

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

April 19, 2018 - 1:11 p.m.
Concord, New Hampshire

4 NOV '18 2:50

RE: DE 18-036
UNITIL ENERGY SYSTEMS, INC.:
Petition for Approval of Step
Increase and Other Rate Adjustments.
(Hearing on the merits)

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Michael S. Giaimo

Sandy Deno, Clerk

APPEARANCES: Reptg. Unitil Energy Systems, Inc.:
Gary Epler, Esq.

Reptg. Residential Ratepayers:
Brian D. Buckley, Esq.
James Brennan, Finance Director
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
Richard Chagnon, Electric Division

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

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Unitil Energy Systems, Inc. Petition for Approval of Step Increase and Other Rate Adjustments, including the Testimony of David L. Chong with schedules and the Testimony of Richard L. Francazio with exhibit and schedule	<i>premarked</i>
2	Fourth Revised Page 69, Superceding Third Revised Page 69, entitled "Storm Recovery Adjustment Factor Schedule SRAF"	<i>premarked</i>
3	Response to Informal Request No. 1, including attachment	<i>premarked</i>

P R O C E E D I N G

1
2 CHAIRMAN HONIGBERG: We are here this
3 afternoon in Docket 18-036, which is a step
4 increase request, among other things, for
5 Unitil. It's a hearing on the merits. I'll
6 note that Commissioner Bailey is not with us
7 today. She's on vacation. If we need her to
8 review the transcript to participate, we will
9 do that.

10 Before we do anything else, let's
11 take appearances.

12 MR. EPLER: Good afternoon, Mr.
13 Chairman, Commissioner. Gary Epler, appearing
14 on behalf of Unitil Energy Systems.

15 Thank you.

16 MR. BUCKLEY: Good afternoon, Mr.
17 Chairman, Commissioner. My name is Brian D.
18 Buckley. I'm the staff attorney with the
19 Office of the Consumer Advocate. To my left is
20 Mr. James Brennan, Director of Finance at the
21 Office of the Consumer Advocate. And we're
22 today to represent the interests of residential
23 ratepayers.

24 MS. AMIDON: Good afternoon. Suzanne

1 Amidon, with Commission Staff. And today I
2 have Rich Chagnon, an Analyst with the Electric
3 Division.

4 CHAIRMAN HONIGBERG: I see witnesses
5 are prepositioned. How are we proceeding
6 today, Mr. Epler?

7 MR. EPLER: We are ready to proceed
8 with the witnesses. But, first, if I could
9 address an administrative matter.

10 Before you is a document that we
11 would request be premarked as "Exhibit Number
12 1". Now, what this is, as you're aware, that
13 the Company made an initial filing, and then
14 had some revisions to the filing, what this
15 exhibit does is it compiles the revisions,
16 removes the sections of the original filing
17 that are no longer applicable, and puts it into
18 one document for clarity of the record. So,
19 that's all this does.

20 The only thing that you have not seen
21 in this document is the cover, the Table of
22 Contents, because it's a new Table of Contents,
23 and I have also revised the cover letter. So,
24 that's pages Bates stamp 001 and 002, just to

[WITNESS PANEL: Chong|Francazio]

1 make them consistent with the rest of the
2 filing.

3 But, otherwise, the rest of the
4 filing you have seen already, but it's now in
5 this.

6 CHAIRMAN HONIGBERG: That sounds very
7 convenient. And then we have a couple of other
8 exhibits up here. Are they from Staff?

9 MS. AMIDON: The one marked "Exhibit
10 3" is something that Staff introduced, intends
11 to discuss. And not to speak for Mr. Buckley,
12 but I do know that Number 2 is a tariff page he
13 had questions about.

14 CHAIRMAN HONIGBERG: So, we have one
15 from everybody today.

16 MR. EPLER: One from everybody.

17 CHAIRMAN HONIGBERG: All right.
18 Mr. Epler, why don't you get us started.

19 MR. EPLER: Okay.

20 CHAIRMAN HONIGBERG: Actually, let's
21 have the witnesses sworn in first.

22 (Whereupon **David L. Chong** and
23 **Richard L. Francazio** were duly
24 sworn by the Court Reporter.)

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[WITNESS PANEL: Chong|Francazio]

1 CHAIRMAN HONIGBERG: Mr. Epler.

2 MR. EPLER: Yes.

3 **DAVID L. CHONG, SWORN**

4 **RICHARD L. FRANCAZIO, SWORN**

5 **DIRECT EXAMINATION**

6 BY MR. EPLER:

7 Q Mr. Francazio, can you please state your full
8 name and your position with the Company.

9 A (Francazio) My name is Richard Francazio. And
10 I am the Director of Business Continuity &
11 Compliance at Unitil.

12 Q And, Mr. Chong, the same questions to you
13 please.

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

16 Q Okay. Mr. Francazio, can you please turn to
17 the document that's been premarked as "Exhibit
18 Number 1". And can you turn to the last two
19 items in there that start on the Bates stamp
20 Page 084 through 134?

21 A (Francazio) What page, I'm sorry?

22 Q 084 through the end.

23 A (Francazio) Okay. Yes.

24 Q And do those pages consist of your testimony

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[WITNESS PANEL: Chong|Francazio]

1 and a October 2017 Wind Event After Action
2 Report?

3 A (Francazio) It does.

4 Q And were these prepared by you or under your
5 direction?

6 A (Francazio) Yes, they were.

7 Q Okay. And do you adopt them as your testimony
8 in this case?

9 A (Francazio) I do.

10 Q Thank you. Mr. Chong, would you please turn to
11 the same premarked exhibit. And can you refer
12 to the pages beginning at 007 through 083?

13 A (Chong) Okay.

14 Q And do those pages consist of your testimony
15 and supporting schedules?

16 A (Chong) Yes, they do.

17 Q And were these prepared by you or under your
18 direction?

19 A (Chong) Yes, they were.

20 Q And do you adopt these as your testimony in
21 this proceeding?

22 A (Chong) I do.

23 Q And do either of you have any changes or
24 corrections to these pages?

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[WITNESS PANEL: Chong|Francazio]

1 A (Francazio) I do not.

2 A (Chong) No.

3 MR. EPLER: Thank you very much. The
4 witnesses are available for cross-examination.
5 Thank you.

6 CHAIRMAN HONIGBERG: Mr. Buckley.

7 MR. BUCKLEY: Thank you, Mr.
8 Chairman.

9 **CROSS-EXAMINATION**

10 BY MR. BUCKLEY:

11 Q Mr. Chong, I'm going to start with you. If I
12 could ask you to turn to Bates Page 012, Lines
13 10 through 16, in Exhibit 1.

14 A (Chong) I'm there.

15 Q So, this passage summarizes the impact of the
16 step recoupment removal and tax reform, is that
17 correct?

18 A (Chong) That is correct.

19 Q And reading this, in the last sentence before
20 the table, at Line 15, expresses a "zero change
21 in base rates". But it looks like the table
22 below actually shows a net decrease in base
23 rates, is that correct?

24 A (Chong) Yes. That's an oversight. Line 15

[WITNESS PANEL: Chong|Francazio]

1 should indicate a "decrease in base rates of
2 negative \$352,820".

3 Q So, moving on, I'm going to just touch briefly
4 upon, first, the step increase, the impact of
5 tax reform, the VMP and RFP, and then finally
6 the changes to the SRAF, Storm Recovery
7 Adjustment Factor.

8 A (Chong) Okay.

9 Q Starting with the step increase. At Bates
10 Pages 014 through 017, you describe how the
11 Company arrives at the step of about
12 \$3.3 million, which represents the revenue
13 requirement associated with 80 percent of
14 changes in net plant in service for the period
15 January 1st, 2017 through December 31st, 2017,
16 as contemplated in the Settlement Agreement
17 from 2017. Is that correct?

18 A (Chong) That's correct.

19 Q As you cover in your testimony at Bates Page
20 015, the step was larger than expected. Can
21 you briefly summarize why?

22 A (Chong) In the Settlement Agreement to the last
23 base rate case, the forecasted step adjustments
24 were based on capital spending or capital

[WITNESS PANEL: Chong|Francazio]

1 expenditures. That's how we budget normally
2 from a budgeting perspective.

3 However, the actual mechanism picks up
4 plant closed to plant placed into service or
5 plant closed to service. The timing of plant
6 closing versus actual dollars spent in any year
7 can vary potentially very dramatically. And I
8 tried to explain on this Bates Page 015 that
9 there is a timing of a substation project with
10 multiple years of spending that closed within
11 that year that drove up that step adjustment.

12 Q So, it largely had to do with when costs
13 associated with a capital project were booked,
14 is that correct?

15 A (Chong) Closed to plant in service, correct,
16 versus actually expended for.

17 Q And according to the Settlement Agreement, the
18 aggregate of the three steps contemplated in
19 the Agreement are capped at \$4.5 million, is
20 that correct?

21 A (Chong) That's correct.

22 Q And as I think you note on Bates Page 017,
23 Line 5, with the first step having been about
24 \$900,000, the second now having been about

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[WITNESS PANEL: Chong|Francazio]

1 3.3 million, is my understanding correct that
2 the third step, which would take effect May 1st
3 of next year, would be limited to around
4 \$300,000 or so?

5 A (Chong) Yes. Bates Page 017, Line 5, sets the
6 exact amount.

7 Q Moving on to tax reform. Broadly speaking, as
8 you express from the bottom of Bates Page 017
9 to the bottom of Bates Page 018, the
10 methodologies used to determine the impact of
11 tax reform have been rather broadly accepted
12 with the industry and, in fact, have been
13 agreed upon by Staff of the Commission, the
14 OCA, and the Company's affiliate, Northern
15 Utilities, in a prior rate case settlement
16 agreement, is that correct?

17 A (Chong) That is correct. And also the
18 Company's Maine Division, in a sister rate
19 case.

20 Q Now, moving on to Bates 019, Lines 2 through 7.
21 You describe the regulatory liability you were
22 directed to record and how it would be
23 recovered via the EDC.

24 A (Chong) Correct.

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[WITNESS PANEL: Chong|Francazio]

1 Q And can you explain to us why this is recovered
2 via the EDC, rather than as a reduction in the
3 distribution revenue requirement, like the
4 other impacts of tax reform?

5 A (Chong) I'm sorry. I don't see the word
6 "recovered". Could you point me to the line?

7 Q Or rather, maybe that should be "reconciled",
8 rather than "recovered".

9 A (Chong) Okay. This would be a overcollection
10 flowing back to ratepayers. So, it would be a
11 reduction in bills to ratepayers. The word
12 "reconciliation" is just a term that we use for
13 any type of filing that tracks costs, tracks
14 revenues and costs. Those are just a typical
15 reconciliation filing.

16 Q So, it makes sense to take care of this
17 liability within the EDC, rather than within
18 changes to the overall distribution revenue
19 requirement. Is that the summary of it?

20 A (Chong) I think that would be ultimately
21 probably the best way to show it. If we were
22 to reduce base rates for it, we would have to
23 increase base rates for it again next year.
24 So, I believe that just doing a one-time

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1 flowback to the EDC would be the most efficient
2 process.

3 I would like to indicate, the bill impact
4 that have been provided in this testimony of a
5 negative 0.1 percent to the residential bill
6 does not reflect this EDC flowback. The EDC
7 flowback would be another negative 0.3 percent
8 to the residential bill.

9 Q And so, that would be a total of negative
10 0.4 percent reduction in residential bills --

11 A (Chong) Correct. Correct. Right. The reason
12 it's not in the bill impacts, it's because it's
13 a temporal issue. The EDC takes effect later,
14 past May 1st.

15 Q Moving on to Bates Page 020 through 021. You
16 explain why excess ADIT balances resulting from
17 tax rate changes will not be addressed in this
18 step increase, but will rather be deferred to
19 the next rate case. And I think I understand
20 why this is. But if you could just very
21 briefly walk me through your reasoning once
22 more, I think that would be helpful.

23 A (Chong) Yes. I think the major premise of the
24 reasoning is that base rates were established

[WITNESS PANEL: Chong|Francazio]

1 at -- I believe the test year was 2015, anyways
2 it was a prior test year, the valuation of
3 excess ADIT occurs at year-end 2017. So,
4 essentially, I believe it's mismatched. Our
5 rates reflect 2015 assets and recovery of 2015
6 assets. So, I don't think that we can flow
7 back a 2017 layer of rate base that's not
8 reflected in rates. I don't think that that's
9 mathematically or ratemaking matched.

10 Q Now, one final question here on tax reform.
11 Bates 021, Lines 3 through 14, you express a
12 sentiment regarding the impact of tax reform on
13 the Company's funds from operations, and how
14 that might impact required returns for the
15 Company moving forward.

16 Can you briefly summarize that for me?

17 A (Chong) Our concern is impact on cash flow from
18 operations or funds from operations. That
19 statistic is a highly monitored statistic by
20 the rating agencies, particularly Moody's.
21 Moody's has expressed concern. They have
22 issued -- earlier this year they issued a
23 report essentially putting numerous utilities
24 on watch for a potential downgrade because of

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1 the impact to cash flow and funds from
2 operations. We believe it -- we believe time
3 will tell what it actually has -- what it
4 actually results in terms of return on equity
5 awards, may be a little preliminary to state
6 anything right there.

7 But our preliminary thought would be that,
8 if your cash flow is going down and your credit
9 statistics are slightly down, it may result in
10 higher ROEs for utilities implicit in the
11 future.

12 Q So, you mentioned the phrase "potential
13 downgrades". But, to be clear thus far, have
14 we seen any evidence of downgrades attributable
15 to this reduction in funds from operations?

16 A (Chong) I would have to read the reports again.
17 I don't know that they actually downgraded any.
18 I know they put many on watch for a downgrade.
19 I just don't know if they -- they may have
20 downgraded one or two, I don't know. I would
21 have to review the report again.

22 Q Moving on to the Vegetative Management Plan and
23 Reliability Enhancement Program, at Bates
24 Page 046 [026?], and this is jumping ahead a

[WITNESS PANEL: Chong|Francazio]

1 bit, you describe the reconciliation of the
2 REP/VMP expenses for calendar year 2017. Which
3 result in an overall credit to customer bills,
4 is that correct?

5 A (Chong) That is correct.

6 Q Now, finishing with the SRAF, I'm going to ask
7 you to turn to Bates Page 022 through 025.

8 A (Chong) Okay.

9 Q And on those pages, you describe changes to the
10 Storm Recovery Adjustment Factor, including
11 movement of the October 2017 storm costs of
12 approximately 1.2 million out of the Major
13 Storm Cost Reserve and into the SRAF. And
14 pending decreases resulting from prior storms
15 having been fully amortized, this results in an
16 overall decrease on May 1st. Is that correct?

17 A (Chong) That is correct.

18 Q And just for my own benefit here, can you tell
19 me briefly about the difference between the
20 MSCR and the SRAF? Or, perhaps maybe Mr.
21 Francazio would care to do so.

22 A (Francazio) Yes. So, the MSCR is the reserve
23 that we have set up for, basically, relatively
24 small storms, and it has to meet very specific

[WITNESS PANEL: Chong|Francazio]

1 criteria. Within my testimony, I define what
2 that criteria is. And it has to do with both
3 accumulating or actually defining what the
4 pre-event criteria are, as well as what the
5 actual criteria are. If we meet certain
6 criteria, according to weather conditions, we
7 can then actually collect the revenue -- or,
8 collect -- excuse me -- collect the monies
9 associated with the pre-staging of resources
10 and put that into the reserve. Whether or not
11 that actually meets the definition of a "major
12 storm" criteria, that's already been defined by
13 the Commission. Okay.

14 Q And so, for clarity here, the Major Storm Cost
15 Reserve is for smaller storms than the Storm
16 Recovery Adjustment Factor?

17 A (Francazio) Right.

18 Q In spite of it being called the "Major Storm
19 Cost Reserved?

20 A (Francazio) Typically, yes. Okay. So, we said
21 that -- when we actually set that up, we said
22 that the bigger storms would basically meet the
23 criteria anyways, and they'll take care of
24 themselves. So, the reserve was really set up

[WITNESS PANEL: Chong|Francazio]

1 for what we thought was going to be the smaller
2 type of events.

3 In addition to that, when we did have a --
4 you want to call it an "exogenous" event, such
5 as a hurricane, like Sandy, or even this last
6 October wind storm, those type of events, we
7 had anticipated, you know, we would have the
8 option to do something with the actual SRAF.

9 Q And in your judgment, as I think you express at
10 Bates 95, Lines 5 through 10, you believe the
11 October wind storm meets the definition of a
12 qualifying major storm based on the number of
13 concurrent troubles, percentage of customer
14 interruptions, and where the storm fell in the
15 Energy Event Index?

16 A (Francazio) Correct. We far exceeded the
17 criteria in that event.

18 Q So, now returning just very briefly to Mr.
19 Chong. I recall that the proposal for moving
20 the October 2017 wind storm into the SRAF is to
21 move it into the SRAF and amortize it over a
22 period of five years, is that correct?

23 A (Chong) That is correct.

24 Q Do you have before you Exhibit 2?

[WITNESS PANEL: Chong|Francazio]

1 A (Chong) I do.

2 Q Can you tell me just briefly what Exhibit 2 is?

3 A (Chong) It is the Company's tariff for the SRAF
4 mechanism. And it describes the dollar amounts
5 and the different amortization periods for the
6 various storms in the SRAF mechanism.

7 Q So, within the context of these various storms,
8 which perhaps it would just be helpful to
9 briefly highlight there their relevant costs,
10 overall costs, and then amortization periods?

11 A (Chong) Sure. The 2008 and -- December 2008
12 ice storm and February 2010 wind storm were
13 combined together. The total cost was
14 \$7.65 million, and that was amortized over a
15 period of eight years, or an annual amount of
16 about \$1.1 million.

17 There's another layer in the SRAF, and
18 that is the Tropical Storm Irene and the
19 snowstorm, both of which occurred in 2011. The
20 combined amount of these were \$4.5 million,
21 amortized over a period of five years at an
22 annual amortization rate of about \$1 million.

23 And then, finally, there is Hurricane
24 Sandy, which occurred in 2012. That has a

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1 total cost of \$2.4 million, which is being
2 amortized over five years, or about 0.5 million
3 annually.

4 Q So, would it be fair to say, Mr. Chong, that
5 the amortization rate of the various storms
6 that we see here, although it's five, five, and
7 eight years, that amortization rate was
8 associated with, in most cases, a much larger
9 overall cost that was being amortized, is that
10 correct?

11 A (Chong) I would agree with that.

12 Q And I'm wondering, under the Company's proposal
13 for a five-year amortization, there are
14 carrying charges associated with that, is that
15 correct?

16 A (Chong) That is correct.

17 Q So, would it be fair to say that, if the
18 amortization were changed for that October 2017
19 wind storm here, from five-year to let's say
20 three-year, that that would save ratepayers
21 some money in the overall long-term, although
22 it might result in a slightly higher bill in
23 the very near term, is that correct?

24 A (Chong) I would agree ultimately it would save

[WITNESS PANEL: Chong|Francazio]

1 ratepayers carrying costs, which, over the long
2 term, would result in less dollars being funded
3 from ratepayers.

4 Q And is it correct that, on May 1st, 2018, we'll
5 see I think it is Hurricane Sandy drop out of
6 the SRAF?

7 A (Chong) That is correct.

8 Q And then, on May 1st, 2019, we'll see a fair
9 number of these other storms drop out of the
10 SRAF as well, is that correct?

11 A (Chong) That is correct.

12 Q So, within that context, I'm wondering if you
13 could comment on what the value of moving from
14 the five-year to the three-year amortization of
15 that storm would be, and if that is something
16 that the Company would be amenable to?

17 A (Chong) The Company would be amenable to that.
18 The Company's perspective, with any under
19 collected regulatory asset, we believe that
20 represents a financing requirement for the
21 Company. So, the faster the Company can get
22 recovery of it, the better off both the Company
23 and ratepayers will be.

24 MR. BUCKLEY: Thank you, Mr. Chong,

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[WITNESS PANEL: Chong|Francazio]

1 Mr. Francazio. No further questions.

2 CHAIRMAN HONIGBERG: Ms. Amidon. Off
3 the record.

4 *[Brief off-the-record discussion*
5 *ensued.]*

6 CHAIRMAN HONIGBERG: Ms. Amidon.

7 MS. AMIDON: Thank you. Good
8 afternoon.

9 BY MS. AMIDON:

10 Q I think this is for you, Mr. Chong. The
11 proposed step adjustment for 2018 for capital
12 spending, the total amount there is roughly
13 \$3.3 million, is that right?

14 A (Chong) That is correct.

15 Q If I -- and if we go to I believe it's Bates
16 035, it's DLC-1, Page 1 of 5. There's a
17 calculation that appears at the bottom of this
18 page, and I just wanted to ask you how you
19 derived that?

20 A (Chong) Okay. Which line?

21 Q I'm looking at the -- beginning with Line 18,
22 the "Rate Cap Limit".

23 A (Chong) Okay.

24 Q All right. So, if you could just explain

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1 what's going on there, and how you derived the
2 step adjustment --

3 A (Chong) Yes.

4 Q -- for the remaining periods?

5 A (Chong) Yes. I agree the presentation may be a
6 little confusing. Lines 20 through 23, let me
7 walk you through a big picture, --

8 Q Right.

9 A (Chong) -- an easier way to look at this. The
10 cap is \$4.5 million. From the 4.5 million, you
11 can subtract 3.3 million from this step, and
12 then you can subtract the revised 2017 step
13 adjustment from that, which would be 900,000,
14 less 45,000, would be the revised 2017 step.

15 Q And could you explain why you revised that step
16 and not the step that were current, for the
17 current period?

18 A (Chong) Sure. The 2017 step was pre the Tax
19 Cuts and Jobs Act of 2017. So, the rate of
20 return reflects a higher rate of return for
21 taxes in 2017. The 2018 step adjustment, we
22 adjusted the pre-tax rate of return to reflect
23 the lower taxes.

24 Q And so, when you adjusted that amount, instead

[WITNESS PANEL: Chong|Francazio]

1 of getting something like 296,000, you got
2 341.8 thousand (341,800)?

3 A (Chong) As the remaining 2019 step adjustment,
4 yes.

5 Q Okay. Thank you. I just needed you to walk me
6 through that. Just to clarify though, there's
7 no -- there's no assumed additional adjustment
8 there going forward, because the new tax law is
9 in effect. Is that fair to say?

10 A (Chong) No, there's not.

11 Q Okay. So, based on the questions that you
12 heard from Attorney Buckley, would the Company
13 be amenable to recovering that last wind storm
14 over a period of three years, instead of five
15 years?

16 A (Chong) Yes, the Company would.

17 Q Okay. And would you be surprised if I said I
18 talked to Mr. Buckley about this and that I
19 agree with him?

20 A (Chong) I would not.

21 Q You wouldn't, would you?

22 A *(No verbal response)*.

23 Q All right. Thank you. I don't know if you
24 have it marked as an exhibit, but there is a

[WITNESS PANEL: Chong|Francazio]

1 document that is your response to informal
2 Request Number 1 in this docket. Do you have
3 that in front of you?

4 A (Chong) I do.

5 Q Okay. I just have a few questions about this
6 document. And this, again, it returns to the
7 subject of the Storm Reconciliation Adjustment
8 Factor.

9 In the second paragraph, or I guess it's
10 the second sentence of your -- third sentence
11 of your answer, you say "The Company requests
12 to transfer the April 30th, 2018 over/under
13 balance related to Hurricane Irene and
14 Hurricane Sandy into the Company's External
15 Delivery Charge mechanism."

16 Are you making that request in this
17 docket?

18 A (Chong) I think the Company can ask -- ask to
19 implement that request in the Company's next
20 External Delivery Charge filing.

21 Q And you file it sometime in June, if I remember
22 correctly?

23 A (Chong) I believe that's correct.

24 Q All right. So, and if you go to the second

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1 page, I don't think the second page is
2 numbered, but if you turn the page over and go
3 to the second page of this document, which
4 looks like Page 1 of 3, the "Storm Reconcile
5 Adjustment" -- eh -- the "Storm Reconciliation
6 Adjustment Factor Summary".

7 A (Chong) I'm there.

8 Q Okay. Well, so, there's two storms depicted on
9 this page. The first storm is the Hurricane
10 Irene and Snowtober, which, by the way, is a
11 terrible name. This storm began -- you began
12 recovery of this in May 2012, is that fair to
13 say?

14 A (Chong) That is correct.

15 Q And so, five years would have been May a year
16 ago, is that right?

17 A (Chong) That is correct.

18 Q And if I understand this correctly, you want to
19 move this amount of \$14,000 into the EDC
20 calculation in the June filing, is that right?

21 A (Chong) That is correct.

22 Q And do you know why this wasn't done last year,
23 as opposed to this year?

24 A (Chong) So, the under/overcollection, just for

[WITNESS PANEL: Chong|Francazio]

1 the benefit of everyone, this occurs because
2 the amortization is set on a forecasted
3 kilowatt-hour sales, and actual kilowatt-hour
4 sales will vary. So, there will definitely be
5 an under/overcollection on every one of these
6 mechanisms in SRAF.

7 The Company just proposes to roll this
8 balance as of April 18 to the EDC filing this
9 year and resolve that issue.

10 Q Okay. And similarly, the Hurricane Sandy,
11 which is the one that you mention in that data
12 response to the right of the page, the proposal
13 would be to include the 60 -- perhaps I don't
14 have that right, the 60 --

15 A (Chong) 69,000.

16 Q Sixty-nine. Thank you.

17 A (Chong) Yes. That is an estimate as of right
18 now.

19 Q Right.

20 A (Chong) But the actual balance we will move
21 over.

22 Q And again, that's, if I understand it, you'll
23 include that in the reconciling portion of the
24 EDC. So, it's a one-time calculation. It's

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[WITNESS PANEL: Chong|Francazio]

1 not something that continues --

2 A (Chong) Right. It would be --

3 Q -- to collect money for the Company?

4 A (Chong) It would be a one-time charge to the
5 cost in the EDC that would just flow through
6 the -- I believe it's a one-year forecast --

7 Q Right. To the calculation.

8 A (Chong) Yes.

9 MS. AMIDON: One moment please.

10 (Atty. Amidon conferring with
11 Mr. Chagnon.)

12 MS. AMIDON: Thank you. That's all
13 we have.

14 CHAIRMAN HONIGBERG: Commissioner
15 Giaimo.

16 CMSR. GIAIMO: Good afternoon,
17 gentlemen.

18 WITNESS FRANCAZIO: Good afternoon.

19 WITNESS CHONG: Good afternoon.

20 CMSR. GIAIMO: So, Mr. Buckley did a
21 good job stealing many of the questions I had
22 highlighted, but I still have a few left
23 remaining.

24 BY CMSR. GIAIMO:

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[WITNESS PANEL: Chong|Francazio]

1 Q Bates 016, Mr. Chong, you talk a little bit
2 about the actual capital additions, the actual
3 capital additions and the closing of plant.

4 A (Chong) Yes.

5 Q Could you briefly talk about the overruns --

6 *[Court reporter interruption.]*

7 BY CMSR. GIAIMO:

8 Q Were there overruns and delays associated with
9 the projects?

10 A (Chong) In my testimony, on Bates Page 014 and
11 015, I did not provide a specific cost variance
12 analysis. I would have to go and defer to
13 my -- to our Engineering and Plant Construction
14 Group. But I did ask them in general, while
15 preparing this, that they did not indicate any
16 major overruns or variances with the
17 substations or any other categories of
18 spending. They indicated it was just the
19 timing of plant closing versus the capital
20 cash -- the capital expenditure forecasts in
21 the initial filing. But I have no indication
22 there were any major overruns.

23 Q Okay. Thanks. On Bates -- starting at the
24 bottom of Bates 020, it states "In conclusion,

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1 the Company believes there is not a", and I'm
2 moving to Bates 021, "mathematically correct
3 way to match excess ADIT with its base" --
4 "with its rate base currently reflected in
5 rates without a full base rate proceeding with
6 a 2017 test year."

7 You opened the door here with this, so
8 I'll ask the question. Do you know if there's
9 a plan to have a larger rate case?

10 A (Chong) There is none this year, no.

11 Q Further on, you talk a little bit about the
12 implication, on this page, Bates 021, you talk
13 about the implication of the Tax Act. And I
14 think during the questioning, you mentioned a
15 concern with potential downgrades by the
16 financial institutions, I think you mentioned
17 Moody's specifically?

18 A (Chong) Yes.

19 Q And you mentioned that there was a list of
20 utilities, my word, at risk of seeing a
21 downgrade?

22 A (Chong) Correct.

23 Q Was Unitil on that list?

24 A (Chong) We were not.

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[WITNESS PANEL: Chong|Francazio]

1 Q Moving to Bates 024, there are a lot of numbers
2 from Lines 10 to 20, and Attorney Amidon and
3 Attorney Buckley, they both went into this in
4 detail. But what I think I heard is, effective
5 May 2019, there will be an additional reduction
6 to the tune of 0.00096, is that cents per
7 kilowatt-hour?

8 A (Chong) That is cents per kilowatt-hour. I
9 just -- if you give me one second, I can verify
10 the amount.

11 Q Sure.

12 A (Chong) Yes. I'm fairly certain that that was
13 the correct amount.

14 Q So, just basically what I'm hearing is,
15 effective, if this proposal goes through,
16 effective May 1st you'll see a reduction to the
17 tune of 0.00043, and then effective next year
18 you'll see an additional reduction in the
19 amount of 0.00096?

20 A (Chong) This revised testimony you're looking
21 at still reflects a five-year term for the
22 October '17 wind storm. So, the May 1, '18
23 change, I have not done it, but it will be a
24 different number than what's cited in here.

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1 But the May 1, '19 change is independent of
2 that.

3 Q Independent of that, okay. But orders of
4 magnitude are in the ballpark?

5 A (Chong) The May 1, '18 change is a 14 percent
6 reduction. Shortening that to three years, it
7 may be flat. I don't know. I haven't done the
8 math.

9 Q Okay. That's helpful. So, talking about the
10 October 2017 Storm Report, there's an inference
11 in there, in the report, that suggests that the
12 Storm Resiliency Trimming Program --

13 A (Francazio) Yes.

14 Q -- provided a value and a benefit.

15 A (Francazio) Right.

16 Q Can you -- has any analyses been done to
17 quantify what that is?

18 A (Francazio) That was a relatively subjective
19 statement. But from what we can determine,
20 after going through a number of storms, that
21 our response has been quicker. Cost is
22 definitely less when you have a faster
23 response. And we're attributing that to the
24 tree trimming program. I think Sara can give

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[WITNESS PANEL: Chong|Francazio]

1 you, our forestry person, can give you a more
2 statistical answer to that question.

3 Q Uh-huh.

4 A (Francazio) But I can just tell you, from my
5 perspective, running every storm, I'm the
6 Incident Commander, I can tell you that, you
7 know, they are getting -- there's less damage
8 per event, and it's helping us actually restore
9 more quickly.

10 Q So, the proposal to accelerate the Storm
11 Resiliency Program, making sure I'm not
12 confusing myself with the various iterations,
13 that's still in play? I'm sorry.

14 MR. EPLER: Mr. Chairman, I can
15 address that.

16 CHAIRMAN HONIGBERG: Mr. Epler.

17 MR. EPLER: We have removed that
18 proposal from this filing. We are
19 contemplating whether to file it separately,
20 and we haven't conclusively decided whether to
21 do so. We did, in -- I think it's either
22 Docket 18-037 or Docket 18-038, we did file a
23 Vegetation Management Report. And the
24 recommendation in that report is to accelerate

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1 the last year.

2 But we're not asking for that relief.
3 We've removed it from this docket.

4 CMSR. GIAIMO: Okay. Then, I'll
5 refrain from asking any further questions on
6 it. Thank you.

7 And one comment is, I guess I share
8 Mr. Buckley's confusion with the terminology of
9 a "major storm", but I'll leave it at that.

10 That's all the questions I got.

11 CHAIRMAN HONIGBERG: I'll follow up
12 with that, because I believe, when I first
13 started here, an early case that came in front
14 of me had that terminology, and someone had to
15 come and explain to me twice. So, it's just a
16 thing.

17 Also in the observation department,
18 Mr. Francazio, you mentioned that you think
19 that the storm responses have been better in
20 the last few years. And I will say, for
21 someone who follows what goes on during the
22 major storms that hit the state, my perception
23 is that Unitil is doing a very good job in its
24 response, in both its communications, its

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1 maintenance of its website, so that customers
2 can figure out what's going on, and in just the
3 time to restore.

4 Obviously, there are exceptions.
5 There are situations that are particularly
6 challenging. But, overall, my perception is
7 that the Company is doing well in that regard.

8 I have a question I'm going to have
9 trouble articulating, because I'm not sure I
10 understand it, and therefore it may be a stupid
11 question.

12 BY CHAIRMAN HONIGBERG:

13 Q It has to do with the cap related to the step
14 increases. That was calculated in the last
15 rate case, based on the situation as it was at
16 that time. Right, Mr. Chong?

17 A (Chong) That's correct.

18 Q And it assumed the tax rates that were in
19 effect at that time?

20 A (Chong) That is correct. We did not introduce
21 a revised calculation. If you were to -- our
22 rationale is that the capital expenditures
23 provided in that Settlement were developed --
24 essentially, it follows our budgeting process.

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1 And by the time in which that rate is in place,
2 that forecast was prepared two or three years
3 prior to actually putting it in place. So,
4 there's a lot of issues there.

5 But then I also explain in my testimony
6 that there's actually, because there's two
7 substation closings, one of the substation
8 closings -- one of the substation closings
9 essentially wasn't in the forecast at all, but
10 because the lag of plant placed in service got
11 captured in last year's step adjustment. So,
12 it just felt that, I guess, we -- the exhibit
13 we had used to establish the cap may not have
14 been the most representative. And given all
15 the different issues, we didn't propose a
16 revised amount.

17 Q I think you anticipated the question I was
18 trying to formulate, which is, I think, if you
19 had known then that tax rates were going to be
20 what they were, would you have been proposing
21 or would we have had a smaller cap?

22 A (Chong) Yes.

23 Q And the answer you just gave is the explanation
24 for why you didn't do that here?

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1 A (Chong) That is correct.

2 CHAIRMAN HONIGBERG: Okay. I don't
3 think I have any other questions about that. I
4 just was trying to understand the state of
5 play.

6 All the other questions I have have
7 been dealt with or are so trivial that I won't
8 raise them.

9 Mr. Epler, do you have anything
10 further for the panel?

11 MR. EPLER: No, I do not. But just
12 to clarify the record. The Company is not, in
13 this docket, requesting the movement of the --
14 of the balances from the Major Storm Fund --
15 from the -- sorry -- from the SRAF into the
16 EDC. We will request that in a separate
17 docket, but that's not in this docket.

18 CHAIRMAN HONIGBERG: All right. Is
19 there anything else we need to do before the
20 closing ceremonies?

21 *[No indication given.]*

22 CHAIRMAN HONIGBERG: All right.
23 Gentlemen, I think you can probably stay where
24 you are, because it won't be long from here.

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1 Without objection, we'll strike ID on
2 Exhibits 1, 2, and 3.

3 Anything else you want to do before
4 you close or you sum up?

5 *[No indication given.]*

6 CHAIRMAN HONIGBERG: Mr. Buckley, why
7 don't you start us off.

8 MR. BUCKLEY: Thank you, Mr.
9 Chairman. The Office of the Consumer Advocate
10 very much appreciates the Company's willingness
11 to work with the Office of the Consumer
12 Advocate, the Staff -- well, the Office of the
13 Consumer Advocate and Staff, in bringing
14 something forward to the Commission that we
15 could all agree upon during the early phases of
16 this docket.

17 We view the resultant rates and the
18 explanations regarding the step increase, tax
19 reform, VMP/REP, and SRAF changes as just and
20 reasonable. With the one caveat that we would
21 suggest that the amortization of the
22 October 2017 wind storm would move from a
23 period of five years to a period of three
24 years.

1 Thank you.

2 CHAIRMAN HONIGBERG: Thank you, Mr.
3 Buckley. Ms. Amidon.

4 MS. AMIDON: Thank you. I also want
5 to thank the Company for being responsive to
6 our concerns. As you know, this is pursuant to
7 the Settlement Agreement in the rate case, the
8 filing is made essentially 45 days before the
9 effective date. And we appreciate being able
10 to direct our attention to the step increase,
11 the tax treatment, and this one issue on the
12 SRAF, as opposed to bringing in other issues,
13 which we didn't have time to review and which
14 we felt was not appropriate in the context of
15 this docket.

16 We believe that the calculation of
17 the step increase is probably accurate, but, of
18 course, it will be subject to audit, as will
19 that October wind storm, unless the costs of
20 that wind storm has already been subject to
21 audit.

22 We recommend that the Company recover
23 the cost of that wind storm in the SRAF over a
24 period of three years, as initially suggested

1 by Attorney Buckley, and we think that is
2 reasonable, and will still result in reasonable
3 and just rates for customers.

4 We appreciate the rate relief that's
5 going to customers through the application of
6 what I'm going to refer to as the "tax
7 benefits" resulting from the recently passed
8 federal laws. And I note that the record does
9 say that the state law changes were also taken
10 into account in that calculation.

11 And finally, just an observation, the
12 ADIT, which is something that is a mystery to
13 me, I will confess, but I notice, in reviewing
14 other filings from the other two electric
15 utilities, that they propose the same deferral
16 of this issue until a distribution rate case.
17 So, the consistency is probably based on some
18 accounting rule that is beyond my
19 understanding.

20 We understand the Company wants this
21 for rates effective May 1, and we support that
22 request as well.

23 Thank you.

24 CHAIRMAN HONIGBERG: Thank you,

1 Ms. Amidon. Mr. Epler.

2 MR. EPLER: Yes. Thank you, Mr.
3 Chairman.

4 The Company would just direct the
5 Commission to its revised Petition and the
6 approvals requested therein.

7 The Company does accept the
8 recommendation of the Consumer Advocate and the
9 Commission Staff to amortize the 2017 wind
10 storm over three years, as opposed to five
11 years. And we can provide a compliance filing
12 that would indicate what that is, and we can do
13 that relatively quickly.

14 CHAIRMAN HONIGBERG: Okay. Thank
15 you. Then, assuming we went with that and put
16 that in the order, we would probably direct you
17 to make that compliance filing. That we'll use
18 that mechanism, rather than a record request
19 here. Does that make sense to everyone?

20 MS. AMIDON: Yes.

21 CHAIRMAN HONIGBERG: Okay. Thank
22 you, Mr. Epler.

23 If there's nothing else, we will
24 adjourn, take the matter under advisement,

1 issue an order as quickly as we can.

2 Although, Mr. Epler may have one more
3 thing he wants to add.

4 MR. EPLER: We just have to strike
5 the exhibit and --

6 CHAIRMAN HONIGBERG: I think I did
7 that.

8 MS. AMIDON: I thought you did that,
9 too.

10 MR. EPLER: Oh, you did?

11 MS. AMIDON: Yes.

12 MR. EPLER: Oh, my apologies.

13 CHAIRMAN HONIGBERG: I forget
14 sometimes. It's certainly possible. But I'm
15 pretty sure I did it here.

16 MS. AMIDON: You did.

17 CHAIRMAN HONIGBERG: All right.
18 Thank you. We are adjourned.

19 ***(Whereupon the hearing was***
20 ***adjourned at 1:56 p.m.)***

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23

24