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TESTIMONY

OF

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ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION, INC. (NEPGA)

2012 – Senate Bill 450

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 Dan Dolan and I am the 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 7,300 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. Our member companies provide 1,500 well-paying and skilled Connecticut manufacturing jobs, while contributing over two 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 has deep concerns with certain provisions of SB 450 that would provide further opportunities for utility-owned, rate-based renewable generation development. This bill goes against long-standing state policy to competitively source new generation of resources and eschews the strict limits on sole-sourcing by the utilities for limited renewable resources that was set just last year. Going down this road ignores the substantial generation investments made through competitive processes and the lessons-learned over past decades from the "good old days" of utility generation ownership.

Over a decade ago, the Legislature pursued electric restructuring and utilities were required to exit the generation business. Subsequent energy acts passed by the Legislature refined the electric restructuring statutes and 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 regulators. Public Act 11-80 last year diverged from this sound policy but wisely limited any renewable development by utilities. SB 450 is a dangerous next step away from the clear competitive direction of electricity in Connecticut.

Competition Drives Results in Connecticut

In July 2005, the Connecticut General Assembly passed Public Act 05-01, the Energy Independence Act, which contained a number of incentives for reducing congestion costs, and for expanding the development of customer-owned generation and increasing energy efficiency. In particular, the legislation provided for a request for proposals (RFP) process for new generation and demand reduction resources. Later, in July 2007, the General Assembly passed Public Act 07-242 which included a package of provisions to encourage energy efficiency and conservation, incentives for renewable energy, and incentives for other generation resources. The model for generation procurement in both pieces of legislation was a competitive RFP process administered by regulators and open to all market participants, not solely awarding contracts to the electric distribution companies. This competitive RFP structure contributed to the robust generation development in Connecticut in which there is a substantial amount of generation under development. In response to the 2006 RFP, over 80 projects totaling 8,000 MW were submitted. The 2007 peaking RFP led to the submittal of 11 proposals totaling 1,800 MW. Both generation procurements were done through an open, fair and transparent competitive bidding process. This approach sought to expand the pursuit of generation development to a wide range of companies, allowing competitive market principles to deliver the desired generation, at the lowest costs to ratepayers.

While Public Act 11-80 opened the door for utilities to own up to 10 MW of renewable generation, it required that the vast majority of renewables to once again be competitively procured. In the RFP issued last year – with only one week of notice – 21 proposals were submitted and the two projects selected will provide 10 MW of solar generation. Even under an overly-rushed timeline robust competition was evidenced. As noted by Governor Malloy commenting on the RFP's results "This selection process validates our new approach to energy policy in Connecticut... The fact that 21 projects – representing 70 MW of clean renewable power – applied under this program is a clear sign that entrepreneurs and clean technology innovators are excited about the new approach Connecticut has taken."¹

¹ Department of Energy and Environmental Protection Press Release, "Governor Malloy Announces Procurement of Cheaper and Cleaner Energy For Connecticut" December 23, 2011.

Connecticut's experience with competitive procurement should be contrasted with what has happened in Massachusetts for similar projects. Western Massachusetts Electric Company is in the process of building two utility-scale solar facilities in rate-base. These projects are both slated to come in at over \$5,220 per kilowatt.² While every development is different and inputs for solar projects have continued to fall, these two projects are each nearly three times as expensive as the per kilowatt cost of the comparably-sized facilities that were the result of the 2011 Connecticut RFP.³ No market test was put to work for the Massachusetts projects taking away the opportunity for consumers to judge whether cheaper or more efficient options were available. This example underscores the efficiencies that are driven through robust competition that drives innovation and reduction in costs as opposed to the dangers of pushing through rate-based investments in which all the risks and costs are borne by consumers.

After considerable interest and a positive outcome in such a short time-frame, Connecticut should not disrupt the clear market signals that have been sent. Private developers are ready, willing and able to provide the cost effective, reliable and environmentally-responsible supplies to meet consumer demand as well as any enhanced state policy goals. These companies provide innovation and can best deal with the risks inherent with resource development rather than forcing it to be borne by ratepayers. Particularly at a time when the economy is recovering and consumers continue to demand more value for their dollars, why is less competition the answer?

A Dangerous Step Away from Competition

After the sharp departure from the 2005 and 2007 legislation in PA 11-80, SB 450 proposes to take the next step that NEPGA has warned about and allow the state's utilities to build an uncapped amount of new renewable resources, with no competitive solicitation of alternatives. This is bad public policy on several levels. No new investment of the magnitude contemplated here should be undertaken without testing

² See [http://www.huffingtonpost.com/2010/11/15/largest-solar-power-plant_n_783502.html#s182357&title=Solar Energy Plant](http://www.huffingtonpost.com/2010/11/15/largest-solar-power-plant_n_783502.html#s182357&title=Solar+Energy+Plant) and http://www.masslive.com/news/index.ssf/2011/01/western_massachusetts_electric_3.html

³ A conservative calculation for the Massachusetts projects of a 20% carrying charge rate and 20% capacity factor results in nearly 60 cents/kWh. This is contrasted with the 22.2 cents/kWh announced for the 2011 Connecticut RFP results.

the market to ensure that the best price is being obtained. Further, in stark contrast to traditional utility cost-of-service rate-making, the competitive RFP process can be structured to provide a largely fixed price for the new project, with substantial schedule and performance incentives on the winning bidder. The legislature should continue to insist that new infrastructure investments for the state be conducted through open, fair and transparent competitive bidding processes in order to assure ratepayers that they are getting the best value for their investments.

NEPGA has testified numerous times before this committee cautioning against a move to rate-based generation. NEPGA made these same views known in the consideration of the proposed Northeast Utilities/NSTAR merger where we asked that any approval be conditioned to restrict the merged entity from developing and building additional rate-based generation.⁴ As stated in NEPGA's comments in the merger proceeding, "the testimony and appendices provide overwhelming evidence that [NU/NSTAR] have the ability, interest, and willingness to re-enter the generation business beyond levels currently allowed. The Companies have made public statements supportive of additional generation investment in connection with the Proposed Merger and have investigated possibilities of making additional generation investments pre-merger. Moreover, the unprecedented size and scope of the merged enterprise will enhance its formidable ability to influence legislation and allow it to expand the current limited opportunities for utility ownership of generation assets."⁵

Consumers have greatly benefited from competition among generation companies to meet their needs and have been increasingly choosing their own retail electric provider to enjoy the lowest cost supply available. Since moving to a competitive generation market, New England has seen power plants operated more efficiently with costs to maintain, update and further develop those facilities borne by the companies making the investments. In fact since the late 1990s, generation developers have invested billions in new generation facilities providing over 13,000 MW of new clean generation for New

⁴ Initial Brief of the New England Power Generators Association before the Connecticut Public Utilities Regulatory Authority (PURA), Docket No. 12-01-07.

⁵ Ibid, Page 3

England. At the same time, plant unavailability – or the amount of time that plants are not able to run when asked to do so – has decreased from 22 percent to 12 percent. This 45 percent reduction alone has powered an additional 1.96 million homes, without building new power plants.

Conclusion

NEPGA strongly encourages legislators to continue the successful competitive RFP procurement model utilized by the state in the past and to maintain the level, competitive playing field for the benefit of the ratepayers. As currently drafted, SB 450 would allow the state's utilities to develop an uncapped amount of new renewable resources, a chilling signal to the marketplace about where further generation development will come from and an unfortunate move toward a monopoly ownership model that limits cost-effective choices for ratepayers. There is a better approach.

For any resource that the state would like to see developed beyond what the current market is providing, there should be a continued use of competitive markets with a fair and transparent solicitation. Such a method has been successful in Connecticut and would allow all interested market participants to compete through an RFP process. NEPGA believes this would better advance the state's public policy goals, and would utilize market forces to get the most cost-effective, efficient outcome to serve ratepayer's interests. The extent of the response to past RFPs and the substantially lower value than what can be shown from comparable projects rate-base clearly indicates the true value proposition for consumers of a competitive approach.

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