Before the

Massachusetts Joint Committee on

Telecommunications, Utilities and Energy

September 29, 2015

Testimony of Daniel W. Allegretti

On Behalf of Exelon Corporation

In Opposition to

Senate Bill 1965

Introduction

Exelon Corporation is a Fortune 200 diversified energy company headquartered in Chicago, Illinois. In Massachusetts we own and operate over 2,100 megawatts of electric generation, employ 150 people and pay millions of dollars annually in state and local taxes. Through our Constellation brand we serve tens of thousands of customers across the Commonwealth. Exelon opposes Senate Bill 1965 because of the serious negative impact it will have upon our business here in Massachusetts if it is enacted.

Closing off Our Market

In Massachusetts there are no more investor-owned electric utility monopolies. To sell the power output from our Massachusetts fleet of plants Exelon must earn the business of customers in one of two ways.

First, Exelon can submit a price offer each day into a New England-wide wholesale power market administered by the ISO – New England. The ISO selects the electricity offers from the combination of plants that each hour will enable the system-wide demand to be met at the lowest cost. If enough competing offers come in below the offers from Exelon then our plants will not be selected to run and we earn no energy revenue in this market.

Second, Exelon can sell power directly to retail businesses and residents in Massachusetts by signing them up individually. This too is a highly competitive market in which our offers must constantly be more attractive than our competitors for each new sale. Even when we do sign customers up we must continually work to renew our retail customer business from year to year as retail contract commitments expire.

What Senate Bill 1965 would do is remove roughly a third of the Massachusetts market for electricity for a period of 15 to 25 years and hand that sale of power to a combination of small renewable energy sources and imports of large-scale hydropower from Canadian government utilities. Unlike Exelon and other Massachusetts generation companies, these sellers will not have to come in below the competition and earn their power sales day to day and year to year. Instead, Massachusetts customers will be forced to pay for these power supplies over the 15 to 25 year term even when clean, reliable energy is available from companies like Exelon at a lower cost from existing resources within the state and the region.

This approach differs significantly from the current Section 1983 contracting authority in several important respects. First, section 1983 represents a small share of the market, on the order of 3 to 5 percent, unlike Senate Bill 1965 whose 18.9 million megawatthours annually represents over a third of the annual electric consumption within Massachusetts. Contracting for this much electricity is certain to drive existing supply out of the market, leading to the retirement of generation that could have remained in service providing lower cost power and contributing to the state and regional economy. Second, unlike section 1983 Senate Bill 1965 does not focus on supporting the new construction within the region from emerging technologies. Rather, it would support some of the largest power producers in Canada, selling power from existing plants using conventional hydroelectric technology. Such power producers can and should be made to compete with Exelon and other Massachusetts generation companies on the same terms and under the same rules and should not be carved out to benefit from locking up sales under long term contracts for which our facilities are deemed ineligible.

Diminishing Reliability

Power plants in New England are paid for the energy they produce but are also paid for Capacity, a commitment to produce power when it is needed. The Capacity Supply Obligations that plants across New England must assume under new federal regulations are without exceptions. There are no excuses if a plant fails to perform the hourly penalties imposed for non-performance are very severe. They can be as much as or even more than 100 times the normal cost of energy. By contrast, the hydropower purchases under Senate Bill 1965 are subject to broad exceptions. This has serious implications for electric system reliability. If resources within Massachusetts or New England are forced to retire because they are displaced by long term purchases from Canada then we as a region will become dependent upon something else to replace their Capacity Supply Obligation. Because the hydropower imports will have a less stringent supply obligation they can not themselves replace in-region resources without there being a loss of reliability. The simple solution to this is to require all power generation to sell into the same energy and Capacity markets and to meet the same requirements.

A Better Way

Fifteen to Twenty Five years is a very long time. Predicting changes in technology, changes in gas prices or changes in customer behavior over such a time span is an impossible exercise. What may look like a smart idea in 2015 will look quite different in 2020 or 2025. Massachusetts has moved away from holding electric customers captive to long term power plant commitments and investments by separating power production from delivery and by leaving those investment decisions to investors rather than planners. In this way consumers benefit from always buying power from the lowest cost combination or resources available and uneconomic investments become investor write-offs rather than customer rate increases. Senate Bill 1965 represents a step backwards in this regard, exposing customers for years to come to a set of investment risks you are considering imposing upon them today.

If the imperative is a reduction in air emissions then Massachusetts should pursue its environmental goals in an efficient and unbiased manner. Market-based approaches to carbon reduction such as modifications to the Regional Greenhouse Gas Initiative or the creation of a Clean Energy Standard would allow power producers to compete against one another on both price and on emissions. This kind of competition leads to emissions improvements at the lowest possible cost and allows in-state and in-region resources to compete directly with Canadian hydropower utilities.

For these reasons Exelon urges the committee to reject Senate Bill 1965.