Unitil Energy Systems, Inc.

DE 23-014

NHPUC Record Requests – 4/20/23 Hearing

Date Request Received: 04/21/2023 **Date of Response:**

Request No. 1-1 **Witness: C. Goulding / K. Sprague**

Record Request 1-1:

Refer to Exhibit 6 Schedule CGKS-3. UES is requested to perform the following steps and provide the responses in live Excel format.

(a) Please remove all growth capital additions in column (b);

(b) Maintain the current non-growth capital addition ($15,227,771) in column (c);

(c) All else equal, apply the proportion of non-growth (100 percent) throughout the model, where applicable, and report the resulting revenue requirement.

Response:

Please refer to NHPUC Record Request 1-1 Attachment 1 for the information requested.

The Company respectfully believes that the proposed hypothetical calculation should not be utilized by the Commission for the purposes of determining the Company's allowed revenue requirement in this case for the following reasons:

1. The Settlement Agreement in DE 21-030 was the product of many days of extensive negotiations among the settling parties. A significant portion of that time was dedicated to the Company's test year revenue requirement and subsequent step adjustments for 2021 and 2022 investments. As with any compromise, the various components of the Settlement Agreement were carefully calibrated to strike a balance between the interests of the Company's customers and investors. If the Commission were to now require an alternative calculation that materially alters a key component of the Settlement Agreement, it would upend the settled expectations of Unitil and the settling parties and substantially prejudice the Company, which agreed to a stay-out provision in exchange for the agreed-upon step adjustments. The Company agreed to a rate case stay out through the beginning of 2024 because it anticipated recovering a revenue requirement related to non-growth plant additions based upon the calculation agreed to by the settling parties. Unitil may not have agreed to the stay out provision or other concessions in the Settlement Agreement if the Change in Non-Growth Net Plant calculation was to be based upon the alternative calculation proposed by the Commission, which reduces potential

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allowed revenues significantly. If the Commission requires the application of its alternative calculation, Order No. 26,623 will still preclude the Company from filing a base rate case until 2024, notwithstanding the possibility that the Company's revenue deficiency would necessitate such a case. This raises the potential for an unconstitutional taking.

2. The Commission did not, in DE 21-030 or DE 22-026, decide that the illustrative step adjustment revenue requirement calculation appended to the Settlement Agreement was not just and reasonable or inconsistent with the public interest. It did not determine that the calculation would yield a revenue requirement that was overstated, that it incorporated an improper amount of depreciation expense, or that it improperly allocated depreciation expense among growth and non-growth plant additions.

3. The hypothetical calculation proposed by the Commission in its record request does not result in an accurate calculation of the Company's Change in Non-growth Net Plant in 2022, and, therefore, does not yield an accurate revenue requirement for the purposes of this Step Adjustment. Rather, because it assigns all depreciation expense in 2022 to the Company's non-growth plant additions and none of the depreciation expense to growth plant additions, it reduces the Step Adjustment revenue requirement in a manner inconsistent with the Settlement Agreement.

4. The arbitrary assignment of all depreciation expense to one discrete class of investment is unreasonable and inconsistent with utility accounting practices, traditional ratemaking principles, and the Company's historical split between growth and non-growth capital spending.

5. Regarding utility accounting practices, it is a statement of fact that vintage investments included in and prior to the Company's last base rate case test year included both Growth and Non-Growth related investments. The allocation of those investments (to growth and non-growth assets) is entirely consistent with industry practice. To that point, every rate case includes an exercise of allocation in which the Company completes cost studies that provide an analytical approach to the apportionment of the total Cost of Service, or Revenue Requirement. Stated differently, a Cost of Service study allocates to each rate class its proportionate share of the utility's cost of service for those customers. The Step Adjustment methodology in this docket is no different – it appropriately

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allocates the associated cost (depreciation expense) to the type of investment that produced that cost (Growth vs Non-Growth investment). Assigning Growth investment related depreciation expense to Non-Growth investments creates a mismatch in cost assignment to the Non-Growth revenue requirement. As a result, the alternative method arbitrarily and unreasonably reduces the Rate Base on which the Company is allowed a return.

6. From a ratemaking perspective, the Company's Step Adjustment methodology ensures that the Company is only allowed a return on the incremental Non-Growth Change in Net Plant Rate Base since its last base rate case, such that there is no double recovery of depreciation expense. The assignment of all depreciation expense to non-growth additions in the step increase revenue requirement calculation effectively assumes that the revenue requirement for the 2022 growth additions is supported by new customer (growth) revenues. This is a fundamentally flawed assumption and is exacerbated by the modification to the Step increase revenue requirement calculation. In fact, new customer addition investments tend to be cash flow negative in the beginning years.

7. The arbitrary assignment of all depreciation expense to non-growth investments is inconsistent with both historical and forecasted splits. As shown in NHPUC Record Request 1-1 Attachment 2, the Company provided evidence in DE 21-030 that in the eleven-year period between 2010 and 2020 the Company's average annual percent of non-growth capital spending was 79% and that forecasted non-growth spending for the period of 2021-2025 was on average 84% non-growth related.

In summary, by adjusting the Step increase calculation as requested in this record request, the calculation will result in an artificially depressed and significantly understated revenue requirement that is inconsistent with the intent of the settling parties in DE 21-030, utility accounting practices, traditional ratemaking principles and the Company's historical split between growth and non-growth capital spending.

The Company looks forward to having continued productive discussions with the Commission, our fellow utilities, the DOE, OCA, and other interested parties regarding design and deployment of step adjustments as a means to allow recovery of critical infrastructure investments between rate cases in IR 22-048.

Unitil Energy Systems, Inc.
2023 Step Adjustment

Rate Effective Date 6/1/2023 Per Company Filing on 4/18/2023

Line No.	Description		Total Investment Year 2022	Growth Investment Year 2022	Non-Growth Investment Year 2022	Record Request 1-1
			(a)	(b)	(c)	(d)
1	Beginning Net Utility Plant [1]		$ 279,381,159			
2	Beginning Utility Plant [1]		$ 425,024,311			
3	Plant Additions		19,243,626	4,015,855	15,227,771	15,227,771
4	Retirements		(2,293,538)	(470,226)	(1,823,312)	(2,293,538)
5	Ending Utility Plant		441,974,399	3,545,629	13,404,459	12,934,233
6	Beginning Accumulated Depreciation [1]		145,643,152			
7	Depreciation Expense		12,883,781	2,641,463	10,242,319	12,883,781
8	Retirements		(2,293,538)	(470,226)	(1,823,312)	(2,293,538)
9	Cost of Removal, Salvage and Transfers		(2,251,314)	(166,312)	(2,085,002)	(2,085,002)
10	Ending Accumulated Depreciation		153,982,082	2,004,924	6,334,005	8,505,242
11	Ending Net Utility Plant		287,992,317			
12	Change in Net Plant				7,070,454	4,428,991
13	Pre-Tax Rate of Return				9.18%	9.18%
14	Return and Taxes				649,202	406,665
15	Depreciation Expense on Non-Growth Plant Additions at [3]	3.35%			510,342	510,342
16	Property Taxes on Non-Growth Change in Net Plant at [4]	0.66%			46,665	29,231
17	Revenue Requirement Increase				$ 1,206,209	$ 946,239

Notes:
(1) Beginning Net Utility Plant corresponds to DE 22-026, Second Revised Schedule CGKS-5.
(2) Excludes $117,775.69 of Exeter DOC costs. Refer to Schedule CGKS-1, Line 115. Also excludes $178,920.88 related to sale of Concord Street Lights consistent with DE 21-030 Settlement Agreement Section 6.7.3. Also excludes $47,081.63 of consultant cost associated with the Time of Use testing project. Refer to Schedule CGKS-1, Line 48.
(3) Refer to DE 21-030 Settlement Attachment 1, Schedule RevReq 3-16 P2 Revised, Col 8, Line 36
(4) Property Taxes shall include State utility property taxes for all Non-Growth Plant Additions, calculated using the statutory tax rate in RSA 83-F:2, currently $6.60 per $1,000 of investment. Local property taxes shall not be included in the calculation and will be recovered through the Company's External Delivery Charge

Capital Budget Spending

Electric Category	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual											Forecast				
Growth																
Customer Additions (C)	2,928,000	3,197,600	3,599,600	3,754,100	4,227,000	3,612,300	4,030,800	4,496,900	5,924,000	5,450,400	5,681,700	5,060,266	5,226,172	6,175,383	6,307,286	6,680,272
Subtotal Growth	2,928,000	3,197,600	3,599,600	3,754,100	4,227,000	3,612,300	4,030,800	4,496,900	5,924,000	5,450,400	5,681,700	5,060,266	5,226,172	6,175,383	6,307,286	6,680,272
Non-Growth																
Reliability (R)	484,700	316,000	821,000	594,800	137,300	608,900	346,100	667,000	740,000	920,500	867,600	1,177,285	750,000	750,000	821,457	750,000
Maintenance Replacement (M)	6,707,400	6,586,800	3,960,400	6,491,000	7,063,200	7,307,400	6,359,800	8,823,800	8,617,600	11,149,200	9,146,785	16,548,634	15,375,776	11,222,996	11,209,592	10,551,594
Mandated (H)	(87,400)	828,100	409,700	30,900	251,800	1,014,600	1,361,200	154,900	582,400	23,500	333,600	318,584	297,812	352,591	1,012,579	1,043,251
System Improvement (I)	2,115,300	3,216,300	2,103,000	4,509,100	5,626,700	9,595,700	10,692,900	6,106,700	967,900	4,509,900	5,674,318	2,831,181	5,827,249	7,263,344	6,863,031	8,522,006
Grid Modernization (G)							-	0	0	0	0	0	4,979,977	7,304,037	8,013,500	10,450,675
Other (O)	1,291,300	2,396,000	2,072,600	791,900	2,224,200	1,266,900	396,900	3,500,100	1,455,200	7,023,100	15,685,400	5,650,334	5,069,586	3,909,643	3,925,718	3,467,401
Subtotal Non-Growth	10,511,300	13,343,200	9,366,700	12,417,700	15,303,200	19,793,500	19,156,900	19,252,500	12,363,100	23,626,200	31,707,702	26,526,018	32,300,400	30,802,611	31,845,877	34,784,927
Total	13,439,300	16,540,800	12,966,300	16,171,800	19,530,200	23,405,800	23,187,700	23,749,400	18,287,100	29,076,600	37,389,402	31,586,284	37,526,572	36,977,994	38,153,163	41,465,199

% Growth	22%	19%	28%	23%	22%	15%	17%	19%	32%	19%	15%	16%	14%	17%	17%	16%
% Non-Growth	78%	81%	72%	77%	78%	85%	83%	81%	68%	81%	85%	84%	86%	83%	83%	84%

	Low	High
% Growth	15%	32%
% Non-Growth	68%	85%