

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 23-014

UNITIL ENERGY SYSTEMS, INC.

Petition for Approval of Step Adjustment

Order Approving Petition

O R D E R N O. 26,837

May 31, 2023

In this order, the Commission approves UES' revised step adjustment petition, authorizing UES to recover the annual revenue requirement of \$1,206,209 associated with \$15,227,771 in plant additions placed in service in calendar year 2022. Recovery will be made through distribution rates on a service rendered basis beginning on June 1, 2023. UES recovers distribution rates from all delivery service customers.

I. PROCEDURAL HISTORY

On February 14, 2023, Unitil Energy Systems, Inc. (UES, or the Company) filed a petition requesting approval of its step adjustment to distribution rates based on calendar year 2022 capital spending by the Company. This proposal was presented by the Company pursuant to the terms 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).

An adjudicative proceeding was commenced by an order issued on March 10, 2023, scheduling a hearing on the Company's petition for April 20, 2023.

UES filed revisions to its proposed step increase rate schedules, with companion updated proposed Tariff pages and bill impacts, on April 19, 2023. The hearing was held as scheduled on April 20, 2023, at which the Commission propounded certain record requests to UES and scheduled a second day of continued hearings for May 9, 2023. *See* Hearing Exhibits 8 and 9. Representatives of the New Hampshire Department of Energy (DOE) appeared at the April 20 and May 9 hearings. No petitions to intervene were filed, and the Office of the Consumer Advocate did not file a letter of participation.

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/2023/23-014.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 six (6) accounting schedules delineating its expenditures on investments in the calendar year 2022 as part of its provision of electric utility service, rate design, and bill impacts. The Company presented an initial 2022 capital-investment figure of \$7,117,536 in Net Utility Plant, with an associated \$1,212,421 revenue requirement. Hearing Exhibit 1, Testimony of Christopher J. Goulding and

Kevin E. Sprague, at Bates Pages 32-33; *see also* Hearing Exhibit 1, Schedule CGKS-3, at Bates Page 2781.

UES updated its filing on April 18, 2023, to incorporate a technical issue brought to its attention by the DOE Staff. This resulted in a revised capital-investment figure of \$7,070,454 for the proposed step increase, together with a resulting revised proposed revenue requirement of \$1,206,209. *See* Hearing Exhibit 6; Revised Schedule CGKS-3 at 1. Specifically, the Company voluntarily removed \$47,018.63 in certain project costs that were initially used to calculate the proposed step adjustment. *See* Transcript of April 20, 2023 Public Hearing (4/20 Tr.) at 19.

For its revised \$1,206,209 step increase in its revenue requirement, presented in its April 18, 2023, updated filing, the Company calculated a rate impact on a typical residential (Rate D) customer using 600 kilowatt hours per month of 61 cents more per month, or a 0.3 percent increase in distribution rates. Hearing Exhibit 6, Revised Schedule CGKS-6 at 1, Bates Page 34.

At the April 20, 2023 and May 9, 2023, hearings, the Company presented the oral testimony of Messrs. Sprague, Goulding, and Mr. Daniel T. Nawazelski of Unitil Service Corp., in support of its petition. In summary, UES requested approval of its step increase, and the associated rates, as just, reasonable, and in the public interest. UES also defended its calculation methodologies and selection of 2022 projects as being within the parameters of the Docket No. DE 21-030 Settlement Agreement. *See* Transcript of May 9, 2023 Public Hearing (5/9 Tr.) at 71-83.

In order to better understand the Company's step adjustment model and methodology, the Commission requested at the April 20, 2023 hearing and in subsequent Record Requests 1-1 and 1-2 that the Company calculate hypothetical revenue requirement figures when the input for growth capital additions was varied.

See Record Requests 1-1 and 1-2, Hearing Exhibits 8 and 9, and direct questioning of the Company's witnesses, *and* 4/20 Tr. at 63-97, 5/9 Tr. at 9-23. As confirmed by the Company during the May 9, 2023 hearing, these calculations indicate that some overlap exists between growth assets added to the Company's plant and increased revenue requirement figures, in connection with depreciation expense treatment for same. The Company defended this methodology as reasonable and a crucial factor in the over-all settlement process in DE 21-030, arguing that "[t]he result of the hypothetical calculation proposed by the Commission in Hearing Exhibits 8 and 9 would substantially prejudice the Company by reducing its step adjustment revenue requirement by...approximately 25 percent." See 5/9 Tr. at 80-82.

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 centered on the DOE's perspectives regarding the growth asset/depreciation and expense/revenue requirement matters probed by the Commission's questioning and Record Requests. 5/9 Tr. at 47-58.

In its closing statement, the DOE stated that it was generally supportive of the step adjustment filed by UES, with the methodology matching the terms of the DE 21-030 Settlement Agreement, as approved. However, the DOE did advocate for two significant, but not precisely quantified, disallowances from the UES step adjustment proposal in its closing statement: (1) the exclusion of the Main Street (Concord) Porcelain Cut-Out project, to be included in the Company's next distribution rate case, due to the great bulk of the work of the project having been concluded in 2021, not 2022; and, (2) the exclusion of the Kingston Conversion Project as a growth-related project (not qualifying for step increase recovery under the terms of the DE 21-030 Settlement Agreement), with recovery to also be made by the Company as part of its

next rate case. 5/9 Tr. at 58-68. The DOE further requested that any Commission determinations regarding this petition by UES be subject to revision according to the findings of the DOE Audit Division, to be filed as part of an audit report at some unspecified future date, and also reserved the DOE's rights concerning an examination of the Company's accounting surrounding the "Time of Use" rate project in a future rate case. 5/9 Tr. at 58-62.

III. COMMISSION ANALYSIS

Step adjustments are typically a mechanism the Commission has approved for limited use between rate cases to allow a utility to collect additional revenue from non-growth (i.e., non-revenue producing) investments that are made to provide safe and reliable service. Step adjustments are generally limited in scope and allow recovery for non-revenue generating investments that have been prudently made in line with the underlying rate case that established the step adjustment provision at the outset. Utilities have the burden of showing that capital investments included in the 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 an initial matter, we note that the record shows that both UES and the DOE generally view the projects to be requested for recovery with this step adjustment to be used and useful, as well as prudently incurred, and that the requested rates are just and reasonable.

Through its inquiry, the Commission had requested the Company use its existing model to demonstrate a hypothetical scenario that would test an increase in

growth assets, all else equal, to calculate any impact on the Company's revenue requirement. (Please refer to Hearing Exhibits 8 and 9, and the transcripts for this proceeding, for further details regarding this issue). This exercise produced a higher hypothetical revenue requirement when the Company's model was used to increase only the growth component of plant additions, even though the step adjustment purportedly, per the terms of the Settlement Agreement, relates only to non-growth assets.

While the underlying modeling question raised through Exhibits 8 and 9 remain unresolved in this docket, we will defer in this instance to the outcome arrived from the DE 21-030 settling parties participating in this docket, DE 23-014 (i.e., the DOE and the Company). The Commission understands from testimony that while the exact mechanics of the growth project impacts on the revenue requirement were not brought to light when arriving at the parent Settlement Agreement (derived in DE 21-030), the participating settling parties herein remain satisfied with the ultimate outcome.

In the interests of administrative efficiency, clarity, and certainty, we will not delve further in this docket on matters surrounding the growth asset/depreciation and expense/revenue requirement issue reviewed during the pendency of this proceeding and the previous DE 22-026 UES step proceeding. Accordingly, we approve the revised proposed step adjustment rates emanating from the Settlement Agreement. However, given the lack of clarity on boundaries between "growth" and "non-growth" investments, and the other terms of the DE 21-030 Settlement Agreement, we decline to adopt the DOE's recommended disallowances.

That said, the Commission views transparency and consistency in the application of settlement agreement terms to be of utmost importance. We believe that

in future rate cases, UES, the DOE, and utilities in general, should endeavor to create settlement agreement rate features that generate modelling results that are logical, not counter-intuitive, and based on plain language understanding of terms.

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.


Based upon the foregoing, it is hereby

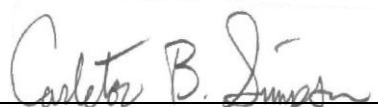
ORDERED, the step adjustment to be added to distribution rates, with an annual revenue requirement of \$1,206,209 as calculated by UES in its revised 2023 Step Adjustment petition filed pursuant to the terms of the Settlement Agreement in Docket No. DE 21-030, as approved with modifications in Order No. 26,623, is hereby APPROVED; and it is

FURTHER ORDERED, that UES is authorized to implement the rates approved herein on a service-rendered basis effective June 1, 2023, collection through May 31, 2024; 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 thirty-first day of May, 2023.



Pradip K. Chattopadhyay
Commissioner

Carleton B. Simpson
Commissioner

Service List - Docket Related

Docket#: 23-014

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