

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

TODD M. BOHAN

New Hampshire Public Utilities Commission

Docket No. DE 12-003

March 9, 2012

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LIST OF SCHEDULES

- Schedule TMB-1: Bid Evaluation Report**
- Schedule TMB-2: Request for Proposals**
- Schedule TMB-3: Customer Migration Report**
- Schedule TMB-4: RPS Compliance Cost Estimates**
- Schedule TMB-5: Historical Pricing by Customer Group**
- Schedule TMB-6: RSO Program Participation**
- Schedule TMB-7: RSO Rate Calculation and Bill Impacts**

1 **I. INTRODUCTION**

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

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

5

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

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

10

11 **Q. Please briefly describe your educational and business experience.**

12 A. I graduated *magna cum laude* from Saint Anselm College, Manchester, New
13 Hampshire in 1987 with a Bachelor of Arts degree in Financial Economics. I
14 earned a Masters in Economics from Clark University, Worcester,
15 Massachusetts in May 1990. In September 1995, I earned a Ph.D. in
16 Economics from Clark University. Before joining Unitil, I worked for Bay
17 State Gas Company as a Rate Analyst. Prior to working for Bay State, I was
18 employed as a Utility Analyst and an Economist in the Economics
19 Department of the New Hampshire Public Utilities Commission. I joined

1 Unitil Service Corp. in November 1998, and have been involved in various
2 regulatory proceedings. In August of 2010, I joined the Energy Contracts
3 group and have primary responsibilities in the areas of electric market
4 operation and data reporting, default service administration and budgeting.

5

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

8 A. Yes. I have testified before the Commission on various regulatory matters, most
9 recently in UES's Default Service Solicitation proceeding, Docket No. DE 11-
10 028.

11

12 **II. PURPOSE OF TESTIMONY**

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

14 A. My testimony documents the solicitation process followed by UES in its
15 acquisition of Default Service power supplies ("DS") for its G1 and Non-G1 -
16 customers as approved by the Commission in Order No. 24,511, granting UES's
17 Petition for Approval of a Default Service Supply Proposal for G1 and Non-G1
18 Customers and Approval of Solicitation Process as amended by the Settlement

1 Agreement filed with the Commission on August 11, 2005 (the “Order”). With
2 the current Request for Proposal (“RFP”), UES has contracted for a three-month
3 default service power supply for its G1 customers and 25% of its default service
4 power supply for Non-G1 customers for 12 months. Service begins on May 1,
5 2012.

6
7 I describe how UES solicited for bids from wholesale suppliers to provide the
8 supply requirements in accordance with the terms of the Order as UES has done
9 in prior default service supply solicitations. I also describe how the proposals
10 received were evaluated and the winning bidder was chosen. Supporting
11 documentation and additional detail of the solicitation process followed is
12 provided in the Bid Evaluation Report (“Report”), attached as Schedule TMB-1.
13 A copy of the RFP as issued is attached as Schedule TMB-2, and an updated
14 Customer Migration Report is attached as Schedule TMB-3. The Customer
15 Migration Report shows monthly retail sales and customer counts supplied by
16 competitive generation, total retail sales and customer counts (the sum of default
17 service and competitive generation) and the percentage of sales and customers
18 supplied by competitive generation. The report provides a rolling 12-month
19 history which covers the period from February 2011 through January 2012.

1

2 Renewable Portfolio Standard ("RPS") Compliance Cost Estimates are included
3 as Schedule TMB-4. My testimony reviews UES's approach to compliance with
4 the RPS which went into effect in January 2008. Schedule TMB-4 details
5 projected obligations and price assumptions for the coming rate period. The price
6 assumptions listed in Schedule TMB-4 are based on recent market data and
7 information. Schedule TMB-5 provides historical price data by customer group
8 that is no longer subject to confidential treatment. This schedule provides pricing
9 histories associated with the most recent three-month rate periods for G1
10 customers or six-month rate periods for Non-G1 customers for which all pricing is
11 currently subject to the Federal Energy Regulatory Commission's quarterly
12 reporting requirements. Schedule TMB-6 provides an update on the Renewable
13 Source Option ("RSO") program participation and activity to date. Lastly,
14 Schedule TMB-7 provides the Renewable Source Option Charge ("RSOC") Rate
15 Calculations and Estimated Bill Impacts and a *Preliminary* Reconciliation of the
16 RSO costs and revenues.

17

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

19 A. UES requests that the Commission:

- 1 • Find that: UES has followed the solicitation process approved by the
2 Commission; UES’s analysis of the bids submitted was reasonable; and UES
3 has supplied a reasonable rationale for its choice of the winning suppliers.
- 4 • Find that the price estimates of renewable energy certificates (“RECs”)
5 proposed by UES, based on actual purchases or current market prices and
6 information, are appropriate for inclusion in retail rates.
- 7 • On the basis of these findings, conclude that the power supply costs resulting
8 from the solicitation are reasonable and that the amounts payable to the sellers
9 under the supply agreements are approved for inclusion in retail rates.
- 10 • Issue an order granting the approvals requested herein on or before March 16,
11 2012, which is five (5) business days after the date of this filing.

12

13 **III. SOLICITATION PROCESS**

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

16 A. In the same manner as its prior solicitations for default service supplies, UES
17 conducted an open solicitation in which it actively sought interest among potential
18 suppliers and provided potential suppliers with access to sufficient information to

1 enable them to assess the risks and obligations associated with providing the
2 services sought. UES did not discriminate in favor of or against any individual
3 potential supplier who expressed interest in the solicitation. UES negotiated with
4 all potential suppliers who submitted proposals to obtain the most favorable terms
5 from each potential supplier. The structure, timing and requirements associated
6 with the solicitation are fully described in the RFP issued on January 31, 2012,
7 which is attached as Schedule TMB-2, as well as summarized in the Report
8 attached as Schedule TMB-1.

9

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

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

1 power markets trade press announcing the issuance of the RFP. The
2 announcement was carried by *Megawatt Daily* on February 1, 2012.

3

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

5 A. The RFP described the details of UES's default service, the related customer-
6 switching rules, and the form of power service sought. To gain the greatest level
7 of market interest in supplying the load, UES provided potential bidders with
8 appropriate and accessible information. Data provided included historical hourly
9 default service loads and daily capacity tags for each customer group; class
10 average load shapes; historical monthly retail sales and customer counts by rate
11 class and supply type; a generic listing of large customers showing annual sales,
12 peak demands, and capacity tag values as well as supply type (default service or
13 competitive generation); and the evaluation loads, which are the estimated
14 monthly volumes that UES would use to weight bids in terms of price. The
15 hourly load data, capacity tags, historical monthly retail sales and customer counts
16 by rate class and supply type were updated prior to final bidding to provide the
17 latest information available. All documents and data files were provided to
18 potential suppliers via UES's corporate website (www.unitil.net/rfp).

19

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

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

9

10 UES selected DTE Energy Trading, Inc. (“DTE”) as the supplier for the three-
11 month G1 supply requirement (100% share) and Dominion Energy Marketing,
12 Inc. (“Dominion”) for the 12-month Non-G1 supply requirement (25% share).
13 UES believes that DTE and Dominion offered the best overall value in terms of
14 both price and non-price considerations for the supply requirements sought.

15

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

17 A. Schedule TMB-1 contains the Report which further details the solicitation
18 process, the evaluation of bids, and the selection of the winning bidders. The

1 Report contains a narrative discussion of the solicitation process. A confidential
2 section labeled “Tab A” follows the narrative. Tab A includes additional
3 discussion regarding the selection of the winning bidders and presents several
4 supporting exhibits that list the suppliers who participated, the pricing they
5 submitted and other information considered by UES in evaluating final proposals,
6 including red-lined versions of the final supply agreements. UES seeks protective
7 treatment of all materials provided in Tab A.

8

9 On the basis of the information and analysis contained in the Report, UES submits
10 that it has complied with the Commission’s requirements set forth in the Order,
11 and that the resulting default service power supply costs are reasonable and that
12 the amounts payable to the sellers under the supply agreements should be
13 approved for inclusion in retail rates.

14

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

17 A. UES’s next default service solicitation will be for one hundred percent (100%) of
18 G1 supplies for a three-month period. Delivery of supplies will begin on August
19 1, 2012. UES plans to issue an RFP for these supplies on May 8, 2012, with a

1 filing for approval of solicitation results planned for June 8, 2012 and approval
2 anticipated by June 15, 2012.

3

4 **IV. RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

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

7 A. In accordance with the settlement agreement dated July 16, 2009, UES issues two
8 REC RFPs annually, each for approximately 50% of its REC obligations. In
9 addition, UES may make REC purchases outside of the RFP process when it finds
10 it advantageous to do so. For 2011 RPS compliance, UES completed its first REC
11 RFP on October 18, 2011 and its second REC RFP on January 17, 2012. UES has
12 made some additional purchases outside of the two REC RFP issuances. Tab A
13 includes an exhibit summarizing UES's REC purchases for 2011 compliance.

14

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

16 A. The current solicitation is for default service power supplies to be delivered
17 beginning May 2012. Schedule TMB-4 lists the percentage of sales and the
18 resulting REC requirement for each class of RECs for RPS compliance along with

1 UES's cost estimates for the period beginning May 2012. UES's cost estimates
2 are based on current market prices as communicated by brokers of renewable
3 products, recent purchases of 2011 vintage RECs, and alternative compliance
4 payment rates for 2012.

5

6 **V. RENEWABLE SOURCE OPTION PARTICIPATION**

7 **Q. Please briefly describe UES's RSO program.**

8 A. The RSO Program, which the company is marketing to customers as the Green
9 Neighbor Program, is an optional service that allows Domestic and Regular
10 General Service default service customers who are not receiving payment
11 assistance to financially support renewable generation. Through the program,
12 customers may choose to have 25 percent, 50 percent or 100 percent of their
13 consumption matched with purchases of Class I and Class II RECs. These REC
14 purchase obligations are in addition to UES's RPS obligations. Customers who
15 choose to participate are billed an additional charge – the Renewable Source
16 Option Charge ("RSOC"), per Schedule RSO of the Company's tariff, based on
17 the level of participation chosen.

18

1 With each default service filing, UES provides an update on program activity,
2 which is provided in Schedule TMB-6. With each Non-G1 default service filing,
3 UES reviews its RSOC rates and proposes new RSOC rates as appropriate for
4 each of the three options available. Since the current filing includes Non-G1
5 supplies, changes to the RSOC rates are proposed, along with estimated bill
6 impacts, which are provided as Schedule TMB-7.

7

8 **Q. Please describe UES's ongoing efforts to market the RSO program.**

9 A. UES continues to promote participation in the RSO program, which is marketed
10 to our customers as the Green Neighbor Program. UES posted a bill message on
11 its September electric bills that go out to all eligible New Hampshire customers.
12 UES continues to have magnetic signs advertising the program on its electric
13 service vehicles, and the dedicated web pages for the Green Neighbor Program
14 remain posted on the website.

15

16 **Q. Please provide a summary of RSO program participation to date.**

17 A. Schedule TMB-6 provides the number of customers participating in the program
18 by rate class and RSO option chosen, along with kilowatt-hour consumption and
19 revenue by program option, rate class and billing month. A projection of Class I

1 and Class II RECs that will be purchased as a result of the RSO program is also
 2 included in Schedule TMB-6.

3

4 **Q. Please describe the proposed changes to the RSOC rates.**

5 A. UES is proposing changes to the RSOC rates for effect May 1, 2012. The
 6 proposed rates for the RSO 25% Plan, RSO 50% Plan, and RSO 100% Plan are
 7 provided in Schedule TMB-7 and represent an increase of approximately 67%
 8 over the rates currently in effect. The impact for a typical residential customer
 9 choosing the 50% Option is shown below:

Impact of Proposed Rate Change for the RSOC (50% Plan) Typical Residential (Mean) Customer November 1, 2011 vs. May 1, 2012		
	Rate	Bill Impact
RSO 50% Option (November 1, 2011)	\$0.01449	\$9.72
RSO 50% Option (May 1, 2012)	\$0.02429	\$16.30
Dollar Impact	\$0.00980	\$6.58
Percentage Impact	67.6%	67.6%

10

11 Similar impacts result for the RSO 25% Plan and RSO 100% Plan.

12

13 **Q. Please explain the reason for the increase in the Proposed RSOC rates.**

1 A. The increase in the Proposed RSOC rates is driven by an increase in projected
2 REC costs for Class I and Class II RECs. The Class I projected price is
3 increasing from \$28.00 to \$46.00 per REC and the Class II projected price is
4 increasing from \$50.00 to \$100.00 per REC. The REC prices are increasing due
5 to limited quantities available and greater competition from buyers in the market.
6

7 **Q. Do the proposed RSOC rates include any reconciliation balances?**

8 A. No, the proposed RSOC rates do not include any reconciliation balances. The
9 tariff specifies that a full reconciliation of costs associated with the purchase of
10 Class I and Class II RECs and revenues with interest for any over or under-
11 collection for the prior year shall be included with the May 1 RSOC filing, unless
12 doing so would result in an extremely high RSOC.
13

14 **Q. Why has UES not included a reconciliation adjustment as part of the**
15 **proposed RSOC rates for effect May 1, 2012?**

16 A. There are two reasons for this: (1) As REC purchases for 2011 compliance will
17 not be completed until mid-2012, the overall average compliance cost for 2011
18 REC purchases will not be final until July 2012. At that time, UES would then

1 have actual costs for 2011 compliance and would be able to provide a full
2 reconciliation. However, in an effort to inform the Commission of where things
3 stand, a *Preliminary* Reconciliation is provided in Schedule TMB-7 (Pages 2-4).
4 This shows a *preliminary* under-collected balance of \$1,857. (2) As the proposed
5 RSOC rates already represent an increase of 67% over the rates currently in
6 effect, adding to that an under-collected balance (even if only projected at this
7 point) would only result in even higher Proposed RSOC rates. Including this
8 under-collected balance would result in a percentage increase of just under
9 200%.¹

10

11 **VI. CONCLUSION**

12 **Q. Does this conclude your testimony?**

13 **A.** Yes, it does.

¹ This estimate is arrived at by taking the under-collected balance of \$1,857 (Schedule TMB-7, Page 2) and dividing that by the cumulative 2011 kWhs for the RSO Program of 99,297 kWhs (Schedule TMB-6, Page 4). This results in a reconciliation charge of \$0.01870 per kWh. Including this in the proposed RSOC rates would increase the rate impact from 67% to 197% compared to current RSOC rates.