TESTIMONY

OF

SANDI HENNEQUIN

ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

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ENERGY, ENVIRONMENT AND ECONOMIC DEVELOPMENT COMMITTEE

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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 ("NEPGA"). NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 26,000 megawatts (MW) of generating capacity throughout New England, and over 2,600 MW of generation in New Hampshire, which represents a majority of the electric generating capacity in the state. Our member plants within the state are many and include FPL Energy's Seabrook Station, North American Energy Alliance (NAEA)'s Newington Energy Facility, Granite Ridge Energy, and Brookfield Renewable Power's hydroelectric facilities in northern New Hampshire. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA's members support SB 152 and believe there needs to be a determination made by the Public Utilities Commission as to whether the scrubber installation at Merrimack Station is in the best interest of retail customers. Our objective in supporting this bill is not to take a position on whether Merrimack should continue to operate or not. Instead our position is motivated by a desire to insert a degree of accountability into the process, and to make sure the right questions are asked in order to justify the use of ratepayer financing. To frame the issues, I would like to discuss the need for accountability, and then address some of the "doomsday" scenarios that are being suggested if this bill passes.

Accountability

During the late 1990's, New Hampshire lawmakers decided to pursue the restructuring of the electric industry within the state. One of the driving factors behind this policy change was to transfer risks and accountability from the ratepayers to the market. If an entity wanted to build, or make improvements and enhancements to a generation asset, shareholders and the market bore the risks and provided accountability, not the captive ratepayers of a utility. Unfortunately in New Hampshire we are stuck in the "hybrid" model of restructured electric markets. The industry has some characteristics of a competitive restructured model – customer choice of supplier, merchant generation plants, and competitive procurement of energy by some utilities. However, there are also elements of the old monopoly cost-of-service model such as the continued ratepayer financing of PSNH generation assets. As long as ratepayers are financing the type of investment being contemplated at Merrimack, they must have the tools to ensure absolute accountability.

SB 152 would correct the missing link in the "hybrid" competitive model by asking the PUC to investigate the proposed scrubber installation, and ensure that the costs that are being proposed and the scope of the construction effort are reasonable. If PSNH were like our merchant generation members and looking to finance this type of capital investment, the accountability would come from our shareholders, not from ratepayers.

In particular the true cost of this project must be scrutinized. This is not just an issue of

$250 Million vs. $457 Million, it is the question of what number accurately represents the true cost of this project and if that cost is reasonable. When a regulated utility such as PSNH makes a capital investment, it earns a Return on Equity ("ROE") stream of revenue, fully recoverable through ratepayer financing. For our discussion today, assume that half of the projected $475 Million price tag for this project represents PSNH's capital investment. The ROE for this project – in the range of 9.5-10 percent – would be applied to the estimated $237.5 Million of capital investment for this project, with the product of this revenue calculation being added to the current $457 million price tag. The question must also be asked -- are there any other costs that will need to be factored in such as the impacts of any new federal legislation or federal standards?

Replacement Power Costs

Some opponents of this bill are trying to scare you. They argue that passage of this bill, and any delay in the scrubber project, will force the closure of Merrimack Station. With this imminent closure, they argue that PSNH customers will be forced to pay higher spot market prices for energy, and reliability and security will be compromised. The facts simply do not agree. Looking first at the issue of costs, there is no guarantee that the "replacement" power for Merrimack's capacity and energy will be higher. Merrimack is a low-cost producer of electricity. But it is not the only low cost producer in New England, especially once the cost of the scrubber investment would be factored into rates. Current estimates suggest that the scrubber installation would add ½ cent per kwh in Year 1, and 1/3 cent per kwh in Years 2-15 to a typical ratepayer's electric bill.

From time to time, PSNH's electric rates are lower than other utilities in the state and region, and from time to time its electric rates are higher. To illustrate this point, I have attached two charts to my written testimony. These charts provide a current snapshot of energy supply prices for the other utilities in New England – 85% of which do not own generation and competitively procure this customer supply. If PSNH went to the market to replace any of this power, it would have the option to procure necessary power from the market through a competitive procurement process, not from speculative spot market purchases from the market. As the other distribution utilities in New Hampshire and utilities in Maine, Massachusetts, Rhode Island and Connecticut – including PSNH's parent company Northeast Utilities currently do, PSNH could conduct a competitive procurement process for its necessary supply. Typically this involves a RFP process for supply with shorter 3-month terms for larger commercial and industrial customers, and longer 6-month to one-year terms for residential and small commercial customers. In this process, the utility issues an RFP, competitive suppliers bid to provide the service, and there is a transparent process whereby offers from multiple suppliers are evaluated and the lowest-cost option is chosen.

Regional Capacity Resources

Not only is it true that the costs to replace Merrimack power would not necessarily be higher, it is simply not true to state that there would not be the available capacity to replace this power. The ISO New England, ("ISO-NE") is currently implementing a Forward Capacity Market (FCM) in New England. Under this model, ISO-NE in consultation with the region's stakeholders will develop estimates based on load

forecasts of the amount of capacity necessary to meet New England's needs, or the region's Installed Capacity Requirement ("ICR"). On an annual basis, the ISO-NE will conduct an auction process, the Forward Capacity Auction ("FCA") to procure this power. To date there have been two FCA's conducted – one in February 2008 for Power Year 2010 (June 2010-May 2011) and one in December 2008 for Power Year 2011 (June 2011-May 20120). In both FCA's there has not only been excess capacity that has qualified to participate in the auction and provide capacity, there has been excess capacity that has been procured in the auction because resources were willing to provide capacity at the established floor prices for the auction. For the first FCA, there was 2,047 MW of excess capacity – nearly double the capacity that is provided by all of PSNH's power plants or more than four times what is provided by Merrimack Station. For the second FCA, there was 4,914 MW of excess capacity – more than four times the amount of capacity that is provided by all of PSNH's power plants or more than eight times what is provided by Merrimack Station.

Reliability Considerations

Finally, a plant such as Merrimack Station cannot just decide to retire and stop providing capacity to the region. All existing generation in New England must participate in these Forward Capacity Auctions. If a generator does not want to participate in the FCA and wants to retire, it must subject itself to an ISO evaluation of the plant during which the ISO will ensure that its retirement does not in any way jeopardize the reliability of the electric grid in New England. This determination – that the retirement of a generating asset would not harm reliability – has to be made before any existing generation plant in

New England can retire.

If PSNH made a decision to retire Merrimack Station, the doomsday scenarios of rolling blackouts or forced, expensive speculative purchases of energy from a spot market would not occur. Most other utilities in the state and region competitively procure supply to meet the demands of their customers through an open transparent procurement process. As the results from the first two Forward Capacity Auctions illustrate, there is plenty of excess capacity that is not only qualified to provide capacity for the region, but is willing to do it at an established floor price. The ISO provides an additional safeguard to the process by being responsible for making a determination before any generating asset can retire that it will not jeopardize the reliability of the region's electric grid if it were to retire.

Security Considerations

We have also been told that Merrimack Station is necessary from a security perspective. The argument is that other alternate sources such as gas and nuclear would not be well equipped to withstand disruptions in the case of a natural disaster or terrorist attack that may disrupt fuel supplies, but Merrimack always has 60 days worth of coal on hand. Coal may have a 60-day supply, but nuclear has a 12-18 month supply. Gas pipelines may have some vulnerability for disruptions but there are five major pipelines feeding New England, plus the DOMAC LNG terminal, and other planned LNG facilities. A failure in one pipeline can typically be fixed by re-routing the supply to another pipeline. If a gas disruption knocked a plant out, the ISO-NE requires enough

reserves on the system at any one time to cover the situation. Plus as we mentioned a few minutes ago, there is excess capacity in the New England system.

Conclusion

As stated earlier, NEPGA supports the intent of this bill – that an investment of this magnitude by a regulated utility with financing through a captive ratepayer base – must be accountable, reflect all true costs including the revenue stream from the Return on Equity adder on capital investments, and be judged on the facts, not doomsday scenarios. I would encourage the Committee to support the passage of S.B. 152 and inject the necessary accountability into this process before asking the captive ratepayer base in this state to finance this large capital investment.

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