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

ORIGINAL
N.H.P.U.C. Case No. DE 14-031
Exhibit No. 2
Witness J. Warshaw, D. Simek
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Default Service

For the Period Beginning
May 1, 2014

Testimony and Schedules
of

John D. Warshaw

and

David B. Simek

March 21, 2014

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



Liberty UtilitiesSM

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

Docket No. DE 14-031

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

DIRECT TESTIMONY

OF

JOHN D. WARSHAW

March 21, 2014

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1 **I. INTRODUCTION**

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

3 A. My name is John D. Warshaw, and my business address is 11 Northeastern Blvd., Salem,
4 NH 03079.

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

7 A. I am the Manager, Electric Supply for Liberty Energy Utilities (New Hampshire) Corp.
8 (“Liberty Energy NH”) which is the sole shareholder of Liberty Utilities (Granite State
9 Electric) Corp.¹ (“Liberty Utilities” or the “Company”) and provides services to Liberty
10 Utilities. I oversee the procurement of power for Default Service for Liberty Utilities as
11 well as the procurement of renewable energy certificates (“RECs”).

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

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

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

20 A. In November of 2011, I joined Liberty Energy NH as Manager, Electric Supply for
21 Liberty Utilities. Prior to my employment at Liberty Energy NH, I was employed by
22 National Grid USA Service Company (“National Grid”) as a Principal Analyst in Energy

¹Effective January 14, 2014, Granite State Electric Company changed its name to Liberty Utilities (Granite State Electric) Corp.

1 Supply – New England from 2000 to 2010. In that position I conducted a number of
2 solicitations for wholesale power to meet the needs of National Grid’s New England
3 distribution companies. I also administered both short-term and long-term power
4 purchase agreements for National Grid’s New England distribution companies. Prior to
5 my employment at National Grid, I was employed at COM/Energy (now NSTAR) from
6 1992 to 2000. From 1992 to 1997, I was a Rate Analyst in Regulatory Affairs at
7 COM/Energy responsible for supporting state and federal rate filings. In 1997, I
8 transferred to COM/Electric to work in Power Supply Administration.
9

10 **Q. Have you previously testified before the New Hampshire Public Utilities**
11 **Commission (“Commission”)?**

12 A. Yes. I most recently testified before the Commission in Docket DE 13-018 on December
13 19, 2013.
14

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

16 A. Yes. I have testified before both the Massachusetts Department of Public Utilities and
17 the Rhode Island Public Utilities Commission regarding electric supply and renewable
18 portfolio procurement activities.
19

20 **II. PURPOSE OF TESTIMONY**

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

22 A. The purpose of my testimony is to request Commission approval of Liberty Utilities’
23 proposed Default Service rates for both the Large and Medium Commercial and

1 Industrial Customer Group (“Large Customer Group”²) and the (ii) the Residential and
2 Small Commercial Customer Group (“Small Customer Group”³) for the six-month period
3 May 1, 2014 through October 31, 2014. My testimony will describe the process used by
4 Liberty Utilities to procure Default Service for both the Large and Small Customer
5 Groups, the proposed Default Service rates, how the Company proposes to meet its 2014
6 Renewable Portfolio Standard (“RPS”) obligation and the resulting Renewable Portfolio
7 Standard Adder for service rendered on and after February 1, 2014. In addition, I will
8 provide an update to the settlement negotiations with National Grid regarding payment to
9 Liberty Utilities for borderline sales to Massachusetts Electric Company’s customers
10 dating back to June 2006.

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

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

15 A. Pursuant to the procurement process approved by the Commission, which I describe later
16 in my testimony, Liberty Utilities procures power supply through contracts having a
17 three-month term for the Large Customer Group. Liberty Utilities’ currently effective
18 Default Service supply contracts for both the Large and Small Customer Groups expire
19 on April 30, 2014. Therefore, to assure that Default Service will continue to be available,
20 Liberty Utilities requires a new Default Service supply arrangement beginning May 1,

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

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

1 2014.

2

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

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

14

15 **Q: Was the Company’s solicitation for the period beginning May 1, 2014 consistent**
16 **with the Company’s prior solicitations for Default Service?**

17 A. Yes, Liberty Utilities’ Default Service RFP was conducted in a manner similar to
18 previous solicitations. This process is consistent with the process approved by the
19 Commission in the Order as well as with Liberty Utilities’ past procurements. This was
20 the first solicitation to request bids for the Large Customer Group for the period August
21 through October period in conjunction with the Small Customer Group.

22

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

2 A. On February 10, 2014, Liberty Utilities issued a RFP to approximately twenty-five
3 potential suppliers soliciting power supplies for the period May 1, 2014 through October
4 31, 2014. Liberty Utilities also distributed the RFP to all members of the New England
5 Power Pool (“NEPOOL”) Markets Committee and posted the RFP on Liberty Utilities’
6 energy supply website. As a result, the RFP had wide distribution throughout the New
7 England energy supply marketplace. The RFP requested fixed pricing for each month of
8 service on an as-delivered energy basis. Prices could vary by month and by service – that
9 is, the prices did not have to be uniform across the entire service period or between the
10 three load blocks. A copy of the RFP is provided as Schedule JDW-1.

11

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

14 A. Yes. As indicated during the hearing held before the Commission on December 18, 2013
15 in Docket DE 13-018 (Default Service proceeding) and in the Company’s previous
16 Default Service filings, the Company has conducted its Default Service RFP process in a
17 manner that complies with RSA 378:41 and conforms to least cost planning principles by
18 proposing Default Service rates resulting from a competitive bidding process. This is
19 consistent with least cost planning goals, which are to minimize costs in the procurement
20 of energy.

21

1 **IV. RESULTS OF DEFAULT SERVICE BIDDING**

2 **Q. Mr. Warsaw, did Liberty Utilities receive responses to the RFP?**

3 A. Yes. Indicative proposals were received on March 11, 2014. Final proposals were
4 received on March 18, 2014. None of the bidders made their provision of Liberty
5 Utilities' Default Service contingent upon the provision of any other service. A summary
6 of the RFP process and bid evaluation is included in Schedule JDW-2.

7

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

9 A. The number of bidders providing final prices was less than that seen in previous
10 solicitations for this period of time during the year. The reason for the lower than normal
11 bidder turnout is, among other things, the extreme volatility in the electric and gas market
12 prices seen this past winter in New England. Discussions with suppliers who did not
13 provide bids raised this and other market conditions as the reasons they did not provide
14 bids in this solicitation. At no time did any supplier express concern regarding Liberty
15 Utilities' change from a three month block to two consecutive three month blocks in
16 bidding the Large Customer Group as a reason to not participate in this solicitation.

17

18 **Q. How do the current futures prices for electricity and natural gas compare to the
19 futures prices at the time of the Company's September 10, 2013 solicitation?**

20 A. The futures market prices for electricity and natural gas at the time of the March 12, 2013
21 and September 10, 2012 solicitation as well as current futures market prices are shown in
22 Schedule JDW-3. These are the most recent solicitations for the Small Customer
23 Group. As shown, while prices are down from this past winter, they are higher than this

1 same time last year.

2

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

5 A. The New England generation mix has become dominated by natural gas generation. In a
6 recent press release by ISO New England (see Schedule JDW-7), ISO New England
7 attributes the recent run up in electric wholesale prices of electricity directly to the
8 increased use of natural gas as a fuel for electric generation and the difficulties in meeting
9 natural gas demand during winter months. In addition, as a result of the colder than
10 normal winter we just experienced, there was a significant increase in the usage of
11 natural gas in storage facilities to meet winter natural gas demand. Thus, one of the
12 reasons for the currently high prices for natural gas futures reflects the industry's need to
13 restock the natural gas storage facilities which are currently at historic lows. These all
14 result in both higher natural gas and electric futures as compared to this time last year.

15

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

17 A. Yes. Liberty Utilities evaluated the bids received and selected the two suppliers that: (i)
18 provided a bid that was conforming to the RFP, (ii) had the lowest price, (iii) met the
19 credit requirements described in the RFP, and (iv) passed our qualitative evaluation. On
20 March 19, 2014, Liberty Utilities entered into a wholesale Transaction Confirmation with
21 Dominion Energy Marketing, Inc. ("Dominion"), the winning bidder for the two Large
22 Customer Group blocks, to provide Default Service to the Large Customer Group for the
23 six-month period May 1, 2014 through October 31, 2014 and with TransCanada Power

1 Marketing, Ltd (“TCPM”) to provide Default Service to the Small Customer Group for
 2 the six-month period May 1, 2014 through October 31, 2014. Together, a Transaction
 3 Confirmation and a Master Power Agreement provide the terms for the purchase of
 4 Default Service from a supplier. A copy of the Dominion Master Power Agreement was
 5 filed with the Commission on March 16, 2009 in Docket DE 09-010. A copy of the First
 6 Amendment to the Master Power Agreement was filed with the Commission on
 7 September 20, 2010 in Docket DE 10-020. The Transaction Confirmation between
 8 Liberty Utilities and Dominion, with certain confidential sections redacted, is attached
 9 hereto as Schedule JDW-4. A copy of the TCPM Master Power Agreement was filed
 10 with the Commission on March 16, 2009 in Docket DE 09-010. The Transaction
 11 Confirmation between Granite State and TCPM, with certain confidential sections
 12 redacted, is attached hereto as Schedule JDW-5.

13
 14 **V. RENEWABLE PORTFOLIO STANDARD**

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

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

Year	Class I	Class I Thermal	Class II	Class III	Class IV	Total
2014	5.0%	0.4%	0.3%	3.0%	1.4%	10.1%

18
 19 **Q. How does Liberty Utilities expect to satisfy its RPS obligations consistent with the
 20 RPS rules as promulgated by the Commission?**

21 A. On February 18, 2009, Liberty Utilities entered into an amended settlement agreement
 22 with Commission Staff and the Office of Consumer Advocate intended to resolve all

1 issues associated with the process by which Liberty Utilities would comply with the
2 requirements of the RPS law and the Puc 2500 rules (“Amended RPS Settlement”). The
3 Amended RPS Settlement was approved by the Commission on March 23, 2009 in Order
4 No. 24,953 in Docket DE 09-010. The Company may satisfy RPS obligations by
5 providing either RECs for each RPS class from the New England Power Pool Generation
6 Information System (“NEPOOL-GIS”) or by making an Alternative Compliance
7 Payment (“ACP”) to the State of New Hampshire’s Renewable Energy Fund. As
8 specified in the Amended RPS Settlement, Liberty Utilities requested bidders to provide
9 a separate RPS compliance adder with their bids. This RPS compliance adder is the
10 incremental charge by a bidder for agreeing to take on the RPS obligation with the
11 Default Service obligation.

12
13 **Q. If a winning bidder’s RPS compliance adder is accepted, how would the bidder**
14 **satisfy the RPS obligation?**

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

21
22 **Q. What were the criteria Liberty Utilities used to evaluate the RPS compliance adder**
23 **provided by the bidder?**

24 A. Only one of the bidders submitted a RPS compliance adder. Liberty Utilities criteria to

1 accept an adder is to compare the adder to the current market price for New Hampshire
2 RPS compliant RECs. To develop a market price, Liberty Utilities issued a request for
3 proposals on February 10, 2014 for the acquisition of New Hampshire RPS compliant
4 RECs to meet its 2013 and a portion of its 2014 RPS obligations. Liberty Utilities
5 received bids to supply RECs on March 17, 2014. Liberty Utilities used the bids to
6 calculate a market price for the adder and determined that the submitted RPS compliance
7 adder was greater than market and thus was not accepted. The results of Liberty Utilities'
8 February 10, 2014 RPS solicitation is included in Schedule JDW-2, Exhibit 10.

9
10 **Q. Is Liberty Utilities proposing any changes to the RPS compliance adder at this time?**

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

15
16 **Q. How did Liberty Utilities calculate the Renewable Portfolio Standard Adder?**

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

21

1 **Q. What happens if Liberty Utilities' actual RPS compliance costs are different from**
2 **that used in calculating the RPS compliance adder?**

3 A. Liberty Utilities reconciles its costs of RPS compliance with the revenue billed to
4 customers from the RPS compliance adder. This reconciliation occurs as part of this
5 filing which contains the annual default service reconciliation.
6

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

8 A. Yes. In December 2013, Liberty Utilities contracted for Class I obligations for 2014. .
9 A summary of the results of Liberty Utilities' November 2014 RPS solicitation is
10 included in Schedule JDW-6. A summary of the results of Liberty Utilities' February 10,
11 2014 RPS solicitation is included in Schedule JDW-2, Exhibit 10. At this time, Liberty
12 Utilities has completed its analysis of the bids but has not started contract negotiations
13 with the bidders. Liberty Utilities will notify the winning bidders by March 24, 2014 and
14 begin contract negotiations and will provide an update in the next Default Service filing
15 scheduled for September 2014. If Liberty Utilities is unable to purchase sufficient RECs
16 to meet its New Hampshire RPS obligations, it will then, consistent with the RPS rules,
17 make an ACP to the state of New Hampshire's Renewable Energy Fund.
18

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

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

1 **VI. DEFAULT SERVICE COMMODITY COSTS**

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

5 A. The load-weighted average of the power supply costs for the Large Customer Group for
6 May 1, 2014 through July 31, 2014 is 8.105¢ per kWh and for August 1, 2014 through
7 October 31, 2014 is 7.006¢ per kWh compared to the load-weighted average of 9.986¢
8 per kWh for the period February 1, 2014 through April 30, 2014. The load-weighted
9 average of the power supply costs for the Small Customer Group is 7.554¢ per kWh
10 compared to the load-weighted average of 8.379¢ per kWh for the period November 1,
11 2013 through April 30, 2014. The power supply costs at the retail customer meter (¢ per
12 kWh) were calculated by multiplying the commodity prices at the wholesale level (\$ per
13 MWh) by the applicable loss factor and then dividing the results by ten. The applicable
14 loss factors can be found in the RFP summary in Schedule JDW-2. The loss factor is a
15 calculated ratio of wholesale purchases to retail deliveries.

16
17 **Q. How will Liberty Utilities reconcile any difference in costs associated with Default**
18 **Service?**

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

23

1 **VII. BORDERLINE SALES NEGOTIATIONS WITH NATIONAL GRID**

2 **Q. Can you provide an update regarding the negotiations with Nation Grid to resolve**
3 **the borderlines sales issue?**

4 A. Yes. At the December 19, 2013 hearing in DE 13-018, the Company provided the
5 Commission with an update on the status of the borderline sales settlement negotiations
6 with Massachusetts Electric Company. As previously reported to the Commission, the
7 Company had understood that it had reached an agreement with MECO regarding
8 payment for these sales, and that payment would be made by the end of January 2014.
9 Unfortunately, that has not occurred, and the parties continue to attempt to finalize a
10 settlement on this issue.

11

1 **VIII. CONCLUSION**2 **Q. Mr. Warshaw, when will Liberty Utilities issue the next RFP for Default Service?**3 A. Both the Large Customer Group rates proposed in this filing and the Small Customer
4 Group Rates end on October 31, 2014. Per the terms of the Settlement Agreement,
5 Liberty Utilities will issue a RFP for both groups in August 2014. For purposes of notice
6 to the Commission, the following table illustrates Liberty Utilities' proposed timeline for
7 the next RFP:
8

RFP Process Steps	September 2014 RFP
RFP Issued	August 15, 2014
Indicative Bids Due	September 9, 2014
Final Bids Due	September 16, 2014
Contract Execution	September 16 or 17, 2014
Default Service Filing to Commission	September 19, 2014
Commission Order Needed	September 26, 2014
Service Begins	November 1, 2014

9

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

11 A. Yes. It does.