

A PUBLICATION OF THE MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY (MMWEC)

## FERC judge cuts transmission profits while owners call for change in ratemaking formula

New England electric bills would drop by more than \$115 million/year under a decision that reduces to a reasonable level the profit earned on investments in the region's high-voltage power grid.

In response to a complaint filed in 2011 by the Massachusetts Attorney General, MMWEC and others, an administrative law judge of the Federal Energy Regulatory Commission (FERC) on Aug 6 found the current

11.14% base rate of return on equity (ROE) earned by New England's transmission owners to be unjust and unreasonable, failing to meet Federal Power Act standards.

The decision by administrative law Judge Michael J. Cianci, Jr. states that a just and reasonable ROE would be 9.7%, which would reduce transmission owner profits and thus consumer costs by hundreds of millions of dollars.

The decision remains subject to approval by FERC commissioners, who have no deadline to decide the matter.

Transmission companies are allowed to recover from consumers the cost of building transmission lines plus a profit. The level of profit, or ROE, is set by the FERC based upon a formula that considers a number of factors, including prevailing interest rates. The current 11.14% ROE was set by FERC in 2006 when interest rates were significantly higher than today. When today's lower interest rates are plugged into the formula, the allowable ROE decreases.

"The current rate is excessive and clearly unreasonable, which results in consumers being overcharged for transmission service, the fastest growing component of the electric bill," said MMWEC Chief Executive Officer Ronald C. DeCurzio. With the ROE applied to a rapidly growing transmission investment base – more than \$3 billion in new transmission facilities are planned between 2014 and 2017 – the damage to consumers will compound in the coming

years unless the ROE is corrected, DeCurzio said.

The 11.14% ROE currently yields approximately \$1.755 billion in annual profits for New England's transmission owners, according to the Attorney General.

After nearly two years of litigation, Judge Cianci's decision was widely anticipated, as exercise of the ROE formula by FERC staff and parties to the case yielded results leaving no doubt the current ROE is in-

flated.

In anticipation of an unfavorable decision, early in June the Edison Electric Institute (EEI), an association of investor-owned utilities, including transmission owners, issued a white paper urging the FERC to

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*"The current rate is excessive and clearly unreasonable, which results in consumers being overcharged ..."*

*MMWEC CEO Ron DeCurzio*



*After a recent tour of the Berkshire Wind Power Project, high school science and technology teachers Vito Dell'Aera and Ashley Ocana construct wind turbine models for use in their classes this fall. More on Page 3.*

## MMWEC supports FERC info sharing plan to ease natural gas issues, but winter pipeline deficit remains

MMWEC supports a Federal Energy Regulatory Commission (FERC) proposal to authorize natural gas pipeline and power grid operators to share non-public, operational information in the interest of improving system reliability.

"Expanding the scope and substance of communication between electric power grid and natural gas pipeline operators is a core requirement for ensuring reliability of an electric power system that is increasingly dependent on natural gas," MMWEC states in its comments to the FERC, which requested feedback on a Notice of Proposed Rulemaking (NOPR) that would expand communications.

However, information sharing alone will not solve the price and reliability problems that stem from a lack of adequate winter pipeline capacity in New England.

"There needs to be communication, discussion and agreement on the need to

share the costs of new infrastructure on an equitable basis among all users and beneficiaries of the pipeline system," MMWEC states. "Until these issues are resolved, constraints on the supply of natural gas to New England will continue to threaten electric system reliability and unduly inflate the cost of electricity to New England consumers."

### **ISO picks MMWEC for winter reliability program ..... Page 4**

The FERC has undertaken a number of activities to explore and address the consequences of increased reliance on natural gas to generate electricity. The problem is most acute in New England, where reliance on natural gas has gone from about 10% in 1990 to more than 50% today.

The proposed rulemaking on information sharing is a result of several FERC technical conferences and extensive input by

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## HELPS Program wins ENERGY STAR leadership award



**HELPS**  
Home Energy Loss  
Prevention Services

**M**MMWEC's Home Energy Loss Prevention Services (HELPS) Program has earned a 2013 ENERGY STAR Leadership in Housing Award from the U.S. Environmental Protection Agency (EPA) in recognition of MMWEC's commitment to promoting ENERGY STAR homes.

"This award recognizes your organization's work in promoting energy efficient construction and helping to protect the environment through its partnership with ENERGY STAR," the award notice states. ENERGY STAR is an EPA program that helps businesses and individuals save money and protect the environment through superior energy efficiency.

The HELPS Program is MMWEC's residential energy conservation services program for Massachusetts municipal utilities, providing ENERGY STAR and other rebates as well as energy education, home energy audits, assistance with home energy improvements and solar assessments. Utilities participating in the HELPS Program offer a variety of rebates and incentives to assist customers with implementing energy efficiency measures.

For commercial and industrial customers of municipal utilities, MMWEC offers its Green Opportunities (GO) Program, which provides utilities with customized energy solutions that include energy audits, rebate processing and tracking/reporting of energy efficiency savings.

Generally, efficiency measures covered through the GO Program include, but are not limited to, lighting and lighting controls, HVAC equipment, energy management systems and other site-specific custom measures that result in energy savings.

The GO program also offers opportunities for utilities to strengthen their relationships with local businesses while reducing energy consumption and costs.

For more information about these programs, visit the HELPS Program website at [www.munihelps.org](http://www.munihelps.org) or the GO Program website at [www.mmwegoprogram.org](http://www.mmwegoprogram.org).

## FERC judge cuts transmission profits ..... continued from Page 1

change it's long-standing method of making ROE decisions. The white paper urges the FERC "to provide regulatory certainty by continuing to authorize stable returns that are commensurate with the risks inherent in building transmission."

Soon thereafter, on June 26, the Working Group for Investment in Reliable and Economic Electric Systems (WIRES), which calls itself the voice of electric transmission owners and investors, filed a petition with the FERC asking for "an expedited generic reexamination of the Commission's approach to setting allowed base returns on equity".

The EEI paper and the WIRES petition argue that application of the FERC formula will result in lower ROEs and discourage investment in transmission facilities. The EEI and WIRES positions reflect the arguments of New England transmission owners during the FERC case and their statements after the issuance of Judge Cianci's decision.

Conspicuously missing from these arguments is any mention of existing federal incentives for development of transmission facilities that significantly limit risks and can increase profit on transmission investments.

Through these incentives, established by Congress in the Energy Policy Act of 2005 and implemented by the FERC in 2006, transmission owners have received:

- \* A ROE adder up to 1.5% to encourage transmission investment;
- \* A ROE adder of 0.5% for participation in a regional transmission organization such as ISO New England;
- \* Permission to recover costs for construction work in progress (CWIP) from ratepayers;
- \* Guaranteed recovery of prudently incurred costs for abandoned transmission projects.

For example, Northeast Utilities is making nearly 13% in profit on its investment in the New England East-West Solutions (NEEWS) transmission project, including the 11.14% base ROE, a 1.25% ROE



incentive adder for risk mitigation, and a 0.5% ROE incentive adder for participation in ISO-NE. The utility also received authorization to recover CWIP charges and abandoned plant costs.

Arguments made in the WIRES petition are refuted point-by-point in a letter submitted to the FERC on July 12 by MMWEC and a broad, national coalition of 68 public utility commissions, industrial electric consumers, public power systems, state and nonprofit consumer advocates, rural electric cooperatives, and environmental organizations.

"The Commission should continue to scrutinize public utilities' transmission rates to ensure that all elements, including ROE allowances, remain just and reasonable in light of changing economic conditions, as the Federal Power Act (FPA) requires," the letter states. "The FPA does not require the continued payment of ROE allowances that are unduly high ... simply because at some point in the past, the Commission found such an ROE to be just and reasonable under then-prevailing circumstances.

"EEI was not heard arguing for recovery of past rather than current capital costs when ROEs were rising," the letter states. "Its call for 'stability' is therefore nothing more than a call to make rate regulation a one-way street," MMWEC and the others state.

Judge Cianci's decision rejects the transmission owner arguments about changing the calculation for determining ROE, but it states that the full Commission "is free to consider any policy changes it believes are warranted" in making the ultimate FERC decision.

Meanwhile, the level of investment in New England transmission facilities and the cost of transmission service keep escalating. The investment in transmission has increased from roughly \$4 billion in 2010 to approximately \$8 billion in 2013. It is projected to increase to more than \$11 billion in 2017, at which point consumers will be paying about 2.4 cents/kilowatt hour for transmission service, compared to less than 1 cent/kilowatt hour in 2008.

## Connecticut generation tax on Massachusetts municipals set to expire

The Connecticut tax on electric generation is set to expire at the end of September 2013, lifting a burden on Massachusetts municipal utility consumers that MMWEC has opposed since the tax was enacted.

In 2011, Connecticut became the first and only state to tax electric generation, putting a levy of 0.25 cents/kilowatt hour on electricity generated within the state, with exemptions for renewable energy and in-state political subdivisions.

MMWEC owns 4.8% of Millstone Unit 3 in Waterford, CT, and joined Dominion Resources, Millstone's lead owner, in opposing the tax as a whole.

In addition, MMWEC disputed the tax as it applied to Massachusetts political subdivisions, including MMWEC and the 27

Massachusetts municipal utilities that purchase Millstone power from MMWEC.

In numerous meetings with MMWEC, various Connecticut state officials acknowledged that application of the tax to Massachusetts political subdivisions was an unintended consequence of the law, but a potential loss of revenue during dire budget times prevented action on an exemption from the tax for MMWEC.

Over the past two years, Dominion has billed MMWEC for 4.8% of the tax on Millstone Unit 3 generation, costing MMWEC and its municipal utilities about \$2.4 million, which has been paid under protest.

The tax was implemented on July 1, 2011 and set by law to expire on June 30, 2013. However, in his state budget for fiscal years 2013 and 2014, Connecticut

Governor Dannel Malloy proposed extending the tax for an additional two years, through June 30, 2015.

Extension of the generation tax was opposed by MMWEC, Dominion and others, including the attorneys general from Massachusetts and Rhode Island. In a compromise between the governor and legislators during budget deliberations, the Connecticut General Assembly in June approved legislation extending the generation tax for a 3-month period, from July 1, 2013 through Sept. 30, 2013.

The extended generation tax is expected to cost MMWEC and its municipal utilities approximately \$327,000. After that, the tax will expire.



## Berkshire Wind a summer classroom for technology teachers and ISO interns

For the science and technology teachers who toured the Berkshire Wind Power Project in June, the project is a lesson about the career opportunities for students interested in renewable energy development.

For the ISO New England (ISO-NE) interns who toured the project in July, it is a lesson on the technical, legal and financial challenges associated with integrating wind energy into New England's power supply.

In addition to being an important energy resource for the Berkshire Wind Power Cooperative municipal utilities, the Berkshire Wind Project continues to be an educational resource for those interested in learning about renewable energy.

Educating students and teachers about the expanding base of jobs related to renewable energy is the focus of the Educating for Clean Energy program, a professional development program for teachers, funded with a grant from the Massachusetts Clean Energy Center and offered in cooperation with the Regional Employment Board of Hampden County and the UMass School of Education.

This is the second year that the high school and community college teachers participating in the program visited Berkshire Wind as part of the curriculum, which includes classroom time as well as visits to other facilities. This year, some of the classroom time included construction of wind turbine models for use in classrooms this fall. Teachers will be returning to their science, technology, engineering and math classrooms this fall, integrating what they learned about renewable energy development into their courses.

"The teachers were very excited about how much they learned and the unique perspective they gained being up close to the turbines and substation," said Susan Reyes, a program manager from the UMass Amherst School of Education.

Berkshire Wind also hosted more than 20 undergraduate and graduate students working as summer interns at ISO-NE. The interns represented a variety of disciplines, including engineering, finance, accounting, economics and legal.

"This is a great opportunity for our interns to see and hear a wind project in operation," said Alison McAlear, ISO-NE University Relations Specialist.

The 10-turbine, 15-megawatt project is owned by the Berkshire Wind Power Cooperative, which consists of MMWEC and 14 of its member municipal utilities. It started commercial operation in May 2011. A tour of the project for Cooperative members is being planned for the fall.

Berkshire Wind has achieved a capacity factor of approximately 36% since it started operating, which means that sufficient winds were blowing to operate the wind turbines at 36% of their full generating capability. This is a relatively high capacity factor for a wind project, reflecting the excellent wind conditions at the project's home on Brodie Mountain in Hancock, Massachusetts.



*Undergraduate and graduate students working as summer interns at regional power grid operator ISO New England, above, toured the Berkshire Wind Power Project in July.*

## S&P affirms A-level ratings on all MMWEC power projects, Berkshire Wind

**S**tandard & Poor's Rating Services has affirmed its A-level ratings of MMWEC power supply projects and the Berkshire Wind Power Project.

"This action affirms that the MMWEC organization is in sound financial condition and that MMWEC and its project participants are managing their assets wisely," said MMWEC Chief Executive Officer Ronald C. DeCurzio.

The Standard & Poor's ratings include an A+ rating for three MMWEC projects and an A and A- rating for two others. Standard & Poor's also affirmed the A- rating for the Berkshire Wind Power Project.

All of the MMWEC projects are rated A+ by Fitch Ratings and have A-level

ratings from Moody's Investors Service.

The five rated MMWEC projects reflect MMWEC's ownership in the Millstone Unit 3 and Seabrook Station nuclear units. MMWEC's approximately \$284 million in outstanding debt associated with the projects is scheduled for retirement no later than 2019, while the nuclear units are licensed to operate until 2045 and 2030, respectively.

"This means that the nuclear units will be operating long after the related debt is retired, adding significant value to these resources for MMWEC project partici-



pants," DeCurzio said.

In reviewing MMWEC's credit standing, rating agencies examine numerous factors, including project operations and the ability of project participants to pay their share of MMWEC's debt service. MMWEC sells the output of its projects to 28 Massachusetts municipal utilities and one Rhode Island utility under contracts that require the utilities to pay their share of project costs, including the debt service on MMWEC bonds.

Standard & Poor's finds strength in the financial positions of MMWEC's project participants, including low retail rates, local rate-setting authority, strong liquidity, limited capital requirements and a supportive regulatory environment.

## Natural gas/electric information sharing .....Continued from Page 1

electric and natural gas industry stakeholders, including MMWEC.

The proposal would allow the exchange of information that is barred from disclosure under current regulations. To address concerns that sharing such information could lead to undue preference or disruption of competitive forces in electricity and natural gas markets, the FERC has proposed a "No-Conduit Rule" that prohibits recipients of the information from subsequently disclosing it to any other entity.

"The cross-industry sharing of non-public, operational information breaks new regulatory ground and raises concern about impacts on entrenched practices within the electric and natural gas industries," according to MMWEC. Breaking such barriers is a step in the right direction "that should not be inhibited by fear of the unknown, particularly in light of the safeguards proposed and the urgency of the electric/natural gas issues that exist," MMWEC states.

MMWEC's comments also call for three-way communications between pipeline operators, power grid operators and generators when generators are the subject of communications between the pipeline and power grid operators. MMWEC also suggests that in the absence of voluntary information sharing, new regulations should be implemented requiring generators to share information critical to system reliability with grid operators.

"As with other aspects of the proposed rulemaking, it is impossible to foresee the actual outcome of such a requirement," MMWEC states. "However, the lack of such knowledge should not prevent the implementation of a requirement that appears to be essential to the overall success" of the proposal.

In appealing for regulatory direction in developing new cost-sharing constructs for needed pipeline capacity, MMWEC states that the cost to New England consumers of inadequate natural gas infrastructure are growing steadily. MMWEC cites at least \$60 million in extra charges stemming from fuel supply issues last winter and another \$80 million in added costs for a 2013-14 winter reliability program proposed by ISO New England.

"At this rate, it won't be long before the cost of inadequate pipeline capacity surpasses the cost of building new pipelines," MMWEC states.

## ISO picks MMWEC for winter reliability program

MMWEC is among several entities picked by ISO New England to implement a 2013-14 winter reliability program that is intended to ensure the availability of oil-fired electric generation in the event of natural gas supply constraints during the coming winter.

Under the program, oil-fired generators would be paid about \$79 million to stockpile oil for use if cold weather, high demand and pipeline constraints limit the availability of natural gas for electric generation in New England. The program, which requires FERC approval, would be funded by the region's electricity consumers.

MMWEC was selected to provide about 182,500 barrels of oil at its dual-fueled Stony Brook power plant. Net payments to MMWEC, which will depend upon oil procurement and hedging costs, will help to offset the costs of the program for consumers of the 25 Massachusetts municipal utilities participating in the Stony Brook project.



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