ORIGINAL

RE: DE 24-065

PUC HEARING

October 01, 2024

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 1, 2024, 9:01 a.m.
21 South Fruit Street, Room 10
Concord, New Hampshire

ORIGINAL

RE: DE 24-065
Unitil Energy Systems, Inc.
2024 Default Service Solicitations

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay
Alexander F. Speidel, Esq., Legal Advisor
Tracey Russo, Clerk

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APPEARANCES:

Reptg. Unitil Energy Systems, Inc.:
Alice Davey, Esq.

Representing Residential Ratepayers:
Donald M. Kreis, Esq., Consumer Advocate
Office of the Consumer Advocate

Reptg. New Hampshire Dept. of Energy
Matthew C. Young, Esq.
Stephen Eckberg, Analyst

Court Reporter:
Nancy J. Theroux, LCR, RPR #100
(RSA 310-A:161-181)

I N D E X

I N D E X - Continued

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P R O C E E D I N G

CHAIRMAN GOLDNER: Good morning. I'm Chairman Dan Goldner. I'm joined today by Commissioner Pradip Chattopadhyay.

This is the hearing on the Unitil proposal made pursuant to the Commission directive presented in Order No. 27,020 and filed on July 25th, 2024, for market-based default service procurement reforms considered here at Docket DE 24-065.

A Supplemental Order of Notice regarding this phase of the proceeding was issued by the Commission on August 23rd, 2024. A Subsequent Procedural Order issued by the Commission on August 28th rescheduled our hearing in this matter to today's date, and granted the OCA and any interested party leave to file testimony in this proceeding.

The OCA filed the testimony of Dr. Marc Vatter on September 13th. The DOE filed a position statement presented by Attorney Young regarding these matters on September 13th.

Unitil filed its proposed witness and

exhibit list on September 24th, 2024. Unitil requests a Commission decision on this proposal no later than October 5th. We only have this morning to address this proposal at the hearing prior to October 5th due to other scheduling commitments, so we need to have a focused and efficient case presentation format today.

The Commission definitely wants to hear from Dr. Vatter at today's hearing on the stand; however, we may wish to take up the substance of Dr. Vatter's recommendations and those points discussed by the DOE position statement at a later date after our rendering a decision on the discrete proposals made by Unitil on July 25th. We also -- we also wish to give scope to the parties for brief closing statements.

In light of this, we'll adopt the order of witness approach presented by Unitil in its September 24th filing. First we'll hear from the Unitil panel of Mr. Pentz and Ms. McNamara. Following a brief recess, we'll then have Dr. Vatter take the stand for the OCA.

We note the proposed Exhibits 5 and 6 presented in the Company's September 24 list. When we take simple appearances from the parties, we'll ask that each party indicate whether they have any objections to these proposed exhibits.

Okay. Let's now take appearances from the parties, beginning with the Company.

MS. DAVEY: Good morning, Commissioners. Alice Davey appearing on behalf of Unitil Energy Systems, Incorporated.

No objection to exhibits.

CHAIRMAN GOLDNER: Thank you. And the Office of the Consumer Advocate.

MR. KREIS: Good morning, Mr. Chairman. I'm Donald Kreis, Consumer Advocate. We have no objections to the marked exhibits.

CHAIRMAN GOLDNER: Thank you. And, finally, the New Hampshire Department of Energy.

MR. YOUNG: Good morning, Mr. Chairman. Matthew Young on behalf of the Department of Energy. With me today is Steve Eckberg, who's an analyst in the Electric

Division.

And we have no objection to the proposed exhibits.

CHAIRMAN GOLDNER: Thank you.

Okay. I'll now swear in the witnesses.

(Whereupon, JEFFREY M. PENTZ AND LINDA S. McNAMARA were duly sworn by Chairman Goldner.)

CHAIRMAN GOLDNER: Thank you. The witnesses are available for direct.

DIRECT EXAMINATION

BY MS. DAVEY:

Q. Thank you. I will start with Ms. McNamara.

Please state your name, employer, the position you hold with the Company, and your responsibilities.

A. (McNamara) Good morning. My name is Linda McNamara. I'm a Senior Regulatory Analyst for Unitil Service Corp., and part of that responsibility is the default service rates and tariffs.

Q. Here in Exhibit 5 is a technical statement

authored jointly by you and Mr. Pentz.
Was this technical statement prepared by you and under your direction?
A. (McNamara) Yes.
Q. And do you have any corrections that you wish to make today?
A. (McNamara) I don't.
Q. And do you adopt the technical statement as your sworn testimony as it's written and filed?
A. (McNamara) Yes.
Q. Thank you. I will move on to Mr. Pentz.
Please state your name, employer, your position with the Company, and your responsibilities in that position.
A. (Pentz) Good morning. My name is Jeff Pentz working for Unitil, and my title is Supervisor of Energy Supply, where a part of my responsibilities include procuring default service.
Q. Here in Exhibit 5 is a technical statement authored jointly by you and Mr. McNamara. Was this technical statement prepared by you or under your direction?

A. (Pentz) Yes.
Q. And do you have any corrections you wish to make today?
A. (Pentz) I do not.
Q. And do you adopt the technical statement as your sworn testimony as it's written and filed?
A. (Pentz) Yes, I do.
Q. And, Mr. Pentz, have you had the chance to read the testimony presented by the Office of the Consumer Advocate in this proceeding?
A. (Pentz) I have.
Q. And do you have any initial concerns, based on your reading, on implementing the OCA's proposal?
A. (Pentz) We have concerns.
Q. Would you mind explaining, briefly, those concerns.
A. (Pentz) Sure. So the Office of the Consumer Advocate's proposal for procuring default service in futures contracts essentially relies on the futures markets, which is a derivative market, to procure default service.

You know, there are -- there's many complexities to that that would require, essentially, actively managing a portfolio. And it is mentioned in the testimony that, you know, futures contracts would have to be traded, essentially, you know, in order to essentially procure the accurate amount of supply.

And, you know, we have concerns, you know, number one, I would say with just forward market energy logistics. It would require a significant amount of attention to procure three years in advance. We essentially would have to establish a -- a trading desk to handle the trading in and out of positions, most likely on a daily basis, depending upon settled load volumes and pricing.

And the Company does not have that expertise. You know, we're the provider of last resort default service. We don't have a trading desk. We got rid of that trading desk years ago when restructuring happened.

So we do have significant concerns with just the administration in procuring default service in a derivatives market. I think the -- as default service loads continue to erode, the administrative cost of procuring default service in the futures market could be significantly high, especially when compared to the default service loads that could be serviced three years from now. We don't know what those loads are, but, you know, the administrative costs, we view, could go up substantially if we're actively managing a portfolio, uh-huh.

Second reason we have concerns about is pricing risks. So if we lock in a futures contract three years from now at a certain price, and the market goes down, then you're -- you know, essentially have to trade out of that position or accept that you've entered into a contract at a higher price than where the market's at.

And that just doesn't seem to us, you know, the proper way, essentially, to procure energy, especially since default service is -- the way we understand it, it's meant to be a barometer of the market. You know, we've been in six-month contracts for a while now. So we do have concerns with pricing risk.

You know, I would say our last concern -- significant concern is just operational and business risk. You know, the -- in Mr. Vatter's testimony, you know, he clearly states that it's the responsibility of the Utility to settle futures contracts in the open market and no stranded costs could be recovered. The IOU assumes the load risk. And so that, essentially, shifts the risk from the wholesale supplier to the Utility, which is, you know, to us not -- not acceptable.

Q. Thank you, Mr. Pentz. Do you have anything else to add on that?

A. (Pentz) I do not.

MS. DAVEY: Thank you. These witnesses are available for cross-examination.

CHAIRMAN GOLDNER: Thank you. We'll move to cross-examination, beginning with the New Hampshire Department of Energy.

MR. YOUNG: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. YOUNG:

Q. My questions are -- I think the first one will be for Mr. Pentz, but either witness is free to answer.

So first I wanted to talk about, I guess, the technical statement that was submitted by the Company in this docket. As you made more -- I guess, as you know, the Commission was interested in exploring self-supply for the large customer group. And I'm wondering if you can just explain a little bit about why the Company did not propose to change how they procure energy for the larger customer group.

A. (Pentz) Sure. It's -- as I mentioned in the technical statement, the large customer group has been procured differently than the other two EDCs for a while now; whereas, we procure large customer load -- at least the energy component, we just pass through the market prices. And the energy costs, as a part of the entire cost to serve load, is around 75 percent of the cost. So the large customer group is already receiving a passthrough of around 75 percent of the cost survey, which is the energy component.

We feel that that model has worked.

We've had sufficient participation from bidders on that model, where they submit fix aggregates to cover non-energy costs, such as capacity and ancillary services.

There is inevitably supplier margin in there as well. But that model has been working for us, and, you know, we don't -- we don't see a reason to deviate from that model.

Q. So, essentially, because of the 75 percent passthrough -- I guess it's just me confirming what you just said -- that the Company feels that that is sufficiently market based; would that be a fair characterization?

A. (Pentz) Yes, that's correct.

Q. Okay. So then, I suppose, moving to the proposal itself with a 30 percent, the Department -- my understanding of the historic process was that the Utility was responsible for paying the contracted energy supplier monthly for the energy. And then, under this new initiative, there will be, I believe it is, twice weekly payments to the ISO for the energy provided?

A. (Pentz) Yes, that's correct.

Q. Does the Company have any concerns about the impact that this may have on the Utility's financial situation, you know, things like cash working capital?

A. (Pentz) Sure. I haven't explicitly done that analysis of working capital. I do -- from what I recall of the last default service hearing, there was an exercise done on the -- on the stand, and I believe those costs were minimal. However, I don't want to be the final record on that.

You know, one thing to think about as well is, the default service loads are going to drop off quite a bit with the implementation of the congregate aggregation. And it -- it may end up, at least if you anticipate that aggregation, in a wash, wherein the default service loads are going to go down significantly. Self-supply is going to go up from 10 to whatever percent it goes to. So it may not have an impact, but I don't want to be the final voice on that.

Q. Okay.

A. (McNamara) And could I just add on that as well.

Like Mr. Pentz, I don't want to be the

expert witness of a financial statement, but I can give you some facts on the -- at least the lead-lag, the number of days lag is approximately double on -- because of the, you know, increase on the payment schedule for the market-based costs.

To the extent that the Company has any concerns over that per se, assuming those costs are stable, I can't see there being any, you know, significant concerns, other than, of course, the number of days lag is higher, which leads to higher working capital. I mean, that is a concern.

But the supplier costs are -- are known, and, you know, the Company could, you know, make whatever kind of decisions, knowing in advance the impact on working capital. Whereas, if the market did something substantial unexpectedly, then, of course, it could -- it could cause a problem.

Again, not -- you know, that's all guessing what the market might do. But knowing that the number of days' lag is --is, you know, double the cost and double -- double the number of days, and -- and, then, again, adding that you don't necessarily know what the market might do, so it could cause fluctuations in your working capital.

MR. YOUNG: Thank you both for those thorough answers.

The Department has no further questions for these witnesses.

CHAIRMAN GOLDNER: Thank you, Attorney Young.

We'll turn now to the Office of the Consumer Advocate.

MR. KREIS: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. KREIS:

Q. I think all my questions are for Mr. Pentz, but I don't mind if Ms. McNamara wants to contribute any insights. All is welcome.

I want to start by asking a couple of questions about the Company's proposed procurement plan. And my concerns exclusively relate to the residential class. It's not that I am indifferent to commercial industrial customers, but, of course, our job is to represent the interests of residential customers, so I'm focused on effects on them.

My first question has to do with the fact that, unlike the other two investor-owned utilities, Unitil is proposing to make all of its market purchases directly in the spot market without participating at all -- or making any purchases in the day-ahead market.

Am I understanding the proposal correctly?

A. (Pentz) That's correct. We are maintaining -- we are planning to maintain the real-time purchase model.

Q. And can you remind me why Unitil feels like it doesn't need or did not opt to make purchases in the day-ahead market?

A. (Pentz) Making purchases in the day-ahead market would require us to, essentially, come up with a load forecast in the day-ahead market, so it -- it would add some cost to the -- to the procurement of default service.

Just to elaborate furthermore onto that. You know, from looking at the data, real-time versus day-ahead, there -- there will be occasions where the real-time market will spike. We saw it on August 1st where the energy prices, for a couple hours, were in excess of $1,000 a megawatt hour.

Now, if you look at -- you know, when we're procuring default service for a six-month period, you know, it's important to keep in mind all the other hours in that six-month period where the real-time market settles.

And when you do a weighted average, you know, from -- what I've seen is, you know, the day-ahead market does trade at a slight premium, because you have generators and bidders that want to lock in day-ahead, and then, you know -- in the real-time, when there's unexpected generation that comes on, let's say, from solar resources, that market naturally goes lower.

So, you know, we -- we have looked at the data, and, you know, just -- we don't see any significant concerns when you look at it over an extended time period.

There will be shocks to the system. You know, I will say ISO New England does have a capacity market, so the region is sort of insulated from price shocks like that, unlike some other markets in the country that don't have a capacity market.

There's -- there are programs at ISO New England, such as pay for performance, that, you know, either reward or penalize generators in case they don't perform on those scarcity events. So there are mechanisms to sort of recover from a shock like that for an hour or two.

You know, we saw on August 1st that, you know, there were generators that kicked in immediately after the large unit tripped offline. And I may be going into too much detail here, but I just -- you know, for the sake of defending in the real-time markets, we just -- we don't see the administrative cost as -- I mean, we just see that it's not a huge burden.

Q. As far as I'm concerned, you did not go into too much detail. That's exactly the kind of insight I was hoping to tease out by raising this particular issue.

So I just want to make sure I understand your answer. You mentioned August 1st. My favorite example of those little blips in the real-time market is Christmas Eve of 2022, when the price crashed and then went through the price ceiling of $2,000. Of course, there was -- additional penalty payments were paid by generators that didn't show up when dispatched.

But your testimony, as I understand it, is that those events are relatively few, and in the aggregate, they don't have that much of an effect on the prices that customers would actually pay for default services.

Have I understood you correctly?

A. (Pentz) Yes, that's exactly correct.

And, you know, I will add, one additional market that will be opening up, come 2025, in ISO New England is a day-ahead ancillary services market, which should provide -- which would put even less pressure on real-time prices.

Q. So I guess the only pushback or my only skepticism has to do with the idea that this would impose additional administrative costs, because you have to estimate a day ahead what the default service load is going to be.

The load is highly predictable 24 hours in advance, isn't it, from your perspective?

A. (Pentz) I don't know that for sure. You have customers that are switching, in my reading, between suppliers on a daily basis. I think with -- when you're looking at creating a load forecast, you have to take into account many different variables. And I -- we just didn't see it as worth pursuing at the time.

Q. And isn't it true that in a well-functioning market, the day-ahead price and the real-time price should be pretty close to each other, absent the kinds of unexpected things that happened on August 1st?

A. (Pentz) Typically. I would say the day-ahead market does trade at a premium slightly.

Q. Slightly. So how much of a premium?

A. (Pentz) From what I've seen, it can range from 2 to $3 per hour.

Q. Your proposal is to procure 30 percent of your default service load via the real-time market, and you were directed by the Commission to make a proposal to procure at least 30 percent, and you landed right at 30 percent. You could have come in here and proposed 100 percent procurement via the spot market. Why didn't you do that?

A. (Pentz) The -- the Company understands that the reasoning behind the spot market purchases, it's to bypass supplier risk premiums.

You know, that -- that does provide a certain benefit, you know, assuming the market goes the right way. With full requirements contracts, there's insurance baked in the price, which -- also known as risk premiums.

It's -- it's a balancing act. You know, we were given the 30 percent minimum threshold. We decided that was the right amount of risk for the Company's residential ratepayers. Ultimately, we put forward a proposal that complied with the directive of the Commission.

But in terms of -- who's to say how much residential -- how much risk residential ratepayers should tolerate, I mean, that's -- that's not, essentially, the Company's decision. That's a public policy question.

Q. I have noticed that's a fairly fashionable answer, in that that phrase has been uttered a couple of times over the course of the last couple of weeks from the witness stand.

In your technical statement, you said, "The Company believes that the 30 percent procurement target complies with the Commission's directives while maintaining the least amount of direct market exposure in this still relatively new-to-the-Company method of procuring basic service in New Hampshire."

I want to make sure I understand that sentence. I'm tempted to infer that the Company, if allowed to do whatever its best judgment told it to do, would not acquire any of its default service load for residential customers via the spot market.

Is that a correct inference?

A. (Pentz) I -- I wouldn't necessarily confirm that. I -- that's a question that wasn't posed to the Company, and we -- we did not deliberate that specific question, so I --

Q. Well, it is a question that I just did pose to the Company. So what's your answer?

A. (Pentz) I -- I -- I don't have an answer to that question.

Q. Okay. Again, you're in good company, refusing to answer that question.

Your attorney anticipated my interest in getting your reaction to what Mr. Vatter proposed on behalf of the Office of the Consumer Advocate relative to acquiring default service in the futures market, and -- so I want to follow up a little bit about that.

I -- I guess, at the risk of sounding glib, the gist of your comments seem to be -- and, again, I want to make sure I'm understanding you correctly. The gist of your comments seem to be, we just don't feel like doing that because it would require effort and insight that we don't feel like applying to this task.

Have I understood you correctly?
A. (Pentz) I don't believe that's accurate. I clearly stated that there are pricing risks as well as significant operational and business risks to the Company in the case that the Company makes a bad bet in the derivatives market, which is a futures market, and that could expose the Company to significant losses if underlying settlements deviate from whatever the price of that futures contract is.
Q. Sure. If that scenario were to come about, the Company would take steps to mitigate its risk; would it not?
A. (Pentz) Which would require, you know, essentially hiring a trading desk and significantly increasing the cost of administering that default service.
Q. Indeed, and that's what I meant when I said the Company just doesn't feel like doing that.
A. (Pentz) I -- I wouldn't characterize it as we just don't feel like doing it. We have, as I've identified, significant structural risks and reasons to not procure energy in the futures

market.

Q. So talking about risk mitigation, you mentioned that what Mr. Vatter has proposed shifts risk from the suppliers to the Utility, and you characterized that as not acceptable.

Does it shift any risk from the customer back to the Utility?

A. (Pentz) I mean, in -- in my opinion, the Utility would be responsible for making the decisions in this particular model of trading in the futures market.

I -- I don't know if, at this time, that would have any impact on residential ratepayers, because I just -- I haven't -- we haven't fully into -- went into detail in the proposal. It's a complex proposal, so we don't know, you know, if -- that there was no mention of, you know, how these costs could potentially shift to residential ratepayers. We just don't know.

Q. I think, finally, you characterize default service as the Utility acting as the provider of last resort. How do you know that default

service is the provider of last resort?
A. (Pentz) The provider of last resort is a term that is used in some other states to describe default service.
When restructuring occurred, you know, the thought was that the default -- that the Utility should be, essentially, the provider of last resort, and that the markets would be opened up, and customers can choose freely which supplier they'd like to enroll in.
And we've seen in the past couple of years, you know, many customers enrolling in aggregations, and default service is, you know, becoming, seemingly, the provider of last resort, with default service loads significantly declining.
Q. But that phrase, "provider of last resort," I picked up from Texas. It doesn't, to your knowledge, appear anywhere in New Hampshire law; does it?
A. (Pentz) I -- I don't know that. I'm not aware.
Q. And it's, of course, not, essentially, significant to really quibble over that exact

phrase, but my real point here -- and I just would love to have your perspective on it is -- is it inevitable that default energy service always has to be the provider of last resort service, or would it be possible for the Company to structure default service in a way that made it actually attractive as on option to be considered alongside all of the other options in this wonderful restructured world of electricity in which we all now live?

A. (Pentz) It's the Company's understanding that default service procurements are to provide a -- establish a market price, you know, that suppliers can compete against.

You know, we're following Commission directives in our procurements. You know, the price is what it is. We're going out every six months. So, in that sense, we are potentially not the provider of last resort, if the customer chooses default service. In that customer's mind, perhaps we are not the provider of last resort.

MR. KREIS: Thank you, Mr. Pentz. I

appreciate your thoughtful answers to my questions. That's all I have.

CHAIRMAN GOLDNER: Thank you, Attorney Kreis.

We'll turn now to Commissioner questions, beginning with Commissioner Chattopadhyay.

BY CMSR. CHATTOPADHYAY:

Q. Good morning. My -- some of the questions here will be about the markets, so probably the answers will come from just one of the witnesses mostly, but feel free to jump in if, you know -- however you wish.

So is the Company aware that the other two utilities that we regulate here and have -- you know, have default service procurements, they -- when they are going to the market, the ISO New England market, they are first forecasting what's the day-ahead market load, and they're getting exposed to the real-time prices only for the deviations?

A. (Pentz) Yes, I'm aware.

Q. Since you talked about August 1st, I have the information in front of me. I'm looking at ISO New England information. Those two spiky prices in the real-time happened in the hours beginning 18th hour and the 19th hour, and, otherwise, for the day-ahead market for those hours, the prices were pretty normal.

And so, while it is true that overall for the real-time prices, your, you know, average impact would be not a whole lot. Going from 10 percent to 30 percent, won't you think that it may be reasonable to start probing whether even Unitil should be forecasting load day-ahead market and, you know, procuring the -- the market tranche, you know, like the way the other utilities are doing?

A. (Pentz) Well, the other two utilities -- I mean, you know, they're -- they're free to, you know, engage in however -- the way they -- they desire. You know, Liberty, they're a much larger utility and have establishments all across the country, and I know they -- they have active trading desks. Eversource, much larger utility, largest utility in New England.

You know, Unitil, you know, we don't necessarily have that expertise. You know, given what I've just said, after looking through the real-time data versus the day-ahead, you know -- and I feel like you need to consider, too, is the load volumes are going to be significantly smaller come next year.

And we -- you know, given those assumptions, we just -- we don't feel the need -- the necessity to bid on the day-ahead market. You know, for example, July 2024, the average real-time price for the entire month was $43.30. Day-ahead was 46.76. Came out a little ahead that month.

Q. Well, this is basic economics. I mean, if you're going to buy something, you know, hedging ahead of time, then there will be a little bit of premium. That's what you're talking about here, so I understand that. And I'm not talking about having a trading desk.

Don't you forecast what the load is going to be in whatever period you look at? Doesn't Unitil do some sort of forecasting of load?

A. (Pentz) I'm aware that our finance group does forecast retail sales. I believe that's only done on an annual basis.

Q. Do you think forecasting can be done without even having to rely on a trading desk?

A. (Pentz) I think we could potentially explore working with a vendor to do that, but we don't have the expertise in-house.

Q. That is exactly how Eversource does it. Are you aware, you know, generally speaking, that they don't have a trading desk? I'm talking about New Hampshire.

A. (Pentz) Yes, I'm aware.

Q. Do you have a -- do you have a sense, if at all, how much it might cost to get somebody to forecast daily what's -- what's the load next day?

A. (Pentz) I don't have a sense of what the cost is. From -- you know, from what I have gleaned upon in transcripts from other companies' default service hearings, it could be in the upper five figures, I believe. But I'm not -- I'm not 100 percent familiar.

Q. If the Commission required the Company to make these market purchases, day-ahead market, and deal with the deviations in the real-time market, would it be very difficult to implement it? How much time would it take?

A. (Pentz) I don't think it would be implementable for the next service period --

Q. Thank you.

A. (Pentz) -- because we would have to, essentially, search for a vendor, contract with a vendor, set up a data feed to that vendor, because they would need to know what customers are switching on a daily basis.

So, I mean, it would be quite a process. It wouldn't be something that could be done in a month or six months, I don't -- I don't believe.

Q. Aren't there third parties that forecast?

A. (Pentz) I'm sorry?

Q. Aren't there third parties, others that forecast the load?

A. (Pentz) Yes.

Q. And daily load?
A. (Pentz) I apologize. Are you referring to outside vendors that could possibly do this service?
Q. Yes. And then you -- exactly.
A. (Pentz) Yeah, I'm aware of service providers that could forecast those loads.
Q. So I'm just trying to understand. So when you're saying it will take time to have some arrangement, when you reach out to these outside vendors, you're talking about it will take some time. That's what you're saying?
A. (Pentz) It's gonna take time to reach out to vendors -- yeah, it's going to be a process. We don't know how long that would take, but --
Q. Okay. I'm going to move on to the issue of large customers. And do you have a sense what the fixed adder is relative to the total cost? And I'm going back to -- I believe this approach was started in 2012. So do you have a sense, like, how much is that adder relative to the total cost?
A. (Pentz) I don't have that data in front of me

right now. I -- I do know that the monthly prices, wholesale rates, are in the default service filings. So in the previous filing, those final wholesale rates would be in there for the large customer class. And the fixed adders themselves are in those filings as well.

Q. So we can look at that and get a sense. But that will be for only that particular solicitation, right? I mean --

A. (Pentz) Sure. I think that, you know, it really depends on the time of year as well, because, in the winter months, you know, you -- you could have energy costs being significantly higher than what the fixed adder is, because the fixed adder essentially covers capacity and ancillaries, which are a very small part of the market. So the ratios would be significantly different in the winter -- in the winter versus the summer when energy is typically lower.

Q. Agreed. So for winter and summer, the ancillary may be different. But really, what I'm trying to get at is there's -- the premium that the marketer is trying -- you know, puts into the price, the fixed adder, that's what I'm trying to understand, so --

A. (Pentz) I can -- I can take that back and look at some numbers, but I know we -- for the residential and the small and medium commercial group, we do what's called ratio analysis, where we look at the forwards versus what's -- the bids we receive. We don't do that for the large customer group.

Q. This is really not necessarily going to sort of impact the decisions here, so we can wait. But, you know, we -- I am -- I am interested in understanding how that premium has worked out over time, so -- this question is more about historical data. Okay.

Trying to understand the community power development supply. Right now, what percentage of the total load -- previously, when you didn't have community power -- has now moved to community power? Can you give me a sense?

A. (Pentz) I -- I can say that currently, when I recently looked at our retail sales report breakdown -- I believe this is from August -- is that it's almost a 50/50 split for the residential customer class. And what I mean by that is 50 percent of the load is served by aggregations, a small piece by competitive suppliers, and the other 50 percent is on default service.

Q. And with Merrimack County going for community power -- I'm assuming when you talked about Concord, that's what you were talking about, right?

A. (Pentz) Well, the City of Concord has its own unique aggregation plan. It's not part of Merrimack County.

Q. Okay.

A. (Pentz) The county model is a little bit more complex, in that, if you're a town in Merrimack County, you have to vote to participate in the county-wide program. Otherwise, you could form your own aggregation.

Q. How would that percentage that you've talked about, 50 percent, and the rest community power and competitive suppliers 50 percent, would change with Concord going for community power?

Can you give me a sense?

A. (Pentz) We're forecasting that with the implementation of the Concord aggregation and the Town of Bow, which is part of the Merrimack County aggregation, those will be implemented, I believe, within the next couple of months. That 50/50 split will go to around 80/20. So 80 percent of the default service, residential load -- this is just the residential load -- will be with aggregations and a small slice of competitive supply.

Q. When that happens, are you concerned that when you do solicitations for default service, you may not receive bids, and you may have to naturally go to the ISO New England market?

A. (Pentz) I did take a look at these -- at these numbers. And, if you wouldn't mind, just give me a second so I can bring it up.

Q. Absolutely. Take your time.

A. (Pentz) Okay. So I did a survey of wholesale suppliers during the last solicitation, just to gauge what their minimum customer demand and the asset level would be for them to participate.

They range from 5 megawatts to 20 megawatts minimum.

So, currently, the peak load for the residential default service classes is around 71 megawatts. That's with the 50/50 split. If that changes to 80/20, you're talking upper 20s, probably 28, 29 megawatts.

You know, when we factor in the 30 percent self -- well, whatever percentage is self-supply, let's say it's 30 percent, then you have to reduce that number further, and you reach around 23, probably, 24 megawatts. So -- I don't believe there's any concern with 30 percent.

My concern would escalate if it goes significantly higher than that. I think if -- anything over 50 percent, I would -- I would likely have concerns that suppliers may not be interested in the load, but I don't know this for sure.

Q. With Concord and Bow going for community power, you said it's -- the split is going to move from 50/50 to 80/20, 80 being community power and 20 default service. Are there other communities out there that, in the future, are going to go -- are going to be community power, you know, aggregate -- they go to community power aggregation, that will end up moving you from where you just described you are to a point where you're already below 20 megawatts or maybe even 10 megawatts; is that possible?

So what I'm trying to understand -- sorry -- is, has the thing played out enough already, or will it keep moving to -- instead of just 80/20 to even further?

A. (Pentz) Thank you. I understand the question.

The aggregations have typically come in waves. You have wave one, which were two fairly large-sized towns. And you have another wave where five more towns went. After those seven towns were implemented, by mid-2023, the split was 75/25 default service. Now we're at 50/50 with eleven towns, I believe. With Concord and Bow, 80/20.

I'm not aware of any other towns at this time that are considering aggregations, from my knowledge. Of course, I don't know that for sure, because there could be conversations tonight happening in communities around Unitil service territory.

So from my opinion, the low-hanging fruit, if you will, is -- you know, has already been taken. I don't know how fast it's going to be coming in the future.

Q. Do you have any experience from what goes on in Fitchburg, or has happened in Fitchburg, that might help you see how things might move?

A. (Pentz) In Fitchburg, there are four central communities, and the last town -- three out of four of them are already in an aggregation. The last town is actually going to be aggregating, I believe, this December or January.

So in terms of, you know, what our gleanings from Fitchburg, we still do have full requirement service solicitations there. The participation is not as great as in New Hampshire.

Q. Okay. Based on what has transpired in the communities that are already big community power aggregation, meaning -- I think I heard talk about seven towns are like -- 2023, that are already there. Can you give me a sense of how many customers are opting out in percentage terms?

A. (Pentz) That figure is around 1 to 2 percent.

CMSR. CHATTOPADHYAY: Thank you. That's all I have for now.

BY CHAIRMAN GOLDNER:

Q. Thank you. I'd like to start with mechanics of the large customer process.

Mr. Pentz, you -- you mention in your technical statement that this was implemented in 12-003, and that your -- it's a passthrough price based on the LMPs.

Can you just walk us through how the procurement process works, so that we can understand how the LMP price is secured, and then what -- how that adder is secured. And then I think you said the relationship between the two was 75/25, but I wanted to just maybe ask for your help to understand the process.

A. (Pentz) Sure. And from a settlement's mechanics, the formula that's in the wholesale contract with the supplier states that the -- it's basically a weighted average of the load and the hourly LMPs.

And the supplier sends us a bill with the fixed adder piece, which is the non-energy component. That's the component that the winning bidder submits to us in the solicitations. On top of that fixed adder is just simply the weighted average real-time cost based on the New Hampshire load zone.

Q. So this is a mechanism where you're using a third party to -- to do the work of the purchases, and -- and gives the Company some, I guess, stability of process or ease of implementation; is that -- I'm just trying to understand the reasoning behind the current process.

A. (Pentz) Right. I mean, the reasoning -- I mean, that goes back to 2012 when I was not with the Company. But from my gleanings on the testimony that was submitted in the decisions back then is that -- that the Company wanted to continue holding options for large customer load to maintain the competitive nature of the markets.

So, you know, one -- one actual

significant element as to why the Company went to passing through the LMPs as opposed to, you know, a fixed price is that bidders were very hesitant of participating in the large customer class for fixed prices because of the potential for large fluctuations in load.

When you have a few large customers -- you know, in Unitil's instance, maybe a couple hundred. If you have ten of those that are really large and shift away during the term that a wholesale supplier provides that service, it could, you know, cause issues for the supplier and, you know -- there may be differences that arise, you know, in the -- how much energy to procure beforehand and how much they need to pick up if any -- a lot of accounts migrate away. So there's load -- I think they call that, yeah, load migration risk, you know, issues.

So that was a -- from what I recall, one of the central reasons why the Company deviated from just asking suppliers for fixed prices to passing through the LMPs.

Q. And have you had the opportunity to compare --

pardon me -- the results that Unitil got in this process since 2012 to what the Company would have gotten had they gone with -- I'll call it the process that -- that Eversource and Liberty are working towards, in other words, just going through the ISO New England market?
A. (Pentz) I have not done that analysis.
Q. Would that be something that would be problematic, or is that something that -- that the Company could perform?
A. (Pentz) Yeah, that -- that -- that would be, from my opinion, a fairly simple exercise, because the real-time market prices are already established.
Q. Excellent. And so, just getting back to that 75/25, I just want to make sure I understood what you were saying. In the -- I think you said -- and I might have gotten this wrong -- the 75 is the LMPs. The 25 percent was the fixed adder, which includes ancillary charges and capacity and so forth. Is that how it breaks out?
A. (Pentz) Well, I think, if you look at over a one-year term, that typically is how it breaks out. I think you have to look at it season by

season as well, where in the wintertime, for example, you may have 90 percent energy versus 10 percent that's the fixed adder cost, right? That may be -- the energy cost may be a little lower in the shoulder season. You know, it could be -- it could be 50 percent of that wholesale cost ultimately is energy, and 50 percent is the fixed adder.

Q. Okay. Because I think, just doing the math in my head, and we can -- perhaps the Company can do that calculation and eliminate all doubt, but I think -- typically, the ancillary charges, plus capacity and so forth, everything but the ISO New England price is about $10 a megawatt hour over the long haul, at least over the last few years. Would you agree with that so far?

A. (Pentz) I would need to look at the data. I don't know that off the top of my head.

Q. Something like that. I mean, I'm using the Company's spreadsheets, and I'm cheating a little bit.

So if we granted that roughly $10 a megawatt hour, then, I guess, the fixed price adder, which is what Commissioner Chattopadhyay was -- was sort of trying to -- trying to understand. I think that would be in the neighborhood of, you know, $15 or $20 a megawatt hour. I know we can run the data and figure out exactly what it is. But am I in the ballpark, or is that an order of magnitude off?

A. (Pentz) It sounds reasonable to me, but I -- I don't know without seeing the data.

Q. Okay. And we're just trying to understand the difference between what Unitil wants to do per the technical statement, versus what Eversource and Liberty have proposed, and which one is better for -- for ratepayers.

And I guess my question for you then would be, if it turns out that the process that Eversource and Liberty have proposed is a 20 percent improvement, hypothetically, to the current Unitil process, would that -- would that cause Unitil to reconsider their thinking on the best process to secure the lowest price?

A. (Pentz) I think we'd have to take that back and discuss that.

Q. Okay. Thank you.

And I know, Mr. Pentz, you already testified that you were not with the Company in 2012. But when I was looking through 12-003, I just wanted to get your opinion of the implementation process.

So the Company went from the old process to the new process. Was it something that took multiple years? Was it something that was decided in the six-month period and implemented? How did that process take place?

A. (Pentz) I apologize. I'm unable to provide that detailed feedback from that proposal.

Q. Okay.

A. (Pentz) I can certainly look into it further.

Q. Thank you.

A. (McNamara) I could tell you that it was a -- I guess I'll say a relatively quick process in the sense that it was not years. It certainly was not years.

So rates prior to November 1st, 2012, were determined based on the -- the original way, you know, choosing a supplier, that method. I believe the topic was -- I would say that it was less than a year perhaps, and perhaps a full year.

Q. Okay.

A. (McNamara) But it was no longer than that, I believe. It came up in a particular docket on a particular hearing, I think, and then, just again, based on my rusty memory, but -- and I think for the next period, it was sort of discussed. So, again, I don't believe it lasted longer than a year.

Q. Okay. Thank you. And the reason I ask that is that the Commission opened an investigative docket on this topic in 2022. So, you know, we have been sort of stepping through this in our minds, at least, methodically and slowly and systematically, and -- and so it's just interesting to get other data points in terms of how changes have been implemented in the past.

Thank you, Ms. McNamara.

Okay. I want to return to the topic for, really, residential ratepayers on the question that's been asked multiple times, on the day-ahead versus real-time market. I think, Mr. Pentz, your testimony is -- and I don't want to put words in your mouth, but I guess -- I guess I will, and then give you the opportunity to respond -- is that, ultimately, the real-time market is cheaper than the day-ahead market over a long-time horizon, and that the Company -- its -- its opinion or its position is that, by going through the real-time market and going through those long averaging periods, that it, in fact, is securing the lowest price for ratepayers by using this technique.

A. (Pentz) From our view of the historical data and how the markets have settled, that -- that's what we've seen, and that's our current practice in our proposals.

Q. Thank you. And I just want to elaborate a little bit on the Company's proposal, which is that it's purchasing in the real-time market over a six-month time horizon, and then the prices over that six-month time horizon, and where we operate on a six-month horizon. But, in fact, the averaging is really over an 18-month period, because the truer period is 12 months. So in my mind, at least, effectively, you're averaging over an 18-month period, which really would take out price -- any price spikes, significantly.

A. (Pentz) Yes. That's -- that's absolutely correct, from my understanding.

Q. Okay. Thank you. Okay. Just a couple more here, I think.

So how would Unitil approach a failed auction? If there's, you know, an unacceptable requirements contract pricing level that would stimulate the Company to reach out to the Commission to go to, let's just say, 100 percent if it was truly a failed auction, how would Unitil approach -- approach that if they -- if you were to get -- be in that situation, either now or in the future?

A. (Pentz) Sure. The way that we approach failed auctions, from -- from my understanding, there was a previous Settlement Agreement that dictates we would perform a secondary auction in case the first one failed.

It's my opinion that the -- if the

first one fails, the second one is probably going to fail. I mean, you could potentially procure for shorter time horizons that may expand the bidder, you know, pool. But in any case, I mean, the only route that the Company conceivably would go is procuring directly in the spot markets.

Q. Thank you. And I'm just gonna look at the technical statements and those nice tables that you presented at the bottom. Thank you for that. It's very clear how the calculation is done.

So -- and I know we're -- we're a few months in front of -- of the auction process, but if we use the period weighted average price of $61 for the 30 percent tranche, and the -- you've projected what would happen in the small customer group in terms of the wholesale price, and you probably used a NYMEX forecast or something to determine that?

A. (Pentz) Yes.

Q. Okay. Thank you. And then, if -- so if you -- so if the -- if the prices came in -- and maybe just remind me of the Company's process for determining -- determining that unacceptable window. Like, at what price, based on those chart -- just using a firm example, what's the Company's process if the bid came in at an average of, you know, $125, $150, $300? How does the Company determine that unacceptability window?

A. (Pentz) Right. So I think that really gets into the ratio analysis and looking at the forwards versus what the bid prices are. It's more of an art. You know, we don't -- you know, we do have the ratio analysis that we do submit in the filings. You know, we don't have a specific target number. It's -- you know, we would look at the bids, and, you know, considering market information, you know, come up with what we think is a prudent decision. You can't fully elaborate more on that.

Q. It would probably be unhealthy to do so, because perhaps bidders are listening and might -- might get information from where that window is. So I understand. I understand your answer.

I just was -- I know you have the ratios, and you go through that, but then it seems like there's flexibility that the Company employs to determine, after the ratios are applied, whether it believes the bid is unacceptable or not.

A. (Pentz) Yes, that's correct. We have a historical database of all the ratios that we compare against. For example, we have ratios from when the markets were highly volatile and when markets are very stable, like they are now, to look against.

Q. Okay. Thank you. And maybe just to wrap up tactically on that issue. So if the Company were to get bids back that it determined were unacceptable, what -- when would the parties and the Commission know about the Company's analysis and decision regarding the bids? How quickly would that happen?

A. (Pentz) It would likely be within days.

Q. Okay. Thank you.

CHAIRMAN GOLDNER: Okay. Commissioner Chattopadhyay, did you want to have some follow-up?

CMSR. CHATTOPADHYAY: Yes.

CHAIRMAN GOLDNER: Okay. Thank you.

BY CMSR. CHATTOPADHYAY:

Q. So the NYMEX futures that -- that information is -- where do you get -- where do you get that? Is it public? Do you pay anything for it?

A. (Pentz) We do not pay anything for it.

Q. It is my recollection in one of the earlier default service dockets, it was mentioned that that information has been discontinued. I'm not sure, maybe my understanding is wrong, but have you seen anything like that?

A. (Pentz) Yes. So -- it's, actually, a very interesting question.

So we have typically used a broker to extract those futures, and I -- a couple of months ago, I realized that the prices were stale on that website, and I looked further into it, and it was for that exact reason, that that data was not available on that particular vendor's website.

We have since done a search for where that data is available, and we now have that -- the NYMEX futures data available to us.

Q. Can you tell us where?
A. (Pentz) I -- I don't have the name of that particular website on the top of my head, but we do have it.
Q. My question was really, there's no reason for you to -- that's -- that's confidential information? Like, you know, it's readily available. But we -- but right now, you don't remember which website?
A. (Pentz) I don't recall, but I'm fairly certain it's public information.
Q. Conceptual question. With 30 percent procurement, what I heard -- correct me if I'm characterizing what you said incorrectly -- is that, going to the real-time market rather than the day-ahead market, it's reasonable. It's not a big deal. You know, and averaging six months, all of that, works out fine.
Is there a percentage, for example, 50 percent, that you would be sort of concerned about the occasional spikes, and you want to deal with them, so maybe you should go with the day-ahead market?

A. (Pentz) I think that's an interesting question, because I did mention earlier that the default service loads are actually expected to go down quite a bit, not up. So although the self-supply may inevitably increase -- you know, the, I guess, exposure to the total -- if we're talking about total settlement in dollars, that figure may even go down with self-supply increasing, so I don't -- if that's the question.

Q. No, that's not. I understand your point, though.

What I'm asking is, for -- for the customers who remain with default service and -- because, for whatever reason, the real-time prices shoot up, okay, and so I want you to weigh, like, if that is happening in the real-time market and doesn't happen in the day-ahead market, because that's how it works out -- for example, August 1st, that's what happened, right?

A. (Pentz) Okay.

Q. So is there a percentage where you start saying, maybe we should have gone day-ahead market? So I'm just talking about those default service

customers.
A. (Pentz) And I guess I'm a little confused. Because when you had said, is there a percentage, a percentage of what exactly?
Q. Like, with 30 percent, you said that continuing with the real-time market purchases makes sense.
A. (Pentz) I understand the question now.
As I've said previously, in our view, when you do 18-month averages, six-month contract averages, let's say, for example, that the effect is de minimus.
CMSR. CHATTOPADHYAY: Okay. Thank you.
CHAIRMAN GOLDNER: One last question, and we'll take a break and come back to redirect so Attorney Davey has some time to consult with her witnesses.
MS. DAVEY: Thank you.
BY CHAIRMAN GOLDNER:
Q. I just want to go back to that last question on the failed auction. So if the Company -- you have something that's really in the gray area and the Company says, that's not a failed auction.

We're going to take the bid. The bid is quite high.

You bring that to hearing. The Commission, for whatever reason, says, no, that bid is too high. We don't accept that bid.

What would -- what would happen then?

A. (Pentz) So just to clarify, this is in the event where Unitil awards a contract, and then the Commission reviews the contract pricing and deems it too high, essentially?

Q. Yes. Let's run with that.

A. (Pentz) Okay. Well, inevitably, we would have already signed the contract with the supplier.

And, you know, we do have language in the contract that kind of gives the Company an out. It's usually two weeks after we receive final bids, from what I recall. So there's contract language to protect the Company in case of any terminations. It's a very short window, of course; two weeks.

That said, the wholesale supplier, upon receiving notice of a canceled contract, may resist participating in future auctions due to the fact that these suppliers take out hedges as soon as we give them the award.

We're not exactly sure how they do it. But a significant majority of the load, from what I understand, is already locked in on their side. So it could potentially cause losses for the supplier, and they may never participate again, is -- from my understanding from speaking to suppliers.

Q. And is the Commission review within that two-week window?

A. (Pentz) Yes.

Q. Okay. And, yes, I do understand the second part of your point. I don't have any follow-up on that, but I appreciate the clarification.

CHAIRMAN GOLDNER: Okay. Okay. Thank you. Let's take a quick break, returning at -- would 10:20 be enough time, Attorney Davey?

MS. DAVEY: Yes.

CHAIRMAN GOLDNER: Let's return at 10:20.

(Recess taken.)

CHAIRMAN GOLDNER: Back on the record.

When the Commission have completed their questions, then we'll move to the Company's redirect.

MS. DAVEY: The Company has no redirect. Thank you.

CHAIRMAN GOLDNER: All right. Thank you. Okay. Thank you to both witnesses today. The witnesses are excused, and we'll invite Dr. Vatter to the stand.

Okay. I will now swear in Dr. Vatter.

(Whereupon, MARC H. VATTER, was duly sworn by Chairman Goldner.)

CHAIRMAN GOLDNER: Thank you. The witness is available for direct.

MR. KREIS: Thank you, Mr. Chairman.

DIRECT EXAMINATION

BY MR. KREIS:

Q. Mr. Vatter, could you begin by reminding the Commission of what it is that you do for a living?

A. (Vatter) I'm the Director of Economics and Finance at the Office of the Consumer Advocate.

Q. And turning your attention to what has been marked for identification as Exhibit 6, which is a document labeled Direct Testimony of Dr. Marc Vatter. Mr. Vatter, did you prepare the document that has been marked as Exhibit 6?

A. (Vatter) Yes.

Q. And do you have any corrections or updates to that document to make since it was filed on September 11?

A. (Vatter) Yes, I would like to thank the Commission again for giving us extra time to do this.

In Table 2, the third column labeled "Net" should be deleted. In the first column, the word "Cost" should be changed to "Gross Cost." And the same changes should be made to the corresponding cells in the spreadsheets.

On Bates page 016, Line 15, the words "the former is negative and" should be deleted.

And on Bates page 008, Line 14, the words "more" and "less" should reverse positions.

Q. Thank you. Subject to those corrections, if I were to ask you all the questions that are laid out in Exhibit 6, live on the stand today, would the answers in Exhibit 6 be the answers that you would give on your live testimony?

A. (Vatter) Yes.

Q. And so, therefore, do you adopt Exhibit 6 as your sworn testimony in today's proceedings?

A. (Vatter) Yes.

Q. Could you explain to the Commission why the OCA is offering this testimony?

A. (Vatter) The fuel price shock of 2022 was a problem for some residential customers. People with high incomes and secure jobs handled it fine, but people who were poor or unemployed had trouble covering high utility bills. My testimony documents this, and that it was a problem for a typical customer, and, therefore, costly in the aggregate, and proposes a cost-effective way to hedge the risk of such a shock in the future.

Q. Notwithstanding the fact that the shocks like that have taken -- taken place in the past, would your proposal be cost effective and good for residential customers if there were never such a shock again in the future?

A. (Vatter) It would not. Without such a shock, the hedging strategy I propose would not be worth the risk premium residential customers would have to pay. However, these shocks have been occurring since 1973, and there are good reasons to expect them to reoccur, which I explain briefly in my testimony and more deeply in other testimony and writings.

Q. And assuming that you continue to enjoy free access to the official OCA crystal ball, do you know when the next shock of that curve will happen?

A. (Vatter) I do not know, and even the Organization of Petroleum Exporting Countries does not know. Therefore, what I propose would only work if it were committed to long term.

Q. Could you, maybe in terms that a smart undergraduate could understand, briefly explain what it is you're suggesting the Commission and, ultimately, this Utility do?

A. (Vatter) I propose that the Company purchase electric commodity three years in advance using futures contracts at the Mass Hub, rather than making the spot purchases being integrated into default procurement, beginning with delivery in August of 2028.

The futures market did not price the shock of 2022 into its prices in 2019, and I estimate, from historical data, and explain why there is a three-year cycle in prices for natural gas that drives LMPs at the Mass Hub.

Q. Given that your proposal is that Unitil acquire futures contracts for delivery beginning in August of 2028, is there any reason the Company shouldn't do that for delivery before August of 2028?

A. (Vatter) Not at this time, since there is no such price shock now baked into the futures curve during the next three years, though one could occur. The shock of 2011, when OPEC held back production after Libya went offline, occurred less than three years after the shock of 2008.

Q. Mr. Vatter, I learned a new term this morning that applies to futures market, and that term is "open interest."

Could you explain what that term

means?

A. (Vatter) Open interest is the number of positions outstanding in the futures market. It's distinct from trading volume. I was asked last week whether the market at the Mass Hub could handle the quantities of procurement that I'm proposing, and I have to say, notwithstanding the fact that I do adopt this testimony, there is -- I -- although I -- I said last week that I did not have volumes, and I do not have volumes, but I found access to open interest.

Q. And so can you give us an example of open interest over three years with the peak futures contract at the Mass Hub, just to give the Commission and everybody else an idea of how this actually works?

A. (Vatter) I will. So, for example, on a particular trading day, October 16th, 2019, I looked at open interest over the strip for the ensuing three years. Open interest per month averaged 62,000 megawatt hours over the first year of the strip, 45,000 megawatt hours over the second year, and 21,000 megawatt hours over the third year.

According to its annual report, Unitil's residential sales averaged 57 megawatt hours per month in 2022, 30 percent of which is 17,000 megawatt hours. That is most of the open interest for that year, but a fourth of open interest in 2020. And the higher open interest in 2020, or should I say for 2020, indicates that counterparties would be there if Unitil took positions for the third year, but only for something well under 30 percent of the load.

This information suggests that our proposal should be applied to modest amounts of load initially and to larger amounts of load as the futures market at the Mass Hub thickens.

That said, the risk of a global fuel price shock could also be hedged at Henry Hub, where Unitil's positions would represent a small fraction of open interest and volume.

Q. Mr. Vatter, you -- and I'm sure the Commissioners will recall that, at the -- at least one of the default energy service hearings that the Commission conducted last week when it heard default service proposals from Eversource and from Liberty, there was some discussion of what the Community Power Coalition of New Hampshire does. And that, I suppose, is potentially important, because the Community Power Coalition of New Hampshire is already the second biggest load servicing entity in the state, and is on its way to potentially becoming the biggest load serving entity in the state.

And, at some point, there was a question of whether the Community Power Coalition of New Hampshire, as a -- as a provider of default energy service to the customers it's serving, takes positions in the futures markets.

Do you happen to know if the CPCNH does that?

A. (Vatter) I do. I remember the question came from Chairman Goldner. I attended the board meeting of CPCNH Thursday, and I learned the answer to the question, which the short answer to the question is yes. In so doing, they assume risk, but it enables them to make their offerings more attractive to customers, including residential customers.

At the OCA, we like this. And we are proposing that Unitil do something similar. Our view is that retail competition has failed residential customers, because there is an economy of scale in the wholesale purchase and retail resale of electric commodity, which we documented in our letter to the Commission on April 3rd.

The form of competition we still see as beneficial to residential customers is between two types of providers of default service: IOUs and aggregators, because they both buy and sell in large quantities.

Q. IOU being investor-owned utilities?

A. (Vatter) Investor-owned utilities, yes.

Q. And, finally, you heard, I assume, Mr. Pentz testifying on behalf of Unitil that one of the issues that Unitil has with the proposal that you make in your testimony is that it shifts risks from suppliers of default service to the Utility itself, something he said was not acceptable.

Does what you're proposing shift risk

from the customers to the Company?

A. (Vatter) Yes, but on an expected basis. The gross cost of commodity to the Company is lower.

I would like to add that, in terms of load risk -- which I comment on toward the end of my testimony. Of course, there are times when the market is up and when the market is down. It tends to be twice as high half the time, and half as high -- sorry -- twice as high a third of the time, and half as high two-thirds of the time, looking at my data.

But if -- if you are losing load to -- if the Company is losing load to aggregation, it's going to have some advance notice. And so that does give it a window of time within which to wait for the market to go up to settle outstanding futures contracts.

MR. KREIS: Thank you, Mr. Vatter. Those are all the questions I have on direct, so the witness is now available for cross-examination.

CHAIRMAN GOLDNER: Thank you. We'll move now to Unitil cross.

MS. DAVEY: We have no cross at this time. Thank you.

CHAIRMAN GOLDNER: Okay. And we'll move now to the New Hampshire Department of Energy cross.

MR. YOUNG: The Department of Energy also does not have cross at this time.

CHAIRMAN GOLDNER: All right. And we'll move now to Commissioner questions, beginning with Commissioner Chattopadhyay.

BY CMSR. CHATTOPADHYAY:

Q. Still good morning. If much of the load moves to community power, regardless of whether it's CPNH [SIC] or otherwise, would it still be true that an IOU offering has enough legs to it that it is providing a competitive, you know, alternative?

A. (Vatter) Yeah, the less load the IOU serves, the less competitive it can be because of the economy of scale. So if the Company -- or the Commission would like the Company to compete with aggregators, inasmuch as load is moving from IOUs to aggregators, the sooner, the better.

Q. Your proposal was for, you know, purchase three years ahead --
A. (Vatter) Yes.
Q. -- essentially. Do you think that is far enough that the issue that I'm raising can become a reality? Meaning, if you wait for three years, by that time, there's -- the markets are going to be so thin that this kind of proposal probably will work only once if you go ahead and do it this time?
A. (Vatter) I'm not sure I follow. I mean, in the example I gave, the market was thinner three years out the strip. Is that what you mean?
Q. Yes. But -- but I'm asking a conceptual question.
A. (Vatter) Sure.
Q. Let me try again. And I'm trying to go to the point that you're making about competition between IOU and community power aggregation.
What I'm saying is, if you have futures purchases right now that are effective three years, you know, into the future, given the uncertainties and given how things may play out,

that may not be very useful, as opposed to if you go just one year down the road. I'm still trying to understand that.

A. (Vatter) So the idea is, within the three years, the Company might lose a lot of load, and -- and then after that, they're not serving enough load to be competitive, yeah.

I mean, I think that's -- that's a valid question. And, you know, given that the futures market is -- the curve does not currently have a shock baked into it, it could provide reason to start doing futures purchases sooner.

CMSR. CHATTOPADHYAY: Okay. Thank you. That's all I have.

CHAIRMAN GOLDNER: Thank you. I just want to thank Dr. Vatter and the OCA on the follow-up on the prior question. I appreciate that. That was helpful.

I have no further questions, and we can go back to the Consumer Advocate for any redirect.

MR. KREIS: No redirect, Mr. Chairman. Thank you.

CHAIRMAN GOLDNER: Okay. All right. Thank you, Dr. Vatter. Dr. Vatter is now excused.

Hearing no objections, the Commission will now strike identification on Hearing Exhibits 5 and 6 and enter them into evidence.

(Exhibits 5 and 6 admitted.)

CHAIRMAN GOLDNER: Are there any other matters requiring our attention before moving to brief closing statements?

MS. DAVEY: None from the Company.

MR. YOUNG: None from the Department.

CHAIRMAN GOLDNER: And none from the Consumer Advocate, I think, as well, correct?

MR. KREIS: Correct.

CHAIRMAN GOLDNER: Okay. Very good.

I'll now invite the parties to make brief closing statements on the record, beginning with the Department.

MR. YOUNG: Thank you, Mr. Chairman. The DOE appreciates the opportunity to share its considerations with the Commission today as well as in our letter filed in this docket earlier.

The Department also appreciates the testimony of the Company witnesses as well as Dr. Vatter. It is very clear that Dr. Vatter -- Dr. Vatter has put quite a bit of time into his testimony.

The DOE continues to recommend that the Commission proceed with caution in making changes to energy procurement in the State. As we did here today, the Company hasn't really quite had a chance to, I guess, thoroughly review and present to the Commission the financial impacts of previous self-supply periods. So, I guess, building in some time for the Company to review reconciliation figures, working capital impacts, might be warranted.

Additionally, given the Company's anticipated reduced small customer load due to the October 2024 implementation of the Concord Community Aggregation, the Department does support the Company's proposal to acquire from the real-time market, as this may be a useful comparison with other similarly situated utilities that are acquiring their energy in the day-ahead market.

If any such review period is considered, that will also likely provide an opportunity to more thoroughly review and analyze the benefits and costs of entering the futures market, as proposed by the OCA. Thank you.

CHAIRMAN GOLDNER: Thank you, Attorney Young. We'll turn now to the Office of the Consumer Advocate.

MR. KREIS: Thank you, Mr. Chairman.

Our position is pretty similar to the Department's. We continue to think that reliance on a futures market, rather than the spot market, for acquisition of default service is the better play for residential customers, and so, therefore, our recommendations to the Commission would be to not move this or any other utility farther into spot purchase but, rather, evaluate how that has been going, given that we're in the first procurement period that includes spot purchases, and then take stock, meanwhile adopting Dr. Vatter's proposal and having the utilities begin the process of analyzing how they would make futures purchases.

I will say that I listened to Mr. Pentz's testimony, and similar to the Department of Energy, I did find persuasive his explanation as to where Unitil has parted company with its fellow IOUs and has decided to make its purchases only in the spot market. And I think, as Mr. Young just said on behalf of the Department, that will make an interesting comparison in the next procurement period, in particular, to see whether one of those approaches becomes demonstrably better than the other.

And since I didn't hear Unitil say it would absolutely refuse to consider whether the other approach, day-ahead purchases, is better, if there's evidence to that effect, I think it's reasonable for the Commission to not require each of the three utilities to do exactly the same thing. So I think some experimentation is a good thing.

I think that's all I have to say. Thank you for this interesting hearing.

CHAIRMAN GOLDNER: Thank you, Attorney Kreis.

We'll turn now, finally, to the Company.

MS. DAVEY: The Company similarly appreciates the time of the Commission, the Department of Energy, and the Office of the Consumer Advocate today.

As stated in Unitil's witness statement, the Company proposes to increase the market tranche to 30 percent, in order to comply with the Commission's order. The Company's proposal to procure through the real-time market is clearly within the bounds of the Commission's directive first outlined in the order in 23-054, which explicitly calls out the real-time market, and the Commission's directive outlined in 24-065, which directed the Company to submit a proposal along the lines of that approved in the previous order.

The Company believes that the 30 percent procurement target complies with the Commission's directives, while maintaining the least amount of direct market exposure in this still relatively new-to-the-Company method of procuring basic service.

As made clear by our proposal here, we are certainly open to procuring portions of the Company's default service as directed by the Commission.

As you heard from the witnesses today, the Company does have concerns regarding the viability of implementation and feasibility of the OCA's proposal and cannot support it at this time.

And although the witnesses have read the OCA's testimony and were able to offer preliminary reactions, I would note that the testimony and accompanying schedules are extremely in-depth, and the Company has not been able to fully vet it during the course of this somewhat shortened timeframe, which is due to the timing of our next solicitation.

The Company does require sufficient time to prepare to implement the proposed expansion of the market-based procurement and would, therefore, respectfully request the Commission review and rule on this proposal by October 7th.

I would note that our technical statement said October 5th, which is a Saturday, and so I'm correcting that to October 7th.

And as discussed by Mr. Pentz's -- during Mr. Pentz's testimony, should the Commission direct the Company to change method in procuring the market-based tranche, the Company would require additional time to implement those changes, and would not be able to implement those changes by the time of this next solicitation. And that's the current -- the current analysis of that. And that's all I have. Thank you.

CHAIRMAN GOLDNER: Thank you, Attorney Davey.

The Commission will take the matter under advisement and render its ruling on the Unitil proposal by October 7th.

The hearing is adjourned.

(Whereupon, the proceeding adjourned at 10:53 a.m.)

C E R T I F I C A T E

I, Nancy J. Theroux, LCR, RPR, do hereby certify that the foregoing transcript is a true and accurate transcription of the within proceedings, to the best of my knowledge, skill, ability and belief.

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