

Massachusetts Backs Efficiency

DECOUPLING ELECTRIC RATES,
PROMOTING ENERGY SAVINGS

BY IAN A. BOWLES

IS IT POSSIBLE TO GROW THE ECONOMY, cut energy costs, and protect the environment at the same time? We in Massachusetts think it is.

We come to this conclusion out of necessity. Massachusetts, like the rest of the Northeast, has long been behind the eight ball when it comes to energy based on fossil fuels. We have no coal, oil, or natural gas of our own, and we are at the end of the delivery pipeline for all those fuels. Our electricity costs are perennially among the highest in the nation, and that's a burden for our businesses and residents alike.

The best way we can save money on electricity is by using it more efficiently. That's why Massachusetts is determined to be a leader in energy efficiency – it is a natural for us, given our rich history of technology innovation.

In June, Gov. Deval Patrick worked with state legislative leaders to establish an ambitious new goal: meeting all annual growth in electricity demand through improvements in energy efficiency, rather than additional power generation, within three years.

Electricity load in Massachusetts is growing at a rate of roughly 2 percent a year, as a result of economic growth, real estate development, and increased use of air conditioning. Today, we meet roughly one-third of increased demand by energy efficiency programs funded by a service benefit charge paid by ratepayers that generates \$125 million a year. Each one of those dollars yields three dollars in savings for consumers.

But we can do more. Analysis by our Division of Energy Resources shows that, in the period 2003–2005, these programs saved energy at a price of 3.2 cents per kilowatt-hour compared with 8.9 cents per kilowatt-hour for generation. Clearly, there is much more energy efficiency that costs less than additional generating capacity. We intend to capture all of it, for



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businesses and consumers.

The first step is decoupling utility rates. Since 1998, the wholesale power market in Massachusetts has been competitive, leaving regulated utilities with responsibility only for maintaining the distribution system, yet their cost recovery is tied to how much electricity flows through their wires. This gives utilities a disincentive to do as much as they can to promote energy efficiency – even though Massachusetts ratepayers give them money to do just that. It's time to give the utilities incentives to be full partners in energy conservation.

The second step is to uncap efficiency investments beyond existing programs. Through legislation, we intend to require utilities to procure efficiency improvements up to the cost of generation. Efficiency needs to compete fully with power generation.

The third step is to leverage private resources to meet our energy conservation goals.

We made a major move in that direction in March, when the Cambridge Energy Alliance was formed. This nonprofit group represents a partnership between the city – the fifth largest in the Commonwealth – and the private Henry P. Kendall Foundation to aggregate efficiency opportunities in a way that private investors could find attractive.

Through the Alliance, lenders such as private investment companies and banks plan to provide

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A proposed \$2.2 billion Integrated Gasification Combined Cycle coal-burning power plant in West Virginia could be completed by mid-2012 at the earliest.

That scenario requires approval of the 629-megawatt plant by state regulators in Virginia and West Virginia, according to filings by the company building the project, Appalachian Power, a subsidiary of American Electric Power.

Appalachian Power said it will need to increase West Virginia rates 12 percent by 2012, when the plant goes in service, to recover costs of the project.

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www.CambridgeEnergyAlliance.org

The Cambridge Energy Alliance is a nonprofit group that identifies and supports efficiency opportunities.

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\$70 million in revolving funds to finance, over the next five years, up to \$100 million worth of investments in energy improvements in homes, businesses, and institutions ranging from compact fluorescent bulbs to combined-heat-and-power plants. The goal would be to reduce peak electricity demand by 15 percent, or 50 megawatts, annual electricity and water consumption by 10 percent, and annual greenhouse gas emissions by 150,000 tons.

Such leverage is possible thanks to the aggregation of efficiency demand on a citywide level, existing energy efficiency programs funded by ratepayers, and inducements for such investment offered by the grid operator, ISO-New England, which has begun to put efficiency on par with generation for its “forward capacity market.” Not only will it be possible to pay back energy investments with savings, it will be possible for investors to make a reasonable return on those investments.

Even as the Cambridge initiative was announced, Gov. Patrick committed \$2 million to taking the Cambridge Energy Alliance model to four other Massachusetts cities – starting with Boston, which at five times the market size of Cambridge would mean \$500 million in conservation investment.

For once, Massachusetts has an advantage when it comes to energy. As the third most densely populated state in the country, Massachusetts has the capacity to aggregate demand for efficiency in many more cities – and show the way toward a more efficient energy future. ☒

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