

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 16-384

IN THE MATTER OF: UNITIL ENERGY SYSTEMS, INC.

REQUEST FOR CHANGE IN RATES

DIRECT TESTIMONY

OF

Richard Chagnon
Utility Analyst

NOVEMBER 16, 2016

1 **Introduction**

2 **Q. Please state your full name?**

3 A. My name is Richard Chagnon.

4 **Q. By whom are you employed and what is your business address?**

5 A. I am employed as a Utility Analyst in the Electric Division of the New Hampshire Public
6 Utilities Commission (Commission or PUC). My business address is 21 South Fruit
7 Street, Suite 10, Concord, NH 03301.

8 **Q. Please summarize your education and professional work experience.**

9 A. I started at the Commission in May of 2015 as a Utility Analyst in the Electric Division.
10 Before joining the Commission, I was employed at Public Service of New Hampshire
11 (PSNH) for 36 years. My most recent position at PSNH was Division Manager of the
12 Seacoast Northern Division for 4 years. In this position I was responsible for account
13 executives assigned to the largest commercial and industrial customers, community
14 relations manager assigned to towns and community outreach programs, operations
15 manager assigned to six area work centers throughout the division, and associated staff and
16 crews. My responsibilities also included budgets, goals, employee safety, environmental,
17 employee relations, customers, and company policies and procedures.
18 Prior to my position as Division Manager, I held the position of Manager of Human
19 Resources for 4 years. In this position, I was responsible for implementing company
20 policies, employee training, employee discipline/promotion, employee compensation,
21 staffing, and internal investigations for over 1,400 employees in New Hampshire. I also
22 oversaw labor relations and labor contracts.

1 Prior to my position as Manager of Human Relations, I held the position of Manager of
2 Customer Systems & Training in the Customer Services Division for 3 years. In this
3 position, I was responsible for directing the requirements of the customer information
4 system (CIS) for billing customer accounts, CIS analysts, large power billing system, and
5 the customer call center and credit department training team. The other positions I held
6 prior to this were Account Executive, Conservation & Load Program Administrator, Credit
7 & Collections Analyst, Credit & Collections Supervisor, Meter Reading Supervisor, Meter
8 Reading Foreman, Line Worker and Meter Reader.

9 I received a Bachelor of Science Degree from Franklin Pierce College in Marketing.

10 **Q. Have you previously testified before the Commission?**

11 A. Yes. I presented testimony in DE 14-238, Public Service Company of New Hampshire -
12 Determination Regarding PSNH's Generation Assets.

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. The purpose of my testimony is to provide Staff's recommendation for a distribution
15 service revenue requirement for Unitil Energy Systems, Inc. (Unitil or Company). On
16 April 29, 2016, Unitil filed testimony and schedules requesting a \$6,260,000 increase in
17 distribution service revenues effective June 1, 2016 based on a test year ending December
18 31, 2015. On September 16, 2016, the Company submitted an updated revenue
19 requirement of \$6,584,710, along with updated schedules. This updated revenue
20 requirement represents a 12.75% increase from 2015 test year rates. This updated revenue
21 requirement includes adjustments by Unitil in its response of the PUC Staff Audit Report¹

¹ The PUC Staff Audit Report is an attachment to the testimony of James J. Cunningham, Jr.

1 issues, corrections to depreciation rates, updated final amounts for the Kingston Substation
2 and adjustment to the PUC assessment to comply with the requirements of RSA 363-A:6,1.
3 My testimony also includes Staff's review of Unitil's lead/lag study and the Company's
4 proposal for Active Hardship Protected Accounts (AHPA) receivables aged over 360 days.

5 **Q. Are others presenting testimony in this proceeding on behalf of Staff?**

6 A. Yes. The following witnesses are also providing testimony on behalf of Staff:

- 7 • Leszek Stachow discusses recommendations concerning the Company's proposed
8 2016 rate plan of annual rate increases for five years beginning May 1, 2017 and
9 certain rate design changes.
- 10 • James J. Cunningham, Jr. provides testimony on issues of depreciation and
11 amortization, as well as Unitil's costs in the area of pensions, post-employment
12 benefits other than pensions (PBOP's), 401(k) expenses, and medical and dental
13 costs.
- 14 • Donna Mullinax, CPA, CIA, President of Blue Ridge Consulting Services, Inc.,
15 presents recommendations on behalf of Staff for the appropriate level of revenue
16 requirements.
- 17 • J. Randall Woolridge, Professor of Finance of the Pennsylvania State University,
18 presents recommendations on behalf of Staff for the appropriate capital structure,
19 return on equity and overall cost of capital for Unitil; and
- 20 • Michael D. Cannata, Jr., Principal of Innovative Alternatives Inc., provides
21 comment and recommendations regarding reliability of Unitil's electric distribution
22 system, Unitil's Vegetation Management Plan, Unitil's budgeting process, and
23 Large Capital Projects.

1 **Q. Did Unitil request temporary rates in this proceeding?**

2 A. Yes. In its April 29, 2016 filing, Unitil requested a \$3.01 million temporary increase in
3 distribution revenues. In Order No. 25,916 (June 28, 2016), the Commission approved a
4 settlement agreement whereby Unitil was allowed to increase its distribution revenues by
5 \$2,425,744 on a temporary basis, effective July 1, 2016, subject to the final decision on
6 permanent rates. The temporary rates approved by the Commission represent a 4.7%
7 increase from 2015 test year rates. Taking the prior temporary increase into consideration,
8 Staff is now recommending an additional increase to distribution revenues of \$59,893.
9 This represents an increase of \$2,485,637 from 2015 test year revenues.

10 **Q. Were any other types of rate schedules proposed by Unitil?**

11 A. Yes. In its April 29, 2016 filing, Unitil also proposed a new tariff for Domestic Distributed
12 Energy Resources (Schedule DDER). Schedule DDER sets forth rates to be charged to
13 certain residential customers with renewable distributed generation systems installed
14 behind the retail meter. In Order No. 25,906 (June 9, 2016), the Commission suspended
15 the investigation of the proposed tariff Schedule DDER and stayed any litigation regarding
16 Schedule DDER until the completion of Docket DE 16-576.

17 **Q. Please summarize the other testimony being submitted by Commission Staff along**
18 **with this testimony.**

19 A. Below is a summary of testimony for each witness for Staff in this proceeding.
20 • Leszek Stachow, Assistant Director, PUC Electric Division, presents testimony
21 regarding Unitil's proposed 2016 Rate Plan. The Company is proposing a new five-
22 year rate plan, with distinct, annual step adjustments to distribution base rates
23 occurring on May 1 of each year from 2017 through 2021, with annual rate

1 adjustments to 2 percent of total operating revenue; a 50/50 annual earnings sharing
2 mechanism with customers; and a general rate case stay out provision through 2021.

3 Staff recommends that assuming a five year rate plan is approved, the Commission
4 consider the following:

5 1. Remain with the profit sharing mechanism at 50/50 after attainment of a return on
6 equity (ROE) greater than 10%.

7 2. The adoption of a productivity adjustment to revenue requirement.

8 Consider requiring that plans specify fixed rates for each year of plan.

9
10 Mr. Stachow also presents testimony regarding the Company's rate design which
11 places a higher amount of fixed costs in the customer service charge portion of each
12 distribution delivery rate. In this immediate rate case, Staff believes that the cost-
13 of-service studies support an increase in fixed charges to better reflect cost
14 causation, but discusses other rate mechanisms the Commission may want to
15 consider and states that a good rate design should consider other important rate
16 design principles.

- 17 • James J Cunningham, Jr., Utility Analyst, PUC Electric Division presents testimony
18 on depreciation and amortization, as well as Unital's costs in the area of pensions,
19 PBOP's, 401(k) expenses, and medical and dental costs. Mr. Cunningham's
20 testimony outlines Staff's proposed adjustments of \$168,080 for these expense
21 items.

- 22 • Donna Mullinax, CPA, CIA, President of Blue Ridge Consulting Services, Inc.,
23 presents testimony on behalf of Staff for the appropriate level of revenue

1 requirements. On September 16, 2016, the Company submitted an updated revenue
2 requirement of deficiency of \$6,584,710. Ms. Mullinax's testimony outlines Staff's
3 recommendation for adjustments totaling \$4,099,073.

4 • J. Randall Woolridge, Professor of Finance of the Pennsylvania State University,
5 presents recommendations on behalf of Staff for the appropriate capital structure,
6 return on equity and overall cost of capital for Unitil. In his testimony, Professor
7 Woolridge outlines specific details regarding the Company's submitted ROE of
8 10.30% and why it should not be relied upon to determine the appropriate ROE for
9 Unitil in this rate case and that Staff's recommendation of an ROE of 8.65% is the
10 proper cost of equity to use in this proceeding.

11 • Michael D. Cannata, Jr., Principal of Innovative Alternatives Inc., presents
12 testimony on his review of the process used by Unitil in the funding of both
13 required and discretionary capital projects across its electrical distribution system.
14 Mr. Cannata found that Unitil funds capital projects in a uniform manner consistent
15 across the total New Hampshire corporate entity and does not oppose the
16 Company's budgeting criteria used when replacing capital equipment. Mr. Cannata
17 also explains Staff's support for the Kingston Substation installation in 2016 and
18 Staff's support of the Company's decision to move forward with the new Broken
19 Ground Substation project for completion in 2017 as the proper timing of
20 installation. Mr. Cannata also reviews the Company's new clearing requirements in
21 its Vegetation Management Program.

22 **Q. Does Staff support Unitil's proposal for costs related to the Kingston Substation and**
23 **Broken Ground Substation as proposed as a part of its 2016 Rate Plan?**

1 A. Yes. Based on Mr. Cannata's review of the need and timing of these two new substations,
2 Staff supports the inclusion of costs of these new installations in rates as proposed.

3 **Q. Does staff recommend any changes to proposed tariffs in this proceeding?**

4 A. Staff completed a review of the tariffs in this proceeding, issued data requests for
5 clarification where needed and reviewed Company responses. Staff does not have any
6 proposed changes to Unitil's tariffs in this proceeding.

7 **Q. Do you have any recommended tariff additions that the Company should include as**
8 **part of this rate case?**

9 A. Yes I do. In reviewing the Company's tariff, Staff has not identified a section that pertains
10 to the "Resale of Distribution Service" and is recommending that the Company add such a
11 section.

12 **Q. Does Staff recommend specific language for the Company?**

13 A. Yes. There currently is language proposed in the tariff under consideration by the
14 Commission in the Liberty Utilities distribution rate case, DE 16-383. The section appears
15 on Original Page 14 of that tariff and is titled "Resale of Delivery Service." It reads as
16 follows: "*No Customer shall sell, resell, assign or otherwise dispose of all or any part of*
17 *the Delivery Service purchased from the Company without the written consent of the*
18 *Company. The sale of electric vehicle charging services electricity to a third party from an*
19 *electric vehicle charging station shall not be considered resale of electricity.*"

20 **Q. Is there a particular concern or reason why Staff is recommending that the Company**
21 **add this, or similar, language to their tariff?**

22 A. Yes. Unitil, along with Eversource and Liberty Utilities, recently participated in docket IR
23 15-510 Investigation into Resale of Electricity by Electric Vehicle Charging Stations. Staff

1 understands that this investigatory docket originated with a filing made by Liberty Utilities
2 which was docketed as DE 15-489 Proposed Tariff Amendments Regarding Sale of
3 Electric Vehicle Charging Services. In its filing, Liberty proposed an amendment to its
4 tariff seeking to clarify that resale of electricity by a third party owner of electric vehicle
5 charging stations should be allowed to facilitate the development of the electric vehicle
6 market.

7 **Q. Did Unitil take a position or make a filing in the related investigatory docket?**

8 A. Yes. Unitil filed a Memorandum in IR 15-510 in which the Company stated, in part,
9 "...the Commission should have no role in regulating these [electric vehicle charging]
10 facilities, as it already regulates the provision of distribution service by the utility to these
11 customers, consistent with its jurisdiction over rates and services. The question of whether
12 a change to the utilities' tariffs related to the provision of electric service to EVC operators
13 should be decided on a case-by-case or utility-by-utility basis depending on the particular
14 circumstances demonstrated."

15 **Q. Are there currently any particular relevant circumstances or situations under**
16 **consideration in Unitil's service territory?**

17 A. None that Staff has become aware of to-date. However, as the Company's distribution
18 rates, services, and tariffs are under consideration in this docket, it seems appropriate for
19 the Company to include this change in its tariff. Doing so could remove a potential
20 regulatory hurdle faced by a third party company in the business of installing electric
21 vehicle charging stations in the near future to expand its footprint in the service territory of
22 Unitil. The recommended tariff language included above is language which is already in
23 the distribution tariff of Liberty Utilities.

1 **Q. Does Staff have a specific page or section where you believe this language should be**
2 **included?**

3 A. Not specifically. Staff would rely on the Company to determine the most appropriate
4 place(s) in its tariff to include this recommended tariff language.

5 **Q. Did you review the Company's lead/lag study?**

6 A. Yes. I reviewed the detailed lead/lag study performed by Paul M. Normand as presented in
7 testimony along with Unitil's original filing on April 29, 2016. As Mr. Normand explains
8 in his testimony, "A lead-lag study is an analysis designed to determine the funding
9 required to operate a company on a day-to-day basis. A lead-lag study compares (1) the
10 timing difference between the receipt of service by customers and their subsequent
11 payment for these same services and (2) the timing difference between the incurrence of
12 costs by Unitil Energy and its subsequent payment of these costs. Therefore, a lead-lag
13 study must compute both a revenue lag (or lead) and an expense (lead) or lag."
14 The results of Mr. Normand's study have determined a net lag for Cash Working Capital
15 (CWC) of 27.25 days. As a result of my review of this detailed lead/lag study, I conclude
16 that resulting net lag of 27.25 days for CWC is reasonable.

17 **Q. Did you review the Company's proposal to recover past due receivables on Active**
18 **Hardship Protected Accounts (AHPA)?**

19 A. Yes.

20 **Q. Please explain why the Company has included a proposal regarding AHPA**
21 **receivables in this proceeding.**

22 A. As detailed in Daniel V. Main's testimony, AHPA are residential service accounts that, in
23 accordance with the New Hampshire Code of Administrative Rules, Chapter Puc 1200, are

1 protected from disconnection by the utility for non-payment under the hardship provisions
2 of Part 1205 Medical Emergency Rules. AHPA are receivable balances owed to the
3 Company by Active Hardship Protected Accounts. In recent years, the Company has seen
4 a substantial increase in both the number of customers and the past due account receivables
5 balances of customers protected from disconnection under the Medical Emergency Rules.
6 At the end of the 2015 test year, the Company had a total of \$1.7 million of accounts
7 receivable due from its AHPA customers. Of this total, \$925,083 has been outstanding
8 over 360 days. The Company believes that increased number of Active Hardship Protected
9 Accounts and associated receivables is attributable to growing customer awareness of and
10 utilization of the protections and processes afforded by Puc 1205. In addition, increasing
11 rates over the past few years has led to higher balances outstanding.

12 **Q. What is the Company's proposal to recover the bad debt expense for uncollectible**
13 **accounts receivable due from its AHPA in this proceeding?**

14 A. Mr. Main's testimony includes the following proposal to recover the bad debt expense for
15 uncollectible account receivables AHPA receivables which are over 360 days past due:

- 16 1) The amount of AHPA receivables which are over 360 days past due would be
17 financially written down over five years, and recovered through base rates as bad debt
18 expense. The balance as of December 31, 2015 of \$925,083 is shown on Schedule
19 DVM-1, Line 1, Column (c), and the annual amount to be written down (\$185,017 or
20 one-fifth of \$925,083) is reflected in the Company's Cost of Service Study as a pro-
21 forma adjustment to bad debt expense on Schedule RevReq-3-6. The Company
22 proposes to update these balances through June 30, 2016 during this proceeding when
23 they become available.

1 2) Projected new over 360 days past due amounts for AHPA: The Company is also
2 proposing a pro-forma adjustment to bad debt expense for the AHPA receivables that
3 are projected to become over 360 days past due in future years. As shown on Schedule
4 DVM-2 the average annual dollar amount of AHPA accounts receivable that migrated
5 into 360 days past due status over the past four years is \$159,423. Each year, these new
6 “over 360 day” past due amounts would be financially written down and recovered
7 through rates as a component of bad debt expense. This adjustment is also reflected on
8 Schedule RevReq-3-6. The Company also proposes to update this amount to reflect
9 data through June 30, 2016 during this proceeding when it becomes available.

10 **Q. Does Staff support the Company’s proposal to recover the bad debt expense for**
11 **AHPA uncollectible account receivables which are over 360 days past due?**

12 A. Not in this proceeding. Staff does recognize that AHPA receivables have been increasing,
13 in-part, as a result of growing customer awareness of and utilization of the protections and
14 processes afforded by Puc 1205. Staff believes that this particular issue regarding the
15 continued increase in the number of residential accounts and the accounts receivable
16 balances of those accounts which are protected through the Medical Emergency procedures
17 in Puc 1205, which do allow utilities a process to disconnect service to customers in non-
18 life threatening situations, is an issue which affects all utilities in New Hampshire. Staff
19 recognizes the challenge for utilities in regards to Medical Emergency protected accounts
20 and concludes that each utility is not unique in these challenges. As such, Staff
21 recommends that the Commission open a separate docket on this subject for all utilities to
22 participate with Commission Staff to propose a common solution. Recently, the electric

1 utilities and Staff worked together to come up with a more uniform policy regarding line
2 extensions and Staff envisions a similar cooperative framework regarding this issue.
3 Regarding the Company's rate treatment of this issue, it is not clear to Staff whether
4 Unitil's lead/lad study omits any accounts receivable amounts from these AHPA accounts
5 in its calculation of "collection lag" which is a component of the total net lag of 27.25 days.
6 Staff's recommendation is for the Commission to deny the Company's request to add
7 \$344,440 to the annual revenue requirement as proposed. Staff's additional
8 recommendation to handle this issue in a separate docket for all utilities will ensure a
9 solution which will bring uniformity to the process of collecting and/or recovering accounts
10 receivable amounts on the growing number of residential accounts protected through
11 certified medical emergencies, and treat customers across all utilities in an equal manner.

12 **Q. Is the \$344,440 revenue requirement for AHPA receivables included in Ms.**
13 **Mullinax's adjustments in her testimony?**

14 A. No. If the Commission does not approve Unitil's request to recover AHPA receivables
15 aged over 360 days as proposed in this proceeding, an adjustment to revenue requirements
16 in the amount of \$344,440 will need to be made.

17 **Q. Do you have any recommendations with respect to rate case expense recovery at this**
18 **point?**

19 A. Yes. Unitil requested recovery of \$98,000 associated with the DDER tariff as part of its
20 rate case expense in this proceeding. Because the associated work is being conducted in
21 Docket DE 16-576, Staff recommends that the Commission disallow recovery of this sum
22 as rate case expense.

23 **Q. Does Staff have any additional adjustments to bring forward in this proceeding?**

1 A. Yes. As reviewed in Ms. Mullinax's testimony, the Commission Audit reviewed
2 approximately 106 O&M expenses and identified \$11,159 in expenditures that the audit
3 recommended should be booked below the line and not included in the costs of service for
4 the purposes of establishing rates in this proceeding (Audit Issue #5). The Company's
5 updated filing only removed \$150 for donations and stated in the cover letter to the update
6 that "The Company noted that for audit issue 5, the Company only adjusted for donations
7 of \$150, because the Company continues to believe the other expenses are appropriate to
8 treat above the line." Staff maintains that costs for food at Company staff meetings, donuts
9 for employee Safety meetings, flowers for facilities and employees, etc., are expenses
10 which remain below the line. Staff recommends that the balance of \$11,009 for the
11 remaining expenses listed in Audit Issue #5 be denied for the purposes of establishing rates
12 in this proceeding. Ms. Mullinax has included this adjustment in her testimony.

13 **Q. Does this conclude your testimony?**

14 A. Yes.