Eversource Rate Case in MA

Issues and Solutions

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Acadia Center
Advancing the Clean Energy Future

On January 17th, 2017, Eversource filed a comprehensive electric rate case in Massachusetts, (D.P.U. 17-05), proposing significant revenue increases, new rate structures, and an array of investments. At a time when the distributed energy resources present new opportunities and challenges for utilities, Eversource includes some proposals that advance consumer and clean energy interests, including revenue decoupling to eliminate the utility incentive to increase electricity consumption, and potentially beneficial investments in grid modernization, energy storage, and electric vehicle charging. However, other components of the rate case would unnecessarily increase consumer costs and inhibit distributed clean energy, particularly large automatic annual revenue increases, high returns on traditional utility infrastructure, and unfair and inefficient rate designs.

Significant reforms to utility regulation are needed to enable a consumer-centric regulatory system that advances a clean energy future, as described in Acadia Center's UtilityVision. Principles aligned with this future include:

- Revenue reforms should link utility incentives with consumer and environmental goals, rather than providing automatic revenue increases.
- Utilities should be required to invest in lower cost clean energy alternatives to infrastructure and should not receive exorbitant returns on equity for utility capital investments.
- Cost recovery for grid modernization investments should be paired with reforms to promote accountability, protect consumers, and optimize investments.
- Rates should (a) align customer incentives with cost drivers and value provided to the system; (b) be understandable for all customers; and, (c) avoid singling out customers with solar or other distributed generation.

Based on preliminary review,[1] several of Eversource's key proposals in this rate case do not appear consistent with these concepts. Eversource includes proposals that emphasize utility control over public accountability, elevate shareholder returns over consumer benefits, and establish rate designs that undermine clean energy and consumer control. This document describes key components of Eversource's rate case proposals, followed by recommended solutions.

Revenue and Shareholder Returns

Full Revenue Decoupling Removes Disincentives for Energy Efficiency

Traditionally, allowed revenue for a regulated utility is determined by the cost of service plus a fair rate of return. The traditional model also has the utility bear the risk of faster or slower electricity sales, but this element of regulation biases utilities away from energy efficiency in favor of promoting higher usage. Acadia Center advocates for full revenue decoupling to remove the utility bias against energy efficiency. Revenue decoupling is now longstanding policy for the Commonwealth, having been approved for Massachusetts' other utilities. Eversource proposes full revenue decoupling in this proceeding and Acadia Center supports this strongly.

[1] Acadia Center is participating as a party in the rate case docket, D.P.U. 17-05. Preliminary conclusions are subject to change based on discovery, further testimony, hearings, and briefing in the docket.

Proposed New Regulatory Model Guarantees Large Revenue Increases

A number of states are exploring whether utilities should receive incentives that would align their performance with consumer and environmental goals.[2] These policies are often referred to as performance incentives.

Eversource proposes a new "performance-based ratemaking mechanism" which entails significant reforms to how annual utility revenue is determined. Unfortunately, this proposal does not shift the utility's financial incentive to achieving the Commonwealth's consumer, environmental or other public policy goals. Furthermore, Eversource would be guaranteed significant annual revenue increases of 3.5% per year at a minimum, with a 1% floor on inflation and expectation that they will be 2.5% less productive every year. With higher inflation, the automatic revenue increase would be higher. With an overall revenue proposal of over $1 billion per year, this would mean annual increases of $35 million or more, with no guarantee of any customer benefits.

Return on Equity of 10.5% Locks in High Profits and Skews Incentives

In the traditional regulatory model, utilities make profits is by earning specified rates of return on capital expenditures. This approach gives utilities incentives to build or upgrade traditional infrastructure, and is increasingly at odds with new technologies that can optimize the energy system and with public policy goals to increase energy efficiency and consumer adoption of clean energy resources. New regulatory models have required utilities to pursue lower cost local energy resources as an alternative to traditional infrastructure,[3] and similar approaches in Massachusetts could reduce ratepayer costs and avoid unnecessary infrastructure projects.

A high return on equity (ROE) for traditional investments compounds the problems with the current system and skews utility incentives even further toward traditional infrastructure. If Eversource's proposal for a 10.5% ROE is approved, the utility's ROE would be significantly higher than ROEs for similar utilities in other New England states. For example, the return on equity approved for Eversource's Connecticut affiliate is 9.2%. If approved, a 10.5% ROE would increase the utility incentive to build long-lived traditional infrastructure, and lower cost, clean energy options will not be considered.

Grid Modernization, Energy Storage, and Infrastructure for EV Charging

Background on Massachusetts Grid Modernization Proceedings

In 2014, the Department of Public Utilities instructed Massachusetts utilities to develop grid modernization plans and offered targeted cost recovery for capital investments that advance the Department's objectives of: 1) reducing the effects of outages; 2) optimizing demand, including reducing system and customers' costs; 3) integrating distributed resources; and 4) improving workforce and asset management. To earn targeted cost recovery treatment, the utilities must demonstrate that the costs of the plans are justified by the benefits, and include investments in advanced metering functionality.

As described in testimony filed by Acadia Center and others in the dedicated grid modernization docket, Eversource's proposals to date failed to meet basic grid modernization requirements from the DPU's 2014 orders. This should disqualify Eversource's proposed investments from targeted cost recovery under the 2014 orders.

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[2] See, e.g., New York Public Service Commission, Order Adopting a Ratemaking and Utility Revenue Model Policy Framework, Case 14-M-0101 (May 19, 2016).

[3] See, e.g., National Grid's 2017 System Reliability Procurement Plan for Rhode Island. Rhode Island Public Utilities Commission Docket No. 4655, http://www.ripuc.org/eventsactions/docket/4655page.html.

Investments Proposed in the Rate Case

In proposing grid modernization investments in this rate case, Eversource does not appear to satisfy important requirements of the grid modernization proceeding that were put in place to protect consumers, promote accountability, and advance important policy objectives. Of particular note, Eversource has not produced a benefit-cost analysis to measure how these investments advance the Department's grid modernization objectives. This makes it difficult to evaluate Eversource's proposed investments, even if they support important clean energy objectives. However, potentially beneficial investments proposed include:

- Upgrades to improve visibility and control in the distribution system;
- Hosting capacity maps and a customer portal for distributed energy resources;
- Utility-procured energy storage; and
- Investments in "make-ready" infrastructure for EV charging and EV education and outreach.

Acadia Center and other parties will be examining these proposals to determine whether they are appropriate and justified. At a minimum, Acadia Center believes that costs for any approved investments should be recovered through more traditional methods that minimize ratepayer expense, instead of the performance-based ratemaking mechanism that risks significant windfalls for the utility.

Rate Design

Demand Charges Are Unfair and Inefficient for Residential and Small Commercial Customers

Traditionally, electricity rates for small customers have been primarily based on energy consumed, in units of kWh, often called volumetric charges. By contrast, demand charges are based on peak power draw over a short period of time, in units of kW. Although demand charges may be appropriate for more sophisticated C&I customers, Eversource is proposing to apply demand charges to:

- Residential customers who install solar or other distributed generation starting in 2018; and
- Small business customers.[4]

Traditional volumetric rates are easily understandable and provide clear signals for customers to manage their bills. If you turn on a light, you are charged for the electricity consumed and the longer the light is on, the more you are charged. With current technology, demand charges are much more difficult to understand and it will be incredibly difficult for customers to manage this element of a bill. Customers do not currently know what their peak demand is and what steps they can or should take to control it. Additionally, when demand charges are not linked to local or system peak periods, they do not provide an efficient signal to control costs driven by peaks.

Higher Fixed Monthly Charges Discourage Energy Efficiency and Self-Generation, and Disproportionately Impact Low-Income Consumers

Fixed monthly charges, also known as customer charges, are the fees that a customer is required to pay regardless of their actions over the course of a month. Increases in these charges result in lower volumetric charges and this decreases incentives for energy efficiency and self-generation. This combination also disproportionately

[4] Existing Eversource rates include demand charges for many, but not all, small business customers. The Eversource proposal appears to increase the number of small businesses with demand charges. National Grid's rates for small businesses do not contain any demand charges.

increases bills for customers who consumes less electricity than average, and these consumers are often low-income or live in multi-family dwellings. Eversource is proposing:

- Increased customer charges for all residential customers to $8 per month, including a 214% increase for customers on the South Shore and Cape Cod who are currently charged $3.73 per month;
- Higher customer charges for residential customers who install solar or other distributed generation starting in 2018 ($10 per month in eastern MA and $14 per month in western MA);
- Customer charges for C&I customers in western MA are proposed to be 4-13 times higher than eastern MA. A small business in western MA would start off with an electricity bill of $480 per year, compared to $120 in eastern MA.

Singling Out Solar and Distributed Generation

Demand charges and higher fixed monthly charges for residential customers who install solar after 2017 are part of an Eversource proposal for a monthly minimum reliability contribution (MMRC). This proposal also contains *lower* per-kWh rates because that portion of the rate defines the value of net metering credits for distributed generation. This proposal comes in the context of a nationwide debate about whether customers who install distributed generation, particularly solar, contribute enough to the electric system. In Massachusetts, this debate resulted in a 2016 law that raised the net metering cap on larger projects, but also cut compensation levels by 40% for larger projects and allowed utilities to propose an MMRC.

There are several significant concerns with the Eversource MMRC proposal. First, as a legal matter, the specifics of the proposal may not comply with the MMRC statute or the net metering statute.[5] Second, in a rate case last year, the Department of Public Utilities ruled that National Grid did not provide sufficient evidence to show that a cost shift from DG customers to other customers exists.[6] Eversource must meet this same burden. Lastly, singling out distributed generation customers for higher charges is bad public policy. Instead, the system should be shifted to equitably recover costs from all customers, while appropriately valuing the energy exported by DG customers.

Moving Backwards on Rates that Provide Efficient Customer Incentives

Dating back decades, Eversource has provided a number of rates that give customers better incentives to help manage costs driven by peak demand, primarily optional rates for small customers and mandatory rates in many cases for C&I customers. This includes both seasonal rates, where costs driven by higher demand in the summer dictate higher summer rates, or time-of-use rates, where costs driven by higher demand in peak hours drive higher prices in these hours. Many of these rates have already been eliminated in western MA and Eversource is proposing to eliminate these residential rates and significantly modify many of these commercial rates that remain in eastern MA. Additionally, Eversource is proposing to make transmission rates identical for each customer class. However, eastern and western MA are charged separately for transmission and equalizing these rates removes the linkage with cost causation and increases rates for Western MA.

[5] The MMRC statute lays out both substantive and procedural requirements for a utility proposal. In addition, the provision of net metering is dictated by M.G.L. c. 164 §§138-39. The Department is not allowed to unilaterally change net metering structures or subject different members of a rate class to different volumetric rates. Customers with significant load, prior to electing net metering, are already in a given rate class according to the provisions of the relevant tariffs.

[6] D.P.U. 15-155, Order at p. 458.

Acadia Center's Solutions

Acadia Center's 2014 UtilityVision provides a high-level roadmap for needed reforms, and these concepts have been elaborated in regulatory and legislative proceedings in a number of jurisdictions. Massachusetts leads the nation and region in many policies, but in the area of utility reform, the Commonwealth can learn from activities happening in our neighboring states. In addition, Massachusetts legislators are stepping up to provide solutions. Representative Jennifer Benson and Senator Marc Pacheco filed "An Act relative to Local Energy Investment and Infrastructure Modernization," H.1725/S.1875, that contains a wide range of needed reforms.

Align Utility Incentives with Consumer and Environmental Goals

The current incentives for utilities tilt their decision-making processes towards traditional capital investments in "poles and wires" instead of solutions that line up with consumer, environmental, and other public policy goals. Utility incentives can be changed starting with outcome-based metrics, such as reductions in statewide peak demand, that start to make utilities accountable for results. The next step is to adopt incentive mechanisms based on these metrics, and to link portions of utility revenue to these metrics.

Procure Clean Local Energy Resources as an Alternative to Expensive Utility Infrastructure

Current grid planning regulations favor traditional expenditures on utility infrastructure, and must be revised. Full consideration of local energy resources should be required to find solutions that are cleaner and cheaper.

New Grid Modernization Proceedings with Consumer Input and Public Accountability

Grid modernization proceedings in Massachusetts to date have resulted in little progress and more debates than concrete solutions. A new structure for these issues, with a consumer stakeholder board and clear deadlines, would streamline the process, get buy-in for and maximize the benefits of needed investments, and avoid cumbersome and expensive litigation at the Department of Public Utilities.

Consumer-Friendly Rate Design that Promotes Clean Energy

Acadia Center has a long-term vision for rate design reforms to align the way consumers pay for delivered power and how consumers get credited for power and services that they provide to the grid. These reforms would improve incentives for energy efficiency and distributed generation, preserve equitable access to clean energy, maintain protection of low-income ratepayers, and reflect equitable contributions for use of the distribution grid.

In the short term, steps can be taken that are consistent with this long-term vision and public policy goals:

- Cap fixed monthly charges at the cost of connecting a customer to the distribution system.
- Offer opt-in time-of-use rates for energy supply.
- Align net metering credit structures with ratepayer value.
- Implement Acadia Center's proposal for a Distribution Reliability Charge to account for any proven cross-subsidies without unfairly impacting customers with solar or other distributed generation.

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