably serve a growing number of customers.
2 Over the last four years, the Company has added about 1,600 customers in New
3 Hampshire. In 2012 alone the Company added 662 customers in the State, which
4 was more than double the number of customers added in New Hampshire in 2009
5 - the first full year Northern operated as a subsidiary of Unitil Corporation. These
6 new customer additions have been added mostly along or near existing mains and
7 in areas already served by the Company. The Company's current plans are to
8 convert more than 8,000 New Hampshire homes and businesses to natural gas
9 from other alternative fuels over the next five years. As a result, the Company
10 estimates it will be serving approximately 38,000 customers in New Hampshire
11 by the end of 2017.

12 **Q. Does the Company have any plans to expand natural gas service to customers**
13 **not located on or near existing gas mains?**

14 A. The Company is currently concentrating its growth plans along areas on or near
15 its existing gas mains where it is most economical to extend service to customers.
16 Under Northern's current gas main and service extension policies, the cost to
17 connect customers located in these "on the main" areas, is often done with limited
18 or no contribution required from the customer. Where customer contributions are
19 required, those customers nearest the existing distribution system are generally
20 willing to make an investment that can be justified by offsetting the cost of the
21 contribution with the savings they will receive over a relatively short pay-back
22 period.

1 Expanding gas service to “off the main” customers who are not located on or near
2 Northern’s existing mains may not be economic or affordable for them, since
3 current main and service extension policies place the responsibility for the
4 incremental investment on the new customer. These extension policies may be
5 incompatible with evolving public policy and regulatory objectives to expand the
6 accessibility of natural gas to more consumers. Northern would be receptive to
7 exploring with the Commission and other stakeholders, either in this docket or in
8 other proceedings, whether there are changes in main and service extension
9 policies or related regulatory policies that could be made in order to reach
10 “underserved” areas in the State in a manner that is economic for the Company,
11 their current customers, and prospective new customers.

12 **Q. What effect does the growth the Company is experiencing have on existing**
13 **customers?**

14 A. Broadly defined, there are two types of growth the Company can experience. The
15 first type is from increased usage of natural gas by existing customers. This type
16 of growth is typically achieved with limited or no investment by the Company.
17 While Northern has some opportunity to promote greater use of natural gas to
18 existing customers (e.g. conversions of appliances and equipment to use natural
19 gas), this type of growth is not expected to be a significant contributor to overall
20 revenue growth.

1 The second type of growth is from new customers. This type of growth is the
2 primary one Northern is now experiencing and expects to experience in the future.
3 However, this type of growth involves substantial investment in new gas mains
4 and services. When the Company receives requests for a new gas service or a
5 request for an extension of mains or an expansion of service area, it uses
6 investment criteria in accordance with its gas mains and services extension
7 policies to evaluate the requests. These investment criteria are designed and
8 intended to ensure that new customers are paying for the incremental system
9 investments or upgrades required to extend distribution service to their locations
10 and that existing customers are not subsidizing this investment. In cases where
11 expected revenues from new customers are inadequate to justify the investment,
12 the Company will request contributions from these new customers.

13 The distinction between these two types of growth is important to understanding
14 the effect growth has on Northern's customers. Growth in usage by existing
15 customers increases revenues and has little effect on costs. As a result, this type
16 of growth has a very positive benefit to existing customers. In contrast, the
17 growth from new customers, which also increases revenues, has a much smaller
18 benefit to existing customers because the incremental cost to serve new customers
19 tends to offset the revenue generated by these customers. This is particularly true
20 in the early years when a new customer begins taking distribution service and the
21 front loaded carrying cost or revenue requirement associated with the investment

1 to serve the new customer will exceed the incremental revenue from a new
2 customer. As a result, new customer additions generally provide sufficient
3 revenue to support the incremental investment over the customer's expected
4 service life, but do not make contributions to support the revenue requirement
5 associated with the balance of the Company's non-revenue producing capital
6 expenditures and additions.

7 Nevertheless, growth in customers leads to economies and efficiencies that reduce
8 rates to all customers over the long term compared to what they would otherwise
9 have been. For example, the rate impacts associated with Northern's non-revenue
10 producing capital expenditures will be mitigated as the costs of these projects are
11 spread over increased numbers of customers in future years. Likewise, growth in
12 new customers can also help to mitigate the expense and earnings attrition the
13 Company experiences between base rate proceedings, thereby lengthening the
14 period between the filing of general rate cases and allowing for longer stay out
15 periods.

16 **Q. Please summarize the Rate Plan the Company is proposing to implement.**

17 A. As further detailed in the Testimony of James D. Simpson, the Company is
18 proposing to implement a multi-year Rate Plan that will allow future changes to
19 distribution rates without the need to file a general rate case. The multi-year plan
20 is structured around the TIRA. The TIRA is designed to recover the costs of
21 certain non-revenue producing capital expenditures and additions to replace and

1 improve the Company's distribution system, including the replacement of
2 outdated and aging gas mains, services and other targeted components of the
3 distribution system. The Testimony of Thomas P. Meissner provides additional
4 details concerning the Company's initiative to replace these types of facilities.

5 **Q. What is the purpose of the TIRA?**

6 A. The TIRA is designed to provide Northern with a reasonable opportunity to earn
7 its authorized rate of return without the need to file frequent rate cases. The
8 proposed TIRA will allow the Company to recover the costs associated with
9 targeted non-revenue producing capital expenditures and additions on a timely
10 basis, while at the same time allowing the Company to continue investing in
11 system expansions to serve new customers. Given the size and duration of the gas
12 mains and services replacement programs, other safety and reliability
13 improvements and mandated municipal and state projects, absent timely
14 recognition of costs in rates through this administratively efficient capital cost
15 recovery mechanism, Northern will have a continuing need for base rate cases.
16 The administrative costs and regulatory lag associated with such rate cases
17 undermines the credit quality and financial strength of Northern, results in the
18 need for postponements in the timing of investments and higher financing and
19 administrative costs over time.

1 **Q. How will the TIRA benefit the Company's customers?**

2 A. As this proceeding demonstrates, under traditional ratemaking, Northern must
3 complete mandated and safety and reliability related replacements and
4 improvements to its distribution infrastructure and then initiate general base rate
5 case filings to recover the costs associated with these capital expenditures and
6 additions to rate base. This process entails preparing, filing, supporting and
7 presenting general rate cases over a period of a year or more. A base rate case is
8 an expensive undertaking for the Company, the Commission, and the Consumer
9 Advocate, and all of those costs are ultimately borne by the Company's
10 customers. This traditional process also increases regulatory lag and regulatory
11 uncertainty. This will result in a deterioration of the Company's credit quality and
12 increases the costs of financing necessary to support these required investments.
13 These higher financing costs are ultimately borne by customers. Over the long
14 run, the TIRA will help lower costs and rates to Northern's customers.

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

17 A. Yes. As discussed in more detail in the Testimony of James D. Simpson, in
18 addition to the capital cost recovery aspects of the TIRA, the Rate Plan includes
19 additional customer benefits and protections. These include a limitation on the
20 annual increase in revenues associated with the TIRA to 2 percent of weather
21 normalized total revenue; a balanced 50/50 annual earnings sharing mechanism
22 with customers; a general rate case filing stay out provision until 2017; and, other

1 defined limitations and conditions for base rate changes. These additional
2 provisions provide a reasonable cap on annual rate changes, incentives for the
3 Company to operate efficiently and mechanisms to share this performance with
4 customers over an extended period without the filing of a general rate case.

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

6 A. The Company is proposing to build upon the rate design improvements made in
7 the 2011 Base Rate Case by continuing to move towards cost based distribution
8 rates. The Company proposal is to continue to move the design of rates to
9 recover a greater portion of predominately fixed costs associated with the
10 provision of distribution service through the fixed customer charge component of
11 rates. As explained in Mr. Normand's testimony, this design is consistent with the
12 goal of establishing cost based rates. As further explained in Mr. Simpson's
13 testimony, in addition to the goal of establishing cost based rates, the proposed
14 rate design achieves the following important rate design objectives that benefit the
15 Company and its customers: i) aligning the interest of the Company and its
16 customers on energy efficiency matters; ii) reducing the effect of weather
17 fluctuations on customer bills and Company revenues; and iii) creating more
18 stable and predictable customer bills and revenues that evenly allocate the
19 recovery of fixed costs across the seasons and from year to year.

1 **Q. Do you have anything further to add?**

2 A. The Company has made significant safety, customer service and operational
3 improvements in the 4-plus years it has operated as a utility subsidiary of Unitil
4 Corporation. Northern is committed to continually investing in New Hampshire in
5 order to maintain a safe and reliable state-of-the-art natural gas distribution
6 system, which will benefit the State and energy consumers for years to come. A
7 key objective of this rate filing is to assure sufficient support for the funding and
8 financing of these infrastructure replacements and capital improvements at a
9 reasonable cost. That is why, as further explained in the Testimony of Samuel C.
10 Hadaway, the Company believes that a Return on Equity (“ROE”) of 10.0 percent
11 reflects a fair and reasonable cost of equity capital. The Company has a large
12 capital expenditure plan to improve and expand gas services to its customers. As
13 a result, the Company will be accessing debt and equity financing in capital
14 markets on a regular basis over many years. The Commission’s authorized ROE
15 in this proceeding can send the necessary message to investors that the Company
16 has appropriate regulatory support for the safety and reliability related
17 investments the Company is making, and for expanding gas service to a greater
18 number of energy consumers in New Hampshire. The ROE authorized for
19 Northern in this proceeding, which will be established for the duration of the Rate
20 Plan, should take into account the Company’s ongoing and repeated needs to
21 access the capital markets at a reasonable cost for the benefit of its customers.

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

9 **Q. Does that conclude your testimony?**

10 A. Yes.