

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 11-028

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, 2011

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

ORDER NO. 25,206

March 21, 2011

APPEARANCES: Gary M. Epler, Esq., on behalf of Unitil Energy Systems, Inc.; Meredith A. Hatfield, Esq., of the Office of Consumer Advocate on behalf of residential ratepayers; and Suzanne Amidon, Esq., on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 11, 2011, Unitil Energy Systems, Inc. (UES or Company) filed with the Commission a petition requesting approval of its solicitation and procurement of default service rates to supply its large commercial and industrial customers (G1) for the three-month period of May 1, 2011 through July 31, 2011, as well as for one-quarter of its small commercial and residential customers (non-G1) default service power requirements for the two-year period of May 1, 2011 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).

The settlement agreement and modification set forth the procedures by which UES procures default service for its G1 and non-G1 customers. Following those procedures, UES solicited 100% of the G1 customer default service requirements for the three-month period beginning May 2011, and established fixed monthly retail prices that vary from month to month. For non-G1 customers, UES solicited 25 percent of the non-G1 customer default service requirements for the two-year period beginning May 1, 2011, and established a fixed rate for the six-month period beginning May 1, 2011 based on its non-G1 portfolio of power supply agreements. According to the petition, UES selected DTE Energy Trading, Inc. (DTE) as the supplier for its G1 customers' default service requirements and Constellation Energy Commodities Group (Constellation) for the non-G1 customers' default service requirements. UES stated that the resulting default service rates plus Renewable Portfolio Standard (RPS) compliance costs will decrease bills by 4.5 percent for residential customers, 4.6 percent for small commercial customers, 1.5 percent for large commercial customers and 2.6 percent for outdoor lighting customers, compared to current rates.

In support of its petition, UES filed the testimony of Robert S. Furino, Director of Energy Contracts, Linda S. McNamara, Senior Regulatory Analyst II, and Kristina M. Guay, Senior Financial Analyst. Mr. Furino, 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 and its quarterly customer migration report. In addition, UES filed an update on the Company's Renewable Source Option (RSO) program participation

and, on March 8, 2011, filed an updated lead/lag study. With its petition, UES filed a motion for confidential treatment of certain information contained in the filing.

On February 15, 2011, the Commission issued an Order of Notice scheduling UES' hearing for March 16, 2011. The Office of Consumer Advocate (OCA) filed a letter on March 10, 2011 stating that it would be participating in this docket 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 February 1, 2011. On February 22, 2011, 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. All bidders were invited to submit final bids. On March 8, 2011, UES received final pricing from bidders and conducted its evaluation, which included both the quantitative and qualitative criteria described above and selected Constellation as the supplier for the non-G1 customer group and DTE as the supplier for the G1 customer group.

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. The total costs for each month include an allocation of the non-G1 reconciliation account balance at January 31, 2011. UES then applied an estimated loss factor of 6.40 percent to each monthly unit cost. Using this methodology, UES calculated a fixed default service charge for non-G1 customers of \$0.07094 per kWh for the period May 1, 2011 through October 31, 2011. In addition, UES calculated a non-G1 fixed RPS charge of \$0.00180 per kWh for the same six-month period. In total, non-G1 customers will pay a fixed default service charge of \$0.07274 per kWh, which is a decrease of \$0.00625 per kWh from the current fixed charge of \$0.07899 per kWh. Non-G1 customers taking 500 kWh per month will

experience a typical bill reduction of 4.4 percent. Non-G1 customers who use 671 kWh per month, the average residential monthly use, will experience bill reductions of 4.5%.

For G1 customers, UES used a similar process, dividing the total costs for each month of the May 2011 through July 2011 period, plus an appropriate allocation of the G1 reconciliation account balance (undercollection) at January 31, 2011, by the estimated G1 kWh purchases for the month, adjusted by a loss factor of 4.591 percent. This process produced the following monthly default service and RPS charges for the G1 customer group:

	May 2011	June 2011	July 2011
Default Service \$/kWh	\$0.06814	\$0.06207	\$0.06370
RPS \$/kWh	\$0.00293	\$0.00293	\$0.00293
Total \$/kWh	\$0.07107	\$0.06500	\$0.06663

The simple average of these monthly total rates is \$0.06757 per kWh, which is a decrease of \$0.00165 per kWh from the current average rate of \$0.06922 per kWh. UES attributed the decreased default service rates for both classes to their reflections of market pricing.

To comply with the New Hampshire Renewable Portfolio Standard (RPS), UES issues two RFPs for Renewable Energy Certificates (RECs) annually, each for approximately 50% of its REC obligations. In addition, UES said it may make REC purchases outside the RFP process when it is advantageous to do so. For 2010 RPS compliance, UES completed its second REC RFP on February 15, 2011. To comply with RPS requirements for 2011, UES will need to provide Class I (new renewable resources) renewable energy certificates (RECs) for 2.0% of sales, Class II (solar resources) RECs for 0.08% of sales, Class III (existing biomass resources) RECs for 6.5% of sales, and Class IV (existing small hydro resources) RECs for 1.0% of sales. In developing the RPS adder, UES estimated the cost of Class I RECs at \$20.00, Class II RECs

at \$50.00, Class III RECs at \$25.00, and Class IV RECs at \$25.00. UES stated that the cost estimates for RECs are based on both current market prices as communicated by brokers of renewable products and recent purchases of 2010 vintage RECs.

With its filing, UES provided an update of participation in its Renewable Source Operation (RSO) program through which customers can choose to support renewable energy sources by paying an additional premium over default service rates. *See* Order No. 25,102 (May 7, 2010) in Docket No. DE 09-224. UES said that Order No. 25,102 included a requirement for UES to update the RSO rate every six months, and that the update is included in this filing; however, the RSO rate itself does not change as a result of the update.

With respect to its lead/lag study, UES testified that because it had only recently filed this updated study, it assumed that Staff would not have had time to fully review it before the hearing.

B. OCA

In a letter filed March 15, 2011, OCA stated that it was not opposed to the default service rates proposed by the Company.

C. Staff

In its closing, Staff stated that it had reviewed the filing and that it believed the Company had followed a proper bid solicitation and evaluation process and that the rates should therefore be approved. Regarding the lead/lag study, Staff stated that because there had been only a short time to review it, it recommended conditional approval subject to further comment at UES' next default service hearing. Staff said it did not oppose UES' 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 solicitations. 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 selection of DTE to provide power supply for its G1 and Constellation to provide one 24-month block of power for its non-G1 customers was reasonable. The testimony of UES, together with its bid evaluation report, indicates that the bid prices reflect current market conditions.

We also 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. Further, we approve the updated RSO rate, which we understand does not change from the current rate for that 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 Constellation. UES also seeks confidential treatment of the contents of email sent to Staff and the OCA on

March 8 and 11, 2011 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 10-028, Order No. 25, 149 (September 24, 2010). 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 UES' 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, 2011, 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 Constellation Energy Commodities Group and the resulting proposed rates are APPROVED; and it is

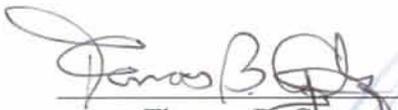
FURTHER ORDERED, that the power supply costs resulting from the solicitation are reasonable and, subject to the ongoing obligation of UES to act prudently, according to law and in conformity with Commission orders, the amounts payable to DTE and Constellation proposed for inclusion in rates beginning May 1, 2011 are APPROVED; and it is

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

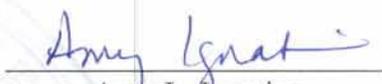
FURTHER ORDERED, that the updated customer charge for the Company's Renewable Source Option product is hereby APPROVED; and it is

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.

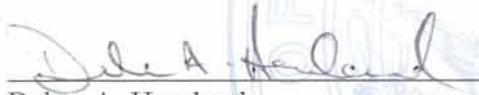
By order of the Public Utilities Commission of New Hampshire this twenty-first day of March, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

