

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 11-028

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Default Service Solicitation and
Resulting Rates for Large Commercial and Industrial Customers**

Order Approving Solicitation, Bid Evaluations and Resulting Rates

ORDER NO. 25,236

June 16, 2011

Appearances: Gary M. Epler, Esq., on behalf of Unitil Energy Systems, Inc.; and Suzanne G. Amidon, Esq., on behalf of the Staff of the Public Utilities Commission.

I. BACKGROUND

On June 10, 2011, Unitil Energy Systems, Inc. (UES or Company) filed a petition requesting approval of its solicitation and procurement of default service for its large commercial and industrial (G1) customers for the three-month period August 1, 2011 through October 31, 2011, and of the resulting default service rates. In support of its petition, UES filed the testimony of Robert S. Furino and Linda S. McNamara, a redacted bid evaluation report (Schedule RSF-1), a copy of the request for proposals (RFP) for default service (Schedule RSF-2) and proposed tariffs. With its petition, UES also included its quarterly customer migration report and a motion for confidential treatment of certain information in the filing. UES stated that with the proposed August 2011 energy service rates, the overall bill¹ impacts for G1 customers are increases ranging from 3.2% to 4.0% compared to May 2011 bills.

¹ UES bills include charges for distribution service, external delivery service, stranded costs, storm recovery adjustment, system benefits and default service.

UES filed the petition pursuant to the terms of the settlement agreement approved by the Commission in *Unitil Energy Systems, Inc.*, Order No. 24,511 (September 9, 2005) 90 NH PUC 378. Pursuant to the terms of that agreement, UES solicits default service supply for its G1 customers on a quarterly basis in three-month blocks, and establishes fixed monthly prices that vary from month to month.

UES issued the RFP on May 10, 2011. Suppliers submitted indicative bids to UES on May 31 and final bids were received on June 7. On June 7 UES selected Hess Corporation, Inc. (Hess) to provide G1 default service power supply for the three-month period August 1 through October 31, 2011. UES stated that it followed the solicitation and bid evaluation process set forth in the settlement agreement and that its analysis of the bids and choice of suppliers is reasonable. On June 10, 2011, the Commission issued a secretarial letter scheduling a hearing for June 15, 2011, which was held as noticed.

II. POSITIONS OF THE PARTIES

A. Unitil Energy Systems, Inc.

UES stated that, consistent with the 2005 settlement agreement, it conducted an open solicitation process, actively sought interest among potential suppliers, and provided access to sufficient information to enable potential suppliers to assess the risks and obligations associated with providing the services sought. UES reported that it achieved market notification of the RFP by electronically notifying all members of the New England Power Pool Markets Committee. UES affirmed that it also announced the issuance of the RFP to a list of power suppliers and other entities such as distribution companies, consultants, brokers, and members of public

agencies that had previously expressed interest in receiving notices of solicitations. In addition, UES issued a media advisory to the power markets trade press announcing the RFP.

UES stated that it provided potential bidders with appropriate and accessible information in order to gain the greatest level of market interest. According to its filing, UES' historic hourly load, historic monthly retail sales and customer counts, large customer concentration data and the evaluation loads, which are the estimated monthly volumes that UES would use to weight bids in terms of price, were made available to potential bidders via UES' web site. Consistent with Order No. 24,921 (December 12, 2008) in Docket No. DE 08-015, UES' 2008 default service proceeding, UES solicited only all-inclusive energy and capacity bids.

According to UES, it did not discriminate in favor of or against any individual potential supplier that expressed interest in the solicitation. UES said that it negotiated with all potential suppliers that submitted proposals in order to obtain the most favorable terms each supplier was willing to offer.

UES affirmed that it evaluated the indicative bids using both quantitative and qualitative criteria including price, creditworthiness, willingness to extend adequate credit to UES, ability to meet the terms of the RFP in a reliable manner, and willingness to enter into contractual terms acceptable to UES. To evaluate the bids, UES said it compared the pricing strips proposed by each of the bidders by calculating weighted average prices for each supply requirement using evaluation loads that were issued along with the RFP.

The Company testified that it determined that Hess offered the best overall value in terms of both price and non-price considerations for the supply requirements and selected it as the

winning bidder. On June 7, 2011, UES and Hess executed a Power Supply Agreement (PSA) for the power supply for G1 customers for the period August 1 through October 31, 2011.

To comply with RPS requirements for the August 1 through October 31, 2011 period, UES will need to provide Class I (new renewable resources) renewable energy certificates (RECs) for 2.0% of sales, Class II (solar resources) RECs for 0.08% of sales, Class III (existing biomass resources) RECs for 6.5% of sales, and Class IV (existing small hydro resources) RECs for 1.0% of sales. In developing the RPS adder, UES estimated the cost of Class I RECs at \$18.25, Class II RECs at \$50.00, Class III RECs at \$22.50, and Class IV RECs at \$26.00. UES derived the REC values based on broker quotes of current market prices and its recent purchases of 2010 vintage RECs. UES calculated the retail cost of RPS compliance for G1 customers to be \$0.00275 per kWh for August, September and October 2011

Pursuant to a settlement agreement approved by the Commission in Docket No. DE 09-009, UES' 2009 default service proceedings, UES plans to comply with the RPS requirements of RSA 362-F outside the default service procurement process by separately purchasing qualifying available RECs or by making alternative compliance payments as necessary. UES issued an RFP for 2010 RECs in May 2011 but received no responses to that RFP. UES said its REC RFP for 2011 compliance would be issued later in the year.

UES testified that the revised G1 retail rates, adjusted for reconciliation, working capital requirements, provision for uncollected accounts and internal company administrative costs, and the RPS adder, for each month in the period will be as follows:

Month	August 2011	September 2011	October 2011
\$ per kWh	\$0.07149	\$0.06665	\$0.06869
RPS adder (\$ per kWh)	\$0.00275	\$0.00275	\$0.00275
Total rate (\$ per kWh)	\$0.07424	\$0.06940	\$0.07144

The proposed default service costs produce a simple three-month average rate of \$0.07169 per kWh, which represents an increase of \$0.00412 per kWh, or approximately 6.1%, over the current simple three-month average rate of \$0.06757 per kWh for the G1 customers that remain on default service. UES said the increase reflects market rates. Based on the proposed August 2011 default service rate, the overall bill impact for G1 customers are increases ranging from 3.2% to 4.0% compared to the May 2011 default service rate.

In summary, UES requested that the Commission find that UES: (1) followed the solicitation process approved in Order No. 24,511, (2) conducted a reasonable analysis of the bids submitted, and (3) supplied a reasonable rationale for its choice of supplier. UES also asked the Commission to determine that, based on those findings, the power supply costs resulting from the solicitation are reasonable, subject to the ongoing obligation of UES to act prudently, according to law and in conformity with Commission orders. Finally, UES requested the Commission grant its motion for confidential treatment.

B. Commission Staff

Staff stated that it had reviewed the petition and determined that UES had complied with the settlement agreement approved by the Commission in Order No. 24,511 in conducting the bid solicitation process, evaluating the bids, and selecting the final bidder. Staff also said that the resulting rates are market based and recommended that the Commission approve the petition.

III. COMMISSION ANALYSIS

Regarding UES' analysis of the bids and its selection of the winning bidder, we find that UES substantially complied with the procedures approved in Order No. 24,511 for the G1 default service solicitation. We are satisfied that UES met the procedural requirements set forth in prior

orders and that the result of the bidding process is consistent with the requirement of RSA 374-F:3, V(c) that default service “be procured through the competitive market.” We also find that UES’ evaluation of the bids and selection of Hess was reasonable. The testimony of UES, together with its bid evaluation report, indicates that the bid prices reflect current market conditions.

Finally, we grant UES’ request for confidential treatment of information contained in Tab A to Schedule RSF-1, attached to Exhibit RSF-1 of the petition, which includes a brief narrative discussion of the bids received, a list of the suppliers who responded to the RFP, a pricing summary consisting of a comparison of all price bids, each bidder’s final pricing, a summary of each bidder’s financial security requirements of UES, a description of the financial security offered by each bidder, UES’ ranking of each bidder’s financial security, the contact list used by UES during the RFP process, confidential information contained in a June 10, 2011 email to Staff and the Office of Consumer Advocate, and the power supply agreement with Hess. This information is identical in type and nature to the information that has been accorded confidential treatment earlier in this proceeding and in prior proceedings. *See, e.g.* Order No. 25,206 (March 21, 2011) in the instant docket and Order No. 25,179 (December 17, 2010) in Docket No. DE 10-028, UES’ 2010 default service docket. There is a privacy interest at stake that would be invaded by disclosure of this information. While the public has an interest in the information underlying the default service rates paid by customers, the interest in confidentiality outweighs that of disclosure inasmuch as disclosing the information would likely hamper UES’s ability to engage suppliers in competitive bidding in the future, which would, in turn, make it more difficult to meet its supply needs at competitive prices and might thereby increase rates to

customers. As to the information in Schedule LSM-2, because that information will soon be publicly available through the FERC, we grant confidential treatment to that information only until February 1, 2012 as requested in the motion.

Based upon the foregoing, it is hereby

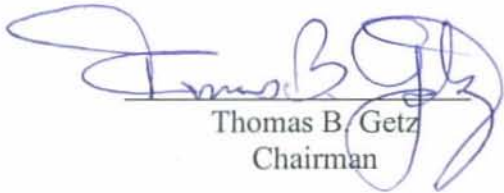
ORDERED, that the proposed purchase power agreement between Unitil Energy Systems, Inc. and Hess Corporation, Inc. to provide default service supply for UES' large commercial and industrial customers for the period from August 1, 2011 through October 31, 2011 is hereby APPROVED; and it is

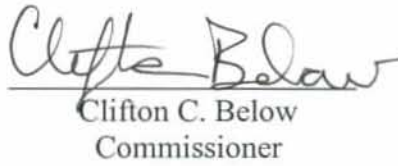
FURTHER ORDERED, that the power supply costs resulting from the solicitation are reasonable and, subject to the ongoing obligation of Unitil Energy Systems, Inc. to act prudently, according to law and in conformity with Commission orders, the amounts payable to the seller for power supply costs under the three-month transaction confirmation for the period from August 1, 2011 through October 31, 2011 are APPROVED; and it is

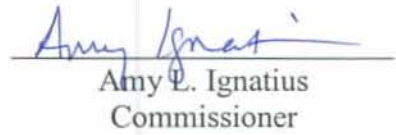
FURTHER ORDERED, that UES' motion for confidential treatment is GRANTED subject to the conditions discussed herein; and it is

FURTHER ORDERED, that UES shall file conforming tariffs within 30 days of the date of this Order, consistent with N.H. Code Admin. Rule Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this sixteenth day of
June, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

