

**BEFORE THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 21-030

Unitil Energy Systems, Inc.

Request for Change in Rates

CLOSING STATEMENT OF THE DEPARTMENT OF ENERGY

Introduction

The Department of Energy appreciates this opportunity to provide a written closing statement in this proceeding and takes this opportunity to urge the Public Utilities Commission to approve the Settlement Agreement presented in this matter as filed, in its entirety, because the Settlement produces rates for Unitil Energy Systems, Inc. (Unitil) that are just and reasonable and in the public interest. The Department forms this assessment after examining the Company's rate request, tariffs, testimony, exhibits, discovery responses, and books and records over a period of almost 12 months, and only after thoughtful, detailed consideration and deliberation by learned utility regulation professionals, both employees of the Department and retained experts with nationwide experience. The Department decided to sign the Settlement following more than 10 days of settlement negotiations, where virtually every element of the Company's rate proposal was examined for reasonableness and weighed against past Commission practice and precedent.

Further, in addition to the Department, the Office of the Consumer Advocate and three other intervenors with diverse interests signed the Settlement Agreement. This provides

evidence to the Commission that the Settlement reflects a balancing of the interests of utility customers and shareholders.

Applicable Law

Pursuant to RSA 374.1, 374.2, and RSA 378.28, the Commission must establish rates in this proceeding that are just and reasonable, allowing Unitil the opportunity to earn a just and reasonable rate of return on a just and reasonable rate base. Such a determination is often accomplished through settlement of all issues presented. *See, for example*, these recent case rate decisions: Unitil, DE 16-384, Order No. 26,007; Liberty Utilities/Granite State Electric, DE 19-064, Order No. 26,376; Public Service Company of New Hampshire, DE 19-057, Order No. 26,433.

The Commission's rules state that the Commission shall approve a disposition of any contested case through settlement if it determines that the result is just and reasonable and serves the public interest. Puc Rule 203.20(b). Commission precedent speaks favorably of disposition of rate cases through settlement. *See, for example*, Order 26,007 at 15, in Unitil's last rate case, where the Commission stated:

We encourage parties to settle issues through negotiation and compromise, because it is an opportunity for creative problem solving, allows the parties to reach a result in line with their expectations, and is often a better alternative to litigation.

In the Department's view, this aptly describes the process and the result in this case. Similar praise for settlements can be found in other recent PUC rate case orders. *See* Order No. 26,376 at 10-11 in DE 19-064, Liberty Utilities/Granite State Electric; Order No. 26,433 at 18 in DE 19-057, Public Service Company of New Hampshire.

Highlights of Proposed Settlement

The Department believes that the Settlement should be read, evaluated (and approved) as a whole, as contemplated in Settlement Section 12.1. That said, the Department will highlight some specific elements in the Settlement that support its assessment that the result is just and reasonable and in the public interest. Note this is not an exhaustive list of the significant settlement elements – just some highlights that are important to Department of Energy.

1. The revenue requirement increase of \$6.3 million per year is reasonable in relation to both Unitil's initial request of \$12.0 million and in relation to the approved temporary rate increase in this docket. The Department understands that comparing a final result to an initial position should not, in and of itself, be used to judge whether a rate case settlement is reasonable (primarily because the utility largely controls its initial requested increase). Nonetheless, the Department, in deciding to enter into this Settlement, relied in part on the fact that the settled revenue requirement is just over 50% of what Unitil requested (\$6.3 million settled versus \$12.0 million requested). This compares favorably to Unitil last base rate case where the approved settlement provided for a \$4.1 million increase when Unitil requested \$6.3 million (about 65%).

Also, because the approved temporary increase of \$4.4 million is about 70% of the settled permanent increase of \$6.3 million, the rate impact from implementing the permanent increase plus recoupment (plus a step adjustment) will be gradual.

Importantly, the Department supports this Settlement because the factors underlying the “final result” reflect a reasonable balance of the interests of ratepayers and shareholders, as detailed below.

2. The Settlement provides for two limited step increases to base rates. Both are reasonable in relation to the primary settled base rate increase. The 2022 increase will be for \$1.4 million (about 22% of the settled base rate increase). The 2023 increase is estimated to be \$2.5 million (about 40% of the base rate increase). Both are subject to several caps. Both provide recovery for specified plant investment projects, and both are subject to Commission review and approval as discussed below. (Sections 2.3 and 2.4)

The Settlement provides for a 3-month review period for the 2022 step increase and a 3 ½ month review period in 2023. In each review, Unitil will provide all relevant supporting project documents with its filing request. The 2023 step increase will reflect a credit for the undepreciated value of non-LED streetlights in Concord.

Again, these step increases compare favorably to Unitil’s last rate case, DE 16-384, where that settlement provided for three step increases with a total cap of \$4.5 million, following a base case increase of \$4.1 million.

3. The Settlement presented herein specifies a ratemaking capital structure that includes 52.0% common equity and a return on equity of 9.20%. (Section 3.1). The Department believes these elements are just and reasonable and satisfy the standards

of Hope and Bluefield, as discussed in Exhibit 20 at Bates 005-006.

4. The Settlement presented here limits coverage for operation and maintenance expense to increases that will occur within 12 months after the 2020 test year. Thus, increases predicted to occur in 2022 are not reflected in the settlement rates. *See, for example*, Exhibit 12, Bates 036, Schedule RevReq 3-2 Revised, p. 1 of 2 Revised, line 6 for payroll increases; and Exhibit 12, Bates 045-046, Schedule RevReq 3-6 Original and Revised for property and liability insurance increases.
5. The Settlement does not provide rate coverage for Unitil's predicted inflation related increases, consistent with Commission practice, Exhibit 12, Bates 056-057, Schedule RevReq-3-15 Original, p. 1, line 21 and footnote 2, and Revised, p.1, line 22 and footnote 2.
6. Pandemic related costs are not included in the settled rates. Exhibit 12, Bates 050, Schedule RevReq 3-10.
7. The Settlement provides for recovery for depreciation expense calculated using the whole life depreciation method, consistent with Commission practice. (Section 11.11); *see also* DE 19-057, PSNH Settlement dated October 9, 2022 at Section 7.2.
8. The lead/lag study results from this case will be applied to transmission costs and certain O&M expenses recovered through Unitil's External Delivery Charge. (Section

- 11.1). The Department believes this will save customers over \$500,000 per year as compared to current practice. Exhibit 21 at Bates 029,037-038.
9. The decoupling mechanism in the Settlement allows reconciliation by rate groups, to reduce interclass subsidies (Section 4.2.2), contains a cap to smooth any unforeseen rate shock (Section 4.3), and will replace recovery of Lost Base Revenue due to energy efficiency installations and displaced distribution revenue from net metering (Section 4.4).
10. Excess Accumulated Deferred Income Taxes will be returned to customers. EADIT equaling \$2,644,590 and still on Unitil's books from 2018 through 2020 will be returned via Unitil's EDC over three years (Section 11.10) and a credit of \$999,795 is included in the base rate case revenue requirement. This amount will be reviewed in Unitil's next base rate case (Section 11.9).
11. The Settlement supports an emerging market for electric vehicles by
- a. Adopting the EV rates developed in the Commission's EV docket, DE 21-170, when approved. (Section 6.5)
 - b. Providing limited utility investment in infrastructure to assist in developing third party owned EV charging stations, with the rate recovery of the infrastructure investments being deferred until Unitil's until next rate case (2024 at the earliest). (Section 7.2)
 - c. Providing up to \$300,000 over five years for EV education (to be recovered through Unitil's EDC. (Section 7.3).

12. The Settlement base rate amount reflects continued reimbursement from third parties concerning vegetation management activities (\$989,500 per year). Storm Resiliency Program funding is continued at least until Unitil's next base rate case (2024 at the earliest) but at a reduced amount starting in 2023, and the parties agree to work to develop metrics for measuring the benefits of SRP going forward. (Section 8.1 and Settlement Attachment 15.)

13. The Settlement provides for an Arrearage Management Program, which will allow income eligible customers a path towards relief from arrearage balances, while establishing positive payment habits. The program is similar to a program approved for PSNH in DE 19-057, thus creating consistency across the state. (Section 9).

Other Significant Features of the Settlement

The Department relied on the following other factors in agreeing to the Settlement:

1. The Settlement is comprehensive. If approved, no issues would be reserved for litigation before the Commission. (Section 12.2). This will serve to reduce rate case expenses.

2. The Settlement was reached without the Company filing its rebuttal testimony, thereby reducing rate case expenses.

3. The Settlement includes a rate case stay-out provision that Unitil testified in all practicality will ensure 3 years between rate case test years (2020 in this case and 2023 at the earliest in the next case). (Section 2.1).

4. The settled revenue requirement in this case is presented in a highly transparent manner, allowing the Commission to largely see what items are covered in rates and what are not. The Settling Parties agreed to a revenue increase of \$6.3 million. While the Settling Parties did not agree on every element that makes up this amount, they agreed to a significant number of issues which are provided in detail for the Commission's review in the many pages contained in Settlement Attachment 1. Only one item, labelled "Settlement Adjustment" which reduces the requested rate increase by \$1,464,346, remains "unexplained." This amount covers certain items where the Settling Parties agreed in total that a downward adjustment was warranted, but not necessarily to the individual components of that adjustment. Exhibit 12, Bates 033, Schedule RevReq 3, line 33.

5. The Settlement established an amount of property taxes included in base rates, \$6,218,640, which is needed for implementing the property tax recovery mechanism approved in DE 21-069. (Section 11.6). The same is true for regulatory assessment, \$1,004,038, which will be used for reconciliation in upcoming EDC dockets. (Section 11.8).

Conclusion

The Department of Energy believes that the rates resulting from this Settlement Agreement are just and reasonable, the rate of return allowed on utility investment is just and reasonable, and approval is in the public interest. Further, all signers of the Settlement agree that approval is in the public interest and that approval will result in just and reasonable rates.

(Section 13). Therefore, the Department heartily recommends that the Public Utilities Commission approve this Settlement Agreement as presented, without change, as resolution of all the issues presented for review in this matter.

Respectfully submitted,

New Hampshire Department of Energy

By its Attorney,

/s/ Paul B. Dexter

Paul B. Dexter, Esq. # 4866

21 South Fruit Street, Suite 10

Concord, NH 03301

603-271-3670

Paul.B.Dexter@energy.nh.gov

Date: March 11, 2022