Testimony of PSEG Power Connecticut

Connecticut General Assembly

Committee on Finance, Revenue, and Bonding

March 7, 2011

Senate Bill 1007, An Act Concerning the Governor's Recommendations on Revenue

PSEG Power Connecticut appreciates the opportunity to provide the following comments on Senate Bill 1007, An Act Concerning the Governor's Recommendations on Revenue. We will restrict our comments to Section 37 of the Legislation which would impose a .2-cent-per kilowatthour tax on electricity produced in Connecticut.

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.

PSEG Power Connecticut expects to begin construction this spring on an additional 130 MW of new, state-of-the-art peaking capacity at our New Haven site. The 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 proceeding 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.

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 the nation's first mercury emissions control legislation and we followed up on that by investing approximately $170 million to install mercury emissions control technology at our Bridgeport coal unit. And, as noted, we 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 increase in air emissions from that site. The agreement also will provide significant funding for environmental improvement projects in New Haven's East Shore neighborhood.

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. Most recently, we joined Gov. Malloy, State. Sen. Fonfara, and representatives of Dominion Energy in announcing a new Operation Fuel program that will provide energy assistance to women-and-minority-owned businesses in the state's urban centers. The program is specifically designed to preserve and create jobs.

PSEG Power Connecticut joins many others in this State – residents, members of the business community, and members of the General Assembly from both parties who have commended Gov. Malloy for his leadership and the forthright manner in which he is confronting the State's budget crisis. There are no easy answers to resolving the budget deficit; only hard choices. One of the choices contemplated by Section 37 is implementing a .2 cent-per-kilowatthour output tax on electricity generated at in-state facilities. While we understand the measure is designed to raise approximately $58 million in new revenue, we oppose this tax because it would foster a set of unintended consequences that would:

- Increase the costs to Connecticut electric ratepayers by approximately $63 million.
- Put Connecticut electric generating facilities and their employees at a competitive disadvantage.

In a briefing before this Committee, representatives from the governor's budget office contended the generation tax would not raise electric costs in Connecticut because in-state electric distribution utilities don't procure energy supplies directly from in-state generators. This analysis is in error because it does not reflect how utilities and retail vendors obtain the supplies they need to serve customers and how wholesale power markets operate.

The tax would add $2 per megawatthour (Mwh) to the offer price of all Connecticut generators. When they are called on to run by the system operator (ISO-NE) this increased cost would be reflected in the wholesale markets from which utilities and entities who do sell directly to consumers procure their supplies. The estimated $62.8 million consumer impact is based on the $2/Mwhr tax times the 3,588 Mwh average monthly electric demand in Connecticut (over the past two years), times the 8,760 hours per year the plants subject to the tax operated. The cost impact would be passed through to ratepayers because wholesale prices in Connecicut will reflect these higher costs and suppliers will increase the prices for Standard Offer service to account for the tax. Since the tax is proposed to take effect in July (2011), any proposals from suppliers serving the utilities' Standard Service requirements after July will very likely include the $2/Mwh price adder.

PSEG Power Connecticut owns and operates the Bridgeport Harbor and New Haven Harbor generating stations. Both Bridgeport and the existing unit at New Haven have been under considerable economic stress caused by conditions in wholesale power markets. The lower wholesale prices, driven in large part by significant decreases in natural gas prices, while good news for consumers, has seriously affected the amount of time our units are called on to run. The capacity factor for our coal unit at Bridgeport, for example, has dropped from the 80% range a few years ago to 29%-36% over the past two years. Our employees are working hard to reduce costs and increase operating efficiencies to help improve our competitive position relative to other generating units available to ISO-New England. The impact of a tax adding $2/Mwh to our offer price makes this task much more difficult and adds uncertainty to the long-term economic viability of our facilities as well as the economic benefits they provide their host communities. We expect other fossil-fueled generating units in Connecticut will be under similar pressure.

We understand the enormous challenge Gov. Malloy, his Administration, and the General Assembly is undertaking in relation to the budget. We also recognize that many aspects of the revenue package being debated will affect our business and our employees and we are willing to do our share.

We believe, however, that when the Administration and the Legislature carefully examine the proposed generator tax and how it would impact energy costs in Connecticut and the energy industry in Connecticut, the conclusion reached is that the tax will cost the State's economy far more than the amount of revenue it's designed to raise.

Again, we appreciate the opportunity to provide these comments.