

TESTIMONY
OF
UIL HOLDINGS CORPORATION
Regarding
Raised House Bill 6360
AN ACT CONCERNING IMPLEMENTATION OF CONNECTICUT'S
COMPREHENSIVE ENERGY STRATEGY
Before the
Energy & Technology Committee

Legislative Office Building
March 7, 2013

Senator Duff, Representative Reed and members of the Energy & Technology Committee. My name is Roddy Diotalevi and I'm Senior Director of Sales & Marketing for UIL Holdings Corporation (UIL). UIL is the corporate parent company of The United Illuminating Company (UI), The Southern Connecticut Gas Company (SCG) and Connecticut Natural Gas Corporation (CNG). On behalf of UIL and our operating companies I thank you for this opportunity to offer this comments in general support of **HB 6360 - An Act Concerning implementation of Connecticut's Comprehensive Energy Strategy.**

UIL supports the Comprehensive Energy Strategy (CES). The CES seeks to establish energy policy that will benefit Connecticut's energy consumers, the State's economy and the environment. The Strategy proposes to continue and enhance Connecticut's commitment to use energy in the most effective and efficient way possible. UI has been a strong proponent of energy efficiency and conservation, load management strategies and programs for many years. Our efforts were greatly enhanced since the adoption of electric restructuring in 1998 and the creation of the Energy Conservation Management Fund. CES provides for achieving all cost effective energy efficiency measures and also looks to provide increased funds to do so. The proposal also seeks to implement "all fuels" efficiency which will provide energy savings to all customers in the state. The expanded commitment to energy efficiency seeks to reach all sectors of the customer base and buildings that have not been fully reached in the past or have not chosen to take advantage of the available programs.

CES brings a new energy era for Connecticut. UIL strongly supports the provisions of the CES that provides Connecticut consumers with a once in a generation opportunity to switch to a cheaper, cleaner fuel source. Replacing fuel oil with domestically available natural gas offers Connecticut residents the prospect of lower energy bills while reducing the level of harmful air pollution. These positive attributes of natural gas have encouraged energy consumers, businesses and residents, within the cities and towns that we serve to ask the local gas distribution companies (LDCs) about natural gas availability in their vicinities. Every day we receive dozens of requests to provide natural gas service to families and businesses in our service territories.

The CES states "Only 31% of Connecticut homes heat with gas today, compared with 47% in Massachusetts and 48% in Rhode Island." This stark statistic shows the challenge ahead in providing Connecticut residents with the opportunity of more competitive energy choices. Compounding this challenge is the significant upfront costs that Connecticut residences incur when choosing to install natural gas heating equipment.

The CES encourages LDCs to expand the state's natural gas infrastructure to provide competitive energy choices to as many customers in a prudent manner over the foreseeable future. The Strategy also offers incentives to consumers, in the form of a tax credit, to help mitigate the cost of converting their heating equipment to natural gas (SB 843, currently being considered by the Finance, Revenue and Bonding Committee).

In order to enable Connecticut natural gas companies to expand their infrastructure, HB 6360 proposes a significant change to the so called “hurdle rate”. The bill allows LDCs to use a twenty-five-year payback period in assessing the cost effectiveness of connecting a new gas customer by weighing the capital investment to do so against the future revenues, recovered through rates, of that customer addition. The bill also requires the Public Utilities Regulatory Authority (PURA) to develop a methodology that reasonably accounts for revenues that would be collected from additional customers connected for the same extension costs over a three-year period.

The proposed 25-year hurdle rate is a significant improvement to the current rate and the UIL natural gas affiliates strongly support the proposal. However, UIL companies also encourage the legislature and the Governor’s administration to go beyond this well intentioned proposal to raise the rate to 25 years and increase the payback time period to approach or match that of our neighboring states. This change will serve to accelerate the infrastructure build out to bring natural gas supply to even more customers that are asking for it.

HB 6360 also includes other provisions dealing with energy efficiency, an improved climate for development of renewable energy resources and improved electric system reliability. The bill also seeks to provide an incentive to electric and gas utilities in Connecticut to encourage energy conservation and efficiency. It does so in Section 1 by requiring PURA to order the state’s gas and electric distribution companies in their next general rate proceeding, to decouple distribution revenues from the volume of natural gas and electricity sales through a mechanism that adjusts actual distribution revenues to allowed distribution revenues.

Utilities typically make more money by selling more of their energy services and theoretically would have little incentive to promote a lesser use of their product. The theory behind decoupling is to remove this disincentive by “decoupling” their revenues from their sales volume while still providing the companies with the opportunity to achieve a reasonable opportunity to earn its allowed return on investments.

Current law requires PURA to consider decoupling for Connecticut utilities, yet only UI has a full decoupling mechanism and it is only on a pilot basis. The 2-year pilot was extended until the company’s next general rate case. The DPUC earlier implemented decoupling for CL&P through rate design in 2007, but denied full decoupling in 2010. Connecticut’s gas distribution companies have all requested the DPUC to implement decoupling mechanisms for them but the requests were denied.

The CES states that “Decoupling mechanisms need to be designed carefully and should include consideration of potential impacts on rates. But short-term impacts must not be used as an excuse not to undertake investments with long term benefits.”

This proposal effectively provides an electric company the incentive to implement the state’s energy conservation policies. However, in the CES, the LDCs are encouraged to improve and expand gas delivery infrastructure which will increase sales volume. A decoupling mechanism for gas companies must retain the incentive to increase sales and the revenues associated with new customer additions that are not included in sales forecasts used in the establishment of

tariffs and customer rates. Comingling new sales volume and revenue with existing volumes and revenues will act as a disincentive to cut back on expansion contrary to the intent of state energy policy and associated customer benefits.

There are two gas decoupling models that can be used to meet both the intent of the HB 6360 to remove the incentive to sell more gas to existing customers and enabling system expansion to provide a natural gas choice to new customers. The first model is a “use per customer” model. This model trues-up actual use to that allowed in rates on a per-customer basis. The model was proposed in 2008 by CNG and SCG and was rejected in favor of rate design changes by the then DPUC.

The second model is to clearly separate existing customers from new customers from system expansion for decoupled revenue true-up. Existing customers would be subject to a full revenue decoupling model, such as the existing UI decoupling mechanism. New customers would not be included in this calculation. Rather, their revenues would support a separate revenue requirements calculation for new business only. This “bright line” ratemaking is consistent with the ratemaking model proffered in the CES.

We suggest the following changes to the language of Section 1(b) of HB 6360 (*addition in bold italics*):

(b) In any rate case initiated on or after the effective date of this section, the Public Utilities Regulatory Authority shall order the state's gas and electric distribution companies to decouple distribution revenues from the volume of natural gas and electricity sales through a mechanism that removes any disincentive to support various state energy policy goals. *For electric distribution companies, the adjustment of actual distribution revenues to allowed distribution revenues shall be the proper mechanism. For gas distribution companies, a decoupling mechanism that does not remove the incentive to support the expansion of natural gas use in accordance with the Connecticut Energy Strategy of 2013 shall be used, such as a mechanism that decouples distribution revenue based on a use-per-customer basis.*

We have submitted written testimony to the Committee on several issues that are highly technical, yet important for you to consider in your deliberations on HB 6360. The issues are as follows:

- **Expansion of Virtual Net Metering**
- **Expansion of Sub-Metering**
- **Aggregation of Accounts**
- **Microgrids**

UIL thanks you for the opportunity to offer these comments on **HB 6360 - An Act Concerning implementation of Connecticut’s Comprehensive Energy Strategy**. I will try to answer any questions you may have.

EXPANSION OF VIRTUAL NET METERING

Virtual Net Metering (Section 5) also deserves another look by the Committee and the Administration. This section properly corrects an oversight of the original drafters of not including state and federal government in the measure. It also permits the government entities to either own or lease the generating facility at the host site. UIL supported these provisions in a proceeding before the PURA to implement municipal Virtual Net Metering (VNM). We do not oppose the inclusion of agricultural customers to benefit from generation resources powered with anaerobic digesters or the use of other farm waste to fuel electric generation for a farm through Virtual Net Metering. During the 2012 regular session UIL lobbyists attempted to work with representatives of the Connecticut farm Bureau and individual farmer in developing a framework to permit Agricultural Virtual Net Metering (AVNM). At the time we achieved consensus that the Company would not oppose VNM for a single farm with multiple meters within that farm as Beneficial Accounts. Any remaining VNM credits at the end of a 12-month period would be returned to the host account under normal net metering protocol.

While we do not oppose inclusion of agricultural customers to use net metering for their own farm, we cannot support several other provisions of the VNM proposals in HB 6360. The bill proposes to include 80% of the distribution and other rate charges as part of the credit for the host and the beneficial accounts. Under normal circumstances the host net metering customer would not pay most costs billed to all other customers. Since the generating resource is located “behind the meter”, the host does not pay any generation or delivery charges for the amount of energy produced by the generating resource. Beneficial accounts, however, only receive credit for the generation services charges on their account and would pay all distribution company delivery costs under the current VNM scenario. It is obvious that the host site is utilizing the electric distribution system to “deliver” the energy to the beneficial accounts, yet under this proposal, neither the host *nor* the beneficial accounts will pay for their full fair share of the costs of the electric system. In fact, under this legislative proposal the host account pays zero delivery charges and the beneficial account only pays 20% of the delivery charges. While with the decoupling mechanism envisioned in Section 1 the electric distribution company would be made whole, the costs avoided by the host and the beneficial accounts in the proposed virtual net metering process merely get shifted to those customers that are not participating in the net metering arena. If there is no full revenue decoupling, then the EDC would not recover its authorized revenue requirements and thus limiting the opportunity to earn its authorized rate of return on investments. The AVNM proposal will also increase the statewide cap on VNM credits by 10 times over the current level to a maximum \$10 million. UI’s share of the cap is approximately \$2 million. Any credits given to VNM participants result in a cost-shift to other customers, since the credits must be recovered. Shifting those costs to all other customers will add about \$0.28/month to the average residential customer’s bill.

The AVNM proposal also goes well beyond what farmers were looking for in recent years, to allow them to apply net metering to other locations within a farm where the usage is not measured by the revenue meter associated with the generator site. The proposal would extend virtual net metering to 10 additional beneficial accounts (currently 5). However, the beneficial

accounts do not have to be accounts related to the host account. The only requirement is that they engage in farming within the same EDC service territory of the host. The host site would be, for all practical purposes, a generation company, delivering power to other farms using a delivery system that they would not pay for. The extension of an additional 5 unrelated beneficial accounts would also apply to governmental entity hosts and non-governmental beneficial accounts connected to a micro grid.

UIL would like to suggest that a Class I generator to be used in an Agricultural Virtual Net Metering situation be limited in size to permit most, if not all the energy produced to be consumed in the operations of a single farm, regardless of how many meters it has. Any energy credits remaining at the end of a yearly period can then be returned to the host account, as is done under existing net metering rules.

EXPANSION OF SUB-METERING

We also respectfully suggest the Committee give careful consideration Section 6 which would considerably expand sub-metering. The provisions of Section 6 will permit sub-metering to occur in any commercial, industrial or multi-family facility where the electric power or thermal energy is provided by a Class I renewable energy source or a combined heat and power system, or in any other location as approved by PURA where sub-metering promotes the state's energy goals, as described in the Comprehensive Energy Strategy. The proposal does not appear to consider an extensive body of regulatory orders and pronouncements, as well as many court decisions in both the State and Federal levels. Over the last several years, UI has itself been a party or intervenor in several proceedings before the DPUC and PURA dealing with sub-metering in various situations. The regulatory body has consistently ruled against the proponent of the sub-metering proposal.

Current state law permits sub-metering for campsites and marinas. The existing statute recognizes the transient nature of the users of these facilities. The same statute imposes certain rate limitations to the boat and recreational vehicle users of the sites. The operator of a marina or campground cannot charge rates greater than the residential rate of the incumbent utility. The proposal includes some restrictions on rates and termination of service, yet, there are other sub-metered customer issues that are not included. The DPUC has determined that restructuring required that the delivery, metering and billing of all customers remains with the electric distribution company. The same restructuring legislation requires retail choice for generation service. Under the proposed expanded sub-metering scenario, the customer of a sub-metered building would be denied the choice of generation supplier. Those tenants of a sub-metered facility are not customers of the electric distribution company. Sub-metered buildings and the general customer populations would have two distinct set of rules for generation service.

It is not unusual for the generating capacity of the resource to be sized exactly to serve the full energy needs of all the tenants and the common areas of the building. If the machine is too large the building owner would get compensated for the excess energy at currently approved tariff rates. However, if the generating resource is too small, then the owner of the building would

have to purchase generation services and delivery service from the electric distribution company and resell it to the tenants. This last situation can also occur whenever the generating resource is unavailable due to a scheduled or unscheduled outage.

In this last instance, the sub-metered facility is venturing away from its internal resource to secure generation. The purchase of generation service by the owner, either from the EDC or another supplier, appears to be wholesale transaction since the generation will not be consumed entirely by the purchaser, but rather by an entity that is not connected to the EDC's system (the tenants). It will be resold to the tenants, who would be the ultimate end users of the electricity. It would be a sale for resale which may fall under Federal jurisdiction, specifically the Federal Energy Regulatory Commission (FERC) and not State regulation. The General Assembly should further investigate potential federal preemption and jurisdictional issues before embarking on a substantial expansion of sub-metering as contemplated by Section 6 of HB 6360.

AGGREGATION OF ACCOUNTS

The Company's understands the purpose of Section 7 that customers will be allowed to "aggregate" their accounts and be billed by the EDC as though the consumption occurred under one account. Implementation of this scenario would also result in shifting costs for support of the electric distribution system from aggregating customers to all nonparticipating accounts.

When retail rates are designed, there is an assumed number of "billing units" over which the approved revenue requirement is collected. The billing units are different for each component of a customer's bill. There are "demand units" that represent the greatest consumption by the customer in any 15-minute period during a billing cycle. These units are known as kilowatts. The "kilowatt-hours" unit represents the total consumption for all hours during a billing cycle. The "customer service charge" unit is designed to recover the various fixed and other system costs that are not easily measured by the normal variable measurement unit of usage, the kilowatt-hour. These include costs such as metering, billing, customer service, etc.

By aggregating multiple accounts of the same customer, the total number of demand units and the basic customer service charges that would be billed by the Company to all accounts would be reduced by those charges not being properly billed for the aggregated accounts. The revenue received from demand and customer charges would be reduced. Again, in a scenario where there is full decoupling, the EDC would be held harmless and other customers would pay for this revenue shortfall. In a scenario where there is no decoupling, the EDC has a revenue shortfall until such time as the EDC files its next rate case. At that time, the retail demand rates and possibly customer service charges would need to be increased to recognize that there are fewer billing units over which to collect the allowed revenue requirements. This also results in other customers paying a higher rate for the benefit of the aggregating customers. In other words, the aggregation of accounts results in subsidization by all other customers for the benefit of the aggregating customer.

MICROGRIDS

UI is keenly aware and supportive of the need and importance of back-up generation for critical facilities during severe weather events. UI has been working diligently with the Department of Energy and Environmental Protection (DEEP) on the deployment of a pilot to test the practicality of the concept of a microgrid. This pilot program will be critical in determining the appropriate cost allocations between those who benefit from the microgrid, and other customers.

UI believes ongoing utility involvement in microgrids, including owning, operating and maintaining some critical aspects of the microgrids is critical to insure the safety and reliability of not only the microgrid, but the utility system and the public at large. We suggest that the utility own and operate the interconnection facilities for the microgrid and the critical facilities to be served. This can be done without passing on the costs to all ratepayers. The developer of a microgrid could be required to pay for interconnecting facilities, and that those facilities are transferred to the utility when the microgrid becomes operational as it currently occurs with interconnections for distributed generators. The assets would be in rate base a zero cost and thus would not earn the utility a return. The facilities would then fall under the operational control of the Company and allow for periodic testing of the microgrid interconnecting devices and insure operational readiness.

There is great promise in microgrid technology as a tool to improve reliability of critical facilities. The DEEP pilot is the proper vehicle to determine where microgrids are the best solution, and where individual emergency generators or strengthened distribution facilities may provide the best, most economical solution for reliable power at critical facilities. The results of the pilot should provide a template that will allow development of microgrids where they provide the economic solution to emergency power.

If there are additional questions please contact Carlos Vázquez, UIL's Senior Director-Government Relations at 203-521-2455.