

**CONNECTICUT JOINT COMMITTEE ON ENERGY AND
TECHNOLOGY**

TESTIMONY OF DAN DOLAN, PRESIDENT

**THE NEW ENGLAND POWER GENERATORS
ASSOCIATION**

2016 – SB 224

March 1, 2016

Thank you for the opportunity to provide this testimony. My name is Dan Dolan and I am the President of the New England Power Generators Association, Inc. (NEPGA).¹ 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 7,000 MW of generation in Connecticut, or 80 percent of the electric generating capacity in the state. NEPGA's Connecticut companies provide power for the state from a portfolio of plants, including nuclear, natural gas, oil, and hydro. Overall, these companies pay roughly \$100 million annually in state and local taxes, while providing nearly 1,700 well-paying and skilled Connecticut jobs. Our mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA opposes SB 224 because it drastically increases the opportunity for electric distribution companies (EDCs) to own generation assets and moves the state away from the important policies this legislature endorsed when it adopted electric restructuring. The State of Connecticut made the correct choice in 1998 when it pursued the development of a competitive electric industry structure to the benefit of consumers. 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. These investments were made by competitive generators at their own costs and with no guaranteed cost recovery or guaranteed profits, as was the case under the previous rate-base utility regime and is being contemplated in this legislation. The restructured market rightly transferred the risk of development from the ratepayers to shareholders. This bill would move Connecticut backwards to the old non-competitive electric industry model. In doing so, the bill would cause irreparable harm to the billions of dollars already invested in Connecticut by competitive generators and would create increased costs and risks for consumers all without any appreciable benefit.

Ironically, while Connecticut considers taking a giant step backwards with this bill, the New Hampshire Public Utilities Commission has just recently concluded hearings on the implementation of 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's New Hampshire utility, the New Hampshire Governor's Office, members of the legislature and other parties determined that the continued rate-base ownership of generation is not in the public interest. This comes after years of uneconomic costs to maintain, upgrade,

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

run and provide guaranteed profits on the utility-owned plants. This settlement was precipitated by a disastrous rate-base construction project at an Eversource-owned power plant.

In 2006, Eversource's New Hampshire utility (also known as Public Service Company of New Hampshire or PSNH) proposed the construction of a scrubber for its Merrimack Power Station to cut sulfur dioxide emissions. The New Hampshire legislature passed enabling legislation with a commitment from PSNH at the time of expected costs for the project of roughly \$250 million. Just five years later, those costs ballooned to \$420 million. That represents a cost overrun of almost 70%. In the face of the uneconomic nature of the scrubber costs as well as the competitive pricing in the wholesale electricity marketplace, in December 2014, the utility requested expedited settlement negotiations with Eversource now stating that it is in the economic best interests of its ratepayers to no longer own generation.

The lessons from Eversource's cost over-runs in New Hampshire should be heeded here. The costs and risks of ratebase generation development are untenable for consumers. At the very moment that the last investor-owned utility in New England is looking to leave the power generation business Connecticut is considering turning back the clock by dramatically increasing the amount of generation that EDCs can own. This is simply not the way forward for Connecticut.

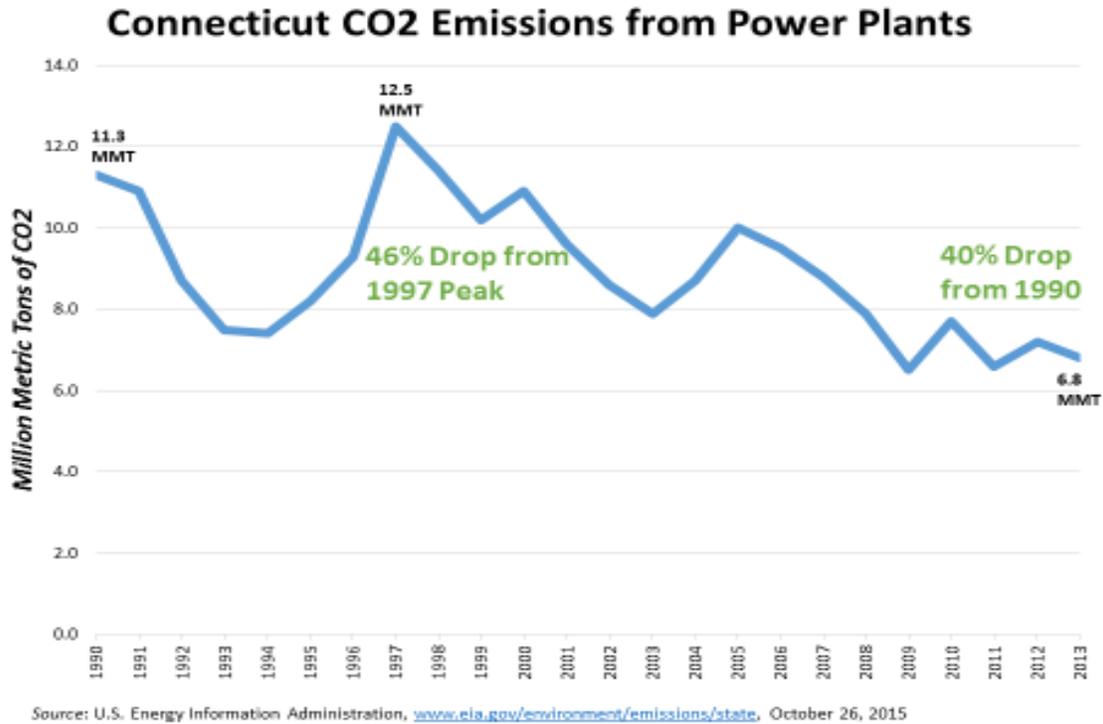
Competitive Markets Have Delivered Real Benefits

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 have invested more than \$12 billion in the region developing over 13,000 MW of new power plants, upgrading facilities and maximizing the efficiency of the infrastructure. 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.

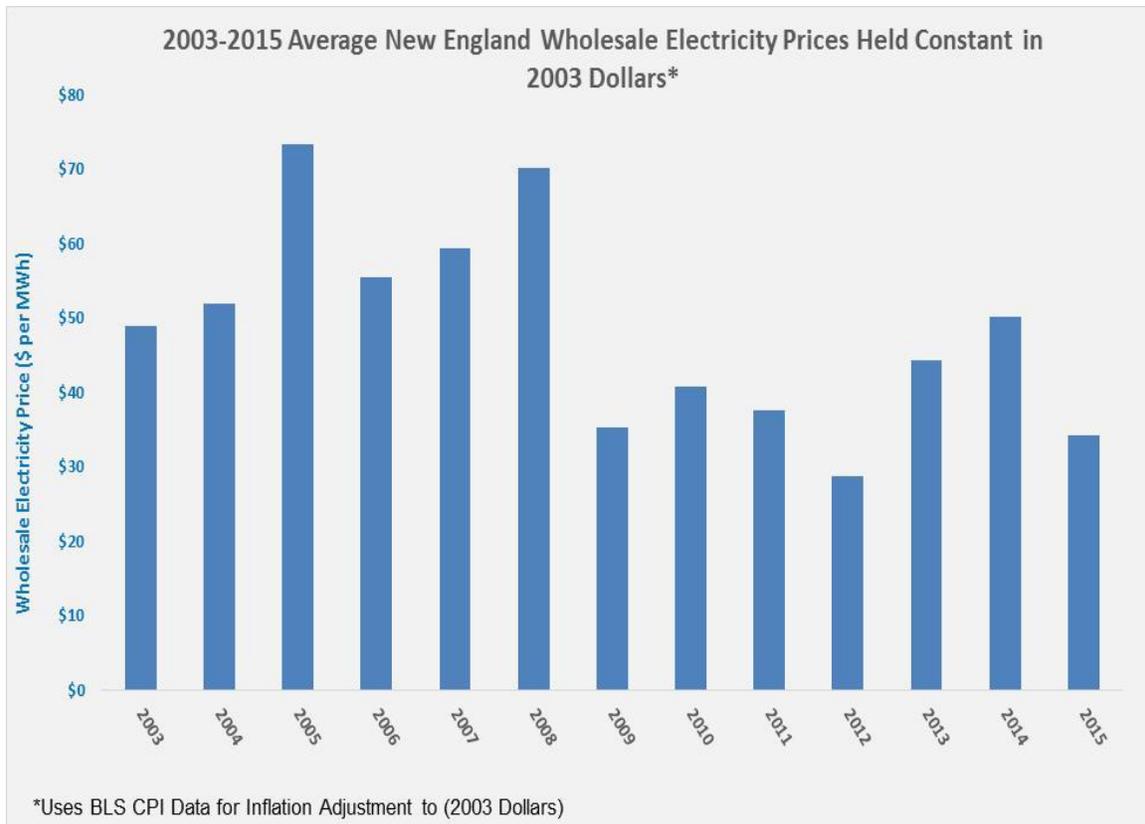
Since 1999, when restructuring had taken hold across the region, the efficiency of power plants in New England has increased by 22%. That means it now takes three plants to produce the electricity that used to take four power plants under utility ownership. This increased efficiency has meant the need for fewer power plants and has also led to dramatic emissions reductions. This can be seen in sulfur dioxide emissions cut by 94% and nitrogen oxides by 66% since 2001. And carbon dioxide emissions have come down faster and more dramatically from

² Vermont investor-owned utilities own approximately 100 MW of generating facilities and Eversource New Hampshire owns 1,100 MW. Hearings to allow Eversource to divest its generation assets concluded in February of 2016.

power plants than any other sector of the economy. The electricity sector has cut carbon dioxide by 40% since the 1990 baseline used in Connecticut's Global Warming Solutions Act and 47% since peak emissions in 1997 on the eve of Connecticut implementing restructuring and the move away from rate-base generation ownership.



At the same time, in 2015 wholesale electricity prices in New England were 30% lower than in 2003, when adjusted for inflation (\$34.29/MWh versus \$48.97/MWh, in adjusted 2003 dollars).



Competition is driving real value for consumers.

No Sound Rationale Exists to Move Away From a Competitive Model

In the face of these facts, advocates of allowing utilities to own generation resources offer no sound rationale for abandoning competitive markets. While this bill is aimed at increasing renewable generation, the recently issued three-state Clean Energy RFP saw more than 30 proposals that will ultimately increase renewable energy in the region.³ NEPGA has supported this type of joint competitive procurement of renewable portfolio standard (RPS) eligible resources. The submissions to this solicitation clearly indicate a marketplace ready to invest and provide competitive renewable resources to meet state mandates. Moving away from a competitive model by increasing utility ownership of generation does not make sense and will send the wrong message to developers seeking to build new, competitively-priced facilities.

This move to rate-base generation would also have repercussions beyond renewable energy development. We are just now starting to see the beginning of another round of new investment of large-scale power generation facilities. ISO New England successfully completed its annual forward capacity market auction in February 2016 securing adequate resources to meet system reliability

³ <http://cleanenergyrfp.com/bids/>

beginning in 2019 and attracting investment in new generation resources. New generation resources totaling 1,459 MW were selected in the last auction, including almost 500 MW at the Bridgeport Harbor facility in Bridgeport. 1,354 MW of new plants have cleared the last two FCAs in Connecticut alone and more than 3,193 MW will come online across New England by mid-2019. All of these plants are moving forward without state-backed long-term contracts or subsidies. But if there is the risk of new rate-base generation that does not have to compete in the marketplace, the next investors in Connecticut may think twice.

This pool of available private developers has the specific experience, expertise and skills to cost-effectively build new generation. Generation should be built through competition on a level playing field, with resource owners bearing the risk of any investments, not consumers. There is no sound rationale to pursue any other path and increased ownership of generation by utilities creates additional regulatory uncertainty, harming the potential for continued competitive investments.

Conclusion

Competitive electric markets and the transfer of risks of generation ownership away from consumers have greatly benefited the region. Not only have consumer risks been reduced, the region's plants have experienced greater reliability and efficiency with lower environmental emissions, all while ensuring the lowest competitive costs. To abandon this policy direction and allow utilities to increase their generation business would unduly compromise the very real benefits. For these reasons, we ask the Committee to not pass SB 224 and to instead preserve competitive electric markets. Thank you for the opportunity to provide this testimony.