

**STATE OF NEW HAMPSHIRE
BEFORE THE PUBLIC UTILITIES COMMISSION**

Docket No. DE 21-030

ELECTRIC DISTRIBUTION UTILITIES

Request for Change in Rates

WRITTEN CLOSING OF UNITIL ENERGY SYSTEMS, INC.

Unitil Energy Systems, Inc. (“Unitil” or the “Company”) appreciates the opportunity to provide this written closing statement to the Commission. As Unitil explained at the hearing on March 3, 2022, the Settlement Agreement signed by Unitil, the Department of Energy (“DOE”), the Office of the Consumer Advocate (“OCA”), the Department of Environmental Services (“DES”), Clean Energy New Hampshire (“CENH”), and ChargePoint, Inc. (“ChargePoint”) (collectively, the “Settling Parties”)¹ is in the public interest and will result in just and reasonable rates.

I. Introduction

As Unitil explained at the prehearing conference in the above-captioned docket, this rate case, our first in the last five years, is an important and transformative case for the Company, and in many ways, for our customers. Tr. at 30:4-17 (April 22, 2021). The Company’s filing presented a series of proposals to advance New Hampshire’s energy, environmental, and regulatory policies, including: a suite of innovative time of use rates; an electric vehicle supply equipment make ready investment program; a forward-looking grid modernization proposal; a revenue decoupling mechanism consistent with the Settlement Agreement and Order in DE 15-137; and an arrearage management program to assist customers in paying and managing their

¹ Though intervenor Conservation Law Foundation (“CLF”) did not sign the Settlement Agreement, it provided a letter of support for the portions of the Agreement related to electric vehicles and took no position on the remainder of the Agreement.

bills. The Company also proposed a series of three step adjustments to recover costs associated with non-growth related capital investments for the calendar years 2021, 2022, and 2023.

The Settlement Agreement before the Commission is the product of many days of negotiations among a broad set of parties representing a diversity of interests, including the state (DOE, DES), residential ratepayers (OCA), environmental advocacy organizations (CENH, CLF), and electric vehicle stakeholders (ChargePoint). Through a great deal of thoughtful discussion, compromise, and creativity, these parties were able to develop a comprehensive settlement resolving a significant number of complicated issues. While the nature of the parties' compromises can be assessed in many ways and from various perspectives, Unitil notes that the settled revenue requirement is \$6,326,330 (using a 9.20% return on equity), approximately 53% of the Company's initial request of \$11,992,392; several of its proposals, including revenue decoupling and the electric vehicle make-ready investment program, have been materially changed; and the Company agreed to two, rather than three, step adjustments. Notwithstanding these and other adjustments, the Company believes that the innovative spirit of its initial filing is preserved in the Settlement Agreement, and that the Agreement is, taken as a whole, just and reasonable and in the public interest.

Unitil will not use this closing to summarize the Settlement Agreement and its Attachments, which are thorough but straightforward and speak for themselves, nor will the Company attempt to revisit all issues raised at the wide-ranging hearing on March 3. The Company believes that there is ample evidence in the record for the Commission to find that the Settlement Agreement, in its entirety, is just and reasonable and in the public interest. Rather, Unitil offers the following comments on certain critical components of the Agreement.

II. Revenue Decoupling

In Order No. 25,932, the Commission approved a Settlement Agreement obligating the Company to seek approval of a decoupling mechanism (or other lost-revenue recovery mechanism) in its first distribution rate case after the first energy efficiency resource standard triennium. *Gas and Electric Utilities*, Order No. 25,932 at 60 (August 2, 2016). Unitil's revenue decoupling proposal in this case satisfied that obligation. The mechanism proposed in the Settlement Agreement reflects the input of multiple parties, including the DOE and the OCA, and appropriately recognizes the interests of ratepayers. Importantly, the mechanism is symmetrical, in that the Company will credit to ratepayers any positive variance over the authorized revenue-per-customer target, with carrying costs, for each class, much in the way that the Company will reconcile a negative variance. Settlement Agreement at 5-6. Moreover, customers are protected from significant increases by the application of a revenue decoupling adjustment cap of 3.0% of distribution revenues (rather than total revenues as originally proposed by the Company). *Id.* at 6.

Implementation of a revenue decoupling mechanism is an essential tool for supporting energy conservation objectives, in that it removes the financial disincentive to pursue initiatives intended to reduce consumption, such as energy efficiency measures. Moreover, as Company witness and Chief Financial Officer Robert Hevert explained at the hearing, a decoupling mechanism is perceived by the financial community to be "credit supportive," in that it mitigates factors that make the Company more risky relative to its peers, and in turn supports the Company's ability to acquire capital to finance critical system investments at a reasonable cost. Minimizing the cost to the Company to acquire capital ultimately benefits the Company's ratepayers.

The revenue decoupling mechanism proposed in the Settlement Agreement is consistent with the Company's obligations under DE 15-137, aligns with State energy conservation objectives, reflects the input of multiple settling parties, and is appropriately tailored to balance the interests of the Company and its ratepayers. The proposed mechanism, like the Settlement Agreement as a whole, is just and reasonable and in the public interest.

III. Step Adjustments

The multi-year rate plan proposed by the Company in this case, which included three step adjustments to recover costs associated with non-growth related capital investments for the calendar years 2021, 2022, and 2023, is consistent with rate plans included in settlements approved by the Commission in the Company previous two rate cases. *See Unitil Energy Systems, Inc.*, Order No. 26,007 at 18 (April 20, 2017) (approving a rate plan with three step increases); *Unitil Energy Systems Inc.*, Order No. 25,214 at 25-27 (April 26, 2011) (approving a rate plan with three step increases and finding the process to be “a reasonable method to allow for a more timely recovery of assets in service without resort to a full rate proceeding.”). The rate plan proposed in the Settlement Agreement is scaled back from the Company's initial proposal (and the precedent of the previous two rate cases) from three step increases to two, and includes important ratepayer protections. Hearing Exhibit 12 (Settlement Agreement) at 00004-5, 000135-139. The first step increase, proposed to take effect June 1, 2022, is capped at a revenue requirement of \$1,377,331. The second step increase, proposed to take effect June 1, 2023, is capped at a 2022 non-growth investment level of approximately \$26.7 million. *Id.* Each increase is also limited to a rate cap of 2.5% of total revenue in the investment year; any part of the adjustment that exceeds the 2.5% cap will not be deferred for future recovery. *Id.* at 000010.

Each step increase filing will be subject to review by the DOE and OCA, and subject to Commission approval. Id. at 000011.

The steps approved in connection with prior settlements have enabled the Company to make critical non-growth investments on its system while deferring the need to file base rate cases and incur associated expenses. UES is a capital-intensive enterprise, requiring ongoing investments in long-lived physical assets and incurring the fixed costs associated with them. Hearing Exhibit 6 at 000118 (Direct Testimony of Robert B. Hevert at 16). Such investments are necessary notwithstanding trends in customer growth and sales volumes. Id. at 000119-120.

The Company's capital investment planning process is rigorous, beginning with engineering planning studies to identify system improvement and reliability needs and proceeding through a multi-step, "bottom up" budgeting process, and subject to multiple layers of cost control. See Hearing Exhibit 6 at 000456-463 (Direct Testimony of Kevin E. Sprague at 6-13). As Mr. Sprague explained at the hearing, projects are categorized by priority: Priority 1 are non-discretionary projects required for the Company to meet service obligations to customers, as well as projects directly related to load and voltage concerns; Priority 2 are non-discretionary projects required to meet regulatory mandates, intercompany operating agreements, and other obligations; Priority 3 include reliability and improvement projects. See also id. at 000460. Though Priority 3 projects are considered discretionary, that does not mean that they are not necessary, nor that they can be deferred indefinitely. Rather, they are justified projects that benefit customers, and that can potentially be deferred for a short period of time into a future year. The large majority of projects budgeted for the investment years 2021 and 2022 are non-discretionary Priority 1 and 2 projects. NH PUC RR 1-03 Attachment 1; NH PUC RR 1-06 Attachment 1.

The point of the foregoing summary is to illustrate the necessity of the Company's capital investments in the 2021 and 2022 investment years and beyond. The step adjustments included in the Settlement Agreement will allow the Company timely recovery of assets placed into service without the need for a full base rate proceeding, and as such the Company has agreed to refrain from filing a rate case before 2024. However, the step adjustments do not grant Unitil *carte blanche* with respect to capital spending and recovery; the Company is subject to an established revenue requirement cap for the 2021 investment year and a spending cap for the 2022 investment year. Moreover, each increase is limited to a hard rate cap of 2.5% of total revenue in the investment year and the Company must support its investments with detailed project documentation, including but not limited to, capital budget forms, construction authorizations and work orders. The step adjustments as proposed will therefore enable the Company to make critical capital investments for the benefit of its ratepayers while limiting the annual rate impact to customers. The annual increases are also consistent with the concept of gradualism in rates.

Unitil believes that the step adjustments agreed to by the Settling Parties are, like the more expansive step adjustment frameworks approved in prior rate cases, just and reasonable, in the public interest, and worthy of the Commission's approval.

IV. Electric Vehicle Infrastructure Program

The electric vehicle supply equipment rebate and make ready provisions of the Settlement Agreement are an essential step forward for the promotion of EV adoption in the State. Unitil has, in several dockets before this Commission, explained the Company's vision for a utility of the future as an enabling platform capable of unlocking the full potential of today's customers, markets, and technologies. The make ready infrastructure programs described in the Settlement

Agreement, though scaled back from the Company's initial proposal, are consistent with that vision. As Unitil witness Cindy Carroll explained at hearing, the lack of EV infrastructure is inhibiting the development of an electric vehicle market in the state. By incentivizing the procurement and installation of managed Level 2 EV chargers by residential customers and enabling the development of public Level 2 and Direct Current Fast Charging sites, the Company is helping to remove that barrier. For those residential customers who may be unable to charge at their residence (e.g., renters) or unable to afford chargers in their home, increased availability of public charging stations will make EV ownership realistic. Unitil's innovative EV Time of Use rates, which are the subject of a settlement agreement pending before the Commission in DE 20-170, will complement and further promote EV adoption and market development in the State.

Many of the intervening parties were interested in the Electric Vehicle components of this case, and we are pleased to have broad support for these programs from such a diverse set of interests. With major car manufacturers announcing their transition to electric vehicles and increasing interest in electric vehicle ownership, the EV programs proposed in the Settlement Agreement present an excellent opportunity, at a modest cost, for the Company and its customers to participate in this new market. This will benefit not only ratepayers but residents and businesses throughout the state generally.

V. Arrearage Management Program

The Arrearage Management Program is a critical program for helping customers pay down significant arrearages and managing their bills going forward. Unitil worked with the DOE to refine the program's eligibility criteria, making it available to more customers, and to develop reporting criteria that will enable the DOE and interested stakeholders to evaluate the program's success. The program is a clear benefit to residential ratepayers who are having difficulty paying

or managing their bills, and will further benefit the Company's ratepayers generally by mitigating bad debt expense.

VI. The Settlement Agreement is Just and Reasonable and In the Public Interest

It has long been Commission policy that parties be encouraged 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. *Unitil Energy Systems, Inc.*, Order No. 26,007 at 15 (April 20, 2017) (*citing Granite State Electric Co.*, Order No. 23,966 at 10 (May 8, 2002) and RSA 541-A:31, V(a) (“informal disposition may be made of any contested case ... by stipulation [or] agreed settlement”). Even in the case of an uncontested settlement, the Commission must find that a just and reasonable result has been reached. *Id.*; see also N.H. Code Admin. Rules Puc 203.20(b) (“The commission shall approve a disposition of any contested case by stipulation [or] settlement ... if it determines that the result is just and reasonable and serves the public interest”). The process leading up to a proposed settlement is a relevant factor in determining whether the settlement should be approved. Order No. 26,007 at 17. “Specifically, the fact that parties to a settlement represented a diversity of interests, and that there was a demonstration that the issues were diligently explored and negotiated at length, provides a basis for concluding that the results of a settlement are reasonable and in the public interest. *Id.* (*citing Public Service Company of New Hampshire*, Order No. 25,123 at 29 (June 28, 2010)).

The Settlement Agreement before the Commission is just and reasonable and in the public interest. The settled revenue requirement is a little more than half of what the Company initially requested, and is calculated using a return on equity (9.2%) that is significantly lower than the Company's currently authorized return. Proposals such as decoupling, the step

adjustments, and the EV infrastructure program appropriately balance the interests of the Company and its ratepayers. The Settlement is, importantly, the product of many days of serious discussion and negotiation among a diverse set of parties, with meaningful compromises made to reach a reasonable result. Individual components of the Settlement cannot be changed in isolation without affecting the balance of the Settlement as a whole. Unitil enthusiastically recommends adoption of the Settlement Agreement as just and reasonable and in the public interest, and appreciates the Commission's time and consideration at the March 3, 2022 hearing.