

STATE OF NEW HAMPSHIRE
Intra-Department Communication

DATE: September 22, 2022
AT (OFFICE): NH Department of Energy

FROM: Alicia Chelmo, Examiner

SUBJECT: Northern Utilities, Inc.
Rate Case Expenses for DG 21-104
FINAL Audit Report

TO: Tom Frantz, Director Regulatory, NH Department of Energy
Faisal Deen Arif, Director Gas, Regulatory, NH Department of Energy
Paul Dexter, Attorney, NH Department of Energy

Introduction

Northern Utilities (Northern) on August 2, 2021, filed for temporary and permanent rate increases, which was docketed as DG 21-104. Northern petitioned to implement new permanent rates beginning September 1, 2021. On August 17, 2021, Northern, the Office of Consumer Advocate (OCA) and the staff of the Department of Energy (DOE) filed a settlement agreement endorsing temporary rates effective October 1, 2021.

Order 26,650 was filed on July 20, 2022, and effective August 1, 2022, regarding permanent rates and approved a settlement agreement allowing the recovery of prudently incurred rate case expenses. Per Puc 1905.02 the request for recovery of rate case expenses shall be filed with the Public Utilities Commission no later than 30 days after the Commission's final order. The filed calculations were received by the Commission/DOE on August 18, 2022, reflecting rate case expenses of \$337,470.23.

A Procedural Order issued September 7, 2022, required Northern to update the rate case expenses not later than September 16, 2022. Updated calculations were filed timely on September 16, 2022, reflecting updated total rate case expenses of \$338,696.23. Refer to the *Miscellaneous and Administrative* section and *Department of Energy* section of this report for updated information.

In accordance with Puc 1904.01, it does not appear that any rate case expense cost has been recovered from customers. The costs have been accumulated in a deferred asset account, 30-40-00-00-182-03-40 Regulatory Asset – Rate Case – NH, pending Commission determination of the recovery amount and manner.

Puc 1905.01 requires the utility to file, at the beginning of the rate case and every 90 days during the pendency of the rate case, a detailed description of rate case expenses incurred and projected to be incurred, a list of services to be rendered by vendor, and the total estimated costs of each service. The original projected rate case expenses were filed on Schedule RevReq-7 on August 2, 2021. Additional rate case expense reports were filed on October 28, 2021, January 28, 2022, and April 29, 2022.

Request For Proposal

Northern engaged in a procurement process to obtain outside expert consultants to prepare several specialized studies for the rate case. Northern provided Audit with their procurement procedure and selection process. Per Northern's procurement procedures the Company issues a Request for Proposal (RFP) and then analyzes the bids based on factors such as corporate ability, project team capability, technical approach, overall proposal, pricing, commercial review and if there are any interviews. When winning bidders are nominated, the highest scoring consultant(s) is selected and then a Rate Case Consulting Services Agreement is signed, and consultant(s) not selected are notified.

An email invitation regarding the RFP was sent to 10 consulting firms to log into Northern's sourcing platform "Bonfire". Audit questioned the manner in which the RFP was distributed to potential bidders. Northern clarified that within "Bonfire", each potential bidder "*can indicate their intent to bid, download a copy of the RFP, post any clarifying questions (which are posted for all bidders to see), and upload their proposal*" all within this sharing platform. Northern anticipated 19 bids among the various work areas and received 12. The Company also stated the following in the final bidder selection process, "*The bid winners were recommended by the Company's Regulatory Services Department management to Robert Hevert, the Company's Senior Vice President, CFO & Treasurer. Mr. Hevert approved the bid winners that were recommended by the Regulatory Services team*".

Four consulting firms were selected to provide Northern with a Depreciation Study, Accounting Cost of Service Study (ACSS) and Marginal Cost Study (MCS), Rate Design, Return on Equity and Revenue Decoupling:

- Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) was selected to provide services for the Depreciation Study
- Atrium Economics (Atrium) was chosen for the ACSS, MCS and Rate Design study
- FTI Consulting (FTI) was chosen for the Return on Equity category.
- ScottMadden, Inc. was selected for the Revenue Decoupling study.

The four firms were selected based on factors such as cost, availability to provide the services and experience working with Unitil in the past, among other items. It was noted in the Rate Case Expense filing cover letter dated August 18, 2022, that in regard to the cost studies/rate design categories the lowest bidder was not chosen. "*The winning bidder was chosen based on additional considerations including corporate and project*

team capability, technical approach, proven ability to meet deadlines and direct positive experience with the Company.”

Audit reviewed the RFP bids of the four selected firms and Rate Case Consulting Service Agreements without exception. Hourly rates and “Do Not Exceed Costs” were verified to the invoices generated by the four firms.

Rate Case Expense Summary

Northern provided a Rate Case Expense Summary index on August 18, 2022, in the amount of \$337,470.23. Audit reviewed all of the reported expenses and verified each to a deferred general ledger account, 30-40-00-00-182-03-40 Regulatory Asset – Rate Case – NH. Audit also reviewed the updated calculations and 1 invoice in the amount of \$1,226.00, filed on September 16, 2022, which are included in the summarized costs below. The expenses summarized by category were reported to be:

| | |
|--|---------------------|
| Depreciation Study | \$34,985.00 |
| Accounting Cost of Service Study (ACSS), Marginal Cost Study (MCS), and Rate Design | \$177,801.25 |
| Return on Equity | \$38,674.00 |
| Revenue Decoupling | \$36,447.50 |
| Miscellaneous & Administrative Costs: | \$5,832.23 |
| Dept. of Energy Costs: | <u>\$44,956.25</u> |
| | \$338,696.23 |

Depreciation Study \$34,985.00

Nine Gannett Fleming invoices were reviewed by Audit in the amount of \$34,985.00 for the depreciation study. Invoices’ due dates were dated from the period ending June 28, 2021, through the period ending July 29, 2022. Audit recalculated all of the hours multiplied by the rate without exception.

All nine invoices noted a phase number indicating if it was related to “Do Not Exceed Costs” also known as “pre-filing” costs. Phase 100 was designated for “pre-filing”/Do Not Exceed costs while phase 200 was designated for the “post-filing” work. Invoices consisted of a total of hours for each labor classification for the month multiplied by the appropriate rates, which Audit verified the appropriate rates were charged per Gannett Fleming’s proposal. There were no descriptions of the actual work performed on the invoices, so designated phase numbers assisted in differentiating between “pre-filing” and “post-filing” costs.

All nine invoices had the proper Northern approval and general ledger coding on them. The “Do Not Exceed Costs” per the Rate Case Consulting Services Agreement (Services Agreement) was in the amount of \$44,000. The final costs of “pre-filing” expenses totaled \$26,830 and “post-filing” expenses totaled \$8,155, which combined were less than the “Do Not Exceed” Amount listed in the Services Agreement. Audit

notes Gannett Fleming did not provide an estimate of “post-filing” costs in their proposal estimate but did provide this explanation:

“These services will be conducted on a time-and-materials basis and are excluded from the cost proposal”.

When Audit questioned Northern why only 2 out of 4 consulting firms submitted estimated post-filing costs (Gannett Fleming and FTI Consulting being the firms who did not submit post-filing estimates), the Company responded that while they find post-filing estimates “*helpful, the Company uses it for informational purposes only*”. The Company further explained that post-filing costs can vary greatly due to different circumstances arising such as lengthy discovery requests or the length of hearings. When reviewing the hourly rates bid for post-filing work “*Generally, the Company expects that the number of hours would be the same for post filing work for all consultants*”.

No exceptions were noted with the nine Gannett Fleming invoices.

Accounting Cost of Service Study (ACSS), Marginal Cost Study (MCS), and Rate Design \$177,801.25

Eleven Atrium Economics invoices totaling \$177,801.25 were reviewed in detail by Audit. Audit recalculated the invoice total by taking the hours per employee times the stated rate, and confirmed the appropriate rate was the same as the accepted proposal terms. The supporting detail for hours was identified by person, the duration of time for the month they worked on the file, and the appropriate rate. Audit used the rate table, labeled “Table 3 Billing Rates” from their proposal to confirm the same individuals were being billed at the same rates each month. A description of the services completed was noted on the invoices in the “Notes” section of the invoices.

Invoices were dated from the period ending May 28, 2021, through the period ending June 7, 2022. All invoices had the proper Northern approval and general ledger coding on them. The “Do Not Exceed Costs” per the Services Agreement was in the amount of \$124,250 or the “pre-filing costs”. Total pre-filing costs were \$124,242.50 and were under budget. It was estimated that “post-filing” costs would be \$76,360 and the final costs for this totaled \$53,558.75, again being under the estimated budget. Audit found no exceptions in the review of the eleven invoices.

Return on Equity Study \$38,674.00

Six invoices totaled the \$38,674.00 in charges for the Return on Equity Study from FTI Consulting. All six invoices were dated from the period ending July 31, 2021, through the period ending June 30, 2022. All invoices had Northern’s approval for payment and the appropriate general ledger account.

Audit recalculated the FTI employees' hours by the appropriate rate specified in the rate table provided in the proposal and verified it to the supporting hourly detail. Invoices had detailed descriptions of work performed, the day it was completed and the employee who performed the services.

The "Do Not Exceed Costs" per the Services Agreement were \$23,400. The total pre-filing costs or "Do Not Exceed Costs" were \$17,634 and were under budget. Audit notes that the Company did not provide any estimate for post-filing costs as addressed in this report under the Depreciation Study. The total post-filing costs came to \$21,040.00. Audit recommends Northern ensure bidders try to provide the best estimate possible or, at a minimum, an explanation as to why they cannot provide an estimate.

Revenue Decoupling \$36,447.50

ScottMadden Management Consultants issued twelve invoices referencing "Professional services provided for project 368-014, Unitil NH 2021 Revenue Decoupling-NUNH", all of which included the appropriate Northern approval and general ledger account. An estimate for "pre-filing" or Do Not Exceed Costs totaled \$22,520 and "post-filing" costs were estimated to be \$18,016.00. The actual pre-filing costs totaled \$17,652.50 and post-filing totaled \$18,795.00.

All invoices were recalculated without exception. Invoices had descriptions of work performed, the day it was completed and the employee that performed the services. All invoices contained the appropriate approval to pay and GL account number. Audit found no exceptions in the review of the twelve invoices.

Miscellaneous and Administrative Costs: \$5,832.23

One invoice from St. Jean Associates was reviewed by Audit for courier services of three boxes totaled \$89. Two boxes were delivered to the DOE and one box was delivered to OCA. The invoice, dated August 10, 2021, was coded and approved for payment by Northern.

There were two invoices from Staples with a combined totaled \$2,061.23. One invoice was for 15 of each volume 1 and 2 Unitil Binders. The original quoted contract from Staples was for \$1,916.23 and stated within the included costs "*Ground Shipping*" on Bates page 80 of the filing. An initial invoice was billed on 8/28/21 for the contracted price of \$1,916.23 with a note on the bottom "*Backorder of 8360060530*" which was the order number assigned to the binders. The invoice listed the order date as 8/2/2021 which was also the prepared date of the contract. A second invoice was billed on 10/2/2021 for \$145 for shipping costs. This invoice stated an order date of 8/11/2021 and still had the memo of "*Backorder of 8360060530*" on the bottom. On the Staples Contract, under the Terms and Conditions, on Bates page 82, it stated "*Price includes ground freight, unless otherwise noted*". The Terms and Conditions further stated that "*Staples reserves the right to produce and invoice up to plus/minus 5 percent of original order quantity*". Additionally, it stated that "*(i) prices are valid for 60 days of the date of*

the Quote". Audit takes issue with the original contract listing Ground Shipping as an included cost and that \$145 for shipping is not 5% of 1,916.23. Furthermore, between the prepared date of the contract, 8/2/2021 and the final order date of 8/11/2021, this is well within 60 days of the Staples contract pricing stipulation. Audit also notes that both Staples invoices did not have an approval to pay or list the GL account number on them. Audit recommends the cost of **\$145 be excluded** since it is beyond the Terms and Conditions set forth by the vendor Staples.

There were two invoices for transcription services originally filed with the Commission on August 18, 2022, for a combined total of \$831. A third transcription invoice was provided in the updated Rate Case Expense filing on September 16, 2022, totaling \$1,226.00 for a total updated cost for transcription services of **\$2,057.00**. Two of the three transcription invoices were billed by Steven E. Patnaude, LCR. One invoice was for a 68-page transcript with an original and 2 copies and included an appearance fee for the Pre-hearing conference held on 9/16/21 and totaled \$548.00. The second invoice totaling \$1,226 was for a 181-page transcript with an original and 2 copies and included an appearance fee for the 6/7/22 Hearing on Permanent Rates. The invoices were not broken down by appearance fee or time, and costs for the originals and additional copies of the transcripts were not evident. The invoices were dated 11/23/2021 and 7/9/22 and both included the appropriate Northern approval and GL account number.

One of the three transcription invoices was from Susan J. Robidas, NH LCR totaling \$283 and was dated 11/9/2021. This invoice did include a breakdown of the appearance fee totaling \$125.00 and costs of 4 transcripts totaling \$158. Audit notes that while Steven Patnaude's invoice had the Northern approval to pay and GL account number, Susan Robidas' did not and had a handwritten note on the invoice "Not entered". The Company clarified:

"All of our invoices require approvals, and they are all processed and approved electronically through our online "Universal Payment System". All of the voucher packages are stored online in our "DataView" system."

Audit reviewed the complete voucher package, provided to Audit, for the Robidas invoice, and verified the appropriate approval to pay and posting to the general ledger.

There were two invoices from Edward C. David & Company CPAs PLLC totaling **\$1,625.00**. When Audit questioned Northern why an outside accounting firm was hired, the Company responded with the following:

"The Company's former Tax Manager, Jonathan Giegerich, left Unitil after the Northern rate case was filed. He had authored testimony in the case relating to tax issues. He is now employed by Edward C. David & Company, and we contracted with him (through his new firm) to assist in some tax-specific discovery responses, and to attend the hearing on June 7."

The invoices related to these services consisted of one invoice billed on 1/31/2022 and listed work related to “Rate case Support” for a total of \$375.00 for 1.5 hours of time. The second invoice billed on 6/15/2022 was for reviewing hearing documents and 4 hours of attendance at the hearing. This invoice totaled \$1,250.00 and Audit calculated that both invoices used the same rate per hour. Audit noted that both invoices initially filed with the PUC did not have any type of discernable approval to pay by Northern. However, the Company subsequently provided the overall voucher package to Audit, which included proper approvals and evidence of posting to the general ledger.

Department of Energy Costs: \$44,956.25

Audit reviewed eight invoices relating to Department of Energy consultant fees totaling \$44,956.25. All invoices were from Blue Ridge Consulting for work related to Revenue Requirements, from November 2021 through June 2022. Audit recalculated the hours and rates and verified a project number and Rate Case number were present. Audit confirmed all invoices had the appropriate Northern approval to pay. Audit found no exceptions in the review of the invoices from Blue Ridge Consulting.

Audit understands that the Department of Energy also contracted with Dr. Woolridge for consulting expertise related to Cost of Capital. However, the invoice associated with that work has not yet been received by Northern. The Company stated in the updated Rate Case Expense filing dated 9/16/22 that “This invoice will be processed by the Company when received, and will be included in the LDAC”.

Summary

Based on a review of the reported rate case expenses, in compliance with the settlement agreement approved by Order 26,650, and in accordance with the NH Puc 1900 rules, Audit recommends that the reported expenses of \$338,696.23 be adjusted as follows:

| | <u>Filing Amount</u> | <u>Recommendation</u> | <u>Adjusted Amount</u> |
|---|-----------------------------|------------------------------|-------------------------------|
| Depreciation Study | \$34,985.00 | \$0 | \$34,985.00 |
| Accounting Cost of Service Study (ACSS), Marginal Cost Study (MCS), and Rate Design | \$177,801.25 | \$0 | \$177,801.25 |
| Return on Equity | \$38,674.00 | \$0 | \$38,674.00 |
| Revenue Decoupling | \$36,447.50 | \$0 | \$36,447.50 |
| Miscellaneous & Administrative Costs: | \$5,832.23 | \$(145.00) | \$5,687.23 |
| Dept. of Energy Costs: | <u>\$44,956.25</u> | <u>\$0</u> | <u>\$44,956.25</u> |
| | \$338,696.23 | \$(145.00) | \$338,551.23 |

Company Response

The Company agrees with the recommended adjustment, and will reduce its Rate Case Expense by \$145.00, and this amount will be deducted from the LDAC. As noted above, the Company has not received the DOE invoice for Dr. Woolridge's services. The Company will promptly process the invoice when it is received, and will include the invoiced amount in the LDAC.