

UNITIL ENERGY SYSTEMS, INC.

**DIRECT TESTIMONY OF
LINDA S. MCNAMARA**

New Hampshire Public Utilities Commission

Docket No. DE 08-015

September 12, 2008

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- Schedule LSM-4: Annual Update to Internal Administrative Costs**
- Schedule LSM-5: Class Bill Impacts**

1 **I. INTRODUCTION**

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

3 A. My name is Linda S. McNamara. My business address is 6 Liberty Lane West,
4 Hampton, New Hampshire 03842.

5
6 **Q. For whom do you work and in what capacity?**

7 A. I am a Senior Regulatory Analyst I at Unitil Service Corp. ("USC"), which
8 provides centralized management and administrative services to all Unitil
9 Corporation's affiliates including Unitil Energy Systems, Inc. ("UES").

10
11 **Q. Please describe your business and educational background.**

12 A. In 1994 I graduated *cum laude* from the University of New Hampshire with a
13 Bachelor of Science Degree in Mathematics. Since joining USC in June 1994, I
14 have been responsible for the preparation of various regulatory filings, including
15 changes to the default service charges, price analysis, and tariff changes.

16
17 **Q. Have you previously testified before the New Hampshire Public Utilities
18 Commission ("Commission")?**

19 A. Yes.

20
21 **II. PURPOSE OF TESTIMONY**

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

1 A. The purpose of my testimony is to present and explain the proposed changes to
2 UES' Default Service Charge ("DSC") effective November 1, 2008, as reflected
3 in the redline tariffs provided as Schedule LSM-1.
4

5 **III. RETAIL RATE CALCULATIONS**

6 **Q. What is the proposed Non-G1 Class DSC?**

7 A. As shown on Schedule LSM-1, Page 1, the proposed Non-G1 Fixed DSC is
8 \$0.11239 per kWh for the Non-G1 Class for the period November 1, 2008
9 through April 30, 2009. The proposed Non-G1 Variable DSC for this same
10 period are also shown on this page.

11
12 **Q. How does this rate compare to the current rate?**

13 A. The Non-G1 Fixed DSC of \$0.11239 per kWh is an increase of \$0.00948 per
14 kWh from the current DSC of \$0.10291 per kWh. This increase reflects the
15 higher contract costs for the period November 1, 2008 through April 30, 2009
16 compared to the contract costs for the current period, May 1, 2008 through
17 October 31, 2008.

18
19 **Q. Please describe the calculation of the Non-G1 class DSC.**

20 A. Rate calculations for the Fixed and Variable DSC are provided on Schedule LSM-
21 2, Page 1.

22

1 The Variable Charge is calculated by dividing the total costs for the month,
2 including a partial reconciliation of costs and revenues through January 31, 2008¹,
3 by the estimated monthly Non-G1 kWh purchases. An estimated loss factor of
4 6.4% is then added to arrive at the proposed retail Variable Charges. The Fixed
5 Charge is calculated in a similar manner, except that the calculation is based on
6 totals for the entire six month period.

7

8 **Q. Have you provided support for the total forecast costs shown on Page 1,**
9 **line 2?**

10 A. The details of forecasted costs for the period November 2008 through April
11 2009 are provided on Schedule LSM-2, Page 2. Line items for the various
12 costs included in default service are shown and include: Total Non-G1 Class
13 DS Supplier Charges, GIS Support Payments, Renewable Energy Credits
14 (“RECs”), Supply Related Working Capital, Provision for Uncollected
15 Accounts, Internal Company Administrative Costs, Legal Charges, and
16 Consulting Outside Service Charges.

¹ In its March 14, 2008 filing, UES provided the Non-G1 Class reconciliation balance as of January 31, 2008, as adjusted, in the amount of (\$236,956). UES apportioned the balance of (\$236,956) based on kWh over the twelve month period May 2008 through April 2009 as follows: (\$117,435) in May-October 2008 and (\$119,521) in November 2008-April 2009. As shown on Schedule LSM-2, Page 1, the reconciliation amount used in this filing is (\$119,521).

1 **Q. How much of the proposed rate is the result of RECs?**

2 A. For the Non-G1 class, total RECs for the period November 2008 through
3 April 2009 is estimated to be \$755,581. From a retail rate standpoint, for the
4 period, this calculates to be \$0.00174 per kWh (\$0.00174 per kWh =
5 $(\$755,581 / 461,965,613) * (1 + 6.40\%)$).

6
7 **Q. How is supply-related working capital calculated?**

8 A. UES has calculated supply-related working capital based on Total Non-G1
9 Class DS Supplier Charges plus GIS Support Payments, and based on RECs.

10
11 Working capital for Total Non-G1 Class DS Supplier Charges and GIS
12 Support Payments is calculated by multiplying the product of Total Non-G1
13 Class DS Supplier Charges plus GIS Support Payments and the number of
14 days lag divided by 365 days (i.e. the working capital requirement) by the
15 prime rate. This portion of the working capital calculation continues to use
16 the 2005 Lead/Lag results pending Staff's investigation and report regarding
17 the 2006 Lead/Lag Study.

18
19 Working capital for RECs is calculated by multiplying the product of RECs
20 and the number of days lead divided by 365 days (i.e. the working capital
21 requirement) by the prime rate. UES and Staff have agreed to use 257.98 for
22 the number of days lead associated with RECs payments for purposes of

1 calculating DS rates, until such time that UES prepares a lead/lag study that
2 incorporates RECs.

3

4 **Q. Has UES included its annual update to internal company administrative**
5 **costs associated with providing default service?**

6 A. Yes. The updated internal company administrative costs associated with
7 providing default service proposed for effect November 1, 2008 are provided
8 on Schedule LSM-4. Pages 1 and 2 of Schedule LSM-4 are formatted
9 identically to those submitted as part of the update last year.

10

11 The Settlement Agreement in DE 05-064 allows UES to update these costs
12 annually based on changes to labor costs and associated overheads. The labor
13 hours allocated to DS reflect test year values and are not adjusted. UES has
14 used an overhead rate of 101.25% based on the average for calendar year
15 2007. The updated labor costs by department are detailed on Schedule LSM-
16 4, Page 2 of 2.

17

18 As shown on Page 1 of 2, the revised internal administrative costs associated
19 with providing DS are \$70,834. \$28,386 of that amount is attributable to the
20 Non-G1 class and \$42,447 is attributable to the G1 class. The current internal
21 administrative costs associated with providing DS are \$69,051, with \$27,546
22 attributable to the Non-G1 class and \$41,505 attributable to the G1 class.

1

2

In its Non-G1 and G1 Class default service filing for rates effective November

3

1, 2007, Staff expressed concern that the 400 man-hours per year spent by the

4

Energy Contracts department on default service related tasks appeared low.

5

Staff and UES agreed to review whether the hours allocated to UES default

6

service was appropriate. Until the matter was resolved, it was agreed that

7

UES would continue to use 400 hours for the Energy Contracts department.

8

9

In July 2008 UES and Staff agreed to a list of activities performed by Energy

10

Contracts appropriate for inclusion in Default Service. Energy Contracts has

11

begun to track Default Service related time going forward to better assess

12

whether 400 hours is reasonable, or to aid in developing a more appropriate

13

figure.

14

15 **Q. What is the proposed G1 Class DSC?**

16 A.

Schedule LSM-1, Page 2, shows the proposed G1 Variable DSC of \$0.09799 per kWh in November 2008, \$0.10800 per kWh in December 2008, and \$0.12171 per kWh in January 2009. There is no fixed option DSC for the G1 class.

19

20 **Q. How do the G1 DSC compare to the current rate?**

21 A.

The current DSC, based on a simple three-month average, is \$0.14797 per kWh.

22

The proposed rate, based on a simple three-month average, is \$0.10923 per kWh.

1 This is a decrease of \$0.03874 per kWh, on average, from the current rate. The
2 decrease reflects current market prices.

3

4 **Q. Please describe the calculation of the G1 class DSC.**

5 A. The rate calculations for the Variable DSC are provided on Schedule LSM-3,
6 Page 1. The Variable Charge is calculated by dividing the costs for each month,
7 including a partial reconciliation of costs and revenues through January 31, 2008²,
8 by the estimated G1 kWh purchases for the corresponding month. An estimated
9 loss factor of 4.591% is then added to arrive at the proposed retail Variable
10 Charges.

11

12 **Q. Have you provided support for the total forecast costs shown on Page 1,
13 line 2 of Schedule LSM-3?**

14 A. The details of forecasted costs for the period November 2008 through January
15 2009 are provided on Schedule LSM-3, Page 2. Line items for the various
16 costs included in default service are shown and include: Total G1 Class DS

² In its March 14, 2008 filing, UES provided the G1 Class reconciliation balance as of January 31, 2008, as adjusted, in the amount of \$429,961. UES apportioned the balance of \$429,961 based on kWh over the twelve month period May 2008 through April 2009 as follows: \$109,104 in May-July 2008, \$115,617 in August-October 2008, \$102,155 in November 2008-January 2009, and \$103,085 in February-April 2009. As shown on Schedule LSM-3, Page 1, the reconciliation amount used in this filing is \$102,155.

1 Supplier Charges, GIS Support Payments, Renewable Energy Credits
2 (“RECs”), Supply Related Working Capital, Provision for Uncollected
3 Accounts, Internal Company Administrative Costs, Legal Charges, and
4 Consulting Outside Service Charges. Working capital is calculated in a
5 similar manner as that described for the Non-G1 Class. The updated internal
6 administrative costs associated with providing default service are provided on
7 Schedule LSM-4.

8
9 **Q. How much of the proposed rate is the result of RECs?**

10 A. For the G1 class, total RECs for the period November 2008 through January
11 2009 is estimated to be \$31,278. From a retail rate standpoint, for the period,
12 this calculates to be \$0.00145 per kWh ($\$0.00174 \text{ per kWh} = (\$31,278 /$
13 $22,521,007) * (1 + 4.591\%)$).

14
15 **IV. BILL IMPACTS**

16 **Q. Have you included any bill impacts associated with the proposed rate**
17 **changes?**

18 A. Typical bill impacts as a result of changes to the DSC and base rates have been
19 provided in Schedule LSM-5.

20
21 Pages 1 through 3 provide a table comparing the existing rates to the proposed
22 rates for all the rate classes. These pages also show the impact on a typical bill

1 for each class in order to identify the effect of each rate component on a typical
2 bill.

3
4 Page 4 shows bill impacts to the residential class based on the mean and median
5 use. Page 4 is provided in a format similar to Pages 1 through 3.

6
7 Page 5 provides the overall average class bill impacts as a result of changes to the
8 DSC. As shown, for customers who have not chosen an external supplier, the
9 Residential class will increase about 5.8%. The General Service class will
10 increase about 5.9%. Large General Service will decrease about (20.3%).
11 Outdoor lighting will increase about 3.6%.

12
13 Pages 6 through 11 of Schedule LSM-5 provide typical bill impacts for all classes
14 for a range of usage levels.

15
16 **V. CONCLUSION**

17 **Q. Does that conclude your testimony?**

18 **A.** Yes, it does.