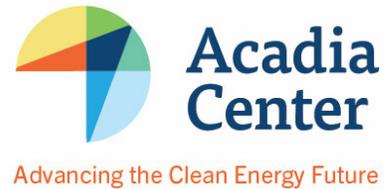


National Grid Rate Case

Summary of Issues and Call to Action

March 2019



On November 15, 2018, National Grid filed a comprehensive electric rate case in Massachusetts, proposing significant revenue increases, new rate structures, and an array of investments. This memo outlines key issues that Acadia Center believes the public needs to be aware of. They affect costs, equity, and the future of clean energy.

Proposals in the rate case would unnecessarily increase consumer costs and inhibit distributed clean energy. In particular, the rate case contains large automatic annual revenue increases unrelated to performance, high returns on traditional utility infrastructure, and unfair and inefficient rate designs. Acadia Center addresses concerns related to National Grid's proposals in four areas:

- High revenue and shareholder returns
- Inadequate requirements in “performance-based ratemaking”
- Misaligned rates
- Electric vehicle charging programs

The issues raised by National Grid implicate larger considerations for Massachusetts' clean energy future. This memo includes a section on how the public can help through public comment and legislation.

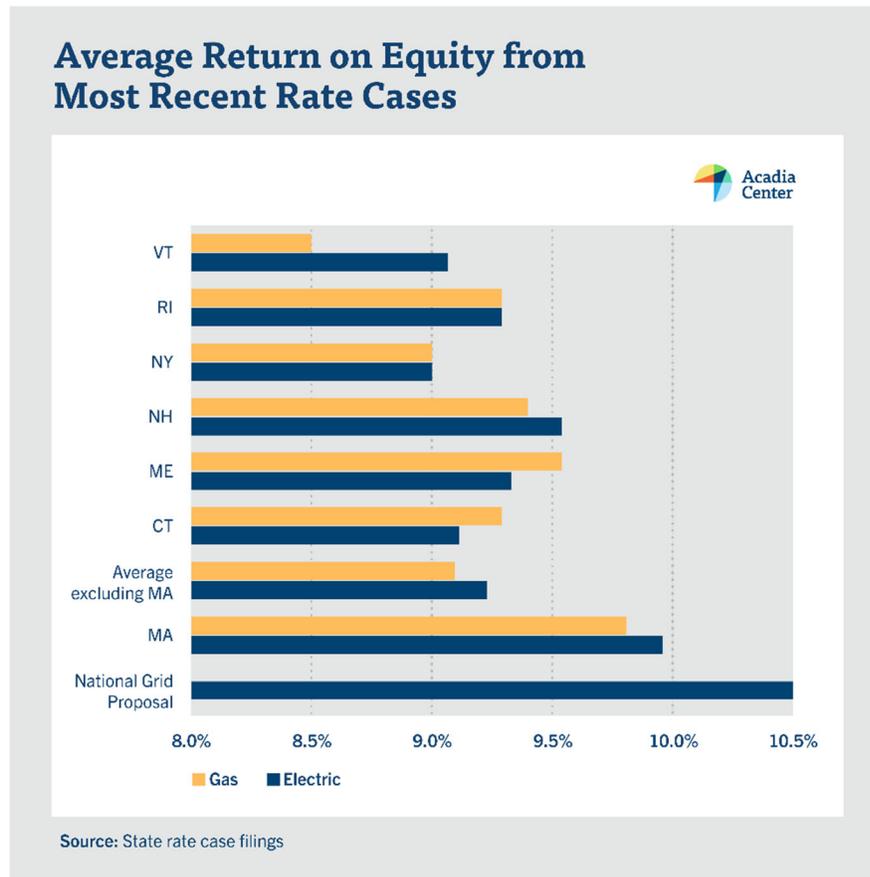
Unreasonably High Requests: Revenue and Shareholder Returns

In the traditional regulatory model, utilities make profits by earning specified rates of return on capital expenditures, e.g. construction of poles, wires, and pipelines. **This approach gives utilities incentives to build and upgrade infrastructure and is increasingly at odds with public policy goals to increase energy efficiency and consumer adoption of clean energy resources.** Excessively high returns on these investments or “equity” can also add significantly to consumers' rates.

National Grid has proposed a return on equity of 10.5%, significantly higher than 9.275% approved in National Grid's 2018 rate case in Rhode Island, and 9% in its 2018 New York rate case. There is no reason why Massachusetts ratepayers must pay greater returns to National Grid shareholders than their neighbors—especially not for the same type of investments in locations subject to the same capital markets. Reducing the return on equity to a level closer to that of neighboring states, as recommended by the Attorney General's expert witness,¹ would save Massachusetts ratepayers around \$34 million per year. An excessively high return on equity incentivizes a utility to invest in infrastructure over all other priorities. To maximize profits, shareholders will demand the utility double down on prioritizing capital investments and discourage it from considering whether lower cost, local clean energy options could substitute. Acadia Center supports lowering the return on equity approved in Massachusetts, either within this rate case or through legislation, such as [An Act to Protect Ratepayers](#) (HD.2807/SD.1933), which would require return on equity to be below the average of neighboring states.

¹ The Attorney General's expert witness Dr. Woolridge recommends a ROE of 8.75%. D.P.U. 18-150, Exh. AG-JRW at 4.

This chart compares Massachusetts' return on equity and National Grid's proposed return with that of other northeastern states and the regional average.



Performance-Based Ratemaking—Minus the Performance

With the success of energy efficiency programs in Massachusetts, utilities are bringing in less money (even when profits are decoupled from energy sales). At the same time, they are spending to support aging infrastructure, modernize the grid, and integrate distributed energy resources. In 2018, the DPU approved Eversource's highly problematic approach—granting significant automatic annual revenue increases on the grounds that the utility will be working itself further into a hole as time goes on.² National Grid now seeks the same regulatory treatment—ironically called Performance Based Ratemaking (“PBR”)—but an even higher adjustment than the DPU approved for Eversource. This PBR adjustment would combine revenue increases tied to average inflation rates with increases tied to the expectation that the company will become 1.72% *less* productive every year (the “negative productivity factor”). **In total, National Grid's automatic adjustments could reach over \$344 million in extra revenue from 2021 to 2025, on top of the \$70 million per year increase it is seeking for 2020.**

² For more detail on the flaws of the Eversource decision, see <https://acadiacenter.org/document/joint-statement-on-eversource-rate-case-in-massachusetts/>

Large revenue increases are bad enough, but worse, the annual increases under PBR will occur regardless of consumer benefits, a key portion of the “performance” for which a utility should be compensated. National Grid has proposed targets for a few metrics on the premise that if it beats the targets, it can earn even more basis points in revenue increases.³ These metrics do not incentivize the utility to embrace innovation or pose any risk of cuts to the utility’s compensation if the targets are not hit. They fail to minimize the cost of the grid, reduce consumers’ energy burden, address climate change, or enhance consumer control and choice.

National Grid has stated that customers will see benefits under PBR. However, the programs National Grid plans to use to deliver such benefits are already underway and are fully compensated outside of PBR—namely, energy efficiency, grid modernization, electric vehicle programs, energy storage, and utility-owned solar. It is unclear what, if any, consumer benefits may be added through the shift to the PBR structure. **Without ties to the actual performance that customers demand and deserve from a modern utility, the PBR structure simply provides an unchecked windfall to the utility. Acadia Center supports eliminating the use of a negative productivity factor, either through this rate case or legislation, such as [An Act to Protect Ratepayers](#) (HD.2807/SD.1933).**

Rate Design and Higher Fixed Charges Damage Consumers and Clean Energy

National Grid’s rate proposals include an increase in fixed charges, which Acadia Center has consistently and successfully argued are counter to consumer and clean energy interests. Fixed monthly charges are the fees that a customer is required to pay regardless of their energy usage over the course of a month. By lowering per kWh charges, increases in fixed charges reduce customers’ incentives to use energy more efficiently or participate in renewable energy programs. When fixed charges go up, the relative burden falls disproportionately on customers who consume less electricity than average, a population that tends to be lower-income.⁴

Several of National Grid’s rate design proposals contain provisions that would be harmful to consumers, impede progress on clean energy, and diminish utility incentives to reduce system costs. Such proposals include:

- Increasing general residential fixed charges by 27%, from \$5.50 to \$7 per month.
- Singling out solar, storage, and other customer-owned distributed generation to pay an additional \$4.20 per month in fixed charges for residential customers, and up to hundreds of dollars for commercial facilities.
- Maintaining a fixed charge for residential customers who have opted in to time-of-use rates that is nearly double the cost to serve those customers.
- Failing to offer a well-designed, cost-based, opt-in time-of-use rate to residential customers who can respond to incentives to reduce consumption in peak months and during peak hours, when electricity is the most expensive and, often, has the highest emissions.

Electric Vehicle Charging Proposal: Issues of Utility Market Power

National Grid proposes a \$160 million electric vehicle (EV) charging program to run from 2020 to 2024. This proposal and its specifics raise several concerns. This is in addition to its already approved \$30 million EV

³ The four performance metrics National Grid proposes are: peak reductions; incremental EV registrations; cost control for EV program; and a brand image and relationship survey on perceived ease of doing business with the utility.

⁴ For more information on how raising fixed charges causes disproportionate harm, see <https://acadiacenter.org/wp-content/uploads/2017/07/Acadia-Center-Residential-Fixed-Charges-in-NY-October-2017.pdf>

program running from 2019 to 2021. The newly proposed program includes \$9 million in rebates for residential level 2 charging equipment, \$110 million to expand a level 2 charger program to buildings other than single-family homes, and a \$15 million program for fast chargers. The proposal to expand investments in charging equipment at non-residential buildings includes a utility ownership option. Acadia Center opposes utility ownership, except in cases of market failure because it will likely undermine competition in the market.

Acadia Center urges improvements including better cost-benefit analysis and stronger public accountability measures for EV utility programs, both of which the National Grid proposal lacks. In addition, although Acadia Center supports investments in EV charging infrastructure, the bulk of National Grid’s proposal should be put on hold to be considered in conjunction with a statewide EV policy in other proceedings. National Grid’s proposal would run concurrently with at least five other EV charging programs in Massachusetts—all administered by different agencies under different plans.⁵ As the Attorney General recommended in Eversource’s recent rate case, and her expert recommended in this case, the DPU should open a proceeding to establish a coordinated statewide electric vehicle deployment and charging infrastructure plan, as well as a protocol for EV rate design issues.⁶ Now is a good time to take a step back, learn from existing programs, and develop such a plan, before making a major commitment of new funds. A statewide plan designed now could begin to inform action starting in 2021, when National Grid’s existing program and several of the other current programs will be wrapping up.

Public Input and Legislation

There are multiple ways ratepayers, citizens, and public officials can get involved to ensure the issues raised in the National Grid rate case are addressed. These include commenting at public hearings, providing written comments to the Department of Public Utilities, and contacting legislators to encourage them to act on bills filed to address several of the issues detailed here.

Public Hearings

The public is invited to share comments on National Grid’s proposals at a series of public hearings held by the Department across the state. The [hearings are scheduled](#) for 7 PM in:

- Brockton on March 28th
- Nantucket on April 2nd
- Worcester on April 4th
- Great Barrington on April 9th

⁵ The MA DPU has previously approved separate EV utility proposals for NGRID (2019 to 2021, total budget around \$30 million) and Eversource (2018 to 2022, total budget around \$50 million). These programs are both primarily “make ready” programs, that pay for the cost of infrastructure upgrades and wiring, but not the end use charging station. Separately, MA DEP is in charge of an interrelated set of charging station programs with a couple different significant sources of funding, including VW Settlement Appendix D (over \$10 million which can be used over a 3 to 10-year time period) and \$15 million in potential bond funding. Then Electrify America (with funding coming out of VW Settlement Appendix C) has chosen Boston as one of its focus areas for EV charging stations. Finally, the 2019-2021 Energy Efficiency plans include pilots through which National Grid and Eversource will incentivize residential EV charging systems to pause or shift charging during system peaks as a way of providing active demand response.

⁶ See D.P.U. 17-05, Initial Brief of the Office of the Attorney General, July 21, 2017 at 45-46; D.P.U. 18-150, Exh. AG-MNL at 28-29.

Written Comments

In addition to speaking at hearings, the public is invited to send written comments by April 9th to Mark D. Marini, Secretary, Department of Public Utilities, One South Station, Boston, MA 02110, by email attachment to: dpu.efiling@mass.gov and the Hearing Officer Carol Pieper at carol.pieper@mass.gov. Comments should include the docket number (D.P.U. 18-150), the name of the person or company submitting the filing, a brief descriptive title of your document, and the name, title, and telephone number of a person to contact in the event of questions about the filing.

Contact Your Legislators

Several bills filed in the current legislative session (2019-2020) address issues in the National Grid rate case. Among these are:

- [An Act to Protect Ratepayers](#) (HD.2807/SD.1933): stops automatic annual rate increases like the one National Grid is asking for under PBR and prevents DPU from approving return on equity higher than the average of neighboring states.
- [An Act to Establish Rate Options to Reduce Customer Costs and Peak Demand](#) (HD.2806/SD.1938): requires utilities to offer rates that give customers the opportunity to save money by shifting use away from peak times, and helps incentivize electric vehicles, storage, and smart appliances.

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