CRRA
Special Board Meeting
April 29, 2013

Attachment 3

Hard copies will be available at Monday's Board of Directors' Meeting .

Discussion of the Future Operating Plan for South Meadows Trash to Energy Facility and the Benefit of Bilateral Purchase and Sale of Facility Power.

Background:

The South Meadows facility is a refuse derived fuel (RDF) trash to energy plant system that processes approximately 720,000 tons of MSW annually and has a generating capacity of 66 renewable MW. The facility as built is the largest trash to energy facility of its kind in the northeast and has been operating longer than most similar facilities. A significant portion of the facility infrastructure is aged, includes prior construction, solid fossil fuel combustors and associated rankine cycle plant components. The RDF technology employed is unique and expensive to operate as compared with more conventional and economical mass burn technology. The facility is publicly owned by CRRA and operates on a net cost of operation basis for the benefit of the public and private customers in CT. It is the foundational component in the CRRA portfolio of assets dedicated to serve the CRRA mission.

The facility accepts fuel, MSW, from private and municipal customers originating in 75-80 municipalities across the state. It disposes of approximately 170,000 tons of ash residue in a privately owned and operated residue landfill in Putnam CT. The facility, wholly owned by the CRRA, has no debt and operates within strict environmental restrictions with a complement of approximately 100 contractor employees. The facility has had an uninterrupted record of performance, never failing to accept a customer's waste delivery.

In 2002 the Mid CT Project, utilizing the facility, lost $200 million in a transaction in connection with Enron Inc. In the following decade the CRRA pursued a number of aggressive cost saving, revenue enhancing and recovery initiatives, culminating in the successful recovery of the lost funds. Project Bonds were paid off, reserves to serve the long term liabilities were established and funded. CRRA, the facility owner, has been audited annually by private, certified independent auditors and received unqualified opinions for each of the past 10 years. Additionally State of CT auditors have annually examined the CRRA operations and administration.

Mid CT project tipping fees were held flat or reduced over the past ten years through a comprehensive program to reduce costs and increase revenues by rebidding contracts, renegotiating vendor agreements, eliminating functions, and investing in capital improvements. In anticipation of changes in markets and contracts upon the expiration of the original project agreements, the Board of Directors has for the past several years closely examined the financial and economic details of the operation, reduced costs where possible, increased revenue where feasible and examined alternatives and options to serve the CRRA mission goals.

The Mid CT project term expired in November of 2012. This expiration released municipalities from their commitments to deliver waste to the facility and allowed for project municipalities to consider alternative disposal options for their waste.

In the past decade tens of millions of tons of disposal capacity has been developed in States to our west and south. These disposal sites, in Pennsylvania, Ohio, New York and Virginia, are available at low cost for use by municipalities and private disposal customers across the region.

The South Meadows facility, similar to other trash to energy facilities, generated energy and sold it to regional utilities under a long-term rate structure which provided a significant premium (subsidy) above the market price for power. This premium is no longer available to the South Meadows facility.

Recently, a significant change in the price of natural gas coupled with a decade long and fundamental transformation by New England power generators to utilize natural gas for electric generation has resulted in a drop in wholesale power prices. This drop in prices results in a significant reduction in revenue to the facility. Additionally, market competition from export facilities for spot waste disposal precludes increasing tipping fees to supplement revenue requirements. Absent additional sources of revenue to the facility, the net cost of disposal at the South Meadows facility is now significantly higher than the alternative cost of disposal both in and out of state. The facility's RDF technology and its reliance on privately owned residue landfills insures significant cost disadvantages when compared to regional landfills and privately owned trash to energy capacity.

Accordingly, within the competitive regional market for waste disposal and with current prices for power generation in CT, the facility is not economically viable as an operating entity and cannot maintain operations without additional revenue.

The CRRA Board, recognizing the desire for CT to maintain the successful trash to energy infrastructure, has pursued legislative consideration of a renewable energy credit (RECs) initiative which could provide the necessary energy revenue to maintain economic viability of the disposal system.

The Board has previously endorsed the pursuit of authority for the state of CT to purchase power from CRRA. Subsequent to that endorsement, some of the details of the conditions for any potential agreement have been identified and evaluated. This evaluation indicates that the proposed bilateral agreement under the conditions and restrictions required, would not provide economic benefit nor extend the facility economic viability beyond the existing time horizon otherwise available to CRRA.

Summary and Management recommendation:

As further explained in the following pages, there is no benefit to the CRRA from the proposed bilateral agreement and management therefore recommends proceeding with the sale of all facility power through the ISO-NE market.

The sale of facility power through the ISO-NE market provides revenue for continued operation of the South Meadows facility through FY 2015 inclusive, as contemplated in the FY2014 budget (adopted Feb 28). All power could be delivered and sold through the ISO-NE market at clearing price or alternately, at the discretion of the Board of Directors, marketed to regional load serving entities. Additionally unlike the proposed bilateral initiative with the State of CT, sale of power through the ISO-NE market allows for increased revenues to CRRA associated with improving power prices.

There is a FY2014 revenue gap associated with both the proposed bilateral agreement and with the sale of all power through the ISO –NE. The gap with the bilateral proposal is in the range of $4.1 mm to $5.0 mm. The revenue gap associated with the sale of all power through ISO-NE is $3.8 mm. Either gap can be mitigated through the use of cost reductions and or revenue enhancements as offered and described in the following pages.

CRRA
History & Value Analysis of State of CT
Bilateral Power Purchase Agreement Proposal
4-26-13

	Benefit Value	State Stipulations
1. Initial Offering Nov. 2012 via DEEP		
• State of CT 200 GWH ±@ $.065/KWH versus $.035/KWH (current CRRA contract)	$ 6,000,000	Legislation not required
• Municipalities 200 GWH ±@ $.065/KWH versus $.035/KWH	$ 6,000,000	Legislation possibly required
	$12,000,000	
2. February 2013 – updated offering via DEEP		
• State of CT purchase 200 GWH ± @ $.065/KWH versus $.035/KWH	$6,000,000	None
• Municipalities -	________	Subject to legislation and each town election
	$6,000,000	
3. February 27, 2013 – Commissioner Esty letter		
• State of CT purchase 200 GWH ± @ $.055 - $.07/KWH versus $.035/KWH	**$4 - 7,000,000**	On or about July 1, 2013. Subject to DAS, AG's Office and procurement process at a price and amount to be purchased that is acceptable to the State.
4. Board adopts FY 14 CSWS Budget on February 28, 2013 with State purchase of 200 GWH ± @ $.065/KWH versus estimated market for FY 14 of $.046/KWH	**$3,800,000**	
5. April 3, 2013 letter from Governor's office State purchase of power "at the right price for the State" **(undefined amount and price)**	**$TBD**	("At a minimum") Subject to: A. Legislation required B. Audit paid for by CRRA and commissioned by DEEP/OPM C. Restriction on issuing new bonds or contracts over a limited duration. D. A detailed plan for transitioning to a sustainable business model and/or selling off some or all of CRRA's assets. E. Preparation and implementation of a plan for reducing costs to ensure short-term cost savings. F. Potential for "sunset" on CRRA operation and Board appointment of a receiver.
6. Current CRRA analysis:		
• State purchase unlikely before 3/1/14, after legislation enacted, legal contracts developed, a bilateral agreement signed by State, and ISO market is beyond winter peaks pricing. Estimate FY14 purchases by State of 50% output starting 3/1/14 at $.055/KWH versus budgeted $.046/KWH	**$450,000**	
• CRRA estimated cost to comply with conditions of the Governor's office (excludes impact on internal personnel time)	**($700,000 - $1,600,000)**	
Net to CRRA:	**($250,000 - $1,150,000)**	

CRRA
Impact on Adopted CSWS FY 14 Budget
Of All Power Sold Into The Real Time Market
4/26/13

Energy Revenues in adopted FY 14 Budget	
• 200 GWH to State @ $.065/KWH	$13,000,000
• 217GWH to ISO Real Time Market @ estimated $.046/KWH	$ 9,982,000
	$22,982,000
Capacity Revenues	$ 1,570,000
Total Electric Revenues	$24,552,000
Revenue Loss on 200 GWH sales to State replaced with sales into ISO real time market @ $.046/KWH	$ 3,800,000

CRRA (CSWS)
Options for Mitigation of Energy Revenue Loss (A)
4/26/13

Revenue Gap FY 14	**$3,800,000**
A. Eliminate City of Hartford Pilot	$2,200,000
B. 5% Administration (Direct & Indirect Cost's)	$ 141,000
C. Reduce Capital Expenditures by 10%	$ 810,000
D. Eliminate MSW Contract Enforcement Program	$ 175,000
E. Reduction in Legal Expenditures by 10%	$ 100,000
F. Eliminate July 2013 COLA	$ 82,000
G. Improvement in Electric Energy Prices (each $.01/KWH)	$4,170,000
H. FY 13 CSWS surplus – estimated	$500,000 - $1,500,000
I. Increase in MSW Spot Prices over budget (each $1ton)	$ 91,000
J. Reduction to CSWS Capital Reserve – estimated	$1,000,000
K. Global Litigation Settlements	$0-$20 million
L. Eliminate contribution in Property Division to Future Development Reserve and use funds for CSWS	$ 688,000
M. Defer relocation of administrative offices in Property Division and use savings for relocation to fund CSWS	$ 800,000
N. Eliminate Property Division Facilities Capital Reserve and use funds for CSWS	$ 300,000

CRRA (CSWS)
Options for Mitigation of Energy Revenue Loss (A)
4/26/13

O. Liquidation and monetization of CRRA Property Division Assets and assign benefits to CSWS 1. Bridgeport Land 2. Stratford Facility and Land 3. Collins Building	unknown
P. Sale and/or lease of CRRA Murphy Road Recycling Facility	unknown
Q. Elimination of Recycling Rebate	$ 415,000
R. Additional undefined reductions in non-labor O & M beyond the $1,647,000 already reflected in the FY 14 Budget	unknown

(A) Updated from prior distributions to Board and Ad Hoc Committee