

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 11-277

UNITIL ENERGY SYSTEMS, INC.

Petition to Increase Storm Recovery Adjustment Factor

Order Granting Increase to Storm Recovery Adjustment Factor

ORDER NO. 25,351

April 24, 2012

APPEARANCES: Gary Epler, Esq. on behalf of Unitil Energy Systems, Inc.; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL BACKGROUND

On December 16, 2011, Unitil Energy Systems, Inc. (UES or Company) filed a petition to increase its storm recovery adjustment factor (SRAF) effective May 1, 2012. UES said the increase was necessary to recover the costs of repairing damage to its electrical system resulting from the August 2011 Tropical Storm Irene and the October 2011 snowstorm (collectively, 2011 major storms). In support of its request, UES filed testimony with related exhibits and an illustrative tariff. In its petition, UES requested that the SRAF be increased from its current level of \$0.00096 per kilowatt hour (kWh) to \$0.00270 per kWh effective May 1, 2012. According to UES, a residential default service customer using 600 kWh per month would experience a monthly bill increase of \$1.04 or 1.2% under UES's proposal.

The petition stated that the Commission approved a settlement agreement in UES's most recent distribution rate case which created two cost recovery mechanisms for major storm damage to UES's electrical system.¹ First, the settlement agreement established a Storm Reserve to allow for the recovery of costs associated with qualifying major storms through UES's base

¹ See Order No. 25,214 (April 26, 2011) in Docket No. DE 10-055.

rates. Second, the settlement agreement established the SRAF charge to allow UES to recover the costs of infrequent storms of extraordinary magnitude. The settlement agreement set the SRAF at \$0.00096 per kWh to allow recovery of the costs associated with the December 2008 ice storm and the March 2010 wind storm. The settlement agreement specifically allowed UES to petition the Commission to change the SRAF should any significant under- or over-recoveries occur. The instant petition stated that adding the costs of the 2011 major storms would place the Storm Reserve fund in significant deficit and, therefore, the Company filed the request to recover such costs through the SRAF.

The Commission issued an Order of Notice on February 16, 2012 scheduling a prehearing conference for March 6, 2012. On March 7, 2012, Staff filed a secretarial letter reporting on the technical session that followed the prehearing conference and recommending that a hearing on the petition be held on April 12, 2012, which the Commission approved by secretarial letter on March 13, 2012. On March 22, 2012, Staff filed a memorandum with its recommendation regarding the petition. The hearing was held as scheduled. On April 12, 2012, UES filed an updated analysis of the bill impacts for customers resulting from the proposed change to the SRAF.

II. POSITIONS OF THE PARTIES

A. Unitil Energy Systems, Inc.

UES testified that it proposed to recover the costs associated with the 2011 major storms through the SRAF effective May 1, 2012. The Company explained that its existing Storm Reserve established in Docket No. DE 10-055 is funded at \$400,000 annually and was set to deal with more frequent major storms. UES stated that the Storm Reserve was not designed to

include infrequent storms of extraordinary magnitude such as the 2011 major storms. At the time of the filing, UES estimated the costs to repair damage associated with the 2011 major storms to be \$5.6 million.

In connection with its request to recover the storm recovery costs through the SRAF, UES requested that the Commission find that the 2011 major storms are infrequent storms of extraordinary magnitude and that the cost to repair the damage to UES's electrical system caused by the storms qualifies for recovery through the SRAF. UES stated that in the wake of Tropical Storm Irene, more than 7 million homes and businesses across 13 states and the District of Columbia lost power. According to the Company, the tropical storm brought sustained winds of 35 to 40 miles per hour (mph) with wind gusts up to 60 mph, and more than three inches of rainfall. UES said that most damage to utility infrastructure was caused by tree limbs breaking from the force of the winds.

UES stated that, at the peak of Tropical Storm Irene, approximately 31,355 customers, or 42% of UES's customers, were without power. The Company explained that over the course of the 36 hour restoration, a cumulative total of 42,300 customers experienced interruptions. The Company had 260 individual trouble locations (interruption events occurring on either primary or secondary lines), including outages in 30 of the 34 communities it serves in New Hampshire. UES included as an attachment to its filing the "After Action Report for Tropical Storm Irene" which provided information about the storm, the resulting damage and customer impacts, and the Company's planning, restoration and communication strategy.

UES described the October snowstorm as having widespread impact from the Mid-Atlantic through the New England states and to the Canadian Maritimes, resulting in more than 3

million homes and businesses across 12 states and the Canadian Maritimes losing power. In UES's service territory, the storm had sustained winds of 17 mph, wind gusts of up to 30 mph and heavy, wet snowfall in amounts between 19-25 inches across the New Hampshire service territory. The majority of damage to the Company's equipment resulted from tree limbs breaking from the weight of the snow. Contributing to tree damage was the amount of foliage still on the trees which provided greater surface area for the snow to accumulate causing major tree and limb breakage.

At peak, approximately 51,262 customers, or 69% of UES' customers, were without power. Over the course of the 84 hour restoration, a cumulative total of 71,973 customers experienced interruptions. The Company said it had 368 individual trouble locations, including outages in 31 of the 34 communities it serves in New Hampshire. UES also said the storm caused interruptions to 7 sub-transmission lines and 23 distribution circuits primarily in its Seacoast region. UES included in its filing a copy of its "After Action Report for the October Snow Storm" which provided extensive information about the storm impacts and storm recovery efforts.

UES asserted that the August 2011 tropical storm and the October 2011 snowstorm each meet the definition of a qualifying major storm. UES explained that the Storm Reserve is intended to fund severe weather events causing 16 concurrent troubles and 15% of customers interrupted, or 22 concurrent troubles, in either the Capital or Seacoast regions of UES. Tropical Storm Irene resulted in approximately 52 concurrent troubles in the Capital and 80 in the Seacoast regions with 42% total customers interrupted at peak, significantly higher than the thresholds in the Commission's definition. Similarly, for the October snowstorm, UES

experienced approximately 75 concurrent troubles in the Capital and 102 in the Seacoast area with 69% of total customers interrupted at peak. UES requested that the Commission find that both 2011 major storms qualify as infrequent, extraordinary storms and allow the Company to recover the costs to repair damage to the Company's electrical system through the SRAF.

At hearing, UES stated that it had revised the estimated costs from \$5.6 million to \$4,428,056. The Company explained the difference related to the costs incurred in connection with the October 2011 snowstorm. At the time of the filing, UES capitalized \$76,000 of costs associated with Tropical Storm Irene restoration as utility plant additions for plant units replaced during the storm event. For the October snowstorm, UES initially capitalized \$175,000 of costs as utility plant additions; however, following a complete accounting of plant units that were replaced following the snowstorm, UES capitalized almost \$1 million of the costs of repair. UES testified that the accounting change was the sole cause of the reduction in the costs to be recovered through the SRAF.

UES said that the resulting change to the SRAF would be an incremental increase of \$0.00082 per kWh to the current SRAF rate of \$0.00096 per kWh for a total SRAF rate of \$0.00178 per kWh, beginning May 1, 2012. On April 12, 2012, the Company filed a response to a record request (Exhibit 3) and calculated that, if the Commission approved the proposed increase of \$0.00082 per kWh, UES's residential energy service customers using 600 kWh per month would experience monthly bill increases of 0.6%.

At hearing, UES testified that the Company had reviewed Staff's recommendation filed with the Commission on March 22, 2012. The Company said that Staff had accurately represented UES's agreement with Staff's proposal as follows: First, UES would recover the

costs for the 2011 major storms, revised to the sum of \$4,428,056, over a period of five years instead of the three years originally proposed by the Company. Second, the amount of costs subject to recovery would be adjusted to the result of Staff's audit of the costs. UES explained the adjustment to Staff's audit results did not need to be reconciled because cost recovery through the SRAF is based on kWh sales. UES stated that the Company would monitor recovery on an ongoing basis to avoid any over-recovery of costs. Third, UES agreed to Staff's recommendation that the Company use a carrying charge rate of 4.52% on the under-recovery. Finally, UES concurred with Staff's recommendation directing the Company to file annual reports on the storm fund balance in February of each year, provided that the initial report for the period ended December 31, 2011 would be filed by May 31, 2012.

B. Commission Staff

Staff's memorandum stated that it had reviewed the filing and proposed certain modification to UES's request for relief, to which UES had assented. The agreement consisted of the following: (1) the Commission require the Company to recover the costs of the 2011 major storms over five years instead of the three-year recovery term proposed by UES, (2) the amount of costs to be recovered be subject to the final Staff audit, (3) the carrying costs on uncollected balances be based the carrying charges approved by the Commission in UES's most recent distribution rate case for the Company's long-term cost of debt, net of deferred taxes, or 4.52%,² and (4) UES file an annual report on the status of the Storm Reserve balance for the Staff's review to determine if any further adjustment to the SRAF is warranted. Staff recommended that the Commission approve UES's petition to adjust the SRAF for effect May 1, 2012 according to the agreement between Staff and the Company.

² See, Order No. 25,214 (April 26, 2011) in Docket No. DE 10-055.

III. COMMISSION ANALYSIS

We have reviewed UES's filing and Staff's recommendations regarding the Company's proposal to increase the SRAF to recover costs associated with the 2011 major storms. We have also considered the overall rate impacts which are average increases of 0.6% for residential customers. Taking into account UES's description of the damage caused by the 2011 major storms, we find that these storms are low frequency storms of extraordinary magnitude. We agree that the SRAF is the appropriate mechanism for the Company to recover costs of repairing damage caused by these storms. Therefore, we will allow UES to begin recovery of the costs associated with preparation and restoration activities related to the 2011 major storms through the SRAF effective May 1, 2012.

Using the Company's revised estimate of costs, the current SRAF of \$0.00096 per kWh will increase by \$0.00082 per kWh for a total SRAF rate of \$0.00178 per kWh, beginning May 1, 2012. While the approval of the filing results in rate increases, we find that the proposed SRAF rate is just and reasonable and in the public interest. We find that Staff's recommendation that recovery be made over a five-year period is reasonable, and further agree that the amounts subject to recovery should be reconciled based on the results of Staff's audit. We also agree that UES use as its long-term cost of debt, net of deferred taxes, or 4.52% proposed by Staff as the carrying charge to be applied to the uncollected balance through the recovery period. Finally, we find it is reasonable to require UES to file annual reports on the Storm Reserve fund and storm recovery updates for those storms where costs are recovered through the SRAF.

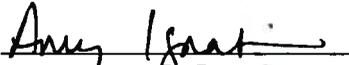
Based upon the foregoing, it is hereby

ORDERED, that the petition of Unitol Energy Service, Inc., as modified, to increase the Storm Adjustment Recovery Factor by \$0.00082 per kWh for a total SRAF rate of \$0.00178 per kWh effective May 1, 2012 is hereby APPROVED; and it is

FURTHER ORDERED, that the Commission adopts the recommendations set forth in Staff's March 22, 2012 filing regarding the amount of costs to be recovered, the recovery period, the carrying charge and reporting requirements, all as agreed to by UES; and it is

FURTHER ORDERED, that UES shall file tariffs conforming with this Order within 30 days of the date hereof pursuant to Puc 1603.05.

By order of the Public Utilities Commission of New Hampshire this twenty-fourth day of April, 2012.



Amy Ignatius
Chairman



Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Lori A. Davis
Assistant Secretary