

DE 05-178

UNITIL ENERGY SYSTEMS, INC.

**Petition for Permanent Rate Increase and for Temporary Rates
Order Suspending Tariff and Scheduling Prehearing Conference**

ORDER NO. 24,553

December 2, 2005

On November 4, 2005, Unitil Energy Systems, Inc. ("UES") filed with the New Hampshire Public Utilities Commission ("Commission") a petition for authorization to (1) implement new permanent rates for electric service beginning December 4, 2005; (2) replace UES's current tariff, NHPUC No. 1, with its proposed revised tariff, designated NHPUC Tariff No. 2; (3) implement an annual Pension/PBOP Adjustment Charge ("PAC") for recovery of UES's pension and post-retirement benefits other than pension ("PBOP") costs; (4) implement a Step Adjustment for certain future rate base additions; and (5) implement temporary rates beginning December 4, 2005, for electric service at current rate levels in accordance with Supplement No. 1 to UES's existing tariff for electric delivery service, NHPUC No. 1-Electricity Delivery. The petition was filed pursuant to RSA 378:7, 8, 27 and 28.¹ Direct testimony, exhibits, workpapers and supplementary information accompanied the petition.

UES's proposed revised tariff is designed to produce a permanent increase of approximately \$4.65 million in annual revenues, representing a 2.9 percent increase in total revenues under present rates as calculated by UES, with a proposed effective date of December 4, 2005. In addition to requesting a permanent revenue increase, UES is proposing a re-design of

¹ The filing was preceded by UES's filing of a notice of intent to file rate schedules dated September 30, 2005 pursuant to N.H. Code Admin. Rules Puc 1604.05.

the distribution rates charged to UES's customer classes, i.e., a change to the method for allocating its distribution revenue requirement among different customer classes.

UES is also proposing a number of measures to address the issue of "earnings attrition," including the recovery of costs associated with its pension and PBOP obligations pursuant to an annually reconciling rate adjustment mechanism, the PAC, and the removal of such costs from base rates, where they are now recovered. UES asserts that establishing a PAC for pension and PBOP costs is the most fair and equitable means of recovering this significant and volatile area of expense.² UES further requests authorization to implement a step increase in order to provide it with a reasonable opportunity to earn its rate of return after construction of certain large non-revenue producing capital projects to be completed within the 12-month rate year following the establishment of permanent rates. The proposed rates also reflect the removal from distribution rates of certain supply-related working capital and administrative costs associated with default service and the inclusion of those costs in the Default Service Charge, consistent with the settlement approved in Docket No. DE 05-064, *see* Order No. 24,511 (September 9, 2005). UES further states that at the conclusion of the proceeding, it will propose a rate case surcharge to recover its costs incurred to plan, develop and present the rate case to the Commission.

If the Commission suspends UES's permanent rates tariff, UES requests that the Commission prescribe temporary rates under RSA 378:27 at current levels for the duration of the suspension period. UES asserts that during the 12-month test year period ended June 30, 2005, it

² In Docket No. DE 04-231, UES had stated that if its request for approval to defer certain pension costs above those in base rates was denied, it would need to immediately prepare a base rate filing to increase customer rates. (UES was required to file its next base rate case no later than October 25, 2007 pursuant to the Phase II Settlement Agreement approved in Docket No. DE 01-247, *see Concord Electric Company*, 87 NH PUC 694, October 25, 2002.) The Commission denied the request, ruling that UES had not demonstrated a basis to conclude that extraordinary circumstances existed which justified a deviation from normal accounting procedures. *See* Order No. 24,449 (April 7, 2005).

earned a return on equity of 5.96 percent, including test year pension expense proposed for recovery through the PAC, as compared to its authorized return on equity of 10 percent.

Although UES's rates would not be increased during the suspension period, UES maintains that granting its request will partially redress the impact of earnings erosion when permanent rates are approved. We will take up the issue of scheduling a hearing on temporary rates at the Prehearing Conference provided for herein.

UES estimates that if its petition is granted, residential customers would see an increase to their monthly total bill (excluding the electricity consumption tax, any amounts authorized for recoupment or refund as a result of the establishment of temporary rates, and the rate case surcharge UES intends to file at the conclusion of this proceeding) of between 0.6 and 17.3 percent, depending on energy usage, as compared to rates in effect on May 1, 2005. Under UES' proposal, the monthly bill of a residential customer using 500 kilowatt-hours (kWh) per month would increase by \$3.93, from \$56.84 to \$60.77, representing an increase in the total bill of 6.9 percent. Small commercial and industrial (G-2) customers would see monthly total bill increases (again excluding the electricity consumption tax, any amounts authorized for recoupment or refund as a result of the establishment of temporary rates, and the rate case surcharge) ranging from 0.2 to 18.4 percent, depending on load factor, kilowatt demand and energy usage. Similarly, large commercial and industrial (G-1) customers would generally see monthly total bill changes ranging from a 0.8 percent decrease to a 0.6 percent increase while outdoor lighting customers would see monthly total bill increases ranging from 6.7 to 12.9 percent.

RSA 378:6 provides that pending any investigation of a rate schedule which represents a general rate increase, the Commission may suspend the taking effect of such tariff

filing for up to 12 months in order to investigate whether the proposed rates are just, reasonable and otherwise consistent with applicable law. We determine that such suspension and investigation are necessary under RSA 378:6.

The filing raises, inter alia, issues related to whether the proposed permanent rates are just, reasonable and lawful pursuant to RSA 378:7; whether the proposed rates yield a reasonable return on the cost of UES's property that is prudent as well as used and useful in the public service less accumulated depreciation pursuant to RSA 378:27 and 28; whether the various "attrition" measures proposed by UES are lawful and reflect proper policies for the Commission to follow; whether the permanent rate re-design proposed by UES is fair and equitable; and whether temporary rates on the terms proposed by UES are appropriate, and if so, how any recoupment or refund, as appropriate, should be implemented.

Based upon the foregoing, it is hereby

ORDERED, that the tariff for electric delivery service filed by UES, NHPUC No. 2-Electricity Delivery, be and hereby is suspended pursuant to RSA 378:6, I(a) pending investigation and further order of the Commission; and it is

FURTHER ORDERED, that a Prehearing Conference, pursuant to N.H. Admin. Rules Puc 203.05, be held before the Commission located at 21 S. Fruit St., Suite 10, Concord, New Hampshire on December 20, 2005 at 10:00 am, at which each party will provide a preliminary statement of its position with regard to the petition and any of the issues set forth in N.H. Admin. Rule Puc 203.05(c) shall be considered; and it is

FURTHER ORDERED, that, immediately following the Prehearing Conference, UES, the Staff of the Commission and any Intervenors hold a Technical Session to review the

petition, allow UES to provide any amendments or updates to its filing and establish a proposed procedural schedule for this proceeding; and it is

FURTHER ORDERED, that pursuant to N.H. Admin. Rules Puc 203.01, UES shall notify all persons desiring to be heard at this hearing by publishing a copy of this Order of Notice no later than December 6, 2005, in a newspaper with general circulation in those portions of the state in which operations are conducted, publication to be documented by affidavit filed with the Commission on or before December 20, 2005; and it is

FURTHER ORDERED, that pursuant to N.H. Admin. Rules Puc 203.02, any party seeking to intervene in the proceeding shall submit to the Commission an original and eight copies of a Petition to Intervene with copies sent to UES and the Office of the Consumer Advocate on or before December 16, 2005, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interest may be affected by the proceeding, as required by N.H. Admin. Rule Puc 203.02 and RSA 541-A:32,I(b); and it is

FURTHER ORDERED, that any party objecting to a Petition to Intervene make said Objection on or before December 20, 2005.

By order of the Public Utilities Commission of New Hampshire this second day of December, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Lori A. Normand
Assistant Secretary