

**SPECIAL COMMITTEE TO REVIEW ENERGY CONTRACT
AND RELATED PROJECTS**

June 5, 2000

Immediately Upon Conclusion of CIP Cmte.

Chairman Wihby called the meeting to order.

The Clerk called the roll.

Present: Alderman Wihby, Alderman Sysyn, Alderman Pinard,
Alderman Shea, Alderman Thibault

Messrs.: F. Thomas, T. Parsons

Status report on deregulation and future plan for Aggregation Program.

Mr. Thomas stated there are two reasons we asked to have this meeting. One was to give the Committee a brief update on where this whole electric deregulation process stands and also to give you an idea of future expenditures in the MAAP program.

Alderman Wihby asked are you looking for any action today from the Committee.

Ms. Parsons replied in the affirmative. The House and Senate took action on Senate Bill 472 authorizing the State to issue the revenue reduction bonds that PSNH needs to consummate the settlement agreement with the Governor's Office. Those votes have been taken and it passed. It now goes back to the Public Utilities Commission for further hearings. There are a number of outstanding issues. There are a couple of appeals that have been filed with the Commission. This financing order that the Senate Bill allows the State to go forward with will also go through a hearings process at the Commission. In addition to that, the Commission is also charged with looking at the merger of Public Service Company, Northeast Utilities and Consolidated Edison. With that being said, this legislation starts the process moving forward towards a deregulated electric energy market. It sets the date at no later than October 1 for what they consider a competition date. There are provisions in here that should that not happen, the company will automatically decrease its rates by 5% for the consumers of the State. Then there are other provisions that set forth a timetable for them to move forward with competition. In addition to that, it sets what I have come repeatedly to you to talk about as a very important issue to the Aggregation Program and that

is the transition service price of power. This market is going to be driven on exactly what it costs to generate electricity and what they will be able to get for that in the market. To make sure that the provisions of the original philosophy of deregulation in this State were held true, they set a transition service price for residential and small commercial businesses. That price has been set at 4.4 cents per kilowatt-hour in the first and then after that twelve-month period, it goes up to 4.6 cents per kilowatt-hour. Without getting into a lot of details, although competition date is supposed to set no later than October 1, PSNH will actually supply power in this State for nine months at their cost. They will be collecting the 4.4 cents from consumers but that has to do with offsetting some of the stranded cost. It is going to be very hard to determine exactly when true retail competition occurs in the market. It is going to be driven on this band with 4.4 cents where the marketers will look to beat that price or perhaps not be able to beat that price. The initial period is nine months with PSNH power at cost. That is near impossible for a marketer to beat. At least perhaps out to April 1, 2001 we may not see a viable market for the types of consumers that this program is designed to help. That is the residential and small commercial sector. When you get into industrial customers, those deals have been made and they are waiting for the appropriate date to be able to open up that to competition. You have before you, a budget from the City's consultants to look at the RFP that we originally designed. When we did this two years ago it was originally for electricity noting that the market was frozen because of the Federal Court issues. We went forward with energy efficiency measures and natural gas then left that component of the RFP basically blank for specifics that would be applicable to purchasing electricity. Now we need to step back into that issue of electric component, put the specifics to the EIQ (Expression of Interest and Qualifications) and the Request For Proposal and start that process. Behind this budget they have given me to do that there is also the issues of the very important public education aspect to this program, educating residents and businesses in the City of Manchester and Nashua as well under our joint contract, to the potential benefits of the program. As Frank Thomas and I have discussed repeatedly and at length this morning, a lot of this is going to be driven off of the market price and the suppliers themselves. Right now if you go out onto the public utility website page you will find that there are no suppliers. There are two; one registered supplier and one aggregator. No offers have been made in the State. Of course, most of it is being waited on the Public Service market to open up. I am looking at doing this at the most cost-effective way possible. I do believe that, as you previous discussed, public hearings are very important to getting out information and having the public weigh-in on a program of this potential. The other component that is critical to getting a lot of education done without tying phone lines up and with a limited number of personnel that this program will have is a website. People can go into that at their leisure. It is a place to refer people. There is other information out there available to people that they can go in and look up to print and read and that

is going to be a very important component in helping to keep the cost down of the education side. It is also something that it does not matter which community you are in, you can go out and look it up. We are looking for tonight from this Committee to be able to move forward with the RFP as we want to monitor the market that we are not out there premature. Sherry Brown of SVBK sent this to me and I have discussed it with her. Our target date that we think might be reasonable with the market as it is going to be frozen for awhile would be January 2001 timeframe for the actual going out with the RFP, the advertising of it and soliciting interest from suppliers. At that point, we would like to ramp up the public education but going out there with all of the public education ahead of time might be a bit premature until we know that there is a market.

Alderman Wihby asked is this all within the amount of money that you had.

Mr. Thomas replied in the affirmative and stated in next year's budget. We are saying that competition is going to be taking place sometime between October and April. We have to be in a position to be able to have the ability to sell power when competition takes place. We would like the committee's authorization to be able to spend up to \$36,000 that is noted on the first page to develop a Request For Proposal sometime over the next six months. If we see that competition is going to take place closer to October we want to then be able to move fairly rapidly. If it is not going to take place until April, we want to be in a position to go out for this RFP around January. The way the RFP has been proposed to be developed would be a request for qualifications and the RFP at the same time. The reason we want to do that is we will be able to, once we receive the proposals, see what kind of rates we will have available. If we see at that time, the rates are not competitive with what is being offered through this arrangement, we can drop the project at that point and save the remaining engineering. We are trying to be very frugal but yet we have to keep the flexibility to beat deadlines that are fluid right now.

Alderman Thibault asked, Frank, maybe I am lost in some of this but is this price contingent on the City buying the hydropower.

Ms. Parsons replied in the negative.

Alderman Thibault asked in other words *Public Service Company* is going to come down in price regardless.

Ms. Parsons replied in the affirmative.

Alderman Thibault asked what is the benefit of the City buying the hydropower. That is where I get lost.

Ms. Parsons replied the hydro is a separate issue insofar as it has numerous possibilities to it that this Board is going to be addressing at another meeting.

Mr. Thomas stated it may be cost-effective investments but again that is a separate issue.

Alderman Thibault asked we are strictly talking about the deregulation.

Mr. Thomas replied in the affirmative and stated to be able to position ourselves so that the Manchester Aggregation Program will have a supplier of electricity when competition does take place.

Alderman Thibault stated well I have been there all of the time and I want to stay there I have no problem with that. I was just confused about the hydropower. Thank you.

Alderman Pinard asked is this just a reserve that you would have to get you started come September.

Mr. Thomas replied this money would be...we are seeing authorization now because we have been told quite clearly that we have to receive authorization from this committee and from the full Board. We are telling you right now that in order for us to have a program potentially available sometime between October and April of next year, we need to do some engineering. However, the way it has been set up is if we do half of it and we find that we are not going to be competitive we can stop and not expend all of the money.

Alderman Shea asked what do we pay for a kilowatt-hour now.

Ms. Parsons replied your residential rate that you have for the supply portion is 3.25 cents per kilowatt-hour right now.

Alderman Shea asked and we are going to up to 4.4 cents.

Ms. Parsons replied in the affirmative.

Alderman Shea asked how is that going to impact my bill and others bill if it is going to go up.

Ms. Parsons replied what is going to happen is they are going to unbundle your bill. That means is that the way it is structured right now you pay so much per kilowatt hour on the first 250 kilowatts then 250 to 500 kilowatts is a second rate and then everything above 500 kilowatts is a third rate. You will see in

deregulation, instead of three rates, you will see perhaps four rates on your bill. Each one will be based on the exact usage of your kilowatt-hours. There will not be any splitting up if you use 500 kilowatt hours each one of those rate components will be multiplied times 500 for that one month period. You will see what you have been paying for that you do not see now. You will see the supply portion; you will see what PSNH charges you for the transmission and distribution piece and the stranded cost piece. Everyone will pay those prices. You will just see it in a different format. When they are talking about the settlement and the provisions of the settlement and those rates coming down, the piece that they are talking about is in the stranded cost. The piece that you have been paying right along in that bundled picture is now going to be broken out into the pieces and you are going to see that stranded cost charge on your bill as a separate item. Twelve years from now or whatever that period ends up being, dependent on the market, it will go away...it will come off your bill.

Alderman Shea asked when an RFP is drawn up the purpose and the scope of that could you go into that...not too detailed, but just a little bit.

Ms. Parsons replied procuring electricity is unlike anything else we do at the City. When Frank and his buyer buy sand, they can go out, get a market price for sand and stockpile it. You cannot stockpile electricity. It is one of those unique commodities that most of us could not live without if we wanted to. The procurement process on that and the contract that will be a result of that procurement process is critical. There will be businesses that cannot be interrupted they need that power twenty-four hours a day and they need to know that it is going to be there. The issue of reliability, the power itself, for a City is our lights never go down at the airport, Wastewater Treatment Plant, we have critical services here so we want to get the best price in the market for those critical services that we can. In that, we want to include our residents and businesses. Not every aggregator has that in mind. Some aggregators like the business and industry association is going to take their big loads and they are going to keep them for themselves. The residential and small commercial business market are the ones that are going to ultimately pay the most in this market. The example that you make in terms of the regulated rate being 3.25 cents for yourself as a resident and that going up to 4.4 cents per kilowatt hour in this deal, if you will, when that transition period is over, that market price could be anywhere. As a resident, you are going to have less choice to come off of the system then somebody like *Jac Pac*.

On motion of Alderman Pinard, duly seconded by Alderman Thibault it was voted to accept the status report on deregulation and future plan for Aggregation Program.

Alderman Wihby addressed item 4 of the agenda:

Communication from Paul Proulx regarding a request to look into a co-op for home heating.

Ms. Parsons stated the home heating you wanted to address your letter in there. The home heating oil issue we had originally looked at that when we developed the RFP the first time. When we decided that perhaps we were going to take it out for the natural gas and the energy efficiency component, we actually took it out of the RFP. The suppliers that we had talked to were interested in the electricity and gas component only. None of them were interested in oil. Our other concern was that if you look around the City, most of the oil dealers are small business owners and we had fear that should we aggregate and get an offer from a large supplier, that it might hurt somebody like *Bellemore Heating and Oil*. That being said that is why we did not pursue that initially. The issue has come up though and as Frank gave me this agenda this morning, I showed him that there was a handout by the *Cathedral Credit Union* and they have looked at this issue. The Credit Union Consumers Cooperative which is an aggregator working with the State's credit unions and a group called New Hampshire Servco had sent this out as a solicitation. They were looking for people to sign up to look at perhaps getting a contract for home heating oil. I asked Bill Prive to call and follow-up on this and find out exactly what the terms were here. First I will state to you that they required a \$15.00 administration fee with no guarantee that at the end of their procurement process that there would be a contract but they would then have to keep the fee because they had expended the money. They did have three things that they were going to look for in this contract. They were going to look for a guaranteed fixed price with no prepayment. They had a pre-buy, which is exactly what most consumers do now. A lot of folks tie into a rate, pre-pay it in the summertime to have that available to them in the winter. Then they had a rate called rack plus which was a rate that would float with the market just like you could do now. If you did not pre-pay with *Bellemore* when it is delivered that is what you pay. The one concern I had with all of this is we could do this as well but my concern was we do not have the expertise for oil buying on the team so I would have to find someone. Secondly, I had him follow-up on this because I wanted to know in light of everything that happened this winter that if people were tied into something like this, would they be guaranteed a delivery because not only was the issue over the last course of this winter about price but it was also about delivery because there were dealers who could not get oil. There were people who did not get deliveries. If you had a standing contract with *Bellemore* for twenty-five years, you might be the first consumer they make sure gets oil for heating. If you are a new person with *Bellemore* I might not get that same service. Then they actually had to ration. There were some dealers that said if I am only going to get

this much oil I have to make sure that nobody freezes to death so you did not get a full tank delivery, you may have only gotten a piece.

Alderman Shea stated what they do, Tina, is when you pay them they order the oil then.

Ms. Parsons stated that is correct but it also came down to delivery because OPEC was not producing as many barrels of oil as they had previously, as I understand it. One of the things I got to go at the State, they were not delivering it at the dock in Portsmouth.

Mr. Thomas stated our recommendation would be that the City should not pursue this area. The reason being that there is a lot of competition out as you mentioned. You have that ability and as Tina was trying to mention whether the City aggregates oil or Bellemore there is still no guarantee on delivery and there is no way of guaranteeing delivery unless you own everything; the ship, from the source through the harbor to your house.

Alderman Shea stated I just do not want the City to close the door on this. There is probably in the future when oil becomes more available, there should be some sort of help given maybe to people that are not in a position financially to do the same kinds of things that others are. We should not close the door to that. I am sure in lieu of the fact...

Ms. Parsons stated I think your issue is a good one, Alderman, but my concern is that the terms that I would get would not be any different than what this Cathedral Credit Union has proposed for its members. It would require the price is always driven on whatever the deal is. They had three prices. You could obviously elect into a fixed price that would not require a prepayment.

Mr. Thomas stated there is a lot of options that are presently available that cover all of those instances. As Tina was mentioning, if you do not have the money to prepay you could still lock in a set rate, it is slightly higher but you can still lock it in. If we were running a program we would have to follow those same guidelines. Whether it is us or one of the many fuel dealers out there these options are open. By the City aggregating it we do not see that there would be any benefit about the consumer and the City.

Alderman Thibault stated the important thing is that as we saw last winter there are several suppliers that in fact got prepaid for oil and at the end could not deliver and some of them went bankrupt because of that. Bill brings up an interesting point it is one thing to prepay your oil but will that supplier be able to supply you. If he does not get it he cannot supply it.

Mr. Thomas stated and we would be in the same boat.

Alderman Wihby asked have you talked to Mr. Proulx. I will obtain a motion to send this to the Highway Department and make sure they contact Mr. Proulx and explain everything to him.

On motion of Alderman Thibault, duly seconded by Alderman Shea it was voted to send communication from Paul Proulx regarding a request to look into a co-op for home heating to the Highway Department.

There being no further business to come before the Committee on motion of Alderman Shea, duly seconded by Alderman Pinard, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee