

New municipal electric utilities to create competition in Massachusetts and provide lower prices, “green electricity” and better service to residents, businesses and local governments

Governor-elect Deval Patrick has stated “I see [...] municipal electric utility companies adding competition and lowering consumer prices.” (http://devalpatrick.com/issues_environment.cfm).

Overview

Investor-owned electric utilities (or “IOUs”) currently enjoy a monopoly in their respective service area, resulting in high electricity prices and poor service, particularly from NStar.

Legislation is needed to allow a municipality to purchase the IOU’s assets at their fair value in order to form a municipal electric utility (or “Muni”). Two bills were introduced in the 2005-06 legislative session:

- Bill H3294 to allow up to 3 new Munis annually, after a thorough review of their economic viability;
- Bill H4204 to allow the Town of Lexington to proceed with a Muni as a pilot case.

Why new Munis in Massachusetts?

In Massachusetts, **4 IOUs** – NStar (Boston Edison, Cambridge Electric and Commonwealth Electric), National Grid (formerly Mass Electric), Northeast Utilities (parent of WMECO) and Unitil (formerly Fitchburg Electric) – serve 85% of the State’s population. 15% of the population is served by **41 Munis** – including Concord, Belmont, Wellesley, Hull, Marblehead, Peabody, Danvers, Reading, Braintree, Norwood, Shrewsbury and Taunton.

Munis perform better than IOUs – particularly NStar, which customers are very frustrated with (see March 12, 2005 *Boston Globe* op-ed [p. 4]):

- **Munis consistently charge less than IOUs:** during the 12-year period 1992-2003, NStar charged residential consumers 31% more on average than Boston-area Munis. For 500 kWh per month in **2003, 2004, 2005 and January-September 2006 respectively, NStar charged 27%, 27%, 41% and 68% more than the average Massachusetts Muni** (National Grid charged 6%, 15%, 18% and 26% more than the average Muni) [p. 9]. In January-September 2006, the monthly bill for 500 kWh was \$100-107 from NStar, \$76-82 from National Grid and \$61-63 for the average Muni (see April 8, 2006 “Shocking electric rates” *Boston Globe* editorial [p. 7]).

- **Munis offer better service than IOUs** (fewer power outages, faster restoration after outages): in **JD Power’s 2006 nationwide customer satisfaction surveys** of residential (www.jdpower.com/global/press-releases/pressrelease.asp?StudyID=1149) and business (www.jdpower.com/global/press-releases/pressrelease.asp?StudyID=1109) customers of **49 utilities, NStar was 48th and National Grid was 45th** [p. 8].

- **Munis are more responsive to local needs than IOUs;** Munis are active with:

- + “**green electricity**” (wind power in Hull and Princeton, hydro turbine in Concord, landfill methane in Hingham, Munis can decide locally to purchase green electricity);
- + burying wires (40% of Concord’s townwide distribution network is already underground) while IOUs do not undertake such projects;
- + removal of unsightly “double poles”, which IOUs leave in place for years (in violation of State law which requires that double poles be removed in 90 days);
- + specific local projects (NStar will not to eliminate an antiquated substation in Lexington Center, something a Muni would do).

Written about 100 years ago, our State law provides for a process to form a Muni, but **gives IOUs a de facto veto right over the formation of new Munis**: except for the redevelopment of Ft Devens, no Muni has been formed in Massachusetts since 1926. With an unchallenged monopoly in their respective service territory, and absent effective regulatory oversight by DTE, IOUs charge excessively high rates for unacceptably poor service year after year.

Bill H3294 would amend our State law to **provide municipalities the option to form new Munis**: if the economics of a Muni are favorable, a municipality (its residents, businesses and the municipality’s budget) would enjoy lower rates for electricity, and better service (bill H4204, a Lexington home rule petition, mirrors bill H3294). With the potential competition IOUs would face from new Munis, IOUs will have to better manage their operations, reduce rates and improve service for all their customers – something DTE’s oversight has not achieved.

www.massmunichochoice.org offers information about the 41 existing Massachusetts Munis and about bill H3294.

Bills H3294 and H4204 are currently stalled because of NStar’s and National Grid’s opposition. IOUs want to protect their monopoly and, given their strong presence on Beacon Hill, have so far succeeded in opposing this legislation.

Legislative efforts to date

An attractive option for some cities or towns is to “municipalize”, that is to acquire, as MGL Chapter 164 outlines, the distribution plant from the incumbent IOU and to operate it as a Muni. Nationwide, there are about 2,000 municipal utilities, including in Los Angeles, Seattle, San Antonio, Austin, Cleveland, Memphis, Nashville and Orlando. In Lexington, initial estimates indicate that residents, businesses and the Town budget would save \$6-8 million per year in electricity costs if a Muni replaced NStar.

Chapter 164 as it now reads requires clarification for municipalization to become feasible in Massachusetts. Lexington drafted legislation to clarify the municipalization process, by explicitly stating that the incumbent IOU must sell its assets to the municipality once DTE has established a fair value for the existing infrastructure. The bill also adjusts certain time lines in Chapter 164 to make the municipalization process more realistic.

The bill was **originally filed in 2002 by 8 legislators** and was endorsed by numerous cities,

towns and organizations (including the MMA and the *Boston Globe*). It became part of a larger electricity bill (updating the 1997 Electricity Restructuring Act) which did not move forward in the 2003-04 legislative session.

The bill, refiled in the 2005-06 session by Representative Jay Kaufman (D-Lexington), is **co-sponsored by 40 legislators**. Known as “Bill H3294, relative to the establishment of municipal lighting authorities”, it allows up to 3 new Munis annually and establishes a review process by DTE to ensure that proposed new Munis are economically viable. In parallel, a Lexington home rule petition was unanimously endorsed by Lexington’s Town Meeting and Board of Selectmen and filed in the 2005-06 session as bill H4204 by Lexington’s legislative delegation (Representatives Jay Kaufman and Tom Stanley, Senators Bob Havern and Susan Fargo).

There is tremendous support for these bills as a way to create an alternative to the IOUs’ poor service, high rates and lack of responsiveness to local needs. These **115 Massachusetts municipalities and organizations** (representing 90% of NStar’s service territory and 44% of National Grid’s) **have formally endorsed bill H3294** (or its predecessor): the Mass Municipal Association (MMA), MAPC, MASSPIRG, the Mass Climate Action Network, the Mass Energy Consumers Alliance, the Cape Light Compact, Acton, Amesbury, Amherst, Arlington, Ashby, Ashland, Attleboro, Ayer, Barnstable, Bedford, Bellingham, Boston, Bourne, Bridgewater, Brockton, Brookline, Burlington, Cambridge, Canton, Carlisle, Carver, Charlton, Dartmouth, Dover, Dudley, Duxbury, Eastham, Easthampton, Easton, Edgartown, Essex, Fairhaven, Falmouth, Fitchburg, Foxborough, Framingham, Franklin, Freetown, Hamilton, Hanover, Harwich, Hatfield, Hinsdale, Holbrook, Lancaster, Lenox, Leominster, Lexington, Lincoln, Longmeadow, Lowell, Ludlow, Marion, Marlborough, Maynard, Medway, Melrose, Milford, Milton, Natick, New Bedford, Newburyport, Newton, Norfolk, Northampton, Northbridge, Orleans, Oxford, Plymouth, Quincy, Revere, Rockland, Salem, Salisbury, Scituate, Sharon, Sherborn, Somerville, Southwick, Spencer, Stoneham, Sudbury, Swampscott, Tisbury, Topsfield, Townsend, Uxbridge, Walpole, Waltham, Wareham, Watertown, Wayland, Wenham, West Springfield, West Tisbury, Westborough, Westford, Weston, Westport, Weymouth, Williamstown, Winchester, Woburn, Worcester, Wrentham, Yarmouth, the Franklin Regional Council of Governments, The Energy Consortium.

The strong support for bill H3294 results from the desire to see **a form of competition** in the distribution of electricity. While **very few** communities will create their own Muni once the bill is enacted, **all** Massachusetts communities will enjoy improved service from their existing IOU as a result of the competitive pressure bill H3294 will create by making the **option** to create a Muni practical. A *Boston Globe* editorial called bill H3294’s predecessor “A promising bill [...that] would restore some power to the consumer” and a recent *Boston Globe* editorial endorsed this bill (enclosed).

The Legislature’s Joint Committee on Telecommunications, Utilities and Energy sent bills H3294 and H4204 to “study” on March 14, 2006 [p. 7]. This is particularly unfortunate because many supporters of bill H3294 across the State want to see bill H4204 passed, so Lexington can proceed and explore a new Muni as a pilot, allowing the Legislature to refine at a later stage a more generic bill (such as H3294) regarding new Munis elsewhere in Massachusetts.

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The Boston Globe

PATRICK MEHR

Let's jolt the electric companies

By Patrick Mehr | March 12, 2005

WHEN ELECTRICITY prices increased on March 1, most Massachusetts households were adversely affected. But some were more fortunate. Not only did their bills remain the same, but for decades, they have been paying less for electricity than most of us.

In the Greater Boston area, a typical household (using 700 kilowatt-hours monthly) paid NStar \$103 per month until last month, an amount that increased 5 percent last week. But Concord (and 40 other communities in Massachusetts) has a municipal electric utility, or "muni," instead of NStar. In Concord, a typical household pays \$75 for its electricity -- 28 percent less than NStar charges -- with no increase last week.

Roughly half of a household's electric bill pays for electricity generation (power plants), the other half for distribution (poles, wires). Since 1997, The Commonwealth's two major utilities, NStar and Mass Electric, no longer own power plants; instead, they purchase their electricity on the open market and distribute it to end-users. Munis do the same.

But munis are accountable to the community. They pay attention to their infrastructure; they upgrade and maintain it. Concord uses more efficient distribution voltage than NStar (NStar's power losses are about 5.8 percent compared with 4.8 percent in Concord). While NStar employees serve large areas and are often unfamiliar with the streets, Concord's 11 linemen know immediately where a problem occurs, allowing more prompt and efficient repairs. Moreover, 40 percent of Concord's wires are already underground, which improves town aesthetics and makes power outages less frequent.

While NStar pays dividends to its stockholders, munis don't, and, as municipal entities, they enjoy low financing costs. Besides his \$740,000 annual salary, the CEO of NStar received a bonus and stock options, for a total compensation of \$4.1 million in 2003 (up from \$2.2 million in 2000); the average muni general manager is paid \$110,000 per year.

In Lexington, where I live, we suffer the consequences. There are frequent power outages, wires are a visual blight, double poles are not removed as required by law, and antiquated transformers occupy prime space in the center of town.

Few people know that besides providing better service than NStar munis consistently charge less. Boston-area munis in Concord, Belmont, Wellesley, Wakefield, Peabody, Danvers, Marblehead, Norwood, Braintree, Hingham, Hudson, Mansfield, Middleboro, North Attleboro, and Shrewsbury charged households 24 percent less than NStar during the 12-year period of 1992 to 2003. When NStar charged \$100 per month, munis charged \$76 for the same electricity, with better service.

Could other Massachusetts communities enjoy the benefits of a muni? Yes. To create a muni, Lexington (as an example) would acquire NStar's distribution assets (substations, transformers, poles, wires, etc) at fair value, as state law mandates. The transaction would be financed by a bond reimbursed by the Lexington muni, not the taxpayers. A muni would charge each Lexington household about 20 percent less than NStar, and commercial or municipal facilities about 10 percent less. Each household would save on

average \$250 per year, and electric bills across Lexington would be reduced by \$6 million to \$8 million annually.

State law spells out how new munis can be formed but needs clarification to avoid protracted litigation by the incumbent utility. Representative Jay Kaufman, Democrat of Lexington, has been joined by 40 representatives and senators to co-sponsor a bill to that effect. The bill has been endorsed by 110 cities, towns and organizations (including the Massachusetts Municipal Association, the Massachusetts Energy Consumers Alliance and the Massachusetts Public Interest Research Group).

It is time to curb the high costs Massachusetts residents and businesses bear from the inefficient operations of our major utilities. They now run into hundreds of millions of dollars, hampering the state's economic competitiveness.

The state utility regulator must investigate why munis consistently charge less for electricity than NStar and Mass Electric, and the bill pending on Beacon Hill must be enacted. This would create real incentives for our major utilities to lower their rates and improve service.

Patrick Mehr is a member of the Lexington Electric Utility Committee.

The Boston Globe

GLOBE EDITORIAL

Local power

September 25, 2005

REPORTS THAT rising fuel prices could drive up the price of electricity for many homeowners by 20 percent are helping the cause of local officials who want the option of creating their own municipal electric utilities. Lower costs and better service through competition among suppliers -- the promise of the late 1990s deregulation movement -- never materialized for the long term. Residents are not only angry; they are ready to do something about it.

More than 20 town officials and homeowners testified Tuesday at a State House hearing in favor of a bill that would smooth the way for communities to buy local assets of major utility companies, including poles, wires, and substations, at fair value. The bill, sponsored by Representative Jay Kaufman of Lexington, would strengthen language in state law that allows for such transactions. In practice, current law makes it easy for investor-owned utilities, such as NStar, to reject reasonable offers. As proof, supporters of the bill say that no municipality has created an electric utility since 1926.

In price and service, municipal electric companies -- so-called munis -- routinely outperform the energy behemoths. Residential muni customers in Massachusetts pay 24 percent less than NStar clients, according to Patrick Mehr, a member of Lexington's Electric Utility Committee. While munis and investor-owned utilities pay roughly the same for power, the munis are often better at controlling distribution costs. Officials in Newton, Lexington, Plymouth, and dozens of other communities want to see whether it makes fiscal sense for them to create utilities similar to the 41 operating statewide, including those in Concord, Braintree, Peabody, and Taunton.

Roughly 2,000 munis operate nationwide. But new opportunities for Massachusetts cities and towns won't exist unless legislators set unambiguous rules for purchase of utility assets.

None of the bill's supporters anticipates a sudden increase in municipal electric companies. It's a costly and complicated task to form a muni. Many town officials are supporting the bill simply to put utilities on notice that local governments -- large consumers of electricity -- are not captive customers. But some towns, such as Lexington, appear ready to cut their ties to NStar. In addition to expected savings for both the town and its residents, Lexington officials see opportunities to place wires underground in the historic center, retire an underutilized substation, and increase usage of green energy.

Municipal power companies can and do outperform the big power brokers. They aren't for everyone, but local communities should be allowed to seek the best deal for their customers -- the taxpayers.■

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The Boston Globe

GLOBE EDITORIAL

Shocking electric rates

April 8, 2006

THE JOLT from recent hikes in many electric bills across Massachusetts should spur residents to ask why the Legislature is burying consumer-friendly efforts that could ease the way for cities and towns to own and operate their own municipal light companies. In terms of price and service, these "munis" routinely outshine NStar and other investor-owned utilities.

Last month, the Joint Committee on Telecommunications, Utilities, and Energy plunged two promising bills in the inky depths of a study committee. One was a home rule petition from Lexington seeking to buy NStar's poles and wires at fair value for the purpose of establishing a light company similar to the one in neighboring Concord. Current law allows for such transactions but gives utilities unlimited power to reject reasonable offers. Since 1926, not a single municipal light company has been added to the current field of 41.

Few lobbies on Beacon Hill have more juice than the electric utilities. But public frustration with the power companies could grow. In 2004, the average NStar household paid 27 percent more than customers in communities with municipal light companies. In January of this year, that monthly gap jumped to 70 percent. In 1997, deregulation advocates promised a brighter day through competition. Benefits for ratepayers never materialized. Instead, customers of big utilities got burned in the selloff of power plants. Now the Legislature is adding to the pain by blocking "municipalization."

Things don't look so gloomy for some legislators. Representative Brian Dempsey of Haverhill saw a significant boost in campaign contributions from utility executives last year when he assumed the chair of the Telecommunications, Utilities, and Energy Committee. In 2005, he raised \$53,332 in campaign contributions, about \$8,000 more than the previous year. Roughly three-quarters of that increase, according to a review of campaign disclosure reports, came from electric utility executives.

"It's a significant sum," says Pam Wilmot, director of Massachusetts Common Cause. Especially in the case of chairmen, she says, such donations can raise the appearance of excessive influence.

Town officials in Lexington have spent long years researching and preparing for a town-run light company. Neither money in politics nor giant utilities should eclipse such efforts.

Residential electric bills

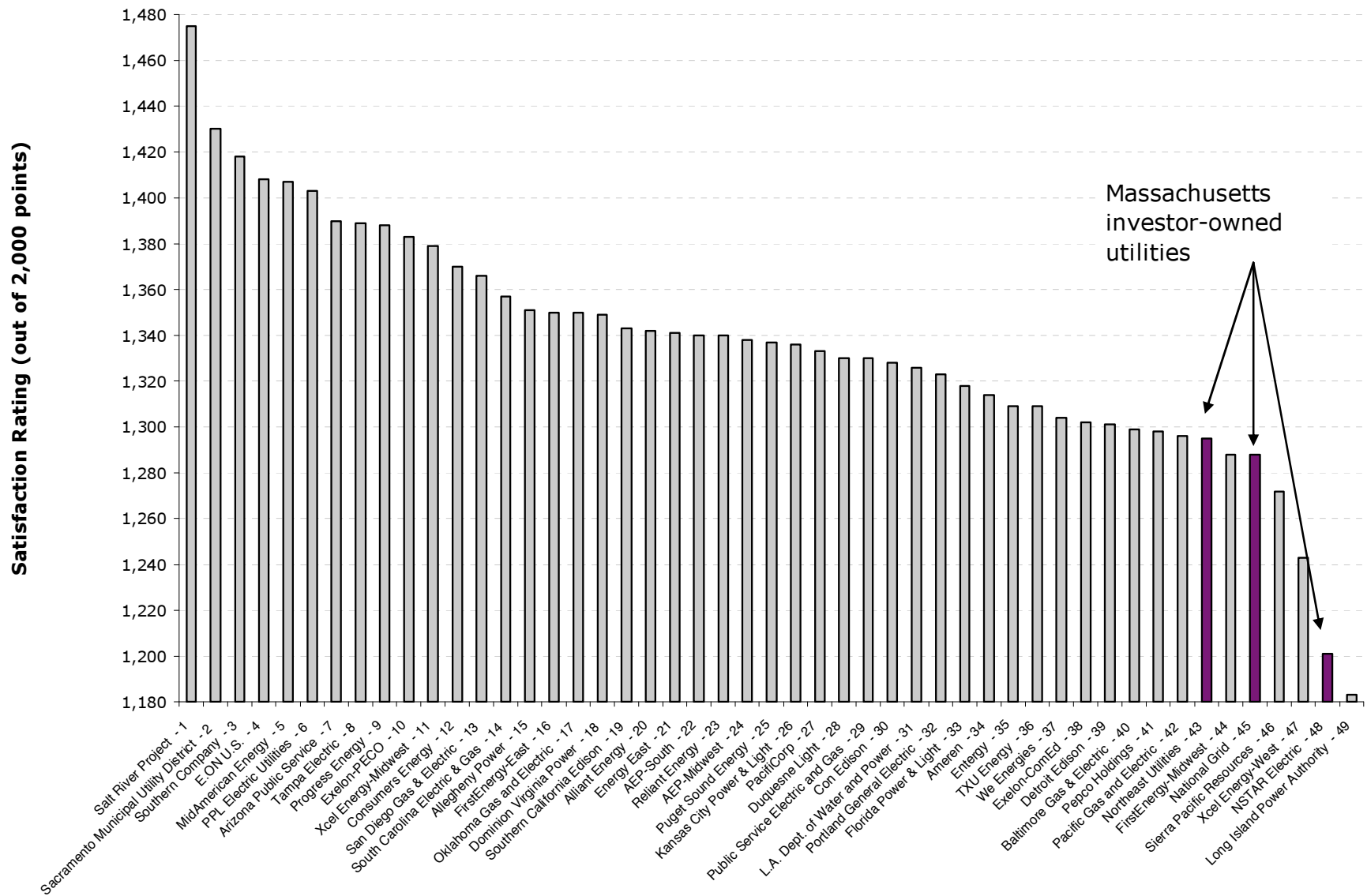
Monthly average for 500 Kwh use

	2004	2005	Jan. 2006
NSTAR	\$66	\$79	\$107
National Grid	\$60	\$66	\$82
Municipal Light	\$52	\$56	\$63

Source: Massachusetts Municipal Wholesale Electric Co.■

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JD Power 2006 customer satisfaction survey: total ratings by residential & business customers of 49 utilities



Comparison of residential electric bills for 500 kWh per month

NStar (Boston Edison), National Grid (Mass Electric) and Average for Massachusetts Municipal Utilities

			2006										
Monthly Averages			Monthly Bills										9-month average
<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>		

Residential monthly bill for 500 kWh

NStar	\$66	\$66	\$79	\$107	\$106	\$106	\$107	\$107	\$107	\$100	\$100	\$100	\$104
National Grid	\$55	\$60	\$66	\$82	\$81	\$81	\$81	\$76	\$76	\$76	\$76	\$76	\$78
Municipal Average	\$52	\$52	\$56	\$63	\$63	\$63	\$63	\$62	\$61	\$62	\$62	\$62	\$62

% excess over Municipal Average

NStar	27%	27%	41%	70%	68%	68%	70%	72%	75%	63%	61%	63%	68%
National Grid	6%	15%	18%	30%	29%	29%	29%	23%	25%	23%	22%	23%	26%

Source: Massachusetts Municipal Wholesale Electric Company (MMWEC)