

STATE OF NEW HAMPSHIRE

ORIGINAL

Inter-Department Communication

N.H.P.U.C. Case No.	DE 11-277
Exhibit No.	# 2
DATE: March 22, 2012	L. Brock
AT (OFFICE):	NHPUC
DO NOT REMOVE FROM FILE	

SEALED
FROM: Grant W. Siwinski
Utility Analyst III

SUBJECT: DE 11-²⁷⁷227, Unutil Energy Systems, Inc.
Re: Petition to Increase Storm Recovery Adjustment Factor

TO: Chairman Amy Ignatius
Commissioner Michael Harrington
Commissioner Robert Scott
Debra A. Howland, Executive Director



Background

On December 16, 2011, Unutil Energy Systems, Inc. (UES or Company) filed a petition to increase its storm recovery adjustment factor (SRAF) effective May 1, 2012. UES said the increase was necessary to recover the costs of repairing damage to its electrical system resulting from the August 2011 Tropical Storm Irene and the October 2011 snow storm. UES requested that the SRAF be increased from its current level of \$0.00096 per kilowatt hour (kWh) to \$0.00270 per kWh effective May 1, 2012.

The petition also stated that the Commission approved a Settlement Agreement in UES's most recent distribution rate case which created two cost recovery mechanisms for major storm damage to UES's electrical system. See, Order No. 25,214 (April 26, 2011) in Docket No. DE 10-055. The first mechanism established a Storm Reserve to allow for the recovery of costs associated with qualifying major storms through the Company's base rates. The Storm Reserve allowed the Company to recover \$400,000 annually through base rates, which are collected for deposit in the Storm Reserve fund.

The second mechanism allowed UES to recover the costs of infrequent storms that are extraordinary in magnitude. This mechanism set the SRAF at \$0.00096 per kWh to allow recovery of the costs associated with the December 2008 ice storm and the March 2010 wind storm. The Settlement Agreement specifically allowed UES to petition the Commission to change the SRAF should any significant under- or over recoveries occur.

In this filing, UES seeks approval to use the SRAF to recover the estimated costs associated with the August 2011 Tropical Storm Irene and the October 2011 snow storm. At the time of the filing, UES estimated the costs to total \$5.6 million for both storms. UES said that if the estimated \$5.6 million were added to the Storm Fund balance, it would take 14 years to bring the Storm Fund balance to zero. UES proposes to recover the \$5.6 million over a three-year period with carrying charges at 8.39 percent (the

Company's overall cost of capital). UES uses its overall cost of capital because the storm costs are not recovered concurrently in rates and are thus supported by the Company's long-term capital. Based on the estimated costs, a carrying charge at 8.39 percent, and a three-year recovery period, the Company calculated the SRAF factor attributable to the 2011 storms to be \$0.00174 per kWh. This rate plus the current rate of \$0.00096 per kWh gives a total proposed SRAF factor of \$0.00270 per kWh.

On March 7, 2012, the Company filed responses to Staff Data Request Set 1. The response to Staff Data Request 1-6 updated the costs of the two storms, which are now estimated at a total cost of \$4,428,056. The new costs are based on UES' internal audit review, which has been finalized for the August 2011 Tropical Storm Irene, but which is only substantially completed for the October 2011 snow storm. Based on the new updated cost estimates, a carrying charge at 8.39 percent, and a three-year recovery period, the SRAF factor attributable to the 2011 storms would be \$0.00136 per kWh. This rate plus the current rate of \$0.00096 per kWh gives a total proposed SRAF factor of \$0.00232 per kWh.

Analysis

Staff has reviewed the filing and the Data Responses. Based on its review, Staff believes that if the updated estimated storm costs of \$4,428,056 were added to UES' reserve, the reserve would be in a significant deficit balance taking approximately 11 years at the current SRAF rate of \$0.00096 to reduce the storm fund to zero. Staff also recognizes that the unrecovered fund balance would accumulate significant interest costs that are recoverable from ratepayers. However, Staff does not agree with the Company that the storm costs should include carrying costs at UES' overall cost of capital or that the storm costs should be recovered over a three-year period. Staff believes a more appropriate recovery period is five years, and it believes that based on the Commission's approval of SRAF carrying charges in Order No. 25,214 (April 26, 2011) in Docket No. DE 10-055, a more appropriate carrying charge is the Company's long-term cost of debt, net of deferred taxes, at 4.52 percent.

Therefore, Staff has recalculated the SRAF rate using the estimated storm costs of \$4,428,056, an annual carrying charge of 4.52 percent, and a five-year recovery period. The incremental SRAF rate is \$0.00082 per kWh. This rate plus the current rate of \$0.00096 per kWh gives a total proposed SRAF factor of \$0.00178 per kWh.

Recommendation

Staff recommends that the Commission conditionally approve a total SRAF rate of \$0.00178 per kWh effective May 1, 2012 based on updated estimated costs of \$4,428,056 for both storms subject to a final audit by the PUC Staff, which is scheduled to be completed by late March or early April 2012. Staff recommends scheduling the costs to be recovered over five-years with carrying costs at 4.52 percent, subject to a final reconciliation of all amounts recovered. Staff also recommends that UES annually file a report, in conjunction with its February reports ordered in Order No. 25,214 (April 26,

2011) in Docket No. DE 10-055, that reflects recovery of the Storm Fund balance to determine whether the SRAF rate needs to be adjusted. The initial report, for the period ended December 31, 2011, will be filed by the Company by May 31, 2012.

Staff has reviewed its calculations and recommendation with the Company and the Company is in agreement with both.

If you have any questions, please contact me.