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**TESTIMONY**  
**OF**  
**SANDI HENNEQUIN**  
  
**ON BEHALF OF**  
  
**NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)**

**2010 – Senate Bill 450**

**HOUSE WAYS AND MEANS COMMITTEE**

**April 20, 2010**

Good morning 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 representing competitive electric generating companies in New England. NEPGA’s member companies represent over 27,000 megawatts (MW) of generating capacity throughout New England, and over 2,600 MW of generation in New Hampshire, representing approximately two-thirds 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 New Hampshire member companies potentially affected by this proposed tax include:

- **Brookfield Renewable Power** which owns and operates hydroelectric power facilities in North America and Canada with 45 MW of installed capacity at 8 generating stations in New Hampshire.
- **Granite Ridge Energy** which owns and operates the 720 MW natural gas-fired, combined cycle generating facility in Londonderry.
- **NAEA Newington Energy** which owns and operates the 525 MW natural gas-fired, combined cycle generating facility in Newington.
- **NextEra Energy Resources** which owns and operates Seabrook Station, a 1,245 MW nuclear generation station in Seabrook.

Overall, NEPGA’s New Hampshire companies pay nearly \$35 million annually in state and local taxes, and provide over 1,450 well-paying New Hampshire jobs.

### **NEPGA’s Position**

NEPGA strongly opposes the proposed amendment to SB 450 which would repeal the current electricity consumption tax and replace it with an electric generation tax. NEPGA opposes this tax for a host of reasons, including:

- One, this tax will increase consumer costs.
- Two, this tax places New Hampshire’s power plants at a competitive

disadvantage.

- Three, this tax threatens existing and future jobs in the state.
- Four, this tax adversely impacts local towns.
- Five, this tax sends an anti-business message.
- And finally, this tax would yield less than current projected tax revenues.

I would like to walk through each of these points and discuss why adopting this type of tax for New Hampshire at this time is simply bad public policy. Before doing so, I want to provide some necessary background on the role of New Hampshire's electric generation plants in the region. In New England, all six states are part of a regional pool, overseen by an entity called the Independent System Operator New England or "ISO New England." On a daily basis, every power plant determines its cost per unit of operation, or per megawatt-hour ("MWh"), and provides a bid to operate its plant to the ISO New England. The bid states that for a certain price, the plant will provide a certain quantity of electricity to the region. The ISO New England "clears the bids" or stacks all the bids from lowest price to highest price, and accepts enough bids to meet the projected need for electricity for the next day in New England. The clearing price, or the highest price paid to the last block of power brought by the ISO New England, is the price that is paid to all power plants who are selected to run by the ISO New England for the next day.

This background is helpful to understand as we turn to the discussion of the specific reasons why adopting an electric generation tax is bad public policy.

### **1. The proposed generation tax will increase consumer costs**

A generator – like any other manufacturer of a product – will incorporate all the costs of making a product into the price it must sell the product for into the market. If a generator tax is imposed, the generators must incorporate this new cost into the market price of its electric supply product. Simple economics tells us that if the generator's cost of production increases, the cost of its product will increase and costs to consumers will also increase. These cost increases will be seen in one of two ways:

- If a generator contracts directly with another party such as an electric distribution company or wholesale supplier for its power, the cost of selling the power will increase and this will be passed directly to consumers.
- When generators bid their power into the ISO New England, the bid will likely be higher in order to account for the additional cost of providing the supply, causing upward pressure on the clearing price paid by **all** consumers in New England.

Adopting a tax that will increase costs to consumers during the current economic downturn is not good public policy.

## **2. The proposed generation tax disadvantages New Hampshire's power plants.**

If this tax were adopted, New Hampshire would be the only New England state with such a tax. Returning to the previous discussion on how New Hampshire plants operate within the regional system, it is clear that this would disadvantage New Hampshire and its electric generation resources. The tax would be another variable cost of operation. When a power plant owner factors this additional cost into its cost of producing electricity, its bid to the ISO New England to run for the next day will be higher. A similarly situated power plant in any other New England state would not bear this same cost, thus the plants in other states would be able to bid to operate for less money and would have a greater likelihood of being asked to operate over selecting a New Hampshire plant. Currently there is more power plant capacity in New England than is needed on most days, thus not every existing power plant in New England will be asked to operate every day. Implementing a tax which would put our New Hampshire generation resources at a competitive disadvantage with the rest of New England during the current economic crisis is not good public policy.

## **3. The proposed generation tax threatens existing jobs in New Hampshire.**

The proposed generation tax threatens both existing and future jobs in New Hampshire. As discussed earlier, as the price of a generator's product goes up, the generator becomes less competitive with other generators throughout New England. As a result, there will be less days in which the ISO New England will choose these less competitive

New Hampshire generators to provide energy to the region. The less the plants run, or the more that plants are forced to absorb these new costs out of their own pocket, the less able the plants are able to cover their fixed and operating costs, and the more likely they will be to have to make cuts in other areas, including re-examining necessary staffing levels. In the current economic climate, any measure that in any way threatens stable existing jobs is bad public policy.

#### **4. The proposed generation tax impacts localities.**

Electric generation plants are critically important members of the communities in which they operate. As noted earlier in this testimony, NEPGA plants contribute approximately \$35 million in state and local taxes, the vast majority of which is contributed to the host community. In addition, NEPGA plant operators recognize the value of being good corporate neighbors and contribute to local charitable and nonprofit organizations in their host towns. Imposing the electric generation tax can have impacts on both of these actions. As our plants go into negotiations with host communities regarding local property tax assessments and payments, they will invariably factor in other taxes which they already pay and will start at a different negotiating place than they would without these other taxes. If a plant is paying millions of dollars in a generation tax, these are millions of dollars they are less likely to have available for the discussions with the towns. Moreover, the imposition of this tax impacts the profitability of the plant and forces the owners to take a harder look at any “discretionary” spending such as the type of spending plants allocate to community and charitable activities. Any legislation that puts more pressure on financially challenged localities is not good public policy.

#### **5. The proposed generation tax sends an anti-business message.**

The proposed generation tax also sends an anti-business message that not only disadvantages existing New Hampshire generators but also discourages generation investment in the state. As of April 1<sup>st</sup>, the ISO New England reports that there are 10 proposed generation development projects in New Hampshire totaling approximately 600 MW of proposed new generation. Many of these projects are renewable projects that would help the state meet its environmental goals such as Governor Lynch’s 25 by

2025 proposal that seeks to meet 25 percent of our state's energy needs through renewable resources by 2025. Adopting the proposed generation tax jeopardizes all potential investment and the resultant jobs by creating market uncertainty and sending the message that New Hampshire is not a good place to do business. Developers of these projects may decide to look to other states for developing these projects. Once a state has a reputation of being anti-business, it becomes even harder to attract new development – of any kind – to the state. Sending this type of anti-business message and jeopardizing potential jobs for our state in the current economy is not good public policy.

**6. The proposed generation tax will generate less than currently projected tax revenues.**

During discussion last week on the proposed generation tax, supporters of the tax projected it could generate \$23 Million in additional tax revenue. NEPGA believes this tax itself will generate less than projected, and have an adverse effect on the state's Business Profit Tax ("BPT"). First, the current projected revenues for the proposed electric generation tax assume the plants will continue to operate at their historical operating levels. Returning to the earlier discussion of the role of New Hampshire's power plants within the regional electric grid, if the cost of New Hampshire plants' operations go up as compared to other regional plants, our plants will be asked to operate less often. If a plant is not running, it is not generating kilowatt-hours and not paying the generation tax. If the plant is not running, it is also not earning a profit for the day and not paying the BPT.

Second, the imposition of this tax would have another adverse impact on the plants' profits. In some cases, the power plant may decide to not include the entire cost of the new tax in its bid to operate to the ISO New England in an attempt to operate more often. If this occurs, the cost of the new tax will be borne through the plant's profits. In this situation the plant will have less profits to tax and will pay less to the state of New Hampshire through the BPT. Clearly the projected revenue from the proposed electric generation tax must account for the reality that plants will likely run less often than

historical levels and will earn less profits subject to the state's BPT. On the other hand, while the current electricity consumption tax may be projected to bring in lower revenues, these revenues are more stable as consumers will not be opting to not turn their lights on or wash their laundry. Attempting to meet the state's budgetary challenges by relying upon a new tax with an unpredictable revenue stream and an unknown impact on existing tax revenues is not good public policy.

## **Conclusion**

In summary, NEPGA strongly opposes the adoption of a generation tax for New Hampshire. Other states have considered this type of tax and rejected it as poor public policy. This tax would increase consumer costs, jeopardize existing and potential new jobs, put New Hampshire at a competitive disadvantage, and send an anti-business message at a time when the state needs to welcome new businesses. At the same time, this tax would likely not generate the revenues that supporters have suggested and would adversely impact existing revenue streams such as the Business Profits Tax, and have unintended consequences on local towns. For all these reasons, NEPGA strongly urges the Committee to not adopt this amendment.

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