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Utility Generation Ownership – Too Risky, Too Costly

As a reaction to construction delays, cost over-runs and poor operating performance of utility-owned generation, policymakers restructured electricity markets across New England in the 1990s to gain the benefits of competition. Power generation was separated from the natural monopolies of the wire business, which includes transmission and distribution functions. Competition was introduced into the supply of electricity with competitive generators purchasing many former utility facilities, making substantial investments to upgrade and improve their operational efficiency, and building efficient, state-of-the-art plants. It is a model that transferred the risk of development and operation from the captive ratepayers to private investors. In recent years some utilities have begun to advocate for a return to the old non-competitive electric industry structure. A return to this outdated paradigm is a risky policy choice for consumers and future investment.

Competitive Markets Have Delivered Real Benefits

A premise underlying electric industry restructuring was to allow market forces and transparent pricing to guide business decisions of owners and operators of all generation facilities. This has led to a number of benefits to the region as a whole:

- ***New, Clean Generation for New England*** – Since the late 1990s, generation developers have invested billions in new facilities providing over 13,100 MW of new, clean generation for New England. Competitive generation developers have absorbed risks of cost overruns and bad investment decisions, shielding consumers from these risks, unlike in the old monopoly utility regime. Competitive generators have also made massive investments to update old utility plants, bring them into environmental compliance and drastically improve efficiencies.
- ***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% to 12%. 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%, NO_x emissions down by 66% and SO₂ emission down by 71%.
- **Reduced Risk to Consumers** – Prior to electric restructuring, consumers bore all the costs of utility ownership of generation. The risks of construction delays, cost over-runs and poor operating performance all were borne by captive ratepayers. One of the most significant benefits of the competitive market is that these risks are now borne by the investors and lenders of the competitive generators, which are the entities that are best able to assess and manage those risks. Poor performance by the utilities in all of these areas led to multiple billions of stranded costs, which are costs incurred by the utilities in excess of the market price of the generators, in the six New England states. Ratepayers have been paying off these stranded costs for more than a decade and have just made the last payments.

No Sound Rationale Exists to Abandon A Competitive Model

Advocates of allowing utilities to build generation resources offer no sound rationale for abandoning competitive markets and losing the benefits those markets have produced. Not only has 13,100 MW of new generation been built in New England since electric restructuring, currently potential developers have 70 projects totaling nearly 6,600 MW pending in the ISO New England queue for new development. This pool of available private developers has the specific experience, expertise and skills to cost-effectively build new generation. Some have argued that only by allowing utilities to build will the region see any new, low-cost generation developed. This is simply not true. Generation should be built through competition on a level playing field, with shareholders bearing the risk of any investments, not consumers. There is no sound rationale to pursue any other policy path.

Conclusion

Competitive electric markets and the transfer of risks of generation ownership from captive ratepayers to generator shareholders have greatly benefited the region. Not only have consumer risks been reduced, the region's plants have experienced greater reliability and efficiency, and less environmental risk, all while ensuring the lowest possible costs. To abandon this policy direction and allow utilities to re-enter the generation business would unduly compromise these real benefits and harm consumers.