STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 15-079

UNITIL ENERGY SYSTEMS, INC.

Petition for Approval of Energy Service Solicitation and Resulting Rates for the Small, Medium and Large Customer Groups for the Period Beginning June 1, 2015

Order Approving Solicitation, Bid Evaluation, and Resulting Rates

O R D E R N O. 25,777

April 10, 2015

APPEARANCES: Gary Epler, Esq., on behalf of Unitil Energy Systems, Inc.; the Office of Consumer Advocate by Wayne R. Jortner, Esq.; and Suzanne Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission finds that Unitil's recent market solicitation for power supply for its energy service customers for the six-month period beginning June 1, 2015, was conducted in accordance with Commission Orders. The Commission authorizes Unitil to recover the costs of the power supply through energy service rates effective with service rendered on and after June 1, 2015. The Order approves an energy service rate of 6.921 cents per kWh for residential customers. For an average residential customer using 646 kWh per month, the result will be a decrease in monthly bills from $150.29 to $94.59, or 37.1%, when compared to the six-month period ending May 2015. Overall, Unitil's energy service customers will experience average monthly bill decreases ranging from 29.1% to 40.3%, depending on customer class and usage. The Order recognizes that the reduction in power supply costs reflects the unregulated wholesale energy market, and is not a result of any particular action of the Company.

In addition, the Commission approves a settlement agreement among Unitil, the OCA, and Staff that resolves an issue regarding Unitil's implementation of its variable default energy service tariff. As a result, Unitil will provide a credit to the bills of residential and small commercial customers who received an additional charge as a result of the retroactive recalculation of those bills based on the variable rate. The settlement agreement will result in bill credits to approximately 1,000 customers who moved from Unitil default energy service to competitive supply since December 1, 2014.

I. PROCEDURAL HISTORY

On March 3, 2015, Unitil Energy Systems, Inc. (Unitil or Company), filed a letter with the Commission providing the schedule for the Company's 2015 default service filings. On March 5, the Office of Consumer Advocate (OCA) filed a letter of participation pursuant to RSA 363:28, and the Commission issued an Order of Notice scheduling the hearing for April 8.

On April 3, Unitil filed a petition requesting approval of its solicitation and procurement of default energy service power supply 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 power supply requirements for the six-month energy service period beginning June 1 through November 30, 2015. Unitil filed the petition pursuant to the terms of the settlement agreement approved in Order No. 24,511 (September 9, 2005) as most recently modified by Order No. 25,397 (July 31, 2012).

With its petition, Unitil filed the testimony of Todd M. Bohan, Senior Energy Analyst, and Linda S. McNamara, Senior Regulatory Analyst, with supporting exhibits and proposed tariffs. Unitil also filed its 2014 lead/lag study, with the supporting testimony of Benjamin C. Coons. Mr. Bohan, Ms. McNamara, and Mr. Coons 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 Unitil. In addition, Unitil submitted its quarterly customer migration report.

Unitil selected TransCanada Power Marketing, Ltd. (TransCanada), to supply 100% of the power supply requirements to residential customers, and Dominion Energy Marketing, Inc. (Dominion), to supply 100% of the power supply requirements to small commercial and outdoor lighting customers, for the six-month period beginning June 1, 2015. Unitil selected NextEra Energy Power Marketing, LLC (NextEra), to provide 100% of the power supply requirements for the G1 customer group for the same period.

Under the terms of selected proposal, the average residential energy service customer using 646 kilowatt hours (kWh) per month will experience a decrease in monthly bills from $150.29 to $94.59, or 37.1%, when compared to the six-month period ending May 2015. The rate of 6.921 cents per kWh is also less than the June 2014 energy service rate of rate of 8.413 cents per kWh. Small commercial customers will experience, on average, a 37% reduction in monthly bills, and outdoor lighting customers will experience an average monthly bill decrease of 22.3 %. Bill impacts for the G1 customer group are unknown because, in the six-month service period, 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 to cover non-energy wholesale costs.

With its filing, Unitil included certain confidential information contained in Tab A, an attachment to Mr. Bohan's testimony. Tab A includes a summary of Unitil's evaluation of the bids and bid prices, a description of the financial security offered by each bidder, executed purchase power agreements and transaction confirmations with the winning suppliers, together with other information that the Company claims is confidential and proprietary. Unitil requested protective treatment of certain 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. Unitil revised its submission to highlight the information for which it requested confidential treatment, and made the revised filing on April 8, 2015.

Finally, with respect to the 2014 lead/lag study, Unitil asked that it be allowed to use the results of the study to develop its default service rates, and acknowledged that Staff and the OCA would need additional time to review the study.

On April 7, 2015, Staff filed a settlement agreement among Unitil, the OCA, and Staff regarding customer bill impacts resulting from Unitil's application of its variable rate to bills of customers who moved from Unitil to competitive supply or self-supply after December 1, 2014.

At the hearing, the Commission granted Unitil's request for protective order relative to its April 8, 2015, filing, and also granted Staff's request to waive the requirements of New Hampshire Code Admin. Rule Puc 203.20 (requiring settlements to be filed 5 days prior to hearing) to allow the Commission to consider the April 7, 2015, settlement agreement.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil

1. Default Service Petition

Unitil issued requests for proposals (RFPs) on March 3, 2015. Unitil 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. Unitil 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 announcing the issuance of the RFP to a list of energy companies that had previously expressed interest in receiving notices of solicitations. In addition, Unitil issued a media advisory regarding the RFP to the power markets trade.

Unitil received indicative bids on March 24, 2015, and final bids one week later. Unitil stated that it evaluated bids on both quantitative and qualitative criteria, including price, creditworthiness, extension of adequate credit to Unitil 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 Unitil. Unitil selected TransCanada, Dominion, and NextEra based on its conclusion that those suppliers offered the best overall value in terms of both price and non-price considerations for the respective supply requirements. Tab A of Unitil's filing contained a more detailed description of the bid evaluation process. Executed copies of amendments to existing power supply agreements (PSAs) between Unitil and TransCanada, Dominion, and NextEra are included in Tab A. Unitil testified that the PSAs contain no substantive differences from the form PSA Unitil attached to the RFP.

Unitil 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 energy service from Unitil, plus a monthly adder. The components of the monthly 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. Following this process, at the end of each month, Unitil 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 G1 customers taking energy service from Unitil. The results of the calculations are used to prepare G1 customer bills.

In developing the energy portion of rates, Unitil includes a Renewable Portfolio Standard (RPS) compliance adder to the power supply costs. The RPS adder is the per kWh charge by which Unitil obtains revenue to meet its RPS obligations. To comply with its RPS requirements, Unitil first attempts to purchase qualifying renewable energy credits (RECs), one REC representing one megawatt hour of power produced by a renewable generation source. If insufficient RECs are available in the market, Unitil makes alternative compliance payments (ACPs) into the renewable energy fund. The ACPs are established by statute and are adjusted each year by the Commission. RSA 362-F:10, II and III.

Unitil stated that its 2015 RPS obligation requires it to either purchase RECs or make ACPs equal to 8.3% of its retail sales. In its filing, Unitil calculated the RPS adder based on current market prices of RECs as communicated by brokers of renewable products, the Company's recent purchases of RECs, and ACPs applicable to calendar year 2015. Unitil noted that the Commission had recently reduced the Class III REC requirements from 8.0% of retail sales to 0.5% of retail sales. As a result, Unitil proposed to reduce the RPS adder for the residential, small commercial, and outdoor lighting customer groups from 0.415 cents per kWh, to 0.218 cents per kWh, effective with rates June 1, 2015. For the G1 customer group, Unitil proposed to decrease the RPS adder from 0.403 cents per kWh to 0.262 cents per kWh, also effective with rates on June 1, 2015.

Based on the prices offered by the winning bidders, Unitil calculated the fixed rate for the energy component for the residential customers to be 6.703 cents per kWh, and 6.775 cents per kWh for the small commercial and outdoor lighting customers. With the inclusion of the RPS adder, the resulting energy service rate for residential customers is 6.921 cents per kWh, and the rate for small commercial and outdoor lighting customers is 6.993 cents per kWh. Unitil proposes these rates for effect for the period June 1 through November 30, 2015. Overall, residential customer and small commercial customers will experience average monthly bill decreases of approximately 37.0%. For outdoor lighting customers, monthly bills will decrease on average by 22.3%

Unitil testified that it had prepared the 2014 lead/lag study in the same manner it previously prepared similar lead/lag studies. Unitil said that, although it had incorporated the study's results in the calculation of the default service rates, Staff and the OCA did not have sufficient time to review the report in this proceeding. Accordingly, Unitil 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.

Unitil requested that the Commission find that the Company followed the approved bid solicitation and evaluation process, approve the resulting rates, and approve Unitil's 2014 lead/lag study subject to further reconciliation, if necessary.

2. Settlement Agreement

Unitil explained that pursuant to its tariff, residential and small commercial customers (the non G1 customers) who take energy service from Unitil pay a fixed energy service rate for a six-month period. Unitil customers who return to Unitil for energy service after taking service from a competitive energy supplier or self-supply are billed at Unitil's variable monthly rate for the balance of the six month period. The tariff further provides that, for non-G1 customers switching to a competitive supplier or to self-supply in the middle of the six-month period, the Company is supposed to recalculate the customer's bill for the prior months in the period by applying the difference between the fixed energy service rate and the variable monthly rate to prior customer usage. As a result, customers choosing competitive suppliers or self-supply may be billed an additional amount or receive a credit from Unitil for services which were previously billed.

Prior to December 1, 2014, Unitil did not perform the recalculations due to the low number of customers moving from default service to competitive supply or self-supply, and the relatively small difference between the variable rate and the fixed rate. The number of customers migrating to competitive supply or self-supply during the 2014-2015 winter period increased substantially, and as a result, the Company began recalculating the bills of customers leaving default service for competitive supply or self-supply as of December 1, 2014.

After discussing the issue with Staff and the OCA, Unitil agreed that the recalculation provision in the tariff is a source of customer confusion, and may serve as an impediment to customer choice. Pursuant to the settlement agreement among Staff, the OCA, and the Company, Unitil agreed to request immediate suspension of the recalculation provision in the tariff for customers leaving Unitil's fixed default service. In addition, each of the Company's non-G1 customers who moved from default service to a competitive supplier or to self-supply since December 1, 2014, and received an additional charge as a result of the recalculation of their bills based on the difference between the fixed energy service rate and the variable rate, will have that charge reversed in the form of a bill credit. Unitil said that it expected to have the credits applied to customer bills by the end of May. Unitil asked that the Commission approve the settlement agreement.

B. OCA

The OCA said that the settlement agreement addressed all of its concerns regarding the application of the variable rate.

Regarding the power supply solicitation, the OCA said that it appeared that Unitil had followed the prescribed process, and did an adequate job in its solicitation and selection of a supplier. The OCA said it had no objection to the proposed energy service rates.

C. Staff

Staff said it participated in developing the settlement agreement and urged the Commission to approve it.

With respect to the solicitation for energy service power supply, Staff said it had reviewed the filing and had determined that the Company followed the power supply solicitation, bid evaluation , and bid selection process approved by the Commission, and that the resulting rates are market based, and just and reasonable within the meaning of RSA 378. The Staff said it did not object to Unitil including the results of the lead/lag study provided that Staff and the OCA have the opportunity to review the study and present its results to the Commission.

III. COMMISSION ANALYSIS

We find that Unitil’s solicitation and bid evaluation procedures conform to the process we approved in Order No. 24,511, as modified by Order No 25,397, for the procurement of power supply for customers taking energy service from the Company. On that basis, we find that Unitil’s selections of TransCanada, Dominion, and Next Era to provide power supply for the period beginning June 1, 2015, are consistent with Commission Orders. Further, we are satisfied that Unitil met the procedural requirements of RSA 374-F:3, V(c) that default service “be procured through the competitive market.”

The testimony of Unitil, as supported by its bid evaluation report, indicates that the bid prices reflect current market conditions and are reasonable. The result is a significant decrease in energy service rates for Unitil’s energy service customers. The rate reductions are due to the fact the market price for power is lower during the summer period than the winter period when natural gas not only provides fuel for electric generation, but is also widely used for heating purposes. Unitil, as an electric distribution company, merely passes along the market costs to its customers in the form of rates.

We will also allow Unitil to use the 2014 lead/lag study to develop rates for this filing, subject to the Staff and the OCA’s review of the study. We direct that the review be completed before Unitil’s next default service filing. If that review should recommend changes to the lead/lag study and the resulting rates, that reconciliation will take place in UES’s next default service proceeding.

Finally, we approve the settlement agreement regarding the application of the variable rate to non-G1 customers leaving Unitil’s fixed default service for a competitive supplier or self-supply. While the tariff may have served a purpose when we first approved it, we agree that the application of the recalculation provision could impede customer choice. We find that it is just and reasonable and in the public interest to suspend that provision, and for Unitil to cease implementing it. Further, Unitil shall begin crediting customers for any additional amounts they paid as a result of the recalculation as described in the settlement agreement. Based on the foregoing, we approve the settlement agreement.

Based upon the foregoing, it is hereby

ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with TransCanada Power Marketing, Ltd., for 100% of residential customers' power supply requirements for the six month period beginning June 1, 2015, is hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with Dominion Energy Marketing, Inc., for 100% of small commercial and outdoor lighting customers' power supply requirements for the six-month period beginning June 1, 2015, is hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with NextEra Energy Power Marketing, LLC, for 100% of the G1 customer power supply requirements for the six-month period beginning June 1, 2015, is hereby APPROVED; and it is

FURTHER ORDERED, that the power supply costs resulting from the solicitation are reasonable, and subject to the ongoing obligations of Unitil to act prudently, according to the law, and in conformity with Commission order, that the amounts payable to TransCanada, Dominion and NextEra for inclusion in rates to the respective customer classes are reasonable, and are hereby APPROVED; and it is

FURTHER ORDERED, that Unitil is authorized to use the 2014 lead/lag study for the development of rates subject to Staff and the OCA review of the study, and subject to any reconciliations that may result from Staff's review, and our subsequent determination; and it is

FURTHER ORDERED, that Staff and the OCA shall complete their review of the 2014 lead/lag study no later than September 15, 2015; and it is

FURTHER ORDERED, that the Settlement Agreement among Unitil, Staff and the OCA regarding the recalculation provision of Unitil's default service tariff is hereby APPROVED; and it is

FURTHER ORDERED, the provision of Unitil's tariff requiring recalculation of customer bills for customers leaving Unitil's' fixed default service rate is suspended; and it is

FURTHER ORDERED, that Unitil shall file conforming tariffs, deleting the provision requiring recalculation of customer bills and incorporating the new energy service rates, all as approved herein, within 20 days of the date of this Order consistent with New Hampshire Code Admin Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this tenth day of April, 2015.

Martin P. Honigberg
Chairman

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director