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February 20, 2009

**VIA ELECTRONIC AND FIRST CLASS MAIL**

Michael Cassella, Chairman  
Connecticut Energy Advisory Board  
c/o Gretchen Deans  
CERC  
805 Brook Street, Bldg 4  
Rocky Hill, CT 06067  
e-mail: [gdeans@cerc.com](mailto:gdeans@cerc.com)

**RE: New England Power Generators Association, Inc.'s comments on the Electric Distribution Companies' Procurement Plan for Connecticut.**

Dear Chairman Cassella:

Pursuant to the Connecticut Energy Advisory Board's ("CEAB") Request for Written Comment and Notice of Public Hearing dated February 27, 2009, the New England Power Generators Association, Inc. ("NEPGA") hereby respectfully files the following comments on the Integrated Resource Plan for Connecticut dated January 1, 2009, prepared by the Brattle Group, the Connecticut Light & Power Company ("CL&P") and the United Illuminating Company ("UI") (collectively "the Utilities").<sup>1</sup>

NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 26,000 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 further correspondence, communications and other documents relating to this matter be served upon the undersigned as follows:

<sup>1</sup>

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 Integrated Resource Plan in any forum.

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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 the state's electric consumers 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 to electric customers.

## **II. EXECUTIVE SUMMARY**

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”).<sup>2</sup> While the plan acknowledges all resources in an obligatory manner, the analysis should specifically recognize that competitive market infrastructure plays a unique role in resource development. While the Plan acknowledges the dramatic changes in the factors affecting resource supply and development, it fails to similarly recognize the corresponding changes the competitive electricity markets have undergone in response.

As a result, many of the recommendations in the Plan favor the transmission and energy efficiency and demand response resources that the Utilities are directly involved in delivering, and NEPGA urges the CEAB to inject appropriate policy measures to promote effective competition among all resource types.

## **III. COMMENTS OF NEPGA**

In general, the Plan advances very aggressive transmission and demand-side resource proposals that could interfere with the competitive market dynamics and chill investments in future resources. Generators want to continue to provide Connecticut with the benefits that consumers have experienced and come to expect over the past several years. NEPGA is confident that this can be accomplished by encouraging private investment in new technology to accelerate benefits that improve the environment, while maintaining adequate electrical supply. In consideration of the foregoing, NEPGA believes the following issues should be fully analyzed and implemented prior to the acceptance of the Plan in order to assure Connecticut consumers a reliable and cost effective electricity supply.

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

New England’s wholesale electricity market is a well-established, yet evolving marketplace that works 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.

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<sup>2</sup> Public Act 07-242, § 51

Competition in electricity markets - as with competitive market structures for other commodities - creates incentives for efficiency and innovation while providing the most affordable prices consistent with long-term investments. Competitive markets also transfer much of the risk of long-term power plant investment from the captive rate-payers of a vertically-integrated utility to competitive suppliers. In light of these benefits, NEPGA urges the CEAB to structure resource planning and procurement in a manner that evaluates a full range of resources in the wholesale marketplace to obtain the most efficient mix for Connecticut's electric consumers.

**B. The Plan Should More Comparably Analyze Demand Side Management (DSM) with Conventional Resources.**

ISO-NE and NEPOOL have worked diligently to promote the development of load response within the competitive market structure. The broad-based recognition of the importance of demand response and the inclusive regional stakeholder process have allowed the region to develop market rules that are as inclusive and flexible as possible to create the greatest opportunity for demand response resources to participate. 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.

NEPGA recognizes the value of conservation and active demand response measures in developing a prudent energy resource mix. The primary objective of NEPGA is that opportunities for supply and demand 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 – 'equal pay for equal work.' However, 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. The reliability needs of the bulk power system are better served by a balanced resource portfolio that properly recognizes the relative value of supply and demand resources. The New England system is approaching a 10% reliance on demand resources, an unprecedented increase in the New England system, and we do not yet have operational experience to be assured that system reliability can be maintained with such a high penetration of these resources. The Utilities' recommendation to further expand reliance on demand-side resources should not be adopted until the operational impacts on cost and reliability are fully understood.

**C. The Evaluation Criteria for Long-Term Contract Selection must be Uniform and Non-Discriminatory to all Participants and Incorporate the Known Benefits Available through Competitive Market Fundamentals.**

NEPGA maintains that forward power contracting by buyers, combined with purchases from a spot market with demand response can be an efficient and lower-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. 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. 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.

To that end, the Plan's Recommendation 6 for bilateral contract solicitations to be undertaken in an effort to increase the amount of renewable energy available to Connecticut should not interfere with competitive market principles.<sup>3</sup> NEPGA maintains that the best way to achieve the renewable energy objectives of Connecticut is with uniform contracting criteria that treat all project proponents as competitive market participants, subject to fixed price and schedule terms and subject to market discipline. Ideally, such criteria should establish a clear and deliberate, formulaic approach to selecting the most economical projects that will have the potential to minimize overall electricity rates for consumers while increasing the amount of renewable energy available to Connecticut.

More importantly, NEPGA cautions that any energy contracts that are not procured through a transparent, competitive process will result in inherent market distortions that prevent the competitive energy markets from freely establishing a clearing price. Ultimately, market distortions create market failures, which is not an economically ideal situation for an electricity market that is intended to incent resource investment based upon market signals. NEPGA is confident that Connecticut can incent private investment in renewable energy; however, these infrastructure enhancements are contingent upon a business climate that rewards sound and prudent investments through a stable, consistent regulatory and legislative environment. Transparent competitive market signals are the most appropriate mechanism to ensure the most reasonable costs for obtaining renewable resources.

#### **D. The Plan Fails to Fully Analyze Transmission Proposals**

NEPGA favors the prudent development of beneficial transmission resources. However, the Plan does not adequately analyze the technical feasibility or the costs and benefits of transmission, supply-side and demand-side resources on an equal footing to provide detailed guidance for resource planning. While NEPGA appreciates the Plan's encouragement of non-transmission alternatives,<sup>4</sup> NEPGA finds the Plan's reference to the Canadian transmission initiatives alarmingly preferential to those projects and dismissive of real potential renewable and other resources that can be developed within Connecticut and within the New England region.<sup>5</sup>

NEPGA is not foreclosed to the opportunities of Canadian imports that are delivered in a transparent and competitive, open-access manner. However, not enough is known about any of these projects to warrant their inclusion in the Plan at this time. These proposals must be fully defined and then carefully evaluated against alternatives to ensure that consumers are getting the best deal. One such proposal, sponsored in part by CL&P's parent, is currently before the

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<sup>3</sup> Plan § 6.

<sup>4</sup> Plan at 4-43

<sup>5</sup> Plan at 4-37 – 4-39.

FERC.<sup>6</sup> While the specifics have not been disclosed, the petition at FERC proposes an entirely circular arrangement whereby the Petitioners would, pursuant to the Transmission Services Agreement, assess transmission costs (including substantial capital returns for the utilities own shareholders) to HQUS, but then, under a Power Purchase Agreement, fully reimburse HQUS for those very same costs, with all related expenses to then be borne by the captive ratepayers of the Petitioners. While the Petitioners assert that the proposed transaction will save consumers money, they advance no information to substantiate the claim. On its face, the proposed structure threatens a return to a vertically-integrated structure that will ultimately shift the project risk onto captive ratepayers through preferential power purchase agreements.

Developments in transmission infrastructure will indisputably impact the consumer price of electricity, as well as the decisions of private developers to invest in supply side resources. NEPGA members have made substantial investments in new, efficient generating plants throughout the region and continually evaluate further opportunities to expand their presence within the state. Accordingly, NEPGA has a direct interest in ensuring that the decisions to expand transmission infrastructure are made in a prudent manner that represents the best option to meet the system need, consistent with broad stakeholder interests.

NEPGA believes that, as in all cases, a transparent stakeholder process should be utilized to evaluate all potential alternatives prior to the approval or construction of new transmission facilities. Because the cost of new transmission is incurred directly by the ratepayer, a stakeholder process is imperative to determine whether there are least cost resources better suited to achieve electric reliability and affordability and lower the investment risk borne by ratepayers. NEPGA supports the stakeholder process and believes that it is a proven mechanism for creating prudent electricity policy.

#### **E. Nuclear and Combined Heat and Power Resource Development**

NEPGA's policies are fuel neutral and, as such, our organization does not favor one technology over another. As such, NEPGA encourages the CEAB to openly and fully investigate the benefits of all energy resources to meet the state's growing energy needs, including nuclear energy. Concerns about rising electricity demand and clean air are among some of the factors driving the region's interest in new nuclear plants. Nuclear energy is an electricity source that can generate electricity safely, reliably, efficiently and with no greenhouse-gas emissions.

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<sup>6</sup> On December 17, 2008, Northeast Utilities Service Company<sup>6</sup> and Nstar Electric (collectively "Petitioners") filed a Petition for Declaratory Order pursuant at the Federal Energy Regulatory Commission seeking resolution as to whether the Petitioners may enter into a bilateral transmission services agreement with H.Q. Energy Services, Inc. ("HQUS") under which they will sell 1,200 MWs of firm transmission service over a new, participant funded, direct current transmission tie line connecting New England with the Hydro-Quebec system in order for HQUS to sell and deliver firm power from the Hydro-Quebec system to interested purchasers in New England.

Similarly, NEPGA encourages the use of Combined Heat and Power (“CHP”) as incremental additions to supply side resources.<sup>7</sup> CHP captures waste heat that is ordinarily discarded from conventional power generation; typically, two-thirds of the input energy is discarded to the environment as waste heat (up exhaust stacks and through cooling towers). This captured energy can be used to provide process heat, space cooling or heating for commercial buildings or industrial facilities, and cooling or heating for district energy systems. By providing electrical and thermal energy from a common fuel input, CHP significantly reduces the associated fuel use and emissions. Due to its higher efficiency compared to conventional central-station generating systems, CHP produces lower emissions of traditional air pollutants and carbon dioxide, the leading greenhouse gas associated with global climate change, than conventional generating systems.

As noted in the Utilities’ Plan, CHP opportunities in Connecticut are fairly limited, and development of new nuclear sources will take many years. NEPGA urges the CEAB to remain open to the full range of fuel and technology choices, including renewables such as biomass, and efficient and low-emitting natural gas resources.

#### **F. Resource Finance**

NEPGA appreciates the analysis of the financial markets provided in Section 9 of the Plan; however, we contend that the consumers have fared better under the restructured markets.<sup>8</sup> The experience of the independent power producers in the development of resources has been favorable from two perspectives. First, the restructured energy markets have produced over 10,000 megawatts of new installed capacity that represents over \$6 billion in private investment. Second, and of considerably greater importance, these resources were developed without risk to captive ratepayers – development and operational risk. Independent power companies are limited to covering their costs from the markets or through contracts with commercial counterparties, and NEPGA maintains that protecting captive ratepayers from project development risk is one of the most valuable benefits of competitive markets.

In order to extend successful resource development in New England, the electricity markets need to provide regulatory certainty and policies that encourage development of energy resources, as well as to ensure the continued economic well-being of resources developed under existing policies. Energy projects are planned years in advance and involve a substantial financial commitment on the part of developers and financiers. With so much at stake, investors need to be confident that governments aren't going to change the rules in the middle of the development process. Regardless of the current state of the financial system, a healthy competitive market is the most certain way to ensure privately capitalized energy resources.

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<sup>7</sup> See, Plan §6. The United States had approximately 85 gigawatts (GW) of CHP capacity in place as of 2007, yet the potential for substantial expansion is great. In 2000, the U.S. Department of Energy (DOE) and U.S. Environmental Protection Agency (EPA) set a goal to double the capacity of U.S. CHP installations by 2010. US DOE, Energy Information Association

<sup>8</sup> Plan at 9.31.

Chairman Cassella

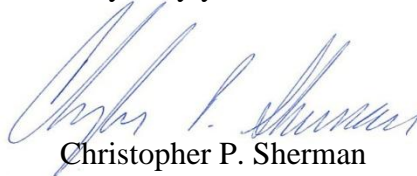
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#### **IV. Conclusion**

NEPGA appreciates the efforts that the Utilities have put forth in drafting the preliminary Plan. However, NEPGA urges the CEAB to recognize the success of the competitive markets in developing New England electricity markets, and to remain consistent to those principles. 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", is written over a light blue circular stamp.

Christopher P. Sherman  
General Counsel