

STATE OF NEW HAMPSHIRE

Intra-Department Communication

DATE: May 13, 2022

FROM: Krista Leigh, Division of Enforcement, Audit Staff,
New Hampshire Department of Energy

SUBJECT: Unitil Energy Systems, Inc.
2021 Annual Major Storm Cost Reserve Fund Report DE 22-008
FINAL Report

TO: Thomas Frantz, Director, Regulatory, NH Department of Energy
Elizabeth Nixon, Electric Director, Regulatory, NH Department of Energy
Stephen Eckberg, Analyst, Regulatory, NH Department of Energy
Mary Schwarzer, Attorney, NH Department of Energy

INTRODUCTION

The New Hampshire Department of Energy Audit Staff was requested to review the Unitil Energy Systems, Inc. (UES) Major Storm Cost Reserve Fund (MSCR or Fund) and the Storm Recovery Adjustment Factor (SRAF) Reconciliation Reports (Report) for the calendar year ending December 31, 2021, as filed with the PUC on February 28, 2022 and docketed as DE 22-008. The Fund was approved on April 26, 2011, by Order #25,214 of Docket DE 10-055.

Qualifying Criteria for Recovery of Major Storm Costs

Commission Order 25,214 issued, on April 26, 2011 in docket DE 10-055, approved the Settlement Agreement, which defined a major storm event by the following statement: *“Qualifying major storms include 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 Capital or Seacoast regions, as well as costs associated with planning and preparation activities in advance of severe weather if a qualifying major storm is likely occur. A qualifying major storm will be considered likely to occur if the power disruption 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.”* The Company confirmed that the planning and preparation activities made in advance of severe weather forecasts include the coordination of pre-staging crews, any stand-by arrangements made with external contractors, the incremental compensation of employees, and any other costs that may be incurred to prepare for a major qualifying storm.

Noted on page 20 of the filed 2021 MSCR Fund Report, the Company explained that—as of April 1, 2011—they had changed their weather forecast provider from WSI Corporation to Telvent DTN. As a result, the PDI is no longer used as a weather forecasting index but is

replaced with the EII (Estimate Impact Index) weather forecasting index, where “[...the] EII Level 3 is equivalent to the PDI Level 2.” Audit confirmed that page 23 of the 2010 – 2011 MSCR Fund Report, filed on May 31, 2012, stated the change in weather forecast providers and the replacement of the PDI index to the EEI index. Audit further verified that on August 2, 2013, the Company provided written notification to the Commission, via email, of the change to the index from PDI to EEI. The notifying email stated that, “As part of Unitol Energy System, Inc.’s (“UES” or “the Company”) Settlement Agreement in docket DE 10- 055, the Company was allowed recovery of storm preparatory costs based on an Estimated Impact Index (“EII”) of 3 or greater on scale of 1 to 5. More accurately, the original index employed in the Settlement Agreement was a Power Disruption Index, or PDI. When the Company changed its weather service in 2011, it also necessitated a change to the index from PDI to EII.”

MSCR Fund Reconciliation

The following represents the MSCR Fund Reconciliation, as of 12/31/2021, documented on page 3 of the filed Report:

<u>Date</u>	<u>Description</u>	<u>Surplus (Deficit)</u>
12/31/2020	MSCR Balance as filed 2/28/2021	\$ (3,246,823) Under- Recovery
	<u>Adjustments to 2020 Report</u>	
08/04/2020	Tropical Storm Isaias Calypso Adjustment	<u>2,437</u>
	Adjusted Opening Balance 1/1/2021	<u>\$ (3,244,386)</u>
	<u>2021 Deferred Charges</u>	
12/05/2020	Nor’easter	\$ (161,545)
12/25/2020	Nor’easter	(81,531)
02/01/2021	Winter Storm Event	(143,064)
03/01/2021	Wind Event	(126,267)
06/30/2021	Thunderstorms	<u>(9,232)</u>
	Total Deferred Charges	<u>\$ (521,639)</u>
2021	Current Annual Recovery Rate	<u>\$ 800,000</u>
2021	Carrying Charges	<u>\$ (174,873)</u>
12/31/2021	MSCR Balance	<u><u>\$ (3,140,898)</u></u> Under-Recovery

Audit noted that the MSCR Fund Reconciliation included 2020 storm costs not finalized for the 2020 Storm Report filing.

General Ledger

The following general ledger accounts were reviewed by Audit, with reported balances as of December 31, 2021:

<u>Account</u>	<u>Description</u>	<u>Balance</u>
10-20-00-00-173-10-00	Accrued Revenue: Major Storm Reserve	\$ 800,000
10-20-00-00-182-10-00	Regulatory Asset: Major Storm Reserve	<u>2,340,452</u>
	MSCR GL Balance a/o 12/31/2021	\$ 3,140,452
10-20-10-00-419-09-00	Interest Income – Major Storm Reserve	\$ 173,987
10-20-10-00-407-31-00	Amortization – Storm	\$ 800,000

Audit confirmed the MSCR 2021 year-end balance of \$3,140,452 to the general ledger balance for account 10-20-00-00-173-10-00, Accrued Revenue: Major Storm Reserve, and the general ledger balance for account 10-20-00-00-182-10-00 Regulatory Asset: Major Storm Reserve. The MSCR 2021 year-end balance of \$3,140,452 was also confirmed to the Working Accounting Model maintained by the Company. The filed amount for the MSCR year-end balance totaled \$3,140,898 and was verified to the Master Accounting Model. The Master Accounting Model reports adjustments to the general ledger MSCR balance and serves as the basis for annual interest true-up calculations. Audit noted a variance of \$446 from the MSCR general ledger year-end balance and the Working Accounting Model balance, to the MSCR filed year-end balance and the Master Accounting Model balance. Audit confirmed that the variance was due to a timing issue between when the payments are hitting the Working Model, versus when the payments are recognized in the Master Model. The Company further explained that the timing issue will be trued up in 2022 and that, *“The timing of true-ups is dependent on when we receive final storm costs.”*

Audit reviewed the general ledger account 10-20-10-00-419-09-00, Interest Income-Major Storm Reserve, noting a year-end balance of \$173,987. The MSCR Filing Schedule reported the 2021 interest calculation total of \$174,873. The variance of \$886, between the general ledger year-end balance for the Interest Income account and the filed interest calculation amount, is due to the timing in which the payments are hitting the Working Model schedule vs. when they are recognized in the Master Model schedule. The Company confirmed that the timing issue that resulted in the variance will be trued-up in 2022.

The Fund was established by Order #25,214 of Docket No. DE 10-055, at a recovery rate of \$400,000 per year. Commission Order #25,502, of Docket No. DE 13-605, approved an increase to distribution rates through a step adjustment to recover the costs associated with increasing the Fund from \$400,000 to \$800,000 per year. Audit reviewed the 2021 journal entries on account 10-20-10-00-407-31-00, Amortization – Storm, noting the year-end balance of \$800,000. Audit confirmed monthly debits for the expense portion of \$66,666 per month, which totaled the annual revenue amortization of \$800,000. Offsetting credits were verified to account 10-20-00-00-182-10-00, Regulatory Asset – Major Storm Reserve Long Term.

Prior Year Adjustments

The 2020 prior year filed MSCR balance, as of 12/31/2020, totaled \$(3,246,823) under-collection. The 2021 adjusted opening balance filed, as of 1/1/2021, totaled \$(3,244,386) under-collection. The \$2,437 difference between the 2020 prior year MSCR balance filed and the 2021 opening balance filed, is depicted by the following:

08/04/2020	Tropical Storm Isaias Calypso Adjustment	<u>\$ 2,437</u>
	Total Adjustments to 2020 Report as Filed	\$ 2,437

The \$2,437 Tropical Storm Isaias Calypso Adjustment was made to account for the prior year’s storm costs, filed on 3/3/20 in Docket No. DE 21-033. The storm costs included deferred charges of \$75,467, for the Tropical Storm Isaias event. Within the \$75,467 in deferred charges were the expenses from Matter Communications (formerly Calypso), totaling \$2,437. Audit acknowledged that the Matter Communications costs were to be deferred until the resolution of the current UES DE 21-030 rate case. The Company filed a corrected filing on September 29, 2021, to account for the \$2,437 from Matter Communications (formerly Calypso). As such, the corrected and filed 2020 MSCR fund report, filed on 9/29/21, accurately reported the 2020 deferred charges for the Tropical Storm Isaias Event, as (\$73,030), with the resulting adjusted MSCR year-end balance of \$3,244,348.

In addition to the \$2,437 adjustment, Audit also noted \$38 variance between the 2020 adjusted MSCR year-end balance of \$3,244,348 and the 12/31/2020 MSCR year-end balance of \$3,246,823, as reported in the filed 2021 MSCR Fund Report. Audit acknowledges that the \$38 variance was to account for the adjustment in the original 2020 filed carrying charges, totaling \$181,497, and the corrected 2020 filed carrying charges of \$181,459.

UES and Outside Contractor Expenses

The following represents a breakdown of the UES and Outside Contractor expenses charged to the storm reserve, excluding the Utility Plant Additions:

<u>Expense Category</u>	<u>Percent</u>	<u>Description</u>	<u>Cost</u>
UES Payroll, Materials & Transportation	19%	Total Internal	\$ 137,054
Outside Contractors & Other	<u>81%</u>	Total Contractor	<u>\$ 584,590</u>
	100%	Total Charges	\$ 721,644

Audit reviewed the contractor invoices charged to the storm reserve, which detailed the employee hourly wage rates and hours worked during the qualifying storm events. Supporting employee weekly time reports, comprised of the days and hours worked per contracted employee, were reviewed by Audit along with weekly payroll reports for employee straight-time and over-time pay. Straight-time paid included wages for line-worker and technician employees and over-time paid included wages for inspector, stock clerk, projects coordinator, and meter technician employees. Transportation and materials expenses were verified to reports that

detailed the vehicles utilized, by hour/rate amount, as well as the materials utilized by type, quantity, amount, and entry date. Audit verified the dates and the amounts of the expenses accrued.

Deferred Charges \$696,512

The following represents the filed Summary of 2021 MSCR Capitalized and Deferred Charges, as of 12/31/2021:

<u>Storm Event</u>	<u>Storm Costs</u>	<u>Capitalized</u>	<u>Deferred</u>
12/05/2020 Nor'easter	\$ 302,866	\$ (141,321)	\$161,545
12/25/2020 Nor'easter	82,193	(662)	81,531
02/01/2021 Winter Storm Event	143,064	-	143,064
03/01/2021 Wind Event	184,289	(58,022)	126,267
06/30/2021 Thunderstorms	<u>9,232</u>	<u>-</u>	<u>9,232</u>
Total	\$ 721,644	\$ (200,005)	\$521,639
2021 Carrying Charges			<u>\$174,873</u>
Total 2021 Deferred Charges			<u><u>\$696,512</u></u>

The 2021 filed UES MSCR Report (Report) identified the recovery of costs, from the MSCR, that were associated with the preparation for, and the response to, five qualifying major storm events. For power restoration services performed during each of the five storm events, the filed costs incurred totaled \$696,512. The total \$696,512 was comprised of \$521,639 for the total storm event costs, plus \$174,873 in associated carrying charges.

Capitalized Costs \$200,005

Three of the major storm events filed, which met the recovery criteria for restoration costs, reported capitalized costs totaling \$200,005. The Company explained that storms meeting the requirement for restoration costs are usually capitalized because they are broken power lines, poles, etc. Audit confirmed that there were no capitalized costs for the remaining two storm events filed—both of which met the recovery criteria for preparation costs only. The following represents the capitalized storm costs reported in the 2021 filed MSCR Fund Report:

<u>Storm</u>	<u>Division</u>	<u>GL Plant Additions</u>	<u>Cost of Removal</u>	<u>Salvage Cash Value</u>	<u>Total Cost to UES</u>
12/05/2020	Capital	\$ 125,015	\$ 16,306	\$ -	\$ 141,321
12/25/2020	Capital	576	86	-	662
03/01/2021	Seacoast	<u>50,454</u>	<u>7,568</u>	-	<u>58,022</u>
		\$ 176,045	\$ 23,960	\$ -	<u><u>\$ 200,005</u></u>

The detailed journal entries used in calculating the capitalized costs were reviewed. Audit verified that the amount capitalized for each of the three storm events tied to the filing. The capitalized cost additions reflect the costs for average units installed, where the pricing for plant additions uses the average build cost from historical data taken from the immediately preceding year. The Company confirmed that the historical data used was for the 2020

preceding year and at fully loaded rates. The average installed unit cost overhead rate is the same for the Concord and Seacoast region. The average installed costs varies by town, based on the actual installation costs for each project within a town and the materials installed during work on the project.

The cost of removal represents any costs associated with the retirement of and the removal of assets. The Company confirmed that the Operations department determines a cost of removal rate for each project, at the time the authorization is written. For budgeted projects, the cost of removal is based upon anticipated replacements; whereas, for storm related projects, the cost of removal is based upon prior year actual experience. Through the plant accounting software, PowerPlan, the cost of removal is automatically applied to labor, transportation, and overhead. These removal costs, as well as the installation costs, are included in the Construction Work in Progress (CWIP) until the project is complete. Once complete, the installed costs are transferred to Plant in Service and the removal costs are credited to CWIP and debited to Accumulated Depreciation. The following represents the plant accounting for capitalized costs:

To Record Plant Additions

Debit Plant in Service Account 101

Credit Construction Work in Progress Account 107

To Record the Cost of Removal (Not the actual asset retirement)

Debit Accumulated Depreciation Account 108

Credit Construction Work in Progress Account 107

To Record any Salvage Value

Debit Construction Work in Progress Account 107

Credit Accumulated Depreciation Account 108

To Record Asset Retirement

Debit Accumulated Depreciation for original book cost Account 108

Credit Plant in Service for original book cost Account 101

The total of \$176,045 in plant additions was debited to account 10-20-00-00-101-00-00, Plant in Service, and credited account 10-20-00-00-107-00-00, Construction Work in Progress. The total of \$23,960 for the cost of removal was debited to account 10-20-00-00-108-01-00, Accumulated Depreciation, and credited to account 10-20-00-00-107-00-00, Construction Work in Progress.

The Company retired assets for the 12/5/20 Nor'easter storm in the amount of \$4,740. The assets retired were for the Capital region division and included pole top pins, pin insulators, wires, and an anchor below-joint. The Company debited account 10-20-00-00-108-01-00, Accumulated Depreciation General Plant and credited account 10-20-00-00-101-00-00, Elec Plant in Service.

Deferred 2021 Storm Costs seeking recovery in MSCR

The Company provided Audit with the Cost Record Reports of storm costs, for each major storm or storm preparation event, as subject to the filing and listed within the MSCR Fund Report. The cost records were categorized by work order and expense type. The Storm Detail Timestamps for Restoration spreadsheets were also provided, which verified the storm costs to the MSCR Fund Report.

December 5, 2020 Nor'easter \$161,545

Within the prior-year filing of the 2020 MSCR Fund Report, the Company stated that they did not seek recovery of the 12/5/2020 storm cost expenses in 2020, *"...as final costs were not available at the time of the [2020 MSCR] report. Final costs for this event will be included in the 2021 MSCR Report."*

The Company sought recovery of \$161,545 in storm preparation expenses, incurred during the December 5th Nor'easter, as filed on page 7 of the MSCR Fund Report. The DTN weather report for the weather event described a "medium" probability (i.e. 30-60%) of reaching EEI Level 3, as determined by snow fall amounts greater than 8 inches, in the Capital region of the state. Page 7 of the filed MSCR Fund Report states that, regarding the Exclusionary Criteria for the December 5th Nor'easter, *"This event qualified for recovery of preparation costs (due to the EEI of 3) for hazardous snow and recovery costs (due to outages) in the Capital Region only."* Audit noted that although the storm event reached an EEI Level 3 for hazardous snow, the DTN weather report stated that the EEI Level 3 was declared with a "medium" probability, as opposed to the "high" probability required for a storm event to qualify for the recovery of preparation costs. The Company explained that, *"The 12/5 storm was incorrectly identified in the MSCR Report as qualifying for [preparation costs] based on weather. The storm did qualify for restoration based on outages. However, all of the costs incurred were related to restoration, so the amounts charged to the MSCR are still correct."* Audit reviewed the summary of charges report for the storm event and confirmed that the costs incurred during the December 5th Nor'easter were for power restoration within the Capital region only.

The Summary for the Extent of the Storm Damage, filed on page 6 of the MSCR Fund Report, documented that the state experienced 41 concurrent troubles within the Capital region and 9 concurrent troubles within the Seacoast region. Audit confirmed that the total number of reported troubles for the Capital region, qualified this event as a major storm and thereby subject to the recovery of the Capital region storm costs through the MSCR. Refer to the *Qualifying Criteria for Recovery of Major Storm Costs* section of the report for details regarding the qualifying factors that determine whether the recovery of storm costs through the MSCR is authorized.

Audit reviewed the Capital region's Outages at Peak Report and identified that the first peak outage trouble was dispatched at 7:42:38 PM on December 5th, with the final restoration time reported at 12:45:00 AM on December 7th. Audit read the notes that detailed the cause of the power outage, verifying that the reported peak troubles were predominantly due to a broken tree and/or limb. Audit verified the concurrency of the 41 troubles documented for the Capital region, as reported within the filing of the MSCR Fund Report. No exceptions were noted.

The Company incurred a total of \$161,545 in costs during the December 5th Nor'easter, for the purpose of power restoration to UES' Capital region customers. Audit reviewed the general ledger, as well as the Working Model, and recalculated the total storm costs of \$395,798 for the 12/5/20, 12/25/20, and 2/1/21 storm events. The detailed journal entry for the transfer of \$395,798 to the recovery account was also reviewed and Audit confirmed that the \$161,545 of costs incurred for the December 5th Nor'easter was included in the \$395,798 total storm costs debited to account 10-20-00-00-182-10-00, REG Asset – Major Storm Reserve Long Term.

Audit selected nine expenses for further review, totaling \$134,529 or 83% of the costs charged to the storm reserve for the December 5th Nor'easter. Invoices, meal receipts, and labor billing reports, were provided in support for the selected expense amounts. Of the invoices reviewed, services were provided from Asplundh Tree, Clean Harbors Environmental, High Volt Line Construction and Maintenance, and Utility Service and Assistance, Inc. Charges were for labor, equipment, and meals needed for the restoration of power in the Capital region of the state. Audit tied the amounts of the charges to the cost record and verified the dates of the charges to the 12/5/2020 Nor'easter. Audit noted that one invoice from Clean Harbors reported service dates between 1/6/2021 – 1/15/2021. An email reference to the Clean Harbors expense stated that, *"During the December 5, 2020 snow event, a three-phase transformer setup fell and struck/damaged a boat storage shed. To access the contaminated soil, the damaged roof was removed (all trusses were broken except one), the walls were braced, the boat was removed, and utility services were repaired/moved due to pole placement[...]. Clean Harbors Invoices have already been submitted for the soil remediation."*

Audit reviewed the contracted wage schedules and verified the hourly rate calculations to selected payroll expenses. Audit noted that a Lineworker 1 had a straight-time payroll amount of \$580.75. Audit multiplied the contracted wage of \$44.57 by the 12.5 hours worked for the Lineworker 1, for a recalculated total of \$557.13. The variance of \$23.62 between the amount of the payroll charge to the storm reserve and Audit's recalculation is deemed immaterial. Audit recalculated all other payroll amounts paid to employees with no exceptions noted.

Audit verified that the Company removed \$141,321 in capitalized costs from the total costs transferred to the storm reserve for the December 5th Nor'easter. Refer to the

Capitalized Costs section of the report for further detail regarding the \$141,321 in capitalized costs.

December 25th, 2020 Nor'easter \$81,531

Within the prior-year filing of the 2020 MSCR Fund Report, the Company stated that they did not seek recovery of the 12/25/2020 storm cost expenses in 2020, “...as final costs were not available at the time of the [2020 MSCR] report. Final costs for this event will be included in the 2021 MSCR Report.”

The Company sought recovery of \$81,531 for associated storm costs incurred during the December 25th Nor'easter. The DTN forecast report for the Capital and Seacoast regions described a “medium” probability (i.e. 30-60%) of reaching EEI Level 3, as determined by wind/gust greater than 55 mph. The Summary of the Extent of the Storm Damage listed on page 10 of the filed MSCR Fund Report, listed a total of 2 peak outages reported during the storm event, with less than 1% of peak customers affected. Audit acknowledges that the DTN forecast, as well as the peak outages reported, does not meet the exclusionary criteria for classifying the weather event as a major storm subject to recovery of storm costs through the MSCR. Refer to the Qualifying Criteria for Recovery of Major Storm Costs section of the report for details regarding the qualifying factors that determine whether the recovery of storm costs through the MSCR is authorized.

The Company explained that the December 25th Nor'easter, as described on page 11 of the filed 2021 MSCR Fund Report, “had the capability of having a considerable impact to the area based on the forecasted wind conditions and the significant timing of the event (Christmas Day). Though we did not meet exclusionary criteria, prudent measures had to be taken to coordinate operations, acquire resources and prepare for possible impact; therefore the Company is seeking to classify this storm as an exogenous event and recover its associated costs.” In reference to an exogenous event, Section 8.2 of Docket No. DE 10-055 states that, “The parties recognize certain weather events may result in extraordinary expenditures to prepare for, or recover from, storms or natural disasters that do not meet defined criteria for a qualifying major storm. The Company may petition the Commission to recover extraordinary costs of such events from the Major Storm Cost Reserve and has to demonstrate the reasonableness of expenditures.”

Audit noted that the DTN confidence verbiage for the Capital and Seacoast regions, which described a 70% chance of reaching an EEI Level 2 for gusts and a 50% chance of reaching an EEI Level 3 for gusts, contradicted the displayed graphic index table included within the report. The graphic index table reported the EEI classification, for both the Capital and Seacoast regions, at a level 3 as determined by a “high” confidence for wind/gust speeds. The Company explained that they alert DTN when the data report contradicts itself through the listing

of an EEI Level that does not correlate with the confidence level verbiage. Additionally, the Outages at Peak reports was reviewed for both the Capital and Seacoast regions. Audit confirmed that the Capital region had three non-concurrent outages and the Seacoast region had one outage. Audit noted that the first outage trouble was dispatched within the Capital region at 11:05 PM on December 24th and the final restoration time was reported at 7:20 PM on December 25th. The reported troubles were confirmed as non-concurrent and were due to a broken tree limb. Audit further noted that the first outage trouble was dispatched within the Seacoast region at 9:28 AM on December 25th and the final restoration time was reported at 10:00 AM on December 25th. The outage was due to an uprooted tree.

Audit understands that the DTN forecast for the Capital and Seacoast regions—in conjunction with the weather event’s significant timing on Christmas Day—may qualify this storm as an exogenous event, allowing for the recovery of preparation and restoration costs. Audit deemed the preparation costs as reasonable and resulting from the prudent measures taken by the Company in response to the possible impact of the storm. Audit further deemed the restoration costs as reasonable, considering the damage that occurred during the storm.

The Company incurred a total of \$81,531 in expenses during the December 25th Nor’easter, for the purpose of the preparation and planning associated with the weather event, as well as power restoration to UES’ Capital and Seacoast region customers. Audit confirmed that the \$81,531 of costs incurred for the weather event was included in the \$395,798 total storm costs debited to account 10-20-00-00-182-10-00, REG Asset – Major Storm Reserve Long Term. Refer to the *December 5, 2020 Nor’easter* section of the report for details regarding the total costs transferred to the recovery account.

Audit selected six expenses for further review, totaling \$58,228 or 71% of the costs charged to the storm reserve for the December 25th Nor’easter. Invoices, meal receipts, and weekly time reports, were provided in support for the selected expense amounts. Of the invoices reviewed, services and/or meals were provided from Alan’s of Boscawen, High Volt Line Construction and Maintenance, I.C Reed and Sons, and O’Donnell Line Construction. Charges were for labor, equipment, and meals needed for the preparation and planning associated with the 12/25/20 weather event, within the Capital and Seacoast regions of the state. Audit tied the amounts of the charges to the cost record and verified the dates of the charges to the 12/25/2020 Nor’easter. Audit reviewed the contracted wage schedules and verified sampled hourly rate calculations to selected payroll expenses.

Audit confirmed that the Company removed \$662 in capitalized costs from the total costs transferred to the storm reserve for the December 25th Nor’easter. Refer to the *Capitalized Costs* section of the report for further detail regarding the \$662 in capitalized costs.

February 1st, 2021 Winter Storm Event \$143,064

The Company sought recovery of \$143,064 in storm preparation expenses for the Seacoast region, incurred during the February 1st storm event, as filed on page 12 of the MSCR Fund Report. Audit reviewed the weather forecast, as outlined from the DTN report. According to the EEI Definition, the weather forecast for the 2/1/2021 weather event was described with a “high” probability (i.e. greater than 60%) of reaching EEI Level 3, as determined by snow accumulation greater than 8 inches, in the Seacoast region of the state.

Audit confirmed that the February 1st winter storm event met the required criteria—as identified in Order No. 25,214—to qualify for the recovery of costs associated with the Seacoast region, for the planning and preparation in advance of severe weather. Refer to the *Qualifying Criteria for Recovery of Major Storm Costs* section of the report for details regarding the factors that determine whether the recovery of storm costs through the MSCR is authorized.

Audit confirmed that the \$143,064 of costs incurred for the February 1st storm event were included in the \$395,798 total storm costs debited to account 10-20-00-00-182-10-00, REG Asset – Major Storm Reserve Long Term. Refer to the *December 5, 2020 Nor’easter* section of the report for details regarding the total costs transferred to the recovery account.

Audit selected five expenses for further review, totaling \$133,398 or 93% of the costs charged to the storm reserve for the February 1st winter storm event. Invoices, meal receipts, and weekly crew hours reports, were provided in support for the selected expense amounts. Of the invoices reviewed, services and/or meals were provided from Fairfield by Marriott, Gagnon Line Construction, I.C Reed and Sons, and McDonald’s Restaurant. Charges were for labor, equipment, hotel, and meals needed for the planning and preparation associated with the 2/1/21 storm event, within the Seacoast region of the state. Audit tied the amounts of the charges to the cost record and reviewed the dates of the invoices. The contracted wage schedules were also reviewed with sampled hourly rate calculations verified to selected payroll expenses.

March 1st, 2021 Wind Event \$126,267

The Company sought recovery of \$126,267 in power restoration expenses, incurred within the Seacoast region during the March 1st wind event, as filed on page 16 of the MSCR Fund Report. The Summary for the Extent of the Storm Damage, filed on page 15 of the 2021 MSCR Fund Report, documented that the state experienced 26 concurrent troubles within the Seacoast region of the state. Audit confirmed that the total number of reported troubles for the Seacoast region, qualified this event as a major storm and thereby subject to the recovery of the storm restoration costs through the MSCR. Refer to the *Qualifying Criteria for Recovery of Major Storm Costs* section of the report for details regarding the qualifying factors that determine whether the recovery of storm costs through the MSCR is authorized.

Audit reviewed the Seacoast region's Outages at Peak Report and identified that the first peak outage trouble was dispatched at 9:43 AM on March 2nd, with the final restoration time reported at 11:35:00 AM on March 3rd. The reported peak troubles noted as concurrent, were predominantly due to a broken tree and/or contact limb. Audit verified the concurrency of the 26 troubles documented for the Capital region, as reported within the filing of the MSCR Fund Report. No exceptions were noted.

Audit reviewed the general ledger, as well as the Working Model, and recalculated the total storm costs of \$143,080 for the 2/1/21, 3/1/21, and 6/30/21 storm events. The detailed journal entry for the transfer of \$143,080 to the recovery account was also reviewed and Audit confirmed that the \$126,267 of costs incurred for the March 1st wind event was included in the \$143,080 total storm costs debited to account 10-20-00-00-182-10-00, REG Asset – Major Storm Reserve Long Term.

Audit selected fourteen expenses for further review, totaling \$95,516 or 76% of the costs charged to the storm reserve for the March 1st wind event. Invoices and weekly time reports, were provided in support for the selected expense amounts. Of the invoices reviewed, services were provided from Clean Harbors Environmental, High Volt Line Construction, and I.C Reed and Sons. Charges were for labor and equipment needed for the restoration of power in the Seacoast region of the state.

Audit tied the amounts of the charges to the cost record and verified the dates of the charges to the 3/1/2021 wind event. Audit noted that there were four Clean Harbors invoices, totaling \$37,794, that were charged to the MSCR for the March 1st wind event but with reported service dates in either April, May, or July of 2021. The Company stated that they are *“reviewing all the Clean Harbors invoices that were charged to the MSCR, and will remove all charges that don't apply to the MSCR.”* **AUDIT ISSUE #1**

Audit reviewed the contracted wage schedules and recalculated selected payroll expenses to the confirmed hourly rates. Audit noted that the \$44.57 hourly rate for the Substation Tech I does not accurately calculate for two of the payroll expenses that were transferred to the storm reserve. The Company explained that, *“At the time of the event, the employee was a Substation Tech II and his hourly rate was \$34.84.”* Audit reviewed a copy of the Personnel Action Form (PAF) and confirmed the \$34.84 rate paid to the Substation Tech I. Audit recalculated other sampled payroll amounts paid to employees with no exceptions noted.

Audit verified that the Company removed \$58,022 in capitalized costs from the total costs transferred to the storm reserve for the March 1st wind event. Refer to the Capitalized Costs section of the report for further detail regarding the \$58,022 in capitalized costs.

June 30th, 2021 Thunderstorms \$9,232

The Company sought recovery of \$9,232 in storm preparation expenses for the Seacoast region, incurred during the June 30th weather event, as filed on page 17 of the MSCR Fund Report. Audit reviewed the weather forecast, as outlined from the DTN report. According to the EEI Definition, the weather forecast for the 6/30/2021 weather event was described with a “high” probability (i.e. greater than 60%) of reaching EEI Level 3, as determined by wind/gust greater than 55 mph, in the Capital and Seacoast regions of the state. Audit noted the DTN confidence verbiage for the Capital region described, “*High confidence that hazard gusts and rainfall do not occur with storms[...]but there is a 10% chance of EEI-2 gusts*”, which contradicted the Capital region EEI classification of a level 3 with a high confidence level for wind/gust speeds. The Company explained that they alert DTN when the data report contradicts itself in the listing of an EEI Level that does not correlate with the confidence level verbiage. Audit understands the DTN report contradiction and agrees with the Company regarding the accuracy of DTN’s confidence level verbiage, which stated only a 10% chance of EEI-2 gusts within the Capital region of the state.

Audit confirmed that the June 30th storm event met the required criteria, as identified in Order No. 25,214, to qualify for the recovery of costs associated with the Seacoast region planning and preparation activities in advance of severe weather. Refer to the *Qualifying Criteria for Recovery of Major Storm Costs* section of the report for details regarding the factors that determine whether the recovery of storm costs through the MSCR is authorized.

Audit verified that the \$9,232 of costs incurred for the June 30th storm were included in the \$143,080 total storm costs debited to account 10-20-00-00-182-10-00, REG Asset – Major Storm Reserve Long Term. Refer to the *March 1st, 2021 Wind Event* section of the report for details regarding the total costs transferred to the recovery account.

Audit selected two expenses for further review, totaling \$7,993 or 87% of the costs charged to the storm reserve for the June 30th storm event. One of the expenses was an invoice from McDonough Electric Construction in the amount of \$5,882. Audit reviewed the invoice and its accompanying employee time sheet, provided in support of the selected expense amount. Charges invoiced were for the labor and vehicles needed for the preparation associated with the 6/30/21 storm event in the Seacoast region of the state. Audit tied the amounts of the charges to the cost record and verified the dates of the charges to the 6/30/2021 thunderstorms. Audit reviewed the contracted wage schedules and confirmed sampled hourly rate calculations to selected payroll expenses.

Internal Audit Report

Audit requested the internal Audit reports on the 2021 MSCR. The Company indicated that, “Internal Audit did not audit the 2021 MSCR.”

2021 Carrying Charges \$174,873

Audit reviewed the calculation and reconciliation for the carrying charges as filed, to the Master Model. Below is the formula that was used for Calendar Year 2021:

$$\text{Monthly Carrying Charge} = (((\text{Average Monthly Balance} * 5.21\%) / 365) * \# \text{ of days month})$$

Audit noted that there was a \$37 variance between the \$174,873 in carrying charges filed, versus the \$174,910 in interest income reported on the Master Model. The Company explained the variance in the following statement: *“Calypso charges totaling \$2,436.90 were posted in September 2020 and reclassified out in 2021. As a result, this left \$37 in computed interest calculated in the 2020 actuals. Because the average monthly balance is used to calculate interest, half of the \$2,436.90 was also recognized in the interest reconciliation above for the first month.”* Audit reviewed the interest reconciliation, including the computed interest from September 2020 through December 2020, and verified that the \$37 variance related to interest charges in 2020 for a true-up associated with Calypso charges. Audit understands that the prior-year 2020 Annual Major Storm Cost Reserve Fund Report, Docket DE 21-033, identified that the August 4, 2020 Tropical Storm Isaias *“inadvertently included \$2,436.90 in Matter Communications (formerly Calypso Communications) costs[...that] should have been deferred pending the outcome of the current rate case (DE 21-030).”* Refer to the 2020 Annual Major Storm Cost Reserve Fund Report DE 21-033 for details regarding the verification of the 2021 adjusting entry that moved the costs to the deferral account.

The interest rate for carrying charges was 5.21% during 2021. The interest rate was calculated per DE 10-055 as the Cost of Debt less the New Hampshire Effective Tax Rate:

Federal Income Tax Rate	21.00%
State Income Tax Rate	7.90%
Federal Benefit of State Income Tax	<u>-1.66%</u>
Net NH Effective Tax Rate	27.24%
Cost of Debt per DE 10-055	7.15%
Tax Effect (1 - 27.24%) = .7276	<u>x 0.7276</u>
MSCR Carrying Charge Rate (Costs Net Deferred Taxes)	5.21%

SRAF SUMMARY

The Storm Recovery Adjustment Factor (SRAF) was approved by Order #25,214. Its purpose was to recover the cost of major, infrequent storms of extraordinary magnitude. Audit requested the SRAF calculation of the revenue recovered during 2021. The Company provided the monthly revenue reports for the total billed to the customer. Audit noted the SRAF at \$0.00084 per kWh for the months of January 2021 – April 2021 and verified the rate to page 69 of the UES Tariff, effective May 1, 2019. The SRAF of \$0.00084 per kWh was authorized due to the requested recovery of costs that were incurred as the result of an October 2017 wind storm,

as well as the costs incurred as a result of the March 2018 winter storm Quinn. Per Commission Order #26,123, the costs associated with the 2017 wind storm were to be amortized for a period of 3 years, effective May 1, 2018. Audit reviewed the SRAF master model reconciliation and verified the May 2021 completion of the recovery of costs associated with the 2017 wind storm.

Audit identified the SRAF at \$0.00064 for May 2021 and confirmed the reduction was due to the completion of recovery of the costs associated with the 2017 wind storm. The Company further explained the calculation of the \$0.00064 SRAF by confirming that, *“The .00064 rate for May reflects the calculated pro-rated rate between the previous rate of .00084 (effective prior to May 1) and the new rate of .00047 (effective May 1). The May 2021 customer bills reflect this blended rate.”* Refer to the SRAF Revenue section of the report for the testing of billed kWh by rate class.

Effective as of May 1, 2021, the total SRAF is \$0.00047 per kWh, for the purpose of recovering costs incurred in response to the March 2018 winter storm Quinn. Audit reviewed Order #26,236 which confirmed the authorization for recovery of costs associated with winter storm Quinn, over a period of three years, beginning May 1, 2019 and ending May 2022. The Company confirmed that, *“Any unamortized balance will accrue carrying charges at an annual rate equaling the Company’s cost of debt as filed in its most recent base rate case, net of deferred taxes. Based on actual unit sales for twelve months ending December 31, 2018, the adjustment is set at \$0.00047 per kWh and will remain in place until these storm costs have been fully recovered.”* Audit verified the currently authorized SRAF of \$0.00047, for the months of June – December 2021, to the UES Tariff, as well as to the SRAF calculation of revenue recovered.

The 2021 SRAF master model for the reconciliation of storm recovery to revenues was reviewed. Audit noted that there was an over-collection credit balance of (\$201,590) related to the 2008 Ice Storm and February 2010 windstorm. Audit reviewed the 2019 SRAF model, verifying that the 2008 Ice Storm and February 2010 windstorm were fully recovered in April 2019, resulting in an original over-collection credit balance of (\$176,229). The Company explained that, *“Due to actual kWh sales varying from the original forecast, the Ice Storm and Windstorm reconciliation ended with an over-collection of \$176,229. Per its compliance filing in DE 10-055 dated June 26, 2019 Letter to PUC Executive Director [...] UES proposed to leave this remaining over-collection balance in the SRAF. Upon conclusion of recovery of the costs of the storms remaining in the SRAF, UES will file a final reconciliation and propose a method to credit, or collect, any remaining balance.”* Audit verified that the (\$25,361) increase from the June 2019 over-collection credit balance of (\$176,229) to the 2021 over-collection credit balance of (\$201,590), was due to the inclusion of the accrued carrying charges.

Audit inquired about the 2021 over-collection SRAF reconciliation balance. The Company stated that, “On March 10, 2022, in DE 19-043, UES filed to reduce the current SRAF from \$0.00047 per kWh to \$0.00000 per kWh effective May 1, 2022, reflecting the end of the three year period of recovery of the costs associated with the March 2018 Winter Storm Quinn. The \$0.00000 per kWh rate reflects that UES will not have any storms to reconcile through the SRAF effective May 1, 2022. UES plans to roll the total SRAF reconciliation balance as of May 2022 into the External Delivery Charge (“EDC”). This total balance would consist of the balances from the March 2018 Winter Storm Quinn, the October 2017 Wind Storm, and the December 2008 ice storm & February 2010 wind storm. The balance would then get reconciled as part of the August 1, 2022 EDC. The EDC is to be filed with the Commission on approximately June 17, 2022.”

The 2021 filed MSCR Fund Report listed the 12/31/2021 SRAF balance as \$130,419. Audit reviewed the 2021 general ledger, noting that the monies collected under the SRAF are booked to the following GL accounts:

<u>Account</u>	<u>Description</u>	<u>12/31/21 Balance</u>
10-20-00-47-173-00-00	Accrued Revenue Storm Recover Adjustment	\$ 130,419
10-20-00-47-182-86-00	Regulatory Asset: Emergency Storm Restoration	<u>0</u>
	Balance a/o 12/31/2021	\$ 130,419

The following represents the reconciliation of the SRAF, as reported on page 4 of the 2021 filed MSCR Fund Report:

Beginning Balance 1/1/2021	\$ 822,860
Total Costs	0
Total Revenue	(714,578)
Calculated Interest	<u>22,136</u>
Rounded SRAF balance a/o 12/31/2021	<u>\$ 130,419</u>

SRAF Interest \$22,137

Audit reviewed the general ledger for account 10-20-01-47-419-00-00, Interest Income Storm Recovery Adj. The SRAF interest on the account, as of December 31, 2021, totaled \$22,137. Audit tied this rounded amount to both the filed MSCR Fund Report, as well as the working and master model reports. The interest charges are trued-up periodically to the master model.

SRAF Revenue \$714,579

Audit reviewed the general ledger and verified the \$714,578 SRAF total revenue, as reported within the 2021 filed MSCR Fund Report. The following represents the SRAF revenue account balances, as of 12/31/2021:

10-29-01-47-440-00-00	Electric REV-Storm Recovery ADJ	\$ 289,611
10-29-01-47-440-30-00	Elec REV RES-Storm Recovery ADJ EXT SUP	26,893
10-29-01-47-442-01-00	Elec REV REG GEN-Storm Recovery ADJ	99,919
10-29-01-47-442-02-00	Elec REV Large GEN-Storm Recovery ADJ	32,786
10-29-01-47-442-31-00	Elec REV REG GEN-Storm Recovery ADJ EXT SUP	97,054
10-29-01-47-442-32-00	Elec REV Large GEN-Storm Recovery ADJ EXT SUP	164,145
10-29-01-47-444-01-00	Elec REV Unmetered Sales Storm Recovery ADJ	2,249
10-29-01-47-444-31-00	Elec REV Unmetered Sales Storm Recovery ADJ EXT SUP	1,910
10-29-01-47-445-31-00	Municipal REG GEN Storm Recovery ADJ EXT SUP	<u>12</u>
	SRAF Total Revenue	\$ 714,579

Audit tested the September 2021 calculated revenue recovered for the Seacoast and Capital Regions. The revenue is categorized by Rate Class per Billed kWh and the SRAF Rate Calculation. The Company provided the monthly Billing Report from the Billing group that is used to develop the Monthly Revenue Model for the Accounting Department. Audit verified the September SRAF total of \$52,613, as calculated on the monthly Billing Report, to page 4 of the filed 2021 MSCR Fund Report. The following represents the September 2021 calculated revenue recovered through the SRAF:

<u>Rate Class</u>	<u>Billed kWh</u>	<u>SRAF Rate Calculation</u>
Domestic	49,549,260	\$ 23,363
G2 – Private	30,388,261	14,304
G2 – Municipal	1,486	1
G1 – Private	31,233,773	14,680
OL – Private	<u>577,926</u>	<u>266</u>
Total Billed (Rounded)	111,750,706	\$ 52,613

Audit sampled monthly customer invoices for the period of July – October 2021, noting that the SRAF rate was included within the delivery charge rate. Audit reviewed the authorized Tariff and re-calculated the components that make up the delivery charge rate, as it was applied to the invoices for domestic customers (Class D or Rate Code D). Audit verified the inclusion of the \$0.00047 SRAF Rate within the delivery charge rate reported on the sampled customer invoices.

Through review of the Tariff, Audit noted that there was one authorized rate, effective June 1, 2021, and a revised authorized rate, effective August 1, 2021. The sampled customer invoice for the month of August 2021 covered the period of 7/12/21 – 8/11/21, resulting in a blending of the rates effective in June and revised in August. Audit recalculated the blended rate on the August invoice, which included the rates in effect for June 1 and August 1, as it applied to the 19 days billed in July and the 11 days billed in August. No exceptions were noted.

Summary

Audit reviewed the filed MSCR Fund reconciliation and report, as well as the supporting schedules, invoices, detailed revenue reports, and journal entries. Based upon Audit's review of the storm expenses incurred, it is recommended that the Company remove \$37,794 of Clean Harbors expenses from the MSCR account and the filing. Refer to Audit Issue #1 for further details, including the total adjusted summary to reflect the Audit Issue.

Audit also reviewed the SRAF balance and concurs that it was correctly calculated. The following reflects the 2021 year-end balance for the SRAF:

SRAF Summary Balance

12/31/2021 SRAF Balance per Filing	\$ 130,419
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Audit Issue #1
Invoice Dates Not Concurrent with Storm Event Date

Background

Audit reviewed a sample of invoices and/or receipts from vendors detailing the charges incurred for storm event related work.

Issue

The dates listed on the invoices, for expenses charged to the storm reserve, post-dated the March 1, 2021 wind storm event for which the expenses were incurred.

Recommendation

Audit recommends removing the following four charges from the storm cost reserve:

1. Clean Harbors	\$ 7,167	03/01/21 Wind Storm
2. Clean Harbors	8,098	03/01/21 Wind Storm
3. Clean Harbors	9,117	03/01/21 Wind Storm
4. Clean Harbors	<u>13,412</u>	03/01/21 Wind Storm
Total for Audit Issue #1	<u>\$ 37,794</u>	

Company Response

The Company agrees with the Recommendation. The Company will remove the charges from the MSCR, and will file a Revised MSCR Report reflecting the correct charges for the March 1, 2021 wind storm event.

The Company identified a total of fourteen invoices totaling \$67,626 that were incorrectly posted to the 3/1/2021 wind event due to a classification error:

1. Clean Harbors	\$ 7,167	03/01/21 Wind Storm
2. Clean Harbors	8,098	03/01/21 Wind Storm
3. Clean Harbors	9,117	03/01/21 Wind Storm
4. Clean Harbors	<u>13,412</u>	03/01/21 Wind Storm
Audit's Findings Audit Issue #1	<u>\$ 37,794</u>	
5. Clean Harbors	\$ 3,360	03/01/21 Wind Storm
6. Clean Harbors	1,962	03/01/21 Wind Storm
7. Clean Harbors	4,431	03/01/21 Wind Storm
8. Clean Harbors	2,273	03/01/21 Wind Storm
9. Clean Harbors	1,101	03/01/21 Wind Storm
10. Clean Harbors	168	03/01/21 Wind Storm
11. Clean Harbors	6,132	03/01/21 Wind Storm
12. Clean Harbors	7,844	03/01/21 Wind Storm
13. Clean Harbors	1,330	03/01/21 Wind Storm
14. Clean Harbors	<u>1,231</u>	03/01/21 Wind Storm
The Company's Findings	<u>\$ 29,832</u>	
Total for Audit Issue #1	<u>\$ 67,626</u>	

Audit Conclusion

Based on Audit's findings, the Company was prompted to review 100% of Clean Harbors invoices; thereby identifying an additional 10 Clean Harbors invoices, totaling \$29,832, that was incorrectly posted to the 3/1/2021 wind event due to a classification error. Audit is in agreement with the Company regarding the removal of \$67,626 in Clean Harbors charges from the MSCR:

MSCR Summary Balance

The MSCR Filing Fund Balance updated to reflect Audit Issues:

12/31/2021 Ending Balance	\$ (3,140,898)	Under-Recovery
Audit Issue #1	<u>67,626</u>	
Updated Ending Balance	\$ (3,073,272)	Under Recovery