

Statement of Robert Klee

Commissioner of the Connecticut Department of Energy and Environmental Protection

State Policies and Wholesale Markets Operated by ISO-New England, Inc., New York Independent System Operator, Inc. and PJM Interconnection, L.L.C.

Docket AD 17-11-00

I would like to thank the Staff of the Federal Energy Regulatory Commission (Commission) for convening this dialogue about state policy and the regionally organized wholesale markets, and for recognizing the important roles of state policy and federally regulated markets in shaping the mix of energy resources serving electric customers. As the Commissioner of the Connecticut Department of Energy and Environmental Protection (DEEP), I manage the state agency dedicated to conserving, improving and protecting our natural resources and the environment, and to increasing the availability clean, reliable, and affordable energy supplies serving our businesses and communities. DEEP is uniquely positioned to advance the State's integrated approach to developing and implementing environmental and energy policy. Our programs are carefully developed to cost-effectively fulfill the public interest objectives of the State, and to prioritize environment protection, public health and safety, economic growth and jobs, and security needs. I thank the Commission for recognizing the value of a candid discussion about long-term expectations of the ISO-administered wholesale markets and state policies that shape the quantity and composition of resources serving retail electric customers. Connecticut looks forward to participating in the technical conference and to continuing this important dialogue with the Commission, ISO New England, state colleagues, and stakeholders.

Connecticut's energy and environmental policies are formulated pursuant to legislative directives of the Connecticut General Assembly and the Governor. When Connecticut enacted legislation in 1998 to deregulate the retail electric industry, the legislature also established new mechanisms to ensure fuel diversity through clean energy deployment. These included ratepayer funding for utility-administered investments in electricity conservation and load management, and a Renewable Portfolio Standard (RPS) requiring electric suppliers to source 20% of their electric load with Class I renewable energy resources by 2020. In 2008, the Connecticut General Assembly enacted another significant piece of legislation, the *Global Warming Solutions Act*. This statute establishes economy-wide emission reduction mandates, directing Connecticut to reduce greenhouse gas

emissions to 10% below 1990 levels by 2020 and to 80% below 2001 levels by 2050.¹ Connecticut must also comply with federal law and regulation. For example, the Clean Air Act requires states that are non-attainment for criteria pollutants such as ozone to advance a suite of emission reduction strategies on specific timetables to reach attainment with National Ambient Air Quality Standards.

In 2013, Connecticut enacted *An Act Concerning Affordable and Reliable Energy* modifying the RPS, and authorizing DEEP to develop a competitive solicitation to secure cost-effective, renewable generation resources to meet the State's environmental and energy goals. That legislation was expanded in 2015.² The General Assembly is now considering Senate Bill 106 that would extend existing law to provide for assurance of a diverse portfolio of baseload energy supplies serving the State.³ These statutes illustrate some—certainly not all—of Connecticut's significant energy and environmental policy initiatives.

There may be some degree of uncertainty about federal climate change policy, but climate change remains a serious issue. As a coastal state, climate change poses material threats to Connecticut's infrastructure, and our economy. The 2014 National Climate Assessment projects global sea levels will rise between one and four feet by 2100.⁴ Even without any increase in storm strength, a two-foot sea level rise more than triples the frequency of dangerous coastal flooding throughout most of the Northeast.⁵ Connecticut has several substations located near the coastline, which threaten reliability on the grid during even relatively moderate flooding situations. Connecticut's Climate Preparedness Plan further warns of negative climate change impacts to Connecticut's agriculture, infrastructure (especially coastal infrastructure), natural resources, and public health.⁶ These climate trends are already threatening the reliability of the New England electric system during relatively moderate storms and flooding, necessitating significant ratepayer investment in distribution system hardening, and relocation or reinforcement of critical substations located along Connecticut's coastline.

¹ Conn. Gen. Stat. §22a-200a

² Conn. Gen. Stat. §§ 16a-3j, 16a-3f & 16a-3g.

³ SB 106, *An Act Concerning the Diversity of Baseload Energy Supplies in the State and Achieving Connecticut's Greenhouse Gas Emissions Mandated Levels*, available at https://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=SB00106&which_year=2017.

⁴ *Climate Change Impacts in the United States: The Third National Climate Assessment: Northeast*. USGCRP. 2014

⁵ *Climate Change Impacts in the United States: The Third National Climate Assessment: Northeast*. USGCRP. 2014

⁶ Connecticut Climate Change Preparedness Plan. 2011

Connecticut is addressing these threats to the economy, the environment, and the reliability of our grid by supporting the deployment of microgrids for critical infrastructure, distributed generation, and investing in energy efficiency that contribute to a diverse portfolio of clean, reliable, and resilient energy supplies. Central to our state strategy is our ability to support a reliable and cost-effective low-carbon electric grid and reduce production of harmful greenhouse gas pollution while supporting innovation and advancement in clean energy technologies.

The wholesale markets in New England are designed to achieve electric reliability at least cost based on principles of operational and economic efficiency. These markets are not intended specifically to encourage technologically innovative or renewable generation development, and over time have reduced the diversity of generation technologies serving customers. Over the last 15 years, the share of gas-fired generation capacity in New England has increased from approximately 15% in 2000 to 50% of regional capacity supplies, and that dependence is expected to grow.⁷ As a result of low-cost natural gas, non-gas generation resources struggle to remain profitable. These resources' exit from the market would further degrade the fuel diversity of the region's capacity portfolio.

Connecticut has valid concerns that fuel neutrality creates a current market preference for natural gas generation which results in significant risks to system reliability. Natural gas supply infrastructure has not kept pace with the growth of gas-fired generation capacity on the New England system. Yet, even with the needed infrastructure in place, reliability risks accompanying such excessive dependence on one fuel type are greater than risks accompanying a diverse capacity resource portfolio. Connecticut appreciates efforts by ISO New England to maintain reliability, such as the winter reliability solutions to ensure fuel security and capacity market reforms seeking to incentivize capacity suppliers to perform, but these high-cost solutions do not achieve Connecticut's broader policy goals.

The New England centralized capacity market is meant to provide sufficiency capacity supplies; it is not designed to deliver diverse or carbon-free resources. Centralized wholesale markets are one way, but not the only way, to manage the procurement of capacity. As discussed above, the Connecticut General Assembly has enacted several statutory provisions authorizing DEEP to competitively procure new, clean energy resources to meet state

⁷ See "Resource Mix," available at <https://www.iso-ne.com/about/key-stats/resource-mix>

environmental mandates. Connecticut relies on these competitive procurements for clean energy as the principal tool to achieve the state's policy objectives. Connecticut has found that these resources contribute to reliability by enhancing diversity, help to improve winter reliability needs, act as a hedge against volatile fossil fuel prices or shortages of fuel supplies (even in the event of an interstate natural gas pipeline contingency), improve environmental conditions by reducing air emissions, create clean energy jobs, and enhance the quality of life in the state. The competitive renewables procurement program is critical to advancing the State's energy and environmental policy objectives.

The DEEP's renewables procurement program has been inaccurately characterized as "subsidizing renewable generation." The program is not a subsidy. Potential suppliers compete on a variety of economic and other factors in an open, transparent, and competitive process to sell a premium product. Rather than offering a subsidy, Connecticut is directing the regulated utilities to enter into market-based, long-term contracts for renewable energy credits and/or energy, and possibly capacity. The utilities' procurement of the premium product on behalf of retail electric customers advances important state policy goals.

A cooperative approach supporting an overall market design that meets resource adequacy needs, and includes the combination of wholesale markets and state policy, should be achievable. To this end, any reforms should be true to the foundational market design objectives of the capacity construct, rather than assume those objectives will continue to be achieved. Importantly, it makes little sense to force utilities in deregulated states to purchase resources that the state does not want or need. Municipal utilities in New England and regulated utilities throughout the country can choose the generation resources they want and may pay more or less to diversify their fuel mix, encourage renewable development, or meet other electric system or public policy objectives. Deregulated states should be able to do the same. The Commission should seek to avoid imposing additional costs on consumers or take other measures that prevent a deregulated state like Connecticut from achieving its policy goals.

A cooperative approach has worked successfully in a variety of arenas. Connecticut and the other New England states have also been engaged cooperatively with regional market participants in the past to advance

necessary market rule changes that are harmonized with state public policy needs.⁸ For example, the New England states supported the implementation of a demand curve in the ISO-New England capacity market; state support was premised on generator acceptance of a renewable exemption that allowed a modest amount of new renewable resources entering the capacity market each year. The potential for future state support for market mechanisms to accommodate state public policy will depend upon reaching solutions that honor past compromises and are not subject to perpetual renegotiation.

Connecticut supports the Commission's determination to open wholesale markets to energy efficiency and demand response products, and applauds the Commission's inquiry into market reforms to accommodate emerging technologies like storage. Looking ahead, Connecticut is hopeful that the Commission's capacity reforms respect the jurisdictional interests of the state and the diversity of policy priorities among the individual states. By respecting states' determination of policy goals and resource needs, this Commission will ensure the reliable and affordable supply of electricity to the New England region.

Because achieving carbon reduction and clean energy goals are vitally important to Connecticut, DEEP staff have engaged fully in the stakeholder initiative to integrate markets and public policy, and have also met individually with several proponents of long-term market designs. Connecticut will continue to analyze a broad range of potential market solutions to accommodate and/or achieve our resource goals while considering the overall impact to the existing market construct, with the goal of coming to a solution that reasonably meets the objectives of all market participants and stakeholders.

Thank you for the opportunity to offer Connecticut's perspective on this important topic. Connecticut welcomes broadening the dialogue and working with the Commission to achieve the shared objectives of ensuring reliable, diverse, safe, and cost-effective electric supplies in New England.

⁸ Delaware, Maryland, and New York, the New England states have successfully implemented the RGGI. This programs works well because it operates on an opt-in, consensus basis, respecting individual state sovereignty while capitalizing on the scale economies achievable in multi-state markets