



# Why We Need a Connecticut Power Authority

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Robert McCullough, Managing Principal, McCullough Research, Portland, Oregon

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on Behalf of AARP Connecticut

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Thank you, Chairwoman Nardello and members of the energy committee, for the opportunity to testify here today in support of H.B. No. 6510 (RAISED) AN ACT ESTABLISHING A PUBLIC POWER AUTHORITY.

## Introduction

Ten years ago the California state government took a painful misstep in trying to bring the benefits of electricity competition to Californians. California had long envied the lower rates available in neighboring states, and embarked in a radical departure from traditional utility regulation. As part of its restructuring, California constructed a complex administrative system in which wholesale electricity market bids, bidders, and price calculations were all secret.

Two years after implementing this system, it was obvious to all that the people of California were suffering from this catastrophic mistake. In 2009, California still retains a massive administrative infrastructure complete with market secrecy. Even though the nature of competitive markets should lead to comparable wholesale prices across large regions, California's wholesale electricity market continues to show significantly higher costs than those of its neighbors.

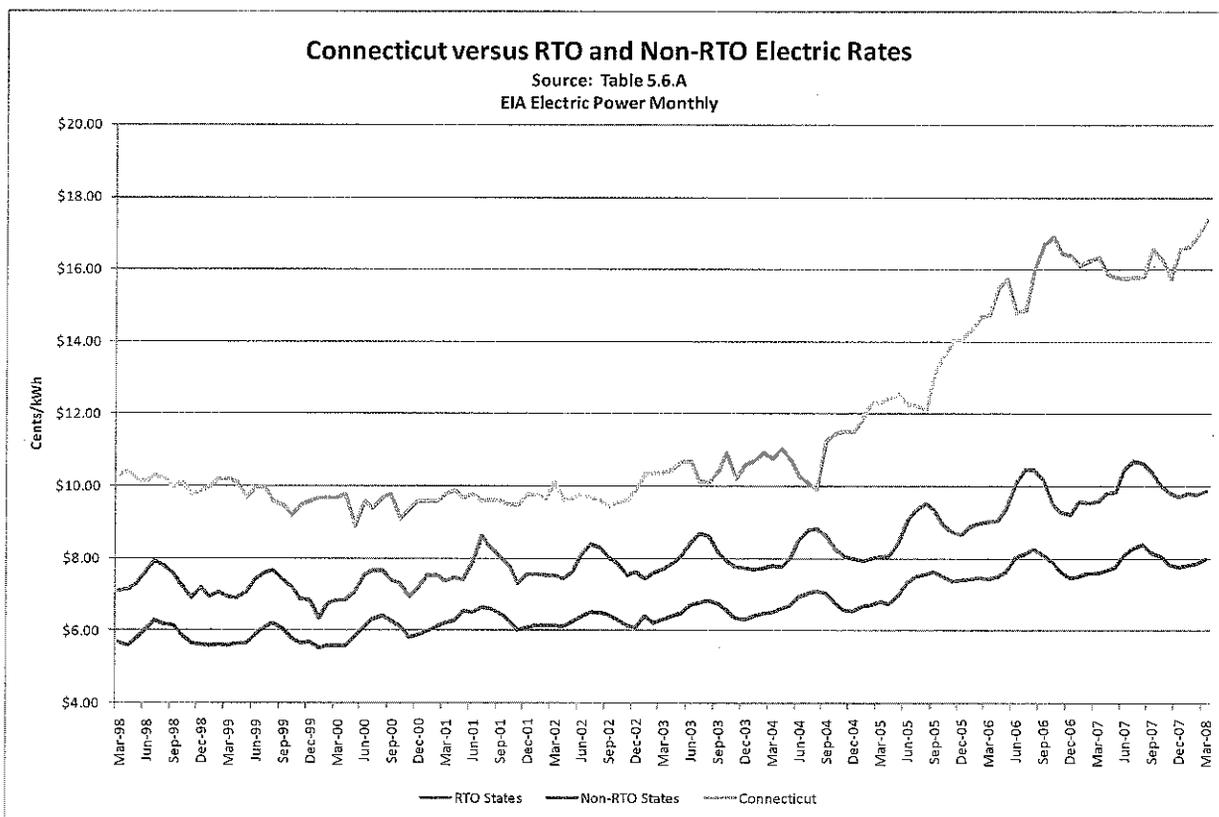
The situation in Connecticut is not much better. Your wholesale electricity prices are now among the highest in the nation. The so-called forward prices for March are higher than elsewhere in New England.

In April 1998, Connecticut state government enacted Public Act 98-28, largely duplicating the failed California experiment. Connecticut is under the New England Independent System Operator, which is

until, in 1998, California chose a system where state-chartered bureaucracies determine prices in a “black box”. California’s neighbors on the other hand prudently invested in low-cost generation that allowed them to keep the benefits of their investments. The market for electricity was transparent, which means that market information was available for public review.

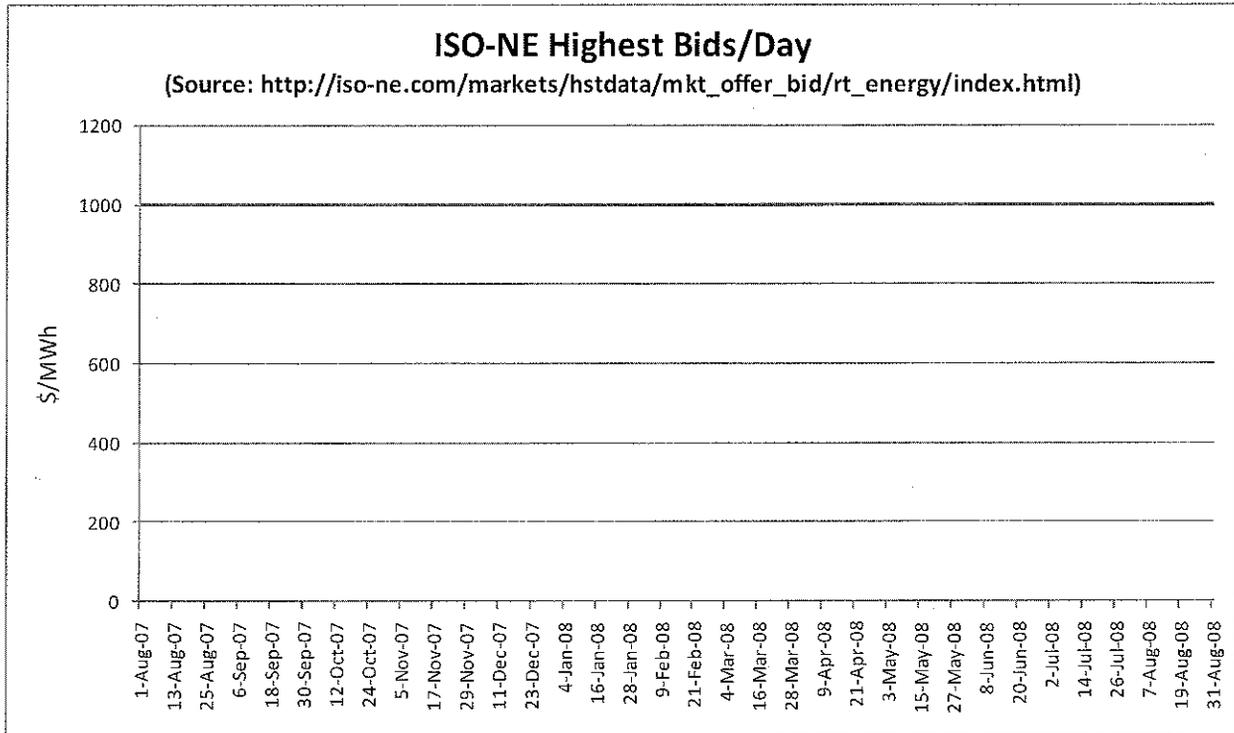
While there is nothing intrinsically wrong about single price auctions for the commodity, electricity, it represents a world in which – by law – consumers are forced to purchase their groceries at a designated supermarket. They cannot buy in bulk for long-term supply from large discount grocers. And in Connecticut, “supplies” that you have already purchased, like the electricity from Bridgeport Harbor and Millstone, have been re-priced to market prices, to the benefit of the plant owners.

The following chart shows Connecticut retail prices compared to those across the U.S.:

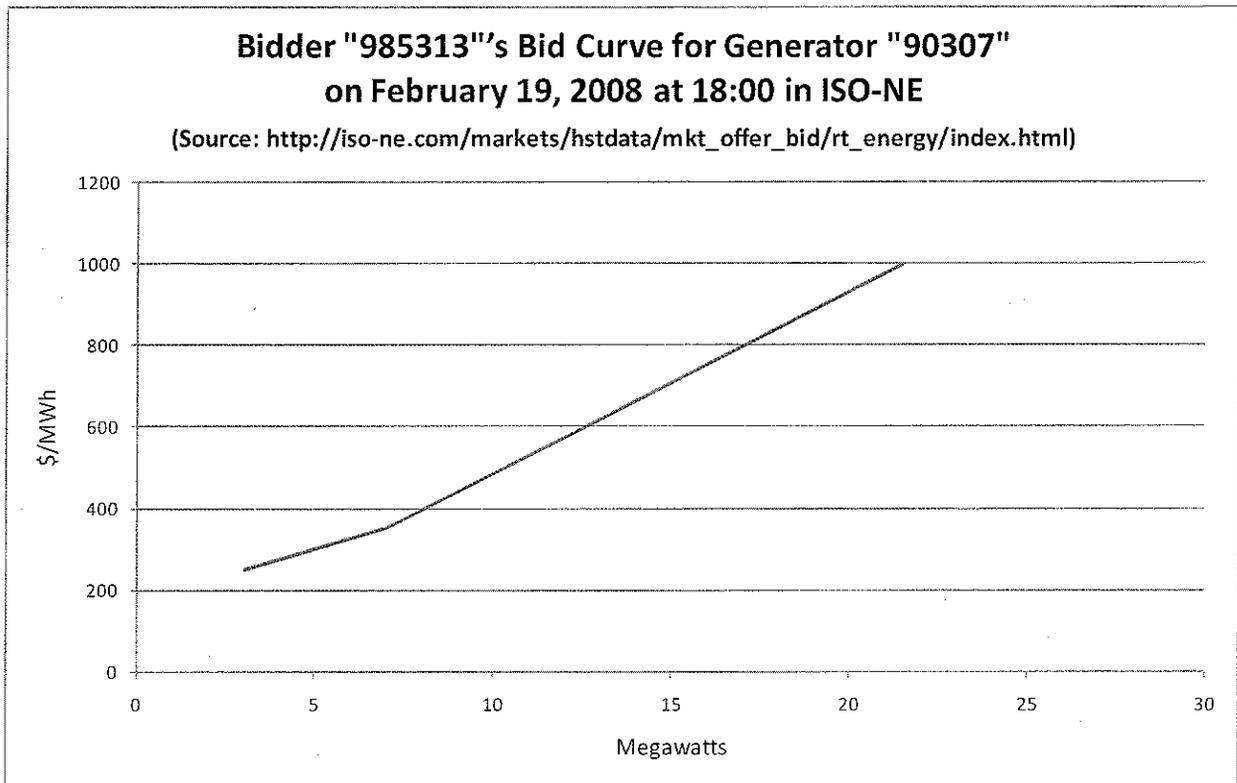


Those states with Independent System Operators, also known as Regional Transmission Organizations (RTO), have seen electric rates climb continuously above those states with open wholesale competition. Connecticut’s fate has been far worse than the U.S. average, however.

While the proponents of centralized administered wholesale electricity markets blame the high prices on the cost of fossil fuels, the reality is that the differential increase during Hurricane Katrina’s natural gas spike continued to rise even when the price of natural gas later dropped. One irony of the New England Independent System Operator’s computer algorithms that are used to set the market price is



The individual bids make even less sense:



*bonds to build in-state generation plants.*<sup>1</sup> The use of tax-free bonds would usually lower the overall financing costs for new generation. This would allow the CPA to compete with the market to push the price of electricity closer to cost-of-service. Tax-free bonds offer lower interest rates than other types of bonds. Therefore, a CPA would have advantages in financing over investor-owned utilities.

*A CPA could extend financing to a non-state-owned plant in exchange for traditional regulatory treatment.* The CPA could function as either a financing entity or a guarantor for developer-built power plants. The model for this is the “acquisition” and “net billing” techniques used by the Bonneville Power Administration to facilitate resource development in the Pacific Northwest. It is a step below outright plant construction, even on a turnkey basis, since the developer would need to agree to the CPA’s terms and conditions. The CPA could require that a proposed plant is either priced at fully allocated cost or that the differential between market prices and fully allocated cost is returned to ratepayers.

*A CPA could help streamline Connecticut’s complex energy planning/procurement.* Presently, the DPUC receives input from the utilities, Consumer Counsel, State Attorney General, Siting Council, etc. Yet in addition to handling rate cases and consumer complaints for natural gas and electricity, it regulates telcom, CATV and water and handles their associated rate cases and consumer complaints. It is possible that Connecticut’s ratepayers could be better served if the existing structure reflected the energy agencies’ strengths, i.e. rate issues (DPUC), siting (Siting Council) and plan/procure (CPA).<sup>2</sup>

*It is desirable for a CPA to administer the procurement process.* To avoid repeating the mistakes of the secret auction that led to record-high utility bills in 2007, the Illinois legislation provides a blueprint for the new agency (from Section 1-5: “Develop electric generation and co-generation facilities that use indigenous coal or renewable resources, or both, financed with bonds issued by the Illinois Finance Authority”; “Supply electricity from the Agency’s facilities at cost to one or more of the following: municipal electric systems, governmental aggregators, or rural electric cooperatives in Illinois.”). Like Illinois, a Connecticut authority could be required to “Develop electricity procurement plans to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability” (Section 1-5) and other factors the public deems important. To the extent feasible the procurement plan could be submitted to both the DPUC and the public for review, and the procurement process monitored after the Illinois model.

*A CPA could call upon the expertise of similar organizations.* Staffing for the Connecticut Power Authority could draw from the state’s existing energy agencies. Another domestic source of qualified individuals could be the Connecticut Municipal Electric Energy Cooperative (CMEEC), “a publicly directed joint action supply agency formed by the state’s municipal electric utilities in 1976 under authority of the

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<sup>1</sup> (20 ILCS 3855/) Illinois Power Agency Act, Section 1-57.

<sup>2</sup> See the state’s existing energy matrices at <http://www.ctenergy.org/pdf/MatricesPh1Apr08.pdf>; this is the first phase of the study now underway by CAEB to look at various energy issues as mandated by the General Assembly.