

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 24-065

UNITIL ENERGY SYSTEMS, INC.

2024 Default Service Solicitations

Order Approving Modifications to Default Service Procurement

ORDER NO. 27,059

October 7, 2024

This order approves the Unitil Energy Systems, Inc. (Unitil or the Company) proposal, made in response to a Commission directive, for the expansion of its ISO-New England market-based procurement tranche to 30 percent of the load for its small and medium Default Service customer groups, which includes residential and certain commercial and industrial (C&I) Default Service customers. The changes regarding market-based procurement are to be implemented for the February 1, 2025 to July 31, 2025 Default Service period, and are expected to provide cost savings for residential and C&I Default Service customers.

I. BACKGROUND AND POSITIONS

On June 14, 2024, the Commission issued Order No. 27,020, in which it required Unitil to file

a proposal for the Company's upcoming February-July 2025 Default Service period that would include the following components: (1) an ISO-New England market-based procurement tranche of at least 30 percent, with no upper bound, for the small and medium customer groups, along the lines approved by the Commission in Order No. 26,973 and this instant Order, with the following adjustments, and with an explanation of the Company's choice of the given tranche size provided by the Company; (2) a modification wherein the "proxy price" for these market-based procurement tranches would be an average of (a) the four-year rolling weighted average of ISO-New England market prices in the New Hampshire load zone, and (b) the NYMEX futures prices for the upcoming six-month energy service period for ISO-New England; (3) discussion by the Company of the feasibility of expanding an ISO-New England market-based procurement component to the large (G1) customer group.

Id. at 8-9. The Commission expanded this market-based procurement approach due to ongoing evidence that prevailing ISO-New England market prices, including all cost components, were markedly lower than those prices for third-party requirements contracts entered into by the Company to serve its Default Service load. *See Id.* at 8; *see also* Order No. 26,973, (March 15, 2024) at 1-2.

On July 25, 2024, Unitil made its proposal pursuant to the requirements of Order No. 27,020, in a petition filed in this instant Docket No. DE 24-065. The proposal and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at

<https://www.puc.nh.gov/Regulatory/Docketbk/2024/24-065.html>

As part of its proposal, Unitil included the Technical Statement of Mr. Jeffrey Pentz and Ms. Linda McNamara (Hearing Exhibit 5). The Technical Statement delineated Unitil's approach to the expanded ISO-New England market-based procurements.

On August 23, 2024, the Commission issued a supplemental order of notice commencing this phase of the proceeding, and scheduling a hearing on the Unitil proposal for September 12, 2024. On August 26, 2024, the Office of the Consumer Advocate (OCA) filed a motion, styled as a "Motion for Partial Reconsideration of Supplemental Order of Notice," requesting that the Commission grant leave for the OCA to file the testimony of its Director of Economics and Finance, Dr. Marc Vatter, and to reschedule the September 12 hearing. The Company independently, on August 29, 2024, filed its own motion to reschedule the September 12 hearing, to accommodate a scheduling conflict within the Company. The Commission issued two procedural orders granting the relief requested by the OCA and the Company on

August 28, 2024, and September 16, 2024, respectively, which rescheduled the hearing for this phase of the proceeding for October 1, 2024.

Subsequently, on September 13, 2024, the OCA filed Dr. Vatter's testimony (Hearing Exhibit 6). The New Hampshire Department of Energy (DOE), through its counsel, also filed a Position Statement regarding the matters connected to the Unitil proposal on September 13, 2024.

On October 1, 2024, the hearing in this matter was held as scheduled, where representatives of Unitil, the DOE, and the OCA appeared. Mr. Pentz and Ms. McNamara provided additional oral testimony in support of the Company proposal at the October 1 hearing, and responded to Commission inquiries regarding same. Dr. Vatter also provided oral testimony at the October 1 hearing, and responded to Commission inquiries, in elaboration of the OCA's positions.

Dr. Vatter's testimony, Hearing Exhibit 6, available here:

<https://www.puc.nh.gov/Regulatory/Docketbk/2024/24-065/TESTIMONY/24-065-2024-09-13-OCA-TESTIMONY-VATTER.PDF> ranged over a series of technical recommendations centering on the OCA's interest in exploring the use of the futures market as a vehicle for Default Service procurements, the dangers of energy-price shocks feeding into electricity-market pricing outcomes, and hedging strategies in general. Dr. Vatter, in his oral testimony provided at the October 1 hearing, generally recommended a cautious, status-quo approach for the current Default Service procurement cycle for the Company.

In the Company's presentation of its proposals, Hearing Exhibit 5, and in its supporting oral testimony at the October 1 hearing, presented its methodologies for applying a 30 percent ISO-New England market-based procurement component for the small and medium customer groups.

In general, Unitil established in its proposal that the procurement methodology it would apply for the 30 percent small-medium customer group tranche would be the same as that approved in Order No. 26,793 for its 10 percent tranche; that is, the Company would primarily rely on the Real-Time ISO-New England electricity market to supply that component, with the remainder provided for by the usual Request For Proposals (RFPs)\requirements-contract process. Hearing Exhibit 5 at 1-2. For the Large Customer Group (Rate Class G1), Unitil proposed to continue its currently-existing procurement process, which used requirements-contracts RFPs to generate a monthly, variable rate keyed off of actual monthly ISO-New England prices, with a fixed "adder" assessed by the RFP winner(s) to accommodate risk premiums, administrative costs, and profit. *Id.* The Company also stated that it applied the proxy-price and reconciliation methodologies specified by Orders Nos. 26,793 and 27,020. *Id.*

At the October 1 hearing, the Company re-stated its request that the Commission approve its proposals presented here, as in conformity with the requirements of Order No. 27,020. *See* Transcript of October 1, 2024 Public Hearing (Tr.) at 79-81. Mr. Pentz also expressed his reservations regarding the use of futures contracts in the way recommended by Dr. Vatter, with Mr. Pentz noting that any potential involvement in the futures (or, derivatives) markets for the ISO-New England load area by the Company could involve "many complexities," require "a significant amount of attention" and high administrative costs, and pose pricing risks to Unitil's customers. Mr. Pentz also noted that Unitil did not possess the electricity-markets trading personnel resources of Liberty or Eversource at present, needed to implement such an approach. Tr. at 9-12. Ms. McNamara, in responding to a technical point made by DOE in its September 13 position statement, noted that while the Company did, in the context of Lead-Lag considerations, expect a significant expansion in Lag as

a result of the implementation of the expanded market-based procurement tranche (an increase by a factor of 2), Ms. McNamara expressed the Company's expectation that the financial impact of this change would be manageable, though requiring monitoring. Tr. at 15-17.

The DOE, in a statement made at hearing, stated that it did not oppose Commission approval of the Unitil proposal, though it encouraged the Commission to "proceed with caution" with the market-based procurement strategy. The DOE also stated that it was supportive of the Company's reliance on the Real-Time ISO-New England energy market, insofar as it could provide a valuable comparison point with the other investor-owned electric utilities in the State (Liberty and Eversource), which have greater reliance on the Day-Ahead market for their own market-based procurements. Tr. at 76-77.

The OCA stated at hearing that, in OCA's view, further increases in the market-based procurement tranche size would not be advisable, pending a further review of outcomes. The OCA did, like the DOE, express a view that the use of the Real-Time market by Unitil could provide useful comparison data. The OCA also urged that the Commission give careful consideration to Dr. Vatter's proposals, especially the use of futures-markets procurements as an alternative to ISO-New England market procurements. Tr. at 77-78.

II. COMMISSION ANALYSIS

In assessing the Unitil proposal to modify its Default Service procurement process, the Commission is required to consider whether the proposal is consistent with: the principles elucidated in the relevant prior Commission orders (*see* Order No. 24,511 (September 9, 2005), Order No. 24,921 (December 12, 2008), Order No. 25,397 (July 31, 2012), Order No. 26,679 (September 9, 2022), Order No. 26,694 (September

20, 2022), Order No. 26,910 (December 8, 2023); Order No. 26,973 (March 15, 2024); and Order No. 27,020 (June 14, 2024)); the Electric Utility Restructuring Policy Principles governing default service in RSA 374-F:3, V(c)-(e); and the goal of cost-effectively meeting the state's energy needs and reducing the burden on ratepayers, in RSA 378:37 and RSA 12-P:7-a. The Commission must also assess whether the resulting rates would be just and reasonable as required by RSA 374:2, RSA 378:5, and RSA 378:7.

Having reviewed the Unitil proposal and the supporting data presented by Unitil, including its monthly pricing-comparison reports filed in this docket, we find that the proposal meets the above-listed standards, and will produce market-based, just and reasonable, and cost-effective rates for Unitil residential and C&I Default Service customers. Given the ongoing broad differential between the ISO-New England prevailing monthly market prices, including all components, and the requirements-contract prices being paid by Unitil, we expect that ongoing expansion of the ISO-New England market-based procurement component will offer savings for Unitil default service customers, and offer a valuable process for an expanded market-based procurement approach. We also expect that this proposal will support more competitive energy market outcomes in line with the Restructuring Policy Principles incorporated by statute. We find that Unitil's market-based rate projections, including proxy price development, and reconciliation structure embedded in its proposal are also just and reasonable, and will produce rates that are predictable, transparent, and reflective of energy market conditions.

We therefore APPROVE the Unitil proposal, for implementation in the February 1, 2025 through July 31, 2025 Default Service rate period. We would expect that any necessary Tariff or other modifications would be presented to the Commission, in final

form, by Unitil as part of its upcoming (December 2024) Default Service rate proposal for the February 2025-July 2025 rate period. We also hereby ORDER Unitil to continue filing its monthly summary comparison of the monthly average ISO-New England market electricity prices with the power supply charge components for Unitil's small and medium customer groups, pursuant to the current timing and format for these reports, in the instant DE 24-065 docket. In addition, we ORDER that Unitil, beginning with the month of October 2024, file in this instant DE 24-065 docket, by the 30th day of the following month, a comparison table with the actual large customer group (G1) Default Service rates paid by Unitil's C&I customers, with ISO-New England monthly average electricity prices, to aid in the Commission's assessment of Unitil's large customer group Default Service procurement strategy.

The Commission remains interested in the technical issues raised by the DOE, and by the OCA in Dr. Vatter's Testimony. There is always scope for improvement of the Default Service process for all of New Hampshire's investor-owned electric utilities, which has been the animating principle for the Commission in recent years-- to provide the best pricing and service outcomes for residential and C&I Default Service customers. To that end, we expect that a further phase of this proceeding will be launched this winter, with an expected hearing date of March 2025, to further consider the technical proposals presented by the Company, the DOE, and the OCA in this proceeding. These would include the potential implementation of hedging strategies; application of more-frequent reconciliations for Default Service; expansion of small, medium, and large customer group market-based procurement; and an assessment of the performance of Unitil's large customer group (G1) procurement strategy, compared with market outcomes.

Based upon the foregoing, it is hereby

ORDERED, that the Unitil proposal for implementation of a 30 percent ISO-New England market-based supply tranche for its small and medium Default Service customer groups, is APPROVED, for implementation in the February 1, 2024 to July 31, 2025 Default Service period, with modified Tariff pages and any other necessary modifications to be filed as part of Unitil's upcoming Default Service rate proposal for that rate period; and it is

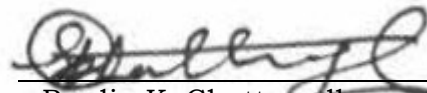
FURTHER ORDERED, that Unitil, for this upcoming default service rate period, is to continue to file in this docket, by the 30th day of the following month, a summary comparison of the monthly average ISO-New England market electricity prices with the power supply charge components for Unitil's small and medium customer groups; and it is

FURTHER ORDERED, that Unitil, beginning for the month of October 2024, is to file in this docket, by the 30th day of the following month, a summary comparison of the monthly average ISO-New England market electricity prices with the actual Default Service rate charged to its large customer group (G1), including all adders.

By order of the Public Utilities Commission of New Hampshire this seventh day of October, 2024.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner

Service List - Docket Related

Docket#: 24-065

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