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N.H.P.U.C. Case No. DE 12-003
Exhibit No. #7
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Unitil Energy Systems, Inc.

Proposed Changes to Default Service Procurement

July 17, 2012

Current Procurement Process

- Established in UES' Restructuring Proceedings
- DS Solicitation process well developed
  - Issuing RFPs, notifying potential bidders, method of evaluation, data provided in regulatory filings
  - Fixed monthly prices for Non-G1 and G1
- Non-G1 Procurement
  - 1 and 2 year contracts for 25% of requirements
- G1 Procurement
  - 3 month contracts for 100% of requirements

Proposed Changes

- General
  - RFP and regulatory approval processes stay same
  - Move procurements forward 1 month
- Non-G1 Procurement
  - Split Non-G1 into DOM and G2OL
  - 6 month contracts for 100% of requirements
- G1 Procurement
  - Variable price model (LMP + Adder)
  - 6 month contracts for 100% of requirements

Timing of RFP Issuance

- Move RFP issuance forward 1 month
  - Matches Unitil's FGE solicitation timing (Dec/Jun)
  - Brings more load to market at 1 time; attract more attention from suppliers
  - Avoid National Grid RFP; currently UES competes with NG for supplier interest (Nov/May)
  - Also avoids Nstar and WMECo timing (Jan/Jul)

Non-G1 Customer Grouping

- Since restructuring, UES has reported Non-G1 loads to ISO-NE in 2 groups:
  - DOM = Domestic
  - G2OL = Regular General (G2) + Outdoor Light (OL)
- UES would contract for DOM and G2OL separately
- These groups differ as follows
  - Migration: DOM = <1%, G2OL = 34% of sales
  - 2011 Load Factor: DOM = 56%, G2OL = 63%
  - 2011 RT $/MWH: DOM = $49.57, G2OL = $48.79

Non-G1 Contract Duration

- Benefits of moving to 6 month contracts
  - Shorter term inherently less risky, avoid premiums associated with factors that may change over time
  - Larger volumes brought to market, meaning more visibility and competition among suppliers
    - 25% Non-G1 = ~46MW
    - 100% of DOM & G2OL = ~189MW (DOM=124, G2OL=65)
  - NH has precedence with Granite State Electric

G1 Variable Pricing (1)

- Unitil has >5 years experience with FG&E
- Rather than solicit fixed prices, seek "fixed adders" to RT LMPs
- Monthly contract price equals sum of:
  - Real Time LMP for NH Load Zone, weighted by hourly loads of all G1 default service customers. Covers wholesale energy market charges
  - Fixed adder, which resulted from competitive bidding. Covers cost of non-energy wholesale charges (incl. capacity) and supplier's margin

G1 Variable Pricing (2)

- G1 migration = 84% of sales
- Limitations of fixed pricing
  - Suppliers reluctant to offer fixed prices because customers may return to DS when market prices rise. They only hedge what they expect to serve (16% of sales), thus are exposed to risk of losses.
  - When they do bid, suppliers are likely to include premiums to cover the risk of offering a fixed price
  - When migration rates are high, fixed pricing become less efficient

G1 Variable Pricing (3)

- Benefits of variable pricing
  - DS pricing would reflect current markets, which should promote retail choice, eliminate gaming
  - Suppliers not at risk of having to honor a fixed price should their load obligation increase due to reverse migration (in response to high prices)
  - Very likely to increase supplier participation in default service RFPs
  - More efficient pricing, since less incentive to add premiums

G1 Contract Duration

- Current 3 Month Contracts
  - 3 month G1 contract term intended to reflect current markets; not undermine retail choice
- Variable pricing better reflects market prices
- Benefits of moving to 6 months
  - Market interest. Combining with Non-G1 loads will increase interest, result in better pricing
    - Avoid bringing only 12MW of G1 Load to market
  - Administratively efficient. Would result in two fewer regulatory filings each year
  - Greater contractual volume. Double the contract term increases volume, increasing interest

Transition

- Due to existing Non-G1 contracts, UES would modify the requirements for its next 2 RFPs
  - Nov 2012: 6 mo. 25%, 1 mo. 75%
  - Jun 2013: 5 mo. 75%, 1 mo. 100%
  - Dec 2013: 6 mo. 100% (new schedule)
- G1 transition as follows
  - Nov 2012: 7 mo. 100%
  - Jun 2013: 6 mo. 100% (new schedule)