



141 Tremont St., Boston, MA 02111

(t) 617-902-2354 (f) 617-902-2349

[www.nepga.org](http://www.nepga.org)

February 11, 2015

Debra Morrell  
Administrative Coordinator  
Connecticut Department of Energy and Environmental Protection  
10 Franklin Square  
New Britain, CT 06051

**RE: Connecticut Draft 2014 Integrated Resource Plan (IRP)**

Dear Ms. Morrell:

The New England Power Generators Association, Inc. (NEPGA) appreciates the opportunity to submit comments regarding the Connecticut Department of Energy and Environmental Protection's (DEEP) 2014 Draft Integrated Resource Plan (IRP).<sup>1</sup> NEPGA appreciates the thorough and comprehensive approach taken by DEEP and offers our perspective as the voice of the generating community on several of the key recommendations.

NEPGA is the trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 megawatts (MW), or 80% of all generating capacity in the region. In Connecticut, NEPGA represents over 7,000 MW of generation which is the vast majority of the state's electric generating capacity. NEPGA's members in the state provide more than 1,700 well-paying and skilled Connecticut manufacturing jobs and contribute approximately \$94 million in state and local taxes. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. We believe that sustainable competitive markets are the best means to provide long-term reliable and affordable supplies of electricity for consumers.

NEPGA members have invested tens of billions of dollars in Connecticut and New England for the opportunity to compete in the marketplace every day. Competitive power generators provide competitively-priced, reliable and environmentally responsible electricity for consumers without guaranteed cost recovery, or guaranteed returns. Connecticut should continue to rely on a well-regulated and well-designed marketplace to provide the opportunity for generators to compete and benefit the state's consumers.

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<sup>1</sup> The views in these comments reflect those of NEPGA and not necessarily the position of each individual member.

Our comments focus on three key recommendations in the Draft IRP including:

- Regional solutions addressing natural gas infrastructure constraints
- Procuring new generation if the capacity market fails
- Revising state programs to retain cost-effective demand response

## **REGIONAL SOLUTIONS TO NATURAL GAS INFRASTRUCTURE CONSTRAINTS**

The first recommendation made in the Draft IRP is to advance regional solutions to address natural gas infrastructure constraints including the exercise of existing state authority to solicit Class I and/or large-scale hydropower to offset some amount of natural gas. The recommendation further proposes seeking additional legislative authority to run a competitive procurement open to a variety of resources including Liquefied Natural Gas (LNG), gas pipeline capacity, demand response, energy efficiency and transmission for large-scale hydro or Class I renewables.

### ***Regional Policy Discussions***

NEPGA supports the continuation of ongoing regional policy conversations to address the region's energy policy issues but believes strongly these discussions must focus on supporting competitive market solutions, improving siting processes to support infrastructure development and not subsidizing a particular resource or a particular technology type. The New England energy market is at an important inflection point and at every level, market participants are responding to the need for additional energy infrastructure. Government must resist the temptation to step in and pick winners and losers, repeating the policy mistakes that led to massive stranded costs paid by consumers, including more than \$3 Billion by Connecticut ratepayers.

### ***Additional Competitive Procurements***

While supporting continued regional discussions focused on market solutions, NPGA has significant concerns with the DEEP proposal to seek new legislative authority to conduct additional competitive procurements. It is imperative to be mindful that state long-term contracts are not the panacea for lower energy costs. The history of the energy industry in New England is full of examples of when this approach has led to higher costs. Policy-makers should question how a resource that cannot be built under market economics, if given a subsidy through a long-term contract backed by the state, will yield lower costs for consumers.

If Connecticut does pursue use of the state's existing authority under Section 7 of Public Act 13-303, and seeks new legislative authority for additional competitive procurements, a truly open, transparent and competitive process should be used. Such a process would allow all eligible resources to compete. NPGA has significant concerns regarding allowing provincially-owned large-scale hydro resources to compete in these potential procurements. If the large hydro requirement were to remain as part of the state's contracting authority, it should at least be modified in such a way to allow for aggregated small local hydro resources to be allowed to compete.

### ***Cost of Subsidizing Large-Scale Provincially-Owned Hydro Resources***

Subsidizing large-scale provincially-owned resources will likely increase electricity costs for consumers, while not guaranteeing a greener nor more reliable energy source. History

suggests importing provincially-owned hydro is not cheaper. In the 1990's Vermont's two largest utilities nearly went bankrupt due to their exposure to high-priced Hydro Quebec (HQ) power pursuant to a 30-year long-term agreement for HQ hydropower. A more recent 2012 long-term contract between HQ and Vermont's Green Mountain Power started at a rate 60 percent higher than the average price for Vermont, costing ratepayers an additional \$21 Million in 2012. And, since the costs of new transmission lines, like the troubled Northern Pass Transmission (NPT) project, spread over the energy that it will carry, are estimated to be more than 5 cents/kwh, the combined cost of energy from the HQ and the transmission costs will be approximately twice what the same energy could be purchased for in New England. Even with higher costs during Winter 2013/2014, the average price in New England during 2014 was 6.5 cents/kwh.

These imports are not necessarily cleaner with HQ imports to New England consisting of "system power" meaning it is not possible to determine what particular generation source produced the power. Not only is the power itself not necessarily cleaner but mandating purchases of this power and providing artificial subsidies threatens to undercut currently economically viable low-carbon sources that cannot compete against this subsidy.

Finally, a recent pattern of reliability concerns have emerged from HQ with two instances in just the last 18 months of all HQ exports (~2,000 MW) being cut off from New England in a matter of minutes. The most recent example occurred on December 4, 2014 when the ISO New England, the region's grid operator, had to take the significant measure of calling an "OP-4" event and launching precautionary measures to ensure regional system reliability for several hours when HQ lost two transmission lines in Quebec. The failure of these lines led to outages for 188,000 Quebec customers and immediate curtailment of 2,000 MW of imports scheduled into New England. The lights did not go out in New England due to the efforts of the ISO-NE and the response of New England generating resources, which were able to quickly "ramp up" to make up for the shortfall in less than 12 minutes and ensure lights remained on in New England. In fact, the ISO-NE noted that the region was able to recover from "the import curtailment because it dispatched an additional 400 MWs in the region and generator performance was excellent."<sup>2</sup>

### ***Robust Market Responses***

On a broader policy level, it is not clear what problem the DEEP seeks to fix through conducting competitive solicitations for additional resources. There is a robust market response underway in response to the region's infrastructure needs with proposals representing tens of billions of dollars of investment in New England pending. On the generation capacity side, currently there are 62 projects totaling 10,600 MW with applications pending to connect to the New England grid. Over 8,500 MW of new resources were qualified to compete in the ISO-NE's recently concluded Forward Capacity Auction (FCA) to line up resources to meet New England's capacity supply needs in 2018. The ISO-NE successfully completed its annual forward capacity market auction on February 2, 2015 securing adequate resources to meet system reliability in 2018 and attracting investment in new generation resources. New generation resources totaling 1,060 MW cleared the auction, including 815 MW at two generation sites in

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<sup>2</sup> COO Report, Meeting Minutes from December 5, 2014 New England Power Pool Participants Committee meeting.

Connecticut. Notably, PSEG Energy's proposed Bridgeport Harbor Station Combined Cycle Project did not clear, with PSEG stating it will continue work to develop the project.<sup>3</sup> The combination of the high degree of new entry in this month's FCA as well as the level of interest in development from uncleared resources is a clear indication of competitive generators responding to the market signals in Connecticut and across New England.

In addition to pending generation projects throughout the region, several natural gas pipeline projects have been proposed in New England to bring up to 2.74 billion cubic feet (bcf) of new natural gas infrastructure into the region between 2016 and 2018 including:

- Spectra Energy Corp's proposed 342,000 dekatherm per day **Algonquin Incremental Market** gas pipeline project targeted for service in November 2016 and the **Atlantic Bridge Project** which would expand its Algonquin Gas Transmission and Maritimes and Northeast Pipeline systems by 100,000 to 600,000 dekatherms targeted for service in November 2017. In September 2014, Spectra and Northeast Utilities (now Eversource Energy) announced a joint venture to potentially expand these lines by an additional 1 billion cubic feet/day, which can produce approximately 135,000 MWh/day.
- Tennessee Gas Pipeline Company/Kinder Morgan has announced its **Northeast Energy Direct** proposal which combines its previously announced Northeast Expansion Project with another pipeline from the Marcellus Shale for 1.2 to 2.2 billion cubic feet targeted for service in November 2018 (500,000 dekatherms per day contracted in New England).
- Portland Natural Gas Transmission System has announced its **Continent to Coast Expansion** project with an anticipated range of 300,000 dekatherms per day targeted for service in November 2016.

Liquified Natural Gas (LNG) is also part of the robust market response to the region's infrastructure needs. According to the U.S. Energy Information Administration's *Natural Gas Weekly Update* for the week ending January 21, 2015, "In 2015, there has been an increase of natural gas supplied to the New England and New York areas. The increased natural gas supplies come from three different sources, which include domestic pipeline, imported liquefied natural gas (LNG) that is regasified and then sent out from the importing terminal, and pipeline imports from Canada." In the first three weeks of January 2015, cumulative LNG sendout from the Northeast Gateway floating LNG facility and the Everett terminal, both in Massachusetts, and the Cove Point facility in Maryland has totaled 10 Bcf, according to data from Bentek Energy. This is more than 3.5 times the amount of LNG sendout during the same period in 2014, and 30% more than LNG sendout for the entire 2013-14 heating season (November through March).

Complementing LNG's role and efforts to build new generation plants and expand natural gas pipeline capacity into New England, owners of several existing natural gas-fired power plants in the region are pursuing efforts to retrofit their facilities to have the ability to burn both natural gas and oil. Currently there are six units in the region that intend to

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<sup>3</sup> <https://www.pseg.com/family/power/fossil/stations/connecticut/bridgeport-harbor-cc-project.jsp>

commission this dual-fuel capability including four this winter representing 1,039 MW and two for next winter representing 735 MW of capacity.

Finally there are four major transmission proposals pending in New England including the 340-mile proposed Green Line, the 187-mile proposed Northern Pass, the 230-mile proposed Northeast Energy Link and the 150-mile proposed New England Clean Power link. These merchant lines propose to bring 1,000 to 1,200 MW of power each, with target in-service dates ranging from late 2016 to 2019

### **PROCURING NEW GENERATION IF THE CAPACITY MARKET FAILS**

DEEP also proposed to pursue options within its state authority to procure capacity resources if the recently concluded Forward Capacity Auction 9 (FCA 9) did not attract new necessary capacity to ensure system reliability. NEPGA does not support this recommendation for several reasons including the successful outcome of FCA 9 and the existing authority to address reliability shortages resides with the ISO-NE. A more appropriate role for Connecticut would be to seek opportunities to streamline the state's siting processes to ensure the most efficient and transparent process for developers wishing to build infrastructure within the state.

#### ***Successful Outcome of FCA 9***

The ISO-NE issued a press release on February 4, 2015 noting that its annual auction concluded with the procurement of sufficient resources in 2018-2019 in most of the New England region, but with a slight shortfall in the Southeast Massachusetts/Rhode Island (SEMA/RI) load zone. The auction fell three percent short of acquiring all necessary capacity in the annual auction for the SEMA/RI zone but will acquire the remaining 238 MW of the target 7,479 MW in reconfiguration auctions to be held over the next three years. As Gordon Van Welie, President and CEO of the ISO-NE, stated:

“The capacity market is working as designed. The price signals from last year’s auction helped spur investment in new resources including 1,000 MW of new generation capacity which will help address the regions’ resource shortage and meet peak demand in 2018- 2019.”

In Connecticut, a new 725 MW dual-fired unit and two 45 MW units cleared the auction to provide additional capacity within the state for 2018 and beyond.

#### ***Existing Authority to Address Reliability Shortages Resides with the ISO-NE***

In the extremely unlikely event that the ISO's capacity market design had failed, not yielding necessary capacity for 2018, the ISO-NE has existing authority from the Federal Energy Regulatory Commission (FERC) to issue a “Gap” Request for Proposals (RFP) if the ISO determined that the region may face a potential near-term reliability problem.

FERC issued an Order in February 2004<sup>4</sup> accepting revisions to NEPOOL Market Rule 1 in order to allow the ISO-NE to issue “Gap RFPs” and enter into contracts with winning bidders, subject to FERC approval. In its Order FERC characterized the change as benefitting customers “by providing a mechanism under which ISO-NE will be able to

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<sup>4</sup> Docket No. ER04-335-000, February 27, 2004

contract for demand response resources and supplemental generation resources to maintain near-term reliability, while ensuring Commission oversight of the process and of the resulting contracts." The Order also allowed ISO-NE to move forward with a process to seek 300 MW of quick start capacity in Southwest Connecticut for the summer of 2004.

### ***State Role to Ensure Efficient Siting Processes***

A more appropriate role for the state is to ensure that its siting processes are efficient and transparent, and provide a clear process for a developer to advance an infrastructure project. One of the biggest challenges to new energy infrastructure development throughout the region is in the area of siting. As the region's market continues its robust response to the need for more energy infrastructure over the coming years, Connecticut should review its state siting processes and consider streamlining opportunities. Some key factors to consider include different requirements and/or timelines for different size projects, a one-stop siting process through a single agency, a defined role for local community input into the siting process, and requiring more detailed initial filings to allow for a more defined, quicker siting review process. Most importantly the state's siting process should be timed to coincide with the ISO-NE's Forward Capacity Market, which allows approximately 39 months from the time of commitment to the date a new resource must be on-line. Proactively addressing these siting issues is the most effective role that Connecticut can play to ensure that adequate capacity exists to serve the state's needs.

### **REVISING STATE DEMAND RESPONSE PROGRAMS**

DEEP also advocates for a speedy resolution of federal jurisdictional issues surrounding whether Demand Response (DR) programs can continue to participate in the ISO-NE wholesale electricity markets and proposes to revive and improve its state programs that support DR resources. NEPGA believes the D.C. Circuit Court of Appeals decision in this matter is clear and that the FERC does not have the jurisdiction to set wholesale rates for supply-side demand resources in the wholesale market. As such, our view is that the demand response is a retail transaction within the exclusive jurisdiction of the states. Given this belief and the outcome of the federal jurisdictional issues, NEPGA strongly supports the recommendation for Connecticut to revive and improve its state programs. As Connecticut moves forward in developing its state policies and programs regarding DR, NEPGA would like to participate in these policy discussions and offer its views on how these retail programs can best be integrated in the market.

### **CONCLUSION**

NEPGA appreciates the opportunity to offer the perspective of the competitive generation community. Please do not hesitate to contact me directly with any questions or comments regarding NEPGA's position or any of the issues we raised in our written comments.

Sincerely,



Sandi Hennequin  
Vice President, New England Power Generators Association