



The Retail Energy Supply Association (“RESA”)<sup>3</sup> opposes CL&P’s motion on two grounds. First, Section 104 of Public Act 07-242, *An Act Concerning Electricity and Energy Efficiency* (“Act”), makes clear that the Legislature intended for the Department to study standard service procurement options and defer making any changes to existing procurement techniques until it receives further legislative guidance. Second, the approach advocated by CL&P would needlessly shift risks and costs to ratepayers and would harm Connecticut’s retail electricity market.

**II. SECTION 104 OF THE ACT REQUIRES THE DEPARTMENT TO DENY CL&P’S MOTION.**

CL&P claims that Section 92 of the Act authorizes the Department to amend the Plan as described in its motion.<sup>4</sup> Section 92 modifies section 16-244c of the General Statutes by adding a sentence that reads: “Nothing in the provisions of this section shall preclude an electric distribution company from entering into standard service supply contracts or standard service supply components with electric generating facilities.”<sup>5</sup> This addition, however, must be read in tandem with Section 104 of the Act, which CL&P completely disregards even though it bears directly on its motion.

Section 104 states in pertinent part:

The Department of Public Utility Control, in consultation with the electric distribution companies, shall conduct a proceeding to examine the feasibility and potential risks and benefits associated with pursuing different standard service procurement options.

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<sup>3</sup> RESA’s members include Commerce Energy, Inc.; Consolidated Edison Solutions, Inc; Direct Energy Services, LLC; Gexa Energy; Hess Corporation; Integrys Energy Services, Inc.; Liberty Power Corp.; Reliant Energy Retail Services, LLC; Sempra Energy Solutions, LLC; Strategic Energy, LLC; SUEZ Energy Resources NA, Inc.; and US Energy Savings Corp. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

<sup>4</sup> CL&P Motion, pp. 1-2, 5.

<sup>5</sup> Public Act 07-242, § 92.

Said proceeding shall include, but not be limited to, *an examination of selecting a standard service portfolio manager, which may include the electric distribution companies; procuring individual electric supply components directly from a wholesale electricity supplier or an electric generating facility; creating a nonprofit entity for the purpose of procuring standard service power; and procuring physical and financial hedges to manage prices, including, but not limited to, tolling arrangements and financial transmission rights. The department shall report any findings and recommendations to the joint standing committee of the General Assembly having cognizance of matters relating to energy on or before February 1, 2008.*<sup>6</sup>

CL&P essentially asks the Department to act as though Section 104 does not exist and approve its requested Plan amendment without the benefit of the study and stakeholder input that was contemplated by the Legislature. Furthermore, the plain language of Section 104 evinces the Legislature's clear intent that it would authorize any changes to standard service procurement procedures after considering the results of the Department's study. Otherwise, there would no purpose for the Department to reports its findings and recommendations to the Legislature.

Simply put, CL&P's motion is incompatible with Section 104 of the Act, and, therefore, the Department should deny the motion on procedural grounds. But even if the Department were to conclude that it possesses, at this juncture, the authority to consider CL&P's motion on the merits, it should nonetheless deny it for the reasons discussed below.

## **II. THE APPROACH RECOMMENDED BY CL&P WOULD HARM RATEPAYERS.**

### **A. CL&P's Approach Would Shift Risks to Ratepayers.**

A fundamental goal of the Legislature in restructuring Connecticut's electric market was to shift most of the risks associated with power production and supply from

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<sup>6</sup> Public Act 07-242, § 104 (emphasis added).

captive ratepayers to competitive market participants. This goal is achieved in the present procurement regime by virtue of the EDCs' procurement of standard service supplies from wholesale power suppliers on a full requirements basis. Under this model, the shareholders of the supplier – not the ratepayers – bear the risks of managing the procurement and hedging activities and adverse changes in market conditions. Indeed, it was this salient, risk-shifting feature of the full requirements model that caused CL&P to endorse the approach in the initial phase of this docket, as noted by the following passage in the Procurement Plan Decision:

CL&P states that under a full requirements supply the supplier is responsible for all the products necessary to serve the load in each and every hour of the contract period, regardless of the actual loads that occur. Under this type of arrangement, the supplier assumes the risk associated with forecasted loads as well as other market-related risks, such as fuel costs. CL&P believes these arrangements have worked well for consumers in the past and supports the continued use of full requirements contracts going forward. Tr. 4/20/06, p. 26.<sup>7</sup>

CL&P now claims that the Department should depart from the full requirements, market-reflective model and allow the Company to assume the role of standard service portfolio manager for its customers. In this new role, CL&P would enter into “bilateral contracts for energy, capacity or both, as well as contracts for strips of power, unit-specific contracts and similar arrangements . . . at times and under conditions that are likely to produce proposals that will be beneficial to customers.”<sup>8</sup> In other words, CL&P wishes to assume many of the functions that are presently performed by unregulated wholesale and retail power suppliers. CL&P's motion fails to note, however, that if the Company

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<sup>7</sup> Procurement Plan Decision, p. 10.

<sup>8</sup> CL&P Motion, p. 4. The Company's Motion gives no hint on how either it or the Department will be able to divine, in advance, how and when such contracts will be “beneficial to customers.”

enters into uneconomic contracts or otherwise combines unit-contingent supply contracts into a sub-optimal portfolio, the resulting costs would be borne by its customers in the form of new stranded costs. How can this shifting of risk back to the ratepayers possibly be “beneficial” to them and comport with the goals of Connecticut’s restructuring legislation?<sup>9</sup>

**B. CL&P’s Approach Would Yield Increased Costs to Ratepayers.**

There is no question that the procurement approach recommended by CL&P would be difficult to manage. Michael Coretto from the United Illuminating Company (“UI”) succinctly explained these management challenges at the April 20, 2006 hearing in this docket. He stated:

I truly believe there's no other way to do this effectively other than full requirements. I think putting together a patchwork of product purchases, whether they be unit contracts sprinkled with a few strips of 24/7 with a little 16 by 8 for the off peak and trying to get capacity over here and your reserves over there and your renewable portfolio standard somewhere else, well – I don't even know it's manageable. While it's doable, I don't believe it's practical and I don't think it serves any useful purpose.<sup>10</sup>

CL&P would encounter the same management challenges cited by UI in executing the procurement approach now advocated by the Company. In fact, CL&P’s difficulties would be particularly pronounced if the Company tried to use the energy and capacity from the bilateral contracts to directly serve the standard service load (as opposed to selling the supplies into the wholesale market). Any attempt to match up the output of the contracting generators with the changing shape of the customer load and secure alternative supplies when the generator experiences scheduled and unscheduled

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<sup>9</sup> See Public Act 98-28, *An Act Concerning Electricity Restructuring*.

<sup>10</sup> Transcript of April 20, 2006 Hearing, Docket No. 06-01-08PH01, p. 47.

power outages would be a daunting task in its own right. To be sure, CL&P would likely require additional employees with new skill sets to assume these responsibilities, the cost of which would further raise electricity rates with no attendant benefits.

### **III. THE APPROACH RECOMMENDED BY CL&P WOULD HARM CONNECTICUT'S RETAIL ELECTRICITY MARKET.**

CL&P does not disclose the expected duration of the bilateral contracts that it would execute with generators, but two things are clear. First, the standard service rates that would be derived from these contracts would not reflect timely market signals. Customers would be left with a blurred view of the generation costs that are included in the standard service price, making it difficult for them to compare the utility price with competitive offerings. Second, the "flexible" approach advocated by CL&P would render Connecticut's market unpredictable to competitive electricity suppliers. Both of these factors would conjoin to prohibit a well-functioning retail electricity market from continuing to develop in the state.

#### **A. Bilateral Contracts Would Obscure Price Signals.**

RESA has stated repeatedly that in order for retail competition to develop and yield benefits to standard service customers, EDC standard service rates must reflect timely price signals. Only in that way will customers have the information and incentives to turn to the competitive market for alternative offerings. The bilateral contracts recommended by CL&P could reduce market transparency for customers, thereby obscuring the price signals upon which robust competition depends. Customers that do not have a clear understanding of the components of the utility price are often paralyzed from taking actions to control their electricity bills because they cannot make an apples-to-apples comparison of utility and competitive supply offerings. Furthermore, when

timely and transparent price signals are lacking, customers are deprived of the full means to evaluate the benefits of energy conservation programs.

**B. Bilateral Contracts Would Introduce Unpredictability in Connecticut's Retail Electricity Market.**


A well-functioning retail market also requires systematic EDC procurements of power supplies that are predictable to competitive suppliers – a feature that would be defeated by the “flexible” procurement approach advocated by CL&P. Bilateral contracts for use in supplying standard service, particularly long-term contracts, can lead to a “boom and bust” cycle for suppliers as the contract prices (and resulting standard service rates) rise above and fall below market. This paradigm prevents suppliers from making the long-term market commitment that is essential to robust, efficient competition, particularly in mass markets that require a far greater investment in operations and customer care than do large commercial and industrial sectors. These complex factors were carefully balanced by the Department when it fashioned the Plan a little more than a year ago. If the Department were to grant CL&P’s motion, it would upset this balance and potentially deprive standard service customers of the benefits of retail choice and the ability to control their electricity bills by shopping in the competitive electricity marketplace.

**Conclusion**

CL&P's motion is premature and contravenes Section 104 of the Act. The requested Plan amendment would also harm the Company's ratepayers and Connecticut's retail electricity market. For these reasons, RESA respectfully requests that the Department deny CL&P's motion.

Respectfully submitted,

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