STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 13-018

GRANITE STATE ELECTRIC COMPANY D/B/A LIBERTY UTILITIES

Petition for Approval of Revisions to
Default Service Solicitation Process

Approval of Proposed Revisions

O R D E R N O. 25,601

November 27, 2013

APPEARANCES: Sarah B. Knowlton, Esq. on behalf of Granite State Electric Company; the Office of Consumer Advocate on behalf of residential ratepayers by Susan W. Chamberlin, Esq. and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On August 26, 2013, Granite State Electric Company d/b/a Liberty Utilities (Liberty or Company) filed a petition requesting the Commission's approval of a change to the solicitation process for the procurement of default service supply for Liberty's medium and large customers (Large Customer Group). With its petition, Liberty included the supporting technical statement of John D. Warshaw, Manager, Electricity Supply for Liberty Energy Utilities (New Hampshire) Corp. (Liberty NH). The Commission issued a supplemental Order of Notice on October 10, 2013 scheduling a hearing in the docket for October 30, 2013.

II. POSITIONS OF THE PARTIES AND STAFF

A. Liberty

Liberty explained that the current process for the procurement of energy supplies for its Large Customer Group and its residential and small commercial customers (Small Customer Group) taking default service was established in a settlement agreement approved by the

Commission in Order No. 24,577 (January 13, 2006) as modified by Order No. 29,922 (December 19, 2008). Pursuant to the settlement agreement, solicitations for the Large Customer Group are issued every three months and solicitations are issued every six months for the Small Customer Group.

According to the petition, this procurement schedule was developed by National Grid, the prior parent company of Granite State Electric Company, to conform to the schedule for power supply solicitations for all of National Grid's affiliates. Although the process may have been effective for National Grid, Liberty claims that the solicitation schedule results in certain inefficiencies when applied to Liberty's single-state solicitation process. Liberty now seeks to change the required procurement schedule for the Large Customer Group to conform to the schedule for the Small Customer Group, and to solicit supply for both Customer Groups every six months.

Liberty testified that since the July 3, 2012 closing of the Granite State Electric Company sale from National Grid, Liberty's energy procurement group has endeavored to differentiate Liberty's New Hampshire-only bid from the National Grid procurement process. The first step was to immediately change the procurement schedule so that the deadlines for indicative and final bids for default service supply were not the same for both National Grid and Liberty. According to Liberty, this differentiation allows suppliers to develop separate same-day bids for each of the companies' solicitations instead of having to choose between either National Grid's or Liberty's solicitation. Liberty stated that this change also reduces confusion on the part of prospective bidders due to the change from one solicitation for two National Grid companies to two separate solicitations--one from National Grid and one from Liberty.

The next step as proposed in the instant petition is to reduce the number of solicitations from four per year to two per year for default service energy supply. Liberty testified that the proposed change would provide additional administrative efficiency for Liberty without any negative impact on its Large Customer Group. According to Liberty, it would also allow Liberty to focus on other customer concerns instead of the preparation and execution of four default energy service supply solicitations and rate filings. Liberty attested that the solicitation, bid evaluation and supplier selection process would remain consistent with the process approved by the Commission.

Liberty stated that in developing this proposal it had contacted suppliers who have bid on Large Customer Group solicitations in the past and reported that the only supplier concerns involved additional migration risk to a supplier which could be reflected in higher bid prices. As a result, Liberty proposed to divide the service period for the Large Customer Group into two three month blocks, which would allow a supplier to submit bids for the first three months only, the second three monthly only, or for both separate three month blocks. As the customers in the Large Customer Group have the greatest opportunity to benefit from purchasing energy supply from the competitive marketplace, Liberty opined that any cost increase can be offset by those customers through exploring alternatives to Liberty's default service energy supply. Liberty also stated that increasing the known price of the Large Customer Group's default service from three months to six months will reduce price volatility for these customers and provide a longer reference price to use when evaluating pricing from the competitive marketplace.

In response to a question at hearing, Liberty stated that in the event the Company received no bids for the power for the second three-month default service period for the Large Customer Group, the Company could communicate with bidders after the indicative bid round to find out why they are not bidding on the second three-month period. Liberty said that it also has the option of serving the load from the Independent System Operator-New England (ISO-NE) marketplace, which was not a preferred option, but was another option to exercise in event that no supplier bid on the second three-month period. According to the Company, servicing load from the ISO-NE marketplace would require daily bids and payments which would increase the amount of administrative service required for the Large Customer Group.

Liberty stated that it would continue to issue six-month solicitations in February and August of each year for service beginning in May and November, respectively, with the six-month block for the Large Customer Group divided into two three-month blocks. According to Liberty, this division will allow Liberty to take advantage of any differences suppliers may have when evaluating the cost of serving a load block in the later three-month period as compared with the earlier three-month period. In addition, Liberty said that dividing the six-month period into two blocks would allow suppliers who are reluctant to take on additional migration risk to bid on just one of the three-month periods. To implement the change, Liberty stated that each default service solicitation would be for three blocks of power supply—one for six months for the Small Customer Group, one for the first three-month period for the Large Customer Group, and one for the second three-month period for the Large Customer Group.

In conclusion, Liberty attested that the proposed change would provide three more months of price information than under the current process for large customers to use in evaluating whether to take energy service from the Company or to seek competitive electric supply. Liberty opined that more information would promote customer choice consistent with the principles of RSA 374-F, the electric industry restructuring statute. In addition, Liberty argued that the rates for the two default service periods will still be market-based rates, as required by RSA 374-F. Finally, Liberty indicated that the Company would like to implement this change with the solicitation scheduled to be issued in February 2014 for the May 1 through October 31, 2014 default service period.

B. Office of Consumer Advocate

The OCA said that its principle interest was that the bids were competitively bid and that Liberty's proposal appeared to be consistent with that principle. The OCA also said that the proposal does not shift costs from the Large Customer Group to the Small Customer Group. For those reasons, the OCA did not object to Liberty's proposal.

C. Staff

Staff stated that it had thoroughly reviewed the proposal and, based upon its review, it did not find the proposal to be inconsistent with the restructuring principles of RSA 374-F. On that basis, Staff did not object to the proposal.

III. COMMISSION ANALYSIS

The electric industry restructuring statute, RSA 374-F, sets forth the elements we should consider to determine whether a default service procurement proposal is in the public interest. According to the restructuring statute, default service must be designed to assure universal access and system integrity; it should be procured through the competitive market; and the administrative costs should be borne by the customers in a manner approved by the Commission. RSA 374-F:3, V(c). In addition, the Commission may approve alternative means of providing default service "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. RSA 374-

F:3, V(e). We find that Liberty's proposal to modify its procurement for its Large Customer Group meets the requirements of the law and is in the public interest.

We agree with Liberty that dividing the service period for the Large Customer Group into two three-month periods may result in more customers turning to the competitive market supply. As the Company points out, customers will have more price information to compare with the price of power offered from the competitive market. Suppliers responding to the solicitation will inevitably include a hedge in bids for the second three-month period, thus providing another incentive for customers to consider competitive supply, consistent with the principles for electric industry restructuring. In addition, the proposal to bid power supply for the Large Customer Group twice a year instead of four times a year will provide administrative efficiencies by reducing the cost and time associated with the conduct of hearings. Finally, Liberty has affirmed that in all other respects, it will continue to solicit, evaluate and select a supplier for default service consistent with the applicable terms of the settlement agreement approved by the Commission in Order No. 24,577 (January 13, 2006). Based on the foregoing, we approve Liberty's proposal to alter the default service solicitation schedule as reasonable and in the public interest.

Based upon the foregoing, it is hereby

ORDERED, that the proposal filed by Granite State Electric Company d/b/a Liberty Utilities on August 26, 2013 is hereby APPROVED.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of November, 2013.

Amy L. Ignatius Chairman	Michael D. Harrington Commissioner	Robert R. Scott Commissioner

Attested by:

Debra A. Howland
Executive Director