UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

DANIEL V. MAIN

New Hampshire Public Utilities Commission

Docket No. DE 16-384

Table of Contents

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. Daniel V. Main, 6 Liberty Lane West, Hampton, New Hampshire 03842.

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

A. I am the Assistant Controller of Unitil Service Corp. ("Unitil Service"), which provides centralized management services to Unitil Corporation's subsidiary companies, including Unitil Energy Systems, Inc. ("Unitil Energy" or the "Company"), Fitchburg Gas and Electric Light Company ("FG&E"), Northern Utilities, Inc. and Granite State Gas Transmission, Inc. My management responsibilities are in the areas of General Accounting, Regulatory Accounting, Utility (Plant) Accounting, Budgeting, and Accounts Payable.

Q. Please describe your business and educational background.

A. I received a Bachelor of Science degree in Accounting from Plymouth State College (now Plymouth State University) in 1982, and a Master of Business Administration degree from New Hampshire College (now Southern New Hampshire University) in 1987. I have over 33 years business experience in increasing areas of responsibility in a variety of industries, including 13 years in public utility accounting and finance. My public utility experience includes two years with Public Service of New Hampshire as a Property Accountant, four years with Unitil Service as Manager of Finance, and seven years with Unitil Service as Assistant Controller.

Q. Are you a member of any professional organizations?

A. Yes. I am an Associate Member of the American Institute of Certified Public Accountants and the New Hampshire Society of Certified Public Accountants. I am also the Treasurer and a Director of the Energy Council of the Northeast (ECNE).

Q. Have you previously testified before this Commission or other regulatory agencies?

A. I have not previously testified before this Commission. I have been the witness or responsible party on audit and data requests from this Commission on a wide variety of filings for both Unitil Energy and Northern Utilities. I have filed testimony with the Federal Energy Regulatory Commission on behalf of FG&E regarding depreciation rates.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's proposal to recover the costs of its past due and uncollectible Active Hardship Protected Accounts ("AHPA") receivables. Specifically, the Company is proposing to recover costs of writing down AHPA, while maintaining the amounts for credit and collection purposes.

Q. How is your testimony on this topic organized?

A. This testimony covers the issues related to the Company's AHPA receivables. I will define AHPA and provide some background on the development of the issue of the collectability of these receivables. Additionally, I will discuss the Company's proposals to administer, track and report on the Company's AHPA customer accounts, including a description of the Company's plan to maintain effective invoicing and credit and collections activities in order to effectively recover as much of these receivables as possible directly from the AHPA customers on an ongoing basis.

Q. Why is the Company making a proposal to recover past due AHPA receivables in this proceeding?

A. AHPA receivables result from customers that are in special circumstances which require specific credit and collection and cost recovery policies, which protect these customers from having their service disconnected and their receivables written off and recovered through normal bad debt expense. The Company's proposal as described below allows for the recovery of uncollectible AHPA receivables. The recovery of bad debt expense for uncollectible AHPA receivables is a difficult problem which has been compounded by several factors, including public policy directives, ratemaking practices, accounting standards and economic conditions. As a result, at the end of the test year the Company had a total of $1.7 million of accounts receivable due from its AHPA customers which, if uncollectible, would be deemed worthless and be required to be written off through bad debt expense. Such an extraordinary charge to the Company's earnings and equity would have a material adverse impact on the Company's results of operations and financial position.

Q. Do any of the Company's affiliates currently recover uncollectible AHPA receivables through rates?

A. As part of its Electric Division rate proceeding in docket D.P.U. 13-90, FG&E included a request for recovery of the accounts receivable balances for its active hardship protected accounts. This request was approved by the Massachusetts Department of Public Utilities, and became effective June 1, 2014.

III. ACTIVE HARDSHIP PROTECTED ACCOUNTS

Q. Please define the phrase "Active Hardship Protected Accounts" and "Active Hardship Protected Receivables."

A. Active Hardship Protected Accounts are residential service accounts that, in accordance with the New Hampshire Code of Administrative Rules, Chapter Puc 1200, are protected from disconnection by the utility for non-payment under the hardship provisions of Part 1205 Medical Emergency Rules. Active Hardship Protected Receivables are receivable balances owed to the Company by Active Hardship Protected Accounts. In recent years, the Company has seen a substantial increase in both the number of customers and the past due accounts receivable balances of customers protected from disconnection under the Medical Emergency Rules.

Q. Please describe the hardship protections available to the Company's customers under Part Puc 1205.

A. Part Puc 1205 protects residential customers who have a medical emergency (as defined in Puc 1202.12) from having their service disconnected. Specifically, a utility may not disconnect service to a customer who has provided current verification of a medical emergency and is complying with a payment arrangement. Puc 1205.03(a). However, if a customer does not enter into or comply with the terms of a payment arrangement consistent with Commission rules, a utility may request permission to disconnect service to the customer. Puc 1205.03(b). The process for seeking disconnection requires, among other things, that the customer be given concurrent written notice and an opportunity to respond to the utility's request. Puc 1205.03(c).

Q. Please summarize the accounts receivable due from the Company's AHPA customers at the end of the test year?

A. As shown on Schedule DVM-1, Line 4, Column (c), the Company has $1,682,347 in AHPA receivables at December 31, 2015. Of this total, $925,083 has been outstanding over 360 days (Schedule DVM-1, Line 1, Column (c)), $518,681 has been outstanding from 120 days to 360 days (Schedule DVM-1, Line 2, Column (c)), and $238,583 has been outstanding under 120 days (Schedule DVM-1, Line 3, Column (c)).

Q. Please provide an overview of the issues the Company is experiencing with respect to its Active Hardship Protected Receivables.

A. The Company has seen its accounts receivable balance from Active Hardship Protected Accounts increase significantly in recent years. Despite ongoing efforts (discussed below) by the Company to mitigate the amount of past due Active Hardship Protected Receivables, the balances have continued to rise. The Company uses several methods to incentivize payment of past due receivables, including, when necessary, service termination. However, service may not be terminated to Active Hardship Protected Accounts without Commission approval due to the protections outlined above. As shown on Schedule DVM-1, Line 1, Column (c), as of December 31, 2015 the Company's total accounts receivable from AHPA customers has reached $1,682,347, including $1,443,764 over 120 days past due (Schedule DVM-1, Line 1 and Line 2, Column (c)). According to Generally Accepted Accounting Principles (GAAP), these receivables would be considered an impaired asset unless the Company can demonstrate the amounts are collectible or recoverable. This impaired asset issue would present considerable present and future financial risk to the Company if left unresolved in a timely manner. Specifically, if this $1.4 million asset was deemed to be impaired and was required to be written off, it would result in a charge to the Company's earnings, equivalent to 12% of its test year pre-tax earnings of $11.8 million. That level of extraordinary charge would have a material adverse impact on the Company's financial position and significantly impede the Company's ability to raise capital economically, which would, in turn, adversely affect customers' utility service rates. Without probable recovery of these Active

Hardship Protected Account receivables, the Company may be required to take a charge against its earnings of $1.4 million and establish a reserve on its balance sheet to comply with GAAP.

Q. Please describe the growth in the Company's Active Hardship Protected Accounts receivable.

A. As shown on Schedule DVM-1, Column (c), Line 1 and Line 5, the Company's Active Hardship Protected Accounts receivable with an aging over 360 days has grown from $287,392 at December 31, 2011 to $925,083 at December 31, 2015. At December 31, 2011, AHPA receivables over 120 days past due represented 51.3% of total accounts receivables over 120 days past due. At December 31, 2015, the percentage of AHPA receivables over 120 days past due has increased to 75.9% of total accounts receivables over 120 days past due. Despite the Company's continual best efforts (discussed below) to manage these past due amounts, the Company has concluded that this trend cannot be reversed through normal credit and collections procedures.

Q. What conditions have caused the Active Hardship Protected Receivables balance to grow?

A. The Company believes that increased number of Active Hardship Protected Accounts and associated receivables is attributable to growing customer awareness of and utilization of the protections and processes afforded by Puc 1205. In addition, increasing rates over the past few years has led to higher balances outstanding.

Q. What does the aging of the Active Hardship Protected Accounts receivable indicate about the ability of the Company to collect the receivables from customers?

A. As the aging of Active Hardship Protected Accounts receivable grows, the likelihood of the Company collecting the outstanding receivable dramatically decreases. As customers' receivables age, the total receivable balance owed by the individual customer also grows. This balance may become large enough that it seems unmanageable to the customer and, in many cases, only the necessary minimum payments are made to avoid service termination. This is reflected on Schedule DVM-2. Schedule DVM-2 shows the aging of the Active Hardship Protected Accounts receivable balances from 2011 through 2015, with the over 360 days past due rising from $287,392 (Schedule DVM-2, Column D, Line 1) to $925,083 (Schedule DVM-2, Column D, Line 5), an increase of $637,691 or 222% in just four years.

Q. Does the Company write off the uncollectible Active Hardship Protected Accounts receivable and recover these costs through a Commission approved recovery mechanism?

A. No, the Company does not write off Active Hardship Protected Accounts receivable. By definition, because these accounts cannot be disconnected, the Company classifies these accounts as "active." It is the Company's policy not to write off receivables of active customers. The Company only writes off uncollectible receivables of customers that have: a) terminated service; b) been processed for "shut-off" and are in "final" status; or c) are considered inactive for credit policy purposes.

Q. How are AHPA receivables currently treated in the Company's calculation of its Allowance for Doubtful Accounts and Bad Debt Expense?

A. Historically, the Company has calculated bad debt expense to be recovered through base rates by dividing its net write-offs by its billed revenues for that same period, resulting in a bad debt ratio. The Company then multiplies the bad debt ratio by the test year normalized billed revenues. Since the Company does not write off Active Hardship Protected Accounts receivable, they are not, and have never been, included in the bad debt expense for the Company's Cost of Service Study ("COSS") ratemaking calculations. Therefore, the Company does not currently receive recovery of AHPA past due receivables in its current rates.

IV. PROPOSAL TO RECOVER PAST DUE AHPA RECEIVABLES

Q. What is the Company's proposal to recover the bad debt expense for uncollectible accounts receivable due from its AHPA in this proceeding?

A. The Company's proposal to recover the bad debt expense for uncollectible accounts receivable due from its AHPA is described below:

1) AHPA Receivables which are over 360 days past due: The amount of AHPA receivables which are over 360 days past due would be financially written down over five years, and recovered through base

rates as bad debt expense. The balance as of December 31, 2015 of $925,083 is shown on Schedule DVM-1, Line 1, Column (c), and the annual amount to be written down ($185,017 or one-fifth of $925,083) is reflected in the Company's Cost of Service Study as a pro-forma adjustment to bad debt expense on Schedule RevReq-3-6. The Company proposes to update these balances through June 30, 2016 during this proceeding when they become available.

2) Projected new over 360 days past due amounts for AHPA: The Company is also proposing a pro-forma adjustment to bad debt expense for the AHPA receivables that are projected to become over 360 days past due in future years. As shown on Schedule DVM-2 the average annual dollar amount of AHPA accounts receivable that migrated into 360 days past due status over the past four years is $159,423. Each year, these new "over 360 day" past due amounts would be financially written down and recovered through rates as a component of bad debt expense. This adjustment is also reflected on Schedule RevReq-3-6. The Company also proposes to update this amount to reflect data through June 30, 2016 during this proceeding when it becomes available.

V. ADMINISTRATION, TRACKING, REPORTING, CREDIT AND COLLECTION PROCEDURES

Q. Should the Company's cost recovery proposal for AHPA be approved, what is the Company's proposal for administration, tracking, reporting and credit and collection procedures for managing the Active Hardship Protected Accounts receivable?

A. As described above, the Company would financially write down the amounts of AHPA receivables over 360 days past due for financial accounting purposes. However, the Company would administer the written down amounts separately from the original AHPA customer receivables in order to track, report on and pursue future recovery through credit and collection procedures with respect to the written down amounts. This way, AHPA customers would continue to receive monthly invoices indicating the full amount owed and past due and be subject to the credit and collection procedures currently applied to these accounts. Ultimately, AHPA receivables will be tracked until they terminate or return to active current status.

Q. How does the Company currently manage Active Hardship Protected Accounts receivable?

A. Since the AHPA customers are protected from standard collections activities, they do not go through the standard collections procedures such as receiving a disconnect notice or being disconnected for non-payment. However, the Company does employ a variety of measures for communicating with and assisting customers with a Medical Emergency designation in an effort to maximize collections of receivables. These steps are performed regardless of the age of their receivables.

- Continued mailing of monthly bill showing outstanding balance – back of bill advises customers to call to set up a payment plan or learn about assistance programs
- Periodic bill messages advising customers of assistance programs
- Periodic inserts advising customers of assistance programs
- Monthly newsletters with periodic articles advising customers of assistance programs
- Letters mailed annually to customers who had received fuel assistance in previous year but have not enrolled for the current year
- Outbound phone campaign to customers who had received fuel assistance in previous year but have not enrolled for the current year
- Letters mailed monthly to customers on any standard payment plan to remind them of payment amounts and dates to encourage timely payments

Although customers with a Medical Emergency designation are protected from disconnection, they are required to be making regular monthly payments toward their outstanding balance.

- Monthly automated phone calls to all customers with a 60 day delinquent balance who are not on a payment plan, to make sure they are aware of the payment plan requirement. The Company offers "Medical Payment Plans" where the Company's Customer Service Representatives will work with the customer to customize a payment plan that will take into account the individual customer's circumstances in determining the amount to be paid each month.

- Letter mailed every other month to the customers with a 60 day delinquent balance who are not on a payment plan, advising them of the Commission regulations and to request them to call to start a Medical Payment Plan.
- Communication of other ways that a customer can get assistance such as 211, Fuel Assistance, etc.

For customers who do not make any attempt to establish a payment plan or pay any amount toward their past due balance, the Company has the right to petition the Commission to disconnect the customer despite the Medical Emergency protection. The Company is very selective in identifying potential candidates for a petition and reviews such candidates with the Commission. The Company observes the process in compliance with the provisions of Section Puc 1205.03 relative to disconnection of service.

Q. What impact does the Company's proposal to write down these past due balances have on the future invoices that AHPA customers will receive?

A. The Company proposes there will be no forgiveness of the past due amounts written down under this proposal and therefore AHPA customers would continue to receive invoices indicating the full amount owed and past due.

Q. What impact does the Company's proposal to write down these past due balances have on the future credit and collection procedures regarding AHPA customers?

A. The write down of past due balances will not impact the Company's credit and collection procedures. The Company will continue to perform its credit and collection procedures for AHPA receivables as described above.

Q. How will the Company track and report the write down of these past due balances from AHPA customers?

A. Customers with a Medical Emergency designation are identified as such in the Company's Customer Information System. With this identifier, the Company is able to track and report on all customer activity, including opening balances/credits, additions, payments/recoveries, write-off activity, and any other miscellaneous adjustments. The Company proposes to report this AHPA activity on an annual basis, as of (and for the year ending) June 30. This reporting period will coincide with the current reporting requirements in Section Puc 1205.06 <u>Reporting Requirements</u>.

Q. How does the Company's proposal prevent and ensure there is no "double recovery" of bad debt expense related to the write down of these past due balances from AHPA customers?

A. As stated above, the Company currently does not write off these AHPA receivables nor does the Company currently recover this bad debt expense in its rates. Because the Company is proposing pro-forma adjustments to bad debt expense to recover these AHPA past due balances on a going forward basis, the Company will, as is indicated above, track and report the activity of the AHPA written down balances each reporting period. Since AHPA receivables are distinct from all the non-protected customer portfolios, double recovery of bad debts through normal bad debt expense is prevented by tracking and reporting on the specific AHPA customer accounts separately from the non-AHPA customers.

Q. How will the Company account for any amounts that AHPA customers pay toward their current bill and their over-360 days past due balance?

A. As noted previously, AHPA customers with past due balances cannot be disconnected as long as they have a documented medical hardship and are adhering to a payment plan. Payment plans generally require the customer to pay their current month's amount due, plus an additional amount that will be applied to their past due balance. The Company proposes that any amounts that are paid by AHPA customers in excess of their current amount due will be tracked and included as an adjustment to the External Delivery Charge or other refunding mechanism the Commission may deem appropriate.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.