energy API

Connecticut
Petroleum Council
A Division of API

Steven Guveyan
Executive Director

44 Capitol Avenue
Suite 103-B
Hartford, Connecticut 06106
Telephone 860-246-8846
Fax 860-246-6495
Email ctpetroleum@comcast.net
www.api.org

February 7, 2017

OPPOSITION TO SB-106---NUCLEAR GENERATION BILL

The Connecticut Petroleum Council represents a wide range of companies in the oil, natural gas, refining, pipeline, and transportation businesses. Our comments today are limited because SB-106 as currently written consists of only a few words. If the Energy & Technology Committee releases another bill with more detailed language on the nuclear issue, we may submit additional comments.

The bill---based on last year's bill and our understanding of what is intended by it---places Millstone 2 & 3 into the special category of Class I renewables with the ability to sign long-term electricity supply contracts directly with the state. This special treatment is proposed because the plants do not emit CO_2. In short, we oppose the use of government carve-outs and subsidies that by definition interfere with efficient market outcomes.

We oppose SB-106 for the following reasons.

Connecticut Ratepayers Already Compensate Millstone for Zero Emissions Because of RGGI.

Dominion has suggested it deserves to have its nuclear plants classified as a Class I clean energy source because they provide zero-carbon electricity. That ignores the fact that generation sources in Connecticut already operate in a regional market that does just that. Zero-emitting CO_2 electric generation facilities in the Regional Greenhouse Gas Initiative (RGGI) program, including Millstone, already receive additional revenue from the market through higher energy prices due to the cap-and-trade program. By awarding additional revenue through a long-term contract to zero-emitting CO2 resources, Connecticut ratepayers would be paying twice for the same environmental attribute---without any corresponding environmental benefit.

Energy Procurement Policies Should Bring Consumers the Best Prices.

A long-term Millstone contract circumventing the usual ISO-NE process and obtaining a direct state contract is a form of "government bailout," and is inappropriate. This so-called "process" would provide no incremental environmental benefit and is very consumer-unfriendly. If the generating units eventually become economically unviable due to falling natural gas prices and market conditions, then those units may have a limited useful life. New efficient and flexible resources should be able to compete in the market---this concept is one of the main foundational principles of deregulated electric markets. If Connecticut decides to support uneconomic assets through a government carve-out, then the state is undermining the very intent and progress of its own de-regulation law.

Abundant natural gas has been driving down natural gas prices, which in turn has driven down electricity prices. Dominion has made the point publicly that it doesn't want to be subject to falling natural gas prices, which strongly suggests that natural gas has been putting downward pressure on electricity prices. Yet lower electricity prices are exactly what Connecticut consumers want and it is exactly what market forces have been delivering!

<u>Some Facts Before The Committee Are Misleading</u>.

The Millstone report produced by The Analysis Group is not useful because it was premised on the immediate shut-down of both reactors. The report quantifies only the impacts from this extreme situation. While our opposition to a government carve-out is not in any way influenced by the financial viability of those plants---to the extent you find the results of the Millstone report to be important, then we recommend you discover the current financial situation of Millstone and assess the likelihood that the plants would in fact, immediately shut down.

Please consider some facts that strongly suggest that it is unlikely that Millstone will soon close:

- The Millstone nuclear facility is not a "distressed" generation asset and does not deserve special treatment or a "government bailout." In its own May, 2016 Investor Relations Reference Book, Millstone's owner Dominion Resources states that its Millstone plant provides the "lowest cost baseload in NE." Dominion has made no public showing that Millstone is experiencing financial hardship.

- Millstone Is Scheduled To Soon Receive Hundreds Of Millions Of Dollars.

  ---Current wholesale electricity prices and forward capacity market prices support the plant's continued viability. Payments under ISO-New England's forward capacity market to Millstone are scheduled to increase beginning in June. We can make some assumptions and estimate the financial impact of those capacity payments; a more detailed analysis cannot be made because Dominion has not released specific financials on Millstone.

  ---The combined nameplate capacity of Millstone's two nuclear reactors is 2,335 megawatts (MW). Staring June 1st 2017, Millstone will receive $493 per MW-day for that capacity, and that will continue through May 31st, 2018. If one assumes that 80% of the nameplate capacity clears ISO-NE's capacity auction, then Millstone would receive nearly $340 million in capacity revenue for the capacity year (6/1/17-5/31/18). If one assumes that Millstone generates energy at the same level as June 2105-May 2016 in future years and Millstone receives similar energy prices during that same time period (a conservative assumption given the warm winter and low natural gas prices over that time period), then Millstone would collect almost $440 million in energy revenue. Those combined revenues would equal almost $780 million. Using the Nuclear Energy Institute's Costs-in-Context multi-unit nuclear cost value, it appears Millstone would incur almost $610 million in costs (including fuel, operating and capital costs), leaving a substantial profit of $170 million, or nearly half-a-million dollars per day ($460,000).

Conclusion

Supporting uneconomic assets through government carve-outs undermines the intent and progress of restructured markets. Expanding access to these government carve-outs does nothing to mitigate the harm. At a time when Connecticut residents and businesses already face electricity costs that are higher than all other states except Alaska and Hawaii, we ask the committee to reject this legislation because it focuses on company subsidies rather than market-driven cost-savings[1].

Thank you for considering our views. We look forward to further discussions this session.

[1] http://www.neo.ne.gov/statshtml/204.htm