THE STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Investigation into Alternatives to Default Service Procurement	))))	**Docket No. IR 14-338**

COMMENTS OF CONSTELLATION ENERGY

Constellation Energy ("Constellation") hereby provides the following comments in response to the Technical Session held by the New Hampshire Public Utilities Commission ("Commission") on January 14, 2015.

I. COMMENTS

A. Flexibility

At the January 14 Technical Session the Office of Consumer Advocate suggested that affording distribution companies added flexibility in conducting procurements could help produce lower default service rates. While Constellation agrees below that flexibility as to timing would be beneficial it cautions against moving away from the procurement of full requirements, load following service in favor of directing distribution companies to engage in active portfolio management. Over the years Constellation has offered extensive testimony before this Commission on the benefits of full requirements service and the risks associated with utility managed portfolios, including the possibility of stranded costs, higher costs to serve and greater exposure to risk be default customers. *See* Testimony of Daniel W. Allegretti on behalf of Constellation and RESA in DE10-160 (9/15/2010).[1]

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1 http://www.puc.state.nh.us/Regulatory/CASEFILE/2010/10-160/TESTIMONY/10-160%202010-09-16%20CONSTELLATION%20AND%20RESA%20TESTIMONY%20D%20ALLEGRETTI.PDF

B. Contract Length

i. Differential treatment of residential, small C&I and large C&I

This issue of contract length represents a set of trade offs from several perspectives.

From a default customer perspective, when wholesale prices are rising longer term contracts afford more price protection. Short term volatile events causing market prices to rise can be smoothed out with a longer-term laddering approach. Conversely, when prices are falling customers who stay on default service (often mostly residential customers) will pay higher prices than the prevailing market, but those same customers can avail themselves the opportunity to receive these lower prices by moving to an alternative supplier. Shorter term contracts provide less protection when wholesale prices rise but allow default service customers to enjoy the benefits of lower market prices sooner.

From a default service bidder point of view longer term contracts represent a more favorable opportunity because they represent a commitment by the commission to the process. When the state commits to longer term contracts, the wholesale supplier understands that this is a stable and robust process that the commission will not unwind in the near term. Wholesale providers need to manage the risk of power price change over the longer term, but are better equipped than residential customers to do this. Shorter term procurements force suppliers to weigh the risk and the transaction cost against the opportunity and may cause certain suppliers to be less inclined to participate (as may have been the case with some recent procurements by Liberty Utilities)

From a retail provider perspective there are also trade-offs. Short term contracts are attractive because retailers can sell rate certainty against an unpredictable default service. This works well in the commercial customer segment. They also prevent a situation where wholesale prices rise and retailers are effectively shut out of opportunity to offer savings for a prolonged period of time. If such a freeze out is long enough some suppliers may permanently exit the market, leaving customers harmed in the long term. On the other hand, many residential customers are reluctant to leave default service for a new supplier unless they are able to make a meaningful rate comparison and lock in knowable savings. Hence, very short term default rates can also be an impediment to retail competition for residential customers.

The need to balance these trade-offs argues against the extremes and for treating different customer classes differently.

Because the very largest customers (above 500 kW demand) take full and consistent advantage of the retail market the need to protect them is minimal and the risks of managing a small and volatile pool of such customers is formidable for the wholesale supplier. Constellation suggests that for such customers the Commission consider a spot price pass-through.

For residential and smaller commercial (below 500 kW) customers a longer term contract is appropriate. For all other customers something longer is appropriate. A multi-year contract will afford greater default rate stability but as noted above going too far forward also presents downsides. Constellation recommends a two year term as an effective balance between competing considerations. It is not so long term that it creates migration risks that are not manageable by the bidder nor does it risk creating a persistent disconnect between wholesale costs and default rates that it will threaten the retail market.

C. Collective Bidding/Block Bundling

As noted at the January 14 Technical Session, wholesale load auctions conducted for Unitil and Liberty potentially suffer from a lack of bidder interest due to the small size of the procurements. When an auction is conducted for more MWh of load, as is the case with a larger distribution company, there will be more bidder interest and more competitive pricing due not only to the size of the opportunity but also to the commitment to the process. In the past Granite State Electric Company (now Liberty) was able to consolidate its New Hampshire load with procurement for its Massachusetts load and to overcome this problem. Consolidating procurement across unaffiliated companies may be difficult from a legal and logistical standpoint but could replicate the benefits that were lost when Liberty began stand-alone procurement. Constellation encourages the Commission to explore the possibility of consolidating procurements across companies with the distribution companies to understand what impediments and solutions may exist.

D. Use of Ladders

Laddering procurements can helps to ease default customer adjustment to rate changes and avoid "rate shock" when prices move sharply upward. Use of too frequent procurements, however, can reduce procurements size and chill bidder interest. Constellation recommends the use of laddering but with no more than two procurements per year to maintain adequate auction participation.

E. Timing Constraints

Constellation offers two timing issues for the Commission to consider. First, because forward prices in wholesale markets are constantly moving there is a risk for any bidder that between the time a bid is submitted and the time a contract is approved that the market will have moved and the cost of hedging will have increased. To deal with this risk the bidder will have an incentive to add margin (a premium) to the bid. By minimizing the time between submission of the bid and final approval the risk can be reduced to the benefit of both the bidder and the default customers. In many states the approval time is reduced by limiting the post-bid approval to a very quick review of whether the auction was conducted properly and whether there was adequate participation to produce a competitive result and by conducting the review within a very short time after bids are submitted. In Maine this is generally the same day and in Connecticut it is within 24 to 48 hours, with approval review noticed in advance of the auction. Review is often streamlined by having commission staff overseeing in the room with the distribution company and observing the process first-hand. Finally, given the sensitive nature of the information being reviewed the review is generally conducted in camera with the distribution company and the consumer counsel the only parties present.

A second timing issue is to avoid conflict with other regional auctions or in the run up to major announcements, such as gas storage levels or major ISO rule changes. These issues are best managed by having distribution companies informally consult with potential bidders and by affording them the discretion to postpone or re-schedule auctions as needed.

F. Cost/Benefits of State Based Procurement Management

In Constellation's experience there is no inherent advantage either way as between an auction run by a government authority (such as the Maine PUC) or by a distribution company with regulatory oversight so long as there is no conflict of interest. In the cases of Unitil and Liberty no such conflict is present. In the case of PSNH, a conflict could arise if the procurement of default service somehow threatens the recovery or return associated with the PSNH generation fleet or long term entitlement purchases. To the extent PSNH runs a competitive procurement for default service supply in the future the commission should carefully examine whether a conflict of interest exists and whether adequate mechanisms are in place to address it. Having a third party, such as a governmental entity or independent auction manager, oversee the solicitation may be the most effective mechanism for addressing such concerns. As an example the initial procurements of Standard Service supply for the Connecticut Light and Power Company were conducted by a third party (JP Morgan) under the supervision of the state Department of Public Utility Control to allow a CL&P affiliate (Select Energy) to participate in the auction. Since Select Energy is no longer a participant those auctions are now conducted by a state procurement manager working together with CL&P and the United Illuminating Company.

G. Risk Premium Mitigation

One mechanism to optimize auction participation and achieve efficient prices is to segment the tranches within an auction and allow bidders to step into smaller pieces within an auction. Offering a large amount of load within a single auction (2 year procurements, held twice a year) attracts participation, however, not all bidders are interested in serving the entire load offered. Segmentation into several tranches can allow for better price discovery and more diversity of suppliers.

II. Conclusion

Constellation appreciates the opportunity to comment. Please do not hesitate to contact me at (603) 224-9653 if you have any questions.

Sincerely,

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Dated: February 11, 2015