



Leadership is our business

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February 10, 2014

New England Gas Electric Focus Group
c/o NESCOE
655 Longmeadow St.
Longmeadow, MA 01106

Dear Focus Group members:

AIM would like to submit these comments in response to the January 27, 2014 request from NESCOE for additional analysis concerning the adequacy of gas pipeline capacity in New England.

AIM is the state's largest nonprofit, nonpartisan association of Massachusetts employers. AIM's mission is to promote the well-being of its thousands of members and their employees and 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.

While AIM is not a member of the Focus Group, in almost every survey our members consistently rank the cost and reliability of electricity and energy as one of their primary concerns going forward. With that in mind, we would like to offer our views on New England's overall energy issues.

First, electricity costs in Massachusetts are near the highest in the nation, almost double the national average. This puts our industries at a significant competitive disadvantage when competing with businesses in other states and countries. AIM's members often cite the cost of electricity (and more broadly the overall cost of energy) as a determinative factor in deciding where to locate or expand. This is not only impacting traditional industrial facilities, but virtually every type of ratepayer in Massachusetts, including municipalities, hospitals and universities.

Second, the lack of diversity in our power generation fleet is causing strain on our system. AIM has gone on record multiple times over several years warning state regulators that our projections showed natural gas reliance was headed into dangerous territory. Unfortunately, lack of action over the last several years has pushed our reliance on natural gas in power generation from 25%,

when AIM first started warning regulators, to above 50% now. Worse, the existing units that do provide some measure of diversity – our coal plants – are scheduled to close over the next few years, leaving New England with nuclear as the only significant diversification to natural gas. While AIM would prefer our system to be more diverse the fact of the matter is our system is likely to rely on natural gas for generations. It is expected to remain plentiful, low cost, and domestic.

Third, renewable power has been a failure as a significant source of energy in Massachusetts because of incredibly high costs and low capacity due to the intermittency. Such projects resulting from special contracts have intruded on competitive markets denying ratepayers the benefits of competition, an intrusion justified on an improper economic policy. On the other hand, AIM has supported every renewable power project competitively sourced by Massachusetts utilities, because those projects are all producing power at rates near parity to traditional power.

However, despite this support, the likelihood of traditional renewable power supplying even a significant fraction of the power needs of New England in the next four or more decades are remote. This is especially the case if one is concerned about our cost disadvantage, as the larger wind projects – primarily offshore – are either prohibitively expensive, or in the case of onshore wind, need expensive transmission upgrades. Those who claim that it is possible in New England to offset rising gas use with increased renewable power are operating outside historical experience and without a credible factual basis.

While the need for additional natural gas supplies appears to be universally acknowledged, the amount needed and the method of financing is not without controversy. At this time AIM has not concluded its research and analysis and therefore has no particular preference or technical analysis to offer the Focus Group. In fact, like you, we are looking for more and better data on potential solutions before we commit to one (or several) options. However, we would like to offer some guiding principles.

First, any solution must keep in mind one important group – the ratepayer. In any solution the ratepayer must be protected. Because of past decisions by some energy policy makers, particularly with regard to subsidies for unproven technologies, ratepayers (particularly the electric ratepayer) are now on the hook for billions of dollars in subsidies for programs with unproven benefits. Costly approaches cannot be a solution.

Any analysis or solution supported by the Focus Group must show a quantifiable benefit much greater than the cost. Ratepayers have been promised savings in virtually every program supported by policy makers. Years later, when the programs are ingrained and expanded, the cost continues to rise with virtually no oversight or ability to reign costs in or the calculations of benefits have been seriously over estimated. Therefore any solution must include oversight and penalties for exceeding budgets or not meeting goal. The “blank check” mentality, where the ratepayer is the backstop for any and all costs is simply not an option.

Second, any solution must solve the problem for several years. We know we will be reliant on natural gas for decades. Legitimate gas use projections should be made so that the region solves the problem until other alternatives become more widespread.

Third, while the Governors' letter proposal also involves bringing more electric power from Canada along with more gas from northern shale regions, we urge the Focus Group to keep the two issues separate, and not to make decisions on one based on the other.

AIM has long supported bringing in additional supplies from Canada and other areas, particularly non-carbon emitting supplies, on a competitive basis. However, this should really be a separate issue, not combined with natural gas supply issues. AIM has never supported the picking of winners and losers by policy makers as often the wrong choice is made. Each project should stand on its own merits. Our concerns about subsidies, long-term contracts and other competitive market manipulations extend to electric power procurement.

Massachusetts and New England are at a crossroads. On the one hand we have become dangerously reliant on natural gas and any proposal to bring more natural gas to the region will only make this reliance worse. However, there appears to be little credible and cost-effective choice. Clean natural gas, along with vibrant energy efficiency programs and clean and cost effective renewables, is our only hope to bring Massachusetts electricity costs more in line with other states.

We urge the Focus Group to be deliberate and transparent as they consider solutions to what is a very important concern for all ratepayers in Massachusetts.

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

Sincerely yours,

A handwritten signature in cursive script that reads "Robert A. Rio".

Robert A. Rio, Esq.
Senior Vice President and Counsel