

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 22-026

UNITIL ENERGY SYSTEMS, INC.

Petition for Approval of Step Adjustment

Order Approving Petition

O R D E R N O. 26,656

July 28, 2022

In this order, the Commission authorizes UES to recover the annual revenue requirement of \$1,303,839 associated with \$9,526,123 in plant additions placed in service in calendar year 2021. Recovery will be made through distribution rates on a service rendered basis beginning on August 1, 2022, with a ten-month recovery period to accommodate the Commission's review during this proceeding. UES recovers distribution rates from all delivery service customers.

I. PROCEDURAL HISTORY

On February 28, 2022, Unitil Energy Systems, Inc. (UES, or the Company) filed a petition requesting approval of its step adjustment to distribution rates based on calendar year 2021 capital spending by the Company. This proposal was originally presented by the Company as part of the Settlement Agreement filed in Docket No. DE 21-030, which pertained to the Company's requested permanent increase in distribution rates. This Settlement Agreement was approved by the Commission, with modifications, on May 3, 2022, in Order No. 26,623. The Settlement Agreement contemplated that UES would file two step adjustment petitions during the upcoming two years, one for rates effective on June 1, 2022, for calendar year 2021 capital investments, and a second for rates effective on June 1, 2023, for calendar year 2022 investments. *See Unitil Energy Systems, Inc.*, Order No. 26,623 at 5 (May 3, 2022).

Order No. 26,623 specified a different method for calculation of the Company's revenue requirement for its step increase petitions, as discussed below, while permitting UES to proceed with a step increase petition for its 2021 capital investments. See Order No. 26,623 at 25-26. An adjudicative proceeding was commenced by an order issued on May 3, 2022, scheduling a hearing on the Company's petition for May 17, 2022.

On May 12, 2022, the New Hampshire Department of Energy (DOE) filed a motion to postpone the hearing in this matter to a later date. The Commission granted this motion by a procedural order on May 13, 2022, which rescheduled the hearing in this matter to June 13, 2022.

UES filed two updates to its proposed step increase rate schedules to accommodate certain concerns by the DOE, which will be discussed below, and technical aspects pertaining to the calculation of the Company's schedules in light of the Commission's orders in Docket No. DE 21-030, the Company's distribution rate case. See Order No. 26,625 (May 12, 2022), Docket No. DE 21-030 (Order of Clarification). UES made these updated filings on May 12, 2022, and June 9, 2022. The Company also made an updated filing, on June 6, 2022, of its proposed tariff pages and rate impact schedules to accommodate a potential shortened recovery period of July 1, 2022, through May 31, 2023, a period of 11 months, to accommodate the Commission's review of this filing. See Hearing Exhibit 3.

The hearing was held as scheduled on June 13, 2022; no petitions to intervene were filed, and the Office of the Consumer Advocate did not file a letter of participation.

At the June 13, 2022, hearing, the Commission issued a Record Request to UES, requesting that it resubmit its step increase revenue requirement accounting

schedules to implement the change in methodology specified by Order No. 26,623. The Company provided these responses, together with a written Closing Statement, on June 22, 2022. *See* Hearing Exhibit 11. The DOE also filed a written closing statement regarding the matters testified to at the hearing on June 21, 2022.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at

<https://www.puc.nh.gov/Regulatory/Docketbk/2022/22-026.html>

II. POSITIONS

A. UES

As part of its petition, UES provided the written testimony of Messrs. Christopher J. Goulding and Kevin E. Sprague, personnel serving the Company as part of its service-company affiliate, Unitil Service Corp. *See* Hearing Exhibit 1. UES also filed a series of nine (9) accounting schedules delineating its expenditures on investments in the calendar year 2021 as part of its provision of electric utility service, rate design, and bill impacts. The Company presented an initial 2021 capital-investment figure of \$10,148,073 in Net Utility Plant, with an associated \$1,377,331 revenue requirement, which matched the cap established by the Settlement Agreement. Hearing Exhibit 1, Testimony of Christopher J. Goulding and Kevin E. Sprague, at Bates Page 12; *see also* Hearing Exhibit 1, Bates Page 4, Schedule CGKS-5.

UES updated its filing to incorporate three technical issues. First, in its May 12, 2022, filing, the Company updated its schedules to incorporate a slight downward adjustment to its parent rate case revenue requirement in Docket No. DE 21-030, to \$5,883,395, in response to a Commission ruling in Order No. 26,623 regarding a

certain program. In its June 6, 2022, update, UES sought to incorporate the impact of a potentially-shortened 11 month rate recovery period for its step increase in its rates. Hearing Exhibit 3. In its June 9, 2022, filing, UES revised its schedules to exclude all 2021 capital costs associated with its Exeter Distribution Operation Center (Exeter DOC) project, after input from the DOE staff (as discussed further below). This resulted in a revised capital-investment figure of \$9,526,123 for the proposed step increase, together with a resulting revised proposed revenue requirement of \$1,303,839. See Hearing Exhibit 10; Second Revised Schedule CGKS-5 at 1.

For its revised \$1,303,839 step increase in its revenue requirement, presented in its June 9, 2022, updated filing, the Company calculated a rate impact on a typical residential (Rate D) customer using 600 kilowatt hours per month of 95 cents more per month, or a 0.8 percent increase in distribution rates. Hearing Exhibit 10, Third Revised Schedule CGKS-9 at 1. (These figures reflected an eleven-month recovery period beginning on July 1, 2022; with a ten-month recovery period beginning on August 1, 2022, these bill-impact figures would vary slightly).

As part of its June 9, 2022, filing, the Company indicated that it had agreed to amend its step adjustment filing to exclude all costs associated with its Exeter Distribution Operation's Center, after discussions with the DOE. See Letter of Patrick H. Taylor, Esq., Chief Regulatory Counsel, June 9, 2022.

At the June 13, 2022, hearing, the Company presented the oral testimony of Messrs. Sprague, Goulding, and Nawazelski, in support of its petition. Regarding the Downtown Concord Conversion Project, discussed below, UES argued that any shortfall in expected utilization of the investment was related to the business conditions arising from the recent COVID-19 pandemic, and did not impair the

project's eligibility for inclusion in the proposed step increase as "used and useful," prudently-developed plant. Transcript of June 13, 2022, Hearing (Tr.) at 38-58.

The Company summarized its arguments in favor of approval of its petition in a written closing statement filed on June 22, 2022.

B. Department of Energy

At hearing, the DOE presented the oral testimony of Mr. Jay E. Dudley, Utility Analyst IV at the DOE. Mr. Dudley's presentation focused on the DOE's view that at least some portion of the Company's Downtown Concord Conversion Project should be excluded from recovery within the UES step increase proposal, largely due to the project's shortfall in load utilization as compared with the Company's projections. Tr. at 178-201.

The DOE submitted, at the request of the Commission, a written closing statement on June 21, 2022, summarizing its arguments, and requesting that "...the Commission reduce [UES]'s requested step adjustment investment for [the Downtown Concord Conversion Project] of \$424,394 to 37 percent of that total, or \$157,026, consistent with the projected load actually realized that this time; and that the revenue requirement and rates be adjusted downward accordingly." DOE Closing Statement at 6.

III. COMMISSION ANALYSIS

Step adjustments are a mechanism the Commission has approved for limited use between rate cases to allow a utility to collect additional revenue on investments that are generally non-revenue producing and are made to improve safe and reliable service. Step adjustments are generally limited in scope and allow recovery for investments similar to those that have been reviewed in the underlying rate case that established the step adjustment provision. Utilities have the burden of showing that

capital investments included in step adjustment are prudent, in service, and used and useful. *See Public Service Company of New Hampshire d/b/a Eversource Energy*, Order No. 26,504 at 5 (July 30, 2021). In order to approve this step increase, the Commission must determine whether the investments included in the calculation of the step increase are prudent, used, and useful under RSA 378:28. *Id.* As noted in the record, both the DOE and the Company view the projects requested for recovery within the step adjustment to be used and useful, as well as prudently incurred, and that the requested rates are just and reasonable.

In Order No. 26,623, we ordered that the Company modify its revenue requirement calculation methodology to use underlying data more directly, to provide added accuracy in its calculations. In Subsection 5.1.3 of the Settlement Agreement in Docket No. DE 21-030, the Company, for the purposes of developing its revenue requirement figure for its Step Adjustments, calculated Change in Non-Growth Net Plant by multiplying the Change in Net Plant by the Percent of Non-Growth Net Plant. As ordered in Order No. 26,623, the Company was instructed to subtract the actual Growth Net Plant figure from the Total Change in Net Plant figure to calculate the actual Change in Non-Growth Net Plant figure¹. The Company responded, as discussed above, that it did not support this approach. After due consideration, we have decided that, for the purposes of the 2022 Step Adjustment, the Company's approach will be accepted, subject to reconciliation, and the resultant revenue requirement calculations included in the step increase for this year. However, in advance of the 2023 step increase filing expected from the Company, and in an effort to develop a consistent methodology regarding step increase revenue requirements for

¹ Settlement Attachment 2, Page 1 of 5, Line 12 Non-Growth % Change in Net Plant should be replaced with actual growth in plant (*see* Settlement Attachment 3 & Settlement Attachment 4) and be deducted from Change in Net Plant (Line 11) to calculate Non-Growth Change in Net Plant (Line 13).

all of New Hampshire's electric and gas utilities, we intend to open a general investigative docket regarding step increases and their accounting methodology in the near future. This investigation could be used to inform future reconciliations for this and other step adjustments.

In connection with the Downtown Concord Conversion Project issue, we have reviewed the positions of the DOE and the Company, and the supporting testimony, schedules, and closing statements comprising these positions. We concur with UES that the business conditions arising from the global pandemic that struck our State in the spring of 2020 were not reasonably foreseeable, and that the business decision to launch this project just prior to the pandemic by the Company was reasonable and prudent, given the information at hand. Therefore, we will approve the inclusion of these costs in the 2022 step increase accounting in their entirety, as proposed by UES.

Subject to the determinations above, we find the expenditures which are the subject of UES's petition to be prudent, used, and useful, and we find the resulting rates to be just and reasonable, pursuant to RSA 374:1, RSA 374:2, RSA 378:7 and RSA 378:28. We approve a 10-month period of recovery of the step adjustment rates, for August 1, 2022, through May 31, 2023.

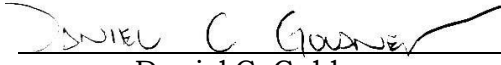
Based upon the foregoing, it is hereby

ORDERED, the step adjustment to be added to distribution rates, with an annual revenue requirement of \$1,303,839 as calculated by UES in its revised 2022 Step Adjustment petition filed pursuant to the terms of the Settlement Agreement in Docket No. DE 21-030, as approved with modifications in Order No. 26,623, is hereby **APPROVED**, subject to reconciliation; and it is

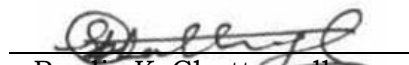
FURTHER ORDERED, that UES is authorized to implement the rates approved herein on a service-rendered basis effective August 1, 2022, for a ten (10) month collection period through May 31, 2023; and it is

FURTHER ORDERED, that UES shall file tariff pages as required by N.H. Code Admin. Rules Part Puc 1603, conforming to this order within 15 days of the date hereof.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of July, 2022.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner

Service List - Docket Related

Docket# : 22-026

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