

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 12-003

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Solicitation and Selection of Default Service Power Supply for
Large Commercial and Industrial Customers and Small Commercial and Residential
Customers for the Period Beginning May 1, 2012**

**Order Approving Solicitation and Selection of
Default Service Supply and Resulting Rates**

ORDER NO. 25,335

March 16, 2012

APPEARANCES: Gary M. Epler, Esq. on behalf of Unitil Energy Systems, Inc.; the Office of Consumer Advocate by Rorie E.P. Hollenberg, Esq. on behalf of residential ratepayers; and Suzanne Amidon, Esq., on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 9, 2012, Unitil Energy Systems, Inc. (UES or Company) filed a petition requesting approval of its solicitation and procurement of default service supply and the resulting rates for two contracts for power purchases. The first contract is for 100% power supply requirements for large commercial and industrial (G1) customers for the three-month period of May 1, 2012 through July 31, 2012. The second contract is for 25% of UES' small (Non-G1)¹ customers' supply requirement for the one-year period of May 1, 2012 through April 30, 2013.

The filing was made pursuant to the terms of a settlement agreement approved by the Commission in *Unitil Energy Systems, Inc.*, Order No. 24,511 (September 9, 2005) and modified by the Commission in *Unitil Energy Systems, Inc.*, Order No. 24,921 (December 12, 2008). Pursuant to the settlement agreement as amended, UES solicits default service supply for its G1 customers on a quarterly basis in three-month blocks and establishes fixed monthly prices that

¹ The Non-G1 customer class includes residential and small commercial (G2) customers.

vary from month to month for the service period. For non-G1 customers, UES solicits a portfolio of power supply and establishes a fixed rate for a six-month period based on the power supply portfolio. In the instant filing, UES seeks Commission approval of the default service procurements and resulting rates for G1 customers for the period of May 1, 2012 through July 31, 2012 and non-G1 customers for the period May 1, 2012 through October 31, 2012.

UES selected DTE Energy Trading, Inc. (DTE) as the supplier for the three-month supply of default service requirements for its G1 customers and Dominion Energy Marketing, Inc. (Dominion) for the 12-month block (25% share) of non-G1 customers' default service requirements. UES stated that based on its selection of suppliers, the resulting default service rates plus an adder to recover Renewable Portfolio Standard (RPS) compliance costs will result in overall average class bill reductions as compared to current rates. UES said that residential class bills will decrease overall by approximately 6.4 percent; general service customers' bills will decrease by approximately 6.6%; large general service customers' bills will decrease by approximately 23.2%; and outdoor lighting customers' bills will decrease by approximately 3.4%.

In support of its petition, UES filed the testimony of Todd M. Bohan, Energy Analyst, Linda S. McNamara, Senior Regulatory Analyst, and Kristina M. Guay, Senior Financial Analyst. Mr. Bohan, Ms. McNamara and Ms. Guay are employed by Unitil Service Corp., a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's subsidiaries, including UES. With the filing, UES submitted a redacted copy of the bid evaluation report, a copy of the request for proposals (RFP) for default service, proposed tariffs, its quarterly customer migration report, an updated lead/lag study and a proposed revised rate for customers participating in the Renewable Source Option (RSO)

program. On March 13, 2012, UES filed a motion for confidential treatment of certain information contained in an attachment to the filing identified as Tab A.

On January 31, 2012, the Commission issued an Order of Notice scheduling a hearing for March 14, 2012. The hearing was held as scheduled. The Office of Consumer Advocate (OCA) participated in the hearing on behalf of residential ratepayers.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil Energy Systems, Inc.

UES stated that, consistent with prior solicitations, it conducted an open solicitation process, actively sought interest among potential suppliers and provided access to sufficient information to enable potential suppliers to assess the risks and obligations associated with providing the services sought. UES reported that it achieved market notification of the RFP by announcing its availability to all participants in the New England Power Pool (NEPOOL) and to the members of the NEPOOL Markets Committee, as well as by announcing the issuance of the RFP to a list of contacts from energy companies that had previously expressed interest in receiving notices of solicitations. In addition, UES issued a media advisory to the power markets trade press.

UES attested that in order to gain the greatest level of market interest, it provided potential bidders with appropriate and accessible information, including historic hourly loads, historic monthly retail sales and customer counts, large customer concentration data and the evaluation loads, which are the estimated monthly volumes that UES would use to weight bids in terms of price. UES testified that it used its corporate website to make this information available to potential suppliers.

UES testified that it issued the RFPs on January 31, 2012. On February 21, 2012 UES received proposals and indicative bids from several respondents that included detailed background information on the bidding entity, proposed changes to the contract terms, and indicative pricing. UES stated that it reviewed the proposals and worked with the bidders to establish and evaluate their creditworthiness, extension of adequate credit to UES to facilitate the transaction, capability of performing the terms of the power purchase agreement in a reliable manner, and willingness to enter into contractual terms acceptable to UES. UES negotiated with potential suppliers who submitted proposals in order to obtain the most favorable contract terms, including costs. All bidders were invited to submit final bids. On March 6, 2012, UES received final pricing from bidders and conducted its evaluation, which included both the quantitative and qualitative criteria described above and selected DTE as the supplier for the 100% block of G1 power requirements for the three months beginning May 1, 2012 and Dominion as the supplier for the 12-month 25% block of non-G1 customer group power requirements, also beginning May 1, 2012.

Based upon the selected bid and existing non-G1 power supply contracts, UES developed the non-G1 rate by dividing the total costs for each month by the estimated monthly non-G1 kilowatt hour (kWh) purchases. UES then applied an estimated loss factor of 6.40 percent to each monthly unit cost.

UES also calculated the reconciliation amount included in the non-G1 class power supply charge. To do so, the reconciliation balance as of January 31, 2012 was adjusted to recognize that the current power supply charges in effect through April 30, 2012 include a charge for a January 31, 2011 under-collection. According to the petition, approximately \$600,000 of this under-collection which UES seeks to recover through non-G1 rates effective May 1, 2012

consists of energy service costs related to Docket No. DE 11-105, *Unitil Energy Systems, Inc. Petition for Declaratory Ruling and Approval of Adjustment to Certain Account Balances*, which is pending before the Commission.²

UES said it made a second adjustment to collect the remaining Smart Grid expenses incurred in the May through October 2012 period pursuant to a settlement agreement approved in Docket No. DE 09-137.³ These reconciliation components resulted in an approximate under-collection of \$1.6 million in the May to October period. Using this methodology, UES calculated a fixed default service charge for non-G1 customers of \$0.06769 per kWh for the period May 1, 2012 through October 31, 2012. In addition, UES calculated a non-G1 fixed adder of \$0.00316 per kWh to recover costs of the Company's compliance with the RPS requirements for the same six-month period. In total, according to UES's filing, beginning May 1, 2012, non-G1 customers would pay a fixed default service charge of \$0.07085 per kWh, a decrease of \$0.00941 per kWh from the current fixed charge of \$0.08026 per kWh. Based on the proposed rate, non-G1 customers using 500 kWh of electricity per month would experience a bill reduction of 6.3%. Non-G1 customers who use 648 kWh of electricity per month, the average monthly usage, would experience bill reductions of approximately 6.5%.

For G1 customers, UES used a similar process, dividing the total costs for each month of the May 2012 through July 2012 period, plus an appropriate allocation of the G1 reconciliation account balance at January 31, 2012, by the estimated G1 kWh purchases for the month, adjusted by a loss factor of 4.591%. This process produced the following monthly default service and RPS charges for the G1 customer group:

² At hearing, UES agreed to withdraw the amounts related to Docket No. DE 11-105 and address any adjustment to default service rates that may be appropriate upon conclusion of that docket.

³ See Order No. 25,079 (February 26, 2010) in Docket No. DE 09-137, *Unitil Energy Systems, Inc. Petition for Approval of Distributed Energy Resource Investment Proposal*.

	May 2012	June 2012	July 2012
Default Service \$/kWh	\$0.04302	\$0.03979	\$0.04029
RPS \$/kWh	\$0.00205	\$0.00205	\$0.00205
Total \$/kWh	\$0.04507	\$0.04184	\$0.04234

The simple average of these monthly total rates is \$0.04308 per kWh, which is a decrease of \$0.02415 per kWh on average, from the current average rate of \$0.06723 per kWh. UES attributed the decreased default service rates for both classes to market pricing.

UES said it complies with the RPS requirements pursuant to a settlement agreement approved in Docket No. DE 09-009, UES's 2009 default service proceeding.⁴ Pursuant to the settlement agreement, UES issues two RFPs for Renewable Energy Certificates (RECs) annually, each for approximately 50% of its REC obligations. Each REC represents the renewable attributes associated with one Megawatt of power delivered. In addition, UES said it may make REC purchases outside the RFP process when it finds it is advantageous to do so.

For 2011 RPS compliance, UES completed its first REC RFP on October 18, 2011 and its second RFP on January 17, 2012. Attachment TMB-4 lists the percentage of sales and the resulting REC requirements for each class of RECs along with UES's estimated costs for compliance as follows. TMB-4 demonstrates that UES will require Class I (new renewable resources) RECs for 3.0% of sales at \$46.00 per REC; Class II (solar resources) RECs for 0.15% of sales at \$100.00 per REC; Class III (existing biomass resources) RECs for 6.5% of sales at \$31.39 per REC; and Class IV (existing small hydro resources) RECs for 1.0% of sales at \$27.50 per REC. UES used the REC value estimates to develop the RPS adder.

At hearing, UES explained approximately \$600,000 of the reconciliation under-collection it proposed to recover from non-G1 customers related to Docket No. DE 11-105, *Unitil Energy Systems, Inc.*, which is pending before the Commission. Based on discussions with Staff, UES

⁴ See Order No. 25,011 (September 4, 2009).

introduced Exhibit 3 (LSM-8) at hearing which removed the under-collections associated with Docket No. DE 11-105 from the calculation of the non-G1 class default service rate. The resulting base default service rate is \$0.06597 per kWh; with the RPS adder, the resulting default service rate for non-G1 customers effective May 1, 2012 would be \$0.06913 per kWh, or an average bill reduction of 7.4% from the current rate for customers taking 500 kWh of power per month. Customers using 648 kWh per month would experience an average bill reduction of 7.6%.

UES explained that these rates calculated in Exhibit 3 included recovery of costs associated with the smart grid pilot project approved in Docket No. DE 09-137. UES said that Staff had agreed that the Company could continue recovering these costs subject to any reconciliation required by the Commission following Staff's review of the costs incurred. UES acknowledged that Staff had not had time to review those costs before the hearing in this proceeding.

UES's filing also included new rates for the RSO program. Under UES's RSO program, customers who take default service from UES can elect to pay an additional charge to purchase RECs and thus support renewable generation. UES offers customers the choice of paying the RSO charge to match 25%, 50% or 100% of a customer's monthly kWh usage. In its filing, UES proposed increasing RSO rates by 67% in order to reflect the forecasted increase to Class I and II REC prices.

Finally, UES agreed with Staff's recommendation that while the Company used the calculations in the new lead/lag study for this filing, Staff would be reviewing the study and any recommendations implemented by the Commission as a result of Staff's review would be reconciled in rates.

In summary, UES asked that the Commission find that UES: (1) followed the solicitation process approved in Order No. 24,511, (2) conducted a reasonable analysis of the bids submitted, and (3) supplied a reasonable rationale for its choice of suppliers. UES also asked the Commission to determine that, based on those findings, the power supply costs resulting from the solicitation are reasonable, subject to the ongoing obligation of UES to act prudently, according to law and in conformity with Commission orders. Finally, UES requested the Commission grant its motion for confidential treatment.

B. Office of Consumer Advocate

The OCA stated that it agreed with the exclusion of costs associated with Docket No. DE 11-105 from non-G1 customer rates for effect May 1, 2012. The OCA said it had no objection to the petition. The OCA also said it had no position on UES's Motion for Confidential Treatment.

C. Staff

Staff stated that it had reviewed the petition and determined that UES had complied with the settlement agreement approved by the Commission in Order No. 24,511 in conducting the bid solicitation process, evaluating bids, and selecting a final bidder. Staff also said that the resulting rates are market based and recommended that the Commission approve the petition. Staff said it agreed with the rates as calculated in Exhibit 3 which excluded the costs related to Docket No. DE 11-105. Staff also said that it had no objection to UES's inclusion of the time-of-use pilot program expenses and use of the new lead/lag study provided the resulting rates would be reconcilable, in order to provide Staff an opportunity for review and recommendation. Staff also said it agreed with the proposed changes to the RSO rate. Finally, Staff said it had no objection to UES's Motion for Confidential Treatment.

III. COMMISSION ANALYSIS

Regarding UES' analysis of the bids and its selection of the winning bidder, we find that UES substantially complied with the procedures approved in Order No. 24,511 for the G1 and non-G1 default service solicitation. We are satisfied that UES met the procedural requirements set forth in prior orders and that the result of the bidding process is consistent with the requirement of RSA 374-F:3, V(c) that default service "be procured through the competitive market." We also find that UES' evaluation of the bids and selections of DTE to provide 100% of the power supply for its G1 customers for the period May 1 through July 31, 2012, and Dominion to provide one 12-month block of 25% of power requirements for its non-G1 customers were reasonable. The testimony of UES, together with its bid evaluation report, indicates that the bid prices reflect current market conditions.

We will require UES to develop the rate for non-G1 customers consistent with the calculation presented in Exhibit 3. We will determine the issues associated with the costs related to Docket No. DE 11-105 in that proceeding and not in a default service proceeding. We will allow UES to continue to recover costs associated with the time-of-use pilot program we approved in Docket No. DE 09-137 subject to any reconciliation recommended by the Staff. We will also allow UES to use the March 2012 lead/lag study subject to any changes that may be warranted following Staff's review.

We find that because UES procures both RECs and default service supply through competitive bidding processes pursuant to settlement agreements approved by the Commission, the procurements are just and reasonable and in the public interest. We also approve UES's proposal to increase the rate for customer participation in the RSO program.

Finally, we grant UES' request for confidential treatment of information contained in Tab A to Schedule RSF-1, attached to Exhibit RSF-1 of the petition, which includes a brief narrative discussion of the bids received, a list of the suppliers who responded to the RFP, a pricing summary consisting of a comparison of all price bids, each bidder's final pricing, a summary of each bidder's financial security requirements of UES, a description of the financial security offered by each bidder, UES' ranking of each bidder's financial security, the contact list used by UES during the RFP process, and the power supply agreement with DTE and Dominion. UES also seeks confidential treatment of the contents of email sent to Staff and the OCA on March 9, 2012 and for certain information redacted from the lead/lag study. This information is identical in type and nature to the information that has been accorded confidential treatment earlier in this proceeding and in prior proceedings. *See, e.g.*, Docket No. DE 11-028, Order No. 25,206 (March 21, 2011). There is a privacy interest at stake that would be invaded by disclosure of this information. While the public has an interest in the information underlying the default service rates paid by customers, the interest in confidentiality outweighs that of disclosure inasmuch as disclosing the information would likely hamper its ability to engage suppliers in competitive bidding in the future, which would, in turn, make it more difficult to obtain its supply needs at competitive prices and might thereby increase rates to customers. As to the information in Schedule LSM-4, because that information will soon be publicly available through the FERC, we grant confidential treatment to that information only until November 1, 2012 as requested in the motion.

Based upon the foregoing, it is hereby

ORDERED, that the power supply agreements entered into by Unitil Energy Systems, Inc. with DTE Energy Trading, Inc. and with Dominion Energy Marketing, Inc. and the resulting rates are APPROVED as further directed herein; and it is

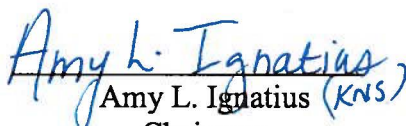
FURTHER ORDERED, that the power supply costs resulting from the solicitations are reasonable and, subject to the ongoing obligation of UES to act prudently, according to law and in conformity with Commission orders, the amounts payable to DTE and Dominion proposed for inclusion in rates beginning May 1, 2012 are APPROVED; and it is

FURTHER ORDERED, that the updated customer charge for the Renewable Source Option product for effect beginning May 1, 2012 is hereby APPROVED; and it is

FURTHER ORDERED, that UES's motion for confidential treatment of certain documents is hereby GRANTED; and it is

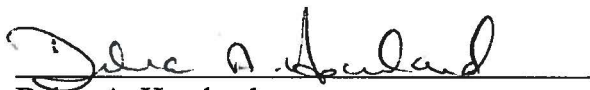
FURTHER ORDERED, that the petitioner shall file conforming tariffs within 30 days of the date of this Order, consistent with N.H. Admin Rule Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this sixteenth day of March, 2012.


Amy L. Ignatius (KNS)
Chairman


Michael D. Harrington
Commissioner

Attested by:


Debra A. Howland
Executive Director

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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