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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

August 21, 2008 - 1:35 p.m.
Concord, New Hampshire

RE: DE 08-092
UNITIL ENERGY SYSTEMS, INC.:
Proposed Tariff Filing of its Revised
Interim External Delivery Charge.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. Unitil Energy Systems, Inc.:
Meabh Purcell, Esq. (Dewey & LeBoeuf)

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

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

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I N D E X

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PAGE NO.

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WITNESS: FRANCIS X. WELLS

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Direct examination by Ms. Purcell

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Cross-examination by Ms. Amidon

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E X H I B I T S

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EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

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Unitil Energy Systems, Inc. Revised
Interim External Delivery Charge
filing (07-09-08)

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UES Response to Staff Request No. 1

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CLOSING STATEMENTS BY:

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Ms. Amidon

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Ms. Purcell

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good afternoon.
3 We'll open the hearing in docket DE 08-092. On July 9,
4 2008, Unitil Energy Systems filed a request to revise its
5 External Delivery Charge to reflect updated estimates of
6 transmission costs that were not available when the
7 Commission issued an order on this matter that was
8 effective May 1 of this year in docket DE 08-040. The
9 Company proposes an interim increase in its External
10 Delivery Charge from 1.131 cents per kilowatt-hour to
11 1.524 cents per kilowatt-hour effective September 1. An
12 order of notice was issued on July 17 setting this hearing
13 for this afternoon.

14 Can we take appearances please.

15 MS. PURCELL: Thank you. Good
16 afternoon, Commissioners. My name is Meabh Purcell, of
17 Dewey & LeBoeuf, representing Unitil Energy.

18 MS. AMIDON: Good afternoon. I'm
19 Suzanne Amidon, and I'm representing Commission Staff.
20 And, with he today is Henry Bergeron, who is a Utility
21 Analyst with the electric division.

22 CMSR. BELOW: Good afternoon.

23 CMSR. MORRISON: Good afternoon.

24 CHAIRMAN GETZ: Good afternoon. Is

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[WITNESS: Wells]

1 there anything we need to address, before we hear from Mr.
2 Wells?

3 MS. AMIDON: Mr. Chairman, we were
4 informed, both the attorney for Unitil and I were informed
5 by the OCA that they would not be participating in this
6 docket. And, I just wanted to let you know for the record
7 that we received that informal communication.

8 CHAIRMAN GETZ: Thank you. Ms. Purcell.

9 MS. PURCELL: Yes, I would just ask that
10 the witness be sworn.

11 (Whereupon Francis X. Wells was duly
12 sworn and cautioned by the Court
13 Reporter.)

14 MS. PURCELL: Thank you.

15 FRANCIS X. WELLS, SWORN

16 DIRECT EXAMINATION

17 BY MS. PURCELL:

18 Q. Could you please state your full name and your title
19 and your business address for the record.

20 A. Yes. My name is Francis X. Wells, Senior Energy
21 Trader. My business address is 6 Liberty Lane West,
22 Hampton, New Hampshire.

23 Q. Thank you. And, Mr. Wells, did you testify in the
24 proceeding in docket DE 08-040, which resulted in the

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[WITNESS: Wells]

1 April 23rd, 2008 order?

2 A. Yes, I did.

3 Q. Thank you. And, I'm going to show you a document dated
4 July 9, 2008. And, would you please identify this for
5 me.

6 A. That's the filing that we submitted to revise the
7 interim -- to request an interim EDC.

8 MS. PURCELL: Thank you. And, I would
9 ask that this be marked as "Company Exhibit 1".

10 CHAIRMAN GETZ: So marked.

11 (The document, as described, was
12 herewith marked as Exhibit 1 for
13 identification.)

14 MS. PURCELL: Thank you.

15 BY MS. PURCELL:

16 Q. And, Mr. Wells, does this filing -- does this Company
17 Exhibit 1 include your direct prefiled testimony?

18 A. Yes, it does.

19 Q. And, was your testimony prepared by you or under your
20 direction and supervision?

21 A. Yes.

22 Q. And, do you have any corrections or revisions at this
23 time?

24 A. No.

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[WITNESS: Wells]

1 Q. Thank you. Could you please briefly summarize the
2 reason for this interim filing.

3 A. Yes. UES proposes an interim increase in the External
4 Delivery Charge from 0.01131 per kilowatt-hour, which
5 was approved by the Commission in docket number DE
6 08-040, and has been effective since May 1st, 2008, to
7 0.01524 per kilowatt-hour to be effective
8 September 1st, 2008. UES proposes an increase in the
9 EDC rate because its revised estimates of transmission
10 costs are substantially higher than those which UES
11 provided to the Commission in DE 08-040. In that
12 docket, UES prepared estimates of transmission costs,
13 based on estimated transmission rates for the period of
14 June 2008 through April 2009. UES has since been
15 notified by Northeast Utilities and the transmission
16 owners in New England that the actual transmission
17 rates during this timeframe will be significantly
18 higher than they had been estimated, and UES is using
19 the currently effective rates as the basis for its
20 revised estimates.

21 In addition, NU has notified UES of a
22 true-up adjustment relating to NU's Network Integration
23 Transmission Service. And, UES proposes to recover
24 those additional transmission costs on a current basis,

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1 rather than carrying a significant underrecovery into
2 the next annual reconciliation filing.

3 Q. Thank you. Could you please explain why it's important
4 that this be performed on an interim basis, and rather
5 than waiting till the next scheduled annual
6 reconciliation filing?

7 A. Certainly. As discussed in my testimony, in my
8 prefiled testimony, UES's estimate of EDC costs for May
9 through April 2009 will be \$3.3 million higher than the
10 estimate provided to the Commission in DE 08-040.
11 Absent an interim EDC adjustment, the higher than
12 estimated costs would result in an under-recovery,
13 which be factored into the next annual reconciliation
14 filing for EDC rates to be effective May 2009 through
15 April 2010.

16 UES believes that the interim EDC
17 adjustment is preferable to deferring these costs until
18 the next annual reconciliation for a number of reasons.
19 First, the proposed interim EDC would send more
20 effective price signals to consumers, since the EDC
21 rate would better reflect the actual cost of service.
22 Second, a prompt recovery of EDC costs better matches
23 the required cash outlays, and would minimize the
24 carrying costs to the ultimate benefit of customers.

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[WITNESS: Wells]

1 And, third, transmission investment and costs in New
2 England have been and will continue to increase,
3 resulting in increased cost to consumers. UES is
4 concerned that, in the next annual reconciliation
5 filing, it is likely that another major increase in
6 transmission costs -- that there will be another major
7 increase in transmission costs, and we would like to
8 prevent an increase in the EDC for service beginning
9 May 2009 to be compounded by a significant
10 under-recovery for the current period.

11 Q. Thank you. And, does that conclude your direct
12 testimony?

13 A. Yes, it does.

14 MS. PURCELL: Thank you. Mr. Wells is
15 available for examination.

16 CHAIRMAN GETZ: Ms. Amidon.

17 MS. AMIDON: Thank you. I think I have
18 two questions related to Data Request 1 that the Staff
19 propounded in this docket. So, at this point, I would
20 like to request that the response -- the question and the
21 response be marked for identification as "Exhibit 2".

22 CHAIRMAN GETZ: It will be so marked.

23 (The document, as described, was
24 herewith marked as Exhibit 2 for

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[WITNESS: Wells]

1 identification.)

2 BY MS. AMIDON:

3 Q. And, Mr. Wells, you indicated that you had -- you have
4 a copy of that in your file?

5 A. Yes, that's correct.

6 Q. Okay. Thank you. Now, attached to your response is a
7 table, it says "Page 1 of 2". And, in that response,
8 it compares the "Original Regional Transmission
9 Estimate", which is at the bottom of the page, and
10 above it is the "Revised Regional Transmission
11 Estimate". And, basically, this was a question that
12 you compare your original estimate to the revised
13 estimate. When you look down at, on either section,
14 you have a calculation where you use "Hours per month".
15 And, for the month of February '09, there are "678"
16 hours, which actually represents 28.25 days. In
17 response to an informal data request by Mr. Bergeron,
18 you said that "the use of the 28 -- the 678 hours was
19 inadvertent"?

20 A. That's correct.

21 Q. And, will that be corrected for future filings?

22 A. Yes, it is.

23 Q. Okay. Now, the graph on Page 6 of your testimony I
24 believe presents a summary of the various components

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1 that impact the change in the External Delivery Charge.
2 The first component you have there is "NU Network
3 Integration Transmission Service", and there's a
4 variance of \$960,290. And, in your testimony, you say
5 that one of the factors that contributed to the
6 variance in the NU network services was UES used
7 outdated estimates of their revenue requirements, which
8 resulted in an underestimation of costs of about a
9 million dollars, is that correct?
10 A. The million dollars represents an annual true-up of the
11 NU Network Integration Transmission Service, the NU
12 Network Service. Each year, each year around June, NU
13 provides an estimate of the current year revenue
14 requirement and the next five months, the five months
15 of the next year, to get you from June through May,
16 they estimate revenue requirements to cover that
17 timeframe. But, each year, at the same time, in June,
18 they look back at the last completed calendar year. In
19 this case, in June 2008, they looked back at January
20 through December 2007, and compare what they billed for
21 revenue requirement and compare that to the actual
22 revenue requirement for 2007. So, they look at billed
23 revenue requirement for 2007 versus actual revenue
24 requirement.

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[WITNESS: Wells]

1 And, in this case, their estimate turned
2 out to be, at least in regards to billings to UES,
3 \$1 million lower than what they had billed us. So, the
4 actual 2000 [2007?] revenue requirement was actually
5 about half of what they -- or, excuse me, the actual
6 2007 revenue requirement was double approximately than
7 what they had actually billed us during that time. So,
8 because they have got a formula rate that provides for
9 this annual reconciliation or annual true-up of costs,
10 the million dollars is actually truing up for NU's
11 estimate to UES for billings in 2007.

12 Q. So, this is -- this true-up was based then on, I mean,
13 the fact that there was an under-recovery of these
14 revenue requirements was based on NU's incorrect
15 estimate?

16 A. That's correct.

17 Q. Okay. You also said there were a couple of other
18 reasons for the NU network costs being higher, and one
19 was higher than estimated revenue requirements for
20 capital, associated capital additions. And, also, you
21 said that NU received some lower than estimated
22 transmission revenue credits from the ISO. Could you
23 explain these two factors?

24 A. Certainly. Referring to the -- Referring to that data

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[WITNESS: Wells]

1 request, there was another data request in which I
2 provided actually communication from NU to UES and our
3 inquiry as to what's driving the cost estimate, the
4 variance between the actual revenue requirement and the
5 revenue requirement that they billed. And, there were
6 really two things that were going on. One was, and I
7 think, just from my recollection of both that e-mail
8 and my subsequent discussions with NU, when they do
9 their revenue requirement estimate, they have to assume
10 that there's a ratio between revenue requirement and
11 transmission investment in order to -- in order to
12 estimate the revenue requirement. So, they take prior
13 year revenue requirement, and then they add really the
14 product of what they think there going to put in for
15 transmission investment and this thing we call a "fixed
16 carrying charge".

17 Q. Uh-huh.

18 A. And, the "fixed carrying charge" is simply the ratio of
19 the prior year's revenue requirement to the total
20 amount of transmission investment. There were two
21 things that went on in 2007. One was that the carrying
22 charge for 2007 ended up being higher than 2006. So,
23 even if there had been no, you know, even if there had
24 been no transmission investment, the revenue

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1 requirement would have gone up substantially for other
2 reasons. And, then, that gets compounded by the fact
3 that you have transmission investment going into place,
4 and that's also been estimated at a lower revenue
5 requirement, every dollar of transmission investment,
6 and it actually results in a higher revenue requirement
7 than had been estimated.

8 Q. Would you say that -- would you say that, as between
9 the two, the incremental revenue requirements and the
10 ISO credits, which one contributed more to the
11 variance?

12 A. I'm not really sure.

13 Q. Okay.

14 A. I can't answer that question precisely. I would have
15 to go back to NU and ask that, for that data.

16 Q. Okay.

17 A. But I do know -- actually, you remind me that I didn't
18 completely answer the question previously. When NU
19 does a -- I apologize, it is a -- I am actually
20 stretching my own ability here to organize all of
21 technical aspects of the way transmission rates work.

22 Q. Yes.

23 A. But, in addition to coming up with an estimate of the
24 transmission requirement, of the revenue requirement

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1 for NU, they then back out an estimate for revenue from
2 the ISO. And, that really is the -- the other side of
3 this is there is a Regional Network Service rate that
4 NU gets revenue from. Basically, they come up with an
5 estimate for their total revenue requirement, then
6 deduct what they think they're going to get for revenue
7 from the ISO. And, that ends up being what they bill
8 us. So, there really were two things that happened.
9 One was that the revenue requirement was higher than
10 they estimated, because just as a general increase in
11 costs. And, then, the second thing was that the
12 revenue they got from the ISO was lower.

13 Q. Right.

14 A. And, those are based on -- they use a -- ISO publishes
15 a load forecast, and they base their forecast of
16 revenue on that, and it ended up being a cool 2007. So
17 that, because ISO revenue is directly correlated with
18 high peaks, when those peaks come in lower than
19 forecast, the revenue comes in lower than forecast as
20 well.

21 Q. Okay. Well, believe me, I'm stretching my knowledge of
22 the transmission rate structure as well. So, we're in
23 the same boat. Going back again to Page 6 of your
24 testimony, which has this graph. Variance for regional

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1 transmission and operating entities is roughly
2 \$2.3 million. And, when you explain in your testimony
3 the reasons for some of the variance in this part of
4 the EDC, you said that you had "prepared your original
5 rates based on rates in effect in 2006". Was I correct
6 in reading it that way?

7 A. Yes.

8 Q. And, then, you also based the capital additions based
9 on a document that was prepared in October 2007, is
10 that correct?

11 A. That's correct.

12 Q. Okay. And, in your testimony, you have three different
13 factors which you account for this variance. And,
14 based on revisions in responses to data requests, which
15 are not part of the record, but are important in this
16 discussion, you said that "30 percent of the variance
17 was due to the difference between the estimated
18 regional transmission rate and the actual transmission
19 rate", is that correct? And, I think it's in your
20 testimony, maybe Page 8.

21 A. I see that. I see it. That's --

22 Q. And, you revised that, and, I'm sorry, I don't have the
23 data request in front of me. Yes. And, you revised
24 your answer in your response to Staff Request Number

[WITNESS: Wells]

1 12. You revised the "26 percent", which was in your
2 testimony, to "30 percent"?

3 A. Yes, that's correct.

4 Q. Okay. And, then, in that same response, you said
5 "32 percent of the variance resulted from UES's
6 underestimation of the New England transmission owners'
7 estimate of their revenue requirements for 2008 capital
8 additions?

9 A. Yes.

10 Q. Okay. And, then, finally, you say that "the remaining
11 38 percent is related to items not directly related to
12 either capital investment or the reconciliation of 2007
13 revenue requirement estimate." Could you tell us what
14 those items would include?

15 A. My understanding is that, just as for NU's revenue
16 requirement, there was just a general increase in costs
17 from 2006, which was the really the foundation of the
18 estimated revenue requirement for 2007 for NU. I think
19 the same thing is going on throughout New England. So
20 that this, you know, although I can't quantify what
21 makes up 38 percent, it's attributable to just a
22 general increase in revenue requirements that is really
23 driving the increase in rates.

24 Q. Well, it's more than a third resulting for the

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1 variance. And, if you don't have that information in
2 front of you, I would ask for a record request that you
3 give us examples of what kinds of costs constitute
4 these other costs related to the ISO operation?

5 A. Yes, I can look into that. The challenge will be that
6 I'm, as not being a transmission -- this is all based
7 on the books of accounts of the transmission owners
8 themselves. And, so, I'll have to work with the
9 transmission owners themselves in order to get that
10 data.

11 Q. Well, let me ask you this. Does this come through the
12 ISO tariff? Is this billed to UES through the ISO
13 tariff?

14 A. It is billed through the ISO -- to UES through the ISO
15 tariff.

16 Q. And, do they not have any kind of identification, in a
17 general manner, I'm not looking for specifics, in a
18 general manner what these costs cover?

19 A. Yes. Okay. I apologize for interrupting. I didn't
20 mean to kind of talk over you.

21 Q. That's okay.

22 A. The ISO rate is actually -- the revenue requirement is
23 actually a compilation of the revenue requirements of
24 each transmission owner. So, in order to do that

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1 today, I looked at trying to do the exact type of
2 analysis that you're asking for. And, the difficulty
3 is that it requires me to look for each of the eight or
4 ten, and I can't remember the exact number now of, you
5 know, there's probably closer to eight, of each
6 transmission entity, comparing their cost year over
7 year, and then trying to correct for the fact that
8 revenue -- that the investment base has increased. So,
9 based on publicly available data, I find -- I would
10 find that analysis to be extremely difficult to do. I
11 have to actually go to each company to get that type of
12 analysis.

13 Q. Okay. But is it fair to say then it's those costs
14 associated with the other transmission owners'
15 operation of the transmission facilities?

16 A. It would be fair to say that, yes.

17 Q. Okay. That was the kind of thing I was looking for,
18 something general.

19 CHAIRMAN GETZ: So, does that mean -- is
20 there still an issue of whether there should be a record
21 request?

22 MS. AMIDON: I don't think we need a
23 record request. Thank you, Mr. Chairman.

24 BY MS. AMIDON:

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[WITNESS: Wells]

1 Q. And, do you receive the information on the ISO tariff
2 in the early part of June?

3 A. It was -- yes.

4 Q. Okay. And, so, what is the effective span for those
5 rates? Is it June to May or is it July to June?

6 A. It's June through May.

7 Q. Okay.

8 A. They actually set the rate effective June 1. You find
9 out about that in mid June.

10 Q. Okay. Have you ever considered changing the timing of
11 the reconciliation to reflect more accurate numbers,

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