NEPGA
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July 6, 2012

Representative John D. Keenan
Chair, Joint Committee on Telecommunications, Utilities & Energy
State House, Room 473B
Boston, MA 02133

Dear Chairman Keenan:

I am writing on behalf of the New England Power Generators Association ("NEPGA") regarding House Bill 4225 and its companion in the Senate, S. 2214, *An Act Relative to Competitively Priced Electricity in the Commonwealth.* NEPGA supports elements of these bills designed to increase competition and improve transparency for energy resource decisions. We, however, have significant concerns with two sections of HB 4198, specifically Sections 14 and 42.[1]

NEPGA is New England's largest trade association representing competitive electric generating companies. In Massachusetts, NEPGA's member companies operate over 12,100 megawatts (MW) of generation, or nearly 93 percent of the Commonwealth's electric generating capacity. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

Our Massachusetts member companies provide over 1,600 well-paying jobs within the state, adding nearly $80 million to the state and local tax base, and are good corporate neighbors, contributing to the civic and charitable endeavors of their host communities, donating approximately a million dollars annually to charitable causes throughout the Commonwealth.

Section 14

Section 14 of HB 4225 would enable electric distribution companies to build, own or operate 25 MW of solar generation on or before June 2014, two years beyond the June 2012 sunset date mandated in the 2008 Green Communities Act (GCA). The 2008 GCA had allowed electric and distribution companies to build, own or operate a limited

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

amount of solar generation for a limited period of time to allow the solar market to develop. NEPGA strongly opposes extending the GCA sunset provision as the act has already achieved its goal of facilitating development of a robust solar market.

In 1997, Massachusetts policy-makers developed competitive electric generation markets, passing the comprehensive *Electric Restructuring Act,* separating generation from transmission and distribution. Prior to electric restructuring, under the old monopoly ownership model, captive consumers bore the costs of utility ownership of generation, including all the risks of construction cost over-runs, schedule delays, poor generator performance and stranded costs. With generation competition, however, market forces and transparent pricing guide business decisions of owners and operators of *all* generation facilities who bear the construction and operation risk. Under competition generator's success is predicated on innovation, operational performance and effective risk and cost management. Returning to the old monopoly model undermines the tremendous benefits offered by competitive generators, who have helped provide the lowest wholesale generating costs in New England in nearly a decade.

The following example may help illustrate the material difference between utility- and competitively-owned generation.

Last year, the legislature in Connecticut mandated the state issue competitive requests for proposal (RFPs) for new solar generation, eliciting in only one week, 21 proposals representing 70 MW of new solar generation with the two projects selected providing 10 MW at a price of 22.2 cents per kW. Robust competition helped to ensure selection of the most cost-competitive projects, even under an overly-rushed timeline.[2]

Massachusetts' experience contrasts sharply with Connecticut's successful competitive procurement. Western Massachusetts Electric Company, for example, is building two utility-scale solar facilities in rate-base, both of which are slated to come in at over $5,220 per kilowatt,[3] or approximately 60 cents/kWh, nearly three times as expensive as the per kilowatt cost of the comparably-sized facilities resulting from the 2011 Connecticut RFP.[4] Most significantly, Massachusetts did not provide the same

[2] Department of Energy and Environmental Protection Press Release, "Governor Malloy Announces Procurement of Cheaper and Cleaner Energy For Connecticut" December 23, 2011.

[3] See 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

[4] 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.

consumer protection by requiring a market test to determine whether cheaper or more efficient options were available.

Notably, since the 2008 passage of the GCA, the market for new solar generation facilities has matured. In particular, the Department of Energy Resources began administering the state's Solar Renewable Energy Credit (S-REC) Carve-Out program in early 2010, a market-based program to incent residential, commercial, public and non-profit development of 400 MW of solar photovoltaic (PV) facilities across Massachusetts. SRECTrade Inc., the largest online SREC marketplace and SREC aggregator in Massachusetts, recently noted Massachusetts SRECs selling at a clearing market price of $540 per SREC, a level equal to 98 percent of the Solar Alternative Compliance Price, demonstrating a strong market demand for SRECs.

Clearly the success of Massachusetts' SREC program illustrates the GCA has fulfilled its goal of supporting solar market development and there is no need to extend the utilities' temporary and limited authority to construct, own and operate solar generation facilities.

Section 42

Section 42 of HB 4225 establishes a requirement for distribution companies to enter into long-term contracts to procure energy from generating facilities that are located on the site of retiring coal or oil-fired generating facilities which meet certain criteria, as well as requiring the DPU to investigate the creation of an electric generation decommissioning fund for new generating facilities over 100 MW constructed after December 2013. NEPGA has serious concerns with this proposed out-of-market contract requirement that will have adverse effects on the regional competitive electricity market and harm more economic existing generation.

As confirmed repeatedly in annual Forward Capacity Auctions, New England as a whole, and Massachusetts specifically, have more than adequate electricity capacity to meet consumer demand. Even with the planned retirements of generation facilities over the next few years in New England, the last auction elicited nearly 4,000 MW beyond levels needed to ensure an ample 17% reserve margin. Under any circumstances, modifications to the regional energy and capacity markets, not one-off transactions, are the better way to incent new generation when needed.

As NEPGA has testified on numerous occasions before the Legislature, robust, transparent competitive processes open to all market participants, new and existing, rather than limited to a select few yield the best outcomes for consumers. If a state decides, however, to go outside of the regional market process to secure energy supply or generation capacity, a competitive solicitation should be used. Unfortunately, as drafted, Section 42's long-term contract mandates provide no such competitive

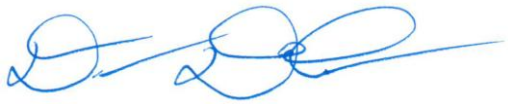
solicitation. Moreover, the provision is overly narrow as it is limited only to sites where an existing fossil-fueled plant is permanently retiring, thus precluding offers from the wide array of potential developers necessary to ensure the most cost-effective result. It is also not clear how power from the contract would be used or how the power purchase costs would be recovered, raising the question – would consumers pay more to a favored generator or generators for the same services that are either currently, or could be, provided by existing competitive resources?

Conclusion

NEPGA strongly urges the House and Senate to not include the current Sections 14 and 42 of HB 4225 in the final energy legislation. As detailed above, the solar generation market is robust and mature and no longer requires allowing utilities build and ownership of solar facilities. Similarly, while well intentioned, the long-term contract provision in Section 42 likely will increase cost to consumers and undermine well-functioning competitive energy markets in Massachusetts and throughout New England.

NEPGA appreciates the opportunity to comment on House Bill 4198. Please do not hesitate to contact me if I can provide any further assistance.

Sincerely,



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Dan Dolan
President

CC: Members of the Conference Committee on S 2214 and HB 4225