ASSOCIATED INDUSTRIES OF MASSACHUSETTS

1 Beacon Street, 16th Floor
Boston, MA 02108
www.aimnet.org | 617.262.1180 | fax 617.536.6785

March 13, 2017

By Email to marfp83C@gmail.com

The Massachusetts Department of Energy Resources ("DOER")
The Massachusetts Office of the Attorney General ("AGO")
Fitchburg Gas & Electric Light Company d/b/a Unitil ("Unitil")
Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid
NSTAR Electric Company and Western Massachusetts Electric Company d/b/a Eversource
(Collectively known as "EDCs")

RE: Comments relative to development of a request for proposals ("RFP") for the competitive solicitation of bids to enter into cost-effective long-term contracts for Offshore Wind Energy ("OSW") generation pursuant to Section 83C of Chapter 169 of the Acts of 2008, as amended by Chapter 188 of the Acts of 2016, *An Act to Promote Energy Diversity*.

DOER, AGO and EDCs:

Associated Industries of Massachusetts (AIM) is pleased to provide the following comments to the above mentioned issue.

AIM is the largest general trade association in Massachusetts. 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. Our members will be significantly impacted by any long-term contracts resulting from the execution of the RFP addressed by this information request, particularly if the final contractual arrangements result in higher electricity prices.

The goal of this exercise is to develop an RFP that fosters competition to ensure the resulting OSW competition leads to the lowest energy costs possible consistent with the terms of the law and with concerns related to reliability, etc. The RFP should be structured in a way to encourage all eligible resources to competitively bid for these long-term contracts and include sufficient flexibility for resources to propose solutions consistent with the intent of the law.

Many of the questions posed are technical and should properly be addressed by those who plan to participate in the eventual bidding process. As a result, our comments are limited to areas where we think an improper RFP structure could have negative cost impacts to ratepayers.

THE TIMING AND AMOUNT OF OSW PROCUREMENT SHOULD BE JUST ENOUGH TO ALLOW ROBUST COMPETITION AND SET THE STAGE FOR FURTHER COMPETITION AND LOWER PRICES IN SUBSEQUENT SOLICITATIONS (QUESTION 2 AND 3)

The energy legislation requires the solicitation of 1600 total MW of OSW in tranches not less than 400 MW, allowing a maximum of four tranches. The legislature did this because they knew that lessons learned by decision makers and the developers in the first tranche could lead to an even better process and lower prices in subsequent solicitations.

While it may seem counterintuitive to normal business bidding practices (where purchasing large amounts of something results in better prices), we believe it is in the best interest of all to proceed cautiously at first and make the first tranche as low as possible – in this case the minimum amount specified in the energy legislation - 400 MW.

Because this is the first time a competitive RFP has ever been done in Massachusetts for OSW, the first tranche is likely to be significantly higher priced than later ones. As a result, committing too many MW to the first tranche could lock the commonwealth into less favorable contract terms. Further, it is likely the cost reductions between the first and second solicitations will be greater than those between later ones. Therefore, higher prices in the first tranche could overwhelm lower prices for subsequent tranches, hurting the ratepayer unnecessarily.

In addition, a too large first solicitation could give an unfair competitive advantage to the entity that wins the first bid, chilling further competition, as it is likely the winning first bid will not only have an unfair cost advantage but also may have locked up a significant portion of the supply chain. As it is there are only three bidders – if one were to drop out after the first tranche, the level of competition would not be robust enough for a vibrant competitive environment.

Finally, it would appear that the 400 MW size was chosen with input from industry representatives during the legislative session and it was determined that this was sufficiently large to create a competitive process as well as large enough to establish a supply chain.

Momentum, of course, is also important and we need to be mindful that keeping interest high between solicitations is also important. Therefore, in order to keep bidding interest high, subsequent tranches could be slightly larger than the initial one, or they could occur at a schedule much sooner than the 24 months allowed in the legislation – perhaps 12 or 18 months.

Much will be learned during this first solicitation and perhaps there will be some adjustments necessary in the RFP process before the second solicitation. It would be in the ratepayer's best interest to solicit no more than required in the legislation for the first tranche and that amount is 400 MW.

COST-EFFECTIVENESS MEANS THE LOWEST COST PROJECT THAT COMPLIES WITH THE LAW (SECTION 6)

Massachusetts has the highest or second highest electricity costs in the United States and programs already on the books (primarily solar and other renewable energy programs) are currently adding one billion dollars per year to electricity costs, with an additional one billion dollar annual increase expected by 2018. Recent proposals by DEP (new Clean Energy Standards (CES) and greenhouse gas (GHG) emission caps on in-state fossil power plants) are likely to add hundreds of millions of dollars more to ratepayers if enacted.

In addition, recent rate increases or proposed rate increases in EDC territories are having an impact on the ability of Massachusetts companies to compete globally – these rate increases are on the order of 7-10% of total bills. Long-term contracts resulting from the OSW RFPs that are the subject of these comments will likely add more to customer bills, even if they meet the cost-effectiveness definition - cost-effective does not mean electricity prices will not rise.

Higher costs, of course, does not mean that AIM does not support the transition to clean energy through the increased use of OSW or other clean energy sources. But it does mean all parties – DOER, the AGO, the EDCs and even the project proponents have an obligation to make sure that any higher prices are justified and in accordance with the requirements of the law and that means the contracts must be cost-effective to *the ratepayers of Massachusetts*. In fact, one of the reasons AIM supported the energy bill despite the possibility of higher prices was that the legislature wisely included a provision which required this cost-effectiveness standard as an important component in determining the winner of the bid - or determining whether any contracts are signed at all. This language has already resulted in sending a strong message to bidders that competition for ratepayer dollars will be robust and only the best project will be chosen.

The decision makers can continue to reinforce this message by developing an RFP through a process that is transparent, open, and fair and contains the proper requirements and safeguards so that the eventual long-term contracts are not only *cost-effective* but also the *lowest cost options available* to meet requirements imposed by public policy or law or reliability concerns, etc. And one of the best benchmarks for this comparison is the wholesale price of electricity and renewable attributes.

Certainly, determining whether something is cost-effective over the long-term anticipated in these contracts is not easy and there will be some analysis where the confidence level of future projections are not high. But much has been learned since the last analysis of OSW contracts (Cape Wind which was not competitively bid) several years ago, including unanticipated reductions in the cost of wholesale power. This has a significant impact on the determination of cost-effectiveness of OSW and other clean energy projects.

The power contracted from these OSW projects will be sold into wholesale market in real-time with the ratepayer covering any under collection through a distribution rate adder. Obviously, the lower the projections related to future wholesale electricity costs the more difficult it is for OSW to be cost-effective or if cost-effective, the higher the ratepayer impact.

But using low wholesale energy costs (and current low REC prices) as a comparison tool are in fact an advantage to ratepayers during the bidding cycle as it sends price signals to bidders - essentially it is their competition. In the Cape Wind analysis decision makers and project proponents assumed wholesale energy prices would rise significantly over the life of the contract creating a false sense that the initial large price differential for Cape Wind would narrow and perhaps disappear. That is definitely not the case now and more reasonable cost estimates for wholesale power should be used.

One area that should not be included as part of the analysis is the notion that higher distribution costs resulting from the contract adder (which is a non-bypassable distribution charge) actually *lowers* regional wholesale energy costs through Demand Reduction Induced Price Effects (DRIPE). While this reduction, should it occur at all, is individually small, multiplied over the population of New England it is a very large "savings" and usually overwhelms any costs for Massachusetts ratepayers. In fact, Cape Wind was largely "cost-effective" due to this sleight of hand.

Only *quantifiable* benefits (and costs) to Massachusetts ratepayers based on existing laws should be compared across project bids. Laws or programs which are speculative should not be used as a "thumb on the scale" to give any project, or even OSW in general, preferable treatment. The law is very clear that if the bids are not cost-effective they can be rejected without penalty and that alone not only sends the right message to bidders but should also send the message to decision makers that this process will include the ratepayer as an important partner.

TRANSMISSION COSTS MUST BE INCLUDED IN BID PRICES AND PROJECT PROPONENTS – NOT THE RATEPAYER - MUST BEAR ANY COST RISK (QUESTION 7)

Within the bidding process, there will likely be projects which include different types of individual transmission agreements or shared transmission agreements.

AIM has no particular insight into the intricacies of transmission issues related to bringing offshore wind to market. To us, dedicated transmission systems or shared transmission systems each have their benefits and disadvantages. Either way, however our position is the same – ANY type of arrangement which brings down the cost of the project should be considered. The focus then becomes not which is better, but which brings the biggest rate savings to the ratepayer.

One determinative fact to choosing either one, though, is which model can be leveraged best during subsequent bidding opportunities to lower costs as supply chain and other efficiencies become established. Are dedicated transmission projects so constraining that it inhibits further competition or gives an unfair advantage to the first winning project? If so, that would be detrimental to obtaining further price reductions. Alternatively, shared transmission projects may themselves not lead to as robust a competitive environment as we would like, as transmission costs may be similar under every scenario.

We urge the decision makers to look beyond the bidding in the first tranche, where prices are likely to be higher, and understand which choice leads to continued robust bidding in second and subsequent tranches.

Either way, these projects need to bid as complete delivered units at prices that can be compared fairly across projects and in accordance with ISO-NE or other requirements. Our concern with many long-term projects is that while the project itself has a transparent cost, hidden costs throughout the system undercount other costs due to complicated accounting methods, resulting in overall increases in other parts of customer's bill that are not fully disclosed upfront. Transmission costs – and indeed all costs – to bring the offshore wind to the appropriate interconnection point must be allocated to the projects.

Additionally, to the extent regulated utilities have any involvement anywhere in the project in transmission or other components the bidding process must require disclosure of costs, particularly costs which may find their way to rate base. This could still happen even if companies have appropriately separated their business units. A level of heightened transparency and disclosure must be the goal of this process.

ALL RISK SHOULD BE BORNE BY THE PROJECT PROPONENTS AND PENALTIES SHOULD BE IMPLEMENTED IF PROJECTS ARE NOT COMPLETED ON TIME (QUESTION 8)

The viability of a winning OSW project is obviously very important. In addition to a clear delineation of costs, it should go without saying that the financial risks related to any failure of OSW projects are not in any way directed to the ratepayer. Penalties for cost overruns, delays, etc. must be included in any RFP and need to be clear and enforced and these are *in addition* to any ISO-NE or other regulatory penalties.

But also included should be penalties that may impact the consumer in other areas, such as noncompliance with certain state or federal laws that anticipate these projects being built. Setting construction expectations upfront (whatever they are) is important, as the fate of many compliance activities are dependent upon the construction of these projects. And of course, it goes without saying that these penalties should be returned to ratepayers in the form of credits.

For instance, no other significant Class I renewable projects will be built outside the amount contracted as part of this RFP and perhaps any Class I renewables in the clean energy RFP. That means the fate of meeting compliance obligations such as the increasing RPS are contingent upon meeting certain construction deadlines. In fact, the recently proposed DEP CES and the GHG emissions cap on power plants both clearly state that compliance with these proposed rules are contingent upon offshore wind and other clean energy entering the market – and there are very high penalties to energy suppliers and power plant operators if those proposed standards are not met.

Unfortunately, while there may be penalties to energy suppliers and others for noncompliance, these penalties are eventually passed to ratepayer in the form of higher prices, primarily because the people paying the higher prices, like suppliers (or the ratepayer) have no control over whether or not these projects are built on time. That is unacceptable. The historical uncertainty surrounding previous offshore wind construction was one reason AIM opposed both the DEP CES and the GHG cap on power plants because they both penalize the ratepayer for circumstances outside their control while the ones who cause the delay are held harmless.

THE OSW INDUSTRY SHOULD FOSTER EMPLOYMENT IN MASSACHUSETTS WHENEVER POSSIBLE (QUESTION 13)

As stated above the likelihood is that these contracts, even if cost-effective, will result in higher prices to ratepayer.

Therefore, we believe it is important for bidders to disclosure the details of their supply chain - in Massachusetts and surrounding states, and this supply chain should be given some weight during the evaluation process. Obviously, not everything can be made locally and given the location of the interconnection it is possible that some business may be located in adjacent states. Practical, but not too rigid geographical considerations should be used. Fortunately, the message has continually been sent by the Administration and others, including AIM that such information can certainly be a tie-breaker for similarly priced projects.

In the end each OSW project will bring similar benefits to Massachusetts. If the prices are significantly different it is of course easy to decide. But that will not likely be the case and a deeper analysis on the issues above will be needed to choose. However, we believe that so far the decision makers and others have chosen a strategy which sends aggressive price signals to potential bidders. This will result in vibrant competition and ultimately lower costs for ratepayers.

Thank you for allowing us to submit these comments.

Should you have any questions please do not hesitate to contact me.

Sincerely yours,

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