OLR RESEARCH REPORT

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ENERGY PROVISIONS IN SB 843

By: Kevin McCarthy, Principal Analyst

You asked for an analysis of the energy provisions in SB 843, "An Act Concerning Revenue Items to Implement the Governor's Budget," currently before the Finance, Revenue and Bonding Committee.

SUMMARY

This bill establishes a process to group electric company customers who have not chosen a competitive supplier (standard service customers) and have suppliers bid for the right to serve them. Under the bill, the suppliers entering the winning bids would have to offer to serve these customers for at least three years and initially charge a rate that is at least 5% below the standard service rate. The customers would retain their right to choose another supplier.

The bill extends, for two years, the temporary tax on certain electric generators and expands the generators to which it applies.

Lastly, the bill establishes a credit against the utility companies tax for gas companies equal to costs they incur in providing incentives for prospective customers who are more than 150 feet from existing mains to connect with the gas distribution system.

Sandra Norman-Eady, Director
Phone (860) 240-8400
FAX (860) 240-8881
http://www.cga.ct.gov/olr

Connecticut General Assembly
Office of Legislative Research

Room 5300
Legislative Office Building
Hartford, CT 06106-1591
Olr@cga.ct.gov

AUCTIONING STANDARD SERVICE CUSTOMERS

Current Law

By law (CGS § 16-244c), the electric companies must provide standard service to residential and small commercial customers who have not chosen a competitive supplier. There were approximately 818,000 standard service customers as of January 31, 2013, according to the Public Utilities Regulatory Authority (PURA). A PURA procurement officer procures power for these customers. In contrast, nearly half of residential customers and approximately 60% of small commercial customers have chosen suppliers.

Aggregation of Customers

The bill requires the state to aggregate (group) residential and small commercial "standard offer" (i.e., standard service) customers who have not contracted with a supplier as of June 1, 2013 for the purpose of auctioning the right of suppliers to provide competitively-priced electric generation service to them. The bill implicitly requires suppliers bidding for the right to serve these customers to offer to pay the state a specified amount per customer for this privilege.

The bill allows a customer who has been aggregated and auctioned to an electric supplier to continue to choose to obtain service from any other licensed supplier at any time. It appears that a customer could return to standard service, although the bill does not specifically permit this.

Request for Proposals

The bill requires the PURA procurement manager to issue a request for proposals (RFP) to all licensed suppliers for bids to provide a full service contract to blocks of residential customers and small commercial customers. The bill does not define "full service contact" but it appears to mean that the winning supplier must provide electricity to meet the total demand of the customers it will serve. The procurement manager must issue the initial RFP by July 1, 2013.

The electric companies must provide relevant data the procurement manager requests to develop the RFP. This must at least include the (1) average per customer usage in each customer class for the previous 12-month period; (2) number of customers who are delinquent, have defaulted, or are in collections; and (3) net average number of customers who chose suppliers in the preceding 12-month period.

The procurement manager must establish the criteria for selecting the successful bidders and publish the notice of the RFP to each licensed supplier. The bids must include the price per customer the supplier will offer for the right to supply electricity to (1) blocks of at least 100,000 customers and (2) each additional increment of at least 10,000 additional customers.

The bidders must offer to serve these customers for at least three years. They must offer a price that is at least 5% below the standard offer rate for the customer's class (there are several residential and small commercial rate classes) as of April 1, 2013. The price per customer (1) must be expressed in cost per kilowatt hour and (2) may include different rates for different customer classes and levels of usage. The supplier must offer this rate for at least 12 months from when its service begins.

The bid must include a schedule for determining rates for the subsequent two-year period. The bill does not address how rates would be set in this period.

The procurement manager may require suppliers to provide assurances that they will fulfill the contracts resulting from the auction. A winning supplier that fails to fulfill its contractual obligations is subject to (1) civil penalties (generally up to $10,000 per violation), (2) the suspension or revocation of its license, or (3) a prohibition on accepting new customers, following a hearing that is conducted as a contested case.

The supplier or suppliers awarded a competitive supply contract as a result of the auction must remit the amount accepted as its per customer bid to the state for deposit into the General Fund within 30 days after the date of the award.

The procurement manager must issue subsequent RFPs at least every three years or when there are at least 10,000 new residential and small commercial customers on the standard offer who are not served by suppliers.

On-going Responsibilities of Electric Companies

Each electric company must continue to serve any (1) residential or small commercial customer not transferred to a supplier as a result of the auction or (2) new residential or small commercial customer that does not select a supplier.

The bill does not address how the auction would interact with the current procurement for standard service customers. The procurement manager has already procured part of the electricity projected to be needed for standard service customers for the next two years.

ELECTRIC GENERATOR TAX

Current law imposes a temporary tax on electric generation facilities of ¼ of a cent per net kilowatt hour of electricity generated and uploaded into the regional bulk power grid at Connecticut facilities. The tax, which expires on June 30, 2013, applies to all electricity except that generated (1) through use of a fuel cell or alternative energy system, such as a solar or wind system; (2) a resources recovery facility; or (3) by a customer-side distributed energy facilities (e.g. cogeneration systems) with a generating capacity of up to 65 megawatts.

The bill extends the tax, at the same level, until June 30, 2015. It also expands the tax to apply to generators selling, delivering, or transferring electric generation services. This would include generators who indirectly upload their power to the grid (e.g., a generator that transfers the power to an affiliate, who then uploads it on the grid).

TAX CREDIT FOR FUEL SWITCHING

The Department of Energy and Environmental Protection (DEEP) has developed a comprehensive energy plan pursuant to PA 11-80. As described in OLR Report 2013-R-0163, the plan has several provisions to encourage individuals, businesses, and other entities to switch to natural gas.

Beginning July 1, 2014, the bill establishes a credit against the utility companies tax for gas companies that provide financial incentives for certain customers who convert to natural gas. The credit equals the amount credited by a gas company to an eligible customer, up to $500 per customer. Under the bill, an eligible customer is a person

1. whose premises are not located on or within 150 feet of a gas distribution main as of July 1, 2013;

2. whose premises are included in a gas company's expansion plan and approved by DEEP pursuant to the comprehensive energy plan; and

3. who makes a commitment to a gas company, between July 1, 2013 and January 1, 2014, to convert to natural gas when it is available.

Under current practice, persons located more than 150 feet from a distribution main often must pay part of the cost of being connected to the main.

To claim the credit a gas company must establish, to the revenue services commissioner's satisfaction, that it has passed the credit on to each eligible customer on his or her monthly bill or invoice. No credits may be allowed by the gas company to eligible customers until calendar quarters starting on or after October 1, 2013. The total amount of credits may not exceed $5 million in each fiscal year, starting with FY 15.

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