ENERGY AND TECHNOLOGY COMMITTEE

HOUSE BILL NO. 5817: AAC RESOURCE RECOVERY FACILITIES

MARCH 7, 2008

TESTIMONY OF THE

DEPARTMENT OF PUBLIC UTILITY CONTROL

VICE CHAIRMAN JOHN W. BETKOSKI

This proposal primarily establishes regulatory control by the Department of Public Utility Control (department or DPUC) over owners/operators of resource recovery facilities. The DPUC recognizes the fact that our state's trash-to-energy facilities serve an important and beneficial role in helping our state manage its disposal of solid waste and also serve to generate a significant amount of electricity from renewable energy resources. However, while the Department does not object per se to its regulatory oversight of these entities, it is concerned with its ability to accomplish what is intended by this legislative proposal. More specifically, the legislation contemplates that:

- ✓ Long-term contracts with CRRA facilities will be negotiated to achieve a price per kWh that is lower than the price per kWh being paid by CL&P and UI to procure Standard Service generation;

- ✓ then, to assign this below market generation to low income and senior citizens to reduce their electric bills.

By way of historical background the Department represents that prior to recent change in federal law eliminating relevant PURPA provisions and during which time our current competitive wholesale electric market did not exist the electric companies had an obligation to purchase the electric power output from resource recovery companies since they were the only entities with whom the resource recovery facilities could enter into a contract. Some of those contracts are still in place, albeit soon to expire for example:

United Illuminating

UI has a Purchase Power Agreement (PPA) with the Bridgeport Resource Recovery Facility (BRESCO), a 60 MW facility, which expires December 31, 2008. UI's contract calls for a purchase price of 8¢/kWh. However, the base price is subject to upward adjustment based on the price of natural gas. Because natural gas prices have exceeded the contract minimums over the past few years, UI has paid in excess of the base contract price. As a result, UI has paid BRSCO approximately 9-10¢/kWh for the energy produced from this generator over the last few years.

At the start of restructuring it was decided that the energy purchased under PPAs would not be used to serve UI's or CL&P's load. Instead, this power would be sold into the market and any net over/under revenue recovery would be flowed through the Competitive Transition Adjustment (CTA) charge.

The Connecticut Light and Power Company

The current PPAs that CL&P has with resource recovery facilities will expire between 2009 and 2013. The following table shows the average price that CL&P pays under these PPAs. These are not exact prices, but represent an average of the cost paid to these facilities. Based on recent and current Generation Service Charge rates, the table shows that the Bristol and Mid-CT facilities cost less that Standard Service generation while the cost for the remaining PPAs is equal to or greater than that price.

	Bristol ¢/kWh	Mid-CT ¢/kWh	SCRRRA ¢/kWh	Wallingford ¢/kWh	Lisbon ¢/kWh
2009	8.783	3.300	19.880	15.940	11.045
2010	8.783	3.300	21.020		11.226
2011	8.776	3.300	22.220		11.406
2012	8.747	3.300	23.700		11.600
2013	8.728		24.990		11.793

As noted above, the energy from these facilities is sold into the market and the net gain or loss is flowed through the CTA.

Comment

The Department understands the desire to reduce electric costs for Connecticut's more vulnerable citizens. However, there is no assurance that we can negotiate a long-term PPA with these facilities that will guarantee contract prices will remain below market rates. In today's competitive market however, with the broad array of potential contracting parties, the DPUC believes that it will be difficult to capture any rate reductions when these entities can turn to the market for a better deal. Moreover, to the extent wholesale prices decline over time these contracts will become more expensive to subsidize and less reasonable to the average ratepayer.

Further, the legislative proposal appears to reflect a return to cost-based regulation for these generators, a strategy that is contrary to a free market structure for generation. Finally, all ratepayers have funded these PPAs over the last 20-25 years, in many cases paying over market costs to support these facilities. It would be unreasonable therefore to negotiate below market contract pricing for the benefit of a limited segment of the customer base. Especially, with the elimination of relevant PURPA restrictions these trash to energy facilities now have legitimate opportunities to enter into other contracts in the competitive marketplace

In conclusion, whether this Department regulates these entities or not will not make a difference to these facilities' bottom line and decrease their overall O& M costs. This Department can only ensure that such costs are just and reasonable. Nor can we predict where the market is going. The Department notes that hese contract prices started out quite high and have over time declined.