

Saving power and profit

State seeks way for utilities to push conservation, not lose money

The Boston Globe

By Peter J. Howe, Globe Staff | April 14, 2007

Governor Deval L. Patrick's top energy aide is pushing for potentially the most fundamental change in how Massachusetts utilities are regulated since Edison Electric Illuminating Co. started selling Bostonians power in 1886.

When a newly configured state utility board got sworn in this week, Energy and Environmental Affairs secretary Ian A. Bowles urged the three commissioners to make their top job finding a way to ensure utilities can profit -- or at least not lose money -- when they encourage consumers to conserve energy. Bowles hopes Massachusetts can become a leader in what policymakers call "decoupling" -- separating how much profit electric and gas companies make from how much energy they sell -- to end what he calls a "perverse incentive" for utilities to resist energy efficiency.

Today, promoting conservation is, as a rule, bad business for utilities like Edison successor [NStar](#). When its 1.3 million electric and gas customers conserve energy, NStar makes less money, because it's selling less electricity or gas. (The utility does collect about \$50 million in state funding to promote conservation every year, but beyond that, anything NStar does to get people to use less power -- or install a solar panel or a backyard wind turbine -- is a direct hit on its profits.)

"The cheapest source of power out there is efficiency, and we should be unleashing it," Bowles said .

Studies by groups such as the Northeast Energy Efficiency Partnerships , a Lexington organization that promotes conservation, say that, with the right incentives, Massachusetts could offset all its growth in electric demand, for years to come, through efficiency and conservation programs, without new power plants .

"In theory, for nearly everybody involved in energy markets, decoupling is a good idea," said Seth Kaplan , senior attorney with the Conservation Law Foundation , a Boston environmental group.

Paul Hibbard , a Cambridge energy consultant whom Patrick named to chair the newly reconfigured Commonwealth Utilities Commission -- successor to the former Department of Telecommunications and Energy -- said that "decoupling rates does look like a great option. But we don't want to pass judgment yet." Approving a workable policy could take months.

On both gas and electric bills, consumers in Massachusetts now pay two fees: One for the energy they use, a second for the utility's cost of delivering it to them. Under the 1997 electric restructuring law, consumers have the option to buy power from one company, such as Dominion or the Cape Light Compact , and pay their local utility, such as NStar or National Grid, only for delivery. For gas, most consumers' only option is paying the utility for both gas and delivery.

In a "decoupled" market, consumers using less gas or electricity would, obviously, pay less for their energy supply charge. But the utility wouldn't be penalized by losing delivery-fee revenues.

One way to do that, Bowles said, would be a fixed residential rate for energy delivery, much as people pay [Comcast Corp.](#) or [Verizon Communications](#) Inc. a flat monthly fee for high-speed Internet service. Beyond the delivery charge, consumers would pay a variable fee for how much energy they used.

Hibbard, in an interview, cautioned that state utility laws probably make the Bowles plan impossible. But another way to achieve the goal, Hibbard said, could be for regulators to annually tally how much energy conservation utilities had promoted by steps like selling customers energy-efficient appliances or light bulbs, installing better home insulation, or installing high-efficiency furnaces that also produce electricity.

Each year regulators could raise the delivery rate slightly per unit of electricity and gas to enable utilities to recover revenues they'd lost in the prior 12 months from promoting conservation. Consumers would still save money overall because, even if their delivery charges held steady, on the second part of their bill they'd have bought and paid for less electricity and gas.

Deborah Drew, a spokeswoman for National Grid, which is the state's biggest electric utility and will add 700,000 state gas customers of [KeySpan Corp.](#) when their merger closes this summer, said decoupling could be "an effective tool" to encourage utilities to promote conservation. At current rates, every \$1 National Grid devotes to conservation can save customers \$3 on bills, Drew said.

"We're very interested in the decoupling concept, because it would allow us to continue to help our customers reduce their energy usage and their energy bills, yet not be penalized financially," said Caroline Allen , a spokeswoman for NStar, which provides electricity in Boston and 80 suburbs and gas in 51 cities and towns. "Now it's all a matter of how it goes forward."

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