

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 10-172

UNITIL ENERGY SYSTEMS, INC.

Annual Reconciliation and Rate Filing

Order Approving Reconciliation and Resulting Rates

ORDER NO. 25,133

July 30, 2010

APPEARANCES: Gary Epler, Esq., for Unitil Energy Systems, Inc. and Suzanne G. Amidon, Esq., for Staff of the Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On June 18, 2010, Unitil Energy Systems, Inc. (UES or Company) filed its annual reconciliation of adjustable rate mechanisms established pursuant to its tariffs. With its filing, UES 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 UES. The tariffs governing the adjustable rate mechanisms were approved in Docket No. DE 01-247, *Concord Electric Company*, Order No. 24,072 (October 25, 2002) 87 NH PUC 694. These adjustable rate mechanisms include UES' stranded cost charge (SCC) and external delivery charge (EDC). UES proposed the tariff changes for effect with service rendered on and after August 1, 2010.

In its initial filing, the Company said the net changes of the proposed SCC and EDC adjustments would be a reduction in average class bills. For residential customers and General Service (G2) customers, the average bill would decrease by 1.1%, and for the large general

service (G1) customers, the average bill would decrease by 1.4%. Average outdoor lighting customers' bills would decrease by about 0.6%. For G1 customers, who would also see a change in default energy service rates on August 1, 2010, bills would decrease on average by about 4.8%.

An Order of Notice was issued on June 22, 2010, scheduling a hearing on July 6, 2010. At the hearing, UES introduced revised costs for the EDC which reduced the decrease in rates presented with the initial rate filing.

II. POSITIONS OF THE PARTIES

A. UNITIL ENERGY SYSTEMS, INC.

In pre-filed testimony, UES testified that the SCC consists of contract release payments (CRPs) UES agreed to pay Unitil Power Corp (UPC). The Commission approved CRPs in Order No. 24,072 as a condition to UPC waiving certain contractual rights to take action against UES in connection with pre-existing power supply agreements. The CRPs include the following categories of costs: 1) the portfolio sales charge, 2) the residual contract obligations, 3) the Hydro-Quebec support payments, and 4) true-ups from prior periods.

According to the Company, the SCC is based on a uniform per kilowatt-hour (kWh) charge that is applied to each class according to the appropriate rate design. For residential customers, the proposed uniform per kWh SCC for effect on August 1, 2010 is \$0.00138 per kWh, a decrease from the current charge of \$0.00495 per kWh. In addition to the energy-based SCC, G2 and G1 class customers also pay a demand-based SCC. For these classes, UES used the ratio of demand and energy revenue under current rates to develop the demand and energy components of the SCC for effect August 1, 2010. Based on these calculations, the energy

component of the SCC will decrease from \$0.00147 to \$0.00041 per kWh for G1 customers, and the demand charge for such customers will decrease from \$1.24 per kilovolt-ampere (kVA) to \$0.34 per kVA. G2 customers will experience a reduction in the uniform SCC from \$0.00167 to \$0.00046 per kWh, and a decrease in demand charge from \$0.87 to \$0.24 per kW. UES said that the filing resulted in an average overall reduction of 2.5% in the SCC rate.

The Company said the reductions in the SCC rate reflect the November 1, 2010 discontinuance of CRPs associated with UPC's contract with Mirant Energy Trading, LLC. After October 2010, the SCC will only collect the revenues associated with the Hydro-Quebec support payments for the Hydro-Quebec Phase II transmission facilities. The facilities are part of a high-voltage direct-current interconnection between New England and Quebec. According to UES, Hydro-Quebec support payments will continue to be collected and trued-up through the SCC until November 2020. UES testified that the Hydro-Quebec support payments are not a known payment stream because they are based on the cost-of-service of the Hydro-Quebec Phase II transmission facilities, offset by the short-term sales of transmission rights and capacity rights UPC acquires in return for the Hydro-Quebec support payments and, therefore, are trued up to reflect the prior period expense and revenue. See Schedule FXW-4. UES testified that the CRP estimates in the current filing reflect no true ups from prior period.

The EDC collects UES' costs associated with 1) third party transmission providers (Northeast Utilities (NU) Network Integration Transmission Service and Wholesale Distribution); 2) regional transmission and operating entities; 3) transmission-based assessments and fees; 4) load estimation and reporting system costs; 5) data and information services; 6) legal

costs; 7) consulting outside service charges; 8) administrative costs associated with the renewable source option program; and 9) administrative service charges.

UES takes Network Integration Transmission Service from NU pursuant to Schedule 21-NU of the Independent System Operator (ISO)-New England Transmission, Markets and Services Tariff (FERC Electric Tariff No. 3) (ISO Tariff). The regional transmission and operating component of the EDC consists of all charges from the ISO-New England and is primarily comprised of regional network service taken pursuant to the ISO Tariff. Other costs billed by the ISO to UES include ancillary services allocated to transmission customers such as VAR support, dispatch service and black-start capability. The Wholesale Distribution component consists of distribution delivery service charges that compensate Public Service Company of New Hampshire, an NU subsidiary, for the wheeling of power from the NU transmission system to UES' distribution system over certain facilities, which are classified as distribution facilities for accounting purposes and therefore are not included in the NU transmission system rate base.

At hearing, UES presented revised calculations of the EDC, which reflected an increased estimate of expense associated with the Network Integration Transmission Service. UES received the updated information from NU on July 2, 2010. According to UES, the increased expenses reflected expected transmission investment that NU plans or estimates for recovery beginning January 1, 2011. In its initial filing, UES calculated the EDC for effect August 1, 2010 to be \$0.01630 per kWh. The revised filing resulted in an EDC rate of \$0.01688 per kWh, or an increase of \$0.0058 per kWh. For residential customers using 500 kWh per month, the

increase would be \$0.29 per month. The Company said the EDC component of the reconciling mechanisms increased by 1.8%.

UES said that anticipated rate impacts of the SCC and the revised EDC will result in average bills for residential and G2 customers decreasing by 0.7%, and average bills for G1 customers decreasing by 0.9%. With the change in the G1 default energy service rate also scheduled for August 1, 2010, G1 customers would experience average bill decreases of 4.3%. Outdoor lighting customers' bills would decrease on average by 0.4%.

In response to questions about the timing of the revisions to its filing, UES explained that it tried to get the information earlier from NU, and in lieu of that had estimated the rates for the payment period August 2010 through July 2011. UES said that, because NU was able to provide them with their calculation of the Network Integration Transmission Service expense, it was important to include these costs in the rate. In the Company's experience, the difference between estimates and charges can be dramatic and using actual costs avoids a large true-up of costs from one billing period in the subsequent year's rates.

B. Commission Staff

Staff said that it did not oppose the Company's request for SCC and EDC rate changes for effect on August 1, 2010.

III. COMMISSION ANALYSIS

Based on our review of UES' filings and evidence presented at hearing, we conclude that the Company has 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 the

stranded cost and external delivery charges to be just and reasonable. The charges are approved for effect August 1, 2010, pursuant to RSA 378:7.


Based upon the foregoing, it is hereby

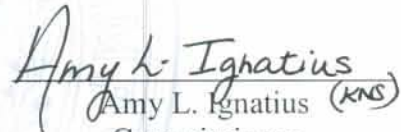
ORDERED, that the reconciliation and rate filing of Unitil Energy Systems, Inc. as modified at the hearing is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc. file a compliance filing pursuant to Puc 1603 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 thirtieth day of July, 2010.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius (KNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director