

Art House, Chairman
Public Utilities Regulatory Authority
Presentation to Energy & Technology Committee
Informational Session
January 21, 2015

Introduction & Overview

Good afternoon, I am Arthur House, the Chairman of the Public Utilities Regulatory Authority (PURA). With me today are Vice Chairman Jack Betkoski, Commissioner Michael Caron and some senior staff.

We have today an overview of what PURA does, how it affects your constituents, what services we provide and how we impact the people of Connecticut. Some of you are new to this subject matter – I intend to stay at an introductory level.

To the extent this covers material you already know, I ask for patience. My fellow commissioners and I welcome the chance to provide more details on a particular topic or to respond to any questions during the Q&A session. Our legislative liaison, Nick Neeley, is also read to help.

PURA affects every household and business in Connecticut. We regulate Connecticut's public utilities for the public good, specifically the electric utilities, natural gas companies and public water companies. PURA is working to keep the electricity on, the water flowing and natural gas burning so that we can depend on turning on the lights, having water to drink and wash with, and gas to heat our homes – all basic necessities of modern life that are difficult to deliver and cannot be taken for granted. PURA also has a limited role regulating telecommunications. Unfortunately we do not regulate Internet access, but that may change given the ongoing "net neutrality" debate in Washington.

PURA protects and promotes the public good by acting as a court; acting as a regulator; and formulating and implementing rules.

We act as a court when we rule on rate increases requested by a public utility, and our decisions can be appealed to the state courts. We act as a regulator when we license electric suppliers, investigate natural gas pipeline violations, enforce Call Before You Dig requirements, and resolve consumer complaints with the utilities. We establish standards and implement your laws in areas such as submetering and renewable portfolio standards. Many of our decisions are guided by the State's Comprehensive Energy Plan, as developed by DEEP, and we serve as the financial watchdog for certain state programs.

The four Utilities & PURA's Role

We have four major subject areas: Electricity, Natural Gas, Telecommunications and Water

Electricity

- There are two public electric companies in the state – CL&P and UI.
 - CL&P provides service to most of the state -- approximately 1.2 million customers in 149 towns and cities.
 - UI provides service to the Greater New Haven and Bridgeport areas.
 - *There are also municipal-owned utilities, such as Norwalk and Wallingford. We have almost no authority over municipal-owned utilities.*
- With regard to generation, we are a deregulated state. CL&P and UI distribute the electricity to our homes and businesses, but by law, they own only a limited amount of generation. Generation is primarily sold through a regional market and is regulated at the federal level by FERC (Federal Energy Regulatory Commission).
- Let me provide a brief description of how the distribution of electricity is charged to ratepayers:

- CL&P and UI charge rates for transporting electricity from a generator to a home or business and are paid in two ways:
 - First, they charge a flat fee – applicable to everyone regardless of how much electricity they use.
 - Second, they also charge a per kilowatt hour charge – a charge linked to how much electricity they use.
- PURA must approve both charges. PURA acts as a court when it reviews and approves rates – we hear evidence under oath, apply the evidence to the law and render a decision – that decision then may be reviewed in state court.
- This past December, PURA ruled on CL&P's request to increase rates:
 - For six months, many of our staff worked full time on the case. All three commissioners actively guided and considered the extensive evidence – more than 3,000 pages of documents, weeks of hearings and examination of expert testimony. We produced PURA's best work in rendering what we consider to be fair and reasonable findings.
 - We reduced CL&P's request by over \$100 million;
 - We reduced CL&P's requested 10.2% return on equity to 9.17% and imposed a one-year penalty of 15 basis points because of CL&P's performance in the 2011 storms;
 - In a separate docket, we also reduced by \$49 million the amount CL&P could recover from ratepayers for the costs of responding to five major storms in 2011-2012;
 - We also substantially reduced CL&P's proposed monthly service charge. Estimated at \$35 per month, CL&P asked for \$25.50 as a base charge – and we authorized \$19.25.
 - Overall, an average residential customer using 700 kWh of electricity would see an increase of approximately \$7.12 per month; approximately 5.5%. The average bill

would have increased \$12.48 or 9.66% under CL&Ps proposal.

- All the pieces of a rate case are interrelated and interdependent. If one aspect of a rate decision is decreased, another piece will be increased. A change in part of the rate structure changes the structure for all the other payers – businesses, not-for-profits and residential customers. It was a difficult piece of work that fully pleased none of the parties involved.
- The PURA Commissioners discharged their statutory and constitutional duty to ensure that the decided rates were fair and reasonable. Keep in mind that our electric infrastructure costs money to build, to grow and to maintain. Those expenses have to be paid by all of us, regardless of how much or how little electricity we use.
- The experience of this rate case brought home the need for effective communication between PURA and the General Assembly. During the CL&P rate case we were asked to do things and to reach conclusions that were not consistent with the law. We both share the obligation to understand and explain the system. I would be pleased to address this concern further if there are questions.
- Now let me explain the generation side of electricity --
 - PURA does NOT have any authority over how much is charged for the actual electricity sold to a consumer or business by an electric supplier.
 - Rather, we have an open market of electric suppliers, who provide electricity to approximately half of the market.
 - PURA DOES regulate and license electric suppliers, although not their rates.
 - The electric suppliers sell electricity directly to retail customers and businesses. We have dozens in the state right now. They set

their own prices and directly contract with customers to sell them electricity.

- These electric suppliers have the option of including their services on the bill received from CL&P or UI, or billing separately
- The laws require electric suppliers to disclose their prices to the public on a website. PURA provides the structure and the rules to implement your laws regarding electric suppliers.
- PURA also investigates and regulates these suppliers.
 - Last session, this legislature passed the electric consumers' Bill of Rights – a law passed to protect consumers from the more egregious business practices of some electric suppliers.
 - Courtesy of this legislature, PURA has formed an Electric Supplier Task Force for enforcement and investigation into consumer complaints about suppliers. We are currently hiring staff to operate this task force.

- **Consumer Assistance & Electric Suppliers**

- PURA's Consumer Affairs team handled more than 14,000 utility-related complaints and inquiries in 2014, providing skilled technical and financial service, advocacy, information and education to Connecticut ratepayers. We manage individual consumer problems. The Office of Consumer Counsel represents consumer interests and issues.
- I encourage you to use PURA's expertise, and when you have a constituent complaint about a public utility, to have them call us. We can be reached at (800) 382-4586 or by email at pura.information@ct.gov.

- **Standard Service**. There is also a default for electric service. If a customer does not choose a private electric supplier, CL&P and UI will provide electricity. PURA's Procurement Manager, Jeff Gaudiosi, spoke to you earlier this afternoon about how the standard service procurement works. Standard service is the result of an auction, the

lowest bidders are accepted and the cost of the electricity is passed on without added charge by or profit to CL&P and UI.

Natural Gas

In Connecticut, our natural gas companies are Southern Connecticut Gas Company and Connecticut Natural Gas Company owned by United Illuminating, and Yankee Gas Company owned by the parent of CL&P, formerly NU/NStar and soon to be Eversource Energy.

- In the past decade, new technology has transformed the energy markets. There is an estimated 100-year supply in natural gas in American domestic production fields. Natural gas now is not only used for heating, but is the largest source of electricity generation in New England.
- Unlike our electric companies, our natural gas companies are vertically integrated – in other words, they both sell natural gas and deliver it to our homes and businesses.
- PURA reviews and approves natural gas rates for the natural gas companies.
- CNG Rate Case. Last year, PURA ruled on a request by Connecticut Natural Gas for a rate increase. After six months of proceedings, we trimmed CNG's requested revenue increase from 6% down to 1.9% and designed new rates for customers joining the system pursuant to Connecticut's new gas expansion rules.
- We expect another gas company rate case to be filed this year.
- PURA regulates, audits and reviews natural gas operations and safety. PURA's Pipeline safety Team is nationally recognized as among the best in the business.
 - During 2014, PURA's Gas Pipeline Safety and Call Before You Dig Unit (GPSU) performed 451 field inspections of gas company operations.

- We issued 150 pipeline safety violations and assessed \$61,650 in penalties.
 - In addition, we collected \$77,350 in civil penalties for violations associated with the Call Before You Dig program.
- As Connecticut seeks to expand the availability of natural gas to homes and businesses including proposed new pipelines, PURA's role in ensuring safe delivery of natural gas has become even more critical.
- In Connecticut, a lower percentage of households have a choice regarding heating fuel, in comparison to households in neighboring states such as Massachusetts. In response, the Governor has initiated a natural gas expansion plan, in an effort to expand access to natural gas.
 - PURA reviewed and approved the Gas companies' plans on how to achieve the Governor's vision.
 - PURA has ensured that the cost of expansion be borne appropriately by and between old customers and new.

Telecommunications

Telecommunications now are primarily regulated by the federal government, with a much more limited role for state regulation.

Let me start with what we can't do. PURA does not regulate:

- Wireless Services;
- Internet Protocol (IP)-based Services (such as VoIP);
- Telecommunications Services Equipment; and
- Video Services Rates and Charges.

So unfortunately, if your constituents have a problem with their cable company or their mobile telephone provider, there is not much we can do about it. However, our Consumer Affairs team will assist in cutting through red tape and facilitating responses from these companies.

What we still do includes:

- Ensuring that a few of our residents with "plain old telephone service" pay reasonable rates and charges.
- Receiving and, at least nominally, approving all tariffs from telecommunications companies;
- Licensing and registering telecommunications providers;
- Overseeing Telecommunications Company Service Quality;
- Reviewing and approving any sale or transfer of control of telephone companies;
- Regulating 911 Service, Telecommunications Relay Service Funding and Lifeline Service Surcharges; and
- Awarding Community Public Access Television/PEGPETIA Grants.

Water

Like natural gas companies, water companies are vertically integrated – they both sell water and deliver water to homes and businesses. There are many water companies across the state – some private, some owned & managed by municipalities or regional quasi-governmental organizations.

In conjunction with the Department of Public Health, PURA regulates all private water companies with more than 50 customers, and licenses the smaller water companies. Except for some very limited consumer issues, PURA does not regulate municipal-owned water companies and does not regulate the MDC (Metropolitan District Corp.)

PURA reviews and approves rates, inspects and enforces safety standards and works to ensure that viable, responsible water companies are providing water and, where appropriate, sewer, services to Connecticut residents. For example, currently pending before PURA is a rate increase request for both water and sewer services from Heritage Village Water Company in Southbury. PURA has also reviewed numerous applications of larger water companies purchasing smaller water companies.

In many instances, for historical reasons I would be pleased to discuss, small water companies do not have the resources to modernize plant and equipment and ensure that safe, reliable water flows to our homes. In appropriate cases, we have encouraged larger water companies to consolidate services. We work with the Department of Public Health to ensure that the water that flows to our homes is safe.

Under Vice-Chairman Jack Betkoski's leadership, along with his colleagues from DPH, DEEP and OPM, PURA is a key player in developing the Comprehensive Water Strategy. The Comprehensive Water Strategy is a legislative mandate to the Water Planning Council to develop a long-term strategic planning blueprint to address Connecticut's water needs for the medium- and long-term future.

PURA's Leadership in Regional and National Context & Impact on Connecticut

We are part of a regional and national electric grid, and you will hear from ISO NE later in this presentation. Connecticut has long been in the forefront of regional and national energy issues – and today I will just provide you with some of the highlights from last year:

- Two significant Federal Energy Regulatory Commission (FERC) decisions obtained by PURA resulted in a financial benefit of over \$85 million to Connecticut ratepayers in the past calendar year.
 - Last summer PURA recovered over \$77 million dollars for Connecticut in the matter of *Connecticut Yankee Atomic Power Company*, as a refund for the decommissioning costs of various New England retired nuclear power plants paid for by state ratepayers. The federal government was ordered to pay damages for its failure to obtain long-term storage of nuclear waste through 2004. Those damages are largely being refunded to state ratepayers by reducing utility regulatory asset costs. Similar damages for additional years are expected to be awarded until long-term storage for nuclear waste is found.
 - PURA, in conjunction with a New England coalition of governmental entities, also successfully pursued a claim before

the FERC to reduce the Return on Equity (ROE) that FERC requires to be paid to owners of transmission lines (*Coakely v. Bangor Hydro*, FERC EL11-66). FERC agreed to reduce the ROE, resulting in at least a \$17 million refund to Connecticut ratepayers, and a significant reduction in the ROE costs going forward. (There are now two other cases to obtain refunds for a gap in the refund period, and we anticipate additional refunds in the future).

We are fortunate that our tradition of leadership continues with our current Commissioners. Commissioner Michael Caron, formerly a state legislator, has just been appointed Treasurer for the New England Conference of Public Utility Commissioners (NECPUC).

Vice-Chairman Jack Betkoski, also a former state legislator, is our senior commissioner, and an invaluable source of knowledge and perspective. Jack is a former President of NECPUC, and he serves on the Executive Board for the National Association of Regulatory Utility Commissioners (NARUC). If the committee will indulge me in a political note, New England is next in line to provide the presidency of NARUC – a powerful and influential position. Commissioner Betkoski is one of two candidates for that position. Connecticut's Commissioners have earned the trust and respect of their peers in other states, and we do all we can to work together respectfully and productively.

Looking Forward

Looking forward to 2015, PURA faces numerous challenges for the year. In addition to the Comprehensive Water Strategy I discussed early, Connecticut is working in cooperation with Connecticut's public utilities in playing a leadership role in cybersecurity.

- Governor Dannel P. Malloy and this General Assembly directed PURA to review the state's electricity, natural gas and major water companies and to assess the adequacy of their capabilities to deter interruption of service and to present to the Governor and General Assembly recommended actions to strengthen deterrence. On April 14, 2014, PURA produced its report -- entitled "Cybersecurity and Connecticut's Public Utilities."

- Connecticut is the first state in the nation to address this issue by creating cybersecurity standards and a process for assessing performance against them. The report has been well received by the industries involved, and other states are watching Connecticut's approach to this serious issue. Our success will be measured by the extent to which we as regulators can engage the utilities in a cooperative solution. This is a change from our more formal docket process, and we hope it will yield mutually beneficial results.
 - As a follow up to the Report, PURA has opened Docket No. 14-05-12 - PURA Cybersecurity Compliance Standards and Oversight Procedures to address utility cybersecurity in Connecticut.
 - On January 15, 2015, the PURA conducted its first meeting with all of Connecticut's utility companies to provide an overview of Docket No. 14-05-12 and hear their concerns, issues and comments concerning the PURA's docket. Individual company/industry meeting dates are currently being scheduled over the course of the next couple of months.

CONCLUSION

I thank the Committee for its time and attention. For some of you this may have been rather basic, and for those new to these issues it can be a lot to absorb.

We are ready and eager to meet with any committee member or staff to discuss these issues in detail. We invite you to rely upon PURA when you or your constituents have public utility issues.

Finally, I hope we can join together to increase understanding of utility issues. We share the obligation to educate and we want to work with you on that challenge.