

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-250

UNITIL ENERGY SYSTEMS, INC.

**Petition for Approval of Energy Service Solicitation and Resulting Rates for Small,
Medium and Large Customer Groups for the Period Beginning June 1, 2016**

Order Approving Solicitation, Bid Evaluation, and Resulting Rates

ORDER NO. 25,880

April 8, 2016

APPEARANCES: Gary Epler, Esq., on behalf of Unitil Energy Systems, Inc.; and Suzanne Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission finds that Unitil's recent market solicitation for power supply for its energy service customers for the six-month period beginning June 1, 2016, was conducted in accordance with Commission Orders. The Commission authorizes Unitil to recover the costs of the power supply through energy service rates effective with service rendered on and after June 1, 2016. The Order approves an energy service rate of 5.978 cents per kWh for residential customers. For an average residential customer who uses 634 kWh per month and who has not elected to receive service from the competitive market, the result will be a decrease in monthly bills from \$110.54 to \$88.79, or 19.7%, when compared to the six-month period ending May 2016. Overall, Unitil's energy service customers will experience average monthly bill decreases ranging from 14.5% to 22.3%, depending on customer class and usage.

I. PROCEDURAL HISTORY

On February 24, 2016, Unitil Energy Systems, Inc. (Unitil or Company), filed a letter with the Commission providing the schedule for the Company's 2016 default service filings. On March 4, the Commission issued an Order of Notice scheduling the hearing for April 6.

Unitil filed a petition on April 1 requesting approval of its solicitation and procurement of default energy 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 power supply requirements for the six-month energy service period of June 1 through November 30, 2016. Unitil filed the petition pursuant to the terms of the settlement agreement approved in Order No. 24,511 (September 9, 2005) as modified by subsequent orders, and most recently modified by Order No. 25,397 (July 31, 2012).

With its petition, Unitil filed the testimony of Lisa S. Glover, Energy Analyst, and Linda S. McNamara, Senior Regulatory Analyst, with supporting exhibits and proposed tariffs. Unitil also filed its 2015 lead/lag study, with the supporting testimony of Daniel T. Nawazelski, Senior Financial Analyst. In addition, Unitil submitted its quarterly customer migration report.

Unitil selected TransCanada Power Marketing, Ltd. (TransCanada), to supply 100% of the power supply requirements to residential customers, and Energy America, LLC (Energy America), to supply 100% of the power supply requirements to small commercial and outdoor lighting customers, for the six-month period beginning June 1, 2016. Unitil selected Exelon Generation Company, LLC (Exelon), to provide 100% of the power supply requirements for the G1 customer group for the same six-month period.

Overall, Unitil's energy service customers will experience average monthly bill decreases ranging from 14.5% to 22.3%, depending on customer class and usage. Bill impacts for the G1 customer group are unknown at this time because the wholesale supplier charge will be determined each month based on the sum of fixed monthly adders and variable market energy prices. A residential energy service customer using 634 kilowatt hours (kWh) per month, the

average monthly usage for Unitil's residential customers, will experience a decrease in monthly bills from \$110.54 to \$88.79, or 19.7%, when compared to the six-month period ending May 2016.

With its filing, Unitil included certain confidential information contained in Schedule LSG-1, an attachment to Ms. Glover's testimony. Schedule LSG-1 includes a summary of Unitil's evaluation of the bids and bid prices, a description of the financial security offered by each bidder, red-lined purchase power agreements with the winning suppliers, together with other information that the Company claims is confidential and proprietary. Unitil requested protective treatment of certain information contained in its filing, stating that the information is entitled to confidential treatment as part of a routine filing pursuant to New Hampshire Code Admin. Rules Puc 201.06 and Puc 201.07.

Finally, with respect to the 2015 lead/lag study, Unitil asked that it be allowed to use the results of the study to develop its working capital costs included in its default service rates, and acknowledged that Staff and the OCA would need additional time to review the study.

At the hearing, the Commission granted Unitil's request for protective order relative to its April 1, 2016, filing.

II. POSITIONS OF THE PARTIES AND STAFF

A. Unitil

Unitil issued requests for proposals (RFPs) on March 1, 2016. Unitil testified 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. Unitil 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 energy companies that had previously expressed interest in receiving notices of solicitations. In addition, Unitil issued a media advisory regarding the RFP to the power markets trade publications.

Unitil received indicative bids on March 22, 2016, and final bids one week later. Unitil stated that it evaluated bids on both quantitative and qualitative criteria, including price, creditworthiness, extension of adequate credit to Unitil 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 Unitil. Unitil selected TransCanada, Energy America, and Exelon based on its conclusion that those suppliers offered the best overall value in terms of price and the non-price considerations listed above for the respective supply requirements. Schedule LSG-1 of Unitil's filing contained a more detailed description of the bid evaluation process. Red-lined copies of amendments to existing power supply agreements (PSAs) between Unitil and TransCanada and Exelon were included in Schedule LSG-1 along with a red-lined version of a new PSA with Energy America showing amendments to the proposed PSA. Unitil testified that the PSAs contain no new terms as compared to the PSA form Unitil attached to the RFP.

Unitil includes a Renewable Portfolio Standard (RPS) compliance adder to the power supply costs in its calculation of the energy service rate. The RPS adder is the per kWh charge by which Unitil obtains revenue to meet its RPS obligations, pursuant to RSA 362-F. To comply with its RPS requirements, Unitil first attempts to purchase qualifying renewable energy credits (RECs), one REC representing one megawatt hour of power produced by a renewable generation

source. Unitil typically issues two REC RFPs annually, each for approximately 50% of its projected obligations. In addition, Unitil may make REC purchases outside of the RFP process when it finds it advantageous to do so. For 2016 RPS compliance, Unitil has made some purchases outside the REC RFP process and plans to issue a REC RFP in the second quarter of 2016.

Unitil stated that the RPS adder was reduced by half due to an over-recovery. The over-recovery resulted from a Commission order that reduced the 2016 Class III REC requirements from 8.0% of retail sales to 0.5% of retail sales. Order No. 25,844 (Dec. 2, 2015). To reconcile the over-recovery, Unitil proposed an RPS adder of 0.218 cents per kWh for the residential, small commercial and outdoor lighting customer, effective with rates June 1, 2016. For the G1 customer group, Unitil proposed an RPS adder of 0.262 cents per kWh, also effective with rates on June 1, 2016.

Based on the prices offered by the winning bidders, Unitil calculated the fixed rate for the energy component to be 5.760 cents per kWh for the residential customers, and 5.642 cents per kWh for the small commercial and outdoor lighting customers. With the inclusion of the RPS adder, the resulting energy service rate for residential customers is 5.978 cents per kWh, and the rate for small commercial and outdoor lighting customers is 5.860 cents per kWh. Unitil proposes these rates for effect for the period June 1 through November 30, 2016. As a result of the new rates, residential customers will experience an average decrease of approximately 19.6% in monthly bills. Small commercial customers will see monthly bills decrease by about 19.8%, and outdoor lighting customers' monthly bills will decrease by approximately 10.5%.

Unitil testified that the 2015 lead/lag study follows methodology similar to Unitil's 2014 Default Service and Renewable Energy Credits lead/lag study. Unitil said that, although 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 proceeding. Accordingly, Unitil 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.

Unitil requested that the Commission find that the Company followed the approved bid solicitation and evaluation process, approve the resulting rates, and approve Unitil's 2015 lead/lag study subject to further reconciliation, if necessary.

B. Staff

Staff said it had reviewed the filing and had determined that the Company followed the power supply solicitation, bid evaluation, and bid selection process approved by the Commission, and that the resulting rates are market based, and just and reasonable within the meaning of RSA 378. Staff said it did not object to Unitil including the results of the lead/lag study provided that Staff has the opportunity to review the study and present its results to the Commission.

Staff reported that it had discussed the filing with the Office of Consumer Advocate (OCA). According to Staff, the OCA had reviewed the petition and did not object to the requested relief. In addition, the OCA asked that it be allowed the opportunity to review the lead/lag study as offered by the Company.

III. COMMISSION ANALYSIS

We find that Unitil's solicitation and bid evaluation procedures conform to the process the Commission approved in Order No. 24,511, as modified by Order No 25,397, for the procurement of power supply for customers taking energy service from the Company. On that basis, we find that Unitil's selections of TransCanada, Energy America, and Exelon to provide

power supply for the period beginning June 1, 2016, are consistent with Commission Orders. Further, we are satisfied that Unitil met the procedural requirements of RSA 374-F:3, V(c) that default service “be procured through the competitive market.”

The testimony of Unitil, as supported by its bid evaluation report, indicates that the bid prices reflect current market conditions and are reasonable. The result is a significant decrease in energy service rates for Unitil’s energy service customers. The rate reductions are due to the lower market price for power now than during the prior six-month period. Unitil, as an electric distribution company, merely passes along the market costs to its customers in the form of default service rates.

We will also allow Unitil to use the 2015 lead/lag study to develop rates for this filing, subject to the Staff review of the study. We direct that the review be completed before Unitil’s next default service filing. If that review should recommend changes to the lead/lag study and the resulting rates, any resulting reconciliation will take place in Unitil’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 TransCanada Power Marketing, Ltd., for 100% of residential customers’ power supply requirements for the six month period beginning June 1, 2016, is hereby APPROVED; and it is

FURTHER ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with Energy America, LLC, for 100% of small commercial and outdoor lighting customers’ power supply requirements for the six-month period beginning June 1, 2016, is hereby APPROVED; and it is

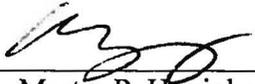
FURTHER ORDERED, that the power supply agreement entered into by Unitil Energy Systems, Inc., with Exelon Generation Company, LLC, for 100% of the G1 customer power supply requirements for the six-month period beginning June 1, 2016, is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil is authorized to use the 2015 lead/lag study for the development of rates subject to Staff review of the study, and subject to any reconciliation that may result from Staff's review, and our subsequent determination; and it is

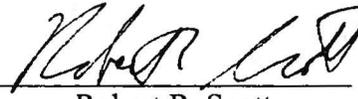
FURTHER ORDERED, that Staff shall complete its review of the 2015 lead/lag study no later than September 15, 2016; and it is

FURTHER ORDERED, that Unitil shall file conforming tariffs, incorporating the new energy service rates, all as approved herein, within 20 days of the date of this Order consistent with New Hampshire Code Admin Rules Puc 1603.

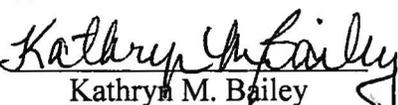
By order of the Public Utilities Commission of New Hampshire this eighth day of April, 2016.



Martin P. Honigberg
Chairman

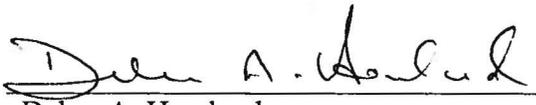


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director