STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 14-063

UNITIL ENERGY SYSTEMS, INC.

Tariff Filing for Step Adjustment to the Reliability Enhancement and Vegetation Management Program and for Extension of Storm Hardening Pilot Program

Order Approving Step Adjustment and Three-Year Extension of Storm Hardening Pilot Program

O R D E R N O. 25,656

April 30, 2014

Gary Epler, Esq. on behalf of Unitil Energy Systems, Inc.; the Office of Consumer Advocate by Susan W. Chamberlin, Esq. on behalf of residential ratepayers and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

In this Order, the Commission approves a step adjustment to UES's distribution rates, causing an average residential default service customer bill to increase by 0.9%, and allows UES's storm-hardening pilot program to continue for three more years.

I. PROCEDURAL HISTORY

On March 4, 2014, Unitil Energy Systems, Inc. (UES or Company), filed proposed tariffs pursuant to a Settlement Agreement approved by the Commission in Order No. 25,214 (April 26, 2011) in UES's most recent distribution rate case. With the proposed tariffs, UES filed an explanation of its filing, its 2013 Reliability Enhancement Program (REP) and Vegetation Management Plan (VMP) annual report, the results of the 2013 Storm Hardening Pilot Program, and its 2013 Reliability Analysis and Recommendation plan for the UES Capital and Seacoast regions that comprise UES's service territory. UES requested that the rate changes associated with the filing be in effect for services rendered on and after May 1, 2014.

The Office of Consumer Advocate (OCA) filed a letter of participation on March 12, 2014. On March 19, 2014, the Commission issued Order No. 25,639 suspending the tariffs and scheduling a hearing for April 18, 2014.

At the hearing, UES filed modified rate impact calculations based on a revised allocation of costs for the Storm Hardening Pilot Program. As a result of the revision, the rate impact for a residential default service customer using 600 kilowatt hours (kWh) per month would be a bill increase of $0.99 per month, or 0.9%, as a result of the step adjustment.

II. POSITIONS OF THE PARTIES

A. UES

As stated in UES's filing, the tariff pages are intended to implement a provision in the Settlement Agreement that provides for a step adjustment to its distribution rates effective May 1, 2014. Section 7 of the Settlement Agreement also requires UES to file an annual report showing actual REP and VMP activities and costs for the previous calendar year and its planned activities and costs for the current calendar year. The Settlement Agreement also provides that actual and planned REP and VMP costs be reconciled with the actual planned capital additions and expenses.

Consistent with the Settlement agreement, UES's proposed May 1, 2014, step adjustment consists of a number of components. The step adjustment reflects: (1) 75% of actual changes to non-REP net plant in service during calendar year 2013, (2) adjustments for the REP and VMP programs, and (3) an adjustment for the VMP reconciliation. The Company calculated a total revenue requirement of $1,537,205 for the May 1, 2014 step adjustment.

UES initially expected that the change in non-REP net plant in 2013 would be $5,929,492. The actual change in non-REP net plan in service during 2013 was $6,128,839, 75% of which equals $4,596,629. The Company explained that the difference between the forecasted and actual change in non-REP net plant in service was primarily due to the difference in the long-term capital spending forecast model that was used to prepare the forecast and the final approved capital budget for 2013. UES stated that the capital budget is prepared with more detail and specificity using current information and data at the beginning of each budget year. The revenue requirement associated with $4,596,629 is $1,038,215 which is the first component of the May 1, 2014, step adjustment.

The second component of the 2014 step adjustment is $335,028, the revenue requirement associated with $1,730,953 of REP net plant in service additions during 2013. The third component relates to a prior over-collection. In 2013, customers received a credit for an over-collection of $163,962 that occurred in 2012. The Company chose to reduce the 2013 step increase approved in the Settlement Agreement by $163,962 as a mechanism to return the over-collection to customers. In calculating the 2014 step adjustment, the Company added $163,962 to base rates to reflect the full step adjustment allowed by the Settlement Agreement. UES proposed to make further reconciliation of over- and under-collections through the external delivery charge, which is adjusted on an annual basis. The sum of the three components equals $1,537,205. The Company asked that this amount be included in the step adjustment for effect May 1, 2014.

The Company stated that this is the last step adjustment allowed under the Settlement Agreement. UES proposed to collect future over- and under-collections associated with

REP/VMP activities in the Company's external delivery charge (EDC) annual filing. The EDC is a reconciling rate mechanism which the Company files on an annual basis for an August 1 effective date. If the proposal to reconcile REP/VMP expenses through the EDC is approved, UES will credit $760,108 to the EDC mechanism effective May 1, 2014, and that amount, along with associated interest, will be credited to customers with the 2014 EDC filing. The proposal would allow all REP/VMP reconciliations to be part of the EDC rate, and thus obviate the need for UES to request a base rates adjustment whenever an over- or under-collection occurs.

UES also proposed to make permanent its storm hardening pilot program. The Company designed the program for a period of 10-years and has been operating the program on a pilot basis for two years. UES requested that the Commission approve the program and end its status as a pilot. UES attested that the pilot had likely avoided outages, but the Company was not able to quantify the benefits associated with the program.

UES prepared rates based on the terms of the Settlement Agreement whereby the residential class receives 115% of the increase, and the remaining revenue requirement would be collected from other rate classes on a uniform percentage basis through customer kWh, demand, and outdoor lighting charges, as appropriate. At the hearing, UES testified that at the request of the OCA, the Company had revised the rates associated with the revenue requirements for the storm hardening program only, and that those costs would be allocated on a uniform percentage basis across all customer classes. Hearing Exhibit 2-B. As a result, a residential customer with an average monthly usage of 600 kWh would experience an increase of 0.9% instead of 1.1% as originally filed. Hearing Exhibit 3.

B. OCA

The OCA said that with the revised rate design, it supported making the pilot program permanent. The OCA said that Company should be prepared to justify the program in its next rate case.

C. Commission Staff

The Commission Staff (Staff) recommended that the Commission approve the filing. Staff supported making the storm hardening pilot program permanent and noted that the change in revenue allocation among customer classes associated with the storm hardening program will also be subject to review in UES's next rate case.

III. COMMISSION ANALYSIS

We have reviewed the filing and have considered the testimony and the positions offered at hearing. We note that UES appropriately reported its revenues and expenses with non-REP plant in service along with related capital costs, REP plant in service and associated capital costs, and REP/VMP reconciliation. With UES's modification of rate design provided at hearing, rate increases will be monthly bill increases of 0.9% for residential customers taking default service from UES, and rates for other customers will be monthly bill increases ranging from 0.2% to 2.8%. We find that the resulting rates are just and reasonable as required by RSA 378:7 and therefore approve the filing as modified.

UES also requested to reconcile over- and under-collections in REP/VMP activities through the EDC rate mechanism which would avoid the need to revisit the Commission to revise base rates. We note that neither the OCA nor Staff took a position on this issue at hearing. Having considered the proposal, we find that UES's recommendation would promote administrative efficiency and avoid an additional proceeding on distribution rates. We approve the proposal subject to the requirement that the Company separately track the revenues and expenses associated with REP/VMP activities in its annual EDC filing.

While we understand that the May 2014 step adjustment is the final step adjustment associated with the Settlement Agreement, we expect that UES will continue the REP/VMP activities for the five-year period established by the Settlement Agreement, and that UES will continue to file the annual reports as required by the Settlement Agreement.

We approve cost recovery for the revenue requirements associated with the storm hardening pilot program; however, we found the Company's report and testimony failed to adequately describe and quantify the benefits associated with the program. We are sympathetic that UES cannot prove the non-occurrence of outages that resulted from its storm-hardening activities, and we are aware that the Company is only two years into a ten-year program. Therefore, we approve the program for a period of three years or until UES's next rate case, whichever occurs first. This will allow UES to conduct the storm hardening program for half of the period it originally requested. We require UES to prepare a full report of the program, including the costs to implement, activities performed and a cost/benefit analysis as well as supporting testimony if UES should request to further extend the program, whether through a separate filing, or related to a request for distribution rate adjustments.

Based upon the foregoing, it is hereby

ORDERED, that Unitil Energy Systems, Inc.'s, request for a step increase to its distribution rates by $1,537,205 pursuant to the Settlement Agreement approved in Order

No. 25,214 (April 26, 2011) effective with service rendered on and after May 1, 2014, is GRANTED; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc.'s, request to reconcile over- and under-collections in its REP/VMP programs through its annual EDC filing is APPROVED subject to UES separately tracking expenses and revenues associated with those programs; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc., is hereby authorized to continue the storm hardening program for a period of three years or until UES's next rate case, whichever occurs first; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc., shall file a compliance tariff with the Commission in accordance with N.H. Code Admin. Rules Puc 1603 no later than 30 days from the date of this Order.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2014.

Amy L. Ignatius Chairman	Robert R. Scott Commissioner	Martin P. Honigberg Commissioner

Attested by:

Debra A. Howland
Executive Director

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Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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