

**BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

Review of Default Service Procurement)	Docket No. IR 14-338
Processes for Electric Distribution Utilities)	
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COMMENTS OF ROBERT J. LEE OF CHARLES RIVER ASSOCIATES, INC.

I am a Vice President of CRA International d/b/a Charles River Associates, Inc. (“CRA”). I am pleased to provide the following comments in response to the Technical Session held by the New Hampshire Public Utilities Commission (“Commission”) on March 18, 2015 and Staff’s Initial Positions document issued via email on March 23, 2015.

I. COMMENTS

Background

CRA is an economics consulting firm that was founded in 1965 and is headquartered in Boston, Massachusetts. CRA has worked on behalf of a wide range of stakeholders in the design, management, and execution of sales and procurement processes. CRA clients have included regulated utilities, state utility commissions, other state and federal regulatory agencies, private corporations, and industry trade groups and cooperatives. CRA has directly managed or monitored sales and procurements of more than \$25 billion worth in the United States and abroad. We have extensive experience in managing default service procurement processes for utilities and public utility

commissions in the Midwest and Mid-Atlantic United States, and we currently manage the default service procurement processes for FirstEnergy's Ohio Utilities, FirstEnergy's Pennsylvania Utilities, Duke Energy Ohio, and Dayton Power & Light Company.

New Hampshire Objectives

A critical element of a successful default service procurement process is a set of clear objectives and requirements. These may reflect the interests of all stakeholders including ratepayers, the Electric Distribution Utilities ("EDU"), competitive retail suppliers, and those bidding to supply the EDU default service load.

The means to achieve the objectives likely will reflect tradeoffs given market uncertainties and practical constraints on desired timing. But without a clear understanding of the objectives, the desired role for the EDU in the marketplace, and the fundamental purpose of default service, New Hampshire will find itself revisiting market issues or changing rules in an effort to correct deficiencies in the default service procurement process.

Uniform Methodology for all EDUs

While adopting a uniform methodology for all EDUs in New Hampshire may be appealing from a simplicity perspective, the approach ignores the fact that there may be fundamental differences in the structure of each EDU, the number and composition of the customers in each franchise service territory, and the number of retail suppliers competing to serve such customers. These fundamental differences may have a material impact on the competition to serve the EDU's default service load, the prices yielded for such default service and the success of the default service process. In CRA's experience, adopting a consistent set of process criteria, principles and objectives, while also

affording each EDU flexibility on process implementation is the best approach for balancing the needs of all market participants.

Frequency of Procurements and Contract Laddering

The frequency of procurements, contract term and the blending of costs through the laddering of contracts will have a direct impact on the level, stability and volatility of rates for default service customers and will have implications for new market entry.

Long-term contracts will yield greater price stability than short-term contracts but at the potential cost of increased risk premiums included in the bids submitted by those competing to become default service suppliers. Less obviously, however, contract term also will impact the level of competition in the market. As the contract term lengthens, default service prices increasingly will trail current market conditions. In a rising market, the default service price may be lower than the price competitive retail suppliers can offer; in a falling market the default service price will be high relative to current market conditions increasing the customer migration risk for default service providers and increasing the opportunity for new entrants.

Laddering of contracts will reduce the level of market exposure experienced by default service customers because the effective default service price will be a blend of prices yielded from different procurements executed at different points in time.

Lowering rate volatility is generally viewed as beneficial but it will also have an impact on the ability of competitive retail suppliers to compete for customers in the marketplace.

Decisions related to these and other process parameters need to be informed by the overall objective for the default service program and, ultimately, the vision for the role of the EDU in the New Hampshire marketplace. If the purpose of the default service

program is to simply assure supply availability to all customers in the region, then one set of parameters may be optimal. If the objective for the default service program is to offer an additional competitive choice for all customers, then the EDU should retain flexibility in such parameters in order to offer a default service product that best meets the needs of ratepayers in their service territory.

Centralized, Statewide Procurements

Centralized statewide procurements may offer New Hampshire the benefit of attracting additional suppliers to the default service process. There is a cost associated with bidding to supply the needs of any EDU. Bidders need to spend time to learn and understand the risks associated with each market and with regard to becoming a default service supplier. Participants must dedicate time and effort in qualification and in formulating a bid. The fixed costs associated with bidding to provide default service may be a barrier for some suppliers if there is an insufficient number of MWh to justify the investment.

A centralized procurement will increase the MWh available in a given procurement. A centralized process to select default service providers should reduce qualification and participation costs. Lowering participation barriers can be expected to attract a greater number of potential default service providers to the process, thereby ensuring the lowest possible rates. Consolidating the procurements statewide may be particularly beneficial to ratepayers of New Hampshire's smaller EDUs and increase their ability to attract default service suppliers.

Statewide procurements may offer the additional benefit of reducing the overall administrative cost associated with the procurement process by reducing the redundant

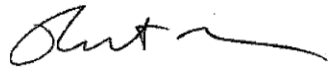
effort across EDUs in the state. In addition, a centralized process need not compromise the ability of each EDU to tailor certain product or process terms and conditions to the needs of ratepayers in their franchise territory.

II. CONCLUSION

CRA appreciates the opportunity to submit these comments. If there are any questions, please feel free to contact me at your convenience.

Respectfully Submitted,

Charles River Associates, Inc.



Robert J. Lee

Vice President