UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF
DANIEL J. HURSTAK

New Hampshire Public Utilities Commission
Docket No. DE 22-###

TABLE OF CONTENTS

LIST OF SCHEDULES

I. INTRODUCTION

Q. State your name and business address.

A. My name is Daniel J. Hurstak and my business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q. What is your position and what are your responsibilities?

A. I am the Chief Accounting Officer and Controller for Until Corporation ("Unitil") and the Controller for Unitil Energy Systems, Inc. ("UES" or the "Company"). I am also the Controller for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's utility subsidiaries including Unitil Energy Systems, Inc. I am responsible for the accounting and financial reporting activities for Unitil and its subsidiaries.

Q. Describe your business and educational background.

Prior to joining Unitil in March 2020, I was Vice President, Corporate Accounting, at Fidelity Investments (a multinational financial services corporation headquartered in Boston, Massachusetts), from June 2016 until February 2020. Prior to Fidelity, I was a senior manager at PricewaterhouseCoopers LLP ("PwC") (a multinational professional services network of firms operating as partnerships under the PwC brand) from September 2009 until May 2016, and I began my career at PwC in September 2001. I have a Bachelor of Science degree in Accounting from Bentley College, Waltham, Massachusetts, and I am a Certified Public Accountant in the Commonwealth of Massachusetts.

Q. Have you previously testified before the New Hampshire Public Utilities Commission ("NHPUC" or the "Commission") or other regulatory agencies?

A. Yes, I have previously testified before the Commission in the Company's most recent base rate case proceeding (Docket DE 21-030).

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the Company's 2021 External Delivery Charge ("EDC") Lead Lag Study ("2021 Study"), which is integral to the calculation of cash working capital to be recovered in External Delivery rates for Transmission and Non-Transmission related costs.

III. CASH WORKING CAPITAL

Q. Define the term "cash working capital" as used in utility ratemaking.

A. Cash working capital is the amount of investor-supplied capital required by the Company to fund operations in the time period between when expenditures are incurred to provide service to customers and when payment is actually received from customers. Cash working capital represents dollar amounts funded by investors to provide safe and reliable electric distribution services prior to receipt of payment for those services from customers.

IV. SUMMARY OF TESTIMONY

Q. Please summarize your testimony.

A. My testimony presents and supports the Company's 2021 EDC Lead Lag Study. The 2021 Study, presented in this filing as Schedule DJH-1, is based upon data for the period January 1, 2021 through December 31, 2021 and calculates a net lead period for Transmission related costs to be 0.40 days and a net lag period for Non-Transmission related costs to be 18.25 days.

Q. Are the results of the 2021 Study included in the EDC rates proposed in this filing?

A. Yes, the 2021 Study results are used to derive the Transmission and Non-Transmission related cash working capital amounts included in EDC rates beginning August 1, 2022, as described in the testimony of UES witness Linda S. McNamara.

V. LEAD LAG STUDY METHODOLOGY

Q. What is a lead-lag study?

A. A lead-lag study is an analysis designed to determine the funding required to operate a company on a day-to-day basis. A lead-lag study compares (1) the timing difference between the receipt of services by customers and their subsequent payment for these same services and (2) the timing difference between the incurrence of costs by the Company and its subsequent payment of those costs.

A lead-lag study therefore must compute a revenue lag or (lead), and an expense lag or (lead). Cash working capital was developed using systematic reviews of cash flows for the Company's revenues, Transmission related expenses, and Non-Transmission related expenses.

Q. Define the terms "lag days" and "lead days" as used in your testimony.

A. Revenue lag is the number of days between delivery of service to the Company's customers and subsequent receipt by the Company of payment for the service. Expense lag is the number of days between the receipt of goods or services provided to the Company by vendors and payment for such goods or services by the Company. Because the Company's electric customers receive service prior to paying for it, the Company experiences a revenue lag in its daily operations. The Company typically pays expenses after vendors have provided their goods or services, which results in an expense lag. The Company will occasionally pay for goods or services before they are provided, which results in an expense lead.

Q. How was the 2021 Study prepared?

A. The 2021 Study compares the lag days for the recovery of revenue to the lead or lag days for the payment of certain Transmission and Non-Transmission related costs to calculate net lead days or net lag days. UES prepared its 2021 Study using data for the twelve months ended December 31, 2021, and calculated net lead or lag days separately for Transmission and Non-Transmission related costs.

VI. 2021 STUDY RESULTS

Q. How is revenue lag computed?

A. Revenue lag is the length of time that occurs between the Company's provision of service to its customers and the subsequent receipt of payment for those services. The measurement of revenue lag consists of four components: (1) service lag, (2) billing lag, (3) collection lag, and (4) collection to receipt of available funds ("revenue float"). Since the time periods for these four components are mutually exclusive, revenue lag is computed by adding the total number of days associated with each of the four revenue lag components. This total number of lag days represents the amount of time between the recorded delivery of service to customers and the receipt of the related revenues from customers. Refer to Schedule DJH-1, pages 2 to 8.

Q. Describe how you calculate service lag.

A. The service lag is the average time span between the mid-point of the customer's consumption interval, also known as the usage period, and the time that such usage is recorded by the Company for billing purposes. This usage period determines the average length of time over which the billed services are provided and establishes a common point in time from which to measure (1) the time of reimbursement for the billed services, and (2) the time at which the accrued costs for the usage period are actually paid. The 2021 average service lag is 15.21 days. This service lag was obtained by dividing the number of days in the test year (365 days) by 24 to determine the average monthly service period. Refer to Schedule DJH-1, page 3 of 27.

Q. Describe the calculation of billing lag.

A. The billing lag is the time required to process and send out customer bills. The billing lag begins at the end of the service period when customer consumption is metered, and it ends when the bills are rendered and billings are posted to accounts receivable. The billing lag may be influenced by factors such as whether automated or manual meter reading systems are employed, the generation of invoices from this metering data and other processes affecting the time to post billings to accounts receivable. The Company uses an automated meter reading system that posts meter readings daily for billing the next day, and the meter reading is recorded into accounts receivable on the same day. The 2021 average billing lag is 1.01 days. This billing lag determines the time required to process the meter reading data and record accounts receivable. Refer to Schedule DJH-1, pages 4 and 5 of 27.

Q. Describe the calculation of collection lag.

A. The collection lag identifies the time between the posting of customer bills to accounts receivable and the receipt of these billed revenues. Collection lag, which begins with the posting of bills and ends with the receipt of payment, may be influenced by payment arrangements, contract terms, postal delivery delays, customer inquiries, delinquent accounts, service termination practices, and other factors. The Company has employed the accounts receivable turnover ratio method to determine the collection lag. Using this approach, the average monthly accounts receivable balances (as measured by the average of the month-end balances for the 12 months from January 2021 to December 2021) were divided by the average daily revenues for the 12 months ended December 31, 2021. The 2021 average collection lag is 37.74 days. The lag reflects the time delay between the mailing of customer bills and the receipt of the billed revenues from customers. Refer to Schedule DJH-1, page 6 of 27.

Q. Describe the final component of revenue lag, revenue float.

A. Revenue float is the time between when funds are received from customers until customer payments clear the banks and are available to the Company. Certain funds are available the day payment is received while other funds are generally available within one or two days of receipt by the bank. The following day's bank statement reflects the prior day's bank availability of funds. The 2021 average revenue float lag is 1.65 days. This lag represents the average weighted check-float period, or the lag that takes place during the period from when payment is received from customers to the time such funds are available for use by the Company. Refer to Schedule DJH-1, pages 7 and 8 of 27.

Q. Is the total revenue lag computed from these separate lag calculations?

A. Yes. The total revenue lag of 55.61 days is computed by adding the number of days associated with each of the four revenue lag components described in this testimony. This total number of lag days represents the amount of time between the delivery of service to customers and the receipt of the related revenues from customers. Refer to Schedule DJH-1, page 2 of 27.

Q. In determining the expense lead/lag period, how are the weighted days for Transmission and Non-Transmission related costs determined?

A. First, the monthly expense lag or lead for each vendor is determined by aggregating (1) the average days in the period in which the service is received, and (2) the period including the payment day. The aggregate lead or lag days are then weighted by the dollar amount of the billings. Weighted lead or lag days are calculated separately for Transmission and Non-Transmission related costs.

Q. What are the weighted days lag or lead in payment for Transmission and Non-Transmission related costs?

A. The weighted days lag for Transmission related costs is 56.01 days, as shown on Schedule DJH-1, page 9 of 27. The weighted days lag for Non-Transmission related costs is 37.36 days, as shown on Schedule DJH-1, page 17 of 27.

Q. How is the total Transmission and Non-Transmission lead lag determined?

A. For Transmission related costs, the expense lag of 56.01 days is subtracted from the lag in receipt of revenue of 55.61 days to produce the total net lead of 0.40 days. Refer to Schedule DJH-1, page 9 of 27. For Non-Transmission related costs, the expense lag of 37.36 days is subtracted from the lag in receipt of revenue of 55.61 days to produce the total net lag of 18.25 days. Refer to Schedule DJH-1, page 17 of 27.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.