Advancing the Clean Energy Future

Acadia Center

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Testimony Supporting An Act to Protect Ratepayers (H.2807/S.1933)

Joint Committee on Telecommunications, Utilities, and Energy

July 12, 2019

Dear Chairman Barrett, Chairman Golden, and Honorable Members of the Committee:

Acadia Center is a non-profit, research and advocacy organization committed to advancing the clean energy future. Acadia Center has a long history of advocacy for creating a fully integrated, flexible, and low carbon energy grid, and the reforms to the utility business model needed to support it – including actively participating in Eversource's 2017 rate case and National Grid's 2019 rate case, currently pending at the Department of Public Utilities (DPU). As explained in more detail below, these rate cases introduce reforms to the utility business model that take us further away from the clean energy future, and make it harder for consumers to control their bills and Massachusetts to deploy enough distributed renewable energy resources as are needed to meet our climate goals. Addressing these issues will help the Commonwealth advance a future of lower ratepayer costs, more local jobs, fewer greenhouse gas emissions, and better public health.

As such, Acadia Center writes today in enthusiastic support of H.2807/S.1933, *An Act to Protect Ratepayers.*

The Legislature Can Move Us Towards a Clean Energy Future

In 2018, the DPU's decision in the Eversource rate case approved four major proposals, opposed by 58 organizations and businesses, as well as the Attorney General, that are bad for ratepayers and move us further away from a future with consumer control and widespread locally produced clean energy. National Grid has now asked for the same treatment in its pending rate case.

The legislature addressed one of these significant issues, mandatory residential demand charges, in the 2018 Act to Advance Clean Energy; now it's time to address the other three – unreasonably high returns on equity, automatic annual rate hikes at 3-4% per year, and elimination of on-peak/off-peak rates. Passing H.2807/S.1933, *An Act to Protect Ratepayers* would address the first two of these issues; passing H.2806/S.1938, *An Act to Establish Rate Options to Reduce Customer Costs and Peak Demand* (currently assigned to this committee, but with no hearing scheduled) would address the third.

Support for H.2807/S.1933, *An Act to Protect Ratepayers*

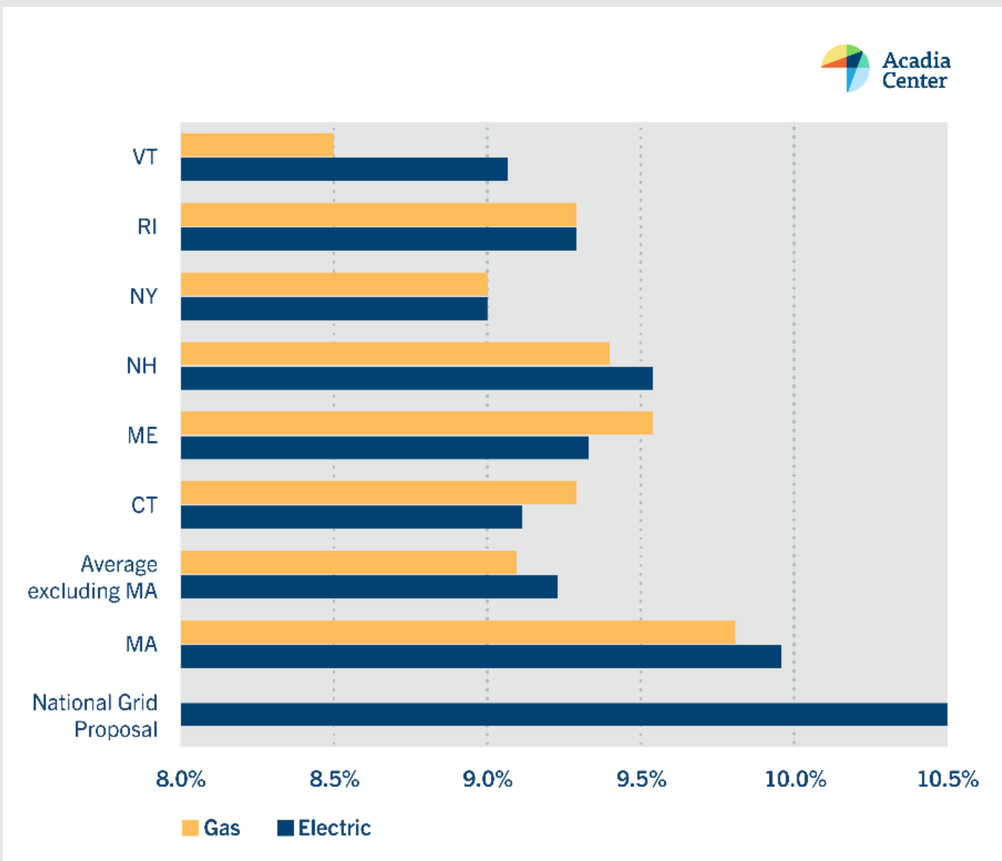
Unreasonably High Return on Equity for Utility Shareholders

In the traditional regulatory model, utilities make profits by earning specified rates of return on capital expenditures, such as construction of poles, wires, and pipelines. An excessively high return on these investments, or "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 evaluating whether lower cost, local clean energy options could be a better solution. It also adds significantly to consumers' rates. **High returns on equity currently cost Massachusetts ratepayers an additional $34 million per year.**

In the Eversource rate case, the DPU approved a return on equity of 10%, a level far above the regionwide average. In the National Grid rate case, the company asked for even more – 10.5%. These returns are significantly higher than the 9.275% approved in National Grid's 2018 rate case in Rhode Island, the 9.25% approved in Eversource's 2017 Connecticut rate case, and the 9% approved in National Grid's 2018 New York rate case. There is no reason why Massachusetts ratepayers must pay greater returns to utility shareholders than their neighbors— especially not for the same type of investments in locations subject to the same capital markets.

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

Average Return on Equity from Most Recent Rate Cases



Source: State rate case filings

An Act to Protect Ratepayers would address this issue by limiting approved returns on equity to the average approved in neighboring states over the preceding four years. **Reducing the return on equity to a level closer to that of neighboring states[1] would save Massachusetts ratepayers around $34 million per year**.

Stop Automatic Annual Rate Hikes Of 3-4% Per Year

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 more to support aging infrastructure, modernizing the grid, and integrating distributed energy resources. In 2018, the DPU approved Eversource's proposed solution to this problem—granting significant automatic annual revenue increases on the grounds that the utility will be working itself further into a hole as time goes on. This approval of a negative productivity factor was nationally unprecedented, and no other utilities commissions have approved such a factor since.

Specifically, the DPU approved automatic adjustments to Eversource's rates at 1.56% above inflation, on the expectation that the company will become *less* productive every year. National Grid's pending rate case includes a request for the same regulatory treatment, at an even higher rate – seeking inflation plus an additional 1.72%. **With inflation near 2%, Eversource will receive an additional $360 million in revenue over five years, and National Grid an additional $344 million in extra revenue over the five years of its plan, both with no link to benefits for consumers or the Commonwealth.**

An Act to Protect Ratepayers would address this issue by prohibiting use of the nationally unprecedented negative productivity factor, or any other regulatory mechanism that results in automatic annual revenue increases at a rate higher than inflation. It would also apply retroactively, excluding the negative productivity factor from any future filings for an annual adjustment.

Support for H.2806/S.1938, *An Act to Establish Rate Options to Reduce Customer Costs and Peak Demand*

Time-varying rates should serve as a key peak demand management tool. Optional on-peak/off-peak rates give customers an immediate incentive to lower peak demand by managing their energy use. Rates with higher prices in predictable high demand hours that drive system costs and 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, lowering both their costs and system costs. Recent advanced meter data from Illinois[2] demonstrated that low-income customers' usage contributes *least* to high-demand hours, indicating that on-peak/off-peak rates could benefit energy-burdened consumers the most. Unfortunately, in the Eversource rate case, the DPU allowed Eversource to eliminate such residential on-peak/off-peak rates.

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[1] Acadia Center modeled the return on equity recommended by the Attorney General's expert witness in the pending National Grid case – 8.75%.

[2] https://energynews.us/2019/06/27/midwest/illinois-smart-meter-data-illustrates-demographic-divides-in-electricity-use/

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, and potentially impacting our most vulnerable electricity consumers. On-peak/off-peak rates can also serve as a foundation for improved compensation for clean local generation.

An Act to Establish Rate Options to Reduce Customer Costs and Peak Demand would address this issue by requiring each distribution company to offer to residential and small business customers at least one option for an on-peak/off-peak rate, along with the educational materials necessary for the customer to make an informed choice. It also protects consumers from others using these optional rates to shift costs to other consumers by requiring customers to stay on the rate for a year.

Conclusion

Acadia Center respectfully asks this committee for a favorable report on H.2807/S.1933, *An Act to Protect Ratepayers*, and, when it comes before the committee for decision, a favorable report on H.2806/S.1938, *An Act to Establish Rate Options to Reduce Customer Costs and Peak Demand.*

Sincerely,

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