



141 Tremont St., Boston, MA 02111

(t) 617-902-2354 (f) 617-902-2349

www.nepga.org

October 21, 2011

Tracy Babbidge
Technology Policy Bureau Chief
CT Department of Energy & Environmental Protection
79 Elm Street
Hartford, CT 06106-5127

Dear Ms. Babbidge:

The New England Power Generators Association, Inc. (NEPGA) appreciates the opportunity to submit these comments regarding the development of the 2012 Integrated Resource Plan (IRP) for Connecticut. NEPGA has participated in past IRP proceedings in Connecticut and is appreciative of the opportunity to submit some high-level policy considerations for your review as the Department of Energy and Environmental Protection (DEEP) begins its IRP planning process for 2012.

Introduction

The New England Power Generators Association, Inc. (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 6,800 MW of generation in Connecticut, representing the vast majority of the state's electric generating capacity. Overall, NEPGA's Connecticut companies pay approximately \$35 million annually in state and local taxes. Our member companies provide 1,800 well-paying and skilled Connecticut manufacturing jobs, while contributing nearly one 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.

Historical Perspective

The DEEP is required, pursuant to Public Act 11-80, to prepare an IRP and deliver it to the Legislature by March 1, 2012. Prior to this year's passage of Public Act 11-80, the electric distribution companies worked with the Connecticut Energy Advisory Board (CEAB) to prepare an IRP. This process had been established by Public Act 7-242 and required an assessment of the state's energy and generation capacity resources to meet projected demand. As noted in recent IRPs, Connecticut is currently a net importer of generation.

This has not always been the case in Connecticut, in fact, prior to Millstone 1 and Connecticut Yankee permanently going off-line in 1995 and 1996, the state was a net exporter of electric generation to the region. After most of the region's electric markets were restructured in the late

1990s and early 2000s, over 10,000 MW of new generation resources were built in the region. The new generation was not necessarily built in areas of high concentration of electric demand, thus “load pockets” or areas of congestion developed and policy-makers looked to build new transmission infrastructure as the answer to the resultant local reliability concerns. In Connecticut, the Southwest Connecticut Reliability Project, also known as the Middletown-Norwalk 345 kV line was completed in late 2008 and planning for the remaining parts of the region’s New England East-West Solution (NEEWS) is underway; the latest estimate calls for completion of these transmission projects in 2016. As the state considers its energy future for the next decade and beyond, it will be imperative to weigh the tangible benefits of relying upon a robust supply of local generation to serve Connecticut’s energy needs, versus relying upon others to meet Connecticut’s energy needs through increased transmission infrastructure and imports from outside the state and region.

NEPGA’s General Perspective on the IRP Process

NEPGA is supportive of the DEEP’s new role in overseeing the development of the IRP, and welcomes the opportunity for NEPGA and its members to take an active role in the development and review of the IRP. As NEPGA has previously stated, if Connecticut is to continue using an IRP process the DEEP is the right agency to have oversight and the use of competitive procurement to meet identified energy or capacity deficiencies not being provided through the markets is absolutely critical. Competitive procurement ensures that the best options can be identified to produce the desired resources at the lowest possible costs. In addition, competitive procurement ensures that private investors apply the maximum innovation and bear appropriate risks for delivering new resources on time and on budget.

NEPGA further believes that as part of the IRP process, and the process of determining the optimal resource mix for Connecticut moving forward, that any decision to buy from generation resources outside of the region – such as those contemplated pursuant to the Northern Pass Transmission (NPT) project being pursued by Northeast Utilities and NSTAR, must be evaluated against the choice of building new generation resources inside Connecticut and/or New England. Key components for comparison include supply certainty, the full delivered cost of such supply, and the impacts on Connecticut jobs and tax revenue. The decision to rely heavily upon new transmission and imports from outside the region must carefully evaluate these factors.

NEPGA’s Specific Comments on Key IRP Topics

During September, DEEP held a series of stakeholder sessions addressing topics related to the IRP. Many of NEPGA’s members participated in these sessions. As a follow-up, NEPGA would like to provide some comments on three of the major topics – natural gas, transmission and renewable energy. Moreover, we understand that the topic of Market Rule 1 and the ISO will be addressed in the IRP process. Given this, we would like to also offer some perspective on the issue of the ISO/Market Rule 1 topic. The remainder of this section addresses these four topics.

Natural Gas

A few short years ago many energy experts predicted a future where this country would need to import large quantities of Liquefied Natural Gas (LNG) and oil at high prices from distant and politically volatile locations around the globe in order to fuel its electric generators and heat its homes and businesses. The development of technology that can extract natural gas from shale fields as nearby as Pennsylvania, Ohio, and New York has dramatically changed that outlook for

the better. We are now faced with an abundant supply of the cleanest, lowest emitting fossil fuel in close proximity to the population centers of the Northeast. This supply should provide decades of stable electricity prices and reduced emissions while adding jobs and tax revenue inside the United States at a time when both are critically needed.

Environmental concerns on the extraction of this gas are being addressed by federal, state and local regulators and NEPGA is confident that these issues will be adequately addressed. Some have expressed concerns that the region is over-reliant on natural gas; however, NEPGA believes these concerns are not valid. Producers of the natural gas will spur pipeline development to bring more of the product into the New England markets. Retrofitting the existing natural gas generators that are not currently able to burn an alternate fuel during a supply disruption is relatively inexpensive and can be accomplished with the correct incentives in the marketplace for this form of reliability assurances.

For these reasons, NEPGA believes that natural gas should be a significant piece of Connecticut's IRP. It is the cleanest fossil fuel, can help reduce emissions, and will serve as the fuel of choice to bridge the gap in the coming decades until renewable energy provides a larger share of the generation needs of consumers. Further, to the extent additional generation is identified in the IRP process, any procurement of new resources must be done in an open, transparent and competitive process.

Transmission

As highlighted earlier, Connecticut and the region have aggressively pursued the development of new transmission infrastructure over the past decade. The ISO-NE notes that \$4 Billion has been invested in the region since 2002, with \$5 Billion of additional transmission investment on the horizon. The costs of these investments, including cost overruns, get passed directly to consumers and have had an upward impact on retail prices across New England and in Connecticut. Delivery costs (transmission and distribution) and other charges have increased disproportionately and now make up almost 50% of the consumers' bills with the generation component being the other 50%. Designing a power supply that requires expensive transmission to bring the output of a remote generator to the load is likely much more expensive to consumers than one where the generator is built near the load and the expensive transmission is not needed. A supply strategy heavily reliant on long-distance transmission to import remote resources also raises the question of reliability concerns for Connecticut consumers and businesses.

NEPGA believes that the IRP should evaluate whether Connecticut consumers would be better served if additional generation resources were developed in-state or in-region. In addition to being part of a lower-cost plan, building generation in-state or in-region provides other important benefits. In order to build a new combined cycle generation facility in Connecticut, close to 5 million man-hours of construction labor are needed. When the plant becomes commercial, good-paying operating jobs are created. The generating facilities provide taxes to the state and localities, often being the highest property tax payer in a locality. NEPGA strongly believes the IRP should recognize the potential benefits of supply certainty, as well as job and tax benefits that will accrue to the consumers of Connecticut from building generation in the state. Additionally, companies that build the generation provide the investment and take the risks of cost overruns and delays, while transmission projects look to consumers to shoulder all investment risks and potential cost overruns associated with transmission project development.

Renewable Energy

Increasing the reliance upon renewable energy has been a goal driving many regional and state policies over the last decade. Five of the six New England states have a Renewable Portfolio Standard (RPS) with Connecticut's RPS going into effect in 1998. By 2012, 5.9% of the region and 9% of Connecticut's energy supply is targeted to come from renewable energy sources. These percentages increase to 14.3% and 20%, respectively, by 2022. Accordingly, renewable energy must play a significant role in Connecticut's IRP planning process in order to meet these state and regional goals. NEPGA supports these efforts, but would like to offer two policy considerations regarding the role of renewable energy.

First, large-scale hydro resources should *not* be included as a Class I RPS resource pursuant to Connecticut's RPS. Public Law 11-80 required a study of the state's RPS and whether this resource should be eligible as a Class I resource. As NEPGA testified on Senate Bill 1 (which ultimately became Public Law 11-80), the goal of an RPS is to provide policy and economic support to fledgling energy sources that may not be economical when compared directly with current commercial technologies and which would not be developed without that support. Eligibility for RECs should not be extended to energy sources that do not satisfy these criteria, such as large-scale hydro. A requirement for any successful RPS is to provide a degree of regulatory certainty that rules and definitions are not subject to constant change. This allows contractual arrangements to be made in the market to meet the RPS requirements. Material changes to the definition of an RPS class, especially without a transition period or grandfathering provision, undermines this necessary regulatory certainty and will chill the potential for private investment in new energy technologies and jobs in Connecticut and the region.

Further, allowing these resources to qualify for the RPS effectively kills attempts to create incentives for new, local Class I resources and the economic development benefits that Connecticut and the region derives from local investment and employment, because the sudden increase in supply will drive down the price for RECs. In the case of some Canadian hydropower, the generation backing the transactions is not always identifiable and might come from non-renewable sources. A change this broad and sweeping could result in RECs going to subsidize fossil generation. The region can easily expand its access to environmentally sensitive hydroelectric resources by expanding the threshold to include regional sources that provide clean, renewable attributes without some of the attendant environmental and social effects that larger hydroelectric schemes may exhibit.

Second, if a need for additional renewable generation is identified in the IRP process, any procurement of new resources must be done by an open, transparent and competitive process, as envisioned by Public Act 11-80 and consistent with prior legislative acts. Energy acts passed by the Legislature in 2005 and 2007 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.

The 2005 Energy Independence Act (Public Act 05-01) 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 RFP process for

new generation and demand reduction resources. Public Act 07-242, passed in July 2007, included a package of provisions to encourage energy efficiency and conservation, incentives for renewable energy, and incentives for other generation resources. The competitive RFP structure embodied in both public acts contributed to the robust generation development in Connecticut in which there is a substantial amount of generation under development. 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 competition among suppliers to deliver the desired generation, at the lowest costs to ratepayers.

Any departure from this competitive model and a return to a model in which the utilities own the generation will unnecessarily transfer the financial risks associated with owning and operating generation from private investors to captive ratepayers. Prior to electric restructuring, ratepayers bore all of the costs of utility ownership of generation, including risks of cost overruns, schedule delays, poor generator performance and stranded costs. In the restructured market paradigm, an electric supplier's ability to survive is predicated on innovation, risk management and a vibrant focus on unit availability and efficiency. The old monopoly ownership model led to cost overruns and stranded costs by utilities which ratepayers just recently paid off. Under this old model, utilities shifted all financial risk of ownership of generation onto their captive ratepayers. A return to this model is a marked departure from the status quo and ignores the very real opportunities available to the state through privately-funded renewable resources. The state should instead seek out mechanisms to ensure that those private investors can successfully complete their projects and deliver their clean energy to Connecticut consumers, through the competitive wholesale markets.

ISO and Market Rule 1

Public Act 11-80 included a provision requiring the DEEP to initiate a study of the Independent System Operator (ISO-NE) and Market Rule 1. Areas of focus include reviewing the accountability of the ISO-NE to Connecticut ratepayers and energy policymakers, considering strategies and mechanisms to mitigate any adverse impacts Market Rule 1 may have on the state and region's wholesale generation prices, comparing the costs and benefits of participating in the ISO-NE with joining another ISO, examining the FERC framework and its relationship with Connecticut electric rates, and considering methods for greater transparency of the system. During the legislative consideration of this provision, NEPGA strongly urged the DEEP to approach this type of evaluation in an open and transparent fashion. We noted the need for the entire 600+ page Market Rule 1 to be understood, examined and evaluated, not just certain sections of the Market Rule. An analysis of one component of Market Rule 1 is not complete without an analysis of the other aspects of the Market Rule. Further, the analysis of rates pursuant to this study should include all rate components, including transmission, distribution, stranded and other costs that comprise approximately 50% of the overall electric rates in Connecticut.

Given the enormity of the task of reviewing Market Rule 1 and its impacts, not only on the Connecticut market, but the entire regional electric market, NEPGA strongly recommends that this legislatively required study should be conducted as a process separate from the IRP process and the Comprehensive Energy Plan. Market Rule 1 provides the foundation for every aspect of the region's wholesale electricity market – from capacity prices to energy prices to providing

local voltage support to support the reliable operation of the electric grid. The IRP process looks at available resources in the state – generation, demand resources, energy efficiency and transmission – and recommends the optimal mix of resources to meet Connecticut’s energy needs in the coming years. Both of these areas of focus are critical to a functioning electric market in the state but are separate comprehensive reviews, requiring different types of evaluation and analysis. To ensure that both the IRP planning process and the Market Rule 1/ISO-NE study are comprehensively and rigorously performed, NEPGA strongly urges keeping the ISO-NE study process separate from the IRP planning process. In particular, the uniform clearing price structure inherent in Market Rule 1 is the proven pathway to delivering the lowest cost power to the region and the state. Any changes or deviations from this structure require careful and exhaustive analysis, and should not be done in haste as part of the IRP process with a very short timeline.

Conclusion

NEPGA appreciates the opportunity to offer these policy considerations to the DEEP as it embarks upon the IRP process for 2012. As the IRP is developed, NEPGA and its members intend to actively participate in the planning process. Our comments provide the unique perspective of the generation community on many key issues – the significant role of natural gas in meeting Connecticut’s needs, the importance of considering generation alternatives in the IRP planning process and ensuring that mechanisms to incent renewable energy development are consistent with the tenets of a competitive electric market. NEPGA looks forward to actively participating in the IRP process over the coming months and providing the important perspective of the market entities that provide many of the resources critical to a reliable and secure energy future for Connecticut.