

TESTIMONY OF

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ON BEHALF OF
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Good afternoon. My name is Richard Soderman and I am Director of Legislative Policy 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 Proposed Bills numbered 6507, 6510, and 6512.

To facilitate your review of my written testimony, I have put my comments on each bill on a separate page.

1. H.B. No. 6507 AAC REDUCING AND STABILIZING ELECTRIC RATES FOR RESIDENTIAL AND BUSINESS CUSTOMERS.

This proposed bill would modify retail electric choice for standard service customers and provide additional supply options from an electric distribution company for customers who are not eligible for standard service (last resort customers).

Regarding the first provision, this bill would remove retail choice for customers who presently are eligible for standard service rates. This includes residential customers and business customers with a maximum demand of less than 500 kW.

Today, about 92 percent of residential customers and about one-half of small business customers are on standard service, which is provided by electric distribution companies like CL&P. We buy that power through solicitations from the wholesale power market. Few residential customers have availed themselves of retail choice.

When restructuring was initiated in 2000, it was anticipated that over time substantially all customers would move to the competitive supply market. That has not been the case. However, when we buy power supply for our customers under standard service, the suppliers factor into the price they bid a risk premium for the possibility that customers may leave and go to a competitive supplier or return to standard service, especially as we ladder contracts over three years. As a result, the supply bids we get are higher than they would be if this egress risk was not present.

Another apparent problem with the current competitive system is that, rather than offering market-based competitive rates, competitive suppliers wait until our rates are published, which have been smoothed out over three years due to contract

Comments on H.B. No. 6507—Continued

laddering. They then provide offers that, when possible, appear to provide only a slight discount from our rate. With the short term reduction in wholesale prices, competitive suppliers could offer significant savings to customers, but based on some offers we have seen, that is not the case.

Elimination of retail choice would have the advantage of removing any egress risk premium associated with supply contracts, and also would allow the procurement of longer term power supplies that may be based on a generator's cost of production. Both of these attributes would lower customer bills and we support them.

The second provision of the proposed bill provides last resort service customers additional options from their local electric distribution company. Today, that supply is procured on a quarterly basis, resulting in low predictability and high volatility in the price. That price varies dramatically. Last Fall the price averaged about 14 cents per kWh, and it will be about 7.6 cents this coming April. Prices for this summer will not be known until mid-May when the next quarterly RFP is completed. Clearly, last resort service is unattractive to business customers because they are unable to predict their energy costs. This is why about 86 percent of this customer load has left last resort, and instead, takes competitive supply. A significant level of ingress risk accompanies this service, which makes it an even higher priced option for customers.

This bill would permit electric distribution companies, after approval by the DPUC, to offer these large customers products that do not have the volatility inherent in last resort service, and by restricting access and egress for a contract period of one or two years for customer who choose to participate, we would be able to offer attractive pricing.

Comments on H.B. No. 6507—Continued

This provision can be easily implemented by us, we believe it will provide attractive, lower costs options for some of our large customers, and we support this provision.

2. H.B. No. 6510 (RAISED) AN ACT ESTABLISHING A PUBLIC POWER AUTHORITY.

This proposed bill would create a new state agency, the Connecticut Electric Authority, to coordinate the state's electric needs and conservation efforts. We can appreciate the desire for better coordination among existing state entities in developing and implementing energy policies.

There are some provisions within the proposed bill, taken separately, that we could support. For example, we have long advocated for increased energy efficiency funding, because these programs are a very cost effective means for customers to control their energy bills. We can also support the concept of possible cost-of-service, utility-owned generating plants to the extent that the market does not produce the desired outcomes.

More generally, however, we do not see the benefit of creating yet another entity to oversee and regulate electric service for customers. We are already subject to regulation, monitoring or oversight by this committee, the DPUC, Consumer Council, Attorney General, Energy Conservation Management Board, Connecticut Energy Advisory Board, and the Siting Council, all of which spend considerable resources on checking and rechecking every action that regulated companies take.

Under the proposed bill, many responsibilities are shifted from the DPUC to a new power authority. This could cause of duplication of staffs, and it could substantially increase the costs of many regulatory functions today. Further, the bill as drafted does not have any administrative process contemplated for the Authority's decision making, clearly, something that will have to be developed since the new Authority would have regulatory responsibilities. Without such process, there would be a reduced system of checks and balances, thereby providing less transparent decision making than occurs today.

Comments on H.B. No. 6510--Continued

The proposed bill also establishes financing capability for the new Authority to potentially make investments in generation. The staff and breadth of the expertise contemplated for the Authority is substantially underestimated if the intent is for generation development and operation by the new Authority and the result will be that it would have little capability to assure that customer interests are served appropriately without a sizable and costly reliance on outside consultants.

We are opposed to passage of this bill.

3. **H.B. No. 6512 (RAISED) AAC THE ELECTRIC CONTRACT PROCUREMENT PROCESS.**

This proposed bill has three significant provisions. First, it would modify the rules under which utilities procure power supply for standard offer service, providing greater flexibility to develop a portfolio of supply arrangements that will result in lower prices for consumers. Currently, power is purchased twice annually for periods of up to three years into the future, with contracts laddered and overlapped in order to provide more stability in the price. The suppliers of this power are supply aggregators, or energy traders, who do not generally own the generating plants, but instead aggregate those generators and bid into the utility RFPs, a process overseen by the DPUC and OCC. Under the proposed bill, electric distribution companies will file with the DPUC new procurement plans to manage a portfolio of electric generation supply resources for standard service customers. The electric distribution company will blend short and mid-term market purchases at prevailing market prices with long-term purchases at prices aligned with the cost of electricity production, and procure individual electric supply components, including base load, intermediate and peaking energy resources, capacity and other power supply services, using requests for proposals, bilateral contracts outside the request for proposals process and the regional power market. Rates will be trueed up to actual revenues and expenses twice per year, with any over or under recovery being included in either the current period or subsequent standard service rate, as determined by the department. As proposed, purchase plans will be approved and monitored by the DPUC and OCC.

This proposal can improve the purchase process for several reasons: (1) there are very few providers of full requirements service in New England vs. many generators or providers of individual contracts that could be aggregated in a portfolio; (2) Utilities will have the flexibility to react to market conditions and take advantage of temporary price reductions for the benefit of customers; (3) utilities can seek and blend into its portfolio longer term supply arrangements that are

Comments on H.B. No. 6512—Continued

cost-based, including long term contracts allowed under P.A. 07-242; and (4) risk premiums would be reduced. All of these factors will lower customer prices.

We believe these provisions will contribute to lowering customer bills and we are prepared to implement these provisions if the legislature adopts this proposed bill.

The second provision of the proposed bill requires electric companies to apply for any federal economic recovery funds received by the state pursuant to any federal economic stimulus recovery legislation passed in 2008 or 2009 for energy purposes for any qualified project. We are in the process now of taking steps to seek that funding, some of which may require cooperation of state entities. We do not believe that legislation is needed for this purpose, and we would agree to submit a report on any progress made in obtaining such funds.

The third provision of the proposed bill seeks information on whether existing standard service contracts could be adjusted to lower near-term prices. We are willing to proceed with inquiries of our current suppliers, and we are hopeful that added value could be created for customers. We note, however, that suppliers may be willing to lower near term prices, but they might seek make whole provisions in later years of any contract, or extensions of such contracts. We ask that this provision be modified to permit flexibility in contract adjustments if such adjustments were deemed to be in the best interests of customers by the DPUC.

Thank you for the opportunity to present testimony at this hearing.