March 31, 1995

Mary L. Cottrell, Secretary
Department of Public Utilities
100 Cambridge Street, 12th Fl.
Boston, MA 02202

Re: D.P.U. 95-30

Dear Secretary Cottrell:


Very truly yours,

A. Edwin Toombs, President
Coalition of Non-Utility Generators, Inc.
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PROPOSED SET OF INTERDEPENDENT PRINCIPLES TO GUIDE THE TRANSITION TO INCREASED COMPETITION IN THE ELECTRIC UTILITY INDUSTRY

The Coalition of Non-Utility Generators, Inc., Conservation Law Foundation, New England Cogeneration Association and Massachusetts Electric Company ("Parties") support the following interdependent principles to guide the transition to increased competition in the electric utility industry. The Parties support the principles as part of a balanced and comprehensive package even though they would not necessarily support each principle apart from the total package.

1. **Reliability.** Reliable and safe electric service should be maintained. Customers should have the option to specify different levels of reliability to reflect their individual preferences, and should be held accountable for these specifications.

2. **Fairness and consistency.** The rules going forward should be fair and consistent for all competitors.

3. **Benefits to all customer classes.** All customer classes should have the opportunity to share in the benefits of increased competition.

4. **Honor existing commitments.** Existing commitments arising from past decisions made pursuant to the regulatory compact should be honored. Commitments made by independent power producers and qualifying facilities are valid, enforceable and legally protected agreements and obligations. Utilities should recover the costs of these commitments (e.g., the above market component of sunk costs, contractual
commitments to independent power producers and qualifying facilities, and prudent nuclear decommissioning expense), and independent power producers should receive the revenues provided for in their legally binding contracts and obligations.

5. **Recover stranded costs.** Appropriately structured charges, such as access charges, designed to recover potential stranded costs should be established.

6. **Charges to recover potential stranded costs should apply to customers within a utility's retail franchise territory only.** Utilities' stranded cost charges should apply to wheeling transactions that involve existing and new retail customers in their current retail franchise territories only. The charges should not apply to other wheeling transactions.

7. **Provision of near-term rate relief.** Insofar as it is possible, restructuring of existing rates should aim to make available near-term rate relief to customers.

8. **Unbundling of services.** Markets for generation which are competitive must be functionally separated from transmission and distribution markets which are natural monopolies. The existing, vertically-integrated structure of the industry should change. Transmission companies should file comparable service transmission tariffs at the FERC that provide open access for all competitors. Any continued affiliation between transmission and distribution companies should be reviewed in order to determine whether these entities should
be separate or whether other mechanisms exist, such as comparability tariffs, which would overcome the potential for transmission companies to favor their distribution affiliates at the expense of customers of other distribution companies.

9. **Choice at the retail level.** Retail customer choice should be phased-in over time and the obligation to serve phased-out. The timing and sequence of customers' access to the utilities' wires for the purpose of purchasing electricity from alternate suppliers should be subject to those customers paying potential stranded costs and to appropriate conditions that reflect environmental and energy efficiency considerations.

10. **Streamline administrative processes.** Regulators should streamline administrative processes so as not to delay competitors' ability to adapt to changes in the market. The market framework for electric services should, to the extent possible, maximize reliance on ordinary business transactions and minimize reliance on administrative process. Centralized resource planning mechanisms should be abolished in favor of market driven choices and selection of resources.

11. **Regionalism.** NEPOOL should be reformed and a regional transmission group created to enhance competition and to complement and support industry restructuring on a regional basis.
12. **Environmental Improvement.** As generation becomes deregulated, the utility's fleet of existing fossil-fueled power plants should be required on an overall basis to reduce their emissions through retirements, controls, or offsets toward those of new units under today's regulations. Ultimately, all resources should be subject to comparable environmental standards regardless of ownership and vintage.

13. **Cost-effective DSM.** The impact of direct access and associated pricing arrangements on markets for energy efficiency is uncertain. At least during the transition period to full direct access, utility energy efficiency investments will continue to play a valuable role in removing market barriers in certain market segments, reducing customer costs, and mitigating power system environmental impacts. Programs that are cost-effective and approved by regulators should be included in the appropriately structured charge referred to in item 5.

14. **Fuel and technology diversity.** Clean and renewable energy sources can play a valuable role in providing fuel diversity, managing risks and reducing environmental impacts. Above-market costs for the commercialization of clean and renewable energy sources which are approved by regulators should be included, up to an amount equal to one percent of a utility's revenues, in the appropriately structured charge referred to in item 5.

15. **Provision of universal service.** Electricity is an essential product which must be available to all customers. Special
rates and existing protections regarding customer service and shut offs for low-income customers should be included in any restructuring proposal.

16. **Performance-based regulation.** Performance-based retail ratemaking should be implemented in a way that correlates a utility's prices and performance with earnings. Obstacles to efficient mergers and acquisitions should be removed.

17. **Capital formation.** Any new industry structure should create the opportunity for financially sound and profitable entities that can attract capital at a reasonable cost.

18. **Reliance on voluntary agreement.** Consensus and settlements are more likely than litigation to move restructuring forward, given numerous potential interstate, state-federal, state-utility, and inter-party substantive and jurisdictional conflicts.

Respectfully submitted,

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