

DE 09-137  
Unitil Energy Systems, Inc.  
Petition for Approval of Distributed Energy Resources Investment Proposal  
and Proposed Tariff

Closing Statement of the Office of Consumer Advocate  
March 12, 2010

The OCA supports the use of distributed generation as a tool to “increase overall energy efficiency and provide energy diversity by eliminating, displacing, or better managing energy deliveries from the centralized bulk power grid, in keeping with the objectives of RSA 362-F:1.” RSA 374-G:1. The OCA agrees with the Legislature’s conclusion that distributed generation “is therefore in the public interest to stimulate investment in distributed energy resources in New Hampshire by encouraging New Hampshire electric public utilities to invest in distributed energy resources including clean and renewable generation benefiting the transmission and distribution system under state regulatory oversight.” If done properly and according to the letter and spirit of RSA 374-G, distributed generation investments should, over time, minimize costly transmission and distribution system investments, increase fuel diversity and the use of renewable energy, and decentralize power generation, bringing generation closer to load and making it more open to competitive forces.

Before turning to the merits, the Office of Consumer Advocate (OCA) commends Unitil Energy Systems, Inc. (UES) for being the first utility in New Hampshire to propose a process for the consideration and approval of Distributed Energy Resource (DER) projects as well as for proposing several projects pursuant to the new statute. The OCA also thanks PUC Staff for its diligent efforts reviewing this first filing under the statute.

In its original filing, on August 5, 2009, UES requested several approvals pursuant to RSA 374-G, including approval of proposals regarding: 1) a two-stage framework for review of its DER investment proposals; 2) a DER project screening model and process; 3) a DER rate recovery mechanism and DER tariff; and 4) its 2009 DER investment program. UES also identified specific projects, including: 1) a time-of-use/demand response pilot program which was previously approved by the Commission as a non-DER project; 2) a solar domestic hot water system at Crutchfield Place, a 105 unit low income multifamily property in Concord, which was later withdrawn; 3) a solar photovoltaic installation at the new Stratham fire house (Stratham); and 4) a solar photovoltaic installation and a Capstone microturbine combined heat and power (CHP) unit for school administrative unit 16 (SAU 16).

Below, the OCA will address several issues including the proposed process for review of DER project filings, the methodology and data inputs used to determine whether a proposed DER investment is consistent with the public interest (see RSA 374-G:5, II), and the two proposed projects.

The OCA supports the use of a two-stage process for the filing and review of proposed DER investments pursuant to RSA 374-G. The first stage should begin when a utility files proposed DER projects for pre-approval, including a determination by the Commission that the projects are consistent with the public interest. *See* RSA 374-G:5, II. The second stage should begin only after the utility has incurred the costs associated with the DER projects and the projects are used and useful in providing service to the utility's customers. *See* RSA 374-G:1 (authorizing utilities to seek rate recovery of DER investments), RSA 378:28 (prohibiting the Commission from including in permanent

rates any return on any plant, equipment, or capital improvement which has not first been found by the commission to be prudent, used, and useful) and RSA 378:30-a (prohibiting the inclusion in rates of construction work in progress, i.e., plant, equipment and capital improvements that are not used and useful). The second stage should involve a review of the actual costs and a determination of whether the costs were prudently incurred. Only at the conclusion of the second stage, should the utility begin to recover its DER investments through rates.

The process supported by the OCA is most analogous to a process recently approved by the Commission, in DW 08-098, for a Water Infrastructure and Conservation Adjustment (WICA) for Aquarion Water Company of NH. *See* Order No. 25,019, September 25, 2009. For example, under the approved WICA process (simplified here for illustration purposes), Aquarion filed its proposed projects for pre-approval by November 1, 2009. These projects were reviewed by the parties and approved by the Commission. The company will file for authorization to recover its capital costs and expenses for those projects that are in service by November 1, 2010. If the Commission approves those projects, the effective date of the surcharge for 2010 WICA costs will be January 1, 2011.

The OCA views the DER surcharge as distinguishable from the step adjustment mechanism, as proposed by Staff, which the Commission can use to mitigate the financial impact of a large capital investment that a utility makes close in time to the end of a rate case. Typically, the Commission has allowed step adjustments in conjunction with rate cases for larger capital projects which, if not recoverable, would have a detrimental impact on a utility's rate of return. *See, e.g.*, Hampstead Area Water Company, Inc.,

Order No. 24,626, 91 NH PUC 225, 230 (2006). We view the DER surcharge as more akin to the surcharge mechanism used by gas and electric utilities to recover capital investment and expenses for improved reliability, and the WICA mechanism as described above.

The OCA has concerns about the use of a reconciling surcharge mechanism, as proposed by Unitil. Our concern is that such a mechanism would be based – at least in part – upon estimates and projections of expenses and capital costs. The OCA views UES’s proposed reconciling surcharge as potentially creating a situation where the utility is collecting through rates costs that have not yet been expended or costs for capital investments that are not yet used and useful, or found to be prudent, as required by RSA 378:28 and RSA 378:30-a. The OCA believes that the DER cost recovery mechanism – whatever it is ultimately called – should be based upon known and measurable costs, and that it should only include the costs of capital investments that are used and useful in providing service to a utility’s customers.

The OCA takes no position on the Stratham project, but wishes to acknowledge the efforts and dedication of the residents and leaders of Stratham who have worked hard to develop that project. It is our hope that it is funded in an appropriate way. The OCA supports the approval of the SAU 16 project for recovery through the DER mechanism that we discussed above. Additionally, the OCA does not oppose the withdrawal of the Crutchfield Place project at this time, but we urge UES to continue to work with Crutchfield Place to investigate the potential for a project at that site.

The OCA believes that in its next Least Cost Integrated Resource Plan (IRPs) filed by Unitil pursuant to RSA 378:38, the Company should include details about their

planned use of DER in the future. We believe that this is consistent with the requirements of the IRP law, and that it provides a useful planning mechanism to ensure that DER projects fit into the Company's overall planning for its distribution system.

The OCA supports the Company's proposal to include some portion of project benefits that are difficult to monetize, such as those related to economic development benefits. RSA 374-G:5, II expressly requires the Commission to balance various factors including energy security, environmental, and economic development benefits in its analysis of DER projects. We believe that it is possible to assign value to these factors and that it is reasonable for the Commission to include some percentage of the total estimated value for these societal benefits. The Company provided scenarios in which 25%, 50% or 100% of these benefits might be incorporated for the Stratham Project, and we believe that it is appropriate to use some portion of those benefits in the cost benefit analysis of projects. The OCA takes the position that the Commission should use these different scenarios to inform its judgment as to how much of these benefits should be used in its determination to approve the project.

Thank you for the opportunity to make this closing statement.