UCONN
PUERTO RICAN STUDIES INITIATIVE

El Instituto: Institute of Latina/o,
Caribbean and Latin American Studies
College of Liberal Arts and Sciences

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Representative James Sanchez
Connecticut State General Assembly

Wholesale Marketers Reforms

Dear Representative Sanchez,

I am writing on behalf of my colleague Volodymyr Gupan and the UConn Puerto Rican Studies Initiative (UConnPRSI) in response to your request to clarify some of our recommendations for energy report in Connecticut. As per our conversation, we identified two core areas of reform that could be achieved without significant costs to the state. Unlike other reforms that focus on the tail end of electrical markets, we believe that the focus should be on the ***supply end*** of energy. This memo focuses on **Wholesale Marketers Reforms.**

We believe that these reforms could help to significantly lower costs for consumers and can still foster the expansion of renewable energy sources in Connecticut. This is crucial because upwards of 64% of Puerto Rican and Latinos in Connecticut are renters, and like other renters in the state, they pay for energy subsidies that they cannot enjoy because Connecticut energy policy is primarily designed to support homeowners. The proposed energy reforms that can lower cost for renters will also lower costs for homeowners.

Why Deregulated Electricity Markets Are not Working for Connecticut and How to Fix them For the Benefit of Ratepayers

The Connecticut state legislature began to reduce regulations on energy markets in 1998. Deregulation is the separation of power generation from, transmission and distribution. Deregulation was supposed to break up utility monopolies and make electricity cheaper through competition. It followed that United Illuminating Company (UI) and Eversource would not own any power plants in Connecticut. In addition, the state would cease to regulate wholesale prices and to whom energy generators were selling energy. But instead, it created a **new class type of player in the electricity markets** — unregulated wholesale power marketers. Unregulated wholesale power marketers are entities that ***only buy and resell electricity without producing it,*** without investing into grid or owning any energy assets. Energy assets are electrical power plants, transmission and distribution infrastructure in Connecticut. Wholesale marketers calculated prices of energy by pure market speculation.

Currently, there are at least twenty-two wholesale marketers operating in Connecticut. However, six of these control about 81% of all energy sales. These include Constellation New Energy, Inc.; Direct Energy Business; ENGIE Resources LLC; BP Energy Retail LLC; Calpine; Energy Solutions, LLC; Town Square Energy. In contrast, Texas has upwards of 130 wholesale energy market companies and not a single one has a share higher than 11% of the total sales in the state.

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The Deregulation of Wholesale Markets Created a Number of Problems:

1. Deregulation Created Consolidated and Unregulated Actors

Unregulated wholesale power marketers have all but consolidated electricity markets. The goal of deregulating was to make the purchase of electrical energy more competitive and possibly cheaper. Instead, deregulation allowed a small number of wholesale marketers to control the wholesale electricity market—**without the oversight that applies to traditional utilities in regulated markets**. These wholesale power marketers operate in Connecticut, but their trading and marketing practices cannot be regulated in the same way as utilities are, no matter how much electricity they sell to utilities.

2. Wholesale Marketers Don't Produce Power—They Just Resell It

In Connecticut's, wholesale marketers do not generate electricity they just **buy it from power plants or ISO New England and resale it**, often at inflated or higher prices. For example, in 2023, the ISO New England price was $70 per megawatt-hour (MWh), but that same year Constellation NewEnergy Inc. was selling electricity to Eversource for $175 per megawatt-hour (MWh). That means that **ratepayers are more likely to pay more** for electricity in Connecticut without any benefit for themselves. Even if residents shop for alternatives to standard service, the amount they pay is still far above wholesale market prices, sometimes 150% or more.

3. Renewable Portfolio Standard Mandates Add Some Cost—But They're Not the Main Driver

The Renewable Portfolio of Standards (RPS) is a regulatory policy that requires electric utilities and other providers to supply 38% (at the time of this writing) of the electricity consumed in Connecticut with electricity generated from renewable sources like solar, wind and biomass. While renewable energy policies do increase the per-megawatt cost of generation, they only make up about **15% to 20% of the price compared to wholesale price**. Publicly available information from Eversource suggests that resell price margins for large wholesale contracts in Connecticut are generally 90% to 190% higher than prices in ISO New England wholesale markets. Hence the biggest cost drivers are **contracts between utilities and unregulated wholesale marketers**, approved by the state's utility regulator (PURA) twice a year.

4. Ratepayers in Connecticut Pay Significantly Higher Prices Under These Contracts

From Eversource's reporting to Federal Energy Commission (FERC) it is clear that **wholesalers charge far more than the price in ISO-NE wholesale market**. Renewable Energy Certificates or RECs are certificates that are issued when one megawatt-hour (MWh) of electricity is generated and delivered to the electricity grid from a renewable energy resource. REC's might add between 15% and 20% of costs (although we don't know for certain). But a big chunk of the added prices comes from the **speculative markup or** middleman premium created by wholesalers.

5. Connecticut Residents pay for Natural gas Power Plants, but these do not have to sell their energy to the residents of Connecticut

Many gas plants in Connecticut have contracts that are paid for by state ratepayers (covering up to 80% of their costs) – a so called cost for difference obligations (CfD). However, these plants aren't required to sell that electricity back to Connecticut utilities. They can sell to anyone. So, we **pay to keep them running and compensate them if natural gas prices are too low**, but **don't benefit from the power they generate**.

We Recommend the Following Solutions to Address the Latter Problems:

Even though the state can't regulate wholesale prices directly, it can take the following steps to protect ratepayers and ensure the availability of the abundant and affordable electricity supply.

1. First Refusal Rights for Connecticut Utilities

The state can't set wholesale prices or force power generation plants to sell energy to specific market participants under FERC and ISO New England rules. However, it **can require in-state plants to offer their power to local utilities first**, before selling elsewhere, this practice is called **the right of first refusal**. This doesn't interfere with pricing or stability (main concerns for ISO NE and FERC), but ensures we **benefit from the capacity we're paying for**.

2. Create a Quasi-Public Wholesale Supplier

Connecticut should launch a **publicly owned, non-profit power wholesaler** to compete with for-profit unregulated marketers – *Connecticut Energy Corporation (CEC)*. This state corporation would break wholesale electricity market monopoly and stimulate a higher degree of competition. It would also lower prices during the first 6 months after it enters the wholesale market. There are already non-for-profit entities that operate in electricity markets in many states and FERC does not have any concerns about such players. Some examples include Massachusetts Municipal Wholesale Electric Company, Connecticut Municipal Electric Energy Cooperative, New York Power Authority (NYPA), American Municipal Power - multi-state nonprofit electric power agency serving 135+ public utilities in OH, PA, MI, VA, WV, and others.

In addition, if the state of Connecticut wishes to do it, in several years after CEC is established as a market player within ISO New England, it can offer its services to utilities in other states but with slightly higher profit margins. These additional profits can then be used to sponsor green and other energy policy initiatives in the state without adding them to the public benefits charge on ratepayers' bills, potentially eliminating these charges all together.

The CEC could be an umbrella agency that would house Connecticut Green Bank, Wholesale Trade division and Renewable Energy Investment and Development division. Such structure would ensure that Connecticut's transition to green energy is done in the most effective way possible while, ratepayers in the state would not carry the brunt of such investments. It would also allow PURA to focus its attention on utilities and ensure that grid and transmission spending benefits the Connecticut the most.

3. Tax Windfall Profits

While per FERC rules the state cannot regulate wholesalers or influence wholesale prices, it **can tax them**. Taxation authority is an exclusive right of the states and FERC or ISO New England have no ground to challenge it. Windfall taxes are an instrument that is usually applied on entities and industries that post profits that are significantly higher than normal either due to market conditions or policy loopholes or both. In the case of wholesale power marketers, a **windfall tax** could apply to sales that are **15% or more above the ISO-NE market price,** where 15% is what is described as a reasonable profit margin for electricity trade. The way a tax can be structured is the higher the margin, the higher the tax. For example:

- All profits above 15% but below 25% = could be taxed at 5%.
- Every subsequent 10% increase in price = could result in an additional 5% in taxes.
- If wholesalers try to increase the price to try to pass the cost increase onto consumers the tax will eventually cut out any margin, they could have potentially had above wholesale price +15%.
- Revenues received from windfall tax can be used to offset part of consumer electric bills.

Such tax mechanism keeps opportunistic pricing in check—without violating federal rules, since it does nothing to influence ISO New England wholesale market prices, it allows reasonable additional 15% margin, and it does not create a mandated price floor or ceiling. And wholesalers are free to set any price they want. Such taxation is allowed under all rules and regulations. Just because a wholesale power marketers cannot make the profit it wants or expects to make, it does not mean that the state is engaging in price setting or regulation.

Let us reiterate a central point here, ***the proposed recommendations can reduce energy costs without changing Connecticut's green or renewable energy goals.*** These reforms can result in lower energy costs for utilities that distribute energy in Connecticut, while at the same time significantly reduce rates for consumers throughout the state. Please feel free to contact us if you have any additional questions or queries.

Sincerely,

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