COMMUNITY POWER COALITION OF NEW HAMPSHIRE
For communities, by communities.

December 17, 2024

Changes to Investor-Owned Utility (IOU) Supply Procurement Methodology

New Regulatory Method to Increase Rate Volatility

Eversource, Unitil, and Liberty Utilities, at the direction of the Public Utilities Commission (PUC), are adopting a new approach to power supply purchasing and rate setting for the period effective February 1 – July 31, 2025.

The new method reduces rate stability by shifting risk from power suppliers to retail customers, resulting in over- or under-collections that will impact future ratepayers. The PUC is also directing utilities to shift any costs from this change away from customers purchasing utility supply to everyone, including competitive supply and Community Power customers. The resulting cross-subsidization of utility supply customers by non-utility supply customers goes against the long-standing ratemaking principle of cost causation, in other words, not charging customers for costs they had nothing to do with.

How Did IOU's Procure Power Previously?

Up until now, investor-owned utilities (IOUs) have been required to provide default power supply as a "safety net" for customers by purchasing six months of fixed-price electricity from a supplier with the lowest bid, guaranteeing a rate for the term. Under this traditional model, the competitive supplier that wins the bid wears the risk of guaranteeing the power at a fixed price while operating in the dynamic and sometimes volatile electricity commodity market. As a result, utility default supply rates include some "risk premium" to cover the risk borne by the supplier as a tradeoff to protecting customers from daily, weekly, and monthly price swings. Six-month rate periods typically run from February through July and from August through January.

What is the New Method for IOU Procurement?

For the upcoming February through July period, Eversource and Unitil will only purchase 70% of the power for small residential and commercial customers at a fixed price while leaving the remaining 30% exposed to spot prices in the commodity market. Liberty Utilities will lock in 50% of its small customer purchases at a fixed rate while leaving the rest open to commodity market pricing.

Under this new regulatory framework, regulators and utilities estimate what pricing in the commodity market will be for Eversource and Unitil's 30% exposures and Liberty's 50% exposure during the upcoming six-month period. There are three potential outcomes:

1. <u>Rates are set accurately:</u> at the end of the six-month period, customer payments have covered the costs incurred to supply their power.

2. Rates are underpriced: at the end of the six-month period, market prices have resulted in higher costs than what was collected from customers. These higher costs are passed on to future ratepayers through increases in future rates.
3. Rates are overpriced: at the end of the six-month period, market prices resulted in lower costs than what was collected from customers. These lower costs are passed on to future ratepayers through reduced rates.

While all three scenarios are possible, CPCNH is concerned that increased volatility will be passed onto future customers for the costs of previous utility default supply service customers. CPCNH is especially concerned with the possibility that competitive supply and Community Power customers will have to pay for costs that are related to a product they were not using.

Non-Utility Customers to Subsidize Under-Collections of Utility Customers

The PUC has directed Eversource and Unitil to propose approaches for shifting higher costs away from the utility supply customers and moving those costs to all distribution customers. If this cost-shifting approach is implemented, customers in the competitive market (competitive supply customers, community power customers) will subsidize the cost of under-collections from Eversource and Unitil default supply through an increase in utility distribution rates.

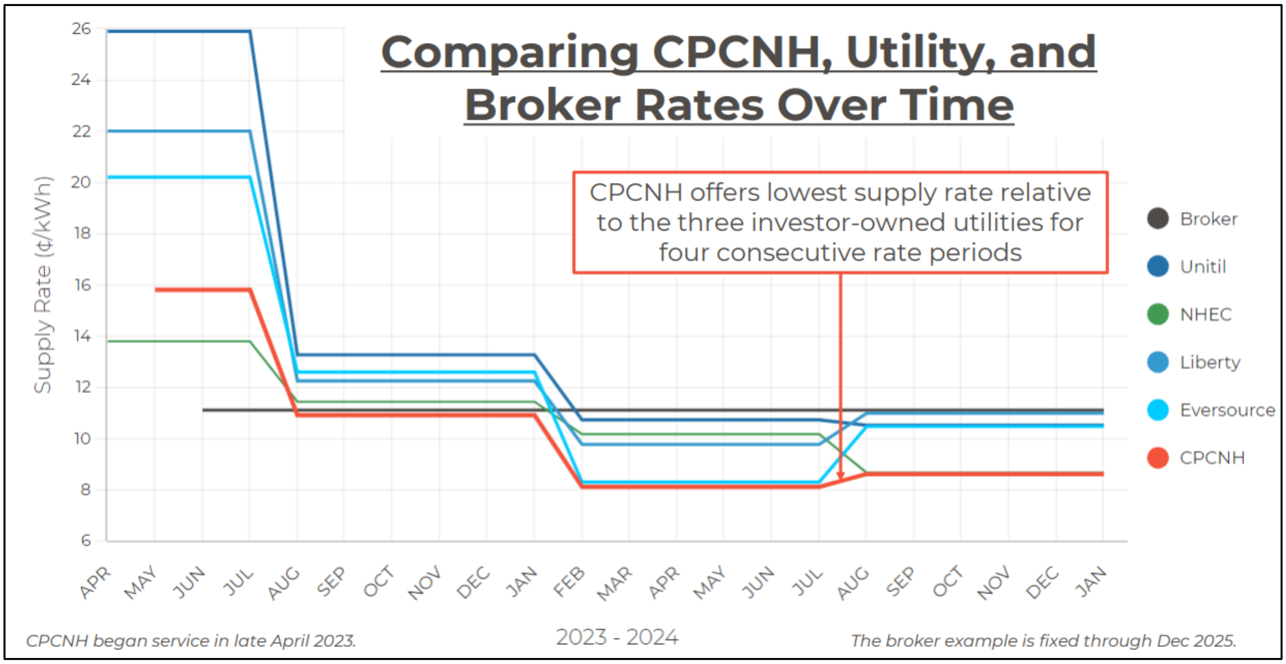
Regulators are directing that higher supply costs be socialized to all customers through increases in distribution rates while lower costs from reductions to the cost of Renewable Portfolio Standard compliance be remitted as credits to utility supply customers only. This means that the utility default supply rate is being selectively lowered by the PUC by treating reconciliation of two types of costs differently. This is anti-competitive, and forces competitive market and community power customers to pay for utility supply costs in addition to their chosen supply option.

How Does this Compare to How CPCNH Buys Power and Sets Rates?

Community Power Coalition of New Hampshire (CPCNH) actively manages a portfolio of wholesale power contracts in accordance with our Energy Portfolio Risk Management Policy and Regulations. On an ongoing basis, CPCNH forecasts the expected electricity load of our customers based on historical usage patterns and purchases forward contracts for power at fixed prices. This strategy allows CPCNH to lock in prices for future supplies of power, mitigating the impact of price spikes in the commodity market. Our policies and regulations require that we fix certain percentages of our power portfolio as forward hedges, limiting the amount our customers may be exposed to market price swings.

CPCNH calculates our revenue requirement as the sum of our expected power supply costs, operating costs, and costs to accrue financial reserves according to our Retail Rates Policy.

A graphic comparing CPCNH and utility rates over time is included below:



Additional Reading

- Order No. 27,086 Approving Solicitations; Establishing Deferral Accounts for Reconciliation-Related Balances; Requiring Re-Filling of Default Service Rates by December 20, 2024; and Requiring Filing of Company Proposal for Expanded Market-0Based Procurements by January 31, 2025
- Order No. 27,022 Approving Solicitations, and Requesting Re-Filing of Energy Service Rates by July 10, 2024
- DE 24-046 – 2024-07-24 Office of the Consumer Advocate Motion for Rehearing
- DE 24-046 - 2024-07-19 Community Power Coalition of New Hampshire and NRG Retail Companies Joint Motion for Rehearing

Comment Template

Recipients: info@unitil.com

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PUC; DOE Commissioner; Deputy Commissioner; Office of Consumer Advocate

Subject Line: Opposition to Shifting of Unitil Supply Costs onto Non-Unitil Supply Customers (PUC Docket No. DE 24-065)

Email Text:

(COPY and PASTE the following into the body of your email)

To Unitil Chairman and CEO Thomas Meissner,

I am writing to express my opposition to shifting costs from customers on Unitil energy service onto customers not purchasing energy service from Unitil. Please express this concern in your response to the Public Utilities Commission on December 20th.

It is my understanding that the Public Utility Commission has requested that Unitil shift costs associated with Unitil energy supply onto customers who were and are not taking Unitil energy supply. I am not in support of Unitil charging customers through rates that had nothing to do with the costs that are being charged.

Customers that are not participating in Unitil energy supply should not be put at risk for paying for the costs of Unitil energy supply. Customers who buy power in the competitive market, from a competitive supplier, or from Community Power should not have to pay the costs for Unitil energy service.

I urge Unitil to explain to the PUC on December 20th why this practice is harmful to New Hampshire ratepayers, undermines the competitive supply market, and why the PUC should not force Unitil to shift costs of Unitil power supply onto customers that have made a choice to not to use Unitil's supply rates.

I am copying the PUC Clerk, the Department of Energy, and the Office of Consumer Advocate on this email so that my concern will be entered into PUC Docket No. DE 24-065 as a public comment.

Sincerely,

NAME / TOWN of RESIDENCE