

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 13-079

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Default Service Solicitation and
Resulting Rates for the Small, Medium and Large Customer Groups for the
Period Beginning June 1, 2013**

Order Approving Solicitation, Bid Evaluation and Resulting Rates

ORDER NO. 25,491

April 12, 2013

APPEARANCES: Gary M. Epler on behalf of Unitil Energy Systems, Inc.; the Office of Consumer Advocate by Susan W. Chamberlin on behalf of residential customers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL BACKGROUND

On March 13, 2013, Unitil Energy Systems, Inc. (UES) filed a letter with the Commission providing the schedule for the Company's 2013 default service rate filings. The Commission issued an Order of Notice on March 25, 2013 scheduling the first hearing for April 9, 2013. On March 28, 2013, the Office of Consumer Advocate (OCA) filed a letter stating that it would participate in the proceeding on behalf of residential ratepayers pursuant to RSA 363:28.

On April 5, 2013, UES filed a petition requesting approval of its solicitation and procurement of default service power supply for its residential and small commercial (Non-G1) customers and its large commercial and industrial (G1) customers for the default service period beginning June 1, 2013. In support of its petition, UES filed the testimony of Todd M. Bohan, Energy Analyst and Linda S. McNamara, Senior Regulatory Analyst, a redacted bid evaluation report (Schedule TMB-1), a copy of the requirements for proposals for default service (Schedule

TMB-2), and proposed tariffs. UES also filed the Company's 2012 lead/lag study with the supporting testimony of Kristina M. Guay. Mr. Bohan, Ms. McNamara and Ms. Guay are employed by Unitil Service Corp, a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's subsidiaries, including UES.

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 as modified by Order No. 25,397 (July 31, 2012). Order No. 25,397 approved revisions to the schedule and process whereby UES procures power for its default service customers by (1) moving the effective date for default service supply contracts forward by one month; (2) for Non-G1 customers, changing the duration and percentage of Non-G1 load requirements to be purchased; (3) splitting the Non-G1 load into small and medium customer groups, each to be separately bid and priced; and (4) changing the pricing structure for G1 customers from fixed pricing to variable pricing and changing the duration of the G1 supply contracts from three months to six months. UES's next solicitation will fully implement the solicitation schedule and terms approved by the Commission in Order No. 25,397.

UES issued requests for proposals (RFPs) on March 5, 2013 and received initial bids on March 26, 2013. Suppliers provided final bids on April 2, 2013, and on April 3, 2013, UES entered into power supply agreements with the two winning bidders. UES selected NextEra Energy Power Marketing, LLC (NextEra) as the supplier for 100% of the six-month G1 supply requirement and Intergys Energy Services, Inc. (Intergys) as the supplier of the small customer (Non-G1) supply requirements (a 75% share for a five-month block and a 100% share of a one-month block).

On April 4, 2013, UES provided updated copies of page 14 of Mr. Bohan's testimony, complete updated testimony of Ms. McNamara and related exhibits, and an updated proposed tariff. UES said that the updates were made in response to Commission's Order No. 25,484 in DE 13-021 (April 4, 2013). In Order No. 25,484, the Commission made adjustments to certain renewable portfolio standard (RPS) requirements that reduced the overall RPS obligations of electric suppliers for compliance years 2012 and 2013. The Company explained that the effect of Order No. 25,484 was to reduce the cost of RPS compliance for default service customers and the revised testimony reflected that reduction in UES's default service rates proposed for effect June 1, 2013.

According to UES, if its filing as modified is approved, the overall monthly impact for a residential customer using 650 kWh per month, the average residential customer use for the period April 2012 through March 2013, would be a decrease of 0.3%. Small commercial customers (G-2) would also experience average decreases of 0.3% in monthly bills, and outdoor lighting (OL) customers would see an average monthly bill decrease of 0.2%.

Bill impacts for G1 customers were unknown at the time of the filing because the power supply charge component of G1 customers' bills will be determined at the end of each month, based upon the Independent System Operator-New England (ISO-NE) real-time hourly locational marginal price (LMP) for the New Hampshire load zone plus an adder in the six-month service period.

With its petition, UES submitted its quarterly customer migration report. In addition, the Company requested approval of revised rates for its Renewable Source Option (RSO) program. Finally, UES stated that while it had incorporated the results of the 2012 lead/lag study in the calculation of the default service rate, Staff and the OCA did not have sufficient time to review

the report in this filing. Accordingly, UES asked that the proposed tariffs be approved as filed, subject to further investigation and review of the lead/lag study and subject to reconciliation, if necessary.

UES also filed certain confidential information in Tab A, an attachment to Mr. Bohan's testimony. Tab A includes a summary of UES's evaluation of the bids and bid prices, a description of the financial security offered by each bidder, executed purchase power agreements with NextEra and Integrys, together with other information which the Company claims is confidential and proprietary. UES requested protective treatment of the information contained in Tab A, stating that the information is entitled to confidential treatment pursuant to New Hampshire Code Admin. Rules Puc 201.06 and Puc 201.07.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil Energy Systems, Inc.

UES stated that, consistent with prior solicitations, 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 testified that it provided market notification of the RFP by announcing its availability to all participants in the New England Power Pool (NEPOOL) and to the members of the NEPOOL Markets Committee as well as by announcing the issuance of the RFP to a list of contacts from energy companies that had previously expressed interest in receiving notices of solicitations. In addition, UES issued a media advisory to the power markets trade press.

UES testified that in order to gain the greatest level of market interest, it provided potential bidders with appropriate and accessible information including historic hourly loads,

class average load shapes, historical monthly retail sales and customer counts by rate class and supply type, a generic listing of large customers showing annual sales, peak demands, and supply type (default service or competitive generation), and the valuation loads, which are the estimated monthly volumes that UES would use to weigh bids in terms of price. UES also used its corporate website to make this information available to potential suppliers.

UES said that it evaluated bids on both quantitative and qualitative criteria, including price, creditworthiness, extension of adequate credit to UES to facilitate the transaction, capability of performing the terms of the power purchase agreement in a reliable manner, and willingness to enter into contractual terms acceptable to UES. UES said that it selected NextEra and Integrys because it concluded that the two suppliers offered the best overall value in terms of both price and non-price considerations for the supply requirements sought. UES said that Tab A contains a more detailed description of the bid evaluation process. UES testified that it signed purchase power agreements (PPA) with NextEra and Integrys on April 3, 2013 and that the PPAs have no substantive differences from the form PPA UES attached to the RFP. Copies of the PPAs are also included in Tab A.

The RPS adder is the per kWh charge by which UES obtains revenue to meet its RPS obligations pursuant to RSA Chap. 362-F. In its updated filing, UES calculated the RPS adder for both the G1 and Non-G1 customer groups based on the reduced RPS obligation as modified by the Commission in Order No. 25,484. In that Order, the Commission reduced the 2013 Class I (new renewable) obligation from 4.0% to 3.8% of electric retail sales, and reduced the Class III (existing biomass) obligation as follows: from 6.5% to 1.4% for 2012, and from 6.5% to 1.5% for 2013. As a result of these changes, UES calculated the RPS adder for the G1 customers to be \$0.00396 per kWh, and for Non-G1 customers, to be \$0.00366 per kWh.

UES said that, consistent with Order No. 25,397, the Company solicited the variable energy prices to be determined for the G1 customers as the ISO-NE real time hourly LMP for the New Hampshire load zone weighted by the hourly loads of all G1 customers who take default service plus a monthly adder. UES stated that the components of the fixed power supply adder include capacity and ancillary costs billed by the ISO-NE as well as a margin of profit for the supplier. As a result, the wholesale supplier charges cannot be determined using a fixed contract price that is known in advance, but will be based on the sum of fixed monthly power supply adders and variable energy prices determined each month. UES said that at the end of each month, it calculates the load weighted average LMPs over the month and adds the monthly power supply adder to calculate the cost of the wholesale power supply for the G1 customers taking default service from UES. The results of the calculations are used to prepare G1 customer bills.

In its RFP, the Company separately solicited power for the small Non-G1 (residential) customer group and the medium Non-G1 (small commercial and outdoor lighting) customer group. Integrys was awarded the power supply contract for both the small and medium Non-G1 customer group. UES said that with the next solicitation, the transition authorized by Order No. 25,397 will be completed, and UES will calculate separate rates for the small Non-G1 customer group and the medium Non-G1 customer group. In this filing, however, based on the prices offered by Integrys and the remaining contract in UES's portfolio, UES calculated the fixed monthly rate for the energy component of default service for the entire Non-G1 customer group to be \$0.06764 per kWh. With the RPS adder, the total rate for the Non-G1 group for the six-month period is \$0.07130 per kWh. For residential customers, monthly bills will decrease by an average of 0.3%. For all other customers in the Non-G1 groups, decreases range from 0.1% to

0.4%. UES attributed the decrease to a change in the reconciliation in the power supply portion of the bill resulting from a decrease in under-collection in the current period as compared with the prior period.

The Company also requested an adjustment to the RSO rate. UES's RSO program was implemented pursuant to RSA 374-F:3, V(f) and approved by the Commission in Docket No. DE 09-224, *UES Renewable Service Option*. See Order No. 25,102 (May 7, 2010). UES proposed to increase RSO rates to reflect the current market price for Class I renewable energy certificates (RECs) as follows: for the 100% option, from \$0.05410 per kWh to \$0.0550 per kWh; for the 50% option, from \$0.02705 per kWh to \$0.02750 per kWh, and for the 25% option, from \$0.01352 per kWh to \$0.01375 per kWh. UES said that the participation in the RSO program remains at a very low level and that it will consider whether to request that the Commission require a certain minimum participation as a condition to offering the program pursuant to RSA 374-F:3,V(f)(10).

B. Office of Consumer Advocate

The OCA stated that it agreed that the information in Tab A for which UES sought protective treatment was confidential competitive information. The OCA also said that it recommended that the Commission approve the petition.

C. Staff

Staff stated that it had reviewed the filing and the update and determined that UES had followed the requirements of Order No. 24,511 and Order No. 25,397 in the solicitation, bid evaluation and selection of winning suppliers, and based on that, the resulting rates appear to be market based. Staff also said that the information for which UES requested confidential treatment is consistent with New Hampshire Code Admin. Rules Puc 200 and was similar to

information granted confidential treatment in prior filings. Staff concluded by recommending that the Commission approve the petition.

III. COMMISSION ANALYSIS

Regarding UES's analysis of the bids and its selection of NextEra as the winning bidder for the G1 customer group, we find that UES substantially complied with the procedures approved in order No. 25,397 for the G1 default service solicitation for power supply priced at the New Hampshire load zone LMP, plus a power supply adder, and that the resulting rates will be market based and reasonable. Further, based on our review, we find that UES's selection of Integrys as the winning bidder for the Non-G1 customer group is consistent with the process established in Order No. 24,511 as modified by Order No. 25,397. 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 requirements of RSA 374-F:3,V(c) that default service "be procured through the competitive market." The testimony of UES together with its bid evaluation report indicates that the bid prices reflect current market conditions and are reasonable.

UES submitted certain confidential information pursuant to N.H. Code Admin. Rules Puc 201.06 and 201.07. The relevant information is contained in Tab A to Schedule TMB-1, attached to Exhibit TMB-1 of the filing (Exhibit 2 at hearing) and 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's ranking of each bidder's financial security, the contact list used by UES during the RFP process, and the PPAs with NextEra and Integrys. UES also requested

confidential treatment of an electronic copy of Tab A provided to Staff and the OCA on April 5, 2013.

After reviewing the material in Tab A, we find that the information for which UES seeks confidential treatment is information routinely submitted and granted confidential treatment in connection with default service proceedings as defined in Puc 201.06(a)(30) and that we have previously found the same categories of information to be confidential within the meaning of the rule. *See* Order No. 25,415 (September 21, 2012) in Docket DE 12-003, UES's 2012 Default Service Docket. Therefore, the information shall be accorded confidential treatment subject to the provisions of Puc 201.07. The wholesale power costs contained in UES's filing shall be accorded confidential treatment only until such time as the costs are made public through the operation of the rules of the Federal Energy Regulatory Commission.

Finally, we will allow UES to use the results of its 2012 lead/lag report in the calculation of rates in this filing and direct the Staff to review the lead/lag report to determine if any adjustments to the report are necessary. Staff is directed to file a recommendation following its review.

Based upon the foregoing, it is hereby

ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc. with NextEra Energy Power Marketing, LLC for the six-month supply beginning June 1, 2013 for G1 customers and the resulting rates are hereby APPROVED; and it is

FURTHER ORDERED, that that the power supply agreement entered into by Unitil Energy Systems, Inc. with Integrys Energy Services, Inc. for 75% of Non-G1 power requirements for a five-month period beginning June 1, 2013 and a 100% of Non G-1 power

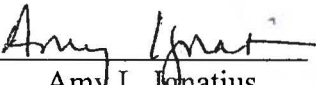
requirements for the month of November 2013 and the resulting rates are hereby APPROVED.; and it is

FURTHER ORDERED, that that the power supply costs resulting from the solicitation are reasonable, and subject to the ongoing obligation of UES to act prudently, according to law, and in conformity with Commission orders, and the amounts payable to the sellers for power supply costs under the power supply agreements with NextEra and Integrys for inclusion in retail rates to G1 and Non-G1 customers are hereby APPROVED; and it is

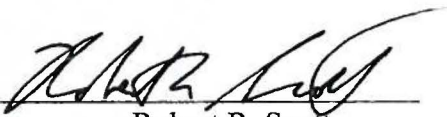
FURTHER ORDERED, that the proposed Renewable Service Option charges are APPROVED; and it is

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

By order of the Public Utilities Commission of New Hampshire this twelfth day of April, 2013.




Amy L. Ignatius
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director