

**Testimony by Frazier Blaylock
In Support of Governor's Bill 11 with Amendments
Before the Connecticut Environment Committee
March 5, 2020**

Good Morning Mr. Chairman and members of the Committee. My name is Frazier Blaylock and I am here today on behalf of Covanta Energy to express support for the Governor's Bill #11, AN ACT CONCERNING THE RELIABILITY, SUSTAINABILITY AND ECONOMIC VITALITY OF THE STATE'S WASTE MANAGEMENT SYSTEM.

Covanta is grateful that the Administration recognizes the importance of continuing to manage the waste disposal needs of its citizens in-state and we are supportive of DEEP's efforts to move up the waste hierarchy. The state is truly ahead of the rest of the U.S. in this regard and should be recognized and commended for being so forward-thinking. We agree that proposing a new RFP process is the right approach to addressing the state's disposal capacity challenge – the state is truly at an inflexion point. But I would be remiss if I did not address the risks that still remain to the existing WTE infrastructure.

As a bit of background, when all 5 of the state's WTE facilities were originally built, they were the beneficiaries of long term power purchase agreements (PPA's). These contracts provided a critical, stable source of revenue and enabled the plants to make capital investments and compete with low-cost landfills. Each of these PPA's have since expired, leaving these plants to compete in an energy market driven by historically low-priced and abundant natural gas. (See attachment)

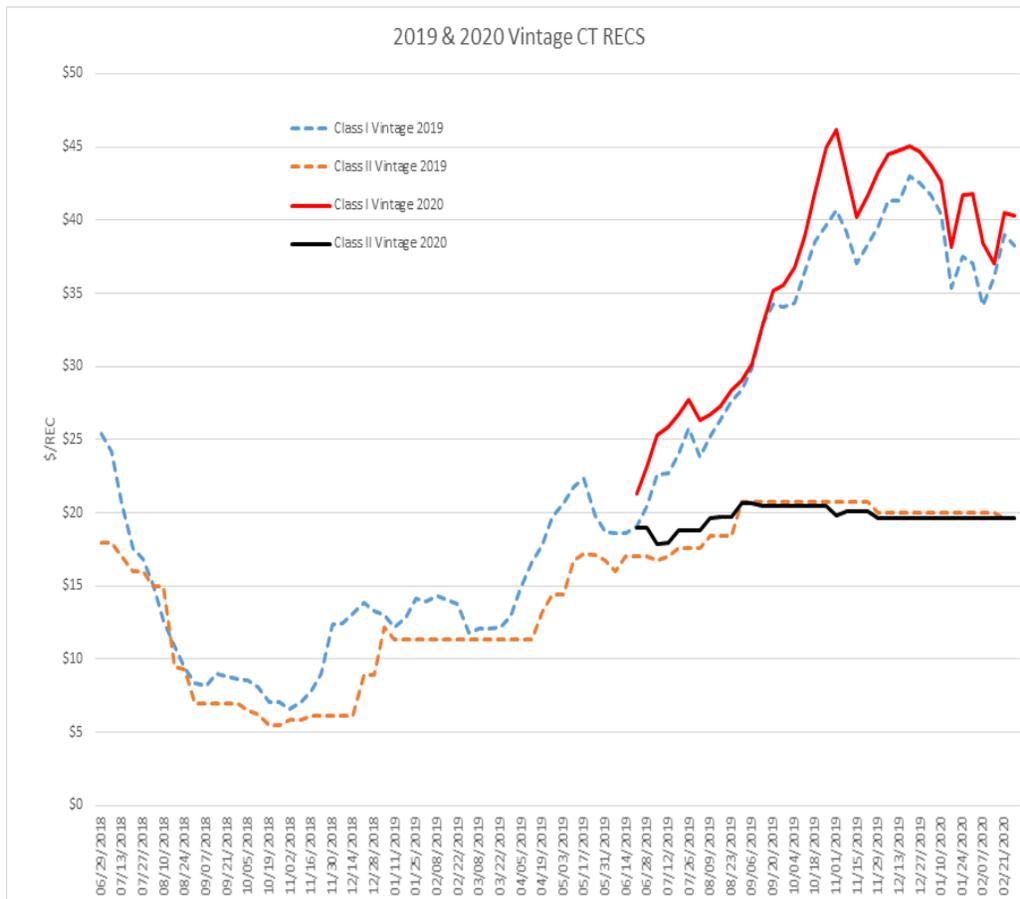
Governor Dannel Malloy recognized the challenge that this presented to CT's waste disposal infrastructure and so in 2017 he and the legislature sought to remedy this by amending the Renewable Portfolio Standard (RPS). The policy change was intended to increase the value of Renewable Energy Credit (REC) revenue at the 5 plants and bring a level of certainty that is necessary to meet their operating expenses and to make and maintain necessary capital investments.

The remedy that was enacted by the legislature in 2017 was to limit Class II generators to include only WTE facilities permitted in Connecticut and to establish an Alternative Compliance Payment (ACP) of 2.5 cents. This was intended to result in RECs

consistently valued close to, or at, \$25/REC. It was a plan that was supposed to bring significant increased value to the Class II RECs and thereby assist the economics of the WTE plants.

However, when the legislation was drafted, it did not prohibit Class I generators from selling into the Class II market. This was not seen as an issue because Class I RECs had always had a significantly higher value than Class II, and so it was not anticipated that these generators would want to sell into Class II.

Unfortunately, in 2018 and 2019 an oversupply of Class I RECs resulted in the substantial decline of Class II REC prices. This is because electric suppliers and electric distribution companies are able to comply with Class II requirements by using Class I or Class II RECs. This negatively impacted the economic outlook of the waste-to-energy facilities in CT who were each anticipating a significant rise in their 2018 and 2019 REC revenues. Prices for Class II RECs declined from about \$15/REC in 2017 to about \$3.13/REC during that time period.



The good news is that REC prices are currently up in the \$20 range and the solution to avoiding another drastic dip is relatively simple: Remove the ability of suppliers and distribution companies to use CT Class I RECs to fulfill Class II requirements. This

would bring the program in line with what was originally intended by the legislature in 2017.

In closing, we are fully supportive of the Administration's plan to pursue additional new capacity in the state as reflected in this bill. But to ignore the very real challenges facing the existing plants could undercut such future plans.

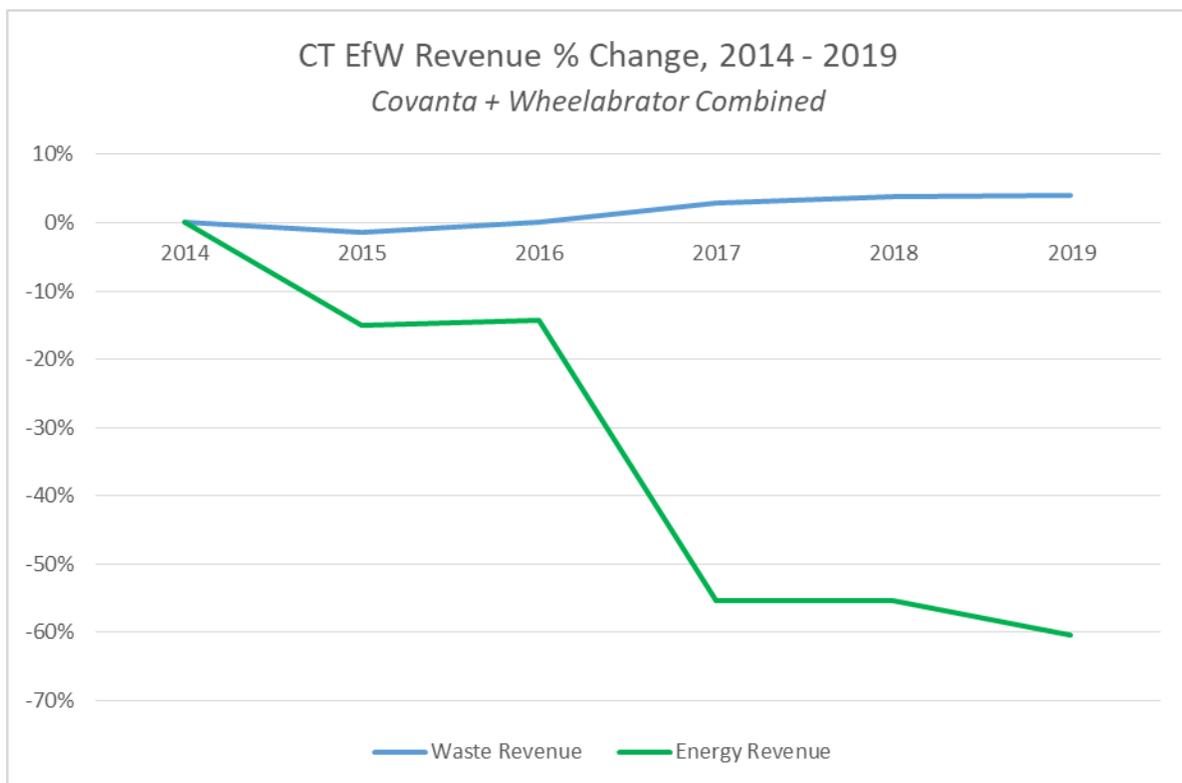
Thank you for your consideration of our comments.

Attachment I

Covanta and Wheelabrator CT WTE Facilities

Comparison of Tip Fee rate increases to Electricity rate decreases

In the period from 2014-2018, during which various power purchase agreements and client service agreements rolled off, Covanta and Wheelabrator's CT waste-to-energy facilities experienced approximately 60% reduced gross energy revenues, while weighted average tip fees only increased about 6%.



The changing landscape and dynamic marketplace for energy revenues in the time since these facilities were built has significantly impacted the model for operating and reinvesting in them. As with any infrastructure, as these facilities age the cost of maintenance increases.