

Testimony of PSEG Power Connecticut

Connecticut General Assembly

Committee on Energy and Technology

March 16, 2010

HB No. 5505, An Act Concerning Electric Rate Relief

HB No. 5508, An Act Establishing the Division of Electricity Policy and Procurement

PSEG Power Connecticut appreciates the opportunity to provide the following comments on the legislation referenced above, HB 5505, An Act Concerning Electric Rate Relief, and HB 5508, An Act Establishing the Division of Electricity Policy and Procurement.

PSEG Power Connecticut owns and operates the Bridgeport Harbor Generating Station in Bridgeport and the New Haven Harbor Generating Station in New Haven. Together, these facilities provide Connecticut and the region with almost 1,000 megawatts (MW) of environmentally responsible electric generating capacity.

In January, PSEG Power Connecticut received Connecticut Siting Council approval to construct an additional 130 MW of new, state-of-the-art peaking capacity at New Haven. This project is being developed under the Department of Public Utility Control Peaking Docket authorized by the General Assembly in Public Act 07-242. We are pleased to note the project provided a successful outcome for the first test of Connecticut's Environmental Justice statute and is being developed with the full support of the City of New Haven and environmental and community organizations.

PSEG Power has committed well over \$500 million to acquire and improve the efficiency and environmental performance of the existing Bridgeport and New Haven units and to build the new peaking generation. We are the largest taxpayer in the City of Bridgeport and among the largest in New Haven. Our annual expenditures for wages, benefits and goods and services are approximately \$50-\$60 million.

PSEG Energy Resources and Trade (PSEG ER&T), an affiliate that markets the energy and associated products of PSEG's electric generating assets, currently has supply contracts totaling more than 200 MW

with local distribution entities in New England. ER&T has been a frequent supplier to CL&P and United Illuminating (UI) since PSEG entered the State in 2002. We were UI's exclusive supplier for three consecutive years through 2006.

We are also environmental leaders in both advocacy and action. We've reduced nitrogen oxide and sulfur dioxide emissions at our plants. We took an active and constructive role in helping Connecticut enact ground-breaking mercury control legislation and we followed up on that by investing approximately \$170 million in mercury emissions controls at our Bridgeport plant. And, as noted, we recently completed a Memorandum of Understanding and Community Benefits Agreement with the City of New Haven, neighborhood groups, and the environmental community that will deliver additional peaking capacity without any additions in air emissions from that site.

PSEG Power Connecticut has made a significant commitment to, and we believe has made a positive impact on, the State's economy, environment, energy infrastructure, and electric system reliability. We continually look for constructive ways to increase this commitment through additional investment in traditional as well as renewable energy resources.

Our specific comments on the proposed legislation are as follows:

HB No. 5505, HB 5508

HB No. 5505 would impose a so-called windfall profits tax on Connecticut electric generators and create a state energy authority, the Connecticut Electric Authority, empowered to finance, own, and operate electric generating facilities. These concepts represented bad energy policy and bad economic policy when they were first proposed several years ago and we urge the General Assembly to reject them again. These measures will not provide relief or lower costs for consumers; instead, they will expose ratepayers and residents to additional financial risk and compromise the State's ability to attract new competitively based investment in energy infrastructure.

For the record, PSEG Power Connecticut is not earning windfall profits.

As you may be aware, both the 466-MW oil-fired unit at New Haven Harbor Generating Station and Bridgeport's 130-MW Unit 2 are operating under cost-based Reliability Must Run contracts that extend through June of this year.

The economics of the 400-MW coal unit at Bridgeport have been stressed by ongoing conditions in wholesale power markets, including significant declines in wholesale power prices and significant increases in the cost of the ultra-low sulfur coal we use at the plant. The capacity factor for this unit has declined from more than 80% in a few years ago to approximately 29% last year. The unit currently is on reserve shut down.

The new peaking generation at New Haven will operate on a cost-based contract with a regulated return based on approved ROEs for the state's utilities.

A logical question one could pose is, if PSEG is not earning windfall returns why do we care if this tax is enacted?

First, the legislation would impose costly and ill-defined compliance mechanisms and financial reporting obligations that do not comport with any in use anywhere else in the electric power industry.

Second, and perhaps most important to the economic well-being of this State, enacting this tax will discourage investment in Connecticut. The tax would drive up the cost of credit and capital, and create additional uncertainty about doing business in Connecticut, either through owning generating assets or even investing in companies that own such assets. The message the legislation sends to electric generators, is don't bother lowering costs or improving efficiency because if your income statement improves -- even for one operating quarter -- you could be punished.

HB 5505 would also create a public power authority, called the Connecticut Electric Authority, with the ability to finance, build, and operate electric generating facilities. Such an agency would expose the State and its residents to unwarranted and unnecessary credit and financial risk and raise the cost of government at a time of almost unprecedented budget deficits.

We raise similar concerns about provisions in HB 5508, An Act Creating the Division of Electricity Policy and Procurement, that would authorize this entity to own and operate electric generating facilities

The prospect of the State building and owning generating facilities raises important issues that should be carefully considered, including:

- The costs and responsibilities for these costs -- associated with creating and operating these new state entities.
- The investment risk associated with facilities owned, operated, or under contract to a state authority. These facilities would be subject to the same fundamental economics and incur the same type of fixed and variable costs as privately owned generating plants. A basic question is, "who ultimately bears the risks associated with the performance of such investments?"
- The impact of a state agency operating with tax-free financing and the ability to operate facilities as tax-free entities on both the viability of existing, investor-owned generating facilities and the ability of the State to attract additional private investment.

There are many things that government does well. There is ample evidence, however, that public power authorities don't necessarily provide a better deal for consumers.

There may, indeed, be merit in consolidating responsibilities for energy policy that now reside across a number of state agencies, boards, and advisory bodies under an umbrella agency or authority that could improve the process of developing, coordinating, and implementing energy policy. The risks associated with financing, building, and operating electric generating facilities should not be included in this portfolio.

While PSEG does not participate in Connecticut's retail electricity market, we believe consumers should continue to have the right to choose a supplier based on competitive forces in the market and we believe the provision in HB 5505 that would prohibit consumer choice for a period of two years is misguided. Few would favor a policy forcing consumers to keep their home heating oil suppliers for two years even if better prices were available. Electric consumers deserve the opportunity to access changes in market conditions via retail choice.

PSEG Power Connecticut thanks the Energy and Technology Committee for the opportunity to provide these comments. We stand ready to answer any questions associated with this testimony and look

forward to working with the Committee on improving the efficiency, economics, and reliability of Connecticut's electric system.