



CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION

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My name is Kevin Hennessy. I am assistant counsel for the Connecticut Business and Industry Association (CBIA) for energy & technology matters. CBIA represents approximately 10,000 member companies in virtually every industry. They range from large, global corporations to small, family owned businesses. Approximately 90 percent of our member companies have fewer than 50 employees. All of our members are energy consumers and rely on energy for their respective day-to-day operations.

Thank you for the opportunity to comment on the following bill:

- SB-1, AAC Connecticut's Energy Future

Connecticut needs a strategic long-term energy policy to ensure energy-related economic, reliability, economic development and environmental objectives. **SB-1, AAC Connecticut's Energy Future**, should be the enabling legislation to outline our state's long-term energy policy goals. However, as drafted, **SB-1** loses that focus. Instead of outlining the energy policy goals and trying to achieve them with the Department of Energy & Environmental Protection's (DEEP) input and assistance, this bill appears to codify into law the adoption or study of a plethora of energy policies. Moreover, the numerous policies often run counter to the bills' stated priority in Section 1 of reduced rates and costs.

Sound energy policy requires prioritization. Should Connecticut's energy policy prioritize reduced rates, reduced costs, adequate reliability, increased economic development or increased environmental benefits? For the business community, the choice is clear. Reducing our energy costs has to be Connecticut's paramount energy policy, followed closely by ensuring adequate reliability.

The following analysis and comments on **SB-1, AAC Connecticut's Energy Future**, are from the business community's perspective regarding how it will create a long-term energy policy with a priority on reducing rates and costs.

Section 1

(a) – Establishes DEEP and enumerates its energy policy goals: 1) reduction of rates and decreased costs for Connecticut’s ratepayers; 2) ensure the reliability and safety of our state’s energy supply; 3) increase the state’s use of clean energy; and 4) create jobs and develop the state’s energy-related economy.

- CBIA has championed prioritizing energy policy objectives. The fact that the energy policy goals are enumerated in statute is very positive. Further, the business community wholeheartedly agrees with making reduced costs the priority followed by ensuring adequate reliability. These goals should guide DEEP and policymakers when they make energy policy decisions and should be of paramount consideration when contemplating each section of this bill.

(b) – Includes a Procurement Manager within the bureau of Public Utility Control whose duties shall include “overseeing” the procurement of electricity for standard service.

- It is unclear what “overseeing” means. Will this person work with the utilities on their standard service procurement or will he/she usurp those duties from the utilities and place them within DEEP?
- If it is the latter, CBIA is opposed to this subsection which would extend state government into functions already being performed by the private sector.

Section 8

Revises the definition of “Class I renewable energy source” to include all hydropower facilities.

- This is good for electric ratepayers. It broadens what sources qualify for our aggressive Renewable Energy Portfolio Standard (RPS) (See exhibit A) and should help put downward pressure on the costs associated with meeting our RPS.

Sections 9 & 12

Houses the Public Utility Control Authority and the Connecticut Siting Council within DEEP.

- Efficiencies in state government are good. However, this new structure could create a politicized regulatory/adjudicative process. (See Massachusetts’ Executive Office of Energy & Environmental Affairs and its dealing with the

Cape Wind Project and its Department of Public Utilities). A lot of policy and political power will rest with the Governor and DEEP commissioner.

Section 31

Provides DEEP with jurisdiction over all matters relating to the preservation and protection of the air, water and other natural resources of the state (DEP's former duties), the equitable distribution and conservation of energy, the regulation of public utilities and the development and administration of a state-wide energy policy.

- Because the agency is the Department of Energy and Environmental Protection, this section should lead with the agency's energy duties and jurisdiction.
- It is ironic that the enabling legislation making DEEP responsible for creating a state-wide energy policy is almost 200 pages long and encompasses numerous energy policy directives. DEEP should be approved, staffed and given the opportunity to function before major energy policies are enacted.

Section 32

Codifies that the DEEP commissioner shall: provide for the development and use of renewable energy resources, such as solar and wind energy, to the *maximum practicable extent* (emphasis added); diversify the state's energy supply; and whenever practicable, replace energy resources vulnerable to interruption, due to circumstances beyond the state's control, with energy sources that are less vulnerable to such interruption.

- What does "*maximum practicable extent*" mean with respect to the development of renewable energy resources? Section 1 of this legislation is clear that DEEP's priority energy policy is for the reduction of rates and costs. Currently, renewable energy resources, such as solar and wind, are much more expensive than traditional energy sources (see exhibit B). It is unclear how this directive complies with the primary goal in Section 1 – to reduce rates and costs.
- Calls for the DEEP commissioner to diversify the state's energy supply. That is a good thing from a consumer's perspective. It helps hedge against any price spikes to certain fuel sources. However, **SB-1176**, *AAC Electric Rate Relief*, is counter to this directive. **SB-1176** punishes oil, nuclear and coal generators via an electric generators tax. That means we will likely have less oil, nuclear and coal generation moving forward. As a region, we have already shifted away from these resources (see exhibit C). It will be very difficult for Connecticut to have a diverse energy supply if we punish certain generation sources via a new tax.

- Calls for replacing energy resources vulnerable to interruption due to circumstances beyond the state's control. A perfect example of such a source would be intermittent sources that do not constantly run (i.e. solar or wind). Connecticut does not control when the sun shines or when the wind blows. However, this section asks Connecticut to develop solar and wind projects while at the same time asking Connecticut to replace intermittent sources.

Section 45

Adopts California's energy efficiency standards for all televisions sold in Connecticut and shall identify additional appliance and equipment efficiency standards to adopt.

- This is an unnecessary regulation on televisions sold in Connecticut. Connecticut is not California. We do not have the population or economy to influence national and international markets. Additionally, given Connecticut's diminutive geography, consumers will be able to purchase televisions from neighboring states that do not have these standards and could be less expensive to purchase. This could harm Connecticut retailers and the state's economy. Rather than using mandates to alter energy usage behavior, it is preferable to educate and incent consumers.

Section 50

Requires DEEP to conduct a proceeding regarding the development of a low-income discounted rate for electric service. Also requires the proceeding to analyze the cost of imposing a utility termination moratorium on households with children under two.

- It's positive that the low income rate would be funded by terminating or reducing funding to existing programs. However, the language is silent regarding the potential cost-shift for the utility termination moratorium for households with children under two.
- This and every measure has cost implications. Connecticut's wholesale electric costs are right in line with the rest of New England (See Exhibit D). However, our retail rates are approximately 25% higher. Public policy choices are a major reason for our higher electric rates (See Chairman DelGobbo's "Electric Rates in Connecticut" presentation to the Energy & Technology Committee in December, 2010).

Section 52

(j) (2)

Requires the Electric Distribution Companies (EDCs) to file with DEEP one or more long-term power purchase contracts from Class I renewable energy source projects located in Connecticut at a price that is either 5.5 cents higher than the wholesale market price for generation or 12.5 cents per kilowatt hour.

- This means Connecticut will pay more for this power source and it will increase electric rates.
- Of note, if **HB-6249**, *AA Requiring the Adoption of Regulations for the Siting of Wind Projects*, is adopted, it is unlikely that any of these power purchase agreements will be for wind resources. That bill, which calls for a moratorium on wind until regulations are adopted, was approved by the Energy & Technology committee on February 15, 2011.

Sections 56-62

Section 56

Caps the aggregate net annual costs recovered from electric ratepayers for the initiatives in Sections 57-62. From 1/1/12 – 6/30/14 the costs are not to exceed one-half of one percent of the total retail electricity sales revenues of the Electric Distribution Companies (EDCs) (currently estimated at \$15 million). From 7/1/14 – 6/30/16 the costs are not to exceed three-fourths of one percent of total retail electricity sales revenues of the EDCs (currently estimated at \$22.5 million). For each year starting on 7/1/16 the costs are not to exceed one percent of the total retail electricity sales revenues of the EDCs (currently estimated at \$30 million) for the *solar programs* (emphasis added) in Sections 57-62. Nets out the incentives paid by the Clean Energy Fund for solar deployment programs against the aggregate annual costs identified in this section.

- The programs and initiatives listed in Sections 57-62 are admirable, aggressive and expensive. Although caps have been put in place via Section 56, they are soft. Caps are easily adjusted and ratepayers could be subject to increased costs. Regardless, there are real costs associated with the programs as drafted and they will be borne by electric ratepayers.
- See Exhibit B. Although Solar PV is not a new technology, it has been around since at least the early 1970s, it is still very expensive. Rather than create carve-outs for certain technologies, it is better public and energy policy to create programs that are technology neutral and are open for all customers (See feed-in tariff from Section 89).

Section 57

Establishes a residential solar investment program required to result in a minimum of 30 MW of residential solar photovoltaic installations by 12/31/2022. Funding from the program is not to exceed one-third of the money collected under the surcharge for the Renewable Energy Investment Fund on ratepayers' bills (currently estimated at \$10 million annually).

- This program is for residential customers. Business customers cannot participate. However, businesses pay approximately 55-60% of the money collected by the Renewable Energy Investment Fund. Allocating one-third of the money for a residential-only programs means businesses cannot access those funds and will have to compete with the other interests for the remaining two-thirds of the fund. It is likely that businesses will not recover the costs they pay into this fund.

Section 58

Requires the Electric Distribution Companies to solicit long-term solar power purchase contracts. Also establishes a Solar Renewable Energy Credit (SREC) market that will cap the EDCs obligation at \$350/mwh.

- See Exhibit D – 2010 preliminary prices were approximately \$45/mwh. This means the long-term solar power purchase agreements can be more than 7x the average cost of electricity.

Section 59

The EDCs will be required to propose a five-year solar solicitation plan for long-term SRECs or energy contracts from in-state generators.

Section 61

Requires the EDCs to file with DEEP a tariff for production-based payments to owners or operators of Class I solar renewable energy source projects located in CT that are at least 1 MW and connected to the distribution system. Also allows the EDCs to own solar generation and recover its costs and an 8% ROI via rates.

Section 62

Creates a program for a self-sustaining market for solar thermal systems for electricity, natural gas and fuel oil customers.

Section 66

Gives Procurement Officer at DEEP, the Electric Distribution Companies and others more flexibility regarding the procurement of electricity for standard service customers.

- More flexibility for procurement is fine as long as policy makers realize that with greater flexibility comes the potential for increased volatility. This means rates will likely rise or fall faster than they would under the current procurement process.

Section 69

Establishes an energy savings infrastructure pilot program consisting of financial incentives for the installation of combined heat & power systems, energy efficient heating oil burners, boilers and furnaces and natural gas boilers and furnaces.

- The program calls for \$5 million dollars of annual ratepayer investment from 7/1/11 – 7/1/13 for combined heat & power projects and an additional \$5 million from 7/1/11 – 7/1/13 for fuel oil burner, boiler and furnace replacement projects.
- This is another cost borne by electric ratepayers.

Section 70 – Takes at least 3% of the moneys collected from the Energy Efficiency Fund and Clean Energy Fund to provide programs for “underserved communities.” Underserved communities are defined in referenced statute and require 25% of residents to live in poverty. The Connecticut Energy Efficiency Fund collects approximately \$90 million dollars annually from ratepayers and the Connecticut Clean Energy Fund collects approximately \$30 million dollars annually from ratepayers. That means at least \$3.6 million will be reserved for “underserved communities” and will not be available for all other ratepayers.

Section 71

Calls for an RFP for bilateral purchasing contract for electricity for a 5-15 year period.

- Bilateral contracts are a fine tool when purchasing power. However, they do not necessarily mean lower costs. If the markets are high and you enter into a long-term contract, you end up paying more than you would if you were in shorter contracts. There are risks associated with long-term bilateral contracts (The home heating oil contracts from the summer of 2009 is an example).

Section 73

Calls for DEEP to initiate a study to identify ISO-NE's impact on Connecticut ratepayers and the wholesale markets. Also calls for the study to consider the costs and benefits associated with participating in ISO-NE, any potential benefits of joining another ISO or operating outside the ISO-NE.

- Maine undertook a similar review of ISO-NE's costs/benefits a few years ago. Connecticut should evaluate Maine's conclusions before undertaking its own study. This could save a lot of time and resources.

Section 74

Codifies that municipalities can enter into performance-based energy contracts.

- This is a positive measure that pays for energy projects via the money saved from the efficiencies gained. There are no upfront capital costs and real energy savings.
- State agencies and buildings are also good candidates for performance contracts.

Section 76

Calls for DEEP to study the potential cost savings and benefits to ratepayers from repowering some or all of the state's coal-fired and oil-fired generation facilities built before 1990.

- Intuitively, this is good. Currently, natural gas is abundant and inexpensive and we want to encourage cleaner, cheaper resources.
- However, we must proceed cautiously. As stated, currently, natural gas is abundant and cheap, which is a good thing for our electric rates. However, if the price for natural gas spikes, New England's electric ratepayers will be negatively impacted. We rely heavily on natural gas and that reliance is growing (See Exhibit C).
- Also, does this conform to Section 32 which states that the DEEP commissioner shall diversify the state's energy supply? If we replace more coal and oil plants with natural gas, we become less diverse and more prone to electric rate shocks if something happens in the global natural gas market.

Section 83

Establishes a pilot program for Connecticut farms using agricultural waste with on-site anaerobic digestion facilities to generate electricity and also establishes a virtual net metering a pilot program.

- These programs, even though they are pilot programs, have costs associated with them that will be borne by electric ratepayers.
- The proposed programs lack details. Although they limit the number of participants, they do not appear to limit the costs associated with the programs.
- Picking a handful of “winners” that are subsidized by all other electric ratepayers is not good public policy.

Section 85

(a)

Establishes a state-appropriated fuel assistance program, within available appropriations, to provide fuel assistance to elderly and disabled persons whose household gross income is above the income eligibility guidelines for the Connecticut energy assistance programs but does not exceed two hundred percent of federal poverty guidelines.

- What does “within available appropriations” mean? Whether meritorious or not, this program, like all others, will likely increase costs borne by Connecticut’s taxpayers or ratepayers.

Section 86

Establishes an Office of Energy Efficiency Businesses within DEEP. Will be a single point of contact for business customers.

- Intuitively, this is positive. However, the proposal lacks detail. How is it funded? Is there a review process for the efficacy and necessity of this office? Businesses are rightfully skeptical of new layers of bureaucracy.

Section 89

Requires DEEP to establish a feed-in tariff for wind, fuel cells, biomass, geothermal and energy efficiency projects. It also has to adhere to the current spending cap from Section 56 which ranges from approximately \$15 million to \$30 million dollars depending on the year.

- Feed-in tariffs pay a premium for renewable energy sources. There are real costs associated with them and they will eventually be borne by electric ratepayers.
- This feed-in tariff is preferable to the solar tariff established in Section 61 because it is not technology specific.

Section 90

Establishes an energy savings infrastructure pilot program consisting of financial incentives for the installation of combined heat & power systems, energy efficient heating oil burners, boilers and furnaces and natural gas boilers and furnaces.

- This program, like all the others enumerated, has costs associated with it that will be borne by electric ratepayers.

Section 91

Establishes a 250 MW program to promote the development of combined heat & power projects in Connecticut through low-interest loans, grants or power purchase agreements.

- Again, at what cost? Who pays? All of these programs cost money and will put upward pressure on rates. These programs are moving away from the statutorily market-driven approach for Connecticut “to implement cost-effective energy conservation programs and *market transformation initiatives*” (emphasis added) as dictated by C.G.S. 16-245m.

Thank you for the opportunity to express our comments, questions and concerns regarding **SB-1**. CBIA reiterates its position that Connecticut needs a strategic long-term energy policy that prioritizes reducing cost and ensuring adequate supply. We do not believe that **SB-1**, as drafted, accomplishes this. There are far too many costs borne by ratepayers in the numerous programs, studies and proceedings created.

Also, it is our belief that the creation of DEEP and its bureau of Energy Policy will be a missed opportunity if it is saddled with the twenty-seven programs, proceedings or studies listed in this bill. Rather than statutorily codify every desired program, proceeding or study, the legislature should simply request the DEEP to address these issues. Codifying everything into statute and handcuffing the DEEP before it is even created is not a good way to create a strategic energy policy. CBIA recommends adopting the DEEP enabling legislation and then working with the commissioner and staff to achieve its ultimate goal of reduced rates and costs.

For the aforementioned reasons, CBIA urges rejection of **SB-1** as drafted.

EXHIBIT A

CT Renewable Portfolio Standards

Year	Class I	Class II or Class I (add'l)	Class III Program	Total	Estimated Annual Costs \$ Millions	
					Low	High
2005	1.5%	3%		4.5%	13.6	30.7
2006	2%	3%		5%	16.1	37.8
2007	3.5%	3%	1%	7.5%	30.4	66.7
2008	5%	3%	2%	10%	44.5	99.4
2009	6%	3%	3%	12%	55.4	121.2
2010	7%	3%	4%	14%	66.3	143
2011	8%	3%	4%	15%	72.6	160.3
2012	9%	3%	4%	16%	79.1	178
2013	10%	3%	4%	17%	85.1	194.6
2014	11%	3%	4%	18%	91.3	211.8
2015	12.5%	3%	4%	19.5%	100.7	237.5
2016	14%	3%	4%	21%	110.6	264.6
2017	15.5%	3%	4%	22.5%	120.1	290.7
2018	17%	3%	4%	24%	130.8	319.8
2019	19.5%	3%	4%	26.5%	148.2	637.1
2020	20%	3%	4%	27%	152.9	379.7

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¹ Electric Rates in Connecticut, Kevin M. DelGobbo, Chairman Connecticut Department of Public Utility Control, December, 2010.

EXHIBIT B

Costs of Renewable Technology

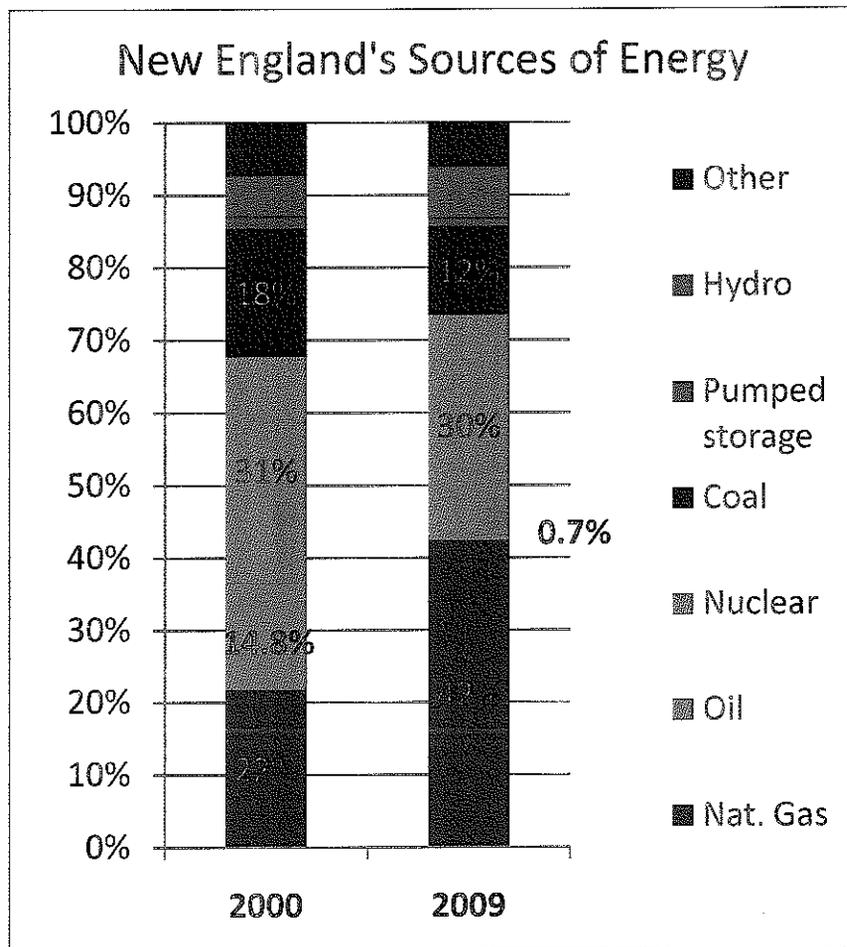
Technology	Estimated Levelized Costs Cents/kwh	
Landfill Gas	5.6	
Biomass	11.0	<i>Today's power supply costs are in the range of 7-8 cents/kWh.</i>
Hydro	11.0	
Wind	11.2	
Fuel Cells	17.4	
Offshore Wind	19.9	
Solar PV	52.0	

Source: Integrated Resource Plan for CT (Jan. 1, 2010), prepared by The Brattle Group, Inc.; p. 3-30, Table 3.15

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² Electric Rates in Connecticut, Kevin M. DelGobbo, Chairman Connecticut Department of Public Utility Control, December, 2010.

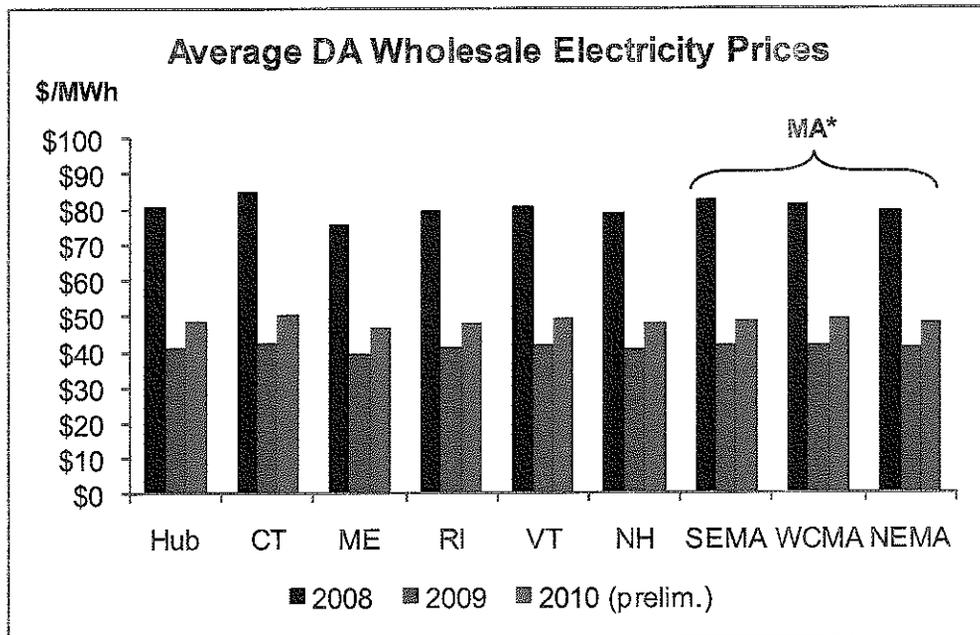
EXHIBIT C



³ISO-NE Regional Update, Wholesale Markets & State Energy Policy Seminar, December 14, 2010.

EXHIBIT D

Average Day Ahead Wholesale Electricity Prices in New England



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⁴Graph from ISO-NE "At-a-glance Document."