

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

ORIGINAL

P.U.C. Case No. DE 07-096

Exhibit No. 7

Witness: Daniel W. Allegretti

Public Service Company of New Hampshire
Energy Service Rate

Docket No. DE 07-096

PREFILED DIRECT TESTIMONY
OF
DANIEL W. ALLEGRETTI

on behalf of Constellation NewEnergy, Inc.
and Constellation Energy Commodities Group, Inc.

November 9, 2007

1 **Q. Please state your name and business address.**

2 A. My name is Daniel W. Allegretti. My business address is Constellation Energy
3 Group, Inc., 111 Market Street, 5th Floor, Baltimore, Maryland.

4 **Q. What is your position?**

5 A. I am Vice President of Energy Policy for at Constellation Resources.

6 **Q. Please describe your educational and professional background.**

7 A. I have a B.A. from Colby College and a J.D. from Georgetown University Law
8 Center. I have over 18 years experience in the electric industry with an emphasis
9 on competitive markets and regulatory reform. I served two terms as the
10 chairman of the NEPOOL Participants Committee and am currently a vice chair
11 of the Board of Directors of the Northeast Power Coordinating Council. I have
12 also served on the New York ISO Management Committee, the Market Advisory
13 Council of the Ontario IESO, and the Boards of Directors of the Northeast Energy
14 and Commerce Association and the Independent Power Producers of New York.
15 I have been an active participant in electric restructuring matters, and have
16 regularly appeared and testified before FERC and numerous state and provincial
17 legislative committees and utility commissions.

18 **I. Overview of Testimony**

19 **Q. What is the purpose of your testimony?**

20 A. The purpose of my testimony is to discuss a proposal that Constellation believes
21 will provide the Commission with a proven means to help ensure that PSNH
22 provides power to its customers at least cost, while minimizing the need to

1 reconcile power costs from year to year. Constellation's proposal will provide
2 additional benefits to customers and will be consistent with New Hampshire law
3 and Commission policy by increasing the extent to which PSNH's energy service
4 rates reflect the actual cost of providing power, which, in turn, will send better
5 price signals to customers. According to PSNH, approximately 60% of the power
6 it supplies to its customers is accounted for from generating plants owned by the
7 company. The remainder is purchased in the wholesale market. (See PSNH's
8 response to Q-CONST-002 attached as Appendix DWA-1.) Constellation
9 believes that customers would benefit if wholesale suppliers were able to compete
10 to provide the portion of PSNH's power requirements that are not met through its
11 own generating plants. I will explain below in more detail how such a process
12 would work and what some of the benefits would be.

13 **Q. Please summarize why Constellation believes a change is needed in PSNH's**
14 **wholesale power procurement process.**

15 A. RSA 369-B requires that PSNH's energy service rate be based on the company's
16 "actual, prudent, and reasonable costs of providing such power," yet PSNH's
17 energy service rate is currently based on a *forecast* of its expected cost. The
18 difference between PSNH's forecasted costs and its actual costs, once known, is
19 charged or credited to customers after the period for which those costs were
20 incurred. This reconciliation process causes PSNH's energy service rate, at any
21 point in time, to be higher or lower than its actual cost for that period. Although
22 customers are told that they are purchasing energy at a fixed price, that is not
23 really the case. If a customer stays on PSNH's system, it is actually charged a rate

1 that appears fixed but has a hidden variable component that is added to the true
2 cost of providing service during the following six or twelve month period. The
3 40% or so of the power required to serve PSNH's retail load is purchased on the
4 wholesale market through various short term contracts and spot purchases. In
5 order to procure power in the wholesale market, PSNH has to employ staff to
6 monitor those markets and then decide when to enter into contracts, the amount of
7 power to be purchased, the terms of such contracts, whether to enter into hedges,
8 what type of hedges to purchase, and how much power to purchase or sell on a
9 spot basis. These are high risk, complex decisions, the costs of which are
10 ultimately borne by customers. Because the utility's decision-making process is
11 not transparent, it is nearly impossible for the Commission to conduct a
12 meaningful review of the costs incurred by PSNH in the wholesale market, and
13 therefore, it is not realistic to expect the Commission to be able to assess the
14 prudence of PSNH's conduct. Constellation believes that a competitive bidding
15 process for all of PSNH's wholesale power requirements would create a more
16 transparent process that would help ensure that PSNH's power procurement is
17 accomplished at the least cost to customers. Such a process is also consistent with
18 the fact that the procurement activities involved are far from the type of "natural
19 monopoly" activities that may once have warranted their being the exclusive
20 domain of a regulated utility such as PSNH.

1 **II. ISO Settlements Process and PSNH Wholesale Purchases**

2 **Q. What does it mean when PSNH says that 60% of the power it supplies to its**
3 **customers comes from its own generation and 40% is purchased in the**
4 **wholesale market?**

5 **A. As the Commission knows, the power actually generated by PSNH at its facilities**
6 **is not necessarily the same power that is actually consumed by PSNH's customers.**
7 **It has been said that electrons follow the laws of physics, not the laws of**
8 **contracts. What this means from a practical standpoint is that PSNH's power**
9 **requirements (and thus those of its customers) come entirely from the New**
10 **England electric grid operated by the Independent System Operator. When PSNH**
11 **says that it generates 60% of its customers' requirements, it is really giving a**
12 **shorthand description of the accounting system used by the ISO to ensure that**
13 **market participants such as PSNH are correctly credited for the value of the**
14 **power they generate and charged for the power they use. PSNH sells the output**
15 **from its generation plants into the wholesale market, and through the ISO**
16 **settlement process I will describe below, it is credited with generation that is**
17 **roughly equal to 60 percent of the MWH needed to meet its customers'**
18 **requirements.**

19 **Q. Please explain how the ISO settlement process works.**

20 **A. The ISO maintains settlement accounts for all participants in the New England**
21 **wholesale power market. Power prices are set on an hourly basis. As power is**
22 **purchased and/or generated by a market participant, the participant's account is**
23 **either charged or credited at the applicable hourly price for the appropriate**

1 volume of power. This process continues on an hour-by-hour basis, with the
2 volume of power to be credited or debited and the applicable price changing
3 according to the participant's net power generation/load situation and the price of
4 power that prevails during any given hour. Because the hourly price varies
5 widely during the course of the month and the level of purchases and/or sales by a
6 participant varies on an hourly basis as well, the hourly charges and credits to the
7 participant will also vary from hour to hour. At the end of each month, these
8 hourly charges and credits are totaled and the participant is either billed or paid
9 the net amount reflected in its account.

10 **Q. How does this process relate to the 40% of its requirements that PSNH says**
11 **it purchases in the wholesale market?**

12 **A.** The 40% figure is essentially an average of all of this hourly activity. It actually
13 consists of purchases and sales that are made each hour of the year, depending on
14 the relationship between the output of PSNH's plants during each hour and the
15 power requirements of its customers during that hour. For obvious reasons, it is
16 likely that the bulk of PSNH's power purchases occur during periods of peak
17 demand, when market prices are at their highest, because that would be the time
18 when PSNH's own plants are unable to supply all of its customers' requirements.
19 Additional significant purchases can also be expected to occur during periods
20 when PSNH's plants are not operating, either on a planned or unplanned basis.
21 Presumably, PSNH will schedule maintenance outages for its plants during those
22 times of year when replacement power costs are expected to be at their lowest,
23 although it obviously cannot control the timing of unplanned outages. Thus,

although PSNH may generate enough power to meet, on average, 60% of the load on its system, one needs to know the time of day and time of year when that generation is operating and how that compares to PSNH's own load profile (i.e., that of its customer base) to understand the true financial impact.

5 **Q. Doesn't PSNH enter into power purchase agreements with third parties to**
6 **cover its requirements beyond the power it generates itself and, if so, how is**
7 **that reflected in the ISO settlement process you described?**

8 **A. Based on information provided by PSNH in this docket and prior energy service**
9 **dockets, it is my understanding that PSNH enters into contracts with third parties**
10 **to procure most of the power it needs beyond the output it forecasts from its own**
11 **plants. For purposes of the ISO settlement process, those contracts are reflected**
12 **as PSNH's generation assets (i.e., PSNH does not need to purchase power on the**
13 **spot market at the ISO clearing price, but rather has the right to have another**
14 **party's generation output credited to its account). The credit PSNH receives for**
15 **these contracts during any period of time when the contracts are in effect offsets**
16 **power purchases that are charged to PSNH during the same period. The result is**
17 **that, rather than being obligated to pay the spot price for power purchased during**
18 **an hour when a particular contract was in effect, PSNH is instead contractually**
19 **obligated to pay a third party the previously negotiated price. In PSNH's**
20 **settlement account at the ISO, power purchased through these agreements appears**
21 **no different than power generated from PSNH plants.**

1 **Q. How does PSNH try to ensure that the power it purchases under contract**
2 **and on the spot market ends up being at the least cost to its customers?**

3 A. In order to attempt to minimize the cost of purchased power to its customers,
4 PSNH must balance numerous considerations to arrive at the best strategy for
5 purchasing power on the wholesale market. These considerations include
6 significant factors such as the hour by hour requirements of its customers,
7 forecasts for market prices and the anticipated operating schedule and operating
8 costs of its own plants. As I mentioned earlier, PSNH and/or its parent company,
9 employs a staff of individuals who must monitor the markets and make decisions
10 about the increments of power to purchase and when to make such purchases in
11 addition to deciding what other power market products such as hedges,
12 derivatives and the like to enter into. The costs associated with employing these
13 individuals are, of course, also recovered from customers, in addition to the costs
14 of the various power trading products that PSNH purchases.

15 **Q. What happens if PSNH enters into contracts that exceed the amount of**
16 **power it needs at any point in time or if the amount of power it has procured**
17 **is insufficient to meet the load on PSNH's system?**

18 A. In any given hour, if the power from PSNH's plants and any contracts it has
19 entered into is less than its customers' requirements, PSNH has to make "spot"
20 purchases of power from the market. The ISO will charge PSNH the hourly
21 clearing (spot) price for these additional last-minute purchases. If PSNH enters
22 into contracts for more power than it needs at any point in time, the excess power
23 can be sold into the market at the hourly clearing price. PSNH will still have to

1 pay the contract price to its supplier for that power, but can offset that cost to the
2 extent of any revenues it receives for having sold the power into the wholesale
3 market. To the extent that PSNH incurs additional costs because it buys
4 additional power at the spot price or because it is unable to cover the full cost of
5 any excess power it had under contract, those costs would normally be passed on
6 to PSNH customers.

7 **Q. Isn't it possible that such costs would have to be borne by PSNH's**
8 **shareholder?**

9 A. In theory, that is a possibility. The Commission can disallow such costs if it finds
10 that they were imprudently incurred. In practice, however, it is nearly impossible
11 to make such a finding because it involves an after-the-fact review and requires
12 the Commission to fully understand the information available to PSNH at the time
13 the company made each decision at issue. This process puts the Commission in
14 the position of essentially trying to second guess PSNH's hour-by-hour decisions,
15 decisions that were made over the course of the prior year or more. A meaningful
16 review of these decisions, if one could be conducted at all, would require the
17 Commission to pore over a staggering amount of data regarding not just the
18 hourly clearing price of power in New England during the period at issue, but also
19 forward price information that was available at each decision point, bilateral
20 arrangements that might have been entered into but weren't, hedging mechanisms
21 and other data. Such a review effectively requires the Commission to have
22 available all of the same real time information that was available to PSNH, much
23 of which is in PSNH's possession or control. The difficulty of fully and fairly

2 putting oneself in the position of another party after the fact and reviewing
3 complex decisions cannot be overstated. Simply put, the many transactions
4 entered into by PSNH and the situation confronting it when it entered into each
5 transaction are not transparent to the Commission. The result is that the
6 Commission faces a serious challenge in attempting to review PSNH's power
procurement decisions in any meaningful way.

7 **III. RFP Proposal**

8 **Q. What is Constellation's proposal to address this situation?**

9 A. Constellation believes that PSNH should be required to issue a request for
10 proposals ("RFP") for the portion of its power supply requirements that it obtains
11 in the wholesale market, i.e., the approximately 40% that is not accounted for
12 through the credits it receives in its ISO account for its own generating units.

13 **Q. How does Constellation's proposal work as compared to what PSNH does
14 now?**

15 A. As I mentioned, PSNH employs or pays its affiliate to employ a number of
16 individuals who engage in power trading activities. These individuals are tasked
17 with watching the power markets, including the market for related derivative
18 products, and engaging in trading activity on behalf of the utility in order to make
19 up the anticipated difference between the power generated by the facilities owned
20 by PSNH and the demand of the company's customers. PSNH currently attempts
21 to do this through a combination of agreements with multiple third parties on
22 various terms and conditions. I am not privy to the exact terms of PSNH's various
23 power trading arrangements, but I would expect that the purchases it enters into

1 are for various increments of power at various times of the year or day, and that in
2 addition to entering into forward trades, PSNH would also enter into derivative
3 transactions, fuel hedges and other financial swaps or hedging agreements, as well
4 as spot purchases as necessary, to meet its actual requirements. All of this
5 amounts to an extremely complex process, the considerable risks of which, as I
6 noted earlier, are ultimately borne by PSNH's customers.

7 Aside from attempting to forecast the output that can be anticipated from its own
8 plants on an hourly basis throughout the year, PSNH must also forecast its retail
9 customers' load on an hourly basis and factor in the extent to which retail
10 customers may switch to competitive retail suppliers or back to PSNH's energy
11 service from competitive suppliers throughout the year based on changes in
12 market prices, the price of PSNH's energy service and other factors. Obviously, it
13 is impossible for PSNH to correctly forecast all of the factors that go into
14 determining the quantity and cost of its purchased power requirements. As a
15 result, every six to twelve months, PSNH must tally up the cost of the hourly
16 imbalances it has incurred at the ISO and adjust its rates for prior period over or
17 under collections of its energy service costs. This reconciliation occurs in
18 addition to the need to adjust PSNH's rates for changes in its actual costs for the
19 coming period. Instead of following this approach, the Commission should
20 require PSNH to put out a single request for proposals on a periodic basis to
21 supply the portion of its requirements that its own generating units cannot meet.
22 This is essentially the same process that the Commission has previously approved
23 for National Grid and Unitil. The only difference is that the third party supplier

will need to factor in the forecasted output from PSNH's own plants, just as PSNH now does.

3 **Q. If the quantity of power supplied by a third party would be dependent on the**
4 **output of PSNH's plants, wouldn't any supplier responding to the RFP be at**
5 **a disadvantage relative to PSNH and wouldn't that add cost to any supplier's**
6 **bid?**

7 A. No. The uncertainty associated with the operation of PSNH's plants is a factor
8 that faces PSNH as well. To the extent that PSNH has information regarding
9 scheduled outages for the plants, that information can simply be provided to
10 bidders, so that they have the same information PSNH would have. Beyond that,
11 PSNH would simply covenant in any contract with the winning supplier that it
12 would operate the plants in accordance with the same procedures it does now.

13 **Q. How frequently would such an RFP be issued?**

14 A. That is up to the Commission, but, based on its experience in other jurisdictions,
15 Constellation believes that it would make the most sense to recontract every six
16 months to two years, so that the contract period was of a length that would
17 maximize interest among suppliers and thereby lead to the lowest price.

18 **Q. Would Constellation's proposal require the successful bidder on the RFP to**
19 **purchase the output from PSNH's plants and then resell it to PSNH as part**
20 **of an arrangement to provide all of PSNH's requirements?**

21 A. No, Constellation is not proposing that a successful bidder purchase or resell
22 PSNH's generation output. Rather, Constellation is proposing to allow the
23 successful bidder to supply the difference between PSNH's customers' hourly

power requirements and the power that PSNH sells to the market from its own generating plants. The successful bidder will have the opportunity to quantify the net open position that PSNH would have at the ISO and provide that amount of power at the lowest possible fixed price.

5 **Q. Please explain the benefits of such an approach.**

6 A. There are several benefits. First, a competitive procurement process with sealed
7 bids to provide service at a fixed price is the best way to ensure that PSNH's
8 market purchases are made at the least cost. Such a process, where competitive
9 wholesale suppliers bid against one another, is quite common. In addition, to
10 New Hampshire's experience with such a process, the use of an RFP to procure
11 power from the wholesale market has been implemented in other states as well.
12 For example, in a recent decision by the Department of Public Utilities Control in
13 Connecticut, the Department remarked at the vibrancy of the response to an RFP
14 to supply 20-30% of Connecticut Light and Power Company's load. See
15 Appendix DWA-2 at 2.

16 Second, by entering into a single contract with a third party supplier for all of
17 PSNH's market purchases, customers will be presented with a true fixed price for
18 their power, at least with regard to the portion that is not supplied by PSNH's own
19 plants, insulating them from price risk. The result will be a significant decrease in
20 the extent of any out-of-period reconciliations. Reconciliations are harmful to the
21 development of a competitive retail market because they distort the relationship
22 between PSNH's actual cost of providing power during a particular period and the
23 market price of power. Reconciliations also create some "intergenerational"

1 issues, by passing back credits or implementing charges on customers who
2 weren't responsible for generating those credits or creating those charges in the
3 first place. The only remaining need for reconciliation of any significance under
4 Constellation's proposal would relate to changes in fuel and operating costs
5 incurred by PSNH. If there are changes in market prices because of hurricanes,
6 heat waves, an unplanned outage at a PSNH plant, or changes in demand because
7 of customer migration to competitive retail suppliers, the price from the winning
8 bidder will still be fixed.

9 Third, unlike PSNH's current power procurement process, the Commission will
10 have a process that enables it to readily assure itself that PSNH is obtaining its
11 **market purchases at the lowest reasonable cost. This will provide transparency**
12 to the review process and significantly lessen the burden on the Commission of
13 reviewing PSNH's power procurement and related power product trading activity.

14 **Q. Are there other elements to Constellation's proposal?**

15 A. There are additional details that would need to be worked out, but that is the
16 essence of the proposal. I believe that competitive wholesale suppliers with major
17 trading desks and extensive market involvement are better positioned than is
18 PSNH to procure power and enter into other related trading activity at the least
19 cost and insulate customers from the risk of price variation. Constellation and
20 other suppliers who would be interested in bidding on supplying PSNH's power
21 requirements could also supply PSNH's fuel requirements, which would further
22 reduce variations between PSNH's cost forecasts and their actual costs. I would

1 be happy to discuss in more detail how such an element could be added to the
2 RFP process if the Commission is interested in pursuing this avenue.

3 I am aware from discussions held by the Staff and parties to this proceeding after
4 the procedural hearing that a separate docket may need to be opened to address
5 these issues. At this time, I wanted to provide an overview of Constellation's
6 proposal to bring it to the Commission's attention for further consideration.

7 **IV. Comments on Load Forecast Reporting Regulation**

8 **Q. Does Constellation have any comments regarding the load forecast reporting**
9 **proposal submitted by PSNH, the Commission staff and the Office of**
10 **Consumer Advocate?**

11 A. Constellation's comments on that proposal were previously filed with the
12 Commission in Docket DG 06-125. A copy of the comments is attached to this
13 testimony as Appendix DWA-3 for ease of reference. Although Constellation
14 understands the motivation behind seeking to adopt a regulation that would
15 require competitive suppliers to provide the Commission and PSNH with the
16 suppliers' proprietary information regarding load forecasts, such a regulation
17 would give PSNH information that is not available to wholesale suppliers who
18 would be willing to supply PSNH's wholesale power requirements. If the
19 Commission were to require suppliers to turn over such information to PSNH, it
20 would simply further entrench the utility in performing a wholesale power
21 procurement function that can be better performed by other more experienced and
22 better staffed participants in the wholesale market. In addition, the proposed
23 regulation requires competitive suppliers to report the number of megawatt hours

1 that are "expected to be sold" during specified future periods. The usefulness to
2 PSNH of such information could be highly questionable given that different
3 suppliers are likely to come up with such data on very different bases. Some will
4 likely provide data based only on those contracts already in place. Others are may
5 provide marketing forecasts. And others may simply guess or rely on equally
6 unreliable data. Ironically, PSNH already has the most important information,
7 which is how many and which specific customers are actually purchasing power
8 from a competitive supplier at any given point in time and which specific
9 suppliers are the customers using. The proposed regulation may be viewed by
10 competitive suppliers as placing an additional administrative burden on them,
11 something which will only serve to make New Hampshire a less desirable market
12 to participate in.

13 **Q. Does that conclude your testimony?**

14 **A. Yes, at this time.**

Witness: Richard C. Labrecque
Request from: Constellation New Energy and Constellation Energy Commodities Group

Question:
Indicate on a month to month basis for 2008, the quantity of power that PSNH anticipates purchasing to serve the energy service load. For each month, indicate the percentage of PSNH's total load that this quantity represents. The response should not include mandated purchased power (IPP) obligations.

Response:
The response below was compiled from the data provided in the filing (Attachment RAB-2, pg 3).
The purchase quantities are in GWH.

	Known Purchases	Peak Purchases	Offpeak Purchases	Total Purchases	Total Energy GWH	% of Energy
Jan-08	44	120	65	228	757	30%
Feb-08	41	117	63	222	713	31%
Mar-08	77	103	68	248	727	34%
Apr-08	221	111	89	421	681	62%
May-08	209	115	79	404	673	60%
Jun-08	110	79	54	242	689	35%
Jul-08	96	117	66	279	786	35%
Aug-08	94	105	101	300	780	38%
Sep-08	126	110	77	314	697	45%
Oct-08	80	134	91	305	698	44%
Nov-08	73	89	80	241	706	34%
Dec-08	79	110	72	261	751	35%
Total	1,249	1,311	905	3,465	8,658	40%



DEPARTMENT OF PUBLIC UTILITY CONTROL
TEN FRANKLIN SQUARE
NEW BRITAIN, CT 06051

DOCKET NO. 06-01-08PH02 DPUC DEVELOPMENT AND REVIEW OF
STANDARD SERVICE AND SUPPLIER OF LAST
RESORT SERVICE - REVIEW OF CL&P'S 4TH
STANDARD SERVICE AUCTION

September 26, 2007

By the following Commissioners:

Donald W. Downes
Anne C. George
John W. Betkoski, III

DECISION

I. INTRODUCTION

Beginning January 1, 2007, each electric distribution company is required to provide, pursuant to §16-244c(c) of the General Statutes of Connecticut (Conn. Gen. Stat.), electric generation services through standard service to any customer who (A) does not arrange for or is not receiving electric generation services from an electric supplier, and (B) does not use demand meters or has a maximum demand of less than five hundred kilowatts (kW). On June 21, 2006, the Department approved a standard service procurement plan for The Connecticut Light and Power Company (CL&P) which set forth a number of basic criteria and guiding principles to be used by CL&P when procuring standard service generation.

Conn. Gen. Stat. § 16-244c(c)(4) requires that the Department, in consultation with the Office of Consumer Counsel (OCC), retain the services of a third-party consultant to oversee the procurement of standard service contracts. Pursuant to Conn. Gen. Stat. § 16-244c(c)(5), the electric distribution company and the third-party

consultant must jointly submit to the Department: 1) an overview of standard service bids received in the procurement, and 2) a joint recommendation as to the preferred bidders. Within ten business days of receipt of the joint recommendation, the Department may reject the preferred bids, causing the service to be rebid.

On September 26, 2007, CL&P filed its joint recommendation with Levitan & Associates, Inc. (Levitan), the third-party consultant selected to oversee the procurement by the Department and the OCC. Also on September 26, 2007, the OCC filed its own extensive report on the procurement process.

The Department held a technical meeting on September 26, 2007, to review the joint recommendation filed by CL&P and Levitan. The provisions of Conn. Gen. Stat. §4-179 were satisfied inasmuch as the Commissioners who are to render the final decision have read the record and were present at the technical meeting.

II. DEPARTMENT ANALYSIS

The Department has carefully reviewed the material submitted by CL&P, Levitan and OCC. The material consists of a joint recommendation of CL&P and Levitan, supported by affidavits submitted on behalf of both, and the comments submitted by OCC.¹ CL&P, Levitan and OCC all testified at the technical session held at the Department on September 26, 2007, that the process was conducted in accordance with the approved procurement plan, was fair and impartial, and accurately reflected the wholesale market at the time of the procurement.

The Department recognizes that a significant amount of time and effort was expended by CL&P, Levitan and OCC that culminated in a professionally run auction that conformed to industry standards. The Department especially credits OCC's efforts in the procurement to ensure that the public interest was protected.

This procurement fills 30% of the first half of 2008 and 20% of the second half of 2008. In addition, CL&P, Levitan and OCC propose that the Department accept contracts for two of the remaining blocks of power needed for 2009 and one for 2010.

Based on the Department's review of the submitted material and the technical session, the Department finds that the auction process was conducted in accordance with the approved procurement plan, and that the market was accessed in a fair and impartial manner. The resulting prices and contracts therefore reflect the workings of a competitive market. The Department notes that total number of bids is the largest submitted to date in any round, and more bidders participated in this round than in any previous Standard Service solicitation. Therefore, the Department approves the

¹ In its June 21, 2006 final Decision in Phase I of this proceeding, the Department specified the types of information to be included in procurement filings. In accordance with the Decision, CL&P routinely includes one table (Table 2 Attachment 2) summarizing pricing results from the current solicitation, and another table summarizing the combined pricing results from the current and previous procurements (Table 3 Attachment 2). Tables such as these have allowed the Department to analyze a significant amount of data in the short period of time associated with procurement reviews. With this in mind, the Department will order minor modifications to procurement filings that will aid in the timely review of the procurement results.

resulting prices and material terms of the energy contracts proposed by CL&P and Levitan.

In past procurement approvals, the Department has been cognizant of market constraints. Therefore, the Department has issued protective orders that prevent public disclosure of the prices and nature of wholesale generation contracts for two weeks following the execution of the contracts to enable the winning bidders to hedge appropriately. In this Decision, the Department reiterates this previous policy.

Furthermore, in its June 21, 2006 Final Decision in this proceeding, the Department committed to a review process similar to that utilized by the Independent System Operator of New England, Inc. such that RFP bid data will not be released until six months have elapsed.

Because the auction results certified by this decision are the product of a fair process, the Department will order that the accepted bids be included in the formulation of the overall standard service rate. In its initial decision in this proceeding, the Department concluded that Conn. Gen. Stat. §16-19b can be utilized to recover standard service generation costs.

III. CONCLUSION AND ORDERS

A. CONCLUSION

The Department certifies that the process of this second auction conducted by CL&P to procure standard service fully adhered to the procurement plan adopted in the June 21, 2006 decision. The Department hereby approves the energy contracts proposed for approval. The Department also issues a protective order for the auction results to allow the winning bidders sufficient time to hedge appropriately.

B. ORDERS

1. The auction results approved herein shall be included in the establishment of the overall standard service rate in a future Conn. Gen. Stat. §16-19b filing.
2. In future procurement filings, CL&P shall modify Tables 2 and 3 of Attachment 2 to include a column indicating the weighted average price of Scenario A and Scenario B bids, including an estimate for congestion for the Scenario B bids. Additionally, CL&P shall submit a third table of summarized pricing results, utilizing the same format, which summarizes the pricing results of previous procurements. This would allow the Department to analyze the price trends by providing the cost of previous procurements, the latest procurement and the combined total to date. In addition, CL&P shall provide the existing wholesale generation cost included in the generation services charge currently in effect, and shall estimate the change in the generation services charge that is expected in the next period on a cents/kWh and percentage basis as a result of the

most recent procurement. CL&P shall also provide the previously approved bids for each tranche on Table 1 of Attachment 2.

DOCKET NO. 06-01-657H02 DPUC DEVELOPMENT AND REVIEW OF
STANDARD SERVICE AND SUPPLIER OF LAST
RESORT SERVICE - REVIEW OF CL&P'S 4TH
STANDARD SERVICE AUCTION

This Decision is adopted by the following Commissioners:

Donald W. Downes

Anne C. George

John W. Betkoski, III

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.

Louise E. Rickard

Louise E. Rickard
Acting Executive Secretary
Department of Public Utility Control

Sept. 26, 2007

Date



McLane, Graf,
Raulerson &
Middleton

Professional Association

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

Re: DE 06-125; Public Service Company of New Hampshire

Dear Ms. Howland:

I am writing on behalf of Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. (referred to below as "the Constellation companies") concerning the Commission's recent Order No. 24,768 (referred to below as "the energy service rate order"). Constellation NewEnergy, which supplies electricity to customers at retail, is an intervenor in Docket DE 06-125. Constellation Energy Commodities Group, which supplies electricity at wholesale, did not directly intervene in this docket, although it has been an intervenor in prior energy service proceedings involving Public Service Company of New Hampshire ("PSNH") and is extensively involved in policy matters related to the electric industry in New Hampshire and throughout the region.

In its energy service rate order issued on June 29, the Commission urged the parties to complete for consideration by the Commission a proposal under which competitive suppliers would provide information regarding the load they have under contract for the upcoming year. Although the Constellation companies had previously indicated their support for such a concept, further consideration of how such a proposal may work as well as their experience in New Hampshire during the past year have given rise to serious concerns about proceeding with such a proposal. The purpose of this letter is to explain those concerns, and request that the Commission ensure that other suppliers have an appropriate opportunity to comment on any proposal by PSNH before it is acted on by the Commission. It is Constellation's understanding that the Commission does not intend to adopt a specific proposal until all suppliers have had an opportunity to comment, but because Constellation had previously indicated that it believed it could support a new reporting requirement, it felt it appropriate to express its concerns as soon as possible rather than waiting until the Commission staff and PSNH have spent additional time on it.

The concept of asking competitive suppliers to report their load under contract for the coming year was first raised by PSNH during the first phase of this docket as a means of assisting PSNH in forecasting its retail load. Specifically PSNH believed that such data would enable it to better estimate the amount of power it would need to procure in the wholesale market to serve its retail load. As the Commission is aware, PSNH procures approximately 30% of its power requirements in the wholesale market as a supplement to the energy generated by its own assets. While the Constellation companies have a direct interest in ensuring that PSNH's energy service rate reflects as closely as possible the full and true cost of providing that service, they have also made clear that there are real public benefits that could be obtained if PSNH obtained the power it requires for its energy service load from the wholesale market. The Constellation companies have put forth a number of proposals before the Commission and in the New Hampshire legislature that have been aimed at achieving those ends, but PSNH has consistently argued against them. PSNH's primary rationale opposing these proposals has been its claim that it can procure the energy needed by its customers at a lower cost than can competitive suppliers. In particular, with regard to the portion of its load purchased on the wholesale market, PSNH has asserted that it can obtain the needed power more cost-effectively by putting together its own portfolio of firm contracts, spot purchases and hedges than by putting its requirements out to bid in the wholesale market and entering into a load following requirements or partial requirements contract.

The Constellation companies are extremely concerned that a reporting requirement that provides PSNH with suppliers' highly confidential load information, even if such information were provided on an aggregated basis, would give PSNH an unfair competitive advantage. In particular, at least with regard to the portion of its load that it procures from the competitive wholesale market, PSNH should be required to seek bids to serve that load, so the Commission has a point of comparison to PSNH's cost of providing the same service. The Constellation companies are confident that an RFP approach, similar to that followed by National Grid and Unitil Energy Services, to serve PSNH's requirements that its own assets do not satisfy would benefit PSNH's customers.

Because PSNH manages its own power procurement needs for the 30% of its requirements that it obtains from the wholesale market, it effectively operates in direct competition with wholesale suppliers such as Constellation Energy Commodities Group, who provide load following service to utilities throughout the country. For such suppliers, projecting customer migration is one of the risk management functions that they conduct on a regular basis, something which they do through sophisticated load forecasting methods and the use of skilled, experienced portfolio managers. If PSNH were to be given access to retail suppliers' load forecasts—information that is not equally available to competitive suppliers—it would have a significant unfair informational advantage in serving that load. Such an approach would do real harm to the competitive market in New Hampshire. In addition to the obvious harm to the wholesale market, the more PSNH enters into fixed commitments to meet its customers' power needs, the more it will be motivated to seek to retain its retail load in order to ensure that it can recover the costs associated with those commitments. As the Commission is aware, PSNH's energy service customers bear essentially all of the risk associated with PSNH's power supply

decisions, whereas competitive suppliers bear that risk when they contract with PSNH in a wholesale transaction or with PSNH's customers in a retail transaction.

The Constellation companies remain interested in working to identify ways to improve PSNH's ability to forecast the costs on which its energy service rate is based, thereby minimizing the potential for over and undercollections that are recovered or returned to customers in subsequent time periods. However, they believe that requiring PSNH to put out a request for proposals for a load following service, rather than allowing it to continue to create that service itself through a portfolio of wholesale contracts, spot purchases and hedges, will provide greater benefits to customers.

The Constellation companies recognize that the current docket does not provide a sufficient opportunity to address these issues, and therefore they request that the Commission include the issues (including consideration of any proposal for load forecast reporting by suppliers) in PSNH's next energy service rate proceeding. Although the Constellation companies do not believe that this request requires any immediate action by the Commission, to the extent the Commission deems it to be a motion for reconsideration, the Constellation companies request that the Commission take such action as the Commission deems appropriate to modify its Order No. 24,768.

The Constellation companies welcome the opportunity to continue to discuss these issues with the Commission staff, the Office of Consumer Advocate and PSNH, in anticipation of PSNH's next energy service rate proceeding. To the extent that the Constellation companies' concerns can be addressed, they remain willing to work on a proposal that enables PSNH to better forecast its energy service costs.

Sincerely,



Steven V. Camerino

cc: Service List