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June 8, 2022

Daniel C. Goldner, Chairman
New Hampshire Public Utilities Commission
21 South Fruit Street
Concord, New Hampshire 03301

Re: DE 22-026; Unitil Energy Systems, Inc.; Petition for Step Adjustment; Department of Energy’s
Written Response to Unitil’s Petition for Step Adjustment

Dear Chairman Goldner:

Please accept the Department of Energy’s (Department or DOE) Written Response to Unitil’s
Petition for Step Adjustment, which is filed in accordance with the Procedural Order dated May 13, in
this proceeding.

The DOE has reviewed the Petition for Step Adjustment and the associated supporting materials
and data responses and raises three concerns with Unitil’s request:

1. Exeter Distribution Operations Center (DOC):

The Department contests recovery for this project in this step adjustment, or any other rate
recovery beyond Unitil’s distribution case DE 21-030. Unitil’s year-end rate base in DE 21-030
included this DOC project. Unitil testified that the project was in service, and used and
useful, by year end 2020, the test year in DE 21-030. Further, in that case, Unitil identified
and requested recovery of an additional \$577,000 of investments in the building made in 2021
(post-test year) which it characterized as “fit-up” items for the new facility, which the
Department understood to include items like office equipment and furniture. In DE 21-030,
the Department raised significant concern whether the entire DOC project was conducted in a
prudent, least cost fashion, and recommended significant rate base disallowances related to
this project. Ultimately, Unitil, the Department, and other parties reached a rate case
settlement (that the Commission approved in Order No. 26,623) which made no specific rate
base exclusions related to the DOC, but which did include a significant “Settlement
Adjustment” for purposes of establishing just and reasonable rates in that docket.

In its February 28, 2022 step adjustment request, Unitil requests rate recovery for
\$1,199,000 of DOC investments that it states were closed to plant in 2021. Unitil later
acknowledge that this request needed to be reduced by \$577,000 to reflect the post test year
amount already accounted for in the rate case Settlement.

The Department is of the view that the rate case Settlement covered the DOC completely, and the Department does not support any additional rate recovery for the DOC. DOE understood at the time of the Settlement that this project (which was presented as in service, used and useful in 2020) was in fact completed and would not be the subject of future rate requests. In fact, the Department agreed to include recovery the post test year \$577,000 investments (a very unusual step in New Hampshire rate making where the test year end rate base has been the standard for rate recovery for decades) because it understood that this would settle the issues surrounding cost recovery of the DOC. Had the Department understood that more requests were coming for the DOC costs, its position in the rate case testimony and in settlement would likely have been different, including perhaps presenting the very logical perspective that a project is either in service or not, and if it is not, then it does not belong in the year end rate base at all.

Further the Department sees no reasonable explanation why charges continue to accrue to this project, more than a year after its completion. In discovery in this step adjustment docket, the DOE learned that Unitil intends to include \$113,000 of additional DOC costs in its 2023 step increase.

If additional DOC costs are to be considered in this step adjustment, then the Department needs to re-state its arguments for rate recovery exclusion that were laid out in the base case (because these concerns would apply to the “new” DOC costs just as they did to the DOC costs covered by the Settlement) and the Commission will need to assess these arguments when considering whether these new DOC costs should be recovered from customers. This includes complicated issues of prudence related to the entire DOC project, not well suited to the step adjustment process, where limited review and hearing time is allotted; issues that the DOE understood were settled in DE 21-030.

2. Concord Downtown Project:

In DE 21-030, Unitil requested recovery of over \$5,000,000 associated with this project. The Department raised significant concern as to whether these investments were used and useful because they were installed to serve customers that had not yet opted to take service. DOE recommended that these investments be excluded from rates for the purposes of DE 21-030 and re-examined in Unitil’s next rate case, where additional information would be available concerning actual load served by the investment. No specific rate base exclusion was made for these costs in the rate case Settlement, but as noted earlier, the Settlement included a significant “Settlement Adjustment”, and reporting requirements were established to monitor Concord Downtown load additions.

This step adjustment request includes \$424,000 of additional expenditures for this Concord Downtown Project. Through discovery, the DOE has learned that although over a year has passed since Unitil stated this project was completed, in service, and used and useful, it has added only one customer out of a possible nine new customers, meaning that approximately 70% of the projected new load still has not materialized. In this step adjustment proceeding, DOE takes the same position that it took in the DE 21-030 concerning this additional \$424,000; that is, recovery should be postponed until Unitil’s next rate case

when the project can be revisited, and it will be clear if the projected new load was in fact added.

Further, concerning the Concord Downtown project, the DOE questions whether recovery of this project is appropriate for this step adjustment in any amount, because this step adjustment was designed to allow recovery of non-growth plant investments, and this Project appears to be growth related.

3. Excessive Carryovers:

Virtually all of the six Transmission and Distribution (T&D) projects presented in this step adjustment involve carryover expenditures from prior years, some going back as far as 2018. In addition, while these projects each fall under the same category of investment, each has a distinct authorization number. Both factors contribute to the difficulty of reviewing these projects in the time frame allotted under the Settlement for step adjustment review. The Department is not recommending disallowances for these T&D blanket projects but raises concerns about reviewability and hopes this can lead to presentations that are easier to review and also a limitation of recovery of carryover expenditures in step adjustments.

Consistent with the Commission's *Temporary Changes in Filing Requirements* (March 17, 2020), this letter is being filed solely in electronic form.

Thank you for attention to this matter.

Respectfully,

/s/ Paul B. Dexter

Paul B. Dexter, Esq., Staff Attorney

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