UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY

OF

CHRISTOPHER J. GOULDING

AND

DANIEL T. NAWAZELSKI

EXHIBIT CGDN-1

New Hampshire Public Utilities Commission

Docket No. DE 24-___

February 28, 2024

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Christopher J. Goulding, and my business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

My name is Daniel T. Nawazelski, and my business address is the same as Mr. Goulding's.

Q. Mr. Goulding, what is your position and what are your responsibilities?

A. I am the Vice President of Finance and Regulatory for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's utility subsidiaries including Unitil Energy Systems, Inc. ("UES" or the "Company"). My responsibilities include all rate and regulatory filings, financial planning and analyses, treasury operations, budget, and insurance and loss control programs

Q. Please describe your business and educational background.

A. In 2000, I was hired by NSTAR Electric & Gas Company ("NSTAR," now Eversource Energy) and held various positions with increasing responsibilities in Accounting, Corporate Finance and Regulatory. I was hired by Unitil Service in early 2019 as Director of Rates and Revenue Requirements. In 2023, I was promoted to my current position. I earned a Bachelor of Science degree in Business Administration from Northeastern University in 2000 and a Master's in Business Administration from Boston College in 2009.

Q. Have you previously testified before this Commission or other regulatory agencies?

A. Yes, I have testified before the New Hampshire Public Utilities Commission (the "Commission") on various financial, ratemaking and utility regulation matters, including utility cost of service and revenue requirements analysis. I also have testified before the Maine Public Utilities Commission and Massachusetts Department of Public Utilities on similar matters on several occasions.

Q. Mr. Nawazelski, what is your position and what are your responsibilities?

A. I am the Manager of Revenue Requirement for Unitil Service. In this capacity I perform complex financial planning, forecasting and analyses for financial matters and in support of regulatory proceedings.

Q. Please describe your business and educational background.

A. I began working for Unitil Service in June of 2012 as an Associate Financial Analyst and have held various positions with increasing responsibilities leading to my current role of Manager of Revenue Requirements. I earned a Bachelor of Science degree in Business with a concentration in Finance and Operations Management from the University of Massachusetts, Amherst in May of 2012. I am also currently pursuing my Masters in Business Administration at the University of New Hampshire.

Q. Have you previously testified before this Commission or other regulatory agencies?

A. Yes, I have testified before the Commission on various financial, ratemaking and utility regulation matters. I have also testified before the Maine Public Utilities Commission and Massachusetts Department of Public Utilities on similar matters on several occasions.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to present and support the Company's request for proposed changes to the Storm Recovery Adjustment Factor ("SRAF") and the Major Storm Cost Reserve ("MSCR"). We provide calculations pertaining to the proposed SRAF for effect May 1, 2024 and the associated bill impacts. We also support the Company's proposed tariff changes associated with this filing.

Q. Are you proposing any changes to the SRAF and MSCR?

A. Yes. The Company is proposing that the December 31, 2023 MSCR under recovered balance of $3,654,362 plus associated carrying charges be removed from the MSCR and transferred to the SRAF for recovery effective May 1, 2024.

III. STORM RECOVERY ADJUSTMENT FACTOR AND MAJOR STORM COST RESERVE

Q. Please provide a brief explanation of the MSCR.

A. The MSCR was approved by the Commission as part of the Settlement Agreement in the Company's 2010 rate case, Docket No. DE 10-155. The MSCR fund recovers approved costs for restoring power and repairing damage following major storms which meet certain criteria. The MSCR Fund also allows the Company to petition the Commission to recover costs associated with preparing for storms forecasted to be major storms, but which do not materialize as originally forecasted. The current reserve amount of $800,000 annually recovered in base distribution rates was set at a level to deal with more frequent storms that are generally not considered to be extraordinary in magnitude. This level of recovery was approved in Docket DE 13-065 in Order No. 25,502, issued on April 29, 2013.

Q. What is the balance of the MSCR reserve fund at December 31, 2023?

A. The deferral balance was $3,654,362 as of December 31, 2023.

Q. How did the MSCR fund become significantly under-collected?

A. The MSCR fund has ended each year in an under-collected position since its inception in 2010. MSCR eligible storm costs have exceeded collections in seven out of the past nine years. This trend of costs surpassing collections has steadily increased the deferral. Schedule CGDN-1 illustrates this trend, and shows how the MSCR fund ended 2023 in a $3,654,362 under-collected position.

Q. Why is the Company proposing to transfer and recover the MSCR deferral through the MSCR?

A. As noted above, the 2023 ending balance in the MSCR was $3,654,362. That balance, for illustrative purposes, is 4.6 times the annual recovery amount of $800,000. Therefore, it would take 4.6 years without a new storm for the Company to recover the deferral balance. Based on the Company's historical storm experience since 2010, it is unlikely that there will not be any significant storm activity over the next 4.6 years. Furthermore, the deferral balance reflects 3.9 percent of the Company's long-term debt capitalization as of December 2023, which presents a large on-going financing requirement for the Company, and which may negatively impact the Company's credit statistics and potentially increase the cost of borrowing. Also, continuing to carry a deferral of this magnitude is not in the best interest of customers. As shown in Schedule CGDN-2, Page 2, the Company's proposal results in interest savings of $423,428 assuming the balance continues to accrue interest without any offsetting recovery.

Q. Has the Commission commented on the MSCR deferral position?

A. Yes, in the Company's 2022 MSCR Annual Report Order the Commission stated, "We encourage the company to find additional ways to reduce the deficit in the MSCR fund. Substantial carrying costs do not support additional major storm cost recovery and are not an efficient use of ratepayer funds." *Unitil Energy Systems, Inc.*, DE 23-017, ORDER NO. 26,889 (September 27, 2023) at 4.

Q. Does the Company's proposal address the Commission's comments?

A. Yes, the beginning 2024 MSCR balance would be reduced to $0 by transferring the entire December 31, 2023 deferral balance of $3,654,362 into the SRAF mechanism. The balance is reduced to $0 in the SRAF over a five-year period as shown in Schedule CGDN-2, page 2.

Q. Is the Company asking the Commission to approve the final balance of the MSCR as of December 31, 2023?

A. No. The Company expects that the Audit Division staff of the Department of Energy will audit the costs of the deferral balance. However, consistent with past practice, the Commission has the authority to allow for a change in rates on a reconcilable basis until its review is complete and a final determination is made regarding the recoverability of all of the costs submitted by the Company. Following this practice in this case will mitigate the accrual of interest on the deficit balance to be recovered and reduce the time period over which the costs are recovered.

Q. What is the Company's specific cost recovery proposal?

A. The Company proposes to remove the December 31, 2023 MSCR deferral balance and seeks recovery of costs through an adjustment to its SRAF effective May 1, 2024. The Company proposes to recover these costs over a five-year period with carrying charges calculated at 4.01 percent, the annual rate equaling the Company's currently approved cost of debt, net of deferred taxes in DE 21-030.

Q. Why does the Company propose to recover these costs over five years?

A. This proposal balances the Company's interest in recovering the deferred balance within a reasonable timeframe with mitigating bill impacts for customers.

Q. What is the proposed adjustment to the SRAF?

A. As shown on Schedule CGDN-2, Page 1 of 2, the proposed rate adjustment related to December 31, 2023 deferral balance is $0.00071 per kWh effective May 1, 2024.

Q. Is the Company currently recovering other storm costs through the SRAF?

A. No. Beginning May 1, 2022, revenue included in the SRAF decreased by $0.00047 per kWh due to the completion of the recovery of the costs of extraordinary storm Winter Storm Quinn, which occurred in March 2018. In accordance with Schedule SRAF, the costs associated with this extraordinary storm were to be recovered at a rate of $0.00047 per kWh over 3 years ending April 30, 2022. As part of its Annual Reconciliation and Rate filing, dated June 17, 2022, in DE 22-038, UES proposed to include the reconciliation balance associated with its SRAF in its External Delivery Charge for effect August 1, 2022. This balance is comprised of the reconciliation associated with Winter Storm Quinn, as well as the balances from the December 2008 Ice Storm and February 2010 Wind Storm which ended recovery in April 2019, and October 2017 Wind Storm which ended recovery in April 2021. The final reconciliation balance was approved in Order No. 26,655 in DE 22-038. The resulting SRAF effective May 1, 2022 was $0.00000 per kWh, as there were no storms currently being recovered through the SRAF. The proposed change to the SRAF effective May 1, 2024 is an increase of $0.00071 per kWh, factoring in the proposed increase to the SRAF to recover the costs of the December 31, 2023 MSCR deferral.

Q. Please describe Schedule CGDN-2.

A. Page 1 of Schedule CGDN-2 shows the calculation of the SRAF rate based on an annual levelized cost divided by actual kWh sales for the 12-month period ending December 31, 2023. Page 2 shows the costs, including carrying charges, recovered on a levelized basis over a period of five years beginning May 1, 2024. Page 2 also provides the interest savings between the Company's proposal versus a status quo scenario where the December 31, 2023 balance rolls forward. The methodology for calculating the rate is the same as used in previous storm recovery proposals.

Q. Will the reconciliation of costs and revenues be performed on a monthly basis?

A. Yes. As discussed above, the Company will apply actual revenue from the SRAF to the May 1, 2024 balance. Carrying charges will be calculated monthly based on the average monthly account balance.

IV. TARIFF UPDATES

Q. Does this filing include a revised Summary of Delivery Service Rates, a revised Summary of Low-Income Electric Assistance Program Discounts, and a revised Summary of Whole House Residential Time of Use Rates and Electric Vehicle Rates?

A. Yes. Schedule CGDN-3, pages 1 through 4, provides redline versions of these tariffs reflecting the proposed May 1, 2024 SRAF.

Q. Does this filing include any other tariff changes associated with the SRAF proposal?

A. Yes. A redline version of the Company's Storm Recovery Adjustment Factor tariff, Schedule SRAF, is included with this filing as Schedule CGDN-3, page 5.

Q. Will the proposed SRAF affect any tariff pages not included with this filing?

A. Yes, it will. The SRAF is included in the Summary Of Whole House Residential Time Of Use Rates And Electric Vehicle Rates, tariff page 5-A. In accordance with the Settlement in DE 20-170, the rates for whole house time of use and electric vehicles change not only when various rate components change (e.g., the

SRAF), they also change each June 1 (summer) and December 1 (winter) due to the application of seasonal ratios. Although the SRAF itself is not time varying, tariff page 5-A will require a change for effect June 1, 2024, in order to apply summer ratios to approved rates. Once an order has been issued in this docket, the Company intends to file a June 1, 2024 tariff page 5-A reflecting all approved rates in compliance with the appropriate docket.

V. BILL IMPACTS

Q. What are the bill impacts associated with the proposed SRAF?

A. Bill impacts for customers on default service are computed and shown in Schedule CGDN-4. This schedule compares rates including the proposed May 1, 2024 SRAF to currently effective rates for each rate class. If the Company's proposal is approved by the Commission, a typical 600 kWh residential customer on Default Service will see a monthly bill increase of $0.43 or 0.3 percent. Impacts to other rate classes will be similar, but may vary based on size and consumption pattern.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.