STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 11-141

UNITIL ENERGY SYSTEMS, INC.

Annual Reconciliation and Rate Filing

Order Following Hearing

O R D E R N O. 25,257

July 29, 2011

APPEARANCES: Gary 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. PROCEDURAL BACKGROUND

On June 17, 2011, Unitil Energy Systems, Inc. (UES or Company) filed its annual reconciliation of adjustable rate mechanisms established pursuant to its tariffs. These adjustable rate mechanisms include UES' stranded cost charge (SCC) and external delivery charge (EDC). With its filing, UES submitted the testimonies and related schedules of Senior Regulatory Analyst Linda S. McNamara and Energy Analyst Todd M. Bohan, 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 01-246, *Concord Electric Company*, Order No. 24,072 (October 25, 2002) 87 NH PUC 694. UES proposed the tariff changes for effect with service rendered on and after August 1, 2011.

In its initial filing, UES said that the average class bill impacts for customers taking default service from UES are a decrease of approximately 2.3 percent for customers in the residential class and 2.4 percent for the general service (G2) class. According to UES, the large general service (G1) class was expected to experience an increase of about 0.8 percent due to a 3.0 percent decrease in the SCC and EDC, offset by a simultaneous 3.8 percent increase in default service rates approved by the Commission in Order No. 25,236 (June 16, 2011) in Docket No. DE 11-028, UES' default service proceeding for 2011.

On July 8, 2011, the Commission issued an order suspending the tariff and scheduling a hearing for July 26, 2011. The hearing was held as scheduled.

On July 20, 2011, UES revised its filing to reflect information it received from Northeast Utilities (NU). The revised filing stated that certain transmission-related revenue requirements decreased as of June 1, 2011, resulting in a decrease in third party transmission provider costs of approximately $271,000 and an associated reduction in working capital for the period August 1, 2011 through July 31, 2012 of approximately $3,000 as compared to the initial filing. The July 20 filing consisted of revised tables and schedules related to the initial pre-filed testimony.

II. POSITIONS OF THE PARTIES

A. Unitil Energy Systems, Inc.

In prefiled testimony, UES explained that the SCC consists of contract release payments (CRPs) UES agreed to pay Unitil Power Corp (UPC). The Commission approved the CRPs in 2002 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 are equal to the sum of 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. UES said that its portfolio sales charge would decrease from $1.2 million for the period August 2010 through July 2011 to zero for the period August 2011 through July 2012 because those payment obligations ceased on October 2010. According to UES, the cessation of the portfolio sales charge is the primary reason for the decline in SCC rates.

UES testified that 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 proposed for effect on August 1, 2011 is a credit of $0.00004 per kWh as compared to the current charge of $0.00138 per kWh, a reduction of $0.00142 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, 2011. Based on these calculations, the energy-based component of the SCC for G1 and G2 class customers will be a credit of $0.00001 per kWh as compared to the current SCC rates of $0.00041 per kWh for and $0.00046 per kWh, respectively. For G1 customers, the demand-based component of the SCC will decrease from $0.34 per kilovolt-ampere (kVA) to a credit of $0.01 per kVA. G2 customers will experience a reduction from the current demand-based rate of $0.24 per kW to a credit of 0.01 per kW. UES said that the rate decrease is primarily due to the expiration of the portfolio sales charge.

According to UES, with the end of the portfolio sales charge, the SCC will only recover costs associated with the Hydro-Quebec support payments for the Hydro-Quebec Phase II transmission facilities, a high-voltage direct-current interconnection between New England and Quebec. UES explained that the Hydro-Quebec support payments will continue to be paid and trued up through the SCC until November 2020, when the Hydro-Quebec obligations are scheduled to cease. 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 short-term sales of transmission and capacity rights that UPC acquires in return for the payments, and trued up to reflect the prior period expenses and revenue. UES said that the CPR estimates in the current filing reflect no true-ups from prior periods.

The Company testified that the EDC collects UES' costs associated with (1) third party transmission providers NU Network Integration Transmission Service and NU 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) outside consulting 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 primarily comprises 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.

UES explained that the revised filing of July 20, 2011 related only to the EDC rate. According to the Company, NU informed UES that the revenue requirement associated with NU Network Service had decreased. As a result, third party transmission provider costs were reduced by approximately $271,000, with an associated reduction in working capital of $3,000. UES proposed to include these additional reductions in EDC rates effective August 1, 2011.

According to the Company, for customers taking default service, the overall average class bill impacts resulting from the changes to the SCC and EDC (as revised on July 20, 2011) are as follows: for the residential class, a decrease of about 2.5%; for G2 class customers, bill decreases of about 2.6%; for G1 class customers, an average bill increase of about 0.6% (due to a 3.2% decrease in SCC and EDC charges and a 3.8% increase in energy charges scheduled for effect on August 1, 2011); and for outdoor lighting customers, average bill decreases of about 1.3%.

At hearing, UES acknowledged that the EDC included $12,173 in administrative costs for marketing and education activities related to the Company's renewable source option product. The Commission previously approved a partial settlement agreement related to the implementation of the renewable source option program in Docket No. DE 09-224.[1] The Company agreed that the partial settlement agreement in DE 09-224 provided that the administrative costs related to marketing and education would be recovered through distribution rates, but acknowledged that the transcript of the hearing in that proceeding in Docket No. DE 09-224 indicated that UES would recover those costs through the EDC. UES stated that it would

[1] *See* Order No. 25,102 (May 7, 2010).

file a report on the renewable source option in September and that the Company was willing to meet with Staff to discuss how these costs may be recovered in the future.

B. Commission Staff

Staff said that it had reviewed the filing and the revisions and determined that the Company had appropriately calculated the SCC and EDC and recommended that the Commission approve the petition for rates effective for service rendered on and after August 1, 2011, as revised by UES. Staff said that it did not object to the inclusion in the EDC of the costs associated with administering the renewable source option in this filing but requested that the Commission allow Staff to have further discussions with the Company regarding the appropriate future recovery of those costs, consistent with the settlement approved in Docket No. DE 09-224.

III. COMMISSION ANAYLSIS

Based on our review of UES' filing, the revision filed July 20, 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 costs and external delivery charges to be just and reasonable. The changes in these charges are approved for effect August 1, 201l, pursuant to RSA 378:7.

While we are allowing UES, in this instance, to recover the administrative costs for the renewable service option in the EDC, inclusion of these costs in the EDC, which are minimal relative to the $18 million in EDC revenue, should not be considered as approving future recovery of such costs in the EDC. Further, we expect that Staff and the Company will discuss how the renewable source administrative costs may be recovered in the future and will consider any recommendations resulting from those discussions.

Based upon the foregoing, it is hereby

ORDERED, the reconciliation and rate filing of Unitil Energy Systems, Inc. filed on June 17, 2011 and as modified on July 20, 2011 is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc. file with the Commission, pursuant to Part Puc 1603, revised tariff pages within 30 days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of July, 2011.

Thomas B. Getz LAD
Thomas B. Getz
Chairman

Clifton C. Below LAD
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Commissioner

Amy Ignatius
Amy L. Ignatius
Commissioner

Attested by:

Lori A. Davis
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Assistant Secretary