STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 18-036

UNITIL ENERGY SYSTEMS, INC.

Petition for Step Increase

Order Approving Petition

O R D E R N O. 26,123

April 30, 2018

APPEARANCES: Gary Epler, Esq., on behalf of Unitil Energy Systems, Inc.; the Office of Consumer Advocate by Brian Buckley, Esq., on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission authorizes Unitil to implement a step increase to its distribution rates for effect on May 1, 2018. The step increase was planned as part of Unitil's last rate case. The increase is being offset by credits to customers for the value of the tax cuts received by Unitil due to changes in federal and state tax laws. The result for a residential customer using 650 kWh per month will be a monthly bill decrease of $0.19, which represents a reduction in distribution rates of 0.2 percent.

I. PROCEDURAL BACKGROUND

On March 16, 2018, Unitil Energy Systems, Inc. (Unitil or the Company), filed a petition for a step increase to base distribution rates. The filing was made pursuant to a settlement agreement (Settlement Agreement) approved in Order No. 26,007 (April 20, 2017) in Unitil's prior distribution rate case. Unitil's initial request included the step increase and three additional adjustments to rates unrelated to the step increase authorized in Order No. 26,007. On April 17, 2018, Unitil withdrew two of the proposed rate adjustments that were unrelated to the step increase allowed by Order No. 26,007.

The Office of Consumer Advocate (OCA) filed a letter of participation on March 22, 2018, pursuant to RSA 363:28. The Commission issued an Order of Notice on April 11, 2018, scheduling a hearing for April 19, 2018. Following the hearing, Unitil filed a revised schedule to illustrate a rate change agreed to at hearing.

II. POSITIONS OF THE PARTIES

A. Unitil

Unitil's revised filing requested approval of four rate adjustments: (1) a 2018 step adjustment to provide recovery of 2017 capital additions; (2) a reduction in the revenue requirement to reflect the impact of federal and state corporate tax reductions; (3) the termination and removal of the recoupment portion of the rate increase approved in Order No. 26,007; and (4) changes to the Company's storm reconciliation adjustment factor (SRAF).

In support of the petition, Unitil filed testimony and schedules of David L Chong, Director of Finance and Treasurer for Unitil Service Corp., and Richard L. Francazio, Director of Business Continuity and Compliance for Unitil Service Corp. Pursuant to the Settlement Agreement, Unitil requested that all changes be effective on a service rendered basis on May 1, 2018.

Unitil testified that the revenue requirement associated with the step adjustment is derived according to the terms of the Settlement Agreement and is based on Unitil's annual change in net utility plant. Order No. 26,007 authorized Unitil to request three annual step adjustments, the aggregate total of which could not exceed $4.5 million. Unitil recorded $32,687,415 in capital additions for 2017. The revenue requirement associated with those capital additions, and thus the amount of the step increase, was $3,302,989. When this request is added to the 2017 step adjustment,[1] Unitil is still under the cumulative cap of $4.5 million cap.

[1] The 2017 step adjustment reflects capital additions placed in service during 2016.

Unitil explained that it offset the increase of the step adjustment by $2,244,744, the amount of the reduction in tax liability due to changes in federal and state tax laws for the period May 1, 2018, through April 30, 2019.[2] The removal of the rate case recoupment produced an additional reduction of $1,411,065. The net result of the changes is a credit to customers of $352,820 in distribution rates.

As directed by Order No. 26,096, Unitil has recognized a regulatory liability of $769,342 to reflect reduced rates from January through April 2018 as a result of tax reductions. Unitil will refund that amount to customers through the Company's external delivery charge (EDC) as a one-time credit to customer rates. Unitil typically makes the EDC filing on an annual basis in June, with rates effective August first of each year. Unitil said that it designed the rates to credit ratepayers for the changes in the tax laws by allocating the credit proportionally among the Company's customers, consistent with the Settlement Agreement.

Unitil also recognized the excess accumulated deferred income tax (ADIT) liabilities on its balance sheet as of December 31, 2017, to reflect a 21 percent federal tax rate and a 7.9 percent state income tax rate. Unitil proposed to resolve the flow back of distribution-related excess ADIT to ratepayers during its next base rate case. According to Unitil, any changes to ADIT should coincide with changes in the other components of rate base used for setting base rates in the context of a distribution rate case where all parties have the opportunity to fully examine the changes.

As stated above, Unitil also proposed changes to the SRAF. The SRAF is a surcharge on distribution rates approved by the Commission to provide for recovery of costs associated with major storm events. Unitil requested that the costs associated with repairing damage resulting

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[2] The Commission opened Docket No. DE 18-001 to investigate the changes in federal and state income tax laws and the resulting impact on utility rates. In that docket, the Commission issued Order No. 26,096 (January 3, 2018), directing regulated New Hampshire utilities to determine how the tax law changes affected their revenue requirements and to propose plans to implement appropriate reductions in customer rates.

from a major wind storm that occurred in October 2017, plus associated carrying charges, be transferred from the major storm cost recovery (MSCR) fund to the SRAF recovery mechanism effective May 1, 2018. Unitil reported that, effective May 1, 2018, costs associated with repairing damage caused by Hurricane Sandy will be fully recovered through the SRAF.

Unitil initially proposed to recover the costs of the October 2017 wind storm through the SRAF over a period of five years. At hearing the Company agreed to recover these costs over a three-year period. Removal of Hurricane Sandy costs, coupled with the addition of costs associated with the October 2017 wind storm, results in a decrease to the SRAF effective May 1, 2018, from 0.139 cents per kWh to 0.113 cents per kWh.

Unitil testified that, consistent with the Settlement Agreement, it will continue to reconcile actual vegetation management plan (VMP) and reliability enhancement plan (REP) expenses for future calendar years to an amount of $4,858,739. For calendar year 2017, Unitil had $5,581,932 in total expenses for VMP and REP. In 2017, Unitil collected $754,016 from Fairpoint Communications, providing for a net total expenditure of $4,827,916. The net expenditure is subtracted from the agreed-upon amount of $4,858,739, resulting in a total over-collection of $30,823, which will be credited to the Company's EDC mechanism on May 1, 2018.

Unitil reported that its earned return on equity was 8.09 percent in 2017, which does not trigger the earnings sharing provision that was part of the Company's last rate case. The Settlement Agreement from that rate case also requires Unitil to address whether any exogenous events occurred in the prior year. Unitil said that the collective effect of the tax law changes was large enough to qualify as an exogenous event, but that the proposal it made in this filing addressed the issue as directed by the Commission.

B. OCA

The OCA supported the rate changes proposed by Unitil's revised petition and the implementation of the resulting rates.

C. Staff

Staff supported the revised petition and said that the calculation of the step increase and storm costs should be subject to a Staff audit. Staff recommended that the Commission review changes to the EDC rate in a separate proceeding later in the year.

III. COMMISSION ANALYSIS

We approved the methodology for the 2017 step increase in Order No 26,007 in Unitil's last distribution rate case. Subject to the review by the Commission's Audit Staff and any necessary reconciliation resulting from the audit, we approve the calculation of the step increase proposed in Unitil's revised filing, and we approve the proposal to reduce the rate impact of the step increase by offsetting the increase with the credit to customers for the reduction in federal and state taxes. In addition, we approve the end of the rate case recoupment, and the shift of cost-recovery for the October 2017 wind storm expenses from the MSCR to the SRAF. Finally, we approve the recovery of the October 2017 wind storm costs over a period of three years instead of the five originally proposed by Unitil. We believe the resulting distribution rates are just and reasonable as required by RSA 378:5 and RSA 378:7. We approve the rates for effect with services rendered on and after May 1, 2018. The result of these changes for a residential customer using 650 kWh per month, the average Unitil residential customer use, will be a monthly bill decrease of $0.19, a reduction in distribution rates of 0.2 percent.

Based upon the foregoing, it is hereby

ORDERED, the step increase to be added to distribution rates as calculated in Unitil's revised filing is hereby APPROVED; and it is

FURTHER ORDERED, the inclusion of ratepayer credit resulting from changes to federal and state income tax laws to offset rate impacts of the step increase is hereby APPROVED, and it is

FURTHER ORDERED, that the termination and removal of the rate case recoupment from distribution rates effective May 1, 2018, is hereby APPROVED; and it is

FURTHER ORDERED, that the costs associated with repairing damage caused by the October 2017 wind storm through the SRAF over a period of three years is hereby APPROVED; and it is

FURTHER ORDERED, that all rates approved herein shall be implemented on a service-rendered basis effective May 1, 2018; and it is

FURTHER ORDERED, that Unitil shall file tariff pages conforming to this Order within 15 days hereof as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2018.

Martin P. Honigberg
Chairman

Michael S. Giaimo
Commissioner

Attested by:

Lori A. Davis
Assistant Secretary