DISCUSSION by Norman J. Styczynski, The Detroit Edison Company

To what degree are put-or-pay and take-or-pay contracts required on the part of the municipality and utility to obtain revenue bond financing?

Is such a contract necessary?

Did General Electric provide a take-or-pay contract for The Saugus plant? If so, to what percentage of the plants’ steaming capacity?

AUTHOR’S REPLY

Due to the fact that not many RESCO-type methods of financing have yet been arranged, it is difficult to determine to what degree take-or-pay contracts are required to obtain revenue bond financing. From a prospective bond purchaser’s point of view, the more binding the contract and the greater the guarantee that revenues will be made available regardless of whether or not the municipality dumps its solid waste at the facility, then the more desirable the bond issue appears. If a prospective bond purchaser receives comfort from the guaranteed revenues a take-or-pay contract provides, then it is likely that the interest rate will be lower and the bonds will more easily be able to be placed.

Whether or not such a contract is necessary would depend to a large degree upon the marketability and projected debt service coverage of a particular issue. From a legal point of view, such a contract may not be necessary; however, from a financial point of view it is very much desirable and could in many cases be necessary in order to market the bonds.

General Electric entered into a contract with RESCO which guarantees the minimum annual purchase of the energy equivalent of 2,000,000,000 pounds of steam. Assuming that each of the two boilers can produce 185,000 pounds of steam per hour and each boiler is available for operation at least 80% of the time, approximately 77% of the plant’s steam generating capacity is being utilized to provide the minimum of 2,000,000,000 pounds of steam. Increased plant availability or increased demand for steam by General Electric would obviously change this figure.

I hope I have satisfactorily answered your questions and if I can be of any further assistance, please contact me.