imagination at work

TESTIMONY OF TOWANTIC ENERGY, LLC

Before the Energy and Technology Committee – March 15, 2011

SB1- N ACT CONCERNING CONNECTICUT'S ENERGY FUTURE

Good afternoon. My name is [Vimal Chauhan], and I am Vice President of Towantic Energy, LLC, developer of a 500 megawatt natural gas-fired power project to be located in Oxford, Connecticut. Towantic is an affiliate of GE Energy Financial Services, based in Stamford, Connecticut. The Towantic project has many benefits that I would like to outline: It has made over $5 million in property taxes and other payments. Once under construction, the Towantic project will provide over 300 direct construction jobs for three years and will pay equipment sales taxes in excess of $25 million. A new road connecting the project site to I-84 will be completed as part of the project. But the benefits aren't just local. When completed, the Towantic project will reduce Connecticut ratepayer costs by hundreds of millions of dollars over its useful life, while significantly reducing pollutant emissions in the state.

Towantic Energy has reviewed SB1 – An Act Concerning Connecticut's Energy Future -- and we want to express our admiration for the thoughtful effort which has gone into this broad plan to revise the structure of energy planning in Connecticut. We have reviewed, in particular, the provisions in Sections 49 and 71, which evidence a goal of reducing electric rates in Connecticut, among the highest in the nation. Many of us at Towantic and at GE Energy Financial Services are Connecticut residents and we whole-heartedly support this goal. However, we feel strongly that the best way to accomplish it is to support the construction of the Towantic project with a long-term power purchase agreement for capacity, energy and ancillary services.

- The Towantic project is located in the southwest Connecticut load pocket. Its power is generated right where it's needed and does not need to be hauled over expensive transmission lines. Reduction in electricity imports will alleviate some of the reliability problems in the regional transmission grid and allow more transmission capacity for imports of renewable resources into the state. The project's gas interconnection is onsite and needs minimal upgrades.
- The Towantic project will generate electricity at a dramatically lower heat rate than the current state average of over [10,000Btu/kWh]. This means that, for the same amount of fuel, the project can generate more electric power than any existing Connecticut resource.

- Using new technology, the Towantic project will reduce pollutant emissions across the state, despite an increase in generation in the state. Oil consumption in Connecticut will be reduced by approximately 3 million gallons due to lower energy production from older oil burning units. The air-cooled turbines will reduce the water use footprint of the plant by [90%] compared to a similar water-cooled plant.
- The Towantic project has the ability to use its waste heat for productive purposes. The Waterbury-Oxford Airport, for example, is directly downhill from the project and could use piped steam for hangar heating.

Conversely, we do not believe that there are reasonable alternatives to achieve the goal of ratepayer cost reduction, for several reasons.

- The electric distribution companies currently contract for electricity on a short–term basis, generally with financial counterparties. To rely on short-term procurement is to put Connecticut ratepayers at risk for spiking electricity costs in the future. Recent purchasers of assets for sale in the region are betting that energy prices will rise due to retirements in the existing fleet, paying $700/kilowatt and more for power plants.
- Longer-term contracts with existing generators will not bring down the cost of power. Existing generators are required to bid their marginal cost into the ISO-NE energy market every day. An ISO-NE "market monitor" assesses whether each bid price is reasonable in light of the plant's cost and fines, and penalties are assessed if excessive bids are made. It is not likely that a plant would be able to contract to supply its power at a lower cost. In addition, existing resources will, by definition, have a higher marginal cost than Towantic, due to their higher heat rates.
- Importing power from the North via new transmission lines is not likely to be a viable solution, either. In addition to the billions of dollars in cost to construct the lines (much of which is likely to be required to be underground in Connecticut) and inefficiency inherent in transporting electricity over long distances, ISO-NE forecasts for the region show that importing power from Maine or Canada may well be utilized in Vermont, New Hampshire or Massachusetts, never reaching Connecticut, particularly if the Vermont Yankee nuclear plant is retired.
- Repowering older assets will also not result in a better ratepayer outcome. Old oil-burning facilities will need to find a source for gas and reconfigurations of existing plants rarely achieve the optimal efficiencies of a new project. Virtually all of the existing Connecticut fleet was previously paid for by the Connecticut ratepayers, either because they were rate-based projects owned by the utilities prior to deregulation or were contracted at a price sufficient to repay their capital cost plus an investment return. There is no need to reward these facilities for just being there.
- Doing nothing is not an option, either. ISO-New England is responsible for the reliability of the regional system. It is concerned that current market prices may be insufficient to warrant capital expenditures necessitated by new environmental regulations by existing

generators, which instead, will seek to delist. ISO-New England's only tool to address this reliability concern is to offer reliability payments to generators that would otherwise shut down. These costs will be passed on to ratepayers.

Towantic believes Connecticut should follow its own precedent, set in 2005, to reduce rates by competitively evaluating new efficient, baseload natural gas plants through an RFP process and contracting with the right new resource to reduce ratepayer costs. Several other states, such as New Jersey and Maryland, are considering similar actions. We believe a fully-permitted project like Towantic, which could be online as early as 2014, would be best able to alleviate cost strains as they peak. However, Towantic believes any new contract should include the purchase of a project's energy and ancillary services, as well as its capacity. By securing all three elements of a plant's output, Connecticut will have the power where it is needed -- at a predictable cost. At the same time, Connecticut will reduce pollutant emissions, create jobs and enhance tax revenue. Attached to this testimony is proposed legislation that would effectuate this proposal.

Thank you for the opportunity to present these views. We are available at your convenience to answer questions on our proposal.