

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 15-079

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Default Service Solicitation and Resulting Rates
For the Period December 1, 2015 through May 31, 2016**

Order Approving Solicitation, Bid Evaluation, and Resulting Rates

ORDER NO. 25,823

October 9, 2015

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 Amidon, Esq. on behalf of Commission Staff.

In this Order, the Commission finds that Unitil's most recent solicitation for default service power for the 6-month period beginning December 1, 2015, was conducted in accordance with Commission orders and consistent with the restructuring principles of RSA 374-F. Unitil energy service customers will experience bill increases from approximately 7.4% to 16.6%, depending on customer class and usage. For example, in terms of actual dollars, a residential default service customer using an average of 646 kWh per month will experience a monthly bill increase from \$96.39 to \$112.46. While there will be an increase over rates currently in effect, residential default service customers will see bills that are approximately 25% lower than they were during the same period last winter.

I. PROCEDURAL HISTORY

On October 2, 2015, Unitil Energy Systems, Inc. (Unitil or Company), filed a petition requesting approval of its solicitation and procurement of 100% of the power requirements to serve its customers for the six-month period beginning December 1, 2015. Unitil made its filing

pursuant to the terms of a Settlement Agreement approved by the Commission in Order No. 24,511 (Sept. 9, 2005), *as modified by* Order No. 25,397 (July 31, 2012) (Settlement Agreement). Consistent with the terms of the Settlement Agreement, Unitil issues separate bids for the following customer groups:

- (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.

In support of its petition, Unitil filed the testimony of Todd M. Bohan, Senior Energy Analyst, and Linda S. McNamara, Senior Regulatory Analyst; a redacted bid evaluation report; a copy of the request for proposals (RFP); and proposed tariffs.

The Commission issued a secretarial letter on October 5, 2015, scheduling a merits hearing for the following day.

With its filing, Unitil also separately submitted certain information for which it requested confidential treatment. The information is contained in Tab A of Mr. Bohan's testimony. Tab A includes a summary of Unitil's evaluation of 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. Unitil stated that the information is entitled to confidential treatment pursuant to New Hampshire Code Admin. Rules Puc 201.06 and Puc 201.07. The Commission approved Unitil's request for confidential treatment at hearing.

Unitil goes through the solicitation process twice each year and this is the second such solicitation. The Commission uses one docketed proceeding per year for both of Unitil's

solicitations. In connection with the earlier solicitation, back in March, the Office of the Consumer Advocate (OCA) filed a letter of participation.

Also earlier this year, on April 8, Until filed a lead/lag study and asked the Commission to approve the use of that study in the setting of its default service rates. A lead/lag study analyzes the delay associated with the utility's collection of revenues from its rate payers and compares it to the timing of its payments for expenses. The study determines the appropriate amount of cash working capital necessary to fund operations. On June 24, 2015, Commission Staff filed a memorandum recommending that the Commission approve the lead/lag study.

II. POSITIONS OF THE PARTIES

A. UNITIL

1. RFP Process

Unitil testified that it conducted an open solicitation process, actively sought interest among potential suppliers, and provided access to information to enable potential suppliers to assess the risks and obligations associated with providing the services sought. Unitil said 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 previously expressed interest in receiving notices of solicitations. In addition, Unitil issued a media advisory regarding the RFP.

Unitil evaluated the bids on quantitative and qualitative criteria, including price, creditworthiness, willingness to extend adequate credit to Unitil to facilitate the transaction, capability of performing the terms of the RFP in a reliable manner, and willingness to enter into contract terms acceptable to Unitil. Based on its evaluation, Unitil selected Exelon Generation

Company, LLC (Exelon) as the winning bidder for the residential customer group; and also as the supplier of the large commercial and industrial (G1) customer group. Unitil selected NextEra Energy Power Marketing, LLC (NextEra), as the winning bidder for the small commercial customer and outdoor lighting group. All three proposed contracts are for a period of six months. Unitil said that it believes that Exelon and NextEra offered the best value in terms of both price and non-price considerations for the supply requirements sought. Unitil executed Amendments to its existing Power Supply Agreements with Exelon and NextEra. Copies of the Amendments are contained in the confidential version of the filing.

2. RPS Adder

In calculating energy rates, Unitil includes a renewable portfolio standard (RPS) compliance adder to the power supply costs. The RPS adder is a per kWh charge by which Unitil obtains revenue to meet its RPS compliance requirements pursuant to RSA Ch. 362-F. In its filing, Unitil calculated the RPS adder based on current market prices as communicated by brokers, its recent purchases of renewable energy certificates (RECs),¹ and anticipated alternative compliance payments (ACPs) for 2015 and 2016.

Unitil proposes to increase the RPS adder for the residential, small commercial, and outdoor lighting customers from 0.218 cents per kWh for compliance year 2015 to 0.504 cents per kWh in 2016. For the G1 customer group, the RPS adder will increase from 0.262 cents per kWh in 2015 to 0.538 cents per kWh in 2016. Unitil attributed the increase to the increase of RPS Class III (existing biomass) requirements from 0.5% of retail sales in 2015, to 8.0% of retail sales in 2016. Unitil said that the Company will likely have to pay the ACP for Class III compliance. At hearing, Unitil explained that the RPS Class III requirements may decrease from

¹ Electricity suppliers must obtain RECs for set percentages of their retail electric load, as required by the RPS statute. One REC represents one megawatt-hour (MWh) of electricity or an equivalent amount of thermal energy (3,412,000 Btu), generated from a renewable source.

the 8.0% currently required for 2016 compliance if the Commission exercises authority under 362-F:4 to adjust the requirement, but that it must plan for the requirements that currently exists. Unitil acknowledged that if the requirement changes, adjustments for over-collection may need to be made.

Unitil stated that it had procured some of its 2015 RPS compliance through the purchase of RECs. Unitil purchased the 2015-compliant RECs through an RFP issued in March 2015, and also purchased RECs outside of the RFP process. The Company said it will issue another RFP for RECs later this year. If it cannot purchase a sufficient number of RECs to meet its obligation, then it will make the appropriate ACPs into the renewable energy fund.

3. Retail Rates

Unitil calculated a rate of 9.409 cents per kWh for the residential customer class. For the typical residential customer using 646 kWh per month in electric service, the resulting monthly bill impact is an increase of 16.7%, from \$96.39 to \$112.46. Typical small commercial customers will experience monthly bill increases of 14.9%, and the average outdoor lighting customer's monthly bill will increase by 7.4%.

Consistent with Order No. 25,397, Unitil solicited variable energy prices to be used for G1 customers based on the Independent System Operator-New England (ISO-NE) real time hourly locational marginal prices (LMPs) for the New Hampshire load zone, weighted by the hourly loads of all G1 customers who take default service, plus a monthly adder. Unitil said 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 the fixed monthly power supply adders and the variable energy prices

determined each month. Unitil stated 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 Unitil. The result of the calculations will be used to prepare G1 customer bills.

The Company said that it has not proposed any changes to its default service solicitation process to split the winter period into separate solicitation periods. Unitil testified that the current solicitation process brings many benefits to customers. By bidding with its Massachusetts affiliate, Fitchburg Gas and Electric Light Company, it brings more electric load to bid at the same time, helping to maintain and enhance bidder participation. In addition, combining its bid with an affiliate provides administrative efficiencies.

Unitil said it is aware that Liberty Utilities, Inc. (Liberty), has received approval from the Commission to change its default service solicitation process in a manner that splits the winter period into two separate solicitations. Unitil said that Liberty's experience may be instructive and the Company plans to monitor how the change in procurement impact's Liberty's default service pricing. If it proves beneficial to customers, Unitil could revisit its default service methodology.

B. OCA

The OCA observed that the rate increase for residential customers generally reflects the higher cost of energy in the winter periods. The OCA said that the rate is competitive, and that it supports the petition. The OCA stated that it would monitor the effects of Liberty's change in default service procurement to examine the impact on residential customer rates.

C. Staff

Staff said that the Company had followed the bid solicitation, bid evaluation, and selection of the winning bidders in a manner consistent with Commission orders. Staff concluded that the resulting rates are market based and are just and reasonable. Staff recommended that the Commission approve the petition.

III. COMMISSION ANALYSIS

We find that Unitil's solicitation and bid evaluation procedures in procuring power for the six-month period beginning December 1, 2015, are consistent with the approved process. We further find that Unitil's selection of the winning bidders for their small, medium, and large customer groups is consistent with our prior orders. We are satisfied that Unitil's solicitation process meets the requirements of RSA 374-F:3, V(c) that default service be procured through the competitive market. The testimony of Unitil 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 therefore is just and reasonable pursuant to RSA 378:5.

We reviewed Staff's June 24, 2015, memorandum regarding Unitil's 2015 lead/lag study and we note that Unitil included the results of the study in its default service rate calculation. Staff said that the Company conducted the lead/lag study in the same manner in which it prepared prior studies, and recommended that we approve the lead/lag study for use in default service rates. We agree and hereby approve the lead/lag study for that purpose.

In response to our investigation into default service procurement (Docket No. IR 14-338), Liberty decided to transition to a default service procurement methodology that would split the winter months between two default service periods (February through July, and August through

January). Unitil, on the other hand, has decided to adhere to the default service schedule previously approved by the Commission. We will continue to evaluate the results of both Liberty and Unitil's procurement processes to determine whether one approach is more beneficial to customers.

Based upon the foregoing, it is hereby

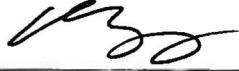
ORDERED, that the power supply agreement and transaction conformation entered into between Unitil Energy Systems, Inc., and Exelon Generation Company, LLC, for 100% of default service power supply for the residential (Non-G1) customer group for the six-month period beginning December 1, 2015, and the resulting rates, are hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement and transaction conformation entered into between Unitil Energy Systems, Inc., and NextEra Energy Power Marketing, LLC, for 100% of default service power supply for the small commercial and outdoor lighting (Non-G1) customer group for the six-month period beginning December 1, 2015, and the resulting rates, are hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement and transaction conformation entered into between Unitil Energy Systems, Inc., and Exelon Generation Company, LLC, for 100% of default service power supply for the commercial and industrial (G1) customer group for the six-month period beginning December 1, 2015, and the resulting rates, are hereby APPROVED; and it is

FURTHER ORDERED, that Unitil Energy Systems, Inc. shall file conforming tariffs within 20 days of the date of this order pursuant to N.H. Code Admin. Rules Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this ninth day of
October, 2015.



Martin P. Honigberg
Chairman

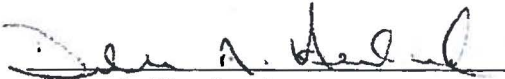


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director