

TESTIMONY

OF

THE UNITED ILLUMINATING COMPANY

BEFORE THE

ENERGY AND TECHNOLOGY COMMITTEE

RE

RAISED HOUSE BILL 5819

AN ACT CONCERNING ENERGY RELIEF AND ASSISTANCE

LEGISLATIVE OFFICE BUILDING
HARTFORD, CT

MARCH 7, 2008

Good afternoon, Senator Fonfara, Representative Fontana and members of the Energy and Technology Committee. My name is Alan Trotta, and I am the Manager of Wholesale Power Contracts for The United Illuminating Company (UI). In that capacity I manage all aspects of the power procurement process for UI's Standard Service and Last Resort Service customers. I have 12 years of experience in wholesale energy markets, both in the utility and wholesale trading sectors. The testimony that I am presenting today is based in large part upon the knowledge and expertise that I have gained through this experience.

House Bill No. 5819 introduces a number of changes designed to reduce energy prices and price volatility for the State's energy consumers. UI believes that aspects of the Bill have the potential to improve upon the current energy pricing climate for consumers, but we also have serious concerns with other aspects of the Bill.

A. The creation of a State run energy authority is unnecessary and may increase consumer costs.

The price pressures facing Connecticut energy consumers are, first and foremost, a product of the wholesale power market rules in effect. The creation of a State run energy authority would add another party that would procure products for customers from the same wholesale market under these same wholesale market rules. The electric distribution companies (EDCs) have the capability to do everything that House Bill No. 5819 contemplates would be done by the State energy authority, but have not performed many of these functions because we were required to procure full requirements service rather than purchase products separately.

Specifically, the Bill contemplates three primary functions for the energy authority, all of which are currently being performed well by the EDCs:

(1) Procure least-cost supply side and demand-side resources through competitive procurement processes to meet the electricity needs of all retail customers who elect service by said authority.

The EDCs are already performing supply procurement very well for full requirements service (with the oversight and cooperation of the DPUC and OCC), and have the management expertise necessary to effectively procure individual electric supply components¹.

With respect to demand-side resources, the current collaborative process between the EDCs and the Energy Conservation and Management Board (ECMB) has delivered nationally recognized programs for the benefit of Connecticut ratepayers. UI does not see any reason to derail this program given its track record of success.

(2) Construct and operate generating facilities.

UI believes that this function can be effectively addressed by generation developers, EDCs or partnerships between EDCs and developers. UI has many of the leadership personnel and systems already in place to negotiate and manage long term contracts with generation owners, and to effectively manage the development and operation of new generating facilities.

The key requirements are that generation service be priced in a manner that benefits Connecticut's consumers, and that the right type of new generation be developed in the right locations. These requirements can be achieved regardless of what type of entity develops and owns the generation by ensuring that the generation owner is bound to appropriate commercial and operational terms through either a carefully crafted contract, or direct regulation by the DPUC.

(3) Sell electricity at cost to distribution companies and to municipal electric utilities and cooperatives.

The EDCs have the ability to perform this function with relative ease. This is essentially an accounting and settlement function that would accompany the procurement role.

¹ In the case of UI, some technical and administrative personnel would have to be added to effectively develop and manage a portfolio of electric supply components, but the management expertise and experience necessary to lead this process are already in place.

B. If the State elects to create an energy authority, the membership of the board of said authority should include persons experienced in the energy industry.

The energy industry is complex and ever changing. While UI does not believe that an energy authority is necessary, or likely to benefit customers, it would be even less likely to benefit customers if it were governed by persons who are not well versed in the complexities of the energy markets.

C. The procurement flexibility proposed in Sec. 6(c) can reduce price volatility and reduce consumer energy prices in the long run.

UI is supportive of the changes raised in Sec. 6(c) because the expanded procurement rules could lead to a reduction in the cost and volatility of energy prices for consumers. UI believes that a flexible procurement plan that contains few mandates and exclusions is the best approach to ensuring that its customers benefit from the application of the EDCs' expertise and experience in the wholesale market.

If the concepts proposed in Sec 6(c) are put into practice, the EDCs would have the ability to enter into transactions that include pricing that is: i) non-gas based; ii) indexed to fuel prices, but at a specific heat rate; and/or iii) at cost of service pricing. By transacting in this manner, exposure to volatile prices based on marginal gas and marginal heat rate can be reduced.

With respect to the specific language included in Sec. 6(c), it is important that the language in Sec. 6(c) be very clear on what is intended and how to accomplish what is intended. UI is willing to work with the committee on specific language changes to ensure that the intent of Sec. 6(c) is put into practice to benefit customers.

D. Sec. 7 introduces an RFP process for demand-side resources that would be less beneficial to consumers than the current process for acquiring demand-side resources.

The Bill proposes an RFP process for demand response, efficiency and load management and repowered generation. The current collaborative process between the EDCs and the ECMB, with final approval by the DPUC, has delivered some of the best energy efficiency programs in the nation by considering the total benefits offered by projects. An RFP approach would procure the lowest cost capacity or energy savings without ensuring that the optimal value for all potential products has been achieved. UI strongly recommends the reference to an RFP be deleted.

Thank you for this opportunity to testify. I would be happy to answer any questions that you may have.