

REDACTED

**Liberty Utilities (Granite State
Electric) Corp. d/b/a Liberty
Utilities**

ORIGINAL	
N.H.P.U.C. Case No.	DE 14-031
Exhibit No.	#6
Witness	Page 1 / #1
DO NOT REMOVE FROM FILE	

Energy Service

For the Period Beginning
November 1, 2014

Testimony and Schedules
of

John D. Warshaw

and

David B. Simek

September 22, 2014

Submitted to:
New Hampshire Public Utilities Commission
Docket No. DE 14-031



Liberty UtilitiesSM

THIS PAGE LEFT INTENTIONALLY BLANK

REDACTED

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DE 14-031

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DIRECT TESTIMONY

OF

JOHN D. WARSHAW

September 22, 2014

THIS PAGE LEFT INTENTIONALLY BLANK

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	PURPOSE OF TESTIMONY.....	2
III.	ENERGY SERVICE BIDDING PROCESS	3
IV.	RESULTS OF ENERGY SERVICE BIDDING	5
V.	RENEWABLE PORTFOLIO STANDARD	8
VI.	ENERGY SERVICE COMMODITY COSTS	12
VII.	LOSS FACTOR INVESTIGATION AND UPDATE ON BORDERLINE SALES NEGOTIATIONS WITH NATIONAL GRID	13
VIII.	CONCLUSION.....	14

THIS PAGE LEFT INTENTIONALLY BLANK

LIST OF SCHEDULES

Schedule JDW-1	Energy Service RFP November 1, 2014 through April 30, 2015
Schedule JDW-2	Energy Service Procurement Summary
Schedule JDW-3	Comparison of Change in Futures Prices to Change in Procurement Costs
Schedule JDW-4	Energy Service Contract for the Large Customer Group November 1, 2014 through April 30, 2015
Schedule JDW-5	Energy Service Contract for the Small Customer Group November 1, 2014 through April 30, 2015
Schedule JDW-6	Summary of March 2014 RPS Solicitation
Schedule JDW-7	Energy Service Loss Factor Investigation Update – September 22, 2014

THIS PAGE LEFT INTENTIONALLY BLANK

1 **I. INTRODUCTION**

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

3 A. My name is John D. Warshaw, and my business address is 15 Buttrick Road,
4 Londonderry, NH 03053.

5
6 **Q. Please state your position.**

7 A. I am the Manager, Electric Supply for Liberty Energy Utilities (New Hampshire) Corp.
8 (“Liberty Energy NH”) which is the sole shareholder of Liberty Utilities (Granite State
9 Electric) Corp. (“Liberty Utilities” or the “Company”) and provides services to Liberty
10 Utilities. I oversee the procurement of power for Energy Service for Liberty Utilities as
11 well as the procurement of renewable energy certificates (“RECs”).

12
13 **Q. Please describe your educational background and training.**

14 A. I graduated from the State University of New York Maritime College in 1977 with a
15 Bachelor of Science in Nuclear Science. I received a Master’s in Business
16 Administration from Northeastern University in 1986. In 1992, I earned a Master of Arts
17 in Energy and Environmental Management from Boston University.

18
19 **Q. What is your professional background?**

20 A. In November of 2011, I joined Liberty Energy NH as Manager, Electric Supply for
21 Liberty Utilities. Prior to my employment at Liberty Energy NH, I was employed by
22 National Grid USA Service Company (“National Grid”) as a Principal Analyst in Energy
23 Supply – New England from 2000 to 2010. In that position I conducted a number of

1 solicitations for wholesale power to meet the needs of National Grid's New England
2 distribution companies. I also administered both short-term and long-term power
3 purchase agreements for National Grid's New England distribution companies. Prior to
4 my employment at National Grid, I was employed at COM/Energy (now NSTAR) from
5 1992 to 2000. From 1992 to 1997, I was a Rate Analyst in Regulatory Affairs at
6 COM/Energy responsible for supporting state and federal rate filings. In 1997, I
7 transferred to COM/Electric to work in Power Supply Administration.

8
9 **Q. Have you previously testified before the New Hampshire Public Utilities
10 Commission ("Commission")?**

11 A. Yes. I most recently testified before the Commission in Docket No. DE 14-031 on
12 March 25, 2014.

13
14 **Q. Have you testified before any other state regulatory agencies?**

15 A. Yes. I have testified before both the Massachusetts Department of Public Utilities and
16 the Rhode Island Public Utilities Commission regarding electric supply and renewable
17 portfolio procurement activities.

18
19 **II. PURPOSE OF TESTIMONY**

20 **Q. Mr. Warshaw, what is the purpose of your testimony?**

21 A. The purpose of my testimony is to request Commission approval of Liberty Utilities'
22 proposed Energy Service rates for both the Large and Medium Commercial and Industrial

1 Customer Group (“Large Customer Group”¹) and the (ii) the Residential and Small
2 Commercial Customer Group (“Small Customer Group”²) for the six-month period
3 November 1, 2014 through April 30, 2015. My testimony will describe the process used
4 by Liberty Utilities to procure Energy Service for both the Large and Small Customer
5 Groups, the proposed Energy Service rates, how the Company proposes to meet its 2014
6 and 2015 Renewable Portfolio Standard (“RPS”) obligation and the resulting Renewable
7 Portfolio Standard Adder for service rendered on and after November 1, 2014. In
8 addition, I will provide an update to the settlement negotiations with National Grid
9 regarding payment to Liberty Utilities for borderline sales to Massachusetts Electric
10 Company’s customers dating back to June 2006.

11
12 **III. ENERGY SERVICE BIDDING PROCESS**

13 **Q. Mr. Warshaw, why does Liberty Utilities need to procure Energy Service for the**
14 **both the Large and Small Customer Groups for the period beginning November 1,**
15 **2014?**

16 A. Pursuant to the procurement process approved by the Commission, which I describe later
17 in my testimony, Liberty Utilities procures power supply through contracts having a
18 three-month term for the Large Customer Group and a six-month term for the Small
19 Customer Group. Liberty Utilities’ currently effective Energy Service supply contracts
20 for both the Large and Small Customer Groups expire on October 31, 2014. Therefore,

¹ The Large Customer Group is comprised of customers taking service under General Long-Hour Service Rate G-2 or General Service Time-Of-Use Rate G-1 of the Company’s Retail Delivery Tariff.

² The Small Customer Group is comprised of customers taking service under Domestic Service Rate D; Domestic Service - Optional Peak Load Pricing Rate D-10; Outdoor Lighting Service Rate M; Limited Total Electrical Living Rate T; General Service Rate G-3; or Limited Commercial Space Heating Rate V of the Company’s Retail Delivery Tariff.

1 to assure that Energy Service will continue to be available, Liberty Utilities requires new
2 Energy Service supply arrangements beginning November 1, 2014.

3
4 **Q. Please describe the process Liberty Utilities used to procure its Energy Service**
5 **supply for the period beginning November 1, 2014.**

6 A. Liberty Utilities conducted its procurement of Energy Service supply in accordance with
7 applicable law and Commission directives. The Company complied with the solicitation,
8 bid evaluation and procurement process set forth in the Settlement Agreement dated
9 November 18, 2005, which agreement was approved by the Commission in Order No.
10 24,577 (“Order”) on January 13, 2006 in Docket DE 05-126, amended by Order No.
11 24,922 in Docket DE 08-011 and further amended by Order No. 25,601 in Docket DE 13-
12 018 (as amended, the “Settlement Agreement”). On August 15, 2014, Liberty Utilities
13 issued a request for proposals (“RFP”) for certain power supply services and sought
14 suppliers for Liberty Utilities’ Energy Service covering both the Large and Small
15 Customer Groups.

16
17 **Q. Was the Company’s solicitation for the period beginning November 1, 2014**
18 **consistent with the Commission approved process for Energy Service?**

19 A. Yes, Liberty Utilities’ Energy Service RFP was conducted consistent with the
20 Commission approved process.

1 **Q. Could you describe the nature of the RFP that Liberty Utilities issued?**

2 A. On August 15, 2014, Liberty Utilities issued a RFP to approximately twenty-five
3 potential suppliers soliciting power supplies for the period November 1, 2014 through
4 April 30, 2015. Liberty Utilities also distributed the RFP to all members of the New
5 England Power Pool (“NEPOOL”) Markets Committee and posted the RFP on Liberty
6 Utilities’ energy supply website. As a result, the RFP had wide distribution throughout
7 the New England energy supply marketplace. The RFP requested fixed pricing for each
8 month of service on an as-delivered energy basis. Prices could vary by month and by
9 service – that is, the prices did not have to be uniform across the entire service period or
10 between the three load blocks. A copy of the RFP is provided as Schedule JDW-1.

11

12 **Q. Are the Company’s Energy Service rates consistent with least cost resource
13 planning?**

14 A. Yes. The Company has conducted its Energy Service RFP process in a manner that
15 complies with RSA 378:41 and conforms to least cost planning principles by proposing
16 Energy Service rates resulting from a competitive bidding process. This is consistent
17 with least cost planning goals, which are to minimize costs in the procurement of energy.

18

19 **IV. RESULTS OF ENERGY SERVICE BIDDING**

20 **Q. Mr. Warshaw, did Liberty Utilities receive responses to the RFP?**

21 A. Yes. Indicative proposals were received on September 9, 2014. Final proposals were
22 received on September 16, 2014. None of the bidders made their provision of Liberty
23 Utilities’ Energy Service contingent upon the provision of any other service. A summary

1 of the RFP process and bid evaluation is included in Schedule JDW-2.

2
3 **Q. Was participation in this RFP similar to past RFPs?**

4 A. The number of bidders providing final prices was consistent to that seen in previous
5 solicitations but the trend has been to have fewer bidders participating in these RFPs.
6 Although there was sufficient bidder participation in this solicitation, Liberty Utilities has
7 proposed an Alternate Plan for Procurement of Energy Service to be used in the event of
8 insufficient bidder participation that is the subject of Docket No. DE 14-211.

9
10 **Q. How do the current futures prices for electricity and natural gas compare to the
11 futures prices at the time of the Company's March 21, 2014 solicitation?**

12 A. The futures market prices for electricity and natural gas at the time of the March 21, 2014
13 and September 10, 2013 solicitation as well as current futures market prices are shown in
14 Schedule JDW-3. These are the most recent solicitations for the Small Customer
15 Group. As shown, electric wholesale prices are significantly higher than this same time
16 last year, but the change is consistent between the final retail prices and the wholesale
17 electric futures.

18
19 **Q. Can you explain why the prices are significantly higher this coming year as
20 compared to the same period last year?**

21 A. The New England generation mix has become dominated by natural gas generation. Due
22 to the colder than normal temperatures experienced last winter, there was a significant
23 increase in the demand for natural gas to meet customers' needs by gas distribution

1 companies and for electric generation. As a result, there was a shortage of natural gas for
2 electric generation and thus the costs for electric generation reflected the use of
3 alternative, and more expensive, resources to meet this need. Thus, the currently high
4 prices for electric futures and resulting bid prices reflect the industry's expectations
5 regarding the cost of natural gas and other resources to meet this winter's expected
6 requirements. These all result in both higher natural gas and electric futures as compared
7 to this time last year.

8
9 **Q. Did Liberty Utilities select any of the proposals received in response to the RFP?**

10 A. Yes. Liberty Utilities evaluated the bids received and selected the two suppliers that: (i)
11 provided a bid that was conforming to the RFP, (ii) had the lowest price, (iii) met the
12 credit requirements described in the RFP, and (iv) passed our qualitative evaluation. On
13 September 16, 2014, Liberty Utilities entered into a wholesale Transaction Confirmation
14 with NextEra Energy Power Marketing, LLC ("NextEra"), formerly known as FPL
15 Energy Power Marketing Inc., the winning bidder for the two Large Customer Group
16 blocks, to provide Energy Service to the Large Customer Group for the six-month period
17 November 1, 2014 through April 30, 2015 and with Energy America, LLC ("EA") to
18 provide Energy Service to the Small Customer Group for the six-month period November
19 1, 2014 through April 30, 2015. Together, a Transaction Confirmation and a Master
20 Power Agreement provide the terms for the purchase of Energy Service from a supplier.
21 A copy of the NextEra Master Power Agreement was filed with the Commission on
22 September 17, 2007 in Docket DE 07-012 (Energy Service proceeding), and the First
23 Amendment to that Master Power Agreement was filed with the Commission on

1 September 20, 2010 in Docket DE 10-020 (Energy Service proceeding). The Transaction
2 Confirmation between Liberty Utilities and NextEra, with certain confidential sections
3 redacted, is attached hereto as Schedule JDW-4. A copy of both the EA Master Power
4 Agreement and the Transaction Confirmation between Liberty and EA, with certain
5 confidential sections redacted, is attached hereto as Schedule JDW-5.

6
7 **V. RENEWABLE PORTFOLIO STANDARD**

8 **Q. Mr. Warsaw, what is the RPS obligation for 2014?**

9 A. As specified in the RPS law, RSA 362-F, the RPS law requires a provider of electricity to
10 obtain electric supply that meets the following minimum percentages:

NH-RPS Classes	2014	2015
RPS Class I	4.6%	5.4%
RPS Class I Thermal	0.4%	0.6%
RPS Class II	0.3%	0.3%
RPS Class III	3.0%	8.0%
RPS Class IV	1.4%	1.5%
Total	9.7%	15.8%

11
12 **Q. How does Liberty Utilities expect to satisfy its RPS obligations consistent with the**
13 **RPS rules as promulgated by the Commission?**

14 A. On February 18, 2009, Liberty Utilities entered into an amended settlement agreement
15 with Commission Staff and the Office of Consumer Advocate intended to resolve all
16 issues associated with the process by which Liberty Utilities would comply with the
17 requirements of the RPS law and the Puc 2500 rules (“Amended RPS Settlement”). The
18 Amended RPS Settlement was approved by the Commission on March 23, 2009 in Order
19 No. 24,953 in Docket DE 09-010. The Company may satisfy RPS obligations by

1 providing either RECs for each RPS class from the New England Power Pool Generation
2 Information System (“NEPOOL-GIS”) or by making an Alternative Compliance
3 Payment (“ACP”) to the State of New Hampshire’s Renewable Energy Fund. As
4 specified in the Amended RPS Settlement, Liberty Utilities requested bidders to provide
5 a separate RPS compliance adder with their bids. This RPS compliance adder is the
6 incremental charge by a bidder for agreeing to take on the RPS obligation with the
7 Energy Service obligation.

8
9 **Q. If a winning bidder’s RPS compliance adder is accepted, how would the bidder**
10 **satisfy the RPS obligation?**

11 A. The supplier assumes the RPS obligation for its transaction when the RPS compliance
12 adder is accepted. This means that the supplier must deliver RECs to satisfy each RPS
13 class obligation to the Company’s NEPOOL-GIS account, or it must pay the Company
14 the ACP for the undelivered RECs. The quantity of RECs required is calculated by
15 multiplying the RPS obligation percentage for each REC class by the electricity sales for
16 the term of the transaction.

17
18 **Q. What were the criteria Liberty Utilities used to evaluate the RPS compliance adder**
19 **provided by the bidder?**

20 A. Two of the bidders submitted a RPS compliance adder. The Company compares the
21 proposed adder to the current market price for New Hampshire RPS compliant RECs to
22 determine whether the proposed adder is reasonable. To develop a market price, Liberty
23 Utilities issued a request for proposals on August 15, 2014 for the acquisition of New
24 Hampshire RPS compliant RECs to meet its 2014 and a portion of its 2015 RPS

1 obligations. Liberty Utilities received bids to supply RECs on September 12, 2014.
2 Liberty Utilities used the bids to calculate a market price for the adder and determined
3 that the submitted RPS compliance adders were greater than market and thus were not
4 accepted. The results of Liberty Utilities' August 15, 2014 RPS solicitation are included
5 in Schedule JDW-2, Exhibit 10.
6

7 **Q. Is Liberty Utilities proposing any changes to the RPS compliance adder at this time?**

8 A. Yes. Liberty Utilities is proposing to change the Commission-approved RPS compliance
9 adder to reflect the results of its RPS solicitation and the increase in RPS obligations
10 scheduled for 2015. Liberty Utilities proposes to use a combination of the bid prices of
11 RPS classes it received in its RPS solicitation and the applicable ACP for those RPS
12 classes that did not receive bids in its RPS solicitation.
13

14 **Q. How did Liberty Utilities calculate the Renewable Portfolio Standard Adder?**

15 A. As shown in Schedule JDW-2, Exhibit 11, Liberty Utilities used a combination of prices
16 it received in its RPS solicitation and ACPs. The retail RPS costs were calculated on a
17 per megawatt-hour (MWh) basis. The Company divided the calculated costs by ten in
18 order to convert from dollars per MWh retail cost to cents per kilowatt-hour (kWh) rate
19 for retail use.
20

21 **Q. What happens if Liberty Utilities' actual RPS compliance costs are different from
22 those used in calculating the RPS compliance adder?**

23 A. Liberty Utilities reconciles its costs of RPS compliance with the revenue billed to

1 customers from the RPS compliance adder. This reconciliation occurs as part of the
2 annual Energy service reconciliation that is included in the Company's March filing
3 regarding Energy service costs for the following May through October period.
4

5 **Q. Has Liberty Utilities been able to contract for RECs?**

6 A. Yes. In April and May 2014, Liberty Utilities was able to contract for Class I, Thermal
7 Class I and Class IV RECs to help meet its 2014 RPS obligations. A summary of the
8 results of Liberty Utilities' March 2014 RPS solicitation is included in Schedule JDW-6.
9 A summary of the results of Liberty Utilities' August 15, 2014 RPS solicitation is
10 included in Schedule JDW-2, Exhibit 10. At this time, Liberty Utilities has completed
11 its analysis of the bids but has not started contract negotiations with the bidders. Liberty
12 Utilities will notify the winning bidders by September 29, 2014 and begin contract
13 negotiations and will provide an update in the next Energy Service filing scheduled for
14 March 2015. If Liberty Utilities is unable to purchase sufficient RECs to meet its New
15 Hampshire RPS obligations, it will then, consistent with the RPS rules, make an ACP to
16 the State of New Hampshire's Renewable Energy Fund.
17

18 **Q. When will Liberty Utilities issue the next REC request for proposals?**

19 A. Liberty Utilities plans to issue a RPS solicitation in February 2015 to procure RECs to
20 satisfy the 2014 and 2015 RPS obligations. Through that solicitation, Liberty Utilities
21 will attempt to procure the quantity of RECs necessary to satisfy the 2014 and 2015
22 obligations for load that will be serviced under Energy Service supply contracts.
23

1 **VI. ENERGY SERVICE COMMODITY COSTS**

2 **Q. Mr. Warsaw, please summarize the power supply cost at the retail meter based on**
3 **Liberty Utilities' expected procurement cost used to develop the proposed retail**
4 **rates.**

5 A. The load-weighted average of the power supply costs for the Large Customer Group for
6 November 1, 2014 through January 31, 2015 is 15.749¢ per kWh and for February 1,
7 2015 through April 30, 2015 is 13.287¢ per kWh compared to the load-weighted average
8 of 8.105¢ per kWh for the period May 1, 2014 through July 31, 2014 and 7.006¢ per
9 kWh for the period August 1, 2014 through October 31, 2014. The load-weighted
10 average of the power supply costs for the Small Customer Group is 15.058¢ per kWh
11 compared to the load-weighted average of 7.554¢ per kWh for the period May 1, 2014
12 through October 31, 2014. The power supply costs at the retail customer meter (¢ per
13 kWh) were calculated by multiplying the commodity prices at the wholesale level (\$ per
14 MWh) by the applicable loss factor and then dividing the results by ten. The applicable
15 loss factors can be found in the RFP summary in Schedule JDW-2. The loss factor is a
16 calculated ratio of wholesale purchases to retail deliveries.

17
18 **Q. How will Liberty Utilities reconcile any difference in costs associated with Energy**
19 **Service?**

20 A. To the extent that the actual cost of procuring Energy Service vary from the amounts
21 billed to customers for the service, Liberty Utilities will continue to reconcile the
22 difference through a reconciliation mechanism pursuant to Liberty Utilities' Energy
23 Service Adjustment Provision contained in its currently effective Retail Delivery Tariff.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

VII. LOSS FACTOR INVESTIGATION AND UPDATE ON BORDERLINE SALES
NEGOTIATIONS WITH NATIONAL GRID

Q. Can you provide an update regarding the loss factor investigation and negotiations with National Grid to resolve the borderlines sales issue?

A. Yes. Attached to my testimony as Schedule JDW-7 is the Company’s final report on the loss factor investigation, including the status of the settlement with Massachusetts Electric Company (“MECo”) regarding the borderline sales issue, as required by Order 25,642. As detailed in that report, the Company has received all payments from MECo under its settlement with Liberty. These payments total \$848,890. Liberty will credit its customers with \$723,890 in its next appropriate reconciliation filings as this represents the transmission and commodity costs Liberty incurred to serve MECo’s customers. Liberty will retain \$125,000 as this represents the distribution revenue Liberty should have received from MECo..

Q. Does the report include an update on the loss factor issue?

A. Yes. Liberty has implemented virtually all of the corrective actions it had identified in its previous reports to the Commission. As a result the monthly loss factor since January 2014 has stabilized and does not exhibit the volatility that initiated this investigation. The only issue that remains unresolved is the single customer in Liberty’s service territory that is served by MECo. Liberty will continue discussions with MECo to resolve this issue. As a result, Liberty requests that this report resolves the issues under investigation and concludes the loss factor investigation.

1
2
3
4
5
6
7
8
9

VIII. CONCLUSION

Q. Mr. Warsaw, when will Liberty Utilities issue the next RFP for Energy Service?

A. Both the Large Customer Group rates proposed in this filing and the Small Customer Group Rates end on April 30, 2015. Per the terms of the Settlement Agreement, Liberty Utilities will issue a RFP for both groups in February 2015. For purposes of notice to the Commission, the following table illustrates Liberty Utilities' proposed timeline for the next RFP:

RFP Process Steps	March 2015 RFP
RFP Issued	February 13, 2015
Indicative Bids Due	March 10, 2015
Final Bids Due	March 17, 2015
Contract Execution	By March 20, 2015
Energy Service Filing to Commission	March 23, 2015
Commission Order Needed	March 30, 2015
Service Begins	May 1, 2015

10
11
12

Q. Does this conclude your testimony?

A. Yes. It does.