

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 09-115

UNITIL ENERGY SYSTEMS, INC.

Annual Stranded Cost Recovery and External Delivery Charge
Reconciliation and Rate Filing

Order Following Hearing

ORDER NO. 24,993

July 24, 2009

APPEARANCES: Gary Epler, Esq., on behalf of Unitil Energy Systems, Inc. and Lynn Fabrizio, Esq., on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On June 17, 2009, Unitil Energy Systems, Inc. (Unitil) filed its annual reconciliation and calculations of adjustable rate mechanisms established pursuant to tariffs approved in *Concord Electric Company*, Order No. 24,072 (Oct. 25, 2002), 87 NH PUC 694. With its filing, Unitil submitted the testimonies and related schedules of Senior Regulatory Analyst Linda S. McNamara and Senior Energy Trader Francis X. Wells, both of Unitil Service Corp., an affiliate that provides management and administrative services to Unitil. Unitil proposes to make the requested rate changes effective August 1, 2009, on a service-rendered basis.

The rates subject to approval in this proceeding include the stranded cost charge (SCC) and external delivery charge (EDC). The SCC and EDC were approved in *Concord Electric Company*, as appropriate rate adjustment mechanisms to enable Unitil to recover stranded costs resulting from long-term purchase power contracts and to recoup costs associated with transmission services. *See Id.* at 709-710. The SCC is calculated by customer class, while the EDC is a uniform charge applied to all customer classes. Each year Unitil files with the

Commission an annual reconciliation with proposed rate adjustments to reflect updated costs that the SCC and EDC are designed to recover. In prior years, the reconciliation period was from May 1 through April 30 of the following year. In *Unitil Energy Systems, Inc.*, Order No. 24,889 (August 29, 2008), the Commission directed Unitil to work with Staff to consider alternative timeframes for future SCC and EDC reconciliation filings to allow for the inclusion of updated transmission-related costs that are effective June 1 of each year. Accordingly, in the instant filing, Unitil proposes a revised reconciliation timeframe of August 1 through July 31 to permit greater use of actual costs in its prospective recovery calculations. In its filing, Unitil proposes decreases in both the SCC and the EDC.

On July 14, 2009, Unitil filed an adjustment to its EDC filing. In its initial filing, Unitil had estimated that there would be no change in the Northeast Utilities' (NU) network service revenue requirement and, as a result, no change in Unitil's third party transmission providers expenses. Subsequent to the June 17 filing date, NU submitted to Unitil a significantly lower revenue requirement calculation for the coming year. Unitil accordingly revised its EDC cost estimates to reflect lower expected expenses. The revised filing proposes a decrease in the EDC.

In *Unitil Energy Systems, Inc.*, Order No. 24,980 (June 19, 2009), the Commission approved Unitil's proposed G1¹ default service rates for effect August 1, 2009. According to Unitil, with the Commission's approval of the instant filing for effect August 1, 2009, average bills for customers taking default service will decrease by 3.3 percent for residential customers; 3.4 percent for G2 service class customers; and 5.8 percent for G1 service class customers. Average bills for outdoor lighting customers will decrease 2.0 percent.

¹ G1 and G2 refer to commercial and industrial customer classes, differentiated by volume of energy usage.

On June 26, 2009, the Commission issued an order of notice scheduling a hearing for July 16, 2009. The hearing was held as scheduled. The Office of Consumer Advocate did not participate in this proceeding, except as an observer at the hearing.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil Energy Systems, Inc.

SCC Calculation

According to Unitil, the proposed decreases in the SCC are a result of lower forecasted costs, due primarily to the expiration of certain residual contract obligations. Unitil explained that the stranded costs to be recouped through the SCC consist of certain obligations stemming from an agreement, approved by the Commission in *Concord Electric Company, supra*, and by the Federal Energy Regulatory Commission (FERC), to restructure Unitil's power supply and implement retail choice. Those obligations include: (1) portfolio sales charges, (2) the residual contract obligations, (3) Hydro-Quebec support payments, and (4) true-ups from prior periods. Each year Unitil files a reconciliation of the SCC charge based on past actual costs and future estimated costs.

In its filing, Unitil proposes the following adjusted stranded cost charges: (1) a uniform rate of \$0.00495 per kilowatt-hour (kWh) applied to residential, G2 kWh meter, G2 general service quick recovery water heating, G2 space heating, and G2 and residential controlled off-peak water heating, and outdoor lighting customer classes; (2) a combination rate of \$0.00167 per kWh and \$0.87 per kilowatt (kW) for G2 customers; and (3) a combination rate of \$0.00147 per kWh and \$1.24 per kilovolt-ampere (kVA) for G1 customers. Unitil testified that the proposed uniform per kWh rate is a decrease of \$0.00387 from the rate currently in effect.

In accordance with its tariff, Unitil calculated the proposed stranded cost charges by adding the prior period under-recovery through July 31, 2009, plus the forecast of costs for the period August 2009 through July 2010, including interest, and dividing that sum by forecasted kWh sales for August 2009 through July 2010. Unitil noted that the resulting uniform per kWh rate is applied equally to all customer classes except the G1 and G2 classes.

Unitil explained that it employs a rate design method for G1 and G2 customers based on both demand and energy components. According to Unitil, in order to determine the energy based SCC for the G1 and G2 classes in past filings, it has subtracted the calculated demand revenue from the total revenue calculated based on a uniform kWh charge. Ms. McNamara testified, however, that applying that method in this filing would have resulted in an over-collection of the revenue required from the G1 and G2 classes due to the large decrease in the stranded costs to be recovered. To avoid negative energy charges and to ensure that bill impacts for customers in these classes are not affected by load factor, Unitil used the ratio of demand and energy revenue under the current rates to develop the demand and energy components of the SCC for G1 and G2 customer classes.

Ms. McNamara testified that the apportionment of costs to be recouped from G1 and G2 customers in the instant filing is consistent with past practice as approved in prior filings.² Following this method, Unitil calculated a demand-based SCC component of \$0.87 per kW and an energy-based component of \$0.00167 per kWh for the G2 class. Similarly, Unitil calculated a demand-based SCC component of \$1.24 per kVA and an energy-based component of \$0.00147 per kWh for the G1 class.

² This same change in calculation method was approved in *Unitil Energy Systems, Inc.*, Order 24,619 (April 28, 2006), 91 NH PUC 199, when the stranded costs to be recovered similarly decreased by a large amount from the prior year.

Unitil observed at hearing that it expects future stranded cost estimates to be substantially reduced. According to Unitil, when its existing agreement with Mirant expires in October 2010, the only costs to be recovered thereafter through the SCC will be the cost-of-service Hydro-Quebec support payments, which are offset by short term sales of the capacity and transmission rights Unitil acquires in return for those payments.

EDC Calculation

The proposed decrease in the EDC is the result of a lower than expected revenue requirement for NU, despite increased regional transmission costs. Unitil explained that the EDC is the approved mechanism by which it recovers costs associated with providing transmission services outside its system and other costs incurred for energy and transmission related services. Unitil initially proposed an EDC of \$0.01591 per kWh applicable to all classes, an increase of \$0.00067 per kWh compared to the rate currently in effect.³ In its revised filing, Unitil proposes an EDC of \$0.01425 per kWh, a decrease of \$0.00099 per kWh from the current rate. According to Unitil, the total external delivery costs for the fifteen-month projection period⁴ (May 2009 through July 2010) were estimated to be \$4.4 million higher than for the preceding fifteen-month period. With NU's revised revenue requirement estimate, however, the increase in Unitil's total external delivery costs is now projected to be only \$2.2 million. Mr. Wells testified at hearing that NU had reported a decrease of approximately \$60 million in its transmission-related revenue requirement, of which Unitil is liable for approximately 3 percent. Accordingly, Unitil's recalculated external delivery expenses result in a reduced EDC.

³ In *Unitil Energy Systems, Inc.*, Order No. 24,851 (April 23, 2008), the Commission approved an EDC of \$0.01131 per kWh. Because of an unexpected \$3.3 million increase in projected costs, UES filed for an adjustment to its EDC rate on July 9, 2008 (Docket No. 08-092). On August 29, 2008, the Commission approved in *Unitil Energy Systems, Inc.*, Order No. 24,889 (August 29, 2008) a rate of \$0.01524 per kWh effective September 1, 2008 through April 30, 2009.

⁴ The fifteen-month period was used for comparison purposes because the filing will now encompass the twelve months from August to the next July instead of the prior periods of May to April. The current period is being extended to July 31 to accomplish this change in periods.

B. Staff

After obtaining clarification of a number of issues during hearing, Staff recommended the Commission approve Unitil's reconciliation and rate adjustment filing. Staff also suggested the company use actual expenses to the extent available in future filings to provide more meaningful support when comparing proposed cost estimates and recovery charges to costs incurred during the prior period.

III. COMMISSION ANALYSIS

Based on our review of Unitil's filings and evidence presented at hearing, we conclude that the company has appropriately calculated changes to the adjustable rate mechanisms, SCC and EDC, in a manner consistent with the principles set forth in Order No. 24,072. Accordingly, we find Unitil's stranded cost and external delivery charges to be just and reasonable. We, therefore, approve those charges for effect August 1, 2009, pursuant to RSA 378:7.

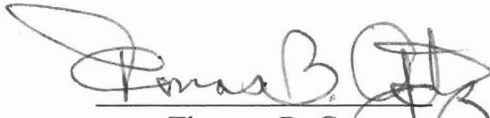
Based upon the foregoing, it is hereby

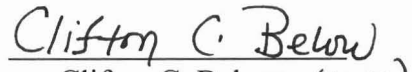
ORDERED, that the reconciliation and rate filing of Unitil Energy Systems, Inc. is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc. file a compliance filing with revised tariff pages with the Commission within 30 days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this twenty-fourth day of

July, 2009.


Thomas B. Getz
Chairman


Clifton C. Below (KNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director

