STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

December 23, 2014 - 9:17 a.m.
Concord, New Hampshire

NHPUC JAN09'15 PM 2:04

RE: **DE 14-211 LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP. d/b/a LIBERTY UTILITIES:**
Petition for Alternate Plan for Procurement of Energy Services Requirements for all Customer Groups.
DE 14-031 LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP. d/b/a LIBERTY UTILITIES:
Default Service Request for Proposals.
DE 14-061 UNITIL ENERGY SYSTEMS, INC:
2014 Default Service Schedule.

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott

Sandy Deno, Clerk

APPEARANCES: **Reptg. Unitil Energy Systems, Inc.:**
Gary Epler, Esq.

Reptg. Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities:
Sarah B. Knowlton, Esq.

Reptg. NextEra:
Susan Geiger, Esq. (Orr & Reno)

Reptg. Residential Ratepayers:
Susan Chamberlin, Esq., Consumer Advocate
James Brennan, Finance Director
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
Thomas C. Frantz, Dir./Electric Division
Grant Siwinski, Electric Division

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

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P R O C E E D I N G

CHAIRMAN HONIGBERG: Good morning, everyone. We're here this morning, there's three dockets that have been listed, but I really think only two of them are in play. One of the dockets is 14-061, which is regarding Unitil. One is 14-211, which is Liberty. And, then, although the Order of Notice that scheduled this hearing also included 14-031, I believe 14-031 is essentially done. Everyone agrees with that?

(No verbal response)

CHAIRMAN HONIGBERG: All right. Before we go any further, let's take appearances.

MR. EPLER: Good morning, Commissioners. Gary Epler, appearing on behalf of Unitil Energy Systems, Inc. Thank you.

MS. KNOWLTON: Good morning, Commissioners. My name is Sarah Knowlton. I'm here today for Liberty Utilities (Granite State Electric) Corp. And, with me today from the Company is the Company's witness, John Warshaw, and the Company's Regulatory group, Stephen Hall, Steven Mullen, David Simek, and Heather Tebbetts.

MS. GEIGER: Yes. Good morning, Chairman Honigberg and Commissioner Scott. I'm Susan Geiger, from the law firm of Orr & Reno, here today on behalf of NextEra Energy Power Marketing, LLC.

MS. CHAMBERLIN: Good morning. Susan Chamberlin, Consumer Advocate, for the residential ratepayers. And, with me today is Jim Brennan.

MS. AMIDON: Good morning, Commissioners. Suzanne Amidon, for Commission Staff. To my left is Tom Frantz, the Director of the Electric Division, and to his left is Grant Siwinski, an Analyst in that Division.

CHAIRMAN HONIGBERG: How are we proceeding this morning? Ms. Amidon.

MS. AMIDON: Thank you. I discussed this with the parties beforehand. We decided to have each company present their witness separately in this instance. Mr. Epler has already asked Todd Bohan to take the stand. Following the examination and cross-examination of Mr. Bohan, then Attorney Knowlton would have her witness take the stand.

The one thing I have been asked is, in connection with Docket 14-211, I just want to make note, NextEra was denied intervention in that proceeding. But I would ask, on behalf of NextEra, that their letter of December 15th be marked for identification in that docket at the appropriate time.

CHAIRMAN HONIGBERG: That letter is only in one of these three files, I think. The December 15th, 2014 letter, and you want -- how many different dockets is that one going to go in, Ms. Geiger?

MS. GEIGER: Thank you, Mr. Chairman. I believe I captioned or I put in the subject matter of the letter all three dockets. So, I would request that it go in all three -- or, the two that are still open, sorry.

CHAIRMAN HONIGBERG: Well, no. It's not an exhibit, I don't think, in the one that's essentially over. It was filed. So, I assume it's in the correspondence record there.

MS. GEIGER: Right.

CHAIRMAN HONIGBERG: But it's not really related to the issues that were resolved in that docket, agreed?

MS. GEIGER: Correct. Right.

CHAIRMAN HONIGBERG: So, what you really want is it to be an exhibit in both of these proceedings --

MS. GEIGER: Yes.

CHAIRMAN HONIGBERG: -- that we're hearing today?

MS. GEIGER: Correct.

CHAIRMAN HONIGBERG: Okay.

MS. GEIGER: Thank you.

CHAIRMAN HONIGBERG: I assume no one has any objection to that?

MS. KNOWLTON: I have a procedural question about that. I understand that NextEra, at least with regard to the Granite State docket, because it does not have intervention status, would like to make public comments at some point during the proceeding. Because NextEra is not presenting a witness in this docket and is not a party, however the Commission would normally treat a comment from the public submitting public comments in a docket would -- I think would be appropriate with regard to how to treat this letter.

CHAIRMAN HONIGBERG: Ms. Amidon.

MS. AMIDON: Well, other parties have read this letter, and I believe that Staff would have some questions for Liberty's witness based on this letter. So, I think it should be an exhibit.

CHAIRMAN HONIGBERG: So, what you're saying, Ms. Amidon, is you would mark it in as -- mark it as an exhibit in your questioning?

MS. AMIDON: If that's the way -- if that is the way we have to go, yes, that's what I would do.

CHAIRMAN HONIGBERG: I don't think it's -- that's not a complicated process.

MS. AMIDON: Right.

CHAIRMAN HONIGBERG: So, I think that would resolve Ms. Knowlton's concern about it being an exhibit, correct?

MS. KNOWLTON: Okay.

CHAIRMAN HONIGBERG: I saw the head nod. So, we'll go there. All right. So, we'll take that up when you're ready to ask your questions, you can mark it at that time.

MS. AMIDON: Thank you.

CHAIRMAN HONIGBERG: Is there anything else we need to do before we start with Mr. Bohan?

(No verbal response)

CHAIRMAN HONIGBERG: Sounds like "no".

(Whereupon ***Todd M. Bohan*** was duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Epler.

MR. EPLER: Thank you, Commissioner.

TODD M. BOHAN, SWORN

DIRECT EXAMINATION

BY MR. EPLER:

Q. Good morning. Dr. Bohan, would you please state your business position with Unitil.

A. I'm a Senior Energy Analyst with Unitil Service Corporation.

Q. And, you previously testified in this docket, DE 14-061, is that correct?

A. That is correct.

MR. EPLER: By way of background, Commissioners, if you recall during the April 14th hearing in docket DE 14-061, at several points there was a colloquy between the Commission Staff and Dr. Bohan, and also at various points the Commissioners and Dr. Bohan, about a number of issues relating to default service bidding, the potential decline in the number of bidders, concern about a number of risk factors, such as customer migration risk, price volatility, and changes to the ISO-New England Reliability Program. As a consequence of that, after the hearing, there was a discussion between the Staff and the Company on those matters. And, the Staff recommended that the Company summarize its position on those issues by way of a letter. And, so, the Company did so, after further discussions with the Staff. And, on September 10th, we filed a letter and a Contingency Plan.

So, my proposal here is to walk

Dr. Bohan through, allow him to explain that Contingency Plan. And, at any point, if you have questions, please feel free to interrupt, if that's --

CHAIRMAN HONIGBERG: All right. That sounds good, Mr. Epler. Go ahead.

MR. EPLER: All right.

BY MR. EPLER:

Q. Dr. Bohan, do you have in front of you the cover letter and the Contingency Plan that the Company filed on September 10th, 2014?

A. Yes, I do.

Q. I'm going to ask you to walk through that, to explain what's in there, and the position of the Company. But, to start out, can you just give a little background on the Company's experience with participation of bidders in its -- in its default service RFPs over the last year or so?

A. Certainly. Just speaking generally, we have seen a slight decline in the number of bidders that have been responding to our RFPs over the last -- I would say the last two years, including the last, particularly in the last two winter periods.

Q. And, are there any particular issues that you associate that decline with or is it based on a number of factors?

A. There are a few factors. Number one, we're all pretty much aware now, the Winter Reliability Programs have presented issues for bidders over the past two winter periods. Winter price volatility has also been a concern aired by the respondents. And, also, customer migration can be a potential risk as well. There are a few other things, but those are the -- those are the major components typically mentioned.

Q. Now, given that the Company has seen a fall off in participation in its RFP process, is the Company concerned that it may experience a failed auction?

A. There is always the possibility of a failed auction, but the probability of that happening I think is relatively low. As long as bidders are able to capture their costs of serving that load, then, I think they're willing to bid on that load. So, as long as we can provide a framework that allows them to capture those costs, we should not experience a failed auction.

Q. Okay. I'd like to walk you through now the Contingency Plan, in case there was a failed auction. So, if you could turn to Page 2 of the -- of the Plan that was filed on September 10th.

A. Sure.

MR. EPLER: Oh. And, I neglected to mark this. As indicated, we filed this with the Commission on September 10th. And, if we're going to mark it as an exhibit in Docket DE 14-061, I think it would be Exhibit Number 5. So, if we could have it premarked as "Exhibit Number 5"?

CHAIRMAN HONIGBERG: Just to be clear, the cover letter on that document is dated "September 9th", is that correct? It's stamped in on -- September 9th, and it's stamped in on "September 10th". Is that -- we're talking about the same thing, right?

MR. EPLER: Yes, we are.

CHAIRMAN HONIGBERG: Okay.

MR. EPLER: That's correct. I believe it was sent by overnight mail, so that would correspond to the dates on the cover letter and the time it was stamped.

CHAIRMAN HONIGBERG: All right. So, that's marked as "Exhibit 5".

(The document, as described, was herewith marked as **Exhibit 5** for identification.)

CHAIRMAN HONIGBERG: Go ahead.

WITNESS BOHAN: Could I offer one brief caveat before we start walking through this? Just in light of our discussion here, this was filed as -- and written as a Contingency Plan for this last RFP that we just went through. So, the dates and so forth that are mentioned here really pertain to that which has now gone by.

MS. AMIDON: Mr. Chairman, I just wanted to make a procedural point. Docket 14-061 has already four exhibits marked in that docket. So, if I'm correct, the Clerk would mark this as "Exhibit 5", is that correct.

CHAIRMAN HONIGBERG: Yes.

MS. AMIDON: I just -- I didn't know if you said "5", I thought you said "1". So, I apologize.

CHAIRMAN HONIGBERG: I don't know. Whatever I said, we're all on the same page now.

MS. AMIDON: Okay. Great.

CHAIRMAN HONIGBERG: It's "5" now.

MS. AMIDON: Got it.

CHAIRMAN HONIGBERG: I think, Mr. Epler, you have the -- you have the Conn now.

MR. EPLER: Thank you. Okay. Yes.

BY MR. EPLER:

Q. Given that understanding, with the dates that are in that Plan, if you could proceed.

A. Okay. So, first of all, one of the things that I want to mention in terms of our plan is that I wanted this to hopefully remain a little bit open. And, what I mean by that is, in the RFP process, we typically communicate pretty rigorously with potential bidders. And, we learn information for them -- from them about what their concern is. Are they going to bid? Are they planning to bid? And, if they're not going to bid, why? You know, what is the rationale?

So, in light of that, as that RFP unfolds, we typically learn things. And, the appropriate solution to any potential failed RFP may really be borne out of the discussion with those potential bidders. So, I just want to keep that in mind as we think about possible alternatives.

Q. Okay. If I could just interrupt you there, just so that the Commission understands what our process is. Is it correct that we maintain a -- the Company maintains a list of potential bidders?

A. Yes.

Q. And, do you have a regular practice, once the RFP is issued, of contacting those bidders?

A. Yes.

Q. And, how is that done? Is that telephone calls or e-mail or --

A. It's both of those. We have -- we have a list of a little over 30 something market participants that typically like to receive our RFPs. When we issue the RFP, we contact them directly. We also send out a notification from the -- by the ISO-New England Markets Committee and Participants Committee to notify other participants. Then, we get on the phone with that list of 30 plus bidders. We talk to them, we e-mail them at least two or three times in follow-up, reminding them. And, then, I pursue them by phone two, three, four plus times as needed.

Q. Okay. And, is this done both before indicative bids are obtained and after indicative bids, but before the final bids?

A. That is correct. Communication throughout the process.

Q. Okay. Thank you. Proceed.

A. So, with my previous comments in mind, the way that we approach this was to look at possibilities that would start essentially with the same RFP process that we have in place, but then just keep moving us, not moving us necessarily farther away from it, but moving us in a direction to serve default service load, but to get to a solution in order to provide that.

So, we've listed four options. The

first option we have is essentially, if we were to have a failed auction, and only for the particular class that we had a failed auction, we would then have to issue another RFP. So, what would that next RFP consist of? The first preference would be to issue the same type of RFP, but just changing the horizon. So, we typically go out now for a six-month period. After learning from those suppliers what the concern is, issue another RFP shortly thereafter that may be for only a period of three months or two months or one, whatever the horizon needed to be, to try to get that -- get that default service load fulfilled. So, that's kind of the first step.

If we weren't able to reach a solution that way, what we would want to do is issue another RFP for the full six-month period that's very similar to what we do now for our large default service customers. And, what that is, is we would issue an RFP that would ask bidders to bid the adder that would be included to an LMP type model. So, bidders would bid an adder, that would include capacity costs, ancillary costs, their margin, anything else they needed to include, but all the energy pricing would be a pass-through of LMP prices. Now, the major benefit of that type model is, if we run into suppliers that are saying "the big concern that we are afraid of this winter is price volatility." Okay. Then, this model may be better suited to procure default service for that load. Okay?

Now, the downside to that is that, in a model in that manner, we can't provide a fixed price default service rate for the entire six-month period, predetermined. So, that's our second option.

The third would be, if that doesn't work, would be to issue another RFP, again, for a six-month procurement period, that essentially includes a pass-through of all costs, capacity, ancillary, energy, and so forth, and then just ask bidders to bid their particular margin. And, then, we would make an evaluation of those margins, however many bidders we got. We would likely choose the lowest price -- the lowest margin bid and award that to the potential supplier, hopefully, also maintaining the same monthly payment process as well.

COMMISSIONER SCOTT: Can you elaborate a little bit more, excuse me --

WITNESS BOHAN: Sure.

COMMISSIONER SCOTT: -- on the difference between a fixed monthly adder and the bids for the margins, how that works? Is the monthly the component that's different or what's the difference between those two?

WITNESS BOHAN: Between Option 2 and Option 3?

COMMISSIONER SCOTT: Yes, please.

WITNESS BOHAN: So, in Option 3, they wouldn't have to bid capacity costs -- they wouldn't have to include capacity costs, ancillary costs, anything like that, in their adder. Their adder, in the third option, would be just their margin.

COMMISSIONER SCOTT: Okay. Thank you.

WITNESS BOHAN: All the rest of the costs would be passed through. So, they would get actual recovery of those costs.

COMMISSIONER SCOTT: Thank you.

BY THE WITNESS:

A. And, then, Option Number 4, as we've listed here, we would suggest, if we get to this point, that we could serve that load through our ISO-New England settlement account. And, this would -- we would have some concerns here, because there are some additional costs. We would have to -- we would certainly increase our payments. We would have to pay much more often than we do when we have a procurement with a bidder. We would have to pay ISO-New England twice a week. And, we also would have more financial assurance requirements. So, that could be a -- that will be an added cost as well.

We have done this, and we actually do this currently for our Fitchburg Large Customer Group, but it is a very, very small portion of the load that we serve. We only have a handful of customers in our Fitchburg Large Customer Group on that service at any --

(Court reporter interruption.)

CONTINUED BY THE WITNESS:

A. We only have a handful of Large Customers on that service at any point in time. So, it's not a -- it's not a significantly costly endeavor.

COMMISSIONER SCOTT: Can you elaborate why that would be the most costly alternative?

WITNESS BOHAN: Well, if we were to apply that to, let's say, the Small or Medium or even the Large Customer Group for UES, we're talking about a much larger load. Okay? In Fitchburg, for only a couple of customers, it's a very small load. So, it's a significant amount of load, and that load, we would have to be paying the ISO biweekly. So, let's say we started service on

January 1st. We would be paying them, you know, January 4th, January 7th. Whereas, for a supplier that we contracted with, for January service, we most likely would not pay them until, if under our normal protocol, February 20th. So, we have -- we have a long lag before we would have to pay those funds out.

COMMISSIONER SCOTT: So, the extra cost is administrative and carrying costs, is that what you're suggesting?

WITNESS BOHAN: Financial carrying costs associated with having to pay for that much earlier.

COMMISSIONER SCOTT: Thank you.

WITNESS BOHAN: And, in addition, for ISO-New England, we would have to fund more assurance, which is more costly as well.

CHAIRMAN HONIGBERG: Mr. Epler.

BY MR. EPLER:

Q. Dr. Bohan, you mentioned that currently the Unitil's affiliate, Fitchburg, provides service to its largest customer group through something similar to Option Number 4. Why was that option put in place?

A. Well, essentially, with that option, we had served that load under the same model that we serve our UES Large Customer load currently. And, that model worked well for a number of years.

Q. And, that model would be the bidder bids a fixed monthly adder, is that correct?

A. Correct. The LMP plus adder model. But that actually ended up not -- getting to the point where we were not receiving bids or we were getting to an extremely low number of bids for that smaller load, and bidders just were not responding to the -- you know, to wanting to provide service to one, two or five customers. So, we had to move to this other model.

And, in that sense, though, what that did tell us was that the transition through all of this moved a lot of those customers to the competitive supply market. So, now, in that territory, we only have a couple of customers left that take default service. The rest of them have all gone to the competitive market, and they just really haven't returned.

Q. Now, is this correct that the Fitchburg affiliate also serves four towns in north central Massachusetts?

A. That is correct.

Q. And, of those towns, are two of them, have they undertaken municipal aggregation?

A. That is correct. They either have or they are in the process of doing so.

Q. Okay. So, those towns that have municipally -- that have undertaken municipal aggregations, they pursue their own default service solicitation?

A. That is correct.

Q. Do you have anything else to add?

A. Not on that specific piece.

MR. EPLER: That's all the questions I had, Commissioners. The witness is available for questions from the other parties.

CHAIRMAN HONIGBERG: Let me go off the record for a minute.

(Brief off-the-record discussion ensued.)

CHAIRMAN HONIGBERG: So, back on the record. All right, Ms. Chamberlin.

MS. CHAMBERLIN: Thank you.

CROSS-EXAMINATION

BY MS. CHAMBERLIN:

Q. On Option 1, the purpose of changing the time period is to reduce the risk to the suppliers. Is that a fair characterization?

A. Excuse me, in Option 1, going from six months to three months or something like that?

Q. Yes.

A. Well, let me tell you what my reasoning is and see if that comports with what you're saying. For example, let's say we got a supplier that came to us or we're talking with suppliers in the bid process and they said "You know what, it's the month of March that's giving us heartburn. We just want to shy away from that. But we're willing to bid on December, January, and February", hypothetically. Okay. That's what I want to sort out. So, if we get to a point we're talking with suppliers and we find that there's a particular issue or reason that they're shying away from bidding, if we can craft an RFP that will get around that, that's what we want to do.

Now, you used the word "risk". The concern that we've seen over the past couple of winters is generally the risk is the months of, you know, January and February, where we've seen some significant price spikes.

Q. And, if you explore with the potential bidders extending the time period, say, from six months to twelve months, would might you get the same type of response, "this works for us for this reason", "this doesn't work for us for whatever reason"?

A. So, instead of six months, say nine months?
Q. Nine or twelve.
A. Would they be -- would that issue go away?
Q. Would that be another way of reducing risk or concern to bidders by spreading the cost allocation out and making them more likely to bid?
A. That could be a possibility.
Q. And, do you run into the problem that you're talking to 30 bidders and 30 bidders have 30 different reasons why they're not bidding?
A. Well, I want to -- hopefully, I don't venture into anything confidential here, because when we start talking about bidders, I have to be careful. But we talk to 30. There's a good number of those 30 bidders that do not typically respond in the RFP process. But what they do is they like to stay informed of what's going on. And, depending on what's happening with, you know, their portfolio and their management, they may decide to bid, they may not. If we move away from those, then we get into a pool that are the much more usual participants in the process.
Over the last couple of RFPs, the comments could probably fall into three or four categories. The Winter Reliability Program; winter

price volatility; customer migration risk; and I've had a couple over the last few RFPs talk also about, you know, gas pipeline issues as concerns.

Q. You bid separately for the Large Customers and the Small Customers, correct?

A. That is correct. We actually bid separately for three classes; Small, Medium, and Large.

Q. And, do the Small Customers include the residential customers?

A. Yes.

Q. And, for residential customers, the risk of migration is smaller than that for C&I. Is that a fair statement?

A. I think that's a fair statement, and that also is exhibited in our customer migration data.

Q. Because the load for each residential customer is significantly smaller, and it would take a large number of individual residential customers migrating to have a negative impact. Is that fair?

A. That's correct.

Q. And, so far, you have not had that large number of residential customers migrating, correct?

A. Not large, but we have had -- migration has moved significantly over the last two years for the small --

for the domestic class. That's gone from, you know, 3 percent, up to I think the latest figure is 11 percent. And, commencing with the beginning of December here, we've seen an uptick in activity.
Q. And, that would be in response to the significant rate increase that was recently taken place?
A. That would be my logical conclusion, yes.
Q. Okay. Looking at Option 2, that is a way of reducing risk to suppliers and placing that risk of volatility on the consumers. Is that a fair statement?
A. Yes. Price risk.
Q. Price risk.
A. Price risk, yes.
Q. And, Option 3 increases the shift of risk from suppliers to consumers, because it's the pass through of more costs than Option 2. Is that fair?
A. I'm not sure I can necessarily agree with that. Those costs are going to be what they're going to be. Under a fixed scenario, the costs will be predetermined. Under the third option, they're going to be variable. They will be what they will be. They will either be higher or lower. Either way, in either scenario, the customer is going to pay for them.
Q. Okay.

A. So, in the second option, the costs will be known. In the third option, they won't be known until, you know, after the fact. They won't be known before the fact.
Q. And, in the third option, can you tell me what is in the margin, marginal costs that they are bidding, what types of costs?
A. In the third one, in the margin that they bid?
Q. Right.
A. There would be no costs. It's only their -- think of it as their profit.
Q. Okay.
A. Or, their cost of doing business, plus their profit included in that.
Q. So, they are only -- they are bidding what they would like for a profit, and what keeps that number reasonable is the fact that there are multiple bidders?
A. Correct.
Q. Okay. And, Option 4, if you have -- you are making biweekly ISO payments. So, are these bids for two-week periods? Is that what you're --
A. No. The bid would be for the entire period.
Q. Six months?
A. Yes. We would go for the whole six-month period, but we would have to pay the bills biweekly. That's all.

That's just the way the ISO settles.
Q. How would you characterize Option 4, in comparison to the others, in terms of risk? My expectation is that Option 4 has the most variable in it, because you're just doing a real-time price. Is that true?
A. I don't know if I can say that would necessarily be any riskier, really, than Option 3. We're not necessarily increasing the price risk going from 3 to 4.
Q. Okay.
A. It's --
Q. What are you changing?
A. The only thing that's changing really is that -- hold on a second here. Option 4, the costs are going to be what they are. It's going to be market-determined costs. And, that's what we're going to end up paying and putting into rates.
Q. So, at last year's price volatility in the winter, when prices for a short period of time really shot up, --
A. Uh-huh.
Q. -- I don't remember the numbers, but they were extremely high, is that the number that will be flowed through to customers?
A. Yes.
Q. Can you describe, --

A. Yes.
Q. -- had you had Option 4 in place last winter?
A. Last winter?
Q. Yes.
A. Okay.
Q. Give us a description of that.
A. So, I'll speak generally. I can look back, I don't know if I have my testimony from last winter, but those -- we saw price spikes last winter that were significant. In certain hours, that price went to over a thousand dollars. I think, in one hour, over $2,500. But the average hourly prices were more on the order of $150 to $175, $180 per month in those tough winter months, January, February. That average hourly price, that is what will be -- what will be flowed through here.
Q. So, it's an average hourly --
A. Hourly price. Weighted average hourly price.
Q. For the month?
A. For the month, yes. So, hypothetically, a residential customer is not going to be paying that one hour spiked price. They would be paying the weighted average price for the month.
Q. And, going back to Option 1, the six months came about

as the result of a settlement agreement, correct?
A. That's correct.
Q. So, to change that time period, are you asking the Commission in this docket to identify a specific time period or to grant the option of modifying the time period to respond to market conditions?
A. Well, I'm asking here, I don't know if we need to get more concrete about this at this stage, but I'd like to leave it a little bit open-ended, to have the flexibility to be able to best respond to this, to a failed auction, in the event that it occurs.
MS. CHAMBERLIN: Thank you. That's all I have.
CHAIRMAN HONIGBERG: Ms. Amidon.
MS. AMIDON: Thank you. Good morning, Dr. Bohan.
WITNESS BOHAN: Good morning.
BY MS. AMIDON:
Q. Just to start off here, would you please describe what you would consider to be a "failed auction"?
A. Certainly. There's probably two ways I would view a "failed auction" as occurring. One, a little bit more simple to identify, we have zero bidders respond to an RFP for a particular customer class. So, we could look

and say we bid -- we tried, we tried to solicit bids for this class, and we received none.

The second one is a little bit more difficult to evaluate. But, in the event that we were to get bids for a particular customer class that were, by any sense of reasonableness, not reasonable, i.e. prices that were just out of sight, then we would potentially view that as a "failed auction".

Q. So, in that latter example, you would look at the prices that you were offered, compare that with your internal forecast of prices, and make a decision whether or not that was within the range of reasonable pricing. Is that a fair description?

A. That is correct. We'd look at that. We'd look at probably some historical prices. And, we'd look at some, you know, futures prices as well.

Q. Okay. Do you have -- or, do you feel that there's any greater risk of a failed auction with one customer group over another, in your experience?

A. If there is, it would probably be with the Larger Customer Group.

Q. And, why is that?

A. The Larger Customer Group is the one that historically has higher customer migration potential.

Q. And that, in the winter, with the winter prices being what they are, it would be reverse migration as well. In other words, Large Customers, who previously left UES, coming back for default service when your rates might be a little bit lower?

A. That is correct. And, that is also a concern that has been raised from time to time by potential bidders.

Q. I wanted to talk a little bit about your discussions with suppliers and reviewing what their particular concerns are and how the Company might address them, in terms of crafting an RFP and getting a sufficient number of bidders. How do you assure neutrality within these conversations with competitive suppliers, and not sort of give an edge to one over another in describing what's going on?

A. I'm not sure I fully understand the question. When I talk with any particular supplier, I'm only talking with that supplier one at a time. It's not like we have a bidders conference. So, I'm never in a position of my disclosing what one supplier says to another.

Q. I guess I'm not talking about what one supplier says to another, but what you say to individual suppliers. In other words, how do you assure that there's an even playing field for all suppliers who might be responsive

to bids?
A. I got you.
Q. Thank you.
A. Well, I guess, in that sense, it depends on who's willing to talk to me. If I get on the phone with somebody and we have a good conversation, some -- one particular supplier might be getting more information than another. But I can -- I can tell you, at least in my efforts, I try to contact each supplier, in that group of 30 plus that we contact, I try to have verbal conversations with them one-on-one. And, if I'm not able to reach them, I leave them phone messages. I have my notes here from various RFPs. I have, you know, a couple of them, I've left six, seven, eight phone messages during one RFP. Probably tired of hearing from me.
Q. Would these -- well, let me go back to the options that was filed by -- I think it's marked for identification as "Exhibit 5". One of the things that I wanted to clearly understand is, whether these options are sequential steps that the Company would take or whether, based on conversations with competitive suppliers, you may move to Option 2, in lieu of attempting Option 1? So, could you please describe the

process that you see happening at the Company?
A. My preference or expectation would be that the first thing we would do is move to Option 1, if that was the viable option to proceed with. If not, then my preference would be to move right to Option 2. I would not have, as a first preference, want to move to Option 3 or 4. So, first thing would be Option 1. But, if we learn from suppliers that their concern is something else that could be better fixed or addressed with Option 2, I'd prefer to proceed right to Option 2. Certainly, given the amount of time available and the need to get that done.
Q. Uh-huh.
A. But I wouldn't want to skip right to 3 or 4.
Q. Well, thank you. That helps. Specifically, with respect to Option 1, and at the last section there, you indicate that "Depending on the timing of such make-up RFPs, UES [would] require a waiver of customer notice provisions." Could you please explain what provisions you're talking about?
A. I know that we have to do notifications to our customers for rate changes and so forth. And, the Commission needs to notify the public as well. But I don't know off the top of my head what those exact

provisions are. I could consult with Mr. Epler and address that.
Q. I don't know what those are either. So, we're both in the same boat. Thank you. But you've mentioned in your answer a question that Staff has, which is when will customers know, and let's assume that you elect Option 1, when will customers know what price they will be paying for the forthcoming period, whether it's one month or three months? Will they know ahead of time?
A. They will know ahead of time, but I don't know how much ahead of time. That's the -- that's the issue. Yes.
Q. With respect to Option 2, though, you intend to calculate it similarly to how you set the rates for Large Customers at this point, right?
A. Yes.
Q. So, under that, under Option 2, when would the customers know what prices they would be paying?
A. Well, if we do it just like we do for our Large Customer Group, they would know that rate just before the consumption period or the month. So, for January 1st, they would know that rate right at the end of December. We would have that rate calculated, and then we would make that -- we would post that on our website and make it available to customers.

Q. So, it's not --
A. Can I add?
Q. Yes, please.
A. A point of clarification I think that would be helpful, is that another way of thinking about this is that, under Option 1, Option 1 also would be a -- we could have a fixed rate for a certain period. So, under Option 1, if we had an RFP that we ran for three months, we could have a three-month fixed default service rate. Under Option 2, I don't believe that that's a possibility. We would be determining that rate each month, just before the consumption month, and that will be based on prior LMPs and costs and so forth. So, we would determine that rate. So, in that sense, Option 2 would be a variable priced rate, similar to what we do for our Large Customer Group.
Q. Would the Company be providing notice of that price in sufficient time for a customer to maybe choose a competitive supplier?
A. Very good question. It would be a very narrow window. That price, in Option 2, again, would be determined right before the month that it would be effective. A customer switching, under the typical rules, a customer doesn't switch until their next meter reading date.

So, if their meter reading date is, you know, the 10th of the following month, then they could probably get their switch in. If their reading date is the 2nd or 3rd of the month, there is no way, under the EDI protocol, for them to switch. So, they would be on that rate for the full month, and they would switch to the supplier the subsequent month.

Q. Thank you. With respect to Option 3, would the Company be setting the price and notifying customers the price similar to Option 2 or would there be less notice of the price? Would it be -- in other words, would you set, under Option 3, would the Company set the price in advance of the month in which the customer would incur the costs or would it be a retroactive after-the-fact pricing? I'm just --

A. Bear with me one second.

Q. Thank you.

A. I just want to check one thing here. That would be a predetermined price.

Q. Okay.

A. We would set that, yes. It would have estimated components, but it would be predetermined.

Q. Thank you. With respect to Option 4, if I understand you correctly, when the Company characterizes this as

the "most costly alternative", the most costly to customers, is that right?
A. All other things being equal, yes.
Q. Because I'm assuming, if the Company incurs these additional costs for financial assurance or transaction costs, those would be part of the --
A. Captured and embedded in default service rates, yes.
Q. Right. And, that would be, you know, when we talked about the Settlement Agreement, that's part of those administrative costs that the Company incurs in connection with providing default service?
A. Correct.
Q. Could you explain why there are customers taking Option 4 in your Fitchburg franchise?
A. This is a very good question. We've asked this question ourselves. And, we've sent large customer account reps to go and speak with these companies. I know this will sound different from what we usually say in terms of running a business, but these typically are businesses that electricity costs are just not a big focus of what they're doing. They have got other concerns, and they just really don't want to spend the time shopping around and doing the legwork that they need to do to find a competitive supplier. The ones

that are impacted by that, they are very active in the competitive market. But, again, it seems a little counterintuitive to what we talk about a lot. But those customers that remain are ones that just aren't that concerned about their electricity costs in the operation of their business.

Q. How would the pricing work for Option 4? Would it be the same as the pricing for the other options?

A. What do you mean? In terms of would it be variable?

Q. Well, I would understand it would be variable, right?

A. Yes.

Q. But I guess what I'm trying to find out is whether the customer would have any notice of the rate going into effect or if it's an after-the-fact type of rate?

A. This would be -- this would be after-the-fact.

Q. So, those customers would pay the actual costs for, let's say that, at the end of January, they would pay the actual costs of procuring power for January?

A. That's correct.

Q. And, they would not know that until after they incurred the cost?

A. That is correct.

Q. Okay. Is there any reason why the Company hasn't gone to real-time pricing or perhaps the Company has considered going to real-time pricing? And, maybe I should ask it that way. Has the Company considered any options for real-time pricing for the large customers?

A. I think this is something we've talked a little bit about this before. We've explored some of this. But we just have not gotten to that point in our operations.

Q. Okay. So, Dr. Bohan, NextEra suggested that it would be beneficial for both companies, Liberty and Unitil, to have a similar alternative, in the event of a failed auction. What is your opinion on that?

A. That works for me, if it's Unitil's option.

(Laughter.)

CONTINUED BY THE WITNESS:

A. But, in the -- but, in recognition of the Commission's role here, the Company is indifferent as to whether there is one or two methodologies, but we believe that ours is best for, you know, Unitil's customers.

MS. AMIDON: And, I would say that was a good answer. Thank you. I have no further questions.

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: Thank you. Good morning.

WITNESS BOHAN: Good morning,

Commissioner.

BY COMMISSIONER SCOTT:

Q. I think implied in your options, in your discussion, it would appear that there's a preference for a fixed price option for the term of the -- of the default service. Is that correct?

A. Are you asking me or on behalf of customers?

Q. Both.

A. I think that's yes, and I think it provides a couple of things. Certainly, if we're talking like a residential customer, a residential customer probably wants to know what the rate is, and so they know what they're going to be charged when they consume. And, it also provides a rate, so that, in the event that they want to shop and go to a competitive supplier, they have something to "shop against".

Q. Is it your understanding that, if the customer did want a variable rate, a variable monthly rate, rather than a fixed rate for six months, that there are people who can provide that for them?

A. Yes. And, they can also, in terms of our default service right now, we have variable rates available as well.

Q. Okay. Would you help outline a little bit more your thoughts on why, and this is a reoccurring theme, I think, every time we talk, --

A. Sure.

Q. -- why, obviously, potential for a failed bid, but also why the declining number of bids? Can you give me some idea of the factors that go into that, why -- because uneducated, I would come in thinking, if there's risk, I'll just, and I'm a supplier, I'll just make my bid higher to cover that risk. So, why doesn't that just happen?

A. Right. And, you know, specific to that point that you make, I, you know, received comments that, from a few suppliers, that have said "in order to price in that risk, they felt that they would not be competitive as a result, and, therefore, had opted not to bid." So, we have seen some answers to that exact question. Other answers, you know, that I've seen are, you know, "we have resource constraints." Another one has to do with, and these are things that we will probably be talking about when we get together in a few weeks in a more generic docket, is timing issues. You know, a couple of major suppliers have mentioned that the timing of the default service RFPs are such that they're responding to many within the -- and this isn't just New Hampshire, we're talking within the region, so, their resources are constrained. That they're trying to price for, you know, numerous RFPs that are held within a fairly short window.

Q. So, how do we get, collectively "we", get around the -- if one of the notions from a supplier is "the risk is too great, I'll have to bid in too high an amount, so, therefore, I won't bid at all", and everybody does that, how do we get over that hurdle? One, in that line of thinking, if they know, if I'm a supplier, and I know that, "if it is a failed bid, you'll just go out for rebid again, and then I can bid that higher amount, there's no real reason to bring me in the first time."

A. Yes.

Q. So, how do we get over that?

A. One is, if we can -- I think if we can try and identify what these risk factors are. And, kind of the example that I come back to is, last winter we had -- you know, we have these two winter periods now where we were going to have a Winter Reliability Program put out by ISO. Last winter, the concern was, for us, was the timing of when that was going to be approved and how the costs associated with that were going to be handled. Our RFP fell such that that was right within the window between indicative and final bids. And, as a result, between indicative and final bids, we saw a drop-off, because that didn't get sorted out until right at the eleventh hour.

This last RFP, ISO was out in front of that a little bit, that was determined earlier, FERC issued its ruling earlier, before we issued our RFP. And, as a result, that particular piece was addressed.

So, it doesn't mean the costs weren't there, but at least the risk of knowing how those costs were going to be assigned was removed. So, that was helpful. But the other pieces, you know, we come back to the bigger picture issues of winter price volatility issues, you know. And, I can't say -- sit here and say how we're going to address that in the context of our default service RFPs. You know, the regional issues, dealing with pipelines, those types of things, hopefully will bring some relief in the future. But I don't know how that's going to -- you know, we're going to be dealing with this at least for the next couple of years.

Q. That's fair. In your opinion, it was kind of alluded to, if I'm a supplier, and I can foresee a large swing potential of migration, how do I know what -- if I bid, what size, what chunk of power am I bidding on? How do I know that?

A. Well, in particular, what we do, when we issue our RFP, is we provide them with a lot of information. We provide them with retail sales reports. We provide them with what we call "evaluation loads". And, we also provide them with some large customer migration reports, all our customer migration patterns, so they can see all that. They can look at it. They can do their own analysis on it. But what you don't have in that is the forecasting part, to figure out what it is going forward. But they can look at historical patterns and gauge, you know, what they might expect for migration.

Q. And, I'm kind of asking some questions to prep you for the next go-around.

A. That's okay.

Q. Would it be advantageous or do you think there may be a need to perhaps cap, you know, the bid for no more than X amount of power, to at least give a supplier a "worst case" scenario, so they don't have to -- and, again, I don't know how much of a concern that is, but --

A. So, to essentially guarantee the supplier a minimum amount of load?

Q. Or no more than an amount of load, right.
A. Okay. So, so many -- only so many customers could come back?
Q. Right. And, then, perhaps have a different mechanism, if migration goes beyond that. I'm just --
A. Yes. That would certainly reduce the risk. Now, how we implement that, we would have to look at it and address it. But, certainly, a policy like that would limit the risk.
Q. And, I think in the questioning to you, Attorney Epler mentioned the -- if I understood right, the municipal power companies are aggregating, and on a little bit apples-and-oranges, I know, and I'm sure you do, too, but, for instance, gas pipeline purchases, I know a lot of the utilities will form a consortium to kind of leverage buying power and that type of thing.
A. Uh-huh.
Q. Is that something that makes sense in this field also, on this side? Would that help get bids and get a better price, if multiple utilities were working together to try to get a default service solicitation?
A. I haven't thought about that in detail. But, I think, the more load you put together, if you bundle in a larger amount of load, certainly, the logic there is

that you would likely get a -- there's a potential for getting a better response.

Q. Okay. And, I assume it would have come out by now, but, obviously, this filing, this Exhibit 5, was in September. Some things have changed since then. Would you add to that? You know, are there different options yet that you would have added, given the change in time?

A. I don't know if there's any additional options that I would add to this. I think that more of it going forward would be bringing more clarity to how we would implement it. But I don't think, again, only as in the context of this is a proposal for a failed RFP. If we're going to talk about different ways to approach the RFP, that's a different issue.

COMMISSIONER SCOTT: Thank you. That's all I have.

CHAIRMAN HONIGBERG: Thank you. A number of the questions I was going to ask have already been touched on. I do want to take care of one housekeeping thing before asking you a question.

Ms. Amidon, you did ask the witness about NextEra's letter. Did you want to have that marked as "Exhibit 6" in this docket?

MS. AMIDON: Yes. And, I thought of that after-the-fact. Thank you.

CHAIRMAN HONIGBERG: All right. So, we'll mark NextEra's December 15th, 2014 letter as "Exhibit 6" in the Unitil docket.

(The document, as described, was herewith marked as **Exhibit 6** for identification in Docket DE 14-061.)

BY CHAIRMAN HONIGBERG:

Q. Ms. Amidon asked you a question about, I'm going to use the word "favoritism", I'm not sure if she used that word, in your communications with prospective bidders. I have a question that's similar, but in a different timeframe. That, if there's a failure, and you are looking at what the reasons are, and thinking about pursuing Option 1, you may hear different concerns from different bidders. As you -- under your proposal, you're giving yourself, the Company, the discretion as to how to structure the second round. Am I right?

A. That's correct.

Q. Are you concerned at all that, by hearing from multiple bidders, if they have different concerns, if you structure your Option 1 bid in a way that satisfies the concerns of one, but not another, that the second one

is going to have a problem with that?
A. That could be the case.
Q. But, before you go further, would that -- would that indicate that, in pursuing Option 1, you might need -- you might need to come to us for guidance with it, providing us with information, confidential in all likelihood, about the situation and seek perhaps an order as to how to proceed, in the event that you need to go in the direction of one of these options?
A. Certainly. And, also, it was my expectation up front that, at least through this process, we would have an open communication with, you know, your Commission Staff regarding, you know, where we are at and probably be discussing with them.
Q. I'm just -- I'm concerned about making sure that the process is fair and not subject to challenge. And, I think you'll want to think through that with counsel --
A. Certainly.
Q. -- and Staff, in the event that we go in a direction like this. More globally, the questions that Ms. Chamberlin was asking you, and to a lesser extent Ms. Amidon, getting at risk, and even Commission Scott, I mean, your view of this is, and I think you said up front, still unlikely, and that the prospective bidders

are actually going through the process that Commissioner Scott outlined, and deciding whether to price the risk in, enough of them do that you haven't had a problem yet.

A. Correct.

Q. In the event of a failure, you need to change the structure in some way, reallocate something, in order to get people in, isn't that right?

A. That's correct. Can I add one point of clarification to where we were going before?

Q. Sure.

A. In terms of the "contingency RFP", if we wanted to call it that. I don't think there's anything that would preclude us from issuing an RFP, you know, after a "failed bid", that had multiple options in it. So, we could ask bidders to bid on Option 1, we could ask bidders to bid on Option 2, or, hypothetically, Option 3. We could structure a contingency RFP that way. And, then, maybe that helps us get around that potential issue.

CHAIRMAN HONIGBERG: Okay. I appreciate that. I don't think I have any other questions. Mr. Scott, do you have anything else? All right. Mr. Epler, do you have any further questions?

MR. EPLER: Yes, I do. Just a couple. I'll try to be quick.

REDIRECT EXAMINATION

BY MR. EPLER:

Q. Dr. Bohan, just to get to the issue that's been raised in a couple different manners, concerning information disclosed to suppliers and whether or not we try to ensure that the process is fair to all suppliers. Is it correct that any pertinent or material information is disclosed to potential bidders in the RFP or on the Company's website?

A. That is correct.

Q. Okay. And, so, in these -- in these conversations that you have directly with suppliers during the RFP process, you're not disclosing -- are you disclosing any new information that is not previously disclosed on the website or through the RFP itself?

A. I am not.

Q. Okay. And, if I can draw your attention to the first page of the Contingency Plan, and the last sentence in the last bullet. I would just have you just read that aloud please.

A. Starting with "Most importantly"?

Q. Yes.

A. "Most importantly, should the potential for a failed auction become significant, UES will contact the Commission and Commission Staff to discuss the Company's contingency plan."

Q. So, do you take this, this sentence -- do you understand this sentence to mean that, before the Company would implement any of the options, the Company would reach out to Commission Staff and to the Commission to inform them of the circumstance and to get -- to have at least some dialogue about the Company's plan?

A. That is my understanding and expectation.

MR. EPLER: Okay. Thank you. I don't have any further questions. I just wanted to inform the Commission, if it was not aware, the Company's latest migration report was filed in this docket on December 16th. So, that information is available. We file that quarterly, and that's the most recent filing.

And, also, maybe this is housekeeping or procedural, I'm not sure which. The Company has provided -- it's the Company's position that it's provided this Contingency Plan for informational purposes. We're not asking for approval of the Plan. Whether the Commission wants to approve it, I'd leave that to the

Commission. We see this, as I said, more as informational. And, as indicated by the witness, before any of these steps would be taken, we would have -- intend to contact the Commission, so there would be an opportunity for dialogue and input. And, if approval was necessary, we would seek it at that time.

The point being here is, we just wanted to inform the Commission of that we do have a number of steps that we've thought through, and we have a plan in place.

CHAIRMAN HONIGBERG: I appreciate that. Thank you, Mr. Epler. Is there anything further then for Mr. Bohan at this time?

(No verbal response)

CHAIRMAN HONIGBERG: Then, you can step down, Mr. Bohan.

So, we're going to take a ten minute break, before we pick up with Liberty. So, we'll come back here at 25 minutes to eleven.

(Recess taken at 10:25 a.m. and the hearing resumed at 10:38 a.m.)

CHAIRMAN HONIGBERG: Ms. Knowlton.

MS. KNOWLTON: Thank you. Liberty Utilities calls John Warshaw.

(Whereupon ***John D. Warshaw*** was duly sworn by the Court Reporter.)

MS. KNOWLTON: Good morning, Mr. Warshaw.

WITNESS WARSHAW: Good morning.

JOHN D. WARSHAW, SWORN

DIRECT EXAMINATION

BY MS. KNOWLTON:

Q. Please state your full name for the record.

A. John D. Warshaw.

Q. By whom are you employed?

A. Liberty Utilities (New Hampshire) Corp.

Q. What is your position with the Company?

A. I'm Manager of Electric Supply.

Q. In that capacity, do you have any responsibility for procuring supply for customers served by energy service?

A. Yes, I do.

Q. What do your responsibilities include?

A. I act -- I manage the RFP solicitation process for contracting a supply for our energy service customers.

Q. Are you familiar with the document that's been marked for identification as "Exhibit 1" today?

A. Yes, I am.

Q. And, was that technical statement prepared by you or under your direction?
A. Yes, it was.
Q. Do you have any corrections or updates to it?
A. Not at this time.

MS. KNOWLTON: The Company has no further questions for the witness and would make him available for cross-examination, unless the Commissioners would prefer that I do any further direct examination.

COMMISSIONER SCOTT: Could you clarify the technical statement you're referring to?

MS. KNOWLTON: Sure. The technical statement that was filed by the Company on, I believe, August the 1st, 2014, in Docket DE 14-031. And, it's the "Technical Statement of John D. Warshaw".

COMMISSIONER SCOTT: Thank you.

CHAIRMAN HONIGBERG: Ms. Chamberlin.

MS. CHAMBERLIN: Thank you.

CROSS-EXAMINATION

BY MS. CHAMBERLIN:
Q. Is it a reasonable comparison to say that Liberty's proposal is the same as Unitil's Option 4?
A. I would say it's proposing a similar concept, yes.
Q. And, can you describe it? And, as you go forward, if

it differs from Unitil, please explain how.
A. The difference between our proposal and Unitil's Option 4 is that we have much more detail in how we would actually go through the process of setting rates for customers, and how the customers would be served from ISO-New England.
Q. So, would the customers know in advance the rate or would the rate be known after the fact?
A. Customers would be notified with a rate for the period -- correct period in time. They would have it known up front. And, then, any difference between the rate that was proposed and approved and the actual costs would be reconciled in a reconciliation at a future date.
Q. And, what's the window of time that customers would know the projected rate?
A. Customers would know the projected rate at -- consistent with the current process, which would be about five, you know, four to six weeks before it would take effect.
Q. Is your proposal the same for small and residential customers, as it is for C&I customers?
A. In general, the proposal is the same. The difference is that, for the Large Customer Group, we solicit

offers for two different blocks -- two different three-month blocks, as opposed to, for the Small Customer Group, we solicit offers for one six-month block. And, that results in the potential of having any one of those three blocks not set -- not served. So, for the Large Customer Group, we could end up with a supply for the first three months, as an example, November through January, in this most recent solicitation, but not for the second three months, would be February through April.

Q. And, as part of your preparation of the RFP, you contact individual potential bidders and try to talk them into bidding, similar to what we heard from Unitil's witness?

A. Well, I don't twist their arms. You know, we do have a fairly rigorous open and competitive approach to informing potential bidders of the RFP process. And, then, you know, once the RFP has been issued, we do -- I will reach out to the bidders that would -- we have contracts -- agreements with, and see if they have any issues that need to be identified, and also to see if they're even planning on bidding in the RFP.

Q. If you hear from a number of bidders that there are certain concerns, for example, they are all concerned about the Winter Reliability Program, something like that, do you consider changing the RFP before being issued?

A. If we had that information prior to the -- releasing the RFP, yes, we would, we would put that in. And, what we normally would do, we would be requesting a pass-through of the actual costs the supplier would incur for serving our load. If this -- and, we did do that when I worked for National Grid quite a few years ago, when the forward capacity -- when the capacity market was uncertain at the time of the RFP, and we did issue a -- RFPs that would have the capacity as a pass-through. If this issue is a more current issue that gets identified after the RFP is issued, we could also, with consultation with Staff, propose again a pass-through of actual costs of the bidders.

Q. And that, to me, sounds similar to Option 2 or Option 3 of Unitil. Is that a reasonable comparison?

A. No, it would not be. Because our -- in Option 2 and 3 of Unitil, the prices that customers would pay I believe would be unknown, as opposed to the prices that we would be submitting for approval would be known prior to them going into effect.

Q. And, what is your estimate of the risk of having a failed auction? Just high, medium or low?

A. Up until this past spring, it was exceedingly low. After getting through this spring, and having the suppliers adjust to the issues that are revolving around the winter, I would also characterize it as "very low".

Q. And, in terms of changing the time period for the RFP, if you get, say, a weak response to a six-month RFP, you heard the description of Unitil's Option 1 as saying it could go to one to three months. Is that something that Liberty would consider?

A. I don't believe that is something Liberty would consider. It would not -- it would not be consistent with our Settlement Agreement on the procurement of default service. And, it also would not provide customers with known pricing over the period in question, which would then not allow them to be able to effectively shop for an alternative supplier from one of the competitive suppliers that provide retail choice in our service territory.

Q. And, if, setting aside the Settlement Agreement, you heard indications that a 12-month supply period would encourage bidders to respond, is that something that you would consider?

A. We could consider a 12-month period. The disadvantage is that, when asking bidders to provide prices at a much later date, they have to factor in their -- more volatility and risk premiums into their bids. Additionally, there is no guarantee that going out for a 12-month period would provide any less lower pricing than if it was two six-month periods that were done at different time periods.
Q. There's no guarantee. But it's a possibility, if the concern is primarily the winter period, correct?
A. It's a possibility. But, if you look at National Grid's experience for this past winter, they had purchased 50 percent of their load in the spring, and then an additional 50 percent of their load for this winter period in September. And, the resultant retail rates are very similar to the rates that we have.
Q. In terms of what you are requesting the Commission to do with this docket, are you seeking approval of your alternative methodology at this time?
A. Yes, we are.
Q. So, let's say the next bid, the next six-month bid you go out is fine, but the following six-month bid is what you consider a "failed bid", you would automatically initiate this proposal, if approved by the Commission?

A. Yes, we would.

Q. And, remind me if this includes -- what level of notification of the Commission or the Staff or the OCA would take place before that?

A. Well, because we would have an approved plan, we would know on the day that we received final bids that we have a failed RFP, we would notify Staff and OCA that we have a failed RFP, and that we are implementing our approved Alternative Plan.

Q. So, at that point, you would not expect any further modification to the plan?

A. No.

MS. CHAMBERLIN: Thank you. That's all I have.

CHAIRMAN HONIGBERG: Ms. Amidon.

MS. AMIDON: Good morning, Mr. Warshaw.

WITNESS WARSHAW: Good morning.

MS. AMIDON: I want to first begin and ask the Commission to mark for identification NextEra's letter of December 15th, 2014 as "Exhibit 2". And, begin with some questions on that.

BY MS. AMIDON:

Q. Do you have that letter in front of you?

A. Yes, I do.

CHAIRMAN HONIGBERG: So, we'll mark that as "2" in the 14-211 docket.

(The document, as described, was herewith marked as **Exhibit 2** for identification.)

MS. AMIDON: Thank you.

MS. CHAMBERLIN: 031, I believe.

MS. AMIDON: No. It's 14-211.

CHAIRMAN HONIGBERG: No. It's 14-211.

MS. CHAMBERLIN: Oh. All right.

MS. AMIDON: Thank you.

BY MS. AMIDON:

Q. On Page 2 of that letter, do you see the paragraph that begins, making the second point, begins with the word "Second"?

A. Yes.

Q. And, it says "Liberty's Alternate Plan should be rejected because it has the potential to negatively impact competitive electric markets and most importantly customers." And, then, it goes on to explain the reason why NextEra is taking that position. What's the Company's response to that argument?

A. First, if NextEra is talking about the competitive marketplace in all of New England, I doubt that the impact of Liberty's load would have any impact at all on the competitive marketplace. If we were talking about just our service territory, if this plan is approved, our bidders would know what would happen if we had a failed RFP. And, again, I don't think this would impact the competitive marketplace, because customers would still have the ability to go to a retail choice provider and receive services that we -- that Liberty are not able to provide.

Q. However, if you recall, Unitil's plan actually returns to the competitive market several times with different iterations of service through an RFP process. Why did the Company not consider that as a viable option, in the event there was a failed auction?

A. The Company did not consider reissuing an RFP -- the RFP, if there was a failed auction, because of the timeframe that the Company is under to file rates, to get the rates approved, reviewed and approved by the Commission, and to have those rates in place prior to the period of time that they would be effective. The only variation would be if the failed RFP was for the second three-month period for the Large Customer Group, then we would have sufficient time to issue another RFP and, at a later date, file rates for that latter period.

Q. What's the -- what's the distinction between -- or, the differences between Unitil and Liberty that Unitil could go out and reissue, in essence, an RFP in a couple weeks, and what prevents Liberty from doing the same thing?

A. If Liberty was to do that, Liberty would have to provide for a longer period of time from, when it receives final bids until when the period -- when the rates would be effective. Currently, we receive final bids about six weeks before they're effective. And, in Unitil's plan, they have a -- I think an extra three or four weeks in their process.

Q. But you could -- the Company could issue an RFP for a shorter period of time, say, one to three months, as in Option 1 in the Unitil plan?

A. We could. But the issue then would be that there may -- it would then require Liberty, Staff, and Commission a much shorter time to be able to review the results of the RFP and determine if the rates are appropriate.

Q. But you agree then, based on your last answer, that the Settlement Agreement that regulates the procurement of default service by Liberty does not -- is not

implicated by this filing, correct?
A. I am not -- I'm not sure about that. I think the Settlement Agreement is fairly clear on the process that Liberty would go through in an RFP. The Settlement Agreement does not address reissuing RFPs in a short amount of time.
Q. So, this is, in fact, a subject matter that's outside of the Settlement Agreement? This was something that would be done in the event of a failed RFP?
A. Yes.
Q. Okay. So, in essence, it's outside the normal course. And, if I recall, the Company wanted to have this in place in the event that it had a failed RFP, so that it didn't have to go through the process of amending the Settlement Agreement, *etcetera*?
A. Right. We were looking to have a process that we would be able to implement -- a known process that we would be able to easily implement, in the case of an RFP failure, as opposed to having to make it up as we go along. We would not like to be in that situation.
Q. Getting back to the fundamental question, what does the Company consider to be a "failed auction"?
A. The Company considers a "failed auction", if we end up with no bidders for a specific block in final bids, or

possibly having only one bidder, and it is determined that the single bid is significantly above our estimate of market.

Q. Do you feel that there's any more likelihood of that occurring with one particular customer group than another?

A. I would say the most -- the likelihood would probably be more for the Large Customer Group than the Small Customer Group.

Q. And, please explain how you would price rates, and when customers would get notice of those rates, in the event that you had to use the proposal that the Company made?

A. Without going into confidential information, we would develop a price that would be based on current view of the forward market that -- which would be the NYMEX on and off-peak ISO-New England hub prices. In addition, we would add to that the capacity costs and ancillary costs. And, the intent would be that we would be filing that rate with the normal filing -- rate filing that we would make. So, customers would know what the rate is, consistent with how rates have been noticed to customers in the past.

Q. Would there be sufficient time for those customers to shift to a competitive supplier, if they so desired?

A. Yes, they would.

Q. I'm not getting the impression, and I apologize if this question is asked incorrectly, I'm not getting the impression that the Company evaluated other options when it developed this plan. And, I would just like to know what other options that you considered, for example, whether you did consider a Unitil-type proposal when you first proposed this alternative?

A. This was developed as a consensus of Liberty looking at -- we didn't look at any specific alternative plans, as opposed to looking at, you know, there's Approach A and Approach B and Approach C. And, our intent was to have a process that would -- we would have that to be able to take it basically off the shelf and utilize within our normal rate filing mechanism.

Q. Getting back to the NextEra letter, on Page 3, the first paragraph, the observation is made that "customers will bear all of the risks and costs associated with Liberty's Alternate Plan". And, that is a cost-shifting from wholesale suppliers to end use customers. And, the question that's posed by NextEra is "whether that is in the public interest?" Would you agree, though, with the statement that "all risks and costs are shifted to customers" under this plan?

A. Yes, I would. But let me temper -- let me address that. Normally, when bidders bid, they bid a fixed price, and that fixed price includes all of the costs that the bidder expects to incur in serving that load. So, customers would have borne that risk. The difference is that, in this, in our plan, there is no -- there is no feature that we would utilize to actually hedge or limit the price volatility in the energy market.
Q. And, the Company would recover all its costs under this proposal?
A. Yes. The Company would recover all costs. We have a recon -- we are proposing to either have a reconciliation within normal reconciliation period, and, if we overestimated what our costs were, there would be a credit that would go back to customers. The same as if we underestimated and have to recover additional costs.
Q. But you agree there's a timing issue, in terms of the cost-causers may not end up paying for the costs?
A. That would only -- yes. That because some cost-causers may migrate to the competitive supply market.
Q. On Page 3 of the proposal, in the paragraph -- the second paragraph under IV, there's a description of

what Liberty would include in its retail rate. Do you see where I am?

A. Yes.

Q. And, you say "energy prices in the NYMEX forward prices for the ISO-New England Mass Hub Off-Peak/On-Peak LMP Futures". Why don't you use real-time prices?

A. I'm not sure I understand the question, but let me see if I can explain it. What we're looking at is what NYMEX publishes as contracts that suppliers can contract for for energy rates at -- prior to the actual date. There is no forecast of real-time prices on an hourly basis that we would be able to utilize. And, this is only -- and we utilize the NYMEX forward prices, because we would be providing a fixed monthly price to customers.

Q. Okay. And, the second item in that paragraph is "an adjustment for future price volatility". What does that refer to?

A. That's referring to the variability that you see in NYMEX futures at a given point in time, when comparing them to the actual spot market prices for that same period. In other words, if we would be looking at, let's say, for the month of November, in September we would have NYMEX prices that would -- that would indicate what the market believes the cost of serving load in November would be. And, in actuality, the month of November would have -- would have a different price than -- a different cost, based on many short-term volatility issues that could come up.

Q. But it sounds to me that this is not a standard that is recognized by other parties, but this is something that the Company proposes to create?

A. Yes.

Q. In the next paragraph, there is a discussion about what the Company would do in case that there were variances between the forecast prices and the actual purchased power costs. And, what the Company proposes is some kind of trigger at $500,000 or $1 million over/under recovery. Could you explain that please.

A. Sure. We would, on a monthly basis, monitor the revenue we receive from customers against the costs we incurred in serving the load for those customers. And, during the period of time that the rates would be in effect, let's say the November through April -- April period, we would then propose to have a reconciliation short, you know, sometime after that. I think that was an inelegant explanation, I apologize. In other words, we would monitor the variance. And, if it's under

$500,000 -- if it exceeds $500,000, we would propose to do a off-cycle reconciliation. So, this would be for the period of May through October, we would then have a -- propose a reconciliation sometime effective November 1st. If we ended up with this plan for the November through April period, we would then just include these costs in the normal reconciliation that would be filed to be effective for May 1st.

Q. I do find it confusing. Let's say, "if the accumulated variance exceeds $500,000, Liberty will propose to file an incremental reconciling adjustment in the next Energy Service filing instead of waiting until [the annual reconciliation]." So, where would these -- this overrecovery be recovered? Would they be recovered in Default Energy Service rates?

A. Yes. It would be recovered in Default Energy Service rates. And, if the plan had to be implemented for the May through October period, we would propose to have an off-cycle reconciliation that would be effective November 1st. If, on the other hand, the plan had to be implemented for the November through April time period, we normally do an annual reconciliation that would be effective for May 1st, and we would just include these additional costs as part of that annual

reconciliation.
Q. So, is the proposal that this -- that the recovery of, say, an underrecovery would be class-specific?
A. Yes.
Q. So, if it was Large Customers who incurred this underrecovery, it would all be built into the Large Customers' rates, is that correct?
A. Correct.
Q. And, then, the second -- the last sentence in this paragraph says "If the accumulated variance exceeds 1 million, Liberty will update Energy Service rates for the remaining months of that period and will include an incremental reconciliation and adjustment for significant wholesale market changes." Does that mean, say, in the May to October period, you come in in August and ask for an updated Energy Service rate?
A. Yes. We might even come in in July, if, for some reason, the estimate that we utilized was significantly off, different from what the actual spot market places result -- prices result in.
Q. And, again, the recovery would be market-specific -- I mean, class-specific?
A. Yes. It would be class-specific.
Q. So, if it was incurred by the Large Customer Group,

then only the Large Customer Group would pay that --
A. Yes.
Q. -- for the underrecovery? And, now, in the final paragraph that begins on that page, the Company talks about "In the event of significant migration to one or more Competitive Energy Providers", there is some -- that the underrecovery "is unrecoverable from remaining Energy Service customers in a particular customer group, Liberty will propose a temporary, non-by-passable charge that will only be applicable to a distribution customers in a customer group for which the contingency plan is implemented." Could you provide an example of that.
A. I could. The intent is that, in a customer group, let's say, for, you know, talking purposes, we had 10,000 customers. And, of those 10,000 customers, 9,500 of them are taking Energy Service, and the other 500 have been in the competitive marketplace. If, as a result of the rate that we file, due to having to implement the plan, during that time period we see that, instead of having 9,500 customers in taking Energy Service, we end up with 1,000 customers. And, you know, 8,000 -- and, as a result, 8,500 customers have migrated to retail choice, it would -- it may be

very -- and, as a result, retail choice would have 9,000 customers, it would not be fair to the remaining 1,000 Energy Service customers to bear all of the potential costs that we would need to recover in a reconciliation. It would price -- it would possibly price Energy Service much higher than anything we would expect.

Q. And, the Company would then --

A. We would -- oh, I apologize. We would then propose to have a reconciliation that would cover all customers in that customer group, whether they were taking Energy Service or retail choice.

Q. Are you suggesting that that would be a stranded cost?

A. I wouldn't say it would be potentially a "stranded cost", but it would be a cost that was -- would be better incurred by all of the customers that caused the cost, as opposed to leaving that cost to be recovered by only a few customers, who, for whatever reason, had not moved to retail choice.

MS. AMIDON: May Mr. Frantz ask a question please?

CHAIRMAN HONIGBERG: Go ahead, Mr. Frantz.

MR. FRANTZ: Thank you.

BY MR. FRANTZ:

Q. If you could elaborate on which customers would actually pay that fixed price? If the customer was on for six months -- let's say they were on for three months and then left, would that customer also be required to pay that price, that cost?

A. Yes. It would be over all customers in the customer group for the period of time that the reconciliation would be effective, for both customers taking Energy Service and customers taking retail choice.

Q. Okay. So, even if a customer was on the rate for only one month and then went to a competitive supplier, that customer would also be required to pay it?

A. Yes.

MR. FRANTZ: Thank you.

MS. AMIDON: Thank you. We have no further questions.

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: Thank you.

BY COMMISSIONER SCOTT:

Q. And, I think you've covered this, but I wanted to just clarify in my mind. So, under your proposal, am I correct that there would be a variable monthly rate for customers, that they would see a change every -- a potential change every month, is that correct?

A. No. What we would be, depending upon the customer group, we would be proposing a fixed price for the period of time. For the Small Customer Group, we have a single fixed price for the entire six months. And, for the Large Customer Group, we vary that price monthly. But customers would still have a specific price that they could then shop and utilize to evaluate against proposals from retail choice providers. But it would not -- it would not be a variable price, in the sense that there would -- the rate would be released month by month with very short notice. The customers would receive a rate for the -- consistent with how we issue rates now, that would be for the entire period of time that the rates would be effective. The only difference would be that there's a potential for the reconciliation to either provide, you know, recover costs or credit to the customers, depending upon how the forecast against actual costs resulted.

Q. Okay. Thank you. That helped me. So, in looking at your proposal, on Page 3 of your Technical Statement, again, you listed Items (i) through -- well, (i) through (v), I guess, of components to your methodology. What I don't see is there's a discussion

later about the additional cost of financial surety to ISO-New England. Where does that come into this mix?
A. Currently, we provide a letter of credit to ISO-New England that covers our transmission costs. And, that cost is allocated from corporate to Liberty Utilities (Granite State), and it's recovered from all customers. There may be some additional incremental costs that would have to be determined to be allocated to just the Energy Service customers.
Q. Okay. So, am I correct from your answer that that cost isn't recovered directly through your -- through this new methodology that you're proposing?
A. Correct. That would probably be recovered in the reconciliation that would be done after the fact.
Q. Okay. And, perhaps it's in discovery, the proprietary methodology that is called in your technical statement, is there an example of how this would exactly work?
A. We do have an exhibit that is confidential that would show exactly how this would be implemented.
Q. Okay. You don't need to say what's exactly in it, I just wanted to make sure that we had that in the record.

MS. KNOWLTON: It's not on the record. Mr. Warshaw is referring to something that the Company produced to the Staff and the OCA as part of a technical session, but we have not marked that today. We can mark that, if you would like to do so. As Mr. Warshaw indicated, it is confidential. We have both the confidential and redacted version, if the Commission so desires it.

CHAIRMAN HONIGBERG: Yes. I guess we would like you to do that. So, we will have that become "Exhibit 3" in 14-211. So, we'll ask you to file a redacted version for the public record and a confidential version.

MS. KNOWLTON: I only have a limited number of copies with me now, if you would like to have it before you now?

COMMISSIONER SCOTT: Sure.

MS. KNOWLTON: And, I would propose to mark as "Exhibit 3" the confidential version, and, as "Exhibit 4", the redacted version.

CHAIRMAN HONIGBERG: Good enough.

(The documents, as described, were herewith marked as **Exhibit 3** and **Exhibit 4**, respectively, for identification.)

MS. KNOWLTON: If I may approach?

(Atty. Knowlton distributing documents.)

CHAIRMAN HONIGBERG: We're going to be careful, as we talk about this, that if there's matters that call for information that's in the confidential portion of this exhibit, we're going to have to take steps at that time to deal with that. But, for now, we'll proceed. And, Mr. Warshaw and Ms. Knowlton I think will both be sensitive to where questions or answers might be going, so we don't accidently disclose confidential information. Attorney Geiger and Attorney Epler, you understand where we are, right?

MR. EPLER: Yes.

MS. KNOWLTON: I actually have given all of my copies to the Clerk. I don't have a copy to give to Ms. Geiger of the redacted version. I don't know whether we -- can we take a brief break, if she would like to have it as we proceed or --

CHAIRMAN HONIGBERG: Okay. Why don't we take a short break then and deal with these exhibits. So, we'll come back in five minutes.

MS. KNOWLTON: Thank you.

(Recess take at 11:19 a.m. and the hearing resumed at 11:27 a.m.)

CHAIRMAN HONIGBERG: We're back on the

record. Commissioner Scott.

COMMISSIONER SCOTT: Thank you.

BY COMMISSIONER SCOTT:

Q. So, perhaps, and let me preface this by saying I don't feel I need you to talk about anything that would need to be redacted. So, I think we can stay on the non-conf -- the public side of this. I just wanted to understand a couple things, so I could understand this a little bit better. So, just broadly, help me with your methodology. What makes it proprietary? What's -- and, again, stop yourself, and I'll stop, if you get into an area where we need to --

A. I know this is a very busy exhibit. What this one page is attempting to do is to come up with a method to recognize and factor in the difference between what the NYMEX futures reported as the price for a month at the time that we received our final firm prices from suppliers, and then comparing that to what the actual real-time LMP price was for the month. So, you know, as an example, this is attempt -- if you look, comparing Column 6 to Column 7, --

Q. Yes.

A. -- if you pick up -- pick just, you know, you can pick July 2014, and which would indicate that, at the time that we received our bids for that period, which would have been in March of 2014, the NYMEX was forecasting that the cost for July would have been, you know, "56.39" for a whole month. In actuality, if you go then to Column 7, the actual average LMP price in ISO-New England Spot Market was "$33.81". So, as you can see, the forwards were pricing much higher than what actually happened. And, that's probably as a result of having a cooler July, and thus the cost of electricity did not peak as much as if we had a hot July, and possibly even a July with a heat wave of three days or more of 90 degree or higher weather.

And, then, again, if you look at, say, for the -- if you go up to February '14, you'll see that, when we received the February '14 prices, which would have been in September of 2013, the forwards were saying that it would cost about $115 a megawatt-hour to serve load in that month. The actual cost that was incurred in ISO-New England was "$150.61" to serve that load. And, that would reflect the volatility in the spot market, the real-time market, for prices, due to a very cold period of time in February and limitations on natural gas, which then caused the actual energy prices to spike on the spot market.

And, what this exhibit is attempting to do is factor in that variability between what the futures are telling you at the time we are setting the rate, against what actually happened. With the intent that we would be pricing this correctly or as close to market as we can for our customers, so that it would reduce the amount of either credit or cost recovery that would have to be incurred in a follow-on reconciliation.

Q. And, help me again. So, what's the proprietary part of this? What --

A. What's proprietary is how we actually -- what pieces of information we use and how we use it and over what timeframe.

MS. KNOWLTON: I would note for the record that the Company did file a Motion for Protective Treatment with regard to the confidential version of this document. Again, it was produced in discovery to Staff and the OCA. And, that motion lays out the Company's position with regard to why it's confidential, which I'm happy to address, if the Commission would like?

CHAIRMAN HONIGBERG: We're going to have to rule on that motion then. And, I don't think I saw it, for whatever reason. So, why don't we take -- deal with that right now. So, Ms. Knowlton, why don't you lay out briefly why this should be confidential.

MS. KNOWLTON: The Company's position, as laid out in the motion, is that the Company's methodology that it would rely upon to determine pricing for the relevant period is -- it's essentially its own version of what suppliers do. So, it's put together a methodology that it would use to determine prices for a forward-looking period, and it would come to the Commission and it would seek approval of rates to cover the cost of the procurement of electricity over that six-month period. If the Company were to make that methodology public, so that the suppliers and anyone who was interested could see it, effectively, you know, the suppliers would know what they would need to do, you know, to beat those prices. So, there could really be no true competition, if they knew how the Company was determining the prices that would become rates, essentially, that the Company would seek approval of.

So, it's that reason, which is, in order to maintain competition in the marketplace, between Energy Service and what competitive suppliers have to offer, we would need to keep the way that we determine those prices confidential.

CHAIRMAN HONIGBERG: Ms. Chamberlin or Ms. Amidon, do you have any objection to the motion?

MS. AMIDON: No.

MS. CHAMBERLIN: No objection.

CHAIRMAN HONIGBERG: We'll grant the motion. Thank you. Commissioner Scott.

BY COMMISSIONER SCOTT:

Q. Okay. So, going back to your Page 3 of your Technical Statement, Mr. Warshaw. So that those items listed under your -- you know, it's basically a factual statement here, it sounds like, that your proprietary methodology takes into account all these different factors. And, that's effectively taken into account in these calculations here, is that correct?

A. What the first page is developing is just the factor that we would utilize to adjust the NYMEX futures for rate for -- for the rate that we would propose in our filing. If you go to Page 3 of the actual exhibit, you can see how we build up that rate that we would file, based on the published electric futures.

Q. Okay. Well, let me ask you this. As we consider this, is there anything else you want to add on this exhibit, before we go onto other issues?

A. Not at this time.

Q. Okay.

A. I could propose that, if it would be helpful, we could write up a more detailed explanation that would step through this, for the use of the Commissioners.

Q. That would help this Commissioner.

CHAIRMAN HONIGBERG: You want to make that a record request then, Commissioner?

COMMISSIONER SCOTT: Yes, please.

CHAIRMAN HONIGBERG: Attorney Knowlton, you understand the request?

MS. KNOWLTON: Yes. We can prepare that and submit that, it would be "Exhibit 5", I believe?

CHAIRMAN HONIGBERG: That would become "Exhibit 5", yes. Would that be confidential? Is that within the confidentiality? Mr. Warshaw, I think you're nodding "yes"?

WITNESS WARSHAW: Yes. A portion of that process would be confidential, the specific values that we use.

CHAIRMAN HONIGBERG: Do we need two exhibits then, one for the redacted version, one for the confidential version?

MS. KNOWLTON: Sure. Thank you.

CHAIRMAN HONIGBERG: So, that would be

"5" and "6".

(Exhibit 5 and Exhibit 6 reserved in DE 14-211)

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: Thank you.

BY COMMISSIONER SCOTT:

Q. One implied, I think, concern raised by some, on the difference in approaches that Liberty and Unitil have are suggesting in the event of a failed auction -- or, a failed bid from suppliers, excuse me, there's an implication that there should be consistency between the utilities. Do you feel that's an issue?

A. There should be some consistency between utilities. But we don't have -- the way we price and procure energy service is different from the way Unitil does that, and is also different from the way PSNH does that. So, I don't see that every utility needs to be exactly -- done exactly the same way, using exactly the same process, that would come out with almost exact -- probably exactly the same price.

Q. And, obviously, you've heard the discussion with Unitil, and they have, as you're well aware, they've laid out four options, a little bit different than your option. Is there a value, in your eyes, to, before going to the ISO-New England market directly, to try other approaches or is your concern more the timing? Why wouldn't you want to do that?

A. What we put together is a contingency, something that we would be able to implement quickly, in the event that we have a failed auction. There is timing issues that need to be addressed for -- to be able to provide customers with a price that they could -- that they could then plan on. And, if we -- and, which is why we wanted to go with a plan that would result in a consistent approval and noticing of prices to our customers, as opposed to a different plan, where prices may be unknown and customers would not be able to plan what their costs would be, because the prices are not available. And, then, customers also would not be able to go to evaluate retail choice offers, because they don't -- they don't have something to compare it to.

COMMISSIONER SCOTT: Okay. I think that's all I have. Thank you.

CHAIRMAN HONIGBERG: I think my questions were answered at one time or another, but let me flip through here. In fact, they were.

Ms. Knowlton, do you have any further questions?

MS. KNOWLTON: I do. I have a few for Mr. Warshaw.

REDIRECT EXAMINATION

BY MS. KNOWLTON:

Q. Mr. Warshaw, I want to walk you through the mechanics of what would happen if the RFP failed. You indicated in your testimony, I believe in response to questions from Ms. Amidon, that it's possible that, of the two blocks that the Company is bidding out, I mean, two classes, sorry, the first, the Small Customer Group, which includes residential, versus the Large Customer Group, that it's possible that one could succeed and one could fail, is that correct?

A. Yes. That is correct.

Q. And, if one succeeded, what would happen?

A. If one succeeded, we would have executed a transaction agreement with that supplier. We would then calculate rates based on the fixed price that was agreed to with that supplier. And, we would file those rates with the Commission.

Q. And, how long does that process take?

A. Usually, that, from the time that we receive final prices, until we file the results with the Commission, it's approximately four to five business days.

Q. And, during that time period, would you be or would the Company be in a position to reissue an RFP while you were preparing that filing for the Commission for the block that was successful?
A. It would be difficult.
Q. When would you be able to reissue an RFP for the failed block?
A. We would be able to -- we would issue an RFP for a failed block after we made the filing for the successful block with the Commission.
Q. And, how long would that process take?
A. That could take anywhere from three to five business days, to put together a new RFP and distribute it -- put together a new RFP, have it reviewed internally, to ensure that we're not missing something because we're doing it on a very short-term, quickly basis, and then getting it out to the marketplace.
Q. If that RFP succeeded, would the Company be back before the Commission to seek approval of those rates?
A. Yes, we would. But -- yes, it would.
Q. Would that be on a quick turnaround basis?
A. It would --
Q. Consistent with how the Company now -- the same timeframe that the Company uses now to seek approval of

its rates?
A. Yes. We would issue an RFP that would look at having a quick turnaround time. And, it would also be done within the timeframe that we provide to the Commission now for review and approval.
Q. Okay. And, if that solicitation was not successful, so, the Company went out and rebid, and it failed, another week has gone by, and the clock is ticking down to the date that rates must take effect, is that correct?
A. Yes.
Q. And, what would happen if the Company issued yet another RFP at that point?
A. There's the potential that we would -- we would end up at the beginning of the period without approved rates and without a supply.
Q. And, would it be fair so say that, during that time period, every time the Company was reissuing an RFP, that the Commission and its Staff and the Consumer Advocate, and anyone else that was interested in participating in the proceeding, would essentially need to be on standby to come in for a very quickly scheduled hearing on the proposed rates?
A. Yes.

Q. And, in the case of Unitil's proposal, where Unitil would seek bids on anything from a one- to three-month RFP, would it pose similar issues?
A. Yes, it would.
Q. And, in developing the proposal that the Company has put before the Commission today, did the Company try to stay true to the overall parameters of the Settlement Agreement that provides for the procurement of default service power now?
A. Yes, we did.
Q. The Company's proposal does not include a non-bypassable charge at this time, does it?
A. It does not include one. It just has a option, if that is required, we would then file a request for such a non-bypassable charge.
Q. And, the particulars of that request would be set forth for the Commission and the Staff and OCA and any interested parties at that point to review and take a position on?
A. Yes, it would.
Q. Ms. Amidon asked you a question about or expressed a concern about cost-causers not possibly bearing the costs under a potential non-bypassable charge scenario. Do you recall that question?

A. Yes, I do.
Q. Does that happen now?
A. Yes, it does.
Q. And, how does that happen now?
A. Customers who take Energy Service, who then switch to retail choice, are not subject to the annual Energy Service reconciliation that the remaining Energy Service customers incur.
Q. Do you recall testifying that the Company's proposal would include carrying costs of additional ISO-New England financial assurance?
A. I think we didn't include that specifically. It was just more in the general, I think, statement of ISO costs.
Q. Are there any costs that would be avoided, if the Company were to be procuring from ISO-New England directly, as opposed to the supplier procuring from ISO-New England?
A. Because the Company cannot make a profit on the purchase of supply for Energy Service, we would not be including a margin that the competitive suppliers would be including in their service to our customers.
Q. Is it possible that the additional carrying costs that the Company would incur to ISO-New England could be

either higher or lower than the supplier margin?
A. It could be higher and lower, I don't have any information that could qualify that one way or another.

MS. KNOWLTON: Thank you. I have no further questions for Mr. Warshaw.

CHAIRMAN HONIGBERG: Thank you. I think, with nothing further for Mr. Warshaw, you can probably return to your table there.

There are no other witnesses, correct?

(No verbal response)

CHAIRMAN HONIGBERG: So, before I let counsel sum up, I want to give Attorney Geiger a chance to offer any comments she might have that are beyond what she's already filed in writing. Attorney Geiger.

MS. GEIGER: Yes. Thank you, Mr. Chairman. I won't belabor the hearing. I just would ask respectfully that the Commission review the Alternate Proposal that -- or, the Alternate Procurement Plan that's described in NextEra's letter. As you can tell from the context of the letter, what NEPM is most concerned about is preserving the competitive solicitation and the bid process for both utilities, in terms of their procurement of default service.

We, as indicated in the letter, believe

that Unitil's plan is preferable to Liberty's. We think that jumping directly from the current process into a direct unilateral procurement from the market by Liberty is not a good thing. It's not something that the competitors, such as my client, would favor.

So, we respectfully ask that you strongly consider the alternative put forward by Unitil for both companies. Thank you.

CHAIRMAN HONIGBERG: Thank you, Attorney Geiger. Now, before we get to counsel for the parties, is there any objection to striking ID from the exhibits in the two dockets that we've had in front of us today?

MS. AMIDON: No.

MS. CHAMBERLIN: No.

CHAIRMAN HONIGBERG: Seeing none, we'll strike the ID.

Ms. Chamberlin and Ms. Amidon, do you want to address both companies at one time or do you want to separate them?

MS. CHAMBERLIN: I would do it of both.

CHAIRMAN HONIGBERG: Okay. So, we'll do it of both. And, then, Mr. Epler, you may have already said everything you wanted to say, but we'll give you a chance to say -- reiterate, if you want, and then we'll finish with Ms. Knowlton. So, Ms. Chamberlin.

MS. CHAMBERLIN: Thank you. The OCA recommends that Option 1 be put -- required of both companies. It appears that the reasons for a failed RFP may be different under different circumstances. And, that the Companies should make at least an effort to respond to those concerns to get the bidding process back on track. My understanding is that indicative bids come in ahead of time, and that that may be when companies get the feeling as to whether or not suppliers are going to respond. If they know at that point, I would recommend they file a letter and ask for a -- ask for the opportunity to change the RFP, as soon as they know.

But, I think, jumping instantly to the ISO pass-through is premature. And, I would not want suppliers to fail to respond to a bid, if they think they can lower their risk by just not participating at all and letting it go through the ISO. So, I believe that Option 1 should be for both utilities.

In terms of 2 and 3, I think Unitil's proposal is to respond to conditions at the time. They're not seeking approval at this time. So, I would simply wait for them to file an actual proposal before making a determination on those two.

Whether or not to apply that to Liberty at this time, I take no position, because I just don't understand the difference between -- it appears to me that 2 and 3 are simply a pass-through at different levels. The witness did not characterize one as being less or more of a risk. So, I can't really compare them. So, I'm just not sure what the difference is.

So, I would support approving Liberty's as a two-option process that they are seeking approval today of their proposal. So, the first would be Option 1 of Unitil's, and then the second would be the proposal that Liberty put forth.

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: Could you clarify your position on Option 1 for Unitil. They have not asked for approval of anything. Are you suggesting that Option 1 be laid out in an order for them now?

MS. CHAMBERLIN: Well, if they're not seeking approval, then, I would say "no". However, I would expect that, when they do seek approval, that they include Option 1, in addition to whatever they feel is necessary under the circumstances.

COMMISSIONER SCOTT: Thank you.

CHAIRMAN HONIGBERG: Ms. Amidon.

MS. AMIDON: Thank you. Although Staff sees some benefits in having uniform proposals between these two utilities, we believe that there can be lessons learned from allowing each model to go forward, with some modification as to Liberty's model. You know, we're mindful that these are contingent plans, and they're contingent on a failed auction. And, you know, there's, I think, probably a hope by everybody in the room that that doesn't occur.

However, I do believe, for example, if Liberty has to exercise this contingency at some point, I think, certainly, the Commission can revisit it and determine whether it's an appropriate way to address a failed auction.

One thing that we believe is, you know, timing is important. Liberty testified that Unitil has a couple of extra weeks built in its schedule for procurement, that would allow Option 1 to go forward. And, we don't see why Liberty could not also build into their schedule an extra couple of weeks to take into account any additional time needed to exercise Option 1.

We do believe that we should retain the competitive model if at all possible and practical. And, we believe Liberty should, you know, in the case of a failed auction, that first case should go out to the competitive market.

Our second concern is that customers should know what the rates are going forward. And, we want to make sure that any plans that are put into place make very clear price signals to the customers, so that they know what their other options are.

I would also point out that RSA 374-F:3 (c) and (e) talks about the parameters that guide alternative forms of procurement of default service. The statute favors the competitive market, and also favors anything that does not create new deferred costs.

Again, these are contingent plans that may or may not go into effect. But I certainly think that the Commission should reserve the right to review any of Liberty's proposal, if it's put into effect, and to make appropriate corrective action to that proposal. Thank you.

CHAIRMAN HONIGBERG: Attorney Epler, do you have anything else?

MR. EPLER: Only just to underscore that, if the Company felt that a failed auction was a distinct possibility or was actually experiencing a failed auction, that we would contact the Commission Staff and the OCA, to advise you of the circumstance, before we took any action. Thank you.

CHAIRMAN HONIGBERG: Attorney Knowlton.

MS. KNOWLTON: Thank you. The Company certainly agrees with the Staff that we hope that we never have to use this Contingent Plan. But we're here today because we believe quite strongly that it is the prudent thing to do, to have a plan in place that's ready to go, in the event of a failed auction -- excuse me, a failed solicitation.

The Company's proposal is designed and provides complete transparency to both customers and the marketplace, and we believe that that is important. That customers understand in advance what the prices will be, and they will be fixed, as they are now. And, the customers can then take that information and they can go out into the marketplace and they can shop and see whether that is the best deal for them.

We also believe that our proposal is desirable, because it will ensure certainty. All of the other options that have been set forth create uncertainty, and that each of them may still fail, once undertaken. And, we view a failed solicitation as a very serious outcome, and believe that there is significant value to knowing in advance that there will be a certain outcome with rates a customer will have advance knowledge of.

So, while this might be an academic exercise today, it's not going to be an academic exercise in the event that there is a failed solicitation. And, as Mr. Warshaw testified, this will be happening in real time. And, there are time constraints in the Settlement Agreement that was approved by the Commission in DE 05-126, that would need to be modified in order to provide additional time for the Company to issue additional solicitations, if that's what the Commission so directed.

So, in sum, the Company is seeking approval of the Contingency Plan that it has submitted. We want to have the playbook that we'll follow in the event of a failed solicitation. And, we submit that having that plan in place in advance is in the public interest. Thank you.

CHAIRMAN HONIGBERG: Refresh my memory, when will the two companies be going out again?

MS. KNOWLTON: We'll be going back out again in February. And, then, back before the Commission in March, towards the end of March, for a hearing on the proposed rates.

CHAIRMAN HONIGBERG: Attorney Epler?

MR. EPLER: Early March, going to the market in early April, before the Commission.

CHAIRMAN HONIGBERG: Thank you all. As Attorney Knowlton said, this is an academic exercise largely today, we hope it always would become one. So, I just want to thank the parties and Attorney Geiger for the thought that everybody put into this and the effort that they have made to explain the considerations that they took into account in reaching the proposals that they presented to us. And, I want to thank the Staff and the OCA for their consideration of these issues. This was not easy material, because of the hypothetical nature of it, and the existence of agreements and the existence of statutes. And, we will take the matter under advisement and get an order out as soon as we can. Thank you all.

(Whereupon the hearing was adjourned at 12:00 p.m.)