DE 14-211

NEXTera ENERGY
POWER MARKETING

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September 19, 2014

***Via Hand-Delivery and Electronic Mail***
Ms. Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

***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***

Dear Ms. Howland:

This comment letter is submitted on behalf of NextEra Energy Power Marketing, LLC ("NEPM"). Although Commission Order No. 25,715 (Sept. 8, 2014) denied NEPM's Petition to Intervene in this docket, the Order also stated that persons who do not have intervenor status may file comments in the above-captioned docket. Accordingly, pursuant to the above-referenced Order, NEPM submits the comments below for the Commission's consideration in this docket.

**NEPM – Background Information**

NEPM is a wholesale supplier of electricity products in the New England markets and elsewhere. It is unit of NextEra Energy Resources, LLC ("NextEra"), a company that owns and operates over 18,000 MW of generating capacity in 24 states. Approximately 99 percent of electricity from those facilities is produced by clean or renewable resources such as natural gas, nuclear, wind, hydro and solar. NextEra owns New Hampshire's largest generator of electricity - the Seabrook nuclear power plant which has a nameplate capacity of over 1,240 MW.

**Liberty's Alternate Plan for Procuring Energy Services**

In this docket, Liberty Utilities ("Liberty") requests permission to alter its long-standing practice of procuring its Energy Service requirements through competitive bidding. Liberty's "Alternate Plan" is to "serve its Energy Service customers by purchasing energy in the ISO-New England hourly Real-Time market and incurring both capacity and ancillary service costs associated with any obligation associated with the Real-Time market." Technical Statement of John D. Warshaw, p. 3. The "Alternate Plan" would be implemented if a solicitation for Energy Service results in no supplier bids for one or both of the Large Customer Group blocks or the Small Customer Group block, or results in only one final bid in a block[1] and both Commission

[1] If the block in question is the second 3-month period for the Large Customer Group, Liberty will not file rates for this period. Instead, it will notify the Commission via Liberty's proposed Energy Service rates filing that it will issue an RFP two months later. Technical Statement of John D. Warshaw, p. 3.

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Staff and Liberty agree that the bid is unreasonable and above market. Costs of Liberty's market purchases would be passed on to its Energy Services customers, and if significant migration to competitive energy providers occurs such that costs cannot be recovered from remaining Energy Services customers, Liberty will propose a non-by-passable charge to distribution customers in the customer group(s).

**NEPM's Position on Liberty's Proposal**

For the reasons set forth below, NEPM opposes Liberty's Alternate Plan because it has the potential to negatively impact competitive electricity markets and most importantly customers. This outcome would be inconsistent with New Hampshire's electric industry restructuring policy principles favoring the procurement of default service "through the competitive market" and directing that alternative means of procurement should not "unduly harm the development of competitive markets, and mitigate against price volatility without creating new deferred costs." RSA 374-F:3(c) and (e). Moreover, the Alternate Plan is at odds with the three (3) competitive procurement options proposed by Unitil Energy Systems, Inc. in its Contingency Plan for Default Service filed September 9, 2014 in Docket DE 14-061. A copy of Unitil's Contingency Plan is submitted herewith as Attachment 1. Although Liberty's Alternate Plan is consistent with Unitil's Option 4, it is important to note that Unitil has characterized Option 4 as a "last-resort" which "would likely be a more costly alternative." Unitil Energy Systems, Inc. Contingency Plan for Default Service, DE 14-061, p. 3.

**Under Liberty's proposal, price volatility in the wholesale market will more directly impact default service customers who have historically paid "levelized" electricity rates.** As such, the Alternative Proposal is essentially a "variable price" structure for default service. The potential negative ramifications of such a variable pricing plan should not be minimized. For example, after the winter of 2014, retailers with variable price structures were harshly criticized by regulators, utilities and the press, on "outrageous" unpredictable costs. While in many instances these increased variable costs simply reflected underlying wholesale market conditions, public and political backlash against the very pricing design that Liberty has proposed here was severe.

**Variable default service rates may also negatively impact future default service load pricing.** Significant migration from default energy service could further reduce default service load to the point where competitors will not participate in future auctions. Thus, even though the Commission considers Liberty's proposal to be a "one-time" event, Order No. 25, 715 (Sept. 8, 2014) at 3, the unintended consequences that may result from even a one-time variable price construct may make Liberty's proposal a self- fulfilling prophecy. Even if bidders do participate in RFPs for substantially decreased default service load, they will likely include various risk premiums in their bids that may not exist today to properly account for potential migration from default service and other risks, which will drive up rates.

**Customers will bear all of the risks and costs associated with Liberty's Energy Service purchases.** In the past, unforeseen or unaccounted-for risks associated with wholesale market price volatility have been borne by wholesale suppliers of default service. Under Liberty's plan, default customers would be charged for all of Liberty's Energy Service procurement costs. The Commission must seriously question whether such risk-shifting from wholesale suppliers to end use customers is in the public interest.

**NEPM's Preferred Alternate Procurement Plan**

In lieu of Liberty's Alternate Plan, NEPM recommends that if there are insufficient bids for Energy Service, Liberty should solicit bids each subsequent week until the term is filled or it is no longer feasible to pursue additional bids. It is unreasonable to conclude that if one round does not produce necessary bidders, then subsequent rounds will not produce necessary bidders. Events that cause lack of participation in the first round could be short term (e.g., hurricane, market event, general timing issue, position limits) and may disappear a short time later.

Bidders manage their position limits on a daily basis and they could change in a way that allows bid participation one day and not the next. An unsuccessful first attempt at competitive supply procurement by Liberty will encourage participants to re-assess their positions. For example, if a party did not participate previously on the assumption that the solicitation was over-subscribed and they would not have the most competitive price, then they might now clear their hurdle rate and choose to participate. To incent participation in its RFP processes, Liberty could publish a list of qualified bidders that plan to participate. In addition, redacted bid sheets should be posted after the first round of bids. This will keep the competitive landscape transparent and encourage participation. The Commission should also consider the competitive procurement options (1 through 3) of Unitil's Contingency Plan, all of which preserve the RFP process for obtaining default service supply.

**Stakeholder Process**

Lastly, NEPM urges the Commission Staff to begin the separate stakeholder process described in Order No. 25, 715 as soon as possible, so that the issues highlighted by Liberty's proposal can be more fully explored and resolved for all New Hampshire electric utilities, their customers and competitive electricity suppliers.

Please contact me if there are any questions about the information presented above. Thank you for the opportunity to provide these comments.

Respectfully submitted,

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## Unitil Energy Systems, Inc.
## Contingency Plan for Default Service

### UES RFP

- UES's next default service request for proposals (RFP) was issued on August 26, 2014.
- Solicitation is for default service effective December 1, 2014 through May 31, 2015.
- Solicitation is for a 100% load share for the small (Domestic); medium (G2 & OL) and large (G1) customer groups.
- The small and medium solicitations are for fixed monthly prices and the large solicitation is for variable monthly prices (a LMP model plus a fixed monthly adder).

### Issue

- Over the last few years, there has been a decline in participation in the RFP process for various reasons. For example, last year, ISO New England implemented a winter reliability program and uncertainty regarding cost allocation led to a decline in RFP participation. Ultimately, the costs of the winter reliability program were allocated to the real-time load obligation. ISO New England is proposing to implement a winter reliability program for the 2014/15 winter season with costs to be allocated to real-time load obligation which is paid by the load serving entities.[1]
- If participation declines to where there are no bidders willing or able to provide fixed-price bids for a default service customer group load; or if the results are not consistent with a competitive solicitation, a supplier may not be selected and awarded to supply a default service customer group and a failed auction may result.
- UES believes that the likelihood of a failed auction is low as there appear to be suppliers willing to provide this service as long as they can continue to recover their costs in their pricing (bids). However, the Company is taking this opportunity to advise the Commission of several of the alternatives it has and the steps it would take to ensure that default service remains available to its customers. 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.

[1] http://isonewswire.com/updates/2014/7/14/iso-ne-and-nepool-file-proposal-with-ferc-to-implement-a-win.html

## Communication

- Consistent with its normal practices, UES plans to be in direct contact with potential bidders early on in the RFP process in an effort to assess the viability of the current solicitation. UES believes that these early contacts will allow it to gauge the responsiveness of the market.
- In the event that the RFP process results in no bidders, UES would consider the following options. The specific option chosen would depend on what is learned through discussions with potential bidders and former suppliers, the Company's assessment of market conditions, and discussions with the Commission and Commission Staff.

## Contingency Plan Options

- Option 1: UES would issue a new RFP for an abbreviated procurement period as soon as reasonably possible.[2] The new RFP would seek fixed price offers for the specific customer group(s) for a period of 1 month to 3 months under otherwise standard terms of default service procurement. If such an approach were followed and successful, UES would require multiple solicitations but would preserve access to fixed price service. Depending on the timing of such make-up RFPs, UES could require a waiver of customer notice provisions.

  **[Potential timing: New RFP issued on September 30th approx. 60 days prior to service. Timing of additional RFPs would also need to be determined.]**[3]

- Option 2: UES would issue a new RFP for the 6 month procurement period as soon as reasonably possible.[4] The new RFP would seek offers for the specific customer group(s) where the supplier would be asked to bid a fixed monthly adder to cover capacity costs, ancillary services costs and the supplier's margin, similar to what is currently solicited for in UES's large customer group. UES would follow the process used for the large customer group to set retail customer prices each month.

  **[Potential timing: New RFP issued on September 30th approx. 60 days prior to service.]**[5]

- Option 3: UES would issue a new RFP for the 6 month procurement period that seeks offers that include a pass-through of all costs (energy, capacity and ancillary services). Suppliers would be asked to submit bids for the margins to be included in the pricing of default service.[6] These costs would flow through the winning bidder's ISO New England settlement account. UES would seek to maintain its routine monthly payment schedule with the supplier. UES would follow a similar process as that used for the large customer group to set retail

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[2] Indicative pricing bids are due September 16, 2014 which is 75 days prior to the start of service.
[3] Timing may require the waiving of customer notice provisions.
[4] Indicative pricing bids are due September 16, 2014 which is 75 days prior to the start of service.
[5] Timing may require the waiving of customer notice provisions.
[6] The lowest margin bid would be the winning supplier.

customer prices each month, but would have to estimate capacity and ancillary costs.

**[<u>Potential timing</u>: RFP issued on October 21st approx. 40 days prior to service.]**

- <u>Option 4:</u> UES would explore serving its default service load obligation through its ISO New England settlement account. There are a number of factors that would need to be considered and evaluated as this methodology would likely be a more costly alternative. In the event that this last-resort alternative was to be used, UES would seek to minimize the length of time this was in place and would continue pursuing other viable solutions in the interim.

  **[<u>Potential timing</u>: November 11th approx. 20 days prior to service.]**