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THE STATE OF NEW HAMPSHIRE



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February 12, 2020

Ms. Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street Suite 10
Concord, NH 03301

Re: DE 19-040 Unitil Energy Systems, Inc.
2018 Annual Major Storm Cost Reserve Fund Report
FINAL Audit Report

Dear Ms. Howland:

Enclosed for filing please find an original and six copies of Staff's Final Audit Report (Audit Report) in the above captioned docket. Unitil Energy Systems, Inc. (UES) filed its Annual Major Storm Cost Reserve Fund (MSCR) Report for the 12 months ending December 31, 2018, pursuant to Order No. 25,351 (April 24, 2012) in docket DE 11-277. That order requires UES to file annual reports on the MSCR updating its status resulting from cost recovery for qualifying major storms.

The Audit Report identifies two issues at the end of the report. Issue 1 relates to \$25,990 in twitter, Facebook, and Calypso Communications, charges for advertising relating to 2018 Winter Storm Quinn. The Audit Report treats these expenses as general communications expenses that should be recovered through distribution rates. UES agreed to remove the expenses from the MSCR, but reserved the right to challenge the finding in Issue 1 in its next rate case. UES disagreed with Issue 2 requiring the disallowance of \$1,277 for customer driveway repairs following a storm. The Audit Report recommended that this expense be moved out of the MSCR, and posted into a separate injury and damage account.

Copies of this letter and attachment have been emailed to parties on the service list. Please let me know if you have any questions.

Very truly yours,

A handwritten signature in cursive script, appearing to read "F. Anne Ross".

F. Anne Ross, Esq.
Staff Attorney

Cc: Service List (electronically)

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STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 29, 2019

AT (OFFICE): NHPUC

FROM: Sean Courtois, Examiner

SUBJECT: Unitil Energy Systems, Inc.
2018 Annual Major Storm Cost Reserve Fund Report DE 19-040
Final Report

TO: Tom Frantz, Director Electric Division
Rich Chagnon, Assistant Director

INTRODUCTION

The New Hampshire Public Utilities Commission (Commission) Audit Staff (Audit) was requested to review the Unitil Energy Systems, Inc. (UES) Major Storm Cost Reserve Fund (MSCR or Fund) and the Storm Recovery Adjustment Factor (SRAF) reconciliation Reports (Report) for the calendar year ending December 31, 2018, as provided to the Commission on February 27, 2019. The Fund was approved by Order #25,214 in DE 10-055. The Company provided the MSCR Fund Reconciliation as of 12/31/2018 on page 4 of the Report:

12/31/2017	MSCR Balance as filed 3/16/2018	\$(4,539,995) Under- Recovery
<u>Prior Year Adjustments</u>		
03/14/2017	Tree Trimming Adjustments	\$ 2,183
10/30/2017	October Windstorm-Additions	\$ (32,106)
10/30/2017	Wind Storm released SRAF	<u>\$ 1,257,109</u>
	Adjusted Opening Balance 1/1/2018	\$(3,312,809)
<u>2018 Deferred Charges</u>		
1/04/2018	Winter Storm Grayson	\$ (147,046)
2/07/2018	Winter Storm Liam	\$ (19,726)
3/02/2018	Winter Storm Riley	\$ (78,412)
3/07/2018	Winter Storm Quinn	\$(1,550,964)
3/12/2018	Winter Storm Skylar	\$ (17,131)
5/04/2018	Thunderstorm	\$ (111,714)
6/18/2018	Thunderstorm	\$ (150,616)
7/17/2018	Thunderstorm	\$ (80,652)
11/3/2018	Thunderstorm	\$ (33,354)
11/15/2018	Thunderstorm	<u>\$ (40,682)</u>
	Total Deferred Charges	\$(2,230,297) Actual Recovery
2018	Current Recovery Rate	\$ 800,000 \$868,008
2018	Carrying Charges	<u>\$ (248,944)</u>
12/31/2018	MSCR Balance	\$(4,992,050) Under-Recovery

MSCR SUMMARY

The December 31, 2018 year-end balance is in the following GL accounts:

10-20-00-00-173-10-00	Accrued Revenue Major Storm Reserve	\$ 800,000
10-20-00-00-182-10-00	Regulatory Asset: Major Storm Reserve	<u>\$4,211,019</u>
		\$5,011,019
<u>Interest</u>		
10-20-10-00-419-09-00	Interest Income-Major Storm Reserve	\$258,118
<u>Revenue</u>		
10-20-10-00-407-31-00	Amortization-Storm	\$868,008

Audit reviewed the MSCR \$5,011,019 December 31, 2018 general ledger year-end balance, the \$4,992,050 December 31, 2018 ending balance on the MSCR Fund Balance Filing and the \$4,918,014 December 31, 2018 year-end master model balance. The Company maintains a "Master Accounting Model" which reflects all adjustments to the GL MSCR balance in the month in which the original expense or credit should have been included or excluded. Annual interest true-ups are calculated using the Master Model. This is a \$74,036 difference from the filed \$4,992,050 MSCR Balance and \$93,005 from the \$5,011,019 December 31, 2018 year-end GL balance.

The Company explained the \$74,036 difference between the December 2018 Master Model and 2018 MSCR Filing equals the total costs for the November 3, 2018 Thunderstorm Event (\$33,354) and the November 15, 2018 Wintry Mix Event (\$40,682). The Company adds storms to the master model in the second month after the storm occurs (January 2019 for the November 2018 events) in order to calculate the over/under recovery, and corresponding interest expense/revenue, more accurately. The additional \$18,969 difference between the master model and the GL is due to timing of when revenue/expenses are processed and interest.

The MSCR Filing states that the December 31, 2018 year-end interest is \$248,944. This is a \$9,173 difference from the general ledger balance. The Company stated the difference was due to reduction in federal tax rates as well as timing of when revenue/expenses are processed. The interest rate is based on the Company's cost of debt adjusted for tax rates. Refer to the 2018 Carrying Charges section of this report for additional information.

The Company allocates \$66,666 per month for revenue amortization for an \$868,008 December 31, 2018 year-end total. Audit reviewed Journal Entry # UEGA937 for March 2018. The Company debited account # 10-20-10-00-407-31-00 Amortization-Storm for \$66,666 and credited account # 10-20-00-00-182-10-00 Regulatory Asset-Major Storm Reserve Long Term. Audit further tested Journal Entry # UEGA937 from May 2018 that allocated the same amounts to the same accounts. Audit reviewed the January 2019 updated master model calculations on site with the Company Accountant to verify the November 2018 storm events and associated interest were calculated correctly.

Current Recovery Rate \$800,000

The Fund was established by Order # 25,214 in DE 10-055, at a recovery rate of \$400,000 per year. Commission Order# 25,502, approved an increase to distribution rates through a step adjustment to recover the costs associated with increasing the Fund from \$400,000 to \$800,000 per year. As indicated earlier, the Company debits the Accrued Revenue account, 10-20-00-00-173-10-00, for the \$800,000. The accrued revenue was originally booked to the Accrued Revenue account.

MSCR Balance as filed 2/27/2019

The ending balance as found in the prior audit was (\$4,539,995) under-collection. The adjusted opening balance as filed for 2018 was (\$3,312,809) under-collection for a difference of \$1,227,186. The October 2017 Windstorm was reclassified to the SRAF for \$1,257,109. The Company's 2017 MSCR Report reported costs for the October Windstorm event totaling \$1,233,742. An additional \$32,106 in costs were identified subsequent to the 2017 MSCR Filing, bringing the total costs to \$1,265,848, as reported in section 1.6 of the 2018 MSCR Filing.

Per Commission Order # 26,123, Unitil moved \$1,257,109 in costs related to the October 2017 Windstorm event (costs reported in the 2017 MSCR Report, plus associated carrying charges) to the SRAF. The Company stated the reason for the additional adjustment was because there was a payment received for tree trimming services from Consolidated Communications in the amount of \$2,183 because of joint ownership the Companies each own half of the pole attachments.. There was also (\$32,106) in October 2017 Wind Storm event charges deducted on the filing, as noted above. Detailed review of the \$32,106 follows:

October Windstorm-October 30, 2017, 2018 \$32,106

An additional \$32,106 in costs were identified subsequent to the 2017 MSCR Filing, bringing the total costs to \$1,265,848, as reported in section 1.6 of the 2018 MSCR Filing. The 2017 filing stated the storm total to be \$1,233,742. The Company did not receive the Recon Utility Services Invoice until March 2018. The \$29,603 invoice shows a deposit refund. The Company stated this was not a refund but a payment for a one-time vendor. The Company uses Flexi-AP to process accounts payable transactions and an employee inadvertently used the generic vendor labeled "Deposit Refund" UES rather than the one labeled "One Time Vendor". The remaining \$2,511 in charges were for a UES payroll reclass. This is an immaterial \$8 difference between the filing and invoice/payroll support due to timing.

In May 2018 the October 2017, windstorm costs were moved from the MSCR to be recovered through the SRAF, amortized over three years per Commission Order 26,123. The \$1,257,109 amount transferred from the MSCR to the SRAF was calculated based on the storm total \$1,233,742 reported in the 2017 MSCR adjusted by interest accrued from December 2017 through April 2018. The additional \$32,106 added to the filing in 2018 were not included in the SRAF calculation but were included in the MSCR as an adjustment in 2018. There is an \$8,739

difference between the \$1,265,848 2018 MSCR Storm Total and \$1,257,109 amount transferred to the SRAF. Audit reviewed the journal entry from May 2018 that moved the storm costs to the SRAF. The Company debited account # 10-20-00-47-182-86-00 Emergency Storm Restoration for \$1,257,109 and credited account # 10-20-00-00-182-10-00 Major Storm Reserve Long Term for \$1,257,109.

2017 Outstanding Issue Regarding Calypso Communications

There is still an outstanding matter to settle the prior audit issue to allow recovery of the 2017 Calypso Communications charges. A subsequent Addendum Audit Report issued February 4, 2019 identified \$32,506 in Calypso Communications charges. A Secretarial Letter was issued July 3, 2019 informing the Commission that Unitil and Staff reached an agreement that the disputed Calypso Communications charges will be dealt with when the Company files in the next rate case. This matter is still considered ongoing. Please see pages 15-17 of this report to see 2018 Calypso Communications Audit Issues.

UES and Outside Contractor Expenses

Below is a breakdown of UES and Outside Contractor expenses related to storms included in the 2018 MSCR:

Description	Percent	Description	Cost
UES Payroll, Materials, Overhead, etc...	12.8%	Total Internal	\$ 321,703
Outside Contractors & Other	87.2%	Total Contractor	\$ 2,197,952
	100%		\$ 2,519,655

Audit reviewed the contractor rate sheet agreements to verify hourly wage rates/hours worked were being followed to the terms of the contract. Audit reviewed invoices for materials and stores expenses, performed review of employee payroll as well as transportation expenses. The employee payroll review consisted of field line workers and salaried employees such as accountants, administrative, professional, and other clerical positions to verify the hours worked/wage rates. The transportation review consisted of employee mileage used during the storm.

2018 Deferred Charges \$2,479,241**Summary of 2018 MSCR Capitalized and Deferred**

	Storm Total	Capitalized	Deferred
1/4/2018	\$ 147,046		\$ 147,046
2/7/2018	\$ 19,726		\$ 19,726
3/2/2018	\$ 78,412	\$ -	\$ 78,412
3/7/2018	\$ 1,715,934	\$ (164,970)	\$ 1,550,964
3/13/2018	\$ 17,131		\$ 17,131
5/4/2018	\$ 222,165	\$ (110,451)	\$ 111,714
6/18/2018	\$ 164,553	\$ (13,937)	\$ 150,616
7/17/2018	\$ 80,652	\$ -	\$ 80,652
11/3/2018	\$ 33,354	\$ -	\$ 33,354
11/15/2018	\$ 40,682	\$ -	\$ 40,682
Total 2018 Storm Charges	\$ 2,519,655	\$ (289,358)	\$ 2,230,297
Carrying Charges 2018			\$ 248,944
			<u>\$ 2,479,241</u>

During the period of January 1, 2018 through December 31, 2018, the UES MSCR Report (Report) indicated ten events occurred which qualified for debiting some or all of the expenses to the MSCR. The costs are included in the 2018 filing. The report indicated the cost of the ten events was \$2,230,297 plus carrying charges of \$248,944 equaled a grand total of \$2,479,241.

Capitalized Costs

There were three storms where costs were capitalized. The 3/07/2018 storm was capitalized to work order E-181003-20186530. The 5/04/2018 storm was capitalized to work Order C-180103-20186077. The 6/18/2018 storm was capitalized to work orders C-180103-20186096 and E-181003-20186580. See the chart below for further detail of capitalized costs. Each was verified to the filing pages.

2018 Capitalized Storm Costs

<u>Storm</u>	<u>Division</u>	<u>GL Plant Additions</u>	<u>Cost of Removal</u>	<u>Salvage Cash Value</u>	<u>Total Cost To UES</u>
3/07/2018	Seacoast	\$ 157,939	\$ 7,031		\$ 164,970
5/4/2018	Concord	\$ 96,044	\$ 14,407		\$ 110,451
6/18/2018	Concord	\$ 7,869	\$ 1,389		\$ 9,258
6/18/2018	Seacoast	\$ 3,989	\$ 702	\$ (12)	\$ 4,679
Totals		\$ 265,841	\$ 23,529	\$ (12)	\$ 289,358
		Debit 101 Plant	Debit 108 Acc Dep	Debit 107 CWIP	
		Credit 107 CWIP	Credit 107 CWIP	Credit Acc Dep	

Unitil provided the journal entries that were used in calculating capitalized costs. Capitalized cost additions reflect average units installed costs, meaning the pricing for plant additions use the average build cost from historical data in 2017. The historical data is at fully loaded rates. Audit reviewed an example provided by Unitil to install wire from the May 2017 Thunder Storm in Work Order 20186077. Powerplan, the Company's plant management software, determined an average cost per unit of \$5.31 to install #6 wire was based on historical data from 2017. Unitil used 96 units of installed wire X \$5.31 price per unit is \$510 of capitalized costs for this example. The average installed unit cost overhead rate is the same for the Concord and Seacoast region. The average installed costs vary by town based on the actual installation costs for each project in a town and the materials installed during that project.

Cost of removal represents costs associated with the removal and retirement of assets. The operations department determines a cost of removal rate for each project at the time the authorization is written. For budgeted projects, the cost of removal is based on anticipated replacements; for storm related projects, the cost of removal is based on prior year actual experience. The cost of removal is automatically applied to labor, transportation, and overhead in the PowerPlan system. These removal costs, as well as the installation costs, are included in the Construction Work in Progress (CWIP) until the project is complete. Once complete the installed costs are transferred to Plant in Service and the removal costs are credited to CWIP and debited to Accumulated Depreciation.

The plant accounting for capitalized costs is seen below.

To Record Plant Additions

Debit Plant in Service Account 101

Credit Construction Work in Progress Account 107

To Record the Cost of Removal (Not the actual asset retirement)

Debit Accumulated Depreciation Account 108

Credit Construction Work in Progress Account 107

To Record any Salvage Value

Debit Construction Work in Progress Account 107

Credit Accumulated Depreciation Account 108

To record asset retirement

Debit Accumulated Depreciation for original book cost Account 108

Credit Plant in Service for original book cost Account 101

Audit verified the \$289,358 in capitalized storm costs as they appear on the filing were booked properly. Unitil booked the plant additions to account 10-20-0-0-101-00-00 for \$265,481 and credited account 10-20-0-0-107-0-0 Construction Work in Progress for \$265,481. Unitil booked the cost of removal by debiting account 10-20-00-00-108-01-00 Accumulated Depreciation \$23,529 for and credited account 10-20-00-00-107-00-00 Construction Work in Progress for \$23,529. Unitil booked the salvage cash value by debiting account 10-20-00-00-107-00-00 Construction Work in Progress for (\$12) and crediting account 10-20-0-0-108-01-00 for (\$12).

The Company retired assets for all three storms. The assets retired consisted of pole tops, pole top pins, pin insulators, wires, insulators, and brackets. The Company debited account # 10-20-00-00-108-01-00 Accumulated Depreciation General Plant for \$26,789 and credited account # 10-20-00-00-101-00-00 for \$26,789.

<u>Storm</u>	<u>Division</u>	<u>Amount Retired</u>
3/7/2018	Seacoast	\$7,527
5/4/2018	Concord	\$14,087
6/18/2018	Concord	\$2,644
6/18/2018	Seacoast	<u>\$2,531</u>
Total Retirements		\$26,789

Deferred 2018 Storm Costs

Winter Storm Grayson-January 4, 2018 \$147,046

Beginning Monday January 1, 2018 the Company began forecasting for a potential Nor'easter. On Tuesday January 2, 2018 widespread 4-12 inches of snow was predicted across New England with wind gusts exceeding 60mph. The actual result of the Nor'easter on January 4, 2018 resulted in 8-14 inches of snow across the region. The Seacoast Region also experienced high winds along the coast. There were scattered outages that were attributed to broken tree limbs with most damage across the Seacoast Region. The event qualified for recovery of preparation costs only in the Seacoast and Capital Regions due to an EEI of 3 for hazardous snow with high confidence greater than 8 inches of snow with no leaves. The storm resulted in \$147,046 worth of expenses. The Company debited \$147,046 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Winter Storm Liam-February 7, 2018 \$19,726

On Sunday February 4, 2018 a large winter storm with up to 10 inches of heavy wet snow was predicted throughout the region. A couple of days prior to the storm there was potential for mixing, sleet, wet snow, and freezing rain. The storm event qualified for recovery of preparation costs only in the Capital Region due to an EEI of 3 for high confidence of hazardous snow greater than 8 inches. The actual result of the storm did not meet the concurrent troubles requirement in either the Seacoast or Capital Regions to qualify for restoration costs. The storm resulted in \$19,726 worth of expenses. The Company debited \$19,726 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Winter Storm Riley-March 2, 2018 \$78,412

Late Monday February 26, 2018 there was a significant coastal storm with hazardous winds and widespread flooding forecast for the region. Winter Storm Riley qualified for recovery of preparation costs on the Seacoast Region only because of high confidence of hazardous snow greater than 8 inches without leaves. The actual result of the storm did not meet the concurrent troubles requirement to qualify for recovery of restoration costs. The result of the storm were small scattered outages due to broken trees and limbs. The storm resulted in \$78,412 worth of expenses. The Company debited \$78,412 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Winter Storm Quinn-March 7, 2018 \$1,550,964

A few days after the last winter storm another large coastal storm was forecast for the New England area that predicted 8 to 18 inches of heavy wet snow. The Capitol Region was forecast to get 12-16 inches of dry non-hazardous snow while the Seacoast Region was forecast to get 10-16 inches of heavy wet snow the day before the storm. Both Regions qualified for recovery of preparation costs due to high confidence an EEI 3 for the Capital Region and EEI of 4 for the Seacoast with high confidence of greater than 8 inches of hazardous snow without leaves. The Capital Region was not eligible for recovery of restoration costs due to only 1 outage.

The Seacoast Region qualified for recovery of restoration costs due to the storm impact exceeding the outage criteria. There were more than 43,530 customers interrupted with 23,011 or 48.6% of customers affected on the Seacoast during the peak of the storm. There were many broken trees. The tree damage caused three sub-transmission and twelve distribution circuits to break during the peak of the storm. Much of the equipment was repaired promptly by staff and contractors due to minimal outages in the Capital Region. UES incurred total qualified expenses of \$1,715,934 for recovery of which \$1,550,964 was debited to the Fund. Refer to the Capitalized section for further detail of the \$164,970 in capitalized costs. Audit reviewed supporting documentation for all

expenses including receipts, electrical contractor invoices and employee time sheet reports.

Audit reviewed two invoices from Calypso Communications that sum to \$25,666 that indicate they were for services in connection with storm video and photo collection for Winter Storm Quinn from March 7-9, 2018 to be recouped by UES in the storm fund. The services performed were staff coordination, file upload, file preparation, video and still photo collection of Fitchburg and Seacoast Regions, storm calls, storm coverage, email/news monitoring, social media messaging, scheduling, and reporting. Invoice number 7136 included \$3,257 in video, still photo, and reimbursable travel charges related to the Fitchburg Gas and Electric which has no relationship to customers in New Hampshire as they are in Massachusetts. The remaining \$22,409 in communications costs are general communication expenses and are collected through distribution rates and not the Major Storm Cost Recovery Fund. **Audit Issue # 1**

Audit reviewed two invoices that reimbursed an employee for Facebook and Twitter advertisements incurred out of pocket. The invoices were for \$324 with the expenses broken out \$169 for Twitter and \$155 for Facebook. The Twitter invoice just specifies an advertisement was placed while the Facebook invoice indicates the advertisements were for providing Facebook status updates about the storm and damage to Unitil property as a result of the storm. Audit understands the role social media plays in providing updates during a storm but social media advertisements are a general communications expense and should not be collected the Major Storm Cost Fund. **Audit Issue # 1**

Audit reviewed an invoice from Rock Crest Gardens for \$1,277 that was for labor to repair turf and driveway damage with cold patch for a customer in Plaistow. The invoice also lists charges for a backhoe rental, compost, cold patch, gravel, and seed. The invoice is not eligible for recovery in the storm fund. The Rock Crest Gardens should be removed from the MSCR. **Audit Issue # 2**

Commission Order # 26, 236 issued April 22, 2019 gave the Company approval to remove the March 2018 Winter Storm Quinn from the MSCR to the SRAF to be amortized over three years for recovery beginning May 1, 2019.

Winter Storm Skylar-March 13, 2018 \$17,131

Immediately after Winter Storm Quinn, on March 13, 2018 forecasters were predicting another Nor'easter with 10-16 inches of snow for the region. The event qualified for recovery of preparation costs only for the Seacoast and Capital Regions due to an EEI of 3 for both areas for a high confidence of greater than 8 inches of snow without leaves the day before the storm. The storm did not meet the concurrent troubles to recover restoration costs. The storm resulted in \$17,131 worth of expenses. The Company debited \$17,131 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Thunderstorm-May 04, 2018 \$111,714

Beginning on May 2, 2018 forecasters were predicting thunderstorm activity with wind gusts of up to 50mph to pass through the region on Friday May 4, 2018. The thunderstorm did not meet the EEI criteria to qualify for recovery of preparation costs. The event did qualify for recovery of restoration costs in the Capital Region only due to greater than 22 concurrent troubles. The Capital Region experienced 24 peak outages with 2,817 customers at peak or 9.3% affected. Staff and contractors due to minimal outages in the Seacoast Region repaired the equipment promptly. UES incurred total qualified expenses of \$222,165 of which \$111,714 was debited to the Fund. Refer to the capitalized section for further detail of the \$110,451 in capitalized costs. Audit reviewed supporting documentation for all expenses including receipts, electrical contractor invoices and employee time sheet reports.

Audit reviewed an invoice for four employees for food from CC Tomatoes in Concord. The bill totaled \$123.01 with a \$25 gratuity for a total bill of \$148.01. This is nearly a 20% tip. While it is an immaterial amount the Company should make sure employee keep the gratuity to 15% to minimize food costs. The Company on site stated employees are expected to keep gratuities to the 15% minimum.

Thunderstorm-June 18, 2018 \$150,616

During a heatwave, weather forecasters were predicting severe thunderstorm activity in the region. The event did not meet the criteria to qualify for recovery of preparation costs. The actual results were damaging winds greater than 30mph and heavy rain especially in the Capital Region. Most outages were attributed to fallen tree limbs. There were isolated storms along the Seacoast. Both Regions qualified for recovery costs due to exceeding outage criteria. On the Seacoast Region there were 22 peak outages and in the Capital Region there was 18 peak outages with 10,747 peak customers or 35.4% affected. UES incurred total qualified expenses of \$164,553 for recovery of which \$150,616 was debited to the Fund. Refer to the capitalized section for further detail of the \$13,937 in capitalized costs. Audit reviewed supporting documentation for all expenses including receipts, electrical contractor invoices and employee time sheet reports.

Thunderstorm-July 17, 2018 \$80,652

On Sunday night July 15, 2018 weather forecasters were predicting thunderstorm activity for the following night as a cold front was passing through. The event qualified for recovery of preparation costs in the Seacoast Region only due to an EEI of 3 for high wind gusts with high confidence of wind gusts in excess of 55mph. The actual result of the thunderstorm were minimal scattered outages due to falling tree limbs so the event did not meet the criteria for recovery of restoration costs. The storm resulted in \$80,652 worth of expenses. The Company debited \$80,652 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Thunderstorm-November 3, 2018 \$33,354

On Thursday November 1, 2018 weather forecasts were predicting strong thunderstorm activity for Friday night November 2, 2018 and into the morning of Saturday November 3, 2018. The thunderstorm met criteria to qualify for recovery of preparation costs in the Seacoast Region only due to high confidence of an EEI of 3 for peak wind gusts greater than 55mph. The actual result of the storm was broken tree limbs breaking utility lines and winds greater than 30mph and thus did not qualify for recovery of restoration costs. The storm resulted in \$33,354 worth of expenses. The Company debited \$33,354 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Wintry Mix-November 15, 2018 \$40,682

Following a week of minor snow, rain, and wintry mixes weather forecasters predicted 3-10 inches of snow across the region Thursday evening into Friday November 15, 2018. The event qualified for recovery of preparation costs only on the Seacoast Region due to high confidence of an EEI of 3 for greater than 6 inches of snow with leaves for the winter period. The actual result of the storm did not qualify for recovery of restoration costs as there were no outages. The storm resulted in \$40,682 worth of expenses. The Company debited \$40,682 to the fund. Audit reviewed the supporting documentation for all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Internal Audit Report

The Unitil Internal Audit Staff indicated an audit was not performed on the 2018 MSCR Storm Fund.

2018 Carrying Charges \$248,944

Audit verified the calculation and reconciliation for the carrying charges as filed to the Master Model. Below is the formula that was used for Calendar Year 2018:

Monthly Carrying Charge = (((Average Monthly Balance * 5.20%) / 365) * # of days month)

The interest rate for carrying charges was 5.2% during 2018. The interest rate was calculated per DE 10-055 as the Cost of Debt less the New Hampshire Effective Tax Rate.

Federal Income Tax Rate	21.00%
State Income Tax Rate	7.90%
Fed. Benefit of State Income Tax	<u>-1.66%</u>
Net NH Effective Tax Rate	27.24%

Cost of Debt per DE 10-055	7.15%
Tax Effected (1-27.24%) = .7276	<u>x.7276</u>
MSCR Carrying Charge Rate (Costs Net Deferred Taxes)	5.2%

SRAF SUMMARY

The Storm Recovery Adjustment Factor (SRAF) was approved by Order #25,214. Its purpose was to recover the cost of major, infrequent storms of extraordinary magnitude. The currently authorized SRAF is \$.00133 per kWh billed Per Tariff Page 69 as of May 2018. The January-April 2018 SRAF was \$0.00139. This was lowered due to Hurricane Sandy storm scheduled to be fully amortized as of May 1, 2018. Per Commission Order # 26,123 effective May 1, 2018 \$1,257,109 in October 2017 wind storm costs were moved from the MSCR to the SRAF to be amortized over three years.

The Commission Order # 26,160 in DE 18-096 in issued July 20, 2018 authorized the balances associated with Hurricane Sandy, Hurricane Irene, the October snowstorm moved for final recovery to the External Delivery Charge in August 2018. The Company debited the SRAF Accrued Revenue account # 10-20-00-47-173-00-00 for \$63,670 and credited the External Delivery account # 10-20-00-32-173-00-00 for the same amount in compliance with the Commission Order. The reason for moving the storms out of the SRAF model to the EDC was there were still balances that were not fully amortized left in the model still accruing interest. The balances were a result of the difference in budgeted revenue and actual revenue based on billed kWh.

Note: As of April 30, 2019 the costs of the December 2008 Ice Storm and February 2010 Wind Storm were fully recovered. The storms were amortized over an 8-year period from May 2011 through April 2019.

The monies collected under per the SRAF are booked to the following GL accounts as of 12/31/18:

10-20-00-47-173-00-00	Accrued Revenue Storm Recover Adjustment	\$ 834,001
10-20-00-47-182-86-00	Regulatory Asset: Emergency Storm Restoration	<u>412,436</u>
		\$1,246,437

Audit verified the balance found in the Filing matches the balance of the SRAF as of 12/31/18 at \$1,246,347.

The reconciliation of the SRAF, on page five of the filing report reflects:	
Beginning Balance 1/1/2018	\$ 1,626,347
Total Costs	\$ 1,257,109
Removal prior storms SRAF	\$ (63,670) Sandy, Irene, October
Snow	
Total Revenue	\$(1,655,595)
Calculated Interest	<u>\$ 82,248</u>
Ending Balance with Interest 12/31/2018	\$ 1,246,437 Unamortized SRAF
Balance	

SRAF Interest

The SRAF interest in GL account 10-20-01-47-419-00-00 as of December 31, 2018 was \$78,691. This is a \$3,557 difference between the filing. The reason for the difference was timing due to carrying costs and because of tax reform passed that reduced the federal corporate income tax rate from 35%-21%.

SRAF Revenue

Audit tested the revenue for the Seacoast and Capital Regions for July 2018. The revenue is broken out into SRAF and billed kWh by each individual rate class. The Company provided the Billing report from the Billing group that is used to develop the Monthly Revenue Model for the Accounting Department. Audit was able to verify the \$146,574 SRAF total on the July 2018 billing report to the filing schedule.

Rate Class	Billed kWh	SRAF Rate Calculation
Domestic	46,486,291	\$ 61,849.00
G2-Private	31,732,036	\$ 42,203.00
G2-Municipal	3,069	\$ 4.00
G1-Private	31,298,456	\$ 41,627.00
G1-Municipal	0	\$ -
OL-Private	676,911	\$ 891.00
Total Billed	110,196,763	\$ 146,574.00

Audit also compared the Domestic Rate or Class D Rate for the periods of June – September 2018, as found on randomly selected Unitil bills for the same period. Unitil does not currently display the SRAF as a separate line on their bills, but includes it in the “Delivery Charge”. Audit verified the Delivery Charge rates from the bills correspond to the authorized tariffs which include the \$.00133 SRAF.

Summary

Audit reviewed two invoices from Calypso Communications from the March 7, 2018 Winter Storm Quinn that totaled \$25,666 for communication services. One of invoices included \$3,257 in communications expenses for Fitchburg Gas and Electric. The remaining expenses on the two invoices, \$22,409, should be booked to a general communications account.

The Company also included \$324 Facebook and Twitter advertisements during the same storm that are general communications expenses to be collected through distribution rates. The Company also included \$1,277 in damage to a customer’s turf and driveway that was fixed by Rock Crested Gardens. This is discussed on pages 7 and 8 of this report.

Based upon a review of the filed reconciliation and report, the submitted supporting schedules, invoices, revenue details, and journal entries, Audit concurs with the Company that the SRAF Balance is correctly calculated. The Company should remove \$27,267 worth of Calypso Communications, Facebook, Twitter, and Rock Crested Gardens charges from the MSCR Account and filing. **Audit Issue # 1 and # 2**

MSCR Summary Balance

The MSCR Filing Fund Balance updated to reflect Audit Issues	
12/31/18 Ending Balance	(\$4,992,050)
Quinn Transfer to SRAF excluding Carrying Costs	\$1,550,964
Calypso Communications Audit Issue # 1	\$25,666
Facebook and Twitter Audit Issue # 1	\$324
Rock Crested Gardens Audit Issue # 2	<u>\$1,277</u>
Updated Ending Balance	(\$3,413,819) Under Recovery

SRAF Summary Balance

SRAF Balance per Filing	\$1,246,437
Quinn Transfer	<u>\$1,550,964</u>
Updated Ending Balance excludes Carrying Costs	\$2,797,401 Unamortized Balance

Audit Issue # 1

Communications Services

Background

Audit reviewed two Calypso Communications invoices as well as invoices for Twitter and Facebook advertisements from Winter Storm Quinn. \$1,550,964 Quinn costs were transferred to the SRAF from the MSCR as approved by Commission Order # 26,236.

Issue

Audit reviewed two invoices that summed to \$25,666 from Calypso Communications and two that summed to \$324 from Facebook and Twitter.

Calypso Communications Invoice # 7136

This invoice was for \$5,186 for staff coordination, file upload, file preparation, video footage, still photo collection, and reimbursable travel. The invoice included \$3,257 in charges related to the Fitchburg Gas and Electric System that is in Massachusetts and not related to New Hampshire customers. The remaining \$1,929 in expenses on the invoice are general communications expenses that are collected through distribution rates as they are general communications expenses.

Calypso Communications Invoice # 7137

The invoice was for \$20,550 for storm calls, coverage email/news monitoring, messaging/media, social media, web training, updates, scheduling, and reporting. These are communications services that are a general expense and collected through distribution rates.

Facebook and Twitter Invoices

Audit reviewed two invoices that reimbursed an employee for Facebook and Twitter advertisements paid out of pocket. The invoices were for \$324 with the expenses broken out \$169 for Twitter and \$155 for Facebook. The Twitter invoice specifies an advertisement was placed while the Facebook invoices indicates the advertisements were for providing Facebook status updates about the storm.

Recommendation

The Company should remove from the March 2018 Winter Storm Quinn \$25,990 Calypso Communications, Twitter, and Facebook charges from the filing and MSCR as communications costs are a general expense best collected through distribution rates. The \$3,257 included in the \$25,990 communications expenses should be moved to a Fitchburg account.

The Company should also credit the SRAF to reduce the July 2019 journal entry by the same amount when the charges are removed from the MSCR Fund to the SRAF. The debit offset should post to a marketing/communications expense account. Audit is aware a Secretarial Letter was issued July 3, 2019 informing the Commission that Unitil and Staff reached an agreement that the disputed 2017 Calypso Communications charges will be dealt with when the Company files in the next rate case.

Company Comment

The Company will agree to remove the March 2018 Winter Storm Quinn \$25,990 Calypso Communications, Twitter, and Facebook charges from the filing and MSCR upon entering into agreement with Staff that the removal of these charges shall be without prejudice to the Company to request recovery of the amount in dispute through the Company's Major Storm Cost Reserve ("MSCR") in its next filing seeking an increase in base rates. The Company shall have the burden of proof in such proceeding that any recovery requested is just and reasonable.

Audit Response

Audit concurs with the Company.

Audit Issue # 2

Driveway Repair

Background

Audit reviewed an invoice from Rock Crested Gardens for \$1,257 to repair damage to a customer's grass and driveway during Winter Storm Quinn in March 2018.

Issue

The Rock Crested Garden invoice # 32415 for \$1,277 was to repair turf and driveway damage to property at Sunset Place in Plaistow. The invoice indicates the charges were for compost, backhoe rental, seed, gravel, labor, and cold patch to repair the damage.

Recommendation

The Company should remove from the March 2018 Winter Storm Quinn \$1,277 Rock Crested Gardens as driveway damage repair should not be included in the storm fund. The Company should also credit the SRAF to reduce the July 2019 journal entry by the same amount when the charges are removed from the MSCR Fund to the SRAF. The debit offset should post to the appropriate expense account.

Company Comment

In order to efficiently and safely restore power, the Company will occasionally need to position or drive its vehicles to locations that may result in damage to customer's lawns or driveways. The Company considers this a cost in the normal course of service restoration, and the cost is appropriately included in the storm fund since these cost were incurred during a major storm event.

Audit Response

Audit understands the position of the Company and recommends the posting of this expense to an injuries and damage account outside of the storm fund itself.