

STATE OF NEW HAMPSHIRE
Before the New Hampshire Public Utilities Commission
DE 22-026 – Until Energy Systems, Inc.
Petition For Step Adjustment

New Hampshire Department of Energy - Closing Statement

I. Introduction

This case involves a step increase for Until Energy Systems, Inc. (Until or UES), as established under the recent rate case settlement approved by Public Utilities Commission in Order No. 26,623, issued May 3, 2022. Step adjustments are common in New Hampshire utility ratemaking and are designed to help moderate against utility earnings attrition from growing expenses and unrecovered plant investment between rate cases. Step adjustments are one-sided in that they increase utility rates for cost increases – in this case change in net plant, plus depreciation and taxes on that change in net plant – but do not adjust for changes in utility revenues. Thus, different ratemaking treatment of costs in a step adjustment is appropriate as compared to base rates.

In this case, the New Hampshire Department of Energy (Department or DOE) recommends that rate base inclusion of plant investments undertaken to serve new load in the city of Concord be moderated or phased-in until that new load develops. Importantly, this a ratemaking adjustment based on equitable risk sharing of plant investments made to serve

predicted load additions. DOE's recommendation is not engineering based and does not question UES's design of the Concord distribution system.¹

II. Concord Downtown Project - Part 2

DOE questions full rate base inclusion of the Concord Downtown Project - Part 2 (hereinafter "Concord - 2") in this step adjustment. Concord Downtown Project - Part 1 was addressed in the base rate case settled earlier this year, DE 21-030. Together, the Concord Downtown Project Parts 1 and 2 involved over \$5 million in utility plant investments to serve projected load in Concord and to upgrade and replace aging infrastructure. Hearing Exhibit (Exh.) 9 at 2. The Concord - 2 investment (at issue in this case) equaled \$424,394. Exh. 2, Line 36, Column "Install."

A. DOE Inquiry into Recovery of Concord - 2 Costs in Both Step Adjustment and Rate Case

Obviously, if the costs of the Concord - 2 project were included in the base rate case test year, then these costs cannot also be recovered in this step adjustment. Unutil's Vice President of Engineering, Kevin Sprague stated in written testimony in the base case (DE 21-030, Exhibit 6 at 471-472) that this project was closed to plant and used and useful in 2020. Thus, DOE necessarily and appropriately inquired to determine that the Concord - 2 project was not proposed for recovery in both DE 21-030 and DE 21-026. At the hearing held June 13 in this docket, Mr. Sprague explained that his written testimony in DE 21-030 was an engineer's assessment of the situation, meaning that the Concord - 2 plant investment was in place,

¹ DOE's witness in this case, Jay Dudley, is a Utility Analyst who investigates utility capital projects and makes ratemaking recommendations related to such projects every day and has done so for years. Unutil's attempt on cross examination to discredit Mr. Dudley for not being an engineer is misplaced and should be given no weight by this Commission. Mr. Dudley proposes a ratemaking adjustment which falls squarely in his field of expertise.

energized, and providing service in 2020.² Christopher Goulding, Unitil’s Director of Rates and Revenue Requirements, testified on June 13, without equivocation that from an accounting perspective, based on his review of an internal software system called Power Plan, Concord - 2 was closed to plant on November 1, 2021 and therefore eligible for rate base treatment in 2021 through the proposed step adjustment, and not a double count from the base rate case.

DOE accepts the unequivocal testimony of Mr. Goulding (as compared to the conflicting information UES provided elsewhere in the record) and thus does not recommend that the entire Concord - 2 costs be removed from the step adjustment as a double count.

B. DOE Proposes an Adjustment to Phase in Recovery of Concord - 2 Costs, Based on Realized Load, Thus Sharing the Risk of Investments Made to Meet Projected Load

Unitil requests full rate base inclusion of the Concord - 2 costs in this step increase, claiming that Concord - 2 is a 2021 non-growth project. The distinction between growth and non-growth is important because only non-growth projects are eligible for recovery in this step adjustment, both under the terms of the settlement that established this step adjustment (DE 21-030, Exh. 12, Section 5.3, p. 10) and standard ratemaking. Growth projects bring in new revenue which is not captured in a one-sided step adjustment, as described earlier. If a growth project is included in this step adjustment, UES would begin recovering the costs of the investment in 2022, while existing customers would not receive the benefit of the new load growth and revenue until the next base rate case (2024 at the earliest) Id. at Section 2.1, p. 4.

² Exhibit 2, Line 36, Column “Date Completed” as noted by Unitil at the June 13 hearing shows that Concord - 2 was placed in service from an engineering standpoint in February 2021.

At the June 13 hearing, UES drew a bright-line distinction between a project like Concord - 2, which serves increasing load in an existing service area (non-growth - per UES) and a project to serve a new development (growth - per UES). DOE does not agree with the bright-line UES draws in this case. While the Concord - 2 project involves system upgrades of aging infrastructure, it is undisputed that the project was undertaken to serve projected load growth - load that was not factored into base rates in the recent rate case. Exh. 9 at 9 (which is consistent with Mr. Sprague's opening remarks during direct examination at the June 13 hearing where he referred to the changing skyline in Concord and commented that with every new building brings new demand for electricity). While Unitil may consider growth to be only green field expansion for purposes of this step adjustment, the fact is that Concord - 2 was undertaken to serve forecasted load growth – this is not in dispute. Under standard test year ratemaking treatment, this load growth will accrue to the benefit of Unitil's shareholders between rate cases. In its next base rate case, the added load and associated revenue will find their way into the test year revenue requirement and then other customers will see the benefit of this added load – but that will not be until 2024 at the earliest.³

DOE proposes a straightforward ratemaking adjustment for Concord - 2 whereby the inclusion of the Concord-2 investments in rate base would be tied to the load actually realized from the project. DOE tracked the load growth from specific customers cited by UES as expected load. Exh. 9 at 6-7, and Exh. 6. At this point, only 37 percent of the load from these customers has been realized. Accordingly, DOE recommends that the only 37 percent of the total of Concord-2 investment of \$434,394, (which equals \$157,026) be placed in rate base in

³ Decoupling, starting for UES with DE 21-030, is done on a use per customer basis and does not change this situation.

this step adjustment and recommends that the situation be re-evaluated in the next rate case. In other words, for purposes of this step increase, DOE maintains that only 37 percent of the Concord-2 investments are used and useful, due to the slowly developing load additions.

DOE's proposal in this case is limited to this step adjustment where different recovery from a base rate case is appropriate due to the asymmetry of step increases. It is not, as UES tried to paint on cross-examination of Mr. Dudley, a radical change to fundamental ratemaking in New Hampshire that will lead to financial upheaval for UES.⁴

Until seeks full recovery in the step adjustment and argues that DOE's adjustment penalizes UES for not predicting the COVID pandemic, which it claims caused the delay in load additions. DOE's adjustment provides for a sharing of the risk of the pandemic between the UES' shareholders and its existing customers. The alternative is for UES to place the entire consequence of COVID onto its existing customers, a result that DOE views as imbalanced in this instance where the Concord - 2 investments were made to serve projected load growth which has not materialized.

III. T&D Blanket Projects

In this step adjustment, UES has presented several Transmission and Distribution (T&D) Blanket projects for recovery. *See, e.g.*, Exh 2, Lines 2, 4, 12, 24 and 103. The back-up materials for these projects consists of over 3,400 pages. Exh. 1, Schedule CGKS-4. The back-up materials for the T&D project on Exh. 2, Line 103 contains many charges for 2022 (not eligible for recovery in this step adjustment, which is for 2021 investments). Unutil testified that

⁴ In fact, partial inclusion of plant investments in rate base (and partial exclusion) was approved by the Commission in a recent base rate case. Order No. 26,122, Liberty Utilities (EnergyNorth Natural Gas) Corp., DG 17-048, Order at 19-32. One of the projects in DG 17-048 involved slow to develop load growth and the Commission allowed a re-look in the next rate case; just as DOE proposes in this case.

these 2022 charges shown on the back-up pages were not included in the total plant investment included in the step adjustment. Similarly, the back-up materials for the T&D Blanket project on Exh. 2, Line 24 show over \$1.4 million in charges (Exh. 1 at 1195), while only \$70,697 of these charges are included in the step adjustment (Exh. 2, Line 24). Unutil testified that many 2020 charges for this project were not included in this step increase (which is for 2021 investments), despite being shown on the back-up materials.

The sheer volume of materials presented in support of these T&D blanket projects, and the confusion caused by the back-up pages not totaling the line items supported, leads the DOE to conclude that it will be very hesitant to agree to include blanket projects in future step adjustments, which are reviewed in a compressed timeframe as compared to base rate cases.

IV. Conclusion

The Department of Energy recommends that the Commission reduce Unutil's requested step adjustment investment for Concord - 2 of \$424,394 to 37 percent of that total, or \$157, 026, consistent with the projected load actually realized at this time; and that the revenue requirement and rates be adjusted downward accordingly.

Respectfully submitted,

New Hampshire Department of Energy

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