Testimony of Tim Daniels
Director – Energy Policy, Constellation NewEnergy and Constellation Energy Commodities Group

Opposing Proposed Bills 6507, 6512, and 6510

Energy & Technology Committee
February 24, 2009

Senator Fonfara, Representative Nardello, and Members of the Committee – My name is Tim Daniels and I am the Director of Energy Policy for Constellation NewEnergy and Constellation Energy Commodities Group. I would like to thank you for providing me with the opportunity to testify before you today on proposed bills 6507, 6510, and 6512. Constellation opposes all three bills because it believes they would undermine both retail and wholesale competition and, as such, harm Connecticut rate payers. Taken as a whole, these bills would not only limit a customer's ability to choose electric products tailored to its specific needs, they would also reburden Connecticut customers and tax payers with stranded cost risk by locking them into long-term contracts and debt associated with large public energy infrastructure.

The first two bills - bill number 6507, entitled "An Act Concerning Reducing And Stabilizing Electric Rates For Residential and Business Customers," and bill number 6512, entitled "An Act Concerning The Electric Contract Procurement Process" - would seek to stabilize electric rates by forcing customers with load under 500 kW to remain with utility generation service and replace the current full-requirements auction procurement process with a utility managed portfolio approach. Any potential success of these bills is based on the premise that customer supplies are better managed by regulated utilities than by the full-requirements auction structure currently in place. This basic premise is flawed when one considers the superior resources that competitive wholesale suppliers can bring to bear when offering supply into these auctions. These resources include sophisticated risk analysis groups, dedicated weather departments, trading floors, and an overall corporate structure centered on this one expertise. As well-intentioned as regulated utilities may be, their broader responsibilities prohibit them from achieving this level of specialization. Further, the general strategy inherent in these bills is also premised on the assumption that all customers have the same electric supply needs. Constellation NewEnergy's experience in Connecticut, as well as other states, suggests that great variation exists between the supply needs of customers even within the same industry and rate class.

The third bill, number 6510, entitled "An Act Establishing A Public Authority" would seek to lower prices, improve reliability, drive economic development activities, and deliver environmental benefits through the creation of a public power authority. This authority would be authorized not only to provide a range of energy efficiency and renewable energy services but would also be able to enter into long-term supply contracts, and own and operate electric power plants. This bill is flawed not in its objectives, but in its assumption that the power authority structure provides the best mechanism for achieving these policy objectives.

The history of power authorities has demonstrated that they can provide great public benefits in areas that are underserved by the private sector. Some notable examples of this include the Tennessee Valley Authorities' electrification of rural communities, the funding of collaborative RD&D initiatives by the New York State Energy Research and Development Authority, and the delivery of cost-effective residential energy services as is the case with Efficiency Vermont. However, power authorities have had a very poor record of performance in areas of managing risk, such as with portfolio management, and owning and operating large energy infrastructure. A few examples of these failures include:

- A 1999 General Accounting Office study entitled, "Federal Power: Implications of Reduced Maintenance and Repair of Federal Hydropower Plants" concluded that "hydropower plants run by the Army Corps of Engineers and the Bureau of Reclamation are generally less reliable in generating electricity than are nonfederal hydropower plants."
- A 2004 New York State Comptroller's Office Audit of the New York Power Authority (NYPA) concluded that "NYPA lacks incentives to control waste and inefficiency. This audit is a red flag that NYPA is not managing these enormous public assets based on sound business practices....NYPA is a textbook case of an authority adrift."
- A 2006 New York State Comptroller's Audit of NYPA found that the cost of building its new 500 MW combined cycle natural gas plant in New York City had cost $740M – roughly twice what had been approved in 1999.
- A 2007 study by the Environmental Integrity Project found that two of the top six dirtiest plants in the United States were owned and operated by the Tennessee Valley Authority.
- In 2005 the New York Power Authority mismanaged their hedging strategy for their Power For Jobs economic development program resulting in captive customers being forced to pay rates above standard default service utility rates.

Finally, in addition to the inability of power authorities to truly deliver cheaper, cleaner, and more reliable power, these authorities undermine one of the primary benefits of competition – thus, putting risk back on captive customers and tax payers. Since authorities are non-profit entities, they must secure captive customers in order to enter into contracts or to build supply infrastructure. The risk of cost overruns and stranded costs are then passed through to those captive customers. It should also be noted that, although Bill 6510 seeks to ring-fence the authority's debt obligations in order to protect rate payers and tax payers, a long record exists, particularly on the federal level, suggesting that the debt of public authorities is implicitly backed by tax payers in that jurisdiction.

Thank you for consideration of my testimony. I would be happy to take any questions you may have.