

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

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New Hampshire Public Utilities Commission

Docket No. DE 15-079

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Schedule TMB-5: Historical Pricing by Customer Group

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Todd M. Bohan. My business address is 6 Liberty Lane West, Hampton, NH.

Q. What is your relationship with Unitil Energy Systems, Inc.?

A. I am employed by Unitil Service Corp. (“USC”) as a Senior Energy Analyst. USC provides management and administrative services to Unitil Energy Systems, Inc. (“UES”) and Unitil Power Corp. (“UPC”).

Q. Please briefly describe your educational and business experience.

A. I graduated *magna cum laude* from Saint Anselm College, Manchester, New Hampshire in 1987 with a Bachelor of Arts degree in Financial Economics. I earned a Masters in Economics from Clark University, Worcester, Massachusetts in May 1990. In September 1995, I earned a Ph.D. in Economics from Clark University. Before joining Unitil, I worked for Bay State Gas Company as a Rate Analyst. Prior to working for Bay State, I was employed as a Utility Analyst and an Economist in the Economics Department of the New Hampshire Public Utilities Commission. I joined Unitil Service Corp. in November 1998, and have been involved in various regulatory proceedings. In August of 2010, I joined the Energy Contracts group and have primary responsibilities in the areas of electric market operation and data reporting, default service administration and budgeting. In addition, I have administrative responsibilities associated with competitive electric supplier operations with Unitil.

1 **Q. Have you previously testified before the New Hampshire Public Utilities**
2 **Commission ("Commission")?**

3 A. Yes. I have testified before the Commission on various regulatory matters, most
4 recently in UES's Default Service Solicitation proceeding, Docket No. DE 14-061 and
5 UES's Stranded Cost Recovery and External Delivery Charge Reconciliation and Rate
6 Filing, Docket No. DE 14-170.

7 **II. PURPOSE OF TESTIMONY**

8 **Q. Please describe the purpose of your testimony.**

9 A. My testimony documents the solicitation process followed by UES in its acquisition of
10 Default Service power supplies ("DS") for its G1 and Non-G1 customers as approved
11 by the Commission in Order No. 25,397, dated July 31, 2012 (the "Order") granting
12 UES's Petition for Approval of Revisions to its Default Service Solicitation Process
13 for G1 and Non-G1 Customers. With the current Request for Proposal ("RFP"), UES
14 has contracted for a six-month default service power supply for 100% of its small
15 customer group (Non-G1); 100% of its medium customer group (Non-G1); and 100%
16 of its large customer group (G1) service requirements. Service begins on June 1,
17 2015.

18 I describe how UES solicited for bids from wholesale suppliers to provide the supply
19 requirements in accordance with the terms of the Order as UES has done in prior
20 default service supply solicitations. I also describe how the proposals received were
21 evaluated and the winning bidders were chosen. Supporting documentation and

1 additional detail of the solicitation process is provided in the Bid Evaluation Report
2 (“Report”), attached as Schedule TMB-1. A copy of the RFP as issued is attached as
3 Schedule TMB-2, and an updated Customer Migration Report is attached as Schedule
4 TMB-3. The Customer Migration Report shows monthly retail sales and customer
5 counts supplied by competitive generation, total retail sales and customer counts (the
6 sum of default service and competitive generation) and the percentage of sales and
7 customers supplied by competitive generation. The report provides a rolling 13-month
8 history which covers the period from February 2014 through February 2015.
9 Renewable Portfolio Standard ("RPS") Compliance Cost Estimates are included as
10 Schedule TMB-4. My testimony reviews UES’s approach to compliance with the
11 RPS which went into effect in January 2008. Schedule TMB-4 details projected
12 obligations and price assumptions for the coming rate period. The price assumptions
13 listed in Schedule TMB-4 are based on recent market data and information and
14 alternative compliance payment prices. Lastly, Schedule TMB-5 provides historical
15 price data by customer group that is no longer subject to confidential treatment. This
16 schedule provides pricing histories associated with the most recent three-month rate
17 periods for G1 customers or six-month rate periods for Non-G1 customers for which
18 all pricing is currently subject to the Federal Energy Regulatory Commission’s
19 quarterly reporting requirements.

20 **Q. Please summarize the approvals UES is requesting from the Commission.**

21 **A.** UES requests that the Commission:

- 1 • Find that: UES has followed the solicitation process approved by the Commission;
2 UES's analysis of the bids submitted was reasonable; and UES has supplied a
3 reasonable rationale for its choice of the winning suppliers.
- 4 • Find that: the price estimates of renewable energy certificates ("RECs") proposed
5 by UES, based on actual purchases or current market prices and information, are
6 appropriate for inclusion in retail rates.
- 7 • On the basis of these findings, conclude that the power supply costs resulting from
8 the solicitation are reasonable and that the amounts payable to the sellers under the
9 supply agreements are approved for inclusion in retail rates.
- 10 • Issue an order granting the approvals requested herein on or before April 10, 2015,
11 which is five (5) business days after the date of this filing.

12 **III. SOLICITATION PROCESS**

13 **Q. Please discuss the Solicitation Process UES employed to secure the supply** 14 **agreements for default service power supplies.**

15 A. In the same manner as its prior solicitations for default service supplies, UES
16 conducted an open solicitation in which it actively sought interest among potential
17 suppliers and provided potential suppliers with access to sufficient information to
18 enable them to assess the risks and obligations associated with providing the services
19 sought. UES did not discriminate in favor of or against any individual potential
20 supplier who expressed interest in the solicitation. UES negotiated with all potential
21 suppliers who submitted proposals to obtain the most favorable terms from each

1 potential supplier. The structure, timing and requirements associated with the
2 solicitation are fully described in the RFP issued on March 3, 2015. This is attached
3 as Schedule TMB-2 and is summarized in the Report attached as Schedule TMB-1.

4 **Q. How did UES ensure that the RFP was circulated to a large audience?**

5 A. UES announced the electronic availability of the RFP to all participants in NEPOOL
6 by notifying all members of the NEPOOL Markets Committee and the NEPOOL
7 Participants Committee via email. UES also announced the issuance of the RFP via
8 email to a list of power suppliers and other entities such as distribution companies,
9 consultants, brokers and members of public agencies who have previously expressed
10 interest in receiving copies of UES's solicitations. UES followed up the email
11 announcements with telephone calls to the power suppliers to solicit their interest. In
12 addition, UES issued a media advisory to a number of power markets publications
13 announcing the issuance of the RFP.

14 **Q. What information was provided in the RFP to potential suppliers?**

15 A. The RFP described the details of UES's default service, the related customer-
16 switching rules, and the form of power service sought. To gain the greatest level of
17 market interest in supplying the load, UES provided potential bidders with appropriate
18 and accessible information. Data provided included historical hourly default service
19 loads and daily capacity tags for each customer group; class average load shapes;
20 historical monthly retail sales and customer counts by rate class and supply type; a
21 generic listing of large customers showing annual sales, peak demands, and capacity

1 tag values as well as supply type (default service or competitive generation); and the
2 evaluation loads, which are the estimated monthly volumes that UES would use to
3 weigh bids in terms of price. The retail sales report and the historical loads and
4 capacity tag values were updated prior to initial bidding to provide the latest
5 information available. All documents and data files were provided to potential
6 suppliers via UES's corporate website (www.unitil.net/rfp).

7 **Q. How did UES evaluate the bids received?**

8 A. UES evaluated the bids on both quantitative and qualitative criteria, including price,
9 creditworthiness, willingness to extend adequate credit to UES to facilitate the
10 transaction, capability of performing the terms of the RFP in a reliable manner and the
11 willingness to enter into contractual terms acceptable to UES. UES compared the
12 pricing strips proposed by the bidders by calculating weighted average prices for the
13 supply requirement using the evaluation loads that were issued with the RFP.

14 UES selected TransCanada Power Marketing, Ltd. ("TransCanada") as the winning
15 bidder of the small customer (Non-G1) supply requirement (100% share) and
16 Dominion Energy Marketing, Inc. ("Dominion") as the winning bidder of the medium
17 customer (Non-G1) supply requirement (100% share). Nextera Energy Power
18 Marketing, LLC ("Nextera") was selected as the supplier of the large customer (G1)
19 supply requirement (100% share). All three transactions are for a period of six
20 months. UES believes that TransCanada, Dominion and Nextera offered the best

1 overall value in terms of both price and non-price considerations for the supply
2 requirements sought.

3 **Q. Please describe the contents of the Bid Evaluation Report.**

4 A. Schedule TMB-1 contains the Bid Evaluation Report which further details the
5 solicitation process, the evaluation of bids, and the selection of the winning bidders.
6 The Report contains a narrative discussion of the solicitation process. A confidential
7 section labeled “Tab A” follows the narrative. Tab A includes additional discussion
8 regarding the selection of the winning bidders and presents several supporting exhibits
9 that list the suppliers who participated as well as the pricing they submitted and other
10 information considered by UES in evaluating final proposals, including redlined
11 versions of the final supply agreements. UES seeks protective treatment for specific
12 materials provided in Tab A.

13 On the basis of the information and analysis contained in the Bid Evaluation Report,
14 UES submits that it has complied with the Commission’s requirements, and that the
15 resulting default service power supply costs are reasonable and that the amounts
16 payable to the sellers under the supply agreements should be approved for inclusion in
17 retail rates.

18 **Q. Please indicate the planned issuance date, filing date and expected approval date**
19 **associated with UES’s next default service solicitation.**

20 A. Similar to the current solicitation, UES’s next default service solicitation will be for
21 one hundred percent (100%) of the small, medium and large customer supply

1 requirements for a six-month period. Delivery of supplies will begin on December 1,
2 2015. UES plans to issue an RFP for these supplies on September 1, 2015, with a
3 filing for approval of solicitation results planned for October 2, 2015 and approval
4 anticipated by October 9, 2015.

5 **IV. RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

6 **Q. Please explain how UES is complying with the Renewable Portfolio Standard**
7 **requirements.**

8 A. In accordance with the settlement agreement dated July 16, 2009, UES typically issues
9 two REC RFPs annually, each for approximately 50% of its projected REC
10 obligations. In addition, UES may make REC purchases outside of the RFP process
11 when it finds it advantageous to do so. For 2015 RPS compliance, UES completed a
12 REC RFP in mid-March 2015. UES has made some additional purchases outside of
13 the REC RFP issuance. Tab A includes an exhibit summarizing UES's REC
14 purchases for RPS compliance. UES anticipates issuing another REC RFP in late
15 2015.

16 **Q. Please describe UES's estimates of RPS compliance costs.**

17 A. The current solicitation is for default service power supplies to be delivered beginning
18 June 1, 2015. Schedule TMB-4 lists the percentage of sales and the resulting REC
19 requirement for each class of RECs for RPS compliance along with UES's cost
20 estimates for the period beginning June 1, 2015. UES's cost estimates are based on

current market prices as communicated by brokers of renewable products, recent purchases of RECs, and alternative compliance payment rates for 2015.

Q. Does UES's estimate of RPS costs incorporate the latest RPS requirements for 2015?

A. Yes. The following table provides a summary of the RPS requirements.

NH Renewable Portfolio Standards: 2015					
Calendar Year	Class I*	Class I Thermal	Class II	Class III	Class IV
2015	6.00%	0.60%	0.30%	0.50%	1.50%
*Class I is the gross requirement. The Class I requirement less the Class I Thermal Carve-Out requirement is 5.40% for 2015.					

Schedule TMB-4 RPS Compliance Costs Estimates incorporates the latest RPS requirements shown here.

V. WHOLESALE WINTER ELECTRICITY PRICES

Q. Did wholesale electricity market participants expect the winter 2014-15 to be similar to winter 2013-14 in New England/New Hampshire?

A. As discussed in my testimony in UES's prior Default Service Solicitation proceeding, Docket No. DE 14-061, wholesale electricity suppliers expressed concern that the winter 2014-15 period would have operational conditions at least as severe as the winter 2013-14 period and quite possibly more constrained leading to added upward pressure on wholesale electricity prices.

1 **Q. Were those expectations realized during the winter 2014-15 period?**

2 A. The following table shows a comparison of wholesale electricity prices for the New
3 Hampshire load zone during the prior two winter periods.

NH Load Zone (4002): Monthly Locational Marginal Prices				
Winter 2013-14	Avg Price	Winter 2014-15	Avg Price	Pct Change
Month	(\$s per MWH)	Month	(\$s per MWH)	(vs. Prev.)
Dec-13	\$97.58	Dec-14	\$42.40	-57%
Jan-14	\$149.98	Jan-15	\$64.30	-57%
Feb-14	\$150.61	Feb-15	\$120.73	-20%
Mar-14	\$113.20	Mar-15	\$56.71	-50%

4
5 While the expectation heading into the 2014-15 winter season was for relatively high
6 prices, examination of the data shows that in actuality this winter's prices were,
7 generally speaking, on the order of 50% less than they were last winter noting that
8 February 2015 prices did spike.

9 **Q. Please provide a brief explanation for these realized electricity prices.**

10 A. As electricity generation in New England is heavily dependent on natural gas,
11 particularly in the winter season, natural gas prices are a significant driver in
12 wholesale electricity costs. Once again, heading into the winter 2014-15 season, the
13 expectation was that there would be significant upward pressure on natural gas prices,
14 particularly given the expected constraints in the natural gas pipeline system. At the
15 same time though, during this winter period oil prices dropped significantly. That
16 resulted in oil-fired generation playing a much more significant role in the New
17 England electricity generation mix than in the prior winter. The impact of this was

twofold: (1) it provided a less expensive fuel for generation purposes; and (2) because more oil was in the mix, less natural gas was needed which helped keep natural gas prices down. The following table shows a comparison of monthly natural gas prices delivered to Tennessee Zone 6 during the prior two winter periods.

Tennessee Gas Pipeline (Zone 6 Delivered): Average Monthly Spot Prices					
	Avg Price		Avg Price	\$ Change	Pct Change
Month	(\$ s per MMBtu)	Month	(\$ s per MMBtu)	(P re v. Yr.)	(P re v. Yr.)
Dec-13	\$12.76	Dec-14	\$5.83	(\$6.92)	-54%
Jan-14	\$24.35	Jan-15	\$9.03	(\$15.33)	-63%
Feb-14	\$20.20	Feb-15	\$16.45	(\$3.75)	-19%
Mar-14	\$15.07	Mar-15	\$7.10	(\$7.96)	-53%

As shown in the table, natural gas prices were roughly 50% lower this winter in comparison to the winter 2013-14 period. Again, this resulted in lower wholesale electricity prices this winter.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

