STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

IR 22-053

ELECTRIC AND GAS UTILITIES

Investigation of Energy Commodity Procurement (Renewable Portfolio Standard; Default Service Electric Power; Cost of Gas) Methodology and Process

Initial Comments of Unitil Energy Systems, Inc. and Northern Utilities, Inc.

I. INTRODUCTION

On September 6, 2022, the New Hampshire Public Utilities Commission (the "Commission"), issued an Order of Notice in the instant proceeding noting that 2022 "has brought to the fore an increasing cost structure for most if not all categories of energy commodities procured by the utilities regulated by the Commission." Order of Notice at 1. In light of this observation, the Commission stated that it was opening "this investigatory proceeding to examine all pertinent aspects of RPS, Default Service, and COG procurements in New Hampshire, and related Commission processes." *Id*. In framing the investigation in this docket, the Commission stated:

> This investigation will review questions related to: the processes related to RPS, Default Service including impacts of CPAs, and COG procurements by utilities; the ratemaking and calculation methodologies used for same; and the processes used by the Commission and participating parties for developing data and recommendations. Accordingly, this docket will examine, inter alia, issues related to RSA 374:2; 374:4; 374:8; 374:10; 374:11; 374:13; 378:5; 378:7; 378:8; RSA Chapter 53-E; RSA Chapter 362-F; and RSA Chapter 374-F, including, but not necessarily limited to:
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> 1. The timing and other approaches historically used by New Hampshire utilities for RPS, Default Service, and COG procurements, and data regarding outcomes correlated with different approaches;
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> 2. Potential enhancements to Commission review proceedings for RPS, Default Service, and COG matters, including timing of RPS, Default Service, and COG

filings and proposed rate effective dates;

3. A comparison of different United States jurisdictions with regards to these issues and the approaches used;

4. New Hampshire electric and gas utilities' internal planning approaches to these issues; and

5. The potential to leverage a regional approach to these procurements coordinated by the parent companies of these New Hampshire utilities, which have affiliates in other New England states (e.g. Maine, Massachusetts, Connecticut) and through ISO-New England markets.

Id. at 3.

As part of this investigation, the Commission made all electric and gas utilities, including Unitil Energy Systems, Inc. ("UES") and Northern Utilities, Inc. d/b/a Unitil ("Northern") (collectively "Unitil" or the "Companies"), mandatory parties to the docket and set a prehearing conference for October 5, 2022. Additionally, the Commission encouraged utilities and others to pre-file comments by September 26, 2022 on the identified topics "so that the presiding officer can address any matters on which there is disagreement during the prehearing conference." *Id*. at 5. Below are the initial comments of Unitil in this proceeding.

II. GENERAL CONSIDERATIONS

a. Goals of the Investigation

Unitil understands, and shares, the Commission's concerns about escalating costs of electricity and natural gas as expressed in the Order of Notice. Assuring a safe and reliable energy supply at just and reasonable rates is a key part of Unitil's core function as a public utility, and an obligation it takes seriously. In Unitil's view, however, the scope of this investigation would benefit from additional clarity since it is not clear to Unitil what the goals of this investigation might be in light of those identified issues.

As the Commission is aware, electricity and natural gas markets in New England are highly correlated due to the extensive use of natural gas as a fuel for electric generation. *See* July 2022 New Hampshire 10-Year State Energy Strategy at 39-40. Further, with natural gas pipeline constraints, and without substantial other baseload energy sources in New England, New Hampshire is highly susceptible to shifts in natural gas markets and prices, which lead to corresponding shifts in electricity markets and prices. Those commodity price shifts are, broadly speaking, driven by decisions and issues in the wider regional, national, and international markets and not by the decisions of individual utilities or regulators. *See* September 16, 2022 Testimony of Francis X. Wells in Docket No. DG 22-059 at Bates 88 (describing the factors affecting natural gas prices in New England). In other words, the very structure of the wholesale gas and electric markets causes them to vary widely for issues entirely unrelated to actions of a utility including weather and, in recent months, global shifts in fuel demands. As purchasers operating within those wider commodity markets, New Hampshire's utilities have limited ability to affect or influence those markets or the resulting prices paid by end-use customers of the utilities.

Shifting the timing or volume of certain commodity procurements as suggested in the Commission's order of notice could, potentially, impact retail prices at the margins. Alternatively, or in addition, methods of utility procurement could be altered to potentially blunt the impact of shifts in those markets (i.e., by laddering supply contracts). However, as utilities in restructured markets, retail prices will ultimately reflect those wholesale inputs, and any adjustments by utilities are unlikely to divorce retail prices from wholesale price influence in a material way.

In the end, it is Unitil's view that changes to the purchasing practices of New Hampshire's utilities will do little to address the physical shortage of natural gas in New England

(and resulting reliance on imported LNG) that is causing high, volatile energy prices in New England relative to other parts of the United States. Unitil believes that the time of the Commission, the New Hampshire utilities, and other intervening parties, would likely be better spent exploring changes that could directly address the issues causing high prices in the first place. Such possibilities could include advocacy for ISO-NE market rules changes that would require power generators receiving capacity payments to secure firm fuel, diversification of power supply generation away from natural gas, and increased energy efficiency, among others.

In light of the above-identified limitations on New Hampshire's utilities' ability to influence or direct commodity pricing through their procurement practices, in Unitil's view it is necessary to more clearly understand the goals and intents of the Commission's investigation. Through this investigation, is the Commission seeking to: find ways to assure that retail rates reflect wholesale market prices more directly; protect retail customers from wholesale commodity price volatility; assure price and rate stability for end-users; or assure consistent pricing and rates across utilities? Or, is there some other purpose entirely? Each of these potential purposes or goals is likely to involve different analyses – including analyses of the degree to which the State's utilities can impact those goals through enhancements in their procurement practices – and to support different proposals or adjustments in the longer-term. Accordingly, in Unitil's view, the Commission should further define or refine the aims of this investigation and what the Commission intends to learn, and then refine its investigation to address those proposed aims.

b. Manner of Investigation

In addition to clarifying the goals as described above, such clarification may also help better understand the value, or lack thereof, of conducting this investigation on a collective basis across all of the identified commodities. As currently established, this docket is set to review procurement issues pertaining to electricity, natural gas, and Renewable Energy Certificates ("RECs") as part of Renewable Portfolio Standards ("RPS") compliance. Each of these commodities trade in different markets with their own rules, requirements, and degrees of liquidity, and each market bears different exposures to externalities such as weather and government policy. Further, each of them are currently procured by utilities at different times, through different methods, and to achieve different ends.

As one example of a material difference in the treatment of a commodity in issue, because natural gas for residential use is not subject to competitive supply in New Hampshire, natural gas utilities may have a greater incentive to procure natural gas supplies in a manner that will assure a level of price certainty for customers, rather than in a way that is more immediately reflective of wholesale prices.[1] This incentive to hedge or mitigate price risk for natural gas supplies has not historically been as applicable to electricity supplies, in part because such mitigation may be seen as misaligned with the purposes of electric restructuring. *See* RSA 374-F:3, III ("Generation services should be subject to market competition and minimal economic regulation").[2] At an even further remove, procuring RECs for RPS compliance, while necessary to meet the State's renewable goals, does not have a direct impact on the supply of electricity to customers. Therefore, REC procurement, to the extent utilities continue to do it, does not operate with the same incentives or supply stability concerns.

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[1] *See* September 16, 2022 Testimony of Francis X. Wells in Docket No. DG 22-059 at Bates 79, Figure 1 (Describing Northern's Price Risk Mitigation Plan and stating that "Northern's objective is to mitigate the risk of significant mid-Winter Period Cost of Gas Factor increases and to provide improved price certainty for customers during the Winter Season when usage is highest, while maintaining a high level of portfolio flexibility to respond to changes in demand due to weather, retail choice and other factors.").

[2] In a recent example of the differing incentives, when transitioning to competitively supplied electricity, Eversource initially proposed to use laddered contracts to smooth price and rate volatility, but ultimately reached a settlement to implement competitively supplied default service without laddering, which leaves a greater exposure to price shifts. *See* November 27, 2017 Settlement Agreement in Docket No. DE 17-113.

In light of these differences, in Unitil's view it may be beneficial to separate this investigation such that the various commodities are reviewed independently, or to at least separate the review of natural gas procurement from that pertaining to electricity and RECs. In areas where there may be crossover, the discussion could be broadened, but generally Unitil's assessment is that a separate review would be beneficial.

To this same end, Unitil notes that the Commission undertook a generic investigation into methods for procurement of electricity supplies in Docket No. IR 14-338. Though the reasons for the commodity cost increases today differ from the concerns underlying that prior investigation, the principal concerns about assuring efficient and effective processes are the same now as they were then. While no final report of the information from that docket was produced, it did provide valuable information, including providing the basis for Eversource's transition to competitively supplied electricity. *See* June 10, 2015 PSNH Restructuring and Rate Stabilization Agreement in Docket No. DE 14-238 at lines 294-302 and the November 27, 2017 Settlement in Docket No. DE 17-113 at 1-2. Accordingly, Unitil requests, consistent with Puc 203.07, that the Commission take administrative notice of Docket No. IR 14-338 and the materials submitted therein.

III. SPECIFIC QUESTIONS

With the above more general comments and concerns in mind, Unitil offers the below observations in response to the questions described in the Commission's Order of Notice. The following comments are intended only as Unitil's initial considerations on these items and Unitil would intend to supplement them with additional information and observations as the investigation progresses.

a. Question 1 - The timing and other approaches historically used by New Hampshire utilities for RPS, Default Service, and COG procurements, and data

regarding outcomes correlated with different approaches; and Question 4 - New Hampshire electric and gas utilities' internal planning approaches to these issues

Regarding the procurement of electricity, UES's methods for procuring default electric service have largely been unchanged since the time of restructuring. Save for relatively minor deviations, UES has generally sought competitive bids for full-requirements, load-following electricity to supply to its customers in twice annual RFPs. The basic structure of UES's procurements is described in its default service procurement filings, *see, e.g.*, March 25, 2022 Testimony of Jeffrey M. Pentz in Docket No. DE 22-017 at Bates 6-10 and 15-18. Adjustments to that process over time were briefly described in UES's recent request to modify its procurement schedule, *see* July 29, 2022 Motion for Expedited Ruling on Default Service Procurement Timeline at 2-3. As stated in Docket No. IR 14-338, and as remains true today, UES is open to modifications that make the process more efficient.[3] In UES's assessment, however, its present method is generally sound and produces appropriate and market-reflective rates consistent with New Hampshire law and policy.

Regarding RPS, in line with the settlement agreement in Docket No. DE 09-009 dated July 16, 2009, as amended on December 6, 2011, UES meets its RPS obligation by conducting two REC RFPs during each compliance year to obtain existing RECs and/or forward RECs to meet 100 percent of its projected REC obligations. March 25, 2022 Testimony of Jeffrey M. Pentz in Docket No. DE 22-017 at Bates 11. UES may also make REC purchases outside of the RFP process when it finds it advantageous to do so. *Id.* To date, this procurement method has

[3] *See* May 18, 2015 Comments of UES in Docket No. IR 14-338 at 5 ("The procurement methodology that UES currently uses in acquiring default service power supply for its customers is highly consistent with the recommendations set forth by Commission Staff in its final position. In light of this, UES would caution against significant changes in its default service procurement process. To the extent that minor changes to the procurement process could bring potentially beneficial results, UES welcomes the opportunity to implement them.")

been sufficient for UES to meet its RPS obligation at reasonable cost and with minimal administrative burden to UES.

UES notes that despite its ability to meet its RPS obligations, in recent years either the Commission or the Legislature has made adjustments to the RPS requirements during the compliance year, sometimes very late in the compliance year. *See, e.g.*, Order No. 26,472 (April 20, 2021) in Docket No. DE 21-037 (modifying the Class III requirement from 8% to 2% for the compliance year ending on June 30, 2021). Such adjustments, particularly near the end of a compliance year, introduce uncertainty and risk into the REC procurement process. In UES's experience, such uncertainty will, all else equal, result in increases in cost and UES would support adjustments or enhancements that improve the stability and certainty around RPS obligations.

As for Northern's procurement of natural gas supplies, Northern has a portfolio of gas supply contracts to assure that it will have adequate and sufficient supply to meet its projected demand. *See* September 16, 2022 Testimony of Francis X. Wells in Docket No. DG 22-059 at Bates 73-78 (explaining Northern's supply projection methods and supply portfolio). Northern's practice is to secure most of its gas supply and asset management services through an annual RFP for terms beginning April 1 and running through March 31 each year. *Id*. at Bates 76. As necessary, Northern looks to supplement its gas supply with short-term peaking supplies to meet higher winter demand. *Id*. at Bates 79. Accordingly, Northern combines competitively procured supplies with more directly purchased and managed supplies as is necessary to assure an adequate and uninterrupted supply of natural gas for its customers at reasonable prices.

Both UES and Northern are prepared to discuss further details of their present planning and procurement processes as the Commission or others may deem necessary or relevant. Of note, neither Northern nor UES have any present intent to make material changes to their procurement methods.[4] Ultimately, UES and Northern consider the procurement and planning processes they use to be consistent with law and policy in New Hampshire.

b. Question 2 - Potential enhancements to Commission review proceedings for RPS, Default Service, and COG matters, including timing of RPS, Default Service, and COG filings and proposed rate effective dates; and Question 3 - A comparison of different United States jurisdictions with regards to these issues and the approaches used.

In general, Unitil supports the Commission having the most efficient and timely review process possible, while recognizing the need for the exchange of adequate information to allow the Commission to conclude that the proposed rates resulting from the procurements are just and reasonable. Regardless of the general intent in having an efficient process, however, which "enhancements" may be appropriate may well depend upon the goals the Commission is seeking to achieve as well as the commodity in issue, as discussed above.

With respect to a comparison of different jurisdictions, Unitil is aware of the approaches used in nearby jurisdictions, but has not conducted a comprehensive survey or comparison. Moreover, it is not clear to Unitil what value there would be in such a comparison without first understanding what the goals or intents of the investigation are to be. In addition, differences in weather, customer mix, regulatory and legal policy and other factors may make any meaningful comparisons with other jurisdictions difficult or impossible to reconcile with New Hampshire's method. Regardless, Unitil provides the below information on processes in nearby jurisdictions for the Commission's reference.

In the case of default electric service, UES is aware of other procurement methods in

[4] UES regards its recently-approved shift in the timing of its default service procurements to be a non-material adjustment to its procurement.

other, nearby states where the review process differs from that in New Hampshire. In Maine, the Maine Public Utilities Commission administers the procurement of default, or standard offer, service in that state for all utilities. *See, e.g.*, November 18, 2020 Order in Docket No. 2020-00200 at 2 (describing the Maine process). By contrast, in Massachusetts and Connecticut the utilities conduct solicitations, but those solicitations are directly overseen by regulators rather than the after-the-fact review and hearing conducted in New Hampshire. As a result, the approvals for the electric solicitations in those states are nearly immediate and conducted without a hearing. In each method there are benefits and drawbacks and Unitil recommends that the Commission work with its neighboring regulators through NESCOE and/or NECPUC to examine the views of the regulatory bodies in those states to understand their views of the attributes of different systems.

In the end, and regardless of the method employed, each of the utilities in those states, as in New Hampshire, treats the costs of default service (and RPS) as a pass-through. Given the pass-through nature of the costs, UES is inclined to use the process that is the most administratively efficient for itself and the Commission because such a system is most likely to create the lowest price risk for UES and its customers. Ultimately, however, the degree of risk and price impact that results from a procurement practice will depend upon the goal(s) to be advanced through any reforms to the process. For example, laddering supply contracts will help to mitigate the risk of volatility in prices, but will also result in retail prices that are less reflective of the existing market. Each goal has its own valuable attributes and UES is open to implementing processes consistent with the intended goals, so long as there is certainty and stability around those processes.

With respect to natural gas, Northern essentially operates a single gas distribution system providing service in two states. Given the physical interconnectedness of Northern's system, Northern manages its supply portfolio on a combined basis, while accounting for the supplies in a manner that assures the customers of each state bear their appropriate share of costs. Consistent with the combined nature of the supply portfolio itself, Northern notes that the review processes for Northern's cost of gas, or COG, proceedings in New Hampshire and Maine are largely the same. The relevant laws and policies relating to those proceedings are sufficiently similar that the regulators in each state have implemented substantially similar review processes and timelines. Northern sees these consistencies as valuable and worthwhile and has no present intent to seek any material changes to the processes in either state.

c. **Question 5 - The potential to leverage a regional approach to these procurements coordinated by the parent companies of these New Hampshire utilities, which have affiliates in other New England states (e.g. Maine, Massachusetts, Connecticut) and through ISO-New England markets.**

Regarding a regional approach, Unitil cautions against attempting to consolidate procurements across jurisdictions. In the first instance, it is not clear that the various methods of procurement employed by the states can be harmonized without one or more regulators agreeing to make significant shifts in the methods of procurement and/or review for their respective states. Beyond simply finding regulatory agreement, however, it is not clear to Unitil that any agreement, if it could be reached, would comport with the different legal requirements in each state. Though Unitil has not conducted an analysis to validate the concern, it is likely that statutory changes would be needed in one or more states to implement any regional approach, particularly concerning default electricity supplies.

Beyond the legal difficulties, regionalizing procurements also implicates equitable considerations. Combining supplies for purposes of regional procurements would require that those supplies and costs be later disaggregated between states and companies to assure that customers bear the appropriate costs. Given these complexities, the potential for inter-company and inter-jurisdictional cross subsidies would be significant. Though there may be value in having review processes that align with each other, as with the processes applicable to Northern's COG proceedings in New Hampshire and Maine, fully integrating the procurement presents substantial additional concerns and difficulties.[5]

Lastly, Unitil notes that there are practical impediments to regionalizing procurements. On the electric side, Unitil and Eversource have electric operations in New Hampshire and Massachusetts and could, potentially, combine procurements in some manner.[6] However, only Eversource has electric operations in Connecticut, and Liberty (within New England) has electric operations only in New Hampshire. Whether or how to include or exclude Connecticut customers, and how to include or account for Liberty's electric customers, may be difficult to address. Further, it is not clear that combining the load of the different companies would actually yield any savings.[7] Also, Unitil, Eversource, and Liberty all have gas operations in Massachusetts, but only Unitil and Liberty have gas operations in New Hampshire, and Unitil is the only company with gas operations in Maine, while Eversource is the only one with gas operations in Connecticut. While Unitil already allocates costs across states consistent with the design of its system, attempting to add additional companies and states with different procurement needs and customer loads profiles would be, at best, difficult.

[5] Northern notes that there was a joint process in New Hampshire and Maine in 2005 (*see* Docket No. DG 05-080) to evaluate how Northern's supply costs are allocated between those states. That lengthy and involved process concerned only the allocation of gas supply costs within a single company, rather than the more complicated supply procurement review the Commission seems to envision here.

[6] Unitil notes that it has historically aligned the timing of its procurements of default electricity in Massachusetts and New Hampshire, but the actual procurements have been handled separately consistent with the requirements of each state.

[7] *See* December 4, 2017 Transcript in Docket No. DE 17-113 at 56 (witness noting that solicitations of tranches larger than 100 MW of load may discourage potentially smaller providers from participating in the bidding process).

Further, if other states are to be included for procurements of electricity or gas or both, then utilities outside this inquiry would be conscripted into such procurements as well. Those utilities may have other affiliates in other states, both within and outside New England, that would need to be considered in any attempt to coordinate procurement. Given the practical difficulties, it is not clear to Unitil that there would be any efficiencies or savings to be obtained in regionalizing procurements.

IV. CONCLUSION

Unitil appreciates the opportunity to provide its perspective in these initial comments and stands ready to participate further in this proceeding. Consistent with its comments, however, in Unitil's assessment, further refinement of this investigation is required to assure that the investigation will yield valuable and meaningful information.