



Dannel P. Malloy
GOVERNOR
STATE OF CONNECTICUT

July 11, 2017

The Honorable Denise W. Merrill
Secretary of the State
30 Trinity Street
Hartford, CT 06106

Dear Madam Secretary:

I hereby return, without my signature, House Bill No. 6304, *An Act Concerning the Use of Combined Heat and Power and District Heating Systems and Requiring a Study of the Viability of New District Heating Networks in the State as Part of the Comprehensive Energy Strategy*. This bill would authorize the creation of a thermal heating loop in the City of Bridgeport that would be fully subsidized by all ratepayers of the local utility without proper consumer protections or appropriate regulatory oversight.

There is no doubt that Connecticut must continue its leadership role in promoting, developing and powering our state through clean energy, including the use of fuel cells, a technology where Connecticut is a clear leader. Connecticut has also led the way, through our first in the nation Green Bank, in developing innovative financing systems to leverage private capital for clean energy projects. The goal of this bill, to create electricity and heat using fuel cells to serve an energy district heating system in Bridgeport, is certainly commendable. Such a project, if properly planned and with the right consumer safeguards in place, could bring with it significant benefits. I am concerned, however, that this bill does not contain such necessary safeguards.

First, House Bill No. 6304 grants one developer in one municipality access to ratepayer funds to create a district thermal system without a competitive process to ensure that the best project is selected, with fair terms and at a reasonable price. While the utility would use what the bill calls a competitive process, there are no standards for that process in the bill and no authority for the Public Utilities Regulatory Authority (PURA) to ensure that one is followed. This project was proposed during a competitive clean energy procurement process conducted by the Department of Energy and Environmental Protection in 2016, but it failed to be selected because it would have cost ratepayers much more than competing proposals. Had this project been chosen, it would have cost ratepayers \$8.6 million more each year and \$173 million more over the 20-year contract term than the average cost of other fuel cell projects proposed for that procurement.

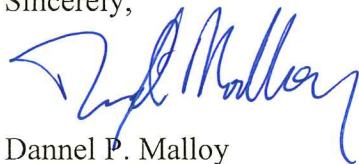
Second, it places all the financial risk on ratepayers and none on the private developer. The legislation requires ratepayers to cover all the costs of the fuel cell plant while forfeiting all revenues from the project's capacity and Renewable Energy Credits (RECs) to the developer. I have never signed a bill that does not credit back to ratepayers the value of the electricity, capacity, or RECs produced by the clean energy facility. These asymmetric terms exacerbate the impact on ratepayers and create a bad precedent. In addition, while I have no doubt that the city is serious about developing a thermal loop, this bill requires that ratepayers finance the construction of the fuel cell plant with no guarantee that the thermal loop will be built or that a sufficient number of customers will be enrolled. Existing law requires enrollment of customers before ratepayer subsidies are awarded; this bill removes that protection. Bridgeport residents, whose rates will increase to finance this project because they are customers of the utility that would own it, also are guaranteed no other benefits under this bill.

Third, the bill deprives PURA of any ability to refine the technical or the financial details of the system proposed under this bill. Not only can PURA not specify the standards for the utility's selection process, it cannot recommend changes to any other details. This bill cedes all of the decisions to the utility, removing PURA from its proper role in evaluating and refining the proposal to require consumer protections or features that enhance the overall energy grid.

The state already has mechanisms for financing clean energy systems and creating local energy districts so that communities can share in the benefits of clean energy, while giving PURA appropriate power to ensure that all ratepayers are protected from undue risk. These include avenues for large-scale fuel cell procurement under Public Act 17-144, which my administration introduced and which I signed on June 28, and existing legislation to fund projects considered "Best of Class." Public Act 15-5, passed in June 2015, already provides customers of district thermal systems incentives to encourage their enrollment. The level of incentives provided through that Act is benchmarked to the value of incentives provided for all natural gas customers who reduce their gas usage. I respect the proponents of this bill and their sincerity in proposing it. I am willing to work with them to make sure that Bridgeport can develop a clean, efficient district energy system that includes sufficient protections for the public and ratepayers, and I look forward to discussing how to do so. This bill, however, is not the right approach.

For this reason, I disapprove of House Bill No. 6304, *An Act Concerning the Use of Combined Heat and Power and District Heating Systems and Requiring a Study of the Viability of New District Heating Networks in the State as Part of the Comprehensive Energy Strategy*. Pursuant to Section 15 of Article Fourth of the Constitution of the State of Connecticut, I am returning House Bill No. 6304 without my signature.

Sincerely,



Dannel P. Malloy
Governor