



141 Tremont St., Boston, MA 02111

(t) 617-902-2354 (f) 617-902-2349

www.nepga.org

MAINE JOINT COMMITTEE ON ENERGY, UTILITIES AND TECHNOLOGY TESTIMONY OF THE NEW ENGLAND POWER GENERATORS ASSOCIATION 2015 – LD 1315

Thank you for the opportunity to provide this written testimony. My name is Dan Dolan and I am the President of the New England Power Generators Association, Inc. (NEPGA). NEPGA is the trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 megawatts (MW) of generating capacity throughout New England, and over 3,100 MW of generation in Maine, or 92 percent of the electric generating capacity in the state. NEPGA's Maine companies provide power for the state from a portfolio of plants, including natural gas, oil, and hydro. Overall, these companies pay roughly \$16.5 million annually in state and local taxes, while providing nearly 200 well-paying and skilled Maine jobs. Our mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA opposes LD 1315 and the opportunity for transmission and distribution utilities to own generation assets.¹ The State of Maine made the correct choice in 2000 when it pursued the development of a competitive electric industry structure. Power generation was functionally separated from transmission and distribution, or the wires. Competition was introduced into the supply of electricity and competitive generators built efficient, state-of-the-art plants and purchased many former utility facilities. All such investments were made by competitive generators at their own costs and with no guaranteed cost recovery or guaranteed profits, as was done under the previous monopoly utility regime and is being contemplated in this legislation. The restructured market rightly transferred

¹ The views in this testimony reflect those of NEPGA and not necessarily the position of each individual member.

the risk of development from the ratepayers to shareholders. A return to the old non-competitive electric industry model would cause irreparable harm to the billions of dollars already invested in Maine by competitive generators, would create increased costs and risks for consumers all without any appreciable benefit.

Ironically, at the same time as this hearing is being held, the New Hampshire House Science, Technology & Energy Committee is holding a hearing on a bill to implement a settlement for the last remaining vertically-integrated utility in New England to divest its rate-base power generation fleet. The settlement reached between Eversource, the New Hampshire Governor's Office, members of the legislature and other parties – including NEPGA – determines that the continued rate-base ownership of generation is not in the public interest. This comes after years of uneconomic costs to maintain, upgrade, run and provide guaranteed profits on the utility-owned plants. At the very moment that the last investor-owned utility in New England is looking to leave the power generation business Maine is considering turning back the clock.

This is simply not the way forward for Maine.

Competitive Markets Have Delivered Real Benefits

Over a decade ago the New England region and much of the country moved to a competitive electric industry structure. Essentially all utilities separated their generation function from the transmission and distribution, or “wires” function.² Companies such as NEPGA's members invested tens of billions of dollars in the region buying these facilities, investing in upgrades and developing new power plants. The premise underlying this particular component of electric industry restructuring was to allow market forces and transparent pricing to guide business decisions of owners and operators of *all* generation facilities.

² Vermont investor-owned utilities own approximately 100 MW of generating facilities and Eversource Energy owns 1,100 MW in New Hampshire. Eversource announced a settlement with the State of New Hampshire in March 2015 to divest its generation assets and discussions to finalize this settlement are currently underway.

Some specific examples of the benefits of electric competition to the region include:

- ***New, Clean Generation for New England.*** Since the late 1990s, generation developers have invested in new facilities providing over 13,100 MW of new, clean generation for New England. And, competitive generation developers have absorbed risks of cost overruns and bad investment decisions, shielding consumers from these risks, unlike in the old monopoly utility regime. Generators have also made massive investments to update old plants, bring them into environmental compliance and drastically improve efficiencies.
- ***Greater Plant Availability.*** At the same time, plant availability – or the amount of time that plants are available to run when asked to do so – has increased from 78 percent to 88 percent. This increase is enough to power an additional 1.96 million New England homes. And, the improved availability of generators saves consumers hundreds of millions of dollars annually by providing lower cost energy and allowing reliability to be met with fewer plants.
- ***Decreased Environmental Emissions.*** Environmental emissions across the region have decreased with CO₂ emissions down by 18 percent; NO_x emissions down by 66 percent and SO₂ emissions down by 71 percent.

Utility Ownership of Generation Runs Counter to Intent of Competitive Markets

Prior to electric restructuring, consumers bore all the costs of utility ownership of generation, including risks of cost over-runs, schedule delays, poor generator performance and stranded costs. In the restructured market, a competitive electric supplier's ability to survive is predicated on innovation, risk management and a vibrant focus on unit availability and efficiency. The monopoly ownership model led to serious cost overruns and stranded costs by utilities which ratepayers just recently paid off. Under this old model, utilities shifted all financial risk of ownership onto their captive ratepayers. A return to this model ignores the very real opportunities available to the region through privately-funded generation resources.

It should also be noted that having consumers foot the bill to build new plants will not lead to lower rates, as the bill's intent is purported to be. As described further below, Maine is a net exporter of electricity. This means that Maine not only has more than sufficient electricity generation to meet its own needs, but has excess to sell to other parts of New England. Maine sells so much excess power in fact that the regional transmission lines are maxed out in their capacity to ship out power. Further increasing Maines "generation long" position will not lower electricity supply costs – those are driven by inputs like the cost of fuel and operating the facilities. Instead, they would likely increase consumer costs by adding a facility (or facilities) that would have to be supported by ratepayers regardless of its economic viability plus a guaranteed rate of return and profit for the utility. Today, plants in Maine must survive or fail based on their ability to be lower cost than their competitors with no cost or profit guarantees. In fact, it is not unusual for some plants in the competitive marketplace to run at a loss.

Maine's Role in the Regional Market

All the New England states are part of one regional electric grid, the New England Power Pool (NEPOOL), administered by the Independent System Operator New England (ISO-NE). All the plants throughout the region are given an opportunity on a daily basis to submit bids to run that day to provide electricity to the whole region. Throughout the history of the NEPOOL, Maine has been at times both a net exporter and importer of energy. With the operation of Maine Yankee nuclear power plant beginning in 1972, Maine was generally an exporter of power. This situation changed when Maine Yankee experienced problems in the early 1990s and when it ultimately shut down in 1997. Without Maine Yankee's 900 MW of base load generation capability, Maine again imported more power than it exported.

The introduction of competitive regional markets in May of 1999 swung the balance back in the other direction. Between 2000 and 2001, nearly 1,700 MW of new clean and efficient generation entered commercial operation in Maine. With some of the newest, most efficient, and cleanest power generation in the entire country, Maine once again

became a net exporter of electric power. Throughout this period, being part of a much larger power pool has helped Maine to reliably weather the imbalances of supply and demand that occur in the electric industry. Since 2000, private companies have invested more billions in new, modern power plant capacity, adding more than 13,000 megawatts of supply, much of it in Maine. These investors entered Maine with the clear expectation that they would be able to provide low cost and efficient power in a competitive power market. And despite the success of competitive electricity markets in attracting new resources, additional increases in generating infrastructure are necessary in a region that experienced a peak in electrical demand of 28,048 MW in July, 2006.

No Sound Rationale Exists to Abandon a Competitive Model

Advocates of allowing utilities to build generation resources offer no sound rationale for abandoning competitive markets. To build new, low-cost plants there needs to be a pool of willing private developers. Since moving to restructured electric markets in the late 1990s, over 13,000 MW of new generation has been built in the region.

In fact, we are just now starting to see the beginning of another round of new investment of power generation facilities with 79 generation projects totaling 11,300 MW currently with applications pending to connect to the New England grid. This amount is equal to 1/3 of the total capacity needed in the region to keep the lights on and represents a diversity of fuel sources. Over 8,500 MW of new resources were qualified to compete in the ISO-NE's recently concluded Forward Capacity Auction (FCA) to line up resources to meet New England's capacity supply needs in 2018. The ISO-NE successfully completed its annual forward capacity market auction on February 2, 2015 securing adequate resources to meet system reliability in 2018 and attracting investment in new generation resources. New generation resources totaling 1,060 MW cleared the auction. This brings to over 1,700 MW of new power plants that have cleared recent auctions and currently under development in the region. The window for resources to express interest in the upcoming FCA in early 2016 recently closed with 16,000 MW of new resources providing expressions of interest.

This pool of available private developers has the specific experience, expertise and skills to cost-effectively build new generation. Some have argued that only by allowing utilities to build will the region see any new, low-cost generation developed. This is simply not true. Generation should be built through competition on a level playing field, with shareholders bearing the risk of any investments, not consumers. There is no sound rationale to pursue any other path.

Notably, this bill also goes well beyond the existing authority for affiliates of utilities to build, own and operate power generation affiliates with the appropriate protections put in place by the Maine Public Utilities Commission (PUC) and the Federal Energy Regulatory Commission. As NEPGA stated in a recent PUC docket on this issue:

From a generic policy perspective, NEPGA believes that an affiliation of a [transmission & distribution] utility with a generator subject to the appropriate state and Federal safeguards, should not, by itself, be considered to be an impermissible financial interest. This is consistent with policy in other New England states and it is consistent with existing standards of conduct.³

The situation contemplated in LD 1315, however, goes well above and beyond this. Rather than an affiliate owning and operating a power plant on its own balance sheet to compete in the marketplace, this bill would move such actions to rate-base guarantees.

Conclusion

Competitive electric markets and the transfer of risks of generation ownership from captive ratepayers to generator shareholders have greatly benefited the region. Not only have consumer risks been reduced, the region's plants have experienced greater reliability and efficiency, and less environmental risk, all while ensuring the lowest possible costs. To abandon this policy direction and allow utilities to re-enter the generation business would unduly compromise these real benefits.

For these reasons, we ask the Committee to not pass LD 1315 and to instead preserve competitive electric markets. Thank you for the opportunity to provide this testimony.

³ NEPGA Comments to Maine PUC, Docket No. 2011-170 – Bangor Hydro Electric Co. and Maine Public Service Co., Request for Exemptions and for Reorganization Approvals.