

Exhibit GRG-3
UES Reply Comments in DE 06-061

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November 3, 2006

BY HAND

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

Re: Unitil Energy Systems, Inc: DE 06-061; Investigation into Federal
Standards Pursuant to the Energy Policy Act of 2005

Dear Ms. Howland:

On behalf of Unitil Energy Systems, Inc. ("UES"), enclosed please find an original and seven (7) copies of UES' Reply Comments in the above-referenced proceeding.

Thank you for your assistance with this matter.

Sincerely yours,


Meabh Purcell

Enclosures

Cc: Service List (via email)
BS112116

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

INVESTIGATION INTO)
FEDERAL STANDARDS)
PURSUANT TO)
THE ENERGY POLICY)
ACT OF 2005)

DE 06-061

REPLY COMMENTS OF UNITIL ENERGY SYSTEMS, INC.

Pursuant to the procedural schedule adopted in the above-referenced proceeding, Unitil Energy Systems, Inc. ("UES") is pleased to submit these comments and to respond to certain issues raised by some of the other Parties in their written comments on the federal standards regarding Time Based Metering and Communications (Section 1251) and Interconnection (Section 1254).

A. Time-Based Metering and Communication

1. Threshold Questions

Like UES, both Granite State Electric Company, d/b/a National Grid ("National Grid") and Public Service Company of New Hampshire ("PSNH") state that in Docket DE 03-013, the Commission has already considered advanced metering and that each utility has taken steps to make advanced metering available to their customers. National Grid Comments, p. 2, PSNH Comments, p. 2. UES agrees with National Grid that to the extent the Commission has already taken steps in Docket DE 03-013 to investigate standards that are comparable to the federal standard, the Commission is not required to take any further action to consider or implement Time-Based Metering at this time. National Grid Comments, p.2.

UES also agrees with National Grid that any change to the current method of procuring Default Service to provide for time-based commodity rates should be based upon "a reasonable expectation that the change will result in net benefits for customers." National Grid Comments, p. 8. As UES stated in its initial comments, as a threshold issue, the Commission should define the role of a distribution-only utility, such as UES and National Grid, with respect to providing default service. UES Comments, pp. 3-4.

As UES explained in its response to Staff Request 5, the critical difference between a vertically-integrated utility and a distribution-only utility must be addressed in this case as a threshold matter. A major objective of time-based metering and rates is to produce efficiencies by providing the opportunity to better align retail prices for energy with the wholesale price and cost of energy at different times. A vertically integrated utility, which is responsible for the ownership of generation and/or the management of a power supply portfolio, has both the ability and incentive to achieve such efficiencies by providing retail prices which match their wholesale costs at different times of the day. A distribution-only utility, like UES, is in a very different situation and only supplies energy as a provider of last resort. Consistent with the Commission's policies for default service, UES purchases that energy from the wholesale market at fixed, rather than time-differentiated, prices, and has neither the ability nor the incentive to capture efficiencies by better aligning retail prices with the wholesale costs of energy. A distribution-only utility can, under appropriate Commission policies, seek time-differentiated pricing from the wholesale market, but it is uncertain whether the wholesale market would, in fact, provide such wholesale products in response to a request for default service supply.

2. Smart Meters for Large Customers

Walmart Stores East L.P. recommends a Real Time Pricing ("RTP") structure for each customer class, for which they would need smart meters. According to Walmart, "RTP

provides the transparency necessary for promoting a competitive energy market and furthering the Commission's goals of allowing customers to see and pay prices that more accurately reflect the cost of providing them service." Walmart Comments, pp. 2, 6-7. Walmart also states that the utilities should not be able to reconcile RTP after the fact, leaving unresolved the issue of how any over/under-collection should be recovered by the utility. Although there may be some merit to Walmart's suggestion for an RTP option for large customers, UES notes that the option of an RTP structure is available to customers from the competitive market. In fact, two of UES' largest customers are already on an RTP structure, through the New England ISO. The Commission should address the appropriateness of a distribution-only utility that provides default service as a provider of last resort offering RTP service.

Walmart also suggests that customers should have the option of installing their own smart meters in the event the utilities are either unable or "too slow" in procuring a smart meter for a customer. Walmart comments, p. 3. UES submits that Walmart's proposal, and the issue of opening up metering to competition, is beyond the scope of this proceeding, and requests clarification on this point by the Commission.

Walmart also proposes a time-based pricing structure in which the fixed costs of the system are charged on a level of service basis, instead of the traditional customer class-based rate structure, and in which the variable costs are charged on a real-time pricing basis. Response to PSNH 9. UES submits that the design of non-supply rates is beyond the scope of this proceeding.

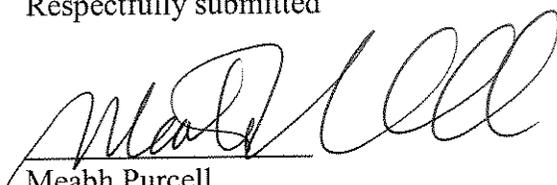
B. Interconnection

UES supports National Grid's suggestion to adopt the interconnection policy approved by the Massachusetts Department of Telecommunications and Energy in D.T.E. 02-38 for use in New Hampshire for large interconnections.

C. Conclusion

There are several other issues raised in the Parties' comments and in the discovery responses that UES looks forward to exploring in technical sessions over the next several weeks. In addition, while UES believes it would be premature for the Commission to implement the pilot program proposed by Messrs. Aalto and Morrison, UES welcomes the opportunity to review the details of the pilot proposal, and the attendant cost issues, in this proceeding.

Respectfully submitted



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