

DE 08-015 – Unitil Energy Systems, Inc.

**Default Service RFP
Bid Evaluation Report**

Large Customers (100% G1): November 1, 2008 – January 31, 2009
Small Customers (25% Non G1): November 1, 2008 – October 31, 2010

RFP Issue Date: July 31, 2008

REDACTED VERSION

File Date: September 12, 2008

Unitil Energy Systems, Inc. (“UES”)
Default Service RFP
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Unitil Energy Systems, Inc. Bid Evaluation Report

Introduction

On Thursday, July 31, 2008, UES announced that its Request for Proposals (“RFP”) for Default Service (“DS”) supplies for the period beginning November 1, 2008 was available. In accordance with UES’ DS supply proposal as approved by the Commission in Order No. 24,511 (“the Order”), UES issued this RFP to obtain the next three-month DS power supply needed to serve G1 (or “large”) customers and 24-month DS power supply to serve Non-G1 (or “small”) customers.

The RFP document issued on July 31, 2008, was consistent in form to the prior RFP issued by UES on May 8, 2008. Shortly after issuance, UES filed with the Commission a redlined version of the current RFP, marked to show changes from the RFP issued on May 8, 2008. A copy of the RFP documents issued to the market on July 31, 2008, including the Proposal Submission Form, the proposed Power Supply Agreement (“PSA”), and the proposed PSA Amendment is attached to the petition as Schedule RSF-2.

UES received a positive response to this RFP, receiving bids from capable suppliers who competed to serve the load requirements. UES awarded the small customer default service requirement to Conectiv Energy Supply, Inc. (“Conectiv”) and the large customer default service requirement to FPL Energy Power Marketing, Inc. (“FPL Energy”), who in UES’s opinion offered the best overall value for the respective service requirements. This Bid Evaluation Report (“Report”) describes UES’s solicitation process and its selection of the winning bidders.

The default service power supply prices obtained by UES are the result of a competitive solicitation and are reflective of current market conditions. The supplies purchased in the current solicitation will comprise twenty-five percent (25%) of the DS power supply

provided to small customers and one-hundred percent (100%) of the DS power supply provided to large customers, both beginning November 1, 2008.

UES' comparison of bids, which is confidential and for which UES seeks protective treatment as described in the cover letter and motion for protective treatment accompanying this filing, is attached as Tab A to this Report. Details of the market response, including bid prices, UES' capacity cost estimates, and certain non-price considerations and selection rationale, are included among the Tab A materials.

Solicitation Process

UES accomplished market notification of the RFP by announcing its availability electronically to all participants in NEPOOL, in particular, to the members of the NEPOOL Markets Committee on Thursday, July 31, 2008. UES also announced the issuance of the RFP to a list of contacts from energy companies who have previously expressed interest in receiving copies of UES's solicitations. During the process of soliciting interest in the RFP, the list was updated as appropriate. The list includes individuals representing 37 separate power suppliers who were provided with the announcement; this count does not include other distribution companies, consultants (unless working on behalf of a named client who might participate), brokers or members of public agencies. In addition, UES issued a media advisory to the power markets trade press announcing the issuance of the RFP.

The RFP documents and accompanying data files were provided to interested parties using Unitil Corporation's website (www.unitil.com/rfp), under "Current Procurement" for UES (please note, those documents can now be found under the "Concluded Procurements" section). The RFP described the particulars of UES' DS, the related customer-switching rules, the form of power service sought, and the evaluation criteria. The RFP documents included a Proposal Submission Form, a proposed Power Supply Agreement ("PSA"), a proposed PSA Amendment for use by existing suppliers, and various data files.

In order to gain the greatest level of market interest in supplying the loads, UES endeavored to provide potential bidders with appropriate and accessible information. Along with the RFP, UES provided potential bidders with historical hourly loads and daily capacity tag values for UES's large customer DS for the period from January 1, 2006 through July 27, 2008. UES also provided an Excel spreadsheet containing historic retail monthly sales and customers reports from May 2003 through June 2008. The monthly reports detail by customer rate class the monthly retail billed kWh sales and the number of customers receiving DS and competitive generation supply. The hourly loads and daily capacity file was updated prior to final bidding to provide data through August 31, 2008, and the retail sales report was updated to provide data through July 2008.

The RFP instructed potential suppliers on how to access class average load shape (8760 hours) data located on Unitil Corporation's website and provided distribution loss factors associated with each rate class. Data on large customer characteristics and migration activity was also provided. The data included a generic listing of all G1 customers showing each customer's annual energy consumption, peak demand and ICAP tag for the capacity year starting June 1, 2008, and listed each customer's current supply type (default service or competitive generation), date of last transaction, and meter read billing cycle. Finally, UES provided estimated monthly volumes expected to be purchased under default service for the term during which service was sought. As described in the RFP, UES used these estimated monthly loads to evaluate and weight competing bids in terms of price. In the RFP, UES refers to these estimated loads as the "evaluation loads". The RFP makes clear that the supplier's obligation is for actual loads and is not in any way limited by the RFP's use of the evaluation loads.

Throughout the solicitation, UES contacted potential bidders, responded to bidder questions, researched bidder qualifications and actively participated in maintaining bidder interest through regular telephone and electronic communications. UES did not discriminate in favor of or against any individual potential supplier who expressed

interest in the solicitation, but endeavored to assist each interested bidder in their understanding of the transaction sought via the solicitation.

On Tuesday, August 26, 2008, UES received proposals from several respondents that included detailed background information on the bidding entity, proposed changes to the contract terms and indicative pricing. UES reviewed the proposals and worked with the bidders to establish and evaluate their creditworthiness, their extension of adequate credit to UES to facilitate the transaction, their capability of performing the terms of the PSA in a reliable manner, and their willingness to enter into contractual terms acceptable to UES. UES negotiated with all potential suppliers who submitted proposals in order to obtain the most favorable contract terms each supplier was willing to offer. All bidders were invited to submit final bids.

On Tuesday, September 9, 2008, UES received final pricing from bidders and conducted its evaluation. UES selected and notified Conectiv and FPL Energy as the respective winners of the Non-G1 and G1 service requirements. All other bidders were notified that they were not selected.

Evaluation of Implied Capacity Pricing

As required in the Order, UES solicited fixed monthly price bids for DS power supply that provide energy-and-capacity under a fixed price and energy-only under a fixed price. As part of its bid evaluation, UES calculated the implied cost of capacity reflected in the two sets of bid prices. UES estimated the cost of capacity during the procurement period and determined whether or not to procure capacity under a fixed price based on a comparison of the implied capacity costs bid by the respondents and UES' estimates of capacity costs. In the current RFP, UES contracted under prices that include the cost of capacity under fixed prices. The implied capacity costs reflected in the bids, and detail of UES' estimates of the capacity costs, are provided in Tab A.

Selection of Winning Bidders

UES based its selection of winning bidders on both quantitative and qualitative criteria. When the indicative bids were received, UES coordinated with bidders to obtain the best non-price terms each bidder was willing to offer to UES and to establish confidence in each bidder's ability to perform. When final bids were received, UES compiled weighted average prices using the evaluation loads that were issued to bidders along with the RFP. UES then evaluated the price and non-price aspects of the final bids received, including the decision of whether or not to include the cost of capacity under fixed prices, and selected winning bidders for each supply requirement sought. The comparison of bids contained in Tab A, which is confidential and which includes materials documenting UES's rationale for its selection of winning bidders, is attached.