Eversource Rate Case

Higher Ratepayer Costs, for What Benefit?

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Advancing the Clean Energy Future

In January 2017, Eversource filed its first complete rate case in many years, including proposals for higher annual revenues, a new utility revenue model, significant changes to rate design, and $400 million in future investments. On November 30, 2017, the Department of Public Utilities (DPU) issued an order that moves the Commonwealth backwards, with unnecessarily higher costs for consumers and away from utility business model reforms to better serve customers in a clean energy future.

As the electricity grid changes, it must integrate more local, renewable energy sources. This increases the conflict between how a utility currently makes money and what services consumers demand, which necessitates utility business model reform across the board. At a general level, utility revenue and profits must be shifted away from a traditional link to capital investments and towards consumer and environmental outcomes. Under the traditional model, utilities are paid more to focus on infrastructure investments like poles, wires, and substations instead of cheaper and cleaner local alternatives, and to promote natural gas expansion and building new gas mains at the expense of efficient electric heating solutions. New utility business models need to align these incentives with the public interest. Unfortunately, the DPU approved two proposals from Eversource that both double down on the traditional utility business model and will lead to significant increases in ratepayer costs.

To begin, the DPU approved a 10% return on equity for Eversource shareholders. This is significantly higher than recent regional or national averages, including a settlement in Connecticut that Eversource agreed to with a 9.25% return on equity and a settlement in New York that National Grid agreed to with a 9% return on equity, both in January 2018. This higher return in Massachusetts leads to around $16 million in additional yearly profits for Eversource shareholders and over $20 million per year in ratepayer costs, after adding associated corporate taxes. There is no reason related to financial markets that Massachusetts ratepayers need to be this generous to Eversource shareholders, and high returns on equity further incentivize a commitment to traditional capital investments.

The DPU also approved a new revenue model for Eversource. The primary impact of this model is an automatic yearly revenue increase of inflation plus an additional 1.56%, based on a nationally unprecedented negative productivity factor—an estimate by an Eversource consultant that utilities are becoming *less* productive every year. If inflation is near 2% annually, rate increases would grow approximately $35 million every year. As a result, Eversource's revenue could be over $145 million higher in 2022 and cumulatively around $360 million higher from 2019 to 2022.

What benefits are ratepayers receiving for this money? No investments are tied to the additional revenue, since most of the proposed investments have been moved to another proceeding. Eversource cannot file another rate case for five years, unless extraordinary circumstances require it. While that could save ratepayers some expenses from future rate cases, it is nowhere near $360 million. The DPU approved two modest protections for ratepayers between now and 2022. Ratepayers would get a "consumer dividend" of 0.25% if and when inflation exceeds 2%, which is a modest amount of protection from higher inflation. In addition, an earnings-sharing mechanism is triggered if Eversource's return on equity is much higher than expected, which provides some ratepayer protection as well. However, these two protections are quite limited and explicitly allow very significant increases in Eversource's baseline revenue. Lastly, one of the theoretical benefits of this approach is lower ratepayer costs after 2022, but this reduction is quite speculative and still could be small relative to the upfront costs.

The DPU has also instructed Eversource to create metrics related to system peak demand, customer service and engagement, and climate adaptation. These metrics could be helpful in eventually aligning utility and consumer incentives but are aspirational at best and not linked to Eversource's revenue. This falls far short of best practices to date, which are being implemented in New York and Rhode Island.

In total, the DPU's decisions on these two issues could lead to nearly $460 million in extra ratepayer costs over 5 years, with very few corresponding benefits. Attorney General Maura Healey's office led the charge against these proposals during the Eversource rate case and is pursuing legal avenues to secure further changes. The approved return on equity has been appealed to the Supreme Judicial Court. However, the appeal is on administrative grounds, so the DPU could still make the same decision later, even if the Attorney General's appeal is successful. The Attorney General's Office has also filed a motion for reconsideration of the automatic revenue increases, so the DPU could in theory revise its own decision. Better, the Legislature could intervene on these topics, forbidding excessive returns on capital investments for utility shareholders going forward and preventing automatic rate increases based on a negative productivity factor.

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