STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 14-170

UNITIL ENERGY SYSTEMS, INC.

Annual Stranded Cost Recovery and External Delivery Charge Reconciliation

Order Following Hearing

O R D E R N O. 25,698

July 31, 2014

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

In this order, the Commission approves UES's stranded cost recovery and external delivery charge reconciliation, with rates for effect with services rendered on and after August 1, 2014. For residential customers with average electric usage of 670 kWh per month, overall monthly bills will decrease by $1.08 (1.0%), from $108.86 to $107.78.

I. PROCEDURAL HISTORY

On June 17, 2014, 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 included in UES's stranded cost charge (SCC) and external delivery charge (EDC). With its filing, UES submitted the testimony and related schedules of Senior Regulatory Analyst Linda S. McNamara and Energy Analyst Todd M. Bohan, employees of Unitil Service Corp., an affiliate of UES 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 01-247, the docket pertaining to UES's restructuring. UES proposed the tariff changes for effect with service rendered on and after August 1, 2014.

The Commission issued Order No. 25,686 on July 1, 2014, suspending the tariff and scheduling a hearing for July 23, 2014. The Office of Consumer Advocate (OCA) filed a letter on July 2, 2014, indicating its participation in this docket pursuant to RSA 363:28.

On July 24, 2014, UES filed a letter containing responses to record requests made at hearing and identified as Hearing Exhibit 3.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil Energy Systems, Inc.

In prefiled testimony, UES explained that the SCC is the mechanism by which UES recovers contract release payments (CRPs) that 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 (Oct. 25, 2002) and by the Federal Energy Regulatory Commission (FERC).[1] 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.

As a result, the costs that UES proposes to recover in this filing are the Hydro-Quebec support payments and true-ups from prior periods. In addition, pursuant to a settlement agreement approved by the Commission in Order No. 25,458 (January 25, 2013), UES is

[1] *See* FERC Docket No. ER03-483-000 (March 21, 2003) re. Second Revised Sheet Nos. 1-24, Rate Schedule FERC No.1.

permitted to recover $103,557, plus interest, through the SCC.[2] UES said that it would complete recovery of that amount at the end of July 2015.

UES testified that the SCC obligations are calculated 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 charge. For those 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, 2014.

UES testified that the uniform energy-based SCC rate, which is applied equally to all customer classes other than the G2 and G1 classes, is decreasing by 0.009 cents per kWh. UES attributed the decrease to a change in the prior period balance. The resulting proposed energy-based SCC rate decreases for the period beginning August 1, 2014, are as follows: from 0.027 cents per kWh to 0.018 cents per kWh for residential customers; from 0.006 cents per kWh to 0.004 cents per kWh for G2 customers; and from 0.007 cents per kWh to 0.005 cents per kWh for G1 customers. The proposed demand-based SCC rate for G2 customers will decrease from $0.06 per kW to $0.04 per kW. For G1 customers, the demand-based SCC rate will decrease from $0.07 per kVA to $0.05 per kVA.

According to UES, the EDC collects 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, and (8) administrative service charges.

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[2] *See* Docket No. DE 11-105, *UES Petition for Approval of and Adjustment to Certain Account Balance*, for the facts underlying the adjustment agreed to in that docket.

UES testified that it takes NU Network Integration Transmission Service 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 voltage control and reactive supply service support, dispatch service and black-start capability. The Wholesale Distribution component consists of distribution delivery charges that compensate Public Service Company of New Hampshire, a subsidiary of NU, for the wheeling of power from the NU transmission system to UES's distribution system over certain facilities that are classified as distribution facilities for accounting purposes and therefore are not included in the NU transmission system base.

UES calculated an increase of approximately $681,000 for the upcoming EDC rate period August 2014 through July 2015. UES attributed the increase to higher costs in the Regional Network Service Rates. UES, however, calculated a decrease in the proposed EDC rate from 2.006 cents per kWh to 1.854 cents per kWh due to the inclusion of a credit of $963,037 in the calculation of rates.

UES testified that the overall percentage changes for customers are average bill decreases of 1.0% for customers in the residential class, decreases of 1.1% for customers in the G2 customer class, and decreases of 1.5% for customers in the G1 customer class. Outdoor lighting bills will decrease on average by about 0.5%.

UES also proposed to recover through the EDC its estimated value of lost distribution revenue due to net metering generation. UES claimed the authority to recover lost revenue pursuant to New Hampshire Code Admin. Rules Puc 903.02(o) which states as follows:

> A distribution utility may perform an annual calculation to determine the net effect of net metering on its default service and distribution revenues and expenses in the prior calendar year. Pursuant to Puc 203, the commission shall determine by order, after notice and hearing, the utility-specific method of performing the calculation and applying the results, as well as a reconciliation mechanism to collect or credit any such net effects with appropriate carrying charges and credits applied.

In its initial filing, UES estimated that the Company had lost $18,724 in distribution revenue due to net metering generation on the Company's system. At hearing, UES modified the estimate and requested recovery of $17,337 in lost distribution revenue. UES testified that the Company did not prepare a detailed analysis of the calculation of lost distribution revenue.

Both the OCA and Staff argued that the Company had not justified its request for recovery of lost distribution revenue associated with net metering generation. The OCA pointed out that, under UES's proposal, those customers who could not take advantage of net metering would be paying more for electric service. Staff argued that pursuant to RSA 362-A:9, VII, before a utility could claim loss distribution revenues, the Commission would have to approve a method of performing the calculation and applying the results. Staff also opined that absent an analysis of the Company's estimate, the Commission would not be able to determine if the proposal would result in just and reasonable rates.

After hearing the position of the OCA and Staff, UES moved to withdraw its request to include lost distribution revenue from net metering generation in the calculation of the EDC provided that the Company be allowed to reserve its right to seek recovery of lost distribution revenues retroactive to July 1, 2013, depending on what the Commission later approves as an appropriate methodology to recover the losses. The Commission granted the motion.

UES also attested that the instant filing conforms to the Company's most recently filed least cost integrated resource plan found adequate by the Commission pursuant to RSA 378:40 and 41.[3]

B. Office of Consumer Advocate

The OCA stated that UES had not met its burden for its request for $40,000 in legal fees associated with a potential transaction with Concord Steam. The OCA said that the Company should bear the risk of those costs and collect the costs after the costs are actually incurred.

C. Staff

Staff stated that based on its review of the filing, UES had appropriately calculated the SCC and EDC rates and reconciliation. Staff said that it had no position on the issue regarding claimed legal fees. Staff concluded by saying it did not object to the filing.

III. COMMISSION ANALYSIS

Pursuant to RSA 378:41, any proceeding before the Commission initiated by an electric utility that changes rates must reference conformity of the decision with the least cost integrated resource plan most recently filed and found adequate by the Commission. RSA 378:40 and 41. UES testified that the filing was in conformance with its most recent LCIRP, and we therefore find that the statutory condition has been met.

We have considered the OCA's argument regarding the $40,000 in legal fees. Because these rates are reconciled on an annual basis, we will not require the Company to deduct the fees from its calculation. We will, however, review the prudence of the fees once they are incurred. Based on our review of the UES filing and the evidence presented at hearing, we conclude that the Company has calculated changes to the SCC and EDC adjustable rate mechanisms in a

[3] The New Hampshire legislature amended RSA 378:40 and repealed 378:41 in the 2013 legislative session. New Hampshire Laws 2013, Chap. 129. The new law takes effect August 15, 2014.

manner consistent with the principles set forth in Order No. 24,072 and that the resulting rates are just and reasonable pursuant to RSA 378:7.

Based upon the foregoing, it is hereby

ORDERED, that the reconciliation and rate filing of Unitil Energy Systems, Inc., filed on June 17, 2014, as modified by its filing of July 24, 2014 (Exhibit 3), is hereby APPROVED and the resulting rates are APPROVED for effect with services delivered on and after August 1, 2014; and it is

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

By order of the Public Utilities Commission of New Hampshire this thirty-first day of July, 2014.

Robert R. Scott (KNS)
Robert R. Scott
Commissioner

Martin P. Honigberg
Commissioner

Attested by:

Debra A. Howland
Debra A. Howland
Executive Director