COMMENTS OF EQUIPOWER RESOURCES CORP.
ON HOUSE BILL 5699
AN ACT PROVIDING RELIEF TO ELECTRICITY CUSTOMERS

EquiPower Resources Corp. (EquiPower), a Hartford based company, owns and operates 1,792 MWs of generating capacity in New England with 1,360 MWs of that total in Connecticut. EquiPower is the second largest generator of power in the State of Connecticut. EquiPower opposes HB 5699 pursuant to which the owners of electric generation facilities in the state would have their profits above 20% return on equity taxed retroactively at a rate of 50%.

Merchant generation is one of the most competitive and challenging industries as evidenced by very low market shares (average market share of 1 percent across over 100 generator owners in New England), thin profit margins, high capital outlays, and the significant number of companies in financial distress and bankruptcy. This is not a broad-based highly profitable industry. The industry and region has seen the bankruptcies of Mirant, NRG, Calpine, PG&E Energy, and Boston Gen and numerous assets turned back to their lenders. These are signs of a very competitive industry. As misguided as this type of tax is, there is no evidence that the power generation sector would be an appropriate sector of business to be targeted for such a tax.

While there may be years when some generators may achieve returns on equity greater than 20 percent, there will also be years when these same generators will have low single digit returns or even losses. The expected future profits of a generating asset are the basis for the investments made. These investments are made with the prospect of recovering the investments over a 20-30 year period. Discriminatory taxes such as the one contemplated in HB 5699, especially on a retroactive basis, will only serve to financially weaken Connecticut's generators as the initial investment made did not include the expectation of the tax. This type of legislation will send a chilling message about the attractiveness of Connecticut as a place to do business. In addition, much of the profits achieved by electric generators are reinvested back into the assets to maintain reliability. Placing a cap on generation profits as contemplated in HB 5699 is discriminatory and will reduce cash much needed to pay taxes, cover cost of debt, and fund necessary capital expenditures. Is the State also now going to subsidize generators in the lean years as was the case under the regulated regime? The competitive generation model protects ratepayers from such risk but with the prospect that in some years generators may make higher profits.

The power generation sector is no different than other business sectors in the economy. Generators will seek to recover costs, including taxes, in the price of their product. Estimates of the HB 5699 tax will be included in the bids to the ISO-NE for generators and will likely be passed on to ratepayers. In some cases, the addition of the taxes to Connecticut generator bids will render them less competitive and they will run less as out of state generators replace them. The effect of this unfortunate outcome will be lower profits to Connecticut generators with resulting lower state income tax and property taxes as lower profits reduce the value of generators. Other potential impacts are further assets in financial distress, layoffs, and Connecticut generation retirements.

EquiPower strongly urges the Committee to reject HB 5699.

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