STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

IR 15-124: INVESTIGATION INTO POTENTIAL APPROACHES TO MITIGATE WHOLESALE ELECTRICITY PRICES

OFFICE OF THE CONSUMER ADVOCATE'S

COMMENTS IN RESPONSE TO STAFF REPORT (SEPTEMER 15, 2015)

I. Procedural History

The New Hampshire Public Utilities Commission issued an Order of Notice on April 17, 2015 initiating an investigation into potential approaches to mitigate wholesale electric prices. The Staff met with interested stakeholders on May 12, 2015 and advised the assembled stakeholders that it would seek written input, no later than June 2, 2015. The Commission was apprised accordingly by a Staff letter on May 14, 2015. In that letter, the Staff also indicated that it seeks input on solutions that address at the minimum eight points (page 2 of the letter). Stakeholders, including OCA, responded with comments on August 10, 2015. Subsequently, the Staff issued a report on September 15 (Staff Report), wherein it provided its analysis of the responses received to its solicitation of solutions. It provided an opportunity to stakeholders to respond to the report, and set a deadline of October 15, 2015 for such responses.

The OCA appreciates this opportunity to share its response to the Staff Report. In this brief submission, the OCA refrains from discussing legal issues. The OCA recommends that parties have the opportunity to formally brief legal issues before any actions to implement recommendations arrived at through this investigation are undertaken by the Commission. The

OCA however shares its comments on non-legal considerations in response to the Staff report to help inform the discussions going forward.

II. Discussion

A. The Staff Report Does Not Consider All Potential Solutions to Wholesale Market Price Volatility

The OCA respectfully submits that the solicitation in the May 14 letter was lacking because it failed to consider objectively all potential solutions to the wholesale electric price volatility questions raised in this docket. The May 14 letter from Staff, requesting proposed solutions to the winter spikes in wholesale electric prices, ostensibly favors gas pipeline solutions. While Staff contends that it is open to all solutions, the lack of specificity on requested proposals from solutions that are not gas-availability oriented has, not surprisingly, resulted in a significant focus on gas-pipeline-based solutions only. The OCA respectfully disagrees with the Staff that the guidance in the May 14 letter was "detailed".[1] As an example, the Staff Report does not adequately consider to what extent transmission solutions can alleviate price volatility. The May 14 letter is silent on the possible role for transmission solutions. The OCA contends that the solicitation in the May 14 letter was lacking and does not provide a basis for an objective consideration of all solutions to the wholesale electric price volatility question raised in this docket.

B. A More Comprehensive Analysis of Proposed Solutions Should be Undertaken As Market Intervention Can Have Unintended Consequences

While the effort by the Staff to address the wholesale electric market volatility issue is greatly appreciated, we respectfully caution against unnecessary wholesale electric market

[1] Staff Report, Page 8.

intervention. First, any rationale for market intervention needs to be thought through more carefully than the Staff has been able to do in its report. Second, given the limited scope of the inquiry that the Staff letter dated May 14 has supported, and Staff's limited resources to conduct a comprehensive analysis, the OCA submits that any recommendation from the report is premature, even though, as it stands, it can contribute to our informed understanding of the role that state regulators can play. Third, as is apparent from the Staff Report, much of the analysis of the gas-pipeline scenarios/solutions is based on studies conducted by consultants engaged by the proponents of the proposed pipelines. We urge the Commission to engage independent consultants to take a look at the issue of volatility in electric prices more comprehensively than a piecemeal review of different projects can provide.

Specifically, when different pipeline projects get built with support from ratepayers' money, and the cost-benefit analysis for each project ignores the existence of other potential projects, ratepayers throughout New England will likely pay significantly more than what would be reasonable and cost effective in the long-run. This is the tension that results when projects are jurisdictionally supported by regulated rates, wherein different states cannot influence the fate of new projects in other states. This increases the risk of stranded costs significantly. The OCA therefore urges the Commission to engage in a more thorough analysis than this investigative proceeding has so far produced. Looking at how different projects may affect wholesale market rates through comparative statics as to how things will play out with or without a particular project is not sufficient to inform properly whether supporting a project through electric distribution charges is sound. While it is useful to see how different projects compare by looking at the cost incidence and the benefits associated with projected savings in wholesale electric costs by comparing how the future will pan out with or without a project, to the extent the projects are individually considered by different jurisdictions, there is a distinct possibility that multiple projects will ultimately be approved and will be built without a truly global look at what is the optimal build out. For New Hampshire ratepayers, the answer could well be different, depending on whether or not other projects (including market responses) get underway. For example, the cost-benefit analysis can potentially produce significantly less benefits through resulting expected reduction in wholesale electric market prices if another new project is already underway. Ultimately what is appropriate at the margin for New Hampshire ratepayers (at the time of the policy decision) cannot be ignored if we are to carefully weigh any market intervention against the benefits. Even at this stage, the OCA contends that expected market responses should be included in the modeling to better frame the cost-benefit analysis that is relevant for New Hampshire ratepayers.

Additionally, the harm to market efficiency can be significant with any market intervention. The Staff Report does not address this aspect at all. Permitting electric distribution companies to contract gas availability for use by competitive generators has long-term implications for the competitiveness of the wholesale electric markets. A proper analysis of the long-term implications of such a policy is therefore warranted. Moreover, the issue of risk associated with predictability of how demand and supply in the long-run will pan out has not been adequately considered. We agree with the Staff that there are risks of both costs being stranded with a project financed by distribution charges as well as high electric prices in the absence of a project.[2] That, if anything, indicates that a thorough risk-analysis is imperative before one can conclude that a particular market intervention that commits ratepayers to a long-

[2] Staff Report, see Page 34.

term contract is reasonable. The OCA therefore strongly recommends that the Commission engage consultants to provide independent assessment of the broader question of how wholesale electric price volatility can be mitigated. This will allow for a complete scenario risk analysis and an informed view of the role of wholesale electric markets in price volatility.

C. Long Term Cost Exposure Creates Risks for Ratepayers

The OCA and other stakeholders have already shared their views about the need to properly weigh the burden on ratepayers before embarking on a policy path. Long-term contracts have implications for cost exposure for ratepayers. Given the lower confidence in predictions for years well into the future, any long-term contract that compels ratepayers to pay well into the future (especially when the market risks are otherwise expected to be borne by wholesale electric generators), is very prone to producing unwarranted stranded costs. Given the absence of a comprehensive study, it is premature to conclude that market intervention through pipeline-capacity procurement for electric customers is a sound policy. To the extent, however, the Commission finds such interventions are in the interest of New Hampshire ratepayers, we urge the Commission to consider measures that are less likely to engender unwarranted stranded costs. We suggest that only cost-effective measures that at most hold ratepayers captive for three years should be considered. This will not only be reasonable for ratepayers, but will also limit unintended harm to wholesale electric markets.

III. Conclusion

Procurement of long-term pipeline capacity supported by electric distribution charges has not been sufficiently demonstrated to be in the public interest. To the extent the Commission approves the procurement of pipeline capacity or any other viable alternative to address wholesale electric-price volatility, we express our agreement with the Staff that the solicitation process should limit the involvement of Electric Distribution Companies to ensure the solicitation process produces a competitive outcome.[3]

The OCA thanks the Commission for the opportunity to present these comments and expresses appreciation for the Commission Staff's efforts in this investigative docket.

Respectfully,

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[3] Staff Report, see Page 46