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February 1, 2023

Daniel C. Goldner, Chairman
New Hampshire Public Utilities Commission
21 South Fruit Street
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Re: 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 – Department of Energy Electric Comments

Dear Chairman Goldner,

On September 6, 2022, the New Hampshire Public Utilities Commission (“Commission”), opened the above captioned investigatory proceeding to examine all pertinent aspects of New Hampshire’s renewable portfolio standard (RPS), default service and cost of gas (COS) procurements, and related Commission processes. Following a prehearing conference held on October 5, 2022, the Commission determined that it would engage in two lines of inquiry: one, for the electric utility issues surrounding default service and RPS procurements; and the second, for the gas utility issues surrounding cost of gas procurements. As indicated at the October 5th conference, the Commission requested that New Hampshire’s electric and gas utilities produce independent technical statements providing answers to several inquiries put forth in *Procedural Order Re: Data Requests for Utilities; Separation of Electric and Gas Issues* (October 11, 2022). On January 9, 2023, the Commission issued a subsequent procedural order providing that all participants to this proceeding may file responses to the utilities’ technical statements on or before Monday, January 23, 2023. On January 20, 2023, the Department of Energy (“Department”) requested an extension of the due date for reply comments. The Commission granted that request by Procedural Order issued January 23, 2023, and extended the due date to February 2, 2023. As such, the Department submits this letter addressing several key issues raised by the Commission surrounding default service and RPS procurement.

I. Default Service Procurement

a. Consolidated Procurement

The first question posed by the Commission relates to the viability of a regionally harmonized and/or a state-wide approach to energy procurement. The Department does not believe that a state-run procurement process would be the most efficient process for

New Hampshire, but rather the Department should maintain its role in regulatory oversight of the process.

Regarding the timeline and schedule of New Hampshire's default service procurement, the Department believes these are integral aspects of a successful and competitive process. As the Commission is aware, the most recent round of default service solicitations put all three electric utilities on track to solicit bids for the same 6-month period beginning August 1, 2023. Understanding the time constraints of the solicitation process, the Department believes the requests for proposal (RFP) to serve each electric utility's load obligation should be released on a staggered schedule (e.g. separated by 3-5 days). Furthermore, while the Department is hopeful this framework will produce increased rate consistency, the Department would recommend closely monitoring this alignment of solicitations. If the alignment begins to complicate New Hampshire's default energy procurement, the Commission, together with all relevant parties, should reassess whether a different schedule would be more beneficial.¹

An alternative approach that the Department has considered is the use of a descending clock auction. The Department is not recommending this approach at this time as we would need to investigate, review, and weigh the costs and benefits before considering it as a viable option. As part of this docket, one of the companies providing descending clock auctions has offered to provide a presentation, which could be useful, but would still need more investigation and consideration beyond this docket before implementation.

b. Flexible Implementation of Laddering/Full Requirement Procurement

The Commission also posed questions regarding whether a more flexible approach to combining laddering and full requirement procurement, based on the expected near future pricing trends, should be instituted by the utilities. Generally, the Department does not support the implementation of a "laddering" framework for energy procurement. Historically, laddering options offer net positive results in an increasing price market, but as market prices shift downward, the maintained higher prices established by the laddering framework drive overall increases in energy prices that otherwise may not reflect market realities. As laddering purchases are designed to mitigate market volatility, this framework produces energy rates which do not correlate well to current market pricing. The Department sees more benefit in utilizing actual, current market signals to develop energy pricing.

Furthermore, it is the Department's position that as active market participants, the utilities are 'closer' to the markets, and the impact their tranche separations have on those markets. As such, the Department believes each utility's solicitation framework should remain flexible and up to each individual utility, subject to Commission approval.

¹ Similarly, the Department recommends closely monitoring the impact community power aggregation is having on energy procurement in New Hampshire.

c. Failed Solicitation

In the event of a failed solicitation², the Department first proposes that each utility be required to re-enter the market for a second solicitation. Only after a failed second RFP would the Department recommend each utility self-supply its default service customers by purchasing power supply, capacity, and ancillary services directly from the ISO New England, Inc. markets. While this position remains consistent with the Department's stance in DE 22-021 and DE 22-024, the Department would also support a utility going out for a third or subsequent solicitation if time is available and market conditions suggest it may be worthwhile. Self-supply should always be the last option.

II. RPS Procurement

The Department's position is that RPS compliance by regulated utilities should be the responsibility of the utility and should not be included with the bids that a supplier provides to the utility in response to a solicitation for full requirements, load following service. The Department agrees with comments included in the Technical Statement of Unitil Energy Systems, Inc. (UES) which stated, "managing its [renewable energy credit] REC procurement separately from default service procurement results in lower cost to ratepayers." See UES Technical Statement at 11. The Department shares UES' concerns that "wholesale suppliers may [...] manage their risks in the REC markets by only bidding ACP [alternative compliance payment], which would not result in the least cost option to ratepayers. Further, requiring the utility to manage RPS compliance provides the opportunity for reconciliation of RPS costs which ensures that ratepayers pay only the actual costs of compliance with no added hedging or RPS risk management costs. RSA 362-F and Administrative Rules Puc 2500 govern the RPS and compliance thereof. Any changes to compliance or administrative implementation must meet such provisions.

III. RPS Compliance

On an annual basis, pursuant to RSA 362-F:4, VI, the Department considers the need to evaluate whether a sufficient supply of Class III (Existing Biomass/Methane) renewable energy certificates (RECs) will be available for New Hampshire electricity providers to comply with New Hampshire's RPS requirements under RSA 362-F for the corresponding compliance year.

Specifically, RSA 362-F:4, VI states, "After notice and hearing, the department of energy may modify the class III and IV renewable portfolio standards requirements under RSA 362-F:3 for calendar years beginning January 1, 2012 such that the requirements are equal to an amount between 85 percent and 95 percent of the reasonably expected potential annual output of available eligible sources after taking into account demand from similar programs in other states."

² A failed solicitation includes a failed auction in which no bids were received or a solicitation in which the utility determines the bids were not competitive or do not reflect market conditions.

In the first quarter of each calendar year, after notice and hearing, the Department uses both public comment and New England Power Pool (NEPOOL) Generation Information System (GIS) data to consider whether an adjustment should be made to the Class III requirement for the previous calendar year. Background on this process, including issues regarding the timing of the review, are available online as outlined in the March 31, 2022, Department Order Adjusting 2021 Class III Obligation.

As outlined within the March 31st Order, the timing of the Class III obligation review involves significant trade-off between earlier regulatory certainty and confidence in the information providing the basis for that decision-making. Significant REC-eligible production data from GIS and other sources, as well as sales data impacting the total obligation for the year, is not available until quarter one of the following calendar year. Impacts from regulatory changes in other states would also be extremely difficult to determine until this data is available. As such, to set an obligation prior to this information being available would require the Department to make a judgment with very little information and increase the risk of imprecision that could significantly impact costs to ratepayers. For these reasons, the Department has determined it is most prudent to conduct this review in the first quarter of the following calendar year.

The current review schedule allows for the obligation to be known in advance of the final trading deadline for the compliance year, which is June 15 following the end of the calendar year, and is considered to be the best balance of interests and requirements under the statute. The Department may continue to consider reasonable adjustments to the timing of this review.

The Department appreciates the opportunity to provide comments in this proceeding, and looks forward to discussing these issues, and others, further.

Sincerely,



Matthew C. Young
Hearings Examiner/Staff Attorney

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Service List - Docket Related

Docket# : 22-053

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