

Joint Statement on Eversource Rate Case in Massachusetts

Endorsed by:

Acadia Center

Alternatives for Community & Environment

Avid Solar

Berkshire Environmental Action Team

Berkshire Photovoltaic Services

BlueSel

Boston Area Solar Energy Association

Boston Community Capital

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Clean Water Action

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Environment Massachusetts

Franklin County CPR Climate Task Force

Health Care Without Harm

League of Women Voters of Massachusetts

Marion Institute- SouthCoast Energy Challenge

Massachusetts Climate Action Network

Massachusetts Communities Action Network

Massachusetts Mothers Out Front

Massachusetts PipeLine Awareness Network

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South Coast Neighbors United

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SunBug Solar

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Vote Solar

350 Mass for a Better Future

350 Mass - Berkshires

In January 2017, Eversource filed its first complete rate case in many years. After a lengthy proceeding, the Massachusetts Department of Public Utilities (DPU) issued two orders addressing Eversource's proposals, one in November of 2017 and the other in January of 2018. Despite widespread opposition from parties in the rate case, the DPU approved four major proposals from Eversource that are bad for ratepayers and move us away from a future with consumer control and widespread local clean energy. The endorsing organizations support efforts, including by Attorney General Maura Healey, to undo these counterproductive decisions in 2018 and urge the Massachusetts Legislature to ensure that similar steps are not taken in the future. Addressing these issues helps the Commonwealth advance a future of lower ratepayer costs, more local jobs, fewer greenhouse gas emissions, and better public health.

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1. Unreasonably High Return on Equity for Eversource Shareholders

High profit margins cost ratepayers an additional \$15–20 million per year. Utilities traditionally earn profits based on a return on equity for capital investments, which is then incorporated into rates. This gives utilities incentives to make as many capital investments as possible and argue for a high return on equity in rate cases. In this case, the DPU granted Eversource a return on equity of 10%, a level far above the regionwide average. In recent settlements, Eversource agreed to a 9.25% return on equity in Connecticut and National Grid agreed to 9% in New York. There is no reason that Massachusetts ratepayers should be this generous to Eversource shareholders, and reducing the return on equity to a reasonable level would save ratepayers around \$15–20 million per year. Such a high return on equity also encourages utilities to double down on the traditional business model of capital investments, which discourages them from seeking local solutions that are cheaper and cleaner.

2. Automatic Annual Rate Hikes at Inflation Rate Plus an Additional 1.56 Percent

With inflation near 2%, Eversource would receive an additional \$360 million in revenue over five years, with little link to benefits for consumers or the Commonwealth. The traditional business model for utilities gives these companies enormous incentives to make large capital investments. Changing this business model is a key part of a consumer-friendly clean energy future, where cheaper and cleaner local alternatives to infrastructure projects are given a level playing field and consumers have control to manage their energy usage and benefit the system. However, instead of real business model reform to address these misaligned incentives, the DPU approved a new system of automatic annual revenue increases. These increases are based on a nationally unprecedented estimate by Eversource that utilities are getting less productive over time and need more revenue to compensate. As a result, Eversource's yearly revenue will be allowed to increase by 1.56% over the rate of inflation. 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. These increased revenues, and the corresponding annual rate increases, are not directly tied to new investments and are not tied to improvements in consumer and environmental outcomes, unlike best practices being implemented in New York and Rhode Island.

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3. Complex, Unmanageable, and Inefficient Rates for New Residential Solar Customers

Mandatory residential demand charges are unprecedented nationally. Traditional electricity rates for residential and many small business customers are based on energy consumed, in units of kWh, often called volumetric charges. By contrast, demand charges are based on the highest hourly usage by a customer over the course of a month, regardless of when that electricity is used. The Department approved mandatory demand charges for residential customers who install solar or other distributed generation starting December 31, 2018, as a part of the minimum monthly reliability contribution (“MMRC”). With this, Eversource will be the first large investor-owned utility to impose a mandatory residential demand charge. Traditional volumetric rates are easily understandable and provide clear signals for customers to manage their bills, but demand charges do not meet these criteria. Due to the automatic cycling of many high-demand electric appliances, such as hot water heaters, it will be difficult for customers to manage this portion of their bill. Given the lack of sophisticated metering in Massachusetts, neither the utility nor the customer will know what time or day this maximum hour of usage occurred. 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 electric system costs because they do not correspond to the times when the grid is stressed.

4. Elimination of Optional Residential On-Peak/Off-Peak Rates

Time-varying rates should serve as a key peak demand management tool. Optional time-varying rates for residential customers are a good way to give customers better incentives to help manage peak demand. For instance, rates with (1) higher prices in predictable high demand hours that drive system costs and (2) correspondingly lower rates in off-peak hours provide customers a financial motivation to reduce electricity usage during peak hours and shift usage to off-peak hours. Unfortunately, the Department approved Eversource’s proposal to eliminate these residential on-peak/off-peak rates. Optional on-peak/off-peak 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. The discontinuation of these rates removes price signals for residential customers to learn how to manage their usage in peak hours, lowering customer incentives for energy storage, energy efficiency efforts targeted at peak demand, and off-peak electric vehicle charging. On-peak/off-peak rates can also serve as a foundation for improved compensation for clean local generation.

For More Information:

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