Performance Based Utility Regulation & An Assessment of Deregulation

Informational Forum on Tropical Storm Isaias Response & July 2020 Electric Utility Rates

Katie Dykes, Commissioner
August 27, 2020
Traditional Utility Regulation

**Revenue Requirement =**

Expenses +

\((\text{Gross value of property} - \text{Accrued depreciation}) \times \text{Rate of Return}\)

Eversource ROR = 9.25%
United Illuminating = 9.1%
Utility profits, executive compensation, and employee incentive compensation should all be based on performance and outcomes that benefit their customers.

Establish clear performance standards and metrics:

- Affordability & Equity,
- Customer Satisfaction
- Reliability & Resilience
- Advancing Clean Energy & Environmental Goals
Deregulation, 20+ Years On

The Electricity System

Each of the parties identified in Figure 1 contribute in different ways to the cost, environment, and reliability (i.e., resource adequacy, transmission security, and distribution resiliency) of the electricity system. Figure 2 describes these contributions.

Regulated by ISO-NE, FERC

Independent “merchant” generators

Transmission

Eversource, United Illuminating

Distribution

Consumption

Regulated by PURA

EVS, UI, Retail Suppliers

Connecticut Department of Energy and Environmental Protection
STATE JURIS./DISTRIBUTION RATES
Clean, Affordable, Reliable

- (P.A. 98-28) Energy Efficiency Fund, RPS

FERC JURISDICTION/ISO-NE TARIFF
Reliable

- Wholesale Energy Market
STATE JURIS./DISTRIBUTION RATES
Clean, Affordable, Reliable

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.

FERC JURISDICTION/ISO-NE TARIFF
Reliable

STATE JURIS./DISTRIBUTION RATES

Clean, Affordable, Reliable

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
- (2005) Demand response, CHP, peaking generation contracts

FERC JURISDICTION/ISO-NE TARIFF

Reliable

- (1998-2002) 1700 MW Reliability Must Run (RMR) contracts to address congestion
STATE JURIS./DISTRIBUTION RATES
Clean, Affordable, Reliable

• (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
• (2005) Demand response, CHP, peaking generation

FERC JURISDICTION/ISO-NE TARIFF
Reliable

• (1998-2002) 1700 MW RMR Contracts
• (2006) Forward Capacity Market with self-supply option
STATE JURIS./DISTRIBUTION RATES

Clean, Affordable, Reliable

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
- (2005) Demand response, CHP, peaking generation
- *RPS not attracting investment in grid-scale renewables*

FERC JURISDICTION/ISO-NE TARIFF

Reliable

- Forward Capacity Market with self-supply option
- *Polar vortex – energy price spikes due to natural gas dependence*
STATE JURIS./DISTRIBUTION RATES
*Clean, Affordable, Reliable*

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
- (2005) Demand response, CHP, peaking generation
- (2013) Competitive RFPs for long-term contracts for renewables

FERC JURISDICTION/ISO-NE TARIFF
*Reliable*

- Forward Capacity Market with renewable exemption
- (2014) Winter Reliability Program
- (2015) Pay for Performance
STATE JURIS./DISTRIBUTION RATES
Clean, Affordable, Reliable

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
- (2005) Demand response, CHP, peaking generation
- (2013) Competitive RFPs for long-term contracts for renewables

FERC JURISDICTION/ISO-NE TARIFF
Reliable

- Forward Capacity Market with renewable exemption with MOPR
- (2015) Pay for Performance
- (2017) CASPR
**STATE JURIS./DISTRIBUTION RATES**

*Clean, Affordable, Reliable*

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
- (2005) Demand response, CHP, peaking generation
- *Millstone: We will retire if we don’t receive a long-term contract*

**FERC JURISDICTION/ISO-NE TARIFF**

*Reliable*

- Forward Capacity Market with MOPR
- (2015) Pay for Performance
- (2017) CASPR
- (2017) ISO-NE OFSA Study: Rolling blackouts possible of nuclear, LNG retire
STATE JURIS./DISTRIBUTION RATES
Clean, Affordable, Reliable

- (P.A. 98-28) Energy Efficiency Fund, Renewable Portfolio Std.
- (2005) Demand response, CHP, peaking generation
- (2013-2020) Competitive RFPs for long-term contracts for renewables
- (P.A. 17-3) 10-year contract with Millstone

~84% of CT energy consumption now under contract to support regional reliability and secure clean energy

FERC JURISDICTION/ISO-NE TARIFF
Reliable

- Forward Capacity Market with MOPR
- (2015) Pay for Performance
- (2017) CASPR
- (2017) ISO-NE OFSA Study: Rolling blackouts possible of nuclear, LNG retire
- (2018) RMR Contract with Distrigas LNG facility

CT continues to be billed 25% of ISO-NE market costs

Connecticut Department of Energy and Environmental Protection
Transmission Costs

- ISO-NE has no transmission planning cycle, like other RTOs.
- Transmission ROEs allowed by FERC are unreasonably high (10.57%-11.74%). CT DEEP, PURA, OCC, and AG have heavily contested unjust and unreasonable transmission ROEs at FERC for over a decade.
- Transmission costs in New England have risen from approximately $869 million in 2008 to $2.25 billion ten years later.
- New England ranks near the top in terms of spending on transmission construction, and near the bottom in terms of circuit-miles of transmission per dollars spent.
- Transmission projects in New England average 70% project cost escalations, the worst in any ISO/RTO in the country. The average nationally is 34%.
Eversource Volumetric Rates (2019)

Eversource rate components *other than* transmission and generation.
Eversource Rates Not Incl. Distr. & Gen.
Transparency & Accountability

• ISO-NE Board meetings are closed to the public.
• Minutes of ISO-Board meetings are not provided to the public.
• While ISO-NE activities have an “indisputable impact on the public, [ISO-NE] is a private corporation, not a government agency or regulator, and, therefore, it reserves the right to keep Board meetings private and not post Board minutes.”
• ISO-NE market rule changes are vetted through NEPOOL, a voluntary association of New England electricity market participants.
• NEPOOL meetings are not open to the public or the press.
• The New England states have no vote at NEPOOL.
• Only through litigation did CT obtain the right to review ISO-NE’s budget, which is paid for by CT ratepayers.

- Proposed fix to ISO-NE energy markets to purportedly address winter reliability and natural gas over-dependence
- ISO-NE proposal: estimated cost of up to $260 million per year (Connecticut pays ~25% share)
- All six New England states advanced a joint proposal to reduce the cost of the ESI program by up to $99 million
- A majority (61%) of NEPOOL stakeholders supported the states’ approach, versus 40% in favor of the ISO-NE approach.
- ISO-NE sought FERC approval of its own, more expensive proposal anyway...why?
ISO NEW ENGLAND INC.

Agenda
Board of Directors Meeting
May 19, 2020

Audio-Video Conference

1. Executive Session

2. Approval of Minutes of March 10, 2020, March 18, 2020 and April 7, 2020 Meetings

3. Committee Reports

4. Quarterly Scorecard Update

5. Management’s Strategic Planning Work Products

6. Other Business

7. Executive Session
Questions?

NEXT STEPS

Integrated Resources Plan draft will be released in September, addressing a path to reform our wholesale energy markets.

DEEP looks forward to advocating at PURA proceedings for Performance-Based Regulation of the state’s electric distribution utilities.
Projected net Millstone PPA cost in 2021 compared to actual 2019 Eversource RAM expenses