

DE 04-038

UNITIL ENERGY SYSTEMS, INC.

Petition for Recovery of Post-Retirement Benefits Other than Pension

Order Approving Recovery of Costs

ORDER NO. 24,319

May 3, 2004

APPEARANCES: Scott J. Mueller, Esq, of LeBoeuf, Lamb, Greene & MacRae, L.L.P., for Unitil Energy Systems, Inc.; F. Anne Ross, Esq., for the Office of the Consumer Advocate; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On January 30, 2004, the Commission issued Order No. 24,269 in DE 03-238. That order approved Unitil Energy Systems Inc.'s (UES) request for a change in how it accounts for its costs related to post-retirement benefits other than pensions (PBOP). Specifically, the Commission allowed UES to change from accounting for its PBOP costs on a "pay-as-you-go" (cash) basis to the full accrual basis. The accounting change was necessitated by the issuance of the Financial Accounting Standards Board's Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*.¹ Due to the issuance of FIN 46, the Unitil Retiree Trust (URT), as a special purpose entity that met the definition of a Variable Interest Entity, was required to be consolidated with the whole of Unitil Corporation for financial reporting purposes, and, therefore, subject to Statement of Financial Accounting Standards No. 106 (SFAS 106), *Employers Accounting for Postretirement Benefits Other Than Pensions* with reporting done in accordance with the accrual basis of accounting. As part of Order No. 24,269, and consistent

¹ Prior to the required accounting change, UES' PBOP benefits were funded through the Unitil Retiree Trust, a special purpose entity which became subject to the requirements of FIN 46.

with certain provisions of SFAS 106 and an earlier Commission ruling in DA 92-199, the Commission allowed UES to defer and amortize the following components of PBOP liability: a) the unrecognized accumulated post-retirement benefits obligation (APBO), amortized over twenty years, and b) the PBOP expenses incurred between the date of adoption of SFAS 106 (for UES, October 1, 2003) and the date of implementation of rate recovery, amortized over a period of five years. No provision for rate recovery was included with UES' filing in DE 03-238; however, UES did indicate that it would be filing a request for rate recovery by April 1, 2004 -- a date the Commission revised to March 15, 2004, in Order No. 24,269.

On March 15, 2004, UES filed a Petition for Recovery of Post-Retirement Benefits Other Than Pension along with supporting testimony. The filing essentially provides the amounts for which UES is seeking cost recovery consistent with the accounting change approved in Order No. 24,269.

On April 1, 2004, the Commission issued an Order of Notice summarizing the terms of UES' filing and scheduling a technical session to be held on April 5, 2004, and a hearing on the merits hearing for April 21, 2004. The Order of Notice stated that this docket and DE 04-041 would be combined for the sake of administrative efficiency in view of the common proposed implementation date of May 1, 2004, for the rate adjustments UES was requesting in both dockets and the combination of rate impacts from them.

On April 5, 2004, UES, the Office of the Consumer Advocate (OCA) and Commission Staff (Staff) held a technical session at which UES answered questions regarding its petition. UES also took back written questions to which it supplied responses on April 9, 2004.

On April 6, 2004, the OCA notified the Commission by letter that it would be participating in this docket on behalf of residential ratepayers consistent with RSA 363:28.

On April 20, 2004, UES filed with the Commission revised tariff pages and supporting schedules to reflect changes agreed to by UES during the course of discovery.

The hearing on the merits was held on April 21, 2004.

II. POSITIONS OF THE PARTIES AND STAFF

A. UES

UES' petition included the following supportive testimony: Laurence M. Brock, describing the accounting for PBOP, the Commission precedent for recovery of PBOP and the determination of the revenue requirement for PBOP expenses booked in accordance with the SFAS 106; George E. Long, describing the history of the Unitil Energy PBOP plans, the trust accounts that have been established for funding the PBOP obligations and the reasonableness of the Unitil Energy postretirement benefits plan; and Karen M. Asbury, describing the conversion of the revenue requirements associated with the PBOP recovery to rates, along with the associated rate impacts.

As detailed in the UES testimony and attached schedules, including a report from UES' actuaries, the change in accounting from the cash to the accrual method results in an incremental revenue requirement of \$1,056,315 which, when divided by current kilowatt-hour sales, would result in an increase to UES' distribution base rates of \$0.00087 per kilowatt-hour. At the April 21, 2004 hearing, UES discussed the revised schedules and tariff pages filed with the Commission on April 20, 2004, and identified as Exhibit #2. Those revised schedules and tariff pages incorporated various adjustments that arose during the course of discovery. As relates to PBOP costs, the aforementioned incremental revenue requirement was reduced to \$1,020,357, with the resulting increase to UES' distribution base rates reduced to \$0.00084 per kilowatt-hour. UES requested recovery via a distribution base rate adjustment effective on a

service rendered basis beginning May 1, 2004. Compared to its overall rates, UES stated that this adjustment would represent an approximate 0.8% increase to customers' bills.

The derivation of the \$1,020,357 incremental revenue requirement essentially involves three components: a) the five year amortization of deferred PBOP expense at May 1, 2004 (the proposed date of implementation of rate recovery); b) the amount of annual PBOP expense associated with accounting for UES' PBOP on the full accrual basis consistent with SFAS 106 (including the twenty year amortization of the ABPO); and c) the amount of PBOP expense currently in base rates. The third component is subtracted from the sum of the first two in order to arrive at the incremental revenue requirement. To quantify the first of those components, the deferred PBOP expense being amortized over five years is \$560,091, resulting in an annual amortization of \$112,018. UES' full accrual 2004 PBOP expense is \$1,515,036 and includes \$611,705 for the APBO amortization attributable to UES. The \$1,515,036 also includes an allocated portion of the APBO amortization attributable to Unitil Service Corporation (USC), \$297,567. Finally, the amount of PBOP expense currently recovered in UES' distribution base rates is \$606,697. Adding the first two components results in a total of \$1,627,054, which when compared to the \$606,697 currently in base rates, results in the incremental revenue requirement of \$1,020,357 for which UES is seeking recovery.

In discussing the reasonableness of its PBOP plan, UES stated that the employees' postretirement benefits were earned during their years of service as part of their compensation package during those years. In addition, it is UES' position that the terms of its PBOP plan compare favorably with others in the utility industry as a whole.

B. OCA

The OCA stated that it believes that adjusting base rates for the purpose of recovering costs associated with an accounting change for UES' PBOP costs is a case of single issue ratemaking and that it does not generally support single issue rate cases. However, the OCA recognized that there is Commission precedent on this issue, i.e., DA 92-199. In light of that precedent, and taking into account the revisions to the amounts to be recovered as set forth in Exhibit #2, the OCA supported UES' request.

C. Staff

Staff indicated at the hearing that it had reviewed the filing and all of the supporting information and expressed general support for the filing, as revised in Exhibit #2. Staff also indicated that the terms and cost levels of PBOP plans are issues that will continue to require scrutiny in the future to ensure that the terms and cost levels are reasonable and appropriate for recovery in rates.

III. COMMISSION ANALYSIS

In our Order No. 24,269, we previously approved UES' requested change in accounting treatment relative to its PBOP. The issue before us now is whether the amounts resulting from that change in accounting treatment are appropriate for recovery as an adjustment to UES' distribution base rates. After review of the evidence in this proceeding and noting the support of both the OCA and Staff, we are persuaded that UES' request, as revised, will result in just and reasonable rates.

We note OCA's concern that this is tantamount to a single issue rate case. However, as OCA itself noted, we previously allowed other New Hampshire jurisdictional utilities to adjust their rates in a similar fashion when SFAS 106 originated in the early 1990s.

The same accounting treatment is now being allowed to UES, albeit on a delayed basis as compared to those other utilities, due to the specific details related to the Unutil Retiree Trust.

Based upon the forgoing, it is hereby

ORDERED, that UES' request to implement a \$0.00084 per kilowatt-hour increase to its distribution base rates effective on a service rendered basis beginning May 1, 2004 is approved; and it is

FURTHER ORDERED, that in connection with the above-referenced rate change, UES' proposed NHPUC No. 1 Electricity Delivery: Second Revised Page 52, First Revised Page 53, Second Revised Page 56, First Revised Page 57, First Revised Page 58, and Second Revised Page 64, as revised, are approved; and it is

FURTHER ORDERED, that UES shall file a compliance tariff with the Commission on or before May 17, 2004, in accordance with N.H. Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this third day of May, 2004.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary