

**DYNEGY COMMENTS ON
PROPOSED SENATE BILL No. 106
AN ACT CONCERNING ZERO-CARBON ELECTRIC GENERATING FACILITIES AND ACHIEVING CONNECTICUT'S
GREENHOUSE GAS EMISSIONS MANDATED LEVELS
FEBRUARY 7, 2017**

Chairmen Formica, Winfield, and Reed and members of the Energy & Technology Committee, my name is Jim Ginnetti and I am here to present the comments of Dynegy Inc. on Proposed Senate Bill No. 106. Dynegy is one of the largest competitive power generators in the country and produces the second most electricity in the State at its two power plants, the Lake Road Power Plant in Killingly and the Milford Power Plant in Milford.

Due to the many new members of the Committee that I have not met yet, I'd like to give you a brief overview of my background. I am a Connecticut native from Derby who has been in the electric industry in New England for over 40 years. I hold Bachelor of Science and Master of Science degrees in Electrical Engineering from Northeastern University and Iowa State University, respectively, and a Master in Business Administration from Western New England College. I worked for nearly 20 years for what became the Independent System Operator-New England (ISO-NE) and at various times managed their generation planning, engineering, and system operations departments, where I was responsible for the minute to minute dispatch of New England's electric system. I have spent the last 20 years working for Northeast Utilities and competitive generators, such as Dynegy, in the selling and buying of electricity under both the regulated and competitive market regimes and am well versed in ISO-NE's market rules. **Based on this experience, I can say conclusively and without doubt that providing a subsidy to the Millstone plant will do more harm than good to the competitive markets, the state of Connecticut and most importantly consumers who ultimately pay for Millstone.**

All of the State's competitive generators provide value to the State by generating low emissions electricity, economic activity, jobs, taxes and other benefits. We all work extremely hard to operate safely and reliably for the State and consumers. Therefore, we understand why legislators want to ensure that the State continue to receive these benefits.

But, there is no evidence that the two Millstone units, with approved operating licenses through to 2035 and 2045, respectively, are losing money and at risk to shut down and, in fact, there is substantial evidence to the contrary.

ISO-NE's Capacity and Energy Markets

The electric system in New England is managed by the ISO-NE to provide reliable electric operation at the lowest possible cost. The ISO-NE manages two primary markets through which generators are paid for providing service to New England consumers. The two markets are the capacity market, which pays generators for the ability to generate when needed, and the energy market, which pays generators for the electricity they actually produce. These two markets are designed to work in tandem in that when energy prices are low, as they are now, capacity prices tend to rise to provide efficient generators with the opportunity to earn enough revenue to cover their costs and possibly earn a return on their investment. Generators are not guaranteed a return on or even of their investment but only the opportunity to recover their costs and earn a competitive return. Providing a subsidy to any of the competitors in the market, such as Millstone, puts all other competitors at a disadvantage much like when foreign governments (e.g. China) subsidize their industries and make it harder for U.S. companies to compete.

Each year in early February the ISO-NE conducts a Forward Capacity Auction in which all generators in New England are able to offer their generating capacity for a time period a little over three years into the future. In fact, yesterday, February 6th, ISO-NE ran its 11th capacity auction for the time period from June 2020-May 2021. The capacity auction is a declining clock auction which begins at a high price and steps down to lower prices until the amount of generation needed by ISO-NE equals the amount of capacity from generators who have not withdrawn from the auction as the price drops to ever lower levels. When this balance is reached, the remaining generators receive a Capacity Supply Obligation, which obligates them to operate when needed with very substantial financial penalties for non-performance, and locks in a set of capacity payments for the generators for that year.

The Millstone units have participated in all of the first ten capacity auctions run by ISO-NE as well as the one that occurred yesterday. Through their participation in the first ten capacity auctions, Millstone is currently committed to continue providing capacity to ISO-NE through May 2020. Assuming that they did not withdraw from yesterday's

capacity auction (results may be available at the time of this hearing), both units now have an obligation to operate through May 2021. Generators in New England that fear that they will not be profitable in a future year based on the capacity prices resulting from the capacity auction and their view of energy prices are able to have ISO-NE review their costs and determine a price at which the generator can withdraw from the capacity auction. This is the vehicle that Millstone can and should use to receive enough capacity revenue to ensure their profitability. The fact that Millstone has not withdrawn from any of the eleven capacity auctions as the auction prices declined is a clear sign that, with full knowledge of their costs to operate, they expect to make enough money to merit continued operation at the capacity price determined in ISO-NE's capacity auctions.

Millstone's Upcoming Increase in Capacity Revenue

ISO-NE's capacity market operates on a fiscal year from June through May. Based on the clearing prices in previous capacity auctions, Millstone is in line to see a substantial increase in their payments for capacity from ISO-NE during the next few years starting this coming June. In this current fiscal year (June 2016-May 2017), Millstone is receiving approximately \$79 million in capacity payments from ISO-NE, as shown in the table below. **Starting in June, Millstone will receive a \$98 million increase up to a total of \$177 million for the year. In the following year (June 2018-May 2019) their capacity revenue will increase again, up to \$241 million, which is \$161 million more than they received this year. And, finally, in the June 2019-May 2020 period, Millstone's capacity revenue will fall back to \$177 million, which is still \$98 million more than they are receiving in the current year.** With these increases in capacity revenue, it is increasing doubtful that Millstone is in any danger of losing money and closing and that there is any need for a handout from consumers in any form.

Millstone Capacity Revenue from ISO-NE will be increasing substantially in the next few years.

	June 2016-May 2017	June 2017-May 2018	June 2018-May 2019	June 2019-May 2020
Annual capacity revenue	\$ 79.4 million	\$ 177.1 million	\$ 240.7 million	\$ 177.2 million
Increase above June 2016-May 2017		\$ 97.6 million	\$ 161.3 million	\$ 97.8 million

Millstone Participation in RFPs

Policymakers in Connecticut and other states have endorsed Renewable Portfolio Standards (RPS) as a vehicle to advance the development of new generation technologies including wind and solar. Policymakers have determined that it is acceptable to have consumers subsidize through higher rates these new technologies due to their desire to jump start the development of these intermittent, zero carbon emitting, renewable resources. Millstone has asked to be allowed to bid in state sponsored Requests for Proposals (RFPs) against solar, wind, and other renewable resources even though nuclear technology is a well-established generation technology that needs no further subsidies. And, large scale hydropower from Canada, another well-established generation technology that does not need or deserve a subsidy, will be very expensive (more than 10 cents/kilowatthour after including transmission costs)¹ and would present virtually no competition to bids from Millstone. Millstone would be able to decide how much of a subsidy it wanted as long as it bid into the RFP below its high priced competition. **Allowing Millstone to bid in these RFPs would be a mistake that would be paid for by consumers.**

Paying for Millstone's Low Carbon Electricity

Many believe that Millstone should be rewarded for its ability to generate electricity without emitting carbon. There is an existing vehicle to reward Millstone for being a low-emitting resource -- just like other low-emitting resources -- due to the six New England states' participation in the Regional Greenhouse Gas Initiative (RGGI). Through RGGI, generators that emit Greenhouse Gases (GHGs) must buy RGGI Allowances and include them in their offers to generate electricity. The cost of these allowances increase the prices that Millstone receives when it sells its energy in ISO-NE's energy market or in the bilateral market. Depending on the cost of the RGGI Allowances, for which consumers have paid in excess of \$5 a ton, Millstone already receives a subsidy via RGGI that is worth between \$30 million and \$50 million per

¹ As a comparison, wholesale electricity costs, including both capacity and energy costs, averaged less than 4 cents/kilowatthour in Connecticut in 2016. <https://www.iso-ne.com/isoexpress/web/reports/load-and-demand/-/tree/yearly-wholesale-load-cost-report>

year.² Future reductions in the number of RGGI Allowances will drive up the price of the RGGI Allowances and lead to increases in the energy prices and revenue earned by Millstone in the future.

Zero Emission Credits (ZECs)

Some people have suggested that Connecticut should adopt a Zero Emission Credit (ZEC) program as the State of New York is planning. Although the ZEC program is being challenged in federal court as an infringement on the Federal Power Act, the New York Public Service Commission (NYPSC) adopted a Clean Energy Standard (CES) that will provide a subsidy to “financially distressed” nuclear plants (e.g. Nine Mile 1 & 2, Ginna, and Fitzpatrick). But even under the New York ZEC program, the NYPSC will consider “the degree to which energy, capacity and ancillary services revenues projected to be received by the facility are at a level that is insufficient to provide adequate compensation to preserve the zero-emission environmental values or attributes historically provided by the facility³” in determining a need for the state subsidy. To date, Dominion has expressed no willingness to share with anyone financial information that would show whether capacity and energy market revenues are adequate or inadequate to assure continued operation. This lack of transparency leads us to conclude that such a revelation would not show the need for an additional subsidy from consumers.

Conclusion

Dynegy asks that the Committee reject Dominion’s request to allow it to participate in RFPs against solar, wind, and other renewable technologies that policymakers have decided need to be subsidized by consumers or any other special treatment through legislation. There is substantial if not overwhelming evidence that Millstone continues to be profitable and that it will continue producing electricity for years to come without needing consumers to dig deeper into their pockets for yet another increase in their monthly electricity bill.

² A RGGI Allowance allows the emittance of one ton of GHG. A natural gas generator, which sets the ISO-NE energy price in most hours, emits approximately 0.5 tons/megawatthour so a RGGI Allowance of \$4/ton leads to an increase in energy prices of approximately \$2/MWh. Millstone generates approximately 17,000,000 megawatthours per year.

³ NYPSC Staff’s Responsive Proposal for Preserving Zero-Emissions Attributes, July 8, 2016

I am happy to take any questions the Committee may have.

Testimony presented by Jim Ginnetti for Dynege