**STATE OF NEW HAMPSHIRE**
**PUBLIC UTILITIES COMMISSION**

**DE 12-171**

**UNITIL ENERGY SYSTEMS, INC.**

**Annual Reconciliation and Rate Filing**

**Order Following Hearing**

**O R D E R N O. 25,396**

**July 20, 2012**

**APPEARANCES**: Gary Epler, Esq. on behalf of Unitil Energy Systems, Inc.; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

## I. PROCEDURAL BACKGROUND

On June 15, 2012, Unitil Energy Systems, Inc. (UES or Company) filed its annual reconciliation of adjustable rate mechanisms along with a proposed tariff. The adjustable rate mechanisms are UES's 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 by the Commission in Order No. 24,072 (October 25, 2002) in Docket No. DE 01-246, the docket pertaining to UES's restructuring. UES proposed the tariff changes for effect with service rendered on and after August 1, 2012. On June 29, 2012, the Commission issued Order No. 25,385 suspending UES's proposed tariff and scheduling a hearing for July 17, 2012. The hearing was held as scheduled.

## II. POSITIONS OF THE PARTIES

### A. Unitil Energy Systems, Inc.

In prefiled testimony, UES explained that the SCC is the mechanism by which UES recovers contract release payments (CRPs) UES agreed to pay Unitil Power Corp. (UPC) in accordance with the Amended Unitil System Agreement approved by the Commission in Order No. 24,072 and by the Federal Energy Regulatory Commission (FERC). The CRPs are paid by UES as a condition to UPC waiving certain contractual rights 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. According to the filing, UPC's last portfolio sales charge was made in October 2010 and the last residual contract obligation buyout payment was made in September 2009. Consequently, the SCC proposed in this filing is calculated to recover the Hydro-Quebec support payments and any true-ups from the prior period.

According to UES, the SCC obligations are calculated first based on a uniform energy-based per kilowatt hour (kWh) charge and then applied to each class based on the appropriate rate design. In addition to the energy-based SCC, customers in the General Service G2 and the Large General Service G1 classes incur 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, 2012.

In its initial filing, UES said that the uniform energy-based SCC rate is increasing by $0.00016 per kWh. Based on the appropriate rate design for each customer class, the resulting proposed energy-based SCC rates for the period beginning August 1, 2012 would be as follows: increases for residential customer from a credit of $0.00004 per kWh to a charge of $0.00012; increases for G2 customers from a credit of $0.00001 per kWh to a charge of $0.00002; and increases for G1 customers from a credit of $0.00001 per kWh to a charge of $0.00003 per kWh.

UES said that the proposed demand-based SCC rate for G1 and G2 customers is also increasing. For G2 customers, the demand-based SCC rate will increase from a credit of $0.01000 per kW to a charge of $0.02000 per kW. For G1 customers, the demand charge will increase from a credit of $0.01000 per kilovolt-ampere (kVA) to a rate of $0.03000 per kVA. UES attributed the increase in SCC rates to a change in the prior period balance. According to the Company, current rates include a credit to customers reflecting a prior period over-recovery in the amount of $259,000. For the recovery period beginning August 1, 2012, UES projects an over-recovery of $59,000. As a result, rates proposed for effect August 1, 2012 are higher than the rates in the current period.

UES also stated that costs recovered by the SCC have declined. The remaining costs to be recovered through SCC mechanism costs are 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 said 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 facilities, offset by short-term sales of transmission and capacity rights that UPC acquires in return for the payments Further, the SCC payments are trued up to reflect the prior period expenses and revenue. UES testified that there are no associated true-ups in the calculation of rates for August 1, 2012.

UES testified that the EDC collects UES's costs associated with (1) third party transmission providers Northeast Utilities (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; (9) administrative service charges.

UES said that it takes NU 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 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's distribution system over certain facilities, which are classified as distribution facilities for accounting purposes and therefore are not included in the NU transmission system base. In its initial filing, UES proposed an EDC rate of $0.01757 per kWh for effect on August 1, 2012, an increase over the current rate of $0.01479 per kWh. UES attributed the increase to higher third party transmission provider costs, and higher regional transmission and operating entities cost for the upcoming period.

UES testified that the overall bill impacts for customers taking default service are as follows: for residential customers, average bill increases of about 2.1%; for G2 customers, average bill increases of 2.2%; and for G1 customers, average bill increases of 6.2%. UES said that 2.6% of the increase for G1 customers is due to changes in the SCC and EDC and 3.6% of the increase is due to proposed changes to default energy service rates also scheduled for effect August 1, 2012. Outdoor lighting customers will experience average bill increases of about 1.1%.

In its initial filing, UES included $36,423 in its calculation of SCC rates, and $48,526 in the calculation of EDC rates. According to the Company, these amounts represent a partial recovery of the SCC and EDC portions of a customer billing adjustment pursuant to settlement discussions in Docket DE 11-105, a docket opened to consider a UES Petition for Declaratory Ruling and Approval of Adjustment to Certain Account Balances. UES stated that while the Company has an agreement in principle with Staff and the Office of Consumer Advocate in Docket No. DE 11-105, the settlement agreement had not been finalized and filed with the Commission. At hearing, UES said that the Staff had filed and the Company had responded to data requests asking that UES calculate the SCC and EDC rates excluding the customer billing adjustment amounts. UES offered the responses to the Staff data request as Exhibit 2 at hearing to depict the changes to rates resulting from the removal of the costs associated with Docket DE 11-105. UES said it would remove the associated amounts from the SCC and EDC rate scheduled for effect on August 1, 2012, consistent with the calculations depicted in Exhibit 2, Data Request No. 4.

The resulting average energy-based SCC rates for the period beginning August 1, 2012 are as follows: increases for residential customer from a credit of $0.00004 per kWh to a charge of $0.00009; increases for G2 customers from a credit of $0.00001 per kWh to a charge of $0.00002 per kWh; and increases for G1 customers from a credit of $0.00001 per kWh to a charge of $0.00002 per kWh. For G2 customers, the demand-based SCC charge will increase from a credit of $0.01000 per kW to a charge of $0.02000 per kW. For G1 customers, the demand charge will increase form a credit of $0.01000 per kVA to a charge of $0.02000 per kVA. For the EDC, UES said that the rate would be increasing from $0.01479 per kWh to $0.01753 per kWh. UES said that the difference between the rates initially proposed, and the rates excluding the customer billing adjustment amounts, does not produce any discernible bill impacts for customers.

### B. Commission Staff

Commission Staff stated that it supported the Company's proposal to exclude the customer billing costs related to Docket DE 11-105 from recovery in SCC and EDC rates effective for August 1, 2012. With this exclusion, Staff said that the Company had appropriately calculated the SCC and EDC rates and recommended that the Commission approve the petition.

## III. COMMISSION ANALYSIS

Based on our review of the UES filing and the 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. In particular, we find that the exclusion of amounts associated with Docket DE 11-105 is appropriate as we have not been presented with a settlement agreement in that Docket. Having so ruled, we have not formed an opinion or prejudged any settlement agreement that may be presented to us for our consideration in Docket DE 11-105.

We find that the stranded costs and external delivery charges as modified by the Company at hearing to be just and reasonable pursuant to RSA 378:7. The changes in these charges as modified are approved for effect August 1, 2012.

**Based upon the foregoing, it is hereby**

**ORDERED**, that the reconciliation and rate filing of Unitil Energy Systems, Inc. filed on June 15, 2012, as modified at hearing, 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 conforming with this Order within 30 days of the date hereof.

By order of the Public Utilities Commission of New Hampshire this twentieth day of July, 2012.

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| Amy L. Ignatius<br>Chairman | Michael D. Harrington<br>Commissioner | Robert R. Scott<br>Commissioner |

Attested by:

Debra A. Howland
Executive Director