

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 08-092

UNITIL ENERGY SYSTEMS, INC.

Request for Interim Adjustment to External Delivery Charge

Order Following Hearing

ORDER NO. 24,889

August 29, 2008

APPEARANCES: Dewey & LeBoeuf LLP by Meabh Purcell, Esq., on behalf of Unitil Energy Systems, Inc. and Suzanne G. Amidon, Esq., on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On July 9, 2008, Unitil Energy Systems, Inc. (UES) proposed a change to its external delivery charge to reflect updated estimates of transmission costs that were not available when the Commission approved the external delivery charge rate that became effective May 1, 2008 in Docket No. DE 08-040, *Unitil Energy Systems, Inc.* See Order No. 24,851 (April 23, 2008). With its filing, Unitil submitted the testimony and related schedules of Francis X. Wells, Senior Energy Trader for Unitil Service Corp. which provides management and administrative services to UES.

The external delivery charge is the mechanism that allows UES to recover the costs associated with transmission service provided outside its system, and other costs for transmission and energy related services. UES stated that it underestimated the transmission related external delivery charge by \$3.3 million in its original filing in Docket No. DE 08-040. In the instant petition, UES proposed an interim increase in the external delivery charge rate from \$0.01131 per kilowatt hour (kWh) to \$0.01524 per kWh, effective September 1, 2008 through April 30,

2009. According to the petition, the rates for the residential and general service classes will increase by about 2.5 percent and the large general service class rates will increase by about 2.1 percent.

On July 17, 2008, the Commission issued an Order of Notice scheduling a hearing for August 21, 2008. The hearing was held as scheduled.

II. POSITIONS OF THE PARTIES

A. Until Energy Systems, Inc.

UES testified that the external delivery charge includes the regional transmission rate (which is established by a tariff approved by the Federal Energy Regulatory Commission (FERC) and administered by the Independent System Operator-New England (ISO-NE)), and the Northeast Utilities Network Integration Transmission Service (NU Network Service) charge. UES testified that the regional transmission rate that took effect on June 1, 2008 is based on the sum of 2007 revenue requirements of the New England transmission owners plus an estimate by each transmission owner of the revenue requirements for capital additions expected to be put into service during 2008. UES said that the regional transmission rate also includes the reconciliation of estimated revenue requirements for the anticipated 2007 capital additions with revenue requirements based on the actual 2007 capital additions.

According to UES, it estimated the regional transmission rate in connection with Docket No. DE 08-040 using the rates in effect at the time and its estimate of the revenue requirements for capital additions expected to be put into service during 2008. UES explained that the regional transmission rates in effect at that time were based on 2006 revenue requirements plus an estimate of the revenue requirements for capital additions expected to be put into service during 2007. UES said that the revenue requirements were based on an October 2007 list of

expected capital improvements prepared by the ISO-NE, which was the most updated list available at that time.

In testimony, UES explained that it underestimated the reconciliation of the estimated 2007 revenue requirements and the New England transmission owners' estimate of revenue requirements for 2008 capital additions. UES attributed the increase in regional transmission costs contained in its proposed interim rates as compared with current rates as follows: 30 percent to increases in the reconciliation of 2007 revenue requirements; 32 percent to increased estimates in the transmission owners' revenue requirements for 2008 capital additions; and 38 percent to a general increase in 2007 revenue requirements over 2006 requirements for items not directly related to either capital investment or the reconciliation of 2007 revenue requirement estimate. At hearing, UES explained that these general revenue requirements consisted of transmission owners' costs which could not be easily identified.

In preparing UES' estimated share of the NU Network Service revenue requirements, which was based on NU's June 2005 estimate for the January through May 2007 billing period and NU's June 2006 estimate for the June through December 2007 billing period, UES's share of the NU Network Service revenue requirements was underestimated by \$1 million. UES testified that NU attributes the increase to higher than estimated incremental revenue requirements associated with capital additions, lower than estimated transmission revenue credits from the ISO-NE through regional transmission rates, and a general increase in transmission costs.

UES explained that NU estimates the incremental revenue requirements by first estimating the level of capital additions to be put into service for the year. To calculate a revenue requirement amount, NU multiplies the capital additions by a fixed capacity rate which NU calculates by dividing prior year revenue requirements by total transmission plant. NU

informed UES that the actual fixed capacity rate for 2007 was higher than the estimated fixed capacity rate, which contributed to increased revenue requirements.

At hearing, UES testified that in its initial filing it failed to include costs associated with ISO Schedule 1, which is an annual cost of approximately \$250,000. UES stated that it proposes to recover ten months of these costs over an eight-month period. UES said that the remaining two months of costs would be recovered at the time it files its retail rate reconciliation for effect May 1, 2009.

UES said that it proposed to recover the transmission service costs and the increase in the NU Network Service costs in rates effective September 1, 2008. UES explained that recovering the additional transmission costs on a current basis would avoid a major under-recovery in the Company's next annual reconciliation filing. In response to inquiry from Staff, UES stated that another reason it proposed to recover the underestimated transmission related costs with this interim filing is to avoid adding the \$3.3 million under-recovery to what the Company expects will be another increase in transmission costs when it files its stranded cost and external delivery charge rate reconciliation and rate revision for effect on May 1, 2009. Finally, UES testified that the bill impacts for residential and general service classes will be an increase of about 2.5 percent, for large general service customers an increase of about 2.1 percent, and for the outdoor lighting class an increase of about 1.5 percent.

B. Commission Staff

In response to a Staff question, UES stated that the applicable period for the revised estimates of the transmission rates administered by the ISO-NE is June through May. UES stated that it became aware of the new tariff rates in early June. In response to a similar question regarding the NU Network Service rates, UES stated that NU informed UES of the annual true-

up and new rates in early June. Staff inquired whether UES had considered moving the time frame for its annual stranded costs and external delivery charge reconciliation and rate revision date to a later date that accommodates the fact that the most recent transmission related rates and estimated costs are available in June. UES responded that it had considered changing the dates for the annual reconciliation but that it had not reached a final conclusion on the matter.

Staff concluded by recommending the Commission approve UES' petition. Staff stated that UES cannot avoid the costs and commended UES for proposing to make a timely adjustment to the transmission-related external delivery charge rate. In addition, Staff expressed support for changing the dates of the annual reconciliation filing to allow the external delivery charge rate to reflect the most recent ISO-NE and NU Network Service transmission costs.

III. COMMISSION ANALYSIS

We recognize that the NU Network Service costs and the costs assessed by the ISO-NE pursuant to a FERC-approved tariff for UES' share of transmission related expenses are costs that UES must pay. We agree that it is reasonable and in the public interest for UES to make the adjustment to the transmission-related costs in its external delivery charge rates as soon as reasonably possible. Therefore, we approve the requested adjustment for rates effective September 1, 2009 on a service-rendered basis.

We also find merit in the suggestion that UES consider changing the date of its annual stranded cost recovery and external delivery charge reconciliation and rate revision to allow for the inclusion of the updated transmission related costs that are effective June 1 of each year. Therefore, we direct UES to meet with Staff to discuss alternatives to UES' current filing date. Finally, while we understand that UES may have some difficulty in identifying the costs of transmission owners that constitute 38 percent of the revenue requirements for regional

transmission costs, we direct UES to provide a description of the categories of transmission owner expenses with their next retail rate reconciliation filings.

Based upon the foregoing, it is hereby

ORDERED, that Unitil Energy Systems, Inc.'s proposed revision to its external delivery charge rates to take into account the June 1 transmission related costs adjustments in NU Network Service and ISO-NE transmission costs is hereby **APPROVED**; and it is

FURTHER ORDERED, that UES and Staff discuss alternatives to the timeframes wherein UES files its annual stranded cost charge and external delivery charge rate reconciliation and rate revision; and it is

FURTHER ORDERED, that UES file tariffs complying with the terms of this Order within 30 days hereof.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of August, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary