STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: May 3, 2015
AT (OFFICE): NHPUC

FROM: Leszek Stachow, Staff LS

SUBJECT: IR 14-338, Electrical Distribution Utilities, Investigation of Alternatives to provide Default Energy Service

TO: Chairman Martin P. Honigberg
Commissioner Robert R. Scott
Debra A. Howland, Executive Director and Secretary

Background

On November 4, 2014, the Commission issued Order No. 25,732 directing that a docket be opened to review various approaches by which electric distribution utilities can procure default service power. The Commission directed Staff to conduct stakeholder discussions with electric distribution utilities, competitive energy suppliers, market participants and customer representatives on different approaches for the procurement of default service. Unitil Energy Systems, Inc. (UES), Liberty Utilities (Granite State Electric Corp.) (Liberty) and Public Service Company of New Hampshire d/b/a Eversource Energy (Eversource) are mandatory participants in these stakeholder discussions.

The Commission directed the Parties to consider the following:

- The relative advantages and disadvantages of the current methods of procuring default energy service by UES, Liberty and Eversource;
- Whether other means of providing default service are consistent with the restructuring principles of RSA374-F, including potential effects on New Hampshire's retail electricity market;
- Whether price stability should be an option offered by electric distribution utilities as part of default service; and
- Whether changes should be made to default service procurement methods to minimize cost shifting between long- and short-term customers of default service.

A technical session was held on January 14, 2015, followed by an agreement that written positions be due February 11, 2015, later changed to March 4, 2015. A second technical session was held on March 18, 2015 at which time Staff discussed its initial position on a number of issues related to default service procurement.

At the conclusion of the technical sessions, Staff and the parties agreed that stakeholders would have until April 15, 2015 to provide responsive comments and further agreed to hold a third technical session on April 22, 2015. On April 7, 2015, the Commission issued a secretarial letter scheduling a status conference for April 22, 2015, to be followed by further technical discussions, to hear how the parties plan to conclude this investigation in advance of efforts to procure power supply requirements for the 2015-2016 winter period.

During the technical session which followed the status conference, Staff and the parties agreed to the following remaining procedural schedule:

Staff to file its position:	May 6, 2015
Parties to file final positions:	May 18, 2015
Hearing:	May 27, 2015

The following stakeholders have been parties to the negotiations:

- Liberty
- Eversource
- Office of the Consumer Advocate
- Briar Hydro Associates and Granite State Hydro Associates
- Unitil
- Patricia Martin, Consumer
- Next Era Power Marketing, LLC
- Office of Energy Planning
- Charles River Associates, and
- Exelon Corporation

Introduction

Following the first technical session held on January 14, 2015, Commission Staff requested that the electric distribution companies provide a summary of their current default service procurement process, and that interested parties provide alternative proposals addressing the issues identified in the Order of Notice issued on November 24, 2014.

Issues addressed by the stakeholders included the following: the current procurement process, improvements to the current procurement process, improvements in access to retail choice by customers, alternative procurement processes, recommended changes to default service procurement procedures, collective bidding, use of laddering, differential treatment of residential and small business customers from large commercial and industrial customers, timing constraints, cost and benefit of state based centralized procurement systems, and risk mitigation strategies.

These issues, along with Staff's preliminary position on issues associated with default service procurement, were discussed during the March 18th technical session.

Staff and the parties agreed that stakeholders would provide responsive comments no later than April 15, 2015.

A third technical session followed the April 22, 2015 status conference. At the technical session, Staff summarized those areas where it understood that there was broad agreement between the stakeholders. Those areas identified by Staff were communicated to all the stakeholders via email on April 24, 2015, with a request that if any stakeholder needed to clarify that understanding it would do so. Discussion at the technical session also addressed concerns associated with some of the suggested alternative procurement methods.

Staff guiding principles

RSA 374-F:1 states that the "reason to restructure the New Hampshire electric utility industry is to reduce costs for all consumers of electricity by harnessing the power of competitive markets."

RSA 374-F:3 V goes on to state that "as competitive markets develop, the Commission may approve alternative means of providing transition or default services which are designed to minimize customer risk, not unduly harm the development of competitive markets, and mitigate against price volatility without creating new deferred costs if the Commission determines such means to be in the public interest."

For Staff, the challenge is how to secure market outcomes (or near market outcomes) in the provision of default service while also minimizing price volatility and consumer risk. On the continuum between free market and full price regulation, Staff assumed that at one end of the market-regulated continuum would be real-time pricing for all customer groups. Such a paradigm would have the merit of sending accurate and efficient market signals, thereby enabling consumers to optimize their energy purchases. On the other hand, the volatility of real-time prices could have an adverse impact on customers, especially on residential and small business customers, who value price stability.

In order to decrease the level of price volatility, Staff recognizes the need to move away from the free market end of the continuum for residential and small commercial customers. In the case of the large commercial and industrial (C&I) customers, the establishment of monthly variable pricing enables those customers to have access to the most competitive pricing, in return for greater price volatility.

For the residential and small commercial customer groups, the current procurement model where utilities bid every six months for 100% of load requirements would represent a further distancing from the competitive market paradigm, but would further attenuate price volatility and minimize risk. Such a transparent and simple process would serve to limit administrative costs as well as increasing the likelihood that load serving entities would carry more of the risk of price uncertainty.

However, Staff recognizes that, if the market shifts significantly after a given procurement takes place, default service prices will not align with the market, potentially resulting in migration either to or from the competitive market, and potentially discouraging wholesale suppliers from participating in future bidding rounds.

The objective of the investigation into alternatives for procuring default energy service has been to minimize consumer risk, promote competitive markets and limit price volatility, with consideration given to short-term remedial actions that could be implemented before the commencement of the upcoming winter period bidding cycle, as well as longer-term solutions. Staff recognizes that there are a number of proposed initiatives that could increase natural gas supplies to New England or provide for the greater access to hydro power from Canada. If those initiatives are successful, the present market volatility could be substantially reduced. Therefore, any revised policies for procuring default service would need to be revisited should those initiatives succeed.

Areas of agreement

Following three technical sessions, the stakeholders reached agreement on the following issues.

(1) Differential treatment for residential and small commercial than for large C&I customers.

(2) For large C & I customers, variable pricing would be based on uniform monthly adjustments for an entire supply obligation period. Some utilities, such as Liberty, would provide monthly variable pricing. Eversource suggested that the utility providing default service would have the opportunity to change the monthly power supply rate consistent with market conditions prior to the start of the month, and that actual monthly costs versus the projected monthly rate would be reconciled among all large C&I customer load.

(3) The timeframe between awarding the contract and Commission approval of the rate should be shortened. The shortening of the time frame applies to approval of the rate only, not to the effective date of the rate. A shorter timeframe between bid award and rate approval would reduce uncertainty for the supplier and potentially reduce some of the risk premium built into the bid.

(4) The Commission's website should provide a comprehensive list of competitive electric suppliers and their prices for residential and small commercial customers.

(5) Budget billing should be available to all residential customers; however, each utility is free to use its own budget billing methodology. The stakeholders recognize that while this helps customers spread costs out over a longer period of time, it does not address winter price volatility.

(6) Identify Commission processes that may create regulatory uncertainty and take appropriate steps to reduce that uncertainty and thereby minimize the risk premiums associated with that uncertainty. An example would be to include change in law provisions in default service contracts so that wholesale suppliers could recovery unanticipated market changes resulting from regulatory decisions.

Staff position on remaining issues

The following represents the Staff position with respect to the remaining issues identified during discussions.

(1) Uniform methodology

For the residential customer class, a uniform methodological approach to default service procurement is desirable to ensure maximum transparency, predictability, ease of response from load serving entities, and facilitate a shorter Commission review process.

(2) For the residential and small commercial customers, continued use of six-month contracts, with 100% of required load being bid on each occasion

A simple, predictable and transparent approach will provide all bidding parties with the best understanding of the process. Staff expects that the use of six-month contracts will ensure a measure of price stability during the six month period while at the same time ensuring that price signals from the market are not lost on consumers. Furthermore, bidding 100% of load in each six month cycle will increase the possibility that potential load-serving entities will be willing to bid, and may result in lower pricing.

Staff recognizes that differential timing of default service procurement may avoid competitive bidding with larger utilities from neighboring states, and understands that moving the actual calendar to better embrace both peak and shoulder months of demand, may further diminish the impact on price volatility. Staff has no preferred position in this matter but recommends the Commission consider the timing of competitive bidding processes for larger utilities in neighboring states and the potential impact on the New Hampshire bidding process if it wishes to shift the procurement periods in New Hampshire.

(3) Shorten the time frame between the award of the contract and the approval of the rate by separating out the reconciliation process from the bid review process

Staff supports mitigating risk and associated risk premiums as much as possible. While there is general agreement to shorten the time frame between successful bids and contract awards, Staff believes that separating the reconciliation process from the bid approval process may represent a quick win for all stakeholders which could be implemented in time for the conclusion of the next bidding cycle in September 2015.

(4) State wide centralized procurement process

Staff does not believe that a single state wide procurement process is desirable at this time. Staff recognizes that there was little support for this approach by the utilities, in part because at least one utility seeks to minimize risk and capture more competitive bids by bidding with its partner utility in a neighboring state. Compelling the utilities to bid collectively may lead to unintended negative outcomes. In addition, centralized state procurement would increase state administrative costs which are at present borne by default service customers

(5) Support for web page

Staff agrees that, for default service procurement to work effectively, best efforts should be taken to increase the level of knowledge about the availability of alternative electric supply. In fact, efforts began in January to develop an online resource for residential and small commercial customers that will provide them with a comprehensive list of suppliers and the various offerings and prices available to them.

(6) Adoption of laddering for residential and small business customers

Staff believes that a simple and transparent process will serve the best interests of all stakeholders and encourage load serving entities to bid. Frequency of procurement, contract term and laddering of contracts will clearly impact stability and volatility of rates. It is not clear that lowering rate volatility by blending the prices from different procurements at different times will reduce the level of market exposure faced by default service customers, but it may have a negative impact on the ability of competitive retail suppliers to compete in the market place. In addition, laddering may result in higher overall prices for default service due to increased risk premiums. Staff is unclear whether the potential benefits arising from perceived reductions in price volatility will justify the possibility of erosion of the market for competitive supply, and thus Staff is disinclined to support laddering without further investigation.

(7) Budget billing clarification

While all stakeholders have agreed to the desirability of budget billing as a means of flattening customer bills, Staff recognizes that the methodology for budget billing may vary from one utility to another. Staff's understanding of budget billing presumes that a given utility will examine the kWh usage for a given customer over the last 12 months, calculate the total bill amounts, including delivery and energy supply, for the next 12 months, and then develop a monthly average bill to be applied over the next 12 months subject to a suitable reconciliation mechanism to avoid a large over or underpayment at the end of the 12 month period. Staff does not believe that the creation of a budget amount for the delivery portion of the bill only with a pass through of full energy supply costs in each billing period serves to safeguard utility customers from bill volatility.

(8) QF power and mandated use of renewable energy

Staff does not agree that that the default service procurement process should mandate utilities to purchase from QFs for default service power supply. Through the interaction of market forces, utilities should be free to select the most competitive bid offering available.

Conclusion

Given the limited time frame before the commencement of utility preparations for the next default service bidding round preparations in July 2015, it is likely that only limited changes may be agreed upon in time, and they may be limited to separating out the reconciliation process in order to speed up bid approval by the Commission. By identifying areas of broad agreement and clarifying our position on remaining issues Staff hopes to have facilitated movement towards common ground and a more broader agreement in anticipation of the spring 2016 bidding process.

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