

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 17-038

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Energy Service Solicitation and Resulting Rates for Small,
Medium, and Large Customer Groups for the Period Beginning June 1, 2017**

Approving Energy Service Rates for Unitil Energy Systems, Inc.

ORDER NO. 26,004

April 10, 2017

APPEARANCES: Gary Epler, Esq., on behalf of Unitil Energy Systems, Inc.; the Office of the Consumer Advocate by Brian Buckley, Esq., on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission approves Unitil's recent market solicitation for power supply for its energy service customers, and authorizes Unitil to recover the costs of the power supply through energy service rates for six months, effective with service rendered on and after June 1, 2017. The Order approves an energy service rate of 7.886 cents per kWh for residential customers taking electric service from Unitil. For a residential customer who uses 612 kWh per month, the average (mean) usage level for Unitil's residential customers between March 2016 and February 2017, the result will be an increase in monthly bills from \$97.74 per month to \$98.94 per month, or 1.2 percent, when compared to the six-month period ending May 2017. The average increase for general service (small commercial) customers will be 1.6 percent, and for outdoor lighting customers, average increases in monthly bills will be 0.8 percent.

I. PROCEDURAL HISTORY

On March 8, 2017, the Commission issued an Order of Notice scheduling a hearing on April 5, 2017, for Unitil Energy System, Inc. (Unitil's), first default service solicitation for 2017.

On April 3, Unitil filed a petition requesting approval of its solicitation and procurement of default energy service power for (1) residential (Rate D) customers, (2) small commercial (Rate G2) customers, (3) outdoor lighting (Rate OL) customers, and (4) large commercial and industrial (Rate G1) customers, each for 100 percent of power supply requirements for the six-month energy service period of June 1 through November 30, 2017. Unitil filed the petition pursuant to the terms of a settlement agreement approved in Order No. 24,511 (September 9, 2005), as modified by subsequent orders, and most recently modified by Order No. 25,397 (July 31, 2012).

With its petition, Unitil filed the testimony of Lisa S. Glover, Energy Analyst, and Linda S. McNamara, Senior Regulatory Analyst, with supporting exhibits and proposed tariffs. Unitil also filed its 2016 lead/lag study, with the supporting testimony of Daniel T. Nawazelski, Senior Financial Analyst. In addition Unitil submitted its quarterly customer migration report.

Unitil selected Direct Energy Business Marketing, LLC (Direct Energy), as the winning bidder to supply power for its residential customer group; TransCanada Power Marketing Ltd (TransCanada) to supply power for its small commercial and outdoor lighting group; and NextEra Power Marketing, LLC (NextEra), to provide power to its G1 customer group. Each winning bidder will provide 100 percent of power requirements for that customer group for the six-month period beginning June 1, 2017.

With its filing, Unitil included certain confidential information contained in Schedule LSG-1, an attachment to Ms. Glover's testimony. Schedule LSG-1 contains a summary of Unitil's evaluation of the bids and bid prices, a description of the financial security offered by each bidder, red-lined agreements with the winning suppliers, together with other information that the Company claims is confidential and proprietary. Unitil requested confidential treatment

of certain information contained in its filing, stating that the information is entitled to confidential treatment as part of a routine filing pursuant to N.H. Code Admin. Rules Puc 201.06 and Puc 201.07.

Finally, with respect to its 2016 lead/lag study, Unitil asked that it be allowed to use the results of the study to develop its working capital costs, including in the calculation of the default service rates, and acknowledged that Staff and the OCA would need additional time to review the study. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-038.html>.

The OCA filed a letter of participation pursuant to RSA 363:28 on March 21, 2017.

The Commission granted the motion for confidential treatment at hearing.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil

Unitil issued a request for proposals (RFP) on March 1, 2017. Unitil testified 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. Unitil provided 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 energy companies that had previously expressed interest in receiving notices of solicitations. In addition, Unitil issued a media advisory regarding the RFP to the power markets trade publications.

On March 22, 2017, Unitil received proposals from respondents that included detailed background information on the bidding entities, proposed changes to the contract terms, and indicative pricing. Final bids were received on March 29, 2017. UES then selected and notified the winning bidders. Unitil stated that it evaluated bids on both quantitative and qualitative criteria, including price, creditworthiness, extension of adequate credit to Unitil to facilitate the transaction, capability of meeting the terms of the power supply agreement (PSA) in a reliable manner, and willingness to enter into contractual terms acceptable to Unitil. Schedule LSG-1 of Unitil's filing contains a more detailed description of the bid evaluation process. Red-lined copies of amendments to existing PSAs between Unitil and Direct Energy, Unitil and TransCanada, and Unitil and NextEra are included in Schedule LSG-1 along with a red-lined version of the PSA showing any amendments to the proposed PSA with each of the three suppliers. Unitil testified that the PSAs contain no new terms as compared to the PSA form Unitil attached to the RFP.

Unitil includes a Renewable Portfolio Standard (RPS) compliance adder to the power supply costs in its calculation of energy service rates. The RPS adder is the per kWh charge by which Unitil obtains revenue to meet its RPS requirements pursuant to RSA 362-F. To comply with its RPS requirements, Unitil first attempts to purchase renewable energy certificates (RECs), one REC representing one megawatt hour of power produced by a renewable generation source. Unitil typically issues two REC RFPs annually, each for approximately 50 percent of its projected obligations. In addition, Unitil says it may make REC purchases outside of the RFP process when it finds it advantageous to do so. For 2017 RPS requirements, Unitil has made some purchases outside of the REC RFP process and plans to issue a REC RFP in the second quarter of 2017. For the small and medium customer groups, Unitil calculated an RPS adder of

0.360 cents per kWh. For the G1 customer group, Unitil calculated an RPS adder of 0.162 cents per kWh.

Based on the prices offered, the winning bidders calculated the fixed rate for the energy component to be 7.526 cents per kWh for residential customers, and 7.196 cents per kWh for small commercial and outdoor lighting customers. With the inclusion of the RPS adder, the resulting energy service rate for residential customers is 7.886 cents per kWh, and for small commercial and outdoor lighting customers, a rate of 7.556 cents per kWh. As a result, Unitil's residential customer group will experience average monthly bill increases of 1.2 percent. The small commercial customer group will experience average monthly bill increases of 1.6 percent, and outdoor lighting customers will experience average monthly bill increases of 0.8 percent. A residential customer using 612 kilowatt hours (kWh) per month, the average (mean) monthly usage for Unitil's residential customers between March 2016 and February 2017, will experience monthly bill increases of 1.2 percent, or an increase \$1.20, from \$97.74 per month to \$98.94 per month, when compared to the six-month period ending May 2017. Bill impacts for the G1 customer group are unknown because, in the six-month service period, the power supply charge component of G1 customers' bills will be determined at the end of each month based on the Independent System Operator-New England (ISO-NE) real-time hourly locational marginal price (LMP) for the New Hampshire load zone, plus an adder to cover non-energy wholesale costs. Unitil reported that the adder for the G1 customer group based on the winning bid is 0.793 cents per kWh.

Unitil testified that overall prices submitted for the period were about 37 percent higher than the same period a year ago, and 7 percent higher than the immediately-previous period for Non-G1 classes. For the G1 customers, the adder bid pricing was substantially higher for this

period's solicitation, on average 102% above the immediately-previous six-month period, and 132% higher than the same period a year ago. According to Unitil, higher bid prices are attributed to the cost of capacity increasing as a result of the Forward Capacity Market auction (FCM) for the commitment period represented in this solicitation. The payment rate for an existing capacity offer for the commitment period June 1, 2017, through May 31, 2018, as determined by the FCM auction, is \$7.03 per kilowatt month, which is a 157% increase when compared to the prior commitment period of June 1, 2016, through May 31, 2017, where the current year existing capacity offer is \$2.74. New Capacity offer rates increased 376% from \$3.15 to \$15.00, according to Unitil. Taking into account these market conditions and a favorable comparison to New York Mercantile Exchange (NYMEX) prices for energy futures, the Company determined the pricing submitted was fair and competitive.

Unitil testified that the 2016 lead/lag study follows methodology similar to Unitil's 2015 lead/lag study. Unitil said that it had incorporated the study's results in the calculation of the default service rates. Because the OCA stated that it did not have sufficient time to review the report, Unitil asked that the proposed tariffs be approved as filed, subject to further investigation and review of the lead/lag study and subject to further reconciliation if necessary. With that proviso, Unitil asked that the Commission find that Unitil followed the approved bid solicitation and evaluation process, approve the resulting rates, and allow the Company to use the results of the lead/lag study pending the completion of the OCA's review.

B. OCA

The OCA said that the rates resulting from the power procurement were reasonable and recommended that the Commission approve the filing. The OCA indicated that it would work with Staff in reviewing the lead/lag study and has no position on the study at this point.

C. Staff

Staff determined that the Company followed the power supply solicitation, bid evaluation, and bid selection process approved by the Commission, and that the resulting rates are market based, and just and reasonable as required by RSA 374:1. Staff agreed with the results of Unital's lead/lag study and said that it would work with the OCA to assist the OCA in the development of its position.

III. COMMISSION ANALYSIS

We find that Unital's solicitation and bid evaluation procedures conform to the process the Commission approved in Order No. 24,511, as modified by Order No. 25,397, for the procurement of power supply for customers taking energy service from the Company. We also find that Unital's selection of Direct Energy, TransCanada, and NextEra to provide power supply for the six-month period beginning June 1, 2017, to be consistent with Commission Orders. Further, we are satisfied that Unital met the procedural requirements of RSA 374-F:3,V(c) that default service "be procured through the competitive market."

The testimony of Unital, as supported by its bid evaluation report, indicates that the bid prices reflect current market conditions and are reasonable. The result is an increase in energy service rates for Unital's energy service customers. The rate increase is due primarily to higher FCM prices which were established in an auction conducted three years ago. At that time, there were a number of factors that indicated new supply would be required, including an announcement that the Brayton Point generating plant would close, which resulted in higher capacity costs. Unital, as an electric distribution company procuring power in the competitive market, merely passes along the market costs to its customers in the form of default energy service rates.

We also will allow Unitil to use the results of the 2016 lead/lag study in the calculation of energy service rates for this filing, and direct Staff to assist the OCA in its review of the lead/lag study prior to the next Unitil filing for default service. If that review should recommend changes to the lead/lag study and the resulting rates, any reconciliation will take place in calculation of energy service rates resulting from Unitil's next default service filing.

Based upon the foregoing, it is hereby

ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with Direct Energy Business Marketing, LLC, for 100 percent of residential customers' power supply requirements for the six-month period beginning June 1, 2017, is hereby APPROVED; and it is

FURTHER ORDERED, that that the power supply agreement entered into by Unitil Energy Systems, Inc., with TransCanada Power Marketing Ltd for 100 percent of small commercial and outdoor lighting customers' power supply requirements for the six-month period beginning June 1, 2017, is hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with NextEra for 100 percent of large commercial customers' power supply requirements for the six-month period beginning June 1, 2017, is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil is authorized to commence recovery of costs of the power supply agreement through default service rates on a service-rendered basis beginning June 1, 2017, and it is

FURTHER ORDERED, that Unitil is authorized to use the 2016 lead/lag study in the calculation of rates subject to any reconciliation that may result from the OCA's review, and our subsequent determination; and it is

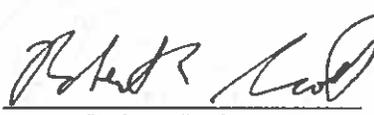
FURTHER ORDERED, that Staff shall assist the OCA in completing its review of the 2016 lead/lag study and file a recommendation with the Commission summarizing its recommendations prior to Until's next default service filing; and it is

FURTHER ORDERED, that Until shall file conforming tariffs, incorporating the new energy service rates, all as approved herein, within 20 days of the date of this Order consistent with New Hampshire Code Admin. Rules Puc 1603.

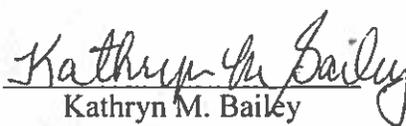
By order of the Public Utilities Commission of New Hampshire this tenth day of April, 2017.



Martin P. Honigberg
Chairman

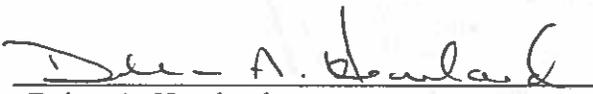


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director