

**STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC UTILITY CONTROL**

ADMINISTRATIVE PROCEEDING : DOCKET NO. 08-05-14
TO INCORPORATE DPUC-APPROVED :
POWER SUPPLY PROCUREMENT :
RESULTS INTO THE CONNECTICUT :
LIGHT AND POWER COMPANY'S :
STANDARD SERVICE AND LAST :
RESORT SERVICE RATES EFFECTIVE :
JULY 1, 2008 :

DPUC DEVELOPMENT AND REVIEW : DOCKET NO. 06-01-08
OF STANDARD SERVICE AND :
SUPPLIER OF LAST RESORT :
SERVICE :
JUNE 18, 2008

COMMENTS OF RETAIL ENERGY SUPPLY ASSOCIATION

Introduction

On May 30, 2008, The Connecticut Light and Power Company ("CL&P") requested that the Department of Public Utility Control (the "Department") convene an administrative proceeding to approve CL&P's Standard Service ("SS") and Last Resort Service ("LRS") rates to be effective July 1, 2008 (the "Application").¹ On June 6, 2008, the Department issued a Notice of Administrative Proceeding (the "Notice") stating that it would review CL&P's proposed rates in Docket No. 08-05-14 and would receive and consider oral and written comments on the Application at a proceeding to be conducted on June 19, 2008.² The Retail

¹ Application of The Connecticut Light and Power Company to Establish New GSC and FMCC Rates Effective July 1, 2008 (May 30, 2008), Docket No. 08-05-14 (hereinafter, the "Application").

² Notice of Administrative Proceeding (June 6, 2008), Docket No. 08-05-14.

Energy Supply Association (“RESA”) hereby submits these comments on the Application pursuant to the Notice.³

The Application states that CL&P’s power supply costs to serve its SS load has increased substantially over the prior period, but the generation portion of the SS rates will actually decline on July 1, 2008 due to a \$21 million over-recovery of revenues during Year 2007.⁴ This over-recovery stems from CL&P’s practice of soliciting “Scenario B” bids, which allows wholesale power suppliers to pass through their actual congestion costs to CL&P as they are incurred and requires CL&P to develop an estimate of such costs at the beginning of each rate period.⁵ When, as here, CL&P’s estimates substantially deviate from the actual congestion costs, large true-up adjustments are required in subsequent rates. This estimation and adjustment approach impedes the ability of consumers to compare the true price of CL&P’s generation service with the prices of competitive offerings, obscures market price signals that encourage energy conservation, and undermines the efforts of retail electricity suppliers to compete with CL&P’s rates and sustain a reliable customer base in Connecticut.

RESA sets forth three recommendations to address these problems. First, the \$21 million over-recovery from SS customers in 2007 should be amortized in the SS rates over the shortest

³ 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; 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.

⁴ Application, Technical Statement (May 30, 2008), pp. 2-3.

⁵ Semi-Annual Reconciliation of The Connecticut Light and Power Company’s Federally Mandated Congestion Costs and Generation Service Charge (Feb. 5, 2008) (hereinafter, the “2007 Reconciliation”), pp. 12 & Exhibit RAB-1, p. 1.

possible period to minimize the duration of the adverse market impacts.⁶ Second, the Department should carefully investigate CL&P's projection of the Scenario B contract congestion costs that are included in the July 1, 2008 SS and LRS rates to ensure that they will not lead to another round of large true-up adjustments next year. Finally, the Department should reopen Docket No. 06-01-08, *DPUC Development and Review of Standard Service and Supplier of Last Resort Service*, to examine whether the use of Scenario B bids should be discontinued for the reasons discussed in Part III hereof.

Background Information

The over-recovery for 2007 apparently first came to light when CL&P filed its reconciliation of the Federally Mandated Congestion Costs ("FMCCs"), Energy Adjustment Clause and Generation Service Charge ("GSC") for the twelve-month period ended December 31, 2007 (the "2007 Reconciliation"). The 2007 Reconciliation revealed that CL&P had over-recovered nearly \$26.8 million of generation revenues from its customers during that period primarily due to erroneous estimates of congestion costs for Scenario B contracts. Approximately \$21.6 million of the over-recovery pertained to SS contracts, while the remaining \$5.2 million was attributable to LRS contracts.⁷

The entire LRS over-recovery for 2007 was returned to LRS customers during the first two quarters of 2008.⁸ However, only \$0.6 million of the SS over-recovery for 2007 was credited to the SS rates effective January 1, 2008. Thus, CL&P was required to build in an

⁶ From the supplier's standpoint, the ideal refund period would be one billing cycle. Recognizing that a single, one-time credit to customers may raise other practical implementation issues, RESA advocates that the over-recovery be credited to customers in the shortest possible period as determined by the Department.

⁷ 2007 Reconciliation, Exhibit RAB-1, p. 1.

⁸ Application of The Connecticut Light and Power Company to Establish a New GSC for Last Resort Service Customers Effective April 1, 2008 (March 6, 2008), Exhibit 3, p. 2, Docket No. 08-03-02.

additional true-up credit of \$21 million, or .31 cents per kilowatt-hour (kWh), in the SS rates effective July 1, 2008.⁹

Comments

I. The 2007 True-Up Credit Should Be Amortized Over The Shortest Possible Period.

The estimation and true-up approach required for Scenario B contracts creates several problems for CL&P's customers and Connecticut's retail electricity market. First, it hinders the ability of customers to accurately compare the price of CL&P's generation service to the "all-in" fixed prices offered by competitive suppliers. That is because the rates published by CL&P for a given period are not final due to the congestion cost true-ups in subsequent periods. By contrast, the fixed-price offerings of competitive suppliers represent the final price for the stated contract period because suppliers have no similar true-up right. Thus, a customer cannot make an apples-to-apples comparison of fixed-price offers when Scenario B contracts are selected by CL&P.

The estimate and true-up mechanism described above also undermines energy conservation measures because it obscures the customers' view of accurate price signals. In addition, the true-ups necessitated by the Scenario B procurement approach cause CL&P's rates to deviate from market prices in an irrational pattern, which, in turn, makes it difficult for retail suppliers to compete with CL&P's generation service on a consistent basis. The end result is that retail suppliers face barriers that may limit their ability to offer the best service and price offerings to Connecticut's electricity consumers.

To limit the duration of these adverse market impacts, RESA first recommends that the remaining 2007 over-recovery for SS customers in the amount of \$21 million be amortized in the

⁹ Application, Exhibit 7, p. 2.

SS rates over the shortest possible period. This approach also has the salutary effect of returning the over-recovery to SS ratepayers in a prompt fashion. RESA further suggests that CL&P be required to send a notice to its SS customers stating that the lower rates in effect during the shortened amortization period are due to an over-recovery of revenues during Year 2007 and that the rates will increase to those disclosed in the notice at the conclusion of the amortization period.

II. The Department Should Fully Investigate CL&P's Projection of Congestion Costs Included in the SS and LRS Rates Proposed for July 1, 2008.

The substantial over-recoveries of congestion costs for both SS and LRS customers in 2007 suggest that CL&P's estimation techniques require further refinement. RESA notes, moreover, that CL&P is proposing to increase the bypassable FMCC component of both the SS and LRS rates from .40 cents to .550 cents per kWh, reasoning that the latter is a fair proxy of the congestion-cost differential between Scenario A and Scenario B contracts for the period beginning July 1, 2008.¹⁰ The Department should carefully investigate whether CL&P has accurately estimated pass-through congestion costs in the proposed SS and LRS rates effective July 1, 2008 to avoid additional over-recoveries and market-distorting true-ups in future periods.

III. The Department Should Reopen Docket No. 06-01-08 to Examine Whether Use of the Scenario B Contracts Should Be Discontinued.

A. The Justification for Scenario B Contracts Is Far Less Compelling Today.

In Phase I of Docket No. 06-01-08, the Department approved a SS and LRS procurement plan that meets certain statutory criteria and auction requirements.¹¹ In that proceeding, CL&P argued that it should be allowed to continue its solicitation of Scenario B bids in order to protect

¹⁰ Application, pp. 3-4.

¹¹ Decision (June 21, 2006), *DPUC Development and Review of Standard Service and Supplier of Last Resort Service – Phase I* (hereinafter, the “Procurement Decision”).

customers from the supplier risk premiums owing to unpredictable congestion and line loss expenses of locational marginal pricing at the Connecticut load zone.¹² In its Decision dated June 21, 2006 (the “Procurement Decision”), the Department expressed its preference for full-requirements contracts but stated that the electric distribution companies (“EDCs”) would be allowed to retain some congestion cost risk consistent with CL&P’s past practice.¹³

Since the conclusion of the 06-01-08PH01 proceeding, the Bethel to Norwalk 345 KV transmission project has become fully operational. According to CL&P, the new line caused congestion costs for Connecticut’s electricity consumers to fall by nearly \$150 million during its first year of operation alone.¹⁴ As congestion costs have declined and become more stable, it is reasonable to assume that the risk premiums embodied in the “all-in” fixed price wholesale supply contracts (which CL&P calls “Scenario A” contracts) have also abated. Thus, the original justification for authorizing Scenario B bids is far less compelling today than it was when the Department issued its Procurement Decision nearly two years ago. Perhaps the Scenario B contracts once served a useful purpose, but they now appear to be doing more harm than good.

Even if Scenario A bidders continue to include congestion risk premiums in their bids, that fact alone does not mean that Scenario B contracts yield an overall benefit to CL&P’s customers. Any risk premium savings culminating from the Scenario B contracts must be balanced against the customer costs associated with CL&P’s large over-recoveries of congestion-related expenses. Under the present regime, such over-recoveries are tantamount to ratepayers making a loan to CL&P, apparently without earning any interest thereon. In the reopener, the

¹² Comments of CL&P (Dec. 14, 2006), p. 6, Docket No. 06-01-08PH01.

¹³ Procurement Decision, pp. 10-11.

¹⁴ CL&P Response to Interrogatory EL-4 (March 25, 2008), p.1, Docket No. 08-02-01 (2007 Reconciliation).

Department should require CL&P to demonstrate that the premium risk savings resulting from the Scenario B contracts are likely to exceed the customers' lost interest income on the over-recoveries and outweigh the other unfavorable market impacts discussed in Part I of these comments.¹⁵ If CL&P cannot meet that burden, the Department should order CL&P to cease its solicitation of Scenario B bids.

C. The United Illuminating Company ("UI") Does Not Use Scenario B Contracts.

The need for Scenario B bids is also called into question by the fact that UI has declined to embrace them in its SS and LRS procurements. Indeed, when UI was asked to comment on the desirability of various versions of full requirements service (*i.e.*, with or without congestion costs, capacity, etc.) in Docket No. 06-01-08PH01, it responded in pertinent part: "It is more efficient and appropriate to have the wholesale suppliers that participate in these markets supply and manage the risks of all the components that comprise 'full requirements service.'"¹⁶ UI has consistently adhered to that view and there is no reason to believe that its power procurement initiatives have been inferior to those of CL&P's due to the absence of Scenario B contracts.

¹⁵ The use of Scenario B contracts also causes cross-subsidization among customers that move to and from the competitive market during the affected periods. For example, SS customers that procured their generation service from CL&P during 2007 substantially overpaid for that service. If some of these customers switched to a competitive supplier in 2008, they will be deprived of a rebate for the overcharge. At the same time, customers that returned to SS from the competitive market on or after January 1, 2008 will receive a windfall. This inequitable result could be fully avoided if CL&P utilized only Scenario A contracts.

¹⁶ UI Response to Interrogatory EL-10, p. 1, Docket No. 06-01-08PH01.

Conclusion

For the foregoing reasons, the Department should: (1) require CL&P to amortize the 2007 over-recovery for SS over the shortest possible period; (2) carefully investigate the congestion cost estimate included in the proposed SS and LRS rates effective July 1, 2008; and (3) reopen Docket No. 06-01-08 to determine if Scenario B contracts should be discontinued.

Respectfully submitted,

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ASSOCIATION

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