Unitil Energy Systems, Inc.

Contingency Plan for Default Service

UES RFP

- UES's next default service request for proposals (RFP) was issued on August 26, 2014.
- Solicitation is for default service effective December 1, 2014 through May 31, 2015.
- Solicitation is for a 100% load share for the small (Domestic); medium (G2 & OL) and large (G1) customer groups.
- The small and medium solicitations are for fixed monthly prices and the large solicitation is for variable monthly prices (a LMP model plus a fixed monthly adder).

Issue

- Over the last few years, there has been a decline in participation in the RFP process for various reasons. For example, last year, ISO New England implemented a winter reliability program and uncertainty regarding cost allocation led to a decline in RFP participation. Ultimately, the costs of the winter reliability program were allocated to the real-time load obligation. ISO New England is proposing to implement a winter reliability program for the 2014/15 winter season with costs to be allocated to real-time load obligation which is paid by the load serving entities.[1]
- If participation declines to where there are no bidders willing or able to provide fixed-price bids for a default service customer group load; or if the results are not consistent with a competitive solicitation, a supplier may not be selected and awarded to supply a default service customer group and a failed auction may result.
- UES believes that the likelihood of a failed auction is low as there appear to be suppliers willing to provide this service as long as they can continue to recover their costs in their pricing (bids). However, the Company is taking this opportunity to advise the Commission of several of the alternatives it has and the steps it would take to ensure that default service remains available to its customers. Most importantly, should the potential for a failed auction become significant, UES will contact the Commission and Commission Staff to discuss the Company's contingency plan.

[1] http://isonewswire.com/updates/2014/7/14/iso-ne-and-nepool-file-proposal-with-ferc-to-implement-a-win.html

Communication

- Consistent with its normal practices, UES plans to be in direct contact with potential bidders early on in the RFP process in an effort to assess the viability of the current solicitation. UES believes that these early contacts will allow it to gauge the responsiveness of the market.
- In the event that the RFP process results in no bidders, UES would consider the following options. The specific option chosen would depend on what is learned through discussions with potential bidders and former suppliers, the Company's assessment of market conditions, and discussions with the Commission and Commission Staff.

Contingency Plan Options

- Option 1: UES would issue a new RFP for an abbreviated procurement period as soon as reasonably possible.[2] The new RFP would seek fixed price offers for the specific customer group(s) for a period of 1 month to 3 months under otherwise standard terms of default service procurement. If such an approach were followed and successful, UES would require multiple solicitations but would preserve access to fixed price service. Depending on the timing of such make-up RFPs, UES could require a waiver of customer notice provisions.

  [Potential timing: New RFP issued on September 30th approx. 60 days prior to service. Timing of additional RFPs would also need to be determined.][3]

- Option 2: UES would issue a new RFP for the 6 month procurement period as soon as reasonably possible.[4] The new RFP would seek offers for the specific customer group(s) where the supplier would be asked to bid a fixed monthly adder to cover capacity costs, ancillary services costs and the supplier's margin, similar to what is currently solicited for in UES's large customer group. UES would follow the process used for the large customer group to set retail customer prices each month.

  [Potential timing: New RFP issued on September 30th approx. 60 days prior to service.][5]

- Option 3: UES would issue a new RFP for the 6 month procurement period that seeks offers that include a pass-through of all costs (energy, capacity and ancillary services). Suppliers would be asked to submit bids for the margins to be included in the pricing of default service.[6] These costs would flow through the winning bidder's ISO New England settlement account. UES would seek to maintain its routine monthly payment schedule with the supplier. UES would follow a similar process as that used for the large customer group to set retail

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[2] Indicative pricing bids are due September 16, 2014 which is 75 days prior to the start of service.
[3] Timing may require the waiving of customer notice provisions.
[4] Indicative pricing bids are due September 16, 2014 which is 75 days prior to the start of service.
[5] Timing may require the waiving of customer notice provisions.
[6] The lowest margin bid would be the winning supplier.

customer prices each month, but would have to estimate capacity and ancillary costs.

[<u>Potential timing</u>: RFP issued on October 21st approx. 40 days prior to service.]

- <u>Option 4:</u> UES would explore serving its default service load obligation through its ISO New England settlement account. There are a number of factors that would need to be considered and evaluated as this methodology would likely be a more costly alternative. In the event that this last-resort alternative was to be used, UES would seek to minimize the length of time this was in place and would continue pursuing other viable solutions in the interim.

  [<u>Potential timing</u>: November 11th approx. 20 days prior to service.]