

# 2002 Campaign Initiative

Keeping Massachusetts Competitive... and Investing For The Future

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## INFRASTRUCTURE POLICY BRIEF: ENERGY

*One in a series of policy briefs outlining the critical challenges facing  
Massachusetts's next governor — and ways to effectively address them.*

### Policy Brief Series:

■ INFRASTRUCTURE

ENERGY

TRANSPORTATION

WATER

TELECOM

■ HIGHER ED/SCIENCE

■ K-12 EDUCATION

■ HEALTH CARE

### Why is this important?

The future growth of the economy is directly linked to the availability of reliable and reasonably priced energy. Energy has become such an important driver in the nation's economy that the last three recessions have been linked to sharply rising energy costs. Conversely, when energy costs have been stable, the economy has grown with a corresponding increase in energy consumption. While economic growth is dependent on many factors, a reliable supply and stable cost of energy are vital.

### What are the challenges?

Several issues must be addressed to fully attain the goals of the 1997 electricity restructuring legislation:

- **Costly Electricity Transmission Constraints:** In 1999, transmission bottlenecks in New England cost consumers more than \$120 million. According to ISO New England, transmission congestion could cost Massachusetts' consumers millions of dollars annually over the next several years. Electricity generating capacity is less of an issue now due to the number of plants that have been constructed recently. However, additional electric transmission capacity needs to be built to minimize transmission congestion and to move electricity more freely throughout the region.
- **Minimal Retail Competition for Small Electric Customers:** To date, over 40% of the state's large commercial and industrial customer load is supplied by competitive suppliers. However, retail markets for small commercial and residential customers have been considerably slower to develop. This is primarily because transitional retail rates under the Restructuring Act have been, for the most part, at or below market-priced wholesale generation costs. This has limited the number of companies willing to compete in the state to serve smaller customers.
- **Decreasing Fuel Diversity:** The greater use of natural gas - with historically volatile prices - has raised concerns about fuel diversity for electricity generation. Within the next several years, it is likely that almost 50% of the region's electricity will be generated by natural gas. Fuel diversity for generating electricity helps assure stable and reliable electricity markets.

# INFRASTRUCTURE POLICY BRIEF: ENERGY

## FOCUS

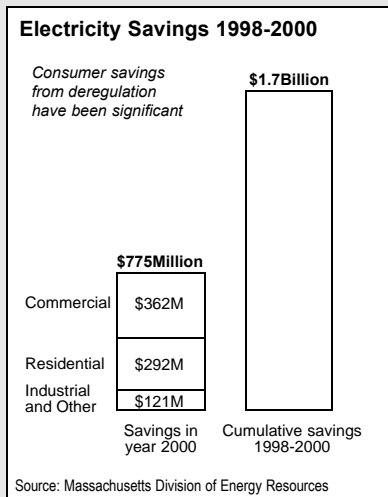
### **Industry Restructuring is Working: Consumer Savings, New Plants, Cleaner Air**

With the passage of the Electric Industry Restructuring Act in 1997, Massachusetts began to restructure its electricity industry.

Since then, substantial progress has been made:

#### ■ **Over \$1.7 Billion in Electricity Consumer Savings.**

From rate reductions mandated by the Act, residential, industrial and commercial consumers have saved over \$1.7 billion.



#### ■ **Enhanced Reliability From New Power Plants.**

More power plants have been built in New England over the past five years than at any other time in recent history. Almost 10,000 MW of new power plant capacity has come on-line, begun construction or been proposed.

#### ■ **Cleaner Air.**

All new power plants under construction are natural gas-fueled which are twice as efficient and up to 10 times cleaner than older fossil-fueled units.

### **What are the next governor's options?**

Policymaker and/or legislative efforts may be needed to assure that the restructuring process remains on track. While restructuring efforts are being implemented on a state-by-state basis, the electricity grid is an integrated regional operation. Therefore, regional coordination may be needed to address some of the following:

- **Greater Retail Competition for Small Electric Customers:** Foster the development of a robust competitive retail market for all customers and ensure a smooth ending of the seven year transition period when it expires in early 2005. Continued consumer education is needed with a review of government assistance criteria for low-income residents.
- **Maintaining Reliability and Improving Transmission Network:** Encourage a regulatory environment that supports continued development of power plants as they are needed, maintains reliability and reasonable prices, streamlines permitting and sets priorities for transmission and other energy infrastructure.
- **Fuel Diversity:** Ensure the region maintains a well-balanced mix of fuels for electricity generation, including renewable technologies, and fuel-switching capabilities. Ensure the Massachusetts Renewable Energy Fund, established by the Legislature, is used to invest in viable renewable electricity projects in a timely manner.
- **Renewable Energy:** Reduce our dependence on fossil fuels through measures like the Massachusetts Renewable Portfolio Standard, which mandates that utilities serving Massachusetts customers generate a certain percentage of electricity from renewable energy sources. The RPS goes into effect in 2003.
- **Improved Air Quality:** Include market-based approaches to continue to reduce air emissions as cost effectively as possible while maintaining fuel diversity and electric system reliability.
- **Natural Gas Pipeline Capacity:** Work with other New England states and Canada to ensure adequate natural gas pipeline capacity.

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***"Economic health is directly linked to the availability of reliable, reasonably priced electricity and sound energy policies."***

**-- James T. Brett  
President and CEO  
The New England Council**

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*Mass Insight convened several experts in the field of energy to prepare this policy brief.*

*Mass Insight's 2002 Campaign Initiative is a unique briefing series for the media and statewide candidates and later the transition teams, focusing on critical competitive issues facing the Commonwealth. The issues that are the focus of the Initiative - Controlling Costs, Infrastructure (Transportation, Water, Energy, Telecommunications), Higher Education/Science, Health Care, and K-12 Education - have all been identified by business leaders as essential to creating new jobs and maintaining a positive business environment.*