TESTIMONY OF GENER GOTIANGCO

BEFORE THE HOUSE ENERGY & TECHNOLOGY COMMITTEE

DECEMBER 20, 2007

Good morning Mr. Chairman and members of the Committee my name is Gener Gotiangco I am a Vice President of Competitive Power Ventures. Competitive Power Ventures manages the power plant owned by New Covert Generating Company near Benton Harbor, Michigan. The New Covert power plant is a 1,200 megawatt combined-cycle natural gas-fueled power plant constructed in 2003 to serve the competitive market for electricity, both wholesale and retail, in the state of Michigan. The New Covert plant is one of the newest, largest, cleanest, and most fuel efficient power plants in the state. It has nearly 1½ times the generating capacity of our neighbor, the Palisades nuclear power plant.

My testimony today is in opposition to HB 5520-5524. It is the conclusion of New Covert Generating that the legislation proposed has the potential to cause a *reduction* of the state's effective generating capacity rather than the intended increase in capacity.

Even before the New Covert plant was completed in 2003, the price of natural gas, driven by huge demand for this clean burning fuel, rose dramatically to near record levels. As a result the plant has not been called upon to produce electricity in the quantities envisioned by the original developers. All that may be about to change. A new utility-scale base-load power plant can easily cost $2 billion these days As Michigan's old power plants are retired, as they must inevitably be, and are replaced with the newest generation of power plants, we are looking

forward to the day in the not too distant future that the New Covert power plant will be one of the more economical electric generating facilities in the state. .

Unfortunately, the New Covert generating station is now in the double bind of finding itself legally precluded from most of the market for wholesale electric energy and facing the threat of being shut legally shut out of the retail electric energy market as well.

We have endeavored without success to negotiate contracts with Michigan utilities to sell our output on a long term basis because we believe they share our view that efficient natural gas-fired power plants are an essential part of a generating portfolio. This belief has been borne out by Consumers Energy's recent agreement to acquire the 900 megawatt natural gas-fueled Zeeland generating station.

Unfortunately, New Covert Generating Company's efforts to sell wholesale power have been frustrated by the utility rate-making system used in Michigan, which compensates utilities exclusively on the basis of how much capital investment they make in assets like power plants, and provides them no compensation for merely purchasing and reselling electricity to their customers. Therefore, New Covert believes that when we seek to sell Michigan utilities our electricity on a long-term basis our proposals are rejected out of hand in large part because Michigan's utility rate-making system has introduced this strong bias against utility purchases of electricity no matter how inexpensive and in favor of building new power plants at almost any price.

Because investor-owned electric utilities in Michigan represent more than 80 % of the entire retail market for electricity, New Covert Generating Company is foreclosed from 80% of the wholesale market for electricity as a result of this regulatory policy.

To make matters worse, this Committee is now considering a recommendation to effectively repeal Public Act 141 of 2000, the act which brought the developers of the New Covert Generating Company to Michigan in the first place. House Bill 5524 will make it illegal for New Covert Generating to sell electricity to almost all of the state's residential, business and industrial electric consumers.

If New Covert's generating station is finally forbidden access to both the both the wholesale and the retail markets for electricity, the only product it produces, the net effect is quite the opposite of what I believe this Committee would like to accomplish. This package of bills has the potential to effectively subtract the already constructed 1200 MW of generating capacity that New Covert represents from the generating capacity available to Michigan consumers. Rather than fostering the construction of new power plants as PA 141 did, this package will serve to isolate independent power plants from electric consumers and aggravate future shortages of electricity.

The loss of 1,200 megawatts of generating capacity is not merely academic or theoretical. What most people do not realize is that independent power producers have some ability to choose into which regional market they will provide their power. If a plant like New Covert is rendered financially unable to make a profit in Michigan it may contractually leave the state by dedicating its capacity to out of state markets.

We are asking the Committee to preserve open markets for retail electricity in Michigan, and beyond that to take the necessary steps to open the wholesale electric market to independent power producers. House Bill 4630 provides the means to accomplish that, and we endorse House Bill 4630 and oppose the package of House Bills including HB 5520 through HB 5524.

Thank you.