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TESTIMONY

OF

SANDI HENNEQUIN

ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

2011– SENATE BILL 1007

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 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 strongly opposes Section 37 of SB 1007. This provision would impose a two-tenths of one cent per kilowatt hour surcharge on the production of electricity from Connecticut generating facilities. NEPGA opposes this tax for the following reasons:

- Most, if not all, of the proposed generation tax will result in increases in electric costs borne by Connecticut consumers.
- The proposed generation tax will not deliver projected revenues for the state.
- The proposed generation tax will put Connecticut at a competitive disadvantage.
- The proposed generation tax will have other unanticipated adverse impacts.

I would like walk through each of these points and discuss why adopting the proposed generation tax in SB 1007 at this time is simply bad public policy.

The Proposed Generation Tax Will Increase Consumer Electric Costs.

NEPGA has been before the Connecticut Legislature, specifically the Committee on Energy and Technology, numerous times and understands the concerns that many policy makers have regarding Connecticut's electric rates. Although rates stayed flat or went down this year due to decreases in the generation component of rates, the transmission component of rates increased by double-digit percentages. These transmission increases are expected to continue to increase for the foreseeable future – more than doubling over the next few years. With Connecticut electricity consumers realizing rate relief this year, it is simply bad public policy to now impose a new tax that will cause electric rates to rise.

The proposed generator tax will cause electric rates for Connecticut electric consumers to rise by most, if not all, of the amount that is received via this tax, which is estimated by the Administration to be approximately $58 million. A generator – like any other manufacturer of a product – will incorporate all the variable costs of making a product into the price it must receive to continue to produce the product. Thus when a generation plant sells its product it will add in the extra costs of this new production tax. Connecticut's power generators participate in a regional market, and the price they sell at can become the price all consumers in the region pay when these plants are asked to run. Much of the generation from these power plants is sold under contract directly to other entities. When the utilities solicit bids for Basic Service, or a retail customer signs up with a competitive electric supplier, the cost to buy this electric supply from Connecticut generators will be higher. This tax, and the impact on the price of electricity, will be paid by all Connecticut electricity consumers.

The Proposed Generation Tax Will Not Deliver Projected Revenues.

The amount of generation produced by an electric plant depends upon factors such as weather, customer demand, fuel costs, and necessary maintenance. But just as important, the relative cost of one plant to another – competition – determines how frequently a plant will run. As Connecticut plants incorporate this tax into their prices, they will be less competitive and not operate as often. The imposition of this tax will distinguish Connecticut as the first state in the region to impose such a tax. Connecticut is part of a regional electric grid in which plants across New England compete hourly on the basis of price to supply the region's energy supply. If Connecticut electric generators are saddled with this new cost of doing business, they will be at a competitive disadvantage to their sister plants in ***all*** the other New England states. On many days Connecticut plants will no longer be asked to run, or be asked to run at lower levels. The region's electric grid operator will ask less expensive plants in neighboring New England states to run instead of Connecticut's generation plants.

These factors – weather, customer demand, fuel costs, necessary maintenance and the competitive disadvantage of Connecticut's power plants to its sister plants in the region – make it difficult to predict the amount of revenue from a generator tax, making this an unreliable revenue stream for the state. The projections of revenue from this tax of $58 million per year for the next two years are based on an assumption that Connecticut's power plants will run at a predictable and guaranteed level over the next few years. Given all these factors beyond both the state and power plant operators' control, this is not a valid assumption and the proposed generation tax will not deliver the projected revenues offered by proponents of this tax. To rely upon this tax as a reliable revenue stream to assist in filling state budgetary gaps is not good public policy.

The Proposed Generation Tax Will Place Connecticut at a Competitive Disadvantage.

As I mentioned earlier, no state has a broad-based electric generator tax. Imposing this tax on Connecticut generators sends an anti-business message at the exact time that states need to retain and attract new businesses. If the proposed tax is imposed, out-of-state generators will increase their power production for the region to replace Connecticut generators. Other states will benefit from the increased state income tax and property tax. As Connecticut plants operate less, plant owners will have less money to cover fixed costs and to maintain or create new jobs.

When the state's policy makers opened Connecticut's markets to competitive generators, our member companies came to Connecticut and invested billions of dollars of private money in the state based upon a clear understanding of the state's business environment, including existing tax burdens. Creating additional tax burdens mid-stream, particularly amidst the current economic climate, sends a strong anti-business message. This tax would provide a clear indication that the state may not offer the regulatory certainty and business environment necessary to ensure successful long-term investments. Sending this type of anti-business message to existing, and potentially new or relocating businesses, particularly those which often times provide the largest tax base to the towns and cities in which they operate, is simply bad public policy that may ultimately prevent future development and job creation in the state.

The Proposed Generation Tax Will Have Other Unanticipated Adverse Impacts. Electric generation plants are critically important members of the communities in which they operate. As noted earlier in this testimony, NEPGA plants contribute approximately $35 million in state and local taxes, the vast majority of which is contributed to the host community. In addition, NEPGA plant owners recognize the value of being good corporate neighbors and contribute to local charitable and nonprofit organizations in their host towns. Imposing the electric generation tax can have impacts on both of these actions. As plants discuss local property tax assessments and payments with their host communities, they will invariably factor in other taxes which they already pay. If a plant is paying millions of dollars in state generation taxes, these are millions of dollars they will not have available. The imposition of this tax impacts the profitability of the plant and forces the owners to take a harder look at any “discretionary” spending such as the type of spending plants allocate to community and charitable activities. Any legislation that puts more pressure on financially challenged localities is not good public policy.

Conclusion

In summary, NEPGA strongly opposes Section 37 of SB 1007. NEPGA has an active presence in all the New England states and understands the enormous challenges facing legislators in the region as they address large budgetary deficits. Addressing these economic challenges is not an enviable task. However, legislators must rely upon caution and prudence in adopting any new business tax. This proposed tax will increase costs to Connecticut ratepayers by most, if not all, of the amount that is received from this tax and provides no guarantee of revenue stability. All the while this tax is negatively impacting existing income and property tax revenues. This is simply bad public policy.

For all these reasons, NEPGA strongly urges the Committee to not support Section 37 of SB 1007 and the proposed tax on Connecticut electric generators.

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