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December 13, 2012

Debra Morrell  
Bureau of Energy and Technology Policy  
Department of Energy and Environmental Protection  
Ten Franklin Square  
New Britain, CT 06051

Dear Ms. Morrell:

The New England Power Generators Association, Inc. (NEPGA) appreciates the opportunity to submit these comments in reply to the October 5, 2012 Notice of Request for Written Comments regarding the Department of Energy and Environmental Protection (DEEP) draft Comprehensive Energy Strategy (CES).<sup>1</sup>

### **Introduction**

NEPGA is the trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) – or nearly 84 percent – of generating capacity throughout New England, and over 7,300 MW of generation in Connecticut, representing the vast majority of the state's electric generating capacity. Overall, NEPGA's Connecticut companies pay approximately \$40 million annually in state income and local property taxes. NEPGA member companies provide more than 1,500 well-paying and skilled Connecticut manufacturing jobs, while annually contributing over two million dollars to charitable endeavors throughout the state. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

### **NEPGA's General Perspective on the Draft Comprehensive Energy Strategy**

Pursuant to Section 51 of Public Act 11-80, the DEEP is required to develop a Comprehensive Energy Strategy (CES) in 2012 and thereafter update the CES every three years. The CES seeks to assess all of the state's energy needs including electricity, heating, cooling and transportation over a short- and long-term horizon and develop recommendations to achieve a sound energy economy at the least cost. The

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<sup>1</sup> The comments expressed herein represent those of NEPGA as an organization, but not necessarily the position of any particular member.

draft CES released in October 2012 addressed five main areas, including the electricity sector strategy. Recommendations for the electricity sector included:

- Ensuring that Connecticut has the adequate power generation capacity over the next decade to match electricity supply with demand;
- Seeking to mitigate generation and transmission costs through proper planning, infrastructure development and engagement in federal and regional decision-making processes;
- Using economic incentives such as Power Purchase Agreements to keep down the costs of renewable electricity;
- Focusing on the deployment of renewable energy at scale using innovative funding mechanisms such as Zero (and Low) Emissions Renewable Energy Credits;
- Studying the state's Renewable Portfolio Standard (RPS) to consider raising the RPS targets, expanding resource eligibility and/or expanding in-state clean power generation;
- Advancing the use of distributed generation (DG) by promoting virtual net metering, examining submetering and exploring a microgrid pilot;
- Providing for greater grid resilience through tree trimming, hardening of wires and poles and funding improved information technologies; and
- Launching an Advanced Energy Innovation Hub to support research on fuel cells, batteries and storage, microgrid engineering, and small-scale hydro.

In the following comments, NEPGA will address two of these recommendations including the use of economic incentives such as power purchase agreements (PPAs) in an attempt to keep down the cost of renewable energy resources, and the possibility of expanding the definition of eligible RPS resources to include other potential resources such as state-owned large-scale Canadian hydropower. In addition, these comments address the current electric generation production tax – another key energy policy issue with significant impacts on the state's consumers and power generation industry.

### **The Role of Power Purchase Agreements in a Competitive Electric Market**

NEPGA appreciates the dual policy concerns to mitigate costs of electricity for consumers, while providing incentives for renewable resource development to meet state policy goals. These two policy goals, however, often conflict. While there are many reasons to promote and support the development of renewable energy resources, they tend to be more costly than other electric generation technologies. NEPGA therefore recommends that the DEEP exercise caution in the use of PPAs to promote renewable resource development while also trying to keep electricity costs affordable for consumers.

NEPGA believes that state-sponsored PPAs are not the best way to promote resource development at the lowest cost and risk for consumers. Rather, properly designed electricity markets should provide the sufficient incentives for the financing and development of all generation resources, including renewables. To the extent that these markets are not working accordingly – and NEPGA agrees that significant improvements to these markets would be beneficial – work should be pursued through

the Independent System Operator New England (ISO-NE), the New England Power Pool (NEPOOL) and the Federal Energy Regulatory Commission (FERC) to affect these market improvements. While questions remain regarding whether, absent further improvements, the Forward Capacity Market (FCM) will yield the correct price signals and satisfy the expectations to support generation investment needed to maintain reliability, to date since FCM was instituted the region has enjoyed sufficient regional generation supplies for reliability. In the next year, ISO-NE will be considering further improvements to the FCM design.

If, after exhausting efforts to achieve market improvements to assure system reliability through wholesale markets, DEEP determines that these markets are not working as designed, and makes a policy decision that additional generation is necessary for system reliability or to mitigate the cost of renewable energy, it would then be imperative that PPA recipients are selected through a competitive procurement process. Any procurement of generation resources should be done through an open, transparent and competitive process, consistent with prior legislative acts.

In July 2005, the Connecticut General Assembly passed Public Act 05-01, the Energy Independence Act, which contained a number of incentives for reducing congestion costs, and for expanding the development of customer-owned generation and increasing energy efficiency. In particular, the legislation provided for a Request for Proposals (RFP) process for new generation and demand reduction resources. Later, in July 2007, the General Assembly passed Public Act 07-242 which included a package of provisions to encourage energy efficiency and conservation, incentives for renewable energy, and incentives for other generation resources. Both pieces of legislation relied upon a competitive RFP process administered by regulators and open to all market participants for any generation procurement needs. This competitive RFP structure initiated substantial development of generation under a procurement process that assured only the most competitive bids were selected. In response to the 2006 RFP, over 80 projects totaling 8,000 MW were submitted. The 2007 peaking RFP led to the submittal of 11 proposals totaling 1,800 MW. Both generation procurements were done through an open, fair and transparent competitive bidding process. This approach sought to expand the consideration of generation development to a wide range of companies, allowing a competitive process to deliver the desired generation, at the lowest costs to ratepayers.

During 2011, the Legislature passed Public Act 11-80 which opened the door for utilities to own up to 10 MW of renewable generation and required that the vast majority of renewables once again be competitively procured. In an RFP issued in December 2011 – with only one week of notice – 21 proposals were submitted and two projects were selected to provide 10 MW of solar generation. Even under an overly-rushed timeline robust competition was evidenced in the RFP process. As noted by Governor Malloy commenting on the RFP's results "This selection process validates our new approach to energy policy in Connecticut... The fact that 21 projects – representing 70 MW of clean renewable power – applied under this program is a clear sign that entrepreneurs and

clean technology innovators are excited about the new approach Connecticut has taken.”<sup>2</sup>

Connecticut’s experience with competitive procurement should be contrasted with Massachusetts’ experience of not using competitive procurement. Western Massachusetts Electric Company (an NU company) is in the process of building two utility-scale solar facilities with financing on a regulated monopoly basis. These projects are both slated to come in at over \$5,220 per kilowatt.<sup>3</sup> While every development is different and component costs for solar projects have continued to fall, these two projects are each nearly three times as expensive as the per kilowatt cost of the comparably-sized facilities that were the result of the 2011 Connecticut RFP.<sup>4</sup> No market test was put to work for the Massachusetts projects taking away the opportunity for consumers to judge whether cheaper or more efficient options were available. This example illustrates the dangers of pushing through rate-based investments in which all the risks and costs are borne by consumers, in sharp contrast to the efficiencies, innovation and reduction in consumer costs that result from robust competition.

NEPGA recommends a policy focused on achieving a well-functioning wholesale electric market design and working with NEPOOL, the ISO-NE and FERC to structure markets that will support private investments to fulfill the system’s reliability and operational requirements. If the wholesale market ultimately proves inadequate to bring forth desired resources and a PPA is needed, then any such PPA should be secured through a market-based, competitive solicitation process to ensure procurement of the best fit resource, at the best price and at the lowest risk to consumers. Fulfilling any need for generation – now or in the future – should include the continuation of the state actively working to support competitive wholesale electricity markets that provide the opportunities for private investors to successfully finance projects and deliver electricity to Connecticut consumers.

### **Recommended Large-Scale Changes to the State’s Renewable Portfolio Standard**

The Connecticut Renewable Portfolio Standard (RPS) has been in existence for many years now, thus there is some merit in conducting a review of the RPS to gauge its success in meeting its policy goals. However, NEPGA would caution against making widespread changes that undermine the regulatory certainty necessary for the RPS to be successful. Moreover, NEPGA has significant concerns regarding a change in the definition of an eligible resource in a manner that undermines the very purpose of the RPS.

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<sup>2</sup> Department of Energy and Environmental Protection Press Release, “Governor Malloy Announces Procurement of Cheaper and Cleaner Energy For Connecticut” December 23, 2011

<sup>3</sup> See [http://www.huffingtonpost.com/2010/11/15/largest-solar-power-plant\\_n\\_783502.html#s182357&title=Solar\\_Energy\\_Plant](http://www.huffingtonpost.com/2010/11/15/largest-solar-power-plant_n_783502.html#s182357&title=Solar_Energy_Plant) and [http://www.masslive.com/news/index.ssf/2011/01/western\\_massachusetts\\_electric\\_3.html](http://www.masslive.com/news/index.ssf/2011/01/western_massachusetts_electric_3.html)

<sup>4</sup> A conservative calculation for the Massachusetts projects of a 20% carrying charge rate and 20% capacity factor results in nearly 60 cents/kWh. This is contrasted with the 22.2 cents/kWh announced for the 2011 Connecticut RFP results.

As the DEEP conducts its RPS Study, NEPGA offers the following suggestions.

***Stakeholder Input into the RPS Study is Essential.***

During the November 15 DEEP Technical Session on the electric sector strategy recommendations, many participants addressed the RPS study and offered a host of perspectives. One common shared perspective of all participants was the necessity for stakeholder input into the development of the RPS Study. Many participants pre-registered for the November 15 session in order to address their concerns and views on the RPS study and during the technical session were asked to hold their comments until the RPS Study process. The DEEP noted that it was “early in the RPS study process” but hoped to have a report done for the 2013 legislative session slated to begin in early January 2013. NEPGA shares the concerns expressed during the technical session that this compressed timeframe does not allow for a robust stakeholder process. NEPGA further supports the sentiments expressed by many that not only should there be a stakeholder role but it is essential that stakeholders be afforded an opportunity to comment prior to the completion of a draft report. Given the DEEP’s strong focus to date on stakeholder input in its proceedings, our hope is that DEEP’s process will continue with adequate time for meaningful stakeholder perspectives.

***Large-Scale State-Owned Canadian Hydro Doesn’t Meet the Goals of the RPS.***

The Draft CES recommends that the RPS Study look at several issues, including expanding the definition of resources eligible for RPS support to potentially include large-scale state-owned hydro projects. NEPGA believes that such large-scale hydro projects should *not* be included as a RPS resource pursuant to Connecticut’s RPS, nor should a new class be added to the RPS for the purpose of providing enhanced economic support to these resources.

While conducting the RPS Study, the DEEP should be mindful of the purpose of an RPS which is to provide policy and financial support to energy sources that may not be economical when compared directly with current commercial technologies and which might not be developed without RPS support. Given this goal, eligibility for consumer subsidies through RECs should not be extended to energy sources that do not satisfy environmental and policy criteria, or that do not face the economic challenges of other renewable technologies, such as large-scale state-owned hydro. Such a sudden increase in supply would flood the REC market, driving down the price for all RECs. Allowing these resources to qualify for the RPS effectively kills attempts to create incentives for new, local renewable resources and the economic development benefits that Connecticut and the region derives from local investment and employment. Without a meaningful REC market that provides an incentive for development of new renewable resources, the RPS fails to meet its basic purpose of providing policy and economic support to renewable resources that cannot yet compete directly with current commercial technology.

Furthermore imports of large-scale state-owned hydro resources cannot on their face be considered as meeting the environmental goals of the RPS. This is particularly true for

large-scale imports of hydro power from Hydro-Quebec (HQ), which are typically provided as “system power” resources. This means that they are not unit specific and not automatically tracked to the generation facility from which they originated. Given the large storage capacity and strong interties of the HQ system with other, higher-emitting, jurisdictions, it is highly probable that a substantial portion of energy being delivered will have actually originated from fossil-fuel generating facilities from such neighboring jurisdictions. The “system power” form of sale would not support accurate accounting to assure the same hydro megawatts are not sold to more than one party, a critical element of the GIS administration of the states’ REC markets. This would clearly undermine the environmental objectives of the RPS. More generally, it is advisable that any eligible imports of renewable resources be unit tagged to help ensure the integrity of the program.

***Large-Scale State-Owned Hydro is Not Necessarily a Low-Cost Resource.***

The recommendation to study the inclusion of large-scale provincially-owned hydro in the RPS is driven by a presumption that this resource is low-cost and will balance out potentially higher costs associated with other renewable resources. NEPGA strongly recommends that a component of the analysis driving the DEEP’s final recommendation regarding the expansion of RPS eligible resources and whether to include this type of hydro facility is an analysis of whether it is actually a low-cost resource.

Earlier this year, the PA Consulting Group, at NEPGA’s request, conducted an independent analysis on the electricity cost and economic impacts of the Northern Pass Transmission (NPT) project, and by extension the electricity that is being proposed to be delivered over the line coming from new HQ resources. The PA Consulting Group’s report was limited to the data and descriptions provided in a 2010 Charles River Associates report done for the NPT sponsors. The PA Consulting report updated natural gas price forecasts from the “Early Release” version of the Energy Information Agency’s (EIA) 2012 Annual Energy Outlook (AEO) and included PA’s proprietary GE MAPS model. The new study found that the costs of building new transmission in Canada, new transmission in New England, recovery of costs to build a portion of the hydroelectric dams and attempts to earn some level of return suggested that “when the full economic costs of the power delivered over the NPT are considered, it becomes clear that the power is quite costly.”<sup>5</sup> To date, other than the figure of \$1.2 Billion to construct the U.S. portion of the transmission line, no other numbers have been provided for costs associated with the NPT, including the cost of power delivered into New England over the line.

Further HQ, a partner with Northeast Utilities (NU) in building the NPT, has publicly stated that characterizing imported hydro as “low cost” is inaccurate. During a panel

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<sup>5</sup> PA Consulting Group, *Electricity Market Impacts of the Northern Pass Transmission Project*, June 2012, p 17.  
[http://www.nepga.org/files/library/pa\\_report\\_electricity\\_market\\_impacts\\_of\\_the\\_northern\\_pass\\_transmission\\_project\\_june\\_11\\_2012.pdf](http://www.nepga.org/files/library/pa_report_electricity_market_impacts_of_the_northern_pass_transmission_project_june_11_2012.pdf)

presentation at the 2012 Regional System Plan (RSP) Public Meeting in September in Boston, an HQ representative noted that the resource is not an inexpensive resource when construction and transmission costs are taken into account and warned that HQ would not embark on any project without a profit opportunity. Two months later at the November 15 CES technical session, HQ extolled the virtues of its hydro projects and characterized it as a highly competitive, low-cost resource that would bring down the cost of renewables. HQ, however, now seems to be implying that it would need an additional subsidy to make their project truly economic. No such subsidy, including through the RPS, is appropriate or should be given. It would therefore be prudent for the DEEP to factor an analysis of this type of hydro resource into the analysis driving its RPS Study and legislative recommendations.

### ***Prospects for Northern Pass Are Still Uncertain.***

Another key factor for consideration during the analysis of whether to include out-of-region large-scale hydro as part of Connecticut's RPS is the likelihood of the necessary infrastructure being built to deliver the power to New England. The challenges that have confronted, and continue to plague, the troubled NPT project in New Hampshire provide an example of this concern. In October 2010, NU and HQ announced a proposed 180-mile route for the NPT, including 40 miles of new right-of-ways through northern New Hampshire, as well as announcing an alternative route. The proposal was immediately met with opposition, with 29 towns unanimously passing resolutions in March 2011 that they did not want the project to come through their towns.

In early 2011, NU and HQ announced they heard the concerns and would develop a new proposed path for the NPT project, due out in June 2011. During the 2011 New Hampshire legislative session, a bill to prohibit NU and HQ from using eminent domain to acquire land to build the proposed line from Canada was introduced. The Legislature overwhelmingly passed it and Governor John Lynch signed the bill into law in March 2012. The proposed route announcement has been delayed numerous times and is still outstanding. Increasing skepticism over the project's future is being expressed by the investment community with Bloomberg analyst Andrew Weisel noting after NU's 3Q 2012 investment call that the "outlook for the company's transmission unit...is 'increasingly uncertain' given the problems and pushback in New Hampshire," with Weisel predicting an in-service date at best in late 2017.<sup>6</sup>

If and when the new route is secured, there are three main regulatory hurdles the project must pass. First, it must secure a Presidential Permit through a Department of Energy (DOE) process to allow it to cross the Canadian border into the United States. Second, it must obtain approval from the New Hampshire Site Evaluation Committee (SEC). Finally it must secure a Special Use Permit to allow it to cross over the White Mountain National Forest (WMNF). The last Special Use Permit approved for the WMNF was for an expansion of an existing ski resort. This approval process took nearly

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<sup>6</sup> "Wall Street Skeptical About Northern Pass," *Concord Monitor*, November 1, 2012.

10 years. The NPT project has already been delayed several years and with the regulatory hurdles left to confront, it is likely that the project will, at the very least, experience more delays.

Other similar transmission projects that have been proposed over the last few years for the Northeast including the Champlain Hudson line through New York and the Northeast Energy Link have also experienced opposition and potential delays. Connecticut policy-makers should be mindful of this opposition and factor in the likelihood of these transmission projects actually being built before making widespread significant changes to state policy and the RPS. Basing the state's energy policy on a project such as NPT that is several years delayed and in peril is not sound policy.

### **Connecticut's Generating Facility Production Tax Should Sunset as Scheduled**

One area not addressed by the draft CES, but with significant policy ramifications on the state's consumers and energy industry, is the current electric generation production tax. In response to significant budget and economic challenges, the Governor and the Legislature took aggressive actions to try to close the budget gap in 2011. Consumers across the state were asked to play a role as well in closing the gap and restoring economic stability to the state. As a short-term stop-gap measure, the Legislature passed the Governor's budget bill last year that included the first-in-the-nation tax on the production of electricity from generating facilities. Recognizing both the extraordinary and regressive nature of the tax, a sunset provision was inserted guaranteeing the tax would be eliminated in June of 2013.

As 2013 approaches, it is imperative that the sunset in this punitive tax is allowed to proceed. Households and businesses should no longer have to bear a tax on the production of electric generation in Connecticut that has increased costs by tens of millions of dollars. Connecticut individually, and New England as a whole, has been fortunate to be in a period of record-low wholesale electricity prices. Because of competition among generators and low fuel costs consumers have seen price decreases. Yet, Connecticut's production tax has made consumer costs higher than they otherwise would be. This makes Connecticut's electricity costs, which are already some of the highest in the country, less competitive with the rest of the Northeast.

The CES outlines a vision for Connecticut as a "leader in creating a cheaper, cleaner energy future while growing the state's economy and ensuring that Connecticut is an increasingly desirable place to live and work." The existence of this tax undermines this vision by not only making Connecticut power more expensive than its neighboring states, but also by sending an anti-business message. This additional cost of doing business jeopardizes all potential investment and the resultant jobs by creating market uncertainty and sending the message that Connecticut is not a good place to do business. Allowing the sunset to proceed as promised in 2011 will be an important step toward helping the state achieve its goal of cheaper energy, a growing economy, and a great place to live and work.

## **Conclusion**

NEPGA appreciates the opportunity to offer these policy considerations to the DEEP regarding its draft CES. Our comments provide the unique perspective of the region's generation community on the impacts of some of the CES's preliminary recommendations on the existing competitive electric market in Connecticut and throughout the region. NEPGA strongly recommends a continued regional focus on implementing a functional wholesale electric market design to balance supply and demand, and to procure low-cost energy. If such efforts do not satisfy Connecticut electricity supply needs and a policy decision is made to use a PPA to meet these goals, it is imperative that any PPA is secured through a market-based, competitive solicitation process. In regards to the recommendation to perform a separate RPS study to look at potential changes to the current RPS in Connecticut, NEPGA urges caution. A successful RPS is based upon regulatory certainty and not ever-changing rules. Stakeholder input into the process is essential. Most significantly, NEPGA is opposed to the inclusion of large-scale state-owned hydro as a RPS eligible resource as this runs counter to the purpose of a RPS. Analysis driving any ultimate recommendations on the role of those hydro resources should challenge the assumption that it is "low-cost" and that all transmission proposals to deliver this power to the region will be built, and built in a timely fashion.

We appreciate your consideration of our comments and encourage you to contact us should you have additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dan Dolan', with a horizontal line extending to the right.

Dan Dolan  
President  
New England Power Generators Association