

**State of New Hampshire
Public Utilities Commission
IR 22-048
UNITIL ENERGY SYSTEMS, INC.
NORTHERN UTILITIES, INC.**

**Investigation of Step Adjustment Methodology and Process
March 22, 2023 NHPUC Record Requests**

Record Request 1:

- A. From the perspective of each participant, what were the historical contexts and justifications for the introduction of step adjustments?
- B. Given the resources and time required to review and adjudicate step adjustment and full distribution rate cases, do the participants have thoughts or suggestions regarding how to most effectively utilize utility and regulatory resources?
- C. Do the participants have recommended timeframes or methodologies for formulating step adjustment petitions?

Response:

A. Commission-approved step adjustments have been in place for Unitil companies for at least 30 years, and have evolved over time to become an efficient and effective tool for balancing the interests of the companies and their customers by allowing for the recovery of costs associated with certain categories of post-test-year capital spending and extending the period of time between costly rate cases.

On July 21, 1992, the Commission approved a settlement agreement proposed by the Commission Staff and Northern Utilities, Inc. (“Northern”) allowing for, *inter alia*, “step adjustments in base rates starting November 1, 1992 and annually thereafter until [Northern’s bare steel replacement program] is completed.” DE 91-081, Northern Utilities, Inc., Order No. 20,546, 77 NH PUC 366 at 367, 372 (July 21, 1992).¹ A decade later, the Commission approved a step adjustment mechanism allowing Northern to recover the costs associated with the installation of an Automated Reader System. DG 01-182, Northern Utilities, Inc., Order No. 24,075 at 16-17 (October 28, 2002). In approving the step adjustment, the Commission explained:

Step adjustments can be implemented following a rate proceeding, taking advantage of that proceeding to substantially reduce the time for regulatory review and approval of anticipated capital additions. The Commission

¹ See also DR 91-081, Northern Utilities, Inc., Order No. 20,654, 77 NH PUC 676 (October 30, 1992); DR 93-191, Northern Utilities, Inc., Order No. 21,019, 78 NH PUC 607 (November 1, 1993); DR 94-217, Northern Utilities, Inc., Order No. 21,399, 79 NH PUC 595 (October 31, 1994); DR 95-258, Northern Utilities, Inc., Order No. 21,883, 80 NH PUC 690 (October 30, 1995); DR 96-294, Northern Utilities, Inc., Order No. 22,386, 81 NH PUC 818 (October 29, 1996); DR 98-169, Northern Utilities, Inc., Order No. 23,052 (October 29, 1998); DG 99-127, Northern Utilities, Inc., Order No. 23,333 (October 29, 1999); DG 00-177, Northern Utilities, Inc., Order No. 23,576 (October 30, 2000).

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employs step adjustments judiciously as a means of ensuring regulated utilities retain their ability to earn a reasonable rate of return even after implementation of large capital projects. Step adjustments avoid placing a utility in an earnings deficiency immediately after a rate case, which is usually based on a historical test year ratemaking methodology.

Id. at 16 (internal citations omitted).²

While these earlier step adjustments were designed to recover costs associated with specific capital projects, in 2006 the Commission approved a broader two-part step adjustment enabling Unitil Energy Systems, Inc. (“UES”) to recover prudently incurred costs related to certain large non-revenue producing capital additions placed in service as well as the acquisition of a certain parcel of land. DE 05-178, Unitil Energy Systems, Inc., Order No. 24,677 (October 6, 2006). In UES’s next rate case, approximately five years later, the Commission approved a series of four step adjustments in connection with certain post-test-year capital costs, concluding that such a process “is a reasonable method to allow for a more timely recovery of assets in service without resort to a full rate proceeding.” DE 10-055, Order No. 25,214 at 17 (April 26, 2011). The Commission thereafter approved a step adjustment for Northern to recover the costs of capital investments in 2012, DG 11-069, Northern Utilities, Inc., Order No. 25,352 (April 24, 2012), and two step adjustments for the same purpose in 2014, DG 13-086, Northern Utilities, Inc., Order No. 25,653 (April 21, 2014).

More recently, the Commission approved three step adjustments to allow for the recovery of the change in net plant in service for calendar years 2016, 2017, and 2018.³ DE 16-384, Unitil Energy Systems, Inc., Order No. 26,007 (April 20, 2017). In 2018, the Commission approved a step adjustment related to capital investments made during the first year following the test year (2017) as well as an optional second step adjustment for 2018 investments. DG 17-070, Northern Utilities, Inc., Order No. 26,129 (May 2, 2018). Exercising the optional second step was conditioned upon a revenue requirement cap and a stay-out through the end of 2020. Id. Last year, the Commission approved a step adjustment for Northern Utilities, Inc. in connection with 2021 non-growth investments and two step adjustments for Unitil Energy Systems, Inc. in connection with 2021 and 2022 non-growth investments. DG 21-104, Northern Utilities, Inc., Order No. 26,650 (July 20, 2022); DE 21-030, Unitil Energy Systems, Inc., Order No. 26,623 (May 3, 2022). UES and Northern requested multiple step adjustments their respective 2021 rate cases to mitigate the effects of earnings attrition driven by, among other things, capital investments required to maintain and modernize the electric distribution system.

² See also DG 03-191, Northern Utilities, Inc., Order No. 24,231 (October 31, 2003).

³ The step adjustments for 2017 and 2018 were limited to 80 percent of changes in net plant in service. Id.

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B. The “resources and time required to review and adjudicate step adjustments” are considerably less than those required to review and adjudicate full rate cases. The Commission has reviewed and adjudicated step adjustment filings in an abbreviated time frame (relative to the time required to adjudicate full cases) for several decades, and the Company believes that the process is one that has been, and should continue to be, efficient and straightforward. The parameters and process for UES and Northern step adjustments have been negotiated with settling parties. UES filed its most recent step adjustment filing on February 14, 2023 for a step adjustment to base rates effective June 1, 2023. The Company, by agreement with the settling parties in DE 21-030, made its filing at the earliest reasonable time in 2023; full and final accounting information for 2022 is not available until the end of January, and the Company requires at least two weeks to compile its filing to the Commission. Unitil notes that step adjustments prior to the Company’s 2021 rate cases typically were typically reviewed and adjudicated with in a 60 day period. UES also invested considerable time and care in arranging its 2023 filing to allow for increased simplicity of review by the Department of Energy and the Commission after receiving feedback regarding the previous year’s filing. Unitil requests a June 1 effective date as pushing the effective date further erodes the effectiveness and undermines the purpose of the step. The Company believes that the current process and timeline for filing and adjudication is appropriate and has no suggestions at this time for further refinement of the process.

C. Please see the Company’s response to B, above.

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Record Request 2:

What feedback do the participants have on changes such as multi-year rate plans, or other solutions that could reduce or eliminate the need for annual step adjustments or decrease the frequency of rate filings?

Response:

As an initial matter, Unitil Energy Systems, Inc. and Northern Utilities, Inc. (together, “Unitil” or the “Company”) does not agree with the premise that step adjustments should be reduced or eliminated, or that they are not an effective and appropriate mechanism for decreasing the frequency of rate filings. Unitil also notes that step adjustments may arguably be categorized as “multi-year rate plans.”

Step adjustments have been a fundamental component of the regulatory framework in New Hampshire for several decades, and have long been recognized as an appropriate component of utility rate plans. As the Company explained in its initial comments, the Commission has consistently allowed step adjustments for gas and electric utilities, finding that implementing such adjustments to recover certain capital costs “is a reasonable method to allow for a more timely recovery of assets in service without resort to a full rate proceeding.” *Unitil Energy Systems, Inc.*, DE 10-055, Order No. 25,214 at 27 (April 26, 2011) (approving four step adjustments to recover, *inter alia*, certain changes to distribution utility plant); *Public Service Co. of N.H.*, Order No. 25,123 at 32 (June 28, 2010) (approving multi-step rate plan); *see also Northern Utilities, Inc.*, DG 13-086, Order No. 25,653 at 10 (April 21, 2014) (approving a settlement agreement including multiple step adjustments as “representing an appropriate balancing of the interests of the Company and its customers.”). “Step adjustments to rates are employed as a means of ensuring that a regulated utility retains its ability to earn a reasonable rate of return after implementing large capital projects, and to avoid placing a utility in an earnings deficiency immediately after a rate case in which a revenue requirement was based on a historical test year.” *Lakeland Management Co., Inc.*, DW 10-306; DW 11-269; Order No. 25,357 at 13 (May 1, 2012); *see also Pittsfield Aqueduct Co., Inc.*, DW 10-090, Order No. 25,229 at 12 (June 8, 2011) (“Step adjustments can avoid placing a utility in an earnings deficiency immediately after a rate case in which the revenue requirement was based on a historic test year and a smaller rate base.”); *Unitil Energy Systems, Inc.*, DE 10-055, Order No. 25,214 at 25 (April 26, 2011). Annual step adjustments are a straightforward, uncomplicated, and effective method of mitigating earnings attrition experienced by utilities following a full rate case and deferring the need for a subsequent rate case. Due to the long-established nature of step adjustments in New Hampshire, they can be adjudicated efficiently before the Commission.

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There is no compelling justification for abandoning years of Commission precedent and moving away from step adjustments at this time.

Unitil's Massachusetts and Maine affiliates have multiple capital cost recovery adjustment mechanisms in place that allow for the recovery of costs associated with post-test year investments. For example, a Capital Cost Adjustment Mechanism ("CCAM") is in place for the electric division of Fitchburg Gas and Electric Light Company ("FG&E"), Unitil's Massachusetts affiliate. The CCAM allows FG&E to recover costs associated with post-test-year capital additions, subject to an annual spending cap and a cap on annual rate increases of 1.5% of total revenues; amounts above the cap are deferred for recovery in a future proceeding, with carrying charges. The FG&E electric division also submits an annual Grid Modernization Adjustment Factor filing to recover costs associated with incremental grid modernization investments, as well as a Solar Cost Adjustment filing to recover investment and ongoing maintenance costs associated with FG&E's solar generation facility. FG&E's gas division makes an annual Gas System Enhancement Plan ("GSEP") filing pursuant to M.G.L. § 145. The purpose of the GSEP is to address aging or leaking natural gas infrastructure and the leak rate on the gas company's natural gas infrastructure in the interest of public safety and reducing lost and unaccounted for natural gas through a reduction in natural gas system leaks. Like the CCAM, the GSEP is subject to a cap on annual changes in the revenue requirement eligible for recovery, with the balance deferred for recovery in a later proceeding with carrying charges.

Northern's Maine division has had a Targeted Infrastructure Replacement Adjustment ("TIRA") in place since 2013. The TIRA provides for annual increases to distribution rates to recover costs associated with the company's investments in targeted operational and safety-related infrastructure replacement and upgrade projects. The TIRA and the Massachusetts cost recovery adjustment mechanisms operate in many ways like step adjustments, in that they allow for the annual recovery, on a post-test year basis, of capital investment costs for the Company's gas and electric affiliates. Unlike step adjustments in New Hampshire, these mechanisms are not limited in number, though the TIRA program is expected to end in 2024. Unitil is not proposing, at this time and in this Docket, that the Commission adopt similar mechanisms in NH; Unitil merely offers them as examples of mechanisms that operated with success in the Company's affiliate territories.

The Maine PUC has also historically allowed electric utilities to include attrition analyses in their respective rate cases and revenue requirement calculations. An attrition analysis adjusts the utility's revenue requirement to ensure that the elements of the ratemaking equation (revenues, expenses, and rate base) remain accurate as the analysis moves from the historic test year to the future rate-effective period (generally the first twelve months the new rates are in effect). Harwood, W. *et al*, Maine Regulation of Public Utilities, 2nd ed., at 117 (2018). The attrition analysis is entirely forward-looking and attempts to extrapolate, based on recent historic

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trends, changes in revenues and expenses due to inflation and other factors that will occur between the test year and the rate-effective period. Id. The utility is then provided with sufficient additional revenues to ensure that it will have a reasonable opportunity to earn its allowed return. Id. To date, the attrition analysis has largely been utilized by electric and water distribution utilities. Northern will present its first proposed attrition adjustment in its next rate case, currently scheduled to be filed on or about May 1, 2023.

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Record Request 3:

Why are regular rate cases (on a rationally paced basis) not sufficient to always cover non-emergency utility capital investments, made pursuant to a utility's long-term capital plan?

Response:

As an initial matter, it is unclear what the Commission means by "rationally paced." Northern Utilities, Inc. ("Northern") and Unitil Energy Systems, Inc. ("UES") (collectively, "Unitil") prepare and file rate cases when they are consistently under-earning relative to their Commission-approved returns on equity. A utility's right to rates that will permit it the opportunity to earn a return on the value of its property that is commensurate with returns on investment in other enterprises having corresponding risks is well-established in the seminal and oft-cited Bluefield Water Works and Improvement Co. v. Public Service Commissioner of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944) cases, and the Commission cannot decline to hear a case supported by a claim that the company's earnings deficiency is unconstitutionally confiscatory. See Appeal of Gas Serv., 121 NH 602, 603 (1981). In other words, the cadence of rate cases is necessarily tied to utility's earned returns, and should not be subject to an arbitrarily defined pace.

As the Company explained in its initial comments, periodic step adjustments are effective at mitigating the effects of earnings attrition and therefore enabling utilities to defer costly rate cases, which can strain the resources not only of the utilities, but also the Commission and interested parties such as the Department of Energy and the Office of the Consumer Advocate. Step adjustments also allow for gradual, incremental increases in rates and can mitigate the effect of rate shock.

"Earnings attrition" is, generally speaking, the decline in returns that occurs when revenues do not keep pace with costs. Utilities are capital-intensive enterprises, requiring ongoing investments in long-lived physical assets and incurring the fixed costs associated with them. Notwithstanding the Company's efforts to mitigate attrition through the efficient management of operating expense, rigorous capital budgeting process designed to evaluate and prioritize projects offering the most cost-effective means of providing safe and reliable electric distribution service, and support for customer growth, Unitil typically experiences attrition beginning in the rate effective year. There is no direct, proportional relationship between system investment and customer additions, and Unitil must continue to invest in and maintain its aging equipment and facilities to assure the delivery of safe and reliable service irrespective of customer growth. Even if, hypothetically, the UES and Northern customer counts increase and the Company's operating

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costs continue to be well-managed, revenue may not keep pace with the increase in fixed costs associated with non-growth system investments, resulting in earnings attrition. Step adjustments are an administratively efficient way of mitigating attrition and deferring the need for more costly full rate cases.

Step adjustments reduce the cost and administrative burden of frequent rate cases before the Commission. By allowing for the timely recovery of non-growth investments, step adjustments enable utilities to defer the filing of full rate cases, which necessarily require the significant expenditure of time and resources. Utilities and other parties to rate cases, including the Department of Energy and the Office of the Consumer Advocate, must engage the services of outside consultants to support their respective positions. It may also be necessary for utilities to engage the services of outside counsel, particularly if the frequency of rate cases places a strain on internal resources. These costs are ultimately borne by customers. Restricting or eliminating step adjustments will increase the frequency of full rate cases and strain Commission resources. Step adjustments also allow for gradual, incremental increases in rates and can not only defer rate cases but mitigate the effect of rate shock when a utility ultimately does file a full case. *See Hampstead Area Water Company*, DW 05-112/05-177, Order No. 24,626 at 8 (May 26, 2006) (“The Commission has long recognized the principles of gradualism and avoidance of rate shock.”); *Development of New Alternative Net Metering Tariffs*, DE 16-576, Order No. 26,029 at 53 (June 23, 2017) (“[G]radualism’ is an important principle in sound ratemaking.”)

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Record Request 4:

What factors should be considered when evaluating the relationship between a step increase program and a company's LCIRP planning process?

Response:

In May 2020, the Commission provided guidance regarding the integration of grid modernization investment planning into electric distribution company LCIRPs. IR 15-296, Investigation Into Grid Modernization, Order No. 26,358 at 19-25 (May 22, 2020). Within that context, the Commission discussed the alignment of LCIRPs and utility rate cases:

We value a transparent utility planning process that identifies likely investments in advance of a given need. We expect the analysis developed to prioritize investments proposed in the LCIRP and related annual filings will be of value to the Commission, the Utilities, and other stakeholders when a utility requests recovery of those investments. The LCIRP and related annual filings may align well with rate case filings and any requested step increases, and we expect each utility to weigh the potential synergies of the related rate case and LCIRP filings when planning for rate changes. Our expectation is that investments for which recovery is requested in rate cases are consistent with investments described in the LCIRP and related filings.

Id. at 25.

More recently, the Commission indicated its intent to broadly “examine utility capital expenditures more closely as part of the LCIRP process” conducted by electric and gas utilities. DE 20-002, Unitil Energy Systems, Inc., Order No. 26,666 at 11 (August 15, 2022); DE 19-126, Northern Utilities, Inc., Order No. 26,664 at 11 (August 8, 2022). The Order further states that the Commission, on a going forward basis, will hold Unitil, and presumably all other utilities, to capital plans developed through their LCIRPs and “consider how [the Company’s] capital investments align with its approved LCIRP” in future rate cases. Order No. 26,666 at 11; Order No. 26,6634 at 16. Though the Commission said that it “do[es] not seek to upend how companies make capital decisions,” it has also said that it “will require that Unitil conduct its capital planning in a manner consistent with the LCIRP statute,” that it “will hold Unitil to the capital plans developed through the LCIRPs,” and that it “will expect sufficient notice and justification for any material deviations from those plans.” Order No. 26,666 at 11, 13; Order No. 26,664 at 16, 17.

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Step increases are narrow extensions of rate cases in that they allow for an increase in rates to recover the revenue requirement associated with certain post-test year capital investments. The standard for including a return on capital investments in permanent rates is whether such investments are prudent, used, and useful. RSA 378:28; DE 22-020, Northern Utilities, Inc., Order No. 26,675 at 3-4 (August 31, 2022). The prudence of an investment is determined in light of the information available to utility management at the time the decision was made. See *Appeal of Conservation Law Foundation*, 126 N.H. 606, 638 (1986) (“prudence judges an investment or expenditure in the light of what due care required at the time an investment or expenditure was planned and made”) and *Public Service Company of New Hampshire*, Order No. 20,503, 77 NH PUC 268, 269 (1992) (“The test of due care asks what a reasonable person would do under the circumstances existing at the time of a decision.” (citing *Fitzpatrick v. Public Service Co. of N.H.*, 101 N.H. 35 (1957)). New Hampshire “has long recognized as public policy that the owners of a utility do not surrender to the PUC their rights to manage their own affairs merely by devoting their private business to a public use.” *Appeal of Public Service Company of New Hampshire*, 122 N.H. 1062, 1066-67 (1982). Thus, while public utilities are subject to regulation, utility companies must retain the right and obligation to plan, build, and operate their systems in the regular conduct of their business, and the prudence of investment decisions made by utilities in the course of such planning should be determined based on circumstances and information contemporaneously known to management.

Unitil Energy Services, Inc. and Northern Utilities, Inc. undertake a robust capital planning and budgeting process on an annual basis. A forward-looking multi-year capital plan submitted during the course of a LCIRP proceeding may be subject to change in a subsequent year. Furthermore, an electric or gas utility may, in the exercise of prudent utility management, deviate from its capital plan for a number of legitimate reasons, including, but not limited to: emergency work, unanticipated new load, municipal projects or requirements, and project cost management. Forward-looking capital plans submitted during the course of a LCIRP proceeding should not, therefore, be treated as unalterable, nor should they be used to restrict a company’s capital investments. Stated another way, capital investments that depart from information provided in the LCIRP process cannot be presumptively deemed imprudent or subject to disallowance. Such a process would invert the traditional and well-established regulatory paradigm in which a utility is entrusted to make prudent investments and thereafter demonstrate the prudence of such investments in a rate case or a step adjustment proceeding. “Holding” a company to forward-looking capital plans will put at risk the Company’s ability to act in the interests of its customers, and likely raise the prospect of an unconstitutional deprivation of the Company’s right to earn a reasonable return on its investments.

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Just as the Commission’s approval of an LCIRP “shall not be deemed a pre-approval of any actions taken or proposed by the utility in implementing the plan,” RSA 378:39,¹ the LCIRP process should not be used to preclude critical capital projects solely for cost concerns, nor should an approved LCIRP be treated as an inflexible plan from which the Company cannot depart without risking a penalty.

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¹ “We reiterate that approval of an LCIRP will not be considered pre-approval of an investment decision. It is merely an expression by the Commission that, based on the facts provided within the LCIRP process, a decision to proceed with the types of investments in the LCIRP appears reasonable on its face.” IR 15-296, Investigation Into Grid Modernization, Order No. 26,358 at 22 (May 22, 2020).

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V. Record Request 5:

Please provide the following information (in Excel format) for all rate cases in New Hampshire since 2000:

- A. Total rate base
- B. Total revenue requirement
 - 1. Total Return on Rate Base
 - 2. Total Expenses
- C. Gross Rate base increase in each step adjustment
- D. Net Rate base increase in each step adjustment
- E. Revenue requirements increase in each step adjustment and basis of the calculations (ROR, net or gross rate base, etc.)
- F. Indicate if LRAM, Decoupling, or any similar rate mechanism/adjustments were implemented
- G. Any other adjustments in revenue requirements (e.g. trackers - rate base increase, cost increase, etc.) between two rate cases. Provide details of any such changes for each year.

Response:

- A. Please refer to IR Request 5 Attachments 1 (UES) and 2 (Northern).
- B. Please refer to IR Request 5 Attachments 1 (UES) and 2 (Northern).
- C. Please refer to IR Request 5 Attachments 1 (UES) and 2 (Northern).
- D. Please refer to IR Request 5 Attachments 1 (UES) and 2 (Northern).
- E. Please refer to IR Request 5 Attachments 1 (UES) and 2 (Northern).

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- F. Decoupling was approved as part of the DE 21-030 rate case for UES and the DG 21-104 rate case for Northern. Prior to approval of decoupling, UES and Northern had a Lost Revenue Adjustment Mechanism (“LRAM”). The LRAM was not implemented as part of a rate case. The LRAM was agreed to as part of the approved settlement in the Energy Efficiency Resource Standard Docket No. DE 15-137 to recover lost revenue due to the installation of energy efficiency measures beginning on January 1, 2017. For UES the LRAM was a component of the System Benefits Charge (“SBC”) and for Northern the LRAM was recovered as a component within the Local Distribution Adjustment Clause (“LDAC”).
- G. In the 2010 rate case DE 10-055, the Storm Recovery Adjustment Factor was established.

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VI. Record Request 6:

Please provide the following information (in Excel format) for the most recent rate cases in other jurisdictions in which the company's affiliates operate, as applicable:

- A. Total rate base
- B. Total revenue requirement
 - 1. Total Return on Rate Base
 - 2. Total Expenses
- C. Gross Rate base increase in each step adjustment
- D. Net Rate base increase in each step adjustment
- E. Revenue requirements increase in each step adjustment and basis of the calculations (ROR, net or gross rate base, etc.)
- F. Indicate if LRAM, Decoupling, or any similar rate mechanism/adjustments were implemented
- G. Any other adjustments in revenue requirements (e.g. trackers - rate base increase, cost increase, etc.) between two rate cases. Provide details of any such changes for each year.

Response:

- A. Please refer to IR Request 6 Attachment 1.
- B. Please refer to IR Request 6 Attachment 1.
- C. Please refer to the Company's response to IR Request 8.
- D. Please refer to the Company's response to IR Request 8.
- E. Please refer to the Company's response to IR Request 8.
- F. In Massachusetts Fitchburg Gas and Electric ("FG&E") gas and electric divisions both operate under a decoupling mechanism that was approved in D.P.U. 11-01 (Electric

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Division) and D.P.U. 11-02 (Gas Division). The Company's Maine affiliate does not operate under a decoupling environment.

- G. FG&E received approval of a storm reserve adjustment factor (electric) and exogenous cost recovery provisions (gas and electric). Northern Utilities (Maine Division) did not have any new trackers approved as part of the most recent rate cases.

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VII. Record Request 7:

Please provide the Excel version of the models used to currently calculate step adjustments in New Hampshire.

- A. Provide explanations with the theoretical basis of inclusion for each component/item, and how it is calculated or treated in the model.
- B. If any of those components are part of a settlement,
 - 1. Please explain why it is reasonable to include it in the model
 - 2. Please explain how it is treated in the model and why.
- C. If the company's affiliates used different models in different rate cases (gas, electric, etc.), please explain the differences.

Response:

Please refer to IR Request 7 Attachment 1 (UES Step) filed in Docket No. DE 23-014 and IR Request 7 Attachment 2 (NuNH Step) filed in Docket No. DG 22-020.

- A. Both Unitil Energy Systems, Inc. ("UES") and Northern Utilities, Inc. ("Northern") use the same generally accepted ratemaking principles when calculating the step adjustment revenue requirement on non-growth investments. These components include the (1) Pre-Tax Rate of Return applied to the Change in Non-Growth Net Plant; (2) Depreciation Expense on the annual Change in Non-Growth Plant Additions; and (3) Property Taxes on the annual Change in Non-Growth Net Plant.
- B. All of the revenue requirement components were agreed to as part of the comprehensive settlements agreed to by Settlement Parties in Docket No. DE 21-030 and DG 21-104. Settlement Parties affirmed that the Settlement Agreements agreed to in those dockets were just and reasonable and should be approved by the Commission, which they ultimately were.

That being said, there was one component included in both of the companies last Settlement Agreements that provided for the recovery of post-test-year software amortization. This component and its recovery was agreed to as a part of a comprehensive settlement.

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- C. Both UES and Northern are consistent in the components and calculations used in their respective step adjustment calculations. Prior to the companies most recent rate cases, Northern used a different methodology that provided for recovery using a list approach providing for recovery of predetermined “Eligible Facilities.” This approach utilized the Rate Base associated with the Eligible Facilities only and not the annual Change in Non-Growth Net Plant that incorporates total annual additions as well as the roll-forward of prior vintage depreciation expense as is done now.

Person Responsible: Christopher Goulding

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VIII. Record Request 8:

Please provide the Excel version of the models used to currently calculate approved step adjustments in other jurisdictions in which the company’s affiliates operate, as applicable.

- A. Provide explanations with the theoretical basis of inclusion for each component/item, and how it is calculated or treated in the model.
- B. If any of those components are part of a settlement,
 - 1. Please explain why it is reasonable to include it in the model
 - 2. Please explain how it is treated in the model and why.
- C. If the company’s affiliates used different models in different rate cases (gas, electric, etc.), please explain the differences.

Response:

- A. The table below provides the components included in the Company’s other capital cost recovery tracking mechanisms in its other jurisdictions.

Component	Maine TIRA	FGE-E CCA	FGE-E Solar	FGE-E Grid Mod	FGE-G GSEP
Pre-Tax Rate of Return	✓	✓	✓	✓	✓
Depreciation Expense	✓	✓	✓	✓	✓
Property Taxes	✓	✓	✓	✓	✓
O&M Expense			✓	✓	
O&M Savings	✓				✓
Concurrent Recovery			✓	✓	✓

The Maine Targeted Infrastructure Replacement Adjustment (“TIRA”) was approved in MPUC Dockets No. 2008-00151, 2013-00133, and 2017-00070. The Company’s most recent filing was made in MPUC Docket No. 2023-00044. Please refer to IR Request 8 Attachment 1 for the Company’s most recent revenue requirement model in excel format.

**State of New Hampshire
Public Utilities Commission
IR 22-048
UNITIL ENERGY SYSTEMS, INC.
NORTHERN UTILITIES, INC.**

**Investigation of Step Adjustment Methodology and Process
March 22, 2023 NHPUC Record Requests**

The Fitchburg Electric Capital Cost Adjustment (“CCA”) was approved in MA D.P.U. 16-106. The Company’s most recent filing was made in MA D.P.U. 22-82. Please refer to IR Request 8 Attachment 2 for the Company’s most recent revenue requirement model in excel format.

The Fitchburg Electric Solar Cost Adjustment was approved in MA D.P.U. 16-148. The Company’s most recent filing was made in MA D.P.U. 23-34. Please refer to IR Request 8 Attachment 3 for the Company’s most recent revenue requirement model in excel format.

The Fitchburg Electric Grid Modernization Factor was approved in MA D.P.U. 15-121. The Company’s most recent filing was made in MA D.P.U. 23-38. Please refer to IR Request 8 Attachment 4 for the Company’s most recent revenue requirement model in excel format.

The Fitchburg Gas System Enhancement Program was approved in MA D.P.U. 14-130. The Company’s most recent filing was made in MA D.P.U. 22-GSEP-01. Please refer to IR Request 8 Attachment 5 for the Company’s most recent revenue requirement model in excel format.

- B. Please see response to part A above.
- C. Please see response to part A above.

Person Responsible: Christopher Goulding

Date: April 20, 2023