



**Connecticut
Light & Power**

The Northeast Utilities System



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Energy & Technology Committee—March 16, 2010

H.B. No. 5505 AN ACT CONCERNING ELECTRIC RATE RELIEF.

This proposed bill would create a new state agency, the Connecticut Electric Authority, to coordinate the state's electric needs and procure power for customers who do not seek competitive suppliers. The basis for this proposal is unfounded on facts, and instead, is a classic case of "let the government fix it," even if it isn't broken.

The facts are, we already buy power supply for standard service as effectively and with as low a price as is possible within the statutory construction of Connecticut's restructuring laws. The facts are that generation charges for standard service customers went down by 9.8% on January 1, 2010, resulting in an overall bill decrease of about 4.8%. The facts are, that based on current fuel prices and supply we have already purchased for next year is that generation charges will go down by another 8-9% on January 1, 2011, resulting in another overall bill decrease of about 5%. Why tamper with a process that has been bringing rates down?

This bill would establish a Connecticut Electric Authority to coordinate the state's electricity needs and conservation. The bill as drafted does not provide any means to achieve customer benefits above those already provided by existing programs administered by utilities with oversight by the DPUC and Consumer Counsel, and it will increase government costs. ***CL&P opposes this bill.***

Background

- Existing law specifies how power supply is procured to supply standard service and last resort service customers.
- Utilities have fully complied with those laws.
- Utilities have developed highly effective means to procure power supply with oversight by the DPUC and Consumer Counsel.



The Proposed Change

- Shifts many energy responsibilities from the DPUC to a new power authority, including supply procurement.
- Establishes financing capability for the new Authority to potentially make investments in and own and operate generation.
- Consists of a board of political appointees to oversee the decisions.
- Adds another agency and staff to the government.

Why The Proposed Change Does Not Make Sense

We do not see any 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. Any benefits claimed by the bill's proponents are speculative without any specific plan or action that will reduce costs. If having more regulatory oversight was a factor in lower electric rates, then we should have the lowest, not be among the highest. Some observations on the proposed bill:

1. There is no added value of creating yet another entity to oversee and regulate electric service for customers. This means more costs for consumers.
 - Utilities are already subject to regulation, monitoring or oversight by the legislature, the DPUC, Consumer Council, Attorney General, Energy Conservation Management Board, Connecticut Energy Advisory Board, and the Siting Council, all of which spend considerable resources hiring consultants, which customers pay for, checking and rechecking every action that regulated companies take.
 - New approaches suggested by the bill's proponents (citing the new Illinois Power Agency) have already been adopted or considered here—changes in this bill will disrupt existing processes that are already operating smoothly. Unlike Connecticut, Illinois utilities still own generation, making additional oversight more appropriate.



- Methods adopted by the Illinois Power Authority would actually increase utility involvement and responsibility in power supply portfolio management, not less. In that program, utilities are required to determine how best to integrate the power contracts that the agency approves into an overall power supply.
 - The Attorney General, a vocal supporter of a power authority, has declined invitations to participate in the process of reviewing bids and arrangements.
2. The new government agency would duplicate existing staffs and substantially increase the costs of many regulatory functions, likely using expensive lawyers and consultants.
 3. There is no administrative process contemplated for the Authority's decision making, thereby making decision-making less transparent. Without such process, there would be a reduced system of checks and balances, thereby providing less transparent decision making than occurs today.
 4. The bill underestimates the cost of the staff and breadth of the expertise necessary to make any meaningful contribution to improve processes
 5. The bill requires a sizable and costly reliance on outside consultants.
 6. The bill presumes that the Authority, as an agency of the state, can safely and effectively develop and operate new generating plants.

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.

As the General Assembly considers this proposed bill, we suggest that they ask several direct questions before they decide these changes should become law:

1. How does this bill propose to create savings for customers beyond the practices that are already in place in accordance with existing law?
2. What would the new Authority do differently than is done today? Keep in mind that the Illinois Power Authority, which is sited as the model for this bill, retained the same consultants and



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adopted the same measures that our existing procurement process developed and enhanced over the past several years.

3. Is Connecticut ready to commit to financing several billion dollars that would be necessary to construct new state-owned generating plants? Meaningful impact on the supply situation to produce savings for customers would require acquisition of perhaps 1000 MWs of new capacity.
4. Does the State have the capability to finance \$1-2 billion for new generation, or have the skills to develop and manage such projects? What would the impact be on the state's credit rating?
5. What if the retail competitive market makes standard service no longer needed (no customers take standard service supply). Who will be obligated to pay back the debt?
6. Authority generating plants would be exempt from municipal and state taxes, creating a shortfall in the tax revenues for these government entities? How would that be made up?
7. The bill permits the Authority to hire staff to run its operations. How many employees would it take and what would it cost to manage the procurement process?
8. Connecticut has had problems with other energy authorities in the past. Does this proposed bill have provisions to protect against troubling financial arrangements?

There are several provisions in the proposed bill that are unrelated to the Electric Authority, and we support several as follows:

- Section 1 provides for a DPUC study and implementation of a low income discount rate;
- Section 2 provides for the DPUC to set a charge for electric suppliers for education programs;
- Section 3 requires the CEAB to study nuclear power. Some information on this topic is already provided in the IRP submitted earlier this year.
- Section 29 provides for consumer protections regarding competitive suppliers.
- Section 31 allows municipalities to energy into energy efficiency performance contracts;
- Section 32 allows EDCs to establish pilot performance contracting programs;
- Section 33 requires the DPUC to study RPS performance;
- Section 34 requires the DPUC to determine maximum rate increase for renewable energy.

Thank you for the opportunity to present testimony on this bill.