

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

TODD M. BOHAN

New Hampshire Public Utilities Commission

Docket No. DE 12-003

September 14, 2012

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LIST OF SCHEDULES

- Schedule TMB-1: Bid Evaluation Report**
- Schedule TMB-2: Request for Proposals**
- Schedule TMB-3: Customer Migration Report**
- Schedule TMB-4: RPS Compliance Cost Estimates**
- Schedule TMB-5: Historical Pricing by Customer Group**
- Schedule TMB-6: RSO Program Participation**
- Schedule TMB-7: RSO Rate Calculation and Bill Impacts**
- Schedule TMB-8: Letter to G1 Customers**

1 **I. INTRODUCTION**

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

3 A. My name is Todd M. Bohan. My business address is 6 Liberty Lane West, Hampton,
4 NH.

5

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

7 A. I am employed by Unitil Service Corp. (“USC”) as an Energy Analyst. USC provides
8 management and administrative services to Unitil Energy Systems, Inc. (“UES”) and
9 Unitil Power Corp. (“UPC”).

10

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

12 A. I graduated *magna cum laude* from Saint Anselm College, Manchester, New
13 Hampshire in 1987 with a Bachelor of Arts degree in Financial Economics. I
14 earned a Masters in Economics from Clark University, Worcester, Massachusetts
15 in May 1990. In September 1995, I earned a Ph.D. in Economics from Clark
16 University. Before joining Unitil, I worked for Bay State Gas Company as a Rate
17 Analyst. Prior to working for Bay State, I was employed as a Utility Analyst and
18 an Economist in the Economics Department of the New Hampshire Public Utilities
19 Commission. I joined Unitil Service Corp. in November 1998, and have been

1 involved in various regulatory proceedings. In August of 2010, I joined the
2 Energy Contracts group and have primary responsibilities in the areas of electric
3 market operation and data reporting, default service administration and budgeting.

4

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

7 A. Yes. I have testified before the Commission on various regulatory matters, most
8 recently in UES's Stranded Cost Recovery and External Delivery Charge
9 Reconciliation and Rate Filing, Docket No. DE 12-171.

10

11 **II. PURPOSE OF TESTIMONY**

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

13 A. My testimony documents the solicitation process followed by UES in its acquisition of
14 Default Service power supplies ("DS") for its G1 and Non-G1 - customers as
15 approved by the Commission in Order No. 25,397, dated July 31, 2012 (the "Order")
16 granting UES's Petition for Approval of Revisions to its Default Service Solicitation
17 Process for G1 and Non-G1 Customers. With the current Request for Proposal
18 ("RFP"), UES has contracted for a seven-month default service power supply for its

1 G1 customers and 25% of its default service power supply for Non-G1 customers for
2 six months and 75% of its default service power supply for Non-G1 customers for one
3 month. Service begins on November 1, 2012.

4
5 I describe how UES solicited for bids from wholesale suppliers to provide the supply
6 requirements in accordance with the terms of the Order as UES has done in prior
7 default service supply solicitations. I also describe how the proposals received were
8 evaluated and the winning bidders were chosen. Supporting documentation and
9 additional detail of the solicitation process followed is provided in the Bid Evaluation
10 Report ("Report"), attached as Schedule TMB-1. A copy of the RFP as issued is
11 attached as Schedule TMB-2, and an updated Customer Migration Report is attached
12 as Schedule TMB-3. The Customer Migration Report shows monthly retail sales and
13 customer counts supplied by competitive generation, total retail sales and customer
14 counts (the sum of default service and competitive generation) and the percentage of
15 sales and customers supplied by competitive generation. The report provides a rolling
16 12-month history which covers the period from August 2011 through July 2012.
17 Renewable Portfolio Standard ("RPS") Compliance Cost Estimates are included as
18 Schedule TMB-4. My testimony reviews UES's approach to compliance with the
19 RPS which went into effect in January 2008. Schedule TMB-4 details projected

1 obligations and price assumptions for the coming rate period. The price assumptions
2 listed in Schedule TMB-4 are based on recent market data and information. Schedule
3 TMB-5 provides historical price data by customer group that is no longer subject to
4 confidential treatment. This schedule provides pricing histories associated with the
5 most recent three-month rate periods for G1 customers or six-month rate periods for
6 Non-G1 customers for which all pricing is currently subject to the Federal Energy
7 Regulatory Commission's quarterly reporting requirements. Schedule TMB-6
8 provides an update on the Renewable Source Option ("RSO") program participation
9 and activity to date. Lastly, Schedule TMB-7 provides the Renewable Source Option
10 Charge ("RSOC") Rate Calculations and Estimated Bill Impacts.

11

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

13 A. UES requests that the Commission:

- 14 • Find that: UES has followed the solicitation process approved by the Commission;
15 UES's analysis of the bids submitted was reasonable; and UES has supplied a
16 reasonable rationale for its choice of the winning suppliers.
- 17 • Find that the price estimates of renewable energy certificates ("RECs") proposed
18 by UES, based on actual purchases or current market prices and information, are
19 appropriate for inclusion in retail rates.

- 1 • On the basis of these findings, conclude that the power supply costs resulting from
2 the solicitation are reasonable and that the amounts payable to the sellers under the
3 supply agreements are approved for inclusion in retail rates.
- 4 • Issue an order granting the approvals requested herein on or before September 21,
5 2012, which is five (5) business days after the date of this filing.
- 6

7 **III. SOLICITATION PROCESS**

8 **Q. Please discuss the Solicitation Process UES employed to secure the supply**
9 **agreement for default service power supplies.**

10 A. In the same manner as its prior solicitations for default service supplies, UES
11 conducted an open solicitation in which it actively sought interest among potential
12 suppliers and provided potential suppliers with access to sufficient information to
13 enable them to assess the risks and obligations associated with providing the services
14 sought. UES did not discriminate in favor of or against any individual potential
15 supplier who expressed interest in the solicitation. UES negotiated with all potential
16 suppliers who submitted proposals to obtain the most favorable terms from each
17 potential supplier. The structure, timing and requirements associated with the
18 solicitation are fully described in the RFP issued on August 7, 2012, which is attached

1 as Schedule TMB-2, as well as summarized in the Report attached as Schedule TMB-
2 1.

3

4 **Q. Does this solicitation differ from those recently issued by UES, and if so please**
5 **explain?**

6 A. The solicitation process followed is the same as in prior solicitations for UES. What
7 has changed is the duration and structure of the default service supplies sought. In
8 accordance with the Commission's Order, UES is transitioning its default service
9 procurement as follows:

- 10 • For the large customer default service supply (G1), UES is moving from a three-
11 month period to a six-month period. In addition, the pricing solicited is for a
12 variable monthly price comprised of the real-time locational marginal price for the
13 New Hampshire load zone weighted by the hourly loads of all G1 customers who
14 take default service plus a fixed monthly adder. The fixed monthly adder which
15 covers the non-energy wholesale charges is then added to the variable energy cost
16 to determine the wholesale cost. The solicitation asks suppliers to bid fixed
17 monthly adders (which can vary by month, but must be fixed for the month).
- 18 • For the small customer and medium customer default service supply (collectively,
19 Non-G1), UES is moving from a ladder approach where a 25% share is

1 purchased for 12 or 24 months to a model where a 100% share is purchased for a
2 six-month period. In addition, UES is soliciting separately for its small and
3 medium customer groups.

4

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

6 A. UES announced the electronic availability of the RFP to all participants in NEPOOL
7 by notifying all members of the NEPOOL Markets Committee and the NEPOOL
8 Participants Committee via email. UES also announced the issuance of the RFP via
9 email to a list of power suppliers and other entities such as distribution companies,
10 consultants, brokers and members of public agencies who have previously expressed
11 interest in receiving copies of UES's solicitations. UES followed up the email
12 announcements with telephone calls to the power suppliers to solicit their interest. In
13 addition, UES issued a media advisory to the power markets trade press announcing
14 the issuance of the RFP.

15

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

17 A. The RFP described the details of UES's default service, the related customer-
18 switching rules, and the form of power service sought. To gain the greatest level of

1 market interest in supplying the load, UES provided potential bidders with appropriate
2 and accessible information. Data provided included historical hourly default service
3 loads and daily capacity tags for each customer group; class average load shapes;
4 historical monthly retail sales and customer counts by rate class and supply type; a
5 generic listing of large customers showing annual sales, peak demands, and capacity
6 tag values as well as supply type (default service or competitive generation); and the
7 evaluation loads, which are the estimated monthly volumes that UES would use to
8 weight bids in terms of price. The hourly load data and capacity tags were updated
9 prior to final bidding to provide the latest information available. All documents and
10 data files were provided to potential suppliers via UES's corporate website
11 (www.unitil.net/rfp).

12
13 **Q. How did UES evaluate the bids received?**

14 A. UES evaluated the bids on both quantitative and qualitative criteria, including price,
15 creditworthiness, willingness to extend adequate credit to UES to facilitate the
16 transaction, capability of performing the terms of the RFP in a reliable manner and the
17 willingness to enter into contractual terms acceptable to UES. UES compared the
18 pricing strips proposed by the bidders by calculating weighted average prices for the
19 supply requirement using the evaluation loads that were issued with the RFP.

1 UES selected Constellation Energy Commodities Group, Inc. (“Constellation”) as the
2 supplier for the seven-month large customer (G1) supply requirement (100% share)
3 and H. Q. Energy Services (U.S.), Inc. (“HQUS”) as the winning bidder of both the
4 small customer and medium customer (Non-G1) supply requirements (a 25% share for
5 six months and a 75% share for one month). UES believes that Constellation and
6 HQUS offered the best overall value in terms of both price and non-price
7 considerations for the supply requirements sought.

8
9 **Q. Please describe the contents of the Bid Evaluation Report.**

10 A. Schedule TMB-1 contains the Report which further details the solicitation process, the
11 evaluation of bids, and the selection of the winning bidders. The Report contains a
12 narrative discussion of the solicitation process. A confidential section labeled “Tab
13 A” follows the narrative. Tab A includes additional discussion regarding the selection
14 of the winning bidders and presents several supporting exhibits that list the suppliers
15 who participated, the pricing they submitted and other information considered by UES
16 in evaluating final proposals, including red-lined versions of the final supply
17 agreements. UES seeks protective treatment of all materials provided in Tab A.

1 On the basis of the information and analysis contained in the Report, UES submits that
2 it has complied with the Commission's requirements, and that the resulting default
3 service power supply costs are reasonable and that the amounts payable to the sellers
4 under the supply agreements should be approved for inclusion in retail rates.

5

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

8 A. UES's next default service solicitation will be for one hundred percent (100%) of the
9 large customer (G1) supply requirement for a six-month period; seventy five percent
10 (75%) of the small and medium customer (Non-G1) requirements for a five-month
11 period; and one hundred percent (100%) of the small and medium customer (non-G1)
12 supply requirements for a one-month period. Delivery of supplies will begin on June
13 1, 2013. UES plans to issue an RFP for these supplies on March 5, 2013, with a filing
14 for approval of solicitation results planned for April 5, 2013 and approval anticipated
15 by April 12, 2013.

16

17 **IV. RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

18 **Q. Please explain how UES is complying with the Renewable Portfolio Standard**
19 **requirements.**

1 A. In accordance with the settlement agreement dated July 16, 2009, UES issues two
2 REC RFPs annually, each for approximately 50% of its REC obligations. In addition,
3 UES may make REC purchases outside of the RFP process when it finds it
4 advantageous to do so. For 2012 RPS compliance, UES completed a REC RFP on
5 January 17, 2012. UES has made some additional purchases outside of the REC RFP
6 issuance. Tab A includes an exhibit summarizing UES's REC purchases for 2012
7 compliance.

8

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

10 A. The current solicitation is for default service power supplies to be delivered beginning
11 November 1, 2012. Schedule TMB-4 lists the percentage of sales and the resulting
12 REC requirement for each class of RECs for RPS compliance along with UES's cost
13 estimates for the period beginning November 2012. UES's cost estimates are based
14 on current market prices as communicated by brokers of renewable products, recent
15 purchases of RECs, and alternative compliance payment rates for 2012.

16

17 **Q. Does UES's estimate of RPS costs incorporate the changes made by SB 218 and**
18 **reflect changes to the RPS requirements for 2013?**

1 A. Yes. SB 218 creates a Class I sub-class for thermal renewable energy. This
2 renewable class is effective January 1, 2013 and requires that 0.20% of Class I
3 renewables be met with thermal resources. In addition, effective January 1, 2013, the
4 RPS requirements change as follows: Class I increases from 3.00% to 4.00%; Class II
5 increases from 0.15% to 0.20%; and Class IV increases from 1.00% to 1.30%. The
6 Class III requirement remains at 6.50% for 2013. All of these changes have been
7 incorporated into UES's RPS cost estimates provided in Schedule TMB-4.

8

9 **V. RENEWABLE SOURCE OPTION PARTICIPATION**

10 **Q. Please briefly describe UES's RSO program.**

11 A. The RSO Program, which the company is marketing to customers as the Green
12 Neighbor Program, is an optional service that allows Domestic and Regular General
13 Service default service customers who are not receiving payment assistance to
14 financially support renewable generation. Through the program, customers may
15 choose to have 25 percent, 50 percent or 100 percent of their consumption matched
16 with purchases of Class I and Class II RECs. These REC purchase obligations are in
17 addition to UES's RPS obligations. Customers who choose to participate are billed an
18 additional charge – the Renewable Source Option Charge (“RSOC”), per Schedule
19 RSO of the Company's tariff, based on the level of participation chosen.

1 With each default service filing, UES provides an update on program activity, which is
2 provided in Schedule TMB-6. With each Non-G1 default service filing, UES reviews
3 its RSOC rates and proposes new RSOC rates as appropriate for each of the three
4 options available. Since the current filing includes Non-G1 supplies, changes to the
5 RSOC rates are proposed, along with estimated bill impacts, which are provided as
6 Schedule TMB-7.

7

8 **Q. Please provide a summary of RSO program to date.**

9 A. Schedule TMB-6 provides the number of customers participating in the program by
10 rate class and RSO option chosen, along with kilowatt-hour consumption and revenue
11 by program option, rate class and billing month. A projection of Class I and Class II
12 RECs that will be purchased as a result of the RSO program is also included in
13 Schedule TMB-6.

14

15 In addition, on September 11, 2012, UES filed with the Commission in docket DE 09-
16 224 its annual review of its RSO program. In that proceeding,¹ the parties had agreed
17 that the RSO should be continued in 2012 and a report provided when an additional
18 year of operation was completed. This understanding was memorialized in a letter

1 from the parties to the Commission on January 24, 2012. Accordingly, this annual
 2 review was filed with the Commission in compliance with that agreement. It provides
 3 additional details regarding program participation, marketing and promotional
 4 activities and costs for UES's RSO program.

5
 6 **Q. Please describe the proposed changes to the RSOC rates.**

7 A. UES is proposing changes to the RSOC rates for effect November 1, 2012. The
 8 proposed rates for the RSO 25% Plan, RSO 50% Plan, and RSO 100% Plan are
 9 provided in Schedule TMB-7 and represent an increase of approximately 11% over
 10 the rates currently in effect. The impact for a typical residential customer choosing the
 11 50% Option is shown below:

Impact of Proposed Rate Change for the RSOC (50% Plan)		
Typical Residential (Mean) Customer		
May 1, 2012 vs. November 1, 2012		
	Rate	Bill Impact
RSO 50% Option (May 1, 2012)	\$0.02429	\$15.74
RSO 50% Option (November 1, 2012)	\$0.02705	\$17.53
Dollar Impact	\$0.00276	\$1.79
Percentage Impact	11.4%	11.4%

12

¹ DE 09-224 refers specifically to UES's Renewable Source Option.

1 Similar impacts result for the RSO 25% Plan and RSO 100% Plan.

2

3 **Q. Please explain the reason for the increase in the Proposed RSOC rates.**

4 A. The increase in the Proposed RSOC rates is driven by an increase in projected REC
5 costs for Class I and Class II RECs. The Class I projected price is increasing from
6 \$46.00 to \$52.96 per REC and the Class II projected price is decreasing from \$100.00
7 to \$76.93 per REC. As the calculated rate is based on Class I at 95.24% and Class II
8 at 4.76%, the overall impact is an increase of just over 11%.

9

10 **VI. CONCLUSION**

11 **Q. Do you have any final matters to address?**

12 A. Yes. In its Order, the Commission directed UES to provide a detailed description of
13 the outreach it conducted with its G1 customers regarding the change in default
14 service pricing for that customer group.

15

16 **Q. Has UES completed this outreach to its G1 customers?**

17 A. Yes. In August, UES sent a letter to all of its G1 customers explaining the changes
18 that were being made to the pricing of default service for the large customer class

1 effective November 1, 2012. A copy of that letter is provided in Schedule TMB-8.
2 Subsequent to that notification, a senior business development executive contacted, by
3 phone, each of the G1 customers that currently remained on default service to provide
4 follow up and address any customer questions.

5

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

7 **A. Yes, it does.**