COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

MASSACHUSETTS ELECTRIC COMPANY AND NANTUCKET ELECTRIC COMPANY D/B/A NATIONAL GRID'S BASIC SERVICE FILING FOR THE PERIODS NOVEMBER 1, 2022 THROUGH APRIL 30, 2023 FOR THE RESIDENTIAL AND COMMERCIAL CUSTOMER GROUPS	:	D.P.U. 22-BSF-D3

COMMENTS OF RETAIL ENERGY SUPPLY ASSOCIATION

The Retail Energy Supply Association ("RESA")[1] hereby files its comments in response to the Department of Public Utilities' ("Department") September 26, 2022 Notice of Filing and Request for Comments[2] in the above-captioned proceeding.

BACKGROUND

On August 12, 2022, Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid ("National Grid") released a request for proposals ("RFP") seeking wholesale power supply bids to provide 100 percent of all-requirements service to supply its Industrial customer group Basic Service customers for the period

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[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 Filing and Request for Comments (Sep. 26, 2022) ("Notice").

November 1, 2022 through January 31, 2023 ("Service Period").[3] The RFP was widely distributed "throughout the New England energy supply marketplace."[4]

On September 14, 2022, National Grid received and evaluated bids from suppliers, ***including*** bids to service its Industrial customer group load.[5] However, National Grid determined that, "based on an analysis of wholesale electric market prices leading up to the receipt of the bids, the bids received were unreasonably high and unacceptable."[6]

On September 23, 2022, National Grid filed the Petition requesting approval to self-supply Basic Service to its Industrial customers during the Service Period.[7] If the Petition is approved, beginning November 1, 2022, each day during the Service Period, National Grid will purchase energy in the ISO New England ("ISO-NE") spot market. National Grid will bid the forecasted Basic Service load in the ISO-NE Day Ahead Energy Market "and allow the Real Time Energy Market to be the balancing market for actual load conditions."[8]

National Grid would set the Basic Service rates for the Industrial customer group "based on an estimate of the market prices at which [National Grid] would self-supply over the Service Period."[9] National Grid did not propose any changes to the Basic

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[3] Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid Petition for Approval of Alternative Basic Service Procurement and Pricing Plan (Sep. 23, 2022) ("Petition"), at 2.

[4] *See id.*; *see also id.* ("The RFP was issued via email to approximately 25 market participants. The RFP was also distributed to the S&P Global Energy Markets Website and posted on National Grid's energy supply website.")

[5] Petition, at 2.

[6] *Id.* at 2-3.

[7] *Id.* at 3.

[8] *Id.*

[9] Petition, Exhibit NG-1, at 5:5-7.

Service reconciliation.[10] As a consequence, any reconciliation associated with the over- or under-recovery of costs paid by National Grid to self-supply Basic Service load to Industrial customers during the Service Period will be recovered from all customers, including those who have chosen a competitive supplier.

On September 26, 2022, the Department issued the Notice seeking written comments from interested stakeholders regarding the Petition.[11] RESA hereby submits its comments in response to the Notice.

COMMENTS

While RESA acknowledges that significant price increases can have a substantial effect on customers, National Grid has failed to establish that self-supply will actually result in a better or even equivalent outcome for customers than acceptance of one or more of the FRS bids received. Thus, RESA encourages the Department to refrain from allowing the electric distribution companies ("EDCs") to deviate from the Department's long-standing Basic Service procurement process and to prohibit the EDCs from acting as arbiters of what constitutes appropriate market prices.

I. EDC SELF-SUPPLY PLACES THE RISK ON CUSTOMERS

As noted above, National Grid proposes to self-supply the load requirements of its Industrial customer group for the Service Period. [12] However, every time the EDCs are permitted to self-supply a portion of their load, the results of their power purchase decisions, good or bad, are passed onto all customers, even those who have chosen a

[10] Petition, at 5.
[11] Notice, at 1.
[12] Petition, at 3.

competitive supplier, through the Basic Service Adjustment Factor.[13] By contrast, under the full service requirements ("FRS") procurement approach authorized by the Department, price and quantity risk are shifted to the wholesale suppliers; thus, providing consumers with price insurance for the duration of the contract.[14] Because they have to bid a fixed price, the wholesale suppliers cannot seek to increase rates customers when market conditions change. Conversely, National Grid proposes to pass those risks onto customers.[15]

Under FRS procurement, the consumers are protected against the volatility that results from changes to market prices over time. Conversely, permitting "[s]elf-supply . . . is essentially exposing all of the Company's customers to the spot market."[16] Rather than exposing customers to this risk, RESA urges the Department to require National Grid to engage in the FRS procurement process approved by the Department and to accept the rates proposed as reflective of market conditions.

II. SELF-SUPPLY SENDS EVEN MORE INACCURATE PRICE SIGNALS TO CUSTOMERS

Although National Grid is not explicitly proposing the deferral of Basic Service costs, if the Petition is approved, it will have that practical effect because "costs that are not recovered from [basic] service customers now will be recovered, with interest, from

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[13] Petition, Exhibit NG-1, at 17

[14] *See* Massachusetts D.P.U. 15-40, *Investigation by the Department of Public Utilities on its Own Motion into the Provision of Basic Service*, Initial Comments of Eversource Energy (Jul. 27, 2015), at 3 ("'All-requirements' or load following service includes, by definition, a margin for pricing and migration risks that are currently the responsibility of the supplier. A change from an 'all-requirements' model ***would shift these risks*** to [default] service customers, because the products to supply [default] service supply would be procured separately and as such would expose customers to greater market variations and price volatility.") (emphasis added).

[15] Petition, Exhibit NG-1, at 12:12-15 ("Self-supply . . . is essentially exposing all of the Company's customers to the spot market.").

[16] *Id*.

all customers in the future, *regardless whether* the customer received [basic] service or not."[17] However, as the Department itself has recognized, costs associated with Basic Service "should be recovered from or refunded to the customer that caused the costs."[18]

Deferring costs to the next Basic Service term and collecting those costs in delivery rates shift costs from Basic Service customers to all customers. As a result, customers receiving competitive supply service will be forced to bear costs to serve Basic Service customers – costs for services that they do not receive and that subsidize the EDCs' Basic Service customers – in contravention of cost-causation principles. Furthermore, customers who chose competitive supply and who took appropriate steps to protect against the significant increases that are now being reflected in Basic Service rates by locking in prices will find that their hedging strategy was for naught as they will now have to bear those costs anyway (albeit, in their delivery rates) if the Petition is approved.

Moreover, both the Massachusetts legislature and the Department have long-recognized the need to ensure that rates are cost-based and customers receive appropriate price signals. Indeed, the Electric Restructuring Act specifically states that "competitive markets in generation should . . . provide electricity buyers and sellers ***with appropriate price signals*** . . . ."[19] Consistent with the statutory requirement, the Department has found that:

> It is essential to the development of a robust competitive market to have prices set at levels that provide customers with ***appropriate price***

[17] Docket Nos. D.T.E. 00-66, 00-67, 00-70, *Standard Offer Service Fuel Adjustments*, Letter Order (Dec. 4, 2000) ("SOSFA Order"), at 3 (emphasis in original).

[18] D.P.U. 09-26, *Report of the Department of Public Utilities regarding the impact of the existing basic service adjustment mechanism on the competitive retail electricity market pursuant to Section 102 of the Green Communities Act, Chapter 169 of the Acts of 2008*, Report (June 1, 2009), at 6.

[19] Electric Restructuring Act, § 1(g) (emphasis added).

> ***signals*** regarding the costs associated with providing the service, as established by the competitive market. Default service prices that do not represent the actual cost of providing the service would inhibit the development of a competitive generation market and would thus be detrimental to all electricity consumers.[20]

Therefore, no matter how significant, "[m]asking of seasonal price variability is an avoidance of reality that serves no one."[21]

In furthering this goal, the Department has relied on several guiding principles, including that "default service prices should be market based, be procured through reasonable business practices, and ***take into account the costs of providing default service***, consistent with the development of robust competitive retail markets."[22] In particular, the Department has held that "it is ***critical*** that ***all*** costs of providing default service be included in the retail price to provide an accurate price signal."[23]

Indeed,

> deferring costs from the current basic service term to another term . . . would not be in the ratepayers' best interests, would disrupt the competitive market, might result in higher basic service bid prices in the future, could shift costs to non-basic service customers, and would be contrary to Department precedent.[24]

Specifically, such action "would not reduce the cost of basic service for customers, but instead would spread the cost recovery over a longer period of time, which

[20] Docket No. 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)*, Order D.T.E. 99-60-A (May 11, 2000) ("D.T.E. 99-60-A"), at 3 (emphasis added).

[21] Docket No. 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)*, Letter to Massachusetts Electric Company (Apr. 3, 2001), at 3.

[22] D.T.E. 99-60-A, at 3 (emphasis added).

[23] *Id.* at 6 (emphasis added).

[24] *Id.*

would increase carrying charges and distort price signals."[25] Thus, "customers would pay below market prices in the winter months and above market prices in the summer months."[26]

Following these principles, the Department declined to approve a 2001 Massachusetts Electric Company proposal to calculate the fixed price default service option based on a twelve month (rather than six month) weighted average cost because it 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."[27]

Similarly, in response to a request from the distribution companies to implement a standard offer service fuel adjustment ("SOSFA") "as a result of substantial increases in fuel costs, which ha[d] driven up the price of electric generation,"[28] 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."[29] Ultimately, the Department rejected a deferral of the cost increases associated with the SOSFA for several reasons, including because "continuing to price [default] service significantly below costs artificially impedes the development of a truly robust

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[25] *See* Docket No. D.P.U. 14-BSF-D3-A, *Petition of Massachusetts Electric Company and Nantucket Electric Company to Department of Public Utilities for approval of standard Basic Service rates for: (1) November 1, 2014 through April 30, 2015, for its residential, street lighting, and small commercial and industrial customers; and (2) November 1, 2014 through January 31, 2015, for its medium and large commercial and industrial customers*, Order on Mitigating the Impact of the Increase of Standard Basic Service Rates of Massachusetts Electric Company and Nantucket Electric Company (Nov. 6, 2014), at 10.

[26] *Id.*

[27] *Id.* (emphasis added).

[28] SOSFA Order, at 1.

[29] *Id.* at 2 (emphasis added).

competitive market and the ability of competitive suppliers to develop products at prices that would attract customers."[30]

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."[31] As a consequence, "[a]n underlying goal of . . . default service pricing policies is to ensure that, to the extent possible, default service customers pay the full costs of providing that service."[32] However, despite this, the EDCs still capture commodity-related (i.e., bypassable) costs in delivery (i.e., non-bypassable) rates. Although the Department has undertaken efforts in the past to appropriately allocate costs between the bypassable and non-bypassable portion of rates,[33] certain Basic Service related costs are still captured in the EDCs' non-bypassable rates.[34] This creates inaccurate price signals and fails to provide customers with a full understanding of the value offered by the competitive market.

Under the FRS procurement approach approved by the Department, a customer is presented with an all-in price against which it can compare offers from competitive retail

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[30] SOSFA Order, at 4.

[31] D.T.E. 99-60-A, at 2.

[32] Docket No. 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),* Order D.T.E. 99-60-C (Oct. 6, 2000), at 7.

[33] *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*.

[34] *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).

providers and make decisions about energy usage. However, as long as the EDCs self-supply any portion of load, such an option is not available to the customer because the actual cost of serving a customer for a certain period of time is never reflected in Basic Service rates[35] in direct contravention of the Department's Basic Service pricing goals.[36] As a consequence, customers are left to make decisions about the value of competitive supply offers based on inaccurate price signals.

Failing to reflect the full cost of Basic Service by allowing the EDCs to reconcile and collect over- and under-recoveries of Basic Service costs in delivery rates also presents a constant threat to, and undermines, the Commonwealth's conservation and energy efficiency goals. Only when customers know the true cost of their power supply can they make appropriate decisions regarding demand response and energy efficiency modifications to better manage their electricity consumption and costs. In contrast, if customers do not know the true cost of their power supply, they are discouraged from adopting new solutions to meet their energy needs.

This issue is exacerbated when the risks associated with market price fluctuations that are usually borne by wholesale suppliers are passed on to customers. Under a self-supply approach, the EDCs' customers pay Basic Service rates that are based on a

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[35] Petition, at 17:3-6 ("To the extent that the Basic Service revenue billed from customers is over or under the actual cost of procurement, the deferred balance is credited to or recovered from all customers through its Basic Service Adjustment Factor as set forth in the Company's Basic Service Adjustment Provision, M.D.P.U. No. 1457."); *see also* 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).

[36] D.T.E. 99-60-C, at 7 ("An 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.") (emphasis added).

forecast and estimate of the EDCs' expected costs.[37] The difference between the forecasted costs and actual costs, once known, are charged or credited to all customers in delivery rates after the period for which those costs were incurred.[38] This reconciliation process means that Basic Service rates, at any point in time, are higher or lower than the actual cost for that period. As a result, although customers are told that they are purchasing energy at a fixed price, that is not really the case. All customers, whether or not they stay on Basic Service, are actually charged a rate that appears fixed but has a hidden variable component that is added to the delivery rates during the subsequent reconciliation period. This reconciliation occurs in addition to the need to adjust rates for changes in their actual costs for the coming period.

Moreover, because it is impossible for the EDCs to accurately estimate the cost to self-supply, [39] the chances that an over- or under-recovery will occur is exponentially greater when EDCs engage in self-supply. Out-of-period reconciliations are minimized by entering into contracts with third-party wholesale suppliers to provide FRS because those suppliers accept the risk of market price fluctuations. Consequently, customers are presented with a more accurate price for their power. In order to ensure that customers are presented with the most accurate costs of their power supply options, RESA encourages the Department to require the EDCs to engage in the FRS procurement

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[37] *See* Petition, Exhibit NG-1, 14:15-17 ("The Company's estimated spot market rates include energy ***estimates derived from forecasted*** peak and off-peak loads and electric futures prices, capacity estimates utilizing ***forecasted*** capacity obligations and capacity rates, and ***estimated*** ancillary services costs.") (emphasis added).

[38] *Id.* at 17:10-13 ("The Company reconciles its total cost of purchased power for Basic Service supply 11 against its total Basic Service revenue, and the excess or deficiency is refunded to, or 12 collected from, customers on a per kWh basis over the following 12 month period beginning 13 March 1, with interest, through a Basic Service Cost Adjustment Factor.").

[39] *Id.* at 18:23-19:2 (""The proposed fixed and variable pricing options for the Industrial customer group in the SEMA, WMCA, and NEMA load zones are not based on winning bids, but an ***estimate*** of costs of procuring in the Day Ahead Energy Market .") (emphasis added).

process approved by the Department and to accept the rates proposed as reflective of market conditions to avoid masking accurate price signals to consumers, shifting the time-period over which the costs must be paid, and forcing all customers to bear those costs regardless of whether those customers received Basic Service.

III. THE DEPARTMENT SHOULD NOT PERMIT THE EDCS TO DETERMINE WHAT CONSTITUTES APPROPRIATE MARKET PRICES

National Grid widely distributed the RFP "throughout the New England energy supply marketplace."[40] Nevertheless, after receiving bids from wholesale suppliers offering to provide Basic Service to the Industrial customer group,[41] National Grid substituted its judgment for that of participants in the competitive energy supply market and decided that "the bids received were unreasonably high and unacceptable."[42] This analysis was based on National Grid's calculation of "the expected bid prices from the ***historical*** relationship of the bid price to all market components that comprise the bid price" plus a risk premium determined by National Grid.[43] However, predicting the future costs of energy, even over a brief period, is an exercise fraught with uncertainty.

It is impossible to forecast the cost of all components needed to provide commodity supply to customers. This uncertainty is increased significantly when predictions are based on historical information that does not take into account current market conditions. While National Grid "significantly increased its risk premiums to reflect the current volatile energy market," the Petition did not include the amount of that

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[40] Petition, at 2.

[41] *Id*.

[42] *Id.* at 2-3 (emphasis added).

[43] Petition, Exhibit NG-1, at 9:15-17 (emphasis added).

risk premium. For instance, did that premium account for the fact that "ISO New England wholesale power prices in July ***jumped nearly 150%*** year on year on higher power demand and natural gas prices that surged about 134% from year-ago levels"?[44] Without information about the risk premium used, it is impossible for the Department and other stakeholders to determine if it was, indeed, sufficient to account for current market conditions and a valid basis for determining that the bids received should be rejected as unreasonably high.

Moreover, given the significant increases and volatility in current market prices, National Grid has failed to explain how self-supply will actually result in a better outcome for customers than acceptance of one or more of the FRS bids received. While the Basic Service rates that National Grid proposes are significant,[45] the actual costs to consumers could be substantially higher because the ultimate cost for providing Basic Service supply is subject to reconciliation based on actual market prices. As a consequence, if National Grid was wrong in its determination that the prices proposed by wholesale suppliers for FRS were too high (and no basis has been provided to establish that it was right), the cost of the decision falls on customers.

Prior to restructuring, the EDCs' customers bore the risk of uneconomic decisions, which resulted in billions of dollars in stranded costs.[46] As a consequence, one of the primary rationales for the restructuring of the electric industry was to remove the

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[44] US POWER TRACKER: ISO New England power prices jump about 150% on year in July, https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/electric-power/080822-us-power-tracker-iso-new-england-power-prices-jump-about-150-on-year-in-july (last visited Oct. 11, 2022) (emphasis added).

[45] Petition, at 4-5.

[46] *See, e.g.*, Synapse Energy Economics, Inc., Massachusetts Electric Utility Stranded Costs, Don't Give Away the Store Without Checking Out the Merchandise, https://www.synapse-energy.com/sites/default/files/SynapseReport.1997-11.UCS_.Massachusetts-Electric-Utility-Stranded-Costs..97-U03.pdf (Nov. 4, 1997) ("Estimates of utility stranded costs run as high as $12 to $16 billion . . . and comprise as much as 38 percent of current prices.") (last visited Oct. 11, 2022).

risk of uneconomic investment from ratepayers and place it on the shareholders of market players. Under EDC self-supply, the costs associated with poor trading decisions are placed back onto ratepayers. This problem does not occur with the FRS approach because the risks associated with market price fluctuations are managed by the wholesale FRS suppliers through the bidding process. As a consequence, if the Petition is approved, it is difficult to see how Basic Service customers will come out ahead, relative to the existing FRS procurement structure. Thus, RESA encourages the Department to require the EDCs to maintain the FRS paradigm in which competitive providers concentrate on what they do best - providing market-based generation supply options - and the EDCs concentrate on what they do best - providing reliable and cost effective transmission and distribution services.

CONCLUSION

For all the foregoing reasons, RESA encourages the Department to reject the alternative Basic Service procurement and pricing methodology proposed in the Petition and to require National Grid to engage in the FRS procurement process approved by the Department and to accept the rates proposed by bidders as reflective of market conditions.

Respectfully submitted,
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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.

JL Miranda
Joey Lee Miranda

Dated: October 11, 2022