

Costs and Implications of Massachusetts Senate Bill 1965

An Act Relative to Energy Sector Compliance with the Global Warming Solutions Act

The New England Power Generators Association (NEPGA) engaged Dr. Susan F. Tierney of the Analysis Group to conduct an analysis and review of proposed Massachusetts Senate Bill 1965 that would allow for 15-25 year contracts for 18,900,000 megawatt hours (MWh) of large-scale hydropower and Class I renewable resources. Collectively this represents one-third of all electricity used in Massachusetts every year and one-sixth across New England. Dr. Tierney's report finds grave concerns with the legislation. Perhaps nothing says it better than her conclusion, *"For these reasons, I think that Senate Bill 1965 (along with others that are similar to it) is ill-conceived... [It] would not accomplish its hoped-for goals of moving toward a cleaner electricity sector at a reasonable cost or reasonable way."* (page 12-13)

Massachusetts Has Already Met its Energy Sector 2020 Carbon Emissions Goal

"The bottom line is clear – Massachusetts is on pace for power plants to far exceed their 2020 emissions goal under the Global Warming Solutions Act. Senate Bill 1965 is simply not necessary to meet these goals, especially at the direct and indirect costs it would introduce into the region's energy system." (page 3)

"As of 2013, power plant emissions are already set to accomplish the original goal of approximately one-fourth of the total state target for 2020. In fact, this also highlights that beyond the 2020 target for power production, additional factors will lead to lower power production emissions than were even contemplated under the Climate Action Plan." (page 2)

"I recognize that Massachusetts still has work to do in a number of sectors to accomplish its overall 2020 target for GHG reductions from the state's entire economy by 25 percent below 1990 levels. But the power sector is already at its 2020 targets and is on a good trajectory to exceed its carbon emissions goals. Senate Bill 1965 would be a potentially near-term disruptive element in the pathway toward continuing to reduce emissions, and would not accomplish its hoped-for goals of moving toward outcome cleaner electricity sector at a reasonable cost or reasonable way." (page 12)

"Relying upon market-based approaches – rather than out-of-market contracts that impose undue (and unnecessary) risk on electric consumers in Massachusetts – is a practical and effective long-term model. This is the hallmark model that has been used in virtually every successful emissions market in the world, including the [Regional Greenhouse Gas Initiative] in which all New England states participate today. Senate Bill 1965 would be a giant step in the other direction, and is not the right path forward." (Executive Summary, page 3)

Long-term Contracts with Provincially-Owned Hydro Will Be Expensive

"This amount of power is not needed for reliability. Nor can it be low cost in light of the full investments (including transmission and new generating assets) needed to supply firm power into New England for so many years, as I described previously." (page 6)

“Second, long-term contracts for large-scale hydropower from Canada will not be cheap and will not have the hoped for result of lowering consumers’ electric rates.... When considered in total, the costs of the power and the transmission delivery facilities are likely to be well above market prices if procured in the manner anticipated by Senate Bill 1965.” (Executive Summary, page 2)

“Looked at from another angle, if the Canadian suppliers were to offer a price that was equal to the anticipated forward price curve in New England without a premium to cover their costs for the transmission line, then it is unlikely that the suppliers would have sufficient contract revenues to cover the cost to construct both the transmission and generation facilities needed to supply a contract for 9.45 million MWh to 18.5 million MWh per year on a baseload basis for 15-25 years. In such a case, the project would not be economical for the Canadians to pursue. If the Canadians did pursue such a project, the Canadian government would effectively be subsidizing electricity producers at the cost of Canadian citizens, and it is unclear why a government-owned utility would ever agree to such a contract.” (page 5)

“The only reasonable assumption then is that, like the example of the Vermont/Hydro-Quebec contract, the electric energy will be priced at or above New England market prices when transmission costs are included. Using the transmission-cost figure highlighted above would bring the cost of the Hydro Quebec/Nalcor power to ~\$97/MWh, compared to average New England prices for delivered power of ~\$55/MWh. This represents \$777 million in above-market costs that Massachusetts consumers would be paying every year. Such an exorbitant cost does not appear to be justified even with the other policy considerations weighed.” (pages 5-6)

Senate Bill 1965 Would Cost Massachusetts Jobs and Investment

“If significant quantities of imported hydroelectric power ended up contributing to the premature retirement of plants in Massachusetts and New England, then jobs would be exported to Canada as well. At present there are at least 1,500 jobs associated with operating power plants in Massachusetts alone... It is difficult, if not impossible, to predict exactly which plants may close as a consequence of an out-of-market action taken by the state. It is safe to say, however, that hundreds of Massachusetts jobs at power plants would be put at serious risk by this proposal.” (page 7)

“If enacted and implemented, Senate Bill 1965 would send the signal to private investors that Massachusetts is willing to adopt public policies that fundamentally change the rules of the game that other power suppliers have depended upon and had to live by. Local power plant owners – some of whom also provide significant quantities of power with no or little carbon pollution – have invested tens of billions of dollars here for the right to compete to serve consumer electricity demand reliably and efficiently, while driving dramatic reductions in emissions.” (Executive Summary, page 3)

“The energy system in Massachusetts, like almost every other part of the U.S., depends heavily on private companies and private capital markets to provide the investment and other resources needed to keep electricity as affordable and reliable as possible while also becoming increasingly clean. A healthy and sustainable investment climate is an essential ingredient for achievement of our economic, environmental and other goals for the power system. Enactment and implementation of this bill runs counter to that investment environment.” (page 11)