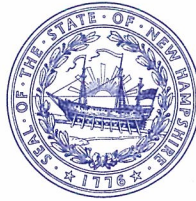


STATE OF NEW HAMPSHIRE

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April 15, 2015

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Debra Howland  
Executive Director  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, New Hampshire 03301-7319

RE: IR 14-338 Review of DS Procurement Processes for Electric Distribution Utilities  
OCA Comments

Dear Ms. Howland:

Enclosed please find an original and six copies of the Office of the Consumer Advocate's Comments in the above captioned matter.

If you have any questions about this filing, please contact our office. Thank you.

Respectfully,

Susan W. Chamberlin  
Consumer Advocate

cc: Service list via electronic mail

**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION**

IR 14-338

REVIEW OF DEFAULT SERVICE PROCUREMENT PROCESSES FOR ELECTRIC DISTRIBUTION UTILITIES

OFFICE OF THE CONSUMER ADVOCATE'S

RESPONSIVE COMMENTS FOLLOWING THE MARCH 18, 2015 TECHNICAL SESSION

**Procedural History**

By an Order of Notice on November 24, 2014, the Commission initiated Docket IR 14-338 in response to the rate shock experienced by customers during the winter of 2014-2015.

Commission Staff was directed to hold initial discussions on January 14, 2015, with written submissions due on February 11, 2015. A technical session was scheduled for February 24<sup>th</sup>, which was later canceled and parties were allowed the opportunity to submit reply comments in writing by March 5<sup>th</sup>, 2015. A technical session was later held on March 18<sup>th</sup>, 2015, where it was agreed that stakeholders will have time until April 15, 2015 to provide responsive comments. This deadline was confirmed by Staff on March 23<sup>rd</sup>, 2015. The Staff also confirmed that the next meeting in this proceeding will be held on April 22<sup>nd</sup>, 2015. The Staff additionally communicated its view on guiding principles for the discussions in this proceeding.

The OCA appreciates this opportunity to provide the responsive comments that follow. The OCA looks forward to the next meeting, where we will be glad to receive comments and respond to questions that stakeholders may have on the OCA's comments.

## **Responsive Comments**

The OCA had urged the Commission to investigate the default Energy Service (ES) procurement processes precisely because of significant concerns about unusual rate spikes ES residential customers had experienced over the latest winter and may experience in the future. Residential customers, who remain with default service, value rate stability. Any improvement in the ES procurement process and implementation of measures that can mitigate excessive rate volatility in residential ES rates is of crucial importance to ES residential customers. The OCA appreciates the comments from other stakeholders highlighting the tension between efforts to reduce volatility *and* the resulting higher risk-premiums that suppliers include in their bid offers. Even with greater risk-premiums reflected in prices, appropriate changes in the procurement processes are necessary to avoid the extreme rate spikes which are untenable for residential customers.

## **Summary of Recommendation**

The OCA proposes a laddered procurement approach and a rate-setting mechanism for residential ES customers. A discussion of the issues, i.e. contract length, laddering, collective bidding/block bundling, flexibility and timing considerations, serves as the backdrop for the OCA's proposal on laddered procurement. The OCA concludes with a proposed rate-setting mechanism. The OCA is open to considerations of other approaches to procurement, and would greatly appreciate input from other stakeholders going forward.

## **OCA Proposal**

### **Contract Length**

The stakeholders have had the opportunity to submit written comments on a list of issues that the Commission Staff had circulated on February 11, 2015. Contract length is one of the highlighted issues. As discussed later, the OCA proposes a laddered procurement process for residential ES, wherein a utility purchases 50 percent of load requirements for *twelve months* in semi-annual Requests for Proposals (RFPs). This process ensures that the entire supply requirement for ES residential customers is always procured through competitive means for a forthcoming service period of six months. The laddered procurement process informs the OCA's discussion on contract length.

While it would be incumbent upon utilities to purchase their entire load from suppliers, the OCA is open to the consideration of a contract length clause, if that is helpful in ensuring sufficient liquidity in the market when procuring supplies for residential customers. The proposed approach is not averse to suppliers opting for contract lengths that are for six months or even for three-months. The OCA does not take a final position at this time on the issue of contract length, as parties more intimately involved in auctions are perhaps more able to ascertain what is an appropriate contract length, if any. However, under the OCA's proposal the contract length cannot be greater than a year. The OCA contends that such an upper end for risk-premium for residential customers is reasonable.

## Laddering

Laddering was another issue highlighted by Commission Staff. The OCA proposes a laddered procurement process for residential ES customers, wherein a utility purchases 50 percent of load requirement for *twelve months* in semi-annual RFPs. This ensures that the entire supply requirement for ES residential class is always procured through competitive means for a forthcoming service period of six months. The OCA is open to discussing how the utility should incorporate laddering into its procurement process for residential consumers, but indicates its preference for the approach discussed here.

A concrete example is helpful in describing the proposed procurement process. Let us assume that a utility is procuring supplies for the year 2018. The OCA proposes that semiannual RFPs will continue for residential DS customers. In each auction, the utility will be purchasing *fifty percent* (not 100 percent) of the load for the forthcoming annual commitment period. While the RFP conducted for January-December 2018 would procure 50 percent of the load for the entire year of 2018, the RFP conducted for the requirements for July 2017 to June 2018 would be purchasing 50 percent of the load requirement for the period January 2018 to June 2018. Therefore, the RFP conducted for the period January-December 2018 would ensure that 100 percent of the load requirement for the period January to June 2018 is purchased before January 2018. The forthcoming RFP (that would be conducted sometime just before July 2018) would then, in a similar vein, ensure that 100 percent of the load requirement is purchased for July 2018 to Dec. 2018 (*and* 50 percent of the load requirement for January to June 2019).<sup>1</sup>

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<sup>1</sup> As we transition from the current approach to the proposed approach for procurement, there would be a need to adjust the RFPs during the transition. So as an example, if the proposed method was approved well before say Liberty Utilities conducts its next RFP, two tranches, i.e. 50 percent of the required load for November 1, 2015 to April 30, 2016 and 50 percent for November 1, 2015 to October 31, 2016 respectively would have to be procured.

Importantly, as is discussed later, the rate-setting mechanism would work in tandem with the laddering approach proposed here. Both the laddering approach and the rate-setting mechanisms are crucial in mitigating the volatility in ES rates for residential customers.

### **Collective Bidding/Block Bundling**

Collective Bidding/Block Bundling was another topic highlighted by the Commission staff for consideration. The OCA urges the Commission to explore consolidated procurement for energy for Unitil and Liberty Utilities at a minimum as these two utilities serve significantly smaller ES supply loads than the biggest utility in NH, Eversource Energy. These companies may differ in ways that may require accommodation of different treatments. However, a consolidated procurement for these companies may be achievable with those accommodations. Consolidated procurement can encourage greater participation by suppliers and therefore may reduce costs as greater volume is targeted by it. This may be beneficial to all electric customers in New Hampshire.

While on the issue of blocks, the OCA also contends that bid offers with separate blocks by suppliers should be permitted even for residential customers. Competitive solicitations are ultimately aimed at procuring supplies at the lowest cost possible. Permitting bid offers with separate blocks could prove useful in meeting that objective. For example, if a supplier wants to bid supply for two separate blocks of six months, rather than one twelve month block, they should be permitted to exercise that option. It is possible that blocks when purchased separately from different suppliers, will result in lower costs to ratepayers.

## Flexibility

Granting utilities the authority to exercise some flexibility in ES procurement processes may help mitigate unusually high volatility in prices for residential customers that result due to unusual market conditions. Rate-stability is important for residential customers who continue to make use of default ES service. If procurement processes accommodate flexibility which mitigates spikes in residential electric rates, it should be encouraged. While we agree with stakeholders that competitive solicitation of full requirements should not be abandoned, limited flexibility in ladders helps mitigate unusual volatility in ES rates. For example, if the procurement results in an ES rate that exceeds a ceiling rate<sup>2</sup>, adjustment in the blocks purchased through a laddered approach could help eliminate or mitigate unusual price spikes.

As discussed in the OCA's proposed procurement process, assume that 50% of load requirement is purchased through a semi-annual RFP for twelve months, i.e. the annual commitment-period. If at the time of the auction, unusual market conditions result in suppliers bidding offers that are unusually high, the utility should be permitted to procure a smaller percentage of load than 50%, for example 30 % of the full requirement through a "modified auction".<sup>3</sup> The utility would then be required to procure, in a subsequent auction before the annual commitment-period initiates, the remaining 20 percent of the load requirement for the commitment-period.<sup>4</sup> Given that the

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<sup>2</sup> Some thought and vetting is needed in determining what the ceiling rate should be. The OCA is open to other considerations, but the ceiling rate can be couched in terms of per unit price, say \$0.10 per unit, appropriately adjusted for inflation going forward using an acceptable price index.

<sup>3</sup> The choice of 30 percent is simply to demonstrate the concept here. The OCA is open to suggestions on how this flexibility can be reasonably accommodated.

<sup>4</sup> It is possible that the unusual market conditions may still persist even with the exigent second round of RFP, but the flexibility discussed here at least provides the opportunity to ratepayers to benefit from a more settled market environment through its desired effect (from the ratepayers perspective) on suppliers' offers.

laddering approach in itself is expected to dampen the volatility in rates potentially significantly, it is unlikely that this flexibility clause will be triggered too often. However, it is a “safety-valve” intended to prevent unreasonable spikes in ES rates for residential customers.

### **Timing Constraints/Considerations**

We agree with other stakeholders that a more timely notification of a contract award is important to ensure that risk-premiums associated with the delay in awarding a contract are minimal. Unless the “safety-valve” discussed above is triggered, the contract award should be notified by the next day, if not the same day.<sup>5</sup> If the “safety-valve” is triggered, the auction would need to be rerun with a modified purchase amount, and that should be undertaken as soon as possible; perhaps, at most, in a week’s time. The award notification however should be timely enough even for the modified auction to ensure that risk-premiums associated with notification delay is minimal.

As for other timing considerations, the OCA understands that the current RFP process will need some modification to accommodate a laddered approach with the proposed flexibility. The OCA proposes the RFP timeline for a utility’s supply procurement include deadlines for both a modified auction and the follow up auction for meeting 100% of ES load supply.<sup>6</sup>

For example, using the energy procurement timeline from Docket DE 15-010 for ES service for November 1 to April 30, the utility could have a placeholder for a modified auction (when the

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<sup>5</sup> Appropriate changes to the existing procurement process will be required to put in place such a process. This will most likely require, as suggested by some stakeholders, the involvement of Commission Staff real time during the auction.

<sup>6</sup> The terms Modified Auction and Reconfiguration Auction are being used purely as described in the section on Flexibility.



“safety valve” is triggered), and a placeholder for the follow up auction. With a more timely notification of a contract award, the utility could accommodate the modified and follow up auctions and yet ensure that a Commission order is in place by August 31. The OCA is interested in exploring whether a timeline for a follow up auction can reasonably accommodate a Commission order deadline of roughly three weeks before the service begins (end of first week of October, using the example from Docket DE 15-010) and whether it can be implemented in a cost-effective manner.

### **Rate-Setting Mechanism**

The main issue raised in this investigation is how should ES rates be set for residential customers to ensure that unreasonable price spikes do not occur going forward? While the laddering approach discussed above is important, the rate-setting mechanism explained below would contribute significantly in mitigating spikes. The OCA’s position is that contract-terms and rate-periods do not have to match. Residential customers that remain with ES, we expect, will continue to pay average or “term” rates. The proposed laddered approach, following the completion of an RFP, results in procurement that meets 100 percent of the requirements for the most immediate service period of six months and 50 percent of the load for the next service period respectively. The OCA recommends that for any immediate service period, the ES rate should be based on averaging procurements from 100 percent of the requirements for that immediate service period and 50 percent of purchased load for the next service period.

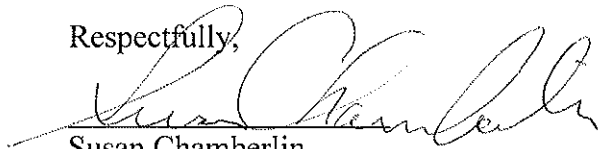
Again, let us consider the example of year 2018 that was discussed previously. Assume that a utility is procuring supplies for the year 2018 using the proposed procurement process. The

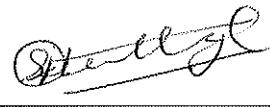
OCA's recommendation is that the residential ES rate for all six months for the period January 1, 2018 to June 30, 2018 should be based on the average of the procurement costs of 100 percent of the load requirement for Jan 1, 2018 to June 30, 2018 and 50 percent of the load requirement for July 1, 2018 to Dec. 31, 2018. Going forward, when the next RFP is completed, the ES residential rate would be set for the service period July 1, 2018 to December 31, 2018, based on the average rate associated with 100 percent load requirement for July 1, 2018 to December 31, 2018 and purchased 50 percent load requirement of load requirement for January 1, 2019 to June 30, 2019.

This process is expected to mitigate excessive volatility that would otherwise result under the existing process. It should also be noted that in implementing the OCA's proposed procurement process and rate-setting for the ES residential class, a reconciliation of over and under collections in a timely manner is required.

The OCA thanks the Commission for the opportunity to present these comments and expresses our appreciation for the Commission Staff's efforts in guiding the investigation into default Energy Service procurement processes for electric distribution companies. The OCA looks forward to future discussions in this proceeding, including in the forthcoming meeting on April 22<sup>nd</sup>, 2015.

Respectfully,

  
Susan Chamberlin  
Consumer Advocate

  
Dr. Pradip Chattopadhyay  
Assistant Consumer Advocate  
Rate and Market Policy Director