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## TESTIMONY OF ENVIRONMENT NORTHEAST TO THE ENERGY AND TECHNOLOGY COMMITTEE

### H.B. 5365 AAC Electric Distribution Companies

March 4, 2010

Good afternoon Senator Fonfara, Representative Nardello, Senator Witkos, Representative Williams and members of the Committee. My name is Jessie Stratton, Director of Government Relations for Environment Northeast (ENE). ENE is a non-profit research and advocacy organization that focuses on energy, air quality and climate change solutions for New England and Eastern Canada. ENE appreciates the opportunity to provide testimony to the Energy and Technology Committee on H.B. 5365 AAC Electric Distribution Companies.

### **Sec. 1 & 2 - Utility Ownership**

Section 1 of the proposed bill provides local distribution companies (LDCs) the opportunity to own and operate renewable generation that is RPS compliant. However it does so without consideration for the way the current RPS is structured and how this change would disrupt the current RPS market and system. It also does not align the utilities' interests with those of consumers, i.e. to get the most actual renewable generation at the lowest cost, and therefore could lead to ratepayer funding of gold-plated, high-cost projects. While not opposed to the idea of some utility ownership of renewable generation, in its current form ENE would oppose the change proposed in this bill.

ENE has the same concerns with Section 2, which allows the distribution companies to own distributed generation. However, as indicated previously, there may be reasons to consider distribution company ownership of renewables and possibly distributed generation if it is done in a manner that is consistent with current markets, delivers lower costs to consumers, provides a hedge against higher fossil fuel prices, and aligns distribution company incentives with those of consumers. We also believe this kind of policy/contracting could be structured in a way to overcome the current hurdle some developers face in getting renewables and associated transmission sited - consideration should be given to combined transmission and renewables contracting which we will expand upon later.

Let me summarize what ENE believes are the pros and cons associated with the traditional rate based model of utility ownership of generation:

- Pros:
  - Certainty in terms of how much new capacity is added
  - Significant new support to develop renewables or DG
- Cons:
  - There is an incentive for the LDC to maximize capital investments in order to maximize profits - utility makes an ROE tied to the amount of capital invested which means the bigger the project in terms of dollars invested the more money they make
  - There is not an incentive to minimize costs – in fact because of the issues noted above the projects may tend to be over priced
  - There is not an incentive to maximize energy production – again the profit motive is tied to capital investment rather than production so there is no incentive to maximize energy production by installing efficient systems or ones sited in the best way to maximize production (solar orientation, etc)
  - The process may not be competitive and/or prevent cost overruns

ENE believes that LDC ownership of renewable or distributed generation must:

- Be aligned with the structure of the RPS – the renewables should either be procured to meet the RPS compliance requirements of standard offer customers or should be used to provide a hedge against energy costs and RPS supply back into the market (see proposal below).
- Be competitive – a solicitation should be issued for the resource that the LDC or merchant generators could respond using a common point of comparison based on the total cost of generation (\$/MWh).
- Be aligned with customer needs and intended to reduce costs and maximize benefits – the distribution company should be committed to delivering energy at a fixed cost and be paid based on energy output in order to ensure that they operate the facility well and in a way that maximizes energy output and availability of the plant (for instance properly orient and maintain solar panels).

ENE would welcome an opportunity to work with the bill's sponsors, the committee, and other stakeholders to craft a revised proposal that addresses these issues and would propose the following as a draft framework for those discussions:

- The DPUC should evaluate the benefits of having a portion of the RPS requirements addressed through long term contracts that would provide a hedge and some price certainty for customers (for example, 50% of the additional RPS supply required in the coming 5 years), and determine how much energy should be supplied in this manner (i.e. the number of MWh needed in each year).
- The DPUC should then determine if this contracting should be on behalf of all customers or only standard offer customers:
  - If only standard offer customers, the energy and RECs purchased would be held by the LDC for those customers (depending on other contracts, energy could possibly be sold into the spot market) and the cost (less any revenue from the market sale of energy) should be included in the generation rate.

- If on behalf of all customers, the energy and RECs would need to be delivered to the LDC and costs recovered through a non-bypassable charge that all customers paid but for standard offer customers the RECs should be held to meet the RPS and the energy sold and any revenue from that sale used to reduce the non-bypassable charge for standard offer customers. For customers on competitive supply, the energy and RECs should be sold with all of that revenue used to reduce their non-bypassable charge (note that the charges might be different for standard offer vs. competitive supply customers).
- The DPUC should develop a solicitation for the amount of renewable energy required that would:
  - Be based on a fixed \$/MWh for a set period
  - Allow LDCs and merchant generators to bid
  - Also allow for proposals involving large projects that deliver both RPS compliant new generation and the transmission required to deliver that energy to load, i.e. with transmission costs built into the all-in \$/MWh price.
- The contracts would be reviewed and awarded by the DPUC, although the purchasing party would be the LDCs on behalf of customers. Typical requirements should be included in the contract to ensure commitment and delivery of the energy.

The proposal described above would allow the LDC to own generation and make a return on investment while delivering energy and RPS compliance at a competitive and low cost. It would also ensure that customers actually get delivery of energy and RECs (RPS compliance) and the energy price hedge they provide, incent the LDC to minimize costs and maximize energy output, and provide other merchant generators access and not disrupt current markets.

A similar process could be developed for distributed generation that evaluated needs and then developed solicitations in which the LDCs could participate.

### **Sec. 3 - Connecticut Energy Efficiency Partner Program**

ENE is generally comfortable with the proposed changes to the Electric Efficiency Partner Program in Section 3 of the bill. Specifically we support the increased evaluation and monitoring of projects and evaluation of both the demand and energy savings.

We do have some concerns about utility ownership of projects and rate basing them, and encourage the committee to allow the DPUC to determine how best to recover costs for utility owned or administered projects (see comments on Sec. 5 below)

### **Sec. 5 - Additional Efficiency Investments**

ENE supports clarification of how additional investments in cost-effective efficiency should be funded (i.e. those proposed in the IRP process). However, we do not believe it is necessary to include these costs in the companies' rate base and would prefer that the companies continue to make a profit on these programs based on the current incentive model which rewards them based on their performance in saving energy, rather than a set ROE based on how much money they spend.

Therefore, we would propose that Sec. 5 be changed as follows:

(Effective July 1, 2010): (NEW) (h) An electric distribution company may make additional investments in cost-effective conservation and load-management programs beyond the levels funded through the charge imposed pursuant to subsection (a) of this section , provided such programs have been evaluated by the Energy Conservation Management Board in a manner, and are subject to ongoing monitoring, similar to the evaluation and monitoring of programs funded through the charge imposed pursuant to subsection (a) of this section. ~~[Any such increased investment shall be included in the company's rate base and the company shall recover the costs associated with such investment in accordance with the principles of sections 16-19e and 16-49]~~ Costs shall be recovered through a conservation charge on customers' bills, which may be combined with the charge imposed pursuant to subsection (a) of this section, provided receipts from the charge imposed pursuant to said subsection (a) shall continue to be deposited into the Energy Conservation and Load Management Fund established pursuant to subsection (b) of this section.

Thank you for the opportunity to comment on H.B. 5365.

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