STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 12-055

UNITIL ENERGY SYSTEMS, INC.

Tariff Filing for Step Adjustment to the Reliability Enhancement and Vegetation Management Programs

Order Approving Step Adjustment

O R D E R N O. 25,355

April 30, 2012

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

I. PROCEDURAL HISTORY

On February 29, 2012, Unitil Energy Systems, Inc. (UES or Company) filed proposed tariff pages in relation to an increase to its distribution rates consistent with a step adjustment provided for in a Settlement Agreement approved by the Commission in Order No. 25,214 (April 26, 2011) in Docket No. DE 10-055, UES's most recent distribution rate case. With the proposed tariff, UES filed an explanation of the request along with 2011 Reliability Enhancement Program (REP) and Vegetation Management Program (VMP) annual reports with related attachments. According to the filing, for a residential default service customer using 600 kilowatt hours (kWh) per month, the rate impact associated with the step adjustment is a monthly bill increase of $0.86 or 1.0%.

In addition to the step adjustment, UES requested authority to implement a VMP storm hardening pilot program in 2012 for a one-time cost of $535,000, with such cost included as part of the May 1, 2012 step adjustment. UES estimated the monthly bill impact associated with the VMP storm hardening pilot program to be $0.39 or a 0.5% increase for a residential default service customer using 600 kWh per month. The step adjustment combined with the costs of the VMP storm hardening pilot program would result in overall residential customers experiencing average monthly bill increases of 1.5%.

On March 29, 2012, the Commission issued Order No. 25,340 suspending UES's proposed tariff and scheduling a hearing on April 24, 2012. No parties sought to intervene in the proceeding. The hearing was held as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil Energy Systems, Inc.

As stated in UES's filing, the tariff pages are intended to implement a provision in the Settlement Agreement that provides for a step adjustment to its distribution rates effective May 1, 2012. Section 7 of the Settlement Agreement further provided that UES file an annual report showing actual REP and VMP activities and costs for the previous calendar year and its planned activities and costs for the current calendar year. Actual and planned REP and VMP costs are to be reconciled with the revenue requirements associated with the actual planned capital additions and expenses.

Consistent with the Settlement Agreement, UES's proposed May 1, 2012 step adjustment consists of a number of components. The step adjustment reflects 1) 75% of actual changes to non-REP net plant in service between December 31, 2010 and December 31, 2011; 2) adjustments for the REP and VMP programs; 3) an adjustment for a VMP reconciliation; 4) the removal of temporary rate recoupment; and 5) the removal of rate case expense recovery pursuant to the final audit of rate case costs.

At the time of the Settlement Agreement, the Company forecasted the change in non-REP net plant service to be $6,430,668 for 2011, but the actual amount spent was $3,224,073.

Pursuant to the Settlement Agreement, the revenue requirement associated with those plant additions to be reflected in the 2012 step adjustment is based on 75% of the actual change in non-REP net plant in service during 2011, or $2,418,055. UES calculated the resulting revenue requirement to be $618,507 and included that amount in its step adjustment computations. The Company said that the difference between forecasted and actual change in net plant in service primarily resulted from lower actual capital spending and a higher construction work in progress balance at the end of 2011. UES stated that, in the May 1, 2012 step adjustment, it was only seeking recovery of the costs of construction actually placed in service by the end of 2011.

Also pursuant to the Settlement Agreement, the 2012 step adjustment includes a revenue requirement of $277,848 associated with $1,444,096 of REP net plant in service additions that occurred in 2011, $300,000 for REP operations and maintenance expense, $950,000 for VMP spending, and a VMP under-collection of $9,766. Finally, UES included in the May 2012 step adjustment the amount of $535,000 to provide funding for a proposed VMP storm hardening pilot program to be implemented in 2012—an item not provided for in the DE 10-055 Settlement Agreement. UES proposed the VMP storm hardening pilot program on a one-time basis. UES's calculation of the step adjustment revenue requirement also reflected the removal of $1,210,494 of temporary rate recoupment and an $11,334 reduction to rate case expenses pursuant to a Staff audit rate case expense recovery, with recovery of rate case expenses ending on April 30, 2012. The total revenue requirement for all components of the proposed May 1, 2012 step adjustment including the pilot program was $1,469,304.

The Company reported that its actual REP capital expenditures in 2011 were $1,450,618, or $299,382 less than the approved $1,750,000 in REP spending. UES said that the actual costs do not include any projects that were not completed in 2011. According to the Company, projects in progress at the end of 2011 and completed in 2012 will be included in the 2012 REP program costs.

UES said that it proposed to implement the VMP storm hardening pilot program for three circuits in the Seacoast area. According to the Company, the towns of Plaistow, Newton and Atkinson had expressed an interest in having additional tree work performed. UES stated that the pilot would involve more tree removal than is customarily done in the VMP program and would also include "ground to sky" removal of tree branches overhanging electric facilities. UES said that the pilot would help it gauge public acceptance of increased tree removal and evaluate the impacts of the increased tree and branch removal on the reliability of its electrical distribution system as well as on storm preparation restoration and response. UES stated that it planned to conduct a cost-benefit analysis of the pilot which would be critical in assessing whether the pilot program, or components of the program, should be included in the VMP going forward.

B. Staff

Staff stated that it had reviewed the filing and that the components of the rate adjustment and the allocation to customer classes were calculated in a manner consistent with the terms of the Settlement Agreement approved by the Commission in Docket No. DE 10-055. Staff also said that while it supported UES's proposed storm hardening pilot program, it would also closely review the Company's assessment of the pilot to evaluate the pilot's effectiveness.

III. COMMISSION ANALYSIS

We have reviewed the filing and considered Staff's recommendation. We note that Staff agrees with UES's calculation of the revenue requirement to be recovered through distribution rates and with the Company's calculation of the customer class allocations. We find that the components of the step increase, with the exception of the proposed storm hardening pilot program, are consistent with the Settlement Agreement in Docket No. DE 10-055. We find the amount of the step increase to be reasonable pursuant to RSA 378:7. Therefore, we approve the adjustment to distribution rates effective with service rendered on and after May 1, 2012.

We also expressly approve UES's proposal to implement a VMP storm hardening program on a pilot basis in the Seacoast area. We understand this project is for one year only and direct UES to provide a full report of the pilot program, including costs to implement, activities performed and cost/benefit analyses, to allow a full evaluation of the program.

Based upon the foregoing, it is hereby

ORDERED, that Unitil Energy Systems, Inc.'s request to increase its distribution rates to recover a total revenue requirement of $1,469,304 pursuant to the Settlement Agreement approved in Docket No. DE 10-055 and related to the storm hardening pilot program for effect on May 1, 2012 is hereby APPROVED; and it is

FURTHER ORDERED, that UES shall file a report evaluating the effectiveness of the VMP storm hardening pilot program when it makes it annual REP/VMP filing in 2013; and it is

FURTHER ORDERED, that UES shall file a compliance tariff with the Commission in accordance with N.H. Code Admin. Rules Puc 1603.02(b) no later than 30 days of the date hereof.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2012.

Amy L. Ignatius
Chairman

Michael D. Harrington (KWS)
Commissioner

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DISCOVERY MATERIALS

Pursuant to N.H. Admin Rule Puc 203.09 (d) and 203.11 (a) (11) Electronic copies of all discovery shall be served on every person designated for discovery filings on the Commission's official servivce list. [Discovery shall not be filed as part of a docket filing pursuant to 203.02]

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FILING INSTRUCTIONS:

a) **Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:** DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) **Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**

c) **Serve a written copy on each person on the service list not able to receive electronic mail.**