

UNITIL ENERGY SYSTEMS, INC.

**DIRECT TESTIMONY OF
ROBERT S. FURINO**

New Hampshire Public Utilities Commission

Docket No. DE 08-015

September 12, 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

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

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

21

22

1 **II. PURPOSE OF TESTIMONY**

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

3 A. My testimony documents the solicitation process followed by UES in its
4 acquisition of Default Service power supplies (“DS”) for its G1 and Non-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”). With
9 the current RFP, UES has contracted for a three-month DS power supply for its
10 G1 customers and a 24-month DS power supply for its Non-G1 customers, both
11 for service beginning November 1, 2008.

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

1 sum of default service and competitive generation), and the percentage of sales
2 and customers supplied by competitive generation. The report includes data from
3 August 2007 through July 2008.

4

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

7

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

9 A. UES requests that the Commission:

- 10
- 11 • Find that: UES has followed the solicitation process approved by the
12 Commission; UES' analysis of the bids submitted was reasonable; and UES
13 has supplied a reasonable rationale for its choice of the winning suppliers.
 - 14 • On the basis of these findings, conclude that the power supply costs resulting
15 from the solicitation are reasonable and that the amounts payable to the sellers
16 under the supply agreements are approved for inclusion in retail rates.
 - 17 • Issue an order granting the approvals requested in UES' Petition on or before
18 September 19, 2008, which date is five (5) business days after the date of this
19 filing.

20 **III. SOLICITATION PROCESS**

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

3 A. In the same manner as its prior solicitations for default service supplies, UES
4 conducted an open solicitation in which it actively sought interest among potential
5 suppliers, and provided potential suppliers with access to sufficient information to
6 enable them to assess the risks and obligations associated with providing the
7 services sought. UES did not discriminate in favor or against any individual
8 potential supplier who expressed interest in the solicitation. UES negotiated with
9 all potential suppliers who submitted proposals in order to obtain the most
10 favorable terms each potential supplier was willing to offer. In accordance with
11 the Order, UES required bidders to submit both energy-and-capacity and energy-
12 only fixed monthly price bids. The structure, timing and requirements associated
13 with the solicitation are fully described in the RFP issued on July 31, 2008,
14 attached as Schedule RSF-2, and summarized in the Report attached as Schedule
15 RSF-1.

16
17 **Q. How did UES ensure that the RFP was circulated to a large audience?**

18 A. UES announced the RFP's availability electronically to all participants in
19 NEPOOL by notifying all members of the NEPOOL Markets Committee via
20 email. UES also announced the issuance of the RFP via email to a list of power
21 suppliers and other entities such as distribution companies, consultants, brokers

1 and members of public agencies who have previously expressed interest in
2 receiving copies of UES's solicitations. UES followed up the email
3 announcements with telephone calls to the power suppliers to solicit their interest.
4 In addition, UES issued a media advisory to the power markets trade press
5 announcing the issuance of the RFP.

6

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

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

20

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

1 A. UES evaluated the bids on both quantitative and qualitative criteria, including
2 price, creditworthiness of bidders, a bidder's willingness to extend adequate credit
3 to UES in order to facilitate the transaction, each bidder's capability of
4 performing the terms of the RFP in a reliable manner, and willingness to enter
5 into contractual terms acceptable to UES. UES compared the pricing strips
6 proposed by the bidders by calculating weighted average prices for the supply
7 requirement using the evaluation loads that were issued along with the RFP.
8
9 UES also calculated the implied cost of capacity reflected in bids by calculating
10 the difference between the energy-and-capacity prices and the energy-only prices.
11 UES evaluated the implied cost of capacity reflected in the bids by comparison to
12 its own estimates of the capacity costs, which are detailed in the confidential
13 section of the Report. UES determined whether to accept energy-and-capacity
14 prices or energy-only prices (which provide for a pass through of actual supplier
15 capacity costs) on the basis of those comparisons.
16
17 UES selected Conectiv Energy Supply, Inc. ("Conectiv") as the supplier of the
18 24-month Non-G1 supply requirements and FPL Energy Power Marketing Inc.
19 (FPL Energy") as the supplier for the three-month G1 supply requirement. UES
20 believes that Conectiv and FPL Energy offered the best overall value in terms of
21 both price and non-price considerations for the respective supply requirements.

1 Once the winning bidders were chosen, they were promptly notified and all other
2 bidders were notified they were not selected. The power supply agreements,
3 which had been negotiated prior to final bidding, were verified and signed shortly
4 thereafter.

5

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

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

9

10 The Report contains a narrative discussion of the solicitation process. A
11 confidential section labeled "Tab A" follows the narrative. Tab A includes
12 additional discussion regarding the selection of the winning bidders and presents
13 several supporting exhibits that list the suppliers who participated, the pricing
14 they submitted and other information considered by UES in evaluating final
15 proposals, including red-lined versions of the final supply agreements. UES seeks
16 protective treatment of all materials in provided in Tab A.

17

18 On the basis of the information and analysis contained in the Report, UES submits
19 that it has complied with the Commission's requirements set forth in the Order,
20 and that the resulting DS power supply costs are reasonable and that the amounts

1 payable to the seller under the supply agreement should be approved for inclusion
2 in retail rates.

3

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

6 A. UES' next default service solicitation will be for one hundred percent (100%) of
7 G1 supplies for 3 months beginning February 1, 2009. UES plans to issue an RFP
8 for these supplies on November 6, 2008, with a filing for approval of solicitation
9 results planned for January 16, 2009 and approval anticipated on January 23,
10 2009.

11

12 **III. RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

13 **Q. Please review the method by which UES intends to comply with the recently**
14 **enacted Renewable Portfolio Standard ("RPS") requirements.**

15 A. As discussed in its recent default service filings, UES plans to comply with the
16 provisions of Chapter 362-F outside of the default service procurement process by
17 separately purchasing qualifying renewable energy certificates ("RECs") as
18 available or by making alternative compliance payments as required.

19

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

1 A. UES plans to recover the costs of RPS compliance from customers by including
2 estimated costs of RPS compliance as part of its proposed retail rates each time
3 new default service rates are proposed. The actual costs of RPS compliance will
4 be reconciled as part of the Company's annual default service reconciliations,
5 with G1 and Non-G1 costs reconciled separately.
6

7 **Q. Please describe UES' estimates of RPS compliance costs.**

8 A. To comply with RPS requirements, for 2008 sales, UES will need to provide
9 Class 3 RECs for 3.5 percent of sales and Class 4 RECs for 0.5 percent of sales.
10 For 2009 sales, UES will need to provide Class 1 RECs for 0.5 percent of sales,
11 Class 3 RECs of 4.5 percent and Class 4 RECs of 1.0 percent. UES intends to
12 fulfill these requirements by purchasing actual RECs to the extent qualifying
13 RECs are available, otherwise UES would make alternative compliance
14 payments.
15

16 UES currently estimates the cost of Class 1 and Class 3 RECs at their respective
17 Alternate Compliance Prices (ACP). UES has calculated the ACP for each class
18 of RECs using the inflation adjustment method applied in Massachusetts, which
19 UES understands will be adopted in New Hampshire. Specifically, the ACPs are
20 escalated annually using the Northeast region CPI-U for December over
21 December each year. For 2009, UES has applied the annual inflation rate from

1 the prior year, which was (or is expected to be) used to inflate the 2007 ACPs
2 established in RSA 362-F:10 to 2008 levels. UES' estimate for Class 3 RECs is
3 \$28.72 in 2008 and \$29.46 in 2009. UES' estimate for Class 1 RECs is \$60.08 in
4 2009.

5
6 UES has observed some availability of Class 4 RECs and understands that
7 additional applications for certification are being processed. Accordingly, UES
8 has assumed a market price at which it expects to be able to purchase Class 4
9 RECs for coming period. UES' estimate for Class 4 RECs is \$26.00 for both
10 2008 and 2009.

11

12 **V. CONCLUSION**

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

14 **A. Yes, it does.**