STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 14-061

UNITIL ENERGY SYSTEMS, INC.

Petition for Approval of Default Service Solicitation and Resulting Rates for the Period Beginning December 1, 2014

Order Approving Solicitation, Bid Evaluation, and Resulting Rates

O R D E R N O. 25,720

October 3, 2014

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

In this Order, the Commission finds that Unitil's most recent market solicitation for default service power for its Small, Medium, and Large Customer Groups for the 6-month period beginning December 1, 2014, was conducted in accordance with Commission Orders and consistent with the restructuring principles of RSA 374-F. Unitil's customers will experience bill increases of 24.6% to 48.5% depending on customer class and usage. The Commission recognizes that these rates constitute significant increases for customers, but also knows that power supply costs in the competitive wholesale market are projected to be very high for the winter period. The Commission encourages customers to evaluate all measures to reduce electricity consumption and to consider whether competitive suppliers may offer a cost effective alternative to default service. Customers are also encouraged to call the Company to determine if a payment plan would help in budgeting for the increased power costs.

I. PROCEDURAL HISTORY

On September 29, 2014, Unitil Energy Systems, Inc. (UES or Company), filed a petition requesting approval of its solicitation and procurement of default service for (1) residential (Rate D) customers, (2) small commercial (Rate G2) and outdoor lighting (Rate OL) customers, and (3) large commercial and industrial (Rate G1) customers, each for 100% of the power supply requirements for the 6-month default service period December 1, 2014, through May 31, 2015. 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 (Sept. 9, 2005), as modified by Order No. 25,397 (July 31, 2012).

In support of its petition, UES filed the testimony of Todd M. Bohan, Senior Energy Analyst, and Linda S. McNamara, Senior Regulatory Analyst; a redacted bid evaluation report (Schedule TMB-1); a copy of the requirements for the proposal for default service (Schedule TMB-2); and proposed tariffs.

UES selected DTE Energy Marketing, Inc. (DTE Energy), as the winning bidder of the residential customer block of power supply requirements. UES selected TransCanada Power Marketing Ltd. (TransCanada) as the winning bidder of the G2 and OL customer block of power supply requirement. UES selected NextEra Energy Power Marketing (NextEra) as the supplier of the G1 customer group. All three transactions are for a period of six months.

According to UES, if the filing is approved, a residential default service customer using 670 kilowatt-hours (kWh) per month, the average monthly usage by UES residential customers, will see an overall monthly bill increase of 44.3%, or $47.47, from $107.76 to $155.54. Customers in the G2 customer group will experience average monthly bill increases of 48.5%, and customers in the OL customer group will see an average monthly bill increase of 24.6%.

Bill impacts for the G1 default service customers were unknown at the time of the filing, because during the 6-month service period, the power supply charge component of G1 customers' bills will be variable. The power supply charge for G1 customers will be determined at the end of each month based on the Independent System Operator-New England (ISO-NE) real-time hourly locational marginal price (LMP) for the New Hampshire load zone, plus an adder to cover the non-energy wholesale costs.

UES also separately filed certain information contained in Tab A, an attachment to Mr. Bohan's testimony, for which UES requested confidential treatment. 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 winning suppliers, and other information that the Company claims is confidential and proprietary. UES stated that the information is entitled to confidential treatment pursuant to New Hampshire Code Admin. Rules Puc 201.06 and Puc 201.07.

The OCA previously entered a letter of participation on March 12, 2014. On July 23, 2014, Commission Staff filed a memorandum recommending that the Commission approve the lead/lag study filed by UES on March 4, 2014. The Commission issued a secretarial letter on September 29, 2014, scheduling a merits hearing on October 1, 2014.

At the October 1, 2014, hearing, the Commission granted UES's request for confidential treatment of the information contained in Tab A of its filing.

II. POSITIONS OF THE PARTIES AND STAFF

A. UES

UES testified 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 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 regarding the RFP to the power markets trade.

UES issued its request for proposals (RFP) on August 26, 2014. It received initial bids on September 16 and final bids on September 23, 2014. UES selected the winning bidders on September 23. To implement the transactions, UES executed a new power supply agreement (PSA) with DTE Energy, an amendment to the existing TransCanada PSA, and an amendment to the existing NextEra PSA. According to UES, the amendments to the PSAs with TransCanada and Next Era do not add any new terms to the agreements, but only add the new transactions to the existing power supply agreements.

UES said that, consistent with Order No. 25,397, the Company solicited the variable energy prices to be determined for the G1 customers based on 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 ladder. 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 will calculate the load-weighted average LMPs over the month and add 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 will be used to prepare G1 customer bills.

In developing the energy portion of rates, UES includes a Renewable Portfolio Standard (RPS) compliance adder to the power supply costs. 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 filing, UES calculated the RPS adder based on current market prices as communicated by brokers of renewable products, recent purchases of Renewable Energy Certificates (RECs),[1] and alternative compliance payments (ACP) for 2014 and 2015.

UES stated that the RPS adder would be increasing from 0.208 cents per kWh for compliance year 2014 to 0.415 cents per kWh for the 2015 compliance year. UES attributed the change to the increased RPS requirements for 2015, particularly the increase in Class III (existing biomass) requirements from 3.0% of energy delivered at the retail meter to 8.0% of energy delivered at the retail meter. In addition, UES stated that the market price for Class III RECs remained very close to the ACP level, contributing to the cost for RPS compliance.

Based on the prices offered by DTE Energy and TransCanada, UES calculated the fixed monthly rate for the energy component for the residential Non-G1 customer group to be 15.129 cents per kWh, and for the G2 and OL customers in the Non-G1 customer group to be 14.850 cents per kWh. With the RPS adder, the fixed default service rate for the residential Non-G1 customer group for the 6-month period beginning November 1, 2014, will be

[1] RECs represent the environmental attributes of renewable energy, one REC representing one megawatt hour of power.

15.544 cents per kWh, an increase of 7.131 cents per kWh from the current fixed rate of 8.413 cents per kWh. For the small commercial and outdoor lighting customers in the Non-G1 group, the fixed default service rate will be 15.265 cents per kWh, an increase of 7.308 cents per kWh from the current fixed rate of 7.957 cents per kWh.

UES attributed the increased rates to high forecasted winter electricity prices relative to power prices in the current period. The Company explained that the high prices and volatility are driven by several factors. The constraint in the New England natural gas pipeline system has increased due to the increased demand for natural gas both as a source of electric generation and for heating purposes. Because a large portion of the regional power supply is fueled by natural gas, electric prices increase when natural gas prices rise. In addition, along with pipeline constraints, the reduction in the volume of liquefied natural gas-based supplies to the New England region has contributed significantly to the high seasonal cost of natural gas. Further, UES stated that the June 1 closure of Salem Harbor Power and the pending retirement of Vermont Yankee Nuclear Power Plant at the end of 2014 will result in a reduction of approximately 1,200 megawatts of non-gas fired electric capacity as New England heads into the winter period. The Company also testified that oil inventory challenges and the ISO-NE winter reliability program costs contributed to the higher costs of power. UES said that the winter reliability program costs, which could total as much as $100 million for the New England region for the winter period, were reflected in the suppliers' bid responses for power.

At hearing, UES included Pam Bellino, Director of Customer Service Operations for Unitil Service Corp., on its panel of witnesses. Ms. Bellino described the outreach and other efforts that UES has undertaken to make sure it has adequate customer service resources to work with residential customers who need assistance as a result of the higher winter rates. In addition to providing information in newsletters and on public access channels, Ms. Bellino said that the Company was reaching out to customers who previously received fuel assistance to determine if those customers need similar help during this winter. She explained that the Company has provided training to its customer service staff about competitive supply options for customers and said that budget payment plans through the Company are another option for customers who are challenged by the increased rates. Ms. Bellino testified that UES has a good working relationship with the Commission Consumer Affairs Division and said that she would continue to work with the Division to make sure that customers were informed of all options to manage their electric use and associated costs.

UES concluded by requesting that the Commission approve the relief requested in its petition. The Company said that it recognized that customers will experience the resulting rate increase, but emphasized that the rates are market-based. UES said that it is ready to help customers manage their electricity use through energy efficiency or other programs to help deal with the rate increase.

B. OCA

The OCA said that the rates proposed by UES are not fair and reasonable. The OCA recommended that the Company consider soliciting for a 12-month supply of power rather than a 6-month supply of power in order to spread default service prices over a longer period.

C. Staff

Staff stated that it had reviewed the filing and determined that UES had conducted the solicitation, bid evaluation, and bid selection consistent with the process established by the Commission and RSA 374-F, the restructuring statute. Staff said that while it was concerned about the rate increases, it had concluded that the rates resulted from a competitive bid process and therefore reflected market prices. Staff opined that for alternative pricing, residential customers could consider purchasing power from a competitive supplier instead of taking default service from UES. Staff also expressed its appreciation for the efforts of the Company to help residential customers as described by Ms. Bellino.

III. COMMISSION ANALYSIS

We have reviewed the filing and testimony at hearing, and we find that UES's solicitation and bid evaluation procedures were consistent with the process we approved in Order No. 24,511 as modified by Order No. 25,397. We further find that UES's selection of: DTE Energy as the winning bidder for the residential customers' supply requirements, TransCanada as the winning bidder for the small commercial and outdoor lighting customers' supply requirements, and NextEra as the winning bidder for the G1 customer requirements, all for the 6-month period beginning December 1, 2014, are consistent with our prior orders. Further, we are satisfied that UES met 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 market conditions and on that basis we find them to be reasonable. In addition, we find that the adjustment to the RPS adder reflects the increased cost for RPS compliance and is therefore just and reasonable pursuant to RSA 378:5.

Further, we have read Staff's memorandum regarding UES's 2014 lead/lag study and we note that UES included the results of that study in the default service rate calculation in the instant filing. Because the OCA did not provide any additional comment on UES's lead/lag report, or on the comments filed by Staff on July 23, 2014, we will provide the OCA with 10 days from the day of this order to offer concerns regarding the use of the lead/lag study in calculating rates. Following the 10 days, we will issue our final determination on UES's 2014 lead/lag study results. In the event we determine that a different lead/lag result should be included in rates, any changes can be incorporated in the next reconciliation of UES's default service rates.

We note that UES's rates for residential customers are almost identical to rates that we approved in Order No. 25,719 (September 29, 2014) for Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty), and that, as was the case with Liberty, the new rates represent a significant increase over current energy service rates. Because the resulting rates result from a competitive bid process and are market-based, we find the rates to be just and reasonable.[2] Nonetheless, we fully appreciate that the increases will impose a burden on the budgets of residential and small commercial customers. We emphasize that pursuant to the competitive model used by UES, the Company does not earn a profit on default service sales and thus has no incentive to retain its default service customers.

UES should help customers take advantage of whatever measures are available to help them manage their electric usage, provide information on competitive suppliers who serve the UES franchise area, and allow customers to enter into payment plans consistent with Company policy. Consequently, we greatly appreciate the Company's inclusion of Ms. Bellino on the witness panel. Her testimony demonstrated that UES recognizes the impact of 2014-15 winter prices on residential customers and is taking appropriate preparatory steps, including education and outreach, to help customers navigate through the choices available to them.

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[2] *See, e.g., Louisiana Energy and Power Authority v. FERC*, 141 F.3d 364 (D.C. Cir. 1998). In that order, the D.C. Circuit recognized that the Federal Power Act requires that all rates demanded by public utilities for the sale of electric energy to be "just and reasonable" pursuant to 16 U.S.C. 824d(a); and that where there is a competitive market, the FERC may rely on market-based rates in lieu of cost-of-service regulation to satisfy the "just and reasonable" requirement. 141 F.3d at 365.

We encourage residential customers whose budgets are strained by the higher rates this winter to consider contacting UES to see if a budget payment plan is available. We expect that UES's call center will be adequately staffed to take these and other calls, and that UES will work closely with the Commission's Consumers Affairs Division to ensure that all customer inquiries are appropriately handled by the Company. In addition, customers should take advantage of the information at the Commission's website on managing natural gas and electric service bills during winter months. *See* Managing Your Natural Gas & Electric Utility Bills This Winter .

Residential customers who have not considered taking power from competitive suppliers should review offers from the competitive suppliers that are registered to do business in New Hampshire. UES should clarify on its website which competitive suppliers offer service to residential customers. Customers should be aware that competitive suppliers can offer service under terms that are different from those required of electric utilities and customers should examine carefully the terms and conditions offered to make sure that the service offered matches their needs. Variable rates and termination clauses are two provisions that require particularly close examination, because they can significantly increase a customer's bill under certain circumstances. Ratepayers can visit the Commission website at Questions About Choosing a Competitive Supplier for more information about what to consider in selecting a competitive supplier.

Residential ratepayers can also work with UES to examine energy efficiency options available to them to reduce their heating and electric bills. While some energy efficiency measures may require a contribution from ratepayers, many of the measures are eligible for rebates from UES. Over time, the savings resulting from such measures often justify the initial financial commitment.

Finally, we do not find that the outcome of this most recent solicitation for power is cause to require UES to reconsider its method of procuring power. As previously stated, UES obtains power for its default service customers in accordance with a Settlement Agreement approved by the Commission. If we were to change the process set forth in the Settlement Agreement, RSA 365:28 requires that we do so only after notice and hearing. More importantly, the principles of RSA 374-F promote the procurement of energy through the competitive market. While the market price is volatile and high for the coming winter months, the market also provides a sound basis by which to judge the reasonableness of rates.

Based upon the foregoing, it is hereby

ORDERED, that the power supply agreement and transaction confirmation entered into between DTE Energy Marketing, Inc., and Unitil Energy Systems, Inc., for default service supply for the residential (Non-G1) customer group for the period December 1, 2014, through May 31, 2015, and the resulting rates are hereby APPROVED; and it is

FURTHER ORDERED, that transaction confirmation entered into between TransCanada Power Marketing Ltd. and Unitil Energy Systems, Inc., for default service supply for the small commercial and outdoor light (Non-G1) customer groups for the period December 1, 2014, through May 31, 2015, and the resulting rates are hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement entered into between NextEra Energy Power Marketing and Unitil Energy Systems, Inc., for 100% of the G1 customer requirements for the period December 1, 2014, through May 31, 2015, and the resulting rates are hereby APPROVED; and it is

FURTHER ORDERED, that Unitil Energy System, Inc.'s proposed increase in the RPS adder for compliance year 2015 is hereby APPROVED; and it is

FURTHER ORDERED, that if the OCA has any comments on Unitil Energy System, Inc.'s 2014 lead/lag study, those comments should be filed with the Commission within 10 days of the date of this Order; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc., 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 third day of October, 2014.

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

Martin P. Honigberg
Commissioner

Attested by:

Debra A. Howland
Executive Director