CCM-101

City of Cambridge

Consent Agenda #1A

IN CITY COUNCIL

February 3, 1997

COUNCILLOR DUEHAY

RESOLVED: That this City Council go on record supporting the legislation filed by Massachusetts Municipal Association House Bill 2417 regarding restructuring the electric industry.

In City Council February 3, 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

CCM-101

City of Cambridge

Consent Agenda #1B

IN CITY COUNCIL

February 3, 1997

COUNCILLOR DUEHAY

ORDERED: That the City Manager be and hereby is requested to refer the matter of electric industry restructuring to the Consumer Council for consideration of the impact on Cambridge consumers; and be it further

ORDERED: That the report include more information regarding possibilities for public education and for advocacy.

In City Council February 3, 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

CITY OF CAMBRIDGE
Finance Department
City Hall, Cambridge Massachusetts 02139

Administration	349-4212
Tax/Utility Coll	349-4220
Treasury	349-4212
Payroll	349-4290

97 JAN 27 PM 2:47

January 27, 1997

To: Robert W. Healy, City Manager

From: James P. Maloney, Jr., Finance Director

Enclosed please find separate memos from Sally Powers, Director of Assessing and Paul Schlaver, Consumer's Council Director regarding potential impact of utility deregulation. Mr. Schlaver's memo points out that from the small consumer's standpoint, deregulation is unlikely to result in significant savings. Large users (the City included) may recognize some savings under electric utility deregulation. However as the memo by Ms. Powers points out, deregulation could result in a loss of approximately $500,000 in annual personal property taxes paid by Cambridge Electric, to the city, if electric utility consumers are allowed to become designated as "manufacturers". The Massachusetts Municipal Association has filed legislation which if approved, would not allow the manufacturers status to be granted to electric generating facilities. I will keep you informed as to the bill's status.

CITY OF CAMBRIDGE
CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139
MAIN OFFICE (617) 349-4343 RESIDENTIAL VALUATION (617) 349-4110

ASSESSING DEPARTMENT

Sally Powers, Director
Kevin T. McDevitt, MAA, CRA
Faith D. McDonald, CMA, RMA, MAA, CA-S

January 22, 1997

To: James P. Maloney, Finance Director

From: Sally Powers, Director of Assessment

Subject: Calendar Item #007, dated 12/16/96 RE: REVIEW OF POTENTIAL LOSS OF TAX REVENUE DUE TO UTILITY DEREGULATION

Background

In 1992, the Federal Energy Policy Act was enacted, encouraging deregulation of the electric utility industry. The Act gave individual states a great deal of authority to determine how to go about generating competition in the electric utility industry. In 1995, the Massachusetts Department of Public Utilities (DPU) announced its goals for restructuring the electric utility industry. These goals focused on deregulating the *generation* of electricity: consumers will be able to select their electric providers, however, the transmission and distribution of the power will be done through existing distribution facilities. On December 30, 1996, the DPU released its Electric Industry Restructuring Plan, D.P.U. 96-100. The Massachusetts Legislature has set up a Special Joint Committee on Electric Restructuring with fourteen members, which will hold three public hearings in January. Assessor Kevin McDevitt plans to attend the January 29 hearing in Andover, the closest of the hearing locations to Cambridge.

Potential Areas of Revenue Loss

There are two areas of potential revenue loss in the deregulated environment. The first is the drop in market value of the taxable personal property of (especially) older power generating plants. The second is the likely eligibility of private electric generating companies for manufacturing status (approved by the State), which exempts them from personal property taxes on manufacturing and business equipment except "poles and underground conduits, wires and pipes".

Cambridge Electrical Facilities

Regarding the issue of decreased market value, Cambridge Electric's generating facilities are currently assessed at $70,200,000, which resulted in a FY97 tax bill of $2,511,756. The Board of Assessors has long recognized the reality of the depreciated value of this older, inefficient equipment and the assessment on the property reflects this. Regarding the exemption issue, it is estimated that poles, wires, and transmission conduits account for between 80% and 84% of the assessed value of the Cambridge Electric generating facilities. If the facility were to be acquired by a manufacturing corporation, it appears that the City's maximum tax reduction as a result of deregulation will be in the $500,000 range ($14,000,000 ins assessed value).

Boston Edison has a facility in the Alewife area with personal property value of $15,491,400 (FY97 taxes $554,282). This is primarily a distribution facility, with little generating capacity, and would not qualify for the manufacturing exemption. The DPU suggests that with the new opportunities envisioned for distribution companies in the deregulated environment, the distribution facilities owned by the company may actually increase in value.

Pending Legislation

DPU 96-100 strongly emphasizes transition over any attempts at maintenance of the status quo in the move to accomplish deregulation. Representative Stephen Kulik of Worthington, and the Massachusetts Municipal Association (MMA), have filed legislation which would not allow the manufacturing exemption for electrical generating facilities. DPU 96-100 specifically recommends against this legislation on the grounds that it will tend to perpetuate unequal tax treatment of electric generators in place under the current, regulated system. It recommends, instead, that existing regulated electric companies (such as Cambridge Electric) should be exempt from personal property taxes (except the poles, wires, and conduits) and legislatively required to enter into binding agreements to make Payments in Lieu of Taxes. The PILOT would be based upon either fair market value of the equipment or fair market value plus the revenues an electric company receives as "stranded cost" recovery, whichever is higher. (Stranded costs are defined in 96-100 as "the difference between the embedded costs of generation incurred and currently being recovered from ratepayers under the regulated monopoly framework, and the market price that will be paid with competition". The DPU proposal is to allow utilities to recover stranded costs through a stranded cost access charge paid by consumers. It is expected that stranded costs will decrease over time.) The addition of stranded costs to fair market value is proposed to be allowed over a ten year transition period.

The vague language of the PILOT recommendation is not reassuring. For example, which tax rates would apply and sanctions for non-payment are not addresses. The legislation submitted by Representative Kulik, House Docket 2371, would give Cities

and Towns some predictability in tax revenues for the next few years, anyway, and should be supported by the City of Cambridge.

CAMBRIDGE CONSUMERS' COUNCIL
831 Massachusetts Ave. Cambridge, MA 02139
Tel. (617) 349-6150
349-6153

City Of Cambridge

Paul J. Schlaver
Executive Director

serving the
residents of:

Cambridge
Boston

TO: Robert Healy, City Manager
FROM: Paul Schlaver
DATE: January 7, 1997

RE: Council Order #007, dated 12/16/96 Utility Deregulation Impact on Tax Revenue and the Need for a Consumer Education Program

This Council Order contains two very distinct elements, only one of which I feel it is appropriate for me to comment one. The reference to potential loss of tax revenue for the City and the Mass. Municipal Assoc.'s seminars on this issue falls to Jim Maloney's purview and I see that you referred this order to him also.

The order also called for a consumer education program about what is going on in the electric industry. The commonly used term about the current process is really "restructuring" not deregulation. The deregulation of the industry has led to this restructuring. Basically the market is now open to different suppliers of power to the electric companies and customers of electricity will be able to choose which supplier they want to buy their power from. It will still be delivered through Cambridge Electric or Boston Edison, etc. To some extent one could analogize it to a choice of different long distance telephone services to choose from but you still receive your telephone service through NYNEX. There are certainly differences and soon there will be more local companies than just NYNEX. That particular utility restructuring process in not the focus of this report, though!

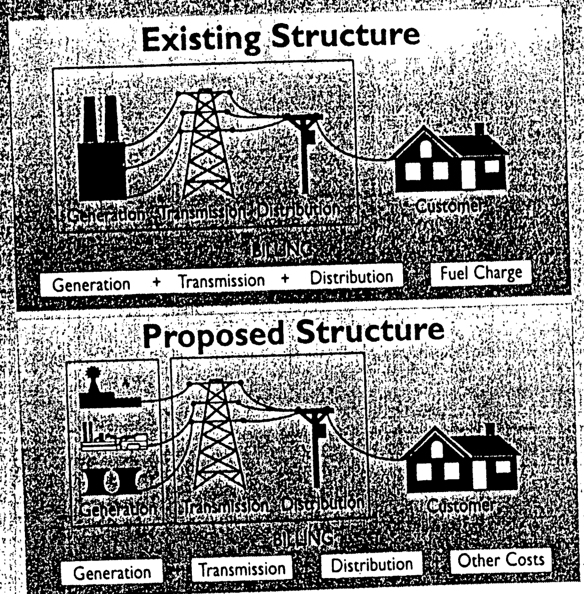
As to a consumer education process............. I can report to you that I was put on the CONSUMER EDUCATION ADVISORY TASK FORCE set up by the Department of Public Utilities to ensure that there was public education and opportunities for public input throughout the restructuring process. The Task Force reviewed and help develop the attached "bill stuffer" and other materials sent to all electric customers in past months. We, the consumer advocate task force members, strongly advocated for a strong continued role by the DPU as might be legally allowed in this post-deregulation period.

Frankly, it appears that the individual residential or small business electric customer will probably benefit little from this process and be literally barraged with endless and confusing marketing attempts to get their business. But the large corporate users of electric power or other large customers such as the City of Cambridge itself my be in a good position to negotiate a very favorable rate from the various suppliers of electricity. Note the last paragraph of the Globe article with the possible answer to this issue as to the small consumer. (I personally think life is too confusing already with all the "choices" decisions we have. That last thing we need to do is to try to figure out which supplier of electricity we want for Com/Electric to use to send to our homes!)

I have also attached a copy of a recent Boston Globe article on this issue because I think it well states the concerns about this process and the fears triggered by this restructuring event. Basic Massachusetts laws that regulate marketing of products and services in the Commonwealth will certainly still help consumers, namely Chapter 93A, The Consumer Protection Act, and various Attorney General advertising and sales regulations. I am very please to see the concerns being raised by Senator O'Brien because I too believe the Department of Public Utilities is the front line defense for consumers on utility matters and must act in the consumers' interest.

As further developments occur I can report back to you and the City Council. I will also try to use the Consumer Web Page and other methods to disseminate educational information as it becomes available.

The Electric Industry is CHANGING



There is a movement underway across the country to change or "restructure" the electric industry. The Department of Public Utilities (DPU) opened an investigation on March 15, 1996, in order to ensure that any restructuring serves and protects the interests of consumers in Massachusetts.

The DPU is holding a series of public meetings in October and November 1996 to identify the best way to bring about this change. Public meetings on restructuring have already been held in Boston, Fitchburg, Plymouth, Pittsfield and Salem in July. Partly as a result of the response we received from the public in these meetings, the DPU has scheduled 6 more public meetings and extended the date for issuance of the final rules from September 1996 to the end of the calendar year 1996.

We invite you to attend these meetings to share your views with us. A list of the meeting locations is included in this pamphlet. The following information, which was also included in electric utility mailings to customers in June 1996, may help you understand the proposed changes.

Why is the electric industry changing?

Recent changes in technology have made a competitive market structure possible. The goal of restructuring is to reduce costs to all consumers over time by giving consumers the option to choose among competing generators of electricity.

How will the industry change?

Right now, you receive your electricity as a packaged or "bundled" service. That is, the generation, transmission, and distribution (wires), and billing are all provided by your local electric company. Restructuring will allow different companies to compete to offer some of these services.

How will these changes affect me?

Basically, your local electric company will continue to distribute electricity to your neighborhood but you may choose the company which generates that electricity. Think of it as if you were selecting a long distance phone company. Your neighbors may choose AT&T or Sprint, while you choose MCI, but both of you continue to receive basic wire service from a local exchange carrier like NYNEX.

Will electricity still be safe and reliable?

Yes. The DPU will work to ensure that the new structure will be as safe and reliable as the current structure.

Under the revised schedule, when will these changes take place?

In order to allow for additional public participation in this investigation, we have revised the target date for rules for restructuring from September 1996 until the end of the calendar year 1996. Under our current proposal, in 1997, your electric bill will show separate charges for generation, transmission, distribution, and other costs, but you will still be receiving electricity as a bundled service. The DPU proposal would allow customers to choose among competing generators or suppliers of electricity on or after January 1, 1998.

How can I participate in the restructuring process?

The DPU will present information on the proposed changes to the electric industry in evening public meetings at the locations listed in this pamphlet. We hope you will attend one of these meetings to ask questions, and to let us know how you feel about restructuring. If you cannot attend any of these meetings, please feel free to write to the DPU with your comments at any time.

The Dates and Times of the Public Meetings are:

Greenfield—October 2, 1996, 7:00 PM
Franklin County Court House
Grand Jury Room, 2nd floor
425 Main Street, Greenfield, Massachusetts

Springfield—October 8, 1996, 7:00 PM
Springfield City Hall
Room 220, 2nd floor
36 Court Street, Springfield, Massachusetts

Worcester—October 15, 1996, 7:00 PM
Worcester Public Library,
The Saxe Room, 2nd floor
3 Salem Square, Worcester, Massachusetts

New Bedford—October 29, 1996, 7:00 PM
Sergeant Carney Academy, Auditorium
247 Elm Street, New Bedford, Massachusetts

Lowell—October 30, 1996, 7:00 PM
Mayor's Reception Room
Lowell City Hall, 2nd floor
75 Merrimac Street, Lowell, Massachusetts

Marston Mills—November 6, 1996, 7:00 PM
Marston Mills East School, Auditorium
760 Osterville-West Barnstable Road
Marston Mills, Massachusetts

[WE]DNESDAY, DECEMBER 18, 1996

Sen. O'Brien: Utility agency not prepared for restructuring fallout

Panel says DPU should revamp to prevent fraud

By Jerry Ackerman
GLOBE STAFF

The state agency promoting the restructuring of the electric utility industry appears to lack authority or staff resources to deal with consumer issues that are certain to follow such a radical change, a key state senator said yesterday.

Sen. John D. O'Brien Jr. (D-Andover), cochairman of a special legislative commission studying proposed changes, said he expects his panel will recommend the Department of Public Utilities be revamped to help guard against consumer fraud.

O'Brien, cochairman of the Legislature's Joint Commission on Electric Utility Restructuring, said no specific changes have been developed yet. But he said he believes a stronger agency is needed to oversee marketers who are preparing to offer deals that most consumers won't be able to decipher.

"When a company comes and says that it can sell you your electricity, gas, phone and maybe your cable [television] all in one package," O'Brien said at a State House briefing, "where do you call to find out if this guy is a fly-by-night?"

The DPU is advocating that electric utilities, which now enjoy territorial monopolies, be broken up into separate generating and distribution units and that their generating plants be forced to sell competitively against newcomers who promise power for less.

Existing utility companies would continue to operate the wires that deliver this electricity.

The DPU has set January 1998 for competitive sales to begin. But already, established companies and entrepreneurs are taking steps to begin selling, directly to consumers, energy supplies that they now take for granted.

One such marketing alliance was assembled earlier this year by the Boston Edison Co. with the Williams Energy Group, an Oklahoma natural gas supplier, and Residential Communications Network, a cable television provider.

Another, AllEnergy, formed by the New England Electric System and the Boston Gas Co., plans to offer service packages including electricity and gas and energy conservation services.

And with most other states also considering restructuring their utility industries, the field is growing. Companies from San Diego, Syracuse, Kansas City and Cincinnati are among the dozens test-marketing now in pilot programs in New England.

O'Brien's consumer-protection concerns were echoed by state Sen. Henri Rauschenbach (R-Brewster). "Somebody is making a lot of money out of these [partnerships]," he said. "Is it the shareholders, or is the consumer going to benefit? It seems to me that the consumer has a lot to lose."

The DPU plans to publish rules governing the proposed changeover by the end of this month, although many of the changes will require approval by the Legislature. O'Brien said the commission he chairs along with state Rep. Peter Larkin (D-Pittsfield) plans to make its recommendations in March.

O'Brien said that report is likely to include support for allowing creation of consumer cooperatives that could negotiate favorable prices for homeowners, as other buying groups are expected to do for manufacturers, retailers and hospitals.

What are other key questions to be asked about restructuring?

In the proposed rules, the DPU asked for public opinion on many issues. Consumers have asked many questions at the public meetings. Some of those key questions are:

- How will I be billed? By whom?
- Will my bill go down? Could it go up?
- Will the generating companies or suppliers be regulated?
- What happens if I decide not to choose?
- Will my meter be read regularly? By whom?
- Will the protections, including shut-off protections, still apply?
- Will low-income rates be available?
- How will environmental concerns be addressed?
- Is restructuring the end of regulation?
- Is the DPU considering other restructuring plans?

Can I obtain a copy of the proposed rules?

Yes. A copy of the May 1, 1996 Order, DPU 96-100, which is approximately 100 pages including the proposed rules and a nine-page summary, can be obtained from the DPU by calling the Consumer Division at 1-800-392-6066 or (617) 727-3531 or TTY 1-800-323-3298. The proposed rules are also available through the DPU web site. Many libraries throughout Massachusetts have access to the world wide web. The address is:

http://www.magnet.state.ma.us/dpu/

You may also come in and read the document in Room 1210 at the DPU offices between the hours of 9:00 a.m. and 5:00 p.m. at 100 Cambridge St., 12th floor, in Boston.

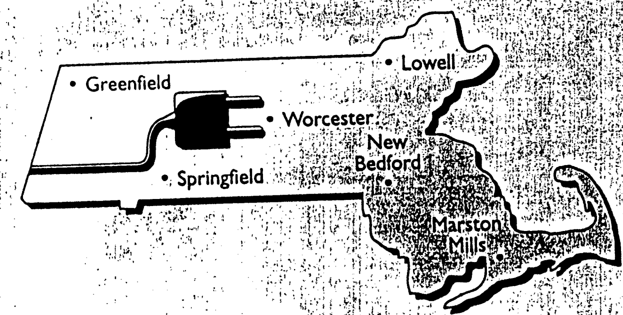
How else can I let the DPU know what I think?

You can send comments in writing to the DPU. Address your comments to:

Mary Cottrell, Secretary
RE: DPU 96-100
Department of Public Utilities
100 Cambridge Street
Boston, MA 02202

The DPU plans to issue final restructuring rules by the end of 1996. We are committed to restructuring the electric industry in a way that benefits all consumers. We look forward to hearing from you.

Industry is CHANGING



Massachusetts Department of Public Utilities
Invites You to Attend a Public Meeting

John B. Howe
Mary Clark Webster
Janet Gail Besser

August 1996

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139
TEL. 349-4300
FAX. 349-4307

1.

February 3, 1997

To the Honorable, the City Council:

In response to Awaiting Report #26 regarding the potential impact of the electric utility deregulation, please find attached reports from Finance Director James Maloney, Director of Assessing Sally Powers, and Consumers' Council Director Paul Schlaver.

Very truly yours,

Robert W. Healy
City Manager

Attachments

Consent Agenda #1

5-56

Relative to Awaiting Report Item Number Twenty-six, regarding electric industry restructuring.

In City Council February 3, 1997

Two Orders Adopted