

CT Energy Policy

The LICAP Settlement, Proposed CT Dept. of Energy & DPUC Implementation of AAC Energy Independence



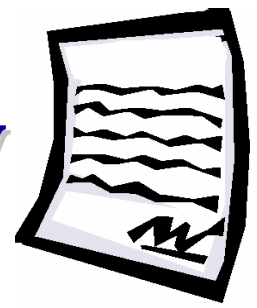
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Chairman, CT Department of Public Utility Control

NECA – Lunch'n' Learn

March 13, 2006

LICAP Settlement Overview



- **Original proposal by ISO-NE**, as approved by FERC, was scheduled to begin 1/1/2006
- **Alternative long-term capacity auction** to begin 6/1/2007, pending FERC approval
 - Prices set via auction bids from competitive generators
- **In the short-term, beginning 12/1/2006:**
 - Fixed capacity payments - made by states under annual approved schedule
 - **ONE zone** for all New England



LICAP Settlement Details



- **Longer term - the proposal will result in a capacity market designed to:**
 - acquire resources through an auction mechanism
 - provide necessary market incentives to suppliers
- **Incentives provided for mechanism to:**
 - increase payments to capacity providers available during scarcity periods
 - reduce payments to unavailable generators, based on modifications to the shortage hours design



LICAP Settlement Details (cont'd)



- **Adopts a forward procurement market design** similar to the concept proposed by state regulators that provides:

- a competitive auction & commitment for capacity 3 years in advance
- enough lead time to permit demand-side resources & new generation sufficient opportunity to compete with existing generation



- **Commitments to new resources** - designed to be sufficiently certain & binding to facilitate new project financing



LICAP Settlement Details (cont'd)



- **Separate price zones will be established prior to annual auction** - only if transmission capacity limits power that can be carried
- **Two CT price zones** - unlikely in long-term as new CT transmission will be built by the time the auction begins



Savings to CT Consumers from LICAP Settlement

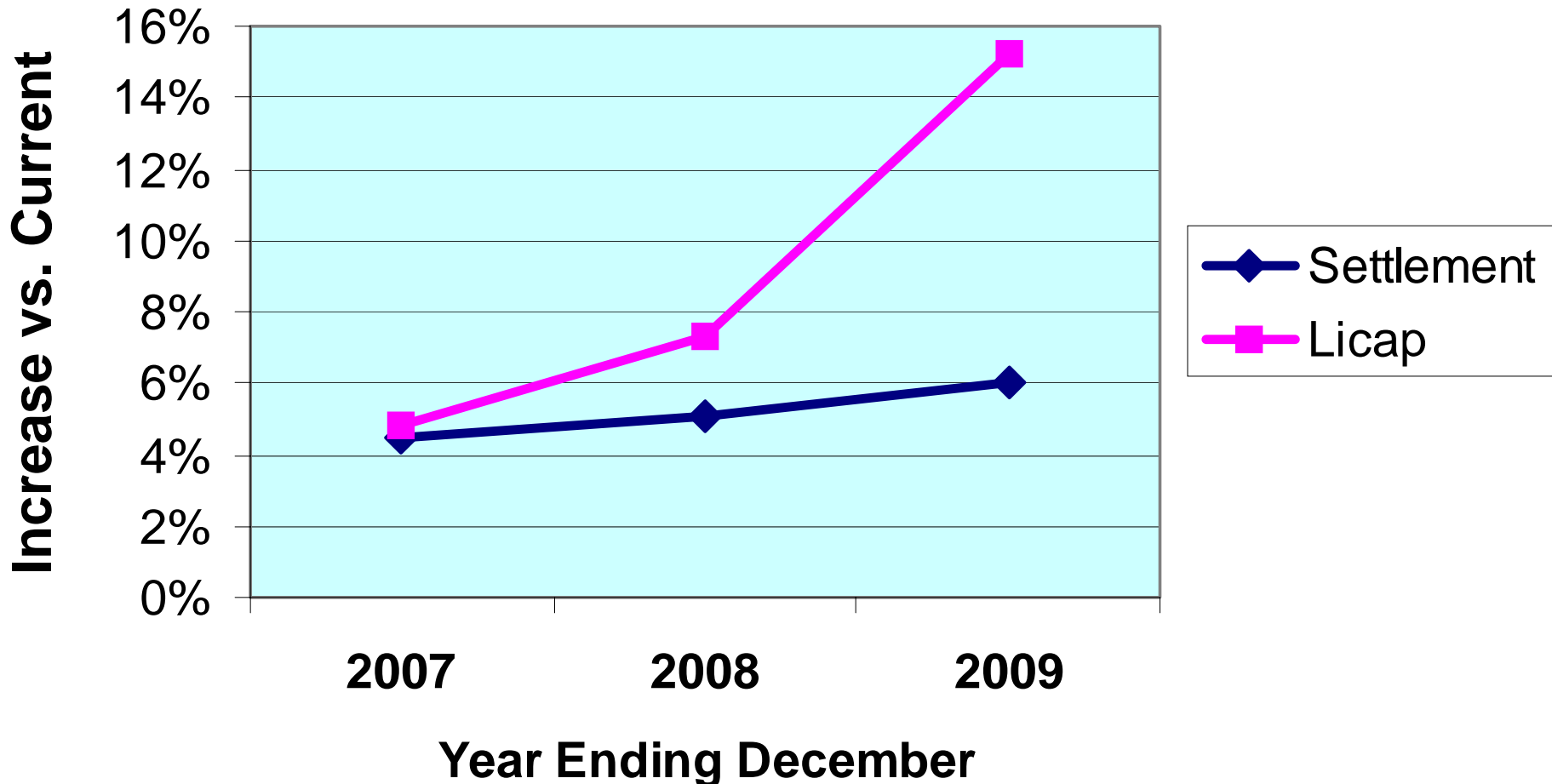


- **Net cost to CT consumers over 4 years is \$800 million - HALF of the \$1.6 billion of original LICAP**
- **Ratepayers NOT obligated to buy excess capacity**
- **Guarantees that generators are available during times of greatest need – payment for performance**
- **Increase of approx. \$4.50/month - on avg. residential bill \$100/month**



LICAP Impact on CT Consumers

Cumulative Impact on Customer Bills



LICAP Settlement

Messages for CT Marketplace



LICAP settlement means:

- Market certainty/ stability
- Reduced risk for generators, market participants

We can now move forward on :

- Customer-side DG issues
- Phase II RFP process



Implementing LICAP



Long-term forward capacity piece:

- Assessing New England capacity needs
- Regional system RFPs for capacity contracts

The LICAP dilemma:

- What is the actual \$\$\$ value of capacity?



DPUC Dockets



Docket No. 05-07-17:

DPUC Review of the Development of a Program to Provide Monetary Grants for Capital Costs of Customer-Side Distributed Generation

Docket No. 05-07-16:

DPUC Review of the Development of a Program to Provide Various Incentives for Customer-Side Distributed Generation Resources

Final Decisions Due on March 23, 2006





Proposed CT State Department of Energy

Arguments for this Concept

Provides focus & coordination in developing state energy policy going forward:

- consolidation of administration of various energy programs
- Sends political message...



The Importance of State Energy Policy



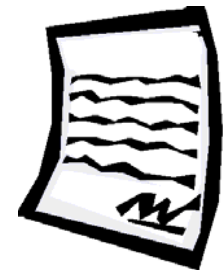


Possible Functions of CT DOE

“The State Energy Office”

State Energy & Technology Planning *(CT is the only State without a separate DOE)*

- Creation of appropriate research division with emphasis on future fuels & technologies:
 - Ex: fuel cells, clean coal, hydrogen, biodiesel, ethanol, methanol, broadband
- Operational capabilities:
 - Grant renewable energy certificates (RECs)
 - Manage CT Class III REC program





CT DOE “*State Energy Office*” How to Proceed – Points to Consider

Utility Ratemaking & Forward Policymaking... Cannot Be Separated!

- CT DOE would be useful for background research & issue development
- But*** policy development always has ramifications...



We must be aware of the consequential costs of policies! \$\$\$





CT DOE “*State Energy Office*” *How to Proceed – Points to Consider*

**If Some Consolidation is Good...
More is Not Necessarily Better!**

Some programs are best administered by the relevant agency...

For example: CEAP & LIHEAP are most suitably overseen by DSS

One thing for sure...It'll be a lively & interesting debate!





AG Proposed CT Electric Authority

- Electricity is a *complex* industry requiring specific *expertise*
- Ironically – if we're in a tight situation...
a public power authority may be the *least likely* entity to produce the desired results
- Examples:
 - LIPA, in the late 60's/70's when nuclear power was touted as potentially *too cheap to meter*, promoted development of a 1,000 MW Shoreham nuclear unit
 - CA's 2000 energy crisis - Gov. Davis signed a law authorizing the state to sell up to \$10 billion in bonds to buy electricity contracted by CA Dept. of Water Resources that private utilities could no longer afford (about \$300 of debt for every person in the state)
 - Proliferation of CCGTs in New England – the cutting edge technology





AG Proposed CT Electric Authority

State Power Authority – plus's & minus's

- NO taxes to pay as it's state owned
- No ability to get cheaper pricing
- Taxpayers assume 100 % financial risk of fuel & operational costs



What Is CT Energy Policy Objective?

To control generation?



Don't need to own it to control it...



Use capacity contracts!



A financial house, not public authority, oversees bid process

Q&A







