

NHPUC Docket No. DE 21-041
Testimony of Daniel T. Nawazelski
Exhibit DTN-1

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF
DANIEL T. NAWAZELSKI

New Hampshire Public Utilities Commission
Docket No. DE 21-041

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LIST OF SCHEDULES

Schedule DTN-1: Unitil Energy Systems, Inc. 2020 Default Service and
Renewable Energy Credits Lead Lag Study

Schedule DTN-2: Confidential/Redacted Workpapers for the Unitil Energy Systems, Inc.
2020 Default Service and Renewable Energy Credits Lead Lag Study

1 **I. INTRODUCTION**

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

3 A. Daniel T. Nawazelski, 6 Liberty Lane West, Hampton, New Hampshire 03842.

4 **Q. What is your position and what are your responsibilities?**

5 A. I am the Lead Financial Analyst for Unitil Service Corp., a subsidiary of
6 Unitil Corporation that provides managerial, financial, regulatory and
7 engineering services to Unitil Corporation’s principal subsidiaries: Fitchburg
8 Gas and Electric Light Company, Granite State Gas Transmission, Inc.,
9 Northern Utilities, Inc., and Unitil Energy Systems, Inc. (“UES” or the
10 “Company”). In this capacity I am responsible for the preparation and
11 presentation of distribution rate cases and in support of other various
12 regulatory proceedings.

13 **Q. Please describe your educational and professional background.**

14 A. I began working for Unitil Service Corp. in June of 2012 as an Associate
15 Financial Analyst. Since then I have held progressing positions in the Finance
16 department and am currently Lead Financial Analyst. I earned a Bachelor of
17 Science degree in Business with a concentration in Finance and Operations
18 Management from the University of Massachusetts, Amherst in May of 2012.

19 **II. PURPOSE OF TESTIMONY**

20 **Q. What is the purpose of your testimony?**

21 A. I will discuss the development of the 2020 UES Default Service and Renewable
22 Energy Credits Lead Lag Study (“2020 Study”), which is integral to the

1 calculation of cash working capital to be recovered in Default Service rates for G1
2 and Non-G1 customers.

3 **III. SUMMARY OF TESTIMONY**

4 **Q. Please summarize your testimony.**

5 A. My testimony presents and supports UES' 2020 Default Service ("DS") and
6 Renewable Energy Credits ("RECs") Lead Lag Study. The 2020 Study, presented
7 in this filing as Schedule DTN-1, is based upon data for the period January 1,
8 2020 through December 31, 2020 and calculates the net lead period for G1
9 customers to be 23.33 days and net lead period for Non-G1 customers to be 0.50
10 days.

11 **Q. Are the results of the 2020 Study included in the DS rates proposed in this
12 filing?**

13 A. Yes, the 2020 Study results are used to derive supply-related working capital
14 costs included in DS rates beginning June 1, 2021, as described in the testimony
15 of UES witness Linda S. McNamara.

16 **IV. LEAD LAG STUDY METHODOLOGY**

17 **Q. How was the 2020 Study conducted?**

18 A. The 2020 Study follows similar methodology as in UES' 2019 Default Service
19 and Renewable Energy Credits Lead Lag Study ("2019 Study") that was
20 submitted in Docket No. DE 20-039. The 2020 Study determines the number of
21 days between the time funds are required to pay for DS purchased power and
22 REC purchases (expense lead) and the time that those funds are available from the

1 payment of customer bills (revenue lag). The revenue lag period includes four
2 calculations: “receipt of electric service to meter reading”, “meter reading to
3 recording of accounts receivable”, “billing to collection”, and “collection to
4 receipt of available funds”. The expense lead period consists of the lead in
5 payment of DS purchased power costs and REC costs based upon the following
6 calculations: lead period, average days lead, weighted cost, days lead and
7 weighted days lead. Each of these steps is explained in more detail below. UES
8 based its 2020 Study upon data for the twelve months ended December 31, 2020,
9 and calculated net lead lag days separately for the G1 and Non-G1 customer
10 classes.

11 **Q. Does the 2020 Study incorporate the requirements of the Lead Lag**
12 **Settlement Letter dated July 16, 2009, under docket DE 09-009?**

13 A. Yes, the 2020 Study conforms to the requirements specified in the Settlement
14 Letter under Docket No. DE 09-009. The 2020 Study follows the same
15 methodology as used in the 2009 - 2019 Studies which conform to the
16 requirements of the Settlement.

17 **V. 2020 STUDY RESULTS**

18 **Q. Please define the terms “lag days” and “lead days.”**

19 A. Lag days are the number of days between delivery of electric service by UES to
20 its customers and the receipt by the Company of available funds from customers’
21 payments (revenue lag). Lead days are the number of days between the mid-point

1 of the energy delivery period to UES and the payment date by UES to DS
2 suppliers or for RECs (expense lead).

3 **Q. How is revenue lag computed?**

4 A. Revenue lag is computed in days, consisting of four time components: (1) days
5 from receipt of electric service to meter reading; (2) days from meter reading to
6 recording of accounts receivable; (3) days from billing to collection; and (4) days
7 from collection to receipt of available funds. The sum of the days associated with
8 these four lag components is the total revenue lag. The calculations are
9 performed separately for G1 and Non-G1 customer classes, as appropriate. Refer
10 to Schedule DTN-1, pages 4 through 19 of 23.

11 **Q. What is the lag period for the component "receipt of electric service to meter
12 reading" in the 2020 Study?**

13 A. The 2020 average lag for "receipt of electric service to meter reading" is 15.25
14 days. This lag was obtained by dividing the number of days in the test year (366
15 days) by 24 to determine the average monthly service period. This result is
16 applicable to both the G1 and Non-G1 customer classes. See Schedule DTN-1,
17 page 5 of 23.

18 **Q. What is the lag period for the component "meter reading to recording of
19 accounts receivable?"**

20 A. The 2020 average "meter reading to recording of accounts receivable" lag is 1.01
21 days, which is applicable to both the G1 and the Non-G1 customer classes. This

1 lag determines the time required to process the meter reading data and record
2 accounts receivable. See Schedule DTN-1, pages 6 through 10 of 23.

3 **Q. What is the lag period for the component "billing to collection?"**

4 A. The 2020 average "billing to collection" lag is 23.95 days for G1 customers and
5 42.03 days for Non-G1 customers. This component was calculated separately for
6 the G1 and Non-G1 customer groups and is derived by the accounts receivable
7 turnover method. The lag reflects the time delay between the mailing of customer
8 bills and the receipt of the billed revenues from customers. See Schedule DTN-1,
9 pages 11 and 12 of 23 for G1 and Non-G1 results, respectively.

10 **Q. What is the lag period for the component "collection to receipt of available
11 funds?"**

12 A. The 2020 average "collection to receipt of available funds" lag is 1.68 days. This
13 represents the average weighted check-float period, or the lag that takes place
14 during the period from when payment is received from customers to the time such
15 funds are available for use by the Company. This result is applicable to both the
16 G1 and Non-G1 customer classes. See Schedule DTN-1, pages 13 through 19 of
17 23.

18 **Q. Is the total revenue lag computed from these separate lag calculations?**

19 A. Yes. The total revenue lag of 41.89 days for G1 customers and 59.97 days for
20 Non-G1 customers is computed by adding the number of days associated with
21 each of the four revenue lag components described above. This total number of
22 lag days represents the amount of time between the recorded delivery of service to

1 customers and the receipt of the related revenues from customers. See Schedule
2 DTN-1, page 4, line 6.

3 **Q. Please turn to the lead periods in the 2020 Study. In determining the expense**
4 **lead period, how is the weighted days lead in payment of DS purchased**
5 **power costs determined?**

6 A. First, the monthly expense lead for each DS power supply vendor is determined
7 by aggregating (1) the average days in the period that the energy or service is
8 received and (2) the additional billing period including the payment day.

9
10 The aggregate lead days are then weighted by the dollar amount of the billings.
11 Weighted days lead are calculated separately for G1 and Non-G1 customers, by
12 supplier, and are shown in the Confidential Workpapers to the 2020 Study,
13 Schedule DTN-2.

14
15 As of March 25, 2021, prior period adjustments made in 2021 related to 2020
16 were included in the calculation. Prior year adjustments made in 2020 that relate
17 to 2019 were not included in the calculation.

18 **Q. How is the weighted days lead in payment for RECs determined?**

19 A. The weighted days lead in payment for RECs was determined using the same
20 methodology applicable to DS power suppliers described above. In applying this
21 methodology to 2020 RECs, three assumptions were made to reflect actual
22 payment activity towards the Company's 2020 REC commitment. First, the

1 monthly cost of the RECs was assumed to be equivalent to the estimated costs of
2 RECs included in rates in 2020. Second, actual payment activity as of March 25,
3 2021 towards the Company's 2020 REC commitment was applied in
4 chronological order to the earliest month's estimated cost. Third, a payment date
5 of July 1, 2021 was used for all remaining 2020 REC commitments, which is the
6 last day to obtain 2020 RECs and/or make alternative compliance payments. See
7 Schedule DTN-1, page 21 of 23 for the REC summary related to G1 customers
8 and page 23 of 23 for the REC summary related to Non-G1 customers.

9 **Q. What are the combined weighted days lead in payment of DS purchased**
10 **power costs and RECs for G1 and Non-G1 customers?**

11 A. The weighted days lead for G1 customers is 65.22 days, as shown on Schedule
12 DTN-1, page 20 of 23. The weighted days lead for Non-G1 customers is 60.47
13 days, as shown on Schedule DTN-1, page 22 of 23.

14 **Q. How is the total DS and REC lead lag determined?**

15 A. For G1 customers, the DS and REC expense lead of 65.22 days is subtracted from
16 the lag in receipt of revenue of 41.89 days to produce the total DS and REC net
17 lead of 23.33 days. For Non-G1 customers, the DS and REC expense lead of
18 60.47 days is subtracted from the lag in receipt of revenue of 59.97 days to
19 produce the total DS and REC net lead of 0.50 days. See Schedule DTN-1, page
20 4 of 23.

21 **Q. How do the results of the 2020 Study compare to the 2019 Study for G1**
22 **customers?**

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1 A. For G1 customers, the net lead in the 2020 Study of 23.33 days represents an
2 increase of 8.50 days from the net lead in the 2019 Study of 14.83 days. The
3 difference was driven by an increase in total DS and REC expense lead of 11.08
4 days offset by an overall revenue lag increase of 2.58 days.

5
6 The revenue lag component, “billing to collection” in the 2020 Study is 23.95
7 days compared to 21.37 days in the 2019 Study, an increase of 2.58 days. All of
8 the other components in revenue lag net to a total change of 0.00 days in the 2020
9 Study compared to the 2019 Study. The combined change in all of the revenue
10 lag components resulted in an overall revenue lag increase of 2.58 days.

11
12 The DS and REC expense lead is 65.22 days in the 2020 Study compared to 54.14
13 days in the 2019 Study, an increase of 11.08 days. In 2020, the DS portion of the
14 expense lead decreased 7.92 weighted days which was driven by a decrease in the
15 average days lead. The REC portion of the expense lead increased 19.00
16 weighted days which was primarily driven by an increase in the average days
17 lead.

18 **Q. How do the results of the 2020 Study compare to the 2019 Study for Non-G1**
19 **customers?**

20 A. For Non-G1 customers, the net lead in the 2020 Study of 0.50 days is 15.32 days
21 more lead than the net lag in the 2019 Study of 14.82 days. The decrease in net

1 lag is attributable to a 16.60 day increase in the DS and REC expense lead offset
2 by a 1.28 day increase in revenue lag.

3
4 The revenue lag component, “billing to collection” in the 2020 Study is 42.03
5 days compared to 40.75 days in the 2019 Study, an increase of 1.28 days. All
6 other revenue lag components net to a change of 0.00 days in the 2020 Study
7 compared to the 2019 Study. The net effect of all of the changes in the revenue
8 lag components resulted in a 1.28 day increase in the 2020 revenue lag compared
9 to 2019.

10

11 The DS and REC expense lead is 16.60 days higher in 2020 compared to 2019. In
12 2020, the DS portion of the expense lead decreased 1.68 weighted days which
13 was driven by a decrease in the DS portion of total costs offset by an increase in
14 the average days lead. The REC portion of the expense lead increased 18.28
15 weighted days which was driven by an increase in the average days lead as well
16 as the REC portion of total costs.

17 **VI. CONCLUSION**

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

19 **A.** Yes, it does.