DPU allows long-term contracts between utilities, pipelines

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To help reduce winter electricity price hikes, the state's utility regulators will let power generators sign long-term contracts with gas pipeline companies.

Yet what seems like good news for consumers is being criticized by some as a potential backdoor benefit for those arguing for construction of new pipelines like one proposed through Franklin County.

Six months after being asked by the Baker administration to look into whether electric utilities can be allowed to sign long-term contracts with natural-gas pipeline companies, the state Department of Utilities has ruled that those kinds of agreements can proceed to help lower electricity costs.

Ruling that "innovative solutions and a menu of options are required to alleviate capacity constraints that the state Department of Energy Resources contends has led to wintertime spikes in electric rates, the DPU decided that it has authority to approve long-term contracts proposed by utilities — provided they are procured competitively and transparently, are in the interests of ratepayers and avoid conflicts of interest.

A long-term contract is one that runs longer than a year.

The DPU, said Executive Office of Energy and Environmental Affairs spokesman Peter Lorenz said in a written statement, "determined that it is appropriate for the department to evaluate cost recovery of (electric utilities') contracts for gas pipeline capacity in an open and transparent public process. By establishing a framework and standard of review focused on consumer benefits of the contracts submitted by (electric utilities), the commonwealth has advanced its ability to improve electricity grid reliability, lower and stabilize the cost of energy for ratepayers, and increase Massachusetts' economic competitiveness."

Electric utilities seeking DPU approval of such long-term contracts must show "a competitive and transparent procurement," avoid conflicts of interest and allow for contracts with entities other than electric distribution companies.

While the proposal by DOER was designed to give those utilities the kind of long-term gas-procurement contracts that allow local gas-distribution companies to operate without market volatility and higher winter prices for natural gas that power companies experience, some have argued that it could require electricity customers to indirectly shoulder the cost of building projects like Tennessee Gas Pipeline Co.'s Northeast Energy Direct project.

“This could open the door for electric ratepayers paying for gas pipeline infrastructure,” said state Rep. Stephen Kulik, D-Worthington. “I don’t think it’s appropriate for electric customers to absorb the cost of that infrastructure. It seems to me it should be paid for by the pipeline company, and if they have to reflect that investment in what they charge their direct customers, so be it. I think it’s more transparent and accountable than making ratepayers pay for the cost of the pipeline up-front, and it sort of raises concerns that came up within the past year about the possibility of a tariff for customers to pay for the pipeline, whether they ultimately benefit from it or not.”

Kulik, who was among legislators who approved restructuring the electric industry in the late 1990s, said that allowing the move opens the potential for building more pipeline than the region needs, making the gas susceptible to export and leaving open questions of who will pay for and profit from the infrastructure.

“Now we’re finding more consolidation than we ever could have imagined, and more of a developing and potentially troubling relationship between electrical generators and the gas pipeline proposals,” said Kulik. “The path this seems to be pointing toward is troubling to me,” in part because he found the DPU’s process for reviewing gas company contracts for pipelines “deeply flawed.”

TGP, whose proposed Northeast project would cross eight Franklin County towns along its nearly 415-mile route from Pennsylvania to Dracut, called the DPU ruling “an important step in ensuring that electric generators have reliable access to the fuel needed to generate electricity” in New England.

Among those commenting in opposition to the proposal were Northfield Selectboard members, the Warwick Buildings and Energy Committee, Rep. Gailanne Cariddi, D-North Adams, and the nonprofit Acadia Center, filing on behalf of pipeline opposition groups including Pipeline Awareness Network for the Northeast, No Fracked Gas in Mass., North Quabbin Pipeline Action and the Millers River Watershed Council.

In its comments, the group wrote that the state is “at a crossroads of how to best upgrade and reconfigure our energy infrastructure,” and that the wrong DPU decision could “divert us into overbuilding the infrastructure of the past, condemning ratepayers to the risky and volatile prices of fossil-fuel governed markets.”

Acadia argued that high electricity prices don’t necessarily prove constraints in gas pipeline capacity.

The group’s senior attorney, Amy Boyd, said although she was disappointed — though not surprised — by the decision, she was pleased that the DPU ruled it will require utilities to show that applicants for long-term contracts with gas suppliers looked at alternatives. But Boyd said it should also consider “the whole suite of alternatives” available to the state, including use of renewable sources.