

July 31, 2002

Joel Rinebold
Executive Director
Institute for Sustainable Energy
83 Windham Street
Willimantic, CT 06226

RE: Docket No. 02-04-23 - Task Force Investigation Of All Proposals For Gas Or
Electric Transmission Projects

Dear Mr. Rinebold:

In response to your letter dated June 14, 2002 in which you request that Task Force members submit a brief preliminary position paper, the Department of Public Utility Control (Department) submits the attached preliminary position paper for consideration by the Task Force created by Public Act 02-95.

Both the Public Act and Executive Order 26, which the Public Act incorporates by reference, mandates that the Task Force develop a comprehensive plan that protects Long Island Sound from environmental impacts caused by energy infrastructure while at the same time allowing the region to build infrastructure required to meet the region's energy needs. The preliminary position paper recommends some conceptual changes to the energy infrastructure siting process that can help achieve this goal.

Additionally, so that the Task Force does not perform its work in a vacuum apart from other relevant efforts underway to ensure that the region's energy needs are met in the short and long term, the Department has outlined some of these other ongoing efforts. These efforts pertain to conservation and load and management, transmission planning, energy efficiency, etc. and involve entities such as the Department, the Energy Conservation Management Board, the New England Demand Response Initiative, and the Independent System Operator of New England.

The Department invites the Task Force to discuss the ideas presented in its preliminary position paper at future meetings. If you have any questions, please call me at (860) 827-2742.

Sincerely,

Robert Luysterborghs

I. CONCEPTUAL ISSUES

CONCEPTUAL CHANGES RECOMMENDED IN THE REVIEW PROCESS

The Department recommends systemic changes in the process for review of expansion projects or new facilities to relieve congestion or enhance reliability in SWCT and/or across the state. The Department states its assumptions for what the review process should contain and offers its conceptual changes, as follows:

Assumptions

- Process needs to consider multiple issues - environmental, energy, and others
- Process needs to consider multiple proposals on a comparison basis, not by seriatim review as currently
- Standards for review must be constructed to provide an incentive for project sponsors to make attractive proposals and provide a basis for comparative review

Recommended conceptual changes

- "Open Season" - This process begins when (1) the planning authority determines that a need exists or (2) when a proposal is made. An RFP is then issued to the widest possible audience, soliciting proposals to resolve the perceived need or compete with the proposal already made. RFPs must be written to solicit proposals using differing strategies to address the need (e.g., congestion resolution can include generation, transmission, DG, LRP, DSM, etc.)
- Comparison Process - The first stage is review by a joint body including representatives of all governmental bodies having a role in the proposed projects, plus representatives of public interests. This stage involves an initial, general review of the concepts and operates on a 'veto' strategy. The object is to identify projects that have fatal flaws at the outset of the process, rather than after expensive and lengthy detailed review, sometimes by several bodies before the fatal flaw is identified.
- Development of Preferential Standards - Currently, review is conducted on the basis of absolute standards - what is required and what is prohibited. An appropriate set of new standards must be stated in terms of preferences within the range of permitted strategies (e.g., preferences for environmentally enhancing construction over ugly industrial construction, or use of a 'utility corridor' instead of using a previously unused route, etc.) It is also important that these standards be set through a process involving substantial and broad-based input from a wide range of interests, and that the standards be well publicized so that planners and designers will take them into account in planning and designing projects.

II. SPECIFIC POLICY RECOMMENDATIONS AND CONCERNS

When considering specific steps to take to alleviate congestion and improve reliability in SWCT, the Department believes that a balanced approach including upgrades to the transmission and adequate infrastructure for the gas pipeline system, additional generating capacity (including distributed generation), an increased focus on C&LM activities in SWCT, particularly in the Norwalk-Stamford area, as well as a determined outreach effort to increase awareness about this issue among all customer classes. The transmission and generation options are longer-term solutions. Transmission and generation issues are addressed more generally in the conceptual issues, above. The Department identifies policy activities in other deliberative venues, and clarifies its positions and concerns regarding, energy efficiency, load management, distributed generation and gas infrastructure, below

A. POLICY ACTIVITIES IN OTHER VENUES

The Department emphasizes that the Task Force is well advised to remain apprised of the ongoing developments within the policy-making bodies described below. It is important for the Task Force to coordinate and build upon the work already achieved or underway:

- Department orders to CL&P and UI (Companies) in Docket No. 02-01-22, DPUC Review of The Connecticut Light and Power Company's and The United Illuminating Company's Budgets and Modifications for Conservation and Load Management Activities for the Year 2002, Decision dated May 29, 2002.
- Docket No. 02-04-12, DPUC Investigation into Possible Shortages of Electricity in Southwest Connecticut During Summer Periods of Peak Demand, Decision dated July 3, 2002.
- New England Demand Response Initiative (NEDRI), a facilitated 45 member working group comprising representatives from ISO-NE, industry, and public utility commissions, will be developing regional policy recommendations for incorporating demand response into New England electricity markets. Specifically, NEDRI will propose policy initiatives in the following areas: price responsive load, retail pricing and metering, reliability and demand side resources, and energy efficiency. NEDRI expects to complete its recommendations by the 4th quarter 2002.
- The Energy Conservation Management Board provides oversight and recommendations on the Companies' C&LM program and budgets before they are submitted to the Department. The ECMB will be monitoring energy efficiency and load response programs, with particular emphasis on SWCT, during 2002 and beyond.

- ISO-NE – Load Response Working Group, a 20 (or so) member group comprising NEPOOL participants, regulators, and other stakeholders, meets approximately monthly in Holyoke, MA to evaluate and modify the ISO-NE LRP.
- Transmission Expansion Advisory Committee – Convened monthly by ISO-NE and comprising NEPOOL participants, regulators, and other stakeholders, TEAC develops and annual transmission expansion plan, the Regional Transmission Expansion Plan (RTEP) in the 3rd/4th quarter each year. ISO-NE conducts the underlying methodological work, in conjunction with input by TEAC participants, in support of the annual Plan.

B. ENERGY EFFICIENCY PROGRAMS

As a part of Docket No. 02-01-22, the Department authorized, with the advice and assistance of the ECMB, modified 2002 budgets and immediate initiatives to reduce electric demand for summer 2002 and mitigate the near-term reliability problems in SWCT. Pursuant to Docket No. 02-01-22, the Department supports the following initiatives:

- Targeted C&LM efforts in constrained areas in SWCT, particularly in the Norwalk-Stamford sub area. The approach consists of making use of existing programs and delivery mechanisms, dedicating more resources toward consumer education, and improving participation in load response programs. The Companies should incorporate kW incentives into their programs to encourage implementation of measures that reduce peak demand.
- The Department will convene technical meetings in September 2002 to evaluate 2002 SWCT results, commence budgeting and design of programs aimed at reducing SWCT 2003 peak load. The Companies and the ECMB will consider modifications or program enhancements to reduce air conditioning loads in SWCT. The Companies and the ECMB will also consider additional bonuses or other incentives for customers to encourage participation and maximize the implementation of cost-effective measures in this region of the state.
- The Companies will continue to work with State agencies and municipalities to prioritize and fast track projects in SWCT. The Companies shall develop flexible alternative incentives (e.g., municipalities contribute a portion of the incentive that brings the cost/benefit ratio equal to 1.0; implementing a revolving loan fund) to attract additional municipal participants.
- The Companies are directed to update and evaluate their cost-effectiveness screening techniques to reflect current capacity values and report their findings in the next C&LM filing. The Companies shall also develop incentives for renewable resource measures consistent with those used for C&LM programs. On or before August 15, 2002, the Companies shall submit information in support of alternative

cost-effectiveness measures. This issue to be addressed in a technical session to be held no later than September 30, 2002.

The Department also supports the following initiatives:

- An independent, verifiable assessment of the conserved energy potential (kWh and kW) in Connecticut, with particular emphasis on SWCT, to be funded within the C&LM budget. This study will assist in the formulation of future plans by the Department, the Companies and ISO-NE in determining utilization of conservation investments to mitigate congestion and reducing peak demand in SWCT as well as other parts of the state. This study should be coordinated with assessments undertaken by the task force.
- Demand for cost-effective C&LM programs far exceeds the dollars available. The Department believes that the Companies deliver high quality, cost-effective programs, and the Department continues to monitor closely the budgets, delivery mechanisms and cost-effectiveness of programs. The Department supports the continuation of the 3-mill charge to fund the C&LM programs.
- The Department (as well as DEP) will actively participate in the NEDRI working group through the end of 2002 on price responsive load issues, retail pricing and metering, reliability and demand side resources, and energy efficiency. The Department will look for ways to communicate and coordinate the efforts of NEDRI with those of the Task Force.

C. LOAD RESPONSE PROGRAMS

Pursuant to Docket Nos. 02-01-22 and 02-04-12, the Department supports the following load response initiatives:

- The Department has approved funding for CL&P and UI to provide direct incentives and technical assistance to end-use customers to encourage their participation in the ISO-NE LRP.
- The Department believes that ISO-NE LRP should be self-sustaining; C&LM ratepayer funds should be allocated to facilitate participation but should not provide direct incentives to the ISO-NE LRP. However, the Department has authorized immediate supplemental funding for 2002 to alleviate reliability problems in SWCT for this summer.
- The Department believes that further changes may be needed to the ISO-NE LRP, which is judged by customers to be confusing and provide insufficient incentives. The Department continues to work with ISO-NE and the utilities to monitor the ISO-NE LRP, identify modifications to improve participation.

- The Department is concerned that ISO-NE may be constrained in its efforts to take adequate steps to ensure reliability in SWCT. It appears that funding, which is controlled by NEPOOL, may be restricted, limiting the ISO-NE's ability to meet its responsibilities. The Department therefore will closely monitor the situation and work with ISO-NE and NEPOOL to ensure that additional actions are taken if problems become imminent.
- The Department encourages the Companies to be flexible and creative in promoting load response sign-up, such as aggregating customers and promoting load response among municipal customers.
- While C&LM funds have not been used to promote time-of-use or interruptible rates in the past, the Department believes that such applications may be appropriate for future consideration.
- The Department will continue working with ISO-NE and as a participant in NEDRI to work toward integrating demand side markets with supply resources in the electric wholesale market.

D. DISTRIBUTED GENERATION AND DISTRIBUTED RESOURCES

In its Decision in Docket No. 02-04-12, the Department supported distributed generation as a means to address reliability concerns in SWCT and across the state. The Task Force should develop state and regional policy initiatives to promote clean distributed generation. The Department proposes to undertake some or all of the following initiatives:

- Draft an RFP for an interconnection study of SWCT Connecticut to be conducted by outside consultants and funded by C&LM funds or Clean Air fund to determine the best interconnection sites for DG.
- Conduct a proceeding to develop DG interconnection requirements and/or participate in regional coordination of interconnection standards and procedures based on the NARUC model rules or another standard.
- Explore the merits of recommending that the Legislature consider (1) giving incentives to electricity consumers that employ on-site, clean DG, and (2) allowing electric distribution companies to install and operate in the very limited scenario of a reliability emergency, clean DG or other emergency generators.

The Department recommends that a working group within the Task Force should undertake the following initiatives:

- Develop a fact sheet defining distributed generation and an explanation of the technical issues: fuel types and associated emissions, cost/KW, applications, etc

- Explore market barriers to adopting clean DG and how public policy can seek to overcome these barriers to market adoption. Policy initiatives include but are not limited to: review of interconnection procedures, DG demonstration projects, RD&D projects funded through the C&LM funds, analysis of the best locations to site DG, safety issues for linemen, and resources to test and improve the technical capabilities of some of the newer, cleaner DG.
- Examine ways in which utilities, through the C&LM fund, can promote cost-effective combined heat and electricity.
- Explore role Clean Energy fund has had in promoting clean DG. Examine and refine goals of Clean Energy fund with respect to clean DG.
- Explore ways in which Clean Energy fund and C&LM fund can coordinate their efforts to promote clean DG.
- Distribution companies, with the assistance of public funds such as the Clean Energy Fund, should participate in demonstration projects involving the interconnection of clean DG, such as fuel cells, with the distribution system.
- Recommend policies to promote replacement of older diesel generators with clean DG.
- Recommend RD&D projects, funded by the Clean Energy Fund and/or the C&LM fund, to develop and promote smaller clean DG units. Unlike DG generators in the 5 MW to 10 MW range, DG units of less than 5 MW is an emerging market.

E. GAS SUPPLIES FOR POWER PLANTS AND DISTRIBUTED GENERATION IN SWCT

The Department expresses its concern about the adequacy of gas capacity to power additional gas generation. Should there be a desire to build new gas plants or to repower existing gas plants in Southwest Connecticut, there is inadequate capacity currently in place locally to supply the load. Incremental local capacity could be installed as long as the customer (power plant) was willing to pay the costs to install the additional capacity. Also, there would be a need for upstream capacity that is available on a non-firm basis. Incremental upstream capacity could also be provided if the customer (power plant) were to make the required commitment. Traditionally, power plants have been hesitant to invest in long term capital projects to provide for the facilities necessary to assure them service. Where they have invested in capacity, it has usually been only limited capacity, that is, it does NOT include capacity all the way back to the source of gas, but relies on the use of unused capacity held by others. Also, some power plants have chosen to commit only to a portion of the volume they need to provide service.

Should there be a desire to build distributed power units in Southwest Connecticut, the issues are similar to those of power plants. To the extent that the units are chosen to be firm customers of the local distribution companies (LDCs), the LDCs would arrange for the necessary facilities. It is anticipated that the LDCs would require long term commitments from any large loads to protect their capital investment.