

Comments of Environmental Entrepreneurs (E2) on D.P.U. 07-50

Investigation by the Department of Public Utilities on Motion into Rate Structures that will Promote Efficient Deployment of Demand Resources

**Massachusetts Department of Public Utilities
September 8, 2007**

Thank you for the opportunity to comment on this vitally important issue. We represent Environmental Entrepreneurs (E2) (www.e2.org), a national community of over 800 prominent business leaders -- 70 of them in Massachusetts -- who believe in protecting the environment while building economic prosperity.

We are writing to strongly support decoupling of the revenue incentives for gas and electric companies from increased consumption and thus reduce disincentives to the efficient deployment of demand resources in Massachusetts. We believe this will ultimately lower the cost of energy in the Commonwealth and spur economic growth.

E2 and its members, who come from a wide range of business backgrounds, are widely recognized as a resource for understanding the business perspective on environmental issues. As a group of entrepreneurs, investors and professionals who collectively manage over \$100 billion of venture capital and private equity, have started well over 800 businesses which in turn have created over 400,000 jobs, we believe that Massachusetts has many of the right ingredients to lead the clean energy economy if rhetoric is quickly turned into action.

The business case for energy efficiency in Massachusetts

Massachusetts has among the highest electricity costs in the nation¹ which has a negative impact on doing business in the Commonwealth. As the demand for energy increases, the lowest cost resource for meeting this demand is energy efficiency² — getting more and better output using less energy. Unfortunately utilities currently have strong *disincentives* to implementing more robust energy efficiency programs as long as their revenue is tied to consumption.

We believe it is critically important for Massachusetts to enact decoupling because it will improve our State's competitive position; increase economic growth and new job creation; and reduce the high cost of energy.

Improve our State's competitive position

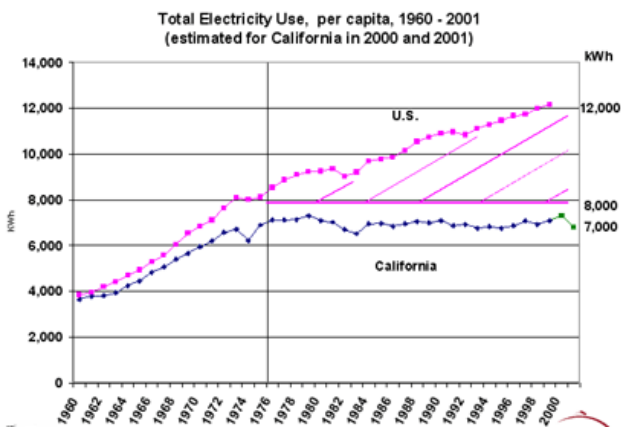
At least seven other states now have approved decoupling mechanisms for at least one regulated natural gas or electric utility (California, Oregon, Maryland, North Carolina, Ohio,

¹ *Electric Power Monthly*, Energy Information Administration, (August 15, 2007) at Table 5.6.A. (http://www.eia.doe.gov/cneaf/electricity/epm/table5_6_a.html)

² *Massachusetts Energy Efficiency Program Benefits*, Environment Northeast (Summer 2007).

Utah and New Jersey.³⁾ Massachusetts competes for high tech jobs and corporate locations with these and other states, many of which have much better regulatory support for energy efficiency.

In California, a pro-efficiency regulatory environment has enabled economic growth without commensurate growth in energy usage. California which has had this policy and other



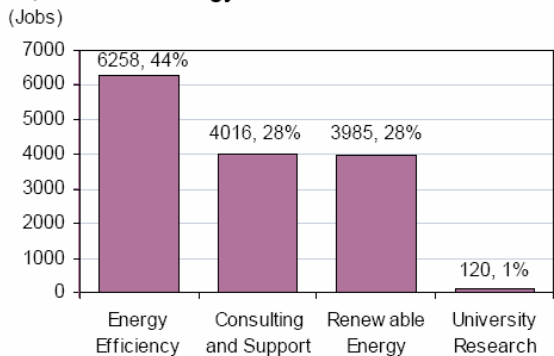
aggressive energy efficiency regulations in place for years proves that it works. Since 1974, that state has held its per-capita electricity consumption essentially constant, while electricity use per person for the United States overall has jumped 50 percent.⁴ California has cut greenhouse-gas emissions, maintained economic growth, and reduced energy costs for the average Californian family by about \$800 a year based on energy efficiency improvements. It is estimated that its energy efficiency investments have resulted in \$56 billion in reduced energy costs since 1975 and will lead to another \$23 billion in savings by 2013.⁵ To compete effectively,

Massachusetts needs a comparable regulatory regime.

Increase Economic Growth and New Job Creation

The local businesses that are involved in providing energy efficiency and demand-side services generate economic growth for the state and jobs for our citizens. The recent Clean

14,400 Clean Energy Jobs In Massachusetts



Energy Census showed that the Massachusetts' clean energy cluster supports 14,400 jobs and is poised to be 10th largest industry in the state. Energy efficiency and demand response firms supply almost 6,300 of these jobs, or 44% of the total with growth over the next year expected to be 25%.⁶

Moreover, increased investments in efficiency and demand-side programs keep more of our energy dollars at home rather than sending this revenue to other states or countries.

Reduce the High Cost of Energy

Energy efficiency is the quickest, cheapest, cleanest answer to the looming energy crisis. For every \$1 invested in energy efficiency, more than \$3 is saved. Efficiency programs deliver energy savings at about 3.2 cents per kilowatt hour while energy supply costs customers about

³ Aligning Utility Interests with Energy Efficiency Objectives, ACEEE, October 2006, Report Number U061

⁴ See California Public Utilities Commission and California Energy Commission, *Energy Efficiency: California's Highest-Priority Resource*, (June 2006) at p. 3.

⁵ See *id.*

⁶ Massachusetts Clean Energy Industry Census, August 2007, Massachusetts Renewable Energy Trust

10 cents per kilowatt hour.⁷ Energy efficiency reduces rates overall by lowering demand; reduces the need for new and expensive power plants; and pays dividends to customers in the form of lower bills.

Comments on the specifics of the proposal

We strongly recommend that Massachusetts implement decoupling in such a way as to fully remove disincentives from utilities for implementing energy efficiency measures and clear the way for strong incentives to implement these measures. Towards that end, we have three specific recommendations:

- Adopt a symmetrical decoupling mechanism that regularly trues-up billed revenues to an allowed revenue requirement – returning any over-collection to customers and enabling utilities to obtain under-collections.
- Instead of using an oversimplified approach of looking solely at revenues per customer, the revenue adjustment mechanism should take into account additional real cost drivers such as forecasted capital investments, inflation and productivity.
- Breaking the link between utilities' commodity sales and revenues is necessary but not sufficient. Additional mechanisms such as performance-based incentives to deliver cost-effective savings, and distribution enhancements, will be needed to align shareholder and customer interests. In our experience as entrepreneurs and businesspeople we understand how critical the profit incentive is in motivating business behavior.

Thank you for the opportunity to comment on an issue vital to the future of the business environment in the Commonwealth. We look forward to further participation in this process.

Sincerely,
E2 New England Policy Committee

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⁷ Climate Change Roadmap for New England and Canada, Environment Northeast, 2006