IR 14-338

EVERSOURCE ENERGY

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Suzanne Amidon, Staff Attorney
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

RE: Docket No. IR 14-338
Review of Default Service Procurement Processes for Electric Distribution Utilities
Description and Proposal of Eversource Energy

Dear Attorney Amidon:

Pursuant to a directive of the Commission, on January 14, 2015, the Commission Staff convened a meeting of various stakeholders, including Public Service Company of New Hampshire ("PSNH") d/b/a Eversource Energy ("Eversource"), to discuss current practices relating to the procurement and delivery of default electric service and potential means of improving such procurement. At that meeting, the Staff requested that the stakeholders prepare and file certain materials by February 11, 2015.

For Eversource, the requested materials were to include a description of the manner in which it presently procures and provides default service. In addition, Eversource was to assume the existence of a hypothetical future situation in which it either no longer owned generating assets, or it otherwise amended its procurement of default service to use a competitive solicitation process. Based upon that hypothetical situation, Eversource was to provide its discussion of certain issues relating to competitive solicitations, including:

- Flexibility
- Contract length
- Collective bidding or block bundling
- Use of contract laddering
- Differing treatment of residential, small commercial, and large commercial customers
- Timing constraints
- Costs and benefits of state-based procurement management
- Risk premium mitigation

Consistent with the request to file the relevant materials, Eversource herein provides a description of its present method for procuring its default service requirements and its discussion of matters relating to competitive solicitations, based upon the extensive experience of its affiliated companies operating in Connecticut and Massachusetts.

Eversource's Current Process

Pursuant to RSA 369-B:3, IV(b)(1)(a), Eversource provides default service from its existing generating fleet supplemented, as necessary, by purchases of supplemental energy. Specifically, that statute provides:

> From competition day until the completion of the sale of PSNH's ownership interests in fossil and hydro generation assets located in New Hampshire, PSNH shall supply all, except as modified pursuant to RSA 374-F:3, V(f), transition service and default service offered in its retail electric service territory from its generation assets and, if necessary, through supplemental power purchases in a manner approved by the commission. The price of such default service shall be PSNH's actual, prudent, and reasonable costs of providing such power, as approved by the commission

Eversource provides its total default service requirement on a "managed portfolio" basis, that is Eversource meets its requirements through its owned generation, PURPA mandated purchases under short term rates and long term rate orders, long-term IPP contracts, and through supplemental purchases from the market. Determining supplemental resource needs to meet default energy service requirements is accomplished by comparing the expected economic operation of resources owned or contracted to Eversource with forecasted energy service needs. These supplemental resource needs are acquired through bilateral and/or the ISO-New England administered markets.

Hypothetical Future of Competitive Solicitation

Presently, because Eversource continues to own and operate its generating fleet in compliance with state law, it does not procure its default service requirements on a competitive basis. Assuming, however, for purposes of this submission that Eversource ceased owning generation, or otherwise amended its provision of default service and engaged in a competitive solicitation process, there are certain guiding principles or objectives that Eversource believes should be incorporated into such a process. Such principles are based upon the experience of Eversource's corporate affiliates operating in other states where such solicitations are conducted in the normal course of business.

Initially, Eversource notes that it, like all Eversource affiliates, differentiates between customer classes in the procurement of default service. Each affiliate, however, does so in somewhat different ways. Eversource believes that differentiating between, for example, residential and small general service customers on the one hand, and large commercial and industrial customers on the other, is appropriate. These classes of customers have differing load and migration profiles and, as such, present different levels of risk or attractiveness to potential suppliers. Accordingly, Eversource believes that some level of differentiation should be part of a default service procurement process.

Differentiation of customer classes would provide more flexibility in scaling the size and content of solicitations to appeal to suppliers. For Eversource, the size of the load it represents in New Hampshire would remain large enough that it would continue to attract bidders even if differentiated, while at the same time not presenting an amount that is too large. Additionally, to Eversource's knowledge potential bidders also have concerns about solicitations that could be subject to potentially differing regulatory treatment, such as could occur if solicitations in multiple states, or for multiple utilities, are combined. Given these facts, Eversource would not support a bidding process that would combine its load with others, be they affiliates or other default service providers in New Hampshire, for bidding.

As for the bidding and contracting, based upon the experience of Eversource's affiliates a standard contract term of between 6 months and 1 year appears most appropriate for solicitations relating to smaller customers. Such a term provides some stability for suppliers, but does not require them to be engaged for an excessive amount of time which could, potentially, create migration or other risks that would need to be factored into a bid price. For larger customer classes, terms shorter than 6 months are more appropriate, and, in general, Eversource understands that 3 month terms are generally accepted as an appropriate contract length. As for the dollar-cost-averaging effect of "laddering," in the experience of Eversource's affiliates multiple procurements during the approximately 2 to 8 months prior to the start of a 6 to 12 month delivery period permits sufficient time and flexibility to ensure that a fair and reasonably priced supply has been obtained. For larger customer classes with shorter delivery and rate periods laddering is unnecessary, and a single procurement approximately 2 months prior to the start of the delivery period has worked well because it provides more frequent and current market price signals, and these customers typically value rate stability less.

Notably, the terms of a supply contract as described does not mean that Eversource recommends that the contract terms and the pricing or rate periods must match precisely. In fact, in most cases suppliers are paid monthly (and perhaps even peak and off-peak) rates, which serves to reduce migration and load profile risks to suppliers, while customers pay average monthly or "term" rates. For residential and small commercial customers, rate periods of 6 months or 1 year are typical, more appropriate, and provide rate stability. Recognizing that there is no single solution for all situations, Eversource believes that such pricing strategies could be implemented appropriately to achieve desired outcomes. Eversource cautions that there must be appropriate and timely methods for reconciling over and under collections.

Further, Eversource believes that the bidding and awarding of contracts to suppliers must occur on a same-day basis to mitigate risk premiums and provide the assurance and certainty that suppliers expect. To that end, Eversource would support a process managed by the experienced personnel within the utility who would provide as much information as desired to regulators throughout the process to ensure that there is both transparency and efficiency.

Finally, and generally, on the issues of flexibility and risk mitigation, Eversource cautions that those matters are, to some degree, incompatible with each other. As such, it can be difficult to ensure that the desired flexibility is afforded to the utility, the supplier and the regulator, while at the same time ensuring that the potential risks that attend such flexibility are adequately controlled. There is likely no "perfect" solution, and processes will likely evolve along with markets. Eversource believes, however, that a method that accounts for the principles described above can be expected to provide benefits to the utility, customers, suppliers and regulators and will enable default service requirements to be tailored appropriately to the needs of all.

If you have any questions, please do not hesitate to contact me. Thank you for your assistance with this matter.

Very truly yours,

Matthew J. Fossum
Senior Counsel

Cc: Service List