



## MASSACHUSETTS HOSPITAL ASSOCIATION

September 10, 2007

Ms. Mary L. Cottrell  
Secretary  
Massachusetts Department of Public Utilities  
One South Station – 2<sup>nd</sup> Floor  
Boston, MA 02110

RE: Investigation by the Department of Public Utilities on its own Motion into Rate Structures that will Promote Efficient Deployment of Demand. Resources, D.P.U. 07-50

Dear Secretary Cottrell:

The Massachusetts Hospital Association (MHA) is a voluntary, not-for-profit organization comprised of hospitals and health systems, related organizations, and other members with a common interest in promoting the health of the people of the Commonwealth. Through leadership in public advocacy, education, and information, MHA represents and advocates for the collective interests of its member hospitals and health systems, and supports their efforts to provide high quality, cost effective, and accessible health care.

While Massachusetts hospitals and health systems are facing an era of unprecedented change, MHA members remain committed to their most basic mission: caring for people. To continue to fulfill this mission, the hospitals and health systems of Massachusetts support a set of fundamental values. Among these values, MHA's members hospitals seek to focus on the needs of patient and the health status of the community; use resources wisely and support incentives for high quality, cost-effective care; and support innovation and leadership in advancing the clinical process, new delivery models, and discover ways to lower cost and reconfigure capacity.

On June 22, 2007, the Department of Public Utilities issued an order, D.P.U. 07-50, opening an investigation into rate structures that will promote efficient deployment of demand resources. The Massachusetts Hospital Association, on behalf of its members, wishes to express its reservations regarding the proposed electric rate structures. As our member facilities have multiple uses and types of services that demand significant amounts of electrical power – including environmental controls and advanced technologies that have greatly improved the quality of care that we provide to our patients, this proposed rate structure could impose significant financial burdens on our member facilities.

Hospitals have unique and intensive energy use requirements. In addition to the need for uninterrupted lighting and heating 24 hours a day, hospitals demand extensive energy use for ventilation, advanced technologies, sterilization, laundry, and food preparation. In the United States, hospitals use more than twice as much energy per square foot as office buildings. Hospital

energy costs can run as much as 8 percent of operating expenses and, in some cases, even higher. Every year, U.S. hospitals spend an average of \$1.67 per square foot in electricity costs, and another 48 cents per square foot on natural gas costs. And in order to compete in an increasingly competitive healthcare landscape, hospitals are now offering new or specialized services and equipment, particularly in the areas of imaging and radiology that have significant impacts on the energy use of our member facilities.

MHA and its member facilities in Massachusetts, with the above-mentioned energy demands, oppose the proposed rate structure since it would introduce utility “revenue decoupling” for electric power rates for hospitals and all energy consumers. MHA has serious concerns with this proposal since it departs from the current electricity rate setting mechanism where costs, revenues and profits are analyzed as a whole. Decoupling eliminates thoughtful regulatory analysis conducted through the current rate setting process by instead guaranteeing for the utility a revenue stream paid by hospitals regardless of how much power they use.

Primarily, when hospitals conserve energy, their electric bill is reduced because the hospitals are purchasing less power. Unfortunately, under the proposed revenue decoupling plan, hospital expectations of savings from conservation could be reduced or even eliminated. In other words, hospitals may believe that conservation will reduce energy costs, but potential savings may be consumed by increased utility payments which are independent from the amount of energy a consumer uses. Utilities would be guaranteed payment from the hospitals’ savings from conservation. Yet this would diminish the hospital’s incentive to conserve in the first place.

Hospitals across Massachusetts, along with other businesses, are focused and highly engaged in developing “Green Building” designs. This concept is the practice of increasing the efficiency of buildings and their use of energy, water, and materials, and reducing building impacts on human health and the environment, through better siting, design, construction, operation, and maintenance. The key issue to Green Building is ensuring the efficient operations and maintenance will lead to reduced operating costs by increasing productivity and using less energy and water, improved public and occupant health due to improved indoor air quality, and reduced environmental impacts. With the increased energy costs related to operating innovative and specialized services, hospitals and other business should be encouraged to adopt more environmentally sound practices like Green Building designs.

While MHA strongly believes that utilities should be able to recover their costs, initiatives to this end should not endanger the efforts by business to develop alternatives to reducing environmental harm. When utility revenues decline because of a reduction in sales for any reason, including energy conservation, or when there are increased expenses due to operating requirements; then the utilities, by right, should file a rate case with the Public Utilities Commission. In such cases, the Commission will examine what happened, what a fair return is, and what new rates should be adopted. A utility’s cost increases and offsetting cost reductions are considered together in such proceedings, and appropriate customer-class cost allocations are determined. This impartial, considerate approach is more equitable for utilities, hospitals, businesses, and residential consumers.

Massachusetts hospitals, already burdened with the costliest charges for electric power in the continental U.S., do not need to compound these high rates that they are already facing with a revenue decoupling program that could raise costs even further. Hospitals, through increased conservation of energy and sound green construction practices, should be able to redeploy these

resources to fulfill their basic mission of providing the highest quality of healthcare for all Massachusetts' residents.

MHA, on behalf of its member hospitals, appreciates the opportunity to submit these comments. Thank you for your time and your consideration of this matter.

Sincerely,

Michael Sroczynski  
Senior Director, Government Advocacy  
Massachusetts Hospital Association