

Capping Fixed Charges: Protect Consumers and Support Energy Efficiency and Local Clean Power



2015 Session

The Problem: High Fixed Charges Hurt Consumers

Connecticut's residents and businesses want control over their already high electricity costs; high fixed charges for electric service decrease that control. A fixed charge is an automatic monthly fee that applies regardless of how much electricity the consumer actually uses. Consumers must pay it to obtain access to electricity. High fixed charges also discourage consumers from investing in energy efficiency and local clean power, such as residential solar. These charges fall hardest on those consumers who use the least amount of electricity – typically, those on low incomes, seniors, efficient users, or households with solar PV arrays.

Historically, a reasonable fixed charge for residential customers has been in the \$5 to \$10 range. Yet, the residential fixed charges of Eversource Energy (formerly Northeast Utilities and its local subsidiary, Connecticut Light & Power) and United Illuminating are, respectively, the highest and the second highest in New England for any major electric utility. Eversource's is now \$19.25 per month, a twenty percent increase over the previous amount. UI's is now \$17.25 per month. Eversource's residential fixed charge was last in the reasonable range in 2007, when it was \$9.99 per month. Further, both utilities can be expected to seek additional increases in their next rate cases (possibly 2016 or 2017). In its most recent rate case, Eversource proposed a residential fixed charge of \$25.50, while asserting that its analysis showed it was actually entitled to a \$34.96 charge.

The Solution: Lower and Cap Residential and Small Business Fixed Charges

The General Assembly can solve the problem of ever-increasing and excessive fixed charges by placing a reasonable cap on fixed charge amounts for residential and small business customers. Connecticut needs a permanent solution to both protect consumers and to steer regulators towards electricity rate designs better aligned with key public policy goals.

Here is proposed language for a residential cap of \$10 per month:

Effective immediately, the Public Utilities Regulatory Authority may only authorize an electric distribution company to set a fixed charge on each residential customer account in an amount not to exceed ten dollars (\$10) per month. Beginning January 1, 2020, the maximum allowable fixed charge may be adjusted by no more than the annual percentage increase in the Consumer Price Index for the prior calendar year. "Fixed charge" means any fixed customer charge, basic service fee, flat distribution charge, or other charge not based upon the volume of electricity consumed, but not including demand charges, which are not covered by this provision.

A similar proposal could be crafted for the small business customer. The cap for this customer class would likely be tied to a maximum demand threshold. Eversource, for instance, defines small general electric service customers – similar to small business customers – as those with maximum demand less than 200 kilowatts. A reasonable cap for small business customers is about \$25 per month; this was the fixed charge levied by Eversource on its small general electric service customers in 2007 (the current fixed charge for this customer class is now \$44.25 per month).

Frequently Asked Questions about Fixed Charges:

What is a fixed charge?

A fixed charge is a monthly flat minimum charge on a customer's electricity account, sometimes called a customer service charge. The fixed charge *should be* an accurate calculation of the minimum, short-term fixed cost of connecting a customer to the grid. These costs should be limited to the cost of the customer's meter, service drop, and metering and billing.

Most major utilities in New England (outside of Connecticut) have residential fixed charges in the \$5-10 range. Notably, the three Massachusetts operating units of NSTAR Electric (now a subsidiary of Eversource) have residential fixed charges of \$6.43, \$6.87, and \$3.73 per month. Western Massachusetts Electric Co., an Eversource subsidiary, charges \$6 per month. National Grid has residential fixed charges of \$4 and \$5 in Massachusetts and Rhode Island, respectively.

Have other states capped fixed charges?

Yes. California capped residential fixed charges at \$10 in 2013. Connecticut has the opportunity to be the first state in the Northeast to lower and cap fixed charges to protect consumers.

Will capping fixed charges raise electricity rates?

No. Lowering and capping fixed charges does not raise electricity rates overall. Rather, it shifts a portion of the utilities' cost recovery from the fixed charge to the volumetric, or per kilowatt hour, distribution charge. That gives consumers more control over their electricity costs since the volumetric charge is determined by how much electricity the customer chooses to use.

Will capping fixed charges harm the utilities' ability to recover their costs?

No. Both of Connecticut's major distribution utilities will still be able to recover their allowed revenue through the volumetric distribution charge. The cap will be revenue neutral. A utility's allowed revenue is set by the Public Utilities Regulatory Authority (PURA) through a rate case. PURA can design rates that fully recover costs without relying on high fixed charges. Both utilities are also ensured full recovery of their allowed revenue through decoupling, which is a fully reconciling revenue true-up mechanism that ensures the utilities receive their allowed annual revenue – and not a penny more or less.

Are high fixed charges compatible with the modern power grid?

No. The modern power grid should enable consumers to make beneficial energy decisions. This can mean many things: installing rooftop solar; participating in demand response; weatherizing and investing in high-efficiency appliances; comparing apartments based on energy cost data; or, choosing to make no changes at all. A key feature of the modern power grid is full consumer control over energy generation, consumption, and costs. High fixed charges interfere with this objective by increasing the amount that must be paid regardless of energy use. By lowering and capping fixed charges right now, we will give all consumers, including the most vulnerable, a real chance to benefit economically from the rapid advances in technology that are already modernizing the power grid.

For more information:

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