

# Orr&Reno

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February 11, 2015

**VIA HAND DELIVERY AND EMAIL**

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

Re: Liberty Utilities (Granite State Electric) Corp., Public Service Company of New  
Hampshire and Unitil Energy Systems, Inc.  
Docket No. IR 14-338

Dear Ms. Howland:

Enclosed please find an original and six copies of NEPM's Proposal for Changes in  
Default Service Procurement for filing in the above-referenced matter.

Please feel free to contact me with any questions. Thank you for your assistance.

Very truly yours,



Susan S. Geiger

SSG/jll  
Enclosures  
cc: Service List  
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**THE STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**IR 14-338**

**LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.,  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND  
UNITIL ENERGY SYSTEMS, INC.**

**Review of Default Service Procurement Processes for Electric Distribution Utilities**

**NEPM'S PROPOSAL FOR CHANGES IN  
DEFAULT SERVICE PROCUREMENT**

NextEra Power Marketing, LLC ("NEPM") respectfully submits the following proposal for changes to default service procurement processes currently employed by Liberty Utilities Corp. ("Liberty"), Public Service Company of New Hampshire ("PSNH") and Unitil Energy Systems, Inc. ("UES" or "Unitil").

**I. Background**

In its Order of Notice issued November 24, 2014 in this docket, the Commission directed its Staff to hold an initial discussion with stakeholders on January 14, 2015 and identified the following issues raised by the docket: relative advantages and disadvantages of the current methods of procuring default energy service by UES, Liberty and PSNH; whether other means of providing default service are consistent with the restructuring principles of RSA 374-F, including potential effects of New Hampshire's retail electricity market; whether price stability should be an option offered by electric distribution utilities as part of default service or otherwise; and whether changes should be made to default service procurement methods to minimize cost shifting between long- and short-term customers of default service.

At the January 14, 2015 work session, the following procedural schedule was established: On or before February 11, 2015, parties are to submit written descriptions of alternative default service proposals including a detailed discussion of how the proposals address the issues identified in the Order of Notice. Utilities are to include a written description of how they currently procure default service supply for their customers. A technical session will be held February 24, 2015 to review the proposals submitted and to discuss the schedule for additional meetings/settlement.

Following the January 14, 2015 work session, Commission Staff circulated a list of issues to be discussed in the February 11, 2015 filings. Those issues are set forth below.

## **II. Recommended Changes to Default Service Procurement Procedures**

### **A. Flexibility**

Although NEPM believes that New Hampshire utilities should be afforded some limited measure of flexibility to deal with unforeseen circumstances or unusual market conditions, the competitive procurement process for default service should be preserved as much as possible and direct market purchases by the utilities<sup>1</sup> should be avoided. This approach is consistent with RSA 374-F:3, V (c) which provides that “[d]efault service should be provided through the competitive market.”

The utilities should be required to take affirmative steps to incent participation in the RFP process and the competitive procurement process should not be abandoned prematurely. NEPM suggests that if there are insufficient bids for default service, Liberty and Unitil should solicit bids each subsequent week until the term is filled or it is

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<sup>1</sup> NEPM recognizes that PSNH provides default service with its own generation and supplemental market purchases as authorized by RSA 369-B: 3, IV(b)1. Accordingly, unless expressly indicated otherwise, the proposals discussed herein relate only to Liberty and Unitil.

not longer feasible to pursue additional bids. The reasons for NEPM's alternative procurement proposal are set forth in its December 15, 2014 letter filed in Docket No. DE 14-211, which is incorporated herein by reference. NEPM also recommends that if Unutil's proposed alternative approach (described in Docket No. DE 14-211) is approved by the Commission, that approach should also apply to Liberty.

#### **B. Contract Length**

Generally, NEPM prefers shorter contract length coupled with a higher frequency of auctions, especially for larger customer classes. Liberty currently seeks suppliers of its Large customer class for two consecutive 3 month terms during a procurement. Rather than soliciting bids for both consecutive 3 month terms at the same auction, NEPM suggests holding more frequent Large Customer only auctions for the 3 month term. This will reduce risk for suppliers and result in bids that are better aligned with market prices.

#### **C. Collective Bidding/Block Bundling**

Currently Unutil and Liberty seek 100% sized blocks for Small customers. Breaking the solicitation into 50% blocks could ensure that each participant shows its best price on the first block; the utilities could then pick the best price of each participant to get a lower total weighted average.

#### **D. Use of Ladders**

NEPM takes no position on this issue at this time.

#### **E. Differential treatment of residential, small C&I and large C&I**

NEPM does not oppose treating residential, small C&I and large C&I customer classes differently for purposes of default service solicitations. For example, and as

noted above in section B, NEPM believes that shorter contract terms may be more appropriate for large C&I customers than for other customer classes.

#### **F. Timing constraints**

Expediently notifying the winning wholesale participants of their success in the auction will help reduce risk and associated cost. Market prices can change by several dollars in just a few hours which unfortunately presents a large price move risk that wholesale participants must consider when assessing the total risk premium inherent in the bid. More timely notification, within an hour or less, and concomitant assurance of a successful bid may reduce the premiums wholesalers are currently embedding in pricing and ultimately reduce the rate charged to customers.

#### **G. Cost/benefits of state based procurement management**

New Hampshire's utilities have been procuring default service for several years and have the necessary systems in place to successfully perform this function. Because it is unclear what, if anything, will be gained by shifting this function to the state, NEPM does not believe the state, utilities, suppliers and ultimately customers, should bear any additional costs associated with shifting default service procurement away from the utilities.

#### **H. Risk Premium Mitigation**

To help mitigate the costs associated with risk premiums, the utilities should implement Change-In-Law ("CIL") provisions in the wholesale default supplier agreements. This step may significantly reduce prices to default service customers. With CIL, unnecessary risk premiums associated with regulatory uncertainty are removed and customers only pay if/when a regulatory event, like "Winter Reliability" occurs.

Furthermore, inclusion of CIL provisions ensures that if/when such event occurs, the end-use customer pays exactly the cost of the event. This is beneficial to the end-use customer because such costs are quantifiable and passed-through as opposed to wholesalers being required to assume costs and potentially increase risk premiums that may overestimate those costs for bidding and pricing purposes.

Respectfully submitted,

NextEra Energy Power Marketing, LLC  
By Its Attorneys



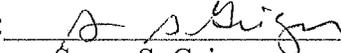
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Dated: February 11, 2015

**Certificate of Service**

I hereby certify that a copy of this document has on this 11th day of February, 2015 been sent by electronic mail to the service list in this docket.

By:   
Susan S. Geiger

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