

March 7, 2013

Connecticut General Assembly
Energy and Technology Committee

Testimony of Anthony E. Malkin Relating to
Bill No. 6360, An Act Concerning Implementation of Connecticut's Comprehensive Energy Strategy

Thank you, Senator Duff, Representative Reed and members of the Energy and Technology Committee for the opportunity to present this testimony to you. My name is Anthony E. Malkin, and I am the president of Malkin Holdings and Malkin Properties. As you may be aware, Malkin Properties is considered a leader in building energy efficiency retrofits. At our flagship property, the Empire State Building, we worked with the Clinton Climate Initiative, Johnson Controls, Jones Lang LaSalle and the Rocky Mountain Institute in a groundbreaking and now highly-publicized project at the Empire State Building, demonstrating how retrofits could be accomplished to maximize energy efficiency.

Closer to home, Malkin Properties of Connecticut owns five properties in Fairfield County, and we desire to replicate the success we have had at the Empire State Building and our other properties by investing in energy efficiency measures at our Connecticut properties. To do so, however, we need better tools. While the Comprehensive Energy Strategy and its enabling legislation is a good step in the right direction, it does not go far enough to take advantage of the energy-related benefits of combined heat and power (CHP) systems. Connecticut can do more to take advantage of this technology, and it is my hope that this testimony, along with the changes to Bill No. 6360 that we are proposing, will serve to make CHP (or "cogeneration") economically viable in Connecticut.

We wish to commend the State for the thought and hard work that went into developing Connecticut's recent Comprehensive Energy Strategy. Connecticut is becoming a thought leader in balancing the environmental impacts of energy generation with the energy needs of its consumers, and the Comprehensive Energy Strategy demonstrates Connecticut's commitment to providing cheaper and cleaner energy for its residents.

However, we believe the Comprehensive Energy Strategy and Bill No. 6360 as drafted will kill any chance for CHP projects in the state of Connecticut. Successful formulation of the Comprehensive Energy Strategy (CES) is critical for our State, and specifically critical to attract the capital to make possible technologically leading, job creating, infrastructure enhancing CHP projects.

CHP should be a cornerstone of the CES. Cogeneration is proven technology that delivers highly efficient, clean energy. CHP promotes investment and creates jobs. For every 100MW of cogeneration, \$400 million will be invested and approximately 600 construction and 80-100 permanent jobs will be created. CHP will modernize and improve the reliability of infrastructure. We have a shovel ready project of 2 MW of our own utilizing technology with 99.9% reliability, even during extreme weather related grid outages.

We are constrained from developing this project, however, because the existing tariff structure places significant and artificial limitations on project developers and is an insurmountable obstacle to capital sources needed to develop new projects in Connecticut. Connecticut is not competitive on any level: national, Northeast corridor, and neighboring states. Competition for scarce capital and development

resources is especially fierce. With respect to CHP systems, we believe that Connecticut could do more to bring it into line with other northeastern states. If we do not address the existing tariff structure, we will lose jobs, efficiency, capital, technology, and competitiveness.

We are providing you with proposed edits to Bill No. 6360 that will have a significant impact on the ability of owners to develop CHP systems and attract private funding for these projects.

The current tariff structure that Connecticut's CHP systems face requires that a monthly demand charge be based on peak demand during a thirty (30) day billing period. As a result, the unintended consequence is that a thirty minute outage of a CHP system would result in excess penalties. Minor outages of this kind, even if they happen for only a few times out of the year, would render a CHP project uneconomical and therefore make it unattractive to financing sources. In order to remedy this unintended consequence, we have suggested the development of a pilot program as outlined in newly-written Section 21. The chief benefit of the pilot program is that demand charges would be recalculated so that the penalty would consist of an "as used" daily demand charge, which is consistent with the demand charges for CHP systems in Massachusetts, New York and Rhode Island. This would therefore limit penalties only to days with on-peak outages based on daily demand pricing, rather than a thirty (30) day billing period. As such, penalties for minor outages would be reduced from approximately \$25,000 to approximately \$1,200, based on CL&P's DG Rate 58 Large Time-Of-Day Electric Service Non-Manufacturers tariff for a commercial customer with 3,500 kW peak demand and 2,000 kW nameplate distributed generation resource onsite.

Section 21 mitigates the potential economic impact to electric distribution companies by limiting the change in the tariff to only those qualifying facilities that are selected to participate in a pilot program. Such a program will be limited to an aggregate of 25 MW nameplate capacity state-wide, or approximately less than one percent of utility peak load. In exchange for participation in the program, qualifying CHP facilities would be required to provide the Public Utilities Regulatory Authority ("PURA") with system performance and supplemental utility data for their first three years of operations. In addition, the participants in the program will provide PURA will information relating to any downtimes the systems experience. This data will provide PURA with the ability to determine the benefits of the development of CHP and whether the pilot program has merit and should be expanded or made permanent in the future.

In addition to the changes discussed above, we have three additional changes to bring to the Committee's attention. First, we recognize that the Connecticut Energy Finance and Investment Authority ("CEFIA") has had some involvement with the development of CHP programs. This involvement is commendable, however, one of the problems associated with the development of CHP systems is the upfront cost associated with initial engineering assessments to demonstrate a project's viability. To that end, we have proposed a new Section 20 in Bill No. 6530 that would amend Conn. Gen. Stat. § 16-245n. This amendment would amend section 16-245n(c) to specifically allow CEFIA to provide limited upfront funding for engineering and due diligence costs associated with the development of CHP programs. Additional funding would not be required, rather it would be part of CEFIA's current budget for CHP programs. Nonetheless, it would demonstrate to CEFIA the important role that CHP can play in addressing Connecticut's energy needs. Making such funding available would also put Connecticut on equal footing with its northeastern neighbors, such as Massachusetts, New York and Rhode Island.

Secondly, we have amended Section 5 of Bill No. 6530 to allow for virtual net metering to take place at commercial and multi-family residential facilities. We believe that virtual net metering for certain residential and commercial projects is warranted and will aid in the development of not only CHP systems, but also renewable energy projects in Connecticut. We recognize that there may be concerns associated with the costs of such virtual net metering, therefore, our amendments to Section 5 make it clear that in cases of such virtual net metering, all costs associated with the development of the initial virtual net metering system would be borne by the commercial user, and the commercial user would be subject to the 80/20 distribution cost division that is articulated in the current version of Section 5. Combined with the \$10 million cap on virtual net metering that is currently present in Section 5, we believe that this provides adequate protection against unanticipated costs. Finally, we have made some minor edits to sections 3 and 10 of the bill, and these changes should be self-explanatory.

With these changes to Bill 6360, we believe that Connecticut will be well positioned to be a leader in the development of cleaner energy through CHP systems. Thank you for your consideration of our position with respect to this testimony.