UNITIL ENERGY SYSTEMS, INC.

JOINT DIRECT TESTIMONY OF

JEFFREY M. PENTZ AND LINDA S. MCNAMARA

New Hampshire Public Utilities Commission

Docket No. DE 23-054

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I. INTRODUCTION

Q. Please state your names and business addresses.

A. My name is Jeffrey M. Pentz. My business address is 6 Liberty Lane West, Hampton, NH 03842. My name is Linda S. McNamara. My business address is also 6 Liberty Lane West, Hampton, NH 03842.

Q. Mr. Pentz, for whom do you work and in what capacity?

A. I am employed by Unitil Service Corp. ("USC") as Supervisor, Energy Supply. USC provides management and administrative services to Unitil Corporation's affiliates including Unitil Energy Systems, Inc. ("UES", "Unitil" or the "Company").

Q. Please briefly describe your educational and business experience.

A. I received my Bachelor of Arts degree in Economics from the University of Massachusetts. Before joining USC I worked as a Contracting and Transaction Analyst with Mint Energy, a retail electric supplier. My range of responsibilities included contract negotiation with brokers and customers, retail billing, and sales. Prior to Mint Energy, I worked as a data analyst for Energy Services Group. My responsibilities included supplier business transaction testing and integration with regulated utilities. I began working for USC in February 2016 as an Energy Analyst with the Energy Contracts department. In January 2019 I was promoted to Senior Energy Analyst and in January 2024 I was promoted to Supervisor, Energy Supply. I have primary responsibilities in the areas of load settlement, renewable energy credit procurement, renewable portfolio standard compliance, default service procurement, market research and operations, and monitoring renewable energy policy.

Q. Have you previously testified before the New Hampshire Public Utilities Commission ("Commission")?

A. Yes, I have testified before the Commission in numerous Default Service proceedings.

Q. Ms. McNamara, for whom do you work and in what capacity?

A. I am a Senior Regulatory Analyst for USC.

Q. Please briefly describe your educational and business experience.

A. I joined USC in June 1994 after earning my Bachelor of Science Degree in Mathematics from the University of New Hampshire. Since that time, I have been responsible for the preparation of various regulatory filings, including changes to the default service charges, price analysis, and tariff changes.

Q. Have you previously testified before the Commission?

A. Yes, I have testified before the Commission in numerous Default Service proceedings.

II. BACKGROUND

Q. How does the Company typically solicit default service supply?

A. UES acquires default service power supplyfor its G1 and Non-G1 customers as approved by the Commission in Order No. 25,397, dated July 31, 2012 (the "Order") granting UES's Petition for Approval of Revisions to its Default Service Solicitation

Process for G1 and Non-G1 Customers. The acquisitions are completed via the Request For Proposals ("RFP") process for 100% of its small customer group (Non-G1); 100% of its medium customer group (Non-G1); and 100% of its large customer group (G1) service requirements for a six-month supply period. The Company solicits fixed monthly pricing for its small and medium customer groups.

Q. Please explain the Commission's directive included in Order No. 26,910, the Order approving the Company's most recent default service procurement.

A. The Commission directed the Company to submit a proposal for an ISO-New England market-based procurement tranche of 10 to 20 percent, through whatever combination of direct day-ahead and real-time ISO-New England market acquisitions the Company finds advisable, for the Company's upcoming August 2024 – January 2025 energy service period.

Q. Pursuant to this directive, has the Company prepared a proposal?

A. Yes. The Company proposes to use its existing RFP process to procure full requirements service for 90% of its default service load requirements via fixed price contracts with wholesale suppliers. The Company proposes to procure the remaining 10% of load requirements via the self-supply process, whereby the Company would make direct purchases and settlement in the ISO-NE real-time markets.

III. DESCRIPTION OF PROPOSED PROCUREMENT PLAN

Q. Please describe the Company's proposed procurement plan.

A. Market based purchases to self-supply means the Company would own 10% of the small and medium customer group default service load assets. The Company would make all purchases for energy in the real-time markets. Additional charges that are assessed to "Load Serving Entities" include Forward Capacity, Ancillary Services, and other charges such as the Inventoried Energy Program. The Company would be responsible for payment of these services, along with the energy component twice per week on the ISO-NE invoices.

Q. What are the potential risks to rate-payers under the proposal?

A. Market based procurements expose UES customers to the real-time market. The real-time market in the ISO-NE marketplace can be volatile, especially during the winter. The Company is not planning to make any additional energy purchases such as forward hedges in the market to mitigate possible volatility but instead will be a price taker wherever the ISO-NE market settles.

IV. DESCRIPTION OF PROPOSED DEFAULT SERVICE PRICING

Q. How would Unitil propose to set the wholesale energy component of the retail rate for its customers?

A. The Company proposes that UES customers continue to have a fixed retail rate for the entire six-month service period. Regardless of what happens in the ISO-NE real-time market, the Company intends to set retail rates at a fixed level during the service period in the manner that customers have seen over the course of many years. The wholesale supply portion of the fixed price retail rate would be represented by the weighted average of the actual monthly contract prices over the future six-month period plus an estimate of the costs of any supply not procured through full requirements service contracts. The weighted average would be calculated based on 90% fixed pricing and the 10% estimate of the market-based tranche for the six-month service period, as illustrated in Exhibit JMP/LSM-3.

Q. How would the Company estimate the wholesale rate for the market-based tranche?

A. Since the Company is proposing to maintain a fixed retail rate for its Small and Medium customer groups, estimating a wholesale rate over the service period for any direct market purchases is necessary. Exhibit JMP/LSM-2 illustrates the estimation calculations. The energy component of the wholesale rate would be estimated by using the appropriate combination of off-peak and on-peak ISO-NE Hub NYMEX futures pricing. The Company has used historical data from 2022 to determine the allocation of loads to on-peak and off-peak consumption. Capacity prices are estimated using projected peak contribution tags along with charge rate estimates as published by the ISO-NE Forward Capacity Market Cost Allocation forecast. The Company would use twelve-month historical data from the ISO-NE Wholesale Load Cost Report ("WLC") to estimate all other cost components such as Ancillary Market, Net Period Commitment Compensation charges, and the Inventoried Energy Program. The Company is comfortable using historical data from the WLC report as these costs are de minimus when compared to energy and capacity costs. Additionally, the cost data in the WLC reports is used as a metric in comparing market costs to contract costs as represented in the monthly filings in DE 23-054.

Q. What are the advantages and disadvantages to the Company's proposal?

A. Setting retail rates as described above will create fixed prices allowing mass market customers to continue budgeting their energy costs each month. These fixed prices would also provide an appropriate price against which retail suppliers (and their customers) can compare. A drawback of the proposal, is the possibility that market prices could increase or decrease when compared to the estimated price. This would result in a net charge or credit for default service customers during the reconciliation process. Additionally, to the extent that Unitil may serve load directly, there will be an impact to the Company's working capital requirements because the billing lag would drop from approximately 45 days, to around 5 days. This will create upward pressure on the Company's working capital needs. If the Company's procurement proposal is approved, the Company will update its lead/lag calculation in its next Default Service filing to reflect this change in working capital requirements.

Q. How will the Company reconcile actual market costs with estimated market costs?

A. The final cost of purchasing directly from the market will be unknown until several months after the conclusion of the service period. This lag is due to hourly market pricing, market settlement lag, and the resettlement process of load volumes. The difference between actual market costs resulting from direct market purchases and estimated market costs will become part of the Company's default service over/under collection. As such, any variation in these costs will be treated through the normal annual reconciliation process whereby the default service balance as of April 30 each year is allocated to the two next six-month rate periods and to each rate class (residential and regular general service). The Company does not expect reconciliations to have a significant impact on future period default service rates since direct purchases will represent only 10% of the cost of serving load.

Q. Does the Company recommend any special notification to the customers affected by self-supply?

A. Since the Company's proposal would be seamless to customers, the Company does not envision the need for special notifications. The result of the traditional RFP process is that customers would receive an all-in fixed period price, and the Company proposes the same with a partial market-based proposal using estimated pricing. Customers will be charged a rate based on partial estimation of pricing for load served in the NH ISO-NE Load Zone. Although market-based procurements result in hourly variability in energy costs, this will not be flowed through to the customer during the rate period. As indicated above, however, the reconciliation will occur in future rates but are not expected to have a significant impact.

Q. How will the proposed change impact the Company's next scheduled default service solicitation?

A. The Company's next solicitation is scheduled for release on May 7, 2024 with final bids due on June 4, 2024. Given the structural changes involved, the Company will require time to implement this proposal. Therefore, the Company requests the Commission issue a decision regarding this proposal no later than April 8, 2024

Q. Would there be tariff changes required if the Commission approves the proposal discussed herein?

A. The Company envisions minor tariff changes to Schedule DS to include the costs of self-supply as part of Default Service costs. These changes can be provided in this proceeding as requested, in a compliance filing, or as part of the Company's next Default Service filing.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.