

**UNITIL ENERGY SYSTEMS, INC.**

**DIRECT TESTIMONY OF**

**TODD M. BOHAN**

**New Hampshire Public Utilities Commission**

**Docket No. DE 15-079**

**October 2, 2015**

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**Schedule TMB-4: RPS Compliance Cost Estimates**

**Schedule TMB-5: Historical Pricing by Customer Group**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Todd M. Bohan. My business address is 6 Liberty Lane West, Hampton, NH.

**Q. What is your relationship with Unitil Energy Systems, Inc.?**

A. I am employed by Unitil Service Corp. (“USC”) as a Senior Energy Analyst. USC provides management and administrative services to Unitil Energy Systems, Inc. (“UES”) and Unitil Power Corp. (“UPC”).

**Q. Please briefly describe your educational and business experience.**

A. I graduated *magna cum laude* from Saint Anselm College, Manchester, New Hampshire in 1987 with a Bachelor of Arts degree in Financial Economics. I earned a Masters in Economics from Clark University, Worcester, Massachusetts in May 1990. In September 1995, I earned a Ph.D. in Economics from Clark University. Before joining Unitil, I worked for Bay State Gas Company as a Rate Analyst. Prior to working for Bay State, I was employed as a Utility Analyst and an Economist in the Economics Department of the New Hampshire Public Utilities Commission. I joined Unitil Service Corp. in November 1998, and have been involved in various regulatory proceedings. In August of 2010, I joined the Energy Contracts group and have primary responsibilities in the areas of electric market operation and data reporting, default service administration and budgeting. In addition, I have administrative responsibilities associated with competitive electric supplier operations with Unitil.

1   **Q.   Have you previously testified before the New Hampshire Public Utilities**  
2       **Commission ("Commission")?**

3   A.   Yes. I have testified before the Commission on various regulatory matters, most  
4       recently in UES's Stranded Cost Recovery and External Delivery Charge  
5       Reconciliation and Rate Filing, Docket No. DE 15-244 and UES's Default Service  
6       Solicitation proceeding, Docket No. DE 15-079.

7   **II.   PURPOSE OF TESTIMONY**

8   **Q.   Please describe the purpose of your testimony.**

9   A.   My testimony documents the solicitation process followed by UES in its acquisition of  
10       Default Service power supplies ("DS") for its G1 and Non-G1 customers as approved  
11       by the Commission in Order No. 25,397, dated July 31, 2012 (the "Order") granting  
12       UES's Petition for Approval of Revisions to its Default Service Solicitation Process  
13       for G1 and Non-G1 Customers. With the current Request for Proposal ("RFP"), UES  
14       has contracted for a six-month default service power supply for 100% of its small  
15       customer group (Non-G1); 100% of its medium customer group (Non-G1); and 100%  
16       of its large customer group (G1) service requirements. Service begins on December 1,  
17       2015.

18       I describe how UES solicited for bids from wholesale suppliers to provide the supply  
19       requirements in accordance with the terms of the Order as UES has done in prior  
20       default service supply solicitations. I also describe how the proposals received were  
21       evaluated and the winning bidders were chosen. Supporting documentation and

1 additional detail of the solicitation process is provided in the Bid Evaluation Report  
2 (“Report”), attached as Schedule TMB-1. A copy of the RFP as issued is attached as  
3 Schedule TMB-2, and an updated Customer Migration Report is attached as Schedule  
4 TMB-3. The Customer Migration Report shows monthly retail sales and customer  
5 counts supplied by competitive generation, total retail sales and customer counts (the  
6 sum of default service and competitive generation) and the percentage of sales and  
7 customers supplied by competitive generation. The report provides a rolling 13-month  
8 history which covers the period from August 2014 through August 2015. Renewable  
9 Portfolio Standard ("RPS") Compliance Cost Estimates are included as Schedule  
10 TMB-4. My testimony reviews UES’s approach to compliance with the RPS which  
11 went into effect in January 2008. Schedule TMB-4 details projected obligations and  
12 price assumptions for the coming rate period. The price assumptions listed in  
13 Schedule TMB-4 are based on recent market data and information and alternative  
14 compliance payment prices. Lastly, Schedule TMB-5 provides historical price data by  
15 customer group that is no longer subject to confidential treatment. This schedule  
16 provides pricing histories associated with the most recent three-month rate periods for  
17 G1 customers or six-month rate periods for Non-G1 customers for which all pricing is  
18 currently subject to the Federal Energy Regulatory Commission’s quarterly reporting  
19 requirements.

20 **Q. Please summarize the approvals UES is requesting from the Commission.**

21 **A.** UES requests that the Commission:

- 1       • Find that: UES has followed the solicitation process approved by the Commission;  
2       UES's analysis of the bids submitted was reasonable; and UES has supplied a  
3       reasonable rationale for its choice of the winning suppliers.
- 4       • Find that: the price estimates of renewable energy certificates ("RECs") proposed  
5       by UES, based on actual purchases or current market prices and information, are  
6       appropriate for inclusion in retail rates.
- 7       • On the basis of these findings, conclude that the power supply costs resulting from  
8       the solicitation are reasonable and that the amounts payable to the sellers under the  
9       supply agreements are approved for inclusion in retail rates.
- 10      • Issue an order granting the approvals requested herein on or before October 9,  
11      2015, which is five (5) business days after the date of this filing.

### 12   **III. SOLICITATION PROCESS**

#### 13   **Q. Please discuss the Solicitation Process UES employed to secure the supply** 14   **agreements for default service power supplies.**

15   A. In the same manner as its prior solicitations for default service supplies, UES  
16   conducted an open solicitation in which it actively sought interest among potential  
17   suppliers and provided potential suppliers with access to sufficient information to  
18   enable them to assess the risks and obligations associated with providing the services  
19   sought. UES did not discriminate in favor of or against any individual potential  
20   supplier who expressed interest in the solicitation. UES negotiated with all potential  
21   suppliers who submitted proposals to obtain the most favorable terms from each

1 potential supplier. The structure, timing and requirements associated with the  
2 solicitation are fully described in the RFP issued on September 1, 2015. This is  
3 attached as Schedule TMB-2 and is summarized in the Report attached as Schedule  
4 TMB-1.

5 **Q. How did UES ensure that the RFP was circulated to a large audience?**

6 A. UES announced the electronic availability of the RFP to all participants in NEPOOL  
7 by notifying all members of the NEPOOL Markets Committee and the NEPOOL  
8 Participants Committee via email. UES also announced the issuance of the RFP via  
9 email to a list of power suppliers and other entities such as distribution companies,  
10 consultants, brokers and members of public agencies who have previously expressed  
11 interest in receiving copies of UES's solicitations. UES followed up the email  
12 announcements with telephone calls to the power suppliers to solicit their interest. In  
13 addition, UES issued a media advisory to a number of power markets publications  
14 announcing the issuance of the RFP.

15 **Q. What information was provided in the RFP to potential suppliers?**

16 A. The RFP described the details of UES's default service, the related customer-  
17 switching rules, and the form of power service sought. To gain the greatest level of  
18 market interest in supplying the load, UES provided potential bidders with appropriate  
19 and accessible information. Data provided included historical hourly default service  
20 loads and daily capacity tags for each customer group; class average load shapes;  
21 historical monthly retail sales and customer counts by rate class and supply type; a

1 generic listing of large customers showing annual sales, peak demands, and capacity  
2 tag values as well as supply type (default service or competitive generation); and the  
3 evaluation loads, which are the estimated monthly volumes that UES would use to  
4 weigh bids in terms of price. The retail sales report and the historical loads and  
5 capacity tag values were updated prior to initial bidding to provide the latest  
6 information available. All documents and data files were provided to potential  
7 suppliers via UES's corporate website ([www.unitil.net/rfp](http://www.unitil.net/rfp)).

8 **Q. How did UES evaluate the bids received?**

9 A. UES evaluated the bids on both quantitative and qualitative criteria, including price,  
10 creditworthiness, willingness to extend adequate credit to UES to facilitate the  
11 transaction, capability of performing the terms of the RFP in a reliable manner and the  
12 willingness to enter into contractual terms acceptable to UES. UES compared the  
13 pricing strips proposed by the bidders by calculating weighted average prices for the  
14 supply requirement using the evaluation loads that were issued with the RFP.

15 UES selected Exelon Generation Company, LLC ("Exelon") as the winning bidder of  
16 the small customer (Non-G1) supply requirement (100% share) and Nextera Energy  
17 Power Marketing, LLC ("Nextera") as the winning bidder of the medium customer  
18 (Non-G1) supply requirement (100% share). Exelon was selected as the supplier of  
19 the large customer (G1) supply requirement (100% share). All three transactions are  
20 for a period of six months. UES believes that Exelon and Nextera offered the best



1 overall value in terms of both price and non-price considerations for the supply  
2 requirements sought.

3 **Q. Please describe the contents of the Bid Evaluation Report.**

4 A. Schedule TMB-1 contains the Bid Evaluation Report which further details the  
5 solicitation process, the evaluation of bids, and the selection of the winning bidders.  
6 The Report contains a narrative discussion of the solicitation process. Additional  
7 discussion regarding the selection of the winning bidders is provided along with  
8 several supporting exhibits that list the suppliers who participated, as well as the  
9 pricing they submitted and other information considered by UES in evaluating final  
10 proposals, including redlined versions of the final supply agreements.

11 On the basis of the information and analysis contained in the Bid Evaluation Report,  
12 UES submits that it has complied with the Commission's requirements, and that the  
13 resulting default service power supply costs are reasonable and that the amounts  
14 payable to the sellers under the supply agreements should be approved for inclusion in  
15 retail rates.

16 **Q. Please indicate the planned issuance date, filing date and expected approval date**  
17 **associated with UES's next default service solicitation.**

18 A. Similar to the current solicitation, UES's next default service solicitation will be for  
19 one hundred percent (100%) of the small, medium and large customer supply  
20 requirements for a six-month period. Delivery of supplies will begin on June 1, 2016.  
21 UES plans to issue an RFP for these supplies on March 1, 2016, with a filing for

1 approval of solicitation results planned for April 1, 2016 and approval anticipated by  
2 April 8, 2016.

3 **IV. RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

4 **Q. Please explain how UES is complying with the Renewable Portfolio Standard**  
5 **requirements.**

6 A. In accordance with the settlement agreement dated July 16, 2009, UES typically issues  
7 two REC RFPs annually, each for approximately 50% of its projected REC  
8 obligations. In addition, UES may make REC purchases outside of the RFP process  
9 when it finds it advantageous to do so. For 2015 RPS compliance, UES completed a  
10 REC RFP in mid-March 2015. UES has made some additional purchases outside of  
11 the REC RFP issuance. Tab A includes an exhibit summarizing UES's REC  
12 purchases for RPS compliance. UES anticipates issuing another REC RFP in late  
13 2015.

14 **Q. Please describe UES's estimates of RPS compliance costs.**

15 A. The current solicitation is for default service power supplies to be delivered beginning  
16 December 1, 2015. Schedule TMB-4 lists the percentage of sales and the resulting  
17 REC requirement for each class of RECs for RPS compliance along with UES's cost  
18 estimates for the period beginning December 1, 2015. UES's cost estimates are based  
19 on current market prices as communicated by brokers of renewable products, recent  
20 purchases of RECs, and alternative compliance payment rates for 2015.

1 **Q. Does UES's estimate of RPS costs incorporate the latest RPS requirements for**  
2 **2015?**

3 **A.** Yes. The following table provides a summary of the RPS requirements.

4

5 **NH Renewable Portfolio Standards: 2015 - 2016**

6 <b>Calendar Year</b>	<b>Class I*</b>	<b>Class I Thermal</b>	<b>Class II</b>	<b>Class III</b>	<b>Class IV</b>
7 2015	6.00%	0.60%	0.30%	0.50%	1.50%
8 2016	6.90%	1.30%	0.30%	8.00%	1.50%

9 \*Class I is the gross requirement. The Class I requirement less the Class I  
10 Thermal Carve-Out requirement is 5.40% for 2015 and 5.60% for 2016.

11 Schedule TMB-4 RPS Compliance Costs Estimates incorporates the latest RPS  
12 requirements shown here.

13 **V. WHOLESALE WINTER ELECTRICITY PRICES**

14 **Q. Could you please provide a brief summary of wholesale electricity market prices**  
15 **realized during the last two winter periods and provide an expectation of**  
16 **wholesale electricity market prices for the upcoming winter period?**

17 **A.** Certainly. As discussed in my prior testimony in UES's Default Service Solicitation  
18 proceeding, Docket No. DE 14-061, the New England region experienced both high  
19 and volatile wholesale electricity prices during the winter 2013-14 period. These high  
20 prices and volatility were driven by two main factors: (1) high consumer demand, due  
to extreme cold temperatures on several occasions during this period; and (2) higher  
fuel prices, namely natural gas, driven by competition for heating purposes and

pipeline constraints limiting available supply. The following table shows details regarding New Hampshire electricity prices during the two prior winter periods and the expectation about prices for the upcoming winter 2015-16 period.

<b>NH Load Zone (4002): Monthly Locational Marginal Prices</b>					
<b>Winter 2013-14</b>	<b>Avg Price(1)</b>	<b>Winter 2014-15</b>	<b>Avg Price(2)</b>	<b>Winter 2015-16</b>	<b>Avg Price(3)</b>
<b>Month</b>	<b>(\$s per MWH)</b>	<b>Month</b>	<b>(\$s per MWH)</b>	<b>Month</b>	<b>(\$s per MWH)</b>
<b>Dec-13</b>	\$97.58	<b>Dec-14</b>	\$42.40	<b>Dec-15</b>	\$64.98
<b>Jan-14</b>	\$149.98	<b>Jan-15</b>	\$64.30	<b>Jan-16</b>	\$85.00
<b>Feb-14</b>	\$150.61	<b>Feb-15</b>	\$120.73	<b>Feb-16</b>	\$81.20
<b>Mar-14</b>	\$113.20	<b>Mar-15</b>	\$56.71	<b>Mar-16</b>	\$60.33
(1) Actual monthly locational marginal price for the Winter 2013-14 period. (2) Actual monthly locational marginal price for the Winter 2014-15 period. (3) Future monthly locational marginal price for the Winter 2015-16 period. This is an average of the monthly on and off-peak price of electricity for the two-week period: 9/14/2015 through 9/25/2015.					

As we headed into the winter 2014-15 period, wholesale suppliers expressed concern that the winter 2014-15 period would have operational conditions similar to the 2013-14 winter leading to the expectation of higher wholesale electricity prices. However, in actuality, wholesale prices during the winter 2014-15 period were of much lower magnitude. As shown in the above table, they were on the order of 50% lower (generally speaking), and a major reason for that was a significant drop in oil prices. This resulted in oil-fired generation, as a less expensive fuel, playing a more significant role in the region's electricity generation mix. Having oil-fired generation in the mix provided the added benefit of keeping natural gas prices down, which in turn helped keep electricity generation costs down.

1 Expectations for the upcoming winter 2015-16 period suggest we will see wholesale  
2 electricity pricing closer to that realized last winter and less like that of the prior  
3 winter 2013-14. The average expected price for the four months shown in the table  
4 above for the upcoming winter 2015-16 period is \$72.88 per MWH; the average price  
5 realized for the same four months in the prior winter 2014-15 period was \$71.14 per  
6 MWH. To put this in perspective, the winter 2013-14 actual average price was  
7 \$127.84 per MWH (75 percent higher).

8 **VI. IR 14-338 REVIEW OF DEFAULT SERVICE PROCUREMENT**

9 **Q. Did UES participate in Docket No. IR 14-338 Review of Default Service**  
10 **Procurement Processes for Electric Distribution Utilities; and is the Company**  
11 **aware of certain recommendations regarding default service procurements?**

12 A. Yes, UES was active in this docket participating in the various technical sessions and  
13 provided written comments on a number of issues. The Company is aware of a  
14 specific recommendation voiced by the Office of Consumer Advocate (“OCA”) and  
15 the Office of Energy Planning (“OEP”); namely, a desire to split the high-cost winter  
16 months into separate solicitation periods in an effort to mitigate the impact of higher  
17 winter prices.

18 **Q. Has UES proposed any changes to its default service solicitation to incorporate**  
19 **the recommendation of the OCA and OEP?**

20 A. No, the Company has not proposed any changes to its default service solicitation  
21 process to split the winter period into separate solicitation periods. In Docket DE 12-

003, Revisions to Default Service Solicitation Process for G1 and Non-G1 Customers, UES explained that there were many benefits to the Company changing its solicitation to what it is today. Those benefits include, among others, the following: (1) the solicitation for default service supplies at the same time as the Company's Massachusetts affiliate, Fitchburg Gas and Electric Light Company, thereby bringing more electric load to bid while at the same time helping to maintain and enhance bidder participation; and (2) administrative efficiencies achieved through a dual RFP process.

**Q. Is the Company open to changing its default service solicitation process in the future?**

A. UES is aware the Liberty Utilities, Inc. ("Liberty") has received approval from the Commission to change its default service solicitation process in a manner that splits the winter period into two separate solicitations. As such, the Company believes this may be instructive and plans to monitor how this change impacts Liberty's default service pricing. If this experience suggests that it could be beneficial to UES's customers, then the Company could revisit its default service solicitation methodology.

## **VII. CONCLUSION**

**Q. Does this conclude your testimony?**

A. Yes, it does.