

**TESTIMONY
CONNECTICUT GENERAL ASSEMBLY
ENERGY AND TECHNOLOGY COMMITTEE
FOR FEBRUARY 24, 2009**

**Testimony of
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**Connecticut General Assembly
Committee on Energy and Technology
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1 My name is Christopher Sherman and I'm the general counsel of the New
2 England Power Generators Association. NEPGA is the largest trade association
3 representing competitive electric generating companies in New England. NEPGA's
4 member companies represent approximately 26,000 megawatts of generating capacity
5 throughout New England, and over 7,000 megawatts of generating capacity in
6 Connecticut, representing the vast majority of electric generating capacity in Connecticut.
7 NEPGA's mission is to promote sound energy policies which will further economic
8 development, jobs, and balanced environmental policy.

Raised Bill No. 6514
An Act Concerning Lowering Consumer Electric Costs and Supporting Energy Efficiency

1 NEPGA is opposed to the “windfall profits tax” provision contained in Raised
2 Bill No. 6514. Dramatically increasing energy costs are a matter of genuine public
3 concern, and we recognize that Connecticut experiences some of the highest energy costs
4 in the nation. However, the challenge is to address these cost issues without eroding the
5 benefits of recent technological innovations or compromising our economic viability.
6 Raised Bill No. 6514 chills future economic and energy resource development and
7 penalizes the generation community for factors beyond our control.

8 Creating an investment climate for infrastructure expansion and innovation is the
9 fundamental catalyst behind meeting our diverse energy goals. From 1999 to 2003, as a
10 result of competitive market signals for cleaner energy facilities, the competitive market
11 has delivered 10,000 megawatts of privately financed energy facilities that have
12 decreased carbon dioxide emissions by 7.5%, nitrogen oxide emissions by 44%, and
13 sulfur dioxide emissions by 65%. And since electricity restructuring power plant
14 availability has increased from 81 to 89 percent.

15 What is concerning about Raised Bill No. 6514 is the lack of consideration given
16 to the economic climate that has led to increased consumer costs. Significant cost
17 increases from fuel, construction materials, labor and uncertainty over federal climate
18 legislation have created a rising cost paradigm in electricity where the current market
19 rates are the “new normal.” These rate increases are being seen all over the country
20 regardless of a state’s competitive structure. In such an environment, a competitive
21 system in which a company has increased incentives to hold down costs is the one that

1 will derive the largest benefit for consumers. Despite our best efforts to maintain costs,
2 the power industry has struggled under the same cost pressures as the remainder of the
3 economy.

- Cambridge Energy Research Associates (CERA) found that power plant costs have increased 130% from 2000 to 2007, 27% in 2007 alone and 19% in the last six months of 2007. A power plant that would've cost \$1 billion in 2000 would have cost \$2.31 billion in 2007. (Found in Power Capital Costs Index released Feb. 14, 2008)
- From 2002 to 2006 price of steel nearly tripled - \$222/ton - \$600/ton (Congressional Research Service, "Steel: Price and Policy Issues," Aug. 31, 2006, p. 20)
- The price of cement and crushed stone, both of which are used in large quantities in electricity infrastructure projects, rose by 30 percent between 2004 and 2006. (The Brattle Group, "Rising Utility Construction Costs: Sources and Impacts," Sept. 2007, p. 13)

4 Clearly the answer is not to penalize one sector of the economy in hopes of
5 benefiting another, but to work together to spur innovation that ultimately leads to cost
6 savings. But recognize that technology does not merely change because government
7 regulations have changed. Rather, it is private industry that analyzes the investment
8 climate for new resources that is created by consumer demand, and consumer demand
9 will only be adversely impacted by the cost increases created by additional taxes.

Raised Bill No. 6510
An Act Establishing a Public Power Authority

1 NEPGA encourages legislation that promotes energy efficiency, the development
2 and deployment of new technologies, and promoting energy sustainability. We further
3 support efforts to streamline these activities under the umbrella of one authority, as this
4 maximizes fiscal responsibility and efficient resource management.

5 However, NEPGA is stridently opposed to the creation of a state authority to
6 finance, build, and operate electric generating facilities. The public policy behind
7 competitive procurement of power supplies financed with private capital is implicitly
8 sensible in that it drives innovation and efficiency in the power sector, more accurately
9 reflects the underlying value of electrical production, including environmental
10 externalities, and encourages the development of new energy infrastructure and necessary
11 environmental improvements to existing energy infrastructure without subjecting
12 taxpayers and ratepayers to the risk of stranded costs or cost overruns. The efficient
13 energy infrastructure improvements procured through the competitive market have led to
14 a decrease in fuel-adjusted electricity prices in New England of approximately 7% from
15 2000 to 2006, and an increase in generator availability and efficiency.

16 New England's wholesale electricity market is a well-established, yet evolving
17 marketplace that works effectively to value all products offered into the markets.
18 NEPGA's member companies have been involved in the design and development of all of
19 the competitive wholesale markets in New England over the past several years.
20 We are confident that Connecticut can continue to incent private investment in new
21 energy infrastructure technology to accelerate the benefits that improve the environment,
22 while maintaining adequate electrical supply. However, these infrastructure

1 enhancements are contingent upon a business climate that guarantees sound and prudent
2 investments through a consistent regulatory and legislative environment. Competition is
3 the most appropriate mechanism to ensure the most reasonable costs for obtaining
4 resources.

5 *Again*, NEPGA opposes the concept of a state power authority to finance, build,
6 and operate electric generating facilities because it is contrary to the competitive market
7 principles that have been successfully employed in New England's electricity markets to
8 provide the incentive for new technologies without relying on investments that are
9 financially backed by taxpayers or ratepayers.