STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 08-040

UNITIL ENERGY SYSTEMS, INC.

Annual Reconciliation and Rate Filing

Order Following Hearing

O R D E R N O. 24,851

April 23, 2008

APPEARANCES: Dewey & LeBoeuf LLP by Meabh Purcell, Esq., on behalf of Unitil Energy Systems, Inc.; Office of Consumer Advocate by Meredith Hatfield, Esq., on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On March 14, 2008, Unitil Energy Systems, Inc. (UES) filed its annual reconciliation of several adjustable rate mechanisms established pursuant to its tariffs approved in Order No. 24,072, 87 NH PUC 694 (2002). These adjustable rate mechanisms are the stranded cost charge, which includes the transition service charge, and the external delivery charge. UES proposes to make the requested rate changes effective May 1, 2008, on a service-rendered basis.

According to the petition, the stranded cost charge and the external delivery charge would increase for customer classes as follows: 3.1 percent for the residential class; 3.1 percent for the regular general (G2) service class; 4.1 percent for the large general (G1) service class; and 1.8 percent for the outdoor lighting class. UES explained that the increases in the stranded cost charges are primarily a result of the reconciliation beginning balances being under-collections instead of over-collections as was the case in the prior period. In addition, UES reported that the increases in the external delivery charge resulted from a greater than expected increase in overall transmission-related costs and a change in the beginning reconciliation balance. *See* Exhibit KMA-1, Testimony of Karen Asbury, page 12.

The Commission approved an increase in UES' default service energy charges for effect May 1, 2008 in Order No. 24,838 (March 21, 2008). UES stated that, if the Commission approves the annual reconciliation filing, effective May 1, 2008, the total average class bills for customers taking default service would increase as follows: 8.2 percent for the residential class; 8.3 percent for the regular general (G2) service class; 12.8 percent for the large general (G1) service class; and 4.9 percent for the outdoor lighting class.

On March 19, 2008, the Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28, II. On March 27, 2008, the Commission issued an order of notice, scheduling a hearing for April 22, 2008.

II. POSITIONS OF THE PARTIES

A. Unitil Energy Systems, Inc.

UES explained that the stranded cost charges are payment obligations of the company based on a prior contractual relationship with an affiliate, Unitil Power Corporation (UPC). Effective May 1, 2003, UPC waived certain contractual rights to take action against UES in connection with the power supply agreements in exchange for UES' agreement to make monthly contract release payments (CRPs) to UPC, equaling the sum of (1) the portfolio sales charges, (2) the residual contract obligations, (3) Hydro-Quebec support payments, and (4) true-ups from prior periods. The stranded cost charge is the mechanism by which UES recovers the CRP amounts from retail customers.

In its filing, UES proposed a stranded cost charge as follows: (1) $0.00882 per kilowatt-hour (kWh) for the residential class, Rate G2 regular general service kWh meter, general service quick recovery water heating, space heating, and controlled off-peak water heating, and outdoor lighting classes, (2) $0.00298 per kWh and $1.55 per kW for the regular general service Rate G2 class, and (3) $0.00267 per kWh and $2.25 per kVA for the large general service RateG1 class. *See* Exhibit KMA-1, Testimony of Karen Asbury, pages 5-6. UES testified that these proposed charges represent an overall average increase of $0.00032 per kWh over the stranded cost charge currently in effect. According to UES, the increase is due primarily to an increase in the prior-period reconciliation balance.

UES explained that the current total stranded cost charge for all classes, with the exception of the G1 class, includes a charge of $0.00014 per kWh associated with the transition service charge balance. UES testified that the G1 class' total stranded cost charge includes a credit of $0.00119 per kWh for the same transition service charge balance.

UES stated that it calculates an energy-based stranded cost charge in accordance with its tariff, Schedule SCC. Pursuant to the tariff, UES first calculates the stranded cost charge based on a uniform per kWh charge by calculating the prior period over- or under-collection as of April 30, 2008, plus the forecast of costs for the period May 2008 through April 2009, including interest for the same period, and dividing that sum by calendar month forecasted kWh sales for May 2008 through April 2009. UES stated that this uniform rate is applied equally to all customer classes other than G2 and G1. The company stated that, in addition to the energy-based stranded cost charge, the regular general service G2 class and large general service G1 class also pay a fixed demand-based stranded cost charge which was developed and approved in Order No. 24,619, 91 NH PUC 199 (2006). This charge has not changed in this filing. For class G2 customers, the demand-based stranded cost charge is $1.55 per kW and for class G1 customers, the demand-based stranded cost charge is $2.25 per kVA. These charges are in addition to the stranded cost charge of $0.00298 per kWh for class G2, and $0.00267 per kWh for class G1.

The company testified that the current total stranded cost charge, except for the G1 class, also includes a charge of $0.00014 per kWh associated with the balance for transition service charge. UES testified that, after separately reconciling the stranded cost and transition service charges for two years, it now proposes to roll the transition service charge into the stranded cost charge. As a result, all classes, except for the G2 demand and G1 class, will see an increase of $0.00018 per kWh in its stranded cost charge. The company testified that the G2 demand class will see an increase of $0.00011 per kWh, and the G1 class will see an increase of $0.00148 per kWh. *See* Exhibit KMA-1, Testimony of Karen Asbury, page 7. UES testified that it will continue to separately calculate the transition cost charge reconciliation, but that for future filings, any amounts in the transition service charge will be rolled into the stranded cost charge.

UES explained that the external delivery charge is the mechanism by which UES recovers the costs it incurs associated with providing transmission services outside UES' system and other costs the company incurs for energy- and transmission-related services. UES proposed an external delivery charge of $0.01131 per kWh applicable to all classes, an increase of $0.00434 per kWh compared to the rate currently in effect. According to UES, the increase is due primarily to increased costs as well as a significant difference between the prior period's beginning balance (an over-recovery of $1.3 million) and the current period's beginning balance (an under-collection of $1.1 million). The company attributes the under-collection to increased costs, the inclusion of the rate case surcharge balance in November 2007 and slightly lower revenues than forecasted for UES.

UES testified that it experienced higher-than-estimated transmission costs for each of the major components of external delivery charge costs. With respect to the three categories of external delivery costs with the highest associated costs (third-party transmission providers, regional transmission and operating entities, and third-party transmission providers), UES testified that the costs were incurred under tariffs approved by the Federal Energy Regulatory Commission (FERC) and, therefore, constituted mandated costs which were directly passed on to customers. According to UES, total projected external delivery charge costs for February 2007 through April 2008 are approximately $636,000 higher than the estimated costs.

The resulting stranded cost and external delivery charges by class are as follows:

Class	Stranded Cost Charge $ per kWh	External Delivery Charge $ per kWh
Residential	$0.00882	$0.01131
Outdoor Lighting	$0.00882	$0.01131
General Service G2	$0.00822	$0.01131
Regular General Service G2	$0.00298*	$0.01131
Large General Service	$0.00267*	$0.01131

Stranded cost charges for G2 and G1 classes also include demand components not shown in the above charts. Those demand components have not changed in this proceeding and remain $1.55 per kilowatt for G2 and $2.25 per kVA for G1. UES requested that the Commission approve the rates to be effective May 1, 2008.

B. Office of Consumer Advocate

OCA expressed its concern about the need for UES to control external delivery costs as much as possible. In response to questions from the OCA, UES testified that it maintained an active presence in matters concerning the regional grid operator, ISO New England, and explained that it is a member of the ISO reliability committee. When explaining the difference between the estimated external delivery costs and the actual costs, UES said that certain unanticipated events resulted in higher actual external delivery costs than the company originally estimated in its May 2007 filing. As an example, UES described an increase in delivery distribution rates which resulted from a settlement agreement filed for approval with the FERC by Public Service Company of New Hampshire in docket number ER08-349-000. UES asserted that it attempted to provide the best estimate of future external delivery costs in this filing. UES noted that with respect to external delivery costs within its control, such as legal charges and data and information services costs, the company attempted to keep costs at a reasonable level.

The OCA inquired about the duration of the various CRPs that are part of stranded cost charges. UES responded that CRPs would continue as follows: Bay State Gas Company buyout payments through December 2008; Indeck buyout payments through September 2009; Mirant payments through October 2010; and Hydro-Quebec support payments through 2020. According to the company, with the largest buyout obligations paid as of October 2010, the stranded cost charge would significantly decrease at that time.

The OCA also inquired about the method used by UES to develop its forecasted sales. The company explained that it used the historical data for the last five years, including meter counts and degree days, to discern trends to use in the development of a forecast. UES testified that the forecast sales represented a 0.7 percent decrease from the forecast filed in 2007. The OCA recommended that the Commission instruct the company to adjust its forecast when warranted by economic events that impact electric usage.

C. Commission Staff

Staff noted that, in its cover letter for the filing, UES said that none of its customers participated in the ISO New England load response program under UES' tariff, but that nonetheless UES was required by ISO New England to pay for general costs associated with the program. UES explained that the general costs represented payments to participants in the load response program who curtail load in response to demand by ISO New England. According to the company, UES must pay those general costs despite the fact it does not have any customers currently enrolled in the load response program. UES further explained that, pursuant to its tariff, customers would have to pay set up costs to enroll in the load response program. UES noted that some of its customers had enrolled in the load response program through competitive suppliers who did not request set-up costs up front but instead claimed a portion of payments made to customers by ISO New England for responding to demands for curtailment.

Staff also inquired why UES is seeking at this time to roll in transition service charges with the stranded cost charge. UES explained that its stranded cost tariff was initially designed to include transition costs, but that the company had agreed to conduct separate reconciliations in 2006 and 2007 to assure that a large non-G1 transition service recovery over-collection credit was returned to only the non-G1 customers. UES said that if the charges were separately reconciled in this filing, the additional increase for non-G1 customers would be $0.00020 per kilowatt-hour, and G1 customers would experience a decrease of $0.0046 per kilowatt-hour.

III. COMMISSION ANALYSIS

Through its filing and testimony, UES has accurately calculated appropriate changes to the adjustable rate mechanisms that are the subject of this proceeding. Accordingly, we find UES's stranded cost and external delivery charges to be just and reasonable and in the public interest and therefore we approve those charges for effect May 1, 2008, pursuant to RSA 378:7. These charges shall be subject to adjustment and reconciliation depending on the Staff audit and Staff's ongoing review. We also agree with the Company that it is appropriate at this time to roll in the transition service charge reconciliation with the stranded cost charge, and direct UES to file the appropriate tariff changes.

At hearing, UES testified that it continued to pay general costs associated with the ISO New England demand response program, and that while some of its customers had enrolled in the demand response program through competitive suppliers, no customers had enrolled in the demand response program under the UES tariff. We direct UES in its next filing to address more fully its customer's participation in the ISO New England demand response program and make any recommendations it concludes would be well suited to optimizing participation in such programs.

Based upon the foregoing, it is hereby

ORDERED, that the annual reconciliation and rate filing of Unitil Energy Systems, Inc. is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil Energy System, Inc. file a compliance tariff with the Commission within 30 days of the date of this order.

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

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary

GARY EPLER
UNITIL ENERGY SYSTEMS INC
6 LIBERTY LANE WEST
HAMPTON NH 03842-1720

MEREDITH A HATFIELD
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301

RORIE HOLLENBERG
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301-2429

MEABH PURCELL
DEWEY & LEBOEUF LLP
260 FRANKLIN ST
BOSTON MA 02110-3173

KEN E TRAUM
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301-2429

04/23/08 Order No. 24,851 issued and forwarded to all parties.
Copies given to PUC Staff.

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FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),

WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:

DEBRA A HOWLAND
EXEC DIRECTOR & SECRETARY
NHPUC
21 SOUTH FRUIT STREET, SUITE 10
CONCORD NH 03301-2429