

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 15-010

**LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.
d/b/a LIBERTY UTILITIES**

Proposal to Change Default Service Procurement Process

Order Approving Modification of Default Service Procurement Process

ORDER NO. 25,806

September 2, 2015

APPEARANCES: Steven E. Mullen, on behalf of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities; the Office of Consumer Advocate by James Brennan, on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

By this Order, the Commission approves Liberty's request to modify its default service procurement process. Specifically, Liberty's proposal is to phase-in the timing of default service solicitations for residential and small commercial customers to create two six-month periods, one for February through July, and the other for August through January. With this change, Liberty divides the high-priced winter months of January and February between the two energy service periods, to help the price spikes previously experienced by ratepayers for the winter months.

I. PROCEDURAL HISTORY

The Commission designated this docket for the consideration of the 2015 default service solicitations of Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty). The procedural background relates, for the most part, to Docket No. IR 14-338, the Investigation into Default Service Procurement Processes for Electric Distribution Utilities, which the Commission opened on November 24, 2014, to look for causes of the extremely high retail prices for electric service that Liberty and other utilities in New England experienced during the

winter of 2013-2014, and which were anticipated to be in effect for the following winters. The Commission directed Staff and interested parties to determine if there were alternative ways of procuring default service that would reduce the price volatility for customers, particularly for residential and small commercial customers.¹ The Order of Notice and other documents in this docket, other than any information that was granted confidential treatment, can be found at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-338.html>.

The Commission held a hearing in IR 14-338 on May 27, 2015. The Commission concluded the hearing by making the following recommendations for the utilities to consider; (1) shorten the time from bid to approval; (2) separate the reconciliation filing from the filing of the proposed rates; and (3) adjust the two, six-month periods to split the high-priced winter months between them. In response, Liberty developed a proposal to modify its default service procurement schedule, and filed a petition for approval of the proposal, along with a supporting technical statement, on July 23, 2015. The Commission issued a supplemental order of notice in this docket on July 30, 2015.

A hearing on the proposal was held on August 11, 2015.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty made its filing for the purpose of amending the process whereby it procures default service. The Commission approved a settlement agreement that established the process in Order No. 24,577 (January 13, 2006), and approved modifications of the process in Order No. 24, 922 (December 19, 2008) and Order No. 25,601 (November 27, 2013). Currently, Liberty procures energy service for its residential and small commercial customers (what Liberty

¹ While the majority of load for the large commercial and Industrial customers has migrated to competitive supply, the majority of small commercial and residential customers continue to take energy service from electric distribution utilities, like Liberty.

calls its Small Customer Group) every six months, for a period of six months, and establishes a fixed energy service rate for each six-month period. At present, the two six-month periods begin on November 1 and May 1 of each year. Each time Liberty solicits power for its Small Customer Group, the Company also solicits power supply for its large and medium commercial customers (Large Customer Group) in two consecutive three-month blocks. For each three-month block of power, Liberty establishes a fixed monthly rate that varies from month to month for the Large Customer Group.

In its filing, Liberty requested that the Commission approve changes to the process by which it procures energy for the Small Customer Group. The proposal would modify Liberty's default service as follows. First, Liberty said it would like to make its reconciliation filing 30 days before its energy service rate filing, to allow Staff and the OCA additional time to examine the reconciliation data. Second, Liberty proposed to change the two six-month energy service periods from the current November-April and May-October periods, to February-July and August-January. By changing the timing of the two six-month periods, Liberty said that the two highest cost months of January and February would be in two separate service periods for customers. The Company said that, by changing the time periods as proposed, customers who take electric service from Liberty would experience less volatility in rates from one energy service period to the next. Liberty said that other deadlines in its existing default service process previously approved by the Commission would not change.

Liberty did not address shortening the time period between the Company's receipt of the bid to Commission approval. According to Liberty, in its discussions with Staff, the matter required additional research, and the Company did not receive any specific direction on how to shorten the time frame.

Liberty proposed to phase-in the implementation of the new time periods by having its September 2015 solicitation be for a nine-month block of power for its Small Customer Group, and for three, three-month blocks of power for its Large Customer Group.

Liberty said that it had met with Staff, the OCA and the OEP to present its proposal before filing it with the Commission. The Company also contacted competitive suppliers to determine whether the supplier community had any concerns about the proposed change to the timing of the two, six-month periods for the Small Customer Group. According to Liberty, most of the suppliers had little concern. Liberty did receive feedback from a supplier, saying that it is more difficult for suppliers to get separate monthly pricing for these months, because the price is generally calculated for the December through February period. One supplier indicated it would likely not submit bids for the Small Customer Group if both blocks include a winter month because of uncertainty regarding incremental costs associated with any Winter Reliability Program that may be instituted by the Independent System Operator-New England (ISO-NE). The previous Winter Reliability Programs instituted by the ISO-NE required an additional incremental payment, in addition to the market cost of power, to be paid by suppliers, to support needed generation or fuel supply.

Another concern expressed by suppliers related to the migration risk for customers in the Large Customer Group, resulting from the inclusion of a high-cost winter month in two, three-month default service periods. If the winning bid for the Large Customer Group is either significantly higher or lower than the price in the energy market for those two periods, those customers who take energy supply from Liberty could migrate to competitive supply if the resulting rate is higher than market prices, or return to Liberty from competitive supply if the resulting rates are lower than the market price. Because suppliers bear the risk of the load, a

significant change in the load due to customer migration could unfavorably affect the winning bidder's expected profit.

Liberty recognized the possibility that no supplier would bid for all three blocks of power for the Large Customer Group, because the price commitment would extend for nine months, instead of the current six months. In such event, Liberty said it would first contact Staff to discuss how to move forward. The Company explained that it had a proposal in place on how to handle such a situation. One option would be to rebid, on a very short timeframe, the blocks that were not filled. Another option would be for Liberty to take the blocks for service and purchase power at the ISO-NE locational marginal real-time price. With respect to the latter option, Liberty would forecast an estimated rate and reconcile the rate to actual market costs.

Liberty asked that its proposal be approved by September 2, 2015.

B. Office of Consumer Advocate

The OCA stated its support for Liberty's proposal.²

C. Staff

Staff said it did not object to Liberty's proposal.

III. COMMISSION ANALYSIS

The commission approved the process whereby Liberty procures default energy service supply for its customers who have not elected to take service from a competitive supplier.

Pursuant to RSA 365:28, the Commission has the authority to modify any order, after notice and hearing. In this case, a supplemental order of notice was issued on July 30, 2015, to address the specific issues identified by Liberty in its filing, and we then held a hearing on Liberty's proposal.

² The Office of Consumer Advocate (OCA) previously filed a letter of participation on January 7, 2015.

In the previous two winters, Liberty's energy service customers experienced a significant rate increase with rates effective for the six month period beginning November 1. The same rate spike occurred for the customers of Unitil Energy Systems, Inc., which has a six-month energy service period that begins December 1. We opened Docket No. No. IR 14-338 to investigate whether any measures could be taken by the utilities to mitigate such price volatility. At the hearing in Docket No. IR 14-338, we asked the utilities to consider whether they could address the price spikes for energy in winter months by modifying the term of the six-month periods, and Liberty's July 23, 2015, proposal to put January and February in different blocks is responsive to our suggestions. We believe that Liberty's proposal will help address the issue of price volatility, and provide more rate stability for Small Customer Group customers.

We must consider whether Liberty's proposal is consistent with the restructuring principles contained in RSA 374-F:3, and whether the resulting rates are just and reasonable pursuant to RSA 378:5 and 7. RSA 374-F:3, V(e) authorizes the Commission to approve alternative means of providing default service which are designed to minimize customer risk, not unduly harm the development of competitive markets, and mitigate against price volatility without creating new deferred costs, provided that the Commission finds such means to be in the public interest. Liberty's proposal adjusts the timing of the two six-month periods for the Small Customer Group. The effect of this change is to mitigate the price volatility that occurs when all the winter months are in one service period. Because Liberty's energy service rates are reconciled, the proposal does not create any deferred stranded costs. Liberty will still issue requests for proposals to solicit power supply from the competitive market, and the Company will still be required to evaluate the proposals according to the methodology that was part of the Settlement Agreement approved in Order No. 24,577. Finally, all customers, including

residential customers, will continue to have the opportunity to seek energy supply from competitive power suppliers if suppliers offer prices lower than the rates offered by Liberty. Based on the foregoing, we find that Liberty's proposal is consistent with the restructuring principles and is in the public interest, and we approve the proposal.

We also approve the Company's proposal to file reconciliation calculations one month in advance of filing the bid results and the associated rates. We find this change to be in the public interest, because it allows the Staff and the OCA additional time to review the reconciliation component of the filing.

Because the solicitations will elicit offers from the competitive market, and because Liberty intends to calculate the rates resulting from solicitations according to the terms approved by Order No. 24,577, the resulting rates should be market based. As such, the rates will be just and reasonable, and consistent with the requirements of RSA 378:5 and 7. We therefore approve Liberty's proposal in its entirety, and amend the process by which the Company acquires power by authorizing the Company to implement the phase-in, beginning with the energy service period that begins on November 1, 2015. We require Liberty to consult with Commission Staff in the event that no suppliers bid for any of the blocks of power before taking any further action. We strongly encourage Liberty to consider alternatives that will allow power suppliers to make bids for the Large Customer Group based on the locational market price for power, plus an adder for administrative costs and a profit margin, in the event of a failed auction for any of those blocks.

Based upon the foregoing, it is hereby

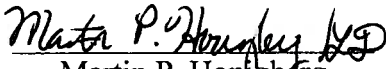
ORDERED, that Liberty's July 23, 2015 proposal to amend its energy service procurement process by shifting the two, six-month periods for the Small Customer Group as

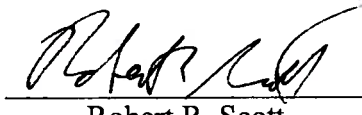
described in the proposal, and filing the reconciliation data 30 days in advance of the rate-setting hearing, is hereby APPROVED; and it is

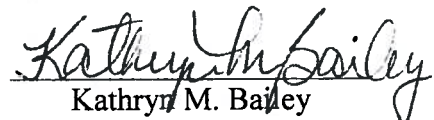
FURTHER ORDERED, that Liberty shall continue to solicit power and evaluate bids according to the terms of the settlement agreement we approved in Order No. 24,577; and it is

FURTHER ORDERED, that in the event of a failed auction for any block of power, Liberty shall notify Commission Staff and work with Staff to develop an appropriate strategy to secure the needed power supply.

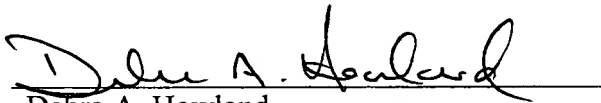
By order of the Public Utilities Commission of New Hampshire this second day of September, 2015.


Martin P. Honigberg
Chairman


Robert R. Scott
Commissioner


Kathryn M. Bailey
Commissioner

Attested by:


Debra A. Howland
Executive Director