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# TESTIMONY

# OF

# DAN DOLAN

# ON BEHALF OF

# NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

# 2013– SENATE BILL 843

# CONNECTICUT GENERAL ASSEMBLY

# JOINT COMMITTEE ON FINANCE, REVENUE AND BONDING

# MARCH 4, 2013

Good morning 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 26,000 megawatts (MW) – or nearly 80 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. Overall, NEPGA's Connecticut companies pay approximately $39 million annually in state and local taxes. Our member companies provide over 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 strongly opposes Section 7 of Senate Bill 843. This section would create a new tax on electricity produced from the state's generation facilities that would otherwise not have been in place for the new fiscal year. While often called a "generator tax," the current tax and the new proposal really are electricity production taxes; one that is today largely borne by consumers through increased electricity costs. The temporary nature of the current tax was the Administration and Legislature's promise that this harmful and punitive tax would be eliminated this year. The first-in-the-nation tax should end in June 2013, just as was promised when enacted and no new tax should be put in its place.

NEPGA opposes the electricity production tax for three main reasons:

- A promise was made that this would be a temporary, short-term measure
- It unduly increases consumer costs
- This type of production tax and the uncertain climate created by a broken promise sends a strong anti-business message

This electricity production tax arbitrarily and unfairly targets a subset of manufacturers that have invested billions of dollars in the state, employ thousands of workers and literally power the state's economy. In attempting to find additional sources of revenue for the state, the tax has the unintended effect of adversely impacting consumers, many of whom are also similarly facing their own budget challenges.

***The Generator Tax Meant to be a Short-Term Measure in Dire Times***

Governor Malloy and the Legislature took unprecedented steps in 2011 to close the state's budget gap and in doing so individuals and businesses were asked to play key roles in closing the gap. They were asked to foot the bill for $1.8 Billion in new taxes, including the first-in-the-nation production tax on in-state electricity. This tax imposed a ¼ cent per kwh tax on all electricity manufactured in Connecticut, excluding fuel cells and alternative energy sources. Recognizing the detrimental business, investment and consumer impacts resulting from the tax, a sunset provision was included.

The tax proved to be a serious challenge for the industry and consumers who paid tens of millions of dollars on top of what electricity rates otherwise would have been. Electricity generators eagerly anticipated this year's sunset of the tax. The sunset provision was the Administration and Legislature's recognition of the unprecedented nature of this tax and the promise that the tax was a temporary short-term measure in dire times. Creating a new tax to replace the expiring one jeopardizes all continued and potential investment in the state by creating doubt that promises made by the state will be kept.

The tax provides a clear indication that the state may not offer the regulatory certainty and business environment necessary to ensure successful long-term investments. Business leaders often say stability in policy is a key determining factor when deciding where precious investment dollars will be allocated. 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 Generator Tax Increases Consumer Costs***

An electric generator – like any manufacturer – incorporates the costs of producing a product into the final sale for that product. Simple economics dictates that if the generator's cost of production increases, the cost of its product will increase, and the ultimate cost to all consumers will increase. Connecticut individually, and New England as a whole, has been fortunate to be in period of record-low wholesale electricity prices. Because of competition among generators and low fuel costs, consumers have seen price decreases. Yet, Connecticut's production tax has made consumer costs higher than they otherwise would be. During 2012 and 2013, the generator tax will have an estimated impact of $27-$54 Million of additional electricity costs for Connecticut consumers. Residential customers in Connecticut will pay at least $12 Million more than they would have paid if not for the generator tax. This makes Connecticut's electricity costs, which are already some of the highest in the country, less competitive with the rest of the Northeast, let alone the rest of the country.

Due to the short-term nature of the tax, some generators were able to temporarily absorb the cost of the tax and not completely pass the cost of the tax through to customers. If the tax is extended, and its status as a "temporary" measure can no longer be believed, more generators will be forced to include the cost of the tax into their offer prices, placing further upward pressure on rates and more adversely impacting consumers. Over the coming years the estimated impact of the same tax on consumers would likely be higher.

***The Generator Tax Sends the Wrong Message to Businesses and Communities***

Extending the electricity production tax sends the wrong message and characterizes Connecticut as an anti-business state that may single out any industry for an arbitrary and punitive tax that makes it harder to attract any investment. 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 taxes. Creating additional tax burdens mid-stream, particularly amidst the current economic climate, sends a strong anti-business message. Because no other state in the region or the country assesses a broad-based tax on the production of electricity, Connecticut sets a troubling precedent. It further disadvantages generating facilities in the state that must compete with generators in the other New England states. In a period of record low wholesale electricity prices and expected turnover in the generation fleet, this creates an additional cost pressure that could accelerate plants to close in Connecticut that might otherwise be more competitive. Such closures would have tremendous impacts in communities where they are often the largest local tax base, an important employer and a source of major civic donations.

NEPGA plants contribute approximately $39 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. Continuing to impose this electric generation tax can have impacts on both of these actions. As plants go into negotiations with host communities regarding local property tax assessments and payments, they will invariably factor in other taxes which they already pay and will start at a different negotiating place then they would have without these other taxes. If a plant has to continue to pay millions of dollars in state generation taxes, for an uncertain if not indefinite amount of time, these are millions of dollars they will not have available for the discussions with the towns. Moreover, 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.

**Other Comments on SB 843**

While strongly opposing Section 7 of this bill, NEPGA would like to take an opportunity to note its support for the Section 19, the standard offer customer aggregation proposal. NEPGA supports the concept of the State aggregating residential and small commercial customers receiving standard offer service and auctioning the right to electric suppliers to provide competitively-priced electric generation service. This provides a useful way to allow all consumers to realize the benefits of electric competition and to further insulate consumers from the challenges and risks associated with electric distribution company's securing generation supply to their remaining customers.

By removing the need for electric distribution companies to secure generation supply for standard offer customers, this proposal ensures that utilities will not incur additional stranded costs. The risk of securing the correct amount of supply, at competitive market prices would be fully shifted to retail electric suppliers best able to manage these risks. Customers would still enjoy flexible customer choice and could opt to go out into the market and secure their own electricity supply instead of being aggregated and auctioned to suppliers by the state. This proposal enables electric distribution companies to more fully focus on their core functions of maintaining and enhancing their distribution system, while allowing smaller customers to more fully realize the benefits of electric competition.

**Conclusion**

In summary, NEPGA strongly opposes Section 7 of SB 843, and the proposal to remove the June 2013 sunset provision on the temporary tax on electricity produced from the state's generation facilities. NEPGA recognizes that the economic challenges confronting the state are better, but far from over. Work needs to be done to ensure that the state can thrive. Part of that work entails limiting taxes that either harm investment or raise costs for consumers. Letting this tax expire and putting no new tax in its place would attain both goals.

Addressing the state's continued budget challenge is not an easy task. Policymakers must rely upon caution, prudence and provide certainty that a promise made will be kept. The tax on electricity production in Connecticut that costs consumers tens of millions of dollars must be allowed to end, as it was intended. For all these reasons, NEPGA strongly urges the Committee to amend SB 843 and remove Section 7.

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