



ASSOCIATED INDUSTRIES OF MASSACHUSETTS

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By email to eric.steltzer@mass.gov

March 1, 2019

Mr. Eric Steltzer
DOER
100 Cambridge Street
Boston, MA 02109

Re: DOER Request for Stakeholder Comments: Offshore Wind Procurement Study

Dear Mr. Steltzer:

Associated Industries of Massachusetts (AIM) thanks you for the opportunity to comment on this important issue.

The Department of Energy Resources (“DOER”) is inviting stakeholders to provide input into its investigation concerning the necessity, benefits and costs of requiring the electric distribution companies to conduct additional offshore wind (OSW) generation solicitations of up to 1,600MW beyond those already required by Section 83C of An Act Relative to Green Communities, St. 2008, c. 169, as amended by St. 2016, c. 188, § 12 (“Section 83C”).

AIM supports a transition to clean energy, but in addition to any legislatively mandated content this study should educate stakeholders about the state of the electric grid as it relates to all current programs, including those in other states, that may impact our clean energy goals or the cost of energy. Cumulatively, policies in Massachusetts and other states can have a large impact on prices and on the ability of each state to manage their electric generation. Massachusetts has near the highest cost of energy in the continental United States and this cost is impacting businesses here. This does not mean we abandon our goals but rather it means it is imperative that they be met in the most cost-effective way.

Our specific comments to some of the questions are attached. Should you have any questions please do not hesitate to contact me at 617-488-8308.

Sincerely yours,

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

RESPONDENT INFORMATION

1. Please provide the name of your organization and your contact information.

Robert A. Rio
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2. Please briefly describe your organization and your interest in the Commonwealth's OSW procurements

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 on behalf of thousands of members throughout the state.

AIM represents thousands of Massachusetts companies and employers in both the manufacturing and non-manufacturing sectors in the Commonwealth. Energy, in all its forms, is very important to AIM's members and representatives of AIM have a long history of advocacy concerning public policies affecting energy supply, reliability, efficiency and cost. AIM was a stakeholder during implementation of Chapter 227 of the Acts of 2018 as well as Section 83C of An Act Relative to Green Communities, St. 2008, c. 169, as amended by St. 2016, c. 188, § 12.

NECESSITY

3. Are additional OSW procurements for long-term Power Purchase Agreements that are above and beyond those authorized by Section 83C necessary to support the development of OSW?

Massachusetts has aggressive clean energy goals which under current technologies can only be met by solar, wind and large hydropower. Offshore wind and hydropower will likely be supplying the largest amounts. With the amount of hydropower currently limited by law, additional offshore wind will be crucial to meeting clean energy goals.

When restructuring of the electric industry occurred in 1997, contracts between utilities and generation sources were eliminated due to negative impacts on ratepayers. A competitive market was established which served the Commonwealth well by lowering energy prices through competition and operating efficiencies. The Green Communities Act of 2008 then allowed very small long-term contracts between utilities and renewable power generators. Since then the ability of utilities to sign long-term contracts has increased and now long-term contracts have become the accepted way to accomplish public policy goals related to clean energy. At some point long-term contracts will account for most of our energy supply – perhaps 80% by 2050. This essentially means

that the competitive market will be obsolete since virtually all power will be locked up in fixed price contracts and the universe of power generators will be limited.

Whether that is good or bad and what this means for ratepayers and the electric industry is unknown, but the fact remains that the financial needs of offshore wind development make it difficult to build without long-term contracts. With all other states in the region offering long-term contracts for renewable and non-renewable power, there is no scenario under which Massachusetts OSW developers would build the amount of OSW necessary without long-term contracts.

Therefore, AIM agrees that additional long-term contracts – at least with regards to the next 1600 MW procurement – is necessary to support the continued development of offshore wind.

3a. What are the advantages and disadvantages of longer and shorter term (i.e. 10 years, 25 years) periods for Power Purchase Agreements to developers, ratepayers, or others?

The current major OSW and clean energy contracts are 20 years. Longer contracts – 25 years – could be beneficial to the ratepayers of Massachusetts and our clean energy goals.

First, a long-term contract at the right price means that consumers know the price for decades. This type of certainty is helpful. Second, a longer contract locks in the actual clean energy for longer periods and that could prevent Massachusetts from backsliding on clean energy goals. For instance, when a 20-year contract expires, presumably the developer is free to negotiate with other states, suppliers or others to offtake their power – possibly at a lower cost. This means that it is theoretically possible for Massachusetts to meet its clean energy goals before the contract expires, then need to search for replacement clean power when the contracts are renewed with another offtaker. A 20-year contract beginning 2025 will not even be valid in 2050 when clean energy requirements are at their highest and finding replacement power may not be that easy. While a 25-year contract just delays the inevitable, it is still a 5-year delay and that amount could make a big difference.

Finally, a longer-term contract may temper the negative price impact that will occur with the elimination of the investment tax credit (ITC) as a longer contract may allow the developer to amortize costs over a longer time.

The downside of course is that a longer contract may result in higher prices if technology reduces prices sometime in the future. Of course, that is an unknown, but it may be one reason not to go far beyond an additional 1600 MW at this time. The initial OSW solicitation has shown that there is a vibrant competitive market for OSW that brings real energy to Massachusetts consumers at a reasonable rate. Massachusetts should capitalize on this momentum and offer longer contracts as an option.

3b. Are there advantages or disadvantages in soliciting OSW in a stand-alone procurement – or could it compete in a broader renewable or clean energy procurement?

Competition between clean energy sources may be an option. However, the likelihood is that Massachusetts will need both OSW and other clean energy to meet its goals and that means maybe pairing OSW with other clean energy is a better option. OSW is intermittent with a capacity factor near 50%. As intermittent solar and wind increase, attaining greenhouse gas emission goals will become tougher, as natural gas fired backup power may be needed. One way to avoid this issue is to pair OSW resources with other clean energy sources that have higher capacity factors, such as hydropower. While additional procurement for hydropower would need additional legislative authorization, DOER can identify the OSW intermittency issue in their report and identify options, such as increasing hydropower procurement, that could mitigate the intermittency and possibly allow even more OSW procurement in the future.

While energy storage can be helpful, DOER needs to be realistic in its report and manage expectations in a way that does not overpromise technologies. A realistic projection will serve Massachusetts better in the long run.

5. Are there other forms of financing mechanisms, such as Offshore Renewable Energy Certificates (ORECS), that could support OSW?

AIM does not support the establishments of any other financing mechanisms – such as Offshore Renewable Energy Certificates (ORECS) - to support the building of offshore wind. In fact, we believe the entire notion of Renewable Energy Certificates (RECs) is outdated and unnecessary as more power migrates to required long-term contracts.

RECs and other certificates were designed to give developers more certainty for investments in renewable and clean technologies in a competitive market by establishing a demand for certain types of power. With long-term contracts eliminating 100% of the risk, these type of add-on costs are unnecessary.

Although OSW qualifies for RECs, satisfying the REC market is not the driving factor. The procurement of offshore wind is required by law plain and simple - the RECs are just an accounting issue and whether the REC program exists is irrelevant. The contract price and the bidding outcome would have been the same whether RECs, ORECs or any other subsidy were unavailable. The eventual contract price for the first 800MW was an all-in price, making developers agnostic about RECs or any other artificial subsidies. RECs do not change the price to the consumer – they just shift the cost to another portion of the customer's bill.

Further, in the long-run it is unknown how much offshore wind or any other centralized power will be needed to accomplish our clean energy goals as new technologies are constantly emerging. Adding a new layer of accounting and financial complexity will just force the building of sources that may not be necessary or cost-effective in the future, but

instead will be procured only to meet some artificial, unnecessary and outdated compliance program.

In sum we believe that no other support is required beyond a long-term contract commitment.

8. What are the potential pricing and compliance impacts of additional OSW procurement(s) on Renewable Energy Certificate and Clean Energy Certificate markets?

As stated above AIM believes the result is the same whether the REC market exists. However, given that it does exist, the amount of this procurement is consistent with increases in RECs and CES already scheduled. As Massachusetts and other states increase their clean energy and renewable requirements to 100%, RECs and CECs will become unnecessary. This is desirable, and it doesn't impact the financial ability of these projects in any way. In the end these artificial subsidies are just accounting mechanisms which only serve to determine which part of the cost is by-passable on a consumer's bill. Therefore, we believe the impact of the overall REC market will be insignificant initially and over time will be zero.

10. Is an additional 1600MW of solicitation(s) the appropriate target? Why or why not?

The appropriateness of any amount should be based on several factors. First, the amount (along with other solicitations in Massachusetts and regionally), should be enough to allow the OSW industry to continue their momentum here. At the same time, it should not be too large to completely overwhelm the energy grid without understanding its impact on reliability and the competitive market. Finally, committing too much of any resource at its early stages may result in higher prices and a lack of diversity on energy generation, as technologies change prices may fall. No one knows the type of distributed generation that may be technologically feasible over the next decades and it is entirely possible that centralized power as we know it today may be less necessary as time goes on because the amount of power used from the grid may be less. Therefore, slow steady program which creates a balance is probably better in the long-run. At this point an additional 1600 MW should be easily integrated into the current markets.

Transmission

11. What are the advantages and disadvantages of requiring a coordinated OSW transmission network?

- a. If there are advantages, what would be required to accomplish this?**
- b. Are there changes to the solicitation process that could accomplish this?**
- c. Could state or regional support for a transmission system to support further offshore wind development be sufficient to finance further offshore wind development?**

The legislation authorizing the procurement of OSW and clean energy is based on the principle of competition - the results proved that competition works to lower prices.

Whether or not the current transmission model is best for consumers in the short or long-term is unknown. But that is precisely why DOER should change the current model and allow shared and coordinated transmission developers to state their case and compete on an equal footing with others. Enhanced competition will result in better options.

As projects are built further offshore and possibly paired with other states, the notion that multiple developers are going to cooperate in the best interest of all parties may be simplistic. Shared or coordinated transmission may be advantageous for quicker permits and interconnection. Not allowing a shared transmission model may limit expansion and raise costs and make building multiple projects much more complicated.

In the end the ratepayers are paying for these projects. That means that DOER should explore every opportunity to enhance competition and choose the best project. Shared transmission may help to overcome some of the barriers for regional projects as well as projects through multiple developers and DOER should not discriminate against any type of project proponent.

Economic Development and Supply Chain

16. Will requiring the Distribution Companies to undertake an additional OSW solicitation of up to 1600 MW impact the development of offshore wind supply chain services in the Commonwealth? If so, what potential economic benefits to the Commonwealth may result if OSW supply chain services are located in MA?

The amount of supply chain requirements occurring over the next several years should bring economic benefits to Massachusetts, particularly in the coastal areas. However, economic benefits can be difficult to ascertain since there will be winners and losers throughout the state, particularly if economic activity in one region is used to justify higher prices in other areas not benefiting from any economic activity. Certainly, local economic activity is welcome and if two projects are equal then local economic benefits could tip the scale.

However, it is important to understand that while the ratepayers for this project are scattered around the state, the benefits may go to only one area. While this arrangement may be common with tax policy which is generally spread throughout the state, it is much less common in energy policy. Therefore, local economic impacts always need to be carefully balanced with the needs of the companies and residents paying higher prices and the outcomes must be transparent.