

**NORTHERN UTILITIES, INC.**

**REBUTTAL TESTIMONY**

**OF**

**S. ELENA DEMERIS AND DANIEL T. NAWAZELSKI**

**PETITION FOR APPROVAL OF**

**REVENUE DECOUPLING ADJUSTMENT FACTOR**

**New Hampshire Public Utilities Commission**

**Docket No. DG 23-086**

1 **I. INTRODUCTION**

2 **a. S. Elena Demeris**

3 **Q. Please state your name and business address.**

4 A. My name is S. Elena Demeris. My business address is 6 Liberty Lane West, Hampton,  
5 New Hampshire.

6 **Q. For whom do you work and in what capacity?**

7 A. I am a Senior Regulatory Analyst for Unitil Service Corp. (“Unitil Service”), a subsidiary  
8 of Unitil Corporation that provides managerial, financial, regulatory and engineering  
9 services to Unitil Corporation’s principal subsidiaries Fitchburg Gas and Electric Light  
10 Company, d/b/a Unitil (“FG&E”), Granite State Gas Transmission, Inc. (“Granite”),  
11 Northern Utilities, Inc. d/b/a Unitil (“Northern”), and Unitil Energy Systems, Inc.  
12 (“UES”) (together “Unitil”). In this capacity I am responsible for preparing regulatory  
13 filings, pricing research, regulatory analysis, tariff administration, revenue requirements  
14 calculations, customer research, and other analytical services.

15 **Q. Please summarize your professional and educational background.**

16 A. In 1996, I graduated from the University of Massachusetts - Lowell with a Bachelor’s of  
17 Science Degree in Civil Engineering. In 2005, I earned a Master’s Degree in Business  
18 Administration and in 2006 a Master’s Degree in Finance from Southern New Hampshire  
19 University. I joined Unitil in July 1998 in the regulatory/rate department.

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1           **b.       Daniel T. Nawazelski**

2           **Q.       Please state your names and business address.**

3           **A.**       My name is Daniel T. Nawazelski, and my business address is 6 Liberty Lane West,  
4                Hampton, New Hampshire 03842.

5           **Q.       Mr. Nawazelski, what is your position and what are your responsibilities?**

6           **A.**       I am the Manager of Revenue Requirements for Unitil Service Corp. (“Unitil Service”) a  
7                subsidiary of Unitil Corporation that provides managerial, financial, regulatory and  
8                engineering services to Unitil Corporation’s utility subsidiaries including Northern  
9                Utilities, Inc., which has operating divisions in New Hampshire and Maine (the New  
10              Hampshire operating division is hereinafter referred to as “Northern” or the “Company”).  
11             In this capacity I am responsible for the preparation and presentation of distribution rate  
12             cases and in support of other various regulatory proceedings.

13          **Q.       Mr. Nawazelski, please describe your business and educational background.**

14          **A.**       I began working for Unitil Service in June of 2012 as an Associate Financial Analyst and  
15                have held various positions with increasing responsibilities leading to my current role of  
16                Manager of Revenue Requirements. I earned a Bachelor of Science degree in Business  
17                with a concentration in Finance and Operations Management from the University of  
18                Massachusetts, Amherst in May of 2012. I am also currently pursuing my Masters in  
19                Business Administration at the University of New Hampshire.

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1 **Q. What is the purpose of your rebuttal testimony?**

2 A. The purpose of this rebuttal testimony is to address the Department of Energy's  
3 ("Department") comments on the Company's revenue decoupling filing as stated in the  
4 Department's technical statements. The Department's comments include several  
5 observations regarding the Company's filing that are inaccurate, are entirely inconsistent  
6 with the Settlement Agreement that the Department entered into in DG 21-104, and  
7 incorrectly and inappropriately seek to cap earnings at the Company's revenue test year  
8 amount.

9 **Q. Please describe the Revenue Per Customer revenue decoupling model approved by**  
10 **the Commission in DG 21-104.**

11 A. In DG 21-104, Unitil, the Department of Energy, and the Office of the Consumer  
12 Advocate (collectively, the "Settling Parties") entered into a negotiated settlement  
13 agreement in which the Settling Parties agreed that Unitil would implement a revenue  
14 decoupling mechanism "substantially as proposed in the initial prefiled testimony of  
15 Unitil witness Timothy Lyons," subject to certain adjustments specified in the Settlement  
16 Agreement. Specifically, the Settling Parties agreed that Unitil would implement a  
17 Revenue Per Customer ("RPC") revenue decoupling model that reconciles monthly  
18 actual and authorized RPC by rate class. The relevant portions of the Settlement  
19 Agreement describing the agreed-upon revenue decoupling model, including Attachment  
20 3 to the Settlement Agreement setting forth the monthly RPC targets, are provided as  
21 Attachment 1 to this testimony. The initial prefiled testimony of Mr. Lyons and  
22 accompanying schedules were included in the DG 21-104 evidentiary record as a part of  
23 Hearing Exhibits 3 (Redacted) and 14 (Confidential) (Bates 001143 – 001181).

1 The Commission approved the Settlement Agreement, including the RPC revenue  
2 decoupling model, in DG 21-104, Northern Utilities, Inc., Order Approving Settlement  
3 Agreement at 4-6, 13-14, 21 (Order 26,650, July 20, 2022). In its Order, the Commission  
4 explained the RPC model:

5 The Settlement provides that Northern shall implement the RDM as follows.  
6 First, the Company shall record monthly variances between actual and  
7 authorized RPC for each rate class. Rather than record and reconcile the  
8 variances on an annual basis, the variances would be recorded and reconciled  
9 separately, for the Peak (November through April) and Off-Peak (May  
10 through October) periods (the Measurement Periods). The monthly variances  
11 in the applicable Measurement Period would then be totaled by class.  
12

13 The total variances by customer class group and carrying costs shall form the  
14 basis for the revenue decoupling adjustment (RDA) by group and the  
15 calculation of revenue decoupling adjustment factors (RDAF) (surcharges or  
16 credits). A Customer Class Group comprises the rate schedules combined for  
17 purposes of calculating the RDA amounts. The four Customer Class Groups  
18 shall be: (1) Residential Heating (R-5 and R-10); (2) Residential Non-Heating  
19 (R-6); (3) C&I High Load Factor (G-50, G-51, G-52); and (4) C&I Low Load  
20 Factor (G-40, G-41, G-42).  
21

22 Second, the Company shall annually file with the Commission the applicable  
23 RDAF 45 days in advance of November 1. The filing will provide the  
24 proposed RDAF for the Peak period, for effect November 1, and subsequent  
25 Off-Peak period, for effect May 1. The RDA for the Peak period shall reflect  
26 actual data for the entire six-month period while the RDA for the Off-Peak  
27 period shall reflect actual data for the first three months of the period and  
28 estimated data for the remaining three months. The filing shall include the  
29 RDA by group, including prior period reconciliation and calculation of the  
30 RDAF. Pursuant to this Settlement Agreement, rather than reconcile the RDA  
31 on an allocated basis as initially proposed by Northern, the Company shall  
32 reconcile the RDA using the four customer class groups defined above. The  
33 RDAF shall be calculated as a dollar-per-therm charge or credit based on the  
34 RDA for each group divided by the projected therm sales for each group over  
35 the prospective six-month period November through April and May through  
36 October (the RDM Adjustment Period). The RDAF shall be charged or  
37 credited to customer bills during the RDM Adjustment Period.  
38

39 Northern shall implement an RDA cap of 4.25 percent of approved  
40 distribution revenues for each group over the relevant Measurement Period(s)  
41 for over- and under-recoveries. To the extent that the RDA for a group,

1 including prior period reconciliation exceeds 4.25 percent of distribution  
2 revenue, the amount over or under 4.25 percent shall be deferred, with  
3 carrying costs accrued monthly at the Prime Rate with said Prime Rate to be  
4 fixed on a quarterly basis and to be established as reported in *The Wall Street*  
5 *Journal* on the first business day of the month preceding the calendar quarter.  
6 If more than one interest rate is reported, the average of the reported rates  
7 shall be used.  
8

9 Order 26,260 at 4-6. The Department similarly agreed to a substantively identical RPC  
10 revenue decoupling method for Unitil Energy Systems, Inc. in DE 21-030, and the  
11 Commission approved the settled-upon method without modification. DE 21-030, Unitil  
12 Energy Systems, Inc., Hearing Exhibit 12 (Settlement Agreement and Attachments) at  
13 Bates 000006-07; DE 21-030, Unitil Energy Systems, Inc., Order Approving Settlement  
14 Agreement at 24-25, 32 (Order No. 26,623, May 3, 2022). We also note that a similar  
15 RPC revenue decoupling mechanism has been in place for Northern's Massachusetts  
16 affiliate, Fitchburg Gas and Electric Light Company, for over twelve years. See DPU 11-  
17 02, Fitchburg Gas and Electric Light Company, Final Order at 114 – 127 (MA DPU  
18 August 1, 2011).

19 **Q. Did the Company calculate the RDA and RDAF consistent with the Settlement**  
20 **Agreement and the Commission's Order in DG 21-104?**

21 A. Yes. Pre-Filed Testimony of S. Elena Demeris and the accompanying attachments set  
22 forth the calculation of the RDA and the RDAF, calculation of the RDAF (Page 1),  
23 reconciliations by customer group and period, calculations supporting the development of  
24 the monthly revenue variances by class group and period, the calculation of the revenue  
25 cap, actual base revenue for the period, and forecasted revenues.

1 **Q. The Settling Parties in DG 21-104 agreed that Northern would implement an RPC**  
2 **decoupling model. Why did the Company propose an RPC approach in DG 21-104?**

3 A. As the Company explained in its initial filing in DG 21-104, the primary benefit of the  
4 proposed RPC approach is the recognition of new customer revenues. The Company  
5 expects to add new customers and incur incremental costs to serve new customers during  
6 the term of the revenue decoupling mechanism. The incremental costs are related to  
7 providing new customers with access to the distribution system and meeting their demand  
8 requirements. Under the RPC approach, the Company retains the RPC associated with  
9 serving new customers that is used to offset the costs associated with new customers.

10

11 By comparison, under a “total revenue” approach to decoupling, the Company does not  
12 retain incremental revenues to offset the incremental costs, creating an adverse financial  
13 impact when adding new customers. The distinction between the RPC and total revenue  
14 approaches was explained in the pre-filed Testimony of Timothy Lyons in DG 21-104.  
15 The Company has provided this testimony as Attachment 2 for ease of reference. See  
16 Page 12 of 22 for the clear explanation of the proposed type of Revenue Decoupling  
17 Mechanism and the Company’s reasoning for choosing that approach.

18 **Q. How would a “total revenue” approach to revenue decoupling be applied?**

19 A. Under the total revenue approach, the approved target revenue by rate class is set and  
20 annually reconciles to that approved total revenue. A company does not retain  
21 incremental revenues to offset the incremental costs, creating an adverse financial impact  
22 when adding new customers under this revenue decoupling mechanism methodology.

1 Total revenue RDM's are oftentimes accompanied by capital trackers that provide timely  
2 recovery on all (growth and non-growth) investments that help maintain the financial  
3 health of the company.

4 The RPC and total revenue approaches are not interchangeable. When determining  
5 whether to apply an RPC or total revenue approaches there are a multitude of things to  
6 consider. The merits and considerations of both were contemplated by the Company  
7 during the Company's base rate case proceeding in DG 21-104.

8 **Q. The Department of Energy appears to recommend a disallowance of \$1,145,894,**  
9 **asserting that it is "additional" to the Company's "approved revenue requirement"**  
10 **of \$47,673,687. Is the Department's position consistent with the Settlement**  
11 **Agreement?**

12 A. No. The Department is effectively arguing that the Commission should disregard the  
13 RPC approach to which the Settling Parties agreed, and the Commission approved, and  
14 instead impose a "total revenue" approach. As explained above, the total revenue  
15 approach is fundamentally inconsistent with the RPC approach, and the Department's  
16 recommended disallowance is inconsistent with the express terms of the Settlement  
17 Agreement and Order 26,650.

18 **Q. The Department offers "observations" that are critical of the RPC method at pages**  
19 **8-10 of the Supplemental Technical Statement. Do you agree that the RPC**  
20 **decoupling method creates "multiple misalignments"?**

21 A. No. As an initial matter, the RPC method was proposed in the Company's initial filing in  
22 DG 21-104, supported by testimony with multiple schedules and an illustrative

1 calculation. The Company's proposal was subject to discovery, technical sessions, the  
2 opportunity for testimony by Department and the OCA, and, ultimately, a negotiated  
3 Settlement Agreement and a hearing before the Commission. The Company has  
4 calculated its RDA and RDAF exactly in the manner set forth in the Settlement  
5 Agreement and Order 26,650. Northern notes that the Department repeatedly  
6 characterizes the output of this calculation as the Company's "ask" in this case; the  
7 Company believes this is an inaccurate characterization, as the calculation was agreed to  
8 by the Settling Parties and approved by the Commission, and the Company has stated the  
9 objective outcome of the calculation. The Department has not asserted that the calculated  
10 RDA, including the deferred amount over the cap, is inaccurate.

11  
12 Addressing the Department's "observations," the Company responds as follows:

13 The Department's December 8, 2023 Technical Statement repeatedly stated, incorrectly,  
14 that the Company's Actual Customer Charge Revenue includes estimated components.  
15 This is not the case. Actual Customer Charge Revenue used in the RDAF filing, and as  
16 consistent with the presentation in DG 21-104, is based on actual customer charge  
17 revenue from the Company's billing system and includes no estimated components.

18 The Company also addresses the Departments January 25, 2024 Technical Statement as  
19 follows:

20 **3:** *"In DOE's initial technical statement, for a well-functioning RPC decoupling*  
21 *structure, the Department observed the importance of customer count methodology, the*  
22 *data normalization process, and the utility accounting practices. Informed by Northern's*

1        *response to DOE Set 3, it appears that the Company's current billing system is unable to*  
2        *provide key information necessary to analyze the RDAF ask."*

3        **Response:** As repeatedly explained by the Company throughout the discovery phases, the  
4        Company's RDAF filing and decoupling structure was calculated entirely consistent with  
5        the approved Settlement Agreement in DG 21-104. This consistency also applies to the  
6        customer count methodology and accounting practices. The Company's current billing  
7        system provides all of the necessary information to analyze and review the Company's  
8        RDAF filing. The Department's perceived lack of key information pertains to analysis  
9        that is entirely out of scope of the Company's approved revenue decoupling mechanism  
10       and applicable tariff.

11       **5.3:** *"As such, the underlying premise, and an inherent part of the ensuing Revenue*  
12       *Decoupling Mechanism (RDM) was to correct the misalignment by adjusting the*  
13       *Company's actual revenues to match its authorized revenue."*

14       **Response:** The Department has correctly stated the underlying premise of revenue  
15       decoupling, but declines to acknowledge the different methodologies of full decoupling  
16       mechanisms, which as described in Attachment 2 can calculate variances based on the  
17       basis of total revenues, or revenue per customer. As described throughout our rebuttal  
18       testimony the Settling Parties unambiguously agreed to implement a revenue per  
19       customer method, and the Commission unambiguously approved the revenue per  
20       customer method.

21       **5.4:** *"Northern's authorized revenue in DG 21-104 was \$47,673,687. . . . As such, the*  
22       *proposed RDM principles dictate that Northern should be allowed to collect up to the*

1        *approved authorized revenue amount \$47,673,687. Any additional revenue beyond the*  
2        *authorized amount could unduly harm the other party, namely the ratepayers.”*

3        **Response:** The Department’s characterization of the “RDM principles” and the purported  
4        harm to ratepayers are not correct. First, the Department, the OCA, and the Commission  
5        reviewed the RPC method – which the Company has followed precisely - and found it to  
6        be just and reasonable. Second, as explained above, the RPC method is intended to  
7        recognize new customer revenues and retain the RPC associated with serving new  
8        customers that is used to offset the costs associated with new customers. Imposing a cap  
9        based on the “authorized revenue” is fundamentally inconsistent with the RPC method  
10       and nothing in the Settlement Agreement states that such a cap must be imposed. The  
11       Department’s recommendation is a clear departure from the Settlement Agreement and  
12       will be prejudicial to the Company.

13       **5.5:** *For the Decoupling Year (DY1) under consideration, Northern reported to have*  
14       *earned a total base revenue of \$44,506,322. . . . Northern also reported and is seeking a*  
15       *total of \$4,313,259 in RDAF. This RDAF ask implies, if the requested amount is*  
16       *approved for eventual collection in base distribution revenues, that Northern would*  
17       *recover a total of \$48,819,581 in DY1. This is would be \$1,145,894 . . . additional to the*  
18       *approved revenue requirement. It is also unclear if, due to the application of the current*  
19       *RPC formula, this additional \$1.15 million revenue was intended to be provided to the*  
20       *Company under the proposed RDM. Consequently, if the requested total RDAF amount*  
21       *(\$4.3 million) is approved, the ratepayers would be unduly harmed by this additional*  
22       *\$1.15 million RDAF ask.*

1       **Response:** The Settlement Agreement and Order 26,650 unambiguously set forth the  
2       RPC revenue decoupling method and calculation of the RDA and RDAF. The intent of  
3       the Settling Parties and the Commission is clear and expressed in the plain language of  
4       the Settlement Agreement. Northern is not requesting an “additional” \$1.15 million  
5       above the Company’s approved revenue requirement. The Commission approved a RPC  
6       revenue decoupling method in Order 26,650, and the RDA calculated in this case is  
7       consistent with that method as described in the Order. The full amount of the RDA is  
8       what the Commission approved in DG 21-104. Under the approved RPC approach the  
9       Company is allowed to retain the RPC with serving new customers. As Attachment 3  
10      shows, the entire amount of additional revenue is associated with new customer revenue  
11      with approximately 95 percent of that growth occurring within the R-5 and R-10  
12      residential heating classes. This shows that the Company’s agreed to and approved  
13      revenue decoupling mechanism approved in DG 21-104 is working exactly in the manner  
14      intended.

15      **5.7: *The per customer RDAF structure creates multiple misalignments . . . .***

16      **Response:** The Department’s arguments in this paragraph are largely repetitive of  
17      previous assertions in the technical statement and completely disregard the express terms  
18      of the Settlement Agreement that the Settling Parties, including the Department,  
19      negotiated, and that the Commission approved. We note that under the Settlement  
20      Agreement and Order 26,650, the treatment of deferred balances over the RDA cap is to  
21      be addressed in the Company’s next distribution rate case. See Attachment 1; Order No.  
22      26,650 at 6. We understand the arguments set forth within paragraph 5.7 and throughout  
23      the Department’s technical statement to be outside the scope of this docket and more

1 appropriately addressed in the Company's next rate case. The Company has not  
2 addressed these comments in paragraph 5.7 beyond what we have already stated in our  
3 testimony, but this should not be viewed as acceptance of any of the Department's  
4 conclusions.

5 **Q. Do you believe the Commission should approve the proposed RDAF as filed?**

6 A. Yes, the Department concludes in its comments that the Company has accurately  
7 calculated its revenue decoupling factors in accordance with the Settlement Agreement  
8 and the Company's tariff. The Department's suggestion that the Company's RDA,  
9 including the deferral balance over the cap, should be capped at the test year amount used  
10 to develop revenue per customer levels is erroneous, inconsistent with the RPC method  
11 approved in DG 21-104, and should be rejected.

12 **Q. Does this conclude your testimony?**

13 A. Yes, it does.