

NORTHERN UTILITIES. INC.

DIRECT TESTIMONY

OF

ROBERT B. HEVERT, CFA

EXHIBIT RBH-1

New Hampshire Public Utilities Commission

Docket No. DG 21-104

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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 Senior Vice President for each of Unitil
5 Corporation's operating utility subsidiaries, including Northern Utilities, Inc.
6 ("Northern", or the "Company"), and Unitil Service Corporation. My business address is
7 6 Liberty Lane West, Hampton, New Hampshire.

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

9 A. I have worked in regulated industries for over 30 years, having served as an executive
10 and manager with consulting firms, a financial officer of a publicly traded utility (at the
11 time, Bay State Gas Company), and an analyst at a telecommunications utility. As a
12 consultant, I advised energy and utility clients throughout North America on a wide range
13 of strategic, financial, regulatory, and economic issues, and provided testimony in more
14 than 325 proceedings across numerous jurisdictions, including the New Hampshire
15 Public Utilities Commission (the "Commission"), the Federal Energy Regulatory
16 Commission, the Province of Alberta, Canada, the American Arbitration Association, and
17 U.S. District Courts. In July 2020, I accepted my current position with Unitil
18 Corporation. My responsibilities include the management and oversight of Unitil
19 Corporation's finance, accounting, regulatory, legal, and energy supply functions.
20 Regarding my educational background, I hold a Bachelor's degree in Business and
21 Economics from the University of Delaware, and a Masters of Business Administration,

1 with a concentration in Finance, from the University of Massachusetts, Amherst. I also
2 hold the Chartered Financial Analysts designation. A summary of my professional and
3 educational background is provided in Exhibit Unitil-RBH-2.

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

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

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

11 A. Yes, they were.

12 **II. EXECUTIVE SUMMARY**

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

15 A. This is a pivotal time for the utility industry, including Northern. Technology is rapidly
16 evolving, public policies addressing climate change are quickly advancing, the need for
17 enhanced physical and cyber security is growing, and system reliability and safety remain
18 paramount. Unitil Corporation's objective has been to support and enable those changes
19 while providing the safe, reliable and affordable service our customers demand. Our day-
20 to-day focus is on the strategic, operating, financial, and regulatory priorities critical to
21 that outcome. This application is among those priorities.

1 Although our strategic priorities are forward-looking, we also focus intensely on near-
2 term cost control, operating excellence, and customer satisfaction. Those efforts are
3 reflected in our competitive delivery rates, continually improving reliability and safety
4 metrics, and record high levels of customer and employee satisfaction. We are pleased to
5 have achieved those results despite the challenges created by the COVID-19 pandemic.
6 We also appreciate that the constructive regulatory environment in New Hampshire has
7 supported our ability to undertake a series of long-term initiatives designed to provide
8 exceptional service, and to support infrastructure improvement and modernization efforts.
9 The multi-year rate plans the Commission has approved in the past have been essential to
10 our ability to commit capital and resources to those initiatives, to our customers' ability
11 to realize the benefits those commitments bring, and to our shared ability to avoid the
12 time and expense required by serial base rate proceedings.

13 As in prior rate requests, the Company's revenue deficiency in this case is driven largely
14 by unrecovered costs associated with non-revenue producing capital investments.

15 Because the fundamental factors driving our application in this case are similar to those
16 underlying Northern's recent rate filings, we have proposed a comparable multi-year
17 structure. Our application in this proceeding includes a permanent rate request of
18 approximately \$7.8 million, proposed temporary rates of about \$3.2 million, and a series
19 of three step adjustments to recover costs associated with non-growth related capital
20 investments made during the calendar years 2021, 2022, and 2023.

21 Also consistent with prior multi-year rate plans, our application includes certain customer
22 protection provisions, including a Rate Cap limiting the cumulative revenue increase to

1 \$10.50 million; a Stay Out provision under which the Company would not seek base rate
2 adjustments through calendar year 2024, subject to certain exogenous events and a 7.00
3 percent floor on its earned equity return; and an Earnings Sharing provision that would
4 allocate earnings above 11.00 percent equally between distribution customers and the
5 Company, with the Company retaining the risk of earnings below our proposed 10.30
6 percent ROE.

7 In addition to those measures, we deferred seeking rate relief until the second half of
8 2021, even though our earned return had fallen nearly 170 basis points below our 9.50
9 percent authorized Return on Equity. Further, we propose an ROE of 10.30 percent,
10 toward the lower end of the 10.02 percent to 11.64 percent range recommended by our
11 expert. Those decisions, together with the provisions summarized above and our
12 commitment to operating and capital cost management, intend to mitigate the rate effect
13 on our customers.

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

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

2 **Q. Please briefly summarize Unitil Corporation's structure, and Northern's place**
3 **within it.**

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

16 Unitil Corporation also holds three non-utility subsidiaries: Unitil Service Corp. ("Unitil
17 Service"), which provides administrative and professional services, at cost, to its
18 corporate affiliates¹; Unitil Realty Corp., which owns and manages Unitil Corporation's
19 corporate headquarters in Hampton, New Hampshire; and Unitil Resources, Inc., which

¹ 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 Unitil
2 Corporation divested in 2019.²

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

4 A. Although Northern and UES serve common communities in the seacoast region, Northern
5 and 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.

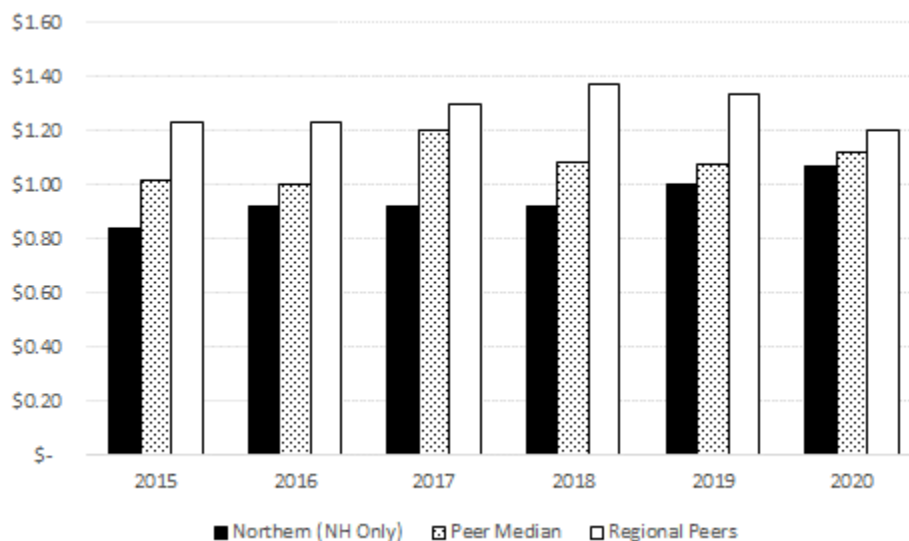
13 **Q. Has the Company's focus on operating and capital cost control benefited its
14 customers?**

15 A. Yes, in the form of competitive rates. From 2015 through 2020 (the most recent period
16 for which comparative data is available), Northern's average residential delivery rate

² 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.

1 (\$/therm) consistently remained below the median rate for other gas distribution utilities
2 (see Chart 1, below).

3 **Chart 1: Residential Revenue Per Therm**³



4

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

7 A. Yes, Unitil Corporation believes customer satisfaction is integrally related to cost, safety,
8 and system reliability. In 2020, our customer satisfaction rate reached an all-time high of
9 93.00 percent, the highest among eight ranked utilities in the Northeastern United States,

³ Source: S&P Global Market Insight and Company data. Peer group includes Atmos Energy Corp, Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Virginia, Florida Public Utilities Company, Kansas Gas Service Company, New Jersey Natural Gas, Northern Indiana Public Service Company, Northwest Natural Gas Company, Oklahoma Natural Gas Company, South Jersey Gas Company, Spire Gulf Inc, Spire Mississippi, Spire Missouri, Texas Gas Service Company. Regional peer group includes Bangor Gas Company, LLC, Boston Gas Company, Central Hudson Gas & Electric Corporation, Colonial Gas Company, Connecticut Natural Gas Corporation, Fitchburg Gas and Electric Light Company, Liberty Utilities (EnergyNorth Natural Gas) Corp., Liberty Utilities (New England Natural Gas Company) Corp., Maine Natural Gas, New York State Electric & Gas Corporation, NSTAR Gas Company, Rochester Gas and Electric Co and Yankee Gas Services Company

1 and tenth of 114 utilities nationally.⁴ Although we take pride in our customer satisfaction
2 and industry recognition, we take neither for granted. Rather, we continuously focus on
3 the operational excellence our customers expect.

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

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

- 7 • Approximately 90.00 percent of employees say they are proud to work at
8 Unitil Corporation;
- 9 • 91.00 percent of employees would recommend Unitil Corporation as a place
10 to work; and
- 11 • 93.00 percent of employees feel Unitil Corporation is a good corporate citizen
12 that cares about the community.⁵

13 We believe our strong employee satisfaction and pride also reflects Unitil Corporation's
14 response to the COVID-19 pandemic. Early in 2020, Unitil Corporation formed a task
15 force to track the virus and plan for its potential spread. By February, that team had
16 engaged all levels of Unitil Corporation's management and by early March, implemented
17 its plan and Incident Command Structure to respond to the emergency. By the time stay-
18 at-home orders were issued in our service territories, Unitil Corporation had established
19 and implemented extensive remote work capabilities. Our dispatch teams worked from

⁴ 2020 Escalent CSAT Survey

⁵ Based on survey results among non-collective bargaining employees.

1 secure, distanced spaces in separate locations, we established an enhanced cleaning
2 protocol and staggered shift times to minimize the exposure of field personnel, and
3 acquired additional vehicles to limit employee capacity. Despite those challenges, we
4 maintained our focus on operating and capital cost management and achieved record high
5 levels of customer and employee satisfaction.

6 **Q. Lastly, was the COVID-19 pandemic a factor considered in determining when**
7 **Northern would file its rate application?**

8 A. Yes, it was. Any decision to seek rate relief must consider the sometimes-competing
9 interests of multiple stakeholder groups, and how those interests are best served over the
10 long run. Although complicated under the best of circumstances, the economic stress and
11 prevailing uncertainty during 2020 weighed considerably in the Company's decision.
12 There was no question the COVID-19 pandemic had strained our customers and the
13 communities we serve. From that perspective, the decision to defer our rate filing was
14 straightforward. At the same time, all stakeholders have an interest in a financially stable
15 utility, and further deferring rate relief would put increasing pressure on the Company's
16 credit profile.

17 On balance, we determined it was in our stakeholders' best interests to defer our rate
18 application to the second half of 2021 even though by the end of 2020, Northern had
19 earned well below its authorized return. Given that earnings attrition and the importance
20 of our planned capital investments, we could not defer the filing date beyond 2021. Still,
21 we are conscious of this filing's rate effects for our customers and as such, our proposal
22 contains specific rate mitigation and ratepayer protection measures. We believe those

1 measures, along with our continuing commitment to cost control and operating
2 performance, will ensure our rates remain reasonable as we invest the capital needed to
3 maintain a safe and reliable distribution system.

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

5 **A. The Company's 2017 Rate Application**

6 **Q. Are the factors underlying the Company's application in this case similar to those in**
7 **DG 17-070?**

8 A. Yes, our request in this case is driven by factors that likewise motivated our 2017
9 application: (1) significant earnings attrition associated with unrecovered capital
10 investments during and since the Company's last multi-year rate plan; (2) timely recovery
11 of future capital investments in the plant and equipment needed to improve and grow the
12 distribution system; and (3) ratepayer protection provisions intended to temper the rate
13 effect on our customers.

14 **Q. Please summarize Northern's last multi-year rate application.**

15 A. The Company's most recent application, docketed as DG 17-070, was filed on June 5,
16 2017. In that case, Northern requested a base rate increase of approximately \$4.7 million,
17 with a proposed temporary rate increase of about \$2.0 million (subject to refund or
18 recoupment). Similar to the multi-year structure included in its 2013 filing (DG 13-086),
19 in its 2017 case the Company proposed a series of three step adjustments that would
20 become effective on July 1st of 2018, 2019, and 2020 reflecting eligible investments

1 made during calendar years 2017, 2018, and 2019.⁶ The revenue requirement associated
2 with those step adjustments included only the pre-tax rate of return, depreciation, and
3 property taxes on eligible capital invested each rate year.⁷ As measures of customer
4 benefits and protection, the multi-year plan included a cumulative cap on revenue
5 increases under the Rate Plan of \$7.1 million, an Earnings Sharing Mechanism, and a
6 Stay Out provision restricting the Company from filing a general rate case before 2021.⁸

7 On July 31, 2017, the Commission approved a stipulation and settlement agreement
8 among the Company, Commission Staff (“Staff”), and the Office of Consumer Advocate
9 (“OCA”) setting temporary revenue at about \$1.6 million, effective August 1, 2017.⁹

10 In April 2018, the Company, the OCA, and Staff entered into a comprehensive settlement
11 agreement resolving all contested issues in the case (the “Settlement”).¹⁰ Among other
12 things, the Settlement provided a permanent distribution rate increase of approximately
13 \$2.6 million, an offsetting annual revenue decrease of \$1.7 million to reflect the effect of
14 the Federal Tax Cuts and Jobs Act of 2017, and one revenue step increase effective May
15 1, 2018, with an option to the Company for a second step increase effective May 1, 2019
16 (subject to an revenue requirement cap of \$2.2 million on those investments).¹¹ If the
17 Company opted to implement the second step increase, its next distribution base rate case

⁶ See, Docket DG 17-070, Settlement Agreement on Permanent Delivery Rates, April 6, 2018, at 2.

⁷ Docket No. 17-070, Direct Testimony of David L. Chong, at 45.

⁸ Docket No. 17-070, Direct Testimony of David L. Chong, at 46.

⁹ Docket No. 17-070, Order No. 26,043 at 3, 5.

¹⁰ Docket No. 17-070, Settlement Agreement on Permanent Delivery Rates.

¹¹ Docket No. 17-070, Settlement Agreement on Permanent Delivery Rates, at 7.

1 would be based on an historical test year no earlier than the twelve months ended
2 December 31, 2020.¹² On May 2, 2018, the Commission approved the Settlement.¹³

3 **Q. Did the Company's filing in Docket DG 17-070 explain the factors underlying its**
4 **need to seek rate relief?**

5 A. Yes, Northern explained that although the step adjustments approved in DG 13-086
6 helped moderate earnings attrition, it continued to invest capital beyond 2015, the rate
7 year for the final step adjustment in that docket. Northern continued making investments
8 to enhance the safety and reliability of its existing gas distribution system, and to expand
9 the system to serve the growing demand for natural gas in New Hampshire.¹⁴ Those
10 continuing investments caused Northern's fixed costs - principally depreciation, property
11 taxes, and required returns - to increase. The increasing fixed costs, together with
12 ongoing inflationary pressures on operating expenses, forced the Company's costs to
13 increase faster than its revenues. If not addressed through rate relief, the resulting
14 earnings attrition would have eroded the Company's ability to maintain its financial
15 profile and credit quality and, therefore, its ability to access capital at reasonable terms.¹⁵

¹² Docket No. 17-070, Settlement Agreement on Permanent Delivery Rates, at 6.

¹³ See, Docket No. 17-070, Order No. 26,129, dated May 2, 2018.

¹⁴ See, Docket No. 17-070, Direct Testimony of David L. Chong, at 9.

¹⁵ See, Docket No. 17-070, Direct Testimony of David L. Chong, at 9-10.

1 **B. Continuing Earnings Attrition**

2 **Q. Please explain the term “earnings attrition,” and how it applies to utilities such as**
3 **Northern.**

4 A. In general, earnings attrition is the decline in returns that occurs when revenues do not
5 keep pace with costs. Like all utilities, Northern is capital-intensive, requiring ongoing
6 investments in long-lived physical assets and incurring the fixed costs associated with
7 them. Companies operating in capital-intensive sectors tend to share two traits - they
8 have relatively high proportions of fixed to variable costs (that is, they have relatively
9 high degrees of “operating leverage”), and they produce fewer dollars of revenue for each
10 dollar of invested assets than firms operating in other sectors.¹⁶

11 As with financial leverage, operating leverage tends to magnify the effect of changes in
12 revenue on operating income. Intuitively, if revenues remain steady or fall, the larger
13 portion of a utility’s cost structure, its fixed costs, will grow with increased investments,
14 and its earnings will fall at a faster rate. Even if the customer count increases and
15 operating costs are well-managed, revenue may not keep pace with costs, leading to
16 earnings attrition.

17 The second characteristic of capital intensity, the tendency to produce relatively little
18 revenue for each dollar of assets, reflects the need for timely recovery of invested capital.

¹⁶ 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 Here too, the reasoning is intuitive - absent timely recovery, revenue will not be sufficient
2 to cover incremental costs, leading to earnings attrition.

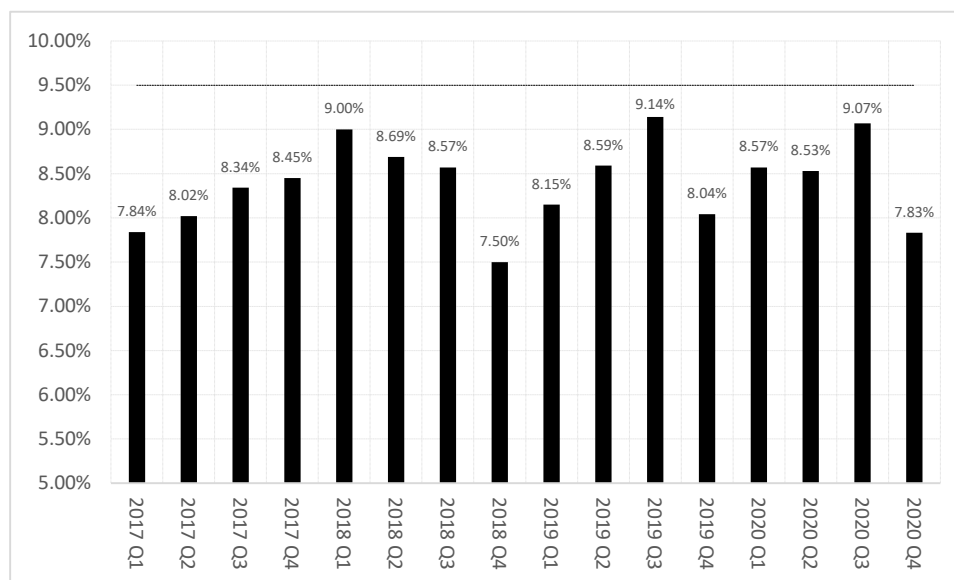
3 **Q. Has the Company's ongoing capital investments led to continued earnings attrition?**

4 A. Yes, our calculated revenue deficiency is driven largely by unrecovered costs associated
5 with capital investments not included in the step adjustments provided in the Company's
6 last multi-year rate filing, and investments made since 2018, the last rate year reflected in
7 those adjustments. Since the Company's filing in DG 17-070, which included a *pro*
8 *forma* 2016 test year, Northern's New Hampshire Division has invested approximately
9 \$89.19 million in its distribution system. Although the multi-year rate filing approved in
10 that case provided a measure of cost recovery, about \$64.73 million of those investments
11 (approximately 73.00 percent) have not been recovered under any rate mechanism.

12 Since the second calendar quarter of 2019 (when the last step adjustment approved under
13 DG 17-070 became effective), the Company's earned Return on Equity has remained
14 well below the 9.50 percent return authorized in that case. In fact, by the fourth quarter
15 of 2020, Northern under-earned its authorized return by about 170 basis points (see Chart
16 2 below).

1

Chart 2: Northern Earned ROE (2017 – 2020)¹⁷



2

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

4 A. Northern has focused on cost management and supporting customer growth. As
 5 discussed earlier, Unitil Corporation manages its utility operations in a centralized
 6 manner, realizing efficiencies from scale economies, avoiding duplicate activities, and
 7 adopting best practices. Those efforts are reflected in Operating and Maintenance
 8 (“O&M”) cost levels that, since 2016, increased at an annual average rate of 2.14
 9 percent.¹⁸ As a point of reference, over the same period the average annual (regional)
 10 inflation rate was about 2.19 percent.¹⁹

¹⁷ Provided in Company NH PUC 509.01 Quarterly Filing.

¹⁸ Refers to Northern NH O&M expense. Excludes Total Production Expense, Total Transmission Expense, and Customer Assistance Expenses.

¹⁹ 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, as noted earlier
2 fixed costs arise from capital investments. It is for that reason our capital investment plan
3 undergoes a rigorous budgeting and approval process. Ours is a “bottom-up,” multi-step,
4 iterative approach structured to evaluate and prioritize projects offering the most cost-
5 effective means of providing safe and reliable gas distribution service. The process
6 requires multiple rounds and levels of evaluation on a project-by-project basis,
7 culminating in review and approval by Unitil Corporation’s senior management, and
8 Board of Directors. Even after the overall capital budget is approved, each project must
9 be authorized before budgeted funds may be invested.²⁰

10 **C. Revenue Decoupling Proposal**

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

12 A. In Order No. 25,932 (Docket DE 15-137) the Commission required utilities to seek
13 approval of a decoupling or other “lost revenue recovery mechanism” as an alternative to
14 the existing Lost Revenue Adjustment Mechanisms (“LRAMs”). That requirement,
15 which was recommended by the Settling Parties in Docket DE 15-137, applied to any
16 distribution rate case “after the first EERS triennium, if not before.”²¹

17 Beyond complying with that procedural directive, the Company agrees with the
18 Commission’s observations regarding decoupling structures, and the benefits they
19 provide. As the Commission noted, LRAMs were meant to recover the portion of utility

²⁰ See also, Direct Testimony of Kevin E. Sprague and Christopher J. LeBlanc at 9.

²¹ Docket DE 15-137, Order No. 25,932, at 60. See also, Testimony of Timothy S. Lyons, at 4-5.

1 revenue requirements lost to energy efficiency activities. That is (as the Joint Utilities
2 observed), an LRAM would set the utility in the position contemplated by the approved
3 revenue requirement, but for efficiency activities; it was intended to isolate the revenue
4 effect of efficiency.²² At the same time, because a large portion of utility rates are
5 consumption-based, if sales were to increase it is possible that under an LRAM, revenues
6 could exceed the revenue requirement.²³

7 Whereas consumption-based pricing structures may create a financial incentive to recover
8 fixed and variable costs through increased sales volumes, revenue decoupling structures
9 do not. Rather, revenue decoupling removes the financial disincentive to pursue
10 initiatives intended to reduce consumption,²⁴ supporting policy objectives regarding
11 energy conservation.

12 **V. THE COMPANY'S PROPOSED MULTI-YEAR RATE PLAN**

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

14 **Q. Please briefly describe the principal elements of the Company's proposed rate relief.**

15 A. As summarized below (and as explained more fully in the testimony of Messrs. Goulding
16 and Nawazelski), our proposed multi-year structure includes the basic components
17 contained in the settlement agreement approved by the Commission in our last rate
18 proceeding: (1) a base rate increase of approximately \$7.8 million based on the calendar
19 year 2020 test year; (2) a temporary rate increase of \$3.2 million, effective October 1,

²² See, Docket DE 15-137, Order No. 25,932, at 26-27.

²³ Docket DE 15-137, Order No. 25,932, at 59. See also, Direct Testimony of Timothy S. Lyons, at 7-8.

²⁴ See, Direct Testimony of Timothy S. Lyons, at 10.

1 2021; and (3) a series of three annual step adjustments reflecting the fixed costs
2 associated with non-growth related capital investments over the calendar years ended
3 2021, 2022, and 2023. If approved without modification, a typical residential heating
4 customer using 62 therms per month would see a 13.5 percent increase in their total bill
5 after accounting for changes to other reconciling mechanisms.

6 Our calculated revenue deficiency is based on a test year ended December 31, 2020,
7 adjusted for known and measurable changes for ratemaking purposes. The revenue
8 requirement reflects a rate base of \$188.72 million, and an overall Rate of Return of 7.75
9 percent, including a Return on Equity of 10.30 percent. Of note, the total rate base
10 includes approximately \$57.03 million of gross plant additions since December 2018, the
11 rate year for the last step adjustment provided in DG 17-070.²⁵

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

13 A. In keeping with RSA 378:27, our temporary rate request intends to provide a reasonable
14 return on our existing utility investments. To that end, our proposed temporary rates are
15 based on the Company's year-end rate base, with limited known and measurable
16 changes,²⁶ combined with an overall Rate of Return of 7.33 percent adjusted for the
17 effective tax rate of 27.08 percent. Because our proposed overall Rate of Return in this
18 case is less than the 7.59 percent return approved in DG 17-070,²⁷ our temporary rate

²⁵ Compares Pro Forma December 31, 2020 Utility Plant in Service of \$301,245,498 as shown on Schedule RevReq-5, Column 7, Line 1 to Gross Utility Plant of \$244,211,724 as shown on the Company's 2018 Annual Report to the Commission (Form F-16 G) NHPUC Page 10a, New Hampshire Division Utility Plant, December 2018).

²⁶ See, Testimony of Christopher Goulding and Daniel Nawazelski Schedule CGDN-3, Schedule RevReq-3, for known and measurable changes included in temporary rates.

²⁷ Docket No. 17-070, Settlement Agreement on Permanent Delivery Rates.

1 request is not based on our currently authorized overall return. Rather, the proposed 7.33
2 percent Rate of Return reflects our currently proposed capital structure and cost of debt,
3 together with the 9.50 percent Cost of Equity approved in DG 17-070 (rather than the
4 10.30 percent Cost of Equity proposed in this case).

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

6 A. Similar to the structure proposed in DG 17-070, our proposal in this proceeding includes
7 a series of step adjustments to reflect the fixed costs (return, depreciation, and property
8 taxes) associated with eligible capital investments during calendar years 2021, 2022, and
9 2023. Eligible investments will include only non-growth related plant additions, which
10 represent about 76.57 percent of all forecasted investments during the three calendar
11 years ended 2023.²⁸

12 Each March 31st (beginning 2022), the Company will make a compliance filing to recover
13 the revenue requirement associated with eligible plant additions made during the prior
14 calendar year. The approved revenue requirement then would be recovered over rate
15 years beginning August 1st and ending July 31st of the following year. Under that
16 structure, the Company would make its first compliance filing on or before March 31,
17 2022, identifying the revenue requirement associated with eligible investments made
18 during calendar year 2021, to be recovered over the rate year August 1, 2022 through
19 July 31, 2023.²⁹

²⁸ See, Testimony of Kevin E. Sprague and Christopher J. LeBlanc at 16.

²⁹ Messrs. Goulding and Nawazelski present the proposed step adjustments in their direct testimony, see Exhibit CGDN-2.

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

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

4 A. First, as discussed earlier, Northern remains committed to both operating and capital cost
5 control. Second, and as also explained above, the Company chose to defer its filing into
6 the second half of 2021, even though we had meaningfully under-earned our authorized
7 return. Third, although we understand that by some measures New Hampshire recently
8 has fared better than many other parts of the country,³⁰ we are mindful of the continuing
9 unease in the region. We therefore request a Return on Equity of 10.30 percent, toward
10 the lower end of the 10.02 percent to 11.64 percent range recommended by our expert.³¹

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.³² 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, even as long-term interest rates
18 have been unstable.³³

³⁰ For example, as June 2021, New Hampshire's 2.90 percent unemployment rate was the third lowest in the United States. Source: U.S. Bureau of Labor Statistics, <https://www.bls.gov/web/laus/laumstrk.htm>, accessed July 27, 2021.

³¹ Direct Testimony of John Cochrane, at 3.

³² See, Direct Testimony of Christopher Goulding and Daniel Nawazelski, Schedule CGDN-1.

³³ See, Testimony of John Cochrane, at 21.

1 We also propose a Revenue Requirement Cap, which limits the three-year step
2 adjustment cumulative revenue increase to \$10.50 million. Any amount of the revenue
3 requirement above that cap would be deferred at the overall rate of return established in
4 this docket.

5 We further propose a Return on Equity collar, which would share earnings above 11.00
6 percent on an equal basis between customers and shareholders. The Company would
7 retain the downside risk of earnings below 10.30 percent, although if its earned Return on
8 Equity falls below 7.00 percent during the Stay Out period, the Company may file a
9 request for base rate relief.³⁴

10 **C. Revenue Decoupling Mechanism**

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

12 A. As Mr. Lyons explains in more detail, the Company proposes a full revenue decoupling
13 mechanism that would reconcile monthly variances between actual and authorized
14 revenue per customer, by rate class. Under that proposal, the authorized revenue per
15 customer would be adjusted to reflect the incremental revenue requirement associated
16 with each of the three annual step adjustments. We also propose a deferral account that
17 would carry, with interest, cumulative monthly variances (by rate class) over the twelve-
18 month measurement period ended July 31st. A Revenue Decoupling Adjustment Factor
19 then would refund customers any amount of revenues greater than authorized levels, or
20 surcharge customers to the extent actual revenues fell below authorized levels. The

³⁴ See, Testimony of Christopher Goulding and Daniel Nawazelski, Schedule CGDN-1.

1 proposed adjustments would be filed with the Commission 45 days before the effective
2 date of November 1, for effect over the twelve-month period ended October 31st.

3 Lastly, the Revenue Decoupling Adjustment in any given year would not exceed 2.50
4 percent of the total revenue from delivered sales over the twelve month period ended July
5 31st. As Mr. Lyons explains, the cap would be applicable only to revenue shortfalls,
6 providing a further means of mitigating potential customer bill impacts.³⁵

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

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

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

- 15 • *Mr. Christopher Goulding, Director of Rates and Revenue Requirements, and*
16 *Mr. Daniel Nawazelski, Manager, Revenue Requirements, present the*
17 *Company's Revenue Requirement, including test year revenues and expenses,*
18 *including the effects of the COVID-19 pandemic on the test year; our*
19 *proposed three-year step adjustments; our proposed Earnings Sharing*

³⁵ See, Direct Testimony of Timothy S. Lyons, at 16.

1 Mechanism and the Company's proposed temporary rates. Messrs. Goulding
2 and Nawazelski also introduce the proposed tariffs.

- 3 • *Mr. John Closson, Vice President of Shared Services and Organizational*
4 *Effectiveness, and Mr. Joseph Conneely, Director of Human Resources,*
5 address the Company's compensation and benefits programs.
- 6 • *Mr. Kevin Sprague, Vice President of Engineering, and Mr. Christopher*
7 *LeBlanc, Vice President of Gas Operations* address the Company's annual
8 planning and capital investment plan reflected in the proposed step
9 adjustments under the multi-year rate plan.
- 10 • *Mr. Mark Lambert, Vice President of Customer Operations* explains the
11 investment made by the Company to replace its legacy Customer Information
12 System, which had been in service for more than twenty-two years.
- 13 • *Mr. Daniel Hurstak, Chief Accounting Officer and Controller,* provides the
14 Company's Lead-Lag study.
- 15 • *Mr. Todd Diggins, Northern's Treasurer and Director of Finance, and Andre*
16 *Francoeur, Senior Financial Analysts II,* supports the Company's proposed
17 capital structure, and explains the importance of maintaining Northern's
18 financial strength and integrity,
- 19 • *Ms. Carole Beaulieu, Sales, Customer Service and Credit Manager,* discusses
20 the Company's proposed Arrearage Management Program.

- 1 • *Mr. Jonathan Giegerich, Tax Manager*, describes the effects of the Tax Cuts
2 and Jobs Act of 2017; the Coronavirus Aid, Relief, and Economic Security
3 Act; and the Families First Coronavirus Response Act on Northern's
4 accounting for income taxes and how those effects are presented in the current
5 rate case cost of service schedules.
- 6 • *Mr. Ronald Amen and Mr. John Taylor of Atrium Economics* present the
7 Company's allocated cost of service and marginal cost of service studies,
8 revenue apportionment and revenue targets by rate class, rate design, and bill
9 impacts.
- 10 • *Mr. Timothy Lyons, Partner, ScottMadden, Inc.* provides the Company's
11 proposed revenue decoupling structure.
- 12 • *Mr. John Cochrane, Senior Managing Director, FTI Consulting, Inc.*, presents
13 analyses supporting the investor-required Return on Equity reflected in the
14 Company's revenue requirement.
- 15 • *Mr. Ned Allis, Vice President, Gannett Fleming* presents the depreciation
16 study used to establish the annual depreciation rates for the Company's
17 electric utility plant.

18 **VII. SUMMARY AND CONCLUSIONS**

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

20 A. Over the past several years, the Company has focused on delivering safe, reliable, and
21 affordable service while investing in the assets to support growth and improve the

1 system. We are proud of our past accomplishments and we look forward to further
2 supporting New Hampshire's policy objectives. The multi-year plan we propose in this
3 application will allow Northern to continue investing in the assets needed to provide the
4 safe and reliable service our customers require, and the rate mechanisms we propose will
5 ensure just and reasonable rates with a reasonable opportunity to earn its authorized rate
6 of return without the need to file frequent rate cases.

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

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

13 A. Yes, it does.

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