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**TESTIMONY
OF
SANDI HENNEQUIN**

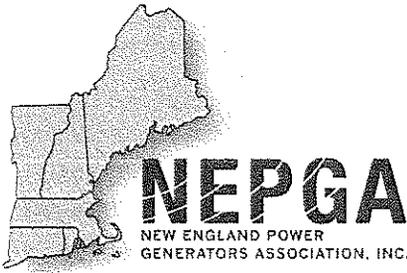
ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION, INC. (NEPGA)

2011 – Senate Bill 1

**CONNECTICUT GENERAL ASSEMBLY
COMMITTEE ON ENERGY AND TECHNOLOGY**

March 15, 2011



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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 27,000 megawatts (MW) – or nearly 85 percent – of generating capacity throughout New England, and over 6,800 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. Overall, NEPGA's Connecticut companies pay approximately \$35 million annually in state and local taxes. Our member companies provide 1,800 well-paying and skilled Connecticut manufacturing jobs, while contributing nearly one million dollars to charitable endeavors throughout 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 SB 1 as currently drafted. We recognize the Energy and Technology Committee's hard work in developing this legislation and believe the bill contains some beneficial policy directives. However, NEPGA is concerned about some of the conflicting policy goals in this bill, with the potential to increase electric costs for Connecticut consumers. Further, NEPGA believes many aspects of this bill would erode the competitive energy market structure in Connecticut and possibly throughout the region.

SB 1 takes a policy direction that strongly embraces clean energy technology and renewable resource development. At the same time, this Committee and its chairs have stated dissatisfaction with Connecticut's current electric rates and a desire to lower

Connecticut's electric costs. In fact, some provisions of this bill specifically state a goal of lowering electric costs. However, other provisions contain new programs that could carry a significant price tag that will undeniably put upward pressure on electric costs. NEPGA would caution the Committee to be forthright in choosing between these two conflicting policy goals and minimally ensure a sensible development of a vibrant clean energy industry in Connecticut is accomplished with the full understanding of the long-term economic and societal benefits of such a transformation of the industry.

Areas of Support

NEPGA believes SB 1 contains some beneficial policy choices for Connecticut, including:

- ***The Creation of the Department of Energy and Environmental Protection (DEEP).*** Section 1 of this bill creates a single executive department to oversee energy and environmental policy issues, effectively bringing the Department of Environmental Protection and the Department of Public Utility Control together into one state agency. Many sections of this bill detail how this new executive department would be structured, its jurisdiction and the duties of the DEEP Commissioner. Merging the oversight of energy and environmental issues into one coordinated agency is a wise policy choice that is not only efficient, but also recognizes that energy and environmental issues are interrelated. Further, taking elements of energy and environmental protection oversight that are currently found in agencies throughout Connecticut state government and housing them under one roof is efficient and allows for a more coordinated, cohesive state policy on these important issues.
- ***An Examination of Other States' Best Practices.*** Section 49 (a)(3) provides that the DEEP, as part of procurement oversight, will "include an examination of other states' best practices to determine why electric rates are lower elsewhere in the region." NEPGA believes this is an important study for the Committee to pursue and would urge consideration of this question in a more prominent fashion, perhaps through a DEEP proceeding. Last December, DPUC Chairman DelGobbo presented

a thoughtful overview of Connecticut's electric rates and components, and a comparison to rates in other states to this Committee. His analysis illustrated that generation charges represented 53% of CL&P's 2011 residential rate and 45% of UI's residential rates (down from 2010 percentages of 57% and 48%). He also discussed the other components of the overall rate including transmission, distribution, renewable charges, the competitive transition assessment, conservation charges, the systems benefit charge and federal mandated congestion charges. An analysis of rates should look at *all* of these components, not just generation charges in order to assess why Connecticut's electric rates are 11% to 23% higher than the rest of the region. It may be possible that some of Connecticut's non-generation charges may be significantly higher than in other states throughout the region.

- ***Review of Proposed Commercial Transmission Lines.*** Section 72 would require the DEEP to review any proposed commercial transmission line in which a Connecticut electric distribution company has a financial interest or that may be constructed in whole or in part in Connecticut. NEPGA believes this review would be beneficial and would further suggest providing an opportunity for meaningful public input in this review, through public hearings and an opportunity to submit written analysis and opinions, including whether there are alternatives to the transmission lines that would better serve the economic and reliability objectives of Connecticut consumers.

Areas of Concern

NEPGA has concerns with several areas of the bill and believes these may not represent the correct policy direction for the state. These include:

- ***RPS Changes.*** Section 8 (a)(26) and (a)(44) propose changes to the definition of Class I and Class III of the state's Renewable Portfolio Standard (RPS), effectively changing Class I to allow large-scale hydro resources located outside of the United States to qualify. The goal of an RPS is to provide policy and economic support to fledgling energy sources that may not be economical when compared directly with current commercial technologies and which would not be developed without that

support. Eligibility for RECS should not be extended to energy sources that do not satisfy these criteria, such as large scale hydro located outside of the United States. A requirement for any successful RPS is to provide a degree of regulatory certainty that rules and definitions are not subject to constant change. This allows contractual arrangements to be made in the market to meet the RPS requirements. Changes to the definition of a RPS class, especially as contemplated by Section 8(a)(26), without even a transition period or grandfathering provision undermines this necessary regulatory certainty and will chill the potential for private investment in new energy technologies and jobs in Connecticut.

Further, NEPGA has specific concerns with the changes proposed for Class I resources, allowing imported large-scale hydro resources to qualify for the Connecticut RPS. Allowing these resources, without any limits to the amount, effectively kills attempts to create incentives for new, local Class I resources and the economic development benefits that Connecticut derives from local investment and employment, because the sudden increase in supply will drive down the price for RECs. In the case of some Canadian hydropower, the generation backing the transactions is not always identifiable and might come from non-renewable sources. A change this broad sweeping could result in RECs going to subsidize fossil generation. Connecticut can easily expand its access to environmentally sensitive hydroelectric resources by expanding the threshold to include regional sources that provide clean, renewable attributes without some of the attendant environmental and social effects that larger hydroelectric schemes may exhibit. Finally, NEPGA notes that the Connecticut Energy Advisory Board (CEAB) commissioned a detailed study of Connecticut's RPS which will likely recommend some changes to the state's RPS. It would be premature to implement any changes to the RPS without the benefit of this study and outside the broader context of a comprehensive Connecticut energy policy.

- ***Integrated Resource Planning.*** Sections 48, 49 and 71 vest the authority to review the state's energy and capacity resource assessment in the DEEP. Sections 48 and

49 place the DEEP in charge of developing a competitive procurement plan for the state, consistent with the IRP process implemented by the CEAB and the DPUC. If Connecticut is to continue using an IRP process the DEEP is the right agency to have this oversight. To the extent that energy or capacity deficiencies are determined as not being provided through the markets, competitive procurement may be needed. Yet, the role of expanded use of procurements such as those proposed in Section 71 is not clear. Procurements place long-term responsibilities, including the possibility of future stranded costs, on Connecticut ratepayers. However, where procurements backed by ratepayers are required, competitive procurement is needed to ensure that the best options are identified to produce the desired resources at the lowest possible costs. In addition, competitive procurement ensures that private investors apply the maximum innovation and bear appropriate risks for delivering new resources in time and under budget. NEPGA supports the contemplated evaluation, but urges a delay in extending the authority for procurements under Section 71.

NEPGA further notes that to the extent this legislation is intended in any way to establish a power authority, either explicitly or implicitly, NEPGA is strongly opposed. Operating under a power authority shifts 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 and the risks associated with direct ownership of generation assets. Those functions and capabilities cannot be duplicated or replaced at a lower cost by government. A power authority unquestionably risks saddling consumers with significant additional costs and operational risks in an already uncertain economic climate. Legislators should look carefully at the disastrous results from California's experience with this concept. In addition, the financial obligations and risks associated with a power authority could be expected to raise serious questions regarding adverse impacts on the state's

bond rating. NEPGA would caution policy makers to not use Section 49 as a tool to create a power authority.

Further, as the DEEP reviews the options to reduce the price of electricity, policy makers need to look at all aspects of an electric bill, not just the generation component. Other areas including transmission, distribution and the social benefit charges must be evaluated. Opportunities for stakeholder input should be provided so as to ensure the clearest understanding of the cost drivers of all these components. The DEEP needs to disclose its cost-benefit analysis, the expected impact on rates, open disclosure and post-appraisal of the decision to the public.

It is also imperative that if DEEP determines a need exists for new generation sources, that an open, competitive and transparent process is used to procure these resources. Energy acts passed by the Legislature in 2005 and 2007 established a precedent that if the state determined a need for new generation resources, it would not arbitrarily look to the utilities to build the resources, rather it would establish a fair and transparent competitive solicitation process whereby proposals from all interested companies would be considered by the DPUC. In that way, the DPUC would be able to pick the projects that best suited the needs of the electricity consumers in Connecticut, at the lowest available cost. The legislature should continue to insist that new infrastructure investments for the state be conducted through open, fair and transparent competitive bidding processes.

Finally, the rationale for and the goal of Section 71 is not clear. This section requires the DEEP to issue a Request for Proposals (RFP) by September 1, 2011 for bilateral purchasing contracts but does not specify the goal or rationale for this policy. Many details are unclear including what type of generation sources would be eligible, the size of the contracts, how the energy from this contract would be used and the relationship with standard service, and the criteria for evaluating proposals from existing and/or new generation sources. Without a rationale, criteria and more

details, this section does not represent sound public policy and could potentially undermine existing state and regional electricity markets.

- **Solar Incentives.** Sections 56 through 63 propose a variety of incentives for solar development within Connecticut. NEPGA does not oppose many of the provisions in this section but cautions that these types of policy proposals carry a price tag. NEPGA is in strong opposition to Section 61(e) which simply allows the state's utilities to build new renewable resources on a monopoly basis, without any competitive solicitation of alternatives. Section 56 places caps on any likely price increases related to solar incentives, but NEPGA would note for the Committee that even a one cent increase in the rate represents an increase of \$7 per month or \$84 annually—a 4% to 5% increase – in the bill of a typical residential customer using 700 kwh of electricity per month. For proposals such as targeting 30 MW of new residential solar photovoltaic installations (Section 57), the development of five-year solar solicitation plans by the utilities (Section 59), or allowing utilities to contract, own and operate solar electric generating facilities up to one-third of their proportional share of the 50 MW aggregate cap, it is imperative that the Committee is mindful of the precedent set by 2005 and 2007 legislation. As detailed earlier, these acts established a strong precedent that if the state determined a need for new generation resources, it would rely upon a transparent competitive solicitation process whereby proposals from all interested companies would be considered. The legislature should continue to insist that new infrastructure investments for the state be conducted through open, fair and transparent competitive bidding processes to ensure that the state's energy goals are achieved in the most economical and efficient means available.
- **ISO Issues.** Section 73 would require the DEEP to complete a study by January 2012 of the impact on Connecticut ratepayers and New England of the operation of the Independent System Operator New England (ISO-NE). The study would include an assessment of whether Connecticut should leave the ISO-NE and either join another Regional Transmission Organization (RTO) or administer the wholesale

market in the state on its own. NEPGA does not believe this review is necessary. The decision to even explore the possibility of the state's electric distribution companies leaving ISO-NE is an enormous undertaking and should not be made lightly without a great deal of consideration of what this process would entail and the impact of such an exploration on the potential incentives for investment during the period that the study is underway. The State of Maine considered the same question a few years ago and the state's Public Utilities Commission ("MPUC") spent a great deal of time and resources in its analysis and ultimately opted to keep the status quo even with Maine having an excess of generation versus its native load and ready access to low-cost power in the Canadian Maritimes. When the Maine Legislature asked the MPUC to consider this question, the Commission opened a docket that spanned over 15 months and included at least 15 interveners, and required the Commission to hire consultants and commission studies of possible options. This process created a great deal of expense for the state of Maine and the many parties to the proceeding. The final Order in the Maine docket concluded:

"We are convinced after the exhaustive process that has lead us to today's decision, that staying in ISO-NE and pressing for further reforms remains the State's best option to fulfill its energy objectives at this turning point in the State's, and the nation's, energy future."

If the Legislature votes to support a study of Connecticut's future involvement in the ISO-NE, NEPGA strongly urges the DEEP to approach the evaluation in an open and transparent fashion and not to reach a conclusion before the study has been completed. All aspects of the 600+ page Market Rule 1 should be understood, examined and evaluated, not just certain sections of the Market Rule. As someone who has spent a great deal of the past eight years involved in the NEPOOL/ISO stakeholder process, I can attest to how inter-related each section of Market Rule 1 is with other sections. An analysis of one component of Market Rule 1 is not complete without an analysis of the other aspects of the Market Rule. And as I stated earlier, an analysis of rates pursuant to this study should include all rate

components, including transmission, distribution and other costs that comprise approximately 50% of the overall electric rates in Connecticut.

- ***Other Renewable Incentives.*** Sections 82-83, 88-89 and 91 seek to further the state's goal of developing local renewable resources. These sections require the DEEP to review and recommend a state program for financing renewable energy and capacity, create incentives with subsidies of up to \$85 Million for combined heat and power resources, and examine the development of a feed-in tariff for certain resources. Many of these proposed policies are laudable and would assist in diversifying Connecticut's resource supply. However, NEPGA would remind the Committee that these programs are not free and would carry a price tag that would invariably put upward pressure on rates. Currently Connecticut electric rates include a renewable charge, a conservation charge and a stranded benefits charge. All of these components seek to fund policy choices, but they represent 3% to 4% – or \$4 to \$6 – of a typical residential ratepayer's monthly bill. Policy-makers must balance the benefits of these policies against the potential cost increases to consumers, keeping in mind the conflicting policy goal of controlling electric costs for consumers. Again the DEEP must use a transparent process to assess and review any decisions with a post appraisal of the program to evaluate if it achieved the stated results.

Conclusion

Clearly, SB 1 is the result of a great deal of thought and work by this Committee. Aspects of the bill including assessing best practices in other states to ascertain why Connecticut's rates are 11-23% higher than its regional neighbors, and the creation of the DEEP which houses all energy and environmental functions policy oversight within one agency represent sound policy choices. Other aspects of this bill are potentially troubling and represent a marked departure from the public policy choices embraced by this Committee over the last decade. These include allowing imported large-scale hydro resources into Class I of the RPS, the potential for the state to implement a power authority and the lack of clarification that an open, competitive and transparent procurement would be used if the state determined a need for any type of new

generation resource. Other provisions need more careful thought and analysis as they represent policy choices with a potential steep price tag that does not match the anticipated benefit such as the consideration to leave the ISO-NE and many incentives for renewable and solar facilities.

NEPGA would encourage the Committee to not pass this bill as written, but rather to first create the DEEP and to perform a comprehensive analysis of why Connecticut rates are higher than its regional neighbors, focusing on *all* aspects of the electric bill, not just the generation component which has been decreasing. Once the DEEP is created and functioning, and there is a broad understanding of the state's electric cost structure, it would make more sense to then evaluate other policy considerations such as the proper incentives for renewable resource development and the role of the state's utilities in the ISO-NE.

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