



July 28, 2023

By Email

Matthew C. Young, Hearings Examiner/Staff Attorney
Department of Energy
21 South Fruit Street, Suite 10
Concord, NH 03301

**Re: INV 2023-001 – DOE Energy Procurement Investigation
DOE Set 1 Questions**

Dear Attorney Young,

On behalf of Unitil Energy Systems, Inc. (the “Company”), enclosed are the Company’s responses to Department of Energy’s first set of questions in the above-referenced investigation.

Please note that DOE IQ 1-001 Attachment A contains confidential and commercially sensitive information. Specifically, DOE IQ 1-001 provides the number of bids received in response to default energy procurements in Massachusetts and New Hampshire. This information has been redacted.

RSA 91-A:5(IV) expressly exempts from the public disclosure requirements any records pertaining to “confidential, commercial or financial information.” RSA 91-A:5, IV; *Union Leader Corp. v. New Hampshire Housing Finance Authority*, 142 N.H. 540 (1997). The number of bids received in response to default energy procurements is confidential and competitively sensitive commercial information because public disclosure of that information would provide bidders with detailed insight into the Company’s procurement process and bidders could tailor their bids based on this information to the detriment of the Company and its customers. Public disclosure of DOE IQ 1-001 Attachment A would result in significant commercial harm to the Company and could potentially undermine default energy procurements in Massachusetts and New Hampshire.

Please do not hesitate to contact me if you have any questions regarding the enclosed materials.

Thank you for your attention to this matter.

Matthew C. Campbell
Senior Counsel
campbellm@unitil.com

6 Liberty Lane West
Hampton, NH 03842

Sincerely,

A handwritten signature in black ink that reads "Matthew Campbell". The signature is written in a cursive style with a large initial "M" and a long, sweeping underline.

Matthew C. Campbell

Enclosures

cc: Service List

Unitil Energy Systems, Inc. (UES) and Fitchburg Gas and Electric Light Company (FGE)
Bidder Count, Default Service Energy Procurements, 2018-2023

<i>Bidder Count</i>					
Procurement	UES Small	UES Medium	UES Large	FGE Small	FGE Medium
Fall 2018					
Spring 2019					
Fall 2019					
Spring 2020					
Fall 2020					
Spring 2021					
Fall 2021					
Spring 2022					
Fall 2022					
Spring 2023					

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-001

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

Please quantify how many bidders participated in your utility's New Hampshire default energy procurements, as well as that of your affiliates in other states, for the past five years.

Response:

Please see DOE IQ 1-001 CONFIDENTIAL Attachment A which contains the total number of final bids received in response to default service energy procurements sorted by customer group for Unitil Energy Systems, Inc. in New Hampshire and for Fitchburg Gas and Electric Light Company in Massachusetts for the past five years.

The Company has a good faith basis for protecting the confidentiality of DOE IQ 1-001 Attachment A as set forth in the letter accompanying this filing.

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-002

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

Please comment and quantify, to the degree and extent possible, how community power aggregation has impacted bidder participation in your utility's past solicitations, as well as estimate its impact on future solicitations.

Response:

In Unitil's most recent solicitation which concluded with final bids on June 6, 2023, the Company received a sufficient number of bids and considered the solicitation competitive. There was no evidence of negative impacts to bidder participation resulting from Community Power aggregations. The Company worked diligently with potential wholesale suppliers of Default Service using information from town consultants to provide information and estimated start dates for communities that have implemented or are planning Community Power aggregations.

Although solicitations to date have not been noticeably impacted by Community Power aggregations, there may be future impacts to bidder participation as an increasing number of towns shift from Default Service to Community Power. The primary issue of concern would be "load uncertainty", in that expected load volumes served by the wholesale supplier could fluctuate significantly upon commencement of an aggregation during the default service period supplied. The added uncertainty would likely result in higher bidder risk premiums to cover any risk exposures to uncertain load volumes. Additionally, lower Default Service load volumes may not be attractive to bidders.

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-003

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

In your opinion, if a utility were to purchase all of its default energy service from the Day Ahead (DA) and Real Time (RT) ISO-NE Energy markets, please describe potential changes in the Company's business processes, operations, rate-making, and regulatory relations that might occur. For example, the DOE understands that ISO-NE bills energy market participants two times per week for energy purchased directly from the market whereas under the current energy procurement paradigm, utilities pay energy suppliers once per month for energy provided through default service contracts. Therefore, if the utility were to procure all of its customers' default energy service via the DA and RT markets there may be changes in cash flow requirements, business risk profile, and/or financial rating. Please discuss the implications of this and other possible business impacts were the energy procurement model to change.

Response:

There are several potential process changes that would be needed if Unitil were to purchase power directly from ISO-NE Energy Markets for its Default Service load. Please note that in addition to the DA and RT Energy Markets, purchasing power directly from ISO-NE also brings cost responsibility for meeting capacity and ancillary services obligations.

In terms of procurement operations, if the utility were required to bid load into the DA Energy market, there would be daily requirements to estimate hourly loads and submit those estimates into the ISO New England's market system. Unitil has supplied its large customer group in Massachusetts for over ten years using the RT Energy market, which does not require daily scheduling. Over time, the DA and RT markets have settled at very comparable price levels, with the RT market slightly lower in price. Unitil has no previous experience bidding load into the DA Energy market and does not currently have the staffing to support DA Energy bidding, so if there was a requirement to participate in the DA market, the Company would likely need to contract with an outside vendor for forecasting and bidding services.

In term of working capital, since invoices for energy would be invoiced more frequently, an increase in working capital requirements would be needed as the average billing lag would drop from approximately 45 days under a wholesale supply contract to approximately 5 days under self-supply from ISO-NE, who bills twice per week. In addition to accelerated payments, energy purchased directly from the ISO markets would come at market prices, which would be unknown prior to procurement. This differs from contracting for energy via a wholesale supplier as the cost of providing full

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INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-003

Date of Response: 7/28/23
Contact: Jeff M. Pentz

requirements is known well in advance of the service period. Potential market price volatility could require additional working capital.

Retail ratemaking and the resulting billing processes is another major area where process changes would be needed. Decisions would need to be made about whether the utility should offer fixed retail rates, how often those rates should be subject to change and under what circumstances. If fixed retail rates are to be provided, there should be a consistent methodology across the utilities to set retail rates based on forward wholesale market prices, perhaps using energy futures prices and forward capacity clearing prices. However, there are other wholesale cost components the utility would be responsible for, such as Mystic Cost of Service and the Inventoried Energy Program, which may be more difficult to predict. There would likely need to be wide consensus and agreement of what proxy values to use to estimate all pricing components to serve load.

There also needs to be a common approach to when retail rates should be adjusted depending on how actual costs accrue relative to expected costs at the time rates were set. To the extent actual costs vary greatly from forward prices at the time retail rates were set, significant over-or-under collections would result. Not reconciling those variances in a timely manner could lead to inappropriate cost shifting into future periods. A potential means to mitigate this impact would be to set a variance threshold above which interim rate adjustments would be made. The timing of notices to customers of retail rate changes, and the ability to change a rate efficiently under such circumstances would need to be established. The utility's billing group would also need to be prepared to implement more frequent rate changes.

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-004

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

Auction structures can create different outcomes. What, in your opinion, are the relative advantages of sealed bid, descending clock, and reverse auctions as they apply to default energy service procurement?

Response:

Sealed bid auctions (“SBA”) are widely used and well understood by suppliers. These auctions have been approved for use in Massachusetts, New Hampshire, Connecticut, Maine, and Rhode Island. Generally speaking, these auctions prevent collusion and signaling among bidders, as they do not know each other’s bids or strategies. Confidential one-time bids allow suppliers to bid their lowest and most competitive price, which drives down pricing. Bidders are incentivized to reveal their best pricing possible under this method. SBA’s are particularly useful when there are few potential bidders.

Descending clock auctions (“DCA”) allow participants to observe the exact price levels at which their competitors exit the auction and could consist of several rounds. For example, as time passes by in round after round under DCA, the auction continues until the total supply for that auction equals total demand. The ISO-NE Forward Capacity Auction uses a similar approach to procuring capacity. DCA’s may be preferred in settings where participants face significant uncertainty in the cost of delivering their goods at auction. Additionally, these auctions are better suited for procurements where a large number of participants are expected.

Reverse Auctions are usually a single round event that is short lived, at around 10-15 minutes. Bidders who participate have full transparency into the prevailing best bid. This could allow for real-time pricing feedback and price discovery. Generally, in the remaining seconds of a reverse auction, bidders can place final bids without the benefits of visibly seeing the prevailing best bid. The inability to respond to price movements in the final seconds could lead to aggressive competition. These types of auctions are generally geared toward procurements where a large pool of suppliers exist.

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-005

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

In your opinion, what differentiates the default service products of one utility to the next? Are there legal requirements placed on your company that would not apply to other New Hampshire utilities? If so, what are the impacts of these requirements?

Response:

There are a few distinctions between the utilities which differentiates default service products. First, Unitil procures a variable market rate of energy for its large customer group. This practice differs from Eversource and Liberty as they procure fixed pricing for all customer groups, including their large customer groups. The Company procures market pricing by soliciting fixed adder bids that cover all non-energy related costs while passing thru the market price of energy. Please see the response to Request IQ 1-006 for a list of Non-energy costs for which a load serving entity is responsible.

Second, Unitil procures power for three distinct customer groups, versus two customer groups for both Eversource and Liberty. Unitil's small customer group comprises customers on the Domestic rate class (Rate D), which is primarily residential customers. The medium customer group comprises customers on the Regular General (Rate G2) and Outdoor Lighting (Rate OL) classes which are typically small to medium sized business customers. The large customer group (Rate G1) contains large C&I customers associated with the Large General rate class. In addition, the rate class structure can vary by utility. For example, UES's large customer class includes customers with peak demands above 200 kW while Liberty Utility's large customer class includes customers with peak demands above 100 kW.

In regards to tranche sizes, both Unitil and Liberty procure for 100% of load requirements in a single tranche per period. Eversource uses eight tranches at 12.5% of load requirements for its small customer group, and two tranches of 50% for its large customer group.

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-006

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

In your opinion, if a utility were to procure energy in the DA market, what additional wholesale market costs would be incurred? What market products are not included in real time energy prices (e.g. capacity costs, reserves, regulation, forward reserves, etc.) whose prices would need to be included in the final cost to customers?

Response:

ISO-NE publishes a monthly Wholesale Load Cost Report which details all of the costs to serve load as a Load Serving Entity. Those wholesale costs in addition to DA/RT energy charges are listed below:

- Capacity costs
- Net Commitment Period Compensation
- Ancillary Markets (Regulation, Forward Reserves, Real Time Reserves)
- Miscellaneous Credit Charges (Inadvertent Energy, Emergency Energy, Marginal Loss Revenue Fund, Auction Revenue Rights)
- Wholesale Market Service Charge (costs to administer the market)
- Other non-energy costs such as the Mystic RMR and Inventoried Energy Program

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-007

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

If no bids are received for an RFP, what next steps would you propose to the Commission? For example, would you recommend rerunning the same RFP, change the RFP parameters, or seek to procure directly from the wholesale markets?

Response:

In a failed solicitation where no bids are received, the Company would likely re-issue the RFP requesting service for a shorter service period, assuming that using a shorter service period would reduce load uncertainty risk for suppliers, thus stimulating participation. If a second RFP also resulted in a failed auction, Unitil would need to self-supply by directly procuring supply requirements in the ISO markets.

Unitil Energy Systems, Inc.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE IQ 1-012

Date of Response: 7/28/23
Contact: Jeff M. Pentz

Request:

Please describe the role of a third-party procurement manager in other jurisdictions in which you operate and explain how such an entity would interact with the procurement process in New Hampshire.

Response:

The Company has no operating experience in other jurisdictions where wholesale supply is managed by a state director.