



# STATE OF CONNECTICUT

DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION  
PUBLIC UTILITIES REGULATORY AUTHORITY  
TEN FRANKLIN SQUARE  
NEW BRITAIN, CT 06051

DOCKET NO. 12-06-02 REQUEST FOR PURA REVIEW OF POWER  
PROCUREMENT PLAN

October 12, 2012

By the following Directors:

Arthur H. House  
John W. Betkoski, III

**DECISION**

## DECISION

### **I. INTRODUCTION**

#### **A. SUMMARY**

In this Decision, the Public Utilities Regulatory Authority approves the Standard Service Power Procurement Plan as submitted by the Procurement Manager pursuant to §16-244m of the General Statutes of Connecticut. The Plan is modified to move the target date of The Connecticut Light and Power Company's self-management of 20% of the Standard Service portfolio from the first half of 2013 to the second half of 2013. This will require The Connecticut Light and Power Company to procure the remaining 30% of the first half of 2013 as full requirements service contracts. Further, the Public Utilities Regulatory Authority directs the Procurement Manager to submit the first yearly update no later than January 1, 2014.

#### **B. BACKGROUND OF THE PROCEEDING**

The General Statutes of Connecticut (Conn. Gen. Stat.) §16-2(l) created the position of Procurement Manager within the Department of Energy and Environmental Protection (DEEP). The Procurement Manager (PM) has the role of managing the procurement of electricity for the Standard Service (SS) customers of the two investor-owned electric distribution companies (EDC) in Connecticut: The United Illuminating Company (UI) and The Connecticut Light & Power Company (CL&P). SS is the default electric service that the EDCs provide their customers, primarily residential and small commercial and industrial (C&I), who have a maximum demand of less than 500 kW, do not use demand meters, and have not selected an alternative retail supplier.

Conn. Gen. Stat. §16-244c(c)(4) and §16-244m directs the PM to "develop a plan for the procurement of electric generation services and related wholesale electricity market products" in consultation with each EDC and with others at the PM's discretion. To that end, the PM convened a working group comprised of representatives from UI, CL&P, the Office of Consumer Counsel (OCC) and the consultant to the Public Utilities Regulatory Authority (Authority or PURA), Levitan & Associates, Inc. (LAI). The PM also consulted with The Office of the Attorney General (AG), a representative of the Connecticut Municipal Electrical Energy Cooperative (CMEEC) and representatives of a number of other state regulatory agencies.

#### **C. CONDUCT OF THE PROCEEDING**

The Authority received a proposed Power Procurement Plan for Standard Service (Plan) on June 1, 2012. On July 16, 2012, the Authority received a notice from the Commissioner of DEEP delegating his review authority, pursuant to Conn. Gen. Stat. §16-244m, to the Authority. By Notice of Proceeding and Request for Written Comments, issued on July 19, 2012, the Authority solicited comments in this uncontested matter. A Notice of Hearing dated July 27, 2012, was issued and the Authority held a public hearing on September 6, 2012, at its offices, Ten Franklin Square, New Britain, Connecticut 06051. The Authority received and reviewed

comments and briefs from the participants in this proceeding. The Authority issued a draft Decision and Notice of Written Exceptions and Oral Arguments on October 3, 2012. RESA filed Written Exceptions on October 9, 2012. Oral Arguments were held on October 10, 2012.

#### **D. PARTICIPANTS**

The Authority designated UI, P. O. Box 1564, New Haven, Connecticut 06506-0901; CL&P, 107 Selden Street, Berlin, Connecticut 06037; the AG, Ten Franklin Square, New Britain, Connecticut 06051; the Prosecutorial Division of the Authority (PRO), Ten Franklin Square, New Britain, Connecticut 06051; the New England Power Generators Association (NEPGA), 141 Tremont Street, Boston, Massachusetts 02111; Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (jointly, Constellation), 101 Constitution Avenue, N.W., Suite 400 East, Washington, District of Columbia; the Retail Energy Supply Association (RESA), 280 Trumbull Street, Hartford, Connecticut 06103-3597; and the OCC, Ten Franklin Square, New Britain, Connecticut 06051 as Participants to this proceeding.

### **II. POWER PROCUREMENT PLAN**

#### **A. THE UNITED ILLUMINATING COMPANY**

Currently, UI has 70% (as of June 1, 2012, when this plan was filed) of its SS supplies for 2013 already procured. For the remaining 30%, UI will continue to procure full requirements service in accord with its usual practice, thereby transferring Load Serving Entity (LSE) responsibility to the wholesale suppliers. UI does not have available manpower resources or infrastructure to assume the LSE responsibility. In light of UI's relatively small Standard Service load, potential continued migration of customers to competitive retail suppliers, and UI's resource constraints, UI is unlikely to achieve the same portfolio benefit that is available through its wholesale suppliers. The incremental cost for UI to add the requisite manpower resources, credit facilities, infrastructure, and risk management procedures to assume the LSE role for SS is likely to exceed the expected benefits achievable through self-managing a portion of the SS portfolio. Plan, pp. 6 and 7.

The Plan contemplates that lower prices may be achieved by modifying the schedule of the laddering and the contract terms for 2013 and future years. Shortening the time to delivery is expected to reduce costs to customers. Once the transition to the new design is fully implemented, 12-month contracts for 10% tranches will be procured quarterly, creating a portfolio of overlapping service terms, with the start of delivery not exceeding six months from bid day. Shorter contract terms and, potentially larger tranche sizes may be procured for 2014 to accommodate the transition. The PM, in consultation with UI, may revise the number of tranches per service term, or the percentage of load per tranche, in the future if the total SS load changes significantly due to migration or reverse migration. This procurement design maintains flexibility as it allows for the selection or rejection of discretionary tranches. Id., p. 7.

Full requirements service will continue to be solicited by UI through sealed-bid Request for Proposals (RFPs). On bid day, the PM, UI, and the OCC will each receive

copies of the bids. Consistent with the current practice, each recipient will independently evaluate the bids. UI and the OCC each will present to the PM their respective recommendation(s) as to the selected contracts. On bid day, the PM will issue a decision as to the winning bidders, and prepare written documentation supporting that decision. Provided that the approved contracts are consistent with the PURA-approved Plan, the PM's approval will authorize UI to enter into binding agreements with the selected suppliers. The day after bid day, the PM, UI, and the OCC will participate in a technical meeting before the Authority to document the basis for the decision. Id., p. 8.

## **B. THE CONNECTICUT LIGHT AND POWER COMPANY**

Currently, CL&P has 70% of Standard Service supplies for 2013 procured (as of June 1, 2012, when this plan was filed). CL&P, through its corporate service company, Northeast Utilities Service Company (NUSCO), has the requisite manpower resources, information technology, and the credit and risk management policies and procedures to assume the LSE responsibility. The Plan authorizes CL&P to self-manage 20% of its remaining 2013 SS load, two of the remaining three slices for 2013. The remaining 10% slice for 2013 will be procured as full requirements service. While the initial limit for the self-managed portfolio is 20% of CL&P's SS load for 2013, the PM may increase or decrease the 20% target based on the performance of the self-management portfolio. In accord with past practices, the portfolio for that portion of SS load that is not self-managed will be procured in the same manner as described for UI. Plan, p. 8.

CL&P will submit a portfolio management plan to the PM for review and approval. CL&P's portfolio management plan will identify the mix and types of physical and financial products to be procured, and will inform the PM about the composition and expected performance of the portfolio. The portfolio management plan will also quantify downside and upside sensitivity cases oriented around a scenario-based risk analysis. If the portfolio management plan is approved by the PM, the PM, the OCC, and CL&P will participate in a technical meeting before the Authority to inform the PURA of the decision and to document any condition(s) of the approval. Id., p. 9.

CL&P will provide monthly project control reports to the PM that track the actual performance of the self-managed portfolio relative to the expected performance of the portfolio over the service term. The monthly report will also forecast the expected cost of the portfolio through the end of 2013 relative to the outlook presented in the portfolio management plan. If a proposed transaction falls outside of guidelines established in the approved portfolio management plan, the transaction will require the approval of the PM in addition to any approvals required in accordance with CL&P's internal policies and procedures. For all other transactions, such prior approval by the PM will not be required, but the PM shall be routinely notified by telephone or e-mail and in the monthly project control reports regarding the array of physical and financial products entered into by CL&P to self-manage the portfolio. Id.

The approval process for full requirements service contract(s) procured by CL&P will be the same as for UI, described above. Id., p. 10.

### **C. RATES**

The Plan does not address any update to the mechanism or timing for establishing retail SS rates. It is the PM's intention to address this aspect of SS in an update to this plan. Conn. Gen. Stat. §16-244m(b) requires the PM to meet at least quarterly with the Commissioner of DEEP and prepare a written report on the implementation of the Plan. This quarterly update will allow the PM the opportunity to augment this plan and identify potential improvements that are revealed during the implementation. Updates to the Plan will also accommodate future market and/or State policy changes.

### **III. AUTHORITY ANALYSIS**

#### **A. POWER PROCUREMENT PLAN FOR STANDARD SERVICE**

Conn. Gen. Stat. §16-244m, directs the PM to develop a Plan in consultation with the EDCs and other stakeholders. This Plan is intended to fulfill the requirements of Conn. Gen. Stat. §16-244c(c).

Conn. Gen. Stat. §16-244c(c)(3), defines the goals of the Plan, as follows:

Such plan shall require that the portfolio of service contracts be procured in such manner and duration as the authority determines to be most likely to produce just, reasonable and reasonably stable retail rates while reflecting underlying wholesale market prices over time. The portfolio of contracts shall be assembled in such manner as to invite competition; guard against favoritism, improvidence, extravagance, fraud and corruption; and secure a reliable electricity supply while avoiding unusual, anomalous or excessive pricing.

Conn. Gen. Stat. §16-244m(a), further defines the Plan's goals and the types of wholesale contracts that may be included in a portfolio for Standard Service:

The plan for the procurement of electric generation services and related wholesale electricity market products . . . will enable each electric distribution company to manage a portfolio of contracts to reduce the average cost of standard service while maintaining standard service cost volatility within reasonable levels. Each procurement plan shall provide for the competitive solicitation for load-following electric service, and may include a provision for use of other contracts, including, but not limited to, contracts for generation or other electricity market products and financial contracts, and may provide for the use of varying lengths of contracts. If such plan includes the purchase of full requirements contracts, it shall include an explanation of why such purchases are in the best interests of standard service customers.

The Plan proposed to retain full requirements service contracts for all of UI's SS load and at least 80% of CL&P's SS load and to shorten the laddering schedule. Full requirements service contracts will be procured four times per year for 12-month terms.

This will create a series of 12-month contracts that overlap by six months. The Plan also proposed that on bid day, UI or CL&P with the OCC would present their respective recommendations on the selected contracts to the PM. Following discussion, the PM would have sole authority to either reject or approve the recommended contracts. This would be followed by a technical meeting before the Authority to document the basis for the decision to award the contract.

PRO believes that this process will fulfill the statutory objectives by:

- Reducing the time lag between bid day and the commencement of delivery, reducing uncertainty associated with energy prices, load, and the cost of risk management products.
- Shortening the time between bid submittal and final approval of the SS full requirements contracts by at least a full day, thus reducing any risk premium in bidder's prices to account for potential adverse market movement during the interval.
- Shortening the laddering horizon and establishing two rate periods per year, SS rates will more closely reflect wholesale prices, thereby meeting one of the statutory objectives and sending customers more accurate price signal.
- Overlapping the service terms and the procurement schedule for the full requirements service contracts to ensure that during any rate period the full requirements contracts will have been procured on four different bid days. Preserving procurement date diversity will serve rate stability objectives.

Prosecutorial Brief, p. 5.

The EDCs were supportive of the Plan. UI stated that the Plan represented the most reasonable approach to procuring power for SS customers in the current market climate. The shortening of the "laddering" of SS purchases from three years to one year and less will ensure that SS prices will be more reflective of current period market prices than they have been over the past several years of three-year laddering. Therefore, the shorter duration purchases contemplated in the Plan provides the appropriate balance of absolute price and price stability under current market conditions. UI Brief, p. 2. CL&P commented that the Plan is a thorough and complete document, which is fully compliant with the legislative mandates and statutory requirements of Standard Service power procurement as set forth by the Connecticut legislature, and should therefore be approved as submitted. CL&P Brief, p. 5.

The OCC believes that the proposed Plan includes appropriate, practical measures that seek to reduce the prices for SS while preventing unreasonable volatility in such prices. The Plan retains many of the benefits of existing approaches, while fine-tuning such approaches by limiting, to the extent possible, the period of time between a

bid and the beginning of delivery to no more than six months after bid day. OCC Brief, p. 2.

RESA supported the Plan's recommendation for a modified full requirements service procurement strategy as proposed for UI and recommended for CL&P. It provides a proper balance between the goal of obtaining the most competitive prices for consumers and maintaining a reasonable level of price stability. RESA Brief, p. 3.

The Authority determines that the Plan's recommendations for approving full requirements service contracts meets the requirements and objectives of the statutory language. The Authority finds that reducing the time period between the awarding of the contract and delivery, shortening the time between the submittal of bids and approval, shortening the laddering time frame, and overlapping the service terms and procurement schedule are prudent steps that will most likely produce just, reasonable, and reasonably stable rates while reflecting wholesale market rates over time. The technical meeting before the Authority on the day following the approval of the full requirements contract will give the PURA the opportunity to review the results to "insure competition, guard against favoritism, improvidence, extravagance, fraud and corruption, and secure a reliable electricity supply while avoiding unusual, anomalous or excessive pricing."

The Plan also proposed to allow CL&P to become a load serving entity and self-manage up to 20% of its SS load. At this time, it was determined that UI does not have the capacity to self-manage a portion of its load and the proposal was limited to CL&P. The PM will actively oversee, review, and access CL&P's performance in managing this limited portfolio.

PRO stated that the self-managed portion of the SS load provides an opportunity to demonstrate savings for customers. While customers may be exposed to slightly more rate volatility within the 20% self-managed slice, the expected unit cost for this portion is expected to be lower than the 80% full requirements service load. On a blended 80/20 basis, there may be a small decrease in expected cost with only a slight increase in customer rate volatility. PRO Brief, pp. 7 and 8.

CL&P declared that because of its previous experience, expertise, and present skill sets including its resources, technologies, and credit and risk policies and procedures, it is prepared to serve as a LSE. CL&P welcomes the opportunity to do that in 2013 in an effort to proactively maintain value for its customers. CL&P Comments, p. 2. UI argued that allowing CL&P to self-manage a portion of its SS portfolio will provide real price data from dynamic portfolio management, and not simply projected price data based on simulated programmatic purchases. The results of CL&P's portfolio self-management should be instructive in determining whether the benefits of a managed portfolio would more than offset the cost to UI's customers of adding the personnel and system resources necessary to self-manage a portfolio of contracts. CL&P's actual results will provide solid data for the "benefit" side of a cost-benefit analysis. UI Brief, p. 3.

The OCC supported the aspects of the Plan that will allow CL&P the opportunity to self-manage a 20% portion of the SS requirements. CL&P and its sister and parent companies have significant experience and resources in this area. OCC Brief, p. 3.

However, RESA argued that the Authority should reject the Plan's option to allow CL&P to actively manage up to 20% of its 2013 SS load because such an approach would impose added risks and costs on ratepayers and adversely affect customer choice. RESA Brief, p. 9.

RESA, in its exceptions to the draft Decision and oral argument urged the Authority to reject the Plan's recommendation allowing CL&P to self-manage any portion of its load. RESA stated that self-management will lead to increased risks to ratepayers without any meaningful ability for the Authority to exercise regulatory oversight over CL&P's procurement decisions. The Authority finds that CL&P has the ability, expertise and experience to self-manage a portion of the SS load. This limited controlled approach gives the PURA the opportunity to analyze the results for future costs and benefits. The Authority finds that the PM, as the Authority's agent, will monitor and review the process and its costs and benefits, the Authority can reconsider the Plan in future annual proceedings reviewing the proposed annual procurement plan.

#### **B. ANNUAL UPDATE**

All the Participants concurred that an annual approval of a procurement plan is required. See Briefs. The Authority will be require the PM to file a proposed plan annually pursuant to Conn. Gen. Stat. §16-244m. The first annual filing will be due on January 1, 2014.

#### **C. MODIFICATIONS TO THE PLAN**

The Authority modifies the Plan to move the target date of CL&P's self-management of 20% of the Standard Service portfolio to the second half of 2013 from the first half of 2013, thus requiring CL&P to procure the remaining 30% of the first half of 2013 as full requirements service contracts. The Authority also modifies the Plan to recognize that UI has secured its full SS load for 2013 and that it will conduct no further procurements for 2013.

### **IV. CONCLUSION AND ORDER**

#### **A. CONCLUSION**

The Authority approves the Plan as submitted by the PM pursuant to Conn. Gen. Stat. §16-244m and modifies the Plan to move the target date of CL&P's self-management of 20% of the SS portfolio to the second half of 2013 from the first half of 2013 thus requiring CL&P to procure the remaining 30% of the first half of 2013 as full requirements service. Further, the PM shall submit a proposed procurement plan annually for approval. This proceeding will be limited to the review and approval of the Plan and not include matters that were raised and are outside of the scope of the proceeding.

#### **B. ORDER**

For the following Order, submit an original of the required documentation to the Executive Secretary, 10 Franklin Square, New Britain, Connecticut 06051, and file an



electronic version through the PURA's website at [www.ct.gov/dpuc](http://www.ct.gov/dpuc). Submissions filed in compliance with Authority Orders must be identified by all three of the following: Docket Number, Title and Order Number.

1. No later than January 1, 2014, and annually thereafter, the PM shall file with the Authority the proposed procurement plan.

**The Connecticut Department of Energy and Environmental Protection is an Affirmative Action/Equal Opportunity Employer that is committed to requirements of the Americans with Disabilities Act. Any person with a disability who may need information in an alternative format may contact the agency's ADA Coordinator at 860-424-3194 or at [deep.hrmed@ct.gov](mailto:deep.hrmed@ct.gov). Any person with limited proficiency in English, who may need information in another language, may contact the agency's Title VI Coordinator at 860-424-3035 or at [deep.aaoffice@ct.gov](mailto:deep.aaoffice@ct.gov). Any person with a hearing impairment may call the State of Connecticut relay number – 711. Discrimination complaints may be filed with DEEP's Title VI Coordinator. Requests for accommodations must be made at least two weeks prior to any agency hearing, program or event.**

**DOCKET NO. 12-06-02 REQUEST FOR PURA REVIEW OF POWER  
PROCUREMENT PLAN**

This Decision is adopted by the following Directors:

Arthur H. House

John W. Betkoski, III

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Public Utilities Regulatory Authority, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.



October 12, 2012

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Kimberley J. Santopietro  
Executive Secretary  
Department of Energy and Environmental Protection  
Public Utilities Regulatory Authority

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Date