



Leadership is our business

Associated Industries of Massachusetts  
One Beacon Street, 16th Floor  
Boston, MA 02108

www.aimnet.org | 617.262.1180 | fax 617.536.6785

September 29, 2015

**STATEMENT OF ASSOCIATED INDUSTRIES OF MASSACHUSETTS (AIM)  
BEFORE SENATE CHAIR BENJAMIN B. DOWNING, HOUSE CHAIR THOMAS A.  
GOLDEN, JR AND MEMBERS OF THE JOINT COMMITTEE ON  
TELECOMMUNICATIONS, UTILITIES AND ENERGY IN OPPOSITION TO BILL  
NUMBERS *H.2851 - AN ACT TO PROMOTE OFFSHORE WIND ENERGY H.2861 - AN  
ACT RELATIVE TO CLEAN ENERGY RESOURCES; H.2881 - AN ACT TO PROMOTE  
ENERGY DIVERSITY; S.1757 - AN ACT RELATIVE TO CLEAN ENERGY RESOURCES;  
AND S.1965 - AN ACT RELATIVE TO ENERGY SECTOR COMPLIANCE WITH THE  
GLOBAL WARMING SOLUTIONS ACT***

For the record, I am Robert A. Rio, Senior Vice President and Counsel for Government Affairs at Associated Industries of Massachusetts (AIM). On behalf of our membership which represents every sector of the Massachusetts economy I wish to express our opposition to the following bills:

- H.2851 - An Act to Promote Offshore Wind Energy
- H.2861 - An Act Relative to Clean Energy Resources
- H.2881 - An Act to Promote Energy Diversity
- S.1757 - An Act Relative to Clean Energy Resources
- S.1965 - An Act Relative to Energy Sector Compliance with the Global Warming Solutions Act

AIM's mission is to promote the prosperity of the Commonwealth of Massachusetts by improving the economic climate, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services on behalf the thousands of members throughout the state. This legislation would hinder these shared goals, which are to create jobs and create a more positive business climate for Massachusetts.

Our opposition to each of these bills should indicate not our opposition to the concepts contained in each, but that none of these bills by itself satisfies the criteria set out as AIM priorities - diversifying our energy generation mix and increasing reliability of our electric system at the lowest cost to consumers.

We would like to thank the sponsors of these bills, particularly Governor Baker, Senator Ben Downing, Representative Patricia Haddad, Representative Mark Cusack and Representative Antonio Cabral for raising the important issues contained in these bills.

### **Massachusetts electric rates are already among the highest in the nation**

Any policy discussion concerning energy must start with an acknowledgement that Massachusetts pays near the highest electric rates in nation, in part because of past state policy decisions. According to the US Energy Information Administration (EIA), an arm of the Department of Energy, average residential rates year to date in June were the second highest in the continental US, just below Connecticut and nearly double North Carolina. See [http://www.eia.gov/electricity/monthly/epm\\_table\\_grapher.cfm?t=epmt\\_5\\_06\\_b](http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_06_b)

Comparing the data to the same time last year, residential electric rates in Massachusetts have increased 22% while the national average increased less than 2%. In the commercial sector, rates increased about 9% percent over last year while the national average actually declined! Industrial rates increased 4% while the national average for this sector also declined.

A further comparison to the same data 10 years ago, in June 2005, shows that our costs and competitiveness have become progressively worse. In that time our rates have increased 56% - almost double the rate of increase in North Carolina (31%) while the national average rate increase about 38%. In 2005 our rates were 55% above North Carolina, now they are 85% above North Carolina.

While some of our high costs can be attributed to issues beyond the committee's scope, the fact of the matter is that public policy decisions over the last decade have made our costs even more out of line with the national averages.

### **Massachusetts and the region is dangerously dependent on natural gas for most of its power generation**

Due to the closure and expected closure of coal, oil and nuclear plants, New England has become dangerously reliant on natural gas for most of its power generation needs. Currently, the amount is at about 60%, and increasing. While this transition has resulted in generally lower prices for power and lower greenhouse gas emissions, strained pipeline capacity is hindering the ability of the region to take continued advantage of these lower prices and greater availability, particularly in the winter months when pipelines are constrained. Indeed AIM members have reported cases where pipeline capacity constraints are actually doubling the price of their natural gas contracts, far in excess of what other states are experiencing.

### **Long-term contracts to procure power are increasing in Massachusetts**

All of these bills in one way or another establish long term contracts for large hydropower or other Class I renewables. At least one also requires that offshore wind be included.

Long-term contracts are a fairly recent phenomenon. This type of contracts between utilities and generators was effectively halted after utility restructuring in 1997. Such contracts were

discontinued because they often saddled the utility and ratepayer with above market contracts for a very long time.

After restructuring, long-term contracts between utilities and Class I renewables were first allowed in Section 83A of the Green Communities Act of 2008 for a modest 3% of utility load. The now abandoned Cape Wind project was signed under the authorizations contained in this law, at long-term prices that would have saddled ratepayers with billions in increased rates. Fortunately, Cape Wind was never built.

Later, *An Act Relative to Competitively Priced Electricity* (Chapter 209 of the Acts of 2012), added 83B to the general laws which expanded this contracting ability to 7% of utility load. But in response to the concerns of AIM, the new section required that the contracts be competitively bid. This resulted in onshore wind contracts that have saved consumers money.

The long-term contracts contemplated here include sources of large hydro, including non-Class I renewable power, offshore and onshore wind and presumably other small sources that meet Class I criteria. Added to the current long-term contracts for solar energy, the only energy sources that will not have guaranteed long-term contracts are nuclear, oil and gas – generally the cheapest sources of electricity we have available.

Authorized under these bills is large amount of electricity load – nearly 2700 MW or the equivalent of more than four Pilgrim nuclear power plants. Although some of the energy will likely be intermittent, this is large amount of energy.

**The impact of long-term contracts on electricity prices could be severe and lead to unintended detrimental changes in the way customers use electricity**

Although Cape Wind is an unrelated project, the mechanics behind the cost reconciliation are similar and should act as a dose of caution going forward. Small by the standards of the solicitation contained here (about 350 MW), the difference between the price of Cape Wind power and the predicted price of power was large – nearly three times the cost. This large difference would have resulted in hundreds of millions of dollars per year in additional costs to the consumer even though the amount of power was relatively modest.

While it would be premature to postulate the price of power for the contracts contemplated here, it is possible that given the large amount of power, even small discrepancies would have large economic consequences, essentially the reverse of the Cape Wind issue. For instance if just 15,000,000 MWh (1700 MW) are contracted and the difference is 6 cents per kWh average the additional burden is nearly a billion dollars per year to ratepayers.

Additionally, in all instances under these bills, the additional cost is reconciled through the customers' distribution charge, creating a non-bypassable charge. This essentially makes the customer captive to paying these costs, even if they use a competitive supplier.

A further downside of this type of behavior is that large customers are now looking to generate an increasing amount of their own power – through the use of combined heat and power (CHP)

installations or though behind the meter renewables, essentially being “off the grid” for purposes of paying these non-bypassable charges. Should this trend accelerate, the amounts they would have paid is simply added to the bills of others.

Additionally, under the reconciliation proposed here – similar to the earlier 83A and 83B sections - the ratepayer who is competitively supplied will essentially be paying twice for meeting the state’s Renewable Portfolio Standard. One likely outcome is that these sources will return to basic service, completely the opposite of what has been occurring and in direct conflict with the goals of the state’s restructuring law.

### **Long-term contracts need to benefit the ratepayer**

As stated, Massachusetts is in a serious economic situation with lack of diversity in our resource mix, as well as inadequate pipeline capacity for more natural gas. In some ways the status quo is not an option. Therefore, the above analysis should not dissuade the committee from considering these bills but only to suggest the committee act with caution.

As the committee considers alternatives, AIM would like to highlight some important points that any legislation should have:

- **Reducing the cost of energy and electricity should be the highest priority:** It is unclear if the goal of these bills is to solve our carbon reduction goals, ensure the reliability of our electricity system, create jobs through subsidies or address high energy costs for families and employers. Adding additional subsidies to the ratepayer bills is unsustainable. Protections should be contained in any proposal that outlines the mechanisms by which any project should be evaluated.
- **Competition in procurement will drive down costs:** Any procurement should be project blind – there should be no preconceived allegiance or carve out for any technology. In fact to the extent practical, any solicitations contained in these bills should be merged with solar program or energy efficiency programs so as to not have several different programs competing at different price levels.
- **Start small:** Committing utilities to procure large amount of power in such a short time does not allow the competitive power markets to react and adjust. The unintended consequences of such a dramatic change could be severe. Many of the programs urged in these bills will have impacts for decades to come. Unfortunately the diverse issues are not easily solved, either from cost, reliability or carbon reduction perspectives.
- **Explore other options where long-term contracts may be a part of the solution rather than the whole solution.** There may, in fact, be creative solutions that will accomplish the goals of this committee, including freezing the renewable portfolio standard after 2020. The RPS is anachronistic, designed at a time when renewables were contemplated in Massachusetts to jumpstart an industry. In future years, however, this will result in hundreds of millions of dollars leaving the state unnecessarily, particularly

where large hydropower offers similar attributes – and is in fact classified as renewable in several states. Since large hydro is not considered renewable in Massachusetts, at some point there will be a collision between the two sources, particularly as there have been attempts to increase the RPS. Clean energy should be technology neutral and unbiased for how carbon reductions are achieved and this could unleash private market innovation in energy efficiency and other programs that may reduce the need for long-term contracts.

We believe there needs to be a comprehensive approach to dealing with the supply situation. The situation we are currently in has largely resulted from excessive intrusion by state policymakers into the competitive market. More intrusion may make things worse.

At the same time, however, we understand the dilemma this committee and Massachusetts faces. We would like to be part of any conversation going forward that will make the Massachusetts energy situation sustainable, robust and result in lower costs.

Should you have any questions please do not hesitate to contact me at 617-488-8308.