BEFORE THE
STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 21-030

IN THE MATTER OF: UNITIL ENERGY SYSTEMS, INC.

REQUEST FOR CHANGE IN RATES

DIRECT TESTIMONY

OF

DONNA H. MULLINAX
CONSULTANT TO NEW HAMPSHIRE DEPARTMENT OF ENERGY

November 23, 2021

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Introduction and Summary

Q. Please state your full name.

A. My name is Donna H. Mullinax.

Q. By whom are you employed and what is your business address?

A. I am employed by Blue Ridge Consulting Services, Inc. ("Blue Ridge"). My business address is 114 Knightsridge Road, Travelers Rest, SC 29690.

Q. Please summarize your education and professional work experience.

A. I graduated with honors from Clemson University with a Bachelor of Science in Administrative Management and a Master of Science in Management. I am a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), a Certified Financial Planner (CFP)–Retired, and a Chartered Global Management Account (CGMA) designation holder. I am a member of the South Carolina Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

I have over 41 years of professional experience and have been a utility industry consultant for the last 25 years. My consulting assignments include numerous rate cases filed by public utilities and litigation support for various construction claims. Other project experience includes management, financial, and compliance audits; due diligence reviews; prudence reviews; and economic viability and financial studies. I have worked with public service commissions, attorneys general, and public advocates in Arizona, Colorado, Connecticut, Delaware, District of Columbia, Hawaii, Kentucky, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nebraska, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, and Utah.

Q. Have you included a more detailed description of your qualifications?

A. Yes. A description of my qualifications is included as Attachment DHM-1.

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

A. Yes. I have testified before this Commission in Docket Nos. DE 16-383, DE 16-384, DG 17-048, DE-19-057, DE-19-064, and DG-20-105. In addition, Blue Ridge has provided analysis and reported on our findings in Docket Nos. DG 17-070, DW 18-047, DW 18-054, and DW 18-056.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the New Hampshire Department of Energy ("DOE").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to address the revenue requirements and revenue deficiency proposed by Unitil Energy Systems, Inc. (UES or "Company") and to present the impact of DOE's recommended ratemaking adjustments on the Company's revenue deficiency.

Q. What revenue increase does DOE recommend?

A. DOE recommends a base rate increase of no more than $1,128,478. The following table shows the Company's revenue requirement request and DOE's recommendation.

Table 1: DOE's Recommended Revenue Requirement

Company's Revenue Deficiency	$ 11,992,392
Recommended Adjustment	(10,863,914)
Recommended Revenue Deficiency	$ 1,128,478

The following table summarize DOE's recommended adjustments to revenue requirements.

Table 2: Summary of DOE's Recommended Adjustments and the Effect on Rate Base, Net Operating Income, and Revenue Deficiency (Sufficiency)

Recommended Rate of Return	6.69%
Recommended Return on Equity	8.75%
Revenue Conversion Factor	1.37142

		Rate Base	Operating Income	Revenue Deficiency
	Company's Request	$ 226,030,082	$ 9,066,678	$ 11,992,392
Adjustment 1	Excluded Utility Plant in Service	$ (12,499,326)	$ 515,266	$ (1,853,437)
Adjustment 2	Average Material and Supplies (M&S)	(34,007)	-	(3,120)
Adjustment 3	Adjust Cash Working Capital for Expense Adjustments	(187,981)	-	(17,247)
Adjustment 4	Remove Prepayments Included in Cash Working Capital	(3,057,477)	-	(280,518)
Adjustment 5	Remove EADIT Offset from Major Storm Cost Reserve (MSCR) Balance	(1,928,356)	-	(176,923)
Adjustment 6	Audit Recommendations	-	71,666	(98,284)
Adjustment 7	Eliminate Inflation Allowance for Other O&M Expenses	-	93,602	(128,368)
Adjustment 8	Add Known and Measurable Lease Payments in Inflation Adjustment	-	(17,527)	24,037
Adjustment 9	Eliminate 2022 Wage Increase	-	259,766	(356,249)
Adjustment 10	Normalize UES Union Overtime	-	232,635	(319,041)
Adjustment 11	Eliminate Increase to 401(k) Associated with 2022 Wage Increase	-	15,570	(21,353)
Adjustment 12	Eliminate 2022 Increase in Medical and Dental Insurance	-	59,065	(81,003)
Adjustment 13	Eliminate Restricted Stock Plan and EPS Component of Incentive Compensation	(314,639)	532,499	(759,148)
Adjustment 14	Eliminate SERP and Company Contribution to Non-Qualified Deferred Comp	(227,496)	397,962	(566,646)
Adjustment 15	Eliminate 2022 Increase to Insurance Premiums		5,190	(7,118)
Adjustment 16	Sharing of Directors and Officers Liability Insurance	(24,383)	11,215	(17,617)
Adjustment 17	Exclude BetterInvesting Dues		594	(815)
Adjustment 18	Convert to Whole Life Depreciation Methodology		(40,072)	54,956
Adjustment 19	Amortization of Theoretical Depreciation Reserve Imbalance		1,116,027	(1,530,545)
Adjustment 20	Remove Post-Test-Year Project Amortization		44,676	(61,270)
Adjustment 21	True-Up Payroll Taxes and Remove Payroll Tax Above SS Limit		54,971	(75,388)
Adjustment 22	Reverse Removal of 3rd Party Reimbursement for Vegetation Management		721,513	(989,499)
Adjustment 23	AMP Coordinator Cost Sharing		13,768	(18,882)
Adjustment 24	Addition of Storm Related Communications (Calypso/Matter Communications) Costs		(13,337)	18,291
Adjustment 25	Remove Incremental Wheeling Revenue		(34,808)	47,736
Adjustment 26	Update Distribution Bad Debt for Revenue Change		50,370	(69,079)
Adjustment 27	Interest Synchronization		(81,238)	111,412
	Impact of Recommended Weighted Average Cost of Capital			(3,688,794)
	Recommended Adjustments	$ (18,273,665)	$ 4,009,374	$ (10,863,914)
	Recommended Totals	$ 207,756,417	$ 13,076,052	$ 1,128,478

Q. Are you presenting any exhibits in connection with your direct testimony in this proceeding?

A. Yes. Besides my qualifications already mentioned as Attachment DHM-1, Attachment DHM-2 includes DOE's revenue requirement schedules, and Attachments DHM-3 through DHM-38 are copies of selected documents I refer to in my testimony.

Q. How are DOE's revenue requirement schedules organized?

A. DOE's revenue requirement schedules, included in Attachment DHM-2, are organized into summary schedules and adjustment schedules. The schedules consist of Schedules 1, 1.1, 1.2, 2, 2.1, 3, and 3.1 through 3.27, 4, and 5.

Q. What is shown on Schedule 1?

A. Schedule 1 is a summary comparison of the Company's and DOE's computations of the revenue requirement and the revenue deficiency. The schedule summarizes the impact of all DOE's recommendation adjustments and reflects the revenue requirement needed for the Company to have the opportunity to earn DOE's recommended rate of return on DOE's proposed rate base.

Q. What is shown on Schedule 1.1?

A. Schedule 1.1 provides additional detail by major rate base and operating income categories and shows how DOE applied its recommended adjustments to the Company's filings to obtain DOE's recommended revenue requirement and revenue deficiency.

Q. What is shown on Schedule 1.2?

A. Schedule 1.2 presents the calculation of the revenue conversion factor. The revenue conversion factor grosses up the Income Deficiency amount to account for the necessary income tax increase to realize the total Revenue Deficiency amount. The conversion reflects that the Company must collect more than one dollar in gross revenue for each dollar of net operating income because of the imposition of taxes on those earnings.

Q. What is shown on Schedules 2 and 2.1?

A. Schedule 2 summarizes the capital structure and cost of capital proposed by the Company and the capital structure and cost of capital recommended by DOE witness J. Randall Woolridge. Schedule 2.1 isolates the impact on the revenue deficiency for the difference between the Company's proposed capital structure and cost of capital and those recommended by DOE.

Q. What is shown on Schedule 3 and Schedules 3.1 through 3.27?

A. Schedule 3 summarizes DOE's adjustments to rate base and operating income (i.e., revenues less expenses). Schedules 3.1 through 3.27 provide further support and calculations for DOE's recommended adjustments.

Q. What is shown on Schedule 4?

A. Schedule 4 provides DOEs recommended HB700 Property Taxes base to use in the annual reconciliation.

Q. What is shown on Schedule 5?

A. Schedule 5 provides DOE's recommended Step Increase revenue requirement calculation.

Revenue Requirements

UES Requested Revenue Increase

Q. What revenue increase did the Company request?

A. In its application, the Company requested an increase in annual operating revenues of $11,992,392. To provide coverage for its deficiency during the application review period, the Company also requested a temporary increase in distribution rates of $5,812,761. The Commission approved a temporary increase of $4,451,667.[1]

Q. Has the Company filed an update to its initial revenue request?

A. No. The Company stated that it intends to file an update that will include various corrections and estimate revisions. It provided a preliminary list of anticipated corrections and revisions,[2] but the list included a number of estimates that will not be updated until January 2022. Thus DOE has used the Company's revenue requirements in its initial Application as the starting point for adjustment. DOE plans to recalculate its proposed revenue requirement after the Company files is updates and corrections.

Establishment of Current Distribution Revenue Requirement

Q. When was the Company's current distribution revenue requirement established?

[1] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 5 (Bates 000075), page 43 (Bates 000113), Commission Order No. 24,484 (May 27, 2021), page 1.
[2] UES response to Energy 6-8 (Attachment DHM-3).

A. The Commission established UES's current rates in Order No. 26,007 (April 20, 2017), based on a test year ending December 31, 2015, with rates effective on May 1, 2017. The current rates were the result of a settlement, stipulating an increase in distribution revenues of $4,109,022, as compared with the Company's initial deficiency claim of $6.3 million in distribution revenue. The rate change represented an increase of 3.6 percent of total revenues. The Company followed the rate change with three additional step adjustments that were implemented on May 1, 2017, May 1, 2018, and May 1, 2019.[3]

Comparison of Rate Request to Prior Cases

Q. What distribution rate increases did the Company request in prior cases, and what was approved by the Commission?

A. The following table summarizes the Company's request and what was approved by the Commission in the previous three distribution rate cases.[4] I also show the Company's request in this proceeding for comparison.

Table 3: Comparison of Prior Base Rate Increases to Current Proceeding Request

	DE 05-178	DE 10-055	DE 16-384	Application DE 21-030
Application	$ 4,652,406	$ 10,115,716	$ 6,255,276	$ 11,992,392
Approved	2,266,966	6,611,437	4,109,022	
% of Request	48.7%	65.4%	65.7%	
Step 1		2,328,228	900,194	2,754,244
Step 2		1,469,304	3,302,989	3,581,822
Step 3		2,843,351	341,808	3,262,364
Step 4		1,537,205		

[3] DE 16-384, Order No. 26,007 (April 20, 2017), pages 7–8.
[4] UES response to DOE 4-40 (Attachment DHM-4).

<u>Test Year</u>

Q. What test year did the Company use in this case?

A. The Company based its request for a revenue increase on a historical test year of the 12 months ended December 31, 2020. The Company stated that the calendar year 2020 data is readily verifiable using the most recent annual reports submitted by UES.[5] DOE's calculations use the same historical test year.

Q. Did the Company adjust its historical test year revenues and expenses?

A. Yes, the Company stated that it adjusted test year cost of service based upon known and measurable changes to revenues and expenses or upon changes that will become known and measurable during the course of the proceeding.[6]

Q. Did DOE audit the Company's historical test year results?

A. Yes. The Audit Staff of the Division of Enforcement, NH Department of Energy, issued its audit report on November 12, 2021. The audit recommendations that affect revenue requirements are reflected within DOE's recommended revenue requirements.

Q. Has the Company included adjustments that are beyond one year past the end of the test year?

A. Yes. The Company stated that it "has limited all pro forma adjustments to those that *will be* known and measurable through April 1, 2022, which is the date permanent rates are expected

[5] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 6 (Bates 000076).
[6] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 6 (Bates 000076).

to go into effect for this proceeding" [emphasis added].[7] A review of the Company's ratemaking adjustments show numerous adjustments for 2022 that are beyond twelve months past the end of the test year, and the Company bases many of those adjustments on forecasts or estimates that it presumes "will be" known and measurable at a later date.

Q. Does DOE agree that it is appropriate to include adjustments that are beyond twelve months past the end of the test year?

A. No. While I will discuss specific adjustments later, in general, DOE has limited adjustments to those that *are* known and measurable and within one year past the end of the test year.

Q. Please explain DOE's position on adjustments that are beyond twelve months past the end of the test year.

A. DOE supports the Commission's long-standing practice to compute required revenue by using a traditional historical-test-year methodology with pro rata modifications to operation and maintenance expenses for known and measurable changes in the twelve months following the test year. It has not been the Commission's practice to make extensive adjustments to operating results beyond twelve months after the end of the test year. Such extensive adjustments would diminish the significance of the historical-test-year approach, which has been used for decades.

[7] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 6 (Bates 000076).

<u>Adjustments to Rate Base</u>

Q. What rate base had the Company proposed?

A. The Company requested a rate base of $226,030,082.[8]

Q. Is DOE proposing any adjustments to the Company's proposed rate base?

A. Yes. DOE proposes the adjustments to these rate base items:

- Excluded Utility Plant-in-Service
- Average Materials and Supplies (M&S)
- Adjust Cash Working Capital for Expense Adjustments
- Remove Prepayments Included in Cash Working Capital
- Remove EADIT Offset from Major Storm Cost Reserve (MSCR) Balance
- Adjustments to Net Operating Income that Also Affect Rate Base

Excluded Utility Plant-in-Service

Q. Please explain how the Company calculated its proposed Utility Plant in Service.

A. The Company's proposed Utility Plant in Service that is based on year-end balances with two adjustments: (1) addition of $577,144 for work closed to plant after the end of the test year for the Exeter Distribution Operating Center (DOC) and (2) a reduction of $988,214 for the DOC in Kensington, New Hampshire, that is unoccupied and being prepared for sale.[9]

Q. Please explain DOE's recommended adjustment to Plant in Service.

A. DOE does not support including post-test-year plant additions in rate base and recommends removing $577,144 for work closed to plant after the end of the test year for the Exeter Distribution Operating Center. If this plant is deemed prudent, DOE would support including

[8] Filing Requirements Schedules, page 1 of 12 (Bates 000136).
[9] Direct Testimony of John F. Closson, page 14, lines 11–13 (Bates 000282).

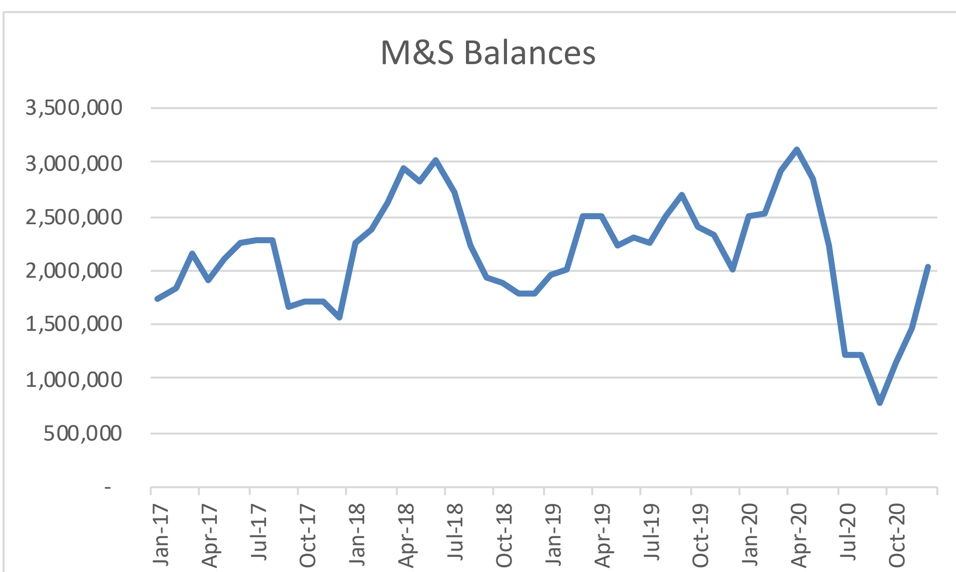
this post-test-year plant in a Step Adjustment. However, as discussed in the testimony of Jay Dudley, costs associated with the Exeter DOC, as well as several other plant additions, are recommended for disallowance. Thus, DOE removed the post-test-year Exeter DOC additions. As shown on Schedule 3.1, DOE's recommended adjustment to Utility Plant in Service and the associated adjustment to the accumulated depreciation *reduce* Rate Base by $12,499,326. The adjustments to Plant in Service also *reduce* depreciation expense by $383,886 and property taxes by $322,762, which *increases* Net Operating Income by $515,266.

Average Materials and Supplies (M&S)

Q. Please explain DOE's adjustment: Average Materials and Supplies (M&S).

A. M&S included in Rate Base is valued based upon the year-end balance. M&S inventories are volatile as shown in the following chart.

Figure 1: M&S Balances 2017–2020



Due to the volatility, DOE recommends that Rate Base reflect a five-quarter average for M&S. As shown on Schedule 3.2, DOE's recommended adjustment to M&S *reduces* Rate Base by $34,007.

Adjust Cash Working Capital for Expense Adjustments

Q. Please explain DOE's recommended Cash Working Capital adjustment.

A. The Company's Cash Working Capital was developed through the preparation of a lead-lag study. The lead-lag is applied to each component of the cost of service to quantify the cash working capital requirement associated with that cost-of-service item. The Cash Working Capital balance must be updated to reflect DOE's recommended adjustments that are discussed within this testimony. As shown on Schedule 3.3, DOE's recommended adjustment to Cash Working Capital *reduces* jurisdictional Rate Base by $187,981.

Q. Does DOE agree with the Company's calculated lead-lag factor?

A. The Company calculated a lead-lag factor of 32.17 days.[10] DOE agrees with this lead-lag factor for distribution rates. Further, in his testimony, Stephen Eckberg recommends that Unitil use this Lead/Lag methodology to develop a factor specific to transmission costs, which DOE believes should be used to calculate Unitil's working capital requirement on transmission costs in Unitil's next EDC docket.

[10] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 32 (Bates 000102). In DE 16-384, the lead-lag factor was 27 days (Direct Testimony of David L. Chong, page 18 (Bates 000097).

Remove Prepayments Included in Cash Working Capital

Q. Please explain DOE's adjustment: Remove Prepayments Included in Cash Working Capital.

The Company included prepayments in rate base contrary to Order No. 26,122 (April 27, 2018), which stated "The Commission finds that the detailed lead/lag study captures all the working capital requirements related to property taxes and other prepaid expenses. To also include prepayments in rate base would be allowing for a double recovery of the working capital related to those items. Consequently, prepayments may not be included in rate base."[11] The Company stated that it intends to reflect the revised prepayments and associated deferred income taxes when the Company files its updated revenue requirements schedules during the course of the proceeding.[12] DOE's adjustment removes the prepayments and associated deferred income taxes. As shown on Schedule 3.4, DOE's recommended adjustment *reduces* rate base by $3,057,477.

Remove EADIT Offset from Major Storm Cost Reserve Balance (MSCR)

Q. Please explain DOE's adjustment: Remove EADIT Offset from MSCR.

Excess Accumulated Deferred Income Taxes (EADIT) represents a liability for amounts collected from ratepayers for taxes that are no longer owed to the government. Normally, utilities should return the EADIT to customers. Instead of refunding the EADIT, the Company proposes to use the 2018–2020 EADIT of $2,644,590 to reduce the year-end 2020 MSCR under-recovered balance.[13] Implementing the Company's proposal would increase

[11] Docket No. DG 17-048, Order 26,122 (April 27, 2018), page 19.
[12] UES response DOE 4-37 (Attachment DHM-5).
[13] Direct Testimony of John F. Closson and Joseph F. Conneely, page 35 (Bates 000105).

rate base by eliminating the liability immediately instead of when the Company returns the funds to ratepayers. The Company would earn a return on this increased rate base. In addition, the Company's proposal combines two unrelated items, storm costs and EADIT, and lacks transparency. DOE recommends rejecting the use the EADIT funds as an offset to the MSCR. UES should return these funds to ratepayers through the EDC over one year. As shown on Schedule 3.5, DOE's recommended adjustment *reduces* rate base by $1,928,356.

Adjustments to Net Operating Income that Also Affect Rate Base

Q. What adjustments to Net Operating Income also have an effect on Rate Base?

A. The following Net Operating Adjustments affect Rate Base. I present the rate base impact in the discussion of these adjustments later in my testimony.

- Eliminate Restricted Stock Plan and EPS Component of Incentive Compensation (Schedule 3.13—*reduces* Rate Base by $314,639)
- Eliminate SERP and Company Contribution to Non-Qualified Deferred Comp (Schedule 3.14—*reduces* Rate Base by $227,496)
- Sharing of Directors and Officers Liability Insurance (Schedule 3.16—*reduces* Rate Base by $24,383)

Q. What is the impact of DOE's recommended adjustments to the Company's requested rate base?

A. The Company's requested rate base is $226,030,085. DOE's recommended adjustments *reduce* the rate base to $207,756,417.

<u>Adjustments to Net Operating Income</u>

Q. What net operating income has the Company proposed?

A. The Company's net operating income at current rates is $9,066,678.[14]

Q. Is DOE proposing any adjustments to the Company's proposed net operating income?

A. Yes. DOE recommends adjustments to these expense components:

- Audit Recommendations
- Eliminate Inflation Allowance for Other O&M Expenses
- Add Known and Measurement Lease Payments in Inflation Adjustment
- Eliminate 2022 Wage Increase
- Normalize UES Union Overtime
- Eliminate Increase to 401(k) Associated with 2022 Wage Increase
- Eliminate 2022 Increase in Medical and Dental Insurance
- Eliminate Restricted Stock Plan and EPS Component of Incentive Compensation
- Eliminate SERP and Company Contribution to Non-Qualified Deferred Compensation
- Eliminate 2022 Increase to Insurance Premiums
- Sharing of Directors and Officers Liability Insurance
- Exclude BetterInvesting Dues
- Convert to Whole Life Depreciation Methodology
- Amortization of Theoretical Depreciation Reserve Imbalance
- Remove Post-Test-Year Project Amortization
- True Up Payroll Taxes and Remove Payroll Tax above Social Security Wage Limit
- Reverse Removal of Third Party Reimbursement for Vegetation Management
- AMP Coordinator Cost Sharing
- Addition of Storm Related Communications (Calypso/Matter Communications) Costs
- Remove Incremental Wheeling Revenue
- Update Distribution Bad Debt for Revenue Change
- Interest Synchronization

[14] UES Schedule RevReq-1 (Bates 000151).

Audit Recommendations

Q. Please explain DOE's recommended adjustments from the Audit.

A. DOE's audit included eight audit issues.[15] The following table summarizes the audit recommendations and how they are reflected in DOE's recommended revenue requirement.

Table 4: Audit Recommendation and Revenue Requirement Effect

Issue	Description	Revenue Requirement Effect
1	SERP expense should be borne by shareholders	Adjustment reflected in Energy Adjustment 14
2	Vehicle Clearing Account Operating Leases WP 5.6 has incorrect capitalization rate of 49.32%. Correct rate is 64.24%. UES agrees with the recommendation.	Correction affects test year and proforma amounts on UES Schedules 3-6 (Prop & Liab Insurance), 3-15 (Inflation), and 3-21 (Fed & State Income Taxes). See Energy Adjustment 6. Inflation has been removed in full in Energy Adjustment 7.
3	Exeter DOC-reduce rate base by $577,144 for post test year additions	Adjustment reflected in Energy Adjustment 1
4	Exeter DOC work was not put out for bid. Project was sole sourced. Need formal policy.	Unknown
5	Exeter DOC capitalized art work $38,083, revised to $34,973, should be borne by shareholders	Adjustment reflected in Energy Adjustment 1
6	Prepaid Revolver overstated	No affect on revenue requirements
7	CWIP included $1,459 for Catering Costs related to Tropical Storm Isaias. UES clarified that costs were recorded as expenses to the Major Storm Cost Reserve and were not capitalized	No affect on revenue requirements
8	O&M Expenses. Audit identified 13 issues: 4 expenses outside of the test year; 2 expenses that are non-recurring, 1 expense that should have been booked as a prepaid; 2 expenses that had allocation issues, and 4 expenses that should have been booked below-the-line. After reviewing UES's explanation, Audit removed four adjustments. UES agrees with six adjustments and disagrees with the remaining three adjustments.	Audits final recommendation for these items is reflect in Energy Adjustment 6.

I included the audit issues not reflected in other DOE recommendations on Schedule 3.6. DOE's recommended adjustment *increases* net operating expenses by $71,666.

[15] DE 21-030 Final Audit Report (November 12, 2021), Audit Issues #1–8 (pages 122–137) (Attachment DHM-6).

Eliminate Inflation Allowance for Other O&M Expenses

Q. Please explain DOE's recommended adjustment: Eliminate Inflation Allowance for Other O&M Expenses.

A. UES proposes an inflation adjustment to Other O&M Expenses. To determine Other O&M Expenses, test year expenses were reduced by (1) expenses that have been adjusted separately and (2) expenses that are not subject to general inflation. The Company applied a 3.36% projected inflation rate to Other O&M Expenses of $3.8 million, which results in an *increase* to net operating income of $93,602. As shown on Schedule 3.7, DOE's recommended adjustment removes the inflation adjustment since it is not known and measurable.

Q. Please explain why an inflation adjustment is not appropriate.

A. First, the Company used a historical test year with what it claims are "known and measurable" changes. By using an estimated inflation adjustment for "Other O&M Expenses," along with the other adjustments for 2022, the Company has, in essence created a future test year. This process goes against traditional "known and measurable" ratemaking practices. These estimated inflationary adjustments are not known and measurable. Second, applying a common inflation factor to all "residual O&M expenses" ignores other factors that can affect these residual costs. For example, fuel prices vary significantly by supply and demand. Legal costs are influenced by the actual legal issues that arise, not simple inflationary factors. Finally, arbitrarily applying an estimated inflation factor to other O&M expenses removes the important responsibility of management to control costs.

Q. Has the Company requested an inflation adjustment in the past?

A. Yes. The Company proposed an inflation adjustment in the last three distribution rate proceedings: Docket Nos. DE 05-178, DE 10-055, DE 16-384. Commission Staff recommended disallowing the inflation adjustment in each of those proceedings. The adjustment remains inappropriate in this proceeding.

Q. What does DOE recommend?

A. DOE recommends that all estimated or forecasted adjustments that are 12 months or more beyond the test year (in this case pro forma adjustments effective in 2022) be excluded and that the Company follow traditional "known and measurable" ratemaking practices.

Add Known and Measurable 2021 Lease Payments in Inflation Adjustment

Q. Please explain DOE's adjustment: Add Known and Measurable 2021 Lease Payments in Inflation Adjustment.

A. The Company stated the 2021 incremental increases in operating leases were not included as a separate known and measurable adjustment but were instead included in the inflation adjustment. DOE recommends removing the inflation adjustment but recognizes that the incremental lease payments are known and measurable in 2021 and should be included. As shown on Schedule 3.8, DOE's recommended adjustment *reduces* net operating expenses by $17,527.

Eliminate 2022 Wage Increase

Q. Please explain DOE's recommended adjustment: Eliminate 2022 Wage Increase.

A. The Company has proposed a wage and salary increase for 2022, which is more than twelve months past the end of the test year. The Company has included a UES Non-union increase of 3.65 percent effective January 1, 2022, Union increase of 3.0 percent effective June 1, 2022, and Unitil Service Corporation (USC) increase of 4.40 percent effective January 1, 2022.[16] In addition, the 2022 Non-union and Service Company salary increase has not been approved.[17] DOE's adjustment removes this increase because it is too far beyond the end of the test year and is not known and measurable. The Company is attempting to create an estimated future test year, and its request should be denied. As shown on Schedule 3.9, DOE's recommended adjustment *increases* net operating income by $259,766.

Normalize UES Union Overtime

Q. Please explain DOE's adjustment: Normalize UES Union Overtime.

A. DOE requested the Company provide wages and salaries by category for the last four years. The information provided showed a significant increase in UES Union wages and salaries in the test year.

[16] UES Schedule RevReq-3-2, footnote (3).
[17] UES response to DOE 5-7 (Attachment DHM-7).

Table 5: Wages and Salaries 2017–2020

	2017	2018	2019	2020
Exempt Non-Union	$1,388,823	$1,441,909	$1,428,038	$1,457,783
Non-Exempt Non-Union	$295,439	$238,352	$236,433	$245,489
Union	$4,251,962	$4,255,963	$4,092,274	$4,727,266
Service Company	$32,915,549	$39,766,837	$36,802,965	$36,147,019
Total	$38,851,772	$45,703,061	$42,559,710	$42,577,557
% Change from Prior Year				
Exempt Non-Union		3.8%	-1.0%	2.1%
Non-Exempt Non-Union		-19.3%	-0.8%	3.8%
Union		0.1%	-3.8%	15.5%
Service Company		20.8%	-7.5%	-1.8%

Source: Energy TS 1-9 Attachment 2

DOE followed up on the 15.5% increase in UES Union wages and salaries from 2019 to the test year 2020. The Company stated that the primary driver of the 15.5% increase, or 12.4%, was related to overtime from 2020. The straight-time earnings total was an increase of 3.1%. The Company provided the UES Union overtime for the last four years.[18] The following table shows a $521,954 or 55.9% increase from 2019 to the test year 2020.

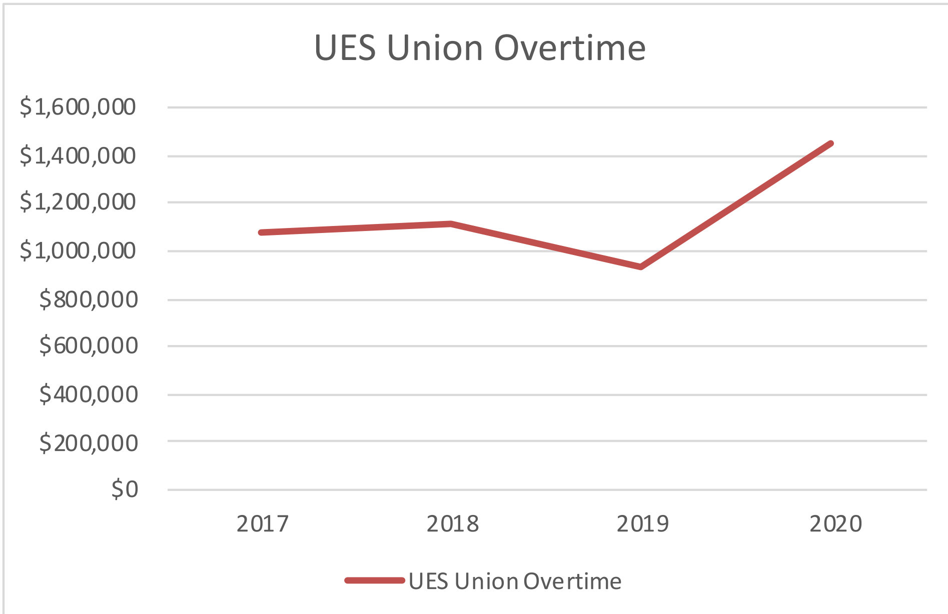
Table 6: UES Union Overtime 2017–2020

	2017	2018	2019	2020
UES Union Overtime	$1,078,814	$1,114,630	$933,288	$1,455,242
$ Change Year to Year		$35,816	($181,342)	$521,954
% Change		3.3%	-16.3%	55.9%
Average 2017–2020				$1,145,493

The UES Union overtime for 2017 through 2020 is also provided in the following chart.

[18] UES response to Energy TS 1-9 (Attachment DHM-8).

Figure 2: UES Union Overtime 2017–2020



Q. What was the Company's explanation for the increase in UES Union overtime in the test year 2020?

A. The Company stated that a large portion of the overtime pay relates to UES crews helping other utilities' restoration efforts after weather events and that this mutual assistance overtime cost is not charged to ratepayers as the Company receives reimbursement for this work from the host utility.[19]

Q. What does DOE recommend regarding UES Union Overtime?

A. Regardless of whether the Company received reimbursement for mutual aid in the test year, the Company rate request includes significant UES Union Overtime in the test year. The Company has not provided justification for why this increase in overtime would be expected going forward nor reflected any estimated reimbursement for mutual aid to offset the

[19] UES response to Energy TS 1-9 (Attachment DHM-8).

increase. DOE recommends that UES Union Overtime be normalized based on an average of 2017 through 2020 as follows:

Table 7: Normalized UES Union Overtime

Average of UES Union Overtime		
UES Union Overtime-2017	$	1,078,814
UES Union Overtime-2018		1,114,630
UES Union Overtime-2019		933,288
UES Union Overtime-2020		1,455,242
Average UES Union Overtime 2017–2020	$	1,145,493
Normalizing Adjustment		(309,749)

Normalizing UES Union Overtime results in a reduction to payroll of $309,749. In addition, the 3.0% increase that was applied to the overtime should also be adjusted.[20] Payroll is reduced by an additional $9,292. As shown on Schedule 3.10, DOE's recommended adjustment *increases* net operating income by $232,635.

Eliminate Increase to 401(k) Associated with 2022 Wage Increase

Q. Please explain DOE's recommended adjustment: Eliminate Increase to 401(k) Associated with 2022 Wage Increase.

A. The Company's proposal to increase 2022 wages results in an increase in its 401(k) program. Consistent with DOE's adjustment to eliminate the 2022 wage increase, the increase to the 401(k) should also be removed. As shown on Schedule 3.11, DOE's recommended adjustment *increases* net operating income by $15,570.

[20] The 2022 increase was removed in Adjustment #7 Eliminate 2022 Wage Increase.

Eliminate 2022 Increase in Medical and Dental Insurance

Q. Please explain DOE's recommended adjustment: Eliminate 2022 Increase in Medical and Dental Insurance.

A. The Company included estimates for 2022 increases to medical and dental insurance. These costs are not known and measurable and will occur beyond one year past the end of the test year. DOE's adjustment replaces these 2022 unknown and unmeasured estimates with the 2021 premium costs provided by the Company to limit the increase to within one year past the end of the test period. As shown on Schedule 3.12, DOE's recommended adjustment *increases* net operating income by $59,065.

Eliminate Restricted Stock Plan Awards and EPS Component of Incentive Compensation

Q. Please explain DOE's recommended adjustment: Eliminate Restricted Stock Plan Awards and EPS Component of Incentive Compensation.

A. The Company's rate request reflects costs from three incentive compensation plans:

- Unitil Corporation 2003 Stock Plan
- Unitil Corporation Management Incentive Compensation Plan
- Unitil Corporation Incentive Compensation Plan

The Stock Plan awards Shares and Restricted Stock Units to key management employees based exclusively on accomplishing shareholder-focused goals. The Company's two other incentive compensation plans (Unitil Corporation Management Incentive Plan and Unitil Corporation Incentive Compensation Plan) reward employees based on a corporate scorecard that has a significant focus on shareholder-related goals. DOE's adjustment removes the awards under the Stock Plan and the portion of Incentive Compensation that is related to shareholder goals.

Q. Please elaborate on DOE's adjustment regarding the Unitil Corporation 2003 Stock Plan.

A. The Company has a Stock Plan that awards grants of Shares and Restricted Stock Units to key management employees. The objectives of the plan is "to optimize the profitability and growth of the Company through incentives that are consistent with the Company's goals and which *link the personal interests of Participants to those of the Company's shareholders…* [emphasis added]."[21] The Plan document states that the performance measures for awards "shall be chosen from among earnings per share, economic value added, market share (actual or targeted growth), net income (before or after taxes), operating income, return on assets (actual or targeted growth), return on capital (actual or targeted growth), return on investment (actual or targeted growth), revenue (actual or targeted growth), share price, stock price growth, total shareholder return, or other performance measures as are duly approved by the Committee and the Company's shareholders."[22] All these goals benefit the Company's shareholders. Since the Company focuses the awards on goals of shareholder interest, DOE's adjustment transfers the responsibility for funding the plan to the shareholders where it belongs.

Q. Who participates in the Stock Plan?

A. The Compensation Committee of the Company's Board of Directors selects key management employees of the Corporation to participate in the Stock Plan.[23]

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[21] PUC 1604.01(a)-15 Attachment 2 (Bates 000115).
[22] PUC 1604.01(a)-15 Attachment 2 (Bates 000123)).
[23] UES response to DOE 5-10 (Attachment DHM-9).

Q. How much has the Company expensed related to the Restricted Stock Plan in the test year?

A. During the test year, the Company expensed $2.2 million related to the Restricted Stock Plan. Through the USC billing process, $615,594 was allocated to UES, with $434,486 reflected as O&M expenses and $181,108 allocated as UES capital charges.[24] The Company stated that these costs were not adjusted for annual payroll increases.

Q. What is DOE's recommendation regarding the Restricted Stock Plan?

A. DOE's adjustment appropriately removes the Restricted Stock awards allocated to UES for both expenses ($434,486) and rate base ($181,108) from the test year, effectively transferring the cost of these awards to shareholders who receive the benefit from achievement of the goals of the plan.

Q. Please explain DOE's recommendation regarding the other two incentive compensation plans.

A. The Company's two other incentive compensation plans (Unitil Corporation Management Incentive Plan and Unitil Corporation Incentive Compensation Plan) reward employees based on a corporate scorecard significantly focused on shareholder-related goals. DOE recommends transferring the portion of the Incentive Compensation focused on shareholder goals to shareholders.

[24] UES response to DOE 5-10, Attachment 1 (Attachment DHM-9).

Q. Please elaborate.

A. The Unitil Corporation Management Incentive Plan provides benefit to key management employees selected by the Corporation's Board of Directors. The Unitil Corporation Incentive Plan includes employees who are not selected by the Board of Directors to participate in the Management Plan.[25] Prior to the beginning of each Performance Period, objectives are established that must be achieved prior to award. The objectives are given a ranking "based on the relative impact of each Performance Objective on the Corporation's performance."[26] The goals are the same for both senior management and non-union employees. Union employees are not eligible to participate.[27] The following table provides the Performance Objectives and their relative weights for 2020 and 2021.

Table 8: Incentive Compensation Performance Objectives and Weighting 2021–2022

	Weight of Measure	
Measure	**2020**	**2021**
Earnings per Share (EPS)	40%	40%
Gas Safety-Response to Odor Calls	10%	10%
Reliability-SAIDI Minutes	10%	10%
Customer Satisfaction	10%	10%
O&M Cost per Customer	30%	30%
	100%	100%

Q. How much of the Incentive Compensation costs does DOE believe should be funded by shareholders?

A. Forty percent. The Earnings per Share (EPS) objective is weighted 40%. EPS is a shareholder-related goal. Therefore, the Company's shareholders should fund that portion of the Incentive Compensation focused on their behalf. The incentive costs, then, are shared

[25] UES response to DOE 3-13, Attachment 1(a) and 1(b), page 1 of 5 (Attachment DHM-10).
[26] UES response to DOE 3-13, Attachment 1(a), page 2 of 5 (Attachment DHM-10).
[27] UES response to DOE 3-13, Attachment 1(a) and 1(b), page 1 of 5 (Attachment DHM-10).

between the shareholders and ratepayers who each receive some benefit from the accomplishment of the goals.

Q. Please explain further why DOE believes the shareholders, and not the ratepayers, should fund the Restricted Stock Plan and the EPS portion of Incentive Compensation.

A. Measures like earnings per share (EPS), which are driven by increases to net income or profitability, form the basis for the award of Restricted Stock. Forty percent of the weighted goals for Incentive Compensation payouts are awarded based on achieving a specified EPS goal. EPS or profitability goals align with the interests of the Company's shareholders. Obtaining payouts through the Restricted Stock Plan and Incentive Compensation provides management with a significant monetary incentive to focus its efforts on these shareholder-related goals. To increase profitability during a period of slow revenue growth, a company must focus on reducing expenses (or increasing its authorized return on its assets). While reducing expenses can and should benefit ratepayers, taken to an extreme, it can harm customers.

Q. Please explain why focusing on shareholder-related goals could hurt ratepayers.

A. Reducing expenses drives up net income or profitability that should benefit ratepayers. However, if management focuses too heavily on profitability in order to receive Restricted Stock or Incentive Compensation payouts, the shareholders could receive benefits at the expense of ratepayers. For example, expenses can be reduced by deferring maintenance. Another example is to reduce expenses by failing to adequately staff Customer Service. With a reduced Customer Service staff, customers could experience a power outage and find it difficult to contact Customer Service to report the outage. With reduced staff, Customer Service would also have increased wait times for other inquiries or complaints. In such a case, by reducing expenses, the Company's management could meet its EPS goal and O&M Cost per Customer goal, which are weighted heavily to gain incentive pay (40% and 30%, respectively) even though the resulting failures in customer service would cause the loss of its lower weighted Reliability and Customer Satisfaction goals, which are only 10% each. Thus, management would benefit in incentive pay at the expense of the customer.

Having goals to incent performance is a good management practices; however, it is important that incentive payments balance performance goals so as to derive the desired behaviors. The Company has made the decision to incent shareholders' goals more than those of the ratepayers. Therefore, shareholders should fund the awards that accrue to management for achieving the goals that benefit them. Ensuring that the competing interests are balanced is also important. This balance is achieved by requiring the sharing of incentive costs between ratepayers and shareholders. Therefore, DOE recommends the portion of the Incentive Compensation that more closely benefits shareholders be funded by shareholders.

Q. Were the incentive compensation awards included in the 2021 and 2022 wage increases?

A. The Company did not include the Restricted Stock Plan costs in the test year payroll amounts and did not adjust them for annual payroll increases. The USC billing process charges those costs to UES.[28] Conversely, the Company included the other two incentive plans in the test year payroll, and the plans were also components in the 2021 and 2022 annual payroll increases. Therefore, DOE adjustment removes the disallowed incentive compensation from

[28] UES response to DOE 5-10 (Attachment DHM-9).

the 2021 payroll increase. However, DOE adjustment does address the 2022 increase since "Eliminate 2022 Wage Increase" removed all the 2022 annual payroll increase.

Q. Is there a related adjustment to rate base?

A. Yes. DOE included an adjustment to remove the Restricted Stock Plan and EPS Component of Incentive Compensation that the Company allocated to capital.

Q. Please summarize the adjustments.

A. The following table summarizes the recommended exclusions of the awards under the Stock Plan and the portion of Incentive Compensation that are related to shareholder goals.

Table 9: Summary of Recommended Adjustment to Restricted Stock and EPS Component of Incentive Comp

		Recommended Disallowance				
	Requested*	Test Year	2021 Increase	Total	O&M	Rate Base**
Restricted Stock Plan Charged to UES	$ 615,594	$ (615,594)	$ -	$ (615,594)	$ (434,486)	$ (181,108)
UES Incentive Comp	107,878	(41,632)	(1,520)	(43,151)	(15,427)	(26,748)
USC Incentive Comp	979,626	(375,336)	(16,515)	(391,850)	(280,369)	(106,783)
Total	$ 1,703,098	$ (1,032,561)	$ (18,034)	$ (1,050,596)	$ (730,282)	$ (314,639)

*Requested includes Test Year + 2021 Increase. 2022 increase addressed in separate adjustment.
**2021 Increase for Incentive Comp not Included in Rate Base.

As shown on Schedule 3.13, DOE's recommended adjustment *increases* net operating income by $532,499 and *reduces* rate base by $314,639.

Eliminate SERP and Company Contribution to Non-Qualified Deferred Compensation Plan Costs

Q. How did the Commission Staff address SERP in the last base rate case?

A. In case DE 16-384, Commission Staff was not opposed to including SERP in general rates. Staff stated that in 2016, SERP included six participants—five active senior executive employees and one retired employee. Staff stated that while the Company had closed SERP to new hires, it would be open to existing employees after any promotion to senior executive positions in the future. Commission Staff expressed concern that the total number of SERP participants could increase as executives retired and were replaced, *possibly doubling the costs borne by ratepayers*. Commission Staff had a few recommendations to stabilize the expense recovered from ratepayers. Commission Staff recommended that, effective January 1, 2017, the defined benefit SERP be closed to new participation and that the Commission not authorize recovery by ratepayers of SERP expense for any new senior executive participants. After January 1, 2017, UES could propose a new SERP for its senior executives, but Commission Staff recommended that any new SERP be reviewed and approved by the Commission before implementation.

Q. Has the SERP expense increased as expected by Commission Staff since DE 16-384?

A. SERP has more than doubled since the last base distribution rate case. The total USC SERP expense per the actuary in 2016 was $1,112,151. In 2021, the total USC SERP expense per the actuary increased to $2,357,253. The following table shows the total USC SERP expense and the amount that was allocated to UES.[29]

[29] UES response to Energy 6-1 (Attachment DHM-11).

Table 10: SERP Expense 2016–2021

		Allocated to UES		
Year	Total SERP	O&M	Capital	Total
2016	$ 1,112,151	$ 224,945	$ 90,016	$ 314,961
2017	1,336,224	272,748	104,601	377,349
2018	1,566,259	316,249	113,846	430,095
2019	1,438,762	294,039	111,980	406,019
2020	1,924,767	382,690	159,517	542,207
2021	2,357,253	468,678	195,360	664,038
% Change 2016 to 2021	112%			111%

Q. What is the Company seeking to recover for SERP in this proceeding?

A. The Company is seeking to recover SERP costs allocated to UES of $664,038, with $468,678 recovered as O&M and $195,306 recovered through capital.[30]

Q. Did the Company implement Commissions Staff's recommendation in DE 16-384?

A. Regarding Commission Staff's recommendation to close the defined to new participation effective January 1, 2017, the Company did close SERP to new participants in 2018. SERP currently provides benefit to four retired executives, and two active employees who are eligible to receive SERP when they retire.[31]

Q. Has the Company replaced the SERP with another program?

A. Yes. The Company closed SERP to new participants in 2018, and in 2019, following the restriction of any new enrollment in USC's Pension Plan or the SERP, USC enrolled in a non-qualified deferred compensation plan (NQDC).[32] The Board of Directors determines

[30] UES RevReq Workpaper 4.3.
[31] Direct Testimony of John F. Closson and Joseph F. Conneely, page 17 (Bates 000259).
[32] Direct Testimony of John F. Closson and Joseph F. Conneely, page 23 (Bates 000265).

which management employees and other employees of the Company can participate in the deferred compensation plan. Currently, the NQDC plan participants are employees with a salary grade of 23 and above who are not already participating in the SERP benefit. The participants are primarily USC employees, and UES is billed a portion of the costs.

Q. How much is the Company seeking for NQDC in its rate request?

A. The Company is seeking NQDC plan costs allocated to UES of $109,233 with $77,097 recovered as O&M and $32,136 recovered through capital.[33]

Q. Are the NQDC plan costs expected to increase like the SERP costs did?

A. Yes. The number of participants increased from two in 2021 to six in 2022.[34] With the increased number of participants, NQDC plan costs will likely more than double in just one year.

Q. What is DOE's recommendation?

A. DOE recommends that the SERP costs and NQDC plan costs be disallowed. In DE 16-384, Commission Staff expressed concern that the total number of SERP participants could increase as executives retired and were replaced, *possibly doubling the costs borne by ratepayers*. These costs did increase and will likely continue to do so.

Shareholders should pay the costs of SERP and NQDC. This recommendation means that ratepayers will pay for the executive benefits included in the Company's regular pension

[33] UES RevReq Workpaper 4.6.
[34] UES response to DOE 5-9 (Attachment DHM-12).

plan and shareholders will pay for the additional executive benefits included in the supplemental plans. For ratemaking purposes, shareholders should bear the additional costs associated with supplemental benefits to highly compensated executives since these costs are not necessary for the provision of utility service but are instead discretionary costs to attract, retain, and reward already highly compensated executives. As shown on Schedule 3.14, DOE's recommended adjustment *increases* net operating income by $397,962 and *reduces* rate base by $227,496.

Eliminate 2022 Increase in Insurance Premiums

Q. Please explain DOE's recommended adjustment: Eliminate 2022 Increase in Insurance Premiums.

A. The Company included estimates for 2022 increases to various property and liability policy premiums. These costs represent costs that are not known and measurable and will occur beyond one year past the end of the test year. DOE's adjustment replaces these 2022 unknown and unmeasured estimates with the 2021 premium costs provided by the Company to limit the increase to within one year past the end of the test period. As shown on Schedule 3.15, DOE's recommended adjustment *increases* net operating income by $5,190.

Sharing of Directors & Officers Liability

Q. Please explain DOE's recommended adjustment: Sharing of Directors and Officers (D&O) Liability Insurance.

A. DOE's adjustment removes one-half of the D&O Liability Insurance expense. The adjustment reflects a sharing of the expense between shareholders and ratepayers. As shown on Schedule 3.16, DOE's recommended adjustment *increases* net operating income by $11,215 and *reduces* rate base by $24,383.

Q. Why should the cost of D&O Liability Insurance Expense be shared between shareholders and ratepayers?

A. D&O Liability Insurance protects the officers and directors from the costs of a lawsuit. Shareholders benefit from payouts under the policy that would reduce the cost not recoverable from ratepayers. On the other hand, ratepayers benefit because having the insurance improves the ability of the Company to attract and retain qualified directors and officers and enables the directors and officers to make decisions without fear of personal liability. As a result, it is reasonable for shareholders to bear some of the cost of D&O Liability Insurance.

Exclude BetterInvesting Dues

Q. Please explain DOE's adjustment to exclude BetterInvesting Dues.

A. In 2020, Unitil Service Corp. paid $4,100 for membership dues to BetterInvesting.[35] The Company stated that membership in BetterInvesting "provides Unitil Corporation an opportunity to reach potential *retail* investors through informational and marketing materials" [emphasis added].[36] The BetterInvesting web page "About Us" states,

> The National Association of Investment Clubs, or NAIC, was founded in 1951. Since then the name was changed to the National Association of

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[35] UES response to DOE 4-57 (Attachment DHM-13).
[36] UES response to DOE 5-5 (Attachment DHM-14).

> Investors, doing business as BetterInvesting. BetterInvesting is dedicated to providing a program of sound investment information, education and support that helps create successful lifetime investors.[37]

DOE believes that ratepayers do not receive a benefit for and should not bear the costs to reach *retail* investors or educate lifetime investors. The portion of the dues allocated to UES should be excluded from UES's rate request. As shown on Schedule 3.17, DOE's recommended adjustment *increases* net operating income by $594.

Convert to Whole Life Depreciation Methodology

Q. What is DOE's recommendation with respect to the Company's Depreciation Study and related test year adjustment?

A. As discussed in the testimony of Steve Eckberg, the Company proposes an adjustment to depreciation expense to reflect the use of the Remaining Life Methodology to establish depreciation accrual rates going forward. DOE recommends rejecting the use of the Remaining Life Methodology. Depreciation accrual rates should be set using the Commission's long-standing use of straight-line, average life, whole life depreciation with an amortization period to recover any difference between book depreciation reserve and the theoretical depreciation reserve by account. The whole-life technique is consistent with the Commission's practice for setting depreciation accrual rates for other electric companies and for natural gas and water utilities. As shown on Schedule 3.18, DOE's recommended adjustment *reduces* net operating income by $40,072.

[37] https:/www.betterinvesting.org/about-us (Attachment DHM-15) and UES response to Energy TS 1-3 (Attachment DHM-16).

Amortization of Theoretical Depreciation Reserve Imbalance

Q. Please explain DOE's adjustment to Theoretical Depreciation Reserve Imbalance.

A. If DOE's recommendation of continuing the use of the Whole Life Methodology in setting depreciation accrual rates is adopted, the Theoretical Depreciation Reserve Imbalance must be amortized separately. As discussed in the testimony of Steve Eckberg, applying the Whole Life Methodology to the Company's depreciation study results in a Theoretical Reserve Imbalance of $7,652,721.[38] DOE recommends that the Theoretical Depreciation Reserve Imbalance be amortized over five years, the average duration between rate cases. The following table provides the time between rate case depreciation studies for the last several base distribution rate cases.

Table 11: Period Between Depreciation Studies

	Year Study Performed		Time between
Docket No.	Current	Prior	Studies
DE 21-030	2020	2015	5
DE 16-384	2015	2009	6
DE 10-055	2009	2005	4
DE 05-178	2005		
Average			5

Adoption of a five-year amortization period *reduces* depreciation expense by $1,530,544. As shown on Schedule 3.19, DOE's recommended adjustment *increases* net operating income by $1,116,027.

[38] UES response to Energy DOE 5-12 (Attachment DHM-17).

Remove Post-Test-Year Project Amortization

Q. Please explain DOE's adjustment: Remove Post-Test-Year Project Amortization.

A. DOE recommends that the amortization of projects that were not in service at the end of the test year be removed from the permanent rates and be transferred to the Step Increase. DOE recommends removing the projects and annual amortization listed below and transferring the amortization to the Step adjustment.

Table 12: USC Projects Not In Service by the End of the Test Year[39]

Project	In-Service Date	Project Cost	Annual Amortization
SOX Modernization	Feb-21	$ 75,517	$ 15,103
USC Time & Billing Upgrade/Replacement	*Nov-21	587,704	117,541
2020 Flexi Upgrade	Feb-21	25,531	5,106
		$ 688,752	$ 137,750
UES Apportionment			27.50%
Annual Amortization			$ 37,881

*Estimated In Service Date (Energy TS 1-6)

In addition to removing the post-test-year project amortization of $37,881, several corrections were identified during discovery and agreed to by the Company. These corrections include corrections of the USC Amortization Billed to UES for ADP Vacation Enhancements ($573) and General Infrastructure Enhancements ($1,981)[40] and removal of the UES First Response-iRestore amortization ($24,090).[41] These corrections are expected to be included in UES updates and correction testimony filed later in this proceeding. As shown on Schedule 3.20, DOE's recommended adjustments *increases* net operating income by $44,676.

[39] UES response to Energy TS 1-6 (Attachment DHM-18).
[40] UES response to Energy TS 1-6 (Attachment DHM-18).
[41] UES response to Energy TS 1-7 (Attachment DHM-19).

True Up Payroll Taxes and Remove Payroll Taxes above Social Security Limit

Q. Please explain DOE's recommended adjustment: True Up Payroll Taxes and Remove Payroll Taxes above Social Security Limit

A. Payroll taxes reflect the effective tax rate for the Company's Social Security and Medicare taxes that correspondingly decrease as a result of DOE's adjustments to employee compensation (2022 Pay Increase, Union Overtime, Incentive Compensation). In addition, DOE made an adjustment to the payroll taxes to recognize that Social Security taxes are not paid on wages and salaries in excess of the taxable limit of $142,800. The Company agreed with this adjustment and agreed to reflect it in the Corrections and Update filing.[42] As shown on Schedule 3.21, DOE's recommended adjustment *increases* net operating income by $54,971.

Reverse Removal of Third-Party Reimbursements from Vegetation Management

Q. Please explain DOE's recommended adjustment: Reverse Removal of Third-Party Reimbursements from Vegetation Management?

As discussed in the testimony of Rich Chagnon, DOE recommends reversing the Company's removal of Test Year Third-Party Reimbursement for vegetation management. As shown on Schedule 3.22, DOE's recommended adjustment *increases* net operating income by $721,513.

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[42] UES response to DOE 5-1 (Attachment DHM-20).

AMP Coordinator Cost Sharing

Q. Please explain the Company's proposed AMP FTE Sharing.

A. If the Commission approves the Arrearage Management Program (AMP) Forgiveness program, the Company stated they will need to hire an AMP Coordinator who will be in charge of enrolling and monitoring the participants in the program and making necessary adjustments to individual customers payment terms. The Company has included estimated costs for the new position with benefits of $84,000.[43]

Q. Does DOE support the AMP Forgiveness program?

A. As discussed in the testimony of Amanda Noonan, DOE supports the AMP Forgiveness program with modifications.

Q. Please explain DOE's adjustment regarding the AMP FTE Sharing.

A. The Company included the full cost with benefits of the AMP Coordinator in this filing. In DG 21-104, the Company proposes that the AMP Coordinator be in charge of both Northern New Hampshire and Unitil DOE Systems administration. DOE asked that the Company provide a proposal on how the costs should be shared. The Company proposed to allocate the AMP Coordinator costs between the two companies based on the Company's estimated amount of enrollees, as shown in the table below—Northern New Hampshire at 22% and Unitil Energy Systems at 78%.[44]

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[43] Direct Testimony of Carole A. Beaulieu, page 8 (Bates 000988).
[44] Unitil response to Energy TS 1-2 (Attachment DHM-21).

Table 13: Estimated AMP Enrollees by Utility Used to Allocated AMP FTE

Company	Estimated Enrollees	Percent of Enrollees
Unitil Energy Systems	638	78%
Northern New Hampshire	185	22%
Total New Hampshire	823	100%

DOE supports this estimated allocation of the costs of the AMP Coordinator and has removed 22% of the costs that would be collected by Northern New Hampshire from this proceeding. As shown on Schedule 3.23, DOE's recommended adjustment *increases* net operating income by $13,768.

Addition of Storm Related Communications (Calypso/Matter Communications) Costs

Q. Please explain DOE's recommended adjustment Addition of Storm Related Communications (Calypso/Matter Communications) Costs.

A. DOE's adjustment to add storm related communications (Calypso/Matter Communications) costs is supported by DOE's witness Elizabeth Nixon. As shown on Schedule 3.24, DOE's recommended adjustment *reduces* net operating income by $13,337.

Remove Incremental Wheeling Revenue

Q. Please explain DOE's recommended adjustment: Remove Incremental Wheeling Revenue.

A. DOE's adjustment to remove incremental wheeling revenue is supported by DOE's witness Elizabeth Nixon. As shown on Schedule 3.25, DOE's recommended adjustment *reduces* net operating income by $34,808.

Update Distribution Bad Debt for Revenue Change

Q. Please explain DOE's recommended adjustment: Update Distribution Bad Debt for Revenue Change.

A. DOE's adjustment updates the Distribution Bad Debt expense to reflect DOE's recommended revenue increase using the 2019 delivery net-write-off percent of 0.64% proposed by the Company. As shown on Schedule 3.26, DOE's recommended adjustment *increases* net operating income by $50,370.

Q. Why is the 2019 delivery net-write-off percent used instead of the 2020 percentage?

A. The Company explained that the level of write-off activity in 2020 was not reflective of a normal year's level due to the disconnection moratorium that was issued in March 2020 by the State of New Hampshire and ordered in Docket No. IR 20-089.[45] DOE reviewed the 2019 delivery net-write-off percent of 0.64% to the delivery net-write-off percent used in the last base distribution rate case (DE 16-384) of 0.62% and found the Company's use, under the circumstances, not unreasonable.[46]

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[45] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 21 (Bates 000091).

[46] Using a Write-off as a % of Retail Delivery Billed Revenue of 0.62% instead of 0.64% results in ~3.2% difference in Uncollectible Delivery Revenue.

	DE 16-384 12/31/15	DE 21-030 12/31/19	Difference
Write-Offs as a % of Retail Delivery Billed Revenue	0.62%	0.64%	0.02%
Comparison of Write-Off Assuming DE21-030 Billed Revenue			
DE 21-030 Total Normalized Delivery Retail Billed Revenue	$ 103,926,273	$ 103,926,273	
Uncollectible Delivery Revenue	$ 644,343	$ 665,128	$ 20,785
			3.2%

Interest Synchronization

Q. Please explain DOE's recommended adjustment: Interest Synchronization.

A. The interest synchronization adjustment synchronizes the rate base and cost of capital with the tax calculation using the recommended weighted cost of debt. It is calculated by computing the interest component of the revenue requirement by multiplying the rate base by weighted cost of debt. The calculated interest expense is then compared against the interest expense used by the Company in its computation of test year income tax expense. The adjustment for interest synchronization is the tax effect of the difference in interest expense. This adjustment ensures that the revenue requirement reflects the tax savings generated by the interest component of the revenue requirement. As shown on Schedule 3.27, DOE's recommended adjustment *reduces* net operating income by $81,238.

Q. What is the impact of DOE's recommended adjustments to the Company's net operating income?

A. The Company's net operating income at current rates is $9,066,678. DOE's recommended adjustments *increase* net operating income to $13,076,052.

<u>HB700 Property Taxes</u>

Q. Please explain HB700 Property Taxes.

A. HB700 refers to the New Hampshire House Bill (HB) 700. HB 700 (codified as RSA 72:8-d and -e) establishes a new methodology for valuing utility distribution assets for property tax purposes and requires the Commission to establish a rate recovery mechanism for any public utility owning property that meets the definition of "utility company assets." The mechanism will "adjust annually to recover all property taxes paid by each such utility on such utility company assets" or "be established in an alternative manner acceptable to both the utility and the public utility commission."

Q. Has the Commission approved a methodology for recovery of HB700 property taxes?

A. Yes. The Company made a filing in Docket No. DE 21-069 with a proposal for a property tax mechanism and recovery of the increase in property taxes associated with the change in law. In that Docket, the Company proposed annual recovery of all *local* property taxes (local building and utility plant assets) ***and to exclude changes in state-related property taxes consistent with the language of HB700. Recovery of the state portion of property taxes would continue to occur as it does now as part of the normal rate case process***. Recovery would be through the Company's External Delivery Charge (EDC).[47] On July 29, 2021, the Commission found the Company's petition to be consistent with the requirements of RSA 72:8–e and found the incorporation and reconciliation of the local property tax expense through the EDC mechanism to be acceptable.[48]

Q. What is reflected in the instant docket regarding HB700?

A. The Company proposes "On an annual basis, actual property tax expense for the prior calendar year shall be compared against the amount in base rates and any variances will be reconciled through the EDC mechanism. Annual actual property tax expense shall be normalized to adjust for any credits received due to abatement settlement proceeds received

[47] Docket No. DE 21-069 Petition for Approval of Rate Recovery Mechanism for Property Taxes and Direct Testimony of Christopher J. Goulding (March 29, 2021), page 4.
[48] Docket No. DE 21-069, Order No. 26,500 (July 29, 2021), page 6.

for tax years preceding the test year. As proposed in Docket No. DE 21-069, the EDC shall recover any over- or under-recoveries beginning on August 1 of each year."[49]

Q. Is the Company's proposal consistent with what the Commission approved in Docket No. DE 21-069.

A. No. The Company proposes to include property taxes of $7,771,772 (the amount will be updated to reflect the final 2021 tax bills) in base distribution rates. This amount is what the Company proposes to include in the HB700 reconciliation. This amount includes State Property Taxes that the Company specifically stated in its proposal in Docket No. DE 21-069 would not be included in the annual reconciliation. The Company's petition in Docket No. DE 21-069 specifically stated ***recovery of the state portion of property taxes would continue to occur as it does now as part of the normal rate case process.***[50]

Q. What does DOE recommend?

A. The HB700 annual reconciliation base should exclude State Property Taxes and any other property that is disallowed by the Commission. DOE recommended several disallowances of plant on Schedule 3.1. As shown on Schedule 4, the Company's proposed $7,771,722 HB700 base property taxes should be adjusted to $5,804,121.

<u>Step Adjustment</u>

Q. Does DOE have any comments regarding the Step Increase?

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[49] Direct Testimony of Christopher J. Goulding and Daniel T. Nawazelski, page 41 (Bates 000111).
[50] DE 21-069 Direct Testimony of Christopher Goulding, page 4 of 7 (Attachment DHM-37).

A. Yes. As discussed by DOE witness Jay Dudley, DOE supports one step adjustment with the following conditions:

1) The amounts presented by the Company represent budgeted amounts, not actual. DOE supports the inclusion of only actual amounts related to 2021 non-revenue-producing plant additions that have been examined and verified by DOE's Audit Staff.
2) The Step Adjustment revenue requirement calculation should reflect the Commission-approved rate of return in this proceeding.
3) The Step Adjustment includes post-test-year plant additions that are not disallowed by the Commission.
4) The Step Adjustment includes post-test-year projects reflected in the Company's base rate request for amortization expense.
5) The Step Adjustment reflects a composite depreciation accrual rate using the Whole Life methodology.

The Company proposed Step Adjustment #1 (effective April 1, 2022) is $2,754,244.[51] At this time, subject to adjustment as discussed in items 1–5 above, DOE recommends a Step Increase of $2,540,047. This amount includes the post-test-year project amortization that was removed from amortization expense. DOE's recommended Step Increase is provided in Schedule 5.

[51] UES Schedule CGDN-2.

Conclusions

Q. In conclusion, what is DOE's recommended increase to base revenue?

A. DOE is recommending that the Company be allowed an increase to its distribution base rates of no more than $1,128,478.

Q. Does this conclude your testimony?

A. Yes.