

UNITIL ENERGY SYSTEMS, INC.

**DIRECT TESTIMONY OF
ROBERT S. FURINO**

New Hampshire Public Utilities Commission

Docket No. DE 08-015

June 13, 2008

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LIST OF SCHEDULES

Schedule RSF-1: Bid Evaluation Report

Schedule RSF-2: Request for Proposals

Schedule RSF-3: Customer Migration Report

1 **I. INTRODUCTION**

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

3 A. My name is Robert S. Furino. My business address is 6 Liberty Lane West,
4 Hampton, NH.

5

6 **Q. What is your relationship with Unitil Energy Systems, Inc.?**

7 A. I am employed by Unitil Service Corp. (the "Service Company") as Director of
8 the Energy Contracts department. The Service Company provides professional
9 services to Unitil Energy Systems, Inc. ("UES").

10

11 **Q. Please briefly describe your educational and business experience.**

12 A. I received my Bachelor of Arts Degree in Economics from the University of
13 Maine in 1991. I joined the Service Company in March 1994 as an Associate
14 DSM Analyst in the Regulatory Services Department and have worked in the
15 Regulatory, Product Development, Finance and Energy Contracts
16 departments. My primary responsibilities involve energy supply acquisition,
17 supply strategy and supporting the wholesale load reporting process.

18

19 **Q. Have you previously testified before the New Hampshire Public Utilities
20 Commission ("Commission")?**

21 A. Yes. I have testified before the Commission on several occasions.

22

1 **II. PURPOSE OF TESTIMONY**

2 **Q. Please describe the purpose of your testimony.**

3 A. The purpose of my testimony is to document the solicitation process followed by
4 UES in its acquisition of Default Service power supplies (“DS”) for its G1
5 customers as approved by the Commission in Order No. 24,511, granting UES’
6 Petition for Approval of a Default Service Supply Proposal for G1 and Non-G1
7 Customers and Approval of Solicitation Process as amended by the Settlement
8 Agreement filed with the Commission on August 11, 2005 (the “Order”). In
9 accordance with the Order, UES has contracted for a three-month DS power
10 supply for its G1 customers, beginning August 1, 2008.

11
12 I describe how UES solicited for bids from wholesale suppliers to provide the
13 supply requirements in accordance with the terms of the Order. I also describe
14 how the proposals received were evaluated and the winning bidder was chosen.
15 Supporting documentation and additional detail of the solicitation process
16 followed is provided in the Bid Evaluation Report (“Report”), attached as
17 Schedule RSF-1. A copy of the RFP as issued is attached as Schedule RSF-2.
18 Finally, an updated Customer Migration Report is attached as Schedule RSF-3.
19 The Customer Migration Report shows monthly retail sales and customer counts
20 supplied by competitive generation, total retail sales and customer counts (the
21 sum of default service and competitive generation), and the percentage of sales

1 and customers supplied by competitive generation. The report includes data from
2 May 2007 through April 2008.

3

4 Additionally, my testimony reiterates UES' approach to compliance with the
5 Renewable Portfolio Standard (RPS) which went into effect in January 2008.

6

7 **Q. Please summarize the approvals UES is requesting from the Commission.**

8 A. UES requests that the Commission:

- 9
- 10 • Find that: UES has followed the solicitation process approved by the
11 Commission; UES' analysis of the bids submitted was reasonable; and UES
12 has supplied a reasonable rationale for its choice of the winning suppliers.
 - 13 • On the basis of these findings, conclude that the power supply costs resulting
14 from the solicitation are reasonable and that the amounts payable to the sellers
15 under the supply agreements are approved for inclusion in retail rates.
 - 16 • Issue an order granting the approvals requested in UES' Petition on or before
17 June 20, 2008, which date is five (5) business days after the date of this filing.

17

18 **III. SOLICITATION PROCESS**

19 **Q. Please discuss the Solicitation Process UES employed to secure the supply**
20 **agreement for DS power supplies.**

1 A. UES conducted an open solicitation in which it actively sought interest among
2 potential suppliers, and provided potential suppliers with access to sufficient
3 information to enable them to assess the risks and obligations associated with
4 providing the services sought. UES did not discriminate in favor or against any
5 individual potential supplier who expressed interest in the solicitation. UES
6 negotiated with all potential suppliers who submitted proposals in order to obtain
7 the most favorable terms each potential supplier was willing to offer. In
8 accordance with the Order, UES required bidders to submit both energy-and-
9 capacity and energy-only fixed monthly price bids. The structure, timing and
10 requirements associated with the solicitation are fully described in the RFP issued
11 on May 8, 2008, attached as Schedule RSF-2, and summarized in the Report
12 attached as Schedule RSF-1.

13
14 **Q. How did UES ensure that the RFP was circulated to a large audience?**

15 A. UES announced the RFP's availability electronically to all participants in
16 NEPOOL by notifying all members of the NEPOOL Markets Committee via
17 email. UES also announced the issuance of the RFP via email to a list of power
18 suppliers and other entities such as distribution companies, consultants, brokers
19 and members of public agencies who have previously expressed interest in
20 receiving copies of UES's solicitations. UES followed up the email
21 announcements with telephone calls to the power suppliers to solicit their interest.

1 In addition, UES issued a media advisory to the power markets trade press
2 announcing the issuance of the RFP.

3

4 **Q. What information was provided in the RFP to potential suppliers?**

5 A. The RFP described the details of UES' DS, the related customer-switching rules,
6 and the form of power service sought. In order to gain the greatest level of
7 market interest in supplying the load, UES provided potential bidders with
8 appropriate and accessible information. Data provided included historical hourly
9 default service loads and daily capacity tags for the G1 customer group; historical
10 monthly retail sales and customer counts by rate class and supply type; a generic
11 listing of large customers showing sales, peak demands, capacity tag values and
12 supply type; and the evaluation loads, which are the estimated monthly volumes
13 that UES would use to weight bids in terms of price. The hourly load data and
14 capacity tags, retail sales report, and large customer data were all updated prior to
15 final bidding. All documents and data files were provided to potential suppliers
16 via UES' corporate website (www.unitil.com/rfp).

17

18 **Q. How did UES evaluate the bids received?**

19 A. UES evaluated the bids on both quantitative and qualitative criteria, including
20 price, creditworthiness of bidders, a bidder's willingness to extend adequate credit
21 to UES in order to facilitate the transaction, each bidder's capability of

1 performing the terms of the RFP in a reliable manner, and willingness to enter
2 into contractual terms acceptable to UES. UES compared the pricing strips
3 proposed by the bidders by calculating weighted average prices for the supply
4 requirement using the evaluation loads that were issued along with the RFP.

5
6 UES also calculated the implied cost of capacity reflected in bids by calculating
7 the difference between the energy-and-capacity prices and the energy-only prices.
8 UES evaluated the implied cost of capacity reflected in the bids by comparison to
9 its own estimates of the capacity costs, which are detailed in the confidential
10 section of the Report. UES determined whether to accept energy-and-capacity
11 prices or energy-only prices (which provide for a pass through of actual supplier
12 capacity costs) on the basis of those comparisons.

13
14 UES selected PSEG Energy Resources & Trade ("PSEG ER&T") as the supplier
15 for the three-month G1 supply requirement. UES believes that PSEG ER&T
16 offers the best overall value in terms of both price and non-price considerations
17 for the supply requirement. Once the winning bidder was chosen, they were
18 promptly notified and all other bidders were notified they were not selected. The
19 power supply agreement, which had been negotiated prior to final bidding, was
20 verified and signed shortly thereafter.

21

1 **Q. Please describe the contents of the Bid Evaluation Report.**

2 A. Schedule RSF-1 contains the Report which further details the solicitation process,
3 the evaluation of bids, and the selection of the winning bidder.

4

5 The Report contains a narrative discussion of the solicitation process. A
6 confidential section labeled "Tab A" follows the narrative. Tab A includes
7 additional discussion regarding the selection of the winning bidder and presents
8 several supporting exhibits that list the suppliers who participated, the pricing
9 they submitted and other information considered by UES in evaluating final
10 proposals, including a red-lined version of the final supply agreement. UES seeks
11 protective treatment of all materials in provided in Tab A.

12

13 On the basis of the information and analysis contained in the Report, UES submits
14 that it has complied with the Commission's requirements set forth in the Order,
15 and that the resulting DS power supply costs are reasonable and that the amounts
16 payable to the seller under the supply agreement should be approved for inclusion
17 in retail rates.

18

19 **Q. Please indicate the planned issuance date, filing date and expected approval**
20 **date associated with UES' next default service solicitation.**

1 A. UES' next default service solicitation will be for two blocks of supply, both for
2 service beginning on November 1, 2008. One block will be for one hundred
3 percent (100%) of G1 supplies for 3 months and one block will be for twenty-five
4 percent (25%) of Non-G1 supplies for two years. UES plans to issue an RFP for
5 these supplies on July 31, 2008, with a filing for approval of solicitation results
6 planned for September 12, 2008 and approval anticipated on September 19, 2008.

7

8 The two year Non-G1 term is a one-time change from the normal structure of one-
9 year and three-year procurement terms, and is designed to return UES to its
10 previously approved solicitation schedule. UES was required to reduce the term
11 of its regularly scheduled three-year Non-G1 procurement to two years with the
12 RFP issued on August 2, 2007. The second year of this upcoming procurement is
13 the twelve-month period that would have been the third year in the procurement
14 issued August 2, 2007.

15

16 **III. RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

17 **Q. Please review the method by which UES intends to comply with the newly**
18 **enacted Renewable Portfolio Standard ("RPS") requirements.**

19 A. As discussed in its recent default service filings, UES plans to comply with the
20 provisions of Chapter 362-F outside of the default service procurement process by

1 separately purchasing qualifying renewable energy certificates (“RECs”) as
2 available or by making alternative compliance payments as required.

3

4 **Q. Please state why UES is subject to Generation Information System (GIS)**
5 **support charges and explain the cost basis for GIS charges.**

6

7 A. UES is subject to GIS support charges because UES’ default service assets are
8 subject to a renewable portfolio standard. Prior to implementation of the
9 renewable portfolio standard, the default service assets were exempt from
10 supporting GIS costs. Each month, ISO New England charges suppliers of GIS
11 loads a pro-rata share of the costs incurred to administer the GIS two months
12 prior. The share is calculated as each supplier’s GIS load divided by the GIS load
13 of all suppliers. The costs supported include fees from APX, the company that
14 administers the GIS and GIS-related charges from ISO staff.

15

16 **Q. Please describe how UES plans to recover the cost of RPS compliance from**
17 **its customers.**

18

19 A. UES plans to recover the costs of RPS compliance from customers by including
20 estimated costs of RPS compliance as part of its proposed retail rates each time
21 new default service rates are proposed. The actual costs of RPS compliance will

1 be reconciled as part of the Company's annual default service reconciliations,
2 with G1 and non-G1 costs reconciled separately.

3
4 Since competitive suppliers who contract with customers are also subject to RPS
5 compliance, it is appropriate to include RPS compliance costs in retail rates
6 during the month in which the RPS obligation is incurred in order to provide
7 proper pricing signals. Moreover, since customers have the right to switch their
8 supply type, UES should collect RPS compliance costs from those customers who
9 actually trigger the obligation. This is best accomplished by including an estimate
10 of compliance costs in current retail rates.

11

12 **Q. Please describe UES' estimate of RPS compliance costs.**

13

14 A. UES continues to believe that the outlook for RPS compliance will involve
15 making alternative compliance payments. UES is maintaining the RPS
16 compliance cost estimates filed in its most recent default service filing so that all
17 customers are assessed RPS compliance charges on a common basis.
18 Specifically, UES estimates compliance cost for both Class III and Class IV RECs
19 at \$28 per MWH. The quantity of RECs required equals 3.5 percent of sales for
20 Class III and 0.5 percent of sales for Class IV.

21

1 V. **CONCLUSION**

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

3 A. Yes, it does.