

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

Docket No. IR 22-053

**ELECTRIC AND GAS UTILITIES**  
**Investigation of Energy Commodity Procurement**

**Technical Statement of Liberty Utilities (Granite State Electric) Corp.**

Following is the technical statement of Liberty Utilities (Granite State Electric) Corp., d/b/a Liberty, providing responses to the questions posed to the state's electric utilities in its October 11, 2022, procedural order.

The section of the October 11, 2022, procedural order addressed to the state's electric utilities began with the following statement:

The following lines of inquiry aim to provide a further refinement to the scope of this investigation. However, further recommendations on timing, frequency of bidding, etc. to help mitigate price volatility could be explored.

In the following technical statement, Liberty begins with a summary of its current procurement practices for default service and renewable energy credits, then responds to the specific questions.

**Liberty's Current Procurement Processes**

Liberty procures default service for its customers taking Energy Service through a procurement process that is consistent with the restructuring principles of RSA 374-F and complies with a settlement agreement approved by the Commission in Order No. 24,577 (Jan. 13, 2006).

Liberty procures default service twice a year for the six-month periods of February through July and August through January. The process is competitive and open to any qualified supplier interested in providing default service to Liberty's customers.

Liberty's solicitation process begins approximately 12 to 14 weeks prior to the expiration of the existing power purchase agreements, and is outlined below:

- 14 weeks - Update models and Request for Proposals (“RFP”) documents.
- 11 weeks – Issue RFP to interested parties and NEPOOL Markets Committee.
- 9 weeks – Bidders notify Liberty regarding intent to bid.
  - New bidder proposes changes to Master Power Purchase Agreement with requirement to be executed prior to final bids.
- 7 weeks – Indicative bids received and analyzed.
- 6 weeks – Final, binding bids are received, and winning bids selected prior to 1:00 p.m. on day received.
  - Transaction executed with winning bidder(s).
  - New energy service rates calculated based on new pricing.
    - Filing made with NH PUC containing summary of solicitation, executed confirmations, and detailed rate calculation.
- 5 weeks – NHPUC has hearing to review solicitation and rates and issues order on rates.
- 4 weeks – Liberty posts new approved rates on its website.
- February 1 or August 1, new rates become effective.

Liberty and the other New England electric distribution utilities have used this or similar processes since the start of retail choice in their service territories. Wholesale suppliers who participate in these types of procurements are well acquainted with the process and rely on consistency between solicitations to schedule workloads and ensure bidding models are accurate and reflect the expected cost of serving the loads they bid on. Retail choice providers also rely on a consistent process for the procurement of default service when developing competitive pricing and services for customers who are evaluating their options when shopping for an alternative to commodity service provided by their distribution utility.

Concurrently with the default service solicitations, Liberty also issues a solicitation for the procurement of renewable energy credits (RECs) to meet New Hampshire’s Renewable Portfolio Standard. Liberty issues the REC solicitation in order to both procure RECs and to determine the market price for RECs so that the cost of RECs can be included in the Energy Service rates. Liberty will accept offers for the purchase of RECs received in this solicitation provided the offers are below the Alternative Compliance Payment for a RPS class and do not exceed the volumes required to meet Liberty’s RPS obligation.

## Commission Questions

The October 11, 2022, procedural order posed seven questions for the state's electric utilities.

Those questions, and Liberty's responses, follow.

(i) Consolidated Procurement: What is the viability of a regionally harmonized and/or a state-wide approach to energy procurement?

a. Please identify the constraints in consolidating procurement of default energy service for customers served by all New Hampshire electric utilities in a single process.

b. Please indicate how these constraints could be eliminated.

A centralized procurement administered by the State of New Hampshire would procure default service for all distribution utilities in New Hampshire instead of the current process of separate procurements by each. This could be administered similarly to the procurement of Basic Generation Service in New Jersey or Generation Service in Maine. This approach may result in greater bidder participation and lower costs due to the increased volume and value of the consolidated obligations. This process could also be structured to provide for uniform commodity rates across New Hampshire. Each utility would still have differing Energy Service rates to account for the different adjustments each is required to include in its rates. Adjustments that are unique to a utility may include annual cost vs. revenue reconciliations, the cost to meet New Hampshire's Renewal Portfolio Standards and other adjustments.

(ii) Flexible Implementation of Laddering/Full Requirement Procurement

a. the balance between achieving price stability (with risk premiums) versus exposure to market volatility.

b. laddering timeframes (including their suspension) to more closely reflect market prices with a goal to providing greatest relief to New Hampshire ratepayers, without compromising market bidding outcomes.

- c. The intervals, frequencies, timing, and scale of procurements and/or rate changes.

Implementation of a “laddered” solicitation process may reduce price volatility by taking advantage of dollar cost averaging when soliciting supply on more than a single date, and thus reducing the volatility of Energy Service rates. This is the process National Grid, Eversource, and other utilities use in Massachusetts and other states. Schedule 1 provides a chart of the default service rates for Liberty in New Hampshire and National Grid and Eversource in Massachusetts for the period January 1, 2017, to the most recently approved rates. As shown, the National Grid/Eversource portfolio processes do not result in any less price volatility when compared to Liberty’s process. Thus, Liberty is concerned that if the laddered solicitation is required, it will result in higher rates for its customers. In addition, a laddered solicitation process would require Liberty to solicit bids at various points in time for only portions of its energy service load requirements, rather than for the entire load. Given the relatively small size of that load, it is probable that many wholesale suppliers will either deem those smaller load blocks insufficient in size to warrant the submission of a bid, will result in higher bids to cover their fixed administrative costs over a smaller volume of anticipated sales. The resulting bids may also be higher to provide the suppliers with an attractive level of profit margin.

- (iii) If a solicitation fails to achieve any bid or is found to be noncompetitive, please provide back-up options that can be followed to rely entirely on spot purchases, while instituting a retail-level process that still imparts some stability in energy prices for default service customers.

If a solicitation fails, Liberty has the option to either reissue the solicitation or to serve default service from the spot market. An immediate reissue of a solicitation would not be in Liberty’s customers’ advantage since it would provide potential suppliers the information that there was insufficient participation in the original solicitation. This would potentially result in even higher subsequent bid prices as suppliers take into account the lack of competition in the first solicitation.

Liberty could serve its default service load from spot purchases in the New England real-time or day-ahead markets. Initial retail pricing for the period could be developed based on market futures at the time of the failed solicitation, but there is a risk that such retail prices would not reflect the actual cost of meeting the default service supply. Those additional costs (or savings if the market prices were lower than projected) would have to be collected (or returned) through a subsequent reconciliation.

(iv) Balance between Price Stability and Volatility: Are there tangible avenues to reduce the risk premium included in bids by balancing the speed of regulatory approval and effective oversight during the procurement process? If so, please discuss the specific possible improvements in regulatory oversight during Request for Proposals and/or procurement solicitation processes and opine on the possibility of an order nisi-based approach to the approval of default service procurements.

As with any process, there are often changes that can be proposed and implemented that improve the end result. One potential process improvement would be to eliminate the risk that a transaction agreed to between a supplier and a distribution utility can be rejected by the Commission when reviewing the results of a solicitation. While this risk has a very low probability of occurring, it is still a risk that suppliers must factor in when responding to an RFP. The process in other New England States does not require a commission order approving the utility's selection. Those commissions rely on the utility prudently following the approved evaluation and selection processes and delegate to the utility the final authority to accept bids.

Extending the service period to twelve months will introduce additional risk premiums that suppliers would need to include in their bids, which can be expected to result in higher prices for customers. Bidders would have to include larger risk premiums when providing fixed price bids for future commitments to reflect increased market uncertainties when committing for a longer period of time (customer migration risk, commodity prices, weather, regulatory changes, market changes, etc.)

Another alternative would be to allow the distribution utilities to develop a pre-approved hedging program with the goal of reducing the volatility of Energy Service rates. The distribution utility would enter into transactions to cover a portion of its Default Service load. As long as the distribution utility entered into such transactions consistent with the pre-approved plan, such costs would be fully recoverable from its customers. This would work similarly to the hedging programs that have been previously implemented by natural gas distribution companies in New Hampshire. One disadvantage of this approach is that while there is muted price fluctuation, there is no guarantee that costs would be at or below market. Additionally, a hedged or fixed price long-term pricing structure competes directly with the service offerings of Competitive Energy Suppliers. Lastly, depending on how the fixed price compares to market at a given point in time could lead to a mass migration of customers to or from Competitive Energy Suppliers. This “jumping” back and forth creates more risk for both Competitive Energy Suppliers and any supplier bidding on Default Service, leading to higher risk premiums passed on to customers

A third approach would require distribution utilities to enter into fixed-price, long-term contracts for conventional and renewable energy for a specified portion of its Energy Service requirements. These contracts would be selected through an open and competitive solicitation process and submitted to the Commission for review and approval. This approach would help reduce the volatility of default service costs by locking in the costs for a portion of a utility’s load. This approach suffers from many of the same shortcomings as the hedging alternative, including no guarantee that costs of the long-term contracts would be at or below market, competing more directly with Competitive Energy Supplier service offerings and concerns about mass migration and the associated risk premiums.

(v) Default Service Practices: With the goal of enabling consistent pricing and rates across utilities, companies are requested to share a detailed outline as well as supporting process documents on the practices that they have adopted by their affiliates in their various jurisdictions.

Liberty's affiliates in other jurisdictions have not gone through a restructuring similar to New Hampshire. Liberty's Empire District affiliate based in Missouri is a vertically integrated utility with generation, transmission, and distribution assets used to serve its customer's load requirements. Empire's customers do not have a choice of energy service providers as Liberty's customers in New Hampshire. Similarly, Liberty's CalPeco affiliate in California also does not provide its customers with access to alternative energy service providers. CalPeco also serves its customers from a combination of its own solar generation resources and a long-term contract that provides any additional requirements not met by CalPeco's own resources.

(vi) RPS: Explore possible avenues to improve ratepayer cost outcomes as well as compliance-related and administrative processes to meet RPS standards

Since the start of the RPS program in New Hampshire, Liberty has saved its customers over \$11million dollars by purchasing RECs in the competitive market as compared to meeting the obligation by exclusively making alternative compliance payments. The only complication Liberty has faced is when the RPS obligation for a RPS Class is decreased towards the end of the obligation year. This raises the potential for Liberty, and any other supplier in New Hampshire, to have prudently purchased sufficient RECs to meet the initial, higher, obligation but later has excess RECs that it may not be able to use to meet the RPS obligation in subsequent years.

(vii) Miscellaneous: Any other issues that could improve the default service process in New Hampshire.

Please see the discussion above.

**Conclusion**

Liberty thanks the Commission for opening this investigation and allowing Liberty to provide comments for its consideration. Liberty looks forward to participating in this docket.



# Default Service Rates

