BEFORE THE

STATE OF CONNECTICUT

JOINT FINANCE COMMITTEE

March 7, 2011

Testimony of Daniel Allegretti

For

Constellation Energy

On

Governor's Bill No. 1007 (LCO 3601)

Members of the committee, my name is Daniel Allegretti and I am a Vice President for energy policy with Constellation Energy. I would like to thank the opportunity to submit this testimony. By way of introduction, Constellation Energy is a "Fortune-500" energy company based in Baltimore, Maryland. Here in Connecticut, we are one of the leading providers of electricity as both a supplier of standard service to Connecticut's distribution companies and as a direct retail seller of electricity to Connecticut businesses. Our businesses also include the provision of energy efficiency, demand response services and a growing business developing and operating solar generation facilities.

Constellation Energy opposes Governor's Bill 1007 as submitted. Specifically, we are opposed to the inclusion of Section 37 which imposes a tax on the generation of electricity within Connecticut. Creating jobs and growing the Connecticut economy requires a stable and hospitable climate for business, one that will attract new capital and investment to Connecticut over other competing states. Creating new taxes on businesses, any businesses, sends the wrong message. Power plants located in Connecticut are essentially manufacturing facilities that sell their output both within Connecticut and into the broader interstate wholesale energy market. Putting a new tax on these producers makes their "product," the electricity they produce, more expensive.

For companies such as Constellation Energy who are looking for opportunities to make investments in solar power, energy efficiency and retail electricity sales, the sudden imposition of a new tax on the production of electricity makes Connecticut a much less attractive place to deploy our time, effort and capital building these businesses. To be able to take investment risks, a company must also be in a position to capture returns. Confiscation of those returns in Connecticut through a tax on production means that states without such a tax can and do offer a more attractive place to make these investments. Indeed, the message to business goes well beyond the electricity sector and has the potential to scare other forms of manufacturing and industry away from investing in Connecticut in favor of more tax-friendly states.

Apart from the chilling effect it has on business investment, increasing the cost of Connecticut-produced electricity at the wholesale level means higher retail electricity prices for Connecticut customers. As a supplier of power to many Connecticut customers, Constellation Energy must purchase electricity in the wholesale market at a price that reflects the cost of power delivered to Connecticut. That price reflects competition between both in-state and out-of-state generators. In general, out-of-state generators will face a higher cost (in the form of line losses and transmission congestion expenses) to get their power delivered to Connecticut than will in-state producers. Layering the proposed additional tax upon the cost of in-state supply, even when limited to nuclear and coal-fired facilities, drives the cost up in this wholesale market. That means Constellation Energy's cost of supply will go up and so will its prices to retail customers and its offers to UI and CL&P for Standard Service.

We have heard repeatedly both from this Committee and from the administration that lowering the cost of electricity and increasing investment in renewable resources, conservation and clean energy technology are the primary energy policies you want to pursue. Imposing a tax on the production of electricity within Connecticut runs completely counter to these laudable goals. For that reason, Constellation Energy strongly recommends against passage of Governor's Bill No. 1007 with the inclusion of proposed Section 37.