Dominion

Testimony before the CT General Assembly Finance Committee

on

Senate Bill - 1007

by

Daniel A. Weekley

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Chairwoman Daily, Chairwoman Widlitz, Ranking members Roraback and Williams and other members of the Finance Committee thank you for providing time for the public to comment; I am Dan Weekley, VP Government Affairs for Dominion Resources. Today I will be providing comments specifically opposing Section 37 of Senate Bill-1007.

Dominion owns and operates the Waterford-based 2100 megawatt Millstone Nuclear Power Station, as well as three (3) additional fossil-fueled generating stations here in New England. The total generating capacity of all four (4) stations is roughly 4900 mw. Across the United States, Dominion directly owns and operates approximately 27,500 mw's in the mid-Atlantic, northeast and mid-western portions of the country. We are also proud to serve approximately 5.5 million retail electric and natural gas customers.

Millstone Background

Specifically here in Connecticut, Dominion purchased the Millstone facility back in 2001 under a state-sanctioned auction process. We agreed to buy the facility and all associated property for approximately $1.3 billion ($1,300,000,000). You may recall, due to the complexity of the sale, the process included several state agencies, including the Department of Public Utility Control (DPUC), the Office of Consumer Counsel (OCC) and the Attorney General's (AG's) office.

As we have testified before the legislature on many occasions, Dominion has invested roughly $600 million ($600,000,000) on top of the acquisition price for greater efficiencies and reliability at the Millstone facility. These investments are clearly working due to the fact the station is roughly 30% more reliable today than it was under the previous state regulated jurisdiction. This increased output is roughly the equivalent of building an additional 650-megawatt plant in the state. Millstone today is among the most reliable and is without question the most important generating resource in New England.

Proposed Senate Bill 1007

Now turning to SB-1007, the premise of Section 37 is to impose a significant new energy tax on CT-based electricity generators. Proposal calls for a $.002 kw/hr (two-tenths of one cent) tax on all electricity produced (net generation tax) at the state's generation facilities.

Simply put, Section 37 will have the opposite affect of the General Assembly's and Governor Malloy's goal of lowering electricity prices for all consumer classes and without question will be an immediate and long term increase for consumers here in Connecticut. Here are the facts why:

- Majority of energy supply in New England is sold via contracts. All costs and/or risks must and will be included in the price prior to execution of the forward looking contract.

- Electricity sold in the day-ahead market will further reflect tax as well as a multiplier effect of other generating stations/fuel sources both in the state as well as across the entire New England region.

- If the state were to pass this type of regressive tax, why would an out-of-state electric generator bid on a CT utilities RFP (request for proposal) recognizing they could become subject to these types of future tax risks?

Contracting Issue

According to ISO New England, the regional non-profit wholesale power entity, approximately 75% of all the power delivered in New England is sold via "bilateral contracts." Bilateral contracts are simply "willing seller to willing buyer" contractual arrangements with fixed terms and conditions.

Examples of these types of bilateral contracts are the "Standard Offer" service provided by the state's utilities. CL&P and UI procure power for electricity via state audited bids. In this type of bid, the seller or provider of electricity to the utility must include **<u>all costs</u>** associated with the supply of electricity. Examples of costs include fuel, overhead, labor/benefits, risk, and of course taxes. Any and all taxes are and will be incorporated into the bid price to the provider (including utilities, as well as municipal and competitive providers).

Even though Dominion's Millstone Power Station sells almost 100% of its energy output via longer term bilateral contracts, these are multiple contracts that are constantly being negotiated. If this flawed idea were to move forward, any responsible generator would have to consider including these risks in future supply bids.

It should be further noted even though these contracts are "forward-looking" fixed price agreements, it is not uncommon to have terms within the contracts that permit reopening of the arrangements when a material change is incurred beyond the control of the seller. Tax changes such as those in Section 37 of SB 1007 would certainly fall into this category.

Day Ahead Market

The remaining approximately 25% of the energy market is sold into the "day ahead" market. When bidding into the day ahead market, individual generators decide the **minimum** price they would be willing to accept in order to manufacture electricity for that day. Because generators indicate prices they would be willing to accept, any generation class that has new taxes/fees, shifts the entire supply cost curve up with a multiplier effect via the other generation sources which results in a significant immediate negative impact for the ratepayers.

Out of State Generation Concerns

The utilities Standard Offer RFP as well as the state's Commercial and Industrial (C&I) customers correctly do not distinguish between CT or other New England based generation. They procure the most reasonably priced reliable power. Keeping this in perspective, quite simply why would an out-of-state generator/supplier risk exposure to this type of new tax uncertainty? Other New England utilities and C&I customers are also seeking reasonably priced power. Additional regulatory uncertainty including flawed tax policies will encourage New England generators, particularly the larger baseload units to sell elsewhere in the market. This unfortunate situation will leave only the higher-cost generation units to bid for the Connecticut load. Again, the end result for CT consumers will be higher costs with no intrinsic benefits.

Net Generation Tax

Committee members should be aware that no other state in the US has this type of tax (WV and WI have nameplate tax that is in lieu of property taxes).

Others states have looked at this type of taxation in the past and none have decided to pursue. Most notably, State of New Hampshire who is also aggressively trying to reduce the cost of electricity, investigated this tax in 2010 at a rate of $.0005 kw/hr (¼ of that in Section 37). Once again this bill did not become law.

Many states and the Federal Government have investigated varying types of generator net output taxes and none have been enacted because they have always come to the same conclusion: ***No matter how well-intentioned, energy taxes immediately and directly hurt the end consumer!***

For these reasons, Dominion (and the ratepayers should) strongly oppose this bill.

Conclusion

In summary, we support the General Assembly's and Governor Malloy's goal of reducing energy prices, but any type of "net generation" tax will have the opposite impact and ultimately increase prices without any benefits. Thank you again to all the members of the General Assembly for the opportunity to provide comments. I look forward to working with all parties in these and other associated issues in the future.

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