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## 2007 Annual Report

### Challenges & Growth

Another year has passed, and NEPGA continues to grow – in membership, in staff, and in capabilities – so that we are well-positioned to address the many challenges before us and shape the future of the region’s energy policy. 2007 presented a number of challenges to the organization, and from each one, we have learned something and grown in our ability to defend and promote competitive wholesale electricity markets and to communicate the value that the competitive electricity generation industry provides for the economic vitality of the region.

#### **Expanding the Organization’s Structure and Capabilities**

Following the untimely death early in 2007 of John Farr, our friend and the Association’s Technical Director we secured the services of Tom Kaslow of Sigma Consultants to provide valuable support to our members at the NEPOOL Technical Committees. Tom continues to provide a very high level of expertise and professionalism in evaluating complex issues and communicating and advocating on behalf of the competitive generation sector.

In August, we announced two major additions that significantly enhanced our in-house and external legal capabilities. Chris Sherman, formerly with Mirant, joined NEPGA as General Counsel, and has been extremely productive. Chris has added focus to our process for evaluating state and federal regulatory proceedings, and has been instrumental in preparing comments on some of the most pressing issues facing the region. At the same time, we engaged John Estes and Paul Wight from Skadden Arps as NEPGA’s counsel and Washington advisors. Skadden is widely regarded as one of the finest firms in the energy arena, and brings a great level of experience and expertise to support NEPGA’s involvement in federal regulatory and policy matters.

As we head into 2008, we are planning to bring on part-time administrative staff to improve our overall efficiency and allow Angie and Chris to focus more fully on the substantive goals of the organization.

#### **Solidifying a Unified Voice for the Competitive Generation Industry**

NEPGA’s membership continued to grow, so that as we head into 2008, we have sixteen member companies representing nearly 24,000 MW of generation capability in New England, over 75% of the region’s installed capability. This membership base gives NEPGA an

unquestionable position and influence in all matters that impact the industry, and a tremendous responsibility to engage in the many state, regional and federal processes for mapping out the future of energy, environmental and economic policy.

With the growth in membership, the organization has had to redouble efforts to ensure a full and open internal vetting of all issues and viewpoints prior to establishing an official Association position. The Board of Directors, with the assistance of Angie and Chris, has grappled with some of the most difficult and potentially divisive issues for the industry, and has forged strong consensus positions that have enabled the Association to provide reasoned and effective guidance to the region's policy-makers. This ability to speak with one voice is the Association's greatest strength, and is the foundation of the value that the Association provides to its members and to the industry. A unified merchant generator voice is persuasive at FERC and in the various state and regional forums where energy policy is debated and decided, and is vital to advancing our collective interests in open competitive wholesale markets.

### **Pressures on Competitive Markets**

At the same time that the Association has been growing, the challenges facing the industry continue to mount. The regulatory environment for merchant generators continues to be challenging, with high fossil fuel prices translating to high electricity prices, which further translates to political pressure on policy makers to "do something." Unlike some areas of the country, however, most of the discussion in New England, at least since the release of ISO New England's Scenario Analysis report this fall, has centered around tangible steps states or utilities might implement to take more control of the cost or the environmental characteristics of their energy supply, rather than efforts to fundamentally retreat from competitive wholesale markets. To be sure, these efforts still represent challenges, and ultimately threats to a vibrant independent power sector. NEPGA has, and will continue to, vigorously promote the use of open competitive processes, with appropriate risk allocation, in any state or regional proceedings that seek to determine what types of energy infrastructure are built, and by whom. NEPGA has been largely successful in keeping states from granting sole-source rate-base contracts to utilities for new generation, but we will need to be vigilant, especially in the context of the desire for new baseload capacity additions and major transmission upgrades to access remote renewable energy sources or Canadian hydro power.

### **Carbon Will Redefine the Industry**

Amidst all of the talk among policy-makers and in the popular media regarding what needs to be done to address climate change, it is often overlooked that we have not yet seen the effects of actions already taken to place a price on carbon emissions – the first auctions of allowances under the Regional Greenhouse Gas Initiative are scheduled to take place as early as 2008. Only at that time will we begin to see how the industry and the electricity-consuming public will adapt to this new economic pressure. NEPGA has been able, through the diligent efforts of Chris Sherman and the member companies, to assemble meaningful analysis of the various state and regional allowance auction proposals, and to present comments in these forums regarding the need for consistency with market principles and consistency of the allowance product over as wide a geographic region, and as wide a segment of the economy, as possible.

NEPGA will continue to advocate for open discussion of the effects of RGGI and other environmental policies on the overall economic health of the region. Policies driven by public concern over carbon emissions will fundamentally alter the electricity industry, and NEPGA will remain engaged to ensure that competitive principles and the region's economic vitality are factors in charting a course for a cleaner environment.

### **2007 Saw Many Accomplishments**

The past year has been a gratifying one, to see the Association grow in size, capability and stature. Among the highlights for 2007, NEPGA hosted FERC Commissioner Marc Spitzer on his visit to Boston in January. NEPGA played a major role in achieving the success of composite bidding of seasonal resources for the first Forward Capacity Auction. NEPGA led the fight to strip a utility rate-base generation provision out of legislation in Connecticut, succeeded in substantially narrowing the provision that finally passed; and provided comments in the ensuing DPUC docket regarding protecting consumers from cost and schedule risk. NEPGA successfully prevented an assessment on generators proposed in Massachusetts that would have set a bad precedent not only in Massachusetts but in other New England states. Additionally, NEPGA provided testimony and comments that resulted in the failure of a state agency initiative in Massachusetts that would have disallowed the existing exemption that enables generators and others to avoid sales and use taxes on equipment installed for the production of electricity. NEPGA is sponsoring Bob Stein to represent the New England Power Pool as one of the chairs of the group considering the interaction of generator interconnection policy with the Forward Capacity Market, a critical issue for our members as they consider new development projects.

While the Association has accomplished a great deal in 2007, we will continue to face challenges in 2008. Building upon the solid foundation of the last two years, NEPGA can meet those challenges with the continued support of the membership.

Very truly yours,

A handwritten signature in black ink, appearing to read "Peter W. Fuller". The signature is fluid and cursive, with a long horizontal stroke at the end.

Peter W. Fuller  
Chairman

Angela O'Connor  
President