NEPGA
NEW ENGLAND POWER GENERATORS ASSOCIATION, INC.

141 Tremont St., Boston, MA 02111
(t) 617-902-2354 (f) 617-902-2349
www.nepga.org

TESTIMONY

OF

SANDI HENNEQUIN

ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION, INC. (NEPGA)

2010 – House Bill 5505

CONNECTICUT GENERAL ASSEMBLY

COMMITTEE ON ENERGY AND TECHNOLOGY

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Good afternoon 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 approximately 28,000 megawatts (MW) – or nearly 80 percent – of generating capacity throughout New England, and over 7,500 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA opposes HB 5505, specifically the sections of this legislation which provide for the establishment of the Connecticut Electric Authority and Section 36 which would impose a windfall profits tax on the state's electric generating companies. These specific provisions, in addition to other provisions such as Section 17 which places electric distribution companies in the role of portfolio management of the state's supply resources, do not represent the right policy direction to serve the interests of the state's consumers. NEPGA appreciates the desire to lower rates in today's challenging economic climate, but believes these provisions are not the correct tools to address the challenges facing the state's economy or its electric industry. Rather, these provisions will lead to higher consumer costs, the erosion of necessary investment in the state, and the possible loss of jobs necessary for Connecticut's economic health.

A Windfall Profits Tax is Bad for Connecticut's Consumers

A windfall profits tax is a bad idea for Connecticut's consumers. Not only would a windfall profits tax be bad energy policy, it would also be bad economic policy and threatens to hurt both Connecticut's consumers and electric markets. NEPGA recognizes that Connecticut's electric rates – including the cost of generation, transmission and distribution, and benefit surcharges and taxes – are among the highest in the nation. Adding an additional tax on generation supply will not bring down rates, it will instead put upward pressure on rates. Looking specifically at generators, a generator like any business incorporates 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. Pure economics tells us that if the generator's cost of production increases, the cost of the product will increase, and costs to consumers will also increase.

The imposition of a windfall profits tax not only would work to drive consumer prices up, it would also work to drive badly needed jobs out of Connecticut. No other state in the United States assesses this type of generation tax. When the state's policy makers opened Connecticut's market to competitive generators, companies came to Connecticut, made generation investments and created jobs. A windfall profits tax jeopardizes this type of further investment in the state by creating uncertainty and sending the message that Connecticut is not a good environment to do business.

The windfall profits tax is simply not good for Connecticut consumers. It unfairly adds to the cost of doing business for generation companies that have made substantial investments in the state, jeopardizes current and potential new jobs, and sends a message that Connecticut is not business-friendly. This provision chills future economic and energy resource development, and penalizes the generation community for factors beyond its control such as high costs of fuel, construction materials and labor, and the regulatory uncertainty surrounding new federal requirements and policy.

Power Authorities are Fraught with Unacceptable Risks for Consumers

Connecticut's electric industry is not immune from the challenges facing the overall industry – how to cost-effectively address infrastructure needs and ensure reliability and environmental compliance, while dealing with rising prices of power plant construction and the uncertainty of federal regulatory changes. The development of a power authority may represent to some a possible tool to handle these challenges, but it is in fact an unnecessary tool which poses unacceptable risks for consumers. There are financial risks involved when developing power plants and managing energy contracts. For a government agency to take on this type of risk in the current economic environment when the state itself – like most other states – is struggling to cover estimated budgetary shortfalls does not serve consumers' interests well.

By establishing a power authority, policy-makers will shift the many risks associated with power plants – operational, reliability and financial – from the private industry and its shareholders onto the backs of consumers. The private industry has a depth of resources to address the challenges of owning, operating and developing generation resources including portfolio management, regulatory strategy, risk management, environmental concerns, long-term contracting questions and the risks associated with direct ownership of generation assets. It is questionable whether government with limited resources and limited depth of expertise can improve upon the private sector's approach, and it unquestionably saddles consumers with significant price risks in an already uncertain economic climate.

Power authorities simply do not guarantee lower costs for consumers. Consider a few examples:

- A 2004 U.S. Government Accounting Office ("GAO") study on the Bonneville Power Authority ("BPA") observed the significant financial problems plaguing the BPA such as losing $300 Million annually for several years, depleting cash reserves and missing U.S. Treasury debt repayments, leading to price increases of more than 40 percent on power sales to its consumers.
- A 2004 New York State Comptroller Office Audit of the New York Power Authority ("NYPA") found that poor planning and major operational losses caused significant costs to the state, concluding that "NYPA is a textbook case of an Authority adrift," suffering over $500 million in losses from several power plant projects because of

poor planning, inaccurate cost estimates and mismanagement of its public resources.

A power authority that has the ability to construct, own or operate generation resources is fraught with unacceptable risks for consumers, does not guarantee lower costs, and should not be considered an answer to economic or energy policy challenges. Rather, these challenges are better met creating a business climate that guarantees sound and prudent investment through a consistent regulatory and legislative environment, with competition as the appropriate mechanism to ensure the most reasonable costs for obtaining necessary energy resources.

Conclusion

NEPGA strongly encourages legislators to not pass HB 5505. We appreciate not only the many challenges facing our industry on a national and state level, but also the significant economic challenges confronting the state of Connecticut. The recommendations found in the Speaker's Rate Relief report and this legislation in particular would act to exacerbate these challenges, not mitigate them. Placing a windfall profits tax on electric generating companies in Connecticut will not drive the cost of electric rates down, it will lead to increased rates which jeopardize future necessary investment in the state, and critical jobs. Forming a power authority that may own, operate and manage generation resources in the state will not deliver lower costs. Instead it will unacceptably transfer operational, financial and reliability risks from the private sector with the resources and expertise to handle these risks to the government with its ever decreasing resources and lack of expertise to acceptably manage these risks. These provisions and HB 5505 while seeking to help consumers in a difficult economy, in reality create more risks and uncertainty, leading to inevitably higher consumer costs.

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