



**MASSACHUSETTS JOINT COMMITTEE ON
TELECOMMUNICATIONS, UTILITIES AND ENERGY
Public Hearing: State of Energy in the Commonwealth**

Thank you for the opportunity to testify today. My name is Dan Dolan and I am the President of the New England Power Generators Association, Inc. (NEPGA). NEPGA is the trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 megawatts (MW) of generating capacity throughout New England, including over 11,000 MW of generation in Massachusetts, or 85 percent of the electric generating capacity in the state. NEPGA's Massachusetts companies provide power for the state from a diverse portfolio of plants, providing over \$70 million annually in state and local taxes, while providing nearly 1,400 well-paying and skilled Massachusetts jobs. Our mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.¹

Restructuring of the Electricity Industry

For the last decade Massachusetts businesses and residential consumers have seen the costs for commodities shift over time – whether for steel, oil, copper or natural gas. Electricity is no different and has garnered much of the attention in part due to the fact that it is one of the largest cost inputs to any business and remains one of the most regulated commodities in the marketplace. What is remarkable is that New England's average wholesale electricity price in 2014 was actually lower than the inflation-adjusted price in 2003, when the ISO New England markets as we know them first started.² That is true despite the severe price volatility experience in the winter of 2013/2014 and also occurred despite seeing roughly 1,800 MW of power plants retire in 2014.

Even with recent increases in standard offer prices, it is clear that consumers have reaped substantial benefits from the move to a restructured wholesale electricity marketplace. This is in large measure due to the competition created between entities supplying the electricity. Improvements can and should be made to drive even more competitive pricing, but the current overall structure is the right one.

¹ The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

² 2014 price of \$64.30/MWh versus 2003 inflation-adjusted price of \$64.47/MWh (\$48.59/MWh nominal) based on U.S. Bureau of Labor Statistics CPI Inflation Calculator.

Across New England, power generation was functionally separated from transmission and distribution, or the wires in the late 1990s.³ Prior to electric restructuring, consumers bore all the costs of utility ownership of generation, including risks of cost over-runs, schedule delays, poor generator performance and stranded costs. In the restructured market, a competitive electric supplier's ability to survive is predicated on innovation, risk management and a focus on unit availability and efficiency. The monopoly ownership model led to serious cost overruns and stranded costs by utilities which ratepayers just recently paid off. Under this old model, utilities shifted all financial risk of ownership onto their ratepayers.

In response to this skewed structure, competition was introduced into the supply of electricity and competitive generators built efficient, state-of-the-art plants and purchased many former utility facilities. All such investments were made by competitive generators at their own costs and with no guaranteed cost recovery or guaranteed profits. This restructured market rightly transferred the risk of development and ownership from the ratepayers to shareholders. In the years since restructuring, companies such as NEPGA's members have invested tens of billions of dollars in the region to purchase existing facilities, invest in upgrades and develop new power plants. The premise underlying this particular component of electric industry restructuring was to allow market forces and transparent pricing to guide business decisions of owners and operators of *all* generation facilities.

Overall, price data clearly show that states that restructured, like Massachusetts, have fared far better than those that haven't. In fact, since 1997, rates for residential consumers in restructured states dropped by 4% below the rate of inflation while such consumers in vertically-integrated states saw their rates rise by nearly 6% - a 10% swing between the states. This picture becomes even starker when the commercial and industrial sectors are examined with price swings of 13% and 14% respectively.⁴ There is no question that consumers have received enormous economic benefits by the move to a competitive market structure, but there are other very real benefits that have accrued to consumers and the region overall.

Some other specific examples include:

³ Vermont investor-owned utilities own approximately 100 MW of generating facilities and Eversource Energy owns 1,100 MW in New Hampshire. Eversource NH announced a settlement with the State of New Hampshire in March 2015 to divest its generation assets and discussions to finalize this settlement are currently underway.

⁴ COMPETE Coalition, "Electricity Consumers Continue to Fare Better with Competition at Wholesale, Retail" April 22, 2015 <http://www.competecoalition.com/newsroom/electricity-consumers-continue-fare-better-competition-wholesale-retail-0>

- ***New, Clean Generation for New England.*** Since the late 1990s, generation developers have invested in new facilities providing over 13,100 MW of new, clean generation for New England. And, competitive generation developers have absorbed risks of cost overruns and bad investment decisions, shielding consumers from these risks, unlike in the old monopoly utility regime. Generators have also made massive investments to update old plants, bringing them into environmental compliance and drastically improving efficiencies.
- ***Greater Plant Availability.*** At the same time, plant availability – or the amount of time that plants are available to run when asked to do so – has increased from 78 percent to 88 percent. This increase is enough to power an additional 1.96 million New England homes. And, the improved availability of generators saves consumers hundreds of millions of dollars annually by providing lower cost energy and allowing reliability to be met with fewer plants.
- ***Decreased Environmental Emissions.*** Environmental emissions across the region have decreased with CO₂ emissions down by 18 percent; NO_x emissions down by 66 percent and SO₂ emissions down by 71 percent.

Investments Made Today, For Tomorrow

Having learned the lessons of the industry structure and investment models in our history, today, Massachusetts and New England are at an inflection point. Several local generating plants have announced retirements, new investments are being proposed, and regional development of renewable and low-carbon energy continues. Abundant supplies of domestic natural gas now exist with numerous pending proposals to bring increased fuel supplies into New England. While these fundamental infrastructure changes are occurring, important enhancements to the regional electricity market are also being implemented.

These changes, coupled with ever-increasing spending on customer bills for transmission and distribution as well as other non-bypassable charges have collectively led to standard offer rate increases for many. Power generators are aggressively responding to the market by making the necessary investments to support reliability and competitive pricing for consumers all while continuing to meet or exceed state and federal environmental mandates. Massachusetts in particular is seeing much of the early action with over 900 MW of new power generation development occurring right now while successfully participating as a founding member of the Regional Greenhouse Gas Initiative, a model for the Federal Clean Power Plan.

Collectively, New England is seeing a massive wave of new potential investment in power generation facilities with 78 generation projects totaling 10,462 MW currently with applications pending to connect to the New England grid. This amount is equal to 1/3 of the total capacity needed in the region to keep the lights on and represents a diversity of fuel sources. Over 8,500 MW of new resources were qualified to compete in the ISO New England's concluded Forward Capacity Auction (FCA) held on February 2, 2015 to secure adequate resources to meet system reliability in 2018 and attract investment in new generation resources. New generation resources totaling 1,060 MW cleared the auction. This brings to over 1,700 MW of new power plants that have cleared recent auctions and currently under development in the region. The window for resources to express interest in the upcoming FCA in early 2016 recently closed with 16,000 MW of new resources providing expressions of interest.

This pool of available private developers has the specific experience, expertise and skills to cost-effectively build new generation. The restructured market is working to ensure that power generation is built through competition on a level playing field, with shareholders bearing the risk of any investments, not consumers.

In addition to pending generation projects throughout the region, several natural gas pipeline projects have been proposed in New England to bring up to 2.74 billion cubic feet (bcf) of new natural gas infrastructure into the region between 2016 and 2018 including:

- Spectra Energy Corp's proposed 342,000 dekatherm per day Algonquin Incremental Market gas pipeline project targeted for service in November 2016 has received nearly all of its necessary regulatory approvals.
- Tennessee Gas Pipeline Company/Kinder Morgan has announced its Northeast Energy Direct proposal which combines its previously announced Northeast Expansion Project with another pipeline from the Marcellus Shale for 1.2 to 2.2 billion cubic feet targeted for service in November 2018 (500,000 dekatherms per day contracted in New England).
- Portland Natural Gas Transmission System has announced its Continent to Coast Expansion project with an anticipated range of 300,000 dekatherms per day targeted for service in November 2016.

Liquefied Natural Gas (LNG) plays a large role in serving fuel demand in Massachusetts. Just yesterday, the Boston Globe reported a major new 10-year supply agreement "to provide the region with billions of cubic feet of LNG to heat homes and generate

electricity at power plants.”⁵ The agreements will supply 6 billion cubic feet of LNG this year and at least 3 billion cubic feet per year from 2016-2024.⁶ As was seen most notably this past winter, LNG is part of the robust infrastructure effort in Massachusetts and across New England. According to the U.S. Energy Information Administration’s Natural Gas Weekly Update for the week ending January 21, 2015, “In 2015, there has been an increase of natural gas supplied to the New England and New York areas. The increased natural gas supplies come from three different sources, which include domestic pipeline, imported liquefied natural gas (LNG) that is regasified and then sent out from the importing terminal, and pipeline imports from Canada.” In the first three weeks of January 2015, cumulative LNG sendout from the Northeast Gateway floating LNG facility and the Everett terminal, both in Massachusetts, and the Cove Point facility in Maryland has totaled 10 Bcf, according to data from Bentek Energy. This is more than 3.5 times the amount during the same period in 2014, and 30% more than LNG sendout for the entire 2013-14 heating season (November through March).

Complementing LNG’s role and efforts to build new generation plants and expand natural gas pipeline capacity into New England, owners of several existing natural gas-fired power plants in the region are pursuing efforts to retrofit their facilities to have the ability to burn both natural gas and oil. Currently there are six units in the region that intend to commission this dual-fuel capability including four this winter representing 1,039 MW and two for next winter representing 735 MW of capacity.

Finally there are four major transmission proposals pending in New England including the 340-mile proposed Green Line, the 187-mile proposed Northern Pass, the 230-mile proposed Northeast Energy Link and the 150-mile proposed New England Clean Power link. These merchant lines propose to bring 1,000 to 1,200 MW of power each, with target in-service dates ranging from late 2016 to 2019.

These varied resources including generation, natural gas pipelines, LNG and transmission highlight the strong market response underway to meet regional energy infrastructure needs.

⁵ Boston Globe, “Distrigas Says Fuel Deals Should Prevent Future Gas Shortages” May 11, 2015 <http://www.bostonglobe.com/business/2015/05/10/distrigas-inks-big-lng-deals/quafPIHwoFG4bhENhaERYK/story.html#comments>

⁶ Distrigas Press Release, “Distrigas to Fulfill Multiple LNG Contracts with Gas Utilities in New England; One Agreement Spans 10 Years of Supply” May 11, 2015 <http://www.businesswire.com/news/home/20150511005685/en/Distrigas-Fulfill-Multiple-LNG-Contracts-Gas-Utilities#.VVEAf5NcA7o>

Massachusetts Should Not Pick Winners and Losers

While new investment is just now beginning to reenter the Commonwealth, NEPGA has very serious concerns with initiatives that could undermine both the billions of dollars of new infrastructure development as well as the investments that have already been made. NEPGA has long raised the many costly issues presented by proposals to subsidize provincially-owned large-scale hydropower and using electric utility rates to finance new natural gas pipelines. These proposals represent the “bad old days” of guaranteed cost-recovery and profits for utilities while harming companies that have and continue to invest in Massachusetts without sweetheart deals for profit guarantees.

Provincially-Owned Hydropower

NEPGA has been very active recently before this Committee as efforts have been made to provide special carve-outs for provincially-owned hydropower. The most recent iteration is through a utility-led initiative for a “Clean Energy RFP.”⁷ In this example, utilities would attempt to circumvent the legislature by only contracting for the transmission component, rather than the energy or capacity of provincially-owned hydropower. Such an effort bypasses the clear restrictions put in place by the Massachusetts legislature on preventing onerous long-term contracts from exceeding an explicit threshold and would appear to be directed at benefiting utility-affiliated projects such as Northern Pass (Eversource), the Green Line (National Grid) and Northeast Energy Link (National Grid). As stated in NEPGA’s comments submitted on the Draft RFP:

These concerns are raised from a legal/implementation perspective⁸ and also from a more fundamental policy perspective regarding the wisdom of subsidizing large-scale, provincially-owned resources that inadvertently harm more economically sound projects developed without any state subsidy. In considering last year’s proposed legislation in Massachusetts – supported by both Eversource and National Grid – NEPGA commissioned an independent analysis of the cost impact of subsidizing the type of large-scale, provincially-owned hydropower contemplated in the Draft RFP. Dr. Susan Tierney of the Analysis Group found that the cost of the transmission alone would be \$1

⁷ www.cleanenergyrfp.com

⁸ Questions to be addressed include what statutory provisions are the individual states relying upon as the rationale for allowing the EDCs to procure transmission projects? In the case of transmission projects being bid as part of a package bid with hydropower resources, can Massachusetts and Rhode Island EDCs even entertain these types of bids since they acknowledge they do not have the statutory authority to procure hydropower resources? What type of approvals would be necessary to move forward with a successful bid for a transmission projects including what role would FERC have in approving such projects? And how does the cost recovery work for these types of projects – how would the rate-regulated EDCs recover costs for these projects when it is not clear they have the statutory authority to solicit these projects. These are not simple questions and must be addressed before the Soliciting Parties can seek to procure transmission projects.

billion. Dr. Tierney stated that the procurement “is destined to have negative cost and other unintended consequences for Massachusetts consumers and the state’s economy.”⁹

NEPGA continues to oppose the types of subsidies contemplated in the Draft RFP as well as those previously considered by the Committee. Such efforts create a cornered market for a particular subset of projects that lead to increased costs for consumers.

Natural Gas Pipeline Financing

NEPGA looks forward to participating in the newly-opened investigation at the Department of Public Utilities (DPU) to examine whether it can and should use existing statutory authority to use electric distribution company rates to finance new natural gas pipelines (D.P.U. 15-37). At the outset, NEPGA has several concerns with this proposed approach. As with any decision to endorse a specific technology with ratepayer financing there are concerns about over-building the system and unintended consequences that may result. New England is full of examples where picking winners and losers through a long-term financing arrangement has led to higher costs when certain market fundamentals shifts were not predicted. Further, by underwriting the delivery of additional natural gas, electric consumers will be subsidizing natural gas pipelines in the region to the detriment of technology sources that may be otherwise economic, and thereby undercutting the highly competitive marketplace. Financing natural gas expansion also creates a bias toward gas-fired generation resources, particularly those located near the targeted pipeline for expansion.

There are also very real questions with respect to whether the DPU has the existing authority to allow such financing through electric distribution company rates. This appears to be a prime focus of the investigation and NEPGA encourages the Committee to carefully monitor this question in addition to the broader policy matters.

Conclusion

Massachusetts is in the midst of an energy transition. Substantial investments are being made today to support competitively-priced power supplies, meet aggressive environmental mandates and ensure bulk power grid reliability for consumers. These investments stand to provide substantial benefits to not only consumers but host communities through construction jobs, permanent employment, substantial tax revenues and broader community investments. NEPGA’s members are proud to be active participants in their communities and look forward to continuing to drive solutions to meet consumer needs and economic development in Massachusetts.

⁹ NEPGA Comments on Clean Energy RFP Draft, March 27, 2015
<https://cleanenergyrfpdotcom.files.wordpress.com/2015/03/nepga.pdf>