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Comments via email to DOER.APS@mass.gov

December 4, 2020

Ms. Samantha Meserve
Mass DOER
100 Cambridge St.
Suite 1020
Boston, MA 02114

RE: Comments to DOER Re: 2020 APS Minimum Standard Review

Dear Ms. Meserve:

Associated Industries of Massachusetts (AIM) is pleased to comment on the above referenced topic.

AIM is the largest general trade association in Massachusetts. AIM's mission is to promote the prosperity of the Commonwealth of Massachusetts by improving the economic climate, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services.

AIM is also a charter member (representing the manufacturing sector) of the Massachusetts Energy Efficiency Advisory Council (EEAC), the group which guides the Massachusetts energy efficiency program operated by the electric and gas utilities - Mass Save. Therefore, we believe we have unique insight into the overlapping issues between the Alternative Energy Portfolio Standard (APS) and the Mass Save program.

The Department of Energy Resources (DOER) is seeking comments on their review of the Alternative Energy Portfolio Standard (225 CMR 16.00) as required by 225 CMR 16.07(3). The review, which must be completed by December 31, 2020, must include, but is not limited to, an examination of the costs and benefits of the program to ratepayers, an examination of the effectiveness of the program in meeting the energy and environmental goals of the Commonwealth, and an evaluation of whether the Minimum Standard or its rate of increase, as established in 225 CMR 16.07(2), should be adjusted.

Daymark Energy LLC completed an independent analysis of the APS program as part of DOER's review ("Daymark Report") and DOER is seeking feedback on several questions.

Several of our members will be impacted by potential changes to the APS program, particularly if changes are made to incentives relative to combined heat and power (CHP). Since AIM's interest is primarily associated with the impact of CHP incentive changes, our comments will be limited to CHP at this time. However, our comments should not be interpreted to mean that we

do not support the other technologies in the APS. In fact, some of our comments could apply to these other technologies. A successful program can work for all technologies.

AIM does not have insight into the current or future markets for Alternative Energy Credits (AECs). Therefore, we will not be addressing issues raised in Questions 4, 5, 6, 7, 10 and 11. Rather we will focus on Questions 1, 2, 3 (grouped together), 8, 9 (grouped together), and 12.

Question 1: What are the benefits of the APS program to ratepayers, including but not limited to economic, environmental, and societal benefits?

Question 2: What are the costs of the APS program to ratepayers, including but not limited to economic, environmental, and societal costs?

Question 3: Do you believe the APS program should prioritize technologies which provide the most benefits, such as greatest greenhouse gas emissions reductions?

The APS program, particularly the CHP portion, does not require the same cost-benefit analysis to ratepayers as some other programs. Although legislative intent is unknown, it does not seem apparent in the language of the law that the legislature meant to include a specific cost-benefit analysis within their decision to subsidize CHP as part of the APS. This is unlike the energy efficiency program where a specific cost-benefit analysis is clearly included in the law.

As a result, it appears that CHP was included in the APS program for other reasons, perhaps to help establish CHP as a viable technology because of its potential contribution to fuel and power generation diversity or its ability to reduce the load on central generation. Also, it was likely included because it would help businesses by lowering energy costs for customers who chose to install it by allowing them to take control of their electricity use. Since the law was passed, we have learned that CHP has other potential benefits. Namely, it can be an important component of climate resilience and now pandemic resilience as islands of independent generation become necessary to meet emergency-based needs.

Similarly, there does not seem to be an environmental benchmark in the legislation, as there are for other technologies. Nothing in the original legislation indicates that CHP should only be subsidized if it reduces greenhouse gases or other pollutants. This is particularly important as the environmental profile of CHP (positive or negative) would have been easily ascertainable during the drafting of the legislation.

It is clear then that while reducing greenhouses gases is important as it relates to CHP, it is not the only component that should be analyzed when deciding its fate. In fact, the other benefits mentioned may overshadow its small contribution to overall GHG emissions.

Determining the relative cost-benefits to the ratepayer rather than the owner of such a technology is difficult. AIM does not have the data to specifically quantify the cost/benefits of CHP on ratepayers, as such an analysis would require multiple years of ratepayer data as well an analysis

of what generation or other utility requirements would have been needed if CHP were not around.

Companies are not installing CHP on the off chance they could game the system and make money through incentives. CHP is a complicated, years long process involving multiple parties and building even a small CHP unit is difficult enough that few companies would undertake it if benefits were not clear. They are installing CHP as a matter of economic survival as electric costs in Massachusetts are among the highest in the nation and they won't survive without help. CHP users have lowered their cost of electricity, some significantly, while at the same time being better able to manage their peak use without incurring excessive demand charges. This is significant and those benefits may in fact outweigh the overall costs to the general ratepayer. The money these companies saved resulted in jobs and taxes. Such impacts need to be considered when analyzing CHP.

The Daymark Report contains blanket statements concerning the cost-effectiveness of CHP, yet there is no evidence that they interviewed any users to see what if any impact CHP has had on their business operations and ability to stay in Massachusetts. That is a significant omission that should have been within the scope of the study.

Additionally, while the Daymark Report downplays the environmental benefits of CHP, AIM believes the analysis needs to go deeper. Even if natural gas usage has increased, several companies that have installed CHP switched from oil to natural gas, clearly saving greenhouse gases as well as SO_x and NO_x emissions.

Finally, such analysis must consider the future when renewable natural gas or renewable hydrogen may be used to power or help power CHP. This would change the cost-benefit and emissions profile dramatically. Without these units being installed now, there will be no opportunity to use these new technologies later.

In sum, the CHP program needs to be looked at in a holistic way to determine the upstream, downstream and even future benefits, including the non-energy impacts (NEI) before definitive conclusions can be made. DOER should not be so shortsighted as to choose only one or two potentially negative components of CHP (i.e. GHG emissions and cost to the ratepayer), while ignoring its beneficial aspects (the economics of CHP for struggling businesses, particularly in those areas where electricity rates can make or break a company and its benefit to the electric grid generally).

8. Has the APS incentive had an impact on the decision of system owners to invest in APS eligible technologies? Why or why not.

9. How could the APS program be improved to better influence residential or commercial purchasing behaviors?

The Daymark Report correctly points out that CHP is potentially subsidized through several channels besides the APS, including Mass Save and the Federal Investment Tax Credit (ITC).

The Report also notes that CHP is economical without the AECs due to these other credits but that the loss of either the ITC or Mass Save incentives could impact the economics of the program.

There is no need to speculate – examples are plentiful. Even under current law, not everyone is eligible for Mass Save and ITC credits and there are many situations where the APS is crucial. Mass Save incentives are only available in Investor Owned Utilities (IOUs) and the ITC is not useful for many companies, like non-profits. This leaves the APS as the *only* incentive available.

Further, the continued existence of these other credits is in jeopardy. Right now, the Mass Save program is considering reducing or eliminating CHP incentives beginning in 2022 (further information should become available around mid-2021). Additionally, the continued viability of the ITC is speculative at best.

Unfortunately, neither of these scenarios are addressed in the Daymark Report, a major flaw.

Incentives have played a major role in establishing CHP. The proof is in the fact that so much of it has been installed, particularly in areas where customers can take advantage of two or more incentives. At the same time the data shows that as the AEC price has been reduced there has been a direct impact on CHP installations. One could also compare various regions of Massachusetts to determine where and which type of industries are more likely to install CHP (ITC eligible or not, or Mass Save eligible or not).

As a starting point, AIM will argue for what it always has – coordination between various programs to make incentive programs work with each other *and* for the customer. AIM is not looking to reward companies for installing CHP – it is looking to incentivize people at just the right level so that the benefits of CHP are attainable.

It is entirely possible, we suppose, that CHP incentives can be streamlined into one state program (the APS for instance) and eliminated from Mass Save, but that would require an examination of the total incentive package needed, not each incentive separately, something the Daymark Report does not do. Therefore, before any changes are made to incentive programs, DOER must consider coordinating the incentives and perhaps streamlining the program.

12. Is there any additional information you believe DOER should consider in its 2020 APS Minimum Standard Review?

The Daymark Report is clear – something needs to be done. The APS program is out of balance and the supply exceeds the demand, lowering AEC prices.

The fundamental question surrounding the future of the APS and CHP really focuses on the simple question “What is DOER trying to achieve?” Is it environmental, energy or economic benefits? Very rarely can all be achieved simultaneously.

Obviously, CHP should not be a step back for the environment, but small increases in greenhouse gas emissions may be acceptable if it means other benefits, including economic growth, reductions in the need for other infrastructure (power generation or transmission) or other environmental benefits. It is likely decades before acceptable alternatives to CHP are available. Some of these benefits are difficult to quantify for sure, but DOER has made such assumptions for other programs, including energy efficiency and renewable programs.

The Daymark Report outlines two scenarios going forward for CHP – freezing the CHP eligibility while allowing the current CHP owners to receive AECs and phasing out CHP units from the current APS over time. A third alternative not mentioned is to continue incentivizing CHP because of its benefits to the economy and the environment. *This is the right choice*, albeit there may be a need for modifications in the current program. In all cases, existing installations – those who relied on these incentives to make their investments – should be protected.

These are complicated discussions that have significant ramifications in environmental, energy and economic growth discussions. As such, we agree with the conclusion in the Daymark Report that further stakeholder engagement is necessary to assess the applicability and impact of supply and demand changes described in the report and we highly recommend that DOER undertake a stakeholder discussion. DOER has faced these challenges before, particularly with regards to the SMART solar program and has done an admirable job engaging all stakeholders.

AIM is willing to engage in such an extended stakeholder group and looks further to working with DOER to resolve this issue.

Thank you for allowing us to make these comments.

Should you have any questions please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in black ink, reading "Robert A. Rio". The signature is fluid and cursive, with the first name "Robert" being more prominent and the last name "Rio" following in a similar style.

Robert A. Rio, Esq.
Senior Vice President and Counsel
Government Affairs