



Connecticut Department of
**ENERGY &
ENVIRONMENTAL
PROTECTION**

**STATE OF CONNECTICUT
DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION**

Public Hearing – March 17, 2015
Energy and Technology Committee

Testimony Submitted by Commissioner Robert J. Klee
Presented By Deputy Commissioner Katie Dykes

Raised Senate Bill No. 1078 – AN ACT CONCERNING AFFORDABLE AND RELIABLE ENERGY.

Thank you for the opportunity to present testimony regarding **Raised Senate Bill No. 1078 – An Act Concerning Affordable and Reliable Energy**. The Department of Energy and Environmental Protection (DEEP) welcomes the opportunity to offer the following testimony.

We appreciate the Committee’s willingness to raise this bill at the request of the DEEP. DEEP conducted detailed analysis in the 2014 Integrated Resources Plan (IRP)—recently finalized by DEEP—which recommended the proposals in this bill as important means to secure a cheaper, cleaner, more reliable energy future for Connecticut families and businesses. This proposal, which we strongly support, would: (1) extend the state’s authority to direct the electric distribution companies to implement cost-effective active demand response programs within their service area and permit the electric distribution companies (EDCs) to recover the cost of such programs through retail rates; (2) authorize DEEP to procure energy to meet the goals of the IRP; and (3) authorize DEEP to help address the regional infrastructure constraint that is threatening the reliability and affordability of electricity in the New England region, by running a competitive procurement open to a broad range of resources (including LNG and gas pipeline capacity; transmission for large-scale hydropower or Class I renewables; and demand response, energy efficiency, and combined heat and power) that can cost-effectively resolve the New England region’s gas infrastructure constraints, up to an amount that is proportional to Connecticut’s share of regional electric demand.

Sections 4 and 5

New England has inadequate infrastructure to supply the region’s increasingly gas-dependent generation fleet, which is the most pressing problem facing the electricity system in Connecticut and New England at this time. This infrastructure challenge threatens winter reliability and has resulted in billions of dollars in higher generation costs over the past few years. No market solution appears to be forthcoming and this problem will likely persist in the years ahead. Already, Connecticut families and businesses have experienced severe spikes in electric rates associated with generation, as a result of these volatile market conditions.

The magnitude of the solutions needed is very large—on the order of 1 billion cubic feet per day of natural gas pipeline capacity, or the equivalent of 5,000 MW of non-gas generation or measures that reduce demand for electricity—too big for any one state to secure on its own. Governor Malloy has committed, and is working with, all of the New England Governors, to pursue a regional solution to the winter reliability problem. The six

states, working through the New England State's Committee on Electricity (NESCOE), have advanced various efforts to meet these goals. Most recently, Governor Malloy announced that Connecticut, Massachusetts, and Rhode Island have initiated joint RFP using existing authority to procure Class I renewables and large-scale hydropower. While the amount the three states can procure is not large enough to fully resolve the infrastructure need, this joint effort is an important example of regional coordination. Individually, Maine and Rhode Island enacted legislation similar to this proposal that would allow those two states to procure infrastructure solutions in coordination with other regional states.

This legislative proposal will prepare Connecticut to participate in a coordinated regional solution, while preserving flexibility for our state to procure a portfolio of resources that best fit our policy priorities. DEEP has championed the use of open, competitive processes to obtain the best deals for ratepayers. For example, DEEP's implementation of competitive procurements for grid-scale renewables under sections 6 and 8 of Public Act 13-303 have resulted the signing of contracts that will help keep the state on track to meet its renewable energy goals at a savings to ratepayers of more than \$200 million.

The procurement structure proposed in this bill—authorizing DEEP to conduct the procurement, in consultation with the Attorney General and Consumer Counsel, and to direct the utilities to enter into contracts selected by the commissioner—ensures a transparent and fair process, and protects against conflicts of interest. If the proposals are in the best interest of ratepayers, DEEP can direct the electric distribution companies to enter into contracts to procure those resources, subject to approval by the Public Utilities Regulatory Authority (PURA).

There are many potential solutions, or a combination of solutions, to reduce rising electricity prices. This section allows DEEP to develop and issue a request for proposals for a variety of energy saving measures, including natural gas pipeline capacity, liquefied natural gas, Class I renewable energy sources, verifiable large-scale hydropower, passive and active demand response programs, like load management and efficiency measures, or distributed generation, like combined heat and power.

DEEP recently finalized its IRP and conducted an analysis with public input on the ability of a variety of resources, including verifiable hydropower, to address our state and regional winter reliability problem. DEEP suggests including verifiable large scale hydropower, as defined in section 16-1 of the general statutes, among the eligible products in subsection (a) of this section. A study conducted by Black & Veatch for the New England States Committee on Electricity (NESCOE) indicates that large scale hydropower can be a cost effective option to address the region's winter reliability and high energy cost problem.¹ In addition, large scale hydropower offers a low cost option to diversify the fuel mix and reduce emissions.

Additionally, the agency recommends authorizing DEEP to direct the EDCs to enter into purchase agreements on behalf of all ratepayers with selected proposals. This addition is necessary to make the purchase on behalf of all ratepayers effective because only the EDCs have this ability, not DEEP.

Section 1

Demand response measures can be a cost-effective option to ensure reliability and minimize price increases, especially during peak hours when active demand response can be dispatched. There are two kinds of demand response, active and passive. Passive demand response measures are designed to save electricity at all times, like high-efficient light bulbs and other similar energy efficiency measures. This bill would strengthen the state's ability to support active demand response measures, which are energy reduction measures performed by

¹ Black & Veatch, "Final Hydro Imports Analysis Prepared for New England States Committee on Electricity" (Nov 1 2013).

participating end-use customers that an electric distribution company can call upon and activate when demand for electricity is at its highest, or its peak.

In May 2014, a D.C. Circuit court invalidated an order by the Federal Energy Regulatory Commission (FERC) that compensates active demand response measures in regional electricity markets. DEEP is concerned with the uncertainties raised by this decision and other recent judicial actions about the ability of demand response measures to participate in the regional electricity markets. Demand resources effectively reduce electricity rates by reducing the strain on the electric grid during peak hours. If federal decisions shut demand response out of the wholesale markets, electric prices and emissions will surely increase.

This Section would allow the state to implement active demand resources, such as interruptible rates and time-of-use rates, to reduce electricity rates if federal judicial decisions determine that demand response can no longer participate at the regional level.

Section 3

DEEP is charged with developing an IRP every two years that assesses our state's future electric needs and proposes a plan to meet those needs. The plan looks at both demand side measures, like demand response, and supply side measures, like generation and transmission lines, in making recommendations to meet energy needs. This Section clarifies language in the existing IRP-related statute related to the state's authority to procure resources in the event that the analysis in an IRP determines such procurement is needed and in the interest of Connecticut ratepayers.

This Section provides DEEP, rather than PURA, with the authority to conduct a solicitation to implement procurement recommendations from the IRP. Any proposals selected in the procurement would be subject to approval by PURA. DEEP has successfully run similar energy procurements, such as those authorized under Public Act 13-303. Because the solicitation authority in P.A. 13-303 is limited to certain specific types of generation (Class I renewables and large-scale hydropower), it is important for DEEP to have procurement ability to implement the IRP recommendations beyond just those specific measures contemplated in P.A. 13-303.

DEEP recommends removing the words "and the Procurement Plan" from subsection (a) to clarify that PURA, and not DEEP, retains implementation authority over the Procurement Plan under section 16-244m of the general statutes.

In summary, with the recommended changes, DEEP strongly supports **Raised Senate Bill No. 1078 – An Act Concerning Affordable and Reliable Energy** and looks forward to taking these steps toward a more reliable energy system in the New England region to stabilize energy prices for Connecticut residents. DEEP is happy to work with members of the committee on the language of the bill.

Thank you for the opportunity to present testimony on this proposal. If you should require any additional information, please contact Robert LaFrance, DEEP's Director of Governmental Affairs, at 860.424.3401 or Robert.LaFrance@ct.gov or, Elizabeth McAuliffe, DEEP Legislative Liaison, at 860.424.3458 or Elizabeth.McAuliffe@ct.gov.