



May 18, 2015

BY E-MAIL AND OVERNIGHT MAIL

Debra A. Howland, Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

RE: Docket No. IR 14-338

Dear Director Howland:

Enclosed are the final comments of Unitil Energy Systems, Inc., regarding the Investigation of Alternatives to provide Default Energy Service. As a procedural matter, the Company will have witnesses available at the hearing scheduled for May 27, 2015 to address any questions the Commission may have regarding the issues discussed herein.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Gary Epler". The signature is fluid and cursive.

Gary Epler

Attorney for Unitil Energy Systems, Inc.

cc: Service List, IR 14-338 (by e-mail only)

NHPUC Docket No. IR 14-338

UNITIL ENERGY SYSTEMS, INC.

ALTERNATIVE TO DEFAULT SERVICE PROCUREMENT

Introduction

On April 22, 2015, the New Hampshire Public Utilities Commission (“PUC” or “Commission”) Staff convened a Status Conference and Technical Session to further discuss the issues raised in this docket. Unitil Energy Systems, Inc. (“UES” or “the Company”) participated in the Technical Session addressing questions related to its default service procurement process. On May 3, 2015, Staff filed its final position with the Commission. UES files these comments in response to Staff’s Memorandum for the Commission’s consideration.

Areas of Agreement

In its comments Staff delineates six areas of general agreement among the Parties. For the sake of brevity, UES will not reiterate these areas of agreement in detail, but rather acknowledge its concurrence with Staff regarding five of the following six issues and clarify one point:

- (1) There should be differential treatment for residential and small C&I customers and large C&I customers.
- (2) For large C&I customers, uniform monthly pricing is appropriate.
- (3) The length of time between contract awards and Commission approval should be shortened. *UES is not convinced that there is a benefit to be gained by changing the current process.*
- (4) The Commission website should provide a comprehensive list of competitive electric suppliers and prices for residential and small C&I customers.
- (5) Budget billing should be available for all residential customers.
- (6) Regulatory risk and uncertainty should be minimized.

Remaining Issues

- (1) *There should be a uniform methodology for the residential customer class.* UES takes no position regarding other utility's procurement process for its residential customers; however, it believes its own procurement methodology is transparent and predictable.
- (2) *For the residential and small commercial customers, there should be a continued use of six-month contracts for a 100% load share.* UES concurs with this recommendation and believes that a six-month procurement period strikes an appropriate balance between providing market-based pricing signals to its customers and providing them with a degree of price certainty. In addition, this procurement methodology allows UES to continue bringing the largest possible load to market at one time helping to attract and maintain bidder interest.
- (3) *The time period between the award of contracts and the approval of rates should be shortened by separating out the reconciliation process from the bid review process.* UES is amenable to doing this and would work with Staff to develop a filing and review methodology that helps meet this objective.
- (4) *A single statewide procurement is not desirable at this time.* UES agrees with this recommendation.
- (5) *Best efforts should be taken to increase the level of knowledge about the availability of alternative competitive electric supply.* UES believes that a Commission website and online resources would best provide residential and small commercial customers with comprehensive information regarding competitive electric supply options.
- (6) *Laddering of default service procurement solicitations is not supported at this time without further investigation.* UES concurs with this recommendation and reminds the Commission that not long ago UES had a laddered portfolio in place for its customers. UES moved away from that methodology because that methodology was imbedding in rates a risk premium for the longer time

horizon over which bidders had to provide service and honor bids. In addition, moving away from the ladder portfolio approach allowed UES to bring more load to market for bid through its solicitation.

(7) *Budget billing for only the delivery portion of a customer bill with a pass through of full energy supply costs in each period does not safeguard a utility customer from bill volatility.* UES agrees with this assessment.

(8) *Qualifying facility power and mandated use of renewable energy should not be part of the default service power supply procurement.* UES agrees that the Company should maintain its current solicitation process without mandated qualifying facility purchases required.

Additional Considerations

As UES has participated throughout this proceeding, the Company appreciates the significant policy issues before the Commission in this matter. We are here in late spring trying to anticipate what may, or may not, materialize in the upcoming and future winter periods. For example, the current average wholesale prices of electricity expected in New England next winter (2015 – 2016) are as follows:

Dec-15	\$ 85.10 per MWh
Jan-16	\$114.31 per MWh
Feb-16	\$106.85 per MWh
Mar-16	\$ 64.53 per MWh

What prices actually materialize will differ depending on many factors. Will actual prices be much lower than anticipated or higher than anticipated? While it is very difficult to anticipate what the future result may be, one thing we can do is take a look at the recent past to see what happened. **Attachment 1** shows the future prices of electricity for New England in the second week of May in comparison to the actual real-time locational marginal price of electricity for the New Hampshire load zone (4002). Examination of this attachment shows that at this same time last year, the expectation of winter prices was relatively high; however, the actual prices realized in NH were much lower than

anticipated. However, if we look back two years ago, the expectation was for relatively low winter prices; yet realized prices were significantly higher than anticipated.

The wholesale electric pricing data provided in Attachment 1 suggests that while we have expectations about what will happen through the winter period, those expectations are predicated on a number of factors that may or may not be realized. That is, what actual wholesale market prices are realized may differ and as such UES would caution against significant changes to the default service procurement process at this time.

In its discussion of outstanding issues, while Staff took no position on the matter, it recommended that the Commission consider the timing of solicitations for other utilities and the potential impact it could have on New Hampshire electric utility procurements. While the Company is essentially a price taker in the market for wholesale default service supply, what it can control is how and when it accesses the wholesale marketplace. To that end, UES offers **Attachment 2** which provides a listing of selected New England electric procurement start dates for the Commission's consideration.¹ An examination of this attachment shows that moving UES's solicitation periods² could potentially put it in direct competition with other major electric utility solicitations in the region and UES would caution against doing so.

In this proceeding there has also been discussion of moving the solicitation date closer to the start of the procurement period. The intuitive rationale for doing so is to provide for the latest market information to be included in the solicitation. The Company attempts to avoid procuring default service in a manner that systematically adds costs – such as by transferring a significant amount of market risk to wholesale suppliers – and to conclude its transactions early enough to allow for time to deal with a potentially failed auction. UES would suggest that the Commission take into consideration its

¹ The solicitation dates are different from the procurement periods, but for the ease of presentation, the procurement dates may make for easier discussion.

² Please note that there are also administrative efficiencies associated with UES's default service procurement run at the same time as its Massachusetts' affiliate, FG&E.

thoughts expressed in DE 14-061 and DE 14-211 regarding UES's alternative plan for procurement of energy service requirements in the event of a failed auction. As discussed in that proceeding, UES's plan provides for the implementation of up to four potential options in the event of a failed solicitation. Accordingly, if the solicitation date is moved significantly close to the procurement period start date, there may be no time left in which to implement a contingency strategy.

Conclusion

The procurement methodology that UES currently uses in acquiring default service power supply for its customers is highly consistent with the recommendations set forth by Commission Staff in its final position. In light of this, UES would caution against significant changes in its default service procurement process. To the extent that minor changes to the procurement process could bring potentially beneficial results, UES welcomes the opportunity to implement them.

NYMEX Futures Electricity Prices (2nd Week of May 2012)					
	On-Peak Price	Off-Peak Price	Average Price	RT LMP	Difference
Month	(\$s per MWH)	(\$s per MWH)	(\$s per MWH)	Actual NH Load Zone (4002)	Actual vs. Projected
Dec-12	\$52.22	\$42.10	\$47.16	\$43.15	(\$4.01)
Jan-13	\$62.29	\$50.33	\$56.31	\$82.57	\$26.26
Feb-13	\$62.29	\$50.33	\$56.31	\$105.84	\$49.53
Mar-13	\$44.60	\$33.28	\$38.94	\$53.41	\$14.47

NYMEX Futures Electricity Prices (2nd Week of May 2013)					
	On-Peak Price	Off-Peak Price	Average Price	RT LMP	Difference
Month	(\$s per MWH)	(\$s per MWH)	(\$s per MWH)	Actual NH Load Zone (4002)	Actual vs. Projected
Dec-13	\$75.92	\$59.49	\$67.70	\$97.58	\$29.88
Jan-14	\$92.61	\$72.51	\$82.56	\$149.98	\$67.42
Feb-14	\$90.49	\$70.27	\$80.38	\$150.61	\$70.23
Mar-14	\$55.75	\$42.41	\$49.08	\$113.20	\$64.12

NYMEX Futures Electricity Prices (2nd Week of May 2014)					
	On-Peak Price	Off-Peak Price	Average Price	RT LMP	Difference
Month	(\$s per MWH)	(\$s per MWH)	(\$s per MWH)	Actual NH Load Zone (4002)	Actual vs. Projected
Dec-14	\$128.03	\$97.14	\$112.58	\$42.40	(\$70.18)
Jan-15	\$161.16	\$121.15	\$141.16	\$64.30	(\$76.86)
Feb-15	\$161.16	\$121.15	\$141.16	\$120.73	(\$20.43)
Mar-15	\$94.25	\$73.13	\$83.69	\$56.71	(\$26.98)

NYMEX Futures Electricity Prices (2nd Week of May 2015)					
	On-Peak Price	Off-Peak Price	Average Price	RT LMP	Difference
Month	(\$s per MWH)	(\$s per MWH)	(\$s per MWH)	Actual NH Load Zone (4002)	Actual vs. Projected
Dec-15	\$95.10	\$75.10	\$85.10	Unknown	
Jan-16	\$128.07	\$100.54	\$114.31		
Feb-16	\$118.29	\$95.40	\$106.85		
Mar-16	\$73.60	\$55.46	\$64.53		

Selected New England Electric Procurement Start Dates	
Month	Electric Distribution Company
January	Eversource/NStar (S, M & L) Eversource/WMECo (S, M & L) National Grid/RI (S, M & L)
February	National Grid/MA (Large) Central Maine Power (S, M & L)
March	Bangor-Hydro Electric (S, M & L)
April	Eversource/WMECo (Large) Eversource/NStar (Large) National Grid/RI (Large)
May	Liberty Utilities/GSE (S, M & L) National Grid/MA (S, M & L)
June	Unitil/UES&FGE (S, M & L)
July	Eversource/NStar (S, M & L) Eversource/WMECo (S, M & L) National Grid/RI (S, M & L)
August	National Grid/MA (Large)
September	
October	Eversource/NStar (Large) Eversource/WMECo (Large) National Grid/RI (Large)
November	Liberty Utilities/GSE (S, M & L) National Grid/MA (S, M & L)
December	Unitil/UES&FGE (S, M & L)