



**Testimony of Environment Northeast
On Raised H.B. No. 7098
AAC Connecticut's Energy Future**

**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. ENE strongly recommends consideration of a planning process similar to that set forth in Sec. 56-58 of RB No. 7098.

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;
- 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.

ENE would suggest the following adjustments to the planning and procurement process in Section 56-58 of RB No. 7098:

- It should be clarified which resources are procured on behalf of which customers (all vs. standard offer) – it makes sense to procure efficiency for all customers but supply resources only for standard offer customers;
- An important tool for the CEAB or oversight board is the ability to hire independent consultants to review any utility plan, it should be clear that they will have the resources to do so;
- The planning process should be broken out into two steps, a resource assessment that looks at what will be needed in terms of energy and capacity and the resource options available, followed by the development of a procurement plan that identifies the buckets of resource types to be invested in;
- The timeline for the development of a procurement plan is probably too short to allow the utilities to do a good job developing a comprehensive plan – this could take a year to complete and review;
- The plan should also be in effect for at least three years, but allow for the procurement of resources over ten years or more;
- The CEAB or oversight board should be consumer focused and include representatives from both small and large consumer groups and it probably makes sense to keep the DPUC engaged in the board in a ex-officio non-voting role so they can track progress;
- The plan is probably best implemented by the distribution utilities under DPUC oversight, rather than by the DPUC;

This procurement process would build upon the successful process used to develop, design, review and implement the Connecticut Energy Efficiency Fund. In order to achieve the goal of minimizing consumer costs, a major component of the plan would be to invest in all energy efficiency resources that are cost-effective – cheaper than additional supply. There are substantial opportunities for increasing these investments beyond current Conservation & Load Management program levels. The current programs save customers about \$4 for every dollar invested. In addition, they benefit the state economy by substituting Connecticut jobs and product sales for fossil fuel purchased from other countries and regions. In 2005, the energy trade deficit for the state exceeded \$3.4 billion.

Recent assessments of expanded energy efficiency investments by the ECMB also indicate that we can offset peak demand growth in Connecticut with cost-effective efficiency (See DPUC Docket 06-10-02, Scenario 2 Supplemental Filing).

The plan would also likely include the acquisition of other local and regional resources which could reduce customer costs such as renewables and distributed generation. Long-term contracts with regional wind farms, for example, could provide a significant hedge against high fossil fuel costs and assist in stabilizing rates.

The planning process would build upon the results of the Phase 2 Request for Proposals which are now under review pursuant to the Energy Independence Act.

Decoupling

An important element in controlling the cost of energy is aligning utility incentives with that goal. Currently, the rate structures for both electric and gas utilities collect fixed costs through energy (kWh and ccf) charges, thus encouraging the companies to maximize profits by increasing sales. This incentive

can be eliminated through modest periodic rate adjustments which ensure that profits are not dependent on sales. ENE supports Sec. 24 of RB 7097 (electric and gas companies) and Sec. 74 of RB No. 7098 (gas companies) which would accomplish this goal.

Restoration of C&LM Funds

ENE would like to indicate its strong support for Sec. 93 of RB No. 7098 which would reestablish full current funding of the C&LM Fund by having the state assume responsibility for the remaining balance of the rate reduction bonds.

ENE would also like to provide the following specific comments on sections of RB No. 7098:

Energy Star Air Conditioner Rebates

Sec. 3. This section would require the Energy Conservation and Management Board to establish a program to promote the replacement of existing air conditioning units with models which meet the Energy Star standard through offering incentives which meet or exceed specified amounts. A key statutory element of all programs administered by the Board is that they are required to pass a cost-effectiveness test and this program should also be required to meet that requirement. The experience with the C&LM program is that it is important to maintain flexibility as to incentive levels and program design in order to maximize the impact of the dollars available.

LEED & Efficiency Requirements for State Buildings

Sec. 12. This section would mandate LEED Silver or equivalent building standards for state funded buildings and would include any additional costs for school buildings in the state grants. ENE supports this requirement which would result in lower total costs over time for these public structures. To ensure that the anticipated benefits are realized, ENE recommends that the LEED standard be augmented by a requirement that the resulting building efficiency is at least 30 % greater than applicable building code standards. The LEED standards allow for a variety of sustainable energy measures to meet the standard, not all of which promote energy efficiency.

Appliance Standards

Secs. 13-18. These sections would add additional products to the existing appliance efficiency standards and require state agencies to purchase equipment that meets Energy Star requirements. Where possible, adopting such standards is the best way to lock in savings. ENE strongly supports these provisions.

Class III

Secs. 45. This section seeks to provide a minimum Class III credit to any customer who implements an energy conservation or customer-side distributed resource project of the greater of one cent/kWh or fifty percent of the Class I renewable energy credit. The value of a Class I credit is a varying amount which is unconnected with Class III credits and would be difficult to ascertain. Since this program is only being implemented in 2007, ENE urges the legislature to avoid adding complexity until it has had an opportunity to get up and running.

Peaking Plants

Sec. 54. This section requires that, if the DPUC determines that the state needs peaking generation and awards contracts for such generation under the Phase 2 request for proposals, an equal amount will be solicited from the electric distribution companies. If the awards under the Phase 2 process meet the need, this procedure would result in consumers paying for excess capacity. ENE believes that pursuing the development of a comprehensive procurement plan as discussed above would best protect the interests of consumers by reviewing all resource options.

Natural Gas Efficiency Programs

Sec. 60. This section would tie the funding of the natural gas conservation plan to excess revenue received from the sales taxes on public service companies. At best, this is an uncertain revenue source which would not facilitate the planning and implementation of consistent and effective programs. Currently, the programs are required to be funded in accordance with the results of an integrated supply and demand plan. Although this process has not yet been fully developed, the Energy Conservation Management Board (ECMB) and the DPUC are working to make it effective and it is clearly superior to the proposal here.

Fuel Oil Efficiency

Sec. 73. This section would establish a Fuel Oil Conservation Board with responsibilities similar to the ECMB for planning and reviewing efficiency programs for fuel oil customers. ENE strongly supports the development of fuel oil efficiency programs to reduce customer consumption and bills and to provide corresponding environmental benefits. However, ENE cannot support this proposal as currently drafted. In contrast to the broad consumer and public composition of the ECMB, twelve of the fifteen members of the proposed board are industry representatives with no provision for oversight by any other entity. An important element in reducing the cost of efficiency programs is the operation of joint programs for such activities as residential weatherization, which is now being implemented for gas and electric programs. It is unlikely that such a board would choose to participate. Finally, there is no effective funding source for the program because the "excess revenue" approach would not allow for consistent planning and implementation of programs. ENE would be pleased to work with the Committee to develop a revised proposal which would benefit fuel oil customers.

Sales Tax Exemptions

Secs. 82 – 83. These sections would promote the purchase of compact fluorescent light bulbs and Energy Star appliances by exempting them from the sales tax. ENE supports these proposals.

ENE appreciates the opportunity to testify today and the interest shown by the Committee in reforming our state's energy system so that it is cleaner, more efficient and more consumer-friendly.