



**Connecticut General Assembly
Energy and Technology Committee
Testimony on SB 9, An Act Concerning Connecticut's Energy Future**

The New England Power Generators Association (NEPGA)¹ appreciates the opportunity to provide testimony on SB 9, *An Act Concerning Connecticut's Energy Future*. NEPGA opposes SB 9. NEPGA's position does not stem from an opposition to further development of renewable energy resources, but rather is informed by a belief that market intervention is not necessary to meet the goal of more renewable resources in the market place.

NEPGA is the trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 MW – or approximately 80% of all generating capacity throughout New England. In Connecticut, NEPGA member power plants provide over 7,300 MW, or 82% of all the generating capacity in the state. NEPGA companies also provide roughly 1,500 well-paying, highly skilled jobs to the state's workforce, pay over \$39 million in taxes to the state and its cities and towns and contribute millions of dollars in income taxes paid by employees.

The Benefits of Electric Competition

Connecticut policymakers pursued the development of a competitive electric industry structure in the late-1990s. It is now the 20th anniversary of that accomplishment, and, therefore, a fitting time to look back on what has occurred and examine what are the appropriate policies for the state to pursue moving forward.

In 1998, the Connecticut Legislature passed comprehensive legislation, *An Act Concerning Electric Restructuring*, that functionally separated generation from transmission and distribution and introduced competition into the supply of electric generation. 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. One consequence of this functional separation was also making the utilities indifferent to what resource owner or technology provided the electricity supplies. Instead, the utilities were directed to continue to invest and maintain the transmission and distribution network and provide the most competitive electricity supply for Standard Offer Service customers.

¹ The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

Since 2005, wholesale electricity prices (the prices coming out of the power plants) have fallen over 50%. In fact, 2016 was the lowest wholesale electricity price year in the history of the New England competitive marketplace,² with 2017 continuing the historically-low price trend. This is a remarkable result considering that a substantial number of plants have retired in recent years and billions of dollars are being invested in new plants across the region – including three major facilities here in Connecticut.

Consumers have benefited from the dramatically lower wholesale electricity prices, but those savings have been masked by increases in the other portions of the bill. For example, since 2006, regional wholesale transmission costs have increased nearly 400% from \$26.67/kilowatt-year to \$104.10/kilowatt-year. These costs, along with charges for public policy programs, now make up more than 60% of an average residential consumer's bill. As Connecticut considers cost-effective approaches to meeting its energy policy goals, NEPGA urges the state to recognize the significant benefits of the competitive marketplace and explore whether the other major cost drivers of consumer rates are operating as efficiently. Such an examination should take place before instituting any broad new policies that have the potential to further increase consumer costs.

Competition has also attracted investment in innovative renewable technologies and encouraged the development of cleaner, more efficient power plants. Specifically, the competitive markets have produced more than 13,000 MW of new generation for New England from some of the most efficient and low emission resources in the country. Since 1999, power plants have increased the efficiency of their operations by 22% so that today roughly three plants generate the same amount of electricity produced by four power plants 20 years ago. These efficiencies – the product of fierce competition among market participants – have resulted in dramatic reductions in traditional pollutant emissions: between 2001 and 2014, nitrogen oxide (NO_x) emissions from New England's generators dropped by 66%, and sulfur dioxide (SO₂) declined by 94%.³

As Connecticut considers additional policies to further reduce greenhouse gas emissions, it is worth examining the electric sector's contributions toward carbon dioxide (CO₂) reductions as compared to other sectors of the economy. From 1990 through 2015, CO₂ emissions from Connecticut's fossil fuel plants steadily declined from 11.3 million metric tons (MMT) to 7.3 MMT per year. By comparison, emissions from Connecticut's transportation sector over the same period increased from 14.6 MMT to 15.1 MMT.⁴ Today, transportation remains the largest source of GHG emissions in the state, accounting for roughly 40% of all emissions as compared to about 22% from the electric power sector. Given the positive impact of the power industry to date, NEPGA urges the Committee to focus its efforts on transportation and other sectors of the

² https://www.iso-ne.com/static-assets/documents/2017/02/20170227_pr_2016_price_release.pdf

³ 2018 Comprehensive Energy Strategy

⁴ U.S. Energy Information Administration, State Carbon Dioxide Emissions Data (October 24, 2017)

economy that have yet to make a similar contribution toward meaningful GHG reductions.

Expanding the RPS is the Wrong Path Forward

Expanding Connecticut's renewable portfolio standard (RPS) would expose the state's electricity consumers to ever-increasing costs for their electric supply for years to come. If the intent is to continue to meet the CO₂ reduction mandates under Connecticut's Global Warming Solutions Act, then NEPGA posits that doing so through the RPS would be one of the least cost-effective approaches. Connecticut should instead continue to work through the competitive market structures that have helped enable significant reductions in the state's generation emissions while driving innovation and competitive pricing. The RPS should not be used as a shadow vehicle for emission reductions.

When the Legislature enacted the RPS in 1998, it was designed as a short-term, interim measure to help bring nascent technologies to market and scale. It was not intended to drive reductions in GHG emissions over the long-term. As RPS Class I renewables have grown over the last 20 years, their development costs have declined so that some renewable resources are now competitive with certain conventional generation. For example, a recent study found that the levelized cost of energy for utility-scale solar PV and onshore wind are highly competitive compared to those for a gas combined cycle plant.⁵ The institution of public policy supports like an RPS have helped lead to exactly what they were designed – the broader deployment of additional renewable resources, which can now take advantage of economies of scale of production, technological improvements and more robust interconnections without the need for widespread additional carve-outs. Moving forward, these technologies must stand on their own two feet and compete to provide the reliability services required by the New England-wide electricity markets.

Similarly, NEPGA is concerned that state procurements for new resources under long-term contracts will threaten the viability of the competitive wholesale electricity market and undermine the benefits consumers have realized since restructuring. Picking winners and losers through these types of procurements, carves out broad swaths of the market, insulating those resources from full competition. It also upends the premise of restructuring by putting long-term obligations, including the risk of cost overruns and bad investments, back on consumers. Such actions undermines not only the existing investments in power plants in Connecticut, but also the potential for future investments. In a marketplace in which a substantial share of resources receive state-backed, long-term guarantees, why would a market-based resource owner put their own capital at risk? Expanding procurements quickly leads to this costly situation with consumers paying more.

⁵ <http://energyinnovation.org/2018/01/22/renewable-energy-levelized-cost-of-energy-already-cheaper-than-fossil-fuels-and-prices-keep-plunging/>

Although NEPGA opposes the changes to the RPS under SB 9, if legislators were to pursue this path, it is imperative that the bill include a provision that grandfathers existing contractual arrangements between wholesale energy providers of standard offer service to the utilities. Otherwise, the bill's language as proposed will create a riskier market environment, and wholesale suppliers will have to take such risk into account going forward when they bid on future standard offer solicitations in the future.

Conclusion

NEPGA appreciates the opportunity to provide this testimony on SB 9. We ask the Committee to weigh carefully the many accomplishments and advantages of competitive electric markets, and the need for regulatory consistency in the state and region's market policies. For this reason, we respectfully ask that the Committee reject SB 9 as a tool for achieving the laudable goal of pursuing additional renewable resource development.