

STATE OF NEW HAMPSHIRE

Inter-Department Communication

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DATE: July 1, 2016
AT (OFFICE): NHPUC

FROM:  Rich Chagnon, Utility Analyst – Electric Division

SUBJECT: Docket No. DE 16-276

Unitil Energy Systems, Inc.
Annual Report pursuant to the SE 10-055 Settlement Agreement for
the Company's Reliability Enhancement Program (REP) and
Vegetation Management Program (VMP) Annual Report

Staff Review

TO: Debra A. Howland, Executive Director
Tom Frantz, Director – Electric Division

Summary

On March 1, 2016, Unitil Energy Systems, Inc. (UES or Company) filed the Company's REP and VMP Annual Report in accordance with the Settlement Agreement approved in Docket No. DE 10-055. This filing also includes the information required by the Settlement Agreement related to earnings sharing and exogenous events. There is no rate change related to this filing.

As noted in Commission Order No. 25,565 in DE 14-063, although the May 1, 2014 step adjustment was the final step adjustment associated with the Settlement Agreement approved in DE 10-055, UES is expected to continue the REP and VMP activities for the five-year period established by the Settlement Agreement and continue to file the annual reports. Pursuant to Section 7 of the Settlement Agreement, UES is required 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. Actual and planned REP and VMP costs shown in the report are to be reconciled with the revenue requirements associated with the actual and planned capital additions and expenses.

REP and VMP Annual Report 2015

UES has reconciled its VMP and REP program costs. From December 31, 2014 through December 31, 2015, the Company has collected \$4,558,739 in VMP revenue.¹ Additionally, the Company collected \$80,000 in REP revenue related to VMP and \$842,718 in revenue from Fairpoint Communications², for a total of \$5,481,457. During that same period, the Company spent \$4,496,011 in VMP expense and \$48,895 of REP expenses related to VMP for a total of \$4,544,906, leading to an over-collection of \$936,551. Included in the over-collection is \$474,333³ of storm hardening revenue associated with revenue that will be billed January 1, 2016 to April 30, 2016. In order to adjust the VMP reconciliation for activity only through December 31, 2015 the Company proposed to reduce the over-collection of \$936,551 by \$474,333 to \$462,218.

The Company also collected \$220,000 in REP revenue related to reliability inspection and maintenance from December 31, 2014 to December 31, 2015. During that same period, the Company spent \$220,000, for a \$0 balance.

These two components result in an over collection amount of \$462,218. In DE 14-063, the Commission approved UES' proposal to move over/under collections of REP and VMP revenue to the Company's External Delivery Charge ("EDC") mechanism since May 1, 2014 was the last step adjustment under the Settlement Agreement. Accordingly, this amount will be credited to the EDC mechanism effective May 1, 2016.

Summary of 2015 REP and VMP Results

UES continued the inspection and survey program and completed a third survey of all overhead, three-phase circuitry, for a total of 419 pole miles of line. The Company believes this methodology provides the greatest impact to customers as a failure of equipment along the selected circuits would affect the greatest amount of customers and therefore have the greatest impact on system reliability, *i.e.*, SAIDI.

The circuit survey performed in 2015 identified 28 pieces of equipment that displayed the imminent failure signature and required repair or replacement. As was the case in 2013 and 2014, the types of facilities identified included transformers, insulators, lightning arrestors, bushings, and cutouts.

Utilizing UES' Outage Management System (OMS) which details customer counts and protective devices, the Company is able to develop potential system reliability impacts. The 2015 program identified a repair every 15.0 miles, and an average of 720 customers impacted by each failure event if it occurred. The estimated number of customers

¹ Test year amount of \$735,739 + \$200,000 augmented VMP spending in permanent rates + \$2,200,000 (\$1,250,000 + \$950,000) + \$1,423,000 included in step adjustments.

² The Settlement Agreement did not consider payments from FairPoint Communications for tree trimming. UES will credit these payments to its External Delivery Charge.

³ Storm hardening revenue in permanent rates is \$1,423,000. \$474,333 equals four months of revenue (\$1,423,000/12*4).

impacted by potential failures of all identified locations is 20,165. The estimated customer minutes of interruption would be 1,586,221 calculated using 2015 customer counts. The total opportunity for avoided system SAIDI would be 20.9 minutes, which represents 13.3% of UES' most recent 10-year average annual SAIDI of 157.6 minutes. This data compliments UES' findings in 2014, which estimated 27.6 SAIDI minutes of savings.

Summary of 2015 Performance

The reported reliability performance of the UES systems in 2015 (based on IEEE-1366) was the best performance in the last five years in terms of SAIDI and the number of interruption events experienced. The combined UES system SAIDI of 112.73 minutes is roughly 26% lower than the 5-year average of 152.89 minutes. The UES combined system SAIFI for 2015 was 1.421 interruptions which was the best performance in the last five years. The system SAIFI was approximately 12% lower than the 5-year average of 1.623. The total number of interruption events recorded in 2015 was 1,029. In 2015, there were no Major Event Days as defined by IEEE -1366 criteria.

Earnings Sharing

UES calculated its earned return on equity for the calendar year ending December 31, 2015. UES' Form F-1 for the year ending December 31, 2015 shows an earned return on equity of 8.40 percent. Since its return on equity is not greater than 10 percent, UES was not subject to a sharing of earnings for the 2015 calendar year reporting period.

Exogenous Events

The Company certifies that no exogenous events occurred during calendar year 2015 which caused changes in excess of the Exogenous Events Rate Adjustment Threshold.

Recommendation

Staff reviewed the filing, issued data requests and held a technical session with the Company. Based on this detailed review, Staff determined that UES complied with the Settlement Agreement by filing a REP and VMP Annual Report with the relevant activities, costs and revenues for 2015 results and the 2016 plan. The over collection amount of \$462,218 will be credited to the EDC mechanism effective May 1, 2016 as approved in Commission Docket No. DE 14-063. No additional action or review is warranted at this time.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

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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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**
- DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**