

**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 December 1, 2013**

Order Approving Solicitation, Bid Evaluation and Resulting Rates

ORDER NO. 25,579

October 4, 2013

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

I. PROCEDURAL HISTORY

On September 27, 2013, Unitil Energy Systems, Inc. (UES or Company) 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 December 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 updated customer migration information and its recent report regarding the renewable service option (RSO) program. Mr. Bohan and Ms. McNamara 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) 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 that includes fixed monthly adders and changing the duration of the G1 supply contracts from three months to six months. UES said that the solicitation represented in the instant filing is the first that fully implements the solicitation schedule and terms approved by the Commission in Order No. 25,397.

UES issued requests for proposals (RFPs) on September 3, 2013 and received initial bids on September 17, 2013. Suppliers provided final bids on September 24, 2013 and on September 25, 2013, UES entered into power supply agreements for the small (residential), medium (small commercial) and large customer groups. UES selected TransCanada Power Marketing, Ltd (TransCanada) as the winning bidder of the small customer (residential Non-G1) supply requirements (100% share). UES selected NextEra Energy Power Marketing, LLC (NextEra) as the supplier for the medium customer (small commercial Non-G1) supply requirement (100% share) and as the supplier of the large customer (G1) supply requirement (100% share). All three transactions are for a period of six months.

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 TransCanada and NextEra, 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 201.07.

The Office of Consumer Advocate (OCA) previously filed a letter of participation in this docket on March 28, 2013. On September 27, 2013, the Commission issued a letter scheduling a hearing on the petition for October 2, 2013. On October 1, 2013, Staff filed a memorandum recommending that the Commission approve the lead/lag study filed by the Company in its April 2013 default service filing in this docket.

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, credit worthiness, 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 TransCanada and NextEra 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 a purchase power agreement (PPA) TransCanada and NextEra on September 25, 2013 and that the PPAs have no substantial differences from the form PPA UES attached to the RFP. Copies of the PPAs are also included in Tab A.

UES testified that in accordance with the process approved by the Commission, UES typically issues two RFPs for Renewable Energy Certificates (RECs) annually, each for approximately 50% of its REC obligations for the year. UES said that for 2013 RPS compliance, UES completed a REC RFP on April 30, 2013, and that it also made some additional purchases of RECs outside of the RFP. According to testimony, the Company anticipates issuing another REC RFP in the near future.

UES said that it calculates a renewable portfolio system (RPS) compliance adder on a per kilowatt hour (kWh) basis to meet its RPS obligations pursuant to RSA Chap. 362-F and uses the

revenue generated by the RPS adder to purchase RECs, one REC representing one megawatt of power sold at retail. UES calculated its RPS requirements for 2014 to be as follows: Class I (new renewable) to match 5.00% of its sales; Class I (useful thermal) RECs to match 0.40% of its sales; Class II (solar) RECs to match 0.30% of sales; Class III (existing biomass) RECs to match 7.00% of sales; and Class IV (existing small hydropower) RECs to match 1.40 % of sales. UES said that for the month of December 2013, it does not propose to change the current RPS adder for the G1 customer group; however, the Company averages the RPS costs over the Non-G1 (small and medium) customer group over the six-month default service period and proposes a change to the RPS adder for the Non-G1 customer group to \$0.00578 per kWh for the period December 2013 through May 2014. For the G1 group, the RPS adder for each month from January through May 2014 is calculated to be \$0.00651 per kWh. UES said that the cost estimates for RECs were based on current market prices as communicated by brokers of renewable products, recent purchases of RECs and alternative compliance payment rates for 2013 and 2014.

UES calculated the fixed monthly rate for the energy component of default service for the residential (small) customer group to be \$0.09193 per kWh, and, including the RPS adder, the total per kWh default service rate for residential customers will be \$0.09771, an increase of \$0.02641 per kWh from the current fixed rate of \$0.07130 per kWh. The proposed power supply charge for the medium customer group is \$0.08653 per kWh. With the proposed RPS adder, the fixed per kWh rate for the medium customer group will be \$0.09231 per kWh, an increase of \$0.02101 from the current rate of \$0.07130. According to UES, the resulting rates are based on increased contract prices. UES stated that if the filing is approved, the overall monthly bill impact for a residential customer (small customer group) using 650 kWh per month, the average

residential customer use for the twelve month period ending March 2013, would be a bill increase of 17.8%. General Service (medium customer group) customers would experience monthly bill increases of approximately 14.7% and outdoor lighting customers (medium customer group) would experience monthly bill increases of approximately 7.4%.

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.

At hearing, UES noted that the bid responses reflected market uncertainty regarding the full effect of the ISO-NE proposed Winter 2013-2014 Reliability Program which was pending before the Federal Energy Regulatory Commission (FERC) for approval at the time UES issued its RFP for default service. UES stated that suppliers who elected to submit final bids on the Non-G1 (small and medium customer groups) were instructed to include in their bids their estimate of costs associated with the Winter Reliability Program. UES testified that the winning suppliers assumed all risk in connection with such costs. In response to questions, UES said it had considered using a pass-through mechanism to recover the Winter Reliability Costs from customers but that it ultimately decided to ask the suppliers to include those costs in their default service supply bids.

UES testified that it had not included any rebates from the Renewable Greenhouse Gas Initiative (RGGI) auctions as a credit to default service customers in this filing as provided in Order No. 25,471 (March 8, 2013) in Docket No. DE 12-362.¹ UES said it would include the

¹ Order No. 25,471 implemented an amendment to RSA 125-O:19 et seq. (2012 N.H. Laws Ch. 281). The amendment required that any RGGI auction proceeds in excess of one dollar for each RGGI allowance be rebated to

credits in the calculation of the reconciliation for default service rates in Spring 2014. In addition, UES agreed to explore other rebate mechanisms now that 2014 RGGI auction proceeds over \$1 are to be rebated to all customers and not just default service customers.

Regarding the RSO program, UES testified that in early January 2012, a technical session was held at the Commission and the parties in that docket had agreed to continue the RSO program in 2012 so another year of experience might result in improved program participation. UES said that it filed a report with the Commission on September 17, 2013 which provided its annual review of the RSO program, which was docketed as DE 13-262. According to the Company, there has been no noteworthy change in the level of participation in the RSO program and, given the low level of customer participation, UES proposes to close the RSO program effective November 30, 2013.

UES requested that the Commission approve its solicitation and bid evaluation process, conclude that the power supply costs which result from the solicitation are reasonable, approve the associated tariff changes for effect December 1, 2013 and grant confidential treatment to the contents of Tab A.

B. Office of Consumer Advocate

The Office of Consumer Advocate took no position on the filing. It did, however, express concern about the magnitude of the bill increases for residential customers.

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

all default service electric ratepayers in the state on a per kilowatt-hour basis in a timely manner as determined by the Commission.

market based. Staff noted that it had filed a memorandum with the Commission recommending that the Commission approve the Company's lead/lag study that was filed in April 2013 and allow the Company to use the results of the study in its calculation of default service rates. In addition, Staff said that it agreed with the suggestion at hearing that the Company consider using a pass-through mechanism to recover the costs of the ISO-NE Winter Reliability Program that is expected to be in place for the 2014-2015 winter period. 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's solicitation and bid evaluation procedures were consistent with the processes we approved in Order No. 25,397 for the G1 default service solicitation for power supply priced at the New Hampshire load zone LMP, including solicitation of 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 TransCanada as the winning bidder for the Non-G1 residential customer group, and its selection of NextEra as the winning bidder for the Non-G1 medium 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 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 TransCanada and NextEra. UES also requested confidential treatment of an electronic copy of Tab A provided to Staff and the OCA on September 27, 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 UES's 2013 default service proceeding. Therefore, the information shall be accorded confidential treatment subject to the provisions of Puc 201.07. The whole sale 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.

We have reviewed Staff's recommendation regarding the Company's most recent lead/lag study and we find that it is just and reasonable and in the public interest to approve the study and we authorize the Company to use the results of the study in its calculation of rates.

Regarding the RGGI rebates, it appears that although the Company has received rebates on two occasions in 2013, it did not credit those funds back to customers in 2013. Effective

January 1, 2013, revenues from quarterly auctions of New Hampshire's annual CO₂ allowances are to be deposited in an energy efficiency fund, and any auction revenue in excess of one dollar received for each RGGI allowance is rebated to "all default energy service ratepayers in the state on a per kilowatt-hour basis, in a timely manner to be determined by the commission." 2012 N.H. Laws Ch. 281 (emphasis added). In that proceeding, UES proposed to apply the RGGI credit customers every six months using its current default service timetable where rates are effective June 1 and December 1 of each year. Order No. 25,471 at 6. In Order No. 25,471, we directed utilities to rebate any RGGI auction proceeds on a per kWh basis to existing default service customers on a frequency no greater than every six months because, consistent with the timeliness required by the law, rebates are to be returned as soon as possible so that the ratepayers who pay the RGGI costs also receive the credit. Therefore, we direct UES to file within 20 days of the date of this Order the following information: the amount of RGGI rebates the Company has received from the State of New Hampshire, when the rebates were received, the interest rate on those monies that are held for the default service customers, the total amount, including interest, pending rebate to customers and a proposed tariff initiating the credit of the rebates to default service customers beginning December 1, 2013. Considering that a new distribution paradigm has been approved by the legislature for 2014, we find that it is just and reasonable and consistent with our prior orders to direct the Company to credit default service customers the 2013 RGGI auction proceeds in the six-month default service period beginning December 1, 2013. In addition, the credit will mitigate to some extent the overall bill impacts of the default service rates approved in this Order.

UES must also develop a plan for distribution of RGGI rebates to all customers for auction proceeds over \$1 received on and after January 1, 2014. We direct Staff to work with UES and the OCA to develop a proposal.

Finally, with respect to the recovery of costs associated with the Winter Reliability Program, as stated by the Company in response to a question, having the bidders include the cost of this program in their bids was a major reason for fewer than normal final bids being submitted. Additionally, the charge for this program will be assigned to all bidders at the same cents per kWh rate negating any possible efficiencies that may be obtained through competitive bidding. At this point, it is uncertain whether the ISO will implement a Winter Reliability Program for the 2014-2015 winter period; however, if ISO does take such action, we direct the Company to work with the Staff and the OCA to determine an efficient and cost-effective method to recover winter reliability costs from customers.

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 100% of G1 customer requirements for the six-month power supply beginning December 1, 2013 and of Non-G1 (medium) customer requirements for the six-month power supply period beginning December 1, 2013 is hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc. with TransCanada Power Marketing, Ltd for 100% of Non-G1 (small) customer requirements for the six-month period beginning December 1, 2013 and resulting rates are hereby APPROVED; and it is

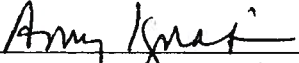
FURTHER ORDERED, that the power supply costs resulting from the solicitation are reasonable, and subject to the ongoing obligation of UES to act prudently, according to the law, and in conformity with Commission orders, and the amounts payable to the sellers for power supply costs under the power supply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

FURTHER ORDERED, that the April 2013 lead/lag study is hereby APPROVED and the Company is authorized to use the results of the study to develop default service rates; and it is


FURTHER ORDERED, that UES is directed to make a filing regarding the 2013 RGGI rebates to default service customers as directed herein and work with Staff and the OCA regarding a proposal for 2014 RGGI rebates to all customers; and it is

FURTHER ORDERED, that UES shall file conforming tariffs within 20 days of the date of this Order, consistent with N. H. Code Admin. Rules Puc 1603.02.

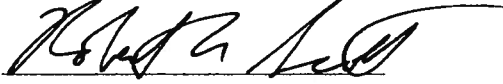
By order of the Public Utilities Commission of New Hampshire this fourth day of October, 2013.



Amy L. Ignatius
Chairman




Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Lori A. Davis
Assistant Secretary