STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 7, 2022 - 9:07 a.m.
21 South Fruit Street
Suite 10
Concord, NH

[Hearing also conducted via Webex]

RE: **DG 21-104**
NORTHERN UTILITIES, INC.:
Request for Change in Rates.
(Hearing regarding permanent rates)

PRESENT: Chairman Daniel C. Goldner, Presiding
Special Commissioner F. Anne Ross

Tracey Russo, Clerk
Doreen Borden, PUC Hybrid Hearing Host

APPEARANCES: **Reptg. Northern Utilities, Inc.:**
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Matthew Campbell, Esq.

Reptg. Residential Ratepayers:
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Julianne M. Desmet, Esq.
Maureen Reno, Dir./Rates & Markets
Office of Consumer Advocate

Reptg. New Hampshire Dept. of Energy:
Paul B. Dexter, Esq.
Stephen Eckberg, Analyst/Electric Group
(Regulatory Support Division)

Court Reporter: Steven E. Patnaude, LCR No. 52

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ROBERT HEVERT **CHRISTOPHER GOULDING**
DANIEL NAWAZELSKI **TODD DIGGINS**
ANDRE FRANCOEUR **KEVIN SPRAGUE**
CHRISTOPHER LeBLANC **JOSEPH CONNEELY**
MARK LAMBERT **DANIEL HURSTAK**
CAROLE BEAULIEU **JONATHAN GIEGERICH**
JOHN COCHRANE **TIMOTHY LYONS**
NED ALLIS **JOHN TAYLOR**
RONALD AMEN

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DANIEL NAWAZELSKI
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4	Northern Utilities, Inc. Corrected Tariff Page	*premarked*
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6	Northern Utilities, Inc. Revised Schedules RAJT-1, *Bates Page 978*, and RAJT 10, *Bates Pages 1023-1027*	*premarked*
7	Office of Consumer Advocate Testimony and Attachments of Maureen L. Reno	*premarked*
8	Office of Consumer Advocate Testimony and attachments of Courtney Lane and Ben Havumaki	*premarked*
9	N.H. Dept. of Energy Testimony and attachments of Stephen R. Eckberg	*premarked*
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EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
13	Settlement Agreement, Attachments and Support *[REDACTED - For PUBLIC Use]*	*premarked*
14	Northern Utilities, Inc. Request for Change in Rates Filing **{CONFIDENTIAL & PROPRIETARY}**	*premarked*
15	Settlement Agreement, Attachments and Support **{CONFIDENTIAL & PROPRIETARY}**	*premarked*
16	Northern Utilities, Inc. Revised Page 8 to Settlement Attachment 6	*premarked*

RECORD REQUEST TO DEPARTMENT OF ENERGY: 147

(The bench requested an analysis of the effect on return on equity if the capital structure ratio was modified from the agreed to 48% debt/52% equity to 50%/50% while holding the agreed to revenue increase at $6,091,477 and cost of debt at 4.93%.)

P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning, everyone. I'm Chairman Goldner. I am joined today by Special Commissioner Ross.

We're here this morning in Docket DG 21-104 for a hearing regarded a Settlement Agreement for Northern Utilities' request for change in rates.

Let's take appearances, beginning with Northern Utilities.

MR. P. TAYLOR: Good morning, Commissioners. Patrick Taylor, on behalf of Northern Utilities, Inc. With me today as well, to my right, are my co-counsel, Matthew Campbell and Matthew Fossum.

You may have noticed that we've brought some other folks with us today. I won't go through them all now, but we do intend to put them on -- or, have them all adopt their testimony as witnesses. So, you'll get a chance to hear from them soon.

CHAIRMAN GOLDNER: Thank you. And the Office of Consumer Advocate?

MR. KREIS: Good morning, Mr. Chairman,

Commissioner Ross. I'm Donald Kreis, the Consumer Advocate, here representing residential customers. With me today is our Staff Attorney, Julianne Desmet, and Maureen Reno, our Director of Rates and Markets.

CHAIRMAN GOLDNER: Thank you. The Department of Energy?

MR. DEXTER: Good morning, Mr. Chairman, Commissioner Ross. I'm appearing in the back here to make room for the witness panel up at our typical table.

My name is Paul Dexter. I'm appearing on behalf of the Department of Energy. I'm joined in person today by Steve Eckberg, from the Regulatory Support Division.

And, not appearing as co-counsel, but joining us today, is our new attorney at the Department of Energy, Matthew Young, sitting to my far left.

CHAIRMAN GOLDNER: Very good. Thank you, Mr. Dexter.

For preliminary matters, I'll just note that, in a May 27th and April 6th filing, Northern enclosed a Motion for Confidential

Treatment in connection with the Settlement Agreement. We'll treat this material as confidential for purposes of the hearing today, and take the Motions for Confidential Treatment under advisement.

Do any of the parties object to the Motion for Confidentiality or the motions?

MR. DEXTER: The Department of Energy has no objection.

CHAIRMAN GOLDNER: The Office of Consumer Advocate?

MR. KREIS: No objection from the OCA.

CHAIRMAN GOLDNER: Thank you. Okay.

Exhibits 3 through 16 have been prefiled and premarked for identification, and will be adopted by witnesses today. Exhibits 14 and 15 are marked "confidential", and will be treated as confidential for today's hearing.

Is this correct? And is there anything else that we need to cover regarding exhibits?

MR. P. TAYLOR: Yes, Commissioners. Yesterday, although it was after 4:30, we filed Hearing Exhibit 16, which is a correction to an attachment to the Settlement that we discovered while we were preparing for the hearing. It's something that we're going to correct on the stand today, and it's something that we anticipated you would ask us to file as a record request. So, we filed it as a hearing exhibit yesterday.

I have a hardcopy of that for you and for Commissioner Ross. And I'd be happy to bring that up to you at this point, if you would like to have it for reference.

CHAIRMAN GOLDNER: Commissioner Ross would like a copy. Thank you. I have one. I have an electronic copy.

I will also note that Exhibits 13 and 15, spreadsheets were filed, which was much appreciated. That makes things a lot easier for us. So, thank you for that.

Okay. Are there any other preliminary matters, before we have the witnesses sworn in?

MR. P. TAYLOR: I do have a couple that I'd like to address. And, actually, it may help for me to just do a little bit of table-setting, as to how I would intend to put the witnesses through, because we do have a number of folks here today.

Just as an additional -- as an initial matter, our witness, John Closson, is unable to participate today. He submitted joint testimony with Joseph Conneely. Joe Conneely -- or, Joseph Conneely is going to adopt that testimony in its entirety today. So, he will be able to answer any questions that you may have.

CHAIRMAN GOLDNER: Okay.

MR. P. TAYLOR: Another one of our witnesses, Jonathan Giegerich, is here today. He has a obligation after twelve o'clock that is immoveable. So, to the extent that you have any questions for Mr. Giegerich, we'd ask that you put them to him prior to noon, and excuse his participation in the hearing after that time.

Beyond that, what I'd like to do, because we have so many witnesses, is I'm going to ask a series of questions to all of our witnesses, and have them adopt their testimony. I then have some specific questions for certain witnesses related to corrections that they may have to make, and I'll ask them to make those corrections at that time. And I'll try to be as clear about that as I possibly can.

After that, we do have a Settlement panel today of six witnesses. And then, I would ask the Settlement panel a series of questions regarding the Settlement Agreement, which we would do in the normal course.

And, so, I'm just sort of laying that out now, so we can move through it, hopefully, in an efficient way. We had a recent case where it took up a fair amount of time. So, I'd like to trim that down.

MR. KREIS: If I might, Mr. Chairman, as the representative of the folks who pay for all of this, I would just like to note for the record that RSA 541-A:33, Paragraph II, says "The rules of evidence shall not apply in adjudicative proceedings. [And] any or oral or documentary evidence may be received."

And, in my respectful opinion, and this is a point I have made to several successive chair people of the PUC, because "any oral or documentary evidence may be received" pursuant to the Administrative Procedure Act, going through this catechism where, you know, a zillion people come in here just for the purpose of adopting their testimony live in the hearing room, is an unnecessary use of ratepayer resources.

CHAIRMAN GOLDNER: All right. Thank you, Mr. Kreis. Whoops. All right. Thank you, Mr. Kreis.

Will we have a single witness panel with the DOE, OCA, and the Company represented? Or do the parties want to go in series?

MR. P. TAYLOR: We're going to have separate panels today. So, the Company will have their panel. And my understanding is -- well, I'll let the Department and the Consumer Advocate speak for themselves here.

MR. DEXTER: Yes. The Department of Energy would plan to testify after the Company, either before or after the Consumer Advocate, whatever is the pleasure of the Bench. We have three witnesses today that will testify; one here in person, Dr. Woolridge and Donna Mullinax are appearing remotely. And I plan to put those on as a DOE panel, to both adopt their testimony and speak in support of the Settlement.

CHAIRMAN GOLDNER: Okay. Thank you.

The Consumer Advocate?

MR. KREIS: The Consumer Advocate plans on presenting Ms. Reno to testify in support of the Settlement Agreement. And we can do that whenever it is your pleasure.

CHAIRMAN GOLDNER: Okay. Would you be interested in combining your panel with the Department of Energy or would you prefer to be separate?

MR. KREIS: I have no opinion. I think it's up to you and to the Department.

CHAIRMAN GOLDNER: Okay. Mr. Dexter, do you have any preference?

MR. DEXTER: I don't have any objection to making it a four-person panel. If that moves things along, then it sounds like a good idea.

CHAIRMAN GOLDNER: It might be faster. Okay. Thank you.

Okay. Very good. Any other preliminary matters?

MR. P. TAYLOR: I have -- I had one more thing that I'd like to raise.

You mentioned the Motions for Protective Treatment earlier. I just wanted to note that we did file a Motion for Protective Treatment with our initial filing. We presented that to the Commission at the prehearing conference last year. The Commission has not ruled on that motion. So, that also remains pending before the Commission.

With respect to the Motion for Protective Treatment that we submitted to the Commission yesterday, in connection with discovery, in an effort to reduce the amount of material that we were filing with the Commission, we included in the motion descriptions of documents, which the rule permits.

If the Commission believes that it would like to have the documents, as opposed to a description, we're happy to provide those. We're just trying to be as efficient as possible, and do that within the parameters of the rule.

CHAIRMAN GOLDNER: Okay. Okay, thank you.

[Chairman Goldner and Special Cmsr. Ross conferring.]

CHAIRMAN GOLDNER: Okay. Yes, just to maybe point out, before we get started, Mr.

Taylor, that I think we can move fair quickly through this piece of it, and because we -- I think we're prepared for Commissioner questions when you are. So, --

MR. P. TAYLOR: Okay. I will move through this as quickly as I can. I've got a script and I've practiced it.

CHAIRMAN GOLDNER: Very good, sir. Thank you.

MR. P. TAYLOR: So, what I'm going to do is I'm going to ask a series of questions, and, after each question, --

CHAIRMAN GOLDNER: I'm sorry, Mr. Taylor, my mistake. We'll also have the witnesses sworn in first. My mistake.

MR. P. TAYLOR: Of course.

CHAIRMAN GOLDNER: Mr. Patnaude, would you please swear in the witnesses.

(Whereupon ***Robert Hevert***, ***Christopher Goulding***, ***Daniel Nawazelski***, ***Todd Diggins***, ***Andre Francoeur***, ***Kevin Sprague***, ***Christopher LeBlanc***, ***Joseph Conneely***, ***Mark Lambert***, ***Daniel Hurstak***, ***Carole Beaulieu***, and ***Jonathan***

Giegerich, including witnesses appearing remotely of ***John Cochrane***, ***Timothy Lyons***, ***Ned Allis***, ***John Taylor***, and ***Ronald Amen***, were all duly sworn by the Court Reporter.)

CHAIRMAN GOLDNER: Okay, Mr. Taylor. Thank you.

MR. P. TAYLOR: So, what I'm going to do is I'm going to ask a series of questions. And, after each question, I'm going to ask each witness to answer it in brief.

ROBERT HEVERT, SWORN

CHRISTOPHER GOULDING, SWORN

DANIEL NAWAZELSKI, SWORN

TODD DIGGINS, SWORN

ANDRE FRANCOEUR, SWORN

KEVIN SPRAGUE, SWORN

CHRISTOPHER LeBLANC, SWORN

JOSEPH CONNEELY, SWORN

MARK LAMBERT, SWORN

DANIEL HURSTAK, SWORN

CAROLE BEAULIEU, SWORN

JONATHAN GIEGERICH, SWORN

JOHN COCHRANE, SWORN

TIMOTHY LYONS, SWORN

NED ALLIS, SWORN

JOHN TAYLOR, SWORN

RONALD AMEN, SWORN

DIRECT EXAMINATION

BY MR. P. TAYLOR:

Q So, my first question is, and I'm going to start with Mr. Hevert, to my right, please state your name, employer, the position that you hold with the Company, and your responsibilities?

A (Hevert) My name is Robert Hevert, last name is spelled H-E-V-, as in "Victor", - E R T. I am Senior --

[Court reporter interruption regarding use of the microphone.]

CONTINUED BY THE WITNESS:

A (Hevert) I am Senior Vice President and Chief Financial Officer of the Unitil Corporation and its subsidiaries.

BY MR. P. TAYLOR:

Q Mr. Goulding, same question to you.

A (Goulding) My name is Christopher John Goulding. I'm the Director of Rates and Revenue Requirements for Unitil Service Corp., which

provides services to Northern Utilities, Inc., as well as other companies.
Q Mr. Nawazelski, the same question.
A (Nawazelski) My name is Daniel Nawazelski. I'm the Manager of Revenue Requirements for Unitil Service Corp.
Q Mr. Conneely, same question.
A (Conneely) Good morning. My name is Joseph Conneely. I'm the Director of Human Resources for Unitil Service Corp. In that, I'm responsible for daily operations of compliance, compensation, labor relations, training, and development of policies and procedures.
Q Mr. Sprague?
A (Sprague) Good morning. I'm Kevin Sprague. I'm the Vice President of Engineering for Unitil Service Corp.
Q Mr. LeBlanc?
A (LeBlanc) Good morning. My name is Christopher LeBlanc. I'm Vice President of Gas Operations for Unitil Service Corp.
Q Mr. Lambert?
A (Lambert) My name is Mark Lambert. I'm the Vice President of Customer Operations. And in that

role I'm responsible for customer service, billing, credit collections, and quality assurance and training.

Q Mr. Hurstak?

A (Hurstak) Good morning. My name is Dan Hurstak. I am the Controller for Unitil Service Corp, and all the Unitil subsidiaries, including Northern.

Q Mr. Diggins?

A (Diggins) Good morning. My name is Todd Diggins. I'm the Director of Finance for Unitil Service Corp., and I'm also the Treasurer for Northern Utilities.

Q Mr. Francoeur?

A (Francoeur) Good morning. My name is Andre Francoeur. I am the Manager of Financial Planning and Analysis for Unitil Service Corp. And my responsibilities are a variety of corporate finance functions.

Q Ms. Beaulieu?

A (Beaulieu) Good morning. My name is Carole Beaulieu. And I am the Manager of Credit and Collections at Unitil. And I'm responsible for all collections activities and assistance programs for our customers.

Q And Mr. Giegerich?
A (Giegerich) Good morning. My name is Jonathan Giegerich. I used to be the Tax Manager at Unitil. Now, I work at a local accounting firm, JAG CPA Company. I consult with the Company on tax matters.
Q Moving on to the remote witnesses, Mr. Amen?
A (Amen) My name is Ronald J. Amen. I'm a managing partner with Atrium Economics, LLC. As a managing partner, I'm jointly responsible for all business activities of our consulting firm.
Q Mr. Taylor?
A (J. Taylor) I'm John Taylor, with Atrium Economics. I'm a managing partner. And Ron Amen and myself were retained by Northern to support the rate case in this proceeding.
Q Mr. Lyons?
A (Lyons) Good morning. My name is Tim Lyons. And I'm a partner with ScottMadden.
Q Mr. Cochrane? Mr. Cochrane, you're on mute.
A (Cochrane) Good morning. Can you hear me now, Patrick?
Q Yes.
A (Cochrane) Yes. Sorry about that. My name is

John Cochrane. I am Senior Managing Director at FTI Consulting, in Boston. And I run the Power, Renewables & Utilities Office. I provided cost of equity testimony to Unitil in this case.

Q And, finally, Mr. Allis?

A (Allis) Good morning. I'm Ned Allis. I'm Vice President with Gannett Fleming Valuation and Rate Consultants, LLC. My responsibilities include performing depreciation studies, and I performed a depreciation study for this case.

Q Hearing Exhibits 3 and 14 are the redacted and confidential versions of the Company's August 2nd, 2021 initial filing. Did you submit prefiled testimony in this case, and was your direct testimony prepared by you or under your direction? Mr. Hevert?

A (Hevert) Yes.

Q Mr. Goulding?

A (Goulding) Yes.

Q Mr. Nawazelski?

A (Nawazelski) Yes, it was.

Q Mr. Conneely?

A (Conneeley) Yes.

Q Mr. Sprague?
A (Sprague) Yes, it was.
Q Mr. LeBlanc?
A (LeBlanc) Yes.
Q Mr. Lambert?
A (Lambert) Yes.
Q Mr. Hurstak?
A (Hurstak) Yes.
Q Mr. Diggins?
A (Diggins) Yes.
Q Mr. Francoeur?
A (Francoeur) Yes.
Q Ms. Beaulieu?
A (Beaulieu) Yes.
Q Mr. Giegerich?
A (Giegerich) Yes.
Q Mr. Amen?
A (Amen) Yes.
Q Mr. Taylor?
A (J. Taylor) Yes.
Q Mr. Lyons?
A (Lyons) Yes.
Q Mr. Cochrane?
A (Cochrane) Yes.

Q And Mr. Allis?
A (Allis) Yes.
Q All right. My next question to the witnesses is, do you have any corrections to your testimony that you wish to make on the stand today? Mr. Hevert?
A (Hevert) No, I do not.
Q Mr. Goulding and Mr. Nawazelski, I know that we are going to walk through a correction, and we'll do that after we go through the other witnesses. Mr. Conneely?
A (Conneely) No.
Q Mr. Sprague?
A (Sprague) I do not.
Q Mr. LeBlanc?
A (LeBlanc) I do not.
Q Mr. Lambert?
A (Lambert) No, I do not.
Q Mr. Hurstak?
A (Hurstak) No, I do not.
Q Mr. Diggins?
A (Diggins) No, I do not.
Q Mr. Francoeur?
A (Francoeur) No.

Q Ms. Beaulieu?
A (Beaulieu) No, I do not.
Q Mr. Giegerich?
A (Giegerich) No, I do not.
Q Mr. Amen and Mr. Taylor, I know that we have a correction that we need to walk through. We'll get to that in a moment. Mr. Lyons?
A (Lyons) No, I do not.
Q Mr. Cochrane?
A (Cochrane) No, I do not.
Q Mr. Allis?
A (Allis) No, I do not.
Q And my final question is, if you were asked the same questions in your direct testimony today, would your answers be the same? Mr. Hevert?
A (Hevert) Yes, they would.
Q Mr. Goulding?
A (Goulding) Yes.
Q Mr. Nawazelski?
A (Nawazelski) Yes.
Q Mr. Conneely?
A (Conneely) Yes.
Q Mr. Sprague?
A (Sprague) Yes.

Q Mr. LeBlanc?
A (LeBlanc) Yes.
Q Mr. Lambert?
A (Lambert) Yes.
Q Mr. Hurstak?
A (Hurstak) Yes.
Q Mr. Diggins?
A (Diggins) Yes.
Q Mr. Francoeur?
A (Francoeur) Yes.
Q Ms. Beaulieu?
A (Beaulieu) Yes.
Q Mr. Giegerich?
A (Giegerich) Yes.
Q Mr. Amen and Mr. Taylor, subject to the correction we're going to make momentarily, same question to you?
A (Amen) Yes.
A (J. Taylor) Yes.
Q Mr. Lyons?
A (Lyons) Yes, they would.
Q Mr. Cochrane?
A (Cochrane) Yes.
Q Mr. Allis?

A (Allis) Yes.

MR. P. TAYLOR: Those are my questions for the full group of witnesses. Now, I just have some individual questions I'm going to ask individual witnesses.

BY MR. P. TAYLOR:

Q First is to Mr. Conneely. Mr. Conneely, you cosponsored testimony with John Closson, who is the Vice President of Shared Services and Organizational Effectiveness for Unitil Service Corp., is that correct?

A (Conneely) Yes. Correct.

Q And you are familiar with the testimony in its entirety, and are you able to answer all of the questions asked in the testimony?

A (Conneely) Yes, I am.

Q And do you adopt the joint testimony in its entirety as your own today?

A (Conneely) Yes, I do.

Q I'm going to move on to Mr. Amen and Mr. Taylor. At Page 45 of your initial testimony, there's a question asking "Have you provided a schedule detailing proposed rates and corresponding revenues?" Do you have any corrections to your

answer to that question?
A (Amen) I believe, yes. It was determined that the unit cost of minimum-sized mains was inadvertently omitted from the marginal cost study. And these revised schedules correct that error.
Q Sorry. That is a correction we're going to make. But I was actually referring to Page 45 of your testimony. There's a Q&A --
A (Amen) I'm sorry. Yes. And I believe that's Bates Page 000988. In the answer beginning on Line 3, and on Line 4 the word "customer class" should be "rate schedule". Secondly, on Line 6, the words "and corresponding percentages" should be deleted.
And that's the only corrections.
Q Thank you. Now, moving on to the schedules you had referenced, Hearing Exhibit Number 6 are Revised Schedules RAJT-1 and RAJT-10, which the Company submitted on February 24th, 2022. Are you familiar with these revised schedules?
A (Amen) Yes.
Q And do these revised schedules correct an error in the originally filed schedules?

A (Amen) That is true.
Q And could you just describe again for the record what that error was and how it was corrected?
A (Amen) Yes, certainly. Again, it was determined that the unit cost of the minimum-sized mains in that schedule was inadvertently omitted from the marginal cost study. And these revised schedules correct that error.
Q And were these revised schedules prepared by you or under your direction?
A (Amen) Yes.
Q And do you adopt these revised schedules as part of your testimony in this case?
A (Amen) Yes, I do.
A (J. Taylor) Yes.
Q So, now, I'll move on to Mr. Goulding and Mr. Nawazelski.

Hearing Exhibit 5 are revised revenue requirement schedules submitted on February 22nd, 2022. Are you familiar with these revised schedules?
A (Goulding) Yes.
Q Can you explain why the Company filed the revised schedules?

A (Goulding) Sure. In our direct testimony, we indicated that the Company intended to update the schedules, once certain information became known and measurable. So, this revision incorporates those known and measurable updates.

Q Were these revised schedules prepared by you or under your direction?

A (Goulding) Yes, they were.

Q And do you adopt these revised schedules as part of your testimony in this case?

A (Goulding) Yes.

MR. P. TAYLOR: So, before we get to the Settlement panel, those are all the questions I have for these witnesses.

CHAIRMAN GOLDNER: Thank you. Please proceed.

MR. P. TAYLOR: So, our Settlement panel today is Mr. Goulding, Mr. Nawazelski, Mr. Diggins, Mr. Francoeur, Mr. Sprague, and Mr. LeBlanc. So, I'm going to follow a similar process as to what I just did, ask a question and ask all the witnesses to answer it.

(The Northern Utilities Settlement Panel consists of ***Christopher Goulding,***

Daniel Nawazelski, Todd Diggins, Andre Francoeur, Kevin Sprague, *and* ***Christopher LeBlanc.****)*

NORTHERN UTILITIES SETTLEMENT PANEL

CHRISTOPHER GOULDING, Previously Sworn

DANIEL NAWAZELSKI, Previously Sworn

TODD DIGGINS, Previously Sworn

ANDRE FRANCOEUR, Previously Sworn

KEVIN SPRAGUE, Previously Sworn

CHRISTOPHER LeBLANC, Previously Sworn

DIRECT EXAMINATION

BY MR. P. TAYLOR:

Q Please refer to Hearing Exhibits -- just a moment. Hearing Exhibits 13 and 15 are the redacted and confidential Settlement Agreement and attachments. This is a comprehensive Settlement Agreement entered into by Unitil, the Department of Energy, and the Consumer Advocate, or the Office of the Consumer Advocate.

Did you participate in the negotiation and drafting of the Settlement Agreement, which was filed with the Commission on May 27th? Mr. Goulding?

A (Goulding) Yes.

Q Mr. Nawazelski?
A (Nawazelski) Yes.
Q Mr. Diggins?
A (Diggins) Yes.
Q Mr. Francoeur?
A (Francoeur) Yes.
Q Mr. Sprague?
A (Sprague) Yes.
Q Mr. LeBlanc?
A (LeBlanc) Yes.
Q And, as a result, are you familiar with the terms of the Agreement and are you prepared to discuss and describe such terms today? Mr. Goulding?
A (Goulding) Yes, I am.
Q Mr. Nawazelski?
A (Nawazelski) Yes, I am.
Q Mr. Diggins?
A (Diggins) Yes.
Q Mr. Francoeur?
A (Francoeur) Yes.
Q Mr. Sprague?
A (Sprague) Yes.
Q Mr. LeBlanc?
A (LeBlanc) Yes.

Q And, in your opinion, is the Settlement in the public interest and are the resulting rates just and reasonable? Mr. Goulding?
A (Goulding) Yes, they are.
Q Mr. Nawazelski?
A (Nawazelski) Yes.
Q Mr. Diggins?
A (Diggins) Yes.
Q Mr. Francoeur?
A (Francoeur) Yes.
Q Mr. Sprague?
A (Sprague) Yes, they are.
Q Mr. LeBlanc?
A (LeBlanc) Yes.
Q Hearing Exhibit 16, which the Company submitted yesterday, and which I presented to the Commissioners this morning, is a Revised Page 18 to Settlement Attachment 6. Mr. Goulding, are you familiar with Revised Page 18?
A (Goulding) Yes, I am.
Q And can you please explain why the Company submitted this revised page?
A (Goulding) Yes. So, when we were pulling together the information for the hearing

yesterday, we noticed that the customer charge for the proposed rate for the G-52 class for the summer rates was "$1,335.81", which is the present rate. It should have been "$1,350", which is a difference of $14.91.

So, this Hearing Exhibit 16 has -- reflects the update for the proposed rate for the customer charge of "$1,350". And what that does is it changes the difference for all of the amounts on the page by $14.91, which is the difference between the two customer charges. And it increases the percent difference for delivering service from "1.8 percent" to "2.1 percent" on the low side, and from "2.6 percent", on the high side, to "2.7 percent". The average stays the same.

And, then, for distribution only, before the range was "4.4 percent" to "29.2 percent", with an average of "22.8 percent". In the update, it shows "5.3 percent", to "29.3 percent", with an average of "23.1 percent".

MR. P. TAYLOR: Thank you. Commissioners, we're prepared to do a direct to walk through the Settlement and its terms. In the Company -- or, in the most recent Unitil Energy Services case, the Commission indicated that it wasn't necessary, and it wanted to get right to questioning.

So, again, we're happy to do that direct. But, if the Commissioners would prefer to get right to questioning, and feel that they have an understanding of the Settlement as it is, we can waive that direct. I'll leave it to the Commission.

CHAIRMAN GOLDNER: Okay. Just a moment.

[Chairman Goldner and Special Cmsr. Ross conferring.]

CHAIRMAN GOLDNER: Okay. Thank you, Mr. Taylor. I think we can go straight to Commissioner questions. We're well familiar with the Settlement Agreement.

MR. P. TAYLOR: Understood. Then, I have no further questions for the Settlement panel.

CHAIRMAN GOLDNER: Okay. Thank you. Okay.

We'll start with Section 3 and

Section 4, and I'll commingle them in the questions.

BY CHAIRMAN GOLDNER:

Q The first question I have is I would like to understand and have the Company explain why decoupling is important to the Company?

A (Diggins) Hi. This is Todd Diggins. Thank you for the question.

From the Company's side, it is important, from a financial aspect, that it does help stabilize revenues, and also helps stabilize customer bills. Having a specific decoupling target, which is actually levelizing revenues to limit potential upside or potential downside, depending on, especially for the gas customers, depending on weather. So, from a financials aspect, it does help levelize revenues and provide financial stability.

Q And would you say that it would help or hinder your credit rating?

A (Diggins) I believe it would support the credit rating. I believe that there are a majority -- we did a quick analysis yesterday on -- there's about 140 gas LDCs out there, and about 30 percent have full decoupling mechanisms.

And, so, looking from Unitil specific, I think it would help support the credit metrics. And, as you know, we are on a credit negative watch from S&P. And one of the reasons within that for that negative watch is the lack of decoupling. So, in that aspect, I believe it would be supportive.

Q So, I think, in the OCA's testimony, they estimated 32 basis points of merit, something like that, in terms of the benefit of decoupling. So, I am just trying to understand it. So, you see it more -- you don't see it -- you see it as supporting your current credit rating, and not getting a downgrade, as opposed to --

A (Diggins) Correct. I don't believe it's enhancing the credit rating.

Q Okay.

A (Diggins) I think it helps support our existing credit rating.

Q Okay. Okay. And what did you have to give up to get decoupling? Because, clearly, it's a benefit. So, there must have been some --

A (Diggins) Yes. So, again, speaking financially, I believe some of the -- the Settlement whole is really a give-and-take. But the capital structure was decreased a little bit from what we asked for, as well as the return on equity I think was decreased from what we asked for in the original filing.

Q Yes. That is -- that is correct. And it's -- the return on equity is down a little bit from your last rate case as well, from 9.5 to 9.3. So, that's true.

I'd like to turn to -- turn back up here. I'd like to turn to your cost of debt for a moment, or your return on debt. In your last Settlement Agreement, it was 5.5 percent, and it's down to 4.93 percent, so, in a positive direction.

But I also notice that you had at least one debt instrument where you were paying 7.3 percent. And I'm trying to sort out why you haven't reconstructed or refinanced your debt?

A (Diggins) Yes. All of Northern Utilities' notes that are on the books now currently have make-whole provisions attached to them. The make-whole provision is essentially a way for the investor to kind of protect his investment from being callable. It helps limit the callable nature of the bond -- or, the note, excuse me.

So, we consistently monitor the make-whole premium. We do calculations every quarter, to see if it would be financially advisable to reorganize that debt or restructure that debt. And the make-whole provision just makes it -- it is so substantial that it really makes it prohibitive to do so.

And, with that particular note, and I actually read over the make-whole provision last night, and it's a 50-page provision, and it's around 22, 22-23 million dollars. So that would be a direct expense against the net income of the Company. And the net income of the Company is right around that same amount. So, it, essentially, would wipe out all of the net income for the year for Northern Utilities. Which, again, I think would not be credit supportive.

In addition, the Company would have to borrow, not only to replace the $50 million from the note, but the additional $22 million that we would have to pay on the make-whole premium. And we would have to balance that through debt and equity to make sure our equity ratio was healthy enough to be credit supportive.

So, taking all those things in consideration, it's just not financially -- it's financially prohibitive to restructure that debt at this time.

Q And it looks like the issue date on that was in 2008. So, probably your timing wasn't great, which, you know, that happens, that happens to a lot of companies.

This make-whole premium sounds pretty large. Do you plan to enter into any new notes with any premiums that are similar to that? Or, has the market changed or has your credit rating changed?

A (Diggins) Our most recent note that we entered into, the make-whole premium calculation is the same. The market seems to be, you know, fairly consistent in that nature.

But there is a benefit of having a make-whole premium as well. I believe, as I mentioned earlier, it gives investors comfort that we're not going to call that bond. So, in essence, the actual rate, the interest rate, the coupon rate that we are being charged should be a little bit lower because of that provision. So, it is supportive in some sense.

Q And what is the market today? So, it was 7.72 in 2008. It looks like you have a note that's, within the last year and a half, that was at 3.78. If you went to the market today, what kind of rate would you get?

A (Francoeur) This is Andre Francoeur. I checked this out yesterday. And it would be, no way of knowing for sure, but around 5 percent, give or take.

Q Okay. Okay. Yes. It looks like the bulk of your notes are in the 4 percent range over the last, you know, dozen years or so. Okay. Thank you. That is helpful.

Okay. Next question is your capital structure in the Settlement Agreement is "48 percent debt". What is your actual percent debt today?

A (Francoeur) Our equity ratio, as of March 1st -- excuse me, the end of March 2022, was 52.5, meaning that our debt ratio at that time would be

47.5.
Q Okay. So, very close to where it is in the Settlement Agreement. Okay.
A (Francoeur) That is correct.
Q Okay. So, my next question is about your debt strategy. And, hopefully, you can provide some color to the Commission on that. So, we have a, you know, relatively low-cost debt environment, at least relative to 15, 20, 30 years ago. And the other gas utility in New Hampshire is about a half a point lower than Unitil is or Northern is.
Can you walk through, you know, what your strategy is? And, if you can, any comments on why the other utility is lower than you are?
A (Diggins) Sure. Northern follows a --

[Court reporter interruption.]

BY THE WITNESS:

A (Diggins) Northern follows, I'd say, a traditional financing cycle, where they use short-term debt in the interim before issuing long-term debt. As construction projects are completed, and it becomes, you know, construction work in progress, that is usually financed with short-term debt. As well as short-term debt is used for seasonal working capital reasons as well.

As that short-term debt level becomes sufficient enough or high enough to warrant a issuance of long-term debt, then the Company begins to look at, you know, going to market to issue that debt. The Company works with a placement agent to get the best interest rate possible, usually through an auction process in the private placement market.

And, so, there is some sense of timing that is -- that is not -- that the Company can't control. The Company is not looking to time the interest rate environment market. That's really -- that's not the function of the Finance Department. The Finance Department is really looking to make sure we have adequate financing, and look at a lower cost of capital as much as possible.

Through the private placement market transaction, the -- I guess, as I said, it goes through an auction process, and it lowers the cost of debt as much as possible.

The second part of your question, "why

is Northern Utilities a little bit lower than I believe you said Liberty?"

BY CHAIRMAN GOLDNER:

Q Higher.

A (Diggins) "Higher". Excuse me, "higher". I believe some of that is due to timing, like you said, the 7.7 percent note issued at a time of financial turmoil. That was right when we acquired Northern Utilities, and we had some large financings to do. So, I do believe some of that has to do with timing.

And, you know, overall, I believe, as time moves on, and some of these larger coupon notes that we have on the books come off, that I believe Northern and Liberty should line up a little bit better.

I am not 100 percent -- Andre, do you know what Liberty's credit rating is?

A (Francoeur) I'm not aware of what Liberty's credit rating is.

A (Diggins) Yes. Sorry. I am not fully aware of what their credit rating is. But I believe we're similar. So, again, over a long period of time, I expect us to kind of correlate better, tighter.

A (Francoeur) I might add, this is Andre Francoeur. It is hard to sit here and answer that question. But I would point you to the Diggins/Francoeur Exhibit 2. And, in that exhibit, we compare what the weighted cost of debt rate would be, compared to the Moody's yield index, as a BAA-rated utility, which is what our rating is. And our weighted average cost of debt would be 4.87 based on this schedule. And the Moody's yield index, as if that index had issued the same amount of debt on the same days, would be 4.95.

So, our cost of debt is slightly better, largely in line, but slightly better than the BAA Moody's yield index. Which I think is a good barometer to say that the Company is issuing debt at an appropriate rate.

And, without looking at the cost of debt comparison, I would agree with Mr. Diggins, that it could boil down to timing, or it could come down to credit ratings.

Q And I think a final question on the topic is, do you have any path out of the 7.72 percent? Now, those are a 30-year note, it sounds like the, you know, buyout clause is substantial. So, are you stuck with that for the next, you know, 18 years?

A (Diggins) We signed the make-whole provision because there were very limited options. If we get all the investors to agree to let you restructure the debt, there's a possibility. We've attempted that in the past with only two investors, and it didn't work out. This note, I believe, has six or seven investors. So, the chance of getting them all to agree to let you out of this note to restructure it, I mean, it's minimal to zero percent.

CHAIRMAN GOLDNER: I understand. Okay. Oh, sure. Commissioner Ross would like to ask a couple of questions.

SPECIAL CMSR. ROSS: I just have a follow-up.

BY SPECIAL CMSR. ROSS:

Q By doing the decoupling mechanism, you've essentially eliminated revenue risk. And my question is, what other factors are preventing Northern from having a stronger rating with Moody's and the credit agencies?

A (Diggins) Sure. That's a great question. So, the credit rating agencies look at a variety of factors. One being the regulatory environment that we operate in; one being -- another being the financials of the Companies. So, they each have their own financial metrics that they target the Company to have. So, if we improve our financial metrics, for example, S&P has a FFO-to-debt, or funds from operations divided by debt calculation. They have a threshold of 16 percent. If we fall below that, that is one trigger for a possible credit downgrade. If we can get consistently above that, and higher, you know, into the higher teens, that's another avenue for --

Q What is "functional operations" and what was the ratio? "Functional operations to debt"?

A (Diggins) "Funds from operations".

Q Oh, "funds".

A (Diggins) "Funds from operations divided by debt."

Q So, is that essentially your net income?

A (Diggins) It's more of a cash flow term. So, cash flow from operations, minus working capital.

A (Francoeur) Another simple calculation, there's a couple different varieties of funds from operations calculation. The simplist one that I think of is net income, plus depreciation and amortization, plus the change in deferred income tax.

And I might also add that the denominator is debt. But there's a host of adjustments that the credit rating agencies make to that. And one of those large adjustments that they make to debt is they actually impute the Company's retirement benefit obligation, which is a future obligation of all the cash flows the Company must make to fund and service those liabilities for pension and PBOP.

A (Diggins) Yes. This is Todd again. Just to continue on my answer.

In addition, they do cite the small size of the Company. We are one of the smaller utilities out there. So, a small size is something that the agencies frequently cite. They are also bringing into consideration ESG factors more and more.

Q What's "ESG"?

A (Diggins) Environmental, Social, Governance factors more and more these days.

Q Is that an indication of the risk of the continued fossil fuel use? Is that what you're referring to?

A (Diggins) I wouldn't say it's a risk of the fossil fuel. It's just "How is the Company performing on those environmental/social/governance metrics compared to its peers?"

SPECIAL CMSR. ROSS: Okay. Thank you. That's all. I just -- that's helpful.

WITNESS DIGGINS: Sure.

WITNESS HEVERT: Commissioner, if I might, just one minor thing. I apologize. This is Bob Hevert.

Mr. Diggins mentioned the "business and financial risk". One of the reasons we're so focused on the capital structure is because of the business risk that the rating agencies perceive. When you look at Standard & Poor's, they give the Company a business risk rating of "Strong". Now, their rating spectrum goes up to "Excellent". "Excellent" being the strongest, most suitable positions.

About 80 percent of rated utilities

have "Excellent" business risk profiles. Ours is "Strong". So, we are in the minority when it comes to business risk profile. Much of that is driven by the factors Mr. Diggins explained. The small size, I think, perhaps to his point, the lack of decoupling, some of the variability in revenue, and perhaps even cash flow.

But it's because of the relative weakness on business risk that we have to really focus on being sure our financial risk is mitigated to the extent possible. And that is why we've been so focused on maintaining what we think is an adequate equity ratio.

CHAIRMAN GOLDNER: Okay. I do have one follow-up question.

BY CHAIRMAN GOLDNER:

Q Because, you know, the Company is here today, in part, to ask for or to request Commission approval on decoupling. And I just want to make sure the Company has a full opportunity to color or explain the reasons why it's important, because what I've heard so far is that it's really of marginal importance. It might be some tenth of a point here or there. But I haven't gathered that it's important to the Company.

So, I want to give another -- provide another opportunity for comment, if you wish?

A (Hevert) Well, I appreciate that. It is strategically very important to the Company. And, as I think Mr. Diggins said, it's important to ratepayers as well, providing a sense of stability in revenues.

But, from the Company's perspective, if we look at it solely from the point of view of how we acquire capital, how we finance the Company. The Company is, of course, as all utilities are, heavily capital-intensive. We require efficient and ready access to the capital markets. And, so, we have to compete with other utilities for that capital.

When other utilities have mechanisms, such as decoupling, available to them, it puts us at a competitive disadvantage if we do not. And that disadvantage can be manifested several ways, one of which would be in relatively lower credit ratings. I think, as Mr. Diggins very well put it, we view decoupling as being credit supportive, rather than credit enhancing, but that does not lessen its importance. What that means is that, absent decoupling, our credit ratings perhaps could come under pressure. We currently are on a negative outlook from Standard & Poor's. And anything that would put downward pressure puts us at risk to be downgraded. So, we have to be very, very careful. And, for that reason, from the credit perspective, decoupling is very important.

From the equity perspective, I will tell you that, when we are on calls with analysts, when we do our quarterly earnings calls, we frequently are asked about decoupling, the status of our decoupling proposals, "whether the Commission may be inclined?" Of course, we never speak for the Commission. But "would the Commission be inclined to approve decoupling?"

So, from the equity markets position as well, it's very, very important to them. And, so, for us to be able to effectively compete for capital, in both the debt and equity markets, decoupling structures are very important to us.

It was one of the strategic imperatives in our case, when we were thinking about filing the case, decoupling, in addition, of course, to fixing a revenue deficiency, strategically, decoupling was something that was very important to us, and remains very important to us.

Q Okay. Thank you. And is another takeaway from that that decoupling is preferred to LBR, lost base revenue?

A (Hevert) I think so. And, believe me when I say it's -- it's amazing to me how many of the analysts will know that distinction. So, I do think that that is very true, yes. And, again, it's because, when we look at some of the other companies against whom we compete, they will have more of a decoupling, than an LBR, type structure, or a mechanism that recovers lost revenues associated with efficiency. For example, we compete largely with companies that have full decoupling or decoupling coupled with weather normalization, or, in some cases, companies with straight fixed/variable rate designs, that, you know, they really have no volumetric risk in the rate design.

So, yes, I think it's very true.

Q And, if we're going to provide a reason for that, would you say it's mostly, if the financial impact would even be the same, it would be the certainty that decoupling provides versus LBR?

A (Hevert) I think that's right. I think it's the certainty it provides, versus LBR. And, again, I think it's the -- it's the comparative nature. When we're competing for capital, it's always comparative, right? I mean, you know the competition, Chair Goldner. So, you're always looking to sort of strengthen your comparative advantage, or at least mitigate your comparative disadvantage, and that's really what we're doing here.

CHAIRMAN GOLDNER: Okay. Thank you. Thank you.

I'd like to move over, I'm probably in Section 2, so maybe moving back a little bit, but I'd like to ask some questions relative to previous rate cases. And it's in one of the record requests that the Commission made back in April.

BY CHAIRMAN GOLDNER:

Q But, if I could just provide some numbers, and just to sort of paint the picture. If we look at, you know, plant in service, but this is true for any of the metrics, if we move from rate cases, the 2011 to the 2013 rate cases, plant in service went up about 14 percent; then, from 2013 to 2017, it went up about 42 percent; from 2017 to 2021, another 42 percent. So, plant in service, operating revenue, all these things have really jumped in the last couple of rate cases.

And, if I compare that to the total number of customers, the total number of customers moves, in those three categories, respectively, 4.25 to 8.85 to 9.82. So, obviously, the number of customers is changing in a much slower rate.

I'm sure this isn't a surprise, but can you provide some color to this trend of increasing spending and a flat customer base, and if you expect it to continue?

A (Sprague) So, when you look at our capital spending, the breakdown of growth to non-growth in our capital budget usually fluctuates, of a non-growth number, somewhere between, say, 60 percent and 80 percent non-growth. So, we operate a system that's been in service for right around a hundred years. Over that time, things tend to reach the end of their useful lives.

I know, in recent cases, we talked about the different priority of projects, the -- and we had a lot of discussion around priority tree projects, and are we spending more money on discretionary types of projects? Where we would say a "discretionary project" isn't a project that is a bad project or a project that we don't need to do, it's just discretionary in time. I'd liken it to your automobile. As your automobile gets to the end of its life, you might notice that it might shake a little bit, it might not -- it might not act the way it normally acts. But are you ready to -- are you ready to make that jump to a new vehicle?

So, it's kind of analogous to that. That it's still there, it's still doing its job, it's still doing its job safely. But, at some point in time, you need to make that jump.

So, going forward, I would say, in the next five years that we provided in this case, our non-growth spending is right around 75 percent. And the majority of that non-growth spending is focused on our aging regulator stations. Some of those are discretionary, to the point of when we can do that work. You know, is it this year? Next year? Or the year after? It's not -- it's not "Either do it now or do it never."

So, a lot of our spending going forward isn't necessarily focused on customer growth. It's focused on making sure that the system that we have is safe, reliable, operating efficiently, to serve the customer base.

Q Would you say that the spending since let's call it 2013 to now has been some kind of a bubble, where you were, you know, you were fixing things that were broken, repairs that needed to be made, but now you're more of a steady state condition, where, in future rate cases, we can expect to see more like the 14 percent growth or would you expect the current level of growth to continue?

A (Sprague) My guess is it's somewhere in between. I can't say that it will continue at that higher level. But I'm also not sure that we've looked out far enough to say it will revert back to, you know, a lower -- a lower amount.

Every year we develop a capital budget from the bottom up. You know, we start with engineering projects, and then Operations comes up with the age or condition replacement type of projects, and we build that budget from the bottom up. Every project within the budget has a scope justification estimate. It's not taking allocations of money and saying "All right, now we're going to spend $3 million to do X." It's "this particular station has a particular need, and we're going to do this particular project." And that's the way that we build our budget.

Q So, it must be very difficult to analyze your infrastructure that way, because it is, I'm sure, hard to determine when those repairs need to be made. Obviously, it needs to be -- everything needs to be safe and reliable. At the same time, you know, because you're effectively funded by ratepayers, it's hard not to bias yourself on the side of doing maybe more than would be otherwise required. How do you strike that balance within the Company?

A (Sprague) So, rate pressure is a big concern of our Company. We see it all over, you know, whether it's within utilities, or even outside utilities right now. So, that's a major concern of ours. As we're -- as we're, you know, building our capital plan, I work with Chris and the Regulatory group to, you know, come up with, you know, what's reasonable. It's easy to say what's not reasonable. So, what we're trying to do is balance that reasonableness of customer rates versus maintaining a safe, reliable and efficient system.

CHAIRMAN GOLDNER: Yes. Commissioner Ross, please.

SPECIAL CMSR. ROSS: I have a question.

BY SPECIAL CMSR. ROSS:

Q Does the Company track its unaccounted for gas?

A (LeBlanc) Yes, we do.

Q Can you tell me what the trends are for that? I assume it gives you some indication on leakage on the system?

A (LeBlanc) Yes. Lost and unaccounted for gas isn't synonymous with leakage on the system. First, there's a lot of reasons for unaccounted for gas. Meter reading differences, timing between billing and when we actually read the meters. Gas leaks are in that as well, you know, as well as accounting differences as well. So, I just do want to make the point that lost and unaccounted for gas does not equal leakage on the system.

The New Hampshire system, we've replaced all the leak-prone pipe. And we have minimal leakage on the system. I believe, last year, gas main leaks, we had nine gas main leaks the entire season. So, we have very low leakage on that.

And our lost and unaccounted for is typically, and I'm going from memory here, well below 2 percent in New Hampshire. And it's pretty much static. And, like I said, a lot of that has to do with timing differences, meter accuracy, and other issues.

Q Has that number been stable for the last 20 years, the 2 percent number?

A (LeBlanc) I don't have -- I'd have to research a 20-year, you know, the 20-year loss number for Northern Utilities. But, since we've assumed responsibility for Northern since 2009, it's typically been pretty stable, at the 2 percent range or below.

SPECIAL CMSR. ROSS: Okay. Thank you.

CHAIRMAN GOLDNER: Yes. Just maybe one more question on this topic or two, and this is about your management process. So, it kind of goes to the previous topic.

BY CHAIRMAN GOLDNER:

Q And, in corporations that I'm familiar with, you know, the Finance Department, the Engineering Department would get together, and there would be a brawl over who, you know, the Engineering Department wants to do one thing, the Finance Department wants to do another thing.

Is that part of the management process within Unitil or how do you address the engineering needs with the finance needs, and how does all that come together?

A (Sprague) So, the capital budget is started with the Engineering group, the Engineering group manages that process. Develops a five-year capital forecast, I'll call it, based upon all of the projects as I discussed. And then, that budget is presented to senior management, which includes Mr. Hevert. And that's when the

Accounting and Finance groups get involved. They do, you know, analysis on the capital spend, on the -- on how we're going to finance that capital spend from a debt and equity standpoint. And, ultimately, if that number is unreasonable, then they push back.

But, usually, what we try to do is we try to develop that forecast over the five years, and stick to that forecast. So, there's not a lot of variability from year to year. Sometimes projects come up that we don't know, large highway projects, or maybe a specialized customer project that is not part of the plan. And then, we work -- we work the plan, work the discretion in the plan to try to fit that extra fund -- or, that extra capital investment within the parameters that we've set going forward.

Q Okay. It is, it's always a challenge, you know, you sort of talk about "managing to budget", and then "managing to need", and not managing to the budget, *per se*. But, you know, so, it's -- I'm just trying to understand your management process --

A (Sprague) Yes.

Q -- of how you deal with that. So, it must be challenging?

A (Sprague) It is -- it is a balancing act, I would say. But, you know, when it comes down to it, you know, the safety and reliability of our system, you know, almost has to come first, but it also has to be done in a cost-effective manner.

A (Diggins) Yes. This is Todd. From a finance perspective, I can add a little bit from the finance side.

Kevin is right, safe and reliable system is key. But as, you know, Andre and I are working through the five-year financial forecast, which we do yearly, we are looking at other aspects than engineering. We are looking primarily focused on, such as, you know, the healthy balance sheet to support the credit metrics, things like that.

So, if a proposal from Engineering comes that puts some of those in jeopardy, where the spending might be too high, that's when the Finance team will push back, and work with the Engineering team to get it to a reasonable spend level, where we think the Company can handle the investment into the system, but keep the financial strength of the Company.

Q Okay. Very good. That's very helpful. And then, my final question on this topic is just making sure I understand how to read your line items.

So, I'm looking at the percent increase from a customer point of view since the last rate case. Am I reading it right to say that the -- it's about a 36 percent increase, and I'm looking at the "operating revenue" line. Is that the correct way to read your statements?

MR. P. TAYLOR: Commissioner, this is Mr. Taylor. If you don't mind, could you just let us know specifically, for the benefit of the folks on the line and in the room, which attachment you're looking at?

I believe -- I understand it to be the attachment to Record Request 1-2. Is that correct?

CHAIRMAN GOLDNER: I think so. Let me page up here a little bit. Yes, sir. It's Record Request 1-2, filed April 6th.

MR. P. TAYLOR: Okay. Great. Thank you very much.

BY CHAIRMAN GOLDNER:

Q And I'm looking -- I'm looking relative to the DG 17-070 rate case versus this one. And, so, I'm just trying to make sure I'm looking at the right line. So, I'm looking at "net operating income", it goes from 9. -- well, let's call it "10 million", to 14.6 million. And I'm just making sure, that's really reflective of the rate increase that a customer would see. Is that the way to read that line?

A (Goulding) Do you have a document you're looking at, because I didn't see the "$10 million" that you're referring to?

Q Yes. It's Record Request 1-02, filed April 6th. It was a table provided. And it shows, in DG 17-070, a total operating income number of "9.993 million", moving to "14.622 million" in this rate case, as filed.

And I guess the first question, before the numbers, is that the right line to read in order to see what the impact is on customers? Or would you -- is another line a better proxy for what the customer sees?

MR. P. TAYLOR: Commissioner, I'm sorry to interrupt. Just for my benefit, could you again tell me which line and which column you're looking at?

CHAIRMAN GOLDNER: I am looking at a cut-and-paste. So, it's not -- I can't reference that offhand. It's just -- it's a line called "Net Operating Income" from the DG 17-070 rate case.

WITNESS GOULDING: Are the two numbers that are on that page "37,661,711", and then minus "27,668,690"?

CHAIRMAN GOLDNER: Yes.

WITNESS GOULDING: Okay. Yes. In the Settlement attachment -- or, Record Request 2, Attachment 1, those are just broken out like that, but there is no delta between the two. So, that's why we were searching for the $10 million range.

CHAIRMAN GOLDNER: Okay. My apologies. Yes. Sorry about that. Yes. So, it's the delta between those two, yes.

BY CHAIRMAN GOLDNER:

Q I guess the core question is just, you know, because the customer impact is what I'm trying to get at, and I think I'm on the right line, but I'm not sure, or I have the right calculation?

A (Goulding) I guess the customer impact is hard to quantify, because you're changing your customer counts, too. So, it's not just the delta between those two, because there's more customers being added that are now contributing also.

Q That's fair.

A (Goulding) Looking at the Settlement Agreement, Hearing Exhibit 13, Bates Page 028, I'm trying to do comparable numbers here, which would be 49 million in operating revenues, which, on this record request, is 51 million for the current case, and the expenses is 35.7 million in the Settlement, and on this sheet it's 36.5 million. So, the delta between those two is roughly 14 and a half million dollars, but the Settlement is 13 and a half million dollars. So, --

Q So, it would go from the 9.9, let's call it "10 million" from the prior rate case, to let's call it "$13 million" for this rate case. And your total number of customers went from 32 to 35K.

Is that how to read it?
A (Goulding) I'm reluctant to say "yes", just because I don't have the 17-070 in front of me. But, logically, it seems that would be the way the math would work, based on the current setup.
Q And, just to make sure I'm using the right line, that you would agree that net operating income is the right way to look at it, that delta between operating revenue and operating expenses, and then accounting for the total customer increase, would be the right point of view to see the customer impact, on average?
A (Goulding) So, the difference of the two, divided by the number of customers, would be the customer impact.
CHAIRMAN GOLDNER: Perfect. Okay. Thank you, sir. That's what I needed. Okay.
Very good. That completes the first few sections. Commissioner Ross, I'll turn it over to you.
SPECIAL CMSR. ROSS: Just to go back to the equity versus debt ratio.
BY SPECIAL CMSR. ROSS:
Q Would you agree that the optimal ratio is a

50/50? Any of the witnesses can --
A (Diggins) I would not agree with that. And I think it's specific to the facts and circumstances of the company's situation. And, you know, where to satisfy the requirements or the criteria that some of the rating agencies put upon us comes into play. Customer growth could come into play.
So, I think there's a lot of factors that warrant a deviation from that hypothetical 50/50 split.
A (Francoeur) I might also add that, based on the benchmarking provided in the testimony of Mr. Cochrane, I think the average, I can't name it as I sit here, but I think the average equity ratio was in the 52 to 53 percent range.
Q Okay. And that's looking at utilities generally, or gas utilities? Do you recall what the benchmarking was based on?
A (Francoeur) I might defer to Mr. Cochrane on this, but I believe that it was a peer group of about a dozen or so gas LDC holding companies. I, again, defer to -- I'd defer to Mr. Cochrane to define the peer group a little better.

SPECIAL CMSR. ROSS: Mr. Cochrane, could you just confirm that?

WITNESS COCHRANE: Can you hear me okay?

SPECIAL CMSR. ROSS: Yes.

WITNESS COCHRANE: Okay. I'm sorry. Yes. I'm having a horrible echo, apologies. It's based on the comparable group.

SPECIAL CMSR. ROSS: Okay.

BY SPECIAL CMSR. ROSS:

Q Regarding the revenue decoupling mechanism, the Settlement -- Section 4 this is, the Settlement Agreement does not specify what would be included in these filings, for instance, a requirement that supporting workpapers be presented with the filing, as well as updated customer numbers, and actual revenue, and so on, so that the filing could be effectively audited. Would the Parties have any objection to more specificity on those filing requirements for the revenue decoupling?

I'll ask the Company, because their witnesses are on the stand. But I'll also ask this question of the other Settling Parties.

A (Nawazelski) Sorry, can you restate the question one more time?

Q I would like to suggest that more specificity would be helpful on the filing requirements, when you make your decoupling adjustments, including live spreadsheets and evidence and material that can be audited.

A (Goulding) Yes. When we do do the filing, we would definitely provide the live Excel spreadsheets. I think that's become expected from the Commission or desired from the Commission, and I see how it's helpful.

In terms of the information being audited, it's all -- it all is from our system. So, it can be audited.

Q Thank you. How did the Parties determine a cap of 4.25 percent of approved distribution revenues? How did you all reach that as a reasonable cap?

A (Goulding) It was just a single item that was negotiated as part of the overall comprehensive Settlement Agreement.

Q Does it equate to the overall -- or, original cap that was proposed, where you were including gas commodity revenues as well?

A (Goulding) Yes. I believe, in Ms. Reno's testimony, there was a calculation that converted the proposal that we had made based on total revenues into distribution revenues only. And it came out to somewhere in roughly the 4.2 percent range.

Q Is that likely to be a more stable cap, less subject to swings for other factors that might drive consumption?

A (Goulding) Yes. So, changes in usage, and impacts from energy efficiency, would be much, much smaller than, obviously, the change in cost of gas. We're seeing significant increases in cost of gas now, and decreases, depending on what month you look at, or historically looked at. So, yes, it's more stable.

SPECIAL CMSR. ROSS: Okay. Thank you.

CHAIRMAN GOLDNER: Okay. So, now what I'd like to do is move to -- it's the Settlement, Attachment 2, Page 1 of 5. I'll give you a moment to get there.

BY CHAIRMAN GOLDNER:

Q And I'm going to be focused on Column (e), if you're in the spreadsheet, or the column called

"Total Investment Year 2021", if you're looking at it in a hard copy. And I'm just going to walk through the numbers in that column to make sure that I understand what's happening there. And I'm not sure who the right person is to address my questions to. I'm just going to walk through the calculations to make sure that I'm interpreting it correctly. Mr. Goulding, okay.

So, my first question is, if I go to Line Number 6, there's a number there "10.4 million Depreciation Expense". Would you agree that that 10.4 million depreciation expense is based on your "Beginning Plant" of "301.2 million"?

A (Goulding) No. That's the depreciation expense for the whole year. So, it would take into account plant additions during the year also.

Q So, that is puzzling, because you add back, on Line 15, you add back the plant additions.

A (Goulding) Do you have a line number for, not the Excel spreadsheet, but the exhibit itself?

Q Yes. On the exhibit, it's Line 15 is the add-back, where you're adding back the plant additions of 19 million. And on -- and I believe the 10.4 million depreciation expense, which is Line 6 on your spreadsheet, should be -- I believe it's correlated to Line 1, which is your beginning plant?

A (Goulding) Well, Line 15 is the depreciation -- the ongoing depreciation expense associated with the plant additions going forward that hasn't been included in rates yet. But Line 6, the depreciation expense, is calendar year 2021 depreciation expense, which would be on your beginning utility plant, plus your Line 2, plant additions, as they occurred throughout the year. So, depending on the timing of when those plant additions, you could have twelve months of depreciation associated with those additions if they occur in January, or one month of depreciation associated with those investments, if they went into service in December, or it could be a half a month, depending on the convention. And all of that is included in the Line 6, "Depreciation Expense". So, that's the annual depreciation expense.

Q Okay. So, that makes me more puzzled, because the Line 6, "Depreciation Expense", if that incorporates everything, and your "Ending Utility Plant" of "320", understanding that the 19 million is phased in through the year, then I don't know why you would add in a depreciation expense on Line 15 at the end?

A (Goulding) Line 15 is calculating the revenue requirement needed to support the new plant additions.

Q Uh-huh.

A (Goulding) So, Line 15 is the depreciation expense associated with those new additions that has not been included for recovery in rates yet. Line 16 is the "Property Taxes" on those investments, and then Line 17 was the "Amortization on Post-Test-Year Projects", which gives you a total revenue requirement increase necessary to support the non-growth investments.

Q So, let's pause on that one for a second, because I'm not quite there yet. But, if we go to Line -- what you're calling "Line 12", not on the spreadsheet, but Line 12 in Column (a), there's a number "10.159 million" there. And it's called "Net Plant" here, but that would -- you could also call it the "rate base", could you not?

A (Goulding) No. It's change in net plant. If it was rate base, it would have working capital changes, accumulated deferred income taxes, regulatory liabilities or assets, materials, and supplies. So, it's just purely change in net plant.

Q Okay. And the reason I ask is that you, on the next line, you multiply it times the "Pre-Tax Rate of Return" of "8.99 percent". So, that looks a lot like, you know, you're trying to find the revenue requirement. So, I'm trying to figure out why you're multiplying net plant times your rate of return to get a number. And then, where does the -- where do the other factors show up, I guess?

A (Goulding) So, for purposes of the calculation, it doesn't include changes in deferred income taxes. There would be some changes, I'm not sure which direction they would go. Historically, I think they have been relatively have gone -- actually, they have gone in multiple directions, depending on what is fully depreciating and what kind of tax liabilities are due. So, it does not take into account those other items.

So, to get back to the question earlier, it would act as "change in rate base", but it is the "change in net plant".

Q Okay. So, I'm puzzling over the spreadsheet then, because we have a number, in Column (c), or (g), depending on if you're in the spreadsheet, that gets us to a 1.554 million number that's represented as the "Revenue Requirement Increase", but not -- it's actually not the revenue requirement increase, because there's other factors that go into it?

A (Goulding) This is the revenue requirement increase associated with the change in net plant.

Q Just associated with the change in net plant. It doesn't -- it's not taking into account anything else?

A (Goulding) It assumes that all else is equal. The changes in deferred income taxes are relatively similar.

Q Is there another spreadsheet or another place we could find what I'll call the "true revenue requirement", taking everything into account, not just net plant?

A (Goulding) We do not have that as part of the filing.

Q Okay. Because, when the Commission gets the revenue requirement and the step increase review, I would look to this and go "well, looks like it should be 1.554 million", it would be something else, and then we would have another long discussion.

Is there -- so, maybe I could recommend that we -- that, when you come in for the step increase, you sort of delta off of the 1.554, so that we at least know your starting place, with the other factors. Otherwise, it's kind of confusing, right, because it's not really the revenue increase, it's just one part of the revenue increase from the requirement increase. Does that make sense? You guys look puzzled.

A (Nawazelski) So, you're looking to kind of incorporate more of the accumulated deferred income taxes into this?

Q Well, I'm just trying to prepare. You've already filed a step increase. And, so, I'm trying to see, in this review, what I should expect to see in the step increase. And I thought what I would be looking for is 1.554 million, and it sounds like that's not true?

A (Nawazelski) No. That is what you'd be looking at in the step adjustment filing, in Docket DG 22-020.

Q Okay. So, Mr. Goulding, could you clarify for me please, because I'm even more puzzled?

A (Goulding) I mean, that is what we'll be filing. We have a similar schedule set up to be filed later on this week that's complying with the terms of the Settlement Agreement. So, it will be a similar calculation. So, you'll see "1,554,966" as the non-growth investment year revenue requirement increase.

Q Okay. And would that be, I just want to make sure I'm understanding, that that 1.554 would be the entirety of the step increase request that you would make in that new docket or would there be a different number that we should expect to see?

A (Goulding) It's going to be the new -- it's the docket that's out there, DG 22-020.

Q Right.

A (Goulding) And it will be the same number you see on -- in this illustrative step increase filing.

Q Okay. So, I'm not sure I'm any closer to understanding, unfortunately. So, I'll try again.

So, when you multiply that Line 12, the 10.159 million, by the 8.99 percent, to me, that's the rate base that you're using, the 10.159 million is the rate base you're using. So, if there are other factors in there, for purposes of the step increase, you're ignoring those or we shouldn't expect to see those. So, it is effectively the rate base?

A (Goulding) I would agree.

Q Okay. Thank you. I was worried that we weren't going to make it to lunch.

[Laughter.]

BY CHAIRMAN GOLDNER:

Q Okay. So, now, we have a number, let's call it, to make everyone comfortable, let's call it the "proxy for rate base" for the moment, just because it's not perfect.

Okay. So, now, I believe that, in order to -- in order to get to the revenue requirement, we then need to subtract out the growth assets, right? So, the total is

10 million. And, as you've done, in Column (b) and (c), you've worked to subtract out the growth assets to get to the net number. So, I don't think I'm doing anything untoward there.

But I do have a problem with the way that you calculated it, because I think the 3.3 million, which is Line 2, Column (b), is -- should just be simply subtracted off of the rate base, correct? I mean, why would you -- I don't understand how you can get a depreciation number of 1.7 million, on Line 6, how could 3.3 million depreciate 1.7 in one year? That seems wrong.

A (Goulding) Well, that's the depreciation expense associated with the non-growth plant. So, it takes into account the beginning utility plant also.

Q Right. But you shouldn't be subtracting that off of your growth plant. I think that the growth plant more or less should be just subtracted from the 10.15 million. In other words, 10.159, minus 3.332, should be your proxy for rate base, because you have to subtract off your growth assets?

A (Goulding) But then you're not taking into account the change in net plant associated with the non -- or, with the growth assets. You're taking growth -- growth investment additions off of a change in net utility plant.

Q Yes. So, if we -- so, let me first ask the question, on the 3.3 million -- 3.332 million, Line 2, do you account for those assets only on December 31st or are those phased in through the year?

A (Goulding) The Line 2, "Plant Additions", the 3.32 million? Those are phased in throughout the year. So, they occur throughout the year.

Q Okay. No problem. And, then, but let's assume that you even booked them on January 1st. So, I'll give you the benefit of the doubt of the full 3.332 million. The depreciation rate is about 3 percent, right?

A (Goulding) Yes.

Q Roughly?

A (Goulding) Yes.

Q Okay. So, help me out with the math, 3 percent of 3 million is like 100,000, something like that?

A (Goulding) Yes.

Q Don't let me miss a zero. But, so, if it's roughly 100,000, that's why, on Line 6, I don't know how you get 1.7, not you, personally, but the Company got 1.7. It should be about 100,000 at the most.
A (Goulding) Well, it's the -- Line 6, the "Depreciation Expense", the $1.7 million, is the depreciation expense on that $3.3 million, plus the portion that's in the "Beginning Utility Plant" of $300 million. So, it's going to try and capture the total depreciation expense for the year.
Q But you shouldn't do that in the step, right? The step should just be the increase of the non-growth capital, because you've already taken into account the 300 million in Column (a).
A (Goulding) Well, Column (b) and (c) are just trying to break apart the total investment year.
Q Yes.
A (Goulding) So, I'm trying to think if there was a better way to show this, like, basically, the beginning utility plant would be allocated between growth and non-growth, in Column (b) and (c), to kind of make the math go down. But it

doesn't change the answer. The answer is, the "Change in Net Plant", on Line 11, is "10.159175 million" for a total investment, the growth is "1.632263", and the non-growth is eight and a half million dollars, because those, Column (b) and (c), have to add up to Column (a).

CHAIRMAN GOLDNER: Yes, I think, and I'll add that we, from a Commission perspective, we see the same mathematical conundrum from other utilities as well. So, we obviously won't talk about those today. But it is something that we would like to fine-tune. The impact, even if I'm right in what we're describing here, is 170K, I think, in the revenue requirement. So, it's not a huge number. But it is a methodology that I think we would be very interested in aligning on across New Hampshire utilities. So, that's why this excruciating session continues.

So, maybe what we'll do is we'll pause here on this, on this portion of it, because I think I do understand, Mr. Goulding, where you're coming from. I don't agree, but I understand where you're coming from.

And maybe if the OCA and DOE, during

their portion, if I could get their comments as well, I would appreciate that, if you're comfortable discussing this, this particular spreadsheet, because I'm still a little -- a little puzzled.

And just to repeat, I think that the depreciation expense should only include the growth assets, you can only depreciation the growth assets, in order to reach the appropriate revenue requirement. So, that's where I'm confused.

So, we can -- if there's any other comments, that's fine, and, if not, we can move back to Commissioner Ross?

[No verbal response.]

CHAIRMAN GOLDNER: Okay. Commissioner Ross.

SPECIAL CMSR. ROSS: All right.

BY SPECIAL CMSR. ROSS:

Q I'm going to go to Section 6 now. And I wanted to just ask if we could get a bill comparison between the rate case rates set in DG 17-070, the ones approved, and the current Settlement rates, and mainly the delivery portion. Is there a comparison? Are those rates what you call the "current rates" or have they been adjusted?

A (Goulding) No. Hold on one second.

Q And it may be that you have that. If you can identify where that rate comparison is in the Settlement attachments, that would be helpful.

A (Goulding) I think we would have to provide a revised version. Because what this is is it is the current rates, but those do include the temporary rate increase that was effective October 1st. So, we'd have to revise those to show the current -- or, the previously approved rates, which included step increases, too. There was a 17-070 order, which established permanent rates with a step increase, and I believe there was one or two step increases after that. So those would be the previously approved rates.

SPECIAL CMSR. ROSS: Could we have that as a record request then?

MR. P. TAYLOR: Commissioner, just for clarity, do you mind stating the -- or, restating the record request?

SPECIAL CMSR. ROSS: Yes. It would be to compare the rates in effect prior to the filing of this rate case, for each of the customer classes, to the rates provided in the Settlement Agreement, before the step that's included in the Settlement Agreement.

And then, if you want to show it with the illustrative numbers for that first step, that would also be helpful, knowing that that -- those numbers may change in the hearing on that first step.

Is that clear enough?

MR. P. TAYLOR: Yes. Very. Thank you.

MR. DEXTER: Commissioner Ross, I'm sorry to interrupt, but I just want to make sure I understand the record request as well. And I think this would help me, if I could ask, is there a schedule in the attachments that is along the lines of what you want, but it already included the temporary rates, and so it doesn't give you the full impact?

And I'm not asking you, maybe I'm asking the Company. I just wonder what's going to come in? Is there a schedule in the Settlement that almost gets you there, so we know what the answer is going to look like? I guess is what I'm asking.

SPECIAL CMSR. ROSS: That would be helpful. I think there is a schedule, although I haven't looked at it recently.

Mr. Goulding, could you identify where that rate comparison is in the Settlement attachments, so we could look at it before we --

WITNESS GOULDING: I believe we're referring to Settlement Attachment 6.

SPECIAL CMSR. ROSS: Okay.

MR. DEXTER: So, that's a bill impact. I was thinking Settlement Attachment 5 was what Commissioner Ross was looking for.

SPECIAL CMSR. ROSS: I think I actually want a rate comparison, as opposed to -- I mean, the bill impact is also helpful, but I'd want to start with a rate comparison, and maybe include the bill impact.

Generally, when the Commission issues orders approving rate changes, we try to describe both the change in the rates and the bill impact percent.

WITNESS GOULDING: So, when I was directed to Settlement Attachment 5, I'm seeing the current distribution rates, I'm looking at R-5, this is Bates Page 151.

So, what you're seeing in Settlement Attachment 6, where it says "Present Rates", those are the present rates, which don't include the temporary rate increase.

SPECIAL CMSR. ROSS: Then, it is in there. Hold on, let me see if I can get to it.

Okay. I think I managed not to have the right exhibit. But, if it is already shown, then just give me the reference, and we will check it after the hearing. So, it's Bates Page 151 --

WITNESS GOULDING: I don't mean to cut you off. I'm looking in one more place. I have so much paper up here.

Okay. Sorry about that. So, yes. Settlement Attachment 5, Bates Page 151, that has the current rates in Column (C), and those do not include the temporary rates.

SPECIAL CMSR. ROSS: Okay. Thank you. Then, we don't need a record request, if that's already in the exhibit.

BY SPECIAL CMSR. ROSS:

Q I have a clarifying question. As I read the Settlement, it looks to me as if there is only one step adjustment agreed to in the Settlement Agreement. Am I reading it correctly?

A (Goulding) That's correct.

Q Okay. Thank you. And then, one final question. When you do your step adjustment, do you also deal with excess deferred income taxes associated with the added assets?

A (Goulding) The accumulated deferred income taxes?

Q Yes.

A (Goulding) It's not a component in the calculation of the step adjustment. The excess deferred income taxes, which were -- came about as a result of the tax change in 2017, that excess deferred income taxes return has been addressed as part of the Settlement. There's a level that's included in the base distribution rates.

Q Is it also applied in the step adjustment, the same level then, for the excess?

A (Goulding) It's not, because it's already built into the current rates. So, the current rates are recovering it. So, the step adjustment is just recovering the revenue requirement, the return on and of the change in net plant, and the amortization of property taxes associated with that change in net plant.

I'll back up. The amortization was not part of the change in net plant. That is an added item recovered in the step adjustment.

Q I'm sorry, say that again? I didn't stay with you on that.

A (Goulding) I said -- I said "the return on and of the net change in net plant and property taxes and amortization." But the amortization is not part of the change in net plant. That is just an added component that's recovered as part of the step adjustment, related to a removal of amortization expense from the initial filing.

Q What is "amortization expense"?

A (Goulding) There is some software projects, IT projects, that were placed in service during the year. So, those are referred to as "amortization expense", normally, versus "depreciation expense".

Q Okay. All right. So, some things are amortized, whereas others are depreciated?

A (Goulding) At the end of the day, it's the same thing. It's called a different name for some accounting reason.

Q Could I just ask you some questions as a lay -- sort of lay questions on a step? I'm trying to understand specifically depreciation. So, let me just make a statement, and see if I've got it correctly.

When you ask for recovery of additional revenue requirement associated with a step, what you're essentially asking for is additional revenue, because your rate base is actually higher than it was in the test year, when the revenues were originally set. Is that correct?

A (Goulding) Yes.

Q And, so, if, during the period of time before that step goes into effect, you have been reducing your net plant as it depreciates. In order to determine what you actually need as additional revenue, you have to take into account that you now have a lower plant number to compare that added plant to, and, so, you have what I would call some "headroom". In other words, your revenue requirement right now, at that point, before you add the step, is actually compensating you for a higher level of rate base than you actually have in service at that point?

A (Goulding) I think that would mathematically be accurate, if we were not growing our rate base or growing our investments. If the investments were shrinking, then you could run into a situation where you could have a reduction in depreciation expense.

Q Okay. So, if you assume that your depreciation equals exactly your increase in net plant year over year, you would never need a step, and your rate would always -- your revenue requirement rate would always be correct, wouldn't it?

A (Goulding) You're saying, if my -- if my rate base didn't grow from year to year, I'd have the adequate depreciation expense?

Q Right. In other words, your depreciation would be offset by equal plant additions. So, your net plant number would be stable year over year.

A (Goulding) Assuming that each one of those investments is replaced for like-kind investments, meaning the same depreciation rate would be -- I mean, if there was five items that were depreciated at 3 percent for $10 million, those would run out, and another $10 million at 5 percent, and those were swapped out. Then, that could be, I would say that's an accurate statement.

Q Okay. So, I think the concern I have, as a Commissioner, is I just want to make sure we're not double-counting when we do a step adjustment. That the additional revenue that you're asking for is revenue that is actually needed based on whatever your rate base -- your current rate base amount is, so that we do need to take into account the fact that you've reduced that rate base through your depreciation expense year over year?

A (Goulding) Right. And that's why the calculation, as part of the Settlement Agreement, accounts for that, because it's the change in net plant. It's not just the capital additions for the current year, less ADIT, less depreciation, on those individual adjustments, times the rate of return, times depreciation expense. It's change in net plant that captures, kind of takes into account those run-offs.

SPECIAL CMSR. ROSS: So, I think what this might require, and it probably doesn't need to happen in this docket, but perhaps it should happen in the step adjustment docket, is that there might need to be an exercise where we actually take the spreadsheet and walk through line-by-line, and either defend, or not, the various additions and substractions, so that we're all comfortable that we've captured reality, in terms of what the Company needs for its -- going forward for its rate base.

WITNESS GOULDING: Okay.

SPECIAL CMSR. ROSS: Thank you.

CHAIRMAN GOLDNER: Okay. So, I would suggest we take a break until 11:10. And, if we could keep -- if we could keep the witness panel intact for now, the Commissioner -- we can talk and see if there's anything else we want to ask. And, if not, then we can transition over to the next panel.

Any concerns with that? Mr. Kreis, you look -- you furrowed your brow. So, I'm concerned I've said something untoward.

MR. KREIS: No, not at all. I was

still basking in the warm glow of the last series of questions that Commissioner Ross asked.

CHAIRMAN GOLDNER: Excellent. Excellent. Very good. Mr. Taylor?

MR. P. TAYLOR: Just a procedural question. For the purposes -- so, obviously, you've been asking questions. For the purposes of doing redirect, do you want to wait to do that until all of the panels go? Or, do you expect us to do it when you're done with them?

The reason I ask is, I want to make the best use of my break, if we have it. So, --

CHAIRMAN GOLDNER: Absolutely. And I think, with leaving -- the witness leaving at noon, I think we can finish by then with redirect.

Commissioner Ross, yes?

(Special Cmsr. Ross indicating in the affirmative.)

CHAIRMAN GOLDNER: So, yes. I think, so, we'll go -- we'll just double-check to make sure we don't have any more questions, go to redirect, and then move to the next panel. If that's all right?

MR. P. TAYLOR: Sure. And how much of a -- taking a 20-minute break?

CHAIRMAN GOLDNER: Yes, 11:10. Yes. So, 15 or so, if I'm reading the clock from here.

MR. P. TAYLOR: Okay.

CHAIRMAN GOLDNER: Would that be all right? You look concerned. Would you like to do something different?

MR. P. TAYLOR: Perhaps, if you could give me an additional five minutes.

CHAIRMAN GOLDNER: Of course.

MR. P. TAYLOR: So, maybe 20 minutes would be helpful.

CHAIRMAN GOLDNER: Yes. Let's go 11:15. We'll come back at 11:15, to give everyone enough time.

MR. P. TAYLOR: Okay. Thanks.

CHAIRMAN GOLDNER: Okay. Okay. Thank you. Off the record.

(Recess taken at 10:54 a.m., and the hearing resumed at 11:18 a.m.)

CHAIRMAN GOLDNER: Okay. The Commissioners have no more questions for the panel. So, we can move to redirect.

Yes. Does Mr. Kreis or Mr. Dexter have any questions for the panel?

MR. KREIS: I have no questions for the panel.

MR. DEXTER: No questions from the Department of Energy.

CHAIRMAN GOLDNER: Okay. Thank you. We'll move to redirect then.

MR. P. TAYLOR: Thank you, Commissioners.

REDIRECT EXAMINATION

BY MR. P. TAYLOR:

Q My first question on redirect is for Mr. Diggins and Mr. Francoeur. The Company's witnesses and the Commission had an exchange earlier regarding decoupling and its importance to the Company. And the Company explained the importance of decoupling to the Company's financial strength.

Can you please explain how decoupling, by supporting the Company's financial strength, that accrues to the benefit of customers.

A (Diggins) Sure. I can expand on that a little bit.

We had -- we initially talked about how

decoupling stabilizes revenue, which is a benefit to the Company, but it is also a benefit to customers, as it does protect them from higher bills due to a colder -- colder weather, *etcetera*. So, it does levelize the bill impacts for customers.

In addition, we talked a little bit about how it is somewhat credit supportive. And, in particular, when S&P issued their press release for the negative outlook, they specifically cited the weaker economic conditions related to the pandemic, as well as lower sales, due to the warm winter weather in 2020, which both could have been mitigated with the -- if decoupling had been in effect for Northern Utilities now.

Being credit supportive allows Northern to keep its investment grade ratings. If the Company was actually downgraded, that would lead into a higher cost of debt, as when we go out to issue long-term debt through the private placement market, we would essentially be issuing at a higher coupon rate than if we were to maintain our current investment grade ratings.

The Company, when it does issue its long-term debt, due to its size, it is at somewhat of a disadvantage that it can only issue through the private placement market. It does not have the opportunity to issue in the public market. So, there is a smaller field of investors that the Company is competing for. So, maintaining your investment grade ratings is a very important aspect to the investors, as well as the Company, in keeping debt costs as low as possible, which then translates into lower rates for customers, if we're able to keep our debt costs as low as possible.

Q And you mentioned the consequences of a downgrade being higher costs that would essentially go to customers. When the Company was downgraded in recent years, was the lack of decoupling cited as an issue?

A (Diggins) The Company has not been downgraded, though we were put on a negative outlook.

Q Thank you.

A (Diggins) And it was specifically cited that the lack of decoupling in other jurisdictions, besides Massachusetts, was a reason for the rationale for the negative outlook.

Q Thank you. And thank you for the clarification. Obviously, it's an important one.

A (Diggins) Thanks.

Q So, well, my next question is actually going to be for Mr. Lyons, who is not part of the Settlement panel, but he is a decoupling witness in this case. And he is on the line remotely.

Mr. Lyons, we've talked about the importance of -- the importance of decoupling to the Company and to customers from a financial perspective. Can you address other benefits of decoupling to customers, including, you know, policy objectives?

A (Lyons) Yes. Good morning. The revenue decoupling, in principle, corrects a basic misalignment that occurs between the utility rates, which are largely variable, based on usage, and the utility costs, which are largely fixed. You talked earlier about infrastructure investments, for example, that are largely fixed. So, there's this mismatch that occurs between the revenue stream and the cost structure. And the revenue decoupling corrects for that.

How it feeds into not just the Company benefit, but also the customer benefit, comes up in something like energy efficiency initiatives, for example. So, any energy efficiency initiative that reduces consumption has a negative impact on the Company, because it reduces those revenues.

There was a discussion earlier about having that revenue adjustment factor to account for that. And, so, by having a decoupling mechanism, it allows the Company to pursue things like energy efficiency, without there being a financial disincentive associated with it.

And, then, finally, the third reason would be, is that it helps to stabilize customer bills, in addition to the Company revenues. And I know this was talked about earlier. And that's one of the -- I think one of the benefits of the revenue decoupling is it works in those two directions. So, there's a customer benefit, because the customer would receive revenues in those cases where the actual revenues per customer were higher than what was authorized, and then the Company receives benefits, in the case of the actual revenues being lower than what had been authorized.

And there's also, not only it works in terms of the benefit, but also in terms of what is the offset to those benefits. And that is, the Company, for example, forgoes the opportunities to retain where actual revenues are greater than the authorized, for example, in colder weather, those would be credited back to customers in the form of refunds. While the customer forgoes the opportunities to have savings associated where actual revenues are lower than authorized revenues, for example, in the case of warmer-than-normal temperature, it ends up forgoing those.

So, in that case, and, again, the revenue decoupling ends up being two ways where there's shared benefits for both the Company and the customer.

Q Thank you. My next question is for Mr. Goulding and Mr. Nawazelski.

Just before the break, the Company witnesses and the Commissioners had an exchange regarding the calculation of the Company's step adjustment revenue requirement, and, in particular, a discussion of depreciation issues. And I was hoping that you could explain the development of the calculation, as we've done it, and the rationale for doing it the way we've done it?

A (Nawazelski) Sure. This is Dan Nawazelski. So, looking back for the Gas Division at Northern, going back to DG 11-069, the Company has had a series of step adjustment mechanisms that have been in place between rate cases. And all of these mechanisms, going back to that 2011 docket, included what I'll call a "list approach". And that list approach looked at targeted investments that were non-growth, and provided recovery on just those investments. So, that recovery involved the rate of return on those investments, and incorporated the depreciation only with those investments, as well as the accumulated deferred income taxes. That methodology was consistent with the Company's initial filing in this docket. So, the Company came in and used that targeted approach for these non-growth investments.

Over the course -- over the course of

the Settlement discussions, the Parties came to an agreement to change that methodology to the "net plant approach", which is what is included in the Settlement Agreement before you today. That was based off of the Company and other Parties' understanding of Commission preference to move towards this level, or not "level", towards this methodology, from the "net plant approach" from a "list approach" of investments.

So, that's what is before you today. The change in net plant incorporates the roll-forward of the depreciation expense of previous vintages, not just the investments in the investment year of 2021. It includes the roll-forward of depreciation expense of all future -- or, prior periods as well, sorry, not "future periods as well".

So, I just wanted to point out the historical context of that, and how the Company has changed its approach from its initial filing into the Settlement Agreement.

MR. P. TAYLOR: Thank you. That's all we have for redirect. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you.

So, the witnesses are released. Thank you very much.

And we'll impanel the next set of witnesses, when they're ready. I think it will be Mr. Eckberg and Ms. Reno, and then Mr. Woolridge and Ms. Mullinax will be on the phone.

MR. DEXTER: Thank you. Mr. Chairman, could we go off the record to do some rearranging? I'd like to change tables.

CHAIRMAN GOLDNER: Yes, sir.

MR. DEXTER: Thank you.

CHAIRMAN GOLDNER: Off the record.

[Off the record.]

CHAIRMAN GOLDNER: Okay. We'll go back on the record. And, Mr. Patnaude, if you could swear in the witnesses.

(Whereupon ***Stephen Eckberg, Donna Mullinax, Randall Woolridge,*** *and* ***Maureen Reno*** *were duly sworn by the Court Reporter, consisting of the DOE/OCA Settlement Panel.)*

MR. P. TAYLOR: Commissioner, before we go forward, may I just ask one question. I'm sorry I didn't get it in before the swearing of witnesses.

We have a witness, Mr. Giegerich, here who would like to be excused. May he be excused from the hearing at this point, unless you have any further questions?

CHAIRMAN GOLDNER: Yes. Thank you for asking. He may be excused.

MR. P. TAYLOR: Thank you very much.

CHAIRMAN GOLDNER: Thank you. And I believe we'll start with Mr. Dexter.

MR. DEXTER: Thank you, Mr. Chairman. I'm going to ask questions of the three Department of Energy witnesses. I will do them one at time, starting with Mr. Eckberg, who is in the hearing room before us.

DOE/OCA SETTLEMENT PANEL

STEPHEN ECKBERG, SWORN

DONNA MULLINAX, SWORN

RANDALL WOOLRIDGE, SWORN

MAUREEN RENO, SWORN

DIRECT EXAMINATION

BY MR. DEXTER:

Q Would you please state your name and your position with the Department of Energy?

A (Eckberg) Yes. Good morning. My name is Stephen Eckberg. I am an Analyst with the Regulatory Support Division of the Department of Energy.

Q Thank you, Mr. Eckberg. Would you please describe your duties with respect to this rate proceeding?

A (Eckberg) With respect to this specific proceeding, I have reviewed the Company's filing, specifically the direct testimony of Company Witness Mr. Allis, who filed testimony and a depreciation study. And that has been primarily the focus of my engagement.

I filed direct testimony myself, commenting on that study and making recommendations to the Public Utilities Commission.

Q And that testimony that you mentioned has been marked in this proceeding as "Exhibit 9", is that your understanding?

A (Eckberg) Yes. That's what my copy of that testimony says on the front of it, yes.

Q Do you have any -- I'm sorry. Was that testimony prepared by you or under your supervision?

A (Eckberg) Yes, it was.

Q And do you have any corrections you'd like to make to that testimony at this time?

A (Eckberg) Yes, I do. I have several corrections. And I'm looking at Bates Page 012 of my testimony, which, as mentioned, is "Exhibit 9". And between Lines 4 and 5, on Bates Page 012, there's a table, which summarizes some numerical aspects of my recommendation. And, in the second row containing numbers of that table, which it presents the "Theoretical Reserve Imbalance", in the testimony you'll see the number -- in that table, you'll see the number "18,518,579". And I would like to correct or change that number, so that it reads "15,740,832". So, that's a reduction, a noticeable reduction.

And, in the next line of the table, which presents the amortization of that Theoretical Reserving Imbalance over my recommended 10 year period, the existing number there is "1,851,858". And I would like to change that number to be "$1,574,083".

The reasons for that change are explained in a data response, which are included as Settlement Attachment 10, that's Exhibit 13, the very final page, Bates 254, is a data response which the Company asked me following the filing of my testimony, which provided an opportunity for me to make an adjustment, to make the clarification. There had been a double-counting of certain amortizations. And, so, clarifying that double-counting reduces these values as I've just made those changes to this table in my testimony.

Q And, with that correction, do you adopt this testimony in this proceeding?

A (Eckberg) Yes, I do.

Q And you've already indicated the major areas that you addressed in your testimony. Are you familiar with the Settlement that's been marked as "Exhibit 13"?

A (Eckberg) Yes. I am generally familiar with that.

Q And is it your opinion that the Settlement contains an acceptable resolution of the issues that you raised in your testimony?

A (Eckberg) Yes, it does. I do believe the Settlement, which adopts a 10-year amortization of the depreciation reserve imbalance, and which agrees to use the whole life technique to determine the depreciation rates, is a reasonable compromise. And I'm very satisfied with that aspect of the Settlement Agreement.

MR. DEXTER: Okay. Thank you. I'd like to turn to Donna Mullinax please, and ask a series of similar questions.

BY MR. DEXTER:

Q Ms. Mullinax, would you please state your name and the position -- the Company you work for and your position please?

A (Mullinax) My name is Donna Mullinax, and that's M-U-L-L-I-N-A-X. And I'm President of Blue Ridge Consulting Services, Inc.

Q And would you please describe your duties with respect to this rate proceeding?

A (Mullinax) As a consultant to the DOE, I focused primarily on the permanent rates' revenue requirements, and that included flowing through any of the adjustments or recommendations made by the other DOE witnesses.

Q And did you provide written testimony in this proceeding?

A (Mullinax) Yes, I did.

Q   And is it correct that that testimony has been marked for identification as "Exhibit 11"?
A   (Mullinax) Yes.
Q   Was that prepared by you or under your supervision?
A   (Mullinax) Yes.
Q   And do you have any corrections you'd like to make to that testimony at this time?
A   (Mullinax) Yes, I do. The adjustments or the corrections made by Mr. Eckberg flow through the revenue requirements model. So, I think the easiest way to show this is, if we go to my testimony, Bates Page 006, there is a -- some summary tables on there. And I can make some changes to those summary tables that will show what the bottom line impact is of those changes.
          In addition to the change in the amortization of the reserve imbalance, I also need to make a change to the "Directors and Officers Liability Insurance", there was a formula error in my schedules.
          So, if we can take a look at Bates Page 006, on Line 2, the very first number there, the "5,151,887", should be changed to "4,880,010".

In Table Number 1, the line that says "Recommended Adjustment", that shows the "negative 2,813,315", should be changed to "3 million" -- a "negative "3,085,192", which results in a Recommended Revenue Deficiency of "$4,880,010".

If you go to Table 2, because of the various flow-through items of any of the adjustments that are made to either rate base and/or net operating income items, there are a number of line items that would need to be changed. And some of these flow-throughs are like cash working capital, bad debt, and interest synch. So, by changing Adjustment Number 9 --

Q Let me interrupt you for a second, Ms. Mullinax, because I don't think it's necessary to indicate all the flow-through change numbers.

But let me ask you this. The correction that you identified, with respect to flowing through Mr. Eckberg's correction, is that incorporated into the revenue requirement schedules that are attached to the Settlement?

A (Mullinax) Yes, they are.

Q Okay. So, for purposes of the Settlement, those numbers would be correct with respect to those corrections?

A (Mullinax) Yes.

Q Okay. So, I think I will cut you off there, rather than read in a litany of updated numbers, because I think everybody understands that, if you make one change in a revenue requirement, it has downstream effects.

But I would like to ask you about the "Directors and Officers Liability" correction that you mentioned. Could you explain that please?

A (Mullinax) Yes. The supporting schedule had a formula error. So, I needed to change the Directors and Officers, it's Adjustment Number 9. And, if you're still looking at Bates Number 006, what happens there is the operating income number of "19,508" needs to change to "14,149". And the "Revenue Deficiency" changes from a "negative 28,426", to a "negative $21,077". And that's about a 7,000 -- or, $7,349 increase in the revenue.

Q And I'll ask you the same question with respect to the attachments to the Settlement Agreement that contain a detailed revenue requirements calculation. Has that correction been reflected in Attachment 1 to the Settlement?

A (Mullinax) Yes.

Q Okay. So, with those corrections, do you adopt your testimony as your sworn testimony in this proceeding?

A (Mullinax) Yes, I do.

Q And are you familiar with the Settlement Agreement that's been marked as "Exhibit 13"?

A (Mullinax) Yes.

Q And is it your opinion that the Settlement reflects a reasonable or acceptable resolution of the issues that you addressed in your prefiled testimony?

A (Mullinax) Yes, it does.

Q Are there some examples you'd like to point to at this time?

A (Mullinax) Sure. The first one, the obvious one, is that there is a revenue decrease from what the Company originally asked for. The Company originally asked for 7.8 million; the Settlement is a little over 6 million.

As part of the Settlement discussions,

pretty much all of the DOE revenue requirement issues have been resolved during the give-and-take, either as a specific adjustment or as reflected in a Settlement adjustment. There's a $463,000 Settlement adjustment that incorporates some of the nonspecific items. And a lot of these are apparent, if you look at Exhibit 13, which is the Settlement Agreement, Attachment 1, Bates 029, there's a column there that shows the "Settlement Agreement" items. So, all of the DOE revenue requirement issues, like I said, have been resolved by specific adjustments and/or have been included in a Settlement adjustment. And some of these include things like maintaining the traditional, historical test year with known and measurable changes within twelve months. So, the Company's request for an inflation adjustment for 2022, the Company's request for payroll increases in 2022, all of those have been removed.

Cash working capital, we had a number of recommendations related to the lead/lag study, and the final result was there, that the Company's "36 days" was changed to "29 days".

I would also mention that, during settlement discussions, the Commission order came out for the Unitil case, DE 21-030, related to the Arrearage Management Program. So, during the settlement talks, all of the AMP costs were removed. So, there is nothing within the Settlement related to that.

So, generally, those are kind of some of the higher lights -- high positions. But all of DOE's revenue requirement issues have been addressed. And I believe that the Settlement does result in just and reasonable rates.

MR. DEXTER: Thank you. That's all the questions I have for Ms. Mullinax. And I'd like to ask similar questions to Dr. Woolridge.

BY MR. DEXTER:

Q Dr. Woolridge, would you please state your name and position and your role in this proceeding?

A (Woolridge) Yes. My name is the initial J. Randall Woolridge, and that's spelled W-O-O-L-R-I-D-G-E. I am a financial consultant and I'm a Professor of Finance at the Pennsylvania State University.

Q And what was the scope of assignment in this case

for you?
A (Woolridge) I was asked by the Department to evaluate the overall cost of capital for Northern.
Q Did you provide written testimony in this proceeding?
A (Woolridge) I did.
Q And that testimony has been marked as "Exhibit 12", would you agree?
A (Woolridge) Yes.
Q Do you have any corrections you'd like to make to that testimony at this time?
A (Woolridge) No.
Q And do you adopt that testimony as your sworn testimony in this proceeding?
A (Woolridge) I do.
Q Could you briefly outline the major areas you addressed in that testimony?
A (Woolridge) I addressed -- initially talked about capital market conditions. Then, I talk about the Company -- the overall approach to estimated cost of capital, putting together a proxy group. Mr. Cochrane and I used the same proxy group. And we applied various models. Mr. Cochrane and

I both applied the DCF and the Capital Asset Pricing Model. And, based off of that, I came up with a recommendation of an ROE of 8.9 percent.

I've also provided a slight modification to the Company's proposed capital structure. The Company had proposed a capital structure with a common equity ratio of 52.47 percent. I had made an adjustment and used a common equity ratio of 50.0 percent.

Q Thank you. Are you familiar with the Settlement Agreement that's been marked as "Exhibit 13"?

A (Woolridge) I have -- I am.

Q And, in your opinion, does the Settlement Agreement contain a reasonable and acceptable resolution of the issues that you raised in your prefiled testimony?

A (Woolridge) Yes, I do. In my prefiled -- I mean, as I said, with respect to the capital structure, there's a slight adjustment in the Settlement to the Company's proposed equity ratio in its capital structure, and also it includes an ROE of 9.3 percent. In New Hampshire, historically, the DCF model has been primarily used. And I would say that that -- that is reflective of DCF results for the gas industry.

MR. DEXTER: Thank you. That's all the questions I have.

I had a fourth witness, who is not here today. Amanda Noonan submitted prefiled testimony, and is on the list of documents that will be submitted. Ms. Noonan's primary issue in this case was to support the Arrearage Management proposal that the Company made.

But, as a result of the Settlement, that proposal, as Ms. Mullinax indicated, consistent with the recent order in the Unitil electric rate case, that proposal was not included in the Settlement. So, Ms. Noonan is not here to testify, because her issue has basically been taken out of the Settlement.

So, with that, that's all the questions I have.

CHAIRMAN GOLDNER: Thank you, Mr. Dexter. Mr. Kreis.

MR. KREIS: Thank you, Mr. Chairman. My questions, obviously, are for Ms. Reno.

BY MR. KREIS:

Q Ms. Reno, could you please state your name, employer, and your position with that employer?

A (Reno) Yes. My name is Maureen Reno. I'm employed with the Office of the Consumer Advocate as the Director of Rates and Market Policy.

Q And could you just briefly describe what your responsibilities are in that position?

A (Reno) My responsibilities are to serve on the behest of New Hampshire's residential ratepayers, to provide economic and financial analysis of utility filings brought before this Commission.

Q And would it be fair to say that you are a veteran expert witness in proceedings, both before this Commission and other commissions around the country?

A (Reno) Yes, it would be fair to say. My career started over 20 years ago, where I provided expert witness testimony at this Commission, and other commissions across the U.S. A detailed list is provided in my *curriculum vitae* attached to my testimony.

Q And speaking of your testimony, turning your attention to what has been marked for identification as "Exhibit Number 7", that is your prefiled direct testimony submitted in this case, correct?

A (Reno) Yes.

Q And you are the author of that document?

A (Reno) Yes, I am.

Q And do you have any corrections that you would like to make to that prefiled written direct testimony?

A (Reno) No, I don't.

Q And, so, setting aside the fact that we have a Settlement Agreement before us, if I were to ask you all of those questions in your prefiled direct testimony, with respect to the Company's original rate case filing, would all of your answers, if given live, be the same as they appear in Exhibit 7?

A (Reno) Yes, they would.

Q The OCA is a party to the Settlement before the Commission. And I'd just like to start by asking you the general question, why did OCA sign the Settlement, given that it is not completely consistent with the positions that we took in our prefiled direct testimony, as described in both Exhibit 7 and Exhibit 8?

A (Reno) The OCA is in support of the Settlement, because it's advantageous to New Hampshire's ratepayers, in that the revenue requirements agreed to lead to just and reasonable rates, and the elements within the rate base are used and useful, with an agreed-to weighted average cost of capital of I believe 8 percent, actually, it might be lower, before tax, but -- and a return on equity of 9.3.

The OCA was successful in negotiating, on behalf of residential ratepayers, in regard to coming forth with -- the Parties came and agreed to a decoupling -- revenue decoupling mechanism that will lead to stable rates and will avoid rate shock.

The OCA was also successful in negotiating, on behalf of residential ratepayers, the Company's concession to hold the fixed customer charge for residential ratepayers at the current level of $22.20.

Q Thank you. And speaking of decoupling, you were here this morning for the various colloquies that occurred between the Commission and the Company's witnesses on the subject of revenue decoupling, correct?

A (Reno) Yes.

Q So, I'd like to ask you a few questions in light of those colloquies. My first question is, subject to check, and this might be a somewhat complicated question, would you agree with me that, in Order Number 25,932, issued on August 2nd of 2016, in Docket Number DE 15-137, the Commission approved a Settlement Agreement in which each of the state's electric and natural gas utilities agreed, at least those that are rate-regulated, to submit for Commission approval a revenue decoupling mechanism that would serve as an alternative to the Lost Revenue Adjustment Mechanism that previously applied in connection with ratepayer-funded energy efficiency, and that each of those utilities committed to doing that in their first distribution rate case after the first Energy Efficiency Resource Standard Triennium, which means after the end of 2020?

I apologize, that was a very long question. Hopefully, the answer you're about to give is "yes".

A (Reno) Yes. I would agree.

Q Thank you. And would you also agree with me that

the reason that that provision was in the Settlement Agreement in Docket Number 15-137, as approved by the Commission, is that the Office of the Consumer Advocate led a consortium of stakeholder parties that actually asked the utilities and the Commission to agree to move in the direction of decoupling?
A (Reno) Yes, I would agree, although I wasn't involved at the time. But I believe my predecessors were instrumental in making that determination.
Q So, in other words, you're familiar with that, --
A (Reno) Yes, I am.
Q -- that particular piece of history? So, it's really the Office of the Consumer Advocate, much more than any of the state's utilities, or even the Department of Energy, in its current or previous guise, that is responsible for sort of waving the decoupling flag before the Commission?
A (Reno) Yes.
Q So, Chairman Goldner asked the Company "why is decoupling important to the Company?" And I guess I would like to ask you the sort of flip-side of that question, which is why is

decoupling important to residential ratepayers?
A (Reno) It is, because it stabilizes bills from month to month, and it also is a vast improvement over its predecessor, the Lost Revenue Adjustment Mechanism. And that allows for any over collections to be credited back to ratepayers at a later time.
Q And would you agree with me that, in comparison to the Lost Revenue Adjustment Mechanism, which I believe Commissioner Goldner referred to as "Lost Base Revenue", decoupling is a symmetrical mechanism, is it not?
A (Reno) Yes, it is.
Q And what do we mean when we say it's a "symmetrical mechanism"?
A (Reno) It means that any variances between allowed and actual revenues per customer collected are either credited or, in terms of credits, or also payments collected from customers, if those variances differ.
Q You heard what Mr. Hevert's answer was when asked by the Chairman "Is decoupling better than lost base revenue?" And Mr. Hevert's answer was "I think so."

What's your answer to that question? Is it somewhat less equivocal than "I think so"?
A (Reno) I know so.
Q Thank you. There was a suggestion this morning that your opinion is that the "price of decoupling", from a utility standpoint, is a "32 basis point hit". And I just want to clarify what you actually had to say about that.
And, to do that, I would like you to look at Exhibit 7, Page -- just want to make sure I have the right page number, Bates Page 015 of that exhibit, at Lines 10 through 12.
A (Reno) Yes. I'm there.
Q Okay. So, at that point in your testimony, you are answering a question that said: "If the Commission were to approve Northern's full decoupling mechanism, how would credit rating agencies like" -- "how would credit agencies be likely to respond?" That was the question you were answering.
I added the dropped word in the question.
A (Reno) Yes. And, so, basically, what I did is I compared the basis points difference between the

rate on an A-rated long-term bond, corporate bond, of 4.02 percent, and the rate on a BBB+ corporate utility bond -- actually, I'm sorry, a Baa utility bond. And, so, the difference is 32 basis points.

Q Right. So, in other words, what you're saying there is, basically, if magically, or maybe not so magically, the Company's bond rating were to improve from Baa, up to A, that would result in a decrease of 32 basis points in the yield on those bonds?

A (Reno) Right. And, so, that basis point difference would be applicable to any new issued long-term debt that, say, would be issued today, all else equal.

Q But you weren't suggesting that, if the Commission were to approve the Company's revenue decoupling plan, that would automatically mean that any of the Company's bonds would achieve a yield that's 32 basis points less than what they would achieve now?

A (Reno) No, not directly.

Q But -- so, from a investor perspective, what is your opinion about the effect that decoupling should have?

The Company, just to remind you, described it as -- I think Mr. Hevert said "credit supportive", versus "credit enhancing". I'd just like to know what your perspective is on that?

A (Reno) Well, it's at least credit supportive. But I would go further to say it's credit enhancing, in that investors would view it as a positive movement, and that it would reduce the risk that shareholders would incur under a traditional -- under the traditional rate recovery regime. And it basically ensures that any variances between actual revenues per customer and allowed revenues per customer would be recovered. And, so, that is risk then that the Company no longer faces, and it's more incurred by customers.

Q And I just want to make sure that I acknowledge, and then have correctly understood, and help the Commission correctly understand, what I think is an implication of all of this testimony about the relationship between revenue decoupling and credit ratings. And that is that, would you agree that, with respect to the effect one would expect decoupling to have on the Company's weighted average cost of capital, that effect is essentially you would expect to be felt on the debt side of that equation, rather than the equity side of that equation?

A (Reno) Yes. Over time, as the Company would issue more long-term debt, the Company would be able to receive the debt at a lower cost, and that would be further reflected through the Company's weighted average cost of capital.

Q But you don't think it changes the Company's outlook from the perspective of a potential investor?

A (Reno) Well, it could have an impact on what investors expect of a return from a share of Unitil stock.

Q Okay. I think that's all I needed to ask you about revenue decoupling.

Turning your attention to Pages 5 and 6 of your testimony, which is Exhibit 7, you offered five recommendations to improve the decoupling proposal that was initially made by the Company. And I'd like to focus on the first of your recommendations, that all calculations for each customer class be made separately for purposes of the decoupling-related rate adjustment. That differs somewhat from what the Settlement Agreement has to say on that subject, which is in Section, I think it's 4.2.2, or 4.2, which talks about "decoupling adjustments made by rate group", rather than rate class.

Could you explain the difference between "rate class" and "rate group", and talk about why you think that's a reasonable revision from your original proposal, assuming you do?

A (Reno) Yes. The Company's initial proposal recommended to the Commission that all the variances between allowed and actual collected revenues per customer would be grouped together, and then later reconciled. And, upon further pushback from the OCA, the Company expressed concern over separating that out by class as being problematic. And, so, --

Q Let me just interrupt you. "Problematic", meaning just hard to do, given the state of the calculation capabilities of the utility?

A (Reno) Right. And, so, in my testimony, what I propose is, if that's not possible, then a reasonable alternative would then to treat those variances by customer class groupings, and the groupings would be determined upon load factor. And, so, the Company did concede and meet that request of the OCA.

Q So, that was sort of your Plan B, --

A (Reno) Right.

Q -- and the Company said "Okay, Plan B", and we agreed?

A (Reno) Yes.

Q Your second recommendation was basing the adjustment cap on distribution revenues, rather than total revenues. And that was actually adopted in the Settlement Agreement, yes?

A (Reno) Yes. Yes, it was. We had moved to four and a quarter percent of distribution revenues.

Q And what about your recommendation to reconcile the so-called "RDAF adjustment" on a "semi-annual" basis? And I'll just remind everybody, "semi-annual", because I have to remind myself, means "every six months".

A (Reno) That is correct. As the Company initially proposed, the reconciling would be annual. And I had proposed to parse that out between peak and off-peak periods. And that was something that the Company conceded on.

Q What about your recommendation for "weather normalization"?

A (Reno) Yes. I had initially recommended that, in addition to a weather normalization adjustment to allowed revenues, that the Company also calculate weather normalization adjustment to actual revenues. That was something that, in the spirit of settlement, the OCA had conceded on.

Q Thank you. Now, turning your attention to Exhibit 8, which is the prefiled written direct testimony of OCA Witnesses Lane and Havumaki.

MR. KREIS: And let me just explain to the Commission, and this sort of reprises a point I made this morning.

Ms. Lane and Mr. Havumaki are not OCA employees. They are outside consultants that we pay by the hour. And I opted not to incur the expense of bringing them here to Concord, because I didn't think it was unnecessary -- I didn't think it was necessary.

Their testimony has been marked for

identification as "Exhibit 8". And, since none of the assertions in their testimony are disputed factual issues at this point, and in light of the language in the Settlement Agreement that says that "all the prefiled direct testimony should be admitted as documentary evidence", that's what I intend to do, at the end of the hearing, when the Commission asks whether it is okay to lift the identification on all of the exhibits and admit them as full evidence.

BY MR. KREIS:

Q So, with all of that said, turning back to Ms. Reno, you're familiar with the recommendations of Witnesses Lane and Havumaki. And those recommendations are summarized on Page 7 of their testimony, correct?

A (Reno) Yes, it is.

Q And, with the proviso that you are not the sponsor of that testimony, which covers rate design and revenue allocation questions, I'd like you nevertheless to comment on the extent to which their recommendations found their way into the Settlement.

Their first recommendation was to

reject step adjustments in favor of what they characterized as a "return to traditional cost of service ratemaking". And the Settlement Agreement does, in fact, contain a provision for one single step adjustment.

Is that a reasonable compromise of the recommendation that Witnesses Lane and Havumaki made?

A (Reno) Yes, I believe it to be.

Q And, by the way, you heard the colloquy this morning that Commissioner Ross had with the Company about the potential effect of depreciation and preexisting rate base on rate changes that arise out of a step agreement -- a step adjustment, did you not?

A (Reno) Yes.

Q And would you say that you tended to agree or disagree with the implicit premise of Commissioner Ross's questions, that maybe that's something that ought to be examined in the context of the proceedings on the step increase?

A (Reno) Yes, I definitely agree.

Q What about the recommendation from Witnesses Lane and Havumaki that the Commission get the Company to file a comprehensive performance-based regulation plan?

That is not, in fact, part of the Settlement. And, so, I'd like you to comment on whether the fact that that's not in the Settlement is reasonable, and why?

A (Reno) Yes. In the spirit of the Settlement negotiations, we didn't include that into the Settlement, that is moving to a performance-based ratemaking regime.

However, the OCA would like to have, like in future proceedings, and this has already taken place for another utility, I believe Granite State Electric is coming forth and exploring at least a performance-based ratemaking rate mechanism.

Q And that would be because that utility agreed to such an exploration, and, in fact, we, meaning the OCA, are in the midst of conducting that very exploration?

A (Reno) Yes.

Q So, in terms of advancing that concept here in New Hampshire, it's proceeding on the Granite State front, rather than a Unitil front, and the

OCA finds that acceptable?

A (Reno) Yes.

Q The recommendation from Witnesses Havumaki and Lane was to reject the use of the minimum system method for cost allocation and rate design. That isn't in the Settlement Agreement, or is it? I just want to clarify the extent to which the Settlement Agreement addresses that recommendation?

A (Reno) The Settlement did not accept -- well, does not address that recommendation as it is. We had agreed, in the spirit of settlement, that the Company is to use the minimum system method in cost allocation.

But we do have some language in the Settlement in that, come the next rate case, the Company agreed to provide an alternative calculation based on allocating distribution means on a demand-only basis.

Q And you would agree with me, would you not, that if the Commissioners wanted to educate themselves about why we raised that issue in the first place, that question is at least theoretically now discussed in the Lane and Havumaki testimony,

Exhibit 8?

A (Reno) Yes, it is, and in clear detail.

Q Thank you. And I think my last question has to do with the customer charge, the fixed customer charge that Northern's customers, particularly its residential customers, pay every month. Our Witnesses Lane and Havumaki recommended keeping the customer charge at its current level. That is actually in the Settlement as a term of the Settlement, is it not?

A (Reno) Yes, it is. And we're pleased that the Company had conceded on that, leaving that fixed customer charge, for residential ratepayers anyway, at $22.20.

Q And you would agree with me that that's a pretty important concession that the Company made, from our standpoint as the Office of the Consumer Advocate?

A (Reno) Yes. I agree.

MR. KREIS: Okay. Having already asked this witness why she thinks the Settlement overall is worthy of your approval, I believe those are all the questions I have for Ms. Reno on direct.

CHAIRMAN GOLDNER: Okay. Thank you. Just a moment.

[Chairman Goldner and Special Cmsr. Ross conferring.]

CHAIRMAN GOLDNER: Okay. Just a few questions from the Commissioners.

BY CHAIRMAN GOLDNER:

Q First, for Ms. Reno. Mr. Kreis was asking, in your testimony, on Bates Page 006, relative to the five areas that were important to the OCA. And I'd just like to understand Number 3, on this "semi-annual" question, why was that important to the OCA and what benefits does it provide to residential ratepayers? This is the "RDAC semi-annual reconciliation", as opposed to annual?

A (Reno) Yes. The OCA has been concerned of late as what's happening with the cost of gas rates. And, so, this was one way of reducing ratepayer burden, in that, since the Company had conceded on this one element, customers would be facing less of a rate shock.

Q So, it's really a more regular adjustment was the idea, and not waiting as long to do the adjustment?

A (Reno) Correct. Yes.

Q Okay. And that's a benefit. Okay. Then, on Number 5, I don't believe Mr. Kreis talked about this, if he did and I missed it, I apologize. But, Number 5, also on Bates Page 006, says "The proposed decoupling mechanism should compensate customers for the shift in risk from the Company to ratepayers by either reducing the Company's allowed return on equity or adjusting the capital structure to allow for more debt, thereby reducing the overall weighted average cost of capital."

Can you talk a little bit about why the OCA is satisfied with that particular portion of their concern?

A (Reno) Yes. In the spirit of settlement, we were pleased that the Company was willing to concede on, first of all, movement on return of equity, from, I believe, 10.3 to 9.3 percent, and then also to move a little bit on the capital structure, the subtle increase in the debt component of that. So, we felt those two measures, again, in the spirit of settlement,

brought us closer to compensating customers for the shift in risk.
Q Okay. So, I suppose it depends on what the baseline is, and I understand what you're saying, in terms of the Company's proposal.
If I look at the prior rate case, DG 17-070, the cost of capital is reduced from that there -- the return on equity, rather, is reduced from 9.5 percent to 9.3 in this rate case. And the return on equity goes up a little bit, from 5.7 to -- or, 51.7 to 52. So, from -- relative to the last rate case, it's basically the same.
So, I understand that the proposal was much higher. I've experienced that at the used car lot. But I'm trying to understand, relative to the last rate case, why you're satisfied?
A (Reno) Well, when you're comparing the return on equity and the capital structure to a previous period in time, you need to be careful. You need to also consider what's happening in current financial markets. And, so, since the last rate case, the one in 2017, probably a 2016 test year, correct me if I'm wrong, the markets were a little different.

We find ourselves in unprecedented times right now, as it is. Investors are valuing utility stock as a safe haven compared to a lot of the risk for other financial assets out there. So, of course, you would see investors' expectations, expected returns being lower than, say, in 2016 or 2017.

Q Okay. Okay. Thank you. All right. I'd like to ask one question on the step. We had a long conversation before with Mr. Goulding about the Settlement Attachment 2. Is there anyone on the panel that's familiar with that attachment, and would care to comment on the dialogue with the Company, relative to the way those calculations are made, and any agreement or disagreement with those calculations?

And I'm particularly, my own focus is on Line 6, on the depreciation expense calculation. It seems to me to be a question that I would have.

A (Mullinax) This is Donna Mullinax. I think I can address that.

Line 6 is actually how the Company is reflecting change in accumulated depreciation.

That's not really depreciation expense that's being reflected in the step. The actual depreciation expense that's included in that step is on Line 15. So, there may be a little bit of a misunderstanding of what that particular line is. That is the Company -- and this is my interpretation, after having reviewed this schedule, that the depreciation expense is taking all plant and adjusting the accumulated depreciation to come up with a net plant approach.

In the past, the step adjustments have been more on a list basis, where you're dealing with additions. In this one, you know, during the settlement talks, it became apparent that the Commission is wanting more of a net plant. So, that Line 6 is what's being used to adjust total net plant.

What happens there is, because the step adjustment is only reflecting the non-growth, that has to be allocated. And, so, there is a -- about 83 percent of that is being allocated to non-growth, and about -- it's about 16, 17 percent being allocated to growth. And that's just the percentage, the allocation of the growth projects and the non-growth projects. So, it had to be allocated. You couldn't take all of it.

But it's still -- it's just because you have to reflect a current year's depreciation expense to adjust accumulated depreciation. And, if you put everything in there, basically, there would be no step increase. So, it does need to be allocated. And that's what that Line 6 is, it's just the allocation of the non-growth related projects to the accumulated depreciation.

Q If I can maybe say that a different way, I think that, when they divided the plant additions, the 19.9 million, into the two categories, growth and non-growth, they took that percentage, that was the 17/83 percent that you mentioned, and then they applied that to the beginning plant. So, they said "well, this is a good proxy for all of our existing assets", and that's how they did the calculation.

Does that comport with your understanding?

A (Mullinax) That's my understanding, yes.

Q Okay. Thank you. I think, Ms. Reno, you might have had something you wanted to add?

A (Reno) I was just about to defer to the DOE witnesses.

MR. KREIS: Indeed. I would say, from the OCA's standpoint, we're quite grateful to Ms. Mullinax for having been able to give such a learned response to the colloquy from this morning, because we were stumped.

CHAIRMAN GOLDNER: Very good. Very good. Okay. Thank you, Ms. Mullinax. That's very helpful. I do have a few more questions for -- and I'll point them to Professor Woolridge.

BY CHAIRMAN GOLDNER:

Q Professor, in your Exhibit 12, Bates Page 008, you talk about "interest rates near historic lows and stock prices near historic highs", and I realize there is some time factor here, but "capital costs are at historic lows."

And, then, on Bates 012, you discussed how other utilities "have taken advantage" of lower bond -- lower bond yields to raise capital, "raising over $100 billion in debt and equity over the last four years."

In your opinion, has Northern taken advantage of this environment?

A (Woolridge) Well, I think most utilities have. And I'm sure Mr. Hevert and his Treasury team are looking closely at what are opportunities to refinancing. Obviously, there's some regulatory limitations on what they could do, getting a financing order and all.

But I'm sure that, I mean, they have taken advantage to a certain degree. Their debt cost rate, which is 4.93 percent, I mean, is very for, you know, the credit rating of Northern and all is in the ballpark, is what I would see in other utilities around the country. So, I assume they have, just as other utilities have.

Q Okay. Thank you. On Bates 016 to 018, you discuss authorized ROEs for electric and gas utilities, and that everything is declining. There's a nice graph that you included in there to reflect the low capital cost environment.

Can you discuss for the Commission the key factors which have caused that steady decline over the lost 20 years, and if you expect that trend to continue?

A (Woolridge) Well, yes. I mean, obviously, you look at, over the long term, you're going to see a downward slope to those authorized ROEs for both gas and electrics. Turns out, I mean, obviously, one thing I see in different cases around the country is, you know, you've seen these, obviously, the interest rates go down with the year 2020 and 2021, where you had historically low treasury yields. People always saying "They can't go lower", and they go lower.

But one thing we would see is that, you know, utility authorized ROEs didn't fall nearly as much as interest rates. So, you look at between, say, 2018-2019 and 2020-2021, you look at, like, interest rates, the 30-year Treasury fell like 150 basis points. Whereas the authorized ROEs for gas companies between 2018-2019 and 2020-2021 fell about 15 or 20 basis points.

So, the authorized ROEs never fell to the extent that interest rates did. So, I never reflected one percent Treasury notes.

And I'm sure Mr. Cochrane or Mr. Hevert would say, it's because the risk premium goes up when interest rates go very low. But, you know, authorized ROEs have come down, but they really have never came down to the extent the interest rates did.

So that, now that interest rates have gone up, I would say the 30-year Treasury yield has gone up about 100 basis points in the last six or seven months. I mean, people say "well, their authorized ROE is going to go up." Well, authorized ROEs never reflected that one, one or one and a half percent U.S. Treasury yield. They never fell that far. So, they fell to historic lows in 2020, 2021, but never fell as much as interest rates did.

Q Okay. Thank you. And one final question, Professor.

What would be the impact of using a 50/50 debt/equity ratio, and adjusting the ROE or return on debt, or both, to keep the same revenue requirement?

A (Woolridge) I don't know that number. I think probably Ms. Mullinax and I would have to work together to get that number. I don't have that number on me.

Q Okay. I was thinking, naively perhaps, that it was zero. But it sounds like it's a non-zero number?

A (Woolridge) Yes. And there are, obviously, other implications about taxes and things. So, I think the adjustment, I would have to work with her on that number.

Q But you could, I guess, as a conceptual question, you could adjust the ROE or ROD to keep the same revenue requirement, it would just involve some calculations to determine what the appropriate number or numbers would be, is that fair?

A (Woolridge) And it would go beyond just the ROE and the 50/50, because you'd have to -- there would be other adjustments you'd have to make.

Q Can you maybe just elaborate on a few of the major ones to have an understanding?

A (Woolridge) Well, taxes. You know, you change the capital structure, you've got to change the taxes, that sort of thing. That's what comes to mind right away. She could probably tell you -- Ms. Mullinax will probably tell you the other adjustments she has to make when certain things change.

Q I want to make sure I'm directionally correct. If you increased the debt from 48 to 50, that would improve or make lower the tax burden, correct?

A (Woolridge) Yes.

A (Mullinax) The issue is the interest synchronization that you have to deal with. So, that is one of those other contributing factors in there that you have to balance it. Because, as your debt goes up, your weighted average cost of debt goes up, it does have a direct impact on interest synchronization and the associated taxes on the interest that is paid on rate base. So, you have to take that into account.

So, it's not just a matter of changing the numbers. There are a number of other variables that need to be looked at, if you're trying to keep the same revenue requirements number.

Q Maybe the way to go is to make this a record request. Ms. Mullinax, it seems like this is in your wheelhouse. Would you be comfortable thinking on that as a record request, if the debt/equity was 50/50, and then perhaps a few scenarios for adjusting the ROE or ROD to yield the same revenue requirement for the Company?

A (Mullinax) I can give you a theoretical number, yes.

CHAIRMAN GOLDNER: Thank you. Okay. We'll make that a record request.

(Record request reserved.)

CHAIRMAN GOLDNER: Okay. I'll just double-check to make sure I have no further questions.

Commissioner Ross, did you have anything you would like to add?

MR. DEXTER: Mr. Chairman, before we move off from the record request, I think Ms. Mullinax understands it, but I want to make sure I do.

So, is the request to fix the revenue requirement at 6 million?

CHAIRMAN GOLDNER: Yes.

MR. DEXTER: Fix the capital structure at 50/50 debt/equity?

CHAIRMAN GOLDNER: Yes, sir.

MR. DEXTER: And back into what return on equity will make that all work mathematically?

CHAIRMAN GOLDNER: Yes. When I asked the question, I was giving the flexibility for return on debt or return on equity, but I think fixing return on debt is appropriate. So, just modulate return on equity.

MR. DEXTER: Okay. Thanks.

CHAIRMAN GOLDNER: Yes. No, thanks for the clarification.

SPECIAL CMSR. ROSS: I just had a comment. I don't have any questions.

But, both DOE and OCA, thank you very much for walking through with your witnesses the various reasons why you supported the Settlement. I had a number of questions on that, and you've anticipated all of them. So, thank you.

WITNESS RENO: You're welcome.

MR. KREIS: We may be slow learners, but we do learn gradually.

CHAIRMAN GOLDNER: All right. Very good.

So, maybe I'll ask the Company if they have any questions for the witnesses?

[Atty. Taylor conferring with Mr. Hevert.]

MR. P. TAYLOR: Yes. We have no questions for the witnesses. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you. And we'll move to a redirect, beginning with Mr. Dexter?

MR. DEXTER: I don't have any redirect.

CHAIRMAN GOLDNER: Okay. Thank you. Mr. Kreis?

MR. KREIS: I have no redirect either.

CHAIRMAN GOLDNER: Very good. So, thank you to the witnesses. The witnesses are released.

WITNESS RENO: You're welcome.

CHAIRMAN GOLDNER: Thank you very much.

WITNESS WOOLRIDGE: Thank you.

CHAIRMAN GOLDNER: So, now, let's move to the exhibits. That may pose some challenges, hopefully not.

So, Mr. Kreis, I think you had a direction you wanted to go here. I was going to strike ID on Exhibits 3 to 16, admit them as full exhibits, except for two of the exhibits, which I need to turn the page on, which would be entered for information only.

Did you have any comments, Mr. Kreis, on that? I have to find the right page here myself.

MR. KREIS: I guess my comment, Mr. Chairman, is I don't understand what admitting exhibits "for information only" is?

CHAIRMAN GOLDNER: Well, I think we did not have anyone to adopt the testimony on Exhibit 8 or Exhibit 10.

MR. KREIS: And I guess, for the reasons I already gave, I don't believe that that's an impediment to the admissibility of those exhibits. And I would also note that there is a provision in the Settlement Agreement that says that the Parties have agreed, as a term of the Settlement Agreement, that all of the prefiled written direct testimony is to be admitted into the record.

CHAIRMAN GOLDNER: Okay. Do the Parties have any objection to Mr. Kreis's position?

MR. P. TAYLOR: I have no objection.

MR. DEXTER: No. I don't have any objection.

CHAIRMAN GOLDNER: All right, then. Situation remedied. We will admit Exhibits 3 through 16 as full exhibits.

And then, we had the one record request that Mr. Dexter just passed back. So, we'll hold the record open pending that record request.

And then, we can either move to closing or we can take a break, if the parties would prefer a break before closing?

Is there a preference, Mr. Taylor, from your standpoint?

MR. P. TAYLOR: I don't need a break before closing. So, I'm prepared to go ahead. I'll defer to counsel for Department of Energy and the Office of Consumer Advocate.

MR. DEXTER: I'm perfectly willing to move right to closing.

CHAIRMAN GOLDNER: Very good.

MR. KREIS: Ditto.

CHAIRMAN GOLDNER: All right, sir. Well, Mr. Kreis, the Office of Consumer Advocate, if you can start please, with Mr. Kreis.

MR. KREIS: Thank you.

Let me just begin by thanking Northern

and thanking the Department of Energy for their excellent efforts over the course of this rate case. I think that Unitil and its affiliates are noteworthy, in that they do a great job when they bring a rate case initially before the Commission, so that what they're seeking, however reasonable or unreasonable, it is easy to understand, and their support for those requests is also easy to understand. That, in turn, makes it relatively easy to conduct discovery, and, ultimately, to negotiate a reasonable settlement agreement, such as the one that all of the Parties have agreed to here.

And I believe that, overall, for the reasons that Ms. Reno testified to earlier, that the set of compromises that are before the Commission are reasonable resolutions to the issues that this rate case raises.

I want to focus a little bit or primarily on the decoupling provisions in the Settlement Agreement. Largely because I sense a -- not necessarily a Commission skepticism about decoupling, but a Commission interest in not necessarily assuming that, because previous iterations of the Commission were willing to embrace revenue decoupling, that this iteration of the Commission should inevitably fall in line.

I agree that the Commission is not bound by its own precedents. And, so, reexamining concepts, like revenue decoupling, is completely appropriate.

And, if you look back even further, to various cases in which decoupling came up prior to Docket 15-137, which is the one I mentioned, you'll see that there was rather emphatic opposition to the concept of "revenue decoupling" from key members of the Commission Staff prior to that. So, decoupling has a mixed history before the Commission.

That said, to reiterate the point I made earlier, I think that, as you reconsider decoupling here, what you have to keep in mind is that we have already crossed the rubicon into the land of decoupling. And the question now isn't "whether there should be decoupling?" The question is "what form of decoupling is most fair?"

In that sense, we're a little bit like

the guy who tried to cross the Atlantic before Charles Lindbergh did. He isn't in the history books, because he got three-quarters of the way there, decided he didn't have enough fuel, and then turned around and went back. That is not what the Commission should do.

Revenue decoupling, as it has been proposed by this Company now, here, and at least two other utilities previous to this, is in the public interest and is superior to the Lost Revenue Adjustment Mechanism that previously applied, really, for two reasons, in my mind.

The first reason is that the Lost Revenue Adjustment Mechanism is a "Heads I win/Tails you lose" sort of approach to revenue decoupling. What you do to get to the Lost -- to apply the Lost Revenue Adjustment Mechanism, is that you simply assume that a certain amount of revenue is lost by the utility to energy efficiency, whether or not that's really true, and then you automatically give the utility an upward adjustment to its revenue, and it comes out in the System Benefits Charge and LDAC funds that we would otherwise apply directly to energy efficiency, and you assume that that revenue hit takes place.

In the kind of revenue decoupling mechanism that's before you here, you don't make any assumptions like that. You actually look at what is happening to the Company's revenues, and you make adjustments accordingly. And an advantage that that confers at this juncture, in the history of both electric and here natural gas utilities is, we are about to slam smack up against the worst winter for electric and natural gas prices that I think any of us will be able to remember. It is going to be a very, very unpleasant remaining part of this year and the first half of next year.

Revenue decoupling doesn't solve that problem, because we're going to see monumental increases to cost of gas rates, and, on the electric side, to default energy service rates. But at least the revenue decoupling mechanism has a small ameliorative effect in the event that we confront a wicked cold month this coming winter that jacks up the Company's distribution revenue, at least then there's a corresponding downward adjustment to the Company's revenues that will be helpful to consumers.

So, I laud the Commission for its desire to consider the details of these mechanisms. I think that's useful. I think that one reason I'm especially confident about approving a decoupling mechanism for this utility is, frankly, they have the wherewithal and competence to get it right, because decoupling, as a revenue construct, it can be a challenge to implement, as we've seen in other cases. I'm fully confident that Unitil will get this right, and that we won't be back here in six months or a year trying to correct unintended consequences of the decoupling mechanism, should you approve it.

So, I think that's a critical part of the Settlement Agreement. And I strongly urge you to adopt the Settlement Agreement, because it includes that decoupling mechanism.

And, as you've also heard, the Company, from our standpoint, made a critical concession to us, which is it agreed to keep the fixed customer charge right where it is. The Office of the Consumer Advocate is steadfast in its skepticism about allocating too much revenue to the fixed customer charge. We believe in the kind of price signals that are sent by the variable charges that will now comprise, should you approve, most of this Company's revenue.

I think that's all I have to say in support of this Agreement. Again, I want to thank the Company and the Department for helping us get to where we need to be today.

And I thank the Commission for its excellent and interesting questions during the course of the hearing. Which makes me very confident that you fully understand the issues and are ready to make a great decision.

CHAIRMAN GOLDNER: Thank you, Mr. Kreis. Mr. Dexter.

MR. DEXTER: Thank you.

So, first off, the Department appreciates the opportunity to present the Settlement for Commission review and hopefully approval today. And we also appreciate the thoughtful questions from the Bench, and hope that our witnesses were able to provide information that's helpful to you in evaluating the Settlement.

We, as a Department, urge approval of the Settlement. We raised many issues in this case, which I went through with our three witnesses. And all the witnesses testified that the issues that were raised by the Department of Energy have been reasonably and adequately adopted into the Settlement. And, therefore, our concerns are met, and we urge approval.

There is one exception to that. That was the testimony of Ms. Noonan, that had supported the Arrearage Management Program. In the spirit of settlement, and in recognition of recent precedent, we agreed not to include an arrearage -- support for the Company's Arrearage Management Program in this Settlement.

But I do want to go on record as saying that, as a concept and in practice, the Department continues to support the Arrearage Management Program, as it was implemented for Public Service Company of New Hampshire, Eversource, in DE 19-057.

There are several points to this Settlement that we view as positive. First, the overall rate increase is lower than what the Company requested. We are familiar with the "used car" concept that the Chair referred to. And, rest assured, we have conducted a thorough investigation of the case that was presented before us, including an audit of the test year. The audit results were attached to Ms. Mullinax's testimony. And, so, we are pleased with the -- with the movement that is reflected from what was requested.

We support the one step adjustment that's been provided. And I'm going to come back to that later.

We are supportive of the refined Lead/Lag Study that is incorporated into the Settlement adjustment. As Ms. Mullinax mentioned, the lag days were dropped from 36 days, as initially proposed, to 29 days, not through give-and-take, but through thoughtful review of the details behind what was presented by the Company. And I guess there's give-and-take, but there was substantial attention given to those elements of the Lead/Lag Study in Ms. Mullinax's testimony, which is there for your review.

We are supportive of the depreciation method that's incorporated into the Settlement. It's consistent with DPU precedent. We are supportive of the rate case stay-out provision, which indicates that no rate case will be filed by Northern Utilities before 2024. We recognize that that's a fairly short window, but we believe that goes hand in hand with the one step adjustment versus multiple step adjustments that have been agreed to and approved in prior rate cases.

And we are supportive of the revenue decoupling provision in this case. There are, in particular, our primary issue with the revenue decoupling, as proposed, was that it didn't incorporate -- it wasn't done by rate class or rate group, it was done on a total company basis. And we were concerned about interclass or intergroup subsidies. And that's been taken care of through the Settlement. And there's even a further refinement that Ms. Reno talked about, with the interseason -- interseason calculation that's going to be done, in other words, it will be a peak and off-peak calculation now.

With respect to revenue decoupling, in general, we are supportive of it. We have signed, as the Department of Energy, and as the prior Staff, a number of settlements that have supported decoupling. I believe I agree with the Consumer Advocate's review of the history. There's a long history of decoupling at the Commission.

We may have come to the table a little bit more slowly than the OCA did, but I give the Consumer Advocate credit for continuing to support decoupling, I don't give him credit, it's not up to me, but the Department appreciates the Consumer Advocate's support for decoupling. Because it started to become crystal clear how one-sided the Lost Base Revenue/LRAM mechanism was, as energy -- utility-funded energy efficiency went, you know, progressed, and those numbers became very, very large.

And the primary benefit to revenue decoupling, as it's proposed in this case, from the Department's standpoint, is that it is symmetrical, in other words, it does go both ways.

It's not a surprise to the Department of Energy that all the witnesses have testified that there is some benefit to revenue decoupling, from a financial standpoint, from the viewpoint of lenders. Because, as we testified to back in 2017, in the Liberty gas case, decoupling takes the risk of weather from the Company and it removes it. And, for 100 years or more, rates were set on normal weather, well, probably not that long ago, but rates were traditionally set on normal weather, and the Company bore the risk of colder weather or warmer weather. And each rate case the rates were set on normal weather, but there was no adjustment. And, for a gas company in New England, that's a huge factor.

And our witnesses in DG 17-048 testified against that risk. We didn't believe it was an appropriate shift, to put that risk from the Company to the customers. But we didn't prevail in that case, and, having not prevailed, we do recognize that at least it is symmetrical, because the weather is erratic.

But it doesn't surprise us at all, that

shifting that risk has been viewed positively by the financial communities. And, therefore, we view that as a positive aspect of the decoupling mechanism that's been adopted in the EnergyNorth case, and now for Northern Utilities. So, we are supportive of the clause as presented in this Settlement.

With respect to step adjustments, I think, having listened to all this today, I believe Witness Nawazelski, and I'm sorry if I didn't get that name right, and Ms. Mullinax, I think, both summarized pretty well what's going on here on this schedule that we were talking about, Attachment 2.

I go back even further than Mr. Nawazelski with step adjustments. And, you know, you have to go back to "what is it that we're trying to do with the step adjustment in the first place?" And the "test year" concept goes back decades, probably a century. And, in this case, the test year was 2020. So, we're setting rates in 2022. So, that's later. And I understand that there's temporary rates and there's a recoupment. But we are dealing with an historic test year.

And, to its credit, New Hampshire has been steadfast in sticking to the historic "test year" concept, and not forecasting a rate base or forecasting revenues, and only allowing for what are truly known and measurable O&M expenses that go beyond the test year. So, New Hampshire has a strong history of adhering to the "test year" concept.

So, with that comes -- and I believe the reason for that is because these cases take a year, because there's a lot of work in analyzing the test year. And, as I said, the Audit team analyzes the test year, and submits a 100-page report in every rate case. So, we support the reliance on the historic test year. But with that does come the recognition that there will be some call it "regulatory lag" or "attrition" or whatever you want to call it.

So, I remember step adjustments coming as far back as the mid '80s, late '80s, maybe they existed before that. In addition to step adjustments, for gas companies, there have been CIBS programs, Cast Iron and Bare Steel replacements programs that have, you know, attempted to address this "regulatory lag" issue, and to remove a disincentive towards improving the system, and for safety and things like that.

When I joined the Commission in 2016, the first rate case I was assigned to was an electric case, and there was a series of five step adjustments, I think, maybe four, but I think it was five. And the Consumer Advocate, sitting behind me in the very spot that he's in now, stood up at the prehearing conference and said "This is a heads I win/tails you lose decoupling, because it's only going to allow for increases for things that happen past the test year, but no recognition of any revenue changes that happen since the test year." And he was absolutely right.

And, of course, we did settle that case. We did not settle on five step adjustments. We did settle on three. But they were very targeted. They were limited to certain identifiable capital projects that the Company and the Consumer Advocate and the Staff at the time agreed were appropriate for inclusion in a post test year adjustment.

And, so, that's sort of the "list approach" that Witness Nawazelski was describing. And then, over the years, the lists got a little bigger, in my -- it's my view, is that we started to see the company's entire capital budgets, rather than a list of specific issues.

And it was suggested then, if you're going to, you know, look at an expansive capital budget, granted, growth has always been taken out of it, so non-growth, but still a substantial capital budget, there should be some recognition of what's going on with accumulated depreciation post test year. And this, I believe, first came up, at least it was explored, as I understand it, for the first time in detail, in the recent EnergyNorth rate case and step adjustments. And, so, we have taken a look at that, the concerns that were raised by the Commission. And I think we have a pretty good understanding of this "net growth approach". It is different from the so-called "list approach", because it does move net plant forward beyond the test year.

And that's been incorporated in the

recent Unitil Settlement. It was incorporated in this Settlement. And I believe there are some other cases going back where a net plant approach has been incorporated.

We have gone over Exhibit 2 **[**Att. 2**?]**. We think we understand it. And we believe it's done correctly. We're not -- we're not suggesting that the Commission shouldn't continue to look at that. But we signed the Settlement understanding how Exhibit 2 **[**Att. 2**?]** works. I'm glad you asked the question about "How big will the step adjustment be when you come in? Will there be other elements?" And the witness said "No, 1,554,966." We're not bringing in the entire rate base. This is a "net plant approach". So, we're looking at changes in net plant that happened one year after the test year, and allowing a recovery of a return, depreciation, and taxes on those projects -- I'm sorry, on the change in net growth -- change in non-growth net plant.

If we were to start bringing in other elements, like deferred taxes, and other rate base elements and working capital, I think at that point you start to dilute the "test year approach". In other words, we don't want a whole nother -- we don't want another rate case in here next year in a step adjustment with an entire new rate base to look at. It's not workable in the timeframe that's allowed for step adjustments. And I don't really think it's necessary, because we're also not adjusting for O&M expenses beyond 2021. And that was an important element in the Settlement, from the Department of Energy's perspective, as Ms. Mullinax pointed out, that all of the Company's proposed 2022 O&M expenses, including their inflation adjustment, were explicitly excluded from the Settlement, if you look at the schedule she mentioned where all the adjustments are itemized.

So, we don't want to go to a "full rate base approach" every step adjustment. And I will say that the companies have, for years, been required to file with the Commission, and with now the Department of Energy, quarterly return on rate base calculations, where they do a rate base calculation. And it's monitorable, which we do look at. So, if we get to a situation where -- I think where the Commission was suggesting, that there might be some excess earnings, because we're adjusting for the step adjustment, but not other things, we have guardrails in place to monitor that.

And, given that this test year is 2020, and given that the "net plant approach" does take into effect the changes in accumulated depreciation, we don't, at this point, share the concern that I think Commissioner Ross was leaning towards. And, in part, because we have held the O&M steady at test year levels, plus one year of known and measurable changes, and we don't forecast revenues. And I think it's just a fact of life that a gas utility that's been operating in New Hampshire for 100 plus years is in a situation where its plant is going to grow by necessity. It's not in a situation where plant is going to -- plant-in-service is going to be flat, I think, as was suggested in the hypothetical record request that Commissioner Ross made.

So, that was a long rant on step adjustments, but I wanted to give you the

Department's perspective.

The last comment I want to make has to do with the record request. And Ms. Mullinax can calculate this, there is no question. But I don't want to speak for the Company or the Consumer Advocate, but I will say, I have gone through a lot of these rate case settlements in my six years here. And return on equity and capital structure is -- they do go hand in hand, and you can do the math like that.

But the final number, in my experience, is truly a result of negotiation. And my sense is, from the Company's perspective, that those two figures, equity ratio and return on equity, have a -- are significantly important to the Company, probably more so than the Department of Energy or the OCA, where we might be looking more at the revenue requirement.

I believe the Company has information, through its dealings with the financial markets, that lead them to conclude that those two numbers are extremely important, and probably not just best subject to sort of a mathematical exercise, like is going to be provided in the record request.

So, having said that, we support the 9.3 percent ROE that's in the Settlement. We support the 52 percent equity ratio that's in the Settlement. And we urge approval of that, as it's presented, along with all the other elements.

And that completes my comments. Thank you.

CHAIRMAN GOLDNER: Thank you, Mr. Dexter. Mr. Taylor.

MR. P. TAYLOR: Thank you, Commissioners.

And, like the Department of Energy and the Office of the Consumer Advocate, the Company appreciates the opportunity to present the Settlement to you today, and answer your questions. I hope our witnesses have acquitted themselves well and provided you the information that you need.

As I noted at the prehearing conference in this case, the Company's filing, which was its first in approximately four years, was relatively straightforward and traditional, in terms of its components. And, accordingly, the case followed a fairly traditional trajectory. Subsequent to the implementation of temporary rates, the Department and the Office of the Consumer Advocate propounded discovery upon the Company through written requests and technical sessions, and then issued their own testimony in the case.

And, from that traditional foundation, the Parties were able to work together in a collaborative manner over several days to negotiate an agreed upon settlement of all issues. And, you know, I just want to say that we really appreciate the collaborative spirit with which the other Parties in this case approached those negotiations. I believe that this Agreement that resulted from that, and presented for your consideration today, is just, reasonable, and in the public interest, and warrants your approval.

Just to touch upon some of the issues that have already been discussed through the other closings, and I'll try not to go on too long about this.

The Agreement does establish a revenue

decoupling mechanism that is largely consistent with the decoupling mechanism that was recently approved by the Commission in our affiliate company, Unitil Energy Systems' rate case just over a month ago. And, during the course of the hearing today, I think it was suggested, I don't want to put words in the mouth of the Commissioners, but at one point it was observed that "decoupling perhaps seemed of marginal importance to the Company", and that really could not be further from the truth. And I hope that our witnesses have conveyed that to the Commission today.

Decoupling is something, yes, it is important to the Company, from a financial perspective, it's important to the financial community. That is all true. But the benefits that -- that there may be benefits that accrue to the Company, but benefits also accrue to customers. And I think it's really critical that the Commission understand that. That this is, as others have noted, a symmetrical mechanism, but there are also other ways in which benefits to the Company also flow through to customers.

And, so, I agree with what the Consumer Advocate pointed out, which is that decoupling in New Hampshire is something that has been developing over several years now, is now in place with numerous companies, including a Unitil company. And, really, the issue is not -- should not be whether or not decoupling should be implemented for the Company, but, as was pointed out, doing it right. I agree that we have gotten it right in this case, just as we did in the Unitil case. And I credit the other parties for working with us to get to a mechanism that is -- that is equitable, that is fair, and I think is going to be an improvement for the Company.

And, so, I'll actually leave it at that on revenue decoupling. On the topic of, I guess, "getting it right", that also goes over to the step adjustment.

So, we do have -- the Settlement Agreement does allow for a single step adjustment to recover costs associated with 2021 non-growth investments. And, as was pointed out by our witnesses, this is a departure from the so-called "list approach" that we've -- that the Company has utilized in the past and actually proposed in this case. And it really is, what is presented to the Commission today in the Settlement, it -- certainly, it's more modest than what we proposed, and that was something that we agreed to. We agreed to one, as opposed to three, and that's even -- that's fewer than what we had in our last case.

But, in terms of the mechanism itself, the Company, and I think the other Parties, although I don't want to speak for them, had in mind what the Commission has articulated through numerous decisions with respect to step adjustments and how they would like to see them calculated. So, we've moved away from the "list approach", to this "net plant approach". And, again, I don't want to reiterate what other people have said, particularly witnesses, who are far more alerted on these issues than I am.

But, in terms of the way that we've set it up for the calculation, the calculation of the revenue requirement, we do believe that we have gotten it right in this case. And, you know, we understand that we're going to -- we have subsequent hearings before the Commission, for both -- well, we have a subsequent hearing before the Commission on this step adjustment, that will come later this summer.

But the step adjustment is, you know, I noted earlier that we -- this is our first case in four years, while not exclusively due to step adjustments that were in place, that is part of it. And this step adjustment, if approved, and we think it should be, will mitigate attrition, enable the Company to recover certain investment costs, and mitigate the need, in the near term, for another rate case. And, to that end, we have agreed to a stay-out through the beginning of 2024.

So, while these are some of the larger and more notable aspects of the Settlement, there are numerous other provisions, and I won't go through them all here, that are certainly critical and integral components to the Settlement that the Parties worked hard to agree upon.

For example, the approach to rate allocation in customer charges, we believe is equitable and sensitive to customer impacts, and you've heard about that from some of the other parties.

So, we respectfully urge the Commission to approve this Settlement Agreement for rates effective August 1st, 2022. And, therefore, we do request that the Commission issue an order prior to July 31st, 2022.

And, again, we appreciate your time here today.

CHAIRMAN GOLDNER: Thank you. Just one housekeeping.

Mr. Dexter, with the record, would a week from today be acceptable or do you need more time?

MR. DEXTER: I'm looking at Ms. Mullinax. I think that would be no problem at all. And I'm not hearing anything otherwise.

So, what did you say, "a week from today"?

CHAIRMAN GOLDNER: Yes. So, 6/14, I think.

MR. DEXTER: Sure.

CHAIRMAN GOLDNER: Okay. Thank you.

Okay. Is there anything else from the parties?

[No verbal response.]

CHAIRMAN GOLDNER: No? Okay. Well, I'll thank everyone, and particularly the very high quality of the witnesses today, and I'll thank each of the Parties for making those witnesses available. So, thank you very much.

We'll take the matter under advisement. We'll issue an order. And we are adjourned.

(Whereupon the hearing was adjourned at 1:02 p.m.)