Peaking Power Plant Update

On June 4, 2007, the State of Connecticut enacted Section 50 of Public Act 07-242, now codified at Section 16-243u of the General Statutes ("Act"). This Act empowered the former DPUC (Department of Public Utility Control) to seek competitive proposals for the development of peaking generation in Connecticut, subject to PURA (Public Utility Regulatory Authority) approval on cost of service principals.

The three selected projects include a 188 megawatt facility owned by GenCon Energy LLC located in Devon; a second 188 megawatt facility owned by GenCon Energy LLC located in Middletown; and a 130 megawatt facility owned by PSEG Power LLC located in New Haven. The first two facilities have been completed and are in service. The third facility, owned by PSEG Power LLC was, recently put in service on June 1, 2012.

The PURA docket to determine the Revenue Requirements for PSEG Power LLC (from June 1 to December 31, 2012) has concluded with a Final Decision issued on June 6, 2012. PSEG Power LLC sought rates of $16.383 million excluding fuel. The OCC thoroughly investigated all the evidence provided in the docket's record, and recommended rates of $12.687 million. PURA allowed Revenue Requirements of $14.459 million.

The main objective of Public Act 07-242 was to reduce the cost of peaking power plants in the Connecticut and South West Connecticut energy markets conducted by ISO-NE. When the market started in the winter of 2006/2007, the price was at the max of $14,000 MW/month. With completion of the last of three peaking power plants in Connecticut and its entry into the ISO-NE market, the cost of peaking plants in Connecticut has been reduced to $3,450 MW/month.

It appears that the objective of Public Act 07-242 has been met, but at what cost? PURA established the Revenue Requirements for the remaining seven months of 2012 excluding fuel at approximately $14.5 million. The revenue from ISO-NE was estimated by PSEG to be between $7.7 million and $4.4 million, for a net cost to ratepayers of between $6.8 million and $10.1 million, respectively. With the entry of the PSEG peaking plant into the bidding at ISO-NE, the previous cost of $4,350 MW/month was reduced to $3,450 MW/month, for a net reduction of $900 MW/month. ISO-NE cleared 890.85 MW in the last auction so the reduction in cost to ratepayers is worth $5.6 million. From June 1-December 31, 2012, the net cost to ratepayers is between $1.2 million and $4.5 million.

Back in 2008, the economic studies conducted to justify this peaking power plant indicated that there would be significant economic value from building this plant. Since then, Connecticut has experienced a recession from which it is still trying to recover and the plummeting price of natural gas. Both of these events have substantially altered the energy landscape; one can only guess what the future will bring.