

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY

OF

ROBERT B. HEVERT, CFA

EXHIBIT RBH-1

New Hampshire Public Utilities Commission

Docket No. DE 21-030

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LIST OF EXHIBITS

Exhibit RBH-2	Professional and Educational Background
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1 **I. INTRODUCTION**

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

3 A. My name is Robert Hevert. I am Senior Vice President, Chief Financial Officer and
4 Treasurer of Unitil Corporation. I also serve as a Senior Vice President for each of Unitil
5 Corporation's operating utility subsidiaries, including Unitil Energy Systems, Inc.
6 ("UES" or the "Company").

7 **Q. Please describe your professional experience and educational background.**

8 A. I have worked in regulated industries for over 30 years, having served as an executive
9 and manager with consulting firms, a financial officer of a publicly traded utility (at the
10 time, Bay State Gas Company), and an analyst at a telecommunications utility. As a
11 consultant, I advised energy and utility clients throughout North America on a wide range
12 of strategic, financial, regulatory, and economic issues, and provided testimony in more
13 than 300 proceedings across numerous jurisdictions, including the Commission, the
14 Federal Energy Regulatory Commission, the Province of Alberta, Canada, the American
15 Arbitration Association, and U.S. District Courts. In July 2020, I accepted my current
16 position with Unitil Corporation. My responsibilities include the management and
17 oversight of Unitil Corporation's finance, accounting, regulatory, legal, and energy
18 supply functions.

19 Regarding my educational background, I hold a Bachelor's degree in Business and
20 Economics from the University of Delaware, and a Masters of Business Administration,
21 with a concentration in Finance, from the University of Massachusetts, Amherst. I also

1 hold the Chartered Financial Analysts designation. A summary of my professional and
2 educational background is provided in Exhibit RBH-2.

3 **Q. What is the purpose of your Direct Testimony?**

4 A. The purpose of my testimony is to provide a brief summary of UES, including its
5 operations and strategic priorities, explain the key factors underlying our rate application,
6 summarize the key proposals contained in this filing, and introduce the witnesses
7 supporting the Company's proposed multi-year rate plan.

8 **Q. Were your Direct Testimony and Exhibits prepared by you or under your**
9 **direction?**

10 A. Yes, they were.

11 **II. EXECUTIVE SUMMARY**

12 **Q. Please summarize the Company's proposals in this proceeding, and the factors**
13 **motivating those proposals.**

14 A. This is a pivotal time for the electric distribution industry in general, and for UES in
15 particular. Energy technology is rapidly evolving, public policies addressing climate
16 change are quickly advancing, customer requirements are becoming increasingly
17 sophisticated, the need for enhanced physical and cyber security is growing, and system
18 reliability and resilience remain paramount. Those factors have changed how the electric
19 grid is used, and what will be demanded of it as customers more actively manage their
20 energy use, and adopt distributed resources, electric vehicles, and other advanced
21 technologies to reduce carbon emissions.

1 For over a decade, Unitil Corporation's objective has been to create the platform that will
2 enable those changes while providing the reliable and affordable service our customers
3 demand. Our day-to-day focus is on the strategic, operating, financial, and regulatory
4 priorities critical to that outcome. This application is among those priorities. Beyond
5 seeking needed rate relief, our application includes several initiatives to advance New
6 Hampshire's energy, environmental, and regulatory policies: Investments in grid
7 modernization and electric vehicle charging infrastructure; time of use rates to manage
8 whole-house electricity costs, and to minimize electric vehicle charging costs; and
9 Revenue Decoupling to mitigate the financial consequences of declining customer use
10 due to active and passive energy conservation.

11 Although our strategic priorities are forward-looking, we also focus intensely on near-
12 term cost control, operating excellence, and customer satisfaction. Those efforts are
13 reflected in our competitive delivery rates, continually improving reliability metrics,
14 widely recognized ability to provide mutual assistance in response to weather events, and
15 record high levels of customer and employee satisfaction. We are pleased to have
16 achieved those results despite the challenges created by the COVID-19 pandemic.

17 We also appreciate that the constructive regulatory environment in New Hampshire has
18 supported our ability to undertake a series of long-term initiatives designed to provide
19 exceptional service, and to advance our customers' ability to adopt new technology and
20 better manage their energy consumption. The multi-year rate plans the Commission has
21 approved in the past have been essential to our ability to commit capital and resources to
22 those initiatives, to our customers' ability to realize the benefits those commitments

1 bring, and to our collective ability to avoid the time and expense required by serial base
2 rate proceedings.

3 As in prior rate requests, the Company's revenue deficiency in this case is driven
4 principally by unrecovered costs associated with capital investments. Because the
5 fundamental factors driving our application in this case are similar to those underlying
6 our recent rate filings, we have proposed a comparable multi-year structure. Our
7 application in this proceeding includes a permanent rate request of approximately \$12.0
8 million, proposed temporary rates of about \$5.8 million, and a series of three step
9 adjustments to recover costs associated with non-growth related capital investments for
10 the calendar years 2021, 2022, and 2023. Consistent with the Commission's direction,
11 we propose a Revenue Decoupling Mechanism. And to support our customers' ability to
12 adopt electric vehicles and better manage their energy costs, we recommend a suite of
13 time varying rates, including rates applicable to electric vehicle charging.

14 Also consistent with prior multi-year rate plans, our application includes a suite of
15 customer protection provisions. Among other recommendations, we propose a Rate Cap
16 limiting the revenue increase in any given year to 2.50 percent of the prior year's total
17 electric operating revenue;¹ a Stay Out provision under which the Company would not
18 seek base rate adjustments, subject to certain exogenous events, through calendar year
19 2024; and an Earnings Sharing provision that would share earnings above 11.00 percent

¹ With revenue for externally supplied customers being adjusted by imputing the Company's default service charges for that period. Any amount of the revenue requirement above the 2.50 percent cap would be deferred at the overall rate of return determined in this docket.

1 (that is, 100 basis points above our proposed Return on Equity) equally between
2 distribution customers and the Company.² We also propose to apply approximately
3 \$2.64 million of Excess Accumulated Deferred Income taxes to the uncollected Major
4 Storm Cost Reserve balance (approximately \$3.28 million), significantly reducing the
5 uncollected balance without increasing customer rates.³

6 In addition to those measures, we deferred seeking rate relief beyond 2020, even though
7 our earned return had fallen more than 300 basis points below our 9.50 percent
8 authorized Return on Equity. Further, although our expert recommends a Return on
9 Equity of 10.20 percent, we propose 10.00 percent, toward the lower end of the
10 recommended range. Those decisions, together with the provisions summarized above
11 and our commitment to operating and capital cost management, intend to mitigate the rate
12 effect on customers.

13 As we discuss throughout this application, our objective has been to provide a series of
14 integrated proposals that balance the interests of our many stakeholders. We take
15 seriously our obligation to provide our customers with exemplary service, and our
16 responsibility to meet their evolving needs in the increasingly complex energy
17 environment. If approved, our multi-year rate plan will enable us to continue doing both.

² Under that structure, the Company would retain the risk of earnings below 10.00 percent unless the actual return fell below 7.00 percent, at which point the Company may seek base rate relief.

³ See, Testimony of Christopher J. Goulding and Daniel T. Nawazelski, at 35-36.

1 **III. OVERVIEW OF THE COMPANY’S OPERATIONS**

2 **Q. Please briefly summarize Unitil Corporation’s structure, and UES’s place within it.**

3 A. Incorporated in 1984 under the laws of New Hampshire, Unitil Corporation is a public
4 utility holding company whose principal business is the local distribution of electricity
5 and natural gas to approximately 192,600 customers. Those operations are carried out by
6 four wholly owned utility subsidiaries: Unitil Energy Systems, Inc., which provides
7 electric distribution service to approximately 77,200 customers in the seacoast and state
8 capital regions of New Hampshire; Fitchburg Gas and Electric Light Company
9 (“FG&E”), which provides electric and natural gas service to about 46,000 customers in
10 the greater Fitchburg area of north central Massachusetts; Northern Utilities, Inc.
11 (“Northern”), which provides natural gas service to approximately 69,400 customers in
12 southeastern New Hampshire, and portions of southern and central Maine; and Granite
13 State Gas Transmission, Inc. (“Granite State”), an interstate natural gas transmission
14 company serving Northern Utilities in New Hampshire and Maine.

15 Unitil Corporation also holds three non-utility subsidiaries: Unitil Service Corp. (“Unitil
16 Service”), which provides administrative and professional services, at cost, to its
17 corporate affiliates⁴; Unitil Realty Corp., which owns and manages Unitil Corporation’s
18 corporate headquarters in Hampton, New Hampshire; and Unitil Resources, Inc., which

⁴ Including regulatory, financial, accounting, human resources, engineering, operations, technology, and energy supply services.

1 had been the parent of Usource, an energy brokerage and advisory service that Unitil
2 Corporation divested in 2019.⁵

3 **Q. Are Unitil's utility operations geographically contiguous?**

4 A. Although UES and Northern serve common communities in the seacoast region, UES and
5 FG&E serve distinct geographic areas in New Hampshire and Massachusetts,
6 respectively.

7 **Q. Given that geographic footprint, are Unitil Corporation's utility subsidiaries
8 managed on a centralized basis?**

9 A. Yes, we manage our utility operations in a centralized, integrated manner through Unitil
10 Service. That organizational structure is designed to realize scale economies, eliminate
11 duplicate functions, share services and systems, and adopt best practices across corporate
12 affiliates.

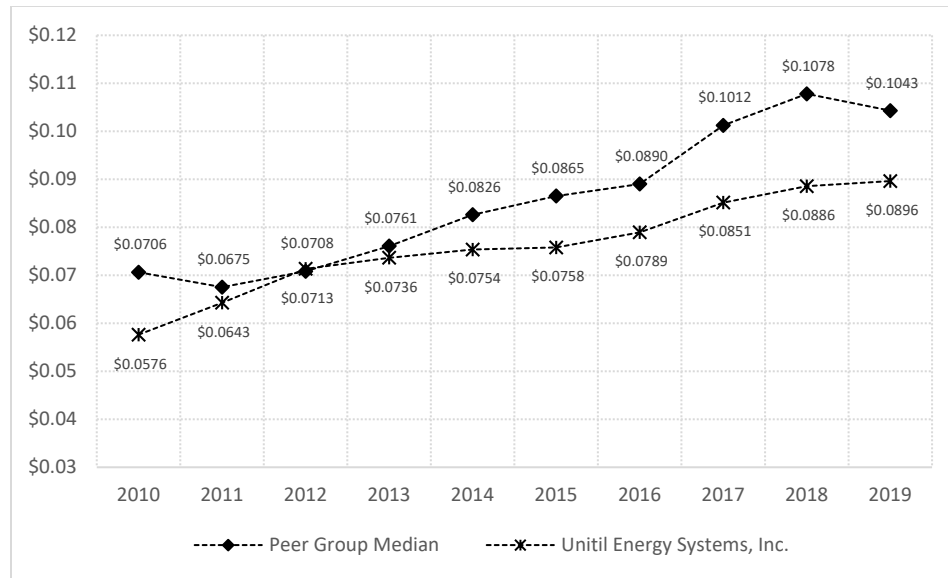
13 **Q. Has the Company's focus on operating and capital cost control benefited its
14 customers?**

15 A. Yes, in the form of lower rates. From 2010 through 2019 (the most recent period for
16 which comparative data is available), UES's average residential delivery rate (\$/kilowatt-

⁵ Unitil Corporation also holds Unitil Power Corp., which had functioned as the full requirements wholesale power supply provider for UES, but currently has limited business and operating activities. In connection with electric industry restructuring in New Hampshire, Unitil Power Corp. ceased being the wholesale supplier for UES in 2003, and divested substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

hour, or “kWh”) consistently remained below the median rate for other electric distribution utilities operating in our region (see Chart 1, below).

Chart 1: Average Residential Delivery Rate (\$/kWh)⁶



Even though we continuously manage our day-to-day operating costs and apply a rigorous capital budgeting process, the combination of increasing capital investments and decreasing customer use has put considerable pressure on UES’s earned returns. As Messrs. Goulding and Nawazelski note, the Company currently is earning far below its authorized return.⁷

⁶ Source: S&P Global Market Insight. Peer Group includes Central Maine Power Company, Liberty Utilities (Granite State Electric) Corp., Massachusetts Electric Company, Nantucket Electric Company, NSTAR Electric Company, Public Service Company of New Hampshire, Versant Power, Western Massachusetts Electric Company. Please note, Unitil Electric Service’s 2019 reported delivery rate (\$.0896) is consistent with the rate reported in the Company’s 2019 Form EIA 816, at 10.

⁷ Testimony of Christopher J. Goulding and Daniel T. Nawazelski, Filing Requirement Schedules, Page 12.

1 **Q. Has UES also continued to focus on operations and system reliability?**

2 A. Yes, it has. Mr. Sprague describes the Company's disciplined approach to reliability
3 planning, including the daily, weekly, monthly, and annual analyses we apply to
4 understand and address overall reliability performance. That approach has been
5 effective; the Company's SAIDI and SAIFI indices generally have declined over the past
6 ten years.⁸ Moreover, in 2020 Unitil Corporation (through its utility subsidiaries)
7 provided restoration aid to other local utilities after weather events eight times (a record
8 number for Unitil Corporation), most notably after Tropical Storm Isaias.⁹ That
9 commitment to assisting other utilities has been consistent over time - we have received
10 the EEI Mutual Assistance Award in three of the past four years.

11 **Q. Has the Company's Vegetation Management Program also supported its reliability**
12 **efforts and results?**

13 A. Yes, it has. Ms. Sankowich explains that our Vegetation Management Program focuses
14 on continuously improving reliability, customer satisfaction, safety, and maintenance
15 efficiency. It does so through four components, each of which is designed to minimize
16 the potential for contact between vegetation and utility lines. The Company's Storm
17 Resiliency Program, which complements our Vegetation Management Program, is
18 intended to reduce tree exposure along targeted circuits to improve system resilience
19 during major storm events. As Ms. Sankowich notes, by improving system reliability the

⁸ System Average Interruption Duration Index, System Average Interruption Frequency Index. See, Testimony of Kevin E. Sprague, at 3 – 5.

⁹ Following Tropical Storm Isaias, Unitil restored service to all customers within 24 hours.

1 Storm Resiliency Program intends to increase customer satisfaction, reduce safety risks,
2 and avoid costs during major storm events.¹⁰ Because its many benefits more than offset
3 its cost, we propose continuing the Storm Resiliency Program.¹¹

4 **Q. Is the Company's commitment to cost control and system reliability reflected in its**
5 **customer satisfaction rates?**

6 A. Yes, Unitil Corporation believes customer satisfaction is integrally related to cost, system
7 reliability, and service restoration. In 2020, our customer satisfaction rate reached an all-
8 time high of 93.00 percent, the highest among eight ranked utilities in the Northeastern
9 United States, and tenth of 114 utilities nationally.¹² Although we take a measure of
10 pride in our customer satisfaction and industry recognition, we take neither for granted.
11 Rather, we continuously focus on the operational excellence our customers expect. Many
12 of the initiatives we propose in this filing therefore intend to further enhance system
13 reliability and resilience.

14 **Q. Has Unitil Corporation's employee satisfaction also remained strong?**

15 A. Yes, it has. Despite the challenges presented by the COVID-19 pandemic, in 2020 we
16 achieved our highest-ever levels of employee pride and engagement:

¹⁰ Testimony of Sara M. Sankowich, at 21-22.

¹¹ Testimony of Sara M. Sankowich, at 23-24.

¹² 2020 Escalent CSAT Survey

- 1 • Approximately 90.00 percent of employees say they are proud to work at
- 2 Unitil Corporation;
- 3 • 91.00 percent of employees would recommend Unitil Corporation as a place
- 4 to work; and
- 5 • 93.00 percent of employees feel Unitil Corporation is a good corporate citizen
- 6 that cares about the community.¹³

7 We believe our strong employee satisfaction and pride also reflects Unitil Corporation's
8 response to the COVID-19 pandemic. Early in 2020, Unitil Corporation formed a task
9 force to track the virus and plan for its potential spread. By February, that team had
10 engaged all levels of Unitil Corporation's management and by early March, implemented
11 its plan and Incident Command Structure to respond to the emergency. By the time stay-
12 at-home orders were issued in our service territories, Unitil Corporation had established
13 and implemented extensive remote work capabilities. Our dispatch teams worked from
14 secure, distanced spaces in separate locations, we established an enhanced cleaning
15 protocol and staggered shift times to minimize the exposure of field personnel, and
16 acquired additional vehicles to limit employee capacity. Despite those challenges, we
17 continued to improve system reliability, maintained our focus on operating and capital
18 cost management, advanced our Grid Modernization strategy, and achieved record high
19 levels of customer and employee satisfaction.

¹³ Based on survey results among non-collective bargaining employees.

1 **Q. Lastly, was the COVID-19 pandemic a factor considered in determining when UES**
2 **would file its rate application?**

3 A. Yes, it was. Any decision to seek rate relief must consider the sometimes-competing
4 interests of multiple stakeholder groups, and how those interests are best served over the
5 long run. Although complicated under the best of circumstances, the economic stress and
6 prevailing uncertainty during 2020 weighed heavily in the Company's decision. There
7 was no question the COVID-19 pandemic had strained our customers and the
8 communities we serve. From that perspective, the decision to defer our rate filing was
9 straightforward. At the same time, all stakeholders have an interest in a financially
10 healthy utility, and further deferring rate relief would put greater pressure on the
11 Company's credit profile. We also appreciate that public policy-related objectives, for
12 example encouraging electric vehicle adoption through time of use rates, are best
13 supported by timely rate proposals.

14 On balance, we determined it was in our stakeholders' overall best interests to defer our
15 rate application beyond 2020, even though UES had earned far below its authorized
16 return. Given the extent of that earnings attrition and the importance of our planned
17 capital investments, however, we could not defer the filing date beyond early 2021. Still,
18 we are conscious of this filing's rate effects for our customers and as such, our proposal
19 contains specific rate mitigation and ratepayer protection measures. We believe those
20 measures, along with our continuing commitment to cost control and operating
21 performance, will ensure our rates remain reasonable as we invest the capital needed to
22 maintain a safe, reliable, resilient, and advanced electric grid.

1 **IV. FACTORS UNDERLYING THE COMPANY'S RATE APPLICATION**

2 **A. The Company's 2016 Rate Application**

3 **Q. Are the factors underlying the Company's application in this case similar to those in**
4 **DE 16-384?**

5 A. Yes, our request in this case is driven in large part by factors that likewise motivated our
6 2016 application: (1) significant earnings attrition associated with unrecovered capital
7 investments during and since the Company's last multi-year rate plan; (2) timely recovery
8 of future capital investments in the plant and equipment needed to modernize the
9 distribution system and ensure its continued reliability; (3) rate design enhancements
10 needed to support our customers' changing preferences, and to provide the revenue
11 required to support our operations and investments; and (4) ratepayer protection
12 provisions intended to temper the rate effect on our customers.

13 **Q. Please summarize UES's last multi-year rate application.**

14 A. The Company's most recent application, docketed as DE 16-384, was filed on April 29,
15 2016. In that case, UES requested a base rate increase of approximately \$6.3 million,
16 with a temporary rate increase of about \$3.0 million (subject to refund or recoupment).
17 Similar to the multi-year structure included in its 2010 filing (DE 10-055), in its 2016
18 case the Company proposed a series of five step adjustments that would become effective
19 on May 1st of each year from 2017 through 2021, reflecting capital additions made during
20 the calendar years 2016 through 2020. The revenue requirement associated with those
21 step adjustments included only the pre-tax rate of return, depreciation and amortization,

1 and property taxes on the incremental non-revenue producing capital invested each rate
2 year. As measures of customer benefits and protection, the multi-year plan included a
3 2.00 percent limit on rate increases in any year during the plan, an Earnings Sharing
4 Mechanism, and a Stay Out provision prohibiting the Company from filing a general rate
5 case before 2021.¹⁴

6 On June 28, 2016, the Commission approved a stipulation and settlement agreement
7 among the Company, Commission Staff (“Staff”), and the Office of Consumer Advocate
8 (“OCA”) setting temporary revenue at about \$2.4 million, effective July 1, 2016.¹⁵ In
9 February 2017, Staff filed a comprehensive settlement agreement among the Company,
10 the OCA, and Staff resolving all contested issues in the case (the “Settlement”).¹⁶ Among
11 other things, the Settlement provided a permanent distribution rate increase of
12 approximately \$4.1 million, and three step adjustments reflecting: (1) additions to net
13 plant through calendar year 2016, with rates effective May 1, 2017; (2) 80.00 percent of
14 changes in net plant during calendar year 2017 with rates effective May 1, 2018; and (3)
15 80.00 percent of changes in net plant during calendar year 2018, with rates effective May
16 1, 2019.¹⁷ The sum of rate increases under the three step adjustments would not exceed
17 \$4.5 million.

¹⁴ Docket No. 16-384, Collin Testimony at 22.

¹⁵ Docket No. 16-384, Order No. 25,915 at 4, 8.

¹⁶ Docket No. 16-384, Exhibit 12.

¹⁷ The first step adjustment includes approximately \$1.7 million of revenue to recoup the difference between temporary rates (\$2.4 million) and permanent rates (\$4.1 million). See, State Of New Hampshire Public Utilities Commission DE 16-384, Unitil Energy Systems, Inc., Petition for Distribution Rate Increase Order Approving Settlement Agreement Order No. 26,007, April 20, 2017, at 8.

1 The Settlement also included a Stay Out provision prohibiting the Company from filing a
2 general rate case before December 31, 2019 unless its reported earned Return on
3 Common Equity fell below 7.00 percent, and an Earnings Sharing Mechanism under
4 which 50.00 percent of earnings in excess of a 10.50 percent Return on Equity (“ROE”)
5 would be returned to customers.¹⁸ Lastly, the Settlement included a provision for
6 Exogenous Events, which would adjust rates upward or downward in response to
7 “actions of state or federal government agencies, regulatory cost reassignments, or
8 changes in accounting rules” of at least \$200,000.¹⁹ In Order No. 25,007 the Commission
9 approved the Settlement, noting its continuing preference for disputed issues to be
10 resolved through negotiation and compromise.

11 **Q. Did the Company’s filing in Docket 16-384 explain the factors underlying its need to**
12 **seek rate relief?**

13 A. Yes, UES explained that although the step adjustments approved in DE 10-055 helped
14 moderate earnings attrition, it continued to invest capital beyond 2014, the rate year for
15 the final step adjustment in that docket. The Company further explained that since 2010,
16 kilowatt-hour unit sales essentially had remained flat, and customers grew at an annual
17 rate of 0.50 percent. The combination of low customer growth and flat use per customer
18 limited the Company’s revenue growth. At the same time, continuing investments in

¹⁸ State Of New Hampshire Public Utilities Commission DE 16-384, Unitil Energy Systems, Inc., Petition for Distribution Rate Increase Order Approving Settlement Agreement Order No. 26,007, April 20, 2017, at 9 - 10.

¹⁹ State Of New Hampshire Public Utilities Commission DE 16-384, Unitil Energy Systems, Inc., Petition for Distribution Rate Increase Order Approving Settlement Agreement Order No. 26,007, April 20, 2017, at 12 – 13.

1 non-revenue producing assets caused its fixed costs - principally depreciation, property
2 taxes, and required returns - to increase. The increasing fixed costs, together with
3 ongoing inflationary pressures on operating expenses, forced the Company's costs to
4 increase faster than its revenues. The resulting earnings attrition continued despite the
5 Company's focus on cost controls.²⁰

6 **B. Continuing Earnings Attrition**

7 **Q. Please explain the term “earnings attrition”, and how it applies to utilities such as**
8 **UES.**

9 A. In general, earnings attrition is the decline in returns that occurs when revenues do not
10 keep pace with costs. Like all utilities, UES is a capital-intensive enterprise, requiring
11 ongoing investments in long-lived physical assets and incurring the fixed costs associated
12 with them. Companies operating in capital-intensive sectors tend to share two traits: they
13 have relatively high proportions of fixed to variable costs (that is, they have relatively
14 high degrees of “operating leverage”), and they produce fewer dollars of revenue for each
15 dollar of invested assets than firms operating in other sectors.²¹

16 As with financial leverage, operating leverage tends to magnify the effect of changes in
17 revenue on operating income. Intuitively, if revenues fall, the larger portion of a utility's
18 cost structure, its fixed costs, will remain and its earnings will fall at a faster rate. That is
19 a particular concern when utility rates are substantially volumetric and use per customer

²⁰ See, Docket DE 16-384, Testimony of Mark H. Collin, at 9 – 13.

²¹ See, e.g., J. Fred Weston, Eugene F. Brigham, Essentials of Managerial Finance, 9th Ed., The Dryden Press, 1990, at 371 – 373. See, also, Testimony of Ronald J. Amen, at 13 – 14.

1 declines. In that case, even if the customer count increases and operating costs are well-
2 managed, revenue may not increase keep pace with costs, leading to earnings attrition.

3 The second characteristic of capital intensity, the tendency to produce relatively little
4 revenue for each dollar of assets, speaks to the need for timely recovery of invested
5 capital. Here too, the reasoning is intuitive: Absent timely recovery, revenue will not be
6 sufficient to cover incremental costs, leading to earnings attrition.

7 **Q. Has the Company's ongoing capital investments led to continued earnings attrition?**

8 A. Yes, it has. The Company's calculated revenue deficiency is driven largely by
9 unrecovered costs associated with capital investments not included in the step
10 adjustments provided in the Company's last multi-year rate filing²², and investments
11 made since 2018, the last rate year reflected in those adjustments. Since the Company's
12 filing in DE 16-384, which included a pro forma 2015 test year, UES has invested
13 approximately \$124.79 million in its distribution system. Although the multi-year rate
14 filing approved in that case provided a measure of cost recovery, about \$88.08 million of
15 those investments (approximately 71.00 percent) have not been recovered under any rate
16 mechanism.

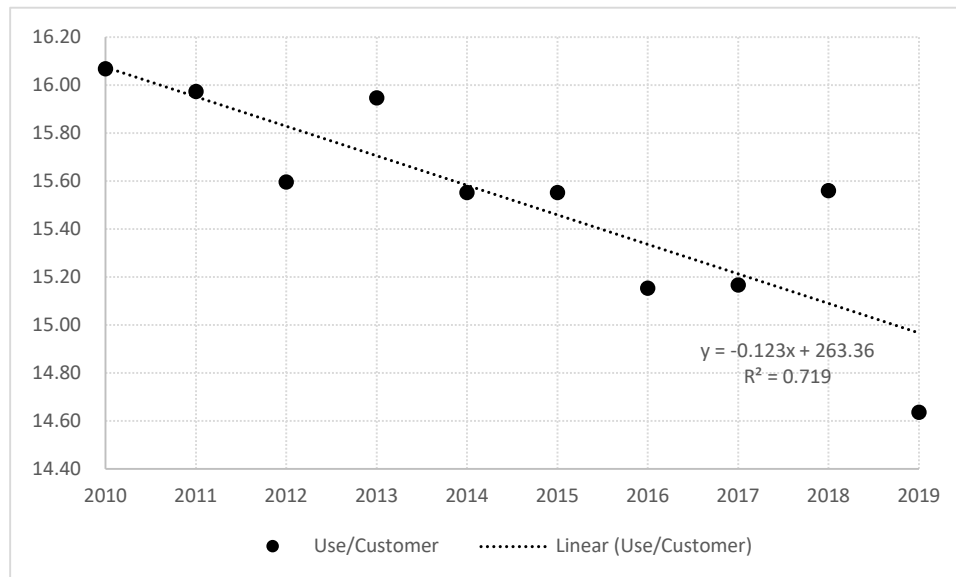
17 **Q. Have the Company's customers and sales volumes increased over time?**

18 A. Although UES has been able to steadily increase its number of customers, sales volumes
19 have fallen. From 2010 through 2019, customers grew at an average annual rate of about

²² The Settlement Agreement limited the second step adjustment to the revenue requirement associated with 80.00 percent of changes in Net Plant in Service over the prior year, and the third adjustment to no more than 80.00 percent. The sum of the three step adjustments (including 2017, 2018, 2019) would not exceed \$4.5 million. *See*, DE 16-384, Order No. 26,007, at 8.

0.43 percent, whereas volumes declined at an annual rate of negative 0.58 percent. More recently (2016 through 2019) customers increased at average annual rate of 0.40 percent and volumes declined by negative 1.07 percent. The combination of increasing customers and lower total volumes has led to consistently declining use per customer (see Chart 2, below).

Chart 2: Use per Customer (MWh)²³



Nonetheless, we have continued to invest in the assets and systems needed to provide our customers the information they require to manage their energy use.²⁴ Because our Grid Modernization investments will support a growing number of customers able to consume

²³ Source: S&P Global Market Insights

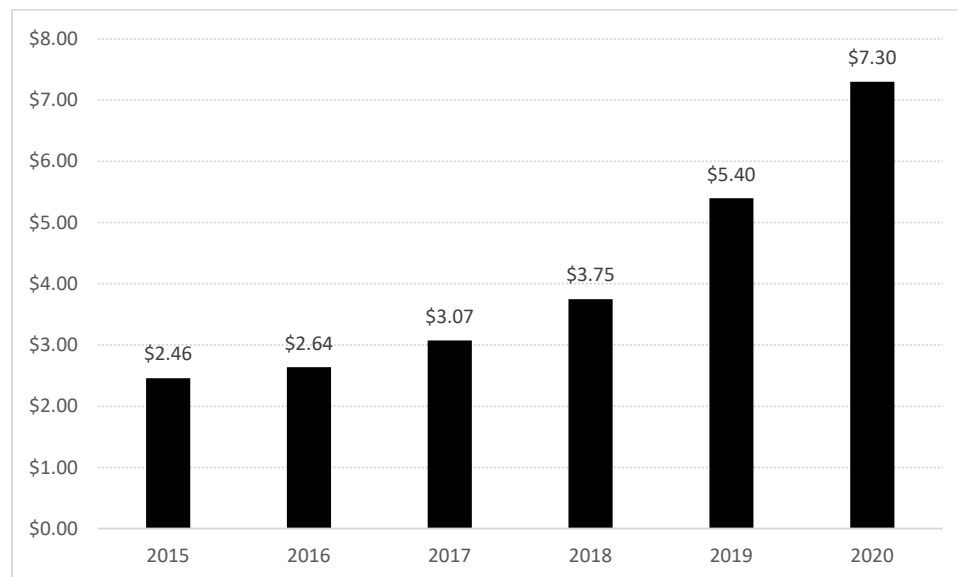
²⁴ The correlation between the number of customers and the Company's net plant has been positive 96.00 percent, whereas the correlation between the sales volumes and net plant has been negative 34.00 percent. Source: S&P Global Market Insights

1 less electricity, absent the timely recovery of those costs our future earnings and cash
2 flows will be further diluted.²⁵

3 **Q. Beyond its Grid Modernization initiatives, has the Company continued to support**
4 **end-use energy efficiency programs?**

5 A. Yes, it has. Since 2016, UES has committed over \$22 million to end-use energy
6 efficiency programs. That commitment has accelerated considerably over the past five
7 years, increasing from about \$2.6 million in 2016 to nearly \$7.3 million in 2020 (see
8 Chart 3, below).

9 **Chart 3: Annual Energy Efficiency Spending (\$millions)²⁶**



10
11 Although we certainly support public policy objectives relating to energy conservation,
12 our existing rate design, including the Lost Revenue Adjustment Mechanism, may leave

²⁵ Mr. Diggins addresses in more detail the effect of cash flow erosion on the Company's credit metrics, and its ability to efficiently access capital markets.

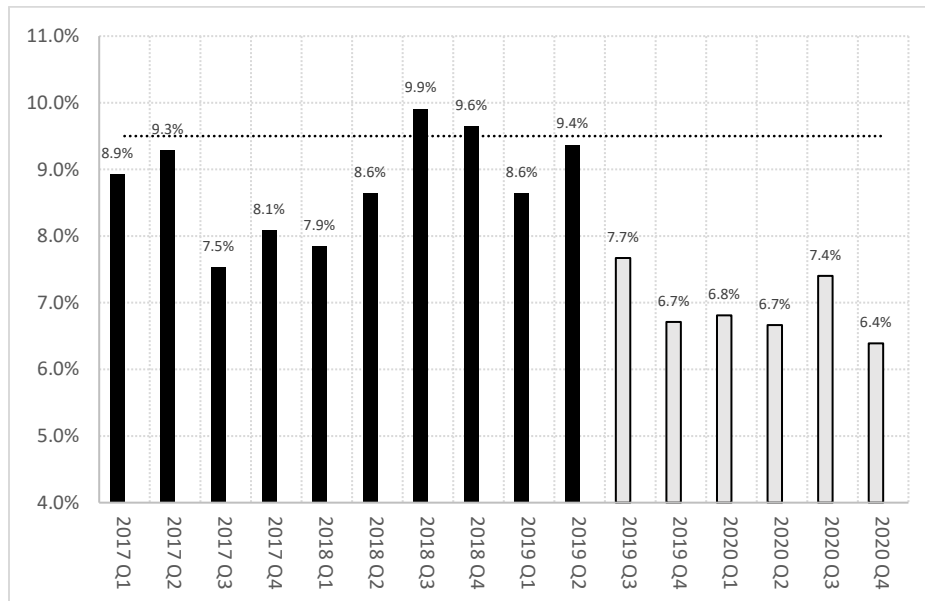
²⁶ FERC Account 908, Customer Assistance Expenses. Program costs and performance incentives are recovered through the System Benefits Charge.

1 the customers and the Company susceptible to variations in volumes. As Mr. Lyons
2 explains, that variation, together with the misalignment between volumetric-based utility
3 rates and the fixed nature of utility cost structures, motivates our proposed Revenue
4 Decoupling Mechanism.

5 **Q. Has the combination of declining use and increasing investments eroded the**
6 **Company's earnings?**

7 A. Yes, it has. Since the third calendar quarter of 2019 (when the last step adjustment
8 approved under DE 16-384 became effective), the Company's earned Return on Equity
9 has fallen considerably, and remains well below the 9.50 percent return authorized in that
10 case (see Chart 4, below). In fact, over the six calendar quarters following the last step
11 adjustment, the Company's average earned ROE was 7.46 percent, 204 basis points
12 below the authorized level. During the most recent quarter (the fourth quarter of 2020)
13 the Company under-earned its authorized return by more than 300 basis points.

Chart 4: UES Earned ROE (2017 – 2020)²⁷



Q. What steps has the Company taken to mitigate earnings attrition?

A. UES has focused on cost management and supporting customer growth. As discussed earlier, Unitil Corporation manages its utility operations in a centralized manner, realizing efficiencies from scale economies, avoiding duplicate activities, and adopting best practices. Those efforts are reflected in Operating and Maintenance (“O&M”) cost levels that, since 2015, increased at an annual average rate of only 1.60 percent.²⁸ As a point of reference, over the same period the average annual (regional) inflation rate was about 2.20 percent.²⁹

²⁷ Provided in Company FERC Form 1 or FERC Form 3Q per PUC 308.11 F-1 Supplemental Quarterly Financial and Sales Information.

²⁸ Refers to Unitil Energy Systems O&M expense. Excludes Total Power Supply Expense, Total Transmission Expense, Total Regional Transmission and Market Operations Expense, Customer Assistance Expenses.

²⁹ Source: Federal Reserve Bank of St. Louis Economic Research, data series CUURA103SA0. Annual inflation measured as year-over-year increase as of January 1.

1 Although the Company has successfully managed its operating expenses, fixed costs arise
2 from capital investments. It is for that reason our capital investment plan undergoes a
3 rigorous budgeting and approval process. Ours is a “bottom-up”, multi-step, iterative
4 approach structured to evaluate and prioritize projects offering the most cost-effective
5 means of providing safe and reliable electric distribution service. The process requires
6 multiple rounds and levels of evaluation on a project-by-project basis, culminating in
7 review and approval by Unitil Corporation’s senior management, and Board of Directors.
8 Even after the overall capital budget is approved, each project must be authorized before
9 budgeted funds may be invested.³⁰

10 **Q. Are those factors (*i.e.*, declining use per customer, increasing capital investments,**
11 **and operating cost control) reflected in the Company’s proposed rate structures?**

12 A. Yes, they are. As explained above, our proposed base rate increase and annual step
13 adjustments are driven by past capital investments not yet included in rates, and future
14 capital investments required to maintain and modernize the electric distribution system.
15 They are not principally driven by operating cost increases. And as discussed below, our
16 proposed rate structures, including the proposed Revenue Decoupling, and Time of Use
17 rate structures, address declining customer use and evolving customer preferences.

³⁰ Exceptions may occur during an unforeseen emergency that requires capital spending to ensure public safety, or to restore service. *See*, also, Testimony of Kevin E. Sprague, at 8 – 13.

1 **C. Investments in the Advanced Energy Grid**

2 **Q. Before discussing the Company's Grid Modernization investments, please briefly**
3 **summarize how the operating environment for electric distribution utilities has**
4 **evolved.**

5 A. Like other electric distribution utilities, UES operates in an environment in which energy-
6 related technology and stakeholder interests are evolving at an accelerating rate.
7 Advancements in technology, evolving public policy regarding climate change, and
8 increasingly sophisticated customer preferences have changed how the electric grid will
9 be used, and what will be asked of it. Those factors, together with the attendant need for
10 enhanced physical and cyber security, and the continuing need to ensure system
11 reliability, are rapidly transforming the longstanding model of energy delivery. In short,
12 customers now expect a more reliable and resilient electric grid as protection from the
13 increasing frequency and severity of climate change-induced weather events, a broader
14 array of information made available by the transition to digital technology, and the ability
15 to adopt distributed energy resources, electric vehicles, and other technology to manage
16 end use and reduce carbon emissions.

17 **Q. What are the implications of those changes for the Company's operations?**

18 A. Rather than operating under the traditional model in which utilities provide the one-way
19 distribution of energy, electric distribution companies now must manage a grid that
20 provides safe and reliable service to customers that both consume and produce power,
21 accommodates a growing range of distributed energy resources, accommodates evolving

1 end-use technology, and transmits information allowing customers and producers to
2 optimize their energy-related decisions.

3 The electric grid must become the platform enabling the efficient and reliable two-way
4 flow of electricity and information; it must provide customers greater control over energy
5 use, enable distributed renewable energy resources, enhance system reliability and
6 resilience, and advance system security.³¹ As Mr. Sprague explains, “foundational”
7 investments in Information Technology and Operational Technology are required to
8 establish and maintain that platform. Those investments, together with specific
9 ratemaking and customer-facing initiatives, form the basis of the Company’s Grid
10 Modernization plan.

11 **Q. Please provide an overview of the Company’s Grid Modernization plan, and how it**
12 **addresses the interests of the Company’s stakeholders.**

13 A. Let me begin by noting that our stakeholders represent varied groups, including our
14 customers, employees, investors, the communities we serve, state and federal policy
15 makers, environmental and consumer advocacy organizations, and others. Though
16 diverse, our stakeholders have a common interest in an electric distribution system that
17 provides safe, reliable, and affordable electric service in a manner that supports public
18 policy, encourages technological innovation, enables energy use optimization, and
19 enhances customer experience.

³¹ See, also, *Unitil’s 2020 Sustainability Report*, <https://unitil.com/2020-Sustainability-Report/11/>

1 That common interest, which complements our vision of the advanced electric grid, is
2 supported by a series of eight foundational objectives Unitil Corporation has developed
3 with guidance from the Commission, the Massachusetts Department of Public Utilities,
4 and the United States Department of Energy.³² Unitil Corporation, and UES, have
5 looked to those objectives in developing the Company's Grid Modernization plan, which
6 includes six fundamental initiatives:

7 1. *Grid Intelligence*: With the continuing integration of distributed, variable, and
8 renewable resources on the distribution system, and increased focus on
9 electric vehicles, increased visibility into and control of the distribution
10 system is essential. System optimization and the efficient use of grid
11 resources is an increasingly critical element of providing a safe, reliable,
12 sustainable, and cost-effective electric distribution system. The Company's
13 vision of Grid Intelligence includes centralized information systems and field
14 devices supporting Advanced Distribution Management Systems, Distributed
15 Energy Resources Management Systems, Outage Management Systems, the
16 Supervisory Control and Data Acquisition ("SCADA") system, Volt/Var
17 Optimization, and the further integration of Advanced Metering Infrastructure.

18 2. *Advanced Metering Functionality ("AMF")*: AMF provides the platform to
19 measure and provide detailed, granular interval metering data for individual

³² See, Testimony of Kevin E. Sprague, at 38-39 (the eight objectives are: Environmentally Friendly; Safety and Reliability; Customer Service; Security; Flexibility; Affordability; Demand and Asset Optimization; and Technology Innovation).

1 customers. That platform is enabled by investments in Advanced Metering
2 Infrastructure, which automatically measures and reports electric usage;
3 Interval Metering, a more granular record of energy consumption during
4 regular intervals; and Metering Data Management Systems, which processes
5 and manages meter operations data, and facilitates the integration of that data
6 with other systems including Customer Information, and Outage Management
7 Systems.

8 3. *Distributed Energy Resources (“DER”)*³³: The Company’s vision of an
9 advanced energy grid enables the interconnection of large numbers of
10 renewable and other distributed energy resources. Integrating large and
11 growing, numbers of renewable and intermittent resources requires
12 investments in advanced monitoring and control technology to evaluate and
13 optimize distribution system use in real time.

14 4. *Advanced System Planning and Forecasting*: Advanced system planning and
15 forecasting methods enable system optimization by taking into account
16 intermittent generation and controllable load resources. Forecasting
17 distributed energy resources and electrification technologies (for example,
18 electric vehicles) is critical to their adoption. The Company has implemented
19 several systems to enable accurate, real-time forecasting, including: Advanced
20 Geographic Information Systems (“GIS”), which provide spatial

³³ Generally speaking, Distributed Energy Resources are electricity producing resources connected to the distribution system.

1 representations of the distribution system, and the resources connected to it;
2 Real-Time System Planning processes that depend on the Advanced
3 Distribution Management, Distributed Energy Resource Management,
4 SCADA, and Volt/Var Optimization Systems; DER Forecasting methods,
5 which rely on spatial GIS systems to ensure the system is prepared to
6 interconnect DERs; Electrification Forecasting methods; Hosting Capacity
7 Analysis to more efficiently evaluate the capacity of a given substation or
8 feeder line to “host” a given amount of distributed resources; and Locational
9 Value Analysis, which assesses the value a distributed resource creates for the
10 overall system.

11 5. *Enhanced Customer Services:* To ensure customers are able to derive the
12 greatest possible value from the modernized energy grid, Unitil Service will
13 continue to enhance our customer web portal, adding self-service options that
14 enable customers to better manage their energy usage and accounts. Looking
15 forward, our portal will extend customer value by providing more
16 personalized options to address their individual needs.

17 6. *Innovative Rate Design:* The overarching objective of rate design is to develop
18 pricing that adheres to the basic principles of fairness, transparency, and
19 economic efficiency. Such structures will encourage behavior consistent with

1 policy objectives, establish equity among customers, and provide revenue

2 sufficient to support the investments needed to modernize the electric grid.³⁴

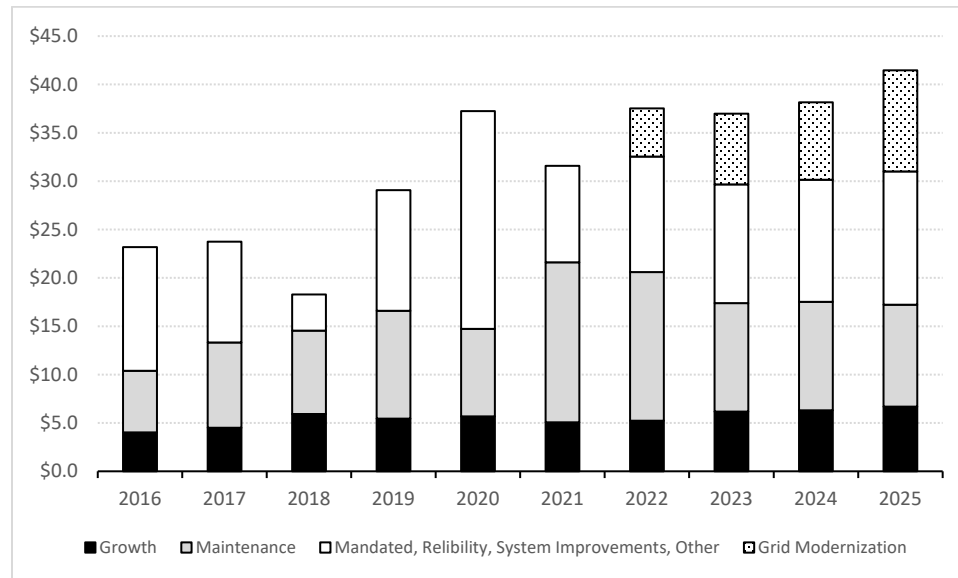
3 To be clear, we recognize that no single, definitive construct of the future electric grid
4 has emerged. Our approach therefore considers the range of capabilities that will be
5 required to develop and support the modernized electric grid. That is what we have done,
6 and will continue to do. Taken together, the six categories of initiatives summarized
7 above provide the capabilities and support the platform required to meet our
8 stakeholders' growing expectations: Integrating advanced energy solutions, including
9 distributed resources; reducing service interruptions; realizing shorter restoration times,
10 in particular following major weather events; reducing greenhouse gas emissions;
11 maintaining service affordability; and providing compensatory returns to our investors.

12 **Q. With those objectives in mind, are investments in Grid Modernization likely to**
13 **increase over the coming three to five years?**

14 A. Yes, they are. As Chart 5, below, indicates, beginning in 2022, Grid Modernization
15 investments become an increasingly large portion of the Company's overall capital
16 investment plan.

³⁴ See, Testimony of Kevin E. Sprague, at 39 – 44.

Chart 5: Components of Capital Investments (\$millions)³⁵



D. Rate Design Enhancements

Q. Please summarize the rate design enhancements included in the Company’s application.

A. Our application includes a proposed Revenue Decoupling Mechanism, and a suite of Time of Use rate offerings. In each case, the proposed rate structure supports policy objectives or directives established by the Commission, is consistent with the Company’s goal of designing and implementing fair, transparent, and economically efficient rates, and provides a foundation for realizing the benefits enabled by an advanced electric grid.

Q. Why is the Company proposing a Revenue Decoupling Structure in this proceeding?

A. In Order No. 25,932 (Docket DE 15-137) the Commission required utilities to seek approval of a decoupling or other “lost revenue recovery mechanism” as an alternative to

³⁵ Source: Exhibit KES-2.

1 the existing Lost Revenue Adjustment Mechanisms (“LRAMs”). That requirement,
2 which was recommended by the Settling Parties in Docket DE 15-137, applied to any
3 distribution rate case “after the first EERS triennium, if not before.”³⁶ Because the
4 Company filed its application in DE 16-384 before that Order was issued, this case is our
5 first opportunity to seek approval of a decoupling mechanism.

6 Beyond complying with that procedural directive, the Company agrees with the
7 Commission’s observations regarding decoupling structures, and the benefits they
8 provide. As the Commission noted, LRAMs were meant to recover the portion of utility
9 revenue requirements lost to energy efficiency activities. That is (as the Joint Utilities
10 observed), an LRAM would set the utility in the position contemplated by the approved
11 revenue requirement, but for efficiency activities; it was intended to isolate the revenue
12 effect of efficiency.³⁷ At the same time, because a large portion of utility rates are
13 consumption-based, if sales were to increase it is possible that under an LRAM, revenues
14 could exceed the revenue requirement.³⁸

15 Whereas consumption-based pricing structures may create a “throughput incentive” to
16 recover fixed and variable costs through increased sales volumes, revenue decoupling
17 structures do not. Rather, revenue decoupling removes the financial disincentive to
18 pursue initiatives intended to reduce consumption.³⁹ That distinction is significant, given
19 the Company’s objective to enhance our customers’ ability to manage their energy use.

³⁶ Docket DE 15-137, Order No. 25,932, at 60. *See, also*, Testimony of Timothy S. Lyons, at 4 – 5.

³⁷ *See*, Docket DE 15-137, Order No. 25,932, at 26-27.

³⁸ Docket DE 15-137, Order No. 25,932, at 59. *See, also*, Direct Testimony of Timothy S. Lyons, at 8.

³⁹ *See*, Direct Testimony of Timothy S. Lyons, at 11.

1 Our proposed Revenue Decoupling Mechanism therefore supports public policy
2 objectives surrounding energy conservation, and is integral to our Grid Modernization
3 plan.

4 **Q. Lastly, please explain the strategic importance of the Company's proposed Time of**
5 **Use rate structures.**

6 A. As discussed above, the Company's Grid Modernization plan has several objectives,
7 among them addressing climate change through the adoption of end-use technologies
8 such as electric vehicles and distributed energy resources, and encouraging time-based
9 energy consumption. In that respect, we encourage customers to actively manage their
10 energy use, and to actively participate in the energy markets. Rate design is important to
11 both. Our proposal therefore provides a suite of time-varying rates, including a
12 residential "whole house" time of use rate, and separately metered electric vehicle time of
13 use rates for residential and small and large general service customers.

14 The proposed residential whole-house time of use rate enables customers to optimize
15 their energy consumption. It also provides a time-varying rate structure for electric
16 vehicle customers with their own charging equipment, and enables a transition to
17 separately metered rates, if desired. As Ms. Carroll, Mr. Simpson, and Ms. Valianti
18 explain, such rate options may be important to residential customers who wish to manage
19 their costs by reducing consumption during peak periods.

20 Ms. Carroll, Mr. Simpson, and Ms. Valianti also explain that broad electric vehicle
21 adoption will depend on rate design, and the availability of charging infrastructure. Their

1 testimony therefore presents three separately metered time of use rates for electric vehicle
2 customers, a residential behind-the-meter Electric Vehicle Supply Equipment installation
3 and incentive program, a “make-ready” electric vehicle infrastructure installation
4 program to expand public charging stations, and a Marketing, Communications, and
5 Education program to increase customer awareness of electric vehicle charging
6 infrastructure and time of use rates.

7 **V. THE COMPANY’S PROPOSED MULTI-YEAR RATE PLAN**

8 **A. Components of the Proposed Multi-Year Rate Plan**

9 **Q. Please briefly describe the principal elements of the Company’s proposed rate relief.**

10 A. As summarized below (and as explained more fully in the testimony of Messrs. Goulding
11 and Nawazelski), our proposed multi-year structure includes the basic components
12 contained in the settlement agreement approved by the Commission in our last rate
13 proceeding: (1) a base rate increase of approximately \$12.0 million based on the calendar
14 year 2020 test year; (2) a temporary rate increase of \$5.8 million, effective June 1, 2021;
15 and (3) a series of three annual step adjustments reflecting the fixed costs associated with
16 non-growth related capital investments over the calendar years ended 2021, 2022, and
17 2023. If approved without modification, a typical residential customer using 600 kWh

1 per month would see an 8.20 percent increase in their total bill after accounting for
2 changes to other reconciling mechanisms.⁴⁰

3 Our calculated revenue deficiency is based on a test year ended December 31, 2020,
4 adjusted for known and measurable changes for ratemaking purposes.⁴¹ The revenue
5 requirement reflects a rate base of \$226.03 million, and an overall Rate of Return of 7.88
6 percent, including a Return on Equity of 10.00 percent. Of note, the total rate base
7 includes approximately \$67.1 million of gross plant additions since December 2018, the
8 rate year for the last step adjustment provided in DE 16-384.⁴²

9 **Q. Please now summarize the Company's proposed temporary rate increase.**

10 A. In keeping with RSA 378:27, our temporary rate request intends to provide a reasonable
11 return on our existing utility investments.⁴³ To that end, our proposed temporary rates
12 are based on the Company's year-end rate base, excluding (for the sake of conservatism)
13 the known and measurable changes included in our permanent rate request, combined
14 with an overall Rate of Return of 7.61 percent adjusted for the effective tax rate of 27.08
15 percent. Because our proposed overall Rate of Return in this case is less than the 8.34
16 percent return approved in DE 16-384,⁴⁴ our temporary rate request is not based on our

⁴⁰ Vegetation Management costs of \$1.4 million, Lost Base Revenue recovery of \$1.1 million and regulatory assessment costs of \$0.2 as reflected in Messrs. Goulding and Nawazelski Testimony, Table 1 have been reclassified from reconciling mechanisms to base rates. Also refer Schedule JDT-3, Page 1.

⁴¹ Please note that, net of tariff reclassifications, the increase in proposed base rates is approximately \$9.4 million. See, Direct Testimony of Christopher Goulding and Daniel Nawazelski, Table 1.

⁴² Compares Pro Forma December 31, 2020 Utility Plant in Service of \$407,914,123 as shown on Schedule RevReq-4, Column 4, Line 1 to Gross Utility Plant of \$340,808,318 as shown on the Company's 2018 FERC Form 1, Page 110, Column C, Line 2.

⁴³ For example, as of January 2021 the unemployment rate in New Hampshire was 3.50 percent relative to the national unemployment rate of 6.50 percent. Source: <https://www.bls.gov/news.release/laus.nr0.htm#>.

⁴⁴ Docket DE 16-384, Order No. 26,007 at 9.

1 currently authorized overall return. Rather, the proposed 7.61 percent Rate of Return
2 reflects our currently proposed capital structure and cost of debt, together with the 9.50
3 percent Cost of Equity approved in DE 16-384 (rather than the 10.00 percent Cost of
4 Equity proposed in this case).

5 The Company also proposes to continue recovering Lost Base Revenue through the
6 System Benefits Charge until permanent rates become effective, reducing our proposed
7 temporary rates by approximately \$1.08 million. Based on those factors and
8 considerations, the Company proposes temporary rates of \$5.81 million.⁴⁵

9 **Q. Please also summarize the proposed annual step adjustments.**

10 A. Similar to the structure approved in DE 16-384, our proposal in this proceeding includes
11 a series of three step adjustments to reflect the fixed costs (return, depreciation, and
12 property taxes) associated with eligible capital investments during calendar years 2021,
13 2022, and 2023. Eligible investments will include only non-growth related plant
14 additions, which represent approximately 83.00 percent to 86.00 percent of all forecasted
15 investments during the three calendar years ended 2023.⁴⁶

16 Each January 31st (beginning 2022), the Company will make a compliance filing with the
17 Commission to recover the revenue requirement associated with eligible plant additions
18 made during the prior calendar year. The approved revenue requirement then would be
19 recovered over rate years beginning April 1st and ending March 31st of the following

⁴⁵ See, Direct Testimony of Christopher Goulding and Daniel Nawazelski; see, also, Schedule CGDN-3, Page 1.

⁴⁶ Source: Exhibit KES-2.

1 year. Under that structure, the Company would make its first compliance filing on or
2 before January 31, 2022 identifying the revenue requirement associated with eligible
3 investments made during calendar year 2021, to be recovered over the rate year April 1,
4 2022 through March 31, 2023.⁴⁷

5 **Q. Lastly, please briefly summarize the Company's proposal relating to Vegetation**
6 **Management and Reliability Enhancement expenses.**

7 A. In each annual compliance filing, the Company would reconcile its actual Vegetation
8 Management and Reliability Enhancement expenses with the \$6.27 million included in
9 rates pursuant to Docket No. DE 21-030. For the period January 1, 2021 through May
10 31, 2021, the reconciliation will reflect the Vegetation Management and Reliability
11 Enhancement expenses included in rates in Docket No. 16-384; beginning June 1, 2021
12 the reconciliation will reflect expenses included under Docket No. DE 21-030; any over-
13 or under-collections would be included in the Company's External Delivery Charge
14 mechanism. With the Commission's approval the Company may credit unspent amounts
15 to future vegetation management expenses.⁴⁸

⁴⁷ Messrs. Goulding and Nawazelski present the proposed step adjustments in their direct testimony. See, also, Exhibit CGDN-1.

⁴⁸ See, Exhibit CGDN-1.

1 **B. Rate Effect Mitigation and Customer Protection Measures**

2 **Q. Please summarize how UES has mitigated the rate increases reflected in this**
3 **application.**

4 A. First, as discussed earlier, UES remains committed to both operating and capital cost
5 control. Second, and as also explained above, the Company chose to defer its filing
6 beyond 2020, even though we had significantly under-earned our authorized return.
7 Third, although we see circumstances in 2021 as improving and understand that by some
8 measures New Hampshire has fared better than many other parts of the country,⁴⁹ we are
9 mindful of the continuing unease in the region. We therefore reduced the requested
10 Return on Equity from the 10.20 percent recommended by our expert⁵⁰ to 10.00 percent.

11 **Q. Does the rate filing also include specific customer protection and rate mitigation**
12 **mechanisms?**

13 A. Yes, it does. The Company commits it will not seek base rate relief, subject to certain
14 exogenous factors and other considerations, during the three-year term of its proposed
15 step adjustments.⁵¹ Beyond providing customers assurance they will not see further base
16 rate increases during the stay out period, by not seeking base rate relief the Company
17 forgoes the ability to adjust its authorized cost of capital during a period in which interest
18 rates generally are expected to increase.⁵²

⁴⁹ For example, as of January 2021 the (seasonally adjusted) unemployment rate in New Hampshire was 3.60 percent relative to the national average of 6.30 percent. Source: U.S. Bureau of Labor Statistics, *State Employment and Unemployment Summary*, March 15, 20201.

⁵⁰ See, Direct Testimony of Jennifer E. Nelson.

⁵¹ See, Direct Testimony of Christopher Goulding and Daniel Nawazelski, Schedule CGDN-1.

⁵² See, for example, Testimony of Jennifer E. Nelson at 29 - 31.

1 We also propose a Rate Cap, under which changes to distribution rates in any year of the
2 multi-year rate plan would be limited to 2.50 percent of the prior year's total electric
3 operating revenue.⁵³ Any amount of the revenue requirement above that cap would be
4 deferred at the overall rate of return established in this docket.

5 We further propose a Return on Equity collar, which would share earnings above 11.00
6 percent (i.e., 100 basis points above the 10.00 percent proposed ROE) on an equal (i.e.,
7 50/50) basis between customers and shareholders. The Company would retain the
8 downside risk of earnings below 10.00 percent, except that if its earned Return on Equity
9 falls below 7.00 percent during the Stay Out period, it may file a request for base rate
10 relief.⁵⁴

11 Beyond those mechanisms, we would apply approximately \$2.64 million of Excess
12 Accumulated Deferred Income taxes to the uncollected Major Storm Cost Reserve
13 balance (approximately \$3.28 million), significantly reducing the uncollected balance
14 without increasing customer rates.⁵⁵

⁵³ With revenue for externally supplied customers being adjusted by imputing the Company's default service charges for that period.

⁵⁴ See, Testimony of Christopher Goulding and Daniel Nawazelski, Schedule CGDN-1.

⁵⁵ Testimony of Christopher Goulding and Daniel Nawazelski, at 35 - 36.

1 **C. Proposed Rate Mechanisms**

2 **1. *Revenue Decoupling Mechanism***

3 **Q. Please briefly describe the Company's proposed Revenue Decoupling Mechanism.**

4 A. As Mr. Lyons explains in more detail, the Company proposes a full revenue decoupling
5 mechanism that would reconcile monthly variances between actual and authorized
6 revenue per customer, by rate class (but for the Lighting and proposed Electric Vehicle
7 rate classes). Under that proposal, the authorized revenue per customer would be
8 adjusted to reflect the incremental revenue requirement associated with each of the three
9 annual step adjustments. We also propose a deferral account that would carry, with
10 interest, cumulative monthly variances (by rate class) over a twelve-month measurement
11 period. A Revenue Decoupling Adjustment Factor then would refund customers any
12 amount of revenues greater than authorized levels, or surcharge customers to the extent
13 actual revenues fell below authorized levels. The proposed adjustments would be filed
14 with the Commission each June 1st for its approval for effect August 1st.

15 **2. *Time of Use Rates***

16 **Q. Lastly, please briefly describe the Company's proposed Time of Use rates.**

17 A. As noted earlier, our proposal includes a "whole-house" residential time of use rate and
18 separately metered time-varying electric vehicle rates for residential, small general
19 service, and "high demand draw" large general service customers. The separately
20 metered rates will provide meaningful incentives to charge vehicles during off-peak
21 hours, and the dedicated meter will ensure a separate rate class for electric vehicle

1 charging that is manageable through demand response programs and is distinct from
2 other electrical loads.⁵⁶

3 **VI. WITNESSES SUPPORTING THE COMPANY'S RATE FILING**

4 **Q. Please briefly introduce the witnesses supporting the Company's application in this**
5 **proceeding.**

6 A. The Company's comprehensive rate filing is supported by the information required under
7 the Commission's rules, including the Standard Filing Requirements, together with
8 testimony and exhibits demonstrating the need for permanent rate relief, and the
9 reasonableness of our proposed multi-year plan. The Company's application is supported
10 by the following witnesses:

- 11 • *Mr. Christopher Goulding, Director of Rates and Revenue Requirements, and*
12 *Mr. Daniel Nawazelski, Lead Financial Analyst, present the Company's*
13 *Revenue Requirement, including test year revenues and expenses, including*
14 *the effects of the COVID-19 pandemic on the test year; our proposed three-*
15 *year step adjustments; our proposed Earnings Sharing Mechanism and the*
16 *Company's proposed temporary rates. Messrs. Goulding and Nawazelski also*
17 *introduce the proposed tariffs.*
- 18 • *Mr. John Closson, Vice President of Shared Services and Organizational*
19 *Effectiveness, and Mr. Joseph Conneely, Director of Human Resources,*
20 *address the Company's compensation and benefits programs. Mr. Closson*

⁵⁶ See, Direct Testimony of Cindy L. Carroll, Carleton B. Simpson, and Carol Valianti.

1 also discusses the Company's recently completed Exeter, New Hampshire
2 distribution operations center.

- 3 • *Mr. Kevin Sprague, Vice President of Engineering*, addresses the Company's
4 annual planning and capital budget process, the effect capital investments
5 have had on system reliability, and Unitil's Grid Modernization program.

- 6 • *Ms. Cindy Carroll, Vice President of Customer Energy Solutions, Mr.*
7 *Carleton Simpson, Regulatory Counsel, and Ms. Carol Valianti, Vice*
8 *President of Communications and Public Affairs* provide the Company's
9 proposed suite of Time of Use rate structures, Electric Vehicle development
10 program, and the Company's customer education program as it relates to its
11 EV develop program and proposed Time of Use rate offerings.

- 12 • *Mr. Mark Lambert, Vice President of Customer Operations* explains the
13 investment made by the Company to replace its legacy Customer Information
14 System, which had been in service for more than twenty-two years.

- 15 • *Mr. Daniel Hurstak, Chief Accounting Officer and Controller*, provides the
16 Company's Lead-Lag study.

- 17 • *Mr. Todd Diggins, UES's Treasurer and Director of Finance*, supports the
18 Company's proposed capital structure, explains the importance of maintaining
19 UES's financial strength and integrity, and supports the Company's petition
20 for a waiver to change its existing short-term debt formula.

- 1 • *Ms. Sara Sankowich, Director of Sustainability and Shared Services,*
2 discusses UES's ongoing Vegetation Management Program.
- 3 • *Ms. Carole Beaulieu, Sales, Customer Service and Credit Manager,* discusses
4 the Company's proposed Arrearage Management Program.
- 5 • *Mr. Jonathan Giegerich, Tax Manager,* describes the effects of the Tax Cuts
6 and Jobs Act of 2017 on UES's accounting for income taxes and how those
7 effects are presented in the current rate case cost of service schedules.
- 8 • *Mr. John Taylor of Atrium Economics* supports the Company's rate design
9 proposals including new LED Lighting rates, the Domestic time of use rate
10 and time of use rates for electric vehicle charging.
- 11 • *Mr. Ronald Amen of Atrium Economics* presents the Company's allocated cost
12 of service, and marginal cost of service studies, and revenue apportionment
13 and revenue targets by rate class.
- 14 • *Mr. Timothy Lyons, Partner, ScottMadden, Inc.* provides the Company's
15 proposed revenue decoupling structure.
- 16 • *Ms. Jennifer Nelson, Assistant Vice President, Concentric Energy Advisors,*
17 presents analyses supporting the investor-required Return on Equity reflected
18 in the Company's revenue requirement.
- 19 • *Mr. Ned Allis, Vice President, Gannett Fleming* presents the depreciation
20 study used to establish the annual depreciation rates for the Company's
21 electric utility plant.

1 **VII. SUMMARY AND CONCLUSIONS**

2 **Q. Please now summarize your testimony.**

3 A. Over the past several years, the Company has focused on delivering safe, reliable, and
4 affordable energy service while investing in the assets that will enable the advanced
5 electric distribution system our stakeholders expect. We are proud of our past
6 accomplishments and we look forward to further supporting New Hampshire's energy
7 policy objectives. The multi-year plan we propose in this application will allow UES to
8 continue investing in the assets needed to provide the enhanced services and reliability
9 our customers require, and the rate mechanisms we propose will ensure just and
10 reasonable rates.

11 We look forward to discussing this proposal with our stakeholders, and to working
12 collaboratively with them on the important public policy issues that lie ahead. And we
13 are confident that with a constructive outcome in this proceeding, our stakeholders'
14 shared interests in safe, reliable, clean, and affordable electricity delivered by a stable,
15 financially healthy utility will be well-served.

16 **Q. Does this conclude your Direct Testimony?**

17 A. Yes, it does.