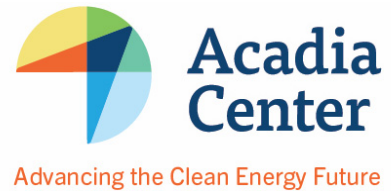


# Residential Fixed Charges in NY

## The Need for Consumer-Friendly Rate Design

October 2017



### Overview

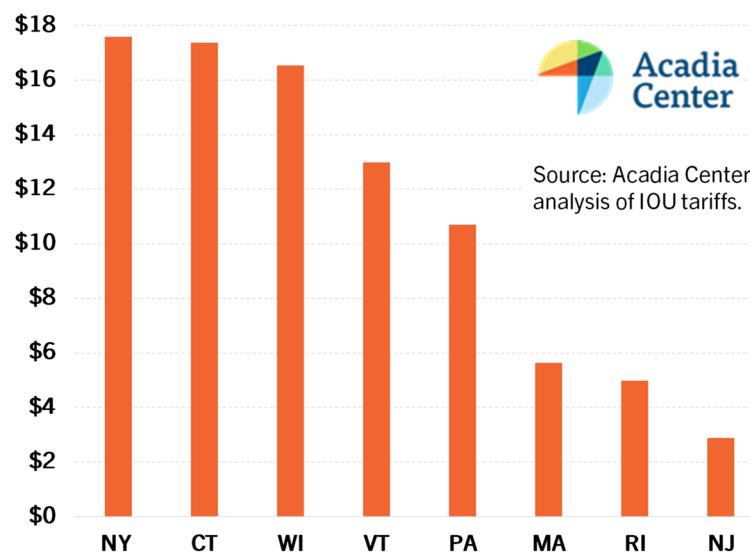
Fixed charges – also known as customer charges – are the flat monthly fees that every customer pays, regardless of the amount of electricity consumed. Over the past several years, utilities across the country have pushed for higher fixed charges, in part because they provide a guaranteed revenue stream. However, [high fixed charges](#) violate well-established regulatory principles, reduce incentives for energy efficiency and clean local generation, and result in higher bills for low-usage customers who are disproportionately low income.

New York has very high residential fixed charges from a national perspective, and its fixed charges are also higher than those in neighboring states. For example, National Grid has a residential fixed charge of \$17 in New York, but only \$5 in Rhode Island and \$5.50 in Massachusetts. Connecticut recently reduced the residential fixed charge for one utility from \$17.25 to \$9.67, and New York should follow suit. Acadia Center filed testimony in the current National Grid rate case showing that residential fixed charges should be reduced to between \$6 and \$8 per month. New York’s high fixed charges are ultimately incompatible with the energy future envisioned by the Reforming the Energy Vision (“REV”) initiative.

### Comparison of Residential Fixed Charges by State

Figure 1 below shows the current average residential customer charges for investor-owned utilities (“IOUs”) with over 15,000 residential customers, weighted by the number of customers, for New York and neighboring states, as well as Wisconsin and Rhode Island. Wisconsin’s Public Service Commission has been widely criticized for approving large fixed charge increases since 2014.<sup>1</sup> New York’s residential fixed charges for full service customers, ranging from \$15.92 to \$24 per month, are higher than those in Wisconsin and every neighboring state.

Figure 1 – Weighted Average of Current Residential Customer Charges for Major IOUs



<sup>1</sup> See <http://www.utilitydive.com/news/wisconsin-regulators-allow-alliant-energy-to-double-fixed-charges/430945/>.

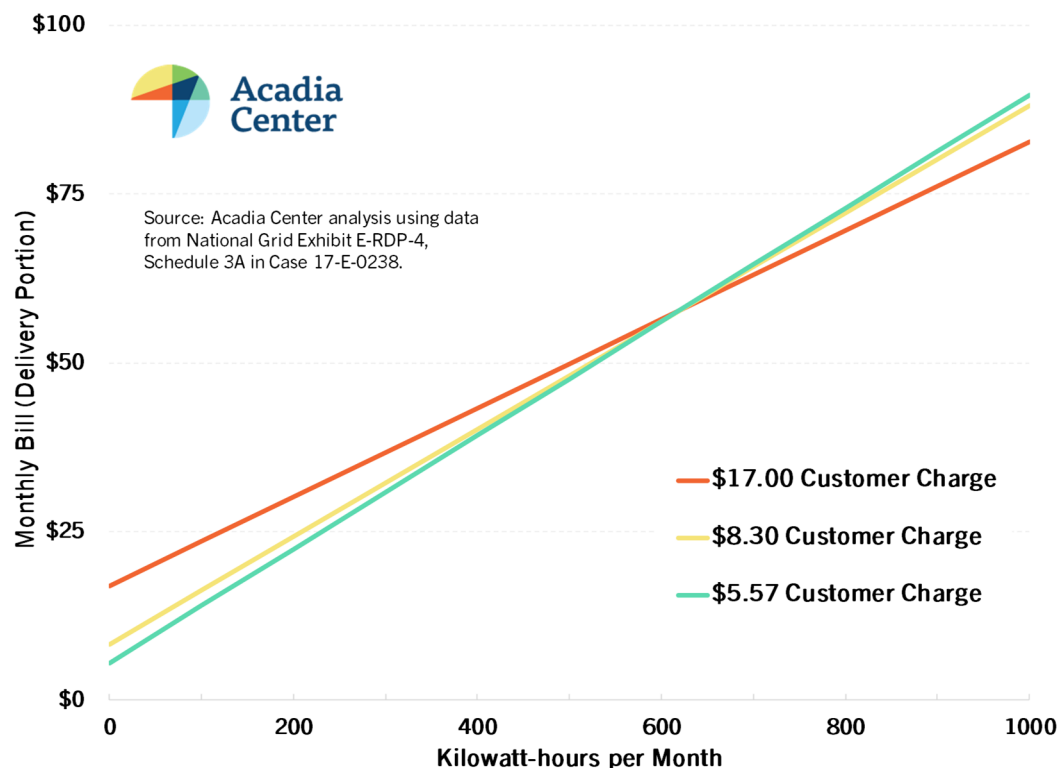
Connecticut also has high fixed charges, but has begun the process of reform. In late 2016, the residential customer charge for The United Illuminating Company, the smaller of Connecticut's two IOUs, was reduced from \$17.25 to \$9.67 per month.<sup>2</sup> An upcoming rate case should significantly reduce the residential fixed charge of Eversource Energy, Connecticut's larger IOU.

## Negative Impacts of High Fixed Charges

Current residential rates are typically comprised of two basic parts - the fixed monthly charge and a volumetric per-kilowatt hour charge. Because regulated utilities have a fixed revenue requirement, higher fixed charges lead to lower volumetric charges. Lower volumetric charges mean that the value of energy efficiency investments and conservation decrease. Customers also have less control over their energy costs. Similarly, high customer charges reduce opportunities for clean distributed energy resources that reduce the amount of electricity received from the grid, including solar and storage.

Importantly, lower fixed charges benefit the majority of residential customers. Because residential rate classes contain customers with much higher than average usage, more bills are below the mean than above the mean. Figure 2 shows Acadia Center's analysis using data from the current National Grid rate case in New York, showing significant benefits to low-usage customers from lower customer charges. 61% of bills in the primary residential rate class are below the mean. [Data from the National Consumer Law Center](#) demonstrates that electricity usage is positively correlated with income in New York. As a result, low-income consumers generally benefit from lower fixed charges. Data from the current National Grid rate case in New York confirms that average usage is indeed lower for National Grid's low-income customers.

Figure 2 – Bill Impacts of Three Fixed Charge Scenarios for NY National Grid Customers



<sup>2</sup> See CT Public Utilities Regulatory Authority, Docket No. 16-06-04, Final Decision (dated December 14, 2016).

At Acadia Center's recommended fixed charge levels, monthly bills for a median electricity consumer would drop by \$1-2 per month, with greater savings for lower usage customers. A smaller 300 kWh per month customer would save between \$ 4.50 and \$6 per month, or between \$54 and \$71 per year.

This change leads to better economic incentives for all customers, because the decrease in the fixed charge would be recovered instead through traditional per-kWh rates in the short term and more granular rates established by REV in the long term. In the current National Grid rate case in NY, lowering fixed charges to Acadia Center's recommended levels would further increase per-kWh charges by between 1.4 and 1.8 cents per kWh. Although these per-kWh charges would be higher than recent New York experience, all customers would benefit from increased control, and a majority of customers would have lower bills, as described above. In addition, the resulting level of rates would still be lower than other jurisdictions. For example, National Grid in Massachusetts has a combined transmission and distribution rate of 9.3 cents per kWh – without including energy efficiency and renewables program funding or a transition charge. With a new \$5.57 fixed charge in its New York service territory, National Grid's per-kWh transmission and distribution charges would still be lower than its Massachusetts' rate of 9.3 cents per kWh, even when including funding for energy efficiency and the legacy transition charge.

Acadia Center recommends that New York begin reducing its high residential fixed charges so that these regressive fees will no longer impose unfair burdens on most customers and help ensure that REV's distributed energy reforms will be effective and beneficial for all.

### **For more information:**

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