NEPGA
NEW ENGLAND POWER
GENERATORS ASSOCIATION, INC.

141 Tremont St., Boston, MA 02111
(t) 617-902-2354 (f) 617-902-2349
www.nepga.org

August 1, 2012

Kimberly Santopietro
Executive Secretary, Public Utilities Regulatory Authority
Connecticut Department of Energy & Environmental Protection
10 Franklin Square
New Britain, CT 06051

Dear Ms. Santopietro:

The New England Power Generators Association, Inc. (NEPGA) appreciates the opportunity to submit these comments in reply to the July 19, 2012 Notice of Proceeding and Request for Written Comments regarding the Public Utility Regulatory Authority (PURA) Review of Power Procurement Plan (Docket 12-06-02).[1]

Introduction

NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) – or nearly 84 percent – of generating capacity throughout New England, and over 7,300 MW of generation in Connecticut, representing the vast majority of the state's electric generating capacity. Overall, NEPGA's Connecticut companies pay approximately $40 million annually in state income and local property taxes. NEPGA member companies provide more than 1,500 well-paying and skilled Connecticut manufacturing jobs, while annually contributing over two million dollars to charitable endeavors throughout the state. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's General Perspective on the Proposed Power Procurement Plan

Connecticut has one of the most vibrant competitive retail energy markets in the country. Currently, more than 68% of the electric load in the state is purchased from a variety of competitive retail suppliers at substantial savings to the rate offered by the electric distribution companies (EDCs). NEPGA does not support the practice of "managed portfolio procurement" by utilities and views this practice as harmful to both

[1] The comments expressed herein represent those of NEPGA as an organization, but not necessarily the position of any particular member.

wholesale and retail electric competition, and to utility customers. The decision was made by policy-makers over a decade ago, and reaffirmed several times since then, to provide for open, competitive electric markets. Transferring any of this electric supply function back to the EDCs runs counter to this policy direction. Allowing utilities to perform this role again raises the possibility of moving backwards in incurring new stranded costs and transferring the risks of managing a generation portfolio from private shareholders to utility customers.

For these reasons, NEPGA does not support the power procurement plan proposed by Connecticut Light and Power (CL&P) to self-manage at least 20% of its electric supply portfolio in 2013 and beyond. Rather, NEPGA believes CL&P should do as proposed by United Illuminating (UI) in its power procurement plan – continue to procure full requirements service and transfer the electric supply responsibility and risk to wholesale suppliers, not captive ratepayers.

Managed Portfolio Hurts Wholesale Competition

Currently when the PURA reviews standard service bids received from competitive wholesale suppliers it is making an "apples-to-apples" comparison. That process is completely free of bias because once bidders qualify for the auction, the award is made based entirely on the price for the exact same product. Moving to a managed portfolio approach requires a reliance on the judgment of the utility company. This creates two potential problems:

- ***Self-Dealing* –** Connecticut utilities are investors in other businesses such as a demand response company (UI) and a proposed dedicated transmission line between Canada and New Hampshire (NU). Without the apples-to-apples bidding that the current full requirements process employs, there is no way to evaluate whether the utility is really acting in the interests of its customers or its shareholders by deciding to include one of its own business ventures in the portfolio.
- ***Oversight* –** The current full requirements process has the Office of Consumer Counsel (OCC) and PURA staff/consultants "in the room" overseeing the selection of bids and reporting their findings to the PURA. No such degree of necessary oversight is possible with the managed portfolio approach.

As evidenced by the most recent standard service solicitation in November 2011, residential standard service rates have been decreasing significantly in Connecticut over the last few years thanks to robust competition and the auction accurately reflecting underlying commodity fundamentals. Since 2009, CL&P's residential rates have dropped 37.4% from 12.412 cents per kwh in 2009 to the current 2012 rate of 8.279 cents. For UI, rates have dropped 29.7% from 12.423 cents per kwh in 2009 to the current 2012 rate of 8.727 cents. The current full requirements auctions are attracting robust competition by wholesale suppliers and yielding lowest costs for consumers, all without risks borne by consumers. As UI implicitly recognizes in proposing to continue to rely upon full requirements service, the current system is working well and there is not a strong rationale to change it for the potentially less competitive managed portfolio.

Managed Portfolio Could Create New Stranded Costs

Implementing managed portfolio – even for a percentage of CL&P's electric supply – means that the utility must buy fixed amounts of power than can become "stranded" should customers move to lower cost retail suppliers. Unless CL&P is willing to absorb potential losses, these stranded costs can only be recovered in one of two ways:

- ***New stranded cost charges imposed on all customers –*** These charges undermine the ability of customers to lower or manage their energy bills by switching to a retail supplier. This lessens the value of customer choice and leaves customers with less incentive to switch to a retail supplier.
- ***Keeping the customer –*** To avoid seeking new stranded cost charges, utilities will have an economic incentive to discourage customer switching in subtle ways. At a minimum, it dampens the enthusiasm for being proactive in making customer choice easier and more efficient for customers and suppliers who depend on utilities to provide data, process enrollments, implement customer referral programs and provide metering and billing services. Customers who do not switch will increasingly shoulder these costs, potentially disadvantaging those customers who are not able to switch to a competitive supplier.

CL&P's affiliate, Public Service of New Hampshire (PSNH), is currently threatened with a looming stranded cost for environmental upgrades to one of its plants as its customer base continues to migrate off of utility service, with over 40% of its customer load currently choosing retail supply. PSNH has retained the ability to manage its portfolio including the use of its own generation assets. Two years ago as customers began to leave PSNH and recovery of a $450 million scrubber loomed, PSNH went the New Hampshire Public Service Commission (NH PUC) to seek a nonbypassable wires charge on all customers – even those who had switched to retail suppliers – for recovery of "excess generation costs." The NH PUC denied this request. Currently PSNH has a docket pending with the PUC to develop a new rate class to encourage customers to return to PSNH standard/basic service. Such a concept would seem to run counter to Connecticut's laudable efforts to encourage and enhance retail competition.

Managed Portfolio Exposes Customers to Increased Risks

Under the current full requirements auction process structure, competitive suppliers bid a firm price and then shoulder the risk of costs or sudden changes in wholesale market costs. By contrast, CL&P's proposal to self-manage at least 20% of its load would allow these costs to be passed through to customers in the form of rate increases at any time. CL&P's affiliate PSNH again offers an example of how this may happen. In addition to seeking a nonbypassable wires charge to recover excess generation, PSNH has also sought Basic Service rate increases that are often above the market price of power. Lower energy costs have induced more customers to switch suppliers to save money, stranding some of the power in PSNH's portfolio. In early 2012, PSNH sought a temporary rate adder for the recovery of its Merrimac plant scrubber, with its residential rate at 8.75 cents per kwh – the highest among utilities in the five restructured New England states and well above the average rate at the time of 7.43 cents. The risks of increased costs to supply customers are being passed along to those customers instead of being shouldered by wholesale suppliers, as is currently done with CL&P.

A study commissioned by National Grid in early 2010 illustrates this point.[2] National Grid commissioned an analysis of actual price data to determine whether full requirements represent a better value for their customers than managed portfolio when looking at both price and risk. Based on this analysis, the utility concluded that the reduction in supply cost certainty under full requirements was a much better value for customers when compared to managed portfolio. As the study found, under full requirements suppliers bear the costs and risks while under managed portfolio customers are exposed to both costs and risks to a higher degree. After this report, National Grid supported the use of full requirements for its customers in New Hampshire, Massachusetts, Rhode Island and New York.

Managed Portfolio Takes Utilities Away from Their Necessary Core Focus

Connecticut's electric distribution companies would best serve their customers by focusing on their core function of energy delivery, not on managing energy portfolios. When the state transitioned to the current competitive market, consumers picked up a tab of $3 billion for stranded costs, or the differences between the utilities' cost of power plants and power purchase contracts, and their real market values. As NU's former CEO was quoted as saying, NU left the competitive supply business in 2005 because the risks were too great for their shareholders. Clearly, to return to this business, and to shift those risks to customers is not the core focus of CL&P, delivery of energy is the core focus.

CL&P would better serve its customers by focusing on its transmission network – controlling the costs of expanding it and maintaining its reliability. Recent transmission projects including the Bethel to Norwalk transmission line and the Middletown to Norwalk were budgeted at $120 Million and $400 Million, respectively, and came in at $337 Million and $950 Million, respectively. These overruns, coupled with extensive

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[2] *Analysis of Standard Offer Service Approaches for Mass Market Customers,* Northbridge Energy for National Grid, January 2010, Rhode Island PUC Order #19839.

building of new transmission, have caused the New England-wide transmission rate to increase six-fold since restructuring, with more significant increases on the horizon. Rather than taking on standard service portfolio management, both Connecticut utilities should focus on lowering the cost of energy delivery.

Associated with the cost of energy delivery, regulators and legislators are calling on CL&P to focus on the bolstering the reliability of its transmission and distribution system. In a draft decision on July 17, the PURA found CL&P's response to Tropical Storm Irene in August and the autumn Nor'easter in October to be "inadequate" and that CL&P was unprepared.[3] Connecticut Attorney General George Jepsen has called for major financial consequences for CL&P and rejection of up to half of $300 Million of the recovery costs that CL&P seeks. As CL&P waits for the final PURA decision in the storm response docket, and reacts to legislation passed this session requiring it to establish performance standards for preparing for and reacting to major storm events, this should be the core focus of CL&P, not expanding into new areas of responsibility.

Conclusion

NEPGA appreciates the opportunity to offer these policy considerations to the PURA as it reviews the proposed procurement plan offered by CL&P and UI. Our comments provide the unique perspective of the generation community on the impact of moving to a managed portfolio approach on electricity competition, and the resultant shifting of potential costs and risks to the captive ratepayer. NEPGA strongly recommends that PURA reject CL&P's proposal to self-manage at least 20% of its electric supply in 2013 and beyond, and instead continue with the status quo of full requirements procurement. This approach has worked well and there is no rationale for returning this portfolio management function to CL&P. UI recognized this and other utilities such as National Grid have studied the question of full requirements versus managed portfolio and concluded that full requirements carries less risk for consumers.

We appreciate your consideration of our comments and encourage you to contact us should you have additional questions.

Sincerely,

Dan Dolan
President
New England Power Generators Association

[3] July 17, 2012, Draft Decision, *PURA Investigation of Public Service Companies' Response to 2011 Storms* (Docket 11-09-09)