

PUBLIC UTILITIES COMMISSION

DE 15-078

UNITIL ENERGY SYSTEMS, INC.

Major Storm Cost Reserve Fund Report

Order Allowing Recovery of Certain Costs from Major Storm Fund

ORDER NO. 25,790

June 15, 2015

In this Order, the Commission approves Unitil's request to recover, through the Major Storm Cost Reserve Fund, costs associated with preparations Unitil made for the December 2013 winter storm. Unitil prepared for what was forecast to be a significant icing event. The Commission finds that it is reasonable and in the public interest to allow Unitil to recover the costs from the Major Storm Cost Reserve Fund, even though significant icing did not occur in the storm. The Order states that, while the subject costs may be recovered through the Fund, recovery will be subject to Staff's audit of the costs. The order also notes that Unitil has not requested, and this order does not provide, any increase in Unitil's rates.

I. PROCEDURAL HISTORY

On February 26, 2015, Unitil Energy Systems, Inc. (Unitil or Company), filed its Major Storm Cost Reserve (MSCR) Fund Report for the 12-month period ending December 31, 2014. The filing was made pursuant to a settlement agreement approved by the Commission in Order No. 25,214 (April 26, 2011) and Order No. 25,351 (April 24, 2012). In its filing, Unitil petitioned the Commission to recover from the MSCR Fund the costs of \$179,796 incurred as a result of preparing for what was anticipated to be a qualifying major storm. According to Unitil, the preparation was for a storm that occurred on December 22, 2013, but the storm did not

develop into an event that met the quantitative criteria for inclusion and recovery through the MSCR Fund.

Staff filed its recommendation on April 9, 2015. The Office of Consumer Advocate (OCA) entered a letter of participation on March 6, 2015, and filed its position on April 17, 2015.

II. BACKGROUND AND POSITIONS OF THE PARTIES AND STAFF

A. Background

The MSCR is used to recover costs associated with responding to and recovering from qualifying major storms. For Unitil, a qualifying major storm includes severe weather events causing 16 concurrent troubles (interruption events occurring on either primary or secondary lines) and 15 percent of customers interrupted, or 22 concurrent troubles, in either the Seacoast or Capital Regions.

Pursuant to a Settlement Agreement approved by the Commission in Order No. 25,214 (April 26, 2011), certain weather events may result in Unitil making extraordinary expenditures to prepare for, or recover from, storms or natural disasters that do not meet the defined criteria for a qualifying major storm. Order No. 25,214 at 29-30. The settlement agreement provides that “[a] qualifying major storm will be considered likely to occur if the Power Distribution Index (PDI) from the Company’s professional weather forecaster reaches a PDI level of 2 or greater with a ‘high’ (greater than 60 percent) level of confidence.” Settlement Agreement at 17. For such events, Unitil is allowed to recover reasonable preparation costs from the MSCR Fund. Planning and preparation activities include pre-staging of crews, standby arrangements with third-party contractors, incremental compensation of employees, and other costs that may be incurred to prepare for a qualifying major storm. For storms that do not meet the PDI criteria,

Unitil may petition the Commission to recover planning and preparation costs if forecasts indicated incorrectly that a qualifying major storm would occur, provided that the Company can demonstrate that it was reasonable to undertake preparation activities.

The Commission has authorized Unitil to recover \$400,000 on an annual basis for the MSCR Fund. As of December 31, 2014, Unitil reported that the MSCR Fund balance is negative \$1,011,180.¹ Unitil did not ask for an increase to the level of annual MSCR recovery, or for an adjustment to its storm reserve adjustment factor (SRAF), a Commission-approved mechanism whereby the Company, subject to Commission approval, may recover extraordinary storm-related costs on a temporary basis. Instead, the Company said that it will continue to review the MSCR Fund balance.

The 2014 Report presented the details of eight storm events. For each, the Report included a description of the storm, a summary of the storm damage, the Company's preparation and restoration efforts, the associated costs incurred, and whether the storm met the quantitative criteria of a major storm.

B. Unitil

With its 2014 Report, Unitil requested recovery of costs it incurred in preparing for the December 22, 2013, storm. According to the Report, four days prior to the storm, on December 18, the confidence level regarding the forecast severity was high (60%). Based on the confidence level of professional weather forecasters and the New Hampshire Emergency Operation Center that significant icing would occur, Unitil began to make preparations for the storm on December 19. The preparations included retaining contractor resources, notifying customers and public officials, submitting regulatory reports, and mobilizing internal personal.

¹ Unitil stated that the 2014 Report does not include costs associated with the November 27, 2014, snow event, and preliminarily estimated those costs to be \$2 million.

Unitil acquired approximately 37 line crews, 26 tree crews, and supporting staff in preparation for the event.

The forecast confidence remained high until December 21, when the forecast indicated that temperatures could be above freezing for the storm event. As it turned out, temperatures did stay above freezing and, while there was precipitation, little ice accreted during the event. As a result, no damage or customer interruptions in either Unitil's Capital or Seacoast regions occurred. The costs associated with preparing for the storm included \$8,904 in payroll costs, and \$170,892 in contractor costs. Pursuant to the approved settlement agreement, Unitil has requested that the Commission allow the Company to recover \$179,796 incurred in preparation for this event from the MSCR Fund, consistent with the terms of the settlement agreement.

C. Office of Consumer Advocate

The OCA opined that use of the MSCR mechanism is essentially a single-issue rate mechanism, the use of which should be strictly scrutinized. The OCA observed that of the eight storms for which Unitil incurred preparatory costs, only one met the definition of a qualifying major storm. The OCA argued that approximately \$1 million of costs incurred in preparation for those eight storms were arguably not necessary "due to weather events that were less severe than forecast." OCA recommendation at 2.

While it appreciated the fact that customers did not experience significant outages during the eight weather events, the OCA was concerned that Unitil is over-preparing for storm events at a higher cost than necessary. The OCA suggested that the over-preparing may be a result of the screening tool used by the Company, or because too many line and tree crews are being engaged in preparation before the severity of the storm is apparent. The OCA also said that Unitil's vegetation management practices are reducing storm impacts on customers "such that

extra-early preparation is not cost effective.” *Id.* The OCA states that it will wait for the findings of Staff’s audit on the December 2013 storm preparation costs before taking a position on the petition.

D. Staff

Staff pointed out that the Company made its preparations based on the confidence level of its professional weather forecaster that significant icing would occur with the storm. Staff said that Unitil provided the forecast and the New Hampshire Emergency Operations Center warning that the storm could result in icing in support of its petition. Based on its review of Unitil’s complete submission, Staff recommended that the Commission approve Unitil’s request to recover the costs associated with preparing for the December 2013 storm from the MSCR Fund, subject to a final audit by Commission Staff.

III. COMMISSION ANALYSIS

As noted by Unitil, we approved a settlement agreement in the Company’s most recent distribution rate case (DE 10-055) which acknowledged that the Company could incur and recover extraordinary expenditures incurred in the preparation for or recovery from a storm or natural disaster that does not meet major storm criteria. Order No. 25,214 at 29-30.

Having reviewed the 2014 report and the recommendations of Staff and the OCA, we find that it is consistent with the settlement agreement to authorize Unitil to recover the preparation costs associated with the December 2013 storm through the MSCR fund. Both Unitil’s professional weather forecaster and the New Hampshire Emergency Operation Center anticipated the storm to be an icing event that could cause severe and sustained outages. Experience shows that prior icing events in New Hampshire have resulted in an extraordinary number of customer outages, and prolonged outages. Unitil’s preparation for the December

2013 event was intended to mitigate the number and duration of anticipated customer outages. We find that Unitil's preparation was reasonable for a storm with icing. That the weather forecast changed the day before the storm and that the later forecast turned out to be correct does not render Unitil's actions inappropriate or unreasonable. Accordingly, we approve Unitil's petition to recover the costs associated with preparing for the December 2013 storm from the MSCR Fund, subject to Staff's audit. We note that Unitil is not asking for any rate increases in its petition, but only seeks authority to recover the incurred costs through the fund.

The OCA expressed concern about the number of storms in the 2014 report for which Unitil incurred preparation costs. The report, however, demonstrates that with respect to the rest of the events, Unitil recovered preparation costs only if the confidence level remained greater than 60%, and the recovery of preparation costs through the MSCR Fund is authorized by the approved settlement agreement. Regarding the OCA's comment that adjustments to annual recovery for the MSCR Fund or the SRAF constitute single-issue ratemaking, we note that, in the instant petition, Unitil is not asking for any increase to the annual MSCR recovery, nor is it asking for any adjustment to the SRAF. The Commission approved the MSCR Fund and the SRAF as reasonable methods whereby Unitil may recover costs associated with preparation and restoration efforts incurred during major storms, in light of the increase and severity of major storm events in recent years. Should Unitil seek an adjustment to the annual MSCR recovery or to the SRAF, Unitil would bear the burden of demonstrating the reasonableness of such a request.

In approving Unitil's petition, we emphasize that it is the Company's burden to show that it is using the best forecasting model to provide it the best and most accurate forecast of predicted storm events. We believe the parameters of the settlement agreement provide

appropriate guidance to the Company; however, we encourage Unitil to review its options for forecasting services to assure that its service provides a highly reliable forecast.

We have approved recovery of storm-preparation costs within similar parameters for Public Service Company of New Hampshire, in Order No. 25,465 (February 26, 2013), and Liberty Utilities (Granite State Electric) Corp. in Order No. 25,638 (March 17, 2014). Allowing recovery of reasonable storm preparation costs when there is a reliable forecast of a severe event is in the best interest of the customers of electric distribution utilities. Permitting electric distribution utilities to recover such costs, provided that the costs are reasonable, encourages the utilities to secure the necessary crews to conduct outage restoration, with the goal of limiting the number of customers who experience an outage, and the amount of time affected customers remain without power.

Based upon the foregoing, it is hereby

ORDERED, Unitil's petition to recover storm preparation costs associated with the December 2013 winter storm from its Major Storm Cost Recovery Fund is hereby APPROVED subject to Staff's audit.

By order of the Public Utilities Commission of New Hampshire this fifteenth day of June, 2015.

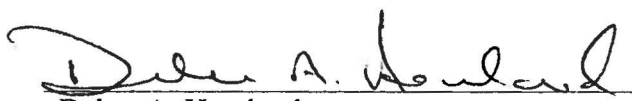


Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director