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**TESTIMONY  
OF  
SANDI HENNEQUIN  
  
ON BEHALF OF  
  
NEW ENGLAND POWER GENERATORS ASSOCIATION, INC. (NEPGA)**

**2010 – House Bill 5508**

**CONNECTICUT GENERAL ASSEMBLY  
COMMITTEE ON ENERGY AND TECHNOLOGY**

**March 16, 2010**



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Good afternoon and thank you for the opportunity to testify. My name is Sandi Hennequin and I am the Vice President of the New England Power Generators Association, Inc. (“NEPGA”). NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA’s member companies represent approximately 28,000 megawatts (MW) – or nearly 80 percent – of generating capacity throughout New England, and over 7,500 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. NEPGA’s mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

### **NEPGA’s Position**

NEPGA opposes HB 5508, specifically Section 4 which would allow the newly formed Division of Electricity Policy and Procurement to own and operate electric power plants and require electricity generated through these plants to be sold through the state’s electric distribution companies or the Connecticut Municipal Electric Energy Cooperative. Similar to the proposal to form a power authority, there is no guarantee of lower costs through a state agency owning electric generation facilities. Instead this transfer of responsibility from the private sector with the resources and expertise to manage these resources to a government agency is an unacceptable transfer of operational, financial and reliability risks. When this policy direction has been taken in other jurisdictions, the unfortunate outcome has too often been higher costs for consumers.

### **The State Owning Generation Resources is an Unacceptable Risk**

Connecticut’s electric industry is not immune from the challenges facing the overall industry – how to cost-effectively address infrastructure needs and ensure reliability and

environmental compliance, while dealing with rising prices of power plant construction and the uncertainty of federal regulatory changes. Establishing a new state agency department with the responsibility for owning, operating and managing generation resources may represent to some a possible tool to handle these challenges, but it is in fact an unnecessary tool which poses unacceptable risks for consumers. There are financial risks involved when developing power plants and managing energy contracts. For a government agency to take on this type of risk in the current economic environment when the state itself – like most other states – is struggling to cover estimated budgetary shortfalls does not serve consumers' interests well.

By establishing state control of generating resources, policy-makers will shift the many risks associated with power plants – operational, reliability and financial – from the private industry and its shareholders onto the backs of consumers. The private industry has a depth of resources to address the challenges of owning, operating and developing generation resources including portfolio management, regulatory strategy, risk management, environmental concerns, long-term contracting questions and the risks associated with direct ownership of generation assets. It is questionable whether government with limited resources and depth of expertise can improve upon the private sector's approach, and it unquestionably saddles consumers with significant price risks in an already uncertain economic climate.

Putting the government in charge of owning and operating generating resources will not guarantee greater reliability or lower costs for consumers. Consider a few examples:

- A 1999 U.S. Government Accounting Office (“GAO”) study, *Federal Power: Implications of Reduced Maintenance and Repair of Federal Hydroelectric Plants* noted that hydro plants run by the Army Corps of Engineers and the Bureau of Reclamation were generally less reliable in generating electricity, could not always obtain funding for maintenance and repairs, and often postponed necessary maintenance, all leading to frequent, extended outages and inconsistent plant performance.

- California implemented a state-imposed rate freeze and when the wholesale electricity prices rose above this administrative level, the state stepped in through the California Department of Water Resources (“DWR”) to purchase electricity for 27 million people and entered into 56 long-term agreements for power at peak rates at a cost of \$42 Billion over 12 years. California residents were saddled with the above-market rates for nearly a decade, with the DWR spending considerable taxpayer resources and money to renegotiate 34 of the 56 contracts.

A government agency has much more limited resources and lacks the depth of expertise to own, operate and manage generation resources. The policy choice to allow the state government to take on this role is fraught with unacceptable risks for consumers, does not guarantee lower costs, and should not be considered an answer to economic or energy policy challenges. Rather, these challenges are better met creating a business climate that guarantees sound and prudent investment through a consistent regulatory and legislative environment, with competition as the appropriate mechanism to ensure the most reasonable costs for obtaining necessary energy resources.

## **Conclusion**

NEPGA strongly encourages legislators to not pass HB 5508. In the current environment when the state has concerns on how to meet projected budgetary shortfalls, the rationale for spending resources and consumers’ money to create a new state agency department with an Executive Director and up to three staff members is not entirely clear. Even if the rationale were clear and sound, putting that state agency in the business of owning, operating and managing generation resources will not deliver lower costs. Instead it will unacceptably transfer operational, financial and reliability risks from the private sector with the resources and expertise to handle these risks to the government with its ever decreasing resources and lack of expertise to acceptably manage these risks. As evidenced by the examples of federally-owned hydro facilities and the California DWR, even the most well-intentioned steps to use government to

operate or manage generation resources is too risky, with the end result being more costs to be borne by consumers already struggling in an uncertain economic climate.

Thank you for the opportunity to testify before you today. I would be happy to answer any questions from the Committee.