

TESTIMONY OF
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ON BEHALF OF
THE CONNECTICUT LIGHT AND POWER COMPANY and
YANKEE GAS SERVICES COMPANY

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Good afternoon. My name is Richard Soderman and I am Director of Legislative Policy and Strategy for Northeast Utilities, here on behalf of The Connecticut Light and Power Company and Yankee Gas Services Company. We appreciate the opportunity to speak to you today about the complex energy challenges now facing Connecticut, and to provide comments on Raised Bill Nos. 22 and 23.

As you consider our testimony today, we also ask that you keep in mind that CL&P and Yankee Gas have a long and distinguished history of serving Connecticut customers reliably and effectively. We are keenly aware of the pressure on our customers from the significant rise in rates, mostly caused by electric generation costs – the amount charged by power plants in the competitive market that we do not control. That is why we have invested \$2.5 billion in the Connecticut economy through transmission and distribution improvements. In its first year of operations, the new Bethel-to-Norwalk transmission line produced a \$150-million reduction in congestion-related expenses, and that has already lowered power supply rates for customers. The reliability of CL&P's electric delivery system was very good last year, and provided service to our customers 99.98% of the time. Our customers also benefited from our nationally-recognized, award-winning Conservation & Load Management programs developed in conjunction with the Connecticut Energy Efficiency Fund by using

energy more efficiently and lowering their bills, saving over time about \$4 for every \$1 spent. We completed an LNG storage facility that enables us to more reliably and more economically serve our gas customers with local supply. And we are striving to continuously improve our service levels—using new technologies, and also learning from our mistakes, so that we can fully serve our customers' needs. We have opened a new, state-of-the-art customer service center, and, unlike the trend followed by many businesses, the center, and its 500 jobs, is located here, in Windsor. I invite legislators to take a tour of our new center so that you can learn about what goes into providing customer service.

For us, customer service extends beyond the business of energy. We invest in the communities we serve including grants from our shareholder-funded NU foundation – a \$25-million endowment through which we donated millions to Connecticut charities and institutions. Our employees also donate and raise millions for charities, big and small, and volunteer their time to a diverse set of organizations.

These and other actions demonstrate that our companies are committed to serving Connecticut—I hope that you would agree that we are, in many ways, the home team, and that we take the public in public utility seriously.

As part of our responsibility, we try to be a resource to the legislature so that you can make the best, most informed decisions regarding energy issues. Turning now to today's list of raised bills, we offer the following comments.

1. Raised S.B. No. 22 (AAC A Procurement Auction for Electric Generating Services)

This proposed bill provides for electric distribution companies to be required to use a "market-based online auction process" to procure electric service contracts for up to 20 percent of their standard service requirements.

CL&P welcomes any and all tools that would provide it with more flexibility to procure supply arrangements. CL&P has a track record of successfully working within the statutory and regulatory constraints for procuring such supply, and those benefits are being passed on to customers. For example, we developed means to mitigate the risk premium on prices caused by uncertainty on congestion. We are pursuing modifications to our approved procurement plan with the DPUC so that we will be able to contract directly with generators for components of power supply. We are hopeful that will be permitted soon.

Thus, CL&P is supportive of considering a market-based online auction process as a potential addition to its array of supply tools that could be included in our procurement plan. However, as with any other tool, we suggest that it be an optional methodology that we could consider and include in our plan, subject to approval by the Department. We caution that it should not be a mandatory method, even for a limited percentage of load, because it may not in practice produce intended results.

We realize that public discussion of a method used by some agencies to procure power for state facilities suggests that perhaps similar savings could be realized for standard service customers. While we hope that would be true, there are some important facts that we should all recognize before we conclude that substantial reductions from this new procurement method can be achieved.

First, it appears that the most significant cause of savings for those state electricity procurements was a result of the significant reduction in time between when a bid for supply was requested and when the contract was awarded (e.g. months). Suppliers add a risk premium to their bid prices when there is a lag between when they must offer a price and learn when they have been accepted. Fortunately, for standard service customers, our approved procurement plan already provides us with a very rapid window of time between when the bids are received and when they are accepted (usually 6 hours or less). In addition, we have worked with the Department to get final approval of the resulting pricing on the next day. Thus, our current process already captures this cost savings.

Second, the state facilities have a very attractive load profile compared to average customers, and especially compared to other large customers remaining on last resort service. In addition, under the state's purchasing process, state load is being purchased for a fixed commitment period (15-20 months) without the ability to be switched to another competitive supplier, thereby mitigating ingress and egress risk, a risk that is present in standard service and last resort service. These factors would tend to produce a lower price for these facilities compared to standard service or last resort service

customers. In addition, last resort service is only purchased for three-month periods into the future, thereby making its longer time pricing unpredictable. For these and other reasons, about 88 percent of CL&P's last resort customer load has moved to competitive supply. A market-based, online auction process would not change these risk factors.

Third, while everyone hopes that savings from new approaches can be substantial, we recognize that estimates of savings, especially from entities that are in the business of selling online auction tools, can sometimes be optimistic. For example, consultants estimated savings of 18 percent from the recent state facility procurement, compared to a consultant-derived "benchmark" of over 13 cents/kwh that would have been purchased from CL&P and UI standard service or last resort service. I note that CL&P's current standard service and last resort service rates are 11.8 and 11.7 cents/kwh. Savings apparently remain at current prices, but they are probably much less than some may claim. Our reason for raising this issue is not to deride the approach, but only to help manage expectations. There are advantages and disadvantages to different procurement methods, but no one should expect dramatically better results if we move from one method to another.

As previously indicated, CL&P welcomes the additional flexibility to procure supplies by adding market-based, online auctions to those available options. We oppose making use of them mandatory. And, if such flexibility is to be pursued, we also suggest that it be accompanied by express permission in law to include longer-term

contracts directly with generators or suppliers for components of supply (as opposed to full requirements service).

2. Raised S.B. No. 23 (AAC Global Climate Change)

This bill provides for a number of proposals to address climate change. We vigorously support efforts that will effectively reduce greenhouse gasses, as demonstrated by our commitment to energy efficiency. While most of the proposals in this bill have little if any impacts on our businesses directly, we offer our support of the bill as part of a comprehensive approach to effective response to climate change.

Thank you for the opportunity to appear before this committee.