TESTIMONY OF
JAMES DALY
VICE PRESIDENT, ENERGY SUPPLY
Energy and Technology Committee
February 7, 2017

RE: S.B. No. 106 – An Act Concerning Zero-Carbon Electric Generating Facilities and Achieving Connecticut's Greenhouse Gas Mandated Levels

Good afternoon Chairman Reed, Chairman Winfield, Chairman Formica, and members of the committee, I am James Daly VP of Energy Supply for Eversource Energy.

Thank you for the opportunity to speak to you today.

As the largest transmission and distribution company in New England, we have the responsibility for the energy needs of some 3 million electric and 500,000 natural gas customers.

I am here today to speak to S.B. 106 – An Act Concerning Zero-Carbon Electric Generating Facilities and Achieving Connecticut's Greenhouse Gas Emissions Mandated Levels.

We value and count on the contributions Millstone makes to the energy security of Connecticut and the region. We also value the contributions of Dominion to the economy of southeastern Connecticut as well as the entire state of Connecticut. In all of our planning, we assume that Millstone will continue to be available as a regional resource.

Although S.B. 106 as it stands today is a work in progress, we understand it could potentially be similar to S.B. 344 from last session, which provided Millstone with the opportunity to participate in future state authorized RFPs for the construction of new renewable energy resources.

I want to emphasize the following five points.

1. First and foremost, Millstone has not demonstrated a financial need. New England is the highest priced electricity market in the continental U.S., which generates more revenue for Dominion than any other region. Eversource calculated that Millstone achieves returns on investment in the range of 25-36%. If Millstone is making less, then it should open its books, and demonstrate that it has a legitimate financial need as nuclear units in other states like New York and Illinois have already done.

2. Second, Senate Bill 344, which passed last year and allowed Millstone to participate in an RFP with renewable energy resources, is the wrong approach because it constitutes unfair competition against new renewable resources that require financing to be constructed. Millstone does not require financing or construction.

3. Third, if Dominion were to retire, there is an established process under FERC's jurisdiction at ISO New England (ISO-NE) that would spread the cost of a reliability agreement for Millstone to other New England states and reduce the costs to CT ratepayers by some $220M/year versus going it alone assuming a 2 cent/kWh subsidy. At the end of a reliability agreement with ISO-NE, CT could decide to further support Millstone if that was appropriate at that time and in light of the costs and benefits it provides.

4. Fourth, if Connecticut decides to provide Millstone with a subsidy, Eversource is prepared to work with stakeholders to design an outcome that is fair and equitable to our customers, shareholders and your constituents.

5. Finally, that said, making out-of-market payments to existing resources like Millstone without a demonstrated financial need should not be taken lightly. It should be approached in a thoughtful and measured manner in order to minimize impacts on customers and the market.

Thank you for this opportunity to present these comments, and we look forward to working with you.

If S.B. 106 proposes to use the same approach as the bill from last session, then we are opposed to it for the following reasons:

- Millstone is not a renewable resource, and it is not a new or an incremental resource. Therefore, it is not appropriate to treat it as a new renewable resource.

- Millstone will not add new capacity to the resource mix necessary for Connecticut to achieve its Renewable Portfolio Standard (RPS) goals.

- If Millstone is allowed to participate in future renewable RFPs, it will prevent new resources from being constructed because it is not an "apples to apples" comparison to compare the low cost of production for an existing generator like Millstone to the cost of production for new renewable resources that require financing in order to be constructed.

- S.B. 106 appears to assume that Millstone will retire. But Dominion informed market analysts that they are not planning to retire the plant.

- Additionally, Millstone will benefit from new capacity revenues. Over the next several years through May 2020, Millstone will receive in excess of $300 million in new capacity payments. For example, Millstone received approximately $72M in capacity payments for 2016, and that number is expected to increase to $206M for 2018 alone.

- For these reasons, we do not believe that Millstone should participate in any future RFPs for renewable resources.

However, as I previously stated, we do not oppose Millstone receiving additional compensation if it is determined it is necessary or appropriate to do so, and as long as the mechanism implemented is fair to ratepayers and does not displace new renewable resources from being constructed under future competitive state authorized RFPs or disrupt the competitive retail market. One solution would be to regionalize the cost of providing additional compensation to Millstone through a reliability agreement between ISO New England (ISO-NE) and Dominion.

The Millstone units and all other generators in the region sell their capacity into the Forward Capacity Market (FCM) under competitive auctions conducted by ISO-NE three years forward and for commitments ranging from 1 to 7 years. Capacity Market revenues for generation have ranged from about $1Bn/Year to $4Bn/Year over the first 10 auctions conducted by ISO-NE. According to ISO-NE, the FCM is working and attracting more than adequate new generation capacity. In addition to Capacity Market revenues, generators in New England receive among the highest energy revenues in the country on a per unit basis, which have ranged from \$5Bn to \$12Bn/Year.

Should Millstone determine that the revenues from the capacity and energy market are not sufficient to remain in the market, there are clearly defined Federal Energy Regulatory Commission (FERC) procedures that would be followed in order to maintain reliability prior to Millstone exiting the market. The first step in this procedure would be for Millstone to submit a retirement bid in the FCM. ISO-NE would review the retirement bid for economic reasonableness and also determine if Millstone was needed for reliability reasons. If ISO-NE determines that Millstone is needed for reliability reasons, until new resources enter the market to resolve the reliability concern, ISO-NE is authorized to enter into a Reliability Agreement with Dominion to ensure enough revenue to keep the facility in operation. This would apply to one or both units.

The costs to support Millstone under such a Reliability Agreement with ISO-NE would likely be spread over the region as Millstone is a regional resource rather than just to CT ratepayers. If at some point ISO-NE determined that Millstone was no longer needed as a regional resource, it would be free to exit the market. At this point, other resources would be in service to ensure reliability. If at that point, CT determined that it would be beneficial for CT ratepayers to retain Millstone for environmental or economic reasons, CT could enter into whatever financial support the state would agree to with Dominion. Having the region support paying for the units in the first instance would spread the cost to the region in recognition of the benefits Millstone provides to the region rather than have CT only support the facility. It would also be in conformance with established FERC procedures and less susceptible to legal challenges. By way of example, a support payment of 2 Cents/kWh of generation from Millstone would raise CT electric bills by some \$330M per year, whereas if this payment was spread to the three southern New England states only, the payment would be about \$110M/Year to CT thus saving CT rate payers some \$220M per year.

If, however, the State concludes that a Reliability Agreement between ISO-NE and Dominion is not its preferred approach for addressing these concerns, then Eversource can work constructively with you and other stakeholders to develop a mechanism for providing appropriate, additional compensation to Millstone that is fair to ratepayers and does not block new renewable resources from being constructed under state authorized competitive RFPs or disrupt the competitive retail electricity market.

It would be incorrect to assume that allowing Millstone to participate in renewable energy RFPs is the only way it can receive additional compensation. There are other options, and we would like to work with you and other stakeholders to identify and evaluate the other options for achieving the legislature's goals for Millstone. Thank you.