



141 Tremont St., Boston, MA 02111

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

www.nepga.org

2008 Annual Report “Electric Power Generators Working for New England”

2008 was once again a year for growth and increased exposure for the New England Power Generators Association, Inc. (NEPGA). Beginning the year with the organization’s largest membership since its inception, NEPGA was tasked to continue providing a cohesive voice for merchant generation within New England by sixteen member companies representing 77% of the regions installed capacity.

Maintaining a Focused Association

To achieve the goals established by the membership for 2008, NEPGA’s President Angie O’Connor and General Counsel Chris Sherman each focused their efforts on areas of considerable activity and importance to the association. These efforts included continuing to forge new relationships with critical policy makers, state and federal regulators, and ISO-NE in order to effectively promote organized markets and the merchant model. To that end, NEPGA provided testimony and a strong credible presence in the region’s state capitals which was supported by numerous filings in state and federal regulatory proceedings. Efforts to increase the visibility and heighten the profile of the organization were successful with NEPGA sponsoring a number of forums and conferences to advance the message of wholesale competition and the benefits of the competitive marketplace. Sponsorships included the high-profile luncheon with FERC Chairman Joseph Kelliher at the annual ISO-NE symposium with over 500 attendees.

Recognizing the value of increasing NEPGA’s capabilities and efficiencies, Steve Zuretti was hired full-time in August as an Associate. In addition to running the day-to-day office operations, Steve streamlined and formalized the monthly, midyear, and annual financial reports. Steve took over the task of maintaining and updating the NEPGA website and the development of the members-only section to provide valuable and timely information to all NEPGA members. Additionally, Steve worked closely with Chris Sherman to further develop the government affairs and legislative report designed to keep the membership informed on relevant legislative and regulatory updates. Chris and Steve expanded the Association’s involvement with legislative and regulatory affairs by holding bi-weekly calls to review current issues and further engage the membership.

Entering 2009, NEPGA’s staff will be a key resource to disseminate important information that impacts the membership and ensures that the independent generator industry is appropriately represented throughout New England.

Membership

With sixteen members, the association represents 25,960 MW of capacity (77%) of New England's generation capacity with a diverse portfolio of assets and fuel types. NEPGA plays a key role in discussions with policy makers on a local, regional, and federal level with considerable input that will contribute to furthering the goals and objectives of the association. Even in a challenging regulatory environment and difficult financial circumstances, and in light of different corporate strategies, the underlying message of the association – sustainable competitive wholesale electric markets as the best means to provide long-term reliable and affordable supplies of electricity for consumers – unites the members of NEPGA and provides a focus to maintain the critical unified generator voice needed to influence policies today and into the future. It will be incumbent upon the membership to work diligently with one another to maintain one voice for all New England generators.

Industry Challenges

NEPGA's greatest challenge in 2008 continued to be working with industry stakeholders and ISO-NE to assess the newly implemented forward capacity market (FCM), in a very difficult and volatile political climate. To that end, NEPGA retained John Estes and Paul Wight of Skadden Arps, the association's Washington counsel and advisors, to represent the association in the proceeding dealing with ISO's denial of requests to de-list units from the capacity market. The results of that proceeding provided no near-term relief, but set the foundation for necessary reforms to the FCM.

With concerns mounting regarding the existing flaws within the forward capacity market and uncertainty about the future state of FCM, the association held two separate sessions to foster discussion within the membership and brainstorm appropriate strategies and desirable outcomes. Moving forward to 2009, working toward changes to the FCM will be crucial to maintaining a functioning competitive market in New England.

During 2008, regulatory uncertainty was also a major obstacle for generators in our efforts to maintain wholesale competition. Most notably, the Connecticut Department of Public Utilities (DPUC) took the issue of Installed Capacity Requirement (ICR) jurisdiction to the D.C Circuit Court of Appeals. The DPUC had argued against FERC's assertion of authority over the installed capacity requirements in the region. NEPGA participated directly in this case, supporting the proposition that FERC appropriately has jurisdiction over requirements in the wholesale markets. A decision on this matter is pending and is expected during 2009.

Traditional regulatory hurdles of price distortion and environmental compliance were a bigger challenge than ever in 2008. Despite the reality that operating costs for many generators had reached historically high levels due to unprecedented fuel costs, pressure remained from state regulators to suppress prices and ultimately keep electricity bills low. On the environmental front, many New England states passed legislation regarding Renewable Portfolio Standards and energy efficiency programs. Most notably,

Massachusetts passed the first major energy bill since restructuring: *An Act Relative to Green Communities*, as well as the *Global Warming Solutions Act* during the summer of 2008. Additionally, the Regional Greenhouse Gas Initiative (RGGI) was officially implemented by 10 Northeast states, including all of New England. The first two auctions of the cap-and-trade program were held during the year, which officially marked a new era for the industry.

Notable Accomplishments

Although the past year had its challenges, 2008 was not without its accomplishments. Legislatively, NEPGA was more involved than ever before. The association tracked and advocated for changes to legislation in many of the New England states. NEPGA was at the forefront in successfully advocating for the removal of language within *An Act Relative to Green Communities* that would have limited fuel diversity and new infrastructure development in Massachusetts. NEPGA also provided testimony that included constructive and substantive comments on a wide range of issues in many of the represented states, expanding the active participation of the organization. In New Hampshire, NEPGA was appointed to a seat on a commission analyzing the development of transmission in the northern part of the state, a testament to the credibility and value of the organization to policy makers.

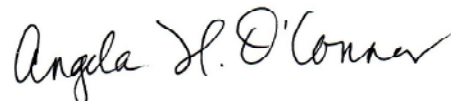
Through the association's efforts, the regional reliability challenges caused by the quality of natural gas occasionally flowing into the region were brought to light. NEPGA's efforts resulted in a technical session ordered by FERC where the association provided testimony that furthered the association's desire to work toward better communication between the gas and the electric industry. While the work is far from over in improvements of coordination and communication between the two industries, NEPGA is well positioned and recognized as a facilitator in these important efforts.

2009 will bring new challenges for New England generators, and politics will continue to be problematic in the development of sound energy policy. However, with members' continued support NEPGA will be better situated than ever to play an important role in discussions with policy makers, as well as increase its participation in RTO and state proceedings. NEPGA is properly positioned to maintain the voice of the independent generators of New England and the benefits of the competitive marketplace in the year to come.

Very truly yours,



Peter D. Fuller
Chairman



Angela M. O'Connor
President