

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

RE: LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP. D/B/A LIBERTY  
UTILITIES

DOCKET NO. DE 14-031

Technical Statement of John D. Warshaw

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John D. Warshaw
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**I. Introduction**

This proposal arises from the Settlement Agreement regarding Post-Transition Default Service Filing by Granite State Electric Company ("Granite State"<sup>1</sup>), the Staff of the New Hampshire Public Utilities Commission and the Office of the Consumer Advocate, which was approved by the Commission in Docket No. DE 05-126 on January 13, 2006, modified and approved on December 19, 2008 and most recently modified and approved in DE 13-018 on November 27, 2013 (as amended, "Settlement Agreement"). The Settlement Agreement sets forth the process for the procurement of an all-requirements load following service for Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities' ("Liberty" or "Company") medium and large customers (the "Large Customer Group") and for Liberty's residential and small commercial customers (the "Small Customer Group") when a customer in either group is not purchasing its energy supply from a Competitive Electric Power Supplier or Aggregator. An all-requirements load following service provides all the energy, capacity and ancillary services required to meet the instantaneous needs of Liberty's Energy Service customers. As discussed below, Liberty is requesting approval by the Commission to include an alternate method to provide an energy supply to its customers in either the Large Customer Group or the Small Customer Group.

**II. Background**

The Settlement Agreement specified a process by which Liberty would issue solicitations on a semi-annual basis (August and February) to procure a six-month energy supply for its customers in both the Large Customer Group and the Small Customer Group taking Energy Service. Pursuant to the Settlement Agreement, Liberty issues a Request for Proposals ("RFP") to both wholesale power suppliers who express interest in receiving such solicitations, and to a

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<sup>1</sup> As of January 14, 2014, Granite State Electric Company's name was changed to Liberty Utilities (Granite State Electric) Corp.

much broader distribution list containing members of the New England Power Pool (“NEPOOL”) Markets Committee. Liberty evaluates the responses provided by bidders and selects proposals that provide the least cost to its customers. Liberty then files with the Commission for approval of the resulting Energy Service rates and includes a confidential summary of the responses and Liberty’s evaluation of those responses.

### **III. Explanation of the Reason to Include an Alternative Procurement Process**

Since the approval of the Settlement Agreement by the Commission on January 13, 2006, Granite State has conducted approximately 33 successful solicitations for energy supply to its customers. In response to its most recent RFP, the numbers of bidders submitting proposals were less than in response to previous RFPs. Notwithstanding this outcome, Liberty was able to successfully file and receive approval from the Commission for its Energy Service rates effective May 1, 2014.

This summer, electric distribution companies serving customers in Massachusetts encountered difficulties in securing supply through a competitive bid process for their large commercial and industrial customers taking basic service (equivalent to New Hampshire’s energy service). On June 17, 2014, National Grid filed a contingency plan with the Massachusetts Department of Public Utilities (“MDPU”) to serve customers with purchases from the ISO-New England market in the event it had inadequate bidder participation in any of its solicitations for basic service. In its most recent solicitation for basic service supply for its industrial customer group, National Grid initially received no bids (as of the June 11, 2014 deadline) for the customers in the SEMA and WCMA load zones. National Grid immediately reissued its solicitation and was able to secure a supply for both load zones without having to purchase from the ISO-New England market. The contingency plan was not approved by the MDPU but instead will be evaluated on a case-by-case basis (DPU 14-BSF-D, Letter Order dated June 24, 2014).

On May 14, 2014, Northeast Utilities on behalf of its subsidiaries, Western Massachusetts Electric Company (“WMECO”) and NSTAR Electric Company (“NSTAR”), submitted a request to the MDPU for approval of an alternative plan for procurement of basic service for their large commercial and industrial customers. In their most recent solicitations for basic service, both WMECO and NSTAR received no bids to serve these customers. WMECO and NSTAR requested approval of an alternative plan to serve these customers with purchases from the ISO-New England market and resulting retail rates. On May 22, 2014 the MDPU approved the retail rates as filed (DPU 14-BSF-B2 & DPU 14-BSF-D2 Stamped Approval dated May 22, 2014).

At this time it is unclear if these actions are the result of a short-term response to uncertainties in the wholesale market in New England due to events which occurred this past winter (polar vortex, Winter Reliability Program, availability and pricing of natural gas) or a fundamental, industry-wide change by wholesale suppliers regarding such all-requirements solicitations.

#### **IV. Liberty's Proposal**

Liberty seeks approval from the Commission to implement the proposed contingency plan when an RFP solicitation results in no supplier for one or both of the Large Customer Group blocks or the Small Customer Group block. If only one bidder submits a final bid in a block and both the Commission Staff and Liberty agree that the bid is unreasonable and above market, then no supply will be awarded. If the block in question is for the second 3-month period for the Large Customer Group, Liberty will not file rates for this period but instead will notify the Commission in its filing of proposed Energy Service rates that it will issue an RFP two months later.

If the RFP solicitation results in no supplier, Liberty will 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. Liberty will file a retail price based on a proprietary methodology that takes into account: i) energy prices in the NYMEX forward prices for the ISO-New England Mass Hub Off-Peak & On-Peak LMP Futures; ii) an adjustment for future price volatility; iii) the cost of ancillary services based on the most recent published summary data for the New Hampshire load zone; iv) capacity costs based on the Forward Capacity Market prices; and v) adjustments for losses from PTF to the retail customer.

Liberty will closely monitor any variance between purchased power costs and Energy Service revenue from the applicable customer group. This analysis will include adjustments to the booked revenue to reflect the revenue in the month it was earned rather than the month in which it was billed. If the accumulated variance exceeds \$500,000, Liberty will propose to file an incremental reconciling adjustment in the next Energy Service filing instead of waiting until March when Liberty files its annual reconciling adjustments for Energy Service. If the accumulated variance exceeds \$1,000,000, Liberty will file updated Energy Service rates for the remaining months of the period that will include an incremental reconciliation and adjustment for significant wholesale market changes.

In the unlikely event that significant migration to one or more Competitive Energy Providers results in a variance that, due to its size as compared to the remaining Energy Service

load, is unrecoverable from the remaining Energy Service customers in a particular customer group, Liberty will propose a temporary, non-by-passable charge that will only be applicable to the distribution customers in a customer group for which the contingency plan is implemented.

If Liberty must temporarily rely on this contingency plan to serve its Energy Service customers, no incremental resources would be required. Liberty's Energy Procurement group has sufficient staff to absorb the limited incremental responsibilities required to implement this contingency plan. The major impact to Liberty would be the requirement to schedule and pay the twice weekly ISO-New England invoices that would result due to purchases in the Real-Time market. In addition, it is likely that Liberty would be required to provide increased financial assurance to ISO-New England due to the incremental purchases from ISO-New England. The level of potential increased financial assurance cannot be determined at this time because Liberty has only been required to provide financial assurance for the costs associated with transmission service and other participant charges. Nevertheless, Liberty stands ready to provide any necessary financial assurance required by ISO-NE.