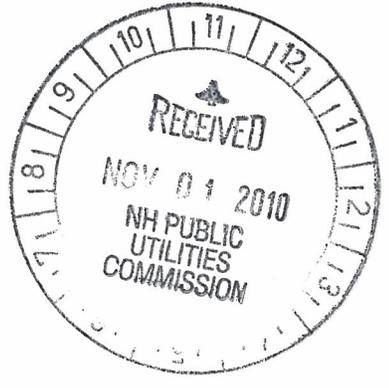


DE10-292



October 29, 2010



**BY OVERNIGHT MAIL and E-MAIL**

Ms. Debra A. Howland  
Executive Director and Secretary  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, NH 03301-2429

Re: DE 10-\_\_\_\_ Unitil Energy Systems, Inc

Tariff Filing: Step Adjustment for Distributed Energy Resources  
Investment in Exeter SAU 16 project

Dear Director Howland:

Enclosed for filing on behalf of Unitil Energy Systems, Inc. ("UES" or "Company") are an original and six (6) copies of the following tariffs<sup>1</sup> proposed to be applied on service rendered on and after January 1, 2011.

- Third Revised Page 48, Domestic Delivery Service, Schedule D
- Second Revised Page 51, Third Revised Pages 52-53, General Delivery Service, Schedule G
- Second Revised Page 59, Outdoor Lighting Service, Schedule OL
- Supplement No. 2, Third Revised Pages 2-3, Summary of Delivery Service Rates
- Supplement No. 2, Fourth Revised Page 4, Summary of Low-Income Electric Assistance Program Discounts

Pursuant to RSA 374-G and Commission Order No. 25,111 in DE 09-137 dated June 11, 2010, UES is authorized to petition the Commission on an annual basis for a step adjustment to its base distribution rates to collect the actual costs associated with authorized Distributed Energy Resources ("DER") projects. In that same Order, the Commission found that UES's investment in the Exeter SAU 16 project was in the public interest and was approved. With this filing, UES proposes implementation of a step adjustment to recover the costs of this project. Please note that UES has a pending rate case (Docket DE 10-055) which is expected to be concluded in early 2011. The distribution rates proposed in that proceeding do not include the SAU 16 project costs. Accordingly, UES's proposed DER Exeter SAU 16 project step adjustment will need to be added to the final distribution rates approved in DE 10-055.

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<sup>1</sup> Tariff pages 48, 51-53, and 59 do not include the temporary rate surcharge of \$0.00438 per kWh since that charge is contained in Supplement No. 2, Page 1. Therefore the rates shown on these tariff pages do not match the rates shown on Supplement No. 2, pages 2 and 3.

In support of these proposed tariff changes and as described below, the filing includes schedules showing the calculation of the step adjustment for distribution rates, derivation of the revenue requirement, and bill impacts associated with this rate change. UES is prepared to provide any additional details as may be required.

The Customer Agreement for the project has also been included with this filing and that Agreement is fully consistent with the provisions of the Commission approval. In summary, the agreement provides that UES will retain for the benefit of its customers all of the Renewable Energy Certificates<sup>2</sup> from the Solar PV operations and all of the capacity value associated with the generators. In addition, the microturbine is dispatchable by the Company.

The calculation of the proposed step adjustment, effective January 1, 2011, is provided on Attachment 1. The step adjustment is based on equal percentage rate impacts for all customer classes, which is the same methodology that was used for UES's step adjustments in DE 05-178, UES's last rate case. On Page 2 of 2, in column 4, the step adjustment percentage to be applied to all customer classes is calculated by dividing the final step adjustment revenue amount of \$76,181 by the expected book revenue of \$39,626,528. The calculation of expected book revenue is based on the test year billing determinants in DE 05-178. This results in a step adjustment percentage of 0.19% to distribution revenue. This percentage is then applied to each class' distribution revenue to compute the amount of step adjustment revenue for that class (column 5). In column 6, rates are designed to recover the step adjustment revenue amount. Similar to the rate design for the step adjustments approved in DE 05-178, UES applied the increase to its energy and demand based charges. Customer charges were not changed so that customer charge levels previously approved were not disturbed. Column 7 is a revenue proof showing that the rate adjustments generate the correct amount. Column 8 sums the distribution revenue and the step adjustment revenue amount. Column 9 provides the final distribution rates, including the step adjustment.

Attachment 2, which consists of 5 pages, provides support for the calculation of the step adjustment revenue amount. The presentation is based upon the methodology previously utilized in DE 05-178 with assumptions and data consistent with the Commission Order in DE 09-137. Page 1 of Attachment 2 summarizes the revenue requirement calculation. The calculation begins with the project investment, the details of which are shown on Page 2, and the investment is then multiplied by the pre-tax weighted average cost of capital, the derivation of which is shown on Page 3. The revenue requirement also includes a provision for the amortization of the investment, also derived on

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<sup>2</sup> In its October 28, 2010 Secretarial Letter, the Commission certified that the Exeter High School facility is a Class II renewable energy source effective August 31, 2010 and is eligible to be issued New Hampshire Class II renewable energy certificates.

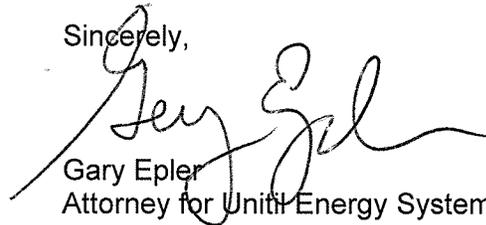
Debra A. Howland, Executive Director  
DE 10-\_\_\_\_ UES DER Step Adjustment Tariff  
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Page 2, the recovery of the start-up consulting costs as shown on Page 4 over a five year amortization period, and the recovery of lost based revenues as calculated on Page 5.

Attachment 3 provides bill impacts associated with this rate change. As shown on page 1, a residential customer using 600 kWh will see an increase of \$0.04 per month or 0.05% of the total bill. Bill impacts for other rate classes are similar.

Please do not hesitate to contact me if you have any questions concerning this filing.

Sincerely,



Gary Epler  
Attorney for Unitil Energy Systems, Inc.

Enclosures

cc: Suzanne Amidon, Staff Attorney, NHPUC  
Meredith Hatfield, Consumer Advocate (2 copies)  
Gerald Eaton, Esq., PSNH