Testimony of William E. Dornbos
Senior Attorney & Connecticut Director
Acadia Center

Before the Energy & Technology Committee

Public Hearing, February 24, 2015

Acadia Center Supports:

On Capping Fixed Electric Charges –

S.B. 570, AAC Electric Savings and Fixed Bill Fees
S.B. 574, AAC Electric Distribution Company Rates and Charges
H.B. 5281, An Act Capping the Fixed Customer Charge for the Residential Customers of Electric Distribution Companies
H.B. 5402, An Act Limiting the Fixed Customer Charge for Residential Customers of Electric Distribution Companies
H.B. 6014, AAC Electric Distribution Companies' Residential Fixed Customer Charge
H.B. 6029, AAC Electric Distribution Company Fees

On Banning Variable Rate Supply Contracts –

S.B. 573, AAC Variable Electric Rates

On Valuing Distributed Energy Resources –

H.B. 6023, AAC Distributed Generation

Honorable Chairpersons Doyle and Reed, Ranking Members Formica and Ackert, and Committee Members:

Acadia Center appreciates this opportunity to provide written testimony to the Energy and Technology Committee in support of the bills referenced above. Acadia Center is a nonprofit research and advocacy organization committed to advancing the clean energy future. Acadia Center is at the forefront of efforts to build clean, low carbon, and consumer friendly economies.

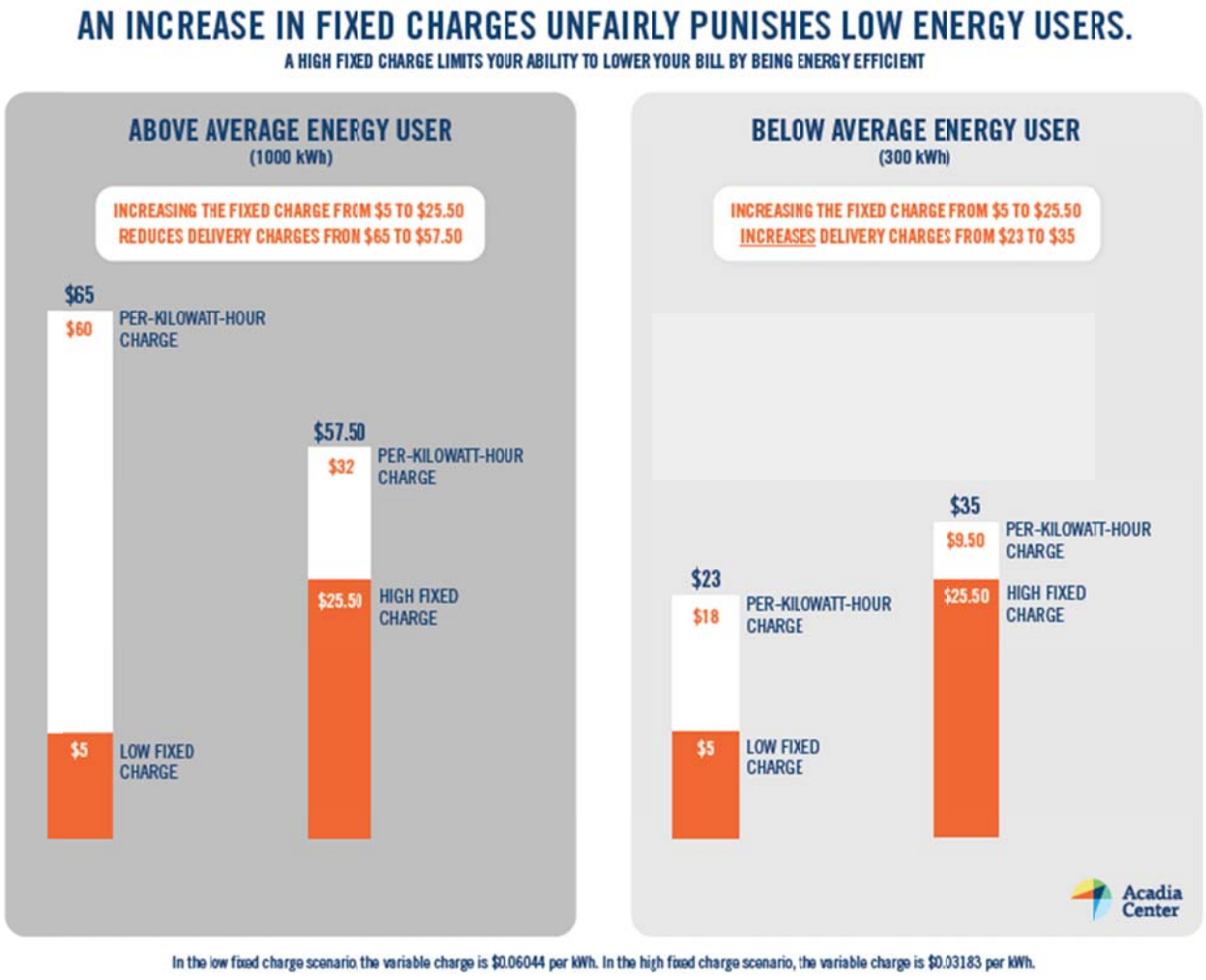
I. Capping Fixed Charges: Protect Consumers and Support Energy Efficiency and Local Clean Power

We thank the Energy and Technology Committee for addressing the urgent issue of high fixed charges for electric service through today's hearing. We are strong supporters of legislation to lower and cap high fixed charges for residential and small business customers, including S.B. 570, S.B. 574, H.B. 5281, H.B. 5402, H.B. 6014, and H.B. 6029.

High fixed charges hurt consumers. Connecticut's residents and businesses want control over their already high electricity costs. But the more fixed charges increase, the less control they have. A fixed charge is an automatic monthly fee that applies regardless of how much electricity the consumer actually uses. Consumers must pay it to obtain access to electricity. High fixed charges also discourage consumers from investing in energy efficiency and local clean power, such as residential solar. These charges fall hardest on those consumers who use the least amount of electricity – typically, those on low incomes, seniors, efficient users, or households with solar PV.

Historically, a reasonable fixed charge for residential customers has been in the $5 to $10 range. Yet the residential fixed charges of Eversource Energy and United Illuminating are, respectively, the highest and the second highest in New England for any major electric utility. Eversource's is now $19.25 per month, a twenty percent increase over the previous amount. UI's is now $17.25 per month. Eversource's residential fixed charge was last in the reasonable range in 2007, when it was $9.99 per month. Even worse, both utilities can be expected to seek additional increases in their next rate cases (2016 or 2017). In its 2014 rate case, Eversource proposed a residential fixed charge of $25.50 – a nearly 60% increase – while asserting that its analysis showed it was actually entitled to a $34.96 charge. The fixed charges that apply to small businesses have also increased at a rapid pace, going from about $25 to $44.25 a month – a jump of nearly 80% since 2007 for Eversource's small general electric service customers.

The following chart illustrates how high fixed charges burden low energy users while favoring high energy users:



With high fixed charges, low energy users subsidize high energy users. This is not only unfair as a matter of rate design, but also contrary to state energy law and policy, which seeks to accelerate and maximize investments in all cost-effective energy efficiency. Through the General Assembly's recent energy reforms – P.A. 13-298 is an excellent example – Connecticut has made major progress on energy efficiency. Ever-increasing high fixed charges (as described in more detail in the attached one-page handout) will make it much harder over time to sustain and build on that progress.

Fixed charges were not intended to be used in this way. The fixed charge, or flat minimum monthly rate, for electricity service was originally intended to cover only the cost of customer access to the power grid – in other words, the cost of the meter, the line drop, and the related billing and metering services. This is why

the fixed charge for residential customers has usually been in the $5 to $10 range, not only in Connecticut, but in most parts of the country. Notably, the three Massachusetts operating units of NSTAR Electric (now part of Eversource) have residential fixed charges of $6.43, $6.87, and $3.73 per month. Western Massachusetts Electric Co., another Eversource company, charges $6 per month. National Grid has residential fixed charges of $4 and $5 in Massachusetts and Rhode Island, respectively. With the increasing success of energy efficiency and rooftop solar, however, utilities have begun to expand the scope of the fixed charge to cover more and more of their basic grid infrastructure costs as a short-sighted defensive maneuver to provide near-absolute, short-term revenue certainty.

The General Assembly can solve the problem of ever-increasing and excessive fixed charges by placing a reasonable cap on fixed charge amounts for residential and small business customers. Connecticut needs a permanent solution to both protect consumers and to steer regulators towards electricity rate designs better aligned with key public policy goals. Here is proposed language for a residential cap of $10 per month:

Effective immediately, the Public Utilities Regulatory Authority may only authorize an electric distribution company to set a fixed charge on each residential customer account in an amount not to exceed ten dollars ($10) per month. Beginning January 1, 2020, the maximum allowable fixed charge may be adjusted by no more than the annual percentage increase in the Consumer Price Index for the prior calendar year. "Fixed charge" means any fixed customer charge, basic service fee, flat distribution charge, or other charge not based upon the volume of electricity consumed, but not including demand charges, which are not covered by this provision.

Small business customers should be similarly protected. The cap for this customer class would likely be tied to a maximum demand threshold. We suggest that commercial customers with maximum demand of less than 200 kilowatts receive a fixed charge cap of $25 per month.

Lowering and capping fixed charges for residents and small businesses will not harm the electric distribution companies. A cap on fixed charges could be revenue neutral, if designed appropriately. Regulators could simply set a higher volumetric, or per kilowatt hour, rate for distribution costs within the applicable customer class, but overall electricity rates would not increase. The utilities would still receive the total revenue that regulators determine is necessary to upgrade, operate, and maintain the power grid. Full revenue decoupling – now implemented for both Eversource and UI – will also ensure that the utilities receive their allowed annual revenue. All that changes with a fixed charge cap is that electricity pricing will now be fully supportive of state energy policy and consumer energy needs.

We should not delay this solution. Getting fixed charges under control right now is urgent. We already know that a key feature of the modern power grid is full consumer control over energy generation, consumption, and costs. This can mean many things: installing rooftop solar or wi-fi thermostats; participating in demand response; weatherizing and investing in high-efficiency appliances; comparing apartments based on energy cost data; or, choosing to make no changes at all. High fixed charges interfere with this objective by increasing the amount that must be paid regardless of energy use. By lowering and capping fixed charges as proposed here, we will give all consumers, including our most vulnerable neighbors, a real chance to benefit economically from the rapid advances in technology that are already modernizing the power grid.

II. Ban Variable Rate Supply Contracts to Help Consumers Control Their Electricity Costs

Acadia Center supports SB 573 (and draft language developed by CT AARP) because this legislation will help provide clear and fair rules for contracting between third-party electric suppliers and residential customers. These rules will not only help protect residential customers from practices that can be one-sided or misleading, but they should also help reduce overall electricity costs in the state by reducing unnecessary volatility in contract pricing. Acadia Center generally supports electricity market rules that, among other things, help ensure fair, knowing, and full participation for the modern energy consumer. The reforms proposed by S.B. 573 are consistent with the recommendations we have made in our recent UtilityVision report on modernizing the power grid and empowering energy consumers. They will help consumers gain greater control over their energy costs, a key goal of the modern energy system.

III. Establish a Process for Valuing Distributed Energy Resources

Acadia Center also supports H.B. 6023, An Act Concerning Distributed Generation. The concept of placing a fair value on a kilowatt hour of electricity produced by distributed generation is generally a sound one. Placing a more accurate value on such generation through a transparent and public regulatory process should help increase the grid penetration of local clean resources, like solar PV and battery storage, at least in the short term.

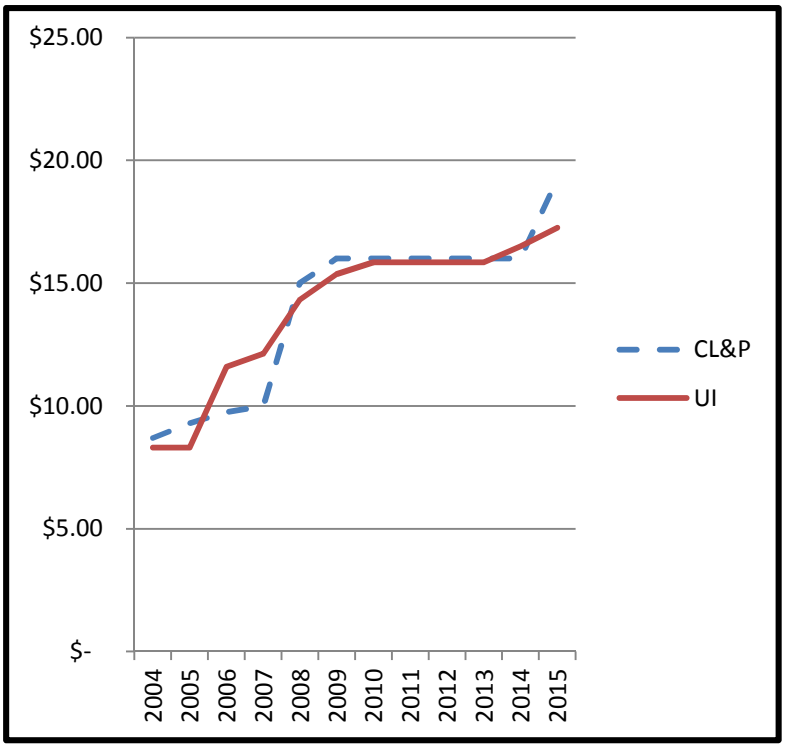
While Acadia Center will be eager to see the actual language for H.B. 6023 and will likely have additional comment at that time, we do have some immediate recommendations for at least three changes to the bill. First, the definition of energy resources that qualify for the valuation process undertaken by DEEP should be as inclusive as possible. Eligible resources should encompass all clean distributed energy resources (DER) that can provide valuable grid services such as peak demand reductions (system and local). Demand-side resources, like geo-targeted energy efficiency, are typically the lowest-cost energy resource and thus should also be included in any process for valuing grid resources overall. Second, the valuation process should be fair to all eligible resources – in other words, H.B. 6023 should be crafted to ensure that valuation decisions made for one resource should also apply to other resources, if feasible. No resource should be unfairly advantaged by the application of DEEP's valuation methodology, and that may mean reaching outside this specific process to also calibrate and align resource valuations in other contexts. And, third, H.B. 6023 should set out the essential categories for DEEP's valuation methodology – such as placing a fair value on greenhouse gas emissions reductions from DER – and should also ensure that DEEP's methodology is compliant with, and guided by, the state's major energy and environmental statutes.

Please do not hesitate to contact Acadia Center if you have any questions. Thank you.

William E. Dornbos, Connecticut Director & Senior Attorney, Acadia Center
(860) 246-7121 x202, wdornbos@acadiacenter.org

CT Needs to Lower and Cap High Fixed Charges for Electricity

Residential and small business customers need relief now. Fixed charges for electric service have risen dramatically over the last decade. Fixed charges are flat monthly rates that the customer must pay just to have access to electricity. For residential customers, fixed charges have increased by more than four times the rate of inflation – to the highest (Eversource/CL&P, $19.25/month) and second highest (UI, $17.25/month) in New England for any major electric utility.



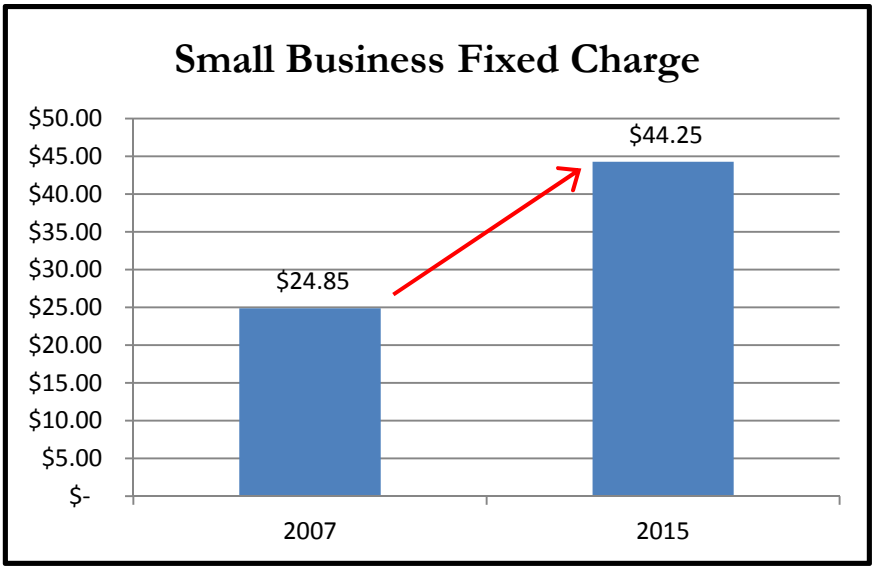
Residential Fixed Charge Continues to Rise

Eversource/CL&P's residential charge – up 121% (2004 to now)

UI's residential charge – up 107% (2004 to now)

(cumulative inflation only 25% over same period)

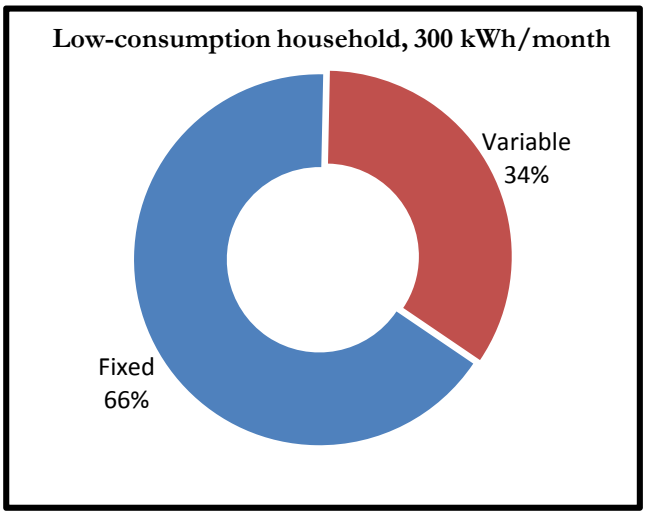
Small business customers also need relief from high fixed charges. For example, since 2007, Eversource/CL&P's small general electric service customers – often small businesses – have seen their fixed monthly charges jump by 78% in just a little over seven years, as charted below. These increased fixed charges are unsustainable.



High fixed charges also hurt progress on energy efficiency and clean energy. They fall hardest on those customers that use the least electricity, they devalue efficiency and renewables investments, and they reduce the ability of consumers to control their energy costs. CT can do better – by lowering and capping residential and small business fixed charges.

(MORE ON BACK)

High fixed charges take away residential consumers' control over their energy costs – especially efficient users, those on limited incomes, seniors, and households with rooftop solar. The effect on an Eversource residential customer who consumes less electricity is unfair. Most of that customer's distribution costs will be unavoidable due to a high fixed charge.



<u>What is the solution to high fixed charges?</u> Lower and cap the fixed charge for residential customers at $10 per month and the fixed charge for small businesses at $25 per month for both electric distribution utilities.

<u>Supporting Organizations</u> <u>(as of 2/24/15)</u>

Acadia Center
CT Roundtable on Climate & Jobs
CT AFL-CIO
Interreligious Eco-Justice Network
City of Bridgeport
City of Hartford
City of New Haven
Clean Water Action Connecticut
Connecticut Alliance for Retired Americans
Connecticut Center for a New Economy
Connecticut Citizen Action Group
Connecticut Coalition for Environmental Justice
Connecticut Conference, United Church of Christ
Connecticut Fund for the Environment
CT Alliance for Basic Human Needs
CT State Council of Machinists
Enviro Energy Connections
Environment Connecticut
Environmental Energy Solutions
Fight the Hike
Grand Ave. Special Services District (New Haven)
Healthy City/Healthy Climate Challenge
The Institute for Sustainable Energy at Eastern Connecticut State University
IBEW Local 420
Labor Network for Sustainability
Naugatuck Valley Project
New Haven/Leon Sister City Project
PACE (Peoples Action for Clean Energy)
Portland Clean Energy Task Force
SEIU Connecticut State Council
Sierra Club - Connecticut Chapter
Spanish American Merchants Association
Union Energy Alliance
United Auto Workers - Region 9A

Prepared by Acadia Center and CT Roundtable on Climate & Jobs
For more information:
Bill Dornbos, (860) 246-7121 x202, wdornbos@acadiacenter.org
John Humphries (860) 216-7972, john.humphries1664@gmail.com