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TESTIMONY

OF

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ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

2015 – Senate Bill 1078 and House Bill 6985

JOINT COMMITTEE ON ENERGY AND TECHNOLOGY

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Good afternoon and thank you for the opportunity to testify. My name is Dan Dolan and I am the President of the New England Power Generators Association, Inc. ("NEPGA").[1] NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies own approximately 25,000 megawatts (MW) of generating capacity throughout New England, and over 6,900 MW of generation in Connecticut, or nearly 80 percent of the electric generating capacity in the state. Our mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's six Connecticut companies provide power for the state from a diverse portfolio of plants, including natural gas, coal, oil, hydro, and nuclear. Overall, the companies pay over $90 million annually in state and local taxes, while providing over 1,700 well-paying and skilled Connecticut jobs. Our companies are good corporate neighbors, contributing to the civic and charitable endeavors of their host communities, donating over one million dollars annually to charitable endeavors throughout the state.

I. NEPGA's Position

NEPGA has serious concerns with Senate Bill 1078 (SB 1078) and House Bill 6985 (HB 6985) in their current forms. While NEPGA is supportive of consumers enjoying affordable and reliable energy, we have concerns with some of the suggested methods for achieving this goal in both bills. Specifically, we have concerns with providing the Department of Energy and Environmental Protection (DEEP) with broad authority to enter into long-term contracts and potentially funding natural gas pipeline in the region through Connecticut's electric distribution company (EDC) customers.

To more fully detail our concerns, our testimony first summarizes some of the points we recently made in comments to the DEEP regarding its draft 2014 Integrated Resource Plan (IRP) including regional infrastructure policy discussions, current market responses and our concerns with authorizing DEEP to conduct additional competitive procurements. Then our testimony addresses the issue of financing natural gas pipeline

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

expansion through EDC rates, articulating some of NEPGA's concerns regarding this new policy direction.

II. Regional Policy Discussions

NEPGA supports the ongoing multi-state policy conversations to address the region's energy policy issues but believes strongly these discussions must focus on supporting competitive market solutions, improving siting processes to support infrastructure development and not subsidizing a particular resource or a particular technology type. As detailed below, the New England energy market is at an important inflection point and at every level, market participants are responding to the need for additional energy infrastructure. This market response should continue with government resisting the temptation to step in and pick winners and losers, repeating the policy mistakes that led to massive stranded costs paid by consumers, including more than $3 Billion by Connecticut ratepayers.

III. Current Market Responses

While state policy-makers discuss regional infrastructure needs, a robust market response is underway in response to these needs with proposals representing tens of billions of dollars of investment in New England pending. On the generation capacity side, currently there are 77 projects totaling 11,200 MW with applications pending to connect to the New England grid. 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, including 815 MW at two generation sites in Connecticut. 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. The combination of the high degree of new entry in last month's FCA, the level of interest in development from uncleared resources and the interest in participating in next year's

FCA is a clear indication of competitive generators responding to the market signals in Connecticut and across New England.

In addition to pending generation projects throughout the region, several natural gas pipeline projects have been proposed in New England to bring up to 2.74 billion cubic feet (bcf) of new natural gas infrastructure into the region between 2016 and 2018 including:

- Spectra Energy Corp's proposed 342,000 dekatherm per day Algonquin Incremental Market gas pipeline project targeted for service in November 2016 and the Atlantic Bridge Project which would expand its Algonquin Gas Transmission and Maritimes and Northeast Pipeline systems by 100,000 to 600,000 dekatherms targeted for service in November 2017. In September 2014, Spectra and Northeast Utilities (now Eversource Energy) announced a joint venture to potentially expand these lines by an additional 1 billion cubic feet/day, which can produce approximately 135,000 MWh/day. National Grid announced it would join this partnership earlier this month.
- Tennessee Gas Pipeline Company/Kinder Morgan has announced its Northeast Energy Direct proposal which combines its previously announced Northeast Expansion Project with another pipeline from the Marcellus Shale for 1.2 to 2.2 billion cubic feet targeted for service in November 2018 (500,000 dekatherms per day contracted in New England).
- Portland Natural Gas Transmission System has announced its Continent to Coast Expansion project with an anticipated range of 300,000 dekatherms per day targeted for service in November 2016.

Liquified Natural Gas (LNG) is also part of the robust market response to the region's infrastructure needs. According to the U.S. Energy Information Administration's Natural Gas Weekly Update for the week ending January 21, 2015, "In 2015, there has been an increase of natural gas supplied to the New England and New York areas. The increased natural gas supplies come from three different sources, which include domestic pipeline, imported liquefied natural gas (LNG) that is regasified and then sent out from the importing terminal, and pipeline imports from Canada." In the first three weeks of January 2015, cumulative LNG sendout from the Northeast Gateway floating LNG facility and the Everett terminal, both in Massachusetts, and the Cove Point facility in Maryland has totaled 10 Bcf, according to data from Bentek Energy. This is more than 3.5 times the amount of LNG sendout during the same period in 2014, and 30% more than LNG sendout for the entire 2013-14 heating season (November through March).

Complementing LNG's role and efforts to build new generation plants and expand natural gas pipeline capacity into New England, owners of several existing natural gas-fired power plants in the region are pursuing efforts to retrofit their facilities to have the ability to burn both natural gas and oil. Currently there are six units in the region that intend to commission this dual-fuel capability including four this winter representing 1,039 MW and two for next winter representing 735 MW of capacity.

Finally there are four major transmission proposals pending in New England including the 340-mile proposed Green Line, the 187-mile proposed Northern Pass, the 230-mile proposed Northeast Energy Link and the 150-mile proposed New England Clean Power link. These merchant lines propose to bring 1,000 to 1,200 MW of power each, with target in-service dates ranging from late 2016 to 2019.

These varied resources including generation, natural gas pipelines, LNG and transmission highlight the strong market response underway to meet regional energy infrastructure needs.

IV. Additional Competitive Procurements

NEPGA supports continued regional discussions on energy infrastructure needs, especially as they focus on market solutions, but has concerns about the state viewing state long-term contracts as the panacea for lower energy costs. The history of the energy industry in New England is full of examples of when this approach has led to higher costs. Policy-makers should question how a resource that cannot be built under market economics, if given a subsidy through a long-term contract backed by the state, will yield lower costs for consumers.

The EDCs in Connecticut, Massachusetts and Rhode Island, in conjunction with the DEEP and the Massachusetts Department of Energy Resources (DOER) have released a draft Clean Energy RFP. Connecticut seeks to procure clean energy pursuant to the state's existing authority under Section 7 of Public Act 13-303. If this route were pursued, NEPGA encourages a truly open, transparent and competitive process to be used. Such a process would allow all eligible resources to compete. NEPGA has significant concerns regarding allowing provincially-owned large-scale hydro resources to compete in these potential procurements. If the large hydro requirement were to remain as part of the state's contracting authority, it should at least be modified in such a way to allow for aggregated small local hydro resources to be allowed to compete.

The concerns that drive NEPGA's cautionary position with the states – including Connecticut – pursuing long-term energy contracts pursuant to the draft Connecticut IRP are the same concerns that compel NEPGA to have concerns with SB 1078, specifically Sections 1-3. On a broader policy level, it is not clear what problem the bill sponsors seek to fix through conducting additional competitive solicitations, as the market is responding and promising to deliver necessary resources.

V. Financing of Natural Gas Pipeline Expansion

NEPGA recognizes that ensuring efficient electric supplies in the region is critical, including the ability to bring nearby low-cost natural gas supplies into the region. However, NEPGA fundamentally believes that this investment should be done on a market basis and any state intervention into those investment decisions raise serious concerns. Sections 4 and 5 of SB 1078 address the issue of expanding natural gas pipeline and potential models for financing including allowing EDCs to seek cost recovery for the cost of purchasing natural gas capacity through pricing contracts for new pipeline capacity.

As a fuel neutral organization, NEPGA has several concerns with this proposed financing approach. As with any decision to endorse a specific technology with ratepayer financing there are concerns about over-building the system and unintended consequences that may result. As with comments made earlier regarding long-term contracts the history of the energy industry in New England is full of examples where picking winners and losers through a long-term financing arrangement has led to higher costs when certain market fundamentals shifts were not predicted. Further, by underwriting the delivery of additional natural gas, electric consumers will be subsidizing natural gas pipelines in the region to the detriment of technology sources that may be otherwise economic, and thereby undercutting the highly competitive marketplace. Financing natural gas expansion also creates a bias toward gas-fired generation resources, particularly those located near the targeted pipeline for expansion.

Allowing for the financing of natural gas pipeline expansion through non-bypassable charges from the EDCs represents a fundamental policy shift that should not be taken lightly. If the Committee were to move forward with this approach the legal and market concerns identified above should be addressed.

V. Conclusion

NEPGA appreciates the desire of policy-makers to provide affordable and reliable energy to consumers. However, we have concerns with many of the approaches suggested in this bill, including providing DEEP with broad authority to enter into long-term contracts and potentially funding natural gas pipeline in the region through Connecticut's (EDC) customers. We urge the Committee to consider these concerns and not rush into making the fundamental policy shifts envisioned in SB 1087 and HB 6985 without fully evaluating the risk and possibility of unintended consequences.

Thank you for this opportunity to testify before you today. I would be happy to answer any questions from the Committee.