



# STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL

## THE ENERGY & TECHNOLOGY COMMITTEE

### Senate Bill 1079: AAC OPERATIONS OF PUBLIC SERVICE COMPANIES

March 3, 2011

#### TESTIMONY OF VICE CHAIRMAN JOHN W. BETKOSKI & COMMISSIONER AMALIA VAZQUEZ BZDYRA

The Department of Public Utility Control, (Department) appreciates the opportunity to comment on Senate Bill No.1079. The Department will address each section separately and provide comments in support of, or with suggested revisions as it addresses each provision. The Department's main comments concern the provision on decoupling for electric and gas companies.

By way of background for the Committee, utilities generally recover a portion of their fixed costs through kWh charges that vary by usage. Revenues and therefore profits are linked to sales. If sales increase a utility will have higher revenues than anticipated when rates were originally. This may increase profits. If sales decline, however, a utility will not recover all of its fixed costs and profits may suffer. This may create a disincentive for a utility to pursue conservation since conservation reduces sales. Decoupling has been promoted as a method to remove this disincentive. By decoupling, the link between sales and profits is broken and profits do not suffer if sales decline due to conservation.

**Section 1** of Senate Bill No. 1079 would amend Con. Gen. Stat. § 16-19tt which requires that the Department order electric distribution and gas companies to decouple distribution revenues from the volume of natural gas and electric sales.

The current law allows several options to accomplish decoupling: rate design changes that increase fixed cost recovery or a sales adjustment clause that adjusts actual revenues to allowed revenues. Proposed Bill 1079 would eliminate the rate design option.

#### **Electric Decoupling**

The Department has increased fixed cost recovery for Connecticut Light & Power, (CL&P) and United Illuminating, (UI). In addition, the Department has approved a sales adjustment clause on a pilot basis for UI. The Department recognizes that full decoupling can not be accomplished by rate design changes alone. To increase the customer service charge sufficiently enough to recover all fixed costs, would require the charge to increase from approximately \$16 per month for most residential customer to

approximately \$50 per month. This may have a significant impact on low use customers and discourage their incentive to use electricity efficiently.

The Department believes that historically, incentives have been needed to encourage the electric distribution companies, (EDCs) to aggressively pursue conservation. The Department and the legislature have taken action to provide such incentives to the electric distribution companies. Currently, the EDCs can earn a bonus rate of return from 1% to 5% on conservation investments, are ensured full cost recovery, and lost revenues are minimized by forecasting lower sales at the time of a rate case. Other incentives were also established to encourage demand response and distributed generation. The Department believes that these incentives have worked well. Both UI and CL&P are willing to spend additional money on conservation and have proposed budget increases in the past, without a sales adjustment clause. Therefore, the Committee may wish to consider whether a sales adjustment clause is truly needed to encourage additional utility investment in conservation.

Full decoupling through a sales adjustment clause may provide some additional incentive to provide information to customers to conserve energy and promote time of use rates. In the short term, full decoupling would provide a strong incentive to promote conservation for the EDCs if no other incentives existed.

Over the longer term it is less certain how a full sales adjustment clause will impact an EDCs incentive to reduce sales. A sales adjustment clause does not truly decouple earnings from sales. Earnings are based on the level of investments in plant and equipment. The level of investment is determined by overall sales and demands imposed on the system and the need to upgrade older facilities. Since all companies, including EDCs want their earnings to increase over time the incentive to increase sales may remain even with a full sales adjustment mechanism.

From a regulatory perspective the revenue stability that results from full sales adjustment clause may be more important to a utility than its value as a conservation incentive. A full sales adjustment mechanism would eliminate risk from lower sales to the distribution companies for any reason. This would provide a more stable rate of return to the EDC.

### **Gas Decoupling**

Senate Bill 1079 also requires gas companies to decouple their distribution revenues from the volume of natural gas sold annually through a mechanism that adjusts actual revenue to allowed revenues. Currently, the statute authorizes a gas company to decouple through three solutions: 1) a mechanism to adjust actual distribution revenues to allowed distribution revenues; 2) rate design changes that increase the amount of revenue recovered through fixed distribution charges; and 3) a sales adjustment clause or a rate design changes that increase the amount of revenue recovered through fixed distribution charges or both.

Decoupling refers to diminishing or severing the link between a company's recovery of the distribution revenues approved by the Department in a rate application and the unpredictable volume of gas sales actually sold following the implementation of new rates. There are several items that affect the total volume of gas sold during a year. First, weather has a very large impact on a gas utility's sales. Colder than normal weather will increase sales and therefore increase the total revenue a gas company receives. Warmer than normal winter sales will decrease revenues for a gas utility. Second, economic factors have a significant impact on the sales and revenue of a gas utility. During a recession annual sales volumes fall as a result of business closing, lay offs and high unemployment. Conversely, during a robust business cycle natural gas sales increase. Third, conservation spending, if successful, reduces sales. Currently, this accounts for a fairly minor amount particularly when compared to the impacts of weather and the economy.

In Decision dated July 17, 2009, in Docket 08-10-07, Application of The Southern Connecticut Gas Company for a Rate Increase (2008 Southern Decision), the Department examined the decoupling issue. The following quotation is an excerpt from the above cited Decision.

The Department agrees with OCC and AG. The Company's full decoupling proposal compensates the Company for any type of reduction in consumption, such as warmer weather, customer loss, a deteriorating economy as well as permanent and price-induced conservation. The very large risk of revenue instability is shifted from the Company to the customer.

2008 Southern Decision p. 98

The Department is concerned that limiting required decoupling to a mechanism that adjusts actual revenues to allowed revenues and applying it indiscriminately, regardless of the reason for the changes in revenue ( e.g., weather, economy and conservation), inappropriately shifts the risk from the company to customers. Since the company is in a better position to respond to this risk and manage it, this risk should stay with the company. In addition, such a mechanism would automatically raise rates during an economic downturn. The effect would be to place additional burdens on ratepayers at the very time they can least afford it.

If the legislature does decide to limit decoupling to a revenue true up mechanism, the Department recommends that this section be amended to exclude weather and economic impacts from the measured and tracked revenues.

**Section 2** of Senate Bill No. 1079 allows electric distribution companies to own and operate renewable energy generation facilities. This further loosens the restriction from EDC's owning generation facilities.

The Department believes this provision will help the state meet its Class I renewable energy requirements. The Department is concerned that implementation of this provision could involve subsidies. Section 2 as written does not include any caps as to the amount of generation that can be owned or the total additional cost that can be imposed on ratepayers. This could be spelled out in this legislation or left to the discretion of the Department as it is now written.

This section includes two important features: (1) must be approved in a contested proceeding in which the Department has made available to other persons the opportunity to submit bids, (2) determined that the facility is in the interest of the state in meeting its renewable energy portfolio standards and maintaining a reasonable costs of electric generation services.

The section also requires the Department to allow the recovery of costs through a nonbypassable charge. The Department would allow full recovery of costs but would like more flexibility to determine how to use the power and recover the costs. To that end, the Department would recommend that the word "nonbypassable" be removed.

**Section 3** of the bill allows EDCs to own customer-side distributed resources. The section correctly requires any tariffs established to recover costs from customers be approved by the Department.

This section should also help the state meet its renewable energy requirements. It is uncertain whether this section would require subsidies by the EDCs or if all costs will be collected from customers through the special tariffs. The proposed bill could be amended to clearly indicate that no additional subsidies are required. The Committee may wish to add language to this section to plainly state that EDCs would not be authorized to recover additional costs from ratepayers.

**Section 4** of proposed Senate Bill 1079, would amend Conn. Gen. Stat. § 16-262c(a) to allow for termination of residential utility service on Fridays, provided certain conditions are met.

Longstanding State law has prohibited termination of *residential* utility (gas, electric, telecom) service (e.g., for non-payment) on Fridays. Senate Bill 1079 would allow such Friday terminations provided that:

- The Utility maintains Saturday hours at its "business" office;
- The DPUC has determined that an adequate number of remote payment centers are open Saturday; and
- The Utility's staff performing the termination accepts noncash payment in the field from the customer whose service would otherwise be terminated.

The Department notes several areas of concern with this provision as it is now constructed. Among other reasons Friday residential service terminations were restricted to safety/emergency conditions is that a customer returning home from work on Friday to find service terminated might have to wait until Monday to make or arrange payment in order to have service restored. Senate Bill 1079 addresses that possibility by requiring any utility seeking Friday termination authority to accept Saturday payments at its "business office" or at a remote payment site, the adequate number of which is to be determined by the Department.

It is the policy of regulated utilities to restore service terminated for non-payment within 24 hours of receipt of payment (or agreeing to a payment arrangement). If the goal of this provision is to expand the "window" in which utilities may terminate for non-payment, we suggest that any such utility be required to commit to restore such terminated service within a set period of time following payment or agreeing to a payment arrangement. It has been the Department's experience that most utilities maintain significantly reduced staff on weekends, such that field restoration of service on a weekend may not occur as quickly as it might during weekday operations.

Also, as some Connecticut utilities have considerable service territory, maintaining office payment hours at one or even several company "business office" locations may still present access challenges to many customers.

Furthermore, as proposed, this section is silent as to the definition of a "remote payment center" and whether that definition includes non-utility payment centers, such as check cashing facilities or grocery stores. Some guidance as to the "adequate" number of payment centers would also be helpful, as well as guidance with regard to the minimum number of hours all Saturday offices must maintain.

With regard to the availability of payment options (both company business offices and remote payment centers), this bill is also silent whether staff at both types of payment sites will be trained and authorized to make payment arrangements with the customer to achieve service restoration. It has been the Department's experience that utilities will restore terminated service provided the customer makes a substantial payment toward the balance owed and enters into an amortization agreement on any remaining balance. While this provision might be amended to require utilities to have such trained/authorized staff available on Saturdays, it seems unlikely and probably unwise that any such utility would authorize non-utility staff (e.g., at a check cashing facility or grocery store convenience desk, which also accepts utility payments) to bind the utility to payment arrangements made outside of its sphere of control.

This bill does not address whether utility field staff authorized to accept non-cash payment would have the authority to accept any amount other than payment in full, or to negotiate an amortization agreement.

In addition, State law provides termination protection for households in which a member is seriously ill or has a life-threatening condition. A household might not be able to obtain

its registered physician's verification of such condition if the physician did not have Saturday hours.

While not typical, it is possible that gas customers whose service is disconnected on a Friday may not know their service has been terminated for a day or two as water heaters may continue to provide hot water for some time after disconnection. Service provided in the name of a landlord may leave tenants in the lurch on a Saturday if the landlord's service is disconnected for non-payment.

Lastly, the Department's Consumer Services staff assists thousands of Connecticut households annually with payment arrangements and with termination of service complaints. SB 1079 provides no DPUC "backstop" or resources for such customers on Saturdays as the Department's hours are weekday only.

Regarding **Section 5** the Department declines to comment on this provision since the utilities are the more appropriate entities to address their concerns thereunder.

**Section 6** of House Bill No. 1079 modifies the purchased gas adjustment clause (PGA) so that it recovers indirect gas costs associated with changes in the cost of purchased gas, including, but not limited to, the commodity portion of uncollectible accounts, working capital related to the purchased gas commodity and carrying costs of the purchased gas commodity inventory. This recovery is in addition to the recovery of changes in the cost of purchased gas itself, which is recoverable under the current PGA.

Before addressing these proposed changes, the Department will outline how the PGA process modifies the general rate-setting process. The general rate-setting process sets fixed and stabilized prices for gas utility service. The PGA exempts fuel costs from the general rate-setting process and automatically changes rates monthly.

The three underlying principles for this exception are:

1. Fuel costs are large in absolute and relate terms;
2. The companies have little or no control over international and national fuel market prices or FERC regulated tariffs; and
3. Fuel costs are highly volatile.

The PGA protects the gas local distribution companies (LDCs) from increasing gas prices, which can have a significant impact on the LDC's operations. The PGA also allows ratepayers to timely realize the benefits of decreasing gas prices. Overall, the PGA is a necessary tracking clause that insulates the LDCs and ratepayers from highly volatile, large and uncontrollable changes in fuel costs.

Currently, the PGA tracks actual purchased gas costs and compares these costs to billed gas costs. It either charges or reimburses ratepayers the difference between these costs. Exempting fuel costs from fixed rates ensures that the company is not harmed financially by material, uncontrollable and volatile fuel price increases. Exempting fuel costs from fixed rates ensures that ratepayers are not harmed financially by material, uncontrollable and volatile fuel price decreases.

The legislative proposal being considered exempts additional costs from the fixed rate-setting process and allows them to change automatically every month as well.

The proposed changes to the PGA would exempt costs indirectly related to purchase gas costs such as; carrying costs on gas commodity inventory, the gas cost portion of uncollectibles and the working capital necessary to fund gas purchases between the time the company purchases the gas and the time they collect those costs from ratepayers. The DPUC notes also that the inclusion of these costs in the PGA would alter the current allocation of these costs such that changes to them would be borne entirely by firm sales customers rather than the broadest set of ratepayers.

The addition of these new costs exemptions in the PGA also broadens the principles underlying the PGA's initial creation to now include costs that are stable, small and substantially within the company's control.

The newly exempted costs are:

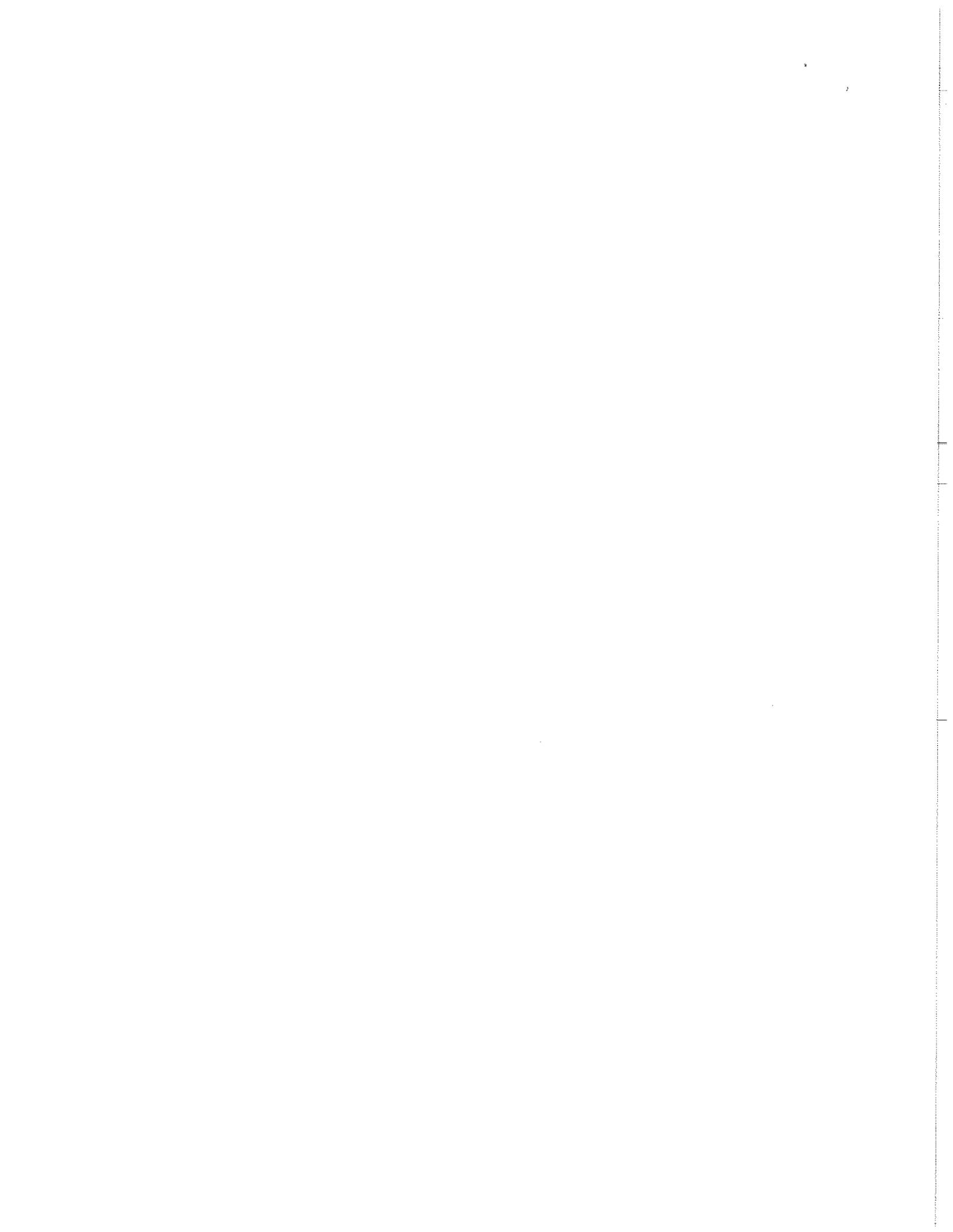
1. Not large in absolute or relative terms;
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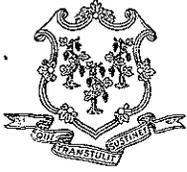
The DPUC further notes that the PGA proceedings would require more analysis and additional staff to evaluate the additional items to be tracked in the PGA.

In summary, the DPUC is prepared to move ahead with these modifications if they are adopted, but believes they are unnecessary since they are not large, not volatile and substantially within the control of the LDCs. The legislation would result in a narrower allocation of costs among ratepayers and have the potential of increasing the cost of rate cases and PGA proceedings.

Importantly, the DPUC notes that the proposed legislation should at a minimum be clarified to specify that the carrying costs on working capital and not working capital itself would be included in the modified PGA.

The Department thanks the Committee for the opportunity to testify on this bill.





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Decoupling refers to diminishing or severing the link between a company's recovery of the distribution revenues approved by the Department in a rate application and the unpredictable volume of gas sales actually sold following the implementation of new rates. There are several items that affect the total volume of gas sold during a year. First, weather has a very large impact on a gas utility's sales. Colder than normal weather will increase sales and therefore increase the total revenue a gas company receives. Warmer than normal winter sales will decrease revenues for a gas utility. Second, economic factors have a significant impact on the sales and revenue of a gas utility. During a recession annual sales volumes fall as a result of business closing, lay offs and high unemployment. Conversely, during a robust business cycle natural gas sales increase. Third, conservation spending, if successful, reduces sales. Currently, this accounts for a fairly minor amount particularly when compared to the impacts of weather and the economy.

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The addition of these new costs exemptions in the PGA also broadens the principles underlying the PGA's initial creation to now include costs that are stable, small and substantially within the company's control.

The newly exempted costs are:

1. Not large in absolute or relative terms;
2. Are substantially within the companies' control through internal management practices; and
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The DPUC further notes that the PGA proceedings would require more analysis and additional staff to evaluate the additional items to be tracked in the PGA.

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