**BEFORE THE**

**STATE OF CONNECTICUT**

**COMMITTEE ON ENERGY AND TECHNOLOGY**

**MARCH 17, 2015**

# TESTIMONY OF DANIEL W. ALLEGRETTI

**ON BEHALF OF**

**EXELON CORPORATION**

**RAISED BILL NO. 1078**

Members of the committee, thank you for the opportunity to provide this written testimony. My name is Daniel W. Allegretti and I am a Vice President for State Government Affairs - East with Exelon Corporation ("Exelon"). By way of introduction, Exelon is a Fortune One Hundred company, headquartered in Chicago, Illinois, with operations and business activities in 47 states, the District of Columbia and Canada. Exelon owns Commonwealth Edison Company, the Baltimore Gas and Electric Company and PECO Energy Company, which combined own electric transmission and distribution systems that deliver electricity to approximately 6.6 million customers. Here in Connecticut we are best known through our retail brand, Constellation NewEnergy Inc. ("Constellation"), which provides electricity directly to thousands of Connecticut businesses and residents and to over a million customers nationwide.

**Returning to integrated resource planning deprives customers of the ability to exercise choice and manage their electricity supply and use.**

Today businesses and customers have the power of choice. They can decide who to buy their electric power from on what terms and from what sources of generation. This bill places those decisions squarely in the hands of a state agency and will impose on every electric customer the costs of that agency's decisions for years to come without regard to the needs or preferences of the individual customer. It also lets energy companies, such as gas pipelines, power generators, transmission providers and renewable energy developers, off the hook for the risks but not the returns associated

with their investments. This has been shown to lead uneconomic investments and stranded costs that have to be paid for by ratepayers and not investors. The cost of any wrong decisions made by the DEEP will be fully recovered under this bill from Connecticut ratepayers. That has the potential of placing Connecticut at a serious economic disadvantage to other states where investor bear the risks associated with their investments and consumers are free to buy from only the lowest cost providers. Investors bearing the risks have been proven to limit future costs increases for consumers. The COMPETE Coalition[1] found that rate increases in restructured states have grown at a dramatically lower pace than in traditional vertically integrated states that continue to rely on integrated resource planning. According to COMPETE's analysis[2] of data from the U.S. Energy Information Administration and the Bureau of Labor Statistics, between 1997 and 2013 the rate of change inflation-adjusted retail rates in states with restructured retail markets decreased by more than 3% while those in states that rely on vertically integrated markets increased over 8%. These statistics provide a rather compelling contrast between states relying on competitive retail markets and states relying on vertically integrated markets that utilize integrated resource planning.

The high cost of electricity was the impetus that drove Connecticut to restructure its electric power industry. Under restructuring regulated utilities no longer make long term

[1] The COMPETE Coalition is more than 700 electricity stakeholders, including customers, suppliers, traditional and clean energy generators, transmission owners, trade associations, technology innovators, environmental organizations and economic development corporations – all of whom support well-structured competitive electricity markets for the benefit of our country. For more information, visit www.competecoalition.com.

[2] http://www.competecoalition.com/files/EIA%20restructured%20states%20data%20chart%20April%202014%20update_0.pdf

generation investment decisions, passing the costs of those decisions, good or bad, along to captive ratepayers. Instead, Connecticut transitioned to a paradigm in which investors make investment decisions and investors, not ratepayers bear the cost of poor decisions. In making this transition, however, the state recognized the need to make utilities whole for prior decisions and avoid stranding investments made under regulation without a base of customers from whom to recover the cost. These so-called "stranded costs" were tacked on to electric bills and represented the over-market cost of past investments. Once the bill for these past decisions was paid, however, customers were given the promise that future investment decisions would not produce and future "stranded costs." Until now.

I have heard the opinion often expressed of late that if we just build more pipelines, Connecticut will enjoy permanently lower electricity costs. This claim should be treated with some skepticism, however. Markets are very dynamic and taking an out of market action, like underwriting natural gas transportation costs, will have unintended consequences. It places non-gas power resources at a competitive disadvantage and could force some nuclear, renewable and demand-based resources out of business, further extending Connecticut's reliance on a single fuel. Customers, generators and communities may all be impacted in different ways depending on which of several gas pipeline companies is the beneficiary of state-mandated contracts under this bill. Winter 2013-2014 produced volatile electricity prices in New England and many members of the committee heard from constituents frustrated by price increases. Calls for natural gas expansion were a common response by many. Winter 2014-2015, however, was

an illustration of the perils of making long term decisions to address short term problems. Despite equally challenging weather conditions wholesale power prices were far more moderate this past winter. Liquefied natural gas imports, temporary gas to oil switching, increased energy efficiency and market rule improvements all enabled generators to meet demand without the same price volatility and without new pipeline infrastructure. This is not to suggest that New England will not benefit from expanded natural gas pipelines but that allowing the market to allocate capital as between pipeline build-outs and other alternatives will be more cost-efficient than asking DEEP to form along term view and commit Connecticut ratepayers to underwriting all the investment risk.

**Regulatory review by a subordinate agency is no review at all.**

In 2013 the State placed the Connecticut Department of Public Utility Control (now the Public Utility Regulatory Authority) under the control of the newly created Department of Energy and Environmental Protection. Under this bill decisions made by the DEEP are subject to review by PURA. It seems difficult, however, to imagine the value of such review so long as the PURA is subordinate to rather than independent from the DEEP. Nor does the bill furnish the PURA with any standard of review to apply in conducting its review. In short, members of the committee should take little if any comfort that the review of DEEP decisions by PURA (which now answers directly to DEEP) as directed under this bill will produce anything more than a non-binding opinion, at best.

## Conclusion

For the foregoing reasons Exelon urges the committee not to pass Raised Bill 1078.