Closing Statement

Determining the Public Interest Under RSA 374-G: The Company submits that the legislature intended to give great latitude to the Commission in determining the public interest in order to encourage such investments to take place, and to evaluate the benefits of DER in the broadest sense. The public interest test begins with an assessment of the direct costs and benefits of the investment to participants and non-participants over the life of the investment. Updated estimates for Stratham and SAU16 are in Exhibit 10.

The public interest assessment needs to factor in the non-direct benefits that also may be available from a DER project and help achieve the broader purposes of the statute. A matrix addressing each of the benefits for the Stratham project is provided in Exhibit 4, Schedule GRG-R-3. Dr Axelrod testified to the relative to the potential economic development, environmental and local distribution reliability benefits of the Stratham and SAU16 projects, and developed quantitative tools to assess these benefits The values he obtained are incorporated as "non-direct" items in the benefit cost presentation in Exhibit 10.

Such non-direct benefits should be included in the assessment of the public interest:

- Their inclusion is supported as a generally accepted method of evaluating investment impacts;
- Dr. Axelrod factored OUT the potential economic impact of the utility investments that are being avoided.
- The BEA RIMSII method incorporates both outflows and inflows in the specific sectors analyzed, including the inflows back to the NH economy from spending that initially flows out of state.
- A project specific economic development analysis is neither necessary nor feasible and, because of the many inflows and outflows that occur in the normal functioning of the economy, would vastly understate the true economic and jobs development benefits.

There is a growing recognition that the costs directly reflected in rates, or "internalized" costs, do not capture the full impact to society of environmental emissions. the Synapse AESC study developed a value for the societal costs of carbon emissions based on removal. Dr.

Axelrod netted against this value the internalized costs in order to estimate the value of the additional environmental benefit resulting from the DER investments.

Inclusion of the non-direct benefits in the Commission's evaluation of the public interest is appropriate and encouraged by the language of the legislature in RSA 374-G. The development of cost effective DER applications are emerging but continue to face cost barriers and economies that will likely hinder rapid market acceptance without such additional support as being proposed by Unitil. Logic dictates that if a typical DER Benefit/Cost ratio was always well above one, neither this legislation nor the Company's financial support would be needed; the competitive marketplace would balance what is cost effective and what is not. However, as this legislation contemplates, until such a market emerges, electric utilities in New Hampshire are urged to consider investing ratepayer dollars in DER applications that help stimulate this market while also producing such additional benefits as environmental protection and economic development. This legislation is uniquely vocal on the need for the Commission to determine public interest of a DER project based on, not only life cycle costs and benefits, but a number of other societal values associated with the DER investment.

In Exhibit 10, the Company has, as requested by the Commission, shown the benefit-cost results individually for the two proposed projects, as well as combined. Combining these two projects for purposes of assessing overall benefit-cost values is appropriate and recognizes the principal that the Company's proposal can be assessed on a portfolio basis. While a given component of the proposal may be marginal, the overall impact of the portfolio may be positive and therefore the portfolio would be in the public interest.

Value of RECs and RPS: The Company agrees with Staff that there are two potential benefits relating to renewable energy. If the project reduces the Company's retail sales, then it also reduces the Company's RPS compliance obligations. The Company has verified that this benefit has been included by Synpase in the estimates of avoided energy costs. In addition, however, if a project is a renewable generation project, it will be eligible to secure Renewable Energy Certificates which can then be sold or traded in the RECs market and ultimately be used to satisfy a Company's RPS compliance obligation.

Since the Stratham project as restructured will no longer reduce retail sales to the Company, it will not provide an RPS benefit. In Exhibit 10, the Company includes a negative value to offset the fact that the benefit is included in the avoided energy cost values – we have used the estimate of $19,549 testified to by Mr. McCluskey.

The Company and the Staff disagree relative to the future value of the solar Tier II RECs to be provided by both the Stratham and SAU16 project. Admittedly, the future value of such RECs will be highly uncertain as it is dependent on future market developments, future legislative or regulatory changes including the escalation of the RPS compliance requirements and of the Alternative Compliance Payments (ACP). The value of a solar REC will vary from $0 to the ACP level for that Tier.

The Company chose to discount the ACP to 75% for purposes of estimating the future value of RECs. The Company notes that the RPS program is just beginning and that prices so early in the process are likely not to be indicative of the long term trend. Moreover, the RPS compliance levels for Solar Tier II RECs begins very modestly and accelerates over time, and both the compliance levels and ACP levels can be adjusted by the Commission or by the Legislature with profound affects on market prices for RECs.

Project Approval: The Company and Staff both provided evidence that the SAU16 project offers a positive benefit cost ratio only looking at direct benefits. As shown in Exhibit 10, including the value of non-direct benefits increases the benefit cost ratio.

The Company and Staff both provide evidence in their updated presentations indicating that the estimated lifetime direct dollar benefits to customers of the Stratham project are less than the direct dollar costs. However, if the non-direct benefits are included at only one half their calculated value, the benefit cost ratio of the Stratham project is significantly positive. Additionally: both of the projects proposed are in partnership with public municipal entities, and will have consequent public benefits, in contrast to projects that benefit private customers.

Ratemaking: The Company has proposed a fully reconciling annual cost recovery mechanism in this proceeding, in the form of a Tariff referred to as DERIC (Distributed Energy Resources Investment Charge). The Company believes that either a Step Adjustment adjusted annually, or a reconciling DERIC are appropriate ratemaking methods in this case. If the Commission determines that no rate may be charged, in advance of a project being completed and in service, then the Company's DERIC proposal would have to be amended so as to operate "in arrears": the DERIC would not be adjusted to reflect a particular investment until after the project was completed. By making this adjustment, the differences between a Step Adjustment and the DERIC are narrowed. Under a Step Adjustment, the Company's rates would be adjusted once for the addition of the DER investment – and then that investment would be subsumed into the Company's base rate calculations in the context of the next base rate case. Under the DERIC, the Company's rates would be adjusted annually until the next base rate case, at which time the DER investments would also be subsumed into the Company's base rate calculations.

In either case, it is important to update key data used in the ratemaking calculations, specifically including the capital structure, debt costs and retail sales, with the Return on Equity based on the last base rate case decision for the Company. The Company's annual DER related expenses will also need to be factored into the rate calculation, and may go up or down from year to year. The DERIC process would automatically take this into account. These expenses can also be factored into the Step-Adjustment process.

Carrying Charges: The recovery of Carrying Charges on DER investments for the time period between project completion and the effective date of the rate recovery is very important as contemporaneous rate recovery for DER investments is a key motivator for undertaking such voluntary investments. Nothing in the Commission's working capital allowance compensates the Company for the time value of money for capital or other costs prior to the point in time when those costs are included in rates. The Company is provided compensation for the time value of funds used during the construction process, in the form of AFUDC. Providing carrying charges during construction, and then denying the Company any carrying charges until the DER investment is put into rates, may create an incentive to slow down project completion. Consistency in the financial and ratemaking process supports the inclusion of carrying charges through the period from construction to inclusion in rates.

Lost Base Revenues: Failure to provide recovery of LBR in the case of RSA 374-G investments would result in precisely the kind of disincentive for RSA 374-G investments that the legislation is trying to overcome. Given that a traditional distribution investment does NOT result in a decrease in kWh sales and corresponding distribution revenues, and an alternative DER investment generally WOULD result in a decrease in kWh sales and a corresponding decrease in distribution revenues, the failure to include LBR in the RSA 374-G ratemaking process would provide a disincentive for a utility to make DER investments. DER investments are voluntary. A company will not choose to undertake a voluntary and innovative initiative that fails to match the investment opportunity afforded by its traditional non-innovative business activity. RSA 374-G is intended to encourage such voluntary initiatives. The Company's request for lost base revenues only applies to the SAU16 project in this proceeding.