



**Testimony of NRG Energy, Inc.
Before the Connecticut General Assembly Energy and Technology Committee**

RE: SB 10, An Act Concerning Certain Recommendations Regarding Climate Change; HB 5349, An Act Concerning the Ownership of Certain Solar Energy Projects by electric Distribution Companies; and HB 5351, An Act Concerning Certain Programs and to Incentivize and Implement Electric Energy Storage Resources

March 5, 2020

Senator Needleman, Representative Arconti and distinguished members of the Connecticut Legislature's Joint Committee on Energy and Technology:

My name is Tom Atkins, Vice President of Business Development for NRG Energy, here today in opposition to certain aspects of the currently drafted bills. NRG is a Fortune 500 company that brings the power of energy to consumers by producing, selling and delivering electricity and related products and services to consumers in competitive markets across the U.S. and Canada, as well as 23,000 MW of electric power generation including nuclear, coal, gas, oil and solar nationwide. Our retail brands serve more than three-point-seven million customers across nineteen states and provinces, including Connecticut where we have several licensed retail electricity suppliers.

While NRG is fully supportive of and shares the innovative and progressive environmental goals that serve as the underlying forces behind these bills, we believe in some cases the Legislature is taking the wrong approach to achieve these goals. Specifically, we see a theme in each of these bills that invites the incumbent distribution utilities in the state to make investments in energy supply resources (e.g., solar power and energy storage). Allowing the distribution utilities into these markets is bad for consumers and will chill competition and innovation in the energy markets, needlessly delaying the state's path to a clean energy future.

Just over 20 years ago, the Connecticut Legislature determined that competition in energy supply would lower consumer costs and be a better approach than traditional regulation of utility monopolies. This Legislature now appears to be considering undoing the decisions of that era and allowing utilities own supply side assets once again. This is a good time to reflect on what transpired over the past 20 years.

It is somewhat difficult to remember what 20 years ago was like in the energy world. But remember the first cell phones? No screens, no wifi capabilities, no games, no cameras, no calculators, very crude texting capabilities and a phone network that was generally robust only in the big cities. That was only 20 years ago. The energy landscape has changed as dramatically over the same horizon. Twenty years ago, alternative fuel vehicles were those that could burn ethanol or natural gas. Some of the biggest concerns of energy market leaders were potential gas shortages, integrating wholesale and retail restructuring models, the potential role of



energy efficiency and demand response and the potential for renewable energy. The first RGGI meeting was still 3 years away and the initial MOU was 5 years away.

Twenty years ago, renewable energy, excluding hydropower, accounted for less than 1 percent of our nation's electricity output. Today, excluding hydropower and behind the meter solar, it accounts for approximately 11% of our nation's electricity output. Twenty years hence, Connecticut is establishing a goal of zero carbon emissions from generation resources, requiring dramatic improvements in penetration and performance of renewable energy resources.

At the same time this legislature is considering a zero-carbon energy future, the suite of legislative proposals before you today would potentially allow utilities to own solar and energy storage assets within the ratebase and enter into 20 year contracts with third parties. The one certainty about 20 years into the future is that while we don't know what the energy landscape will look like, we do know that new energy technologies will be far superior to today's energy resources and will continually become more cost effective as we have already seen with the trends in solar energy. These legislative initiatives will allow the utilities to lock Connecticut in place with today's energy technologies and today's costs, while sending the bill to your constituents for the next 20 years. Further, such an approach will hamstring development of new, innovative, and ultimately lower cost resources that will be essential to meeting the State's clean energy future. We recommend utilities never be allowed to own supply-side resources within the ratebase and to limit third party competitively sources contracts to 7 years.

Achieving the state's objective of a 100% carbon free or renewable energy supply at a price that businesses and consumers can afford requires a broad competitive clean energy market that is open to all forms of carbon-free power, including resources and technologies that are known and unknown today.

Allowing the distribution utilities to invest in energy assets on the backs of ratepayers is bad policy. Since we know that today's resources will be outdated over a 20-year horizon, utility investments of that length are almost certain to give rise to future stranded costs. Almost assuredly, consumers will be paying for resources that will no longer be competitive not unlike what happened in 1998 when Connecticut deregulated supply-side resources. Furthermore, utility ownership of supply-side resources within the ratebase will substantially curtail private-sector, non-subsidized investment in zero carbon energy resources. Competitive energy companies will not deploy private capital in Connecticut's energy markets unless there is a level playing field. We believe utilities should be allowed to compete to develop, build and own supply-side resources, but only on the same terms and conditions as private companies. This means being willing to agree to fixed price and fixed schedule contracts where the utility is responsible for cost overruns and delays – not ratepayers. This means being willing to guarantee asset performance (output and efficiency) and being financially responsible for shortfalls – not passing that responsibility on to ratepayers. How many businesses are allowed to charge their customers for mistakes? Heading back in that direction in the energy markets is not progress.



There is no shortage of companies currently investing in and willing to invest further in energy resources. For example, the Solar Energy Industry Association estimates that 228 solar companies are currently operating in Connecticut¹. Providing one company with a regulated rate of return and guaranteed cost recovery from captive rate payers is a sure-fired way to stop private investment in these resources.

The National Association of Regulatory Utility Commissioners identified this very conflict. In its guidelines for affiliate transactions, it acknowledges that “utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers.” In order to protect ratepayers against such actions, NARUC guidance would suggest that any competitive resource should be housed in an affiliate company “to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation markets.”² Allowing utility investment in competitive resources is hard to defend. If the utilities believed that the resources would be profitable, they could create unregulated affiliate companies to build, own, operate and manage the resources. If they believe they will not be profitable, they will seek ratepayer cover. The latter approach should not be enabled by these bills.

We recommend this legislature focus on empowering or even requiring the utilities to improve the distribution network which would enable competitive energy companies to deliver their goods and services to customers in the state in a more cost-effective manner. The utility investments should be in physical network infrastructure, improving throughput, data availability and the interconnection processes. Direct utility investment in supply-side resources diverts limited utility capital that could and should be deployed to improve the grid so that it can integrate more renewable resources.

For the foregoing reasons, NRG is in the process of drafting substitute language that will be provided to the Committee in a timely fashion.

¹ <https://www.seia.org/states-map>

² NARUC, <http://pubs.naruc.org/pub/539BF2CD-2354-D714-51C4-0D70A5A95C65>