REPORT TO THE RESOURCES RECOVERY TASK FORCE FROM THE SUBCOMITTEE ON DUAL-COMMODITY CONTRACTING

December 12, 2013

Establishment and Goals of the Subcommittee

The "Bilateral Contracting" Subcommittee was convened to explore whether the concept of "bilateral contracting" is a viable solution to help improve the long-term financial status of Resource Recovery Facilities ("RRFs") and municipalities.

For purposes of this Task Force, a "bilateral contract" is a concept or contract structure in which RRFs contract with a municipality or group of municipalities to both dispose of municipal solid waste ("MSW") and to provide commercial and residential electricity. As the term "bilateral contract" has different meanings throughout various industries, the Subcommittee found that the term created confusion among committee members and other stakeholders. As a result, the Subcommittee chose to re-term this concept a "Dual Commodity Contract."

The Subcommittee was charged with determining whether there are any statutory or other legal barriers to Dual Commodity Contracting. Additionally, the Subcommittee set out to determine if a Dual Commodity Contract structure would provide opportunities for RRFs and municipalities to eliminate some of the retail cost requirements that are currently included in a standard municipal electrical bill.

Process

The Dual Commodity Contract Subcommittee met throughout the fall of 2013. The Subcommittee met after the regularly-scheduled Task Force meetings on September 25, October 23, November 6 and December 2. It also met separately on November 4 with staff from DEEP to gain a better understanding of energy pricing and the various entities and costs that play a role in energy procurements. On November 26, the Subcommittee met with representatives of the Capitol Region Council of Governments ("CRCOG") to discuss the level of interest that municipalities may have in the Dual Commodity concept.

Findings

Dual Commodity Contracts, in which RRFs contract with a municipality or group of municipalities to both dispose of municipal solid waste and to provide commercial and residential electricity, is a new contract structure that is apparently without precedent. The Subcommittee did not identify any statutory or regulatory obstacles that need to be modified for RRFs and municipalities to explore options such as Dual Commodity Contracts. As long as the RRFs work through registered ISO agents to sell electricity – or become registered ISO agents themselves – and follow other regulatory requirements, the parties are free to negotiate Dual Commodity agreements and come to terms that make sense for both/all sides.

The Subcommittee found that creative contracting models such as Dual Commodity Contracts do not appear to provide an opportunity to eliminate some of the additional costs currently built into the retail power cost structure required by the Connecticut Public Utility Regulatory Authority and ISO – New England. Nonetheless, such models may benefit RRFs and municipalities by providing some stability to the municipalities' and the industries' annual budgets. One way to structure such a Dual Commodity Contract, to provide both the stability and the flexibility that the parties would need, is to establish a long-term tip fee for waste disposal and to lock in the electricity price for a set term with a re-opener to be negotiated. In addition to providing price stability and flexibility, the Dual Commodity Contract model may also be attractive to and add value to those communities that like the idea of disposing their waste at an RRF and getting back power for their municipal buildings.

The Subcommittee found that both RRFs and municipalities may also be able to benefit by aggregating electricity load throughout several municipalities or communities to secure the best block pricing in the market – a benefit that would be shared among all parties. The same value associated with aggregating would be expected through the MSW component.

The Subcommittee learned that municipalities, through CRCOG and other organizations, already participate in municipal purchasing consortia to make use of economies of scale to achieve better pricing on a number of goods and services. A natural gas purchasing consortium among municipalities has been in existence since the late 1990s and an electricity purchasing consortium has existed since 2008. The municipal consortia also utilize reverse auctions to purchase commodities such as electricity. The Subcommittee learned that, depending upon the specific terms negotiated, municipalities may be interested in pursuing Dual Commodity Contracts with RRFs to achieve more stable long-term pricing and realize the other benefits discussed above.