

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

INVESTIGATION BY THE DEPARTMENT OF	:	
PUBLIC UTILITIES INTO (1) THE	:	
RATEMAKING PROPOSAL OF THE	:	
ELECTRIC AND GAS COMPANIES SUBJECT	:	D.P.U. 20-91
TO THE DEPARTMENT’S JURISDICTION	:	
FOR THE TREATMENT OF COSTS RELATED	:	
TO THE FINANCIAL IMPACTS OF THE	:	
STATE OF EMERGENCY DECLARED	:	
REGARDING THE NOVEL CORONAVIRUS	:	
(COVID-19) PANDEMIC AND (2)	:	
ALTERNATIVE BILL PAYMENT OPTIONS	:	
FOR CUSTOMERS	:	

RETAIL ENERGY SUPPLY ASSOCIATION’S
COMMENTS

The Retail Energy Supply Association (“RESA”)¹ hereby submits its comments in response to the Department of Public Utilities’ (“Department”) December 31, 2020 Notice of Investigation and Request for Comments² in the above-captioned proceeding.

BACKGROUND

On August 5, 2020, the jurisdictional electric and gas distribution companies (“Distribution Companies”) filed a ratemaking proposal identifying measures for the recovery of costs related to the financial impacts of the state of emergency declared

¹ The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

² Notice of Investigation and Request for Comments (Dec. 31, 2020) (“Notice”).

regarding the novel coronavirus (“COVID-19”) pandemic (“Ratemaking Proposal”).³
This proposal was developed by a working group.⁴

In an Interim Order on Ratemaking Proposal and Vote and Order Opening Investigation, the Department conditionally approved the agreed upon cost-recovery provisions of the Ratemaking Proposal.⁵ On that same day, the Department issued the Notice offering an opportunity to comment on the proposal.⁶ RESA hereby submits its comments in response to the Notice.⁷

COMMENTS

RESA understands the impact COVID-19 is having on consumers and businesses across the United States.⁸ Everyone, including RESA members, is facing unprecedented challenges. RESA supports the development and implementation of effective and prudent policies to respond to these challenges. However, particular care must be taken to ensure that decisions implementing these policies do not undermine long-standing ratemaking principles or exacerbate already existing policies that fail to ensure that consumers receive accurate price signals.

³ See Notice, at 1; see also Docket D.P.U. 20-58, *Inquiry of the Department of Public Utilities into Establishing Policies and Practices for Electric and Gas Companies Regarding Customer Assistance and Ratemaking Measures in Connection to the State of Emergency Regarding the Novel Coronavirus (COVID-19)*, Ratemaking Working Group Report (Aug. 5, 2020) (“WG Report”).

⁴ Members of the Ratemaking Working Group were: the Distribution Companies, Office of the Attorney General, Department of Energy Resources, National Consumer Law Center, Low-Income Energy Affordability Network, and Associated Industries of Massachusetts (collectively, the “Working Group”). See Interim Order on Ratemaking Proposal and Vote and Order Opening Investigation (Dec. 31, 2020) (“Interim Order”), at 2 n.3.

⁵ *Id.* at 1.

⁶ Notice, at 1.

⁷ On January 29, RESA filed a petition for party status. See Retail Energy Supply Association’s Petition for Party Status (Jan. 29, 2021). If RESA’s petition is granted, it reserves the right to fully participate in this proceeding including, without limitation, through motion practice, discovery, pre-filed and live testimony, direct and cross-examination, comments, and briefs.

⁸ See Retail Energy Supply Association Issues Statement Regarding COVID-19, Energy Choice Matters, <http://www.energychoicematters.com/stories/20200323ztac.html> (last visited Feb. 2, 2021).

I. RESA SUPPORTS CONTINUED RECOVERY OF COMMODITY-RELATED COSTS THROUGH BASIC SERVICE RATES

As the WG Report recognizes, currently, the electric Distribution Companies (“EDCs”) recover bad debt cost for commodity through Basic Service rates and the Purchase of Receivables discount rate.⁹ The WG Report supports continued recovery through these mechanisms.¹⁰ In addition, the WG Report provides that the EDCs will recover incremental cash working capital costs through the Basic Service Administrative Cost Factor.¹¹ However, the Attorney General and the Distribution Companies disagree on the debt rate to be used to calculate incremental cash working capital eligible for recovery.¹² RESA also supports the continued recovery of commodity-related bad debt costs and working capital costs through these methods.

The Department has long held that “[d]efault service is intended to be a basic service that provides customers with the appropriate incentives to turn to the competitive market for more sophisticated or advantageous service offerings.”¹³ As a consequence, “[a]n underlying goal of the Department's default service pricing policies is to ensure that, to the extent possible, default service customers pay the full costs of providing that service.”¹⁴ However, despite this, the EDCs still capture commodity-related (i.e., bypassable) costs in distribution (i.e., non-bypassable) rates.

⁹ WG Report, at 5.

¹⁰ *Id.*

¹¹ WG Report, at 4. The Basic Service Administrative Cost Factor is only applicable to customers receiving Basic Service. *See, e.g.*, D.P.U. 15-155 (Sep. 30, 2016), at 330 (“These costs are recovered from customers through a Basic Service Administrative Cost Factor set forth in the Basic Service Adjustment Provision (‘BSAP’) that is added to the basic service rate for billing purposes.”) (citations omitted).

¹² WG Report, at 4.

¹³ D.T.E. 99-60-A (May 11, 2000), at 2.

¹⁴ D.T.E. 99-60-C (Oct. 6, 2000), at 7.

Although the Department has undertaken efforts in the past to appropriately allocate costs between the bypassable and non-bypassable portion of rates,¹⁵ certain Basic Service related costs are still captured in the EDCs’ non-bypassable rates.¹⁶ In order to avoid exacerbating this issue, RESA urges the Department to continue to adhere to cost causation principles and to ensure that the EDCs’ *full* cost of commodity-related bad debt and cash working capital are properly accounted for and recovered in their Basic Service rates.

II. THE DEPARTMENT SHOULD EXPAND BUDGET BILLING PROGRAMS AS AN ALTERNATIVE TO DEFERRING COST RECOVERY

The WG Report indicates that, for both commodity-related cash working capital and bad debt, “depending on the magnitude of bill impacts, cost recovery may need to be spread out over more than one year.”¹⁷ The Department should not further defer recovery of these costs because it will ultimately result in customers paying more and send customers inaccurate price signals.

When it passed the Electric Restructuring Act,¹⁸ the Massachusetts General Court found that “an important goal in electric restructuring is the development of a competitive

¹⁵ See, generally, Docket D.T.E. 99-60, *Investigation by the Department of Telecommunications and Energy on its Own Motion into the Pricing and Procurement of Default Service Pursuant to G.L. c. 164, § 1B(d)*; Docket D.T.E. 02-40, *Investigation by the Department of Telecommunications and Energy on its Own Motion into the Provision of Default Service*; Docket DTE 03-88, *Investigation by the Department of Telecommunications and Energy on its Own Motion, Pursuant to G.L. c. 164 §§ 1A(a), 1B(d), 94; and 220 C.M.R. § 11.04, into the Costs that Should Be Included in Default Service Rates*.

¹⁶ See, e.g., Docket D.P.U. 21-01, *Petition of Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid, for approval of their 2020 electric reconciliation filing effective March 1, 2021, pursuant to G.L. c. 164, § 1A(a) and 220 CMR 11.03(4)(e)*, Annual Retail Rate Filing (Jan. 15, 2021), Exhibit MR-1, at 4-5 (noting that, in reconciling Basic Service revenue and Basic Service expense, “any excess or deficiency is credited to or recovered from all the Company’s retail *delivery service customers*, with interest . . .”) (emphasis added).

¹⁷ WG Report, at 4; see also *id.* at 5.

¹⁸ St. 1997, c. 164 (“Restructuring Act”).

marketplace”¹⁹ and found that such a competitive marketplace should, *inter alia*, provide electricity buyers and sellers with appropriate price signals.²⁰ Indeed, the Department has recognized that “[i]t is essential to the development of a robust competitive market to have prices set at levels that provide customers with appropriate price signals regarding the costs associated with providing the service, as established by the competitive market.”²¹ Conversely, “[d]efault service prices that do not represent the actual cost of providing the service . . . inhibit the development of a competitive . . . market and would thus be detrimental to all electricity consumers.”²²

Following these principles, the Department declined to approve a 2001 Massachusetts Electric Company (“MECo”) proposal to calculate the fixed price default service option based on a twelve month (rather than six month) weighted average cost because it would simply create a scenario whereby “default service customers will pay below-market prices . . . during the initial six-month period . . . [and] pay above-market prices over the later six months.”²³ Further, the Department found that the proposal would “not reduce the price for any customers, it suppresses the market price signal as it would otherwise be experienced by customers nearer to the time of usage; and it does so by simply shifting the time-period over which default service supply costs must be paid.”²⁴ Instead, “[i]n order to smooth out price fluctuations, the Department . . . direct[ed] the Company to expand its budget billing program option”²⁵

¹⁹ D.T.E. 99-60-A, at 3.

²⁰ Restructuring Act, § 1(g).

²¹ D.T.E. 99-60-A, at 3.

²² *Id.*

²³ D.T.E. 99-60, Letter Order (Apr. 3, 2001), at 2.

²⁴ *Id.*

²⁵ *Id.* at 3.

Similarly, in response to a request from the EDCs to implement a standard offer service fuel adjustment (“SOSFA”) “as a result of substantial increases in fuel costs, which have driven up the price of electric generation this year,”²⁶ the Department was “faced with the difficult task of balancing the burden of allowing present cost recovery against the potentially greater harm of increasing deferrals to be recovered in the future.”²⁷ Ultimately, the Department rejected a deferral of the cost increases associated with the SOSFA for several reasons. First, “costs that are not recovered from standard offer service customers now will be recovered, with interest, from *all* customers in the future, *regardless whether* the customer received standard offer service or not.”²⁸ Second, “there is grave financial risk in forcing large deferrals” as “the total amount of costs deferred for future recovery could well grow to a level that would threaten the financial viability of the distribution companies.”²⁹ Third, “continuing to price standard offer service significantly below costs artificially impedes the development of a truly robust competitive market and the ability of competitive suppliers to develop products at prices that would attract customers.”³⁰

For these same reasons, in this case, the Department should continue to adhere to cost causation principles and its precedent and decline to defer cost recovery of commodity-related cash working capital and bad debt costs. As an alternative, the Department should pursue further educating consumers about ways in which to reduce the impact of the COVID-19 pandemic, through budget billing and other measures.

²⁶ D.T.E. 00-66, 00-67, 00-70 (Dec. 4, 2000), at 1, 2.

²⁷ *Id.* at 2.

²⁸ *Id.* at 3 (emphasis in original).

²⁹ *Id.*

³⁰ *Id.* at 4.

As “the Department [has] recognized . . . all customers may avail themselves of a budget billing plan, whereby the customer’s electric usage is projected for a period, equal monthly charges are calculated and billed for that period, and charges are reconciled with actual usage in the final billing for the period.”³¹ Indeed, in rejecting MECo’s proposal to collect costs over a longer period, the Department noted that the “twelve-month fixed-pricing proposal would not serve [its] customer base nearly as well as better awareness of [its] budget billing plan, and expansion of that plan for certain customer classes.”³² The Department recognized the positive effect budget billing could have at accomplishing a similar goal yet with a better technique:

The availability of this important budget billing option, coupled with the [] commitment to effectively promote budget billing as a real and viable option, accomplishes effects that are substantially similar to the twelve-month pricing proposal . . . and does not clash with the [Restructuring] Act’s requirement to price default service at market rates. In fact, budget billing goes beyond the [] twelve-month average pricing proposal in that it not only averages prices, but also averages an individual customer’s consumption pattern.³³

RESA supports the reaffirmation of budget billing by the Department and expansion of the EDCs’ budget billing programs as an alternative to deferring cost recovery. This, in conjunction with other measures the Department has already adopted³⁴ will serve the public interest by assisting customers in addressing the impacts of the

³¹ D.T.E. 99-60, Letter Order, at 2-3; *see* D.T.E. 01-09 through D.T.E. 01-18 (Jan. 31, 2001) (supporting budget billing in the context of lessening effect of high gas prices and directing gas Distribution Companies to “immediately make available to all customers, the [] level billing plans, whether or not customers have enrolled in such a program prior to the deadline.”).

³² D.T.E. 99-60, Letter Order, at 2.

³³ *Id.* at 3.

³⁴ *See* D.P.U. 20-58-A (Jun. 26, 2020) (adopting customer outreach plan); D.P.U. 20-58-B (Jul. 31, 2020) (adopting customer assistance plan); D.P.U. 20-58-C (Sep. 3, 2020) (adopting small commercial arrearage forgiveness program).

COVID-19 pandemic, avoiding customers paying more than is necessary, and ensuring customers receive more accurate price signals.

CONCLUSION

RESA appreciates the opportunity to offer these comments and looks forward to continuing to participate as this proceeding.


Respectfully submitted,
RETAIL ENERGY SUPPLY
ASSOCIATION

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Dated: February 3, 2021

Certificate of Service

I certify that I have this day served the foregoing document in the above-captioned proceeding in accordance with the requirements of 220 C.M.R. § 1.05.



Joey Lee Miranda

Dated: February 3, 2021