

1                                   **STATE OF NEW HAMPSHIRE**  
2                                   **PUBLIC UTILITIES COMMISSION**

3  
4   **April 12, 2018 - 9:10 a.m.**  
5   Concord, New Hampshire

27 APR '18 PM 2:33

6  
7                   **RE: DG 17-070**  
8                   **NORTHERN UTILITIES, INC.:**  
9                   **Request for Change in Rates.**  
10                   **(Hearing on the merits)**

11           **PRESENT:**   Chairman Martin P. Honigberg, Presiding  
12                           Commissioner Kathryn M. Bailey  
13                           Commissioner Michael S. Giaimo

14                           Sandy Deno, Clerk

15  
16   **APPEARANCES:**   **Reptg. Northern Utilities, Inc.:**  
17                           Gary Epler, Esq.

18                           **Reptg. Residential Ratepayers:**  
19                           D. Maurice Kreis, Esq., Consumer Adv.  
20                           Pradip Chattopadhyay, Asst. Cons. Adv.  
21                           Office of Consumer Advocate

22                           **Reptg. PUC Staff:**  
23                           Paul B. Dexter, Esq.  
24                           Stephen Frink, Dir./Gas & Water Div.  
                          Al-Azad Iqbal, Gas & Water Division

23           Court Reporter:   Steven E. Patnaude, LCR No. 52

24  
**CERTIFIED  
ORIGINAL TRANSCRIPT**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**I N D E X**

**PAGE NO.**

<b>WITNESS PANEL:</b>	<b>DAVID L. CHONG</b>	
	<b>PRADIP CHATTOPADHYAY</b>	
	<b>STEPHEN P. FRINK</b>	
Direct examination by Mr. Epler		9
Direct examination by Mr. Kreis		23
Direct examination by Mr. Dexter		28
Interrogatories by Cmsr. Bailey		33, 40
Interrogatories by Chairman Honigberg		39
Interrogatories by Cmsr. Giaimo		40

\* \* \*

<b>CLOSING STATEMENTS BY:</b>		
	Mr. Kreis	44
	Mr. Dexter	45
	Mr. Epler	45

**E X H I B I T S**

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
3	Northern Utilities Rate Case filing, including testimonies & attachments, tariff pages, etc. (06-05-17) <i>[REDACTED - For public use]</i>	7
4	Northern Utilities Rate Case filing, including testimonies & attachments, tariff pages, etc. (06-05-17) <b>{CONFIDENTIAL &amp; PROPRIETARY}</b>	7
5	OCA Testimony & Attachments of Ben Johnson and Dr. Pradip Chattopadhyay (12-20-17)	7
6	PUC Staff Testimony & Attachments of Stephen Frink, Al-Azad Iqbal, and J. Randall Woolridge (12-20-17)	7
7	Settlement Agreement on Permanent Delivery Rates (04-06-18) <i>[REDACTED - For public use]</i>	7
8	Exhibit Number 1 to the Settlement Agreement, noted as Workpapers 1.1 and 1.2, which contain special contract information <b>{CONFIDENTIAL &amp; PROPRIETARY}</b>	7
9	Document titled "Settlement Total Change in Distribution Revenue" <b>[Marked for identification only]</b>	7

**P R O C E E D I N G**

1  
2 CHAIRMAN HONIGBERG: We are here this  
3 morning in Docket DG 17-070, which is Northern  
4 Utilities' rate case. We're here for a hearing  
5 on the merits. We have a settlement that's  
6 been filed.

7 Before we do anything else, let's  
8 take appearances.

9 MR. EPLER: Good morning, Mr.  
10 Chairman, Commissioners. Seems like just  
11 yesterday.

12 CHAIRMAN HONIGBERG: A smaller venue  
13 yesterday, though.

14 MR. EPLER: Gary Epler, Chief  
15 Regulatory Counsel, for Unitil Service Company,  
16 appearing on behalf of Northern Utilities.

17 Thank you.

18 MR. KREIS: Good morning, Mr.  
19 Chairman, Commissioners. D. Maurice Kreis, the  
20 Consumer Advocate, here on behalf of the  
21 residential utility customers pursuant to RSA  
22 363:28. The gentleman to my left is Pradip  
23 Chattopadhyay, our distinguished Deputy  
24 Consumer Advocate.

1 MR. DEXTER: Good morning,  
2 Commission. Paul Dexter, on behalf of the  
3 Commission Staff. And joining me today are  
4 Stephen Frink and Mr. Al-Azad Iqbal.

5 CHAIRMAN HONIGBERG: So, how are we  
6 proceeding this morning?

7 MR. EPLER: Mr. Chairman, we propose  
8 to put on a panel -- the Settling Parties  
9 propose to put on a panel consisting of a  
10 witness on behalf of each party to the  
11 Settlement Agreement.

12 We have a number of exhibits that we  
13 propose to premark, which I can step through  
14 now, if that would be helpful.

15 CHAIRMAN HONIGBERG: Why don't you do  
16 that.

17 MR. EPLER: If you recall when we had  
18 the temporary rate settlement hearing, we  
19 marked, as Exhibit Number 1, Mr. David Chong's  
20 testimony, and Exhibit Number 2 was a Temporary  
21 Rate Settlement.

22 We would propose that Exhibit  
23 Number 3 be the Company's initial filing. Now,  
24 that includes David Chong's testimony. But I

1 think, just for clarity in the record, I think  
2 it would be all right to repeat that in Exhibit  
3 Number 3, since that's a Bates stamped package.

4 CHAIRMAN HONIGBERG: Okay.

5 MR. EPLER: That would be the  
6 redacted version of the filing, and then  
7 Exhibit Number 4 would be the confidential  
8 version of the filing. Both of those are Bates  
9 stamped.

10 Exhibit Number 5 would be the Office  
11 of Consumer Advocate's testimony and exhibits,  
12 that entire package.

13 Exhibit Number 6 would be the Staff's  
14 testimony and exhibits -- testimonies and  
15 exhibits.

16 Number 7 would be the Settlement and  
17 all exhibits, including redacted Exhibit  
18 Number 1.

19 And Number 8 would be confidential  
20 Exhibit Number 1 to the Settlement Agreement.

21 And then Number 9, there is a single  
22 sheet that's in front of you, it's kind of a  
23 little scorecard, and that would just be  
24 helpful to refer to as the panel goes through

1 their testimony.

2 (The documents, as described,  
3 were herewith marked as  
4 **Exhibit 3** through **Exhibit 9**,  
5 respectively, for  
6 identification.)

7 CHAIRMAN HONIGBERG: All right. Is  
8 there anything else we need to do before  
9 witnesses take their place?

10 *[No verbal response.]*

11 CHAIRMAN HONIGBERG: All right. Why  
12 don't we move the witnesses into the witness  
13 box.

14 MR. EPLER: Thank you.

15 CHAIRMAN HONIGBERG: Mr. Epler, while  
16 that's happening, can you help us make sure we  
17 know what, in the confidential Settlement,  
18 which is going to be Exhibit 8, has  
19 confidential information in it?

20 MR. EPLER: Sure. There are just two  
21 pages. It's Bates stamp 080 and 081. It's a  
22 workpaper, Workpaper 1.1 and 1.2. And the  
23 reason being is that that has some special  
24 contract information.

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 CHAIRMAN HONIGBERG: Thank you.

2 That's helpful.

3 MR. EPLER: And I believe those pages  
4 are marked and --

5 *[Court reporter interruption.]*

6 CHAIRMAN HONIGBERG: Sorry. Why  
7 don't you clarify --

8 MR. EPLER: Those pages are marked  
9 and shaded as required.

10 CHAIRMAN HONIGBERG: All right.  
11 Let's go off the record for a second.

12 *[Brief off-the-record discussion*  
13 *ensued.]*

14 CHAIRMAN HONIGBERG: All right.  
15 Thanks. Mr. Patnaude.

16 (Whereupon **David L. Chong,**  
17 **Pradip Chattopadhyay,** and  
18 **Stephen P. Frink** were duly sworn  
19 by the Court Reporter.)

20 CHAIRMAN HONIGBERG: Mr. Epler.

21 MR. EPLER: Yes. If my fellow  
22 counsel don't mind, I'll introduce the panel.

23 **DAVID L. CHONG, SWORN**

24 **PRADIP CHATTOPADHYAY, SWORN**

{DG 17-070} {04-12-18}

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**STEPHEN P. FRINK, SWORN**

**DIRECT EXAMINATION**

BY MR. EPLER:

Q Mr. Chong, please state your full name and your position with Unitil.

A (Chong) David Chong, Director of Finance and Treasurer for Unitil Service Corp.

Q Mr. Frink, your --

A (Frink) Stephen Frink, the Director of the Gas & Water Division at the Public Utilities Commission.

A (Chattopadhyay) Pradip Chattopadhyay. I'm the Assistant Consumer Advocate.

Q And just a general question to the entire panel. Were you all involved in the preparation of testimony and exhibits in this case, and were you also involved in the negotiations and Settlement?

A (Chong) Yes.

A (Frink) Yes.

A (Chattopadhyay) Yes.

Q Okay. Thank you. Mr. Chong, I'll turn to you first. Could you please refer to the Settlement Agreement that's been marked as

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 "Exhibit Number 7", and to the extent you need  
2 to, also Exhibit Number 8, which is the  
3 confidential portion of that Settlement  
4 Agreement.

5 I'm going to ask you to turn to Section 2  
6 of that Settlement Agreement. And in  
7 particular, Pages 5, 6, 7, 8, 9, and 10, which  
8 is -- I guess I'd refer to as kind of the meat  
9 of the Settlement Agreement. And there are  
10 several sections there.

11 The first section discusses the annual  
12 revenue increase, is that correct?

13 A (Chong) Yes.

14 Q And then the second section, 2.2, discusses  
15 capital -- the cost of capital and the capital  
16 structure that was agreed to?

17 A (Chong) Correct.

18 Q And 2.3 discusses the allocation of the  
19 increase among the customer classes?

20 A (Chong) Correct.

21 Q And 4 discusses the step increases, 2.4?

22 A (Chong) That's correct.

23 Q And 2.4.1 discusses the detail of the first  
24 increase and 2.4.2 the second increase?

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 A (Chong) That's correct.

2 Q And then 2.5 is the recoupment of the revenue  
3 differences?

4 A (Chong) That's correct.

5 Q And 2.6 is the Rate Case Expenses?

6 A (Chong) That's correct.

7 Q So, if we can refer back now, and I ask you if  
8 you could kind of step through those sections  
9 in more detail and explain what's behind them.

10 A (Chong) Certainly. So, I'd like to begin with  
11 Section 2.1. This is the change in revenue  
12 requirement for the Company. The Company --  
13 or, the Settling Parties agreed to a revenue  
14 increase of \$2.6 million, that was calculated  
15 with the old effective tax rates, before the  
16 Tax Cuts and Jobs Act of December 2017. That  
17 reflects a 34 percent corporate tax rate for  
18 the Company. Effective with the new Tax Act,  
19 the corporate tax rate went down to 21 percent  
20 as of January 1, 2018. The Company reflected  
21 that decrease in tax in the revenue requirement  
22 calculation, and that resulted in a decrease  
23 \$1,664,189. The net increase after that tax  
24 decrease is \$938,730. So that --

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Q And --

2 A (Chong) Yes?

3 Q And if we wanted to see the detail on that,  
4 would we turn to Bates stamp Page 018?

5 A (Chong) Yes. You know, so let me spend a  
6 minute and describe the tax reduction of  
7 1.664 million. Again, as Gary indicated, if  
8 you go to Bates Page 018, you can see at the  
9 bottom half there is a table that indicates the  
10 "Revenue Reduction per the Federal Energy  
11 Regulatory Commission Formula". We applied a  
12 formula that the FERC utilized back in the  
13 1980s, when tax rates last changed. The  
14 formula is essentially a proration of the cost  
15 of service taxes by the old tax rate and the  
16 new tax rate. That's a very straightforward  
17 formula and yields a very accurate result.

18 So, if you go to the table, the very first  
19 number that it begins with is a value of  
20 3 million --

21 *[Court reporter interruption.]*

22 **CONTINUED BY THE WITNESS:**

23 A (Chong) The very first number in the table  
24 begins with the number of "\$3,920,952". That

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 number represents the *pro forma* cost of service  
2 income taxes, including all the adjustments,  
3 the test year, and the rate relief from this  
4 proceeding. And further, you can see that that  
5 number is sourced from Bates Page 020, and is  
6 the total of Lines 13, 14, and 15 -- actually,  
7 I'm sorry. I'm at the wrong page. If you go  
8 to Bates Page 021, apologize for that, it is  
9 the sum of Lines 13, 14, 15, in Column (6).

10 So, that brings us back to Bates Page 018.  
11 The sum of those three line items will equal  
12 \$3,920,952. And then you can see from the rest  
13 of the calculation that we present the new  
14 effective tax rates at 0.3744, it's a tax rate  
15 factor, and the old tax rate factor, 0.6505,  
16 and the revenue reduction is essentially a  
17 proration of those tax rates multiplied by the  
18 old tax -- the old composite taxes, to yield a  
19 revenue reduction of \$1,664,000.

20 Continuing on, at the bottom half of this  
21 table, you can see that the -- the numbers that  
22 I cited earlier, you can see the revenue  
23 deficiency before the taxes, of \$2,602,918,  
24 less the revenue reduction of \$1,664,189,

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 yields a net deficiency of \$938,730, fully  
2 reflecting the Tax Act.

3 Then, as I'll discuss later, there's a  
4 step judgment that the Parties agreed to of  
5 \$2,337,446, which yields a grand total revenue  
6 requirement of 3,276,176.

7 Back to Section 2.1, on Bates Page 006, I  
8 would just like to -- go ahead, Gary.

9 BY MR. EPLER:

10 Q I'm sorry, just to interrupt you for a minute.  
11 Just to give context to that, to that last line  
12 on Bates Page 018, the 3.2 million. How does  
13 that compare to what the Company initially  
14 filed for?

15 A (Chong) The last number, the 3.3 million?

16 Q Yes, 3.3 million.

17 A (Chong) Well, if I can maybe back up to the  
18 \$2.6 million that's at the very beginning of  
19 the table, that is the -- that's the deficiency  
20 before the Tax Act that the Company presented,  
21 that would be more comparable to the Company's  
22 initial filing. I believe the Company  
23 requested approximately \$4.7 million in its  
24 initial filing. And that is in Section 1.2, on

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Bates Page 003. So, you can see the 2.6  
2 divided by 4.7 million, I don't know the exact  
3 percentage, but 60 percent roughly, probably.  
4 And then, you can see the step adjustment that  
5 the Company originally requested was  
6 approximately \$2 million, in Section 1.2,  
7 compared to the \$2.3 million that the actual --  
8 that reflects actual plant additions that the  
9 Parties agreed to. So, the step adjustment was  
10 relatively close.

11 So, if I can go back to Section 2.1, on  
12 Bates Page 006, I would like to point out that  
13 the \$938,730 permanent revenue deficiency  
14 before the step adjustment does get allocated  
15 to the cost of gas reflecting fixed production  
16 assets for the Company. So, the allocation is  
17 \$815,513 for delivery rates and \$123,217, which  
18 will be reflected in the cost of gas.

19 If I can continue to Section 2.2, probably  
20 just to highlight the return on equity that the  
21 Settling Parties agreed to was 9.50 percent.  
22 Which is consistent with the Company's sister  
23 affiliate, Unitil Energy Systems, that's also  
24 9.50 percent last agreed to last year. The

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 capital structure reflects a 51.70 percent  
2 common equity ratio, which is very much similar  
3 to the Company's current capital structure and  
4 the Company's long-term capital structure as an  
5 investment grade BBB+ utility.

6 The cost of long-term debt, I'd like to  
7 highlight the 5.55 percent, reflects financings  
8 performed by the Company in 2017, which  
9 materially lowered the Company's cost of debt,  
10 where the Company accessed \$50 million in the  
11 capital markets, at a weighted average coupon  
12 rate of approximately 4 percent. Which  
13 represents current market conditions at that  
14 time, which helped lower the cost of capital,  
15 incremental cost of capital for the Company.

16 If I can go to Section 2.3, "Distribution  
17 Rates", they are outlined in Exhibit 2. I  
18 won't go through the full calculations, unless  
19 the Parties -- unless the Commission would like  
20 to. But just to highlight Exhibit 2, the  
21 primary thesis of the rate design was that the  
22 overall percentage increase to the revenue  
23 requirement was approximately 2.5 percent, that  
24 was capped for certain classes at 1.25 times

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 that amount, which results in a 3.2 percent  
2 rate increase. So, those certain classes were  
3 capped at that level. Any excess above that  
4 3.2 percent cap was allocated proportionally at  
5 an equal rate of return to the other classes.

6 Also to note in the rate design, the  
7 customer charge for the residential classes was  
8 not changed, rather the revenue increase was  
9 allocated to the tail block of the volumetric  
10 charge. And the goal ultimately, which I'll  
11 get to shortly, was to equalize both blocks, to  
12 be equal, to essentially be one block, with no  
13 change in the customer charge.

14 If I can go to Section 2.4 now. As I  
15 earlier indicated, I quantified the amount of  
16 the revenue requirement was 2.337 million, that  
17 reflects several categories of investments,  
18 very similar to the Company's last rate case a  
19 few years ago, I forget exactly, I think maybe  
20 2015, but it reflects eligible facilities for  
21 gas mains extensions, the Company's New  
22 Hampshire Main Replacement Program for bare  
23 steel, Rochester Reinforcement Program, and gas  
24 highway projects. The step adjustment reflects

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 additions to plant for 2017, one year after the  
2 test year for the proceeding. The step  
3 adjustment fully reflects the change in tax  
4 rates from the Tax Act of 2017. And the rate  
5 increase of 2.337 million was allocated  
6 uniformly across all customer classes. Except  
7 for the residential class, the customer charge  
8 was not affected, but the tail block was  
9 increased to equal the first block, so that  
10 both blocks are equal.

11 The first, Step 1 adjustment, goes in  
12 effect May 1st, 2018. It does not reconcile or  
13 does not recoup back to the date of temporary  
14 rates.

15 If we go to Bates Page 009, Section 2.4.2,  
16 the Settling Parties agreed to an optional Step  
17 2 adjustment for 2018 capital additions. When  
18 I indicate "optional", at the Company's option,  
19 the Company can elect to implement the step  
20 adjustment, but then a stay-out would then  
21 ensue, where the Company cannot file for a base  
22 rate case with a test year of no earlier than  
23 2020.

24 The step adjustment will be capped at --

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 it's a \$2.2 million revenue requirement.  
2 Essentially, that represents 110 percent of the  
3 Company's estimated revenue requirement from  
4 its capital budget for those eligible  
5 facilities we discussed above. With one  
6 nuance, that farm taps would not be included in  
7 this Step 2 adjustment.

8 The rate design is shown in Exhibit 4.  
9 It's very similar to the Step 1 adjustment rate  
10 design.

11 If I can go to Section 2.5 now. As  
12 everyone is aware, permanent rates in New  
13 Hampshire reconcile to the date of temporary  
14 rates. There's really what's just kind of a  
15 nuance with this recoupment calculation,  
16 though. If you go to Footnote 3, it's kind of  
17 detailed, but I'll kind of summarize it very  
18 broadly.

19 The goal of the recoupment calculation is  
20 to recoup the 2017 period with the old tax  
21 rates. So, it would be calculated, the  
22 permanent revenue deficiency, before the tax  
23 reduction, of \$2.6 million, and then the 2018  
24 period of recoupment would be calculated at the

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 lower tax rate revenue requirement of \$938,000.  
2 And so that is the -- that's the delivery  
3 piece. There is also the cost of gas piece of  
4 \$123,000, which will be recouped beginning  
5 August 1st in the Company's cost of gas  
6 proceedings.

7 There is a reconciliation to the  
8 recoupment charge. We propose to file that  
9 June 30th of next year, after the charge has  
10 expired, so that we can fully reconcile all  
11 costs for the mechanism.

12 If we go to Section 2.6, rate case  
13 charges, we -- very similar to the recoupment,  
14 it would go into effect May 1st, 2018 and  
15 recover the Company's rate case costs for this  
16 proceeding. One thing I would just like to  
17 highlight is that we did save considerably on  
18 the rate case costs with the use of internal  
19 counsel, compared to other potential costs of  
20 using outside counsel. Again, on June 30th,  
21 2019, the Company proposes to file a full  
22 reconciliation of that charge.

23 Finally, on Section 2.7, customer bill  
24 impacts are presented on Exhibit 6. Instead of

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 walking through that, I'd be happy to take any  
2 specific questions. But it reflects the  
3 2.5 percent overall increase across all the  
4 classes. Obviously, it's a bit different  
5 within the individual classes. And the bill  
6 impact also reflects the first step adjustment,  
7 and also the rate case expense surcharge.

8 And perhaps maybe I'll speak about Section  
9 3, "Other Provisions", just very quickly.  
10 "Other Tariff Issues", there is just very --  
11 some very minor clean-up items in the tariff  
12 pages. It does reflect the updated rates,  
13 including the cost of gas rates. There were a  
14 limited amount of other changes, such as the  
15 removal of the transportation class, the T  
16 class, which is just used for internal  
17 purposes. And so, we just removed that.

18 Section 3.2, the Parties agreed to revise  
19 depreciation rates, based on studies from both  
20 the Company and from the -- and from the  
21 Settling Parties. The depreciation rates that  
22 are -- reflect whole-life depreciation rates  
23 consistent with New Hampshire precedent. That  
24 the reserve deficiency was very minor in this

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 proceeding, and so the Parties agreed to assess  
2 the amortization of that in a future proceeding  
3 and not reflect that in this proceeding.

4 MR. EPLER: Okay. Thank you, Mr.  
5 Chong.

6 Commissioners, I just wanted to point  
7 out that when the -- the rate case expenses are  
8 on Exhibit 5, which is Bates stamp Page 129,  
9 they're just for purposes of a presentation.  
10 We just have kind of a plug number for the  
11 state consultants of \$25,000. We have not yet  
12 received all the invoices for the OCA  
13 consultants and for the Staff consultants. So,  
14 that amount may change when that occurs.

15 That completes the Company's direct  
16 of the Company witness, Mr. Chong. And I would  
17 turn to --

18 CHAIRMAN HONIGBERG: Mr. Kreis.

19 MR. KREIS: Thank you, Mr. Chairman.  
20 I think I have a few questions for the OCA  
21 witness, Mr. Chattopadhyay, but I won't take  
22 very long with that.

23 Good morning, Mr. Chattopadhyay.

24 WITNESS CHATTOPADHYAY: Good morning.

{DG 17-070} {04-12-18}

1 BY MR. KREIS:

2 Q You filed testimony in this proceeding, and  
3 that testimony is contained as part of  
4 Exhibit 5, correct?

5 A (Chattopadhyay) That is correct.

6 Q And the subject of your testimony was your  
7 recommendation for what a reasonable return on  
8 equity, and therefore what a reasonable  
9 weighted average cost of capital would be for  
10 this Company, correct?

11 A (Chattopadhyay) That is correct.

12 Q How does this Settlement compare to your  
13 recommendation in your prefiled testimony?

14 A (Chattopadhyay) In the prefiled testimony, my  
15 testimony, I recommended a point estimate of  
16 8.25 percent for the return on equity. I also  
17 had a range there. So, it could have been  
18 slightly higher than that. But, in the  
19 Settlement, it's 9.5 percent. That should be  
20 viewed in the context of the overall  
21 Settlement, number one.

22 Number two, also, when I provide my  
23 analysis, I use data that is current, and as  
24 well as I look at what the expectations are at

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 that time. I just want to note that, after the  
2 testimony was filed, there has been some  
3 changes in the financial markets, the capital  
4 markets. And one should be aware of the fact  
5 that, for example, the Fed funds rate, the  
6 range that is usually set has gone up. So,  
7 it's currently 1.5 percent to 1.75 percent. If  
8 I remember correctly, around in December it was  
9 almost 50 basis points lower.

10 Also, if you look at the Treasury bond  
11 yield for the 10-year Treasury bonds, they have  
12 gone up by, again, roughly 40 to 50 basis  
13 points.

14 So, in view of all of this, that  
15 9.5 percent, I'm quite comfortable, it's part  
16 of a reasonable compromise.

17 Q The 9.5 percent figure is quite similar to the  
18 figure that Unitil received approval for with  
19 respect to its natural gas rates in the  
20 jurisdiction immediately to our east, the State  
21 of Maine, is it not?

22 A (Chattopadhyay) That is correct.

23 Q And how does it compare to the return on equity  
24 figure in the Settlement Agreement that's

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 recently been submitted to the Commission in  
2 the Liberty Utilities Natural Gas rate case?

3 A (Chattopadhyay) It is 10 basis points higher  
4 than what we proposed as the, you know, the  
5 settlement number in the other rate case that  
6 you just mentioned about.

7 Keep in mind that both rate cases are  
8 viewed differently. There's different pieces  
9 to it. So, this is the compromise that we  
10 thought was quite reasonable in this case. In  
11 my mind, it was also important that, since the  
12 decoupling was being talked about in the other  
13 rate case, that, you know, we had some  
14 reduction due to that.

15 But, again, it's not a precise science.  
16 It's just a way of looking at things the way I  
17 do, and it's -- so, I think that 10 basis  
18 points difference is, again, that's pretty  
19 reasonable, given the differences in the rate  
20 cases.

21 Q Do you have the Settlement Agreement in front  
22 of you, with the exhibits, too?

23 A (Chattopadhyay) I do. But I don't have the  
24 Bates pages on it.

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Q Just it would be great if you could take a look  
2 with me at Bates Page 130 of the Settlement  
3 Agreement. This is Page 1 of 18, in Exhibit 6  
4 to the Settlement. And --

5 A (Chattopadhyay) Yes. Page 1 of 18.

6 Q Yes. Exactly.

7 A (Chattopadhyay) Yes.

8 Q And just -- I realize that it was actually  
9 Dr. Johnson and not you, Dr. Chattopadhyay, who  
10 filed testimony about rate design. But I just  
11 wanted you to maybe highlight for the  
12 Commission how the proposed rates in the bottom  
13 right-hand corner of that page reflects the  
14 recommendations or input that the OCA had in  
15 this case through Dr. Johnson.

16 A (Chattopadhyay) We, as OCA, you know, weren't  
17 really in favor of sort of the declining block  
18 rate structure. And ideally, again, the OCA  
19 would have liked to see an inclining block.  
20 But, again, as part of the Settlement, this is  
21 a very good move towards having both blocks, be  
22 the head and the tail blocks, the customer  
23 charges being the same for -- sorry -- the  
24 usage rates being the same for both blocks,

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 it's a step in the right direction.

2 Q Because we like the price signals that that  
3 kind of rate structure sends?

4 A (Chattopadhyay) Correct. Speaking as an  
5 economist, yes. I mean, it brings in for  
6 customers who, you know, as we have in the  
7 Settlement, that the customer charge is the  
8 same, but they are now going to face higher  
9 rates in the usage, that would hopefully induce  
10 them to be more efficient in demanding gas  
11 consumption.

12 Q And would you agree with me that the fact that  
13 there's no increase between present and  
14 proposed rates in the fixed customer charge  
15 reflects I guess I would characterize it as the  
16 effect of the OCA's eternal and vigilant  
17 resistance against the eternal utility quest  
18 for massive increases in fixed customer  
19 charges?

20 A (Chattopadhyay) Yes.

21 MR. KREIS: Thank you. Those are all  
22 the questions that I have, for any of these  
23 distinguished witnesses.

24 CHAIRMAN HONIGBERG: Dr.

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Chattopadhyay couldn't have put it better  
2 himself.

3 MR. KREIS: Yes.

4 CHAIRMAN HONIGBERG: Mr. Dexter.

5 MR. DEXTER: Thank you, Mr. Chairman.

6 BY MR. DEXTER:

7 Q Mr. Frink, you heard the summary of the  
8 Settlement that was provided by Mr. Chong  
9 earlier?

10 A (Frink) Yes, I did.

11 Q Do you have anything you'd like to add to that  
12 summary?

13 A (Frink) No. He covered that pretty nicely.

14 Q Okay. I had a couple of questions for Mr.  
15 Chong then. Attorney Epler asked you about  
16 comparing the original filing to the proposed  
17 Settlement. And on the subject of step  
18 adjustments, you noted that the number for the  
19 step adjustments was roughly the same?

20 A (Chong) Correct.

21 Q Is it correct that the initial filing the  
22 Company made contained a request for three  
23 annual step adjustments?

24 A (Chong) That is correct.

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Q And how does that compare to what was  
2 ultimately agreed to in the Settlement?

3 A (Chong) Yes. Ultimately, we agreed to two step  
4 adjustments. When I indicated they were  
5 roughly the same --

6 *[Court reporter interruption.]*

7 **CONTINUED BY THE WITNESS:**

8 A (Chong) When I indicated they were roughly the  
9 same, I was indicating revenue requirement. I  
10 apologize if I didn't clarify the term.

11 BY MR. DEXTER:

12 Q Right. I think you indicated that the revenue  
13 requirement for the first year was fairly close  
14 to what was initially requested?

15 A (Chong) Correct.

16 Q Okay. How about the second year?

17 A (Chong) In the initial filing, it's  
18 approximately 2 million every year, if I recall  
19 correctly. So, it's roughly about the same.

20 Q And can you explain the notion that the second  
21 adjustment is optional, and I think you touched  
22 on this, but indicate what happens if the  
23 option is taken and if it's not taken please?

24 A (Chong) Yes. The Company, at the Company's

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 option, if it elects to take the step  
2 adjustment, it would reflect the eligible  
3 facilities for the 2018 plant additions, and  
4 that would then trigger a stay-out, where the  
5 Company could not file for a base rate case  
6 with a test year before 2020.

7 If the Company elects to not take the step  
8 adjustment, there is no stay-out.

9 Q And just for a moment, on the schedule you were  
10 referring to when you were describing the  
11 impact of the new tax reductions, I think it  
12 was Bates 018?

13 A (Chong) Yes.

14 Q So, in sort of layman's terms, my understanding  
15 is that the Federal tax rate went down  
16 somewhere between 25 percent and 33 percent,  
17 corporate tax rate, is that essentially right?

18 A (Chong) Yes, it is.

19 Q And does this calculation that you put forth in  
20 the middle of Page 18 reflect sort of a, you  
21 know, a rough proportional, somewhere between a  
22 25 and a 33 percent reduction in taxes?

23 A (Chong) Yes. I'm fairly certain --

24 *[Court reporter interruption.]*

1 **CONTINUED BY THE WITNESS:**

2 A I'm fairly certain it does, yes.

3 BY MR. DEXTER:

4 Q So, Mr. Frink, having participated in the  
5 Settlement and in the case, and having heard  
6 Mr. Chong's testimony, is it in your opinion  
7 that the revenue deficiency and the resulting  
8 rates are just and reasonable?

9 A (Frink) Yes, they are.

10 Q And is it your recommendation that the  
11 Commission adopt the Settlement as filed?

12 A (Frink) Yes, it is.

13 Q And do you have anything else you'd want to add  
14 or --

15 A (Frink) I would just like to say that, on the  
16 rate of return, we did ask our consultant,  
17 Dr. Woolridge, about the Settlement Agreement  
18 proposal. And he had updated his information  
19 for current market conditions, and thought that  
20 the 9.5 was reasonable in the context of a  
21 comprehensive settlement agreement. The Tax  
22 Act had recently passed, and there was some  
23 uncertainty regarding utility stocks, and  
24 market rates had gone up. So, he would have

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 updated his number, if this had been contested,  
2 at the time of the hearing. So, he thought the  
3 9.5 was reasonable.

4 Also, we hired a consultant to review the  
5 Tax Act rate treatment by the Company, that  
6 passed after the Company and Staff, the OCA had  
7 filed their testimony. And Blue Ridge  
8 Consulting, who Donna Mullinax works for and  
9 you're familiar with, she's dealt with a number  
10 of these in a number of jurisdictions, and she  
11 reviewed and actually participated in the  
12 settlement and technical sessions where we  
13 discussed the Tax Act. And she thought the  
14 FERC Order 475 formulaic approach was a  
15 methodology that was well thought out and used  
16 to determine the tax change effect, and that  
17 the Company had followed that, and followed it  
18 correctly, and she supported the proposal.

19 So, our two outside consultants were very  
20 supportive of what was done here in this  
21 Settlement and is reflected in the Settlement.

22 Q And just to follow-up on the tax question. Is  
23 it your understanding that this Settlement  
24 encompasses the tax effect on the Company's

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 operations as they existed in the test year, as  
2 well as *pro formed* for the increase that's  
3 recommended?

4 A (Frink) It does.

5 Q And that was shown by Mr. Chong in his  
6 reference to Page 18 as the starting point,  
7 where he pointed out that the starting point of  
8 the taxes that he was adjusting was almost 4  
9 million, is that your understanding?

10 A (Frink) Yes.

11 MR. DEXTER: Thank you. Staff has no  
12 further questions.

13 CHAIRMAN HONIGBERG: Commissioner  
14 Bailey.

15 CMSR. BAILEY: Good morning.

16 WITNESS CHONG: Good morning.

17 BY CMSR. BAILEY:

18 Q You, Mr. Chong, said that the step increase  
19 that you originally proposed was around the  
20 same as what you settled. Why is the  
21 Settlement number not lower because of the tax  
22 impact?

23 A (Chong) That's a great question. I believe  
24 that the Company expended a little bit more in

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 capital spending than as originally filed. So,  
2 it would have to be a little bit of increase in  
3 capital spending versus what we had filed  
4 originally.

5 Q Can you show me? Is that in the details?

6 A (Chong) I have the step adjustment. The step  
7 adjustment is on Bates Page 1-2-3, 123. And  
8 the capital spending for eligible facilities is  
9 Line Number 3, \$16,117,895. I do not have the  
10 original filing on me. I would have to compare  
11 that number to the number that we originally  
12 filed. But I would have to -- I'm very  
13 positive that that number would be higher than  
14 what we originally filed.

15 CHAIRMAN HONIGBERG: Let's go off the  
16 record for a second.

17 *[Brief off-the-record discussion*  
18 *ensued.]*

19 CHAIRMAN HONIGBERG: All right.  
20 Mr. Chong, it looks like you now have access to  
21 the original filing.

22 WITNESS CHONG: I do.

23 CHAIRMAN HONIGBERG: Why don't you go  
24 ahead.

1 **CONTINUED BY THE WITNESS:**

2 A (Chong) Okay. In the Company's original  
3 filing, there is a Schedule D-6 that was filed.  
4 On Page 1 of that filing, it outlines, on Line  
5 Number 3, capital expenditures for the eligible  
6 facilities of \$13.2 million. So, that would  
7 compare to the actual capital spending that we  
8 were just discussing of \$16.1 million.

9 BY CMSR. BAILEY:

10 Q Okay. And, Mr. Frink, can you confirm for me  
11 that all of this investment is prudent?

12 A (Frink) I haven't seen an audit -- oh, excuse  
13 me. I haven't seen an audit report on it, but  
14 the audit report on the 2016 investments were  
15 clean. And I am confident that these numbers  
16 are correct. And we'll check with the Audit  
17 Staff to see that they have done a test of it.  
18 But --

19 Q Well, I'm confident that the numbers are  
20 correct. What I'm asking is --

21 A (Frink) Oh. Oh, yes. We looked at these  
22 eligible facilities, and they were qualifying  
23 facilities.

24 Q And they needed -- that investment needed to be

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 made and it was reasonable and prudent to do  
2 so?

3 A (Frink) Yes.

4 Q Thank you. Can you go through Exhibit 6 with  
5 me, the bill impact per customer?

6 A (Chong) Certainly.

7 Q This is just a different format than I'm used  
8 to seeing. And so, I don't -- if you could  
9 just explain it to me, I don't understand the  
10 first column.

11 A (Chong) Okay. Sure. Yes. I struggle  
12 sometimes with these, too, but let me do my  
13 best. This presentation presents varying load  
14 usages. So, you can see, on the left-hand  
15 column, you'll "Cumulative Percentage of  
16 Bills", and it goes from 10 percent and  
17 increments of 10 percent to 100 percent. And  
18 if you look to the right, it shows a  
19 corresponding therm usage for the number of  
20 bills that -- that bill at that usage level.

21 So, for example, at the 50 percent level,  
22 you'd see that "70.9", the average monthly  
23 usage for that 50 percent level bills is 70.9  
24 therms.

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Q Wait a second. I don't see that. Oh, I was  
2 looking at the second page. Okay. Go ahead.

3 A (Chong) Yes. No, I apologize. We're on the R5  
4 class, on Bates Page 130, Residential Heating.

5 Q Okay. Thanks.

6 A (Chong) So, if you continue going across the  
7 columns, you'll see the next column that shows  
8 the monthly bill at the present rates versus  
9 the proposed rates. That gives a dollar value  
10 of \$120 at present rates versus \$126 at  
11 proposed rates. So, the cumulative impact of  
12 the rate case has essentially caused a \$6.00  
13 increment to that 50 percent level of bills.  
14 That translates into a difference of -- or, a  
15 percentage of 5 percent increase for that  
16 customer class.

17 If you continue to go on, down below  
18 you'll see an average, which is just a simple  
19 average of all the bill impacts for the varying  
20 increments. And so that results in the average  
21 of "6.77 percent". I will indicate this is  
22 delivery and supply. If you look at the  
23 delivery piece only, the average would be  
24 "11.7 percent", 11.7 percent. This is for

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 winter only. If you -- this does include the  
2 first step adjustment. The actual delivery  
3 increase on a revenue basis, including the  
4 permanent rates and the step adjustment, is  
5 7 percent. So, if you average out, on average,  
6 the rate increases across all classes will be  
7 7 percent with the first step adjustment.

8 The winter is a little bit higher for  
9 distribution only, at 11.7 percent. It's  
10 because the usage is higher in the winter.

11 If you go to the next page, which is R5 in  
12 the summer, you'll see that the distribution  
13 average is "2.7 percent". We don't have a  
14 cumulative yearly number, but you would have to  
15 weight that by load. But I would estimate that  
16 would be fairly close to the 7 percent for an  
17 overall class increase.

18 Q Can you tell me what an average -- do you think  
19 an average customer is at the 50 percent level?  
20 You know, an average residential customer?

21 A (Chong) Mathematically, I would agree,  
22 50 percent is the right -- probably the right  
23 proxy for it. But that is a potentially  
24 philosophical question, I mean, if you live in

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 a condo versus a 3,500 square foot house, you  
2 might have a very different view on that. But  
3 I think, mathematically, 50 percent represents  
4 a very good proxy for the whole customer group  
5 as a class.

6 BY CHAIRMAN HONIGBERG:

7 Q Just following up on the same topic, I was  
8 interested in the way this information was  
9 presented in the column "Cumulative Percentage  
10 of Bills". And that 50 percent number, does  
11 that equate to essentially the median customer,  
12 is at that 50?

13 A (Chong) Yes.

14 Q So, if you wanted to create weighted means, you  
15 might end up with something different. But, in  
16 terms of bills, which as I understand what you  
17 presented here, that's the median customer is  
18 at the 50 percent mark?

19 A (Chong) It is on the bills. So, it's the 50  
20 percent of the bills. So, it would be a median  
21 of the load, correct.

22 CHAIRMAN HONIGBERG: All right.

23 Thanks.

24 BY CMSR. BAILEY:

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 Q About the stay-out, I'm not sure I quite  
2 understand. Is it that, if you take the step  
3 adjustment next year, then you have to stay --  
4 you can't file a rate case until you can  
5 present a 2020 test year or you can file a rate  
6 case in 2020?

7 A (Chong) The former, the first rate case would  
8 use a 2020 test year, in 2021.

9 CMSR. BAILEY: Okay. All right.  
10 Thank you. I think the rest of my questions  
11 have been answered. Thank you.

12 CHAIRMAN HONIGBERG: Commissioner  
13 Giaimo.

14 CMSR. GIAIMO: Good morning.

15 WITNESS CHONG: Good morning.

16 CMSR. GIAIMO: Mr. Chong, thank you  
17 for walking through the Settlement. It was  
18 very helpful.

19 WITNESS CHONG: You're welcome.

20 CMSR. GIAIMO: I have very few  
21 questions.

22 BY CMSR. GIAIMO:

23 Q Following up on what Commissioner Bailey was  
24 just talking about, with respect to the second

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 step option, when would the Commission know of  
2 that? When would we be informed that you're  
3 exercising that?

4 A (Chong) The rate would go into effect May 2019.  
5 I do not recall if there was a filing date  
6 established for the step adjustment in the  
7 Settlement Agreement. It would be in  
8 provision -- the 2.4 section, if you give me  
9 one second.

10 Yes. The 2.4.2, "The Company shall file  
11 its proposed Step 2 adjustment to distribution  
12 rates on or before the last day of February,  
13 2019."

14 Q So, it would be two months prior to the  
15 effective date of the next step?

16 A (Chong) Correct. And I think that timing gives  
17 the Company enough time to evaluate its 2018  
18 spending after the year closes, and to assess  
19 the level of earnings for the Company. So, it  
20 probably would be an adequate amount of time  
21 for the Company.

22 Q What factors will go into your judgment in  
23 determining whether or not to exercise that  
24 option?

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 A (Chong) Primarily, it would be multifold. But  
2 I think there would be a lot of emphasis on the  
3 Company's actual realized return on equity for  
4 the year, and then we would also look forward.  
5 The Company does believe it experiences quite a  
6 bit of earnings attrition annually from  
7 depreciation, property taxes, which follow our  
8 rate base growth, which is, I haven't done it  
9 for New Hampshire, but I know, on a  
10 consolidated basis, our gas rate base growth is  
11 close to 10 percent annually. Depreciation,  
12 property taxes will follow that trend. O&M, we  
13 have inflationary pressures every year.

14 And then, on the other hand, our revenue  
15 growth is on the order of more like a two to  
16 three percent weather-normalized, so that the  
17 revenue growth just can't keep up with the  
18 earnings attrition.

19 So, we would definitely look forward to  
20 that, and we would kind of balance our current  
21 earnings level versus our kind of forecast of  
22 earnings attrition and see if we could maintain  
23 a stay-out.

24 Q Would you put a percentage on the probability

{DG 17-070} {04-12-18}

[WITNESS PANEL: Chong|Chattopadhyay|Frink]

1 of exercising that option? Will we see you  
2 again in a year or two?

3 A (Chong) I really couldn't.

4 Q Okay. You said one thing that piqued my  
5 curiosity. I thought I heard the suggestion  
6 that you saved significant amounts of money by  
7 utilizing inside counsel, as opposed to outside  
8 counsel. Do you have an order of magnitude of  
9 that?

10 A (Chong) I think easily over \$100,000.

11 CMSR. GIAIMO: Sounds good. Those  
12 are all the questions I got. Thank you.

13 CHAIRMAN HONIGBERG: The questions I  
14 had have been answered.

15 Mr. Epler, Mr. Kreis, Mr. Dexter, do  
16 you have any further questions for the panel?

17 MR. KREIS: None.

18 MR. DEXTER: Staff has none.

19 CHAIRMAN HONIGBERG: All right.  
20 Seeing none, we'll begin the wrap-up process.  
21 I think you gentlemen can probably stay where  
22 you are.

23 Without objection, we'll strike ID on  
24 Exhibits 3 through 9. Mr. Epler, was 9 used at

{DG 17-070} {04-12-18}

1 all?

2 MR. EPLER: I don't think it was. I  
3 think, initially, we had intended just to have  
4 something in front of you, so that you could  
5 follow along the calculations. But I think,  
6 when Mr. Chong referenced Bates 018 and 020, I  
7 think that provided basically the numbers that  
8 were here. So, we really did not reference it.

9 CHAIRMAN HONIGBERG: All right --  
10 then we'll strike ID on Exhibits 3 through 8.

11 Is there anything else we need to do  
12 before the Parties sum up?

13 *[No verbal response.]*

14 CHAIRMAN HONIGBERG: All right. Mr.  
15 Kreis, why don't you start us off.

16 MR. KREIS: Thank you, Mr. Chairman.  
17 On behalf of residential utility customers, the  
18 Office of the Consumer Advocate would like to  
19 thank Unitil, as well as the Staff of the  
20 Commission, for a deliberate, thorough, and  
21 very conciliatory and cooperative process that  
22 led to this Settlement Agreement.

23 We are pleased that it reflects the  
24 effects of the recent tax reform in a very

1 efficient way.

2 And we think that overall the results  
3 that are proposed to the Commission reflect  
4 just and reasonable rates that the Commission  
5 should approve, and we recommend that you do  
6 that as expeditiously as possible.

7 CHAIRMAN HONIGBERG: Thank you, Mr.  
8 Kreis. Mr. Dexter.

9 MR. DEXTER: Thank you, Mr. Chairman.  
10 Similarly, the Staff appreciates the efforts  
11 put forth by the Office of the Consumer  
12 Advocate and the Company over the course of the  
13 last year where we investigated this proposal.

14 Based on the testimony of the  
15 witnesses today, and in particular the  
16 testimony of Mr. Frink, that the resulting  
17 rates are just and reasonable, Staff recommends  
18 that the Commission adopt the Settlement as  
19 presented.

20 CHAIRMAN HONIGBERG: Thank you, Mr.  
21 Dexter. Mr. Epler.

22 MR. EPLER: Yes. And to round out  
23 the kumbaya atmosphere, this --

24 CHAIRMAN HONIGBERG: Well, since the

1 testimony under oath is that you're underpaid,  
2 I think you might want to -- you don't want to  
3 make a beef dinner out of this.

4 MR. EPLER: This was, from the  
5 Company perspective, a very straightforward  
6 docket and proceeding. We appreciate the  
7 diligence of the Parties. And we feel this is  
8 kind of how a rate case should proceed. It  
9 really went pretty smoothly. So, we appreciate  
10 the efforts of all, and think that the result  
11 is reasonable and recommend its approval.

12 Thank you very much.

13 CHAIRMAN HONIGBERG: Thank you,  
14 Mr. Epler. We will close the record, take the  
15 matter under advisement, issue an order as  
16 quickly as we can. Thank you all.

17 ***(Whereupon the hearing was***  
18 ***adjourned at 10:08 a.m.)***