IR 14-338

EVERSOURCE ENERGY

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Debra Howland
Executive Director
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
Comments of Eversource Energy

Dear Director Howland:

On February 11, 2015 Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource"), along with others, submitted comments in the above-referenced docket containing descriptions of the current manner in which default electric service is provided, and suggestions and proposals on potential amendments or improvements to those processes. At the time of those comments, 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. Since that time, Eversource has entered into an agreement in principle to cease owning and operating its generating assets and to transition to providing default service based upon competitive procurements. In that the agreement is not final and has not been approved by the Commission, Eversource will continue to base its comments only upon the assumption that it will either no longer own generating assets, or that it will otherwise amend its procurement of default service to use a competitive solicitation process.

Following the provision of initial comments, and a subsequent technical session, the Commission Staff provided to the parties a list of its observations and initial considerations based upon the comments received. Staff has asked that comments responding to its list, or discussing other relevant issues, be submitted by April 15, 2015. Herein, Eversource provides its comments as requested.

As noted in Eversource's initial comments, Eversource concurs with the conclusion that default service procurement should be segmented between residential and small general service customers on the one hand, and large commercial and industrial customers on the other. These classes of customers have differing load and migration profiles and, as such, present different levels of risk or attractiveness to potential suppliers and the differences merit somewhat different wholesale and retail rate treatment.

With respect to the smaller customer classes, Eversource concurs with the comments of others that default service should be procured from a wholesale supplier on a full requirements, load following basis for the entire default service load for the duration of a particular rate term. This method is consistent with those used in other states and with the methods presently used in New Hampshire and, in Eversource's opinion, appropriately accounts for the risks of providing such service.

As for the retail rates paid by smaller customers, as noted in Eversource's initial comments, Eversource favors retail rates that are calculated on an average basis for a 6 month period, with any reconciliation of over or under collections spread over delivery service load on a lagging basis through a bill line item such as the SCRC Part 2. These customers tend to place value on a measure of rate stability and continuity and, in Eversource's opinion, the 6 month rate period provides the value sought by these customers, while avoiding the potential risks of having rate terms that are too long. Eversource recommends that the 6 month rate periods be from January to June and July to December to smooth seasonal volatility and that the reconciliations occur on an annual basis in delivery rates. In Eversource's opinion, reconciliation spread over delivery service load associated with small customers is appropriate because attempting to reconcile the amounts through future default service load would both distort the default service rate and result in a mismatch between the customers in any particular rate period. Moreover, and as a policy matter, reconciliation in this manner recognizes that the costs and benefits of the market (including the ability to avail one's self of default service) are available to all customers.

Further, Eversource recommends that the rate periods for all utilities in New Hampshire be aligned so that there is consistency in rate setting and amending. For clarity, Eversource is not recommending that all New Hampshire utilities procure energy on the wholesale level at the same time, only that the retail rate terms align. Each utility could solicit the wholesale market at different times to procure the amounts required to serve its load. Eversource continues to hold the position that it would not support a wholesale bidding and contracting process that would combine its load with others, be they affiliates or other default service providers in New Hampshire, for bidding.

With respect to the issue of "laddering," through diversification and dollar-cost averaging it mitigates the risk of the sole procurement for a delivery period being made at an inopportune time, on a "high-priced" day. Market volatility due to natural gas delivery constraints leads to volatility in energy prices, which are the primary price driver of customer rates. For example, as seen in the table below, a peak purchase made during the three quarters preceding a Jan-Jun, 2015 delivery period ranged from a low price of $64.8/MWh to a high price of $109.5/MWh, a difference of over $44/MWh. Prices for the forward period varied by more than $27/MWh in December, 2014.

For All Trading Days In These Months		Prices for Jan-Jun, 2015 Delivery - $/MWh		
Year	Month	Average	Maximum	Minimum
2014	Apr	92.1	95.2	90.8
	May	96.5	101.4	93.0
	Jun	96.6	100.7	93.3
	Jul	87.8	93.5	83.4
	Aug	92.0	96.8	86.0
	Sep	102.4	107.5	95.0
	Oct	97.6	105.2	93.2
	Nov	102.3	109.5	97.0
	Dec	82.2	92.5	64.8
Total / Ave.		94.2	109.5	64.8

Please see also the chart attached as Eversource Exhibit "Mass Hub Forward Prices of Peak Power - $/MWh" pictorially showing daily price movements associated with the above table.

As Eversource has stated, multiple procurements during the approximately two to eight months prior to the start of a delivery period permit sufficient time and flexibility to ensure that a fair and reasonably priced supply is obtained. Regarding multiple procurements, while Eversource favors a procurement process that allows for multiple opportunities to solicit and secure the required supply, Eversource does not support an open-ended process that would require continuous solicitations be conducted until the required amount is obtained. To do so may create a situation where the utility would be required to accept an unreasonable offer. Instead, Eversource would support a process that requires a defined number of solicitations, or one tied to forward market prices, or that has some other, defined end point. Beyond that end point, the utility should not be required to continue soliciting bids if there are no qualified, reasonable bids to be found. If such a situation occurs, the utility could, if needed, serve any uncovered load through spot market transactions.

Eversource reiterates that the above concerns apply to default energy supply procured for smaller customers in the residential and small general service categories. For larger customer classes, and in recognition of their migration and load patterns and the risks attending those patterns, Eversource would support a more dynamic approach. Based upon its experience in other states, Eversource would recommend that for large customers taking default service, that load should be served by the utility as the load serving entity ("LSE"). Based upon Eversource's understanding that, in general, there is a concurrence of opinions that large customers should pay costs that are as close to market as possible, it appears that the best way to do so is through spot market purchases necessary to serve the load. If the load is to be managed through spot market purchases, regardless of who is actually managing the load, to Eversource it appears reasonable for the utility to act as the LSE and manage the load so as to avoid the cost and burden of issuing an RFP on which suppliers may or may not bid. Having the utility act as the LSE is the most efficient and reliable means of ensuring that there is a supplier for the large default service customer load. Eversource would also propose that the energy be primarily purchased in the day-ahead energy market, rather than the real-time energy market.

As for the rates to be paid by large customers, Eversource proposes that the rates be set monthly, and that they be based upon available forward market prices close in time to the month of delivery. For example, the rate for April would be set using the available forward prices as of a date near the end of March. In Eversource's assessment, approximately 3 to 5 days ahead would be sufficient. Setting the rates close in time to the delivery month and basing them on forward market data is considered by Eversource to be a reasonable approach for minimizing over or under recoveries.

The monthly rate, once set, would apply to service rendered during the month. As an example, if the rate is set for the first of April, and a customer has a meter reading on the tenth, the customer would be billed the March rate for the approximately 20 days of service in March, and the April rate for the 10 days in April. To the extent that reconciliations are needed, consistent with the reconciliations for smaller customers, and for similar reasons, Eversource would propose that the reconciliation occur annually and that it be spread over delivery service load associated with large customers. The ultimate timing of any reconciliations, for each utility or for all utilities, could be determined by the Commission. By reconciling in this manner customers' rates are not distorted by prior period adjustments and will provide a more accurate price signal.

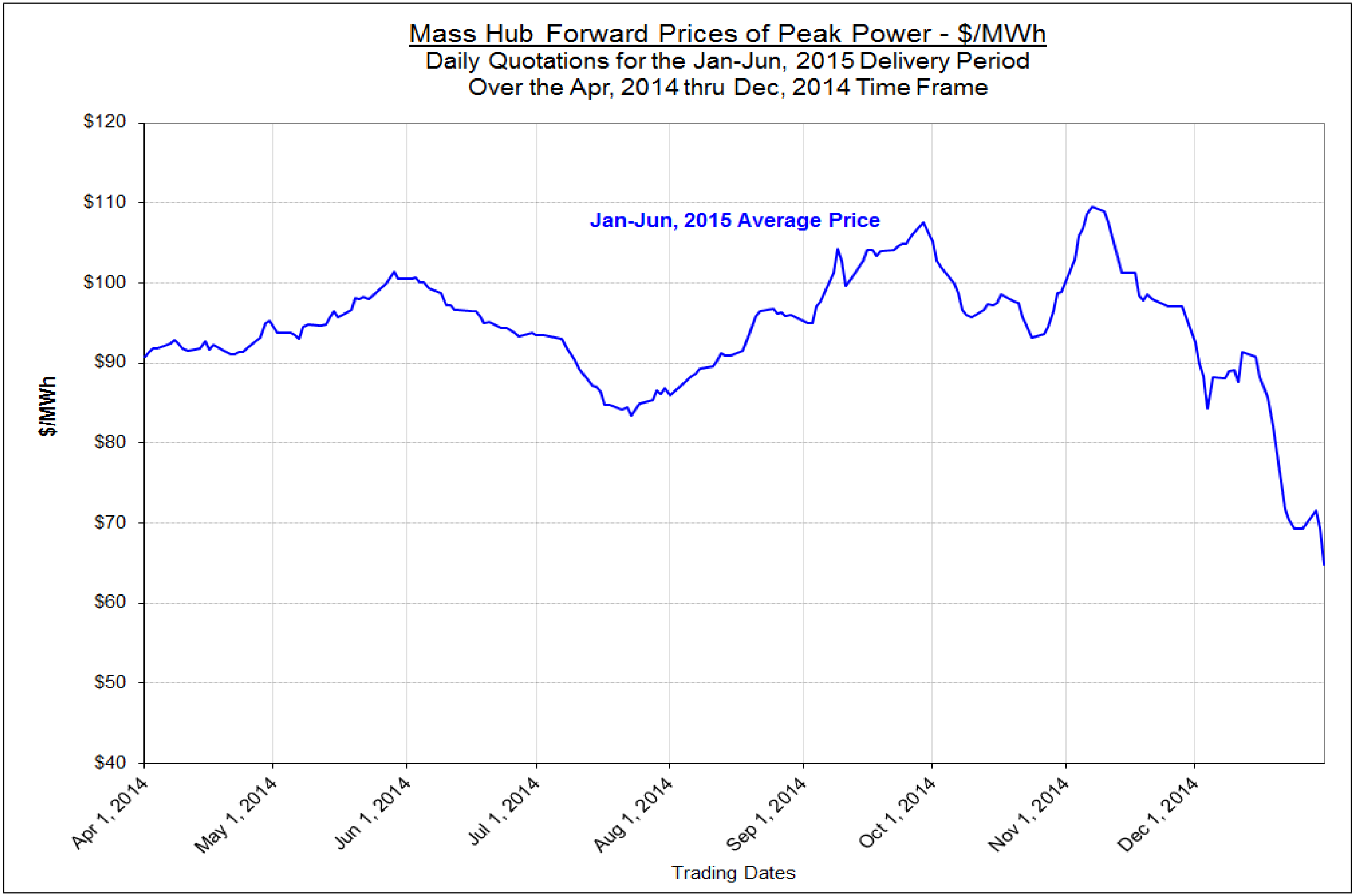
Finally, and in brief response to some of the items on the list provided by Staff, Eversource concurs in the Staff's conclusions that: QF production should not be a factor in the default service calculation; there should not be differentiation in contracting for conventional and renewable generation; and there is no discernable benefit in moving to a state-run procurement model.

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

Attachment
Cc: Service List


Mass Hub Forward Prices of Peak Power - $/MWh
Daily Quotations for the Jan-Jun, 2015 Delivery Period
Over the Apr, 2014 thru Dec, 2014 Time Frame
Jan-Jun, 2015 Average Price
$/MWh
$120
$110
$100
$90
$80
$70
$60
$50
$40
Apr 1, 2014
May 1, 2014
Jun 1, 2014
Jul 1, 2014
Aug 1, 2014
Sep 1, 2014
Oct 1, 2014
Nov 1, 2014
Dec 1, 2014
Trading Dates