The Energy And Technology Committee

March 1, 2011

S.B. 1081: An Act Concerning

Class III Renewable Energy Credits

Testimony of

The Office of Consumer Counsel

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The OCC has reviewed and has some concerns about S.B. 1081. A small, short-term expansion of the Class III portfolio requirement might be acceptable but a longer term ramp-up in such requirement would be unwarranted until we can have a more detailed discussion of whether the Class III credit approach to achieving more combined heat and power ("CHP") resources or energy efficiency continues to be a sensible one.

Class III credits are similar to a form of currency. Customers who build and operate combined heat and power facilities or engage in energy efficiency are eligible to receive Class III credits. Electric suppliers are then required to buy some of those Class III credits in order to comply with the Class III portfolio standard requirement of Conn. Gen. Stat. § 16-243q.

Class III credits, then, are something of a "market" approach to trying to develop energy efficiency or CHP. On the other hand, we also by law have a major programmatic approach to developing energy efficiency, that is, through the ratepayer-funded Energy Efficiency Fund ("EEF"), and savings achieved through EEF programs result in distribution of Class III credits. We also until recently had a major statutory, programmatic approach to developing CHP units though ratepayer-funded incentive grants under Conn. Gen. Stat. § 16-243i, and many of the realistic locations for CHP are already developed or are being developed pursuant to those grants.

It is very difficult to successfully coordinate market and programmatic approaches to developing similar resources, and the Class III situation is no exception. We presently have a glut of Class III credits with no clear chronological end in sight, with many holders of Class III credits holding valueless paper.

A short-run and partial solution to the glut might be a relatively small increase in the Class III renewable portfolio standard. This would raise ratepayer bills only slightly while giving a greater percentage of Class III credits some value as they expected to receive. For the long-term, though, the State really needs to decide whether it wants to promote efficiency and CHP strictly through programs or through a Class III credit construct. The programmatic approach seems more likely to produce the desired results. Class III credits and similar renewable energy credits tend to have very volatile values – one is either in surplus, and the credits have low value, or one is in shortage and the credits have value near the cap price. Thus, parties and financiers would find it difficult to value a Class III credit income stream. In other words, for CHP or larger efficiency projects, the promise of Class III credits may have little to do with whether a project is installed. In that event, the Class III credit approach is adding costs for ratepayers but not really serving its purpose.

Therefore, we should not create another long-term, ever-increasing portfolio standard as the bill proposes. The targets in the proposed bill for Class III credits are not based on any analysis of supply availability or cost of which OCC is aware. To help ameliorate part of the existing glut, a small increase in the Class III portfolio standard could be implemented for the short run, but, to be fair to electric suppliers, it should not be effective immediately. In the long run, the Class III credit program itself warrants review. The Connecticut Energy Advisory Board is presently conducting a review of the Renewable Portfolio Standards generally and perhaps its next topic should be the Class III program.