UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

DAVID L. CHONG

EXHIBIT DLC-1

New Hampshire Public Utilities Commission

Docket No. DE 18-___

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1 **I. INTRODUCTION**

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

3 A. David L. Chong, 6 Liberty Lane West, Hampton, New Hampshire 03842.

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

5 A. I am Director of Finance and Treasurer for Unitil Service Corp., a subsidiary of
6 Unitil Corporation that provides managerial, financial, regulatory, engineering
7 and other shared services to Unitil Corporation's utility subsidiaries. I am also the
8 Treasurer of Unitil Energy Systems, Inc. (hereinafter referred to as "Unitil
9 Energy" or the "Company") and Unitil Corporation's other utility subsidiaries.
10 My responsibilities are primarily in the areas of financial planning and analyses,
11 regulatory projects, treasury operations and banking relationships.

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

13 A. I have approximately sixteen years of professional experience in the energy and
14 utilities industries. From 2001 through 2005, I worked for Exxon Mobil
15 Corporation in various facilities engineering roles with my last position as a
16 Senior Project Engineer. From 2005 through 2008, I worked for RBC Capital
17 Markets Corporation in the energy investment banking group, where I provided
18 corporate finance and mergers and acquisitions advisory services. While at RBC,
19 I raised equity and debt capital on numerous occasions for various energy
20 companies. I also advised on several buy-side and sell-side mergers and
21 acquisitions transactions. From 2008 through 2009, I worked for El Paso

1 Exploration & Production Company in its business development group as an
2 Acquisition & Divestiture Principal. I began working for Unitil Service Corp. in
3 August 2009 as Director of Finance. I hold a Master's Degree in Business
4 Administration from Tulane University and a Bachelor of Science degree in
5 Mechanical Engineering with Honors from the University of Texas at Austin.

6 **Q. Have you previously testified before this Commission?**

7 A. Yes, I have testified before the New Hampshire Public Utilities Commission (the
8 "Commission") on various financial, ratemaking and utility regulation matters,
9 including utility cost of service and revenue requirements analysis. I have also
10 testified before the Maine Public Utilities Commission and Massachusetts
11 Department of Public Utilities on similar matters on several occasions.

12 II. SUMMARY OF TESTIMONY

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

14 A. The purpose of my testimony is to present and support Unitil Energy's revenue
15 requirement for its 2018 Step Adjustment based on 2017 capital spending. I also
16 explain and calculate the proposed reduction in distribution rates relating to the
17 recently passed federal tax legislation signed into law by the President of the
18 United States on December 22, 2017. The Tax Cuts and Jobs Act of 2017
19 (referred to herein as the "Tax Act") substantially reduced the federal tax rate
20 from 34% to 21%. Since income taxes are collected from rate payers as an
21 operating cost, the Company proposes a corresponding reduction in rates to

1 correspond to the lower federal tax rate. Additionally, I also support and explain
2 proposed changes to the Storm Reconciliation Adjustment Factor ("SRAF") and
3 the Major Storm Cost Reserve ("MSCR"). Lastly, I provide calculations and
4 schedules pertaining to the removal of Recoupment, Storm Resiliency Program
5 ("SRP") spending treatment, Vegetation Management Program / Reliability
6 Enhancement Plan ("VMP / REP") reconciliation, Earnings Sharing, Exogenous
7 Events, Rate Design and Bill Impacts.

8 **Q. Please summarize the impacts to distribution revenue.**

9 A. The Company is proposing a 2018 Step Adjustment of $3,302,989 to reflect the
10 recovery of 2017 capital additions of $32,687,415. The Company is also
11 proposing a reduction of $2,244,744 to reflect the impact of the Tax Act. The
12 Company's Major Storm Cost Reserve is materially under-collected, so the
13 Company is requesting an increase in recovery of $352,820 to accelerate the
14 recovery of the current deferral balance. Lastly, the Company is removing
15 Recoupment revenue of $1,411,065. All of these issues will be discussed in
16 greater detail throughout this testimony. The below table summarizes these four
17 proposed changes and nets to a zero change in base rates.

2018 Step Adjustment	$3,302,989
Less: Tax Act Revenue Reduction	$2,244,744
Plus: MSCR Recovery	$352,820
Less: Recoupment Removal	$1,411,065
Net Change in Distribution Revenue	**$0**

18

19 **Q. Please explain the increase for the 2018 Step Adjustment?**

1 A. The proposed 2018 Step Adjustment of $3,302,989 is for 2017 capital spending
2 and is included in this testimony pursuant to the Settlement Agreement in DE 16-
3 384. The 2018 Step Adjustment was derived by calculating the revenue
4 requirement associated with 80% of the changes in Net Plant in Service for the
5 period January 1, 2017 through December 31, 2017. Additional details for the
6 2018 Step Adjustment will be provided later in this testimony.
7 **Q. Please explain the reduction in distribution revenues for the Tax Act?**
8 A. Unitil Energy is complying with Commission Order No. 26,096 in Docket IR 18-
9 001, "Investigation to Determine Rate Effects of Federal and State Corporate Tax
10 Reductions". The Company has calculated a reduction in distribution revenue for
11 the Tax Act of $2,244,744. This calculation is explained in detail below. As the
12 rate reduction will not occur until May 1, 2018 the Company is accruing a
13 Regulatory Liability relating to the Tax Act for the periods January 1, 2018
14 through April 30, 2018 to properly reflect operating revenues at lower statutory
15 tax rates (per Order No. 26,096 at 2). The Company is requesting that this
16 Regulatory Liability be used to offset the MSCR deferral balance, which is
17 significantly under-collected. This offset and the impacts of the Tax Act will be
18 discussed in greater detail later in my testimony.
19 **Q. Are you proposing any changes to the SRAF?**
20 A. Yes. The Company is proposing that the costs of $1,233,742 from a major wind
21 storm in October 2017 plus associated carrying charges be transferred from the
22 MSCR to the SRAF effective May 1, 2018. Also, on May 1, 2018, the recovery of

1 Hurricane Sandy will terminate. Thus, the net change to the SRAF will be a
2 14.4% reduction on May 1, 2018 after including the October 2017 wind storm and
3 the drop-off of Hurricane Sandy.

4 **Q. What is the purpose of the increase in the MSCR?**

5 A. As of December 31, 2017 the MSCR was under-collected by $4,539,995. This
6 amount is 5.7 times the current annual recovery level of $800,000, which would
7 imply 5.7 years to recover the under-collection with zero storm activity. Under
8 current recovery levels, there is no clear path to collection of this deferral.
9 Therefore, as discussed above, the Company requests to address this issue by 1)
10 offsetting the deferral with the Tax Act Regulatory Liability; 2) transferring the
11 October 2017 wind storm to the SRAF; and 3) increasing the recovery level of the
12 MSCR modestly in a balanced manner. As of April 30th, the MSCR deferral on
13 the Company's books (after transfer of the October 2017 wind storm to the SRAF
14 and the Regulatory Liability offset) will be $2,601,427. This figure was calculated
15 with no additional storm costs being deferred into the MSCR in March or April of
16 2018. The Company is requesting that this deferral be amortized over a period of
17 approximately 9 years, providing an increase to revenues of $352,820. The
18 amortization amount was determined as the amount that resulted in a net zero
19 change to distribution rates. While the resulting amortization period is longer than
20 the Company would normally desire, the Company believes that this proposal is a
21 reasonable and balanced approach that provides a net zero impact to distribution

1 rates at this time. Further explanation and analysis of this proposal is provided
2 later in this testimony.

3 **Q. Please explain the reduction in distribution revenues for Recoupment?**

4 A. Pursuant to paragraph 2.3 of Settlement Agreement in DE 16-384, Recoupment
5 revenue in the amount of $1,411,065 is being recovered from customers on a
6 uniform per kWh basis from all classes for services rendered from May 1, 2017
7 through April 30, 2018. Recoupment revenue will no longer be collected as of
8 May 1, 2018 which results in a reduction to distribution revenue of $1,411,065.

9 **Q. What other topics do you address in your testimony?**

10 A. Later in my testimony, I discuss that the Storm Resiliency Program spending is
11 proposed to increase in 2018 through 2020 due to a recommendation from the
12 Company's System Arborist to accelerate the program by one-year. Rather than
13 make this a permanent increase to base rates, the Company proposes to recover
14 this increase through the External Delivery Charge which has historically been
15 credited with VMP / REP reconciliation over-collections. From 2014 to 2018 the
16 Company has credited a total of $2,254,232 of VMP / REP reconciliation over-
17 collections. I also discuss and quantify the 2017 calendar year VMP / REP
18 reconciliation, Earnings Sharing, Exogenous Events, Rate Design and Bill
19 Impacts. Of importance is the minimal impact that the collective proposals above
20 will have on ratepayers. A typical 600 kWh residential customer on default
21 energy service will see a monthly bill increase of $0.12, or 0.1%, with similar
22 impacts to other rate classes.

1 **III. 2018 STEP ADJUSTMENT**

2 **Q. What was the Company's forecasted capital spending for calendar year 2017**
3 **for the 2018 Step Adjustment in DE 16-384?**

4 **A.** As described in the pre-filed direct Testimony of Kevin Sprague in DE 16-384 on
5 page 14 of 26 (Bates 246), the 2017 forecasted capital spending was
6 $21,828,456. This was based upon a 5 year capital budgeted forecast that was
7 developed in 2015. The actual 2017 plant additions and cost of removal closed to
8 plant was $32,687,415.

9 **Q. Please explain the major variances for actual capital additions closed to plant**
10 **compared to the capital spending forecast amount for 2017.**

11 A. The primary difference between the forecasted capital spending and the amount
12 closed to plant in 2017 was the Broken Ground Substation project. The Broken
13 Ground Substation project was marked operationally in service in 2016 and most
14 of the spending was completed by 2016, but the project was not closed to plant
15 until 2017. Approximately $10.8 million of plant additions in 2017 relate to the
16 Broken Ground Substation which was expended during 2014-2017. Similarly, in
17 last year's Step Adjustment, the Kingston Substation was closed to plant in 2016
18 for a total of $12.2 million of plant additions, but expenditures occurred during
19 the period 2013-2016. Therefore, because of these two large capital projects with
20 spending in multiple years, capital spending and plant additions in any particular
21 year may not necessarily line up.

1 **Q. How is Net Utility Plant derived?**

2 A. Page 1 of Schedule DLC-1 shows Beginning Utility Plant, Plant Additions,
3 Retirements, and Ending Utility Plant on lines 1-4. Plant Additions and
4 Retirements are detailed on Page 2 by FERC account. Then Page 1, lines 5-9
5 show Beginning Accumulated Depreciation, Depreciation, Retirements, Cost of
6 Removal, and Ending Accumulated Depreciation. The difference between
7 Ending Utility Plant and Ending Accumulated Depreciation results in Ending Net
8 Utility Plant shown on line 10.

9 **Q. What is the change in the Net Utility Plant in Service for calendar year 2017?**

10 A. The Ending Net Utility Plant seen on Page 1 of Schedule DLC-1, Line 10, is
11 $209,795,605. This figure will be the amount filed in the Company's 2017 FERC
12 Form 1. The Beginning Net Utility Plant of $188,269,043, the difference of Line
13 1 and Line 5, matches the Ending Net Utility Plant from the Settlement
14 Agreement of DE 16-384. Line 11 shows the Change in Net Utility Plant of
15 $21,526,562.

16 **Q. How is the Revenue Requirement derived?**

17 A. The method used to calculate the Revenue Requirement matches the prior year
18 step adjustment as settled upon in DE 16-384. The annual Change in Net Utility
19 Plant provided above is multiplied by a factor of 80% and is shown in line 12.
20 Then, line 12 is multiplied by line 13, pre-tax rate of return, to derive the Return
21 and Taxes on line 14. The Pre-Tax Rate of Return of 10.15% has been updated
22 for the Tax Act and is calculated on Page 5, line 5. Next, Depreciation Expense is

1 calculated on 80% of the annualized depreciation of Plant Additions for 2017.
2 Then, Property Taxes are calculated on 80% of the Change in Net Utility Plant
3 (line 12). A property tax rate of 2.91% was calculated by dividing the latest
4 annualized Property Tax Payments of $6,110,668 by 2017 Net Utility plant of
5 $209,795,605. Finally, Return and Taxes, Depreciation Expense and Property
6 Taxes are added together to arrive at the Revenue Requirement in Line 17.

7 **Q. What is the final Revenue Requirement that you derived?**

8 A. Page 1 of Schedule DLC-1, Line 17, shows the Revenue Requirement of
9 $3,302,989 which is under the cumulative cap for all three step increases of $4.5
10 million established in DE 16-384 (see paragraph 2.6 of the Settlement
11 Agreement). The Company calculates the remaining revenue requirement cap for
12 the 2019 Step Adjustment to be $341,808 as shown in Line 25. The cap for the
13 2019 Step Adjustment has largely been affected by the timing of plant closings
14 for the two substation projects discussed earlier.

15 **IV. TAX CUTS AND JOBS ACT OF 2017 RATE REDUCTION**

16 **Q. Please explain how the Tax Act impacts the Company?**

17 A. In December 2017, the Tax Act, which included a reduction to the corporate
18 federal income tax rate to 21% effective January 1, 2018, was signed into law.
19 Utilities will now reflect a lower federal income tax provision for collection
20 through cost of service rate making. The Tax Act also eliminated bonus

1 depreciation for capital placed in service after September 27th, 2017. The
2 Modified Accelerated Cost Recovery System was not changed by the Tax Act.
3 **Q. Have you reduced the Company's distribution revenues for the new federal**
4 **income tax rate as a result of the Tax Act and recent changes in the state**
5 **income tax rate?**
6 A. The Company has calculated a revenue reduction of $2,244,744 as a result of the
7 lower federal and state income tax rates. The methodology used by the Company
8 to reflect the lower tax rate is a formula specified by the Federal Energy
9 Regulatory Commission in FERC Order 475 (effective June 26, 1987), published
10 when federal tax rates last changed. See Schedule DLC-2. As precedent, this
11 formula is technically sound and properly reflects the reduction in revenue
12 requirements related to a lower income tax provision. Schedule DLC-3, Line 13,
13 shows a revenue reduction of $2,199,753 pertaining to the Company's last base
14 rate case (Docket DE 16-384). This amount is calculated by applying the FERC
15 formula to the pro forma income taxes to the Company's pro forma 2015 test year
16 cost of service after all adjustments and rate relief awarded in that proceeding.
17 This formula encompasses both the change in federal and state income tax rates.
18 This methodology was also used for Unitil Energy's sister affiliate, Northern
19 Utilities, Inc. - Maine Division, in its base rate case approved in Docket 2017-
20 00065. This methodology is also being proposed for use in the rate case for
21 Northern Utilities, Inc. - New Hampshire Division, Docket DG 17-070. Schedule
22 DLC-3 also shows a revenue reduction of $44,991 (Line 17) pertaining to the

1 2017 Step Adjustment (reflecting 2016 capital spending) which is calculated by
2 taking the original 2017 Step Adjustment less the revenue requirement for the
3 2017 Step Adjustment calculated with the new income tax rates. See Schedule
4 DLC-4. Schedule DLC-3, Line 18, shows the grand total revenue reduction for
5 the lower tax rates of $2,244,744.

6 **Q. What is the proposed effective date of the rate change?**

7 A. As directed by the Commission in Order No. 26,096, the Company has
8 recognized a Regulatory Liability of $769,342 as shown in Schedule DLC-5 to
9 reflect reduced rates from January through April 2018 as a result of the Tax Act.
10 The Company, as mentioned above, proposes to apply this Regulatory Liability to
11 offset the MSCR deferral. Due to the size of the MSCR as discussed further
12 below, the Company believes that this proposed ratemaking treatment is balanced
13 and appropriate.

14 **Q. Have you revalued the Accumulated Deferred Income Tax balance for the**
15 **year ended December 31, 2017?**

16 A. In conformity with Generally Accepted Accounting Principles ("U.S GAAP"
17 [ASC 740]), the tax rate reduction also requires a revaluation (downward) of the
18 Company's net Accumulated Deferred Income Tax ("ADIT") liabilities on its
19 balance sheet as of December 31, 2017 to reflect a 21% federal income tax rate
20 and a 7.9% state income tax rate. The excess ADIT liabilities as of December 31,
21 2017 have been recognized by the Company as a Regulatory Liability for U.S.
22 GAAP and regulatory accounting purposes in future rate proceedings. The excess

1 ADIT reflects the difference between the historical recognition of income taxes
2 for book normalization at a corporate income tax rate of 34% which was the
3 federal statutory tax rate for the Company prior to the passage of the Tax Act and
4 the new federal income tax rate of 21%. The Regulatory Liability is included in
5 the Company's rate base along with the adjusted (lower) net ADIT liability
6 balance, so there is no initial net change to rate base.

7 **Q. What will become of the excess ADIT balance?**

8 A. The Company proposes to resolve the flow back of distribution-related excess
9 ADIT to ratepayers during its next base rate case. Any changes to ADIT should
10 coincide with changes in the other components of rate base used for setting base
11 rates. Clearly, the best time to reflect these changes is in a distribution rate case
12 when all parties have the opportunity to fully examine the changes. This is
13 consistent with the way rate base is updated in rate cases. Importantly, rate base is
14 not reconciled from year to year in the periods between rate cases, but is only
15 updated when a new rate case is filed. As such, there are material portions of
16 excess ADIT that are from capital spending that are not reflected in rate base and
17 current rates. Excess ADIT reflects year-end 2017 utility assets, but the
18 Company's last base rate case utilized a 2015 test year. Accordingly, a flow back
19 of 2017 excess ADIT would not be properly matched with base rates currently in
20 place. While the Company has step adjustments for capital additions, they are not
21 fully inclusive for all spending. Furthermore, the step adjustments do not reflect
22 deferred taxes, nor do they roll forward the deferred tax position of its 2015 assets

1 from its last base rate to 2017 which would be necessary to reflect the Company's
2 current rate base in rates. In conclusion, the Company believes there is not a
3 mathematically correct way to match excess ADIT with its rate base currently
4 reflected in rates without a full base rate proceeding with a 2017 test year.

5 **Q. Do you have any other concerns about the Tax Act?**

6 A. The Company is concerned about the impact on cash and funds from operations.
7 The reduced base rates per the Tax Act will reduce collections and stress the
8 Company's credit ratios that are used by credit agencies to determine credit
9 worthiness. The Company estimates that its funds from operations will be reduced
10 approximately 8% with a negative impact of 1.5% to its funds from operations-to
11 debt ratio. With lower funds from operations, the Company's financing
12 requirements will increase with higher borrowings and debt leverage, all else
13 being held equal. The Company believes that the Tax Act has certain negative
14 consequences for utilities as compared to other industries, and expects the
15 required returns of both equity and debt investors to increase as a result of the Tax
16 Act.

17 **V. STORM RECONCILIATION ADJUSTMENT FACTOR**

18 **Q. Are you proposing an increase to the SRAF?**

19 A. Yes, as outlined in the testimony of Mr. Francazio (Exhibit RLF-1), the Company
20 experienced a significant wind storm in October 2017. The capitalized cost of the
21 storm is currently in the MSCR, but the Company believes it should be removed

1 from there and amortized and collected through the SRAF mechanism effective
2 May 1, 2018.
3 Q. **What was the capitalized cost of this storm?**
4 A. The total cost of the October 2017 wind storm was $1,233,742 and was deferred
5 in the MSCR fund.
6 Q. **Does the Company believe this should be considered a major storm that**
7 **qualifies for the SRAF?**
8 A. Yes. Mr. Francazio further describes and justifies why this storm is appropriate
9 for the SRAF.
10 **Q. What is the Company's specific cost recovery proposal?**
11 A. The Company seeks recovery of the October 2017 wind storm costs through an
12 adjustment to its SRAF effective May 1, 2018. The Company proposes to recover
13 these costs over a five year period with carrying charges calculated at 5.20%, the
14 annual rate equaling the Company's currently approved cost of debt, net of
15 deferred taxes reflecting the Tax Act.
16 **Q. Did the Company consider adding these costs to its MSCR?**
17 A. Yes. However, the MSCR was not designed to include low frequency storms that
18 are extraordinary in magnitude, such as this storm. The current reserve amount of
19 $800,000 annually, was set at a level to deal with more frequent storms that are
20 generally not considered to be extraordinary in magnitude.
21 **Q. Why does the Company propose to recover these costs over five years?**

1 A. The Company proposes to recover these costs over five years consistent with the
2 time period of recovery approved for previous storms (Tropical Storm Irene, the
3 October Snowstorm, and Hurricane Sandy). This proposal provides the Company
4 with a reasonable timeframe to reduce the deferred balance while providing for
5 reasonable bill impacts. In this instance, the net change in the SRAF is a decrease
6 because cost recovery of Hurricane Sandy ends on May 1, 2018.

7 **Q. What is the proposed adjustment to the SRAF?**

8 A. As shown on Schedule DLC-6, Page 1 of 3, the proposed rate adjustment is
9 $0.00023 per kWh effective May 1, 2018.

10 **Q. Is the Company currently recovering other storm costs through the SRAF?**

11 A. Yes. The costs of the December 2008 ice storm and February 2010 wind storm
12 are being recovered through the current SRAF over a period of eight years from
13 May 2011 through April 2019 at a rate of $0.00096 per kWh. The cost of
14 Hurricane Sandy is being recovered through the SRAF over a period of five years
15 at a rate of $0.00043 per kWh, and is set to terminate effective April 30, 2018.
16 The total SRAF proposed for effect May 1, 2018 is $0.00119 per kWh. This
17 factor reflects termination of the recovery of Hurricane Sandy, continuing
18 recovery of the costs associated with the December 2008 ice storm and February
19 2010 wind storm, and adding recovery of the costs from the October 2017 wind
20 storm. The net effect to the SRAF is a decrease of $0.00020 per kWh, or a
21 reduction of 14.4% on May 1, 2018, even after including this October 2017 wind
22 storm.

1 **Q. Will the Company track the account balance of these prior storms separately**
2 **from the account balance of the October 2017 wind storm?**
3 A. Yes. The recoveries made through the SRAF will be allocated to the prior storms
4 and the October 2017 wind storm based on the proportion of the rate as specified
5 in the Company's tariff, Schedule SRAF (i.e. $0.00096/$0.00119 or 80.7% will
6 be charged against the costs from the December 2008 ice storm and February
7 2010 wind storm and $0.00023/$0.00119 or 19.3% will be charged against the
8 costs from the October 2017 wind storm).
9 **Q. Please describe Schedule DLC-6.**
10 A. Page 1 of Schedule DLC-6 shows the calculation of the rate based on an annual
11 levelized cost divided by actual kWh sales for the 12 month period ending
12 December 31, 2017. Page 2 shows the costs, including carrying charges,
13 recovered on a levelized basis over a period of five years beginning May 1, 2018.
14 Page 3 shows the calculation of the beginning balance, including carrying
15 charges, to be recovered. The methodology for calculating the rate is the same as
16 used in previous storm recovery proposals.
17 **Q. Will the reconciliation of costs and revenues be performed on a monthly**
18 **basis?**
19 A. Yes. As discussed above, the Company will apply an allocated portion of actual
20 revenue from the SRAF to the May 1, 2018 balance. Carrying charges will be
21 calculated monthly based on the average monthly account balance.
22 **Q. Has the Company filed any tariff changes associated with this proposal?**

1 A. A redline and clean version of the Company's tariff, Schedule SRAF, is provided
2 to the cover letter of this filing. If approved, the Company will also update its
3 SRAF in its Summary of Delivery Service Rates tariff page through a compliance
4 filing.

5 **Q. What is the bill impact of this proposed rate change?**

6 A. Based on the decrease to the SRAF of $0.00020 per kWh, a residential customer
7 on Default Service using 600 kWh will see a bill decrease of $0.12 or 0.1%.

8 **VI. MAJOR STORM COST RESERVE**

9 **Q. Please provide a brief explanation of the MSCR.**

10 A. The MSCR was created as a result of the Company's 2010 rate case, Docket No.
11 DE 10-155. The MSCR fund recovers approved costs for restoring power and
12 repairing damage following major storms which meet certain criteria. The MSCR
13 Fund also allows Unitil Energy to recover costs associated with preparing for
14 storms forecasted to be major storms, but which do not materialize as originally
15 forecasted.

16 **Q. Please explain the current recovery level in base rates?**

17 A. The current MSCR recovery level is $800,000 per year. This level of recovery
18 was approved in Docket DE 13-065 in Order No. 25,502, issued on April 29,
19 2013.

20 **Q. What is the balance of the MSCR reserve fund at December 31, 2017?**

21 A. The deferral balance was $4,539,995 as of December 31, 2017.

1 **Q. How did the MSCR fund become significantly under-collected?**

2 A. The MSCR fund has ended each year in an under-collected position since its
3 inception in 2010. MSCR eligible storm costs have exceeded collections in six out
4 of the past eight years. This trend of costs surpassing collections has steadily
5 increased the deferral. The table below illustrates this trend, and shows how the
6 MSCR fund began 2018 with a $4,539,995 under-collected position.

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Beginning (Over)/Under Collection	$ 406,966	$ 1,161,973	$ 1,009,342	$ 2,862,064	$ 2,758,708
Storm Costs	1,374,471	593,310	2,521,986	572,142	2,438,860
Customer Revenue	666,667	800,000	800,000	800,000	800,000
Interest	47,203	54,059	130,737	124,502	142,427
Ending (Over)/Under Collection	$ 1,161,973	$ 1,009,342	$ 2,862,064	$ 2,758,708	$ 4,539,995

7

8 **Q. Does Unitil Energy consider the MSCR deferral to be acceptable going**
9 **forward?**

10 A. No, the Company does not consider the MSCR deferral position to be acceptable.
11 The 2018 beginning balance in the MSCR was $4,539,995. That balance, for
12 illustrative purposes, is 5.7 times the annual recovery amount of $800,000. So it
13 would take 5.7 years without a single storm for the Company to recover its
14 deferral balance. This would be an unrealistic expectation based on the
15 Company's historical storm experience since 2010, largely reflected in the table
16 above. Furthermore, the deferral balance reflects 6.3% of the Company's long-
17 term debt capitalization as of December 2017, which presents a large on-going

1 financing requirement for the Company, negatively impacting the Company's
2 credit statistics and potentially increasing the cost of borrowing. Overall, the
3 Company does not believe it is beneficial to the Company or its customers to
4 continue carrying a deferral of this magnitude.

5 **Q. Are there any other significant costs that will be deferred in the MSCR in**
6 **2018 not included in the MSCR deferral discussed above?**

7 A. Yes. The March 7-8, 2018 snow storm will be initially deferred in the MSCR.
8 Preliminary estimates show that the storm cost the Company approximately $2
9 million. While the Company has not determined if it will seek to include this
10 storm in the SRAF in 2019 (when the December 2008 and February 2010 storms
11 drop off), this storm provides further justification and historical evidence
12 supporting the Company's request to obtain accelerated recovery of the deferral
13 balance.

14 **Q. How do you recommend the MSCR deferral be reduced and recovered?**

15 A. The Company has a three pronged approach to reducing and recovering the
16 MSCR deferral. The first approach is to offset the MSCR reserve by the
17 Regulatory Liability of $769,342 that it has accrued due to the Tax Act. Again,
18 due to the size of the under-collection, the Company believes it to be appropriate
19 to offset the under-collection with this Regulatory Liability, which still ensures
20 ratepayers obtain the benefit of the tax reduction on January 1, 2018. The second
21 way the MSCR deferral will be reduced is by transferring $1,257,109 into the
22 SRAF mechanism as discussed above. This amount includes the cost of the storm

1 of $1,233,742 as well as $23,367 of capitalized carrying charges. Again, the
2 October 2017 wind storm is a qualifying storm and should be recovered through
3 the SRAF as an extraordinary storm. Lastly, the remaining MSCR deferral after
4 the Regulatory Liability offset and the SRAF transfer will be $2,601,427 as of
5 April 30, 2018. This balance is reflected in Schedule DLC-7 and reflects no
6 further storm activity or revenue recovery after February 2018 (i.e. March and
7 April 2018 storm activity and revenue recovery will be reflected in the MSCR in
8 normal course), so that a concrete balance can be obtained as of April 30, 2018 to
9 calculate accelerated recovery. The deferral as of April 30, 2018 is significant and
10 recovery should be escalated. The Company proposes that this remaining deferral
11 be amortized and collected over a roughly 9 year period beginning in May 2018.
12 The monthly amortization will be $29,402 which represents annual amortization
13 of $352,820. Schedule DLC-7 illustrates this proposal. This amortization amount
14 was calculated to achieve a net zero change to distribution rates after the 2018
15 Step Adjustment, the Tax Act and Recoupment (discussed below). The Company
16 believes a shorter amortization period would be more desirable and justifiable, but
17 believes that a net zero change in distribution rates is a reasonable and balanced
18 approach at this time.

19 **Q. Are you requesting a permanent increase to the current level of MSCR**
20 **amortization of $800,000?**

21 A. No, Unitil Energy is not requesting a permanent increase to the current level of
22 MSCR amortization of $800,000. This testimony has already demonstrated that

1 the historic MSCR eligible storm costs have consistently exceeded the allowed
2 $800,000 per year of recovery. However, as mentioned in Ms. Sankowich's
3 testimony, the Company is requesting an increase in SRP spending. SRP spending
4 should have an inverse effect on storm spending in the future. The Company
5 recommends a "wait-and-see" approach before recommending a permanent
6 increase to the MSCR level.

7 VII. RECOUPMENT, STORM RESILIENCY PROGRAM, AND VMP / REP 8 RECONCILIATION

9 **Q. Please explain the reduction in the revenue requirement for Recoupment?**
10 A. Recoupment revenue in the amount of $1,411,065 was recovered from customers
11 on a uniform per kWh basis from all classes for services rendered from May 1,
12 2017 through April 30, 2018. As provided in the Settlement Agreement in DE 16-
13 384, Recoupment revenue will no longer be collected as of May 1, 2018. That
14 will result in a reduction to distribution revenue of $1,411,065.
15 **Q. What is the forecast for Storm Resiliency Program costs in 2018?**
16 A. As indicated in Ms. Sankowich's testimony, the Company is proposing to
17 accelerate SRP spending in 2018 through 2020 by $474,333 annually. The
18 Company proposes to flow this possible under-collection through the External
19 Delivery Charge mechanism (versus a base rate increase) because Ms. Sankowich
20 believes that SRP costs will approximately return to test year levels after 2020.

1 **Q. Have you calculated 2017's reconciliation of vegetation management**
2 **program / reliability enhancement plan O&M expenditures?**
3 A. Yes. As required by Section 7.2 of the DE 16-384 Settlement, Unitil Energy will
4 continue to reconcile actual VMP and REP program O&M expenses for future
5 calendar years to an amount of $4,858,739. For calendar year 2017, the Company
6 spent $5,290,789 in VMP expense, $71,143 of REP expenses related to VMP, and
7 $220,000 for reliability inspection and maintenance for a grand total of
8 $5,581,932. In calendar year 2017, the Company collected $754,016 from
9 Fairpoint Communications, providing for a net total expenditure of $4,827,916.
10 The net expenditure of $4,827,916 is subtracted from the $4,858,739 for a total
11 over-collection of $30,823, which will be credited to the Company's External
12 Delivery Charge mechanism on May 1, 2018. Historically, the Company has
13 credited the VMP / REP reconciliation since 2014 when it began. Since 2014, the
14 Company has credited the External Delivery Charge for VMP / REP
15 reconciliations 5 out of 5 years, for a total credit of $2,254,232. The proposed
16 acceleration of the SRP and resulting increase in annual spending of $474,333
17 may result in a total VMP and REP expenditure greater than $4,858,739 annually,
18 depending upon the actual total amounts incurred for the VMP program, and the
19 offsetting amounts recovered from Fairpoint.

20 **VIII. EARNINGS SHARING AND EXOGENOUS EVENTS**

1 **Q. What was the Company's return on equity in 2017 per its F-1? Does the**
2 **Company qualify for earnings sharing in 2017?**
3 A. The Company's return on equity for 2017 was 8.09% as shown in Schedule DLC-
4 8. The Company does not qualify for earnings sharing in 2017.
5 **Q. Were there exogenous events in 2017?**
6 A. The Company believes that the Tax Act would qualify for an exogenous event
7 under its Settlement Agreement in Docket DE 16-384 which would imply a rate
8 effective date of May 1, 2018. However, the Company has implemented the Tax
9 Act revenue reduction effective January 1, 2018 in accordance with NH PUC
10 Order No. 26,906. The Company does not believe there were any other
11 exogenous events in 2017.

12 **IX. RATE DESIGN**

13 **Q. Please explain the rate design for each component a) 2018 Step Adjustment,**
14 **b) MSCR recovery, c) adjustments due to the Tax Act and d) Recoupment.**
15 A. Schedule DLC-9 shows the rate design from current rates to the rates proposed in
16 this filing for each of the individual adjustments. The current rates in column (c)
17 do not reflect the recoupment rate of $0.00116 per kWh since it was not shown
18 that way with the original settlement in DE 16-384. Rather, there is a line at the
19 bottom of the schedule showing the rate and $ and their removal on May 1, 2018.
20 Columns (d) – (f) show the rate design for the step adjustment of $3,302,989
21 which is done in accordance with the settlement and applied equi-proportionally

1 to all rate components except the fixed transformer ownership credits. The net of
2 the step adjustment and the removal of the recoupment is $1,891,924. Next, in
3 columns (g) – (i) the rate design for the MSCR Amortization is shown. The
4 adjustment amount of $352,820 is applied proportionally to each rate class in such
5 a way that customer charges and fixed transformer ownership discounts are left
6 unchanged. The increase is applied to distribution energy charges, demand
7 charges and outdoor lighting luminaire charges such that each class received the
8 same overall percent increase. Finally, the rate design for the Tax Act is shown in
9 columns (j) – (l). The adjustment amount of -$2,244,744 is applied proportionally
10 to each rate class in such a way that customer charges and fixed transformer
11 ownership discounts are left unchanged. The decrease is applied to distribution
12 energy charges, demand charges and outdoor lighting luminaire charges such that
13 each class received the same overall percent increase. The net of all the changes
14 proposed effective May 1, 2018 is $0.

15 **Q. Is the Company filing a revised Summary of Delivery Rates tariff schedule,**
16 **pages 4 and 5, at this time?**

17 A. No. Unitil Energy plans to make such a filing for effect May 1 as part of a
18 compliance tariff filing once rates included in this filing and those tariff changes
19 filed in Docket DE 18-029 on March 2, 2018 are approved.

20 **X. BILL IMPACTS**

21 **Q. What are the class bill impacts proposed for May 1, 2018?**

1 A. Bill impacts are computed and shown in Schedule DLC-10. These reflect the
2 distribution rates and the Storm Recovery Adjustment Factor as proposed in this
3 filing versus currently effective rates. As a result of this filing, a typical 600 kWh
4 residential customer on default energy service will see a monthly bill increase of
5 $0.12 or 0.1%. Impacts to other rate classes will be similar, but may vary based
6 on size and consumption pattern.

7 **XI. CONCLUSION**

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

9 A. Yes.