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TESTIMONY

OF

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ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

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MAINE STATE LEGISLATURE

JOINT COMMITTEE ON ENERGY, UTILITIES AND TECHNOLOGY

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Good afternoon and thank you for the opportunity to testify. My name is Sandi Hennequin and I am the Vice President of the New England Power Generators Association, Inc. (“NEPGA”). NEPGA is the largest trade association comprised of competitive electric generating companies in New England. NEPGA’s member companies represent approximately 27,000 megawatts (MW) of generating capacity throughout New England, and nearly 3,000 MW of generation in Maine, or 87 percent of the electric generating capacity in the state. Our mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA’s Maine companies provide power for the state from a portfolio of plants, including natural gas, oil, and hydro. Overall, these companies pay roughly \$18 million annually in state and local taxes, while providing over 230 well-paying and skilled Maine jobs. NEPGA members are good corporate neighbors, contributing to the civic and charitable endeavors of their host communities, donating tens of thousands of dollars annually to charitable causes throughout the state of Maine.

NEPGA’s Position

NEPGA opposes LD 1863 as currently drafted¹. While we appreciate the goal of this bill – to lower electric prices for Maine’s consumers, NEPGA believes the bill will have exactly the opposite effect and will harm the consumers the bill seeks to help. Specifically, the proposed elimination of the 100 MW cap on eligible renewable resources qualifying for the state’s Renewable Portfolio Standard (RPS) will extend a subsidy, paid by Maine’s consumers, to a well-developed technology that does not need the RPS subsidy. NEPGA also would like to offer some general policy guidelines for the Committee to consider in regards to the process of securing long-term contracts for new generation resources.

To more fully explain NEPGA’s position on LD 1863, the remainder of our testimony

¹ The views in this position paper reflect the views of the New England Power Generators Association and not necessarily the positions of each individual member.

focuses on three main areas:

- NEPGA's opposition to allowing existing large-scale hydro facilities from qualifying for state RPS programs;
- The benefits of electric competition; and
- The importance of adhering to competitive procurement practices.

Large-Scale Hydro Should Not Qualify for the State's RPS

Sections 1 and 2 of LD 1863 would remove the existing 100 MW cap on renewable capacity resources and renewable resources that would qualify for the state's RPS. The immediate impact of this change is the allowance of large-scale hydro resources located outside of New England to qualify for Maine's RPS. The primary goal of an RPS is to provide a consumer subsidy to support emerging renewable energy sources that may not be economical when compared directly with current commercial technologies and which may not be developed without that support. Large-scale hydro resources, however, is a commercially-proven resource, not an emerging technology. It does not require a RPS-type subsidy to be able to compete in the New England power market and for the opportunity to serve Maine consumers.

It is important to be cognizant of how a RPS functions. A RPS directs a subsidy toward resources that would not otherwise be developed or operate, potentially displacing resources on the system with a less desirable environmental profile. It is difficult to see how the inclusion of large-scale hydro in the Maine RPS will affect the development or operation of out-of-region large-scale hydro resources which will be built based on the value of their energy and capacity, not a subsidy from Maine consumers. In contrast, more local renewable resources depend, to a very real degree, on REC revenues for both their development and operation. Since many of these resources are distributed technologies they also tend to be developed within the state of Maine, paying local taxes and supporting local employment.

Eligibility for renewable energy credits (RECs) should therefore not be extended to energy sources that do not satisfy those criteria, such as large-scale hydro, regardless

of whether it is situated inside or outside of the United States.

Another requirement for any successful RPS is to provide a degree of regulatory certainty that rules and definitions are not subject to sudden change. This allows contractual arrangements to be made in the market to meet the RPS requirements. Enticing firms to make investments and create jobs in Maine with a RPS program simply will not work if the program is modified in ways that undermine the reasonable expectations of investors after investments are made. Policy consistency and certainty is critical for long-term investments in any industry and especially true in one as regulated as electricity.

Allowing these large-scale resources to qualify for the RPS effectively kills attempts to create incentives for new, local renewable resources and the economic development benefits that Maine derives from such investment and employment. This is because the sudden increase in REC supply sources that are mature technologies and have been developed economically at scale for over a century will drive down the price for RECs for those more nascent technologies that truly need the support. In the case of some large-scale Canadian hydropower, the generation backing the transactions is not always identifiable and might come from non-renewable sources. A change as broad and sweeping as is proposed in LD 1863 could result in RECs going to subsidize fossil generation. Maine can easily expand its access to environmentally sensitive hydroelectric resources by expanding the threshold to include regional sources that provide clean, renewable attributes without some of the attendant environmental and social effects that larger hydroelectric projects may exhibit.

It should be noted that the Maine Public Utility Commission, in Docket 2011-271, commissioned an independent assessment of the costs to Maine associated with the RPS in comparison to the benefits to the state's economy associated with renewable development motivated by the RPS programs. Among other things, the report concluded if half of the proposed new wind projects in Maine were built (625 MW of new wind), at a total investment cost of \$2,563/kW, this would lead to \$560 Million of new

investment in the state. The report went on to note that this would likely generate 11,700 new jobs in Maine, with the associated overall investment increasing the state's Gross Domestic Product by 2 percent, or more than \$1 billion. It is critical to recognize that these benefits will never be realized if the market is dramatically altered to include large-scale hydro resources within the state's RPS.

The Benefits of Electric Competition

Maine policy-makers pursued the development of a competitive electric industry structure in the late-1990s. The Maine Legislature passed comprehensive legislation, *the Maine Electric Utility Restructuring Act*, in 1997, which functionally separated generation from transmission and distribution, and introduced competition into the supply of electric generation. The premise underlying this particular component of electric industry restructuring was to allow market forces and transparent pricing to guide business decisions of owners and operators of *all* generation facilities.

Some specific examples of the benefits of electric competition to the region as a whole include:

- ***New, Clean Generation for New England.*** Since the late 1990s, generation developers have invested billions in new generation facilities providing over 13,100 MW of new, clean generation for New England. Competitive generation developers absorb risks of cost overruns and bad investment decisions and have shielded consumers from those risks, unlike in the regulated utility regime.
- ***Greater Plant Availability.*** At the same time, plant unavailability – or the amount of time that plants are not able to run when asked to do so – has decreased from 22 percent to 12 percent. This 45% reduction is enough to power an additional 1.96 million New England homes. And, the improved availability of generators saves consumers hundreds of millions of dollars annually by providing lower cost energy and allowing reliability to be met with fewer plants.
- ***Decreased Environmental Emissions.*** Environmental emissions across the region have decreased with CO₂ emissions down by 18 percent; NO_x emissions down by 66 percent and SO₂ emissions down by 71 percent.

In order for Maine and the region to continue to enjoy these benefits of a competitive electric market, policy-makers must ensure the preservation of the principles of an open and transparent market whereby all participants can compete on a level playing field. It is imperative that all comprehensive energy policy in the state of Maine, including the policies embodied in statutes such as the long-term contracting provisions referred to in this proposed legislation, continue to embrace these competitive market provisions to allow the many benefits of electric competition to be realized by all consumers.

Importance of Competitively Procuring New Generation

NEPGA has testified before this Committee and in legislatures throughout New England of its strong belief that if a policy decision is made to pursue long-term contracts for new generating resources, it is imperative that a competitive process open to all market participants is used. This fair and transparent model allows a wide range of market participants to compete against each other and guarantees the most open and cost-effective outcome for consumers. The use of a competitive procurement process seeks to expand the pursuit of efficient, reliable and environmentally sustainable power supplies to a wide range of companies, allowing competitive market forces to deliver the desired electricity supply, at the lowest cost for consumers.

An open competitive procurement also provides the most effective tool for weighing price and non-price considerations inherent in any proposed contract. This type of robust process ensures consumers get the best deal for reliable electricity service at the lowest risk. Competitive procurement provides a tool for determining the prudence of a power purchase and a market test to assess any proposal for legislators, regulators and for consumers.

Conclusion

NEPGA appreciates the opportunity to testify on LD 1863 and to offer our perspective on this important piece of legislation. We ask the Committee to be cognizant of the many benefits of competitive electric markets, and the need for regulatory consistency

in the state and region's market policies. For this reason, we ask the Committee to:

- Maintain the existing cap of 100 MW on eligible renewable resources pursuant to the state's RPS and not allow large-scale hydro to qualify; and
- Clarify that competitive procurement practices, with the ability for multiple proposals to be submitted, are utilized to obtain any long-term contracts for new power supplies in Maine.

Thank you for the opportunity to testify before you today. I would be happy to answer any questions from the Committee.