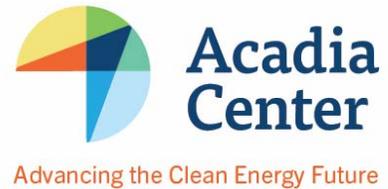


# Eversource Rate Case in MA

## Evaluation of DPU Orders and Path Forward

January 22, 2018



### Summary

Just over a year ago, on January 17, 2017, Eversource filed a comprehensive electric rate case in Massachusetts, (D.P.U. 17-05), its first in decades, requesting significant revenue increases, new rate structures, and an array of investments. On November 30, 2017 and January 5, 2018, the Massachusetts Department of Public Utilities (“Department” or “DPU”) issued its Orders in the case approving nearly all Eversource’s requests.<sup>1</sup>

In short, the Department approved several unprecedented and harmful proposals that will (1) increase consumer costs and inhibit distributed clean energy, (2) lower the incentives of customers to reduce peak demand, the key driver of system costs, and (3) shield Eversource from the need to adapt to a consumer-friendly clean energy future. These aspects of the Orders include new, unfair and inefficient rate designs, elimination of rates that could be used to control peak demand, high profit margins on traditional utility infrastructure, and large automatic annual revenue increases. The Department approved a handful of proposals that advance consumer and clean energy interests, including (as required by law) revenue decoupling to lower the utility incentive to increase electricity consumption, and certain potentially beneficial investments in energy storage and electric vehicle charging. This document describes Acadia Center’s principles for reform and key components of the recent Orders on Eversource’s rate case proposals, followed by next steps and further recommended reforms.

### Principles for Reforms to Advance a Consumer-Friendly Clean Energy Future

At a time when distributed energy resources present new opportunities for a modernized energy system and challenges for utilities to adapt, 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; and
- 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.

Based on these principles, Acadia Center provided an [initial review](#) of the rate case proposals in March 2017 and subsequently provided testimony, participated in hearings, and submitted briefs as a full party in the case. The Department’s Orders moved away from these principles, representing a lost opportunity to advance a consumer-friendly clean energy future, and several elements of the Orders are a clear step backwards.

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<sup>1</sup> The November 30 Order deferred consideration of most of Eversource’s grid modernization proposals by properly moving them back into the Eversource grid modernization docket, D.P.U. 15-122/123, in which a decision is still pending.

## Rate Design

### Unfair and Inefficient Demand Charges for New Solar Customers

Traditionally, electricity rates for residential and many small commercial and industrial (C&I) customers are based on energy consumed, in units of kWh, often called volumetric charges. By contrast, demand charges are based on the highest peak hourly usage by a customer over the course of a month, regardless of when that electricity is used. Traditional volumetric rates are easily understandable and provide clear signals for customers to manage their bills. Although demand charges may be appropriate for more sophisticated C&I customers, no large investor-owned utilities in the U.S. have mandatory demand charges for residential consumers.

Nonetheless, Eversource proposed, and the Department approved, the application of mandatory demand charges to residential customers who install solar or other distributed generation starting Dec. 31, 2018, as a part of the minimum monthly reliability contribution (“MMRC”). This is unfair for consumers. Given the lack of sophisticated metering in Massachusetts, neither the utility nor the customer will know what time this peak occurred. Due to this lack of information and the automatic cycling of many high-demand electric appliances, such as hot water heaters, it will be difficult for customers to manage this element of their bill. Consumers will not have the information needed to understand the cause of these costs, or the ability to take actions to manage these charges. The charges approved by the Department are also ineffective at managing peak demand. These demand charges are based on an individual customer’s peak, which could occur at any time of the month.<sup>2</sup> Because an individual customer’s peak usage does not necessarily correspond to peak demand across the utility’s electricity system, consumers are not provided incentives to reduce energy usage at a time that could benefit the whole electricity system.<sup>3</sup>

Demand charges are also unfair and inefficient for small business customers, even though Eversource has applied demand charges to many of these customers historically. Small business owners—like residential customers—do not have the resources to invest in energy monitoring and management. Several small businesses provided comments documenting their difficulties with demand charges in the rate case.<sup>4</sup> National Grid offers a simple per-kWh rate for small businesses, but the Department declined the proposal from Acadia Center and other parties for Eversource to do the same.

In addition, the Department failed to consider alternatives to Eversource’s MMRC proposal in the Orders, such as Acadia Center’s proposal for a Distribution Reliability Charge<sup>5</sup> or a related concept proposed by an expert for the Cape Light Compact.

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<sup>2</sup> In the future, with more sophisticated metering, it would be possible to create demand charges for residential customers that are correlated with the peak hours that drive system costs. More sophisticated metering could also provide customers with the additional information needed to understand and manage demand charges. However, there are still pros and cons to demand charges implemented with more sophisticated metering.

<sup>3</sup> For more information about the issues with demand charges, see joint paper, “Charge without a Cause,” at <http://acadiacenter.org/document/charge-without-a-cause/>.

<sup>4</sup> See comments of Residential Housing Association of Greater Springfield ([http://170.63.40.34/DPU/FileRoomAPI/api/Attachments/Get/?path=17-05%2fRHAGS\\_Comment.pdf](http://170.63.40.34/DPU/FileRoomAPI/api/Attachments/Get/?path=17-05%2fRHAGS_Comment.pdf)) and Newton Memorial Art Co. ([http://170.63.40.34/DPU/FileRoomAPI/api/Attachments/Get/?path=17-05%2fSpittel\\_email.pdf](http://170.63.40.34/DPU/FileRoomAPI/api/Attachments/Get/?path=17-05%2fSpittel_email.pdf)).

<sup>5</sup> Available at: <http://acadiacenter.org/document/distribution-reliability-charge-transitioning-to-sustainable-rate-design/>

## Moving Backwards on Rates that Provide Efficient Customer Incentives

Eversource historically provided several rates that give customers better incentives to help manage system costs driven by peak demand, particularly opt-in time-of-use rates for residential customers with higher prices in predictable high demand hours that drive system costs. But in the January 5 Order, the Department approved Eversource's proposal to eliminate these rates. This is despite a previous Department order requiring the utility to establish opt-out time-varying rates as soon as the metering infrastructure is updated to support them (D.P.U. 14-04). Opt-in time-of-use rates give customers an immediate incentive to lower peak demand by managing their energy use and, with reasonable promotion efforts and customer education, can serve as a transition to opt-out time-varying rates.<sup>6</sup> The discontinuation of these rates removes incentives for residential customers to learn how to manage their usage in peak hours and is detrimental to the need to increase new energy technologies such as energy storage, targeted energy efficiency efforts at peak demand, electric vehicle charging, and improved compensation for clean distributed generation.

## Higher Fixed Monthly Charges Discourage Energy Efficiency & 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 how much energy they use that month. Increases in these charges result in lower volumetric charges, which decreases incentives for energy efficiency and self-generation. This combination also disproportionately increases bills for customers who consumes less electricity than average—often low-income customers or multi-family residents. Although the customer charges approved by the Department were, in general, lower than Eversource had requested, these effects will still follow.

The Department approved:

- Increased customer charges for all residential customers to \$7 per month, a modest increase for most customers, but nearly a doubling 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 Dec. 31, 2018 (over \$10 per month, or about 50% higher than customers without DG);
- Customer charges for C&I customers in western MA that are several times higher than eastern MA. A small business in western MA starts with a bill of \$360 per year, compared to \$120 in eastern MA.

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<sup>6</sup> Adoption of residential opt-in time-of-use rates has been low in Massachusetts historically because these rates are not publicized, are not shown in a convenient place online, and customers cannot sign up for these rates through a normal phone call to a utility customer service line. Other jurisdictions have had significantly higher adoption rates when reasonable promotion and customer education takes place. This includes United Illuminating in CT, which has an opt-in level of about 12% for residential time-of-use rates with an additional 11% of residential customers who have been placed onto the time-of-use rate due to their high consumption.

## Revenue and Shareholder Returns

### Full Revenue Decoupling Removes Disincentives for Energy Efficiency

Traditionally, utilities' rates are set at a fixed level that is estimated to meet the revenue requirement. This traditional model makes the utility bear the risk of faster or slower electricity sales and biases utilities away from energy efficiency in favor of promoting higher usage. In this case, as required by law, the Department approved revenue decoupling, where the Department sets a level of revenue that the utility will receive, and rates are adjusted— up or down as appropriate—to recover that revenue. This removes the utility's incentive to resist energy efficiency investments, by lowering the downside risk from selling less electricity. Acadia Center is pleased that the Department approved full revenue decoupling in its Orders, and that decoupling now applies to all Massachusetts utilities.

### Return on Equity of 10% Locks in High Profits and Skews Incentives

In the traditional regulatory model, utilities make profits by earning specified rates of return on capital expenditures. This approach gives utilities incentives to build or upgrade traditional infrastructure, but is increasingly at odds with efficient investment in local clean energy resources 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,<sup>7</sup> and similar approaches in Massachusetts could reduce ratepayer costs and avoid unnecessary infrastructure projects.

A high return on equity (ROE) for traditional investments compounds these problems and skews utility incentives even further toward traditional utility-owned infrastructure. The Department approved an ROE of 10%, a small decrease from Eversource's proposed 10.5% ROE. The approved 10% ROE is significantly higher than those allowed in other New England states. For example, Eversource's Connecticut affiliate submitted a proposed settlement agreement that included an ROE of 9.25%, National Grid's New York affiliate just agreed to an ROE of 9% in a proposed settlement, and the Attorney General argued in this case that it should be 8.875%. The unreasonably high level of 10% increases the utility incentive to build traditional infrastructure, and decreases utility interest in cheaper, clean energy options.

### Department Approved Large Automatic Annual Revenue Increases

The Department approved a modified version of Eversource's new "performance-based ratemaking mechanism," which significantly reforms how annual utility revenue is determined. Under this mechanism, Eversource is guaranteed significant annual revenue increases, under the assumption that the company will be 1.5% *less* productive every year. **This approval of a negative productivity factor is unprecedented nationally.** With an overall revenue proposal of over \$1 billion per year, this would mean annual baseline increases of \$15 million plus an additional increase for inflation, with no guarantee of any customer benefits. The cumulative automatic increases over five years would be approximately \$200 million in additional yearly revenue for Eversource. Despite the name, this reform does little to align the utility's financial incentives with achieving the Commonwealth's consumer, environmental, or other public policy goals.<sup>8</sup>

<sup>7</sup> 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>.

<sup>8</sup> Eversource is currently required to track metrics related to service quality and face penalties if they're not met. The Orders provide for the establishment of additional metrics related to customer service, peak demand, and climate adaptation, but these new metrics are not yet defined and do not yet have financial penalties or rewards linked to them.

## Energy Storage, Infrastructure for EV Charging, and Grid Modernization

### Energy Storage and EV Charging Infrastructure

The Department approved two clean technology programs with the potential to bring substantial benefits to the Commonwealth and advance the clean energy future. One will establish \$55 million of utility-owned energy storage pilots on Martha's Vineyard and Cape Cod, with many details of the pilots (and rate structures to pay for them) left to-be-determined. The Department also approved a \$45 million program investing in infrastructure for electric vehicle (EV) charging, based on the "make-ready" model where the utility owns the supporting infrastructure, but not the end-use charging station.

Despite the potential for these programs, the analysis of benefits and costs submitted by Eversource in support of these investments has not been as rigorous as it should be for grid modernization investments going forward. The Department should create adequate accountability measures, including stakeholder oversight and transparent performance metrics, to ensure that Eversource's programs spend consumer money wisely and provide the most benefits to the Commonwealth.

The Department failed to fully resolve the issues around EV charging investments in environmental justice communities. Dedicating 10% of the program's funds to charging infrastructure in environmental justice communities is a step forward, but low-income residents face other major barriers to driving electric vehicles. The Department of Energy Resources should promptly expand the new low-income EV rebate program to these communities, otherwise these newly approved EV charging investments may be underutilized.

### Moving Grid Modernization Investments back into Grid Modernization Proceedings

Eversource originally proposed a "Grid Modernization Base Commitment" (GMBC) totaling \$400 million of investment in grid technology and clean technology over the next five years. Except for the proposals for EV charging and storage, the Department correctly deferred consideration of these proposals to Eversource's Grid Modernization docket (D.P.U. 15-122/123), including potentially beneficial investments like upgrades to improve distribution system management, hosting capacity maps, and a customer portal for distributed energy resources.

However, neither Eversource's filing in the Grid Modernization docket nor the GMBC meet the basic requirements of the Department's 2014 Grid Modernization orders—namely, demonstrating that the costs of the plans are justified by the benefits and including investments in advanced metering functionality. As Acadia Center and others argued in testimony and briefs in both the grid modernization docket and the rate case, this should disqualify Eversource's proposed investments from receiving targeted cost recovery. Instead, the Department should require the utility to submit a revised plan that meets the requirements.

## The Path Forward

### Appeals and Motions for Reconsideration

The Attorney General's Office has appealed the case to the Massachusetts Supreme Judicial Court alleging that the 10% ROE the Department applied is not explained properly by the DPU Orders. The Attorney General's Office has additionally filed a motion for the Department to reconsider the automatic annual rate increases.<sup>9</sup> Other parties have announced that they are appealing the MMRC decision as erroneous and outside the Department's powers.

### Acadia Center's Policy Solutions

Acadia Center's [UtilityVision](#) framework provides a high-level roadmap for reforms, and Acadia Center advocated for these policies in testimony and briefing in rate cases and the grid modernization dockets in Massachusetts.

Unfortunately, the Department of Public Utilities has delayed proceedings on grid modernization twice since 2015 and, although hearings and briefing occurred in 2017, orders on grid modernization are still pending. Bills on this topic had a hearing at the Joint Committee on Telecommunications, Utilities and Energy on November 6, 2017.

"An Act relative to Local Energy Investment and Infrastructure Modernization," H.1725/S.1875 filed by Representative Jennifer Benson and Senator Marc Pacheco, contains a wide range of recommended reforms:

- Mandate a new grid modernization process with consumer input, public accountability, and real deadlines;
- Begin to align utility incentives with consumer and environmental goals;
- Procure clean local energy resources as alternatives to expensive utility infrastructure;
- Cap residential fixed charges; and
- Require utilities to offer opt-in time-of-use rates for energy supply.

A [coalition of 28 organizations](#) has supported this bill to date. Additional legislative reforms, directly responsive to the DPU orders in the Eversource rate case, could include:

- Ban residential demand charges until metering and energy management technology exists to properly allow consumers to understand and manage these charges;
- Require utilities to offer opt-in time-of-use rates for energy supply, transmission, and distribution;
- Cap the return on equity for regulated utilities at the regional or national average, unless there is a specific showing of unique financial conditions for regulated utilities in Massachusetts; and
- Prohibit annual automatic revenue increases justified by declining productivity for utilities.

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<sup>9</sup> In the weeks between the two Orders, the United States Congress enacted a law that changed the corporate tax rate substantially—from 35% to 21%—and the Attorney General's Office, supported by many other parties, filed for reconsideration of Eversource's overall rate case revenue to account for this substantial difference, estimated at over \$70 million per year. Given that Eversource agrees that this reduces the revenue requirement, the Department will likely reopen the case to make this adjustment.