IR 14-338

STATE OF NEW HAMPSHIRE

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Debra Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, New Hampshire 03301-7319

RE: IR 14-338 Review of Default Service Procurement Processes
Comments of the Office of the Consumer Advocate

Dear Ms. Howland:

On November 4, 2014, in the above captioned docket, the Commission issued Order No. 25,732 directing that a docket be opened to review various approaches to default service solicitations.

Introduction

At the April 22, 2015, technical session, the parties discussed the option of making immediate changes to the upcoming Requests for Proposals (RFP) to reduce the likelihood of large price spikes during winter 2015/2016. The parties could not reach an agreement regarding the best way to proceed for the winter 2015/2016 RFPs.

Some stakeholders believe that no change is needed, asserting that retail customers valuing rate-stability can look for appropriate offerings from competitive suppliers. The contention seems to be that rate-stability for default service customers is not necessary and is counter to the development of retail competition. The OCA respectfully disagrees and asserts that taking no action is not a reasonable option. The experience from the recent past shows that it is important that the Commission accommodate rate-stability in default service rates for residential customers. Today, the PUC has the opportunity to take action to reduce price volatility in the near term and should exercise the full range of its authority to do so.

<u>OCA Response to Staff Recommendation</u>

On May 3, 2015 New Hampshire Public Utilities Commission staff (Staff) issued its report with the following conclusion:

> Given the limited time frame before the commencement of utility preparations for the next default service bidding round preparations in July 2015, it is likely that only limited changes may be agreed upon in time, and they may be limited to separating out the reconciliation process in order to speed up bid approval by the Commission. *Id.*

The OCA agrees that changes to the default service energy procurement practices must be in place before for the next default service bidding round. The OCA respectfully disagrees that these changes must be limited to the reconciliation process. Additional changes, while modest, must be made to prevent a repeat of the market price anomalies that occurred this past winter when New Hampshire's residential consumers experienced big and sudden rate increases.

Ratepayer dismay was captured by Union Leader headlines such as: "New Hampshire's Energy Future in 'Crisis;'" and "A Winter of Discontent Over Energy Costs." In "New Hampshire's Energy Future In 'Crisis,'" the paper reported that "Unitil's rate will rise from 8.4 cents per kilowatt-hour of electricity to 15.5 cents on Dec. 1. Liberty's rate rose from 7.73 cents to 15.4 cents per kilowatt-hour on Nov. 1." Feely, Paul. New Hampshire Union Leader (November 15, 2014). Such rate shocks are largely unprecedented and customers rightly objected. In "A Winter of Discontent Over Energy Costs," Mr. Rayno reported: "With many residents facing $40- to $50-a-month increases, the grumbling over rates could explode into a full-scale roar, with people demanding that lawmakers do something." Rayno, Gary. New Hampshire Union Leader (October 4, 2014).

Position of the Office of the Consumer Advocate

A proper balancing of the need to lower rate volatility and ensure competitive retail market development is at the heart of RSA 374-F:3. The laddering approach proposed by the OCA achieves that balance quite reasonably. Staff's disinclination to support laddering based on its contention that it is not clear whether laddering will reduce the level of market exposure faced by default customers while guarding against a negative impact on competitive retail markets, ignores the importance of mitigating price volatility. It is not entirely clear what is meant by market exposure, but if that is intended to mean "exposure to market prices", the OCA contends that laddering can be carefully designed and coupled with a rate setting mechanism to definitively reduce the level of market exposure faced by default customers. The OCA's proposed laddering approach does that quite effectively.

Given the experience with winter prices in recent times, the OCA is very concerned about the price volatility experienced by residential customers. Procurement laddering can be implemented immediately without unduly compromising simplicity and transparency. The OCA's proposed laddering approach incorporates a bi-annual RFP, as is done currently. The OCA's laddering approach also allows the RFPs to be held at the same time for all classes of consumers, as is done currently. With the OCA's proposed changes, the RFPs will remain adequately simple and transparent.

The rate-setting mechanism that accompanies the OCA's laddering proposal (for residential customers) differs from the current approach in one fundamental way. In setting the average default service rate for six months, the OCA's proposal uses pricing for the entire load for the relevant six months as well as pricing from half of the load from the subsequent six months. This will bring greater stability to rates than what has been experienced. Very high rates from winter months will be tempered somewhat by low rates from summer months, to produce relatively lower default service rates in winter. It is likely that the summer rates will be somewhat higher than what has been witnessed lately. However, the volatility in default service rates will be lower. The OCA's proposed laddering approach in conjunction with the proposed rate setting mechanism will lead to lower market exposure for residential default service customers.

At a minimum, if utilities believe they cannot transition into a laddering RFP process in time for the next RFP, then the RFP period should be extended to one year, instead of the current 6 month. This is a minor change to the RFP that will result in reduced rate volatility for residential customers and add rate stability until the full transition to a laddering bid process is implemented.

Conclusion

It is imperative the PUC respond to residential ratepayer outrage over winter price volatility. A straight forward modification of the RFP process will both reduce extreme price volatility and accommodate the competitive marketplace. Immediate introduction of the OCA's laddering approach can and should be implemented before the next round of RFPs for each utility's default service procurement. Alternatively, as a temporary modification until laddering is implemented, the RFP process could be extended to 12 months.

Respectfully submitted,

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