

STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL

Application of The United Illuminating : Docket No. 05-06-04RE04
Company to Increase its Rates and :
Charges – Public Act 07-242, Seasonal :
Rates, Non-Generation Related :
Time-of-Use Pricing and Related Rate :
Design Issues : November 28, 2007

REPLY BRIEF OF RETAIL ENERGY SUPPLY ASSOCIATION

Introduction

On November 21, 2007, Briefs were filed with the Department of Public Utility Control (“Department”) in the above-captioned docket by The United Illuminating Company (“UI” or the “Company”) and the Retail Energy Supply Association (“RESA”).¹ RESA submits this Reply Brief principally to address the Company’s assertions that its voluntary peak pricing (“VPP”) proposal complies with Section 99 of Public Act 07-242, *An Act Concerning Electricity and Energy Efficiency* (“P.A. 07-242” or “Act”). It does not.

Section 99 of the Act requires the electric distribution companies (“EDCs”) to implement a voluntary critical peak pricing (“CPP”) or real-time pricing (“RTP”) tariff “for each customer class to become effective on or before January 1, 2008.” UI’s VPP proposal fails to comport with that mandate because the Company’s VPP design is neither a CPP nor an RTP product. It is a hybrid model that charges customers an

¹ 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.

average day-ahead LMP price during an eight-hour block each weekday and the regular SOLR service rate during all other hours.² Even if the Department were to conclude that the VPP design can be construed to be a CPP or an RTP product, it should reject UI's proposal in favor of voluntary, pure real-time pricing for the reasons described herein and in RESA's Brief.

In its Brief, RESA also urged the Department to implement mandatory RTP for customers on supplier of last resort ("SOLR") service in this rate-design proceeding because it would yield many salutary benefits for electricity consumers in the region.³ RESA reiterates that recommendation in this Reply Brief and incorporates by reference herein Section I of its Brief, which cites numerous studies by leading economists around the nation espousing the benefits of RTP. It is important to note, however, that should the Department decline to implement mandatory RTP, then the voluntary offerings made by the EDCs pursuant to Section 99 of the Act will become the only means by which customers can gain experience with dynamic pricing. At the same time, RESA notes that the Legislature clearly intended for all customers to have the opportunity to participate in the voluntary offerings contemplated by Section 99 of the Act.⁴ For these reasons, it is crucial for the Department to strictly adhere to the requirements of Section 99 and implement RTP as it is preferable to CPP and UI's VPP proposal.

RESA further recommends that the Department adopt mandatory seasonal pricing for standard service customers by establishing a monthly price for the

² UI VPP Proposal (May 15, 2007), p. 3, Docket No. 05-06-04.

³ Brief of RESA (Nov. 21, 2007), pp. 4-11, Docket No. 05-06-04RE04.

⁴ See P.A. 07-242, § 99 (stating that RTP or CPP should be available to "each customer class").

generation service charge (“GSC”). Monthly pricing would provide more accurate price signals to SOLR and standard service customers who choose not to participate in the voluntary RTP program and would be easy to implement. Customers would then have the proper incentive to reduce consumption during the highest peak months when the power grid is strained.

Argument

II. UI’S VPP PROPOSAL DOES NOT CONFORM TO THE ACT.

A. Overview of UI’s VPP Proposal.

UI proposes to satisfy Section 99 of the Act by expanding its May 15, 2007 voluntary VPP proposal for SOLR service customers to all customers.⁵ Under that design, participating customers would be charged an *average* day-ahead LMP price for the eight-hour peak period of 10 a.m. to 6 p.m. *each weekday* of the year.⁶ In all other hours, the customer would be charged the otherwise applicable SOLR service rate.⁷ Charging the SOLR rate for the other non-peak sixteen hours does not appear to be appropriate since the rate for such hours is based on blended power prices.

B. UI’s VPP Is Not a CPP or an RTP Product.

UI does not state whether its VPP proposal is intended to be a CPP or an RTP product. UI does state that its VPP proposal is “substantially similar to the proposal filed by The Connecticut Light and Power Company (“CL&P”) on March 15, 2007. . . . UI also participated in [the] working group process” in which CL&P’s VPP proposal

⁵ UI Brief (Nov. 21, 2007), p.3, Docket No. 05-06-04RE04.

⁶ UI VPP Proposal (May 15, 2007), p. 3-4, Docket No. 05-06-04.

⁷ *Id.*

was developed, “resulting in similar conclusions, and therefore, proposals.”⁸ As such, presumably UI has a similar understanding of the definitions of CPP and RTP as those submitted by CL&P in its rate design proceeding.⁹ The definitions provided by CL&P and the common usage of those terms in the industry reveal that the Company’s proposed VPP is neither a CPP nor an RTP product.

CL&P defined CPP as a “pricing structure whereby certain hours on *certain days* where the system is experiencing high peak demand are subject to higher *hourly energy prices* that reflect market conditions for peak generation and delivery during peak demand periods.”¹⁰ Although CL&P’s definition comports with typical CPP offerings in the industry, it does not describe UI’s proposed VPP. Under the VPP model, customers would be charged a higher price that would be set daily based on the *average* locational marginal price (“LMP”) in the ISO-NE energy market during the peak hours of *every weekday in the year*.

CL&P defined RTP as follows:

Energy prices that are set for a specific time period on an advanced or forward basis and that may change according to price changes in the generation spot market. Prices paid for energy consumed during these periods are typically established and known to customers a day ahead (“day-ahead pricing”) or an hour ahead (“hour-ahead pricing”) in advance of such consumption, allowing them to vary their demand and usage in response to such prices and manage their energy costs by shifting usage to a lower cost period, or reducing consumption overall.¹¹

⁸ UI Letter to DPUC (May 15, 2007), p. 1, Docket No. 05-06-04.

⁹ CL&P Response to Late-Filed Exhibit Q-LF-005 (Oct. 2, 2007), p. 1, Docket No. 03-07-02RE10.

¹⁰ *Id.* (emphasis added).

¹¹ *Id.*

CL&P's definition does not describe UI's VPP proposal. Pricing under that proposal would not reflect the hourly price changes in the generation market during either on-peak or off-peak periods. It also would not provide the proper incentives for customers to shift their electricity usage to a lower cost period because they would not derive the full savings of lower LMP prices during that period.

Most regulators and utilities define RTP in a more straightforward fashion that recognizes the hallmark of that rate design – that is pricing on a “real-time” basis that changes hourly (or more frequently) to mirror wholesale market prices. For example, the staff of the Federal Energy Regulatory Commission in its 2007 report entitled “Demand Response and Advanced Metering,” defined RTP as follows: “A retail rate in which the price for electricity typically fluctuates hourly reflecting changes in the wholesale price of electricity.”¹² Similarly, the Consolidated Edison Company of New York defines its voluntary Day-Ahead RTP program as follows: “Under Day-Ahead Hourly Pricing, customers pay hourly retail rates that reflect the hourly changes in wholesale energy rates.”¹³ UI's VPP proposal does not offer a pricing option that comports with the industry's definition of RTP.

C. Real-Time Pricing is preferable to Critical Peak Pricing.

Both RTP and CPP can provide incentives for customers to reduce their electricity usage during critical peak days. RTP, however, yields the potential for greater price savings for customers because it allows them to: (1) fully enjoy lower

¹² FERC Staff Report, *Demand Response & Advanced Metering* (Sept. 2007), Appendix A-8, available at <http://www.ferc.gov/legal/staff-reports/09-07-demand-response.pdf>.

¹³ See ConEdison website description of its Day-Ahead RTP at http://www.coned.com/sales/business/vol_time_pricing.asp.

electricity prices during off-peak hours; and (2) avoid the risk premiums inherent in fixed-priced offerings. Thus, the Department should order UI to implement RTP to comply with Section 99 of the Act.

II. THE DEPARTMENT SHOULD IMPLEMENT SEASONAL RATES FOR STANDARD SERVICE CUSTOMERS BY SETTING A MONTHLY GSC PRICE.

Section 16-243n(c) of the General Statutes requires EDCs to implement mandatory seasonal rates for all customers effective April 1, 2007. UI is currently required to include monthly pricing in its solicitation for bids for standard service.¹⁴ The Department required such pricing in order to determine whether there was a sufficient cost differential in the winter months to warrant the Department's implementation of a mandatory seasonal rate for the winter period (December, January and February).¹⁵ Since UI is already required to include monthly pricing in its wholesale bids for standard service, the Company could implement seasonal GSC rates for standard service customers in a manner similar to the approach used for SOLR customers – *i.e.*, by setting monthly GSC rates.

In its Brief in this proceeding, UI stated that it procures generation for six month periods (January through June and July through December), making summer seasonal rates “impossible to set because the summer months fall into two separate procurement timeframes.”¹⁶ While UI's current standard service GSC rates are set based on its six month procurement periods,¹⁷ RESA's proposal to implement seasonal rates by setting

¹⁴ See Decision (June 21, 2006), p. 16, Docket No. 06-01-08PH01.

¹⁵ Supplemental Decision (Aug. 30, 2006), p. 6, Docket No. 05-06-04.

¹⁶ UI Brief (Nov. 21, 2007), p. 5, Docket No. 05-06-04RE04.

¹⁷ See Decision (Dec. 19, 2006), p. 21, Docket Nos. 05-06-04RE02, 03-07-15RE03, 06-11-05.

a monthly GSC price, rather than a summer seasonal GSC price, provides UI with a solution to its split procurement period problem. If seasonal rates were implemented by setting a monthly GSC price, then the split in the procurement periods would no longer be a constraint on setting seasonal rates. This technique would be preferable to establishing rates for four seasons as it would avoid the need to allocate the prices of supply contracts that span two seasons and/or two procurement periods, as discussed by UI in its Brief.¹⁸ It would also comport with the standard service statute so long as the monthly prices were established no more frequently than quarterly.¹⁹ Thus, the Department should require UI to implement mandatory seasonal rates for standard service customers by setting a monthly GSC price.

Conclusion

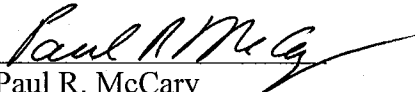
RESA respectfully requests that the Department direct UI to implement a voluntary RTP offering to comply with Section 99 of the Act and adopt monthly GSC pricing for standard service customers. RESA further requests that the Department implement mandatory RTP for SOLR service customers for the reasons described in its Brief.

¹⁸ UI Brief (Nov. 21, 2007), p. 5, Docket No. 05-06-04RE04.

¹⁹ *See* Conn. Gen. Stat. § 16-244c(c)(2) (“Not later than October 1, 2006, and periodically . . . , but not more often than every calendar quarter, the Department of Public Utility Control shall establish the standard service price . . .”).

Respectfully submitted,

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