



**Testimony of Environment Northeast
On Raised Bills:
RB No. 1373 – AAC Electric Rate Relief
RB No. 1374 – AAC Electric Procurement and Energy Efficiency
RB No. 7309 – AAC Pay as You Save and
Energy Efficiency Recommendations**

Rockport, ME
Portland, ME
Boston, MA
Providence, RI
Hartford, CT

**Connecticut Energy & Technology Committee
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Environment Northeast (ENE) is a non-profit research and advocacy organization that focuses on energy, air quality and climate change solutions for New England and Eastern Canada. We appreciate the opportunity to provide this testimony to the Energy and Technology Committee.

Utility Planning and Procurement

The sharp increases in the costs of electricity, natural gas and oil in recent years have focused attention on the need to gain greater control over the cost of energy to Connecticut consumers. The main driver of these increases is a factor which Connecticut cannot control--the rapid rise in the national and world prices of fossil fuels. However, the state can exert a greater degree of control over the energy resources it procures to meet customer requirements. We believe there is a growing consensus that the best way to move forward is to establish a new comprehensive energy planning and procurement process which periodically assesses resource options and then oversees the procurement of those resources. The resources considered should have a new level of focus on efficiency and renewables, and should be accompanied by utility revenue reform that aligns utility incentives with state policy.

Both RB No. 1373 and 1374 (Sections 1&2) contain planning and procurement provisions.

ENE would suggest an expanded utility planning and procurement framework beyond that contained in RB Nos. 1373 and 1374.

A detailed description of a planning and procurement framework that ENE has developed in cooperation with Northeast Utilities is attached to this testimony. The following is a summary of a new electric utility planning and procurement framework we believe makes the most sense for the State of Connecticut:

- Improved planning and procurement of standard offer energy supply that will involve: longer-term assessments, a range of contract and resource types including distributed generation and renewables, the possibility of utility ownership of generation if it is shown to be in the interest of consumers, and the goal of reducing total consumer costs while achieving the state's environmental and greenhouse gas goals;

- A commitment to invest in all cost-effective energy efficiency resources that are reasonably available;
- Continued planning and assessments of the state's peak energy requirements, the market's ability to deliver needed capacity, and possible contracts for new capacity;
- Oversight of the development of utility plans by a new consumer and state agency oversight board, that will ensure accountability;
- Utility incentives will be aligned with the goal of increasing energy efficiency and distributed generation by decoupling utility fixed costs from sales; and by creating utility performance incentives tied to achieving low total consumer electric costs and system reliability.

This proposal represents a real change in position by NU and it embraces many policy proposals ENE has been advocating for the past few years. The policy is focused on procuring energy resources with a primary focus on energy efficiency and renewables, and with a requirement to do so in a manner that addresses the state's air emissions and greenhouse gas goals. This policy framework will go a long way towards meeting the state's greenhouse gas goals and allow state DEP SIP planning to be factored into energy planning and procurement, while also reducing consumer costs and increasing energy independence.

RB 1373

Funding for Energy Partners (Secs. 1 and 9)

These sections propose funding investments by electric efficiency partners in demand side projects, principally load management and demand response, at levels ranging from \$100 million to \$350 million over five years. The proposed source of the funds is proceeds which a distribution company would receive through transferring transmission property to another distribution or municipal utility. The proceeds would be treated as part of the distribution company's rate base and amortized using a carrying charge which included the return on equity of the transmission property. Under current FERC rules, this is a premium rate exceeding 13%. This approach would be much more costly for CL&P's ratepayers than is the current case under the C&LM program where costs are expensed annually without a buildup of carrying charges over time.

Restoration of C&LM Funds (Sec. 24)

ENE strongly supports the restoration of full funding to the C&LM Fund and the Renewable Energy Investment Fund as proposed in this section. The additions can be well utilized for efficiency investments that will reduce customer costs. However, Sec. 3 (g) of the bill contains a confusing reference to a diversion of half of the funds received by the C&LM Fund pursuant to Sec. 25 to defray the costs of installing advanced metering. Sec. 25 concerns bonding for amounts to be used by the Renewable Energy Investment Fund for renewable projects in state buildings. This reference should be clarified so that the C&LM fund restoration is not impaired.

Investigation of Possible Benefits of Emergency Generation (Secs. 15 and 16)

ENE supports an investigation of the potential for emissions and costs benefits to the state from permitting emergency generators as dispatchable resources meeting ISO-NE standards. The language should be clarified to require that any activities undertaken as a result of this investigation will produce net emissions benefits. Any proposed changes to the DEP permit review process should allow DEP adequate time to analyze proposals and obtain public input.

Class III Efficiency Level (Sec. 27)

ENE supports moving towards higher levels of efficiency. Changes which increase the efficiency of existing facilities by 10 % or more should only qualify for Class III credits if the levels attained exceed 60%.

RB 1374

Auction of RGGI Allowances (Sec. 13)

ENE supports giving DEP and DPUC the authority to conduct an auction of carbon allowances under the Regional Greenhouse Gas Initiative and the allocation of the proceeds to consumer benefits. The allocation should maximize cost-effectiveness. Energy efficiency programs should be a primary recipient because they minimize the cost of carbon reductions.

Incentives for Efficient Cars and Solar Systems (Sec. 15-18)

ENE supports the incentives in these sections for cars with mileage ratings at least 40 miles per gallon and active or passive solar systems.

Building Code Standards (Sec. 23)

ENE supports increasing building code standards over time as this section proposes. Incorporating LEEDs or Green Globe standards will promote better building practices. However, since those standards can be met without substantial improvements in energy efficiency, we recommend that inclusion of a minimum improvement over code requirements of 30%.

RB 7309

Solar Water Heating Pay As You Save (Sec. 1)

This section proposes a pay as you save program for financing solar water heating systems. Certainly these systems deserve support as a renewable alternative to fossil fuels. Consideration should be given to including them as eligible projects for financing under the program established under Sec. 9 of the Energy Independence Act for financing customer-side distributed resources.

Expanding Class III (Sec. 8)

This section would expand the scope and time frame of the Class III program. This program is just being initiated in 2007. ENE recommends that a decision to expand or revise the program should be based on at least a year of experience.

Connecticut Utility Planning and Procurement Proposal



**Connecticut
Light & Power**

The Northeast Utilities System



**Environment
Northeast**

Preliminary Policy Proposal Under Development by
Environment Northeast & Northeast Utilities

Summary of the Proposed Utility Planning and Procurement Framework

The following is a summary of the new electric utility planning and procurement framework we believe makes the most sense for the State of Connecticut:

- Improved planning and procurement of standard offer energy supply that will involve: longer-term assessments, a range of contract and resource types including distributed generation and renewables, the possibility of utility ownership of generation if it is shown to be in the interest of consumers, and the goal of reducing total consumer costs while achieving the state's environmental and greenhouse gas goals;
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- Continued planning and assessments of the state's peak energy requirements, the market's ability to deliver needed capacity, and possible contracts for new capacity;
- Oversight of the development of utility plans by a new consumer and state agency oversight board, that will ensure accountability;
- Utility incentives will be aligned with the goal of increasing energy efficiency and distributed generation by decoupling utility fixed costs from sales; and by creating utility performance incentives tied to achieving low total consumer electric costs and system reliability.

Utility Oversight and Regulatory Approval

A new Energy Resources Procurement Board (Procurement Board) will be established to help ensure that residential ratepayers, business consumers, environmental interests, and state agencies have real input into energy planning. The Board will work cooperatively with the utilities as they develop a resource assessment and procurement plan. They will vote on the resource assessment and plan developed by the utilities, but the Department of Public Utility Control (DPUC) will have final review and approval of the plan, with deference given to Board approval.

The Energy Procurement Board will be appointed by the Governor but consist of one representative from the following organizations: 1) a state-wide manufacturing association; 2) a state-wide business association; 3) a chamber of commerce; 4) a representative of residential customers; 5) a representative of low-income customers; 6) an environmental organization knowledgeable in energy markets and efficiency; 7) the Office of

Policy and Management; 8) the Attorney General; 9) the Department of Environmental Protection; and 10) the Office of Consumer Council. The electric distribution companies and the DPUC will be ex-officio, non-voting members of the Board.

The board will have access to independent consultants to advise them in the assessment of utility proposals. The Board members will be unpaid, but have reasonable expenses reimbursed.

The existing Energy Conservation Management Board (ECMB) will remain unchanged and will continue to provide oversight of efficiency programs in the state. The Procurement Board will work with the ECMB as it reviews efficiency investment opportunities and utility proposals related to efficiency.

The responsibilities of the Procurement Board could be undertaken by a restructured Connecticut Energy Advisory Board (CEAB), as long as its membership is changed to reflect the list above and the CEAB's mandate is limited to the oversight of

the planning and procurement process and the development of a state energy plan that is consistent with the procurement plan. We believe this planning and procurement process will eliminate the need for the CEAB to issue requests for proposals asking for alternative options to proposed energy investments

The Planning and Procurement Process

The following is a detailed description of the planning and procurement process.

Customers and Resources

The resource assessment and procurement plan developed by the utilities and reviewed by the Procurement Board will examine the following: all energy and capacity needs of standard offer customers, cost-effective energy efficiency investments on behalf of all customers, and state generation and transmission capacity requirements on behalf of all customers if needed.

Standard Offer: The electric distribution utilities will continue to serve the energy and capacity needs of all standard offer customers, with utility options expanded in terms of contract types and resources available to meet customer's needs.

Cost-effective Energy Efficiency: the distribution utilities will invest in all energy efficiency and demand reduction investments that are cost-effective, reliable, and feasible on behalf of all customers.

Generation & Transmission Capacity: the electric distribution companies will assess the ability of the regional energy market to deliver needed generation and transmission capacity; additional investments may be considered on behalf of all customers.

Resource Assessment

The electric distribution utilities will assess the state's energy and capacity requirements over at least a 10-year period and develop a Resource Assessment to present options for meeting those needs. It will also examine the state's environmental goals and identify existing requirements and costs, coming regulations, and regulatory risk associated with future changes in order to incorporate this into the planning process (i.e. Renewable Portfolio Standards (RPS) requirements, greenhouse gas goals, state energy plan goals, Department of

Environmental Protection regulations or State Implementation Plan (SIP) requirements, etc). The review should assess energy independence and economic risks associated with different resource choices to identify both risks and the need to address issues such as fuel diversity. It should also examine available supply and demand side resources and estimates of costs (cost-effective energy efficiency, renewable resource availability and cost, cost-effective CHP potential, traditional supply costs, etc). For efficiency investments, consideration should also be given to existing and new funding opportunities such as the SBC fund, the Forward Capacity Market, and emissions allowances allocated to the utility on behalf of consumers. Finally it should present options and differences between resource types in terms of procurement methods and ownership options. Utility ownership would be an option to be considered based on fixed construction costs. This document will be presented to the Procurement Board for review and input prior to the development of the Procurement Plan.

Procurement Plan

Based on the Resource Assessment a specific Procurement Plan will be developed by the utility(s) to minimize consumer costs, risks, and environmental impacts. The plan will detail the quantity of the various resources to be procured, over what time periods, and would be in effect for a three year period although look out at least 10 years. Some contracts or resource decisions might be for periods of longer than three years and would carry over into future planning and procurement cycles. The plans could be developed separately or jointly by the distribution utilities, but at a minimum should be developed in a coordinated fashion.

Standard Offer: The utility could consider, but not be limited to: capacity and energy contracts; short, medium and long term contract periods; and full requirements contracts of varying terms. The utility will be responsible for satisfying and attempting to ensure the success of the RPS and beyond the RPS will consider renewables as a priority resource that should be chosen first if cost-effective in relation to other energy sources. Utility owned generation, if a part of the plan, will identify fixed construction costs and estimates of O&M costs. Standard offer costs will be recovered through capacity and energy charges.

Cost-effective Energy Efficiency: the plan will identify the programs and annual budget amounts required to procure all cost-effective efficiency that is reliable, and feasible; the programs will continue to be implemented by the utilities; the plan will also identify existing funding sources such as the SBC, Class III, FCM, emissions allowances, and any additional program investment needs will be recovered through delivery charges.

Generation & Transmission Capacity: if there are state specific generation or transmission capacity requirements that are not being delivered by the regional markets then contracts for these resources could be included in the plan. Costs would be recovered through capacity charges or other appropriate mechanisms on behalf of all customers.

The Procurement Plan will be reviewed and voted on by the Procurement Board. The utility may make changes based on Procurement Board input, but will submit the Procurement Plan to the DPUC for final review and approval. The Procurement Board will be able to file comments in the DPUC docket on the Procurement Plan.

Implementation of the Procurement Plan

The Procurement Plan will be implemented by the utilities under DPUC oversight. Contracts associated with implementing the plan will be reviewed and approved by the DPUC within two days. The utilities will provide semi-annual updates to the Procurement Board and an annual report indicating progress in implementing the Procurement Plan.

Planning and Procurement Timeline

- Bill passage: Approx. July 2007
- Procurement Board Appointed: September 1, 2007
- Utility Resource Assessment to the Procurement Board: March 1, 2008 (8 months)
- Approval by the Procurement Board by July 1, 2008 (4 months)
- Utility Procurement Plan to the Procurement Board: November 1, 2008 (4 months)
- Procurement Plan approved by the Procurement Board: February 1, 2009 (3 months)
- Procurement Plan to DPUC within 30 days of the Procurement Board vote (March 1, 2009)

- DPUC has 90 days to vote on the plan (final decision): June 1, 2009
- The procurement plan is for resources starting in January 2010, knowing that there will be existing/residual contracts running through this period (and possibly beyond)

Transition Period Investments

Because the planning and procurement process will not lead to significant decisions and new investments until 2010, the electric and natural gas utilities should develop energy efficiency program budgets for 2008 and 2009 that invest in all cost-effective, reliable, and feasible opportunities. Expanded program costs should be recovered through delivery charges.

The existing process that is ongoing at the DPUC to secure capacity on behalf of all ratepayers (Phase II RFP) should be discontinued after the first round of contracts have been completed by the DPUC and the utilities.

Utility Rate & Incentive Reforms

In order to align utility incentives with the goals of this planning and procurement process, there should be reforms to the way distribution utilities are compensated for the services they provide.

Decoupling

Electric distribution companies currently recover most fixed costs through kilowatt-hour charges that create an incentive for the utility to maximize sales. To remove this disincentive for investments in energy efficiency and distributed resources, modest, regular true-ups in rates should be established to ensure that any fixed costs recovered through kilowatt-hour charges are not dependent on sales volumes.

The decoupling mechanism should provide for a regular true up to the revenue requirement, allow for adjustments due to adding new customers, and should not be a factor in determining the utilities allowable return on equity.

Performance incentives: Distribution companies should recover reasonable and prudent costs incurred in implementing this planning and procurement process. The DPUC would conduct a proceeding to establish a performance-based incentive plan for both the implementation of the overall procurement plan and efficiency programs, tied to objective benchmarks based on total consumer costs and system reliability, to provide the proper incentives to the utility as they implement the procurement process. The DPUC proceeding should be preceded by a Procurement Board review with the utilities of a proposed incentive program.

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Environment Northeast is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.

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Northeast Utilities is: New England's leading high-voltage electric transmission provider, managing one of the nation's most far-reaching transmission system upgrades; Connecticut's largest electric utility (Connecticut Light & Power), serving nearly 1.2 million customers and offering highly effective conservation and efficiency programs to save energy, money, and the environment; Connecticut's largest natural gas distributor to more than 195,000 customers, building the largest storage facility in Yankee Gas history; New Hampshire's largest electric utility, serving more than 475,000 customers throughout the state, owning diverse regulated generation and building one of the largest renewable energy projects in the United States; Western Massachusetts' major electric utility, serving more than 200,000 customers in 59 communities, with a headquarters partially powered by one of the premier solar electric systems in Massachusetts; People – dedicated men and women delivering service and value to shareholders, customers, and communities for 40 years.