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NEPGA
NEW ENGLAND POWER
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VIA HAND DELIVERY

Senator John W. Fonfara, Co-Chair
Representative Steve Fontana, Co-Chair
Energy and Technology Committee
Room 3900, Legislative Office Building
Hartford, CT 06106

RE: New England Power Generators Association, Inc.'s comments on Raised Bill No. 188; *An Act Concerning Certain Electric Utility Powers and Investments.*

Dear Chairmen Fonfara and Fontana:

The New England Power Generators Association, Inc. ("NEPGA") hereby respectfully files these preliminary comments in opposition to Raised Bill No. 188; *An Act Concerning Certain Electric Utility Powers and Investments.* NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 megawatts of generating capacity throughout New England, and over 7,300 megawatts of generating capacity in Connecticut, representing the vast majority of electric generating capacity in Connecticut. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. NEPGA requests that all further correspondence, communications and other documents relating to this matter be served upon the undersigned.

NEPGA categorically opposes the return to monopoly generation. In furtherance thereof, NEPGA strongly disagrees with the language included in §2 of Bill No. 188 as follows:

> ...each domestic electric company, as defined in section 16-246a of the general statutes, is authorized and empowered **to generate** and transmit electric energy and to **acquire utility facilities** necessary or convenient for the purposes of its electric utility business or undivided interests therein, and to operate the same, anywhere within or without the state, provided nothing herein shall be construed to authorize such a company to sell electric energy in this state to any person or within any area, except as otherwise authorized by its charter or the general statutes. (emphasis added).

This language, under no uncertain terms, grants the utilities the ability to own facilities that generate electricity. Such a distinct departure from current law would inevitably lead to higher consumer electric costs, mismanaged vertically integrated investments and a drastic digression from recent energy policy promulgated to create efficiencies in the electricity markets.

The cost-of service regime proposed by this legislation will have a detrimental effect on Connecticut consumers of electricity by increasing the price of electricity and removing consumer choice. The utilities have brazenly attempted to capitalize on the misfortune of increasing commodity prices by repeatedly filing legislation that would enable these vertically integrated organizations to return to the business of generating electricity. The erroneous implication in their strategy is that the increase in energy prices is somehow tied to the restructuring of Connecticut's monopolistic electricity markets to competitive markets. However, NEPGA maintains that rising electricity costs have not been a signal of failure of competitive electricity markets. To the contrary, it is important to recognize that electricity price increases have in no way been limited to restructured states. Since 1999, electricity prices have generally increased the same (34%) across states with organized markets and across those without such markets. In particular, increases in five selected regulated states (Nevada, Florida, Mississippi, Louisiana, and Oklahoma) ranged from 39% to 62% during this same time.[1]

Connecticut's rising electricity costs are a direct result of our region's high-cost fuel mix and lack of indigenous resources and have been experienced proportionately by all markets. The majority of generation resources in New England are fueled by natural gas, as a direct result of policy signals that have designated the commodity as the fuel of choice.[2] Natural gas prices have risen dramatically as a result of the same global influences that have led gasoline prices to be extremely volatile in recent months and increase by approximately 55%.[3] The rise in fuel prices, and corresponding increase in consumer electricity costs, has illustrated an efficient market in which competition occurs on the basis of true marginal costs.

The cost-of service regime proposed by this legislation will expose Connecticut's electricity consumers to higher electricity infrastructure costs and the potential for stranded costs. Prior to the restructuring of the market, electricity consumers were vulnerable to a persistent market situation where there was only one provider of electricity, as opposed to a vibrant electricity market where competitive electricity providers' survival is based upon superior innovation, risk management and efficiencies. The lack of economic competition in the vertically integrated market for electricity led to serious cost overruns and stranded costs by

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1 Open Letter to Policy Makers from Vicky A. Bailey, et al, Former Chairs and Commissioners of the Federal Energy Regulatory Commission (May 31, 2007)

2 Approximately 45% of the generating capacity in New England uses natural gas as a primary fuel. ISO-NE, 2005 Regional System Plan.

3 Natural gas prices increased 51.5% between 2002 and 2003, 10.5% between 2003 and 2004, and 37.6% between 2004 and 2005. *Report to Congress on Competition in Wholesale and Retail Markets for Electric Energy*, The Electric Energy Market Competition Task Force, 2006 at 41.

utilities that experienced no competitive market pressures. In order to remain solvent, vertically integrated utility companies are able to recover their costs from ratepayers, whereas merchant energy companies are limited to covering their costs from the markets and must answer to their shareholders, as well as their customers, when their performance is subpar. For these fundamental reasons a competitive market provides electric consumers with greater price protections.

As noted above, the public policy behind competitive procurement of power supplies financed with private capital is implicitly sensible in that it drives innovation and efficiency in the power sector, more accurately reflects the underlying value of electrical production, including environmental externalities, and encourages the development of new energy infrastructure and necessary environmental improvements to existing energy infrastructure without subjecting ratepayers to the risk of stranded costs or cost overruns. Between 2000 and 2004, private companies invested more than $6 billion in new, modern power plant capacity, adding 9,000 megawatts of supply, much of it in Connecticut. These efficient energy infrastructure improvements procured through the competitive market have led to a decrease in fuel-adjusted electricity prices in New England of approximately 7% from 2000 to 2006,[4] and an increase in generator availability.[5]

NEPGA is confident that Connecticut can continue to incent private investment in new energy infrastructure technology to accelerate the benefits that improve the environment, while maintaining adequate electrical supply. However, these infrastructure enhancements are contingent upon a business climate that guarantees sound and prudent investments through a consistent regulatory and legislative environment. Competition remains the most appropriate mechanism to ensure the most reasonable costs for obtaining resources.

For the foregoing reasons, NEPGA opposes Bill No. 188; *An Act Concerning Certain Electric Utility Powers and Investments.* Thank you for your consideration of these comments. If you have any questions, please don't hesitate to contact me.

Respectfully submitted,

Christopher P. Sherman
General Counsel

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4 *2006 Annual Markets Report*, ISO-NE, June 11, 2007 at 40, 41. The fuel-adjusted average electric energy price normalizes the electricity market clearing prices for the variation in the prices of fuels used by price-setting generating units.

5 2006 Annual Markets Report, ISO-NE, June 11, 2007, Page 5.