

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: May 6, 2020

AT (OFFICE): NHPUC

FROM: Sean Courtois, Examiner

SUBJECT: Unitil Energy Systems, Inc.
2019 Annual Major Storm Cost Reserve Fund Report DE 20-023
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, 2019, as provided to the Commission on February 28, 2020. The Fund was approved by Order #25,214 in DE 10-055. The Company provided the MSCR Fund Reconciliation as of 12/31/2019 on page 3 of the Report:

12/31/2018	MSCR Balance as filed 2/28/2019	\$(4,992,050) Under- Recovery
	<u>Prior Year Adjustments</u>	
03/14/2017	Nor'easter Event-Calypso Adj.	\$ 12,316
03/31/2017	Snow Event-Calypso Adj.	\$ 5,567
10/30/2017	Wind Storm-Calypso Adj.	\$ 14,626
03/07/2018	Snow Event-Calypso Adj.	\$ 25,990
03/07/2018	Snow Event-Re-Classed to SRAF	<u>\$ 1,591,597</u>
	Adjusted Opening Balance 1/1/2019	(3,341,954)
	<u>2019 Deferred Charges</u>	
1/20/2019	Winter Storm Harper	\$ (50,241)
2/25/2019	Winter Storm Liam Note	\$ (162,242)
10/17/2019	Winter Storm Riley Note	<u>\$ (457,442)</u>
	Total Deferred Charges	\$ (669,925)
2019	Current Recovery Rate	\$ 800,000
2019	Carrying Charges	<u>\$ (194,270)</u>
12/31/2019	MSCR Balance	\$(3,406,149) Under-Recovery

Note: The Filing used **Winter Storm Liam** that is from last year when the storm should be called **Winter Storm-Ryan**. The Filing used **Winter Storm Riley** that is from last year when the storm event should be **Wind Storm Event- "Bomb Cyclone"**. The numbers are accurate.

MSCR SUMMARY

The December 31, 2019 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>\$3,015,363</u>
		\$3,815,363
<u>Interest</u>		
10-20-10-00-419-09-00	Interest Income-Major Storm Reserve	\$177,571
<u>Revenue</u>		
10-20-10-00-407-31-00	Amortization-Storm	\$822,669

Audit reviewed the MSCR \$3,815,363 December 31, 2019 general ledger year-end balance, the \$3,406,149 December 31, 2019 ending balance on the MSCR Fund Balance Filing and the Master Model. 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. The reason for the \$409,214 difference between the filing/master model and GL is the final amount of the \$1,591,597 that was moved to the SRAF for the March 7, 2018 storm. There was also \$24,007 in Calypso Communications charges moved in February 2020 from a prior Audit Report issued in February 2019 reclassified to the deferral account for its next rate case. The other reason is the GL shows the 12/2/2019 storm (total of \$465,000 charges) which are not shown on the master model. This is because storm charges are recognized 45 days after the storm so that would not be until January 2020.

The MSCR Filing Schedule indicates the interest calculation is \$194,270 while the GL the interest is \$177,571. The reason for the \$16,699 difference is primarily due to the timing in which the payments are hitting the working model vs. when they are recognized in the master model. Because there can be a difference in which month the charge may hit, this creates a difference in the total interest calculated. Interest charges are true up to the master model periodically to ensure the correct balances.

The Company allocates \$66,666 per month for annual revenue amortization of \$800,000 which is included in the \$822,669 December 31, 2019 year-end total. Audit reviewed Journal Entry # UEGAR729042 for February 2019. 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 2019 that allocated the same amounts to the same accounts.

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 2/28/2020

Calypso 2018 reclass March 2018	(\$25,990)	
Calypso Quinn reclass	\$24,007	
Calypso 2017 Reclass	(\$32,508)	
SRAF reclass Quinn	(\$1,615,604)	Includes Calypso Quinn reclass
Total	(\$1,650,096)	

The ending balance as found in the prior audit was (\$4,992,050) under-collection. The adjusted opening balance as filed for 2019 was (\$3,341,954) under-collection for a difference of \$1,650,096. The difference is due to the March 2018 Snow Event that was reclassified to the SRAF for \$1,591,597 per Commission Order 26,236. The Company's 2018 MSCR Report reported costs for the March 2018 snow event totaling \$1,550,964. An additional \$40,633 in costs were identified subsequent to the 2018 MSCR Filing that the Company attributed to timing. The \$1,615,604 March 2018 Winter Storm Quinn SRAF total expense was reduced by \$24,007 to a total of \$1,591,597 due to a Calypso Communications reclassification to the deferral account. Other adjustments relate to Calypso Communications are discussed below.

2017 and 2018 Outstanding Issues Regarding Calypso Communications and other Adjustments

On the 2019 MSCR Filing, the Company removed \$32,509 in Calypso Communications charges from the 3/31/2017 Nor'easter Event and 10/30/2017 October Windstorm. These charges were identified in the 2017 Addendum Audit Report issued February 4, 2019. The Company on the 2019 MSCR Filing the Company removed \$25,990 from the 3/7/2018 Snow Event. The charges were identified as an Audit Issue in the Audit Report issued July 29, 2019. A Secretarial Letter issued July 3, 2019 informing the Commission that Unitil and Staff reached an agreement that the disputed Calypso Communications, Twitter, and Facebook charges will be dealt with when the Company files in the next rate case. This was also reaffirmed in a March 11, 2020 Secretarial Letter.

The Audit Report issued July 29, 2019 identified \$1,257 in damages to a customer's driveway to be removed from the storm fund and moved to an injuries and damage expense account, which the Company disputes. On February 18, 2020, a Staff Recommendation was issued concurring with the Audit Report recommendation. On March 11, 2020, a Secretarial Letter was issued with the Commission concurring with removal of the \$1,257 damaged customer driveway expenses.

Audit reviewed the adjusting journal entries without exception that the Company moved to account 10-20-00-00-186-40-00 Deferred Charges-Storm Costs.

UES and Outside Contractor Expenses

Below is a breakdown of UES and Outside Contractor expenses related to storms included in the 2019 MSCR:

Description	Percent	Description	Cost
UES Payroll, Materials, Overhead, etc...	23.2%	Total Internal	\$ 212,461
Outside Contractors & Other	76.8%	Total Contractor	\$ 702,517
	100%		\$ 914,978

*Totals do not include the Utility Plant Additions

Audit reviewed the contractor rate sheet agreements to verify hourly wage rates/hours worked complied with the terms of the contract. Audit reviewed invoices for materials and stores expenses, performed reviews 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.

2019 Deferred Charges \$864,195

Summary of 2019 MSCR Capitalized and Deferred

	Storm Total	Capitalized	Deferred
1/20/2019	\$ 50,241		\$ 50,241
2/25/2019	\$ 162,242		\$ 162,242
10/17/2019	\$ 702,496	\$ (245,054)	\$ 457,442
Total 2019 Storm Charges	\$ 914,979	\$ (245,054)	\$ 669,925
Carrying Charges 2019			\$ 194,270
			\$ 864,195

During the period of January 1, 2019 through December 31, 2019, the UES MSCR Report (Report) indicated three events occurred which qualified for debiting some or all of the expenses to the MSCR. The costs are included in the 2019 filing. The report indicated the cost of the three events was \$669,925 plus carrying charges of \$194,270 equaled a grand total of \$864,195.

Capitalized Costs

There was one storm where costs were capitalized. The 10/17/2019 storm was capitalized to work order C-190103-20196151 and E-190103-20196625. The entries were done in March 2020. See the chart below for further detail of capitalized costs. Each was verified to the filing pages.

2019 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>
10/17/2019	Seacoast	\$ 146,768	\$ 21,958	\$ (384)	\$ 168,342
10/17/2019	Concord	\$ 66,706	\$ 10,006		\$ 76,712
Totals		\$ 213,474	\$ 31,964	\$ (384)	\$ 245,054
		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 2018. The historical data is at fully loaded rates. 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 \$245,054 in capitalized storm costs as they appear on the filing were booked properly. Unitil booked the plant additions to account 10-20-00-00-101-00-00 for \$213,474 and credited account 10-20-00-00-107-00-00 Construction Work in Progress for \$213,474. Unitil booked the cost of removal by debiting account 10-20-00-00-108-01-00 Accumulated Depreciation \$31,964 for and credited account 10-20-00-00-107-00-00 Construction Work in Progress for \$31,964. Unitil booked the salvage cash value by debiting account 10-20-00-00-107-00-00 Construction Work in Progress for (\$384) and crediting account 10-20-00-00-108-01-00 for (\$384).

The Company retired assets for one storm. 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 \$28,216 and credited account # 10-20-00-00-101-00-00 for \$28,216.

<u>Storm</u>	<u>Division</u>	<u>Amount Retired</u>
10/17/2019	Seacoast	\$28,216
Total Retirements		\$28,216

Deferred 2019 Storm Costs

Winter Storm Harper-January 20, 2019 \$50,241

Beginning on January 14, 2019 the Company began forecasting a major winter storm expected to arrive over the weekend January 19th and 20th. Heavy wet snow accumulation of 16-20 inches were forecasted along with ice, sleet, and freezing rain across the region. Wind gusts were not expected to be hazardous but widespread 15-25 mph common gusts with a peak 45 mph gust. The actual result of the storm was rain, freezing rain, sleet, and 10-12 inches of snow across the Seacoast and Capital Regions. The snow event qualified for recovery of preparation costs only because of an EEI of 4 for hazardous snow and a high confidence level 60%. The EEI of 4 indicates there was greater than 12 inches of snow expected to fall.

The storm did not qualify for recovery costs because of not meeting the concurrent troubles requirement in the Seacoast or Capital Regions. There were zero customer outages according to the filing. The storm resulted in \$50,241 worth of expenses. The Company debited \$50,241 to the fund. Audit reviewed the supporting documentation for half the expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Winter Storm Ryan-February 25, 2019 \$162,242

Beginning on February 21, 2019 the Company began forecasting for Winter Storm Ryan expected to arrive February 24th and into the 25th. The storm was forecasted to consist of blizzard conditions with a mixture of rain and snow. The forecast predicted sustained wind

speeds of 15-35 mph with peak wind gusts exceeding 55 mph. The Company experienced sustained gusts of up to 55 mph in the Capital Region and 61 mph in the Seacoast Region for greater than 12 hours. The event qualified for recovery of preparation costs due to an EEI of 3 or higher with greater than sustained 55 mph winds with a high 60% high confidence level. The preparation activities consisted of coordinating and meeting with stakeholders in the event the storm happened.

The actual result of the storm did not qualify for recovery of restoration costs. The damage consisted of broken poles and downed wires attributed to fall tree limbs. The majority of customers in the Capital Region were restored within 16 hours and within 34 hours in the Seacoast Region. The storm resulted in \$162,242 worth of expenses. The Company debited \$162,242 to the fund. Audit reviewed the supporting documentation for 42% of all expenses including invoices, receipts, employee time reports, expense reports, and general ledger.

Audit reviewed one invoice for Calypso Communications for \$3,969 the Company indicated was to be removed from the storm fund and deferred until the next base rate case similar to other Calypso Communications charges but inadvertently not removed. The amount will be removed from the storm fund and deferred. **Audit Issue # 1**

Wind Event “Bomb Cyclone”-October 17, 2019 \$457,442

Beginning on October 13, 2019, forecasters started to predict a strong system with potential for strong gusty winds of 35-40 mph were predicted overnight October 16th into the 17th. The weather event predicted a “Bomb Cyclone” which is a drop in air pressure over a short period of time resulting in severe wind gusts. The actual results of the storm resulted in peak wind gusts of 53 mph in the Seacoast Region and 49 mph in the Capital Region. The preparation activities consisted of outreach to important stake holders to get ready for the storm.

The Company experienced 14 damaged poles that needed to be replaced due to damage from fallen trees. The restoration started on the 17th and went to the 18th. The Company responded with 10 internal crews and 13 contractors. The event qualified for recovery of preparation costs due to an EEI of 3 with wind gusts of 45 mph or more in the Seacoast Region with leaves. The storm qualified for recovery of restoration costs as it met the high confidence level of 22 concurrent troubles in both the Seacoast and Capital Regions. The Seacoast Region experienced 90 peak outages with 21% of customers affected. The Capital Region experienced 44 peak outages with 13% of customers affected. UES incurred total qualified expenses of \$702,496 for recovery of which \$457,442 was debited to the Fund. Audit reviewed the supporting documentation for 33% of all expenses including invoices, receipts, employee time reports, expense reports, and general ledger. Refer to the Capitalized section for further detail of the \$245,054 in capitalized costs.

Winter Storm Event-December 2, 2019

The Company is not seeking recovery of this storm expenses due to timing. The expenses will be included in the 2020 MSCR Filing. Beginning on November 27, 2019 there was a winter storm that could bring 7 to 14 inches of snow to the Region on December 1st into

the 2nd. The actual result of the storm was 7 to 8 inches of snow in the Seacoast Region. The event qualified for recovery of preparation costs only due to an EEI of 3 with high confidence of 60% for greater than 12 inches of wet snow for the Seacoast and Capital Regions.

Internal Audit Report

The Company indicated an Internal Audit was not performed on the 2019 MSCR Storm Fund.

2019 Carrying Charges \$194,270

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 2019:

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

The interest rate for carrying charges was 5.2% during 2019. 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 Effect (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 \$.00084 per kWh billed Per Tariff Page 69 as of May 2019. The January-April 2019 SRAF was \$0.00133. The rate in May 2019 was lowered due to full amortization of the Ice Storm of 2008 and February 2010 wind storm. The Company also moved the March 2018 winter storm costs from the MSCR to SRAF per Commission Order 26,236. The rate for May-December 2019 was \$.00084.

Audit reviewed the SRAF model and noticed after the December 2008 Ice Storm and February 2010 Wind Storm were fully recovered at the end of April 2019 there was a \$176,229 over-collection in the June-December 2019 balances. The Company indicated the reason for the over-collection was the 8-year recovery period for the Ice Storm and the Wind Storm ended in April 2019. *“ Due to actual kWh sales varying from the original forecast, the Ice Storm and Wind Storm reconciliation ended with an over-collection of \$176,229. Per its compliance filing in DE 10-055 dated June 26, 2019 Letter to PUC Executive Director (see 20-023 AR 14 Attachments 1 and 2), UES proposed to leave this remaining over-collection balance in the*

SRAF. Upon conclusion of recovery of the costs of the storms remaining in the SRAF, UES will file a final reconciliation and propose a method to credit, or collect, any remaining balance.”

Because the Commission did not approve or deny the action proposed by Unitil regarding the over-collection, Audit recommends that the Commission Staff and UES determine the most appropriate disposition of the over-collection of this instant docket, or in the context of the Company’s next rate filing.

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 the SRAF are booked to the following GL accounts as of 12/31/19:

10-20-00-47-173-00-00	Accrued Revenue Strom Recover Adjustment	\$ 1,036,271
10-20-00-47-182-86-00	Regulatory Asset: Emergency Storm Restoration	<u>720,898</u>
		\$1,757,169

Audit verified the balance found in the Filing matches the balance of the SRAF as of 12/31/19 at \$1,732,366.

The reconciliation of the SRAF, on page four of the filing report reflects:

Beginning Balance 1/1/2019	\$ 1,246,437
Total Costs	\$ 1,591,597
Total Revenue	\$(1,189,373)
Calculated Interest	<u>\$ 83,705</u>
Ending Balance with Interest 12/31/2019	\$ 1,732,366 Unamortized SRAF Balance

The \$24,803 difference in the balance of the SRAF models is due to the impact of removal of the \$25,990 in Calypso Invoices and the timing of interest. The prior balance reported already had \$3,257 in a Calypso invoice for a Fitchburg storm charge removed, so the actual balance adjustment was \$22,733, which after carrying charges resulted in an increase in the amount moved into the SRAF of \$24,007. After carrying charges on that balance for the remainder of the year, the total difference was \$24,803.

SRAF Interest

The SRAF interest in GL account 10-20-01-47-419-00-00 as of December 31, 2019 was \$84,502. This is a \$767 difference between the filing that is due to the removal of Calypso Communications invoices were moved out of the SRAF in February 2020 therefore the GL and the SRAF Filing balances will not match because the two interest amounts in question are being calculated with two different SRAF balances.

SRAF Revenue

Audit tested the revenue for the Seacoast and Capital Regions for August 2019. 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 \$99,638 SRAF total on the August 2019 billing report to the filing schedule.

Rate Class	Billed kWh	SRAF Rate Calculation
Domestic	51,989,358	\$ 43,724.00
G2-Private	34,397,110	\$ 28,905.00
G2-Municipal	2,003	\$ 1.66
G1-Private	31,487,105	\$ 26,449.00
G1-Municipal	0	\$ -
OL-Private	661,782	\$ 557.90
Total Billed	118,537,358	\$ 99,637.56

Audit also compared the Domestic Rate or Class D Rate for the periods of June – September 2019, 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 that include the \$.00084 SRAF on Tariff Page 69.

Summary

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 \$3,969 worth of Calypso Communications charges from the MSCR Account and filing. **Audit Issue # 1.**

MSCR Summary Balance

The MSCR Filing Fund Balance updated to reflect Audit Issues	
12/31/19 Ending Balance	(\$3,406,149)
Calypso Communications Audit Issue # 1	<u>\$3,969</u>
Updated Ending Balance	(\$3,402,180) Under Recovery

SRAF Summary Balance

SRAF Balance per Filing	\$1,732,366
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Audit Issue # 1

Communications Services

Background

Audit reviewed one Calypso Communications invoice for the 2/25/2019 Winter Storm Ryan.

Issue

The Company inadvertently included \$3,969 in Calypso Communications charges that should have been deferred until the next rate case.

Calypso Communications Invoice # 7485 was for \$3,969 for storm calls, duty coverage, email monitoring, web updates, scheduling, planning, reporting, and messaging.

Recommendation

The Company should remove from the February 2019 Winter Storm Ryan \$3,969 Calypso Communications from the MSCR Fund and move the charges to the deferral account.

Company Comment

The Company agrees with the recommendation, and will move the Calypso Communications charges from the MSCR Fund to the deferral account.

Audit Response

Audit concurs with the Company.