CCM-101

City of Cambridge

54.

IN CITY COUNCIL

March 31, 1997

COUNCILLOR GALLUCCIO
COUNCILLOR DUEHAY

ORDERED: That the City Council goes on record supporting proposed legislation for electricity markets that:

1. Allows cities and towns the right to aggregate all the city's buyers into one buying unit, for the purposes of buying the most beneficial electricity deal for Cambridge consumers. Individual rate payers would have the right to "opt out" of any municipal aggregation; and

2. Prevents Cambridge from losing $2.4 million if the real property taxes are changed so that Cambridge cannot collect taxes on utility company equipment and machinery; and

3. Prevents utility companies from charging utility customers for the bad investments, or stranded costs, of the past; and be it further

ORDERED: That a copy of this resolution be sent to all cities.

In City Council March 31, 1997
Adopted by the affirmative vote of eight members.
Attest:- D. Margaret Drury, City Clerk.

A true copy;

D. Margaret Drury

ATTEST:-
D. Margaret Drury
City Clerk

Galluccio / Duehay Late orders

That the City Council goes on record supporting proposed legislation for electricity markets that:

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(2) Prevents Cambridge from losing $2.4 million if the real property taxes are changed so that Cambridge cannot collect taxes on utility company equipment + machinery

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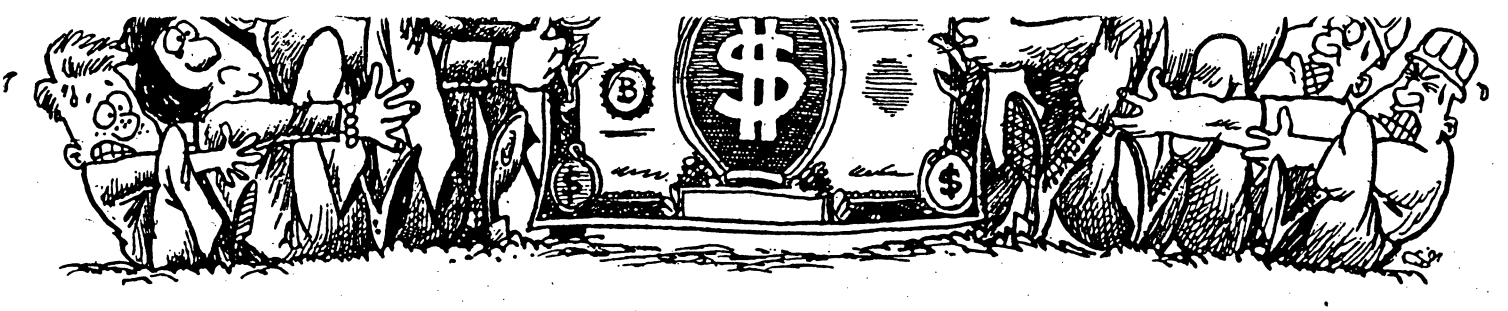
FD - copies sent to all cities & towns

VV/8



The Federal Energy Regulatory Commission Chair, Elizabeth Moler, stated in March, 1995 that "utilities cannot be expected to be willing participants in restructuring unless their prudently incurred costs are recovered." President Clinton's Council of Economic Advisers has stated that "recovery should be allowed for legitimate stranded costs."

So, stranded investment recovery is not some clever bailout but a necessary part of restructuring. We shall have pain enough. We have been required to sell our fossil and hydroelectric plants and to seek to divest our other generating interests. The initial stranded investment charge of 2.8 cents per kilowatt-hour is less than the 3.4 cents now in our rates for these items, and the proceeds from selling our plants will further reduce the stranded investment charges.

The restructuring plans now before the Legislature will result in immediate savings for all consumers and make possible even larger savings in the future. In Massachusetts Electric's pilot programs, residential and business customers have saved between 5 and 18 percent as we recovered our stranded costs.

Those who advocate less than full recovery should support full deregulation. Utilities like mine eagerly would embrace the opportunity to have an upside on our wires under full deregulation, which would offset the downside for our generators.

But those who think the state should stay on the fast track to change — with all the immediate benefits a restructured industry offers — should support these efforts, and urge their utility to do the same. □

John W. Rowe is president and chief executive officer of New England Electric System.

Power play

JOHN T. O'CONNOR

■ Plan isn't consumer-friendly

Considering that Massachusetts has some of the highest electric rates in the nation, it should come as welcome news the Legislature has announced its plan to deregulate the electric-utility industry.

In theory, deregulation would let customers shop for electricity the way they select a long-distance phone company. Not only could this new choice mean savings, it could also prove beneficial to the environment, giving customers the option of selecting environmentally sound "green electricity" like solar power. Yet instead of ushering in a new age of cheaper, cleaner electricity, the present Massachusetts "deregulation" looks like a lost opportunity.

Deregulation, as first advocated by Attorney General Scott Harshbarger and now by Gov. William Weld and many legislators, will not save consumers nearly as much as it should. This is because of a new legal fiction invented by the utility companies called "stranded costs." Stranded costs is the euphemism that the government-protected utility monopolies use to describe the huge debts incurred from investments in nuclear power and other projects that didn't work out. The current scheme slaps consumers with an "access charge" (read "excess" charge) to pay for these stranded costs, regardless of whom they choose to supply their electricity. In Massachusetts, stranded costs are estimated at more than $10 billion.

Who should pay for these bad investments? The attorney general and the governor think everyday ratepayers, not utility shareholders, should foot the entire $10 billion bill. While this is just more bad news for most Massachusetts residents, it's great news to the shareholders and bondholders, most of whom live out of state. They are expected to enjoy a nearly 12 percent return on equity in 1997, while the rest of us are supposed to be content with the prospect of lower electricity rates.

But how real a prospect is this? Not a very real one, according to most utility executives. Business Week magazine reports that last fall the Washington International Energy Ltd. Consultancy asked utility executives whether competition would significantly reduce the average family's electric bill. A whopping 82 percent answered "No." If ratepayers were truly allowed to pay the lowest price, they could cut their electric bill by a full third. Yet the current plan only guarantees a modest 10 percent reduction, and that is for just one year.

If Massachusetts residents do not insist on better treatment than the current scheme, they will scatter the same fate as the people of California. There, a similar plan slid through the Legislature before most residents knew what had hit them. The new law socks electricity customers in the Golden State with 100 percent of so-called "stranded costs." The bailout is expected to cost families more than $3,375 each through the year 2001. The director of one Washington-based business lobbying group was quoted as saying that it was "not fair to require customers to pay for 100 percent of the mistakes that have been made by the California electric industry."

Clearly, there are a number of better ways to use consumers' money than to bail out wealthy utility shareholders. One of the most promising ways is to invest money in energy-efficient and solar technologies. It looks like the Massachusetts Legislature will once again confuse aid to corporations with aid to families. During the past few years, the state has invited wealthy corporations like Raytheon and Digital Equipment to feed at the public trough, only to see these subsidized businesses lay off workers. And as aid to the poor and other worthy programs continue to get slashed, aid to dependent corporations seems to be one entitlement few elected officials care to challenge.

Deregulation will only come around once. The Legislature should reject the current scheme and adopt one that is more friendly to the consumer, to the local economy and to the environment. If it truly wants to create a system that will be fair to consumers and businesses in the future, it must be fairer about who should pay for the mistakes of the past. □

John T. O'Connor is president of Greenworks, a Cambridge company that helps environmental companies get started.

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Consent Order #54 S-177

Councillors Galluccio and Duehay re: Support proposed legislation for electricity markets.

In City Council March 31, 1997

ORDER ADOPTED