NORTHERN UTILITIES, INC.
NEW HAMPSHIRE DIVISION
NOVEMBER 2018/OCTOBER 2019 ANNUAL PERIOD COST OF GAS ADJUSTMENT FILING
PREFILED TESTIMONY OF
<u>JOSEPH F. CONNEELY</u>

I. INTRODUCTION

Q. Please state your name, business address, and position.

A. My name is Joseph F. Conneely. My business address is 6 Liberty Lane West, Hampton, New Hampshire.

Q. For whom do you work and in what capacity?

A. I am a Senior Regulatory Analyst for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's principal subsidiaries Fitchburg Gas and Electric Light Company, d/b/a Unitil ("FG&E"), Granite State Gas Transmission, Inc. ("Granite"), Northern Utilities, Inc. d/b/a Unitil ("Northern"), and Unitil Energy Systems, Inc. ("UES") (together "Unitil"). In this capacity I am responsible for managing and filing reporting requirements.

Q. Please summarize your professional and educational background.

A. I graduated from Saint Anselm College, Manchester, New Hampshire with a Bachelor of Arts degree in Financial Economics. I hold a Master's degree in Business Administration from the University of New Hampshire in Durham. Before joining Unitil, I worked for the Royal Bank of Scotland- Sempra Energy Trading Corp. joint venture ("RBS") in

Greenwich, Connecticut as a senior electricity and natural gas trader. Prior to working for RBS, I was employed as a mid-term electricity and natural gas trader at Morgan Stanley in New York City. Before this position at Morgan Stanley, I was employed as a trader at Shell Gas and Energy Trading North America in La Jolla, California. I joined Unitil in November 2008.

Q. Have you previously testified before the New Hampshire Public Utilities Commission?

A. Yes. I have testified in a similar role several times in the Company's Cost of Gas ("COG") Adjustment proceedings.

II. PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to introduce and describe Northern's (or "the Company") proposed changes to its Local Delivery Adjustment Charges ("LDAC") (Tariff Page No. 62). Northern is proposing changes to its LDAC for effect November 1, 2018 for the following components: Residential Low Income Assistance and Regulatory Assessment ("RLIARA") Costs Rate, Energy Efficiency Charge (EEC), Environmental Response Cost ("ERC") Rate, and Lost Revenue Rate ("LRR"). Also, at this time, Northern is proposing changes to its LDAC for effect May 1, 2019 for the following components: Rate Case Expense (RCE) Factor and Reconciliation of Permanent Changes (RPC) in

Distribution Rates. Lastly, Northern is not proposing to change the following LDAC component: Interruptible Transportation Margin (ITM).

My testimony also discusses the impact the proposed COG and LDAC changes have on customer bills during the 2018-2019 Winter and 2019 Summer Seasons.

Q. What are the Company's proposed LDAC surcharges?

A. The Company is submitting for approval an LDAC of $0.0683 per therm for the Residential Class and $0.0396 per therm for the Commercial/Industrial (C&I) Class effective November 1, 2018. Also, the Company is submitting for approval a lower LDAC of $0.0667 per therm for the Residential Class and $0.0380 per therm for the C&I Class effective May 1, 2019.

Q. Why is the LDAC lower effective May 1, 2019?

A. The decrease to the LDAC is due to the termination of the existing RCE and RPC rate components on April 30, 2019, per Commission Order No. 26,129 in Docket No. DG 17-070. The existing RCE included in the LDAC for both the Residential and C&I classes is $0.0029 per therm and the existing RPC is ($0.0013) per therm, a credit. Please note the Company will file a reconciliation of the entire RCE and RPC with the Commission in June 2019 and will include a recommended treatment for any over or under collection.

Q. Please describe the purpose of the RLIARA Rate.

A. The purpose of this rate is to allow the Company to recover revenue discounts associated with customers participating in the Residential Low Income Assistance (RLIA) Program, as well as the associated administrative costs of that program, pursuant to DG 05-076. This rate also recovers the non-distribution (or COG) portion of the annual NHPUC Regulatory Assessment (RA) to the Company. The RLIARA Rate is charged on all firm gas sales and firm delivery service throughput billed under the Company's sales and delivery service rate schedules.

Q. Please describe the proposed change to the RLIARA rate.

A. Northern is proposing to increase the RLIARA Rate from $0.0039 to $0.0044 per therm effective November 1, 2018.

Q. Could you describe the derivation of the proposed RLIARA Rate?

A. The RLIARA Rate is derived by estimating the Company's Low-Income Program costs from November 1, 2018 through October 31, 2019, the Regulatory Assessment costs from July 1, 2018 through June 30, 2019, and the total account ending balance as of October 31, 2018.

The Low-Income Program costs are estimated to be $327,569 and are shown on Schedule 16 RLIARA, Page 1 of 3, Line 21. Lines 1-21 explain the derivation of these costs. The estimated 2019 NHPUC Regulatory Assessment, $85,292, is shown on Schedule 16 RLIARA, Page 1 of 3, Line 24, and is based on the NHPUC invoice dated August 8,

2018. Page 3 of 3 of the schedule shows the assignment of the NHPUC annual Regulatory Assessment to distribution and non-distribution costs. The $368,964 assigned to distribution represents the amount established in the Company's Base Rate Case in Docket DG 17-070. The remainder, $85,292, is assigned to the COG.

Lastly, the projected over-collection ending balance of the RLIARA is ($81,089) as of October 31, 2018, and is derived as shown on Schedule 16 RLIARA, Page 2 of 3, of the schedule. The total amount of these three factors is $331,773, as shown on Page 1 of 3, line 25, of Schedule 16 RLIARA, and is divided by estimated weather-normalized firm therms billed to customers for the twelve-months ended October 31, 2019 to derive the proposed RLIARA charge of $0.0044 per therm.

Q. What is the purpose of the EEC?

A. The purpose of the EEC is to recover from customers, excluding those with Special Contracts, Energy Efficiency program costs and performance incentives.

Q. What are the changes being proposed to the EEC?

A. The Company is proposing to increase the EEC Rate for the Residential Class from $0.0433 per therm to $0.0501 per therm, and increase the charge for the C&I Class from $0.0184 per therm to $0.0264 per therm effective November 1, 2018.

Q. Please describe the reason for these proposed changes to and the derivation of the EEC.

A. The proposed changes to the EEC are necessitated by the implementation of Northern's 2019 Energy Efficiency program budgets. The budgets for the Residential and C&I classes are provided in Schedule 16 EEC, Page 1 of 4. They include expected monthly costs for the remainder of the 2018 year (July 2018 – October 2018, approved in Docket DE 17-136) and costs for 12 months of the 2019 year (November 2018 – October 2019). Further, the proposed changes to the EEC are necessitated by an expected over-collection in the November 1, 2018 beginning balance of the Residential class and an expected over-collection in the November 1, 2018 beginning balance of the C&I class. Please note that these beginning balances have been adjusted by $30,000 for the Residential class and $53,000 for C&I class. These adjustments, as seen on Schedule 16-EEC, Page 2 of 4, have been made in order to fund On Bill Financing to cover the customers' share of Energy Efficiency Costs. The adjustment is based on discussions with staff and is subject to an Order in Docket DE 17-136. Other factors impacting the expected November 1, 2018 beginning balances for each customer class are actual 2018 costs being higher than forecasted for the Residential class and lower than forecasted for the C&I class. This can be seen by reconciling the EEC cost forecasts in the 2017-2018 COG Docket No. 17-144 (Bates pages 271 and 272), with actual costs for the term November 2017 through June 2018.

The derivation of the EEC is provided in Schedule 16 EEC, Page 2 of 4. As shown, it is derived by customer class and includes an annual Reconciliation Adjustment of program costs, Performance Incentives and an adjustment for Low-Income discount costs. Supporting information regarding the development of the proposed EEC for the Residential Classes is provided in Schedule 16 EEC, Page 3 of 4, and Page 4 of 4 provides the support for the proposed C&I Class.

Please note the EEC Reconciliation Adjustments show actuals through June 2018 and estimates through October 2019 to correspond with the EEC Reconciliation (Attachment J3) filed by the Company on September 14, 2018 in the Docket DE 17-136, 2019 New Hampshire Statewide Energy Efficiency Plan Update.

Q. Please explain the purpose of the LRR?

A. The purpose of the LRR is to recover lost distribution revenue related to the Company's Energy Efficiency programs. This rate mechanism was established in accordance with Order No. 25,932 in DE 15-137 approving a Settlement Agreement which provides for the implementation of a Lost Revenue Rate adjustment mechanism.

Q. Please explain the calculation of the proposed LRR?

A. The calculation of the LRR is provided on Schedule 16-LRR. As shown on Page 1, the LRR for the Residential and C&I Classes is derived by adding projected annual lost revenue over the period November 1, 2018 through October 31, 2019, the expected October 31, 2018 reconciliation ending balance, projected interest on monthly over/under collections, and dividing by forecast firm annual throughput, by class. Page 2 provides the projected customer class monthly reconciliation of costs and revenue for the period

November 2018 through October 2019. Beginning monthly balances are shown on Lines 2 and 29 for the Residential and C&I classes, respectively, and ending monthly balances are shown on Lines 27 and 55, respectively. This page also provides the calculation of estimated lost distribution revenue based on estimated savings as seen on Lines 12 and 40. The Cumulative Savings-Prior, Page 2, Line 8, for Residential and Line 36 for C&I, are the estimated October 2018 ending balances as seen on Page 5, Lines 9 and 36. Page 3 provides the calculation of the Company's average distribution rates by sector, excluding customer charges. These average distribution rates are derived by taking seasonal averages of total volumetric revenue divided by total Winter and Summer Season therms, by class. Page 4 provides further detail for the estimated savings that are used in the calculation of lost revenue on Page 2. Page 6 shows the savings and lost revenue estimates based on the CY 2019. These do not include prior cumulative savings. The annualized therm savings are listed by month and are shown on Page 2, Line 4 for Residential and Line 33 for C&I starting in January 2019. The November and December 2018 annualized therm estimates are pulled from Page 4, Line 15, for Residential and Line 21 for C&I. The Incremental Monthly Savings as seen on Pages 2 and 5, Lines 5 and 33, are the Incremental Annualized Savings divided by 12 months. Please note the LRR reconciliations here include actuals through June 2018 to correspond with the LRR Reconciliation (Attachment J5) filed by the Company on September 14, 2018 in Docket DE 17-136, New Hampshire Statewide Energy Efficiency Plan Update.

Q. Please explain the purpose of Northern's ERC Rate.

A. The purpose of the ERC Rate is to recover expenditures associated with remediation of former manufactured gas plants. The ERC Rate is applied to all firm gas sales and firm delivery service billed under the Company's sales and delivery service rate schedules. The costs submitted for recovery through the ERC cost recovery mechanism are presented in the ERC Filing submitted in this Docket under separate cover.

The environmental investigation and remediation costs that underlie these expenses are the result of efforts by the Company to respond to its legal obligations with sites located in Exeter and Rochester, New Hampshire. In total, the Company has incurred environmental remediation costs of $283,143 from July 2017 through June 2018. A summary sheet and detailed backup spreadsheets supporting 2017-2018 costs are provided in the ERC Filing

Q. Please describe the change to Northern's ERC Rate that is proposed for effect November 1, 2018.

A. The current ERC Rate is $0.0060 per therm. Northern proposes to decrease this rate to $0.0058 per therm.

Q. Please explain the calculation of the proposed ERC Rate.

A. As stated above, during the period July 1, 2017 through June 30, 2018, ERC expenses totaled $283,143. Northern is allowed to recover one-seventh of the actual response costs incurred by the Company in a twelve-month period ending June 30 of each year until fully amortized over seven years, plus any insurance and third-party expenses for the year, or $429,241 (see table below). Due to an amortization of these costs, the ERC rate in this filing includes the current year and six prior years of unamortized amounts. Any insurance and third-party recoveries or other credits for the year are used to reduce the unamortized balance. The $429,241 shown on Page 1 of Schedule 16-ERC (this schedule is also Schedule 1 submitted by the Company in the Environmental Response Cost filing) is comprised of the following:

1/7/ ERC costs incurred July 2017 – June 2018	40,449
1/7th ERC costs incurred July 2016 - June 2017	$7,736
1/7th ERC costs incurred July 2015 - June 2016	$ 311,412
1/7th ERC costs incurred July 2014 - June 2015	$ 16,028
1/7th ERC costs incurred July 2013 - June 2014	$ 5,840
1/7th ERC costs incurred July 2012 - June 2013	$ 25,058
1/7th ERC costs incurred July 2011 - June 2012	$ 22,717
Total	$429,241*

In addition, the ERC Rate includes the prior period reconciliation of ERC costs. It is estimated to be an under collection of $5,894 on October 31, 2018, as shown on Schedule 16-ERC Page 2 of 2.

Given the above, ERC costs for the period of November 2018 through October 2019 are expected to $435,225. Dividing these recoverable ERC costs by projected total annual sales of 75,069,265 therms yields an ERC Rate of $0.0058 per therm. This calculation is illustrated in Schedule 16 ERC, Page 1 of 2.

Q. Does the proposed LDAC include a credit for Interruptible Transportation Margins?

A. No. The Company did not provide Interruptible Transportation service during the past year nor does it expect to provide any in the upcoming year. Therefore, Northern has not credited any actual or expected margins back to sales customers.

Q. Have you prepared typical bill analyses showing the impacts of the proposed COG and LDAC rate changes for effect on November 1, 2018 for typical residential heating gas customers?

A. Yes, Schedule 8, pages 1 through 5 provides the analyses. It shows that a typical residential heating customer consuming 618 therms during the 2018/2019 Winter Season will expect a bill of $1,093.11. This is an increase of $76.55, or 7.5% compared to the 2017/2018 Winter Season bill with the same consumption. However, this bill impact includes the change in the Company's base rates resulting from its last rate case. The increase in residential heating customer bills without that change is $28.56, or 3%.

Q. Have you prepared typical bill analyses showing the impacts of the proposed COG and LDAC for effect on May 1, 2019 for typical residential heating gas customers?

A. Yes, Schedule 8, pages 6 through 10 provides this analysis. It shows that a typical residential heating customer consuming 136 therms during the 2019 Summer Season will expect a bill of $266.98. This is a decrease of $2.91, or 1% compared to the 2018 Summer Season bill with the same consumption. Please note this bill impact is not affected by the Company's change in base rates because 2018 Summer Season rates include those approved in the Company's last rate case.

Q. Does this conclude your testimony?

A. Yes, it does.