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February 7, 2008

VIA ELECTRONIC AND FIRST CLASS MAIL

John A. Mengacci, Chairman
Connecticut Energy Advisory Board
c/o Gretchen Deans
CERC
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RE: New England Power Generators Association, Inc.'s comments on the Electric Distribution Companies' Procurement Plan for Connecticut.

Dear Chairman Mengacci:

Pursuant to the Connecticut Energy Advisory Board's ("CEAB") Request for Written Comment and Notice of Public Hearing on Electric Distribution Companies' Procurement Plan for Connecticut dated January 1, 2008, the New England Power Generators Association, Inc. ("NEPGA") hereby respectfully files the following comments on the Procurement Plan for Connecticut dated January 1, 2008, (a/k/a Integrated Resource Plan for Connecticut dated January 1, 2008) ("the Plan") which was submitted to the CEAB by the Connecticut Light & Power Company ("CL&P") and the United Illuminating Company ("UI") (collectively "the Utilities").¹

NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 megawatts of generating capacity throughout New England, and over 7,300 megawatts of generating capacity in Connecticut, representing the vast majority of electric generating capacity in Connecticut. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. NEPGA requests that all

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The views expressed in these comments do not necessarily represent the positions of each of NEPGA's members. In addition, nothing in these comments should be deemed to waive any rights that NEPGA or any of its members may have to challenge the administrative, procedural or substantive validity of the proposed regulations in any forum.

further correspondence, communications and other documents relating to this matter be served upon the undersigned as follows:

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I. Background

Section 51 of Public Act 07-242, An Act Concerning Electricity and Energy Efficiency, requires the Utilities to review the state's energy and capacity resource assessment and develop a comprehensive plan for the procurement of energy resources, including, but not limited to, conventional and renewable generating facilities, energy efficiency, load management, demand response, combined heat and power facilities, distributed generation and other emerging energy technologies to meet the projected requirements of their customers in a manner that minimizes the cost of such resources to customers over time and maximizes consumer benefits consistent with the state's environmental goals and standards.

Section 51 requires the Utilities to submit an assessment to the CEAB annually, beginning January 1, 2008, of (1) the energy and capacity requirements of customers for the next three, five and ten years, (2) the manner of how best to eliminate growth in electric demand, (3) how best to level electric demand in the state by reducing peak demand and shifting demand to off-peak periods, (4) the impact of current and projected environmental standards, including, but not limited to, those related to greenhouse gas emissions and the federal Clean Air Act goals and how different resources could help achieve those standards and goals, (5) energy security and economic risks associated with potential energy resources, and (6) the estimated lifetime cost and availability of potential energy resources.

The legislation states that resource needs have to be met first through all available energy efficiency and demand reduction resources that are cost-effective, reliable and feasible. The projected customer cost impact of any demand-side resources have to be reviewed on an equitable basis with non demand-side resources. The Plan has to specify (1) the total amount of energy and capacity resources needed to meet the requirements of all customers, (2) the extent to which demand-side measures, including efficiency, conservation, demand response and load management can cost-effectively meet these needs, (3) needs for generating capacity and transmission and distribution improvements, (4) how the development of such resources will reduce and stabilize the costs of electricity to consumers, and (5) the manner in which each of the proposed resources should be procured, including the optimal contract periods for various resources.

Finally, the Plan has to consider: (1) approaches to maximizing the impact of demand-side measures; (2) the extent to which generation needs can be met by renewable and combined

heat and power facilities; (3) the optimization of the use of generation sites and generation portfolio existing within the state; (4) fuel types, diversity, availability, firmness of supply and security and environmental impacts thereof, including impacts on meeting the state's greenhouse gas emission goals; (5) reliability, peak load and energy forecasts, system contingencies and existing resource availabilities; (6) import limitations and the appropriate reliance on such imports; and (7) the impact of the procurement plan on the costs of electric customers.

II. COMMENTS OF NEPGA

NEPGA appreciates the obligations that the Connecticut General Assembly has placed upon the CEAB to submit “a comprehensive plan for the procurement of energy resources” to the Department of Public Utility Control (“DPUC”).² However, implicit within the legislative mandate is the oversight of the process required of the CEAB to ensure that the Utilities set forth a resource plan that is cost-effective, reliable and feasible, and, above all, in the best interest of the Connecticut electric customers. For a number of reasons set forth below, the Plan does not fulfill the legislative directive for an energy procurement plan, nor does it provide for the best interest of the Connecticut electric customers.

Most prominently, NEPGA strongly disagrees with the Plan’s conclusions that no supply side resources will be needed to meet Connecticut’s growth in electrical demand because the Plan’s construction fails to balance the costs and benefits between transmission infrastructure build and new generation within the borders of Connecticut. This assertion is contrary to prudent energy policy, prior statements of the Utilities and the CEAB, and the planning of ISO-NE. The Plan provides a glimpse into how the Utilities would like to develop their businesses over the coming years, but in no way presents an accurate portrayal of the documented existing market conditions, nor does it provide rational solutions to meet Connecticut’s energy needs in the future. NEPGA maintains that the Plan is fundamentally flawed and fails to meet the overall requirements of § 51 of Public Act 07-242, An Act Concerning Electricity and Energy Efficiency.

The restructuring of the ISO-NE market has involved many years of coordination among a wide range of market participants: utilities, regulators, customers, municipalities, generators and other stakeholder groups. Similarly, the CEAB should require the Utilities to encourage ongoing involvement by affected stakeholders as the Plan, and future plans, are developed. Section 51 of Public Act 07-242 requires consideration of resources (e.g. traditional generating facilities, renewable generating facilities, combined heat and power facilities, distributed generation and other emerging energy technologies) that the Utilities no longer own or control and, therefore, it is impossible for the Utilities to successfully and accurately develop a plan that integrates all such solutions without thoughtful analysis and deliberation from other stakeholder sources.

² Public Act 07-242, § 51

Furthermore, a properly developed plan should anticipate some degree of coordination with ISO-NE.³ Ultimately, ISO NE is responsible for operating a shared regional bulk power system with the goal of providing a reliable and efficient supply of competitively priced electricity. In FERC Order 890, the Federal Energy Regulatory Commission (“FERC”) similarly encouraged such a collaborative process:

The transmission planning processes we require in this Final Rule are not intended in any way to infringe upon state authority with regard to integrated resource planning. Rather we believe that the transparency provided under an open regional transmission planning process can provide useful information which will help states to coordinate transmission and generation siting decisions, allow consideration of regional resource adequacy requirements, facilitate consideration of demand response and load management programs at the state level and address other factors which the states wish to consider.⁴

NEPGA believes that as a region we are consistently working towards achieving those goals, and notes that the recent creation of the New England States Committee on Electricity (NESCOE), of which the State of Connecticut is a part, reinforces that goal. NEPGA encourages the coordination of existing federal, state and regional policy to ensure that the appropriate capacity is built to ensure continued reliability, environmental improvements and consumer benefits. In furtherance thereof, NEPGA appreciates the opportunity to provide the following comments regarding existing market conditions, applicable regulations and market incentives in the development of a plan that meets the requirements of PA 07-242 § 51.

A. The Plan Fails to Identify the Competitive Market as a Comprehensive Framework to Compare Potential Investments in Generation Capacity, Demand-Side Measures and Transmission Enhancements.⁵

New England’s wholesale electricity market is a well-established, yet evolving marketplace that works effectively to value all products offered into the markets. The marketplace is an open-access trading platform that produces the lowest-cost solution to meeting the demands for reliable electricity. NEPGA’s member companies have been involved in the design and development of all of the competitive wholesale markets in New England over the past several years. In that time, markets, especially in the New England, have developed the necessary frameworks to support robust competition. These markets are based on day ahead and real-time energy markets, with least-cost, security-constrained dispatch of the system which

³ See, Written Comments of the CEAB on ISO New England’s Draft 2006 Regional System Plan, September 7, 2006; “ISO-NE’s planning process and our own must be coordinated to assure effective decision making and implementation.”

⁴ FERC Order 890, at 452.

⁵ *Contrast*, Plan at 1; “Prior to the enactment of PA 07-242, there was no established comprehensive framework to compare potential investments in generation capacity, demand-side measures or transmission enhancements in order to determine their effects on market outcomes, customer costs or other important objectives.”

efficiently values the marginal increment of production or decrement of consumption in response to constantly varying real-time demand. Day-ahead energy markets enable both suppliers and consumers of energy to financially hedge their real-time activities in advance of the real-time markets. In sum, New England's electricity markets have developed the necessary framework to support resource development through robust competition.

1) Forward Capacity Market

On June 16, 2006, FERC approved a contested settlement agreement within NEPOOL establishing a forward capacity market ("FCM") to provide a market mechanism to incite the development of sufficient future electricity generating capacity and demand side management resources ("DSM") in New England. The FCM functions through the operation of forward capacity auctions in which electricity and DSM suppliers will sell forward capacity from existing or new generation to meet the reliability needs of the New England markets, with the additional consideration of individual state requirements. The ISO has reported that the qualification process for the first FCM auction included approximately 2,500 megawatts of combustion turbine peaking capacity projects proposed within Connecticut.⁶

Additionally, the FCM is designed to ensure that demand response programs can participate directly in the markets with traditional supply resources consistent with the requirements of PA 07-242 § 51(c):

Resource needs shall first be met through all available energy efficiency and demand reduction resources that are cost-effective, reliable and feasible. The projected customer cost impact of any demand-side resources considered pursuant to this subsection shall be reviewed on an equitable bases with non-demand-side resources. (emphasis added)

In furtherance thereof, the ISO market rules have been structured so as to be as inclusive and flexible as possible to create the greatest opportunity for demand response resources to participate.⁷ In the first phase of qualifications, demand resource capacity suppliers in New England submitted almost 2,500 MW of new demand resources to participate in the first Forward Capacity Auction which took place in February 2008, and 190 projects representing 2,483 MW (capacity value) participating in the first auction. This resource will be particularly valuable to Connecticut's disproportionate growth in peak demand.⁸

2) Locational Forward Reserve Market

⁶ Presentation of ISO-NE at the Regional System Plan meeting, Boston, September 6, 2007.

⁷ e.g., the amount of capacity offered by a demand resource can be as small as 100 kW. *See*, ISO-NE Market Rule 1, §III.13.1.4.1. Demand Resources

⁸ In 2005, the peak electric load for the state was approximately 7,135 MW, which was 4.1% higher than the previous peak of 6,851 MW experienced in Connecticut in 2002. *See*, Review of the Ten Year Forecast of Connecticut Electric Loads and Resources 2006-2015, 4, Connecticut Siting Council, (Nov. 14, 2006)

New England's Locational Forward Reserve Market ("LFRM") also provides a structure for the region to efficiently value the operating reserve capability that is necessary to reliably operate the system, and place specific obligations on providers of reserve services. The LFRM procures and values ten minute non-spinning reserves and thirty minute operating reserves on a partial year forward basis (four and eight months forward). These resources are designed to maintain system security in that both FCM and LFRM place substantial penalties on supply and demand resources that are called on to activate in response to a system need but fail to do so.

3) Scarcity pricing

New England has implemented scarcity pricing mechanisms for reserves and energy that significantly advance the objective of enabling efficient real-time pricing that reflects the fundamental supply-demand balance when the system is running low on available energy. When supply conditions are tight and reserve margins drop below a pre-determined threshold level, the value of energy rises. This revenue helps to incent investment in new generation, promotes overall system reliability, and sends the right price signals to active demand response programs. The higher value of energy produced at these times of scarcity is a further incentive for supply resources to consider back-up fuel supplies to ensure their ability to operate. ISO-NE reports that actions by generators in response to these market signals have resulted in the conversion of 2,400 MW of gas only resources to dual fuel capability over the past few years.⁹

As noted above, the organized markets in New England have implemented varying designs for valuing supply and demand resource capacity applied towards resource adequacy requirements. There are elements of the markets that can still be improved to achieve the objective of efficient pricing and robust market valuation of all of the services needed by Connecticut to reliably operate their systems, but the markets have made substantial progress in setting up the frameworks in which new electric resources can be developed to reliably and efficiently meet consumer needs. Furthermore, the working relationship between the NEPOOL, ISO-NE staff, NECPUC, NESCOE and the market participants has fostered an atmosphere whereby the respective organizations can communicate their particular expectations for and needs from the market.

B. Electricity Resources will be needed to Attain Reliability Targets in Connecticut and Elsewhere in New England.

NEPGA most stridently disagrees with the Plan's assessment that Connecticut will not need additional supply side resources. In this regard, the Plan's finding is inconsistent with current market conditions, future projections for load growth and the impact of environmental initiatives aimed at altering the supply mix. It is inconceivable that Connecticut's electricity system can continue to be reliable and cost effective by relying on its aging generation fleet and ignoring the benefits from the innovations provided by new supply side resources.

⁹ COO Report to NEPOOL Participants Committee, February 1, 2008, Page 4

The growth in electrical demand drives the need for a prudent mix of generation, transmission and demand-side resources. Peak demand for electricity in New England is projected to grow nearly two percent per year over the next decade, and Connecticut's growth in demand will grow at a slightly larger rate than the aggregate of the region.¹⁰ This requires adding the equivalent of roughly a 500-MW power plant to the New England system every year.¹¹ Based on ISO-NE's projections, the Plan will not adequately provide for a prudent mix of energy resources to accommodate the projected growth.¹² More importantly, the Plan will fail to provide for projected growth within the State of Connecticut.

In analyzing ISO-NE's most conservative estimates, the Connecticut Siting Council ("CSC") anticipates that Connecticut will face "a significant generation capacity shortage beyond 2008."¹³ Of particular note is that the information for this forecast was provided to the CSC from all Connecticut electric transmission and distribution companies and considers existing loads and reserve margins within their respective service areas.¹⁴ With those resources available, it is significant to note that while the CSC sets forth a detailed list of anticipated generation resource retirements, the Plan assumes no such generation retirements.¹⁵ While NEPGA has no specific knowledge of definite facility retirements, prudent utility practices would require factoring in a certain amount of resource retirements as a result of common engineering lifecycle assumptions and the promotion of technology advancements that better serve Connecticut's energy policy goals.

Second, the analysis assumes that "Transmission enhancements already under construction and planned generation will resolve the significant bottlenecks and limited local supply resources that have affected Southwest Connecticut in the past."¹⁶ It makes the assumptions that such transmission investment is made irrespective of the relative value between such a transmission investment and the alternative increase in generation supply that would render such transmission investment excessive. Until and unless such an evaluation is complete, assuming transmission is a better solution may reflect the business strategy of the proposing Utilities, but is not a valuable or effective planning tool for the benefit of the consumer.

¹⁰ 2007 Regional System Plan, ISO New England Inc., October 18, 2007

¹¹ *See, Id.*

¹² Historically ISO-NE's forecasted demand has tracked actual load closely in most months. 2006 Assessment of the Electricity Markets in New England, Patton, et. al. , June 2007, Page 45.

¹³ Review of the Ten Year Forecast of Connecticut Electric Loads and Resources 2007-2016, Connecticut Siting Council, November 14, 2007, Page 10.

¹⁴ Connecticut has three distribution companies that prepare forecasts for their service areas pursuant to Conn. Gen. Stat. §16-15r: The Connecticut Light and Power Company, The United Illuminating Company, and the Connecticut Municipal Electric Energy Cooperative.

¹⁵ *See, the Plan at 40.*

¹⁶ *Id. at 40*

Third, the criteria presented as either meeting the Local Sourcing Requirement or the Resource Adequacy Requirements continues to misdirect the focus and need for the State of Connecticut in ensuring a reliable electric system as required by the statute. Specifically, the Plan wholly ignores the system security requirements which is the backbone of how the system is operated on an hour-to-hour and day-to-day basis. It is the reason why ISO-NE has determined that all generation in the State of Connecticut is needed to ensure a reliable electric system today, while at the same time acknowledging that Connecticut is sufficient in meeting its Local Sourcing Requirements for resource adequacy.¹⁷

An additional significant shortcoming is the Plan's failure to properly anticipate new supply side resources that will be required to enable the state's efforts to comply with approaching environmental regulations. The federal and state governments are implementing, and in some instances have already implemented, many environmental policies aimed at reducing emissions from electric generating facilities and effectively capturing the cost of environmental emissions in the price of power. While these programs are beneficial to the overall environment, if not implemented properly, they may have the unintended effect of compromising electric reliability, increasing consumer costs or altering the supply mix.

Most prominent among these programs is the Regional Greenhouse Gas Initiative ("RGGI") that requires most generating facilities to purchase allowances for every ton of CO₂ emitted from that facility. An emissions allowance is a regulatory agency's authorization to emit a certain amount of a pollutant, such as one ton, over a specified period (e.g., one season, one year, three years). ISO-NE has been very forthcoming regarding their assessment of the RGGI program in summarizing the effects on the New England electricity market as follows:

The RGGI cap-and-trade program would create CO₂ emission allowances needed by generators, which would have a market value. This value would be reflected in the generator bid prices, similar to how SO₂ and NO_x allowances are reflected today. This additional generator cost **could shift the dispatch of the generators** and their CO₂ emissions, and potentially affect electric system operation and reliability in New England.¹⁸ (emphasis added)

Given the absence of compliance options offered by the proposed program, and the unavailability of back-end emission control technologies, many units that are essential for electric reliability could be forced to curtail operations or shut down completely. In order to enable the reduction of CO₂ emissions and achieve the goals of these programs, it is likely that Connecticut, and New England, will need to develop new supply side resources that are less

¹⁷ See generally, Technical Assessment of the Generating Resources Required to Reliably Operate Connecticut's Bulk Electric System 2003 & 2006, ISO New England Inc., November 15, 2002.

¹⁸ See generally, Evaluation of Impact of Regional Greenhouse Gas Initiative CO₂ Cap on the New England Power System, Platts, et. al.

carbon intensive. The Plan fails to fully appreciate the value of evolving technology in creating new supply side resources and enabling existing fuel sources through the advancement of carbon capture technology, advancements in nuclear and renewable generation and other innovations that affect generation fuel viability.¹⁹

C. NEPGA Disagrees that Returning to a Cost-of-Service Regime Could Help to Stabilize Customer Rates or Lower Prices for Customers.

The Utilities' recommendation of returning to a cost-of-service regime is beyond the scope of the analyses requested by the Connecticut Legislature, provides no value to an impartial evaluation of energy resources and, above all, is unsound.²⁰ The public policy behind competitive procurement of power supplies financed with private capital is implicitly sensible in that it drives innovation and efficiency in the power sector, more accurately reflects the underlying value of electrical production, including environmental externalities, and encourages the development of new energy infrastructure and necessary environmental improvements to existing energy infrastructure without subjecting ratepayers to the risk of stranded costs or cost overruns. The efficient energy infrastructure improvements procured through the competitive market have led to a decrease in fuel-adjusted electricity prices in New England of approximately 7% from 2000 to 2006,²¹ and an increase in generator availability.²² It is imperative that the benefits of the competitive market are not compromised as a result of this Plan.

1. A Cost-of Service Regime Will Have A Detrimental Effect on Consumers of Electricity by Increasing the Price of Electricity and Removing Consumer Choice.

Prior to the restructuring of the market, electricity consumers were vulnerable to a persistent market situation where there was only one provider of electricity, as opposed to a vibrant electricity market where providers' survival is based upon superior innovation, risk management and efficiencies. The lack of economic competition for electricity led to cost overruns and stranded costs by utilities that experienced no competitive market pressures. The Utilities are now claiming that they can save consumers money by developing energy resources more efficiently than the private sector; however, the idea that utilities can now build generation at below prevailing rates is a myth that will ultimately turn out to be untrue and will, if allowed to occur, cost ratepayers more money. In order to remain solvent, vertically integrated utility

¹⁹ See, Plan at 19.

²⁰ The Plan acknowledges that an analysis of cost-of-service generation "may not offer a realistic comparison on a regional market basis." Plan at page 43.

²¹ *2006 Annual Markets Report*, ISO-NE, June 11, 2007 at 40, 41. The fuel-adjusted average electric energy price normalizes the electricity market clearing prices for the variation in the prices of fuels used by price-setting generating units.

²² *2006 Annual Markets Report*, ISO-NE, June 11, 2007, Page 5.

companies are able to recover their costs from ratepayers, whereas merchant energy companies are limited to covering their costs from the markets and must answer to their shareholders, as well as their customers, when their performance is subpar.

As a result of increased construction costs, utility plant capital costs have risen dramatically in monopolized markets.²³ In May 2005, Duke Energy Carolinas²⁴ requested approval from the North Carolina Utilities Commission (NCUC) to construct two 800 megawatt coal-fired units at Duke's existing Cliffside plant for a total cost of two billion dollars (\$2,000,000,000). In March 2007, Duke Energy calculated the latest cost for the single unit would be \$1.8 billion, an 80% increase from the original estimate from only six-months earlier. This is but one of a number of examples in the trade press and in the context of ISO's review of transmission projects that illustrate the risk of cost escalation in cost-of-service projects.

2. Electric Utility Participation in the Energy Supply Business Will Have a Detrimental Effect on Consumers by Increasing the Risk Faced by Merchant Generators of Electricity and on Competitive Electricity Providers.

Developing markets abhor the uncertainty that is created by constantly changing regulations, or the threat thereof. Between 2000 and 2004, private companies invested more than \$6 billion in new, modern power plant capacity, adding 9,000 megawatts of supply, much of it in Connecticut. At the same time, additional increases in generating infrastructure are critically necessary for a region that recently experienced a peak in electrical demand of 28,048 MW. These investors entered Connecticut with the clear expectation that they would be able to provide low cost and efficient power in a competitive power market. Despite the success of competitive electricity markets, New England has an ongoing need for energy resources; therefore, now is the time to move forward with substantial investments of energy infrastructure by supporting the continuity and transparency of these markets.

We are confident that Connecticut can continue to incent private investment in new energy infrastructure technology to accelerate the benefits that improve the environment, while maintaining adequate electrical supply. However, these infrastructure enhancements are contingent upon a business climate that guarantees sound and prudent investments through a consistent regulatory and legislative environment. Competition is the most appropriate mechanism to ensure the most reasonable costs for obtaining resources.

D. The Plan Overstates the Ability of Demand Side Management (DSM) to Maintain Reliability Within Practical Operational and Economic Limits

²³ See, Electric Power Supply Association, PowerFact, July 25, 2007.

²⁴ Duke Energy owns and operates vertically integrated utilities in North Carolina and South Carolina serving approximately 2.3 million customers with a generating capability of approximately 19,900 megawatts. <http://www.duke-energy.com/about-us/power-plants.asp>

ISO-NE and the NEPOOL have worked diligently to promote load response program development within the competitive market structure. The broad-based recognition of the importance of demand response and the inclusive regional stakeholder process has allowed the region to develop several demand response programs since the markets have been in place. Now that the region's FCM is going into place, the region is poised to move to fully market-based structures for demand response resources to participate directly in each of New England's wholesale markets (energy, reserves and capacity) on a more comparable basis to conventional resources. The market rules have been structured so as to be as inclusive and flexible as possible to create the greatest opportunity for demand response resources to participate.²⁵ The success of the markets in enabling demand response is evident in the substantial participation by demand resources and load serving entities in the energy and capacity markets.²⁶

Notwithstanding the foregoing, NEPGA is concerned that the DSM projections that the Utilities have relied upon in the development of the Plan are too aggressive to reliably and cost effectively serve projected load growth.²⁷ While the Plan did project anticipated load reductions from DSM programs, the Plan failed to project the "customer cost impact of any demand-side resources ... on an equitable basis with non demand-side resources" as is required by PA 07-242, § 51(C). The Plan states that by 2018, demand savings from the DSM-Focus scenario constitutes about 19.1% reduction of system peak and by 2018 savings from EE and DR programs were assumed to grow at the same rate as Connecticut system peak. The Plan cites both the effectiveness of the load reduction programs and consumers' elasticity of demand for electricity in achieving these projections. However, this is inconsistent with the prior experiences of these programs set forth in earlier forecasts:

CL&P notes an interesting phenomenon. Although customers are conserving electricity during most of the year in reaction to higher energy prices, they appear to be less concerned during the summer heat waves when they increase their use of air conditioning **resulting in higher energy consumption, [and] summer peaks loads that continue to grow.**²⁸ (emphasis added)

NEPGA thoroughly recognizes the value of conservation and active demand response measures in developing a prudent energy resource mix. The existing competitive market structures provide both the incentives for the development of demand side resources and the penalties for failure to perform. The Plan, however, does not recognize the role of the market structures in

²⁵ e.g., the amount of capacity offered by a demand resource can be as small as 100 kW. See, ISO-NE Market Rule 1, §III.13.1.4.1. Demand Resources

²⁶ ISO-NE and NEPOOL Compliance Report on Day-Ahead Load Response Program, FERC Docket No. ER-04-1255-000 (August 31, 2007)

²⁷ The Plan; DSM focus on Page 18.

²⁸ See, 2007 CL&P Forecast Report

assessing the actual potential for peak and energy reductions from conservation and demand response and their cost-effectiveness.

The success of the markets in enabling demand response is evident in the substantial participation by demand resources and load serving entities in the energy and capacity markets.²⁹ In particular, the new FCM was designed to ensure that demand response (and other demand resources and renewables) could participate directly in the markets with traditional supply resources. In the first phase of qualifications, demand resource capacity suppliers submitted almost 2,500 MW of new demand resources to participate in the first Forward Capacity Auction which occurred in February 2008, and 190 projects representing nearly that amount of capacity equivalent. The primary objective of NEPGA is that opportunities for demand response resources to participate in energy, capacity and ancillary service markets be developed within a well-articulated framework that provides for non-discriminatory access and pricing for all resource types.

E. NEPGA Supports Power Procurement Structures that are Consistent with the Competitive Markets.

NEPGA maintains that forward power contracting by buyers, combined with purchases from a spot market with demand response can be an efficient and low-cost way of meeting customer needs because both buyers and sellers can hedge risk as well as adapt to actual real-time supply and demand conditions according to their unique needs. However, the respective business objectives of buyers and sellers should direct the form and terms of such long-term contracts, and these will necessarily vary greatly for each contract scenario. Unlike shorter-term contracts, which exist today and enhance the liquidity of markets by lowering transaction costs for standardized products, it is unlikely that a single standardized product will suffice for any party's long-term needs. Therefore, it is vital that all contracting parties have the flexibility to behave in a commercially responsible way, and the market should serve as the ultimate arbiter of whether the contracting decision was prudent.

NEPGA disagrees with the Plan's Recommendation 2 that would allow the utilities to enter into long-term contracts "with the assurance of recovery of supply costs associated with approved long-term power procurement contracts."³⁰ Essentially, the utilities want to make competitive policies contingent on the requirement of some mechanism that will ensure them revenues sufficient to cover the costs of the long-term contracts in the event that the transaction becomes imprudent. The mechanism provided to the Utilities under existing Connecticut law shifts the uneconomic cost of one contract onto the electric consumers via subsequent electricity

²⁹ ISO-NE and NEPOOL Compliance Report on Day-Ahead Load Response Program, FERC Docket No. ER-04-1255-000 (August 31, 2007)

³⁰ See, Plan at 46.

purchase arrangements.³¹ No such provision exists for merchant generators to recover imprudently incurred costs in the competitive market, nor should such a provision exist.

F. Competitive Market Participants are the Appropriate Construct to Mitigate the Exposure of Connecticut Consumers to the Price and Availability of Natural Gas.

The Plan accurately illustrates that higher fuel costs, particularly natural gas costs, have led to higher electricity costs in the region.³² NEPGA maintains that rising electricity costs have not been a signal of failure of competitive markets. To the contrary, it is important to recognize that price increases have in no way been limited to restructured states. Since 1999, electricity prices have generally increased the same (34%) across states with organized markets and across those without such markets. In particular, increases in five selected regulated states (Nevada, Florida, Mississippi, Louisiana, and Oklahoma) ranged from 39% to 62% during this same time.³³ The majority of generation resources in New England are fueled by natural gas, as a result of policy signals that have designated the commodity as the fuel of choice.³⁴

Natural gas-fired combined cycle generation plants have been the technology of choice in New England since the 1990's, largely due to a high sensitivity to minimizing the environmental impacts of electricity generation and because of the advances in gas turbine technology that substantially improved the efficiency of transforming fuel into electricity compared with boiler-based steam generation plants. Natural gas prices have risen dramatically as a result of the same global influences that have led gasoline prices to be extremely volatile in recent months and increase by approximately 55%.³⁵ The rise in fuel prices, and corresponding increase in consumer electricity costs, has illustrated an efficient market in which competition occurs on the basis of true marginal costs. However, as a part of any comprehensive energy policy, efforts must be undertaken by legislators and policy makers to restructure permitting and siting regulations to accommodate the necessary changes to Connecticut and the regions evolving supply needs. Any comprehensive Plan must recognize this market constraint and propose solutions that best meet the diverse needs of Connecticut.

³¹ See, Conn. Gen St. 16 § 245(e)(f) (1) "The department shall calculate the stranded costs for long-term contract costs that have been reduced to a fixed present value ... the department shall net purchased power contracts approved by the Federal Energy Regulatory Commission that are below market value against any such contracts that are above-market value."

³² See, Plan at 7.

³³ Open Letter to Policy Makers from Vicky A. Bailey, et al, Former Chairs and Commissioners of the Federal Energy Regulatory Commission (May 31, 2007)

³⁴ Approximately 45% of the generating capacity in New England uses natural gas as a primary fuel. ISO-NE, 2005 Regional System Plan.

³⁵ Natural gas prices increased 51.5% between 2002 and 2003, 10.5% between 2003 and 2004, and 37.6% between 2004 and 2005. Report to Congress on Competition in Wholesale and Retail Markets for Electric Energy, The Electric Energy Market Competition Task Force, 2006 at 41.

G. The Plan Fails to Properly Analyze Transmission Options and Alternatives Thereto

The Plan does not adequately analyze the technical feasibility or the costs and benefits of transmission, supply-side and demand-side resources to provide detailed guidance for resource planning. For instance, the failure of the Utilities to properly identify and analyze the affects of the transmission project known as the New England East-West Solution (NEEWS) renders the Plan incomplete and unreliable. NEEWS is a 345-kV transmission line that will connect National Grid's service territory in Massachusetts and Rhode Island with CL&P's service territory to increase the east-west power transfer capability across New England. The line is expected to tie National Grid's Millbury Substation in Massachusetts to CL&P's Card Street Station in Lebanon. Given the objective value of the NEEWS project, for the sake of consistency, such an impactful proposal should have been included by the Utilities. The CEAB is unable to draw an inference from the Plan as to whether the NEEWS project is worth implementing because of its exclusion as a plausible scenario in meeting Connecticut's energy needs.

Ironically, NU has previously stated "unequivocally" that "NEEWS is required to meet the reliability needs of Connecticut and the region;" however, NU deferred to ISO-NE's assessment in the 2007 Regional System Plan (2007 RSP).³⁶ Subsequently, ISO-NE, in the 2007 RSP, characterized the NEEWS initiative as "comprehensively address[ing] a number of significant long-term reliability issues affecting Connecticut, Rhode Island, and the Greater Springfield area in Western Massachusetts. These projects aim to integrate eastern and western New England and allow for the increased power flow across these areas, which would increase the transmission security of these areas." (emphasis added) Failure of the Plan to discuss the impacts and value of the NEEWS project on Connecticut seriously calls into question the completeness, accuracy and integrity of the Plan.

III. Conclusion

NEPGA appreciates the efforts that the Utilities have put forth in drafting the preliminary Plan. However, the CEAB must recognize the shortcomings of the draft Plan in its limited analysis of supply side resource development, and the inability of the Utilities to sufficiently provide insight into a vast resource potential that is outside of their statutory responsibilities. The development of the competitive markets has been successful due in large part to the extensive involvement of a diverse stakeholder group. NEPGA recommends that the CEAB build upon the experience of the developing New England electricity markets to provide the DPUC with an IRP that is comprehensive, flexible and best reflects the existing market conditions within Connecticut. Unfortunately, the Plan as submitted falls far short of that goal and, more specifically, the requirements set forth in § 51 of Public Act 07-242, An Act Concerning Electricity and Energy Efficiency.

³⁶ Response of Northeast Utilities Companies to CEAB information request dated November 21, 2007.

Chairman Mengacci

February 7, 2008

Page 15 of 15

Thank you for the CEAB's consideration of these comments. If you have any questions, please don't hesitate to contact me.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Chris P. Sherman".

Christopher P. Sherman

General Counsel

cc. Donald W. Downes, Chair, CT DPUC
John W. Betkoski III, Vice Chair, CT DPUC
Anne C. George, Commissioner, CT DPUC; Chair NARUC Committee on Electricity
Anthony J. Palermينو, Commissioner, CT DPUC
James T. Fleming, Commissioner, CT DPUC