

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 14-061

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Default Service Solicitation and
Resulting Rates for the Small, Medium and Large Customer Groups for the
Period Beginning June 1, 2014**

Order Approving Solicitation, Bid Evaluation and Resulting Rates

ORDER NO. 25,648

April 11, 2014

APPEARANCES: Gary M. Epler, Esq. on behalf of Until Energy Systems, Inc.; the Office of Consumer Advocate by Susan W. Chamberlin, Esq. on behalf of residential customers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On March 4, 2014, Until Energy Systems, Inc. (UES or Company), filed a letter with the Commission providing the schedule for the Company's 2014 default service rate filings. On March 12, 2014, the Office of Consumer Advocate (OCA) filed a letter of participation in the docket pursuant to RSA 363:28. The Commission issued an Order of Notice on March 18, 2014, scheduling a hearing for April 10, 2014, on the first 2014 power supply solicitation.

On April 4, 2014, UES filed a petition requesting approval of its solicitation and procurement of default service power supply for (1) residential (Rate D) customers, (2) small commercial (Rate G2) and outdoor lighting (Rate OL) customers, and (3) large commercial and industrial (Rate G1) customers, each for 100% of the power supply requirements for the six-month default service period June 1, 2014, through November 30, 2014. UES filed the petition pursuant to the terms of the settlement agreement approved by the Commission in Until Energy

Systems, Inc., Order No. 24,511 (September 9, 2005) as modified by Order No. 25,397 (July 31, 2012).

In support of its petition, UES filed the testimony of Todd M. Bohan, Energy Analyst, and Linda S. McNamara, Senior Regulatory Analyst; a redacted bid evaluation report (Schedule TMB-1); a copy of the requirements for proposals for default service (TMB-2); and proposed tariffs. UES also filed its 2013 lead/lag study with the supporting testimony of Kristina M. Guay. Mr. Bohan, Ms. McNamara and Ms. Guay are employed by Unitil Service Corp, a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's subsidiaries, including UES.

UES selected TransCanada Power Marketing, Ltd (TransCanada), as the supplier for 100% of the six-month supply requirement for residential customer group, Dominion Energy Marketing, Inc. (Dominion), as the supplier for 100% of the six-month supply requirements for the small commercial customer and outdoor lighting customer group, and NextEra Energy Power Marketing (NextEra) as the supplier for 100% of the six-month supply requirements for the G1 customer group.

According to UES, if its filing is approved, a residential default service customer using 670 kilowatt-hours (kWh) per month (which is the average monthly use by residential customers) would see an overall monthly bill of decrease by 6.6% from \$115.41 to \$107.75. Small commercial default service customers would also experience a decrease of 6.6% in monthly bills, and outdoor lighting default service customers would see an average monthly bill decrease of 3.5%. Bill impacts for the G1 default service customers were unknown at the time of the filing because in the six-month service period, the power supply charge component of G1 customers' bills will be determined at the end of each month based upon the Independent System

Operator-New England (ISO-NE) real-time hourly locational marginal price (LMP) for the New Hampshire load zone plus an adder to cover non-energy wholesale costs.

UES also separately filed certain confidential information in Tab A, an attachment to Mr. Bohan's testimony. Tab A includes a summary of UES's evaluation of the bids and bid prices, a description of the financial security offered by each bidder, executed purchase power agreements with the winning suppliers, together with other information which the Company claims is confidential and proprietary. UES requested protective treatment of the information contained in Tab A, stating that the information is entitled to confidential treatment pursuant to New Hampshire Code Admin. Rules Puc 201.06 and Puc 201.07.

With its petition, UES submitted its quarterly customer migration report. Finally, with respect to the 2013 lead/lag study, UES said that the Company used the results of the study to develop its default service rates and acknowledged that Staff and the OCA would need additional time to review the study.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil Energy Systems, Inc.

UES issued requests for proposals (RFPs) on March 4, 2014. UES stated that, consistent with prior solicitations, it conducted an open solicitation process, actively sought interest among potential suppliers, and provided access to sufficient information to enable potential suppliers to assess the risks and obligations associated with providing the services sought. UES testified that it provided market notification of the RFP by announcing its availability to all participants in the New England Power Pool (NEPOOL) and to the members of the NEPOOL Markets Committee, as well as by announcing the issuance of the RFP to a list of contacts from energy companies that

had previously expressed interest in receiving notices of solicitations. In addition, UES issued a media advisory regarding the RFP to the power markets trade.

UES received initial bids on March 25, 2014, and final bids on April 1, 2014. UES attested that it evaluated bids on both quantitative and qualitative criteria, including price, creditworthiness, extension of adequate credit to UES to facilitate the transaction, capability of performing the terms of the power purchase agreement in a reliable manner, and willingness to enter into contractual terms acceptable to UES. UES stated that it selected NextEra, Dominion and TransCanada based on its conclusion that those suppliers offered the best overall value in terms of both price and non-price considerations for the respective supply requirements sought. UES said that Tab A contained a more detailed description of the bid evaluation process. UES testified that it executed amendments to existing Power Supply Agreements (PSAs) with NextEra, Dominion and TransCanada on April 2, 2014, and that the PSAs contained no substantive differences from the form PSA UES attached to the RFP. Copies of the PSAs are also included in Tab A.

UES said that, consistent with Order No. 25,397, the Company solicited the variable energy prices to be determined for the G1 customers based upon the ISO-NE real time hourly LMP for the New Hampshire load zone weighted by the hourly loads of all G1 customers who take default service plus a monthly adder. UES stated that the components of the fixed power supply adder include capacity and ancillary costs billed by the ISO-NE as well as a margin of profit for the supplier. As a result, the wholesale supplier charges cannot be determined using a fixed contract price that is known in advance, but will be based on the sum of fixed monthly power supply adders and variable energy prices determined each month. UES said that at the end of each month, it calculates the load weighted average LMPs over the month and adds the

monthly power supply adder to calculate the cost of the wholesale power supply for the G1 customers taking default service from UES. The results of the calculations are used to prepare G1 customer bills.

In developing the energy portion of rates, UES includes a Renewable Portfolio Standard (RPS) compliance adder to the power supply costs. The RPS adder is the per kWh charge by which UES obtains revenue to meet its RPS obligations pursuant to RSA Chap. 362-F. In its filing, UES calculated the RPS adder based on current market prices as communicated by brokers of renewable products, recent purchases of Renewable Energy Certificates (RECs)¹ and alternative compliance payments for 2014.

For 2014, UES must purchase Class I (new) RECs in an amount that matches 4.6% of its retail sales; Class I (useful thermal) RECs to match 0.4% of sales; Class II (solar) RECs to match 0.4% of sales; Class III (existing biomass) in an amount to match 3.0% of sales; and Class IV (small hydro) to match 1.4% of sales. UES said that while the average costs of RPS compliance based on compliance requirements were calculated to be 0.407 cents per kWh for the six-month period beginning June 1, 2014, there currently is an over-recovery of RPS revenue. When the adder was adjusted for the over-recovery, UES calculated a RPS adder of 0.208 cents per kWh for the Non-G1 customer group, and 0.021 cents per kWh for the G1 customer group.

Based on the prices offered by TransCanada and Dominion, UES calculated the fixed monthly rate for the energy component for the residential Non-G1 group customers to be 8.205 cents per kWh and for the small commercial and outdoor lighting Non-G1 group customers to be 7.749 cents per kWh. With the RPS adder, the fixed default service rate for the Non-G1 customer group for the six-month period beginning June 1, 2014, would be as follows:

¹ RECs represent the environmental attributes of renewable energy, one REC representing one megawatt hour of power.

Residential Customers	8.413 cents per kWh
Small Commercial and Outdoor Lighting Customers	7.957 cents per kWh

For residential and small commercial default service customers, the average overall bill impact would be a 6.6% decrease in monthly bills; for outdoor lighting customers, monthly bills would decrease by approximately 3.5%.

UES testified that it had prepared the 2013 lead/lag study in the same manner it previously prepared similar lead/lag studies. UES stated that while it had incorporated the study's results in the calculation of the default service rates, Staff and the OCA did not have sufficient time to review the report in this filing. Accordingly, UES asked that the proposed tariffs be approved as filed, subject to further investigation and review of the lead/lag study and subject to reconciliation, if necessary.

UES testified that the New England region experienced both high and volatile wholesale electricity prices during the winter 2013-14 period. UES said that the price and volatility were driven by high consumer demand, especially during the period of extreme cold temperatures. High fuel prices, principally for natural gas, were also driven by competition for heating purposes and pipeline constraints that limited supply. The Company cautioned that while it is difficult to predict the effect of higher natural gas prices on electricity prices in the future, the expectations are that wholesale electricity prices for the summer 2014 period will be approximately 20% higher than the prices for the summer 2013 period.

UES requested that the Commission find that the Company followed the approved bid solicitation and evaluation process and approve the resulting rates, grant the request for

protective treatment pursuant to Puc 201.06 and .07, and approve UES's 2013 lead/lag study subject to further review and reconciliation, if necessary.

B. Office of Consumer Advocate

The OCA did not object to the filing; however, the OCA expressed concern about the number of bidders and commented on whether the effects of the winter reliability program would recur in the next winter season.

C. Staff

Staff stated that it had reviewed the filing and determined that UES followed the solicitation, bid evaluation and winning bidder selection process in accordance with Commission Orders establishing default service procurement for UES and that the resulting rates appeared to be market-based as required by RSA 374-F. Staff said it understood that the Company had used the 2013 lead/lag study in developing the rates for this filing subject to providing OCA and Staff time to review the study, and that the rates would be reconciled if there were any changes to the study as a result of that review.

III. COMMISSION ANALYSIS

We have reviewed the filing and testimony at hearing, and we find that UES's solicitation and bid evaluation procedures were consistent with the process we approved in Order No. 24,511 as modified by Order No. 25,397 for the small (residential) Non-G1 customer group, the medium (small commercial and outdoor lighting) Non-G1 customer group, and the G1 customer group. On that basis, we find that UES's selection of TransCanada as the winning bidder for the small customer supply requirements, Dominion as the winning bidder for the medium customer supply requirements, and NextEra as the winning bidder for the G1 customer requirements for the period beginning June 1, 2014, are consistent with Commission orders. Further, we are satisfied

that UES met the procedural requirements of RSA 374-F:3, V(c) that default service “be procured through the competitive market.” The testimony of UES together with its bid evaluation report indicates that the bid prices reflect current market conditions and are reasonable.

UES submitted certain confidential information pursuant to N.H. Code Admin Rules Puc 201.06 and 201.07. The relevant information is contained in Tab A to Schedule TMB-1 attached to Exhibit TMB-1 of the filing (contained in Hearing Exhibit 1) and includes a brief narrative discussion of the bids received, a list of the suppliers who responded to the RFP, a pricing summary consisting of a comparison of all price bids, each bidder’s final pricing, a summary of each bidder’s financial security requirements of UES, a description of the financial security offered by each bidder, UES’s ranking of each bidder’s financial security, the contact list used by UES during the RFP process, and the PPAs with TransCanada, Dominion and NextEra. Neither Staff nor the OCA objected to the confidentiality of the information.

After reviewing the material in Tab A, we find that the information for which UES seeks confidential treatment is information routinely submitted and granted confidential treatment in connection with default service proceedings as defined in Puc 201.06 (a)(30) and that we have previously found the same categories of information to be confidential within the meaning of the rule. *See* Order No. 25,579 (October 4, 2013) in UES’s 2013 default service proceeding. Therefore, the information shall be accorded confidential treatment subject to the provisions of Puc 201.07. The wholesale power costs contained in UES’s filing shall be accorded confidential treatment only until such time as the costs are made public through the operation of the rules of the Federal Energy Regulatory Commission.

Finally, we allow UES to use the 2013 lead/lag study in developing rates for this filing subject to the Staff and OCA's review of the study. We direct that the review be completed before UES's next default service filing. If that review should recommend changes to the lead/lag study and the resulting rates, that reconciliation will take place in UES's next default service proceeding.

Based upon the foregoing, it is hereby

ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc. with NextEra Energy Power Marketing, LLC for 100% of the G1 customer requirements for the six-month power supply requirements period beginning June 1, 2014, is hereby APPROVED; and it is

FURTHER ORDERED, that that the power supply agreement entered into by Unitil Energy Systems, Inc. with Dominion Energy Marketing, Inc., for 100% of the medium (G2 and OL) Non-G1 customer requirements for the six-month power supply requirements period beginning June 1, 2014, is hereby APPROVED; and it is

FURTHER ORDERED, that that the power supply agreement entered into by Unitil Energy Systems, Inc., with TransCanada Power Marketing, Ltd for 100% of the small (residential) Non-G1 customer requirements for the six-month power supply requirements period beginning June 1, 2014, is hereby APPROVED; and it is

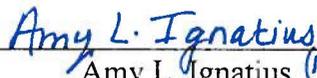
FURTHER ORDERED, that the power supply costs resulting from the solicitation are reasonable and subject to the ongoing obligation of UES to act prudently, according to the law, and in conformity with Commission orders, and the amounts payable to the sellers for power supply costs under the power supply agreements with NextEra, Dominion and TransCanada for inclusion in retail rates to G1 and Non-G1 customers are hereby APPROVED; and it is

FURTHER ORDERED, that UES is authorized to use the 2013 lead/lag study for the development of rates subject to Staff's review of the study and to any reconciliations that may result from Staff's review; and it is

FURTHER ORDERED, that Staff and OCA shall complete their review of the 2013 lead/lag study no later than September 30, 2014; and it is

FURTHER ORDERED, that UES shall file conforming tariffs within 20 days of the date of this Order consistent with N.H. Code Admin. Rules Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this eleventh day of April, 2014.

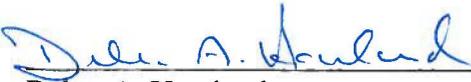


Amy L. Ignatius (KAS)
Chairman



Martin P. Honigberg
Commissioner

Attested by:



Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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