The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 14-04-B June 12, 2014

Investigation by the Department of Public Utilities upon its own Motion into Time Varying Rates.

ANTICIPATED POLICY FRAMEWORK FOR TIME VARYING RATES

I. INTRODUCTION AND PROCEDURAL HISTORY

On January 23, 2014, the Department of Public Utilities ("Department") opened an investigation into time varying rates. See Investigation by the Department of Public Utilities upon its own Motion into Time Varying Rates, D.P.U. 14-04 (January 23, 2014) ("NOI Order"). As the Department said in that Order, time varying rates will: (1) allow customers, assisted by new technologies (e.g., advanced meters, in-home displays, programmable thermostats, load control devices), to respond to the actual varying costs of electricity; (2) enable individual customers to save money by altering usage based on price signals that reflect these actual costs; (3) benefit all customers by reducing peak energy and capacity market costs; (4) increase system efficiencies and support the distribution system by reducing peak demand; and (5) provide appropriate incentives for distributed resources such as solar photovoltaic generation, electricity storage, electric vehicles, and targeted energy efficiency and demand response. See NOI Order at 1.

As part of its investigation, the Department solicited comments from interested persons on a number of questions. See NOI Order at 2-3. On March 10, 2014, the Department received joint comments from the Attorney General of the Commonwealth ("Attorney General"), the Associated Industries of Massachusetts ("AIM") and the Low Income Network ("LEAN"); and comments from the Cape Light Compact ("CLC");[1] Constellation NewEnergy, Inc. ("Constellation"); the Department of Energy Resources ("DOER"); Direct Energy Business,

---

[1] The Towns of Aquinnah, Barnstable, Bourne, Brewster, Chatham, Chilmark, Dennis, Eastham, Edgartown, Falmouth, Harwich, Mashpee, Oak Bluffs, Orleans, Provincetown, Sandwich, Tisbury, Truro, Wellfleet, West Tisbury, Yarmouth, and the Counties of Barnstable and Dukes, acting together as Cape Light Compact.

LLC and Direct Energy Services, LLC (collectively, "Direct Energy"); Environment Northeast ("ENE") and the National Consumer Law Center ("NCLC"); the Federal Trade Commission ("FTC"); ISO New England, Inc. ("ISO-NE"); the Low Income Weatherization and Fuel Assistance Program Network ("Network"); Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid ("National Grid"); the New England Clean Energy Council ("NECEC"); and NSTAR Electric Company and Western Massachusetts Electric Company (collectively, "Northeast Utilities").

The Department acknowledges and has given careful consideration to the insightful comments filed by these stakeholders. We also recognize the contributions of the Working Group in the grid modernization investigation, Modernization of the Electric Grid, D.P.U. 12-76, concerning time varying rates, as well as the comments of the various stakeholders in response to the Working Group report filed in that docket. See D.P.U 12-76, Report to the Department of Public Utilities from the Steering Committee (2013).

In this Order, the Department responds to the NOI Order questions and sets forth the Department's anticipated policy framework for time varying rates in Massachusetts. We do so based on our review of the information gathered thus far in this proceeding, as well as the comments received in the grid modernization docket. The Department recognizes that the Commonwealth is inevitably several years from the implementation of widespread time varying rates and that technology changes may occur in the interim. Thus, we are aware that this framework may not capture all of the issues that will need to be resolved before time varying rates are offered on a widespread basis in Massachusetts.

Prior to issuing any directives in the instant docket, the Department will provide interested persons an opportunity to comment on the anticipated policy framework. Accordingly, as set forth in Section III below, the Department invites comments on the policy framework outlined in this Order. After reviewing the comments, the Department will issue its final policy framework for time varying rates. The Department expects that this framework will include assumptions regarding the implementation of time varying rates, which the electric distribution companies should incorporate into their grid modernization planning efforts. See Modernization of the Electric Grid, D.P.U. 12-76-B at 15-34 (2014); Modernization of the Electric Grid, D.P.U. 12-76-A at 3 (2013).

II. QUESTIONS RAISED IN THE NOI ORDER

A. Introduction

In the NOI Order, the Department sought comments on a number of questions related to the adoption of time varying rates in Massachusetts. In the section below, we provide a brief overview of the comments and the Department's response to each question. Our response to each question forms the basis of our anticipated direction with respect to time varying rates and should serve as the subject for comment by interested persons, pursuant to Section III below.

B. Questions and Department Response

1. Role of Basic Service in Time Varying Rates

- Should basic service become or include a time varying rate (or rates)? Why or why not?

a. Summary of Comments

Commenters expressed a range of views on this question, including: (1) support for the prompt implementation of time varying rates for basic service (see, e.g., DOER Comments at 4,

7; FTC Comments at 4, 12-13; NECEC Comments at 2-5); (2) acknowledgement of benefits associated with time varying rates but a recommendation that the Department study the question further (see, e.g., ENE/NCLC Comments at 2, 5-6; ISO-NE Comments at 4; National Grid Comments at 2, 5-8, 11); and (3) opposition based on a variety of arguments, including that time varying rates are not needed; customers do not desire time varying rates and will not respond to price signals or benefit from time varying rates; implementation costs will be too high; time varying rates implicate consumer and data privacy issues; and time varying rates will harm the competitive market (see, e.g., Attorney General/AIM/LEAN Comments at 2-5, 7-9, 12-13; CLC Comments at 3-5; Constellation Comments at 2; Direct Energy Comments at 2-3; Network Comments at 2-3; Northeast Utilities Comments at 3-15, 18).

b. Department Response

Basic service (i.e., the default electricity supply provided by the distribution companies) should include time varying rates for all rate classes following the deployment of advanced metering functionality. Time varying rates are an essential component of grid modernization and they support the Commonwealth's energy and environmental policies. A change in the design of basic service is necessary to ensure that all customers will be able to take advantage of the benefits of time varying rates. The wholesale market price of electricity varies dramatically over the course of the day and the year. For example, in 2013, the wholesale market price of electricity varied daily by a factor of two, on average, between minimum and maximum hourly prices, on any given day.[2] In 2013, the average wholesale market price of electricity over the

[2] See ISO New England Inc, ISO New England – Hourly Zonal Information, 2013 SMD Hourly Data, at sheet ISONE CA, available at: http://www.iso-ne.com/markets/hstdata/znl_info/hourly/2013_smd_hourly.xls.

course of the year was $56 per megawatt-hour ("MWh"), but the peak wholesale price in the summer reached nearly $870 per MWh and in winter nearly $1,300 per MWh.[3]

Despite the volatility in the wholesale market price of electricity, all basic service customers currently have a rate that is essentially constant, varying, at most, every month. Thus, under the current basic service structure, rates do not reflect the time varying nature of electricity supply costs. Further, customers who use more of their electricity during off-peak, or lower wholesale cost hours, subsidize customers who use more electricity during hours with higher wholesale electricity prices.

Time varying rates for basic service will more closely align retail prices with wholesale costs. Further, if customers are offered rates that reflect the variation in electricity costs over time, they will have an incentive to shift the timing of their electricity consumption in order to lower their bills. In addition, the Department expects that time varying rates that reflect the changing cost of electricity will minimize subsidization among basic service customers and lead to a reduction in bills for customers who consume more of their electricity during off-peak times.

While time varying rate options in basic service may be an appreciable change for customers, consumers are accustomed to time varying rates for a variety of purchases, such as hotel reservations and airplane tickets. By pricing services in this way, consumers are able to maximize the value they derive from these products. The Department expects that consumers will do the same with electric service.

---

[3] See ISO New England Inc, ISO New England – Hourly Zonal Information, 2013 SMD Hourly Data, at sheet ISONE CA, available at: http://www.iso-ne.com/markets/hstdata/znl_info/hourly/2013_smd_hourly.xls.

In addition to providing particular customer benefits, time varying rates and the attendant shifting of electricity usage under such a rate structure should reduce the cost of electricity for everyone in the long term, even for those who do not respond to price signals. To ensure reliability, the electric system must be built to serve times of peak demand.[4] Thus, the capacity of the electric system is, on average, under-utilized and more expensive than it needs to be. Reducing peak load can result in a reduction or deferment of investments in generation, transmission, and distribution resources, as new investments will not be required to meet peak load, which is expected to grow.[5]

In addition, time varying rates support the development and deployment of innovative energy efficiency and energy management products, distributed energy resources, electric vehicles, and other emerging technologies. Technologies deployed related to advanced metering, as well as other price responsive devices such as smart appliances and smart thermostats, are likely to aid customers in receiving and responding to price signals that allow them to reduce their electric bills. For example, we anticipate that appliance manufacturers will respond to time

---

4 For example, in 2013, the ISO-NE market had an installed capacity of approximately 33,000 megawatts ("MW") to meet a peak load of 27,000 MW, even though the average load was only 14,500 MW. More than one third of capacity provided electricity for only ten percent of hours during the year. See ISO New England Inc, ISO New England CELT Report, 2013-2022 Forecast Report of Capacity, Energy, Loads, and Transmission (May 1, 2013) at 1.1.1-1.2.1, available at http://www.iso-ne.com/trans/celt/report/2013/2013_celt_report.pdf; see also ISO New England Inc, ISO New England – Hourly Zonal Information, 2013 SMD Hourly Data, at sheet ISONE CA, available at: http://www.iso-ne.com/markets/hstdata/znl_info/hourly/2013_smd_hourly.xls.

5 See ISO New England Inc, ISO New England CELT Report, 2013-2022 Forecast Report of Capacity, Energy, Loads, and Transmission at 1.1.1-1.2.1 (2013), available at: http://www.iso-ne.com/trans/celt/report/2013/2013_celt_report.pdf.

varying rates and the price signals inherent therein by developing products that automatically adjust to price changes and save customers money. [6]

2. Time Varying Rate Options and Default

- Different time varying rate structures provide varying levels of price signal, customer protections from price volatility, complexity, etc. In the event that basic service becomes or includes a time varying rate (or rates), should there be a single option or a menu of options (e.g., real time pricing, critical peak pricing, time of use, peak time rebate) and should a flat rate be included among the options? If basic service is a menu of options, should a time varying rate or a flat rate be the default rate?

a. Summary of Comments

Commenters expressed a range of views on this question, including: (1) maintaining the status quo flat-rate basic service with no time varying rate product offering (see, e.g., CLC Comments at 3-5; Direct Energy Comments at 2; Northeast Utilities Comments at 18); (2) maintaining the status quo flat-rate basic service, but offering a time varying rate opt-in product (see, e.g., Attorney General/AIM/LEAN Comments at 14-16; Constellation Comments at 2; National Grid Comments at 8-10); (3) implementing time varying rates as the basic service default offering with a flat-rate opt-out (see, e.g., DOER Comments at 7); and (4) implementing mandatory time varying rates with no flat-rate opt-out (see, e.g., FTC Comments at 4-5, 12-13; NECEC Comments at 8-9).

[6] There are some electricity uses, such as a freezer defrost cycle, of which customers are unaware and to whose timing they are indifferent. With time varying rates, it is likely that freezers will be programmed to defrost at times of the day when electricity prices are lower, and be marketed, at least in part, for this money-saving feature.

b. Department Response

i. Introduction

In order to maximize the opportunity for customers to take advantage of the benefits of time varying rates, it is essential that the default basic service product become a time varying rate. Accordingly, electric distribution companies will continue to be basic service providers and will offer two basic service options: (1) a default product with a time of use ("TOU") pricing structure that includes a critical peak pricing ("CPP") component; and (2) a flat[7] rate with a peak time rebate ("PTR") option. The latter option will more closely approximate the existing basic service product for customers who prefer the status quo basic service offering. The two options are discussed in further detail below.

ii. Default Basic Service TOU/CPP Product

Under a TOU pricing structure, the retail electricity price will be higher during certain hours of the week when customers typically use more electricity and wholesale energy prices rise (e.g., the "on-peak" hours of noon to 8:00 p.m. each weekday) than during the remaining hours of the week when electricity usage and wholesale prices are typically lower (i.e., the "off-peak" hours). Under a simple form of TOU, the Department will approve a single on-peak price effective for all consumption during on-peak hours and a single off-peak price effective for all off-peak consumption. Specific TOU prices will be in place for a given period of time (e.g., six months) and would be intended to encourage customers to shift discretionary electricity use from on-peak to off-peak hours. The Department anticipates that the on-peak rate will be higher and

[7] The terms "flat," "fixed," and "uniform" are often used interchangeably to describe electricity rates that do not change over a given time period. For the purpose of this Order, the Department uses the term "flat" rate.

the off-peak rate lower than a flat-rate product. Thus, customers who respond to price signals by reducing on-peak energy consumption will pay less than they would under a flat rate.

During the limited number of times when wholesale prices are extremely high,[8] a CPP rate will apply rather than the applicable TOU rate for that time period. In advance of a CPP event, customers will receive notice through multi-media messages (e.g., social media, e-mail, telephone, and radio) advising them that the retail electricity price will be higher than the otherwise applicable TOU rate in effect for the specified CPP hours. Because the non-CPP rate will be substantially lower than the CPP rate, customers who respond by turning off or reducing their use of air conditioners, pool pumps, televisions, etc. during CPP hours can save money. Moreover, energy suppliers will be able to recover the cost of the relatively few very expensive CPP hours directly during those hours and will no longer have to spread this cost over all hours. The Department, therefore, anticipates that under a CPP structure, the rates for all non-CPP hours (i.e., most of the hours of the year) will be lower than if there were no CPP, thus enabling additional customer savings.

In addition to reducing costs to customers, by aligning retail electricity prices more closely with the hourly varying price of wholesale energy supply, TOU/CPP pricing will reduce the degree of cross subsidization that currently favors those consumers who use more energy at peak times at the expense of those who use energy more uniformly. Moreover, even if consumers do not respond to TOU/CPP pricing by shifting load from peak to off-peak hours, the

---

[8] For example, wholesale prices may spike on hot summer afternoons when total system demand is at its highest or on cold winter days when regional demand for natural gas exceeds pipeline delivery capacity, triggering spot gas and wholesale electricity price spikes.

majority of consumers would likely still benefit from TOU/CPP due to a reduction in the cross subsidization inherent in the current flat pricing model. In addition, TOU/CPP pricing will support the adoption of resources such as electric vehicles and electricity storage.

Finally, the Department recognizes that there are other types of time varying rates possible for basic service and that some, such as real time pricing, more closely link retail prices to wholesale costs than TOU/CPP. We find, however, that TOU/CPP is the appropriate default basic service product because of the balance it provides between clear and accurate price signals and a simple, predictable, and easy to understand pricing regime.

iii. Flat-Rate Product with PTR Component

The Department recognizes that some customers might prefer an option that more closely resembles the status quo. Therefore, basic service will also include a flat-rate option.[9] In order to enhance the efficiency of the electric system through increased annual capacity utilization, it is important to maximize the number of customers who respond to efficient price signals. Accordingly, the flat-rate option will have a PTR component.

With a PTR, customers will receive a rebate if they lower their electricity use relative to a pre-established baseline during times when wholesale hourly energy prices are highest. Thus, under PTR, customers will have an incentive to lower their electricity usage when it is most critical to do so, but even those who ignore the incentive will be insulated against higher peak prices because they will pay one price for all electricity consumption.

---

[9] The Attorney General, AIM, and the LEAN argue that a flat or uniform basic service rate option is required as a matter of law pursuant to G.L. c. 164, § 1B(d) (Attorney General/AIM/LEAN Comments at 14-15). Because basic service will include a flat-rate option with a PTR component, we do not address that argument.

iv. Conclusion

The Department expects that the basic service options discussed above will be sufficiently robust to encourage widespread response to price signals. Further, we anticipate that with a default TOU/CPP basic service product and a flat-rate/PTR option, few customers will choose a flat-rate-only product if one is offered by the competitive market (i.e., a flat rate without PTR). Thus, the Department expects that the vast majority of customers will be on time varying rates, which will be offered either through basic service or by a competitive supplier.[10]

In weighing the basic service options discussed above, the Department is mindful of the concerns raised on behalf of low-income customers and others who are unable to shift a significant portion of their consumption due to extraordinary circumstances, such as medical equipment requirements. The status quo flat rate for basic service is, however, relatively burdensome to many customers who can least afford it. There are indications that a large proportion (i.e., about 75 percent) of low-income customers are better off with CPP than with flat-rate pricing even if they do nothing to respond to price signals, because these consumers have flatter than average load shapes.[11] In any event, a flat-rate basic service product with a PTR component will accommodate customers who conclude that they are unable to benefit under the TOU/CPP default product and will insulate such customers from the price variability in the default TOU/CPP option. Finally, the Department recognizes that restructuring basic service to

---

[10] The Department is assessing in the grid modernization docket issues related to customer opt-out of technologies that permit the use of time varying rates. We anticipate that only a small percentage of customers will opt out of advanced metering technologies.

[11] See The Impact of Dynamic Pricing on Low Income Customers, The Edison Foundation Institute for Electric Efficiency (June 2010). We note that the same research concludes that low-income customers do in fact respond to price signals.

include TOU/CPP and PTR will result in rate design and administrative changes for electric distribution companies. The Department anticipates that we will address these rate design and implementation details through future stakeholder processes.

3. PTR for Distribution Customers

- Should the Department consider an approach similar to the "Smart Energy Rewards" program offered by Baltimore Gas Electric, whereby the distribution company runs a peak-time rebate type program for all distribution customers, regardless of whether they are on basic service or competitive supply?[12] If this is considered by the Department, should it be considered as a bridge to time varying rates?

a. Summary of Comments

Commenters generally did not support the "Smart Energy Rewards" model offered by Baltimore Gas and Electric ("BG&E") and/or raised particular concerns with respect to PTR acting as a bridge to time varying rates (see, e.g., Attorney General/AIM/LEAN Comments at 16-17; DOER Comments at 13-14; Direct Energy Comments at 5; National Grid Comments at 12-14; Northeast Utilities Comments at 19; NECEC Comments at 13-14). Some commenters support the consideration of a PTR program but not as a distribution rate offering (see, e.g., Northeast Utilities Comments at 19; FTC Comments at 4-5, 12; CLC Comments at 5; NECEC Comments at 13-14).

b. Department Response

The Department will not implement a PTR for all distribution customers either as a permanent feature or as a bridge to time varying rates. Instead, the Department has chosen TOU/CPP as the default basic service offering because it is likely to be a more effective tool for

---

12 For more information, see http://www.bge.com/smartenergy/smart-energy-rewards/pages/default.aspx.

sending price signals to consumers than a PTR approach applicable to all customers. Further, the Department is concerned that if a distribution rate PTR program is provided as a bridge to basic service time varying rates, PTR may be difficult to eliminate.

4. Time Varying Rates and Distribution Rates

- Should the distribution rate become a time varying rate? Why or why not?
- Is there a cost basis for time-varying distribution rates (i.e., could a distribution company lower its costs through avoided or delayed investments in its system due to peak shifting effected by time varying rates?)

a. Summary of Comments

Commenters expressed different views on these questions, including: (1) that time varying rates should not apply to distribution rates (see, e.g., Attorney General/AIM/LEAN Comments at 19; National Grid Comments at 23-24, Northeast Utilities Comments at 11-12, 20-21); (2) that the Department should restructure distribution rates to include a fixed charge to recover metering and customer care costs and a demand charge to address costs related to the use of the distribution system (see, e.g., National Grid Comments at 23-24, NECEC Comments at 18; Northeast Utilities Comments at 11-12, 20-21); and (3) general support for time varying rates to be applied to distribution rates as there are economic efficiency gains to be realized by pricing close to marginal costs, but only after study of a number of related issues (see, e.g., ENE/NCLC Comments at 3, 9, DOER Comments at 18-19; ISO-NE Comments at 11; NECEC Comments at 18; CLC Comments at 10-11).

b. Department Response

The Department is not persuaded that there is a sufficient cost basis to require time varying distribution rates. Unlike the price of electricity supply (i.e., basic service), distribution

costs are fixed and do not vary over the course of the day and year. Accordingly, we will not implement time varying rates for distribution rates. Further, any potential restructuring of distribution rates to include both a fixed and a demand charge will not be considered here as it is beyond the scope of this proceeding.

5. Effect of Time Varying Rates on Competitive Market

- What is the likely impact on the competitive retail supply market if basic service becomes or includes a time varying rate (or rates)?

a. Summary of Comments

The Department received a range of comments on this question, including that: (1) the competitive retail supply market would be harmed if basic service includes time varying rate options (see, e.g., CLC Comments at 6; Constellation Comments at 3; Direct Energy Comments at 5-6); (2) basic service time varying rates could stimulate the development of the competitive market and, assuming widespread metering infrastructure, competitive suppliers would likely offer a time varying rate product (see, e.g., Attorney General/AIM/LEAN Comments at 17; Constellation Comments at 3; Direct Energy Comments at 5-6; FTC Comments at 12-13; NECEC Comments at 15); and (3) time varying rates for basic service would have no material impact on the competitive supply market but would likely have a beneficial impact on technology vendors such as appliance and control equipment suppliers (see, e.g., DOER Comments at 14).

b. Department Response

For the reasons discussed above, the Department finds that a basic service time varying rate offering is appropriate. Despite the concerns raised by some competitive suppliers, the Department finds that basic service time varying rates are likely to provide benefits to the

competitive market. As discussed below, the deployment of basic service time varying rates will require significant efforts by electric distribution companies and others to educate ratepayers. The Department expects that such marketing and education efforts also may benefit competitive suppliers by allowing them to market their time varying rate offerings to customers who are better informed than is currently the case. Moreover, basic service will include only two time varying rate options and, therefore, there will be room for the competitive market to offer other innovative products to further reduce electricity bills.

6. Effect of Municipal Aggregation on Time Varying Rates

- What impact might the recent increase in municipal aggregations have on the Department's ability to maximize the benefits of time varying rates?

a. Summary of Comments

Commenters expressed differing views on this question, including that increasing municipal aggregation: (1) could foster the development of time varying rate products, particularly if municipal aggregators incorporate time varying rate options to compete with basic service offerings (see, e.g., CLC Comments at 7; Direct Energy Comments at 6; National Grid Comments at 16); (2) would have no impact on the Department's ability to maximize the benefits of time varying rates because municipal aggregation customers will be able to select a time varying rate supply option from competitive suppliers (see, e.g., DOER Comments at 14-15); and (3) would decrease the Department's ability to impact rate design for retail energy supply service (see, e.g., Attorney General/AIM/LEAN Comments at 17).

b. Department Response

As an initial matter, although there has been a recent increase in interest in municipal aggregation, the aggregations already approved as well as those pending before the Department

together account for less than ten percent of residential electric load. As noted, we expect the changes to basic service will result in the competitive market offering time varying rate products. Given that municipal aggregation is one model for procuring competitive supply electricity, we expect that the changes to basic service will also result in municipal aggregations offering a time varying rate option. Accordingly, we find that the recent increase in municipal aggregations will not negatively impact the Department's ability to maximize the benefits of time varying rates.

7. Marketing and Education

- In the event that basic service becomes or includes a time varying rate (or rates), what role, if any, should distribution companies have in reaching, marketing to, and educating customers about time varying rates?
- In the event that basic service remains a flat-rate product, will competitive suppliers develop time varying products and effectively market to and educate the public regarding the use and benefits of time varying rates?
- In the event that basic service does not include a time varying rate, what role, if any, should distribution companies have in reaching, marketing to, and educating customers about time varying rates offered by competitive suppliers?

a. Summary of Comments

The Department received a wide range of comments on these questions, including: (1) that the electric distribution companies are equipped to both educate and market time varying rates to customers and should have a role in educating their customers about time varying rates, regardless of whether basic service is a time varying rate offering, but that they should not be required to directly market products offered by competitive suppliers (see, e.g., CLC Comments at 8, 10; Constellation Comments at 4; Direct Energy Comments at 7; DOER Comments at 15-17; ENE/NCLC Comments at 2, 8; ISO-NE Comments at 4, 12; FTC Comments at 5, 13; National Grid Comments at 17-18; NECEC Comments at 15-16; Network Comments at 4;

Northeast Utilities Comments at 20); (2) that the Commonwealth should play a large role in education efforts (see, e.g., DOER Comments at 15-17, NECEC Comments at 16); (3) that the Department should carefully consider the cost effectiveness of any education and marketing programs, including the potential bill impacts on customers (see, e.g., Attorney General/AIM/LEAN Comments at 18-19, Northeast Utilities Comments at 20); (4) that competitive suppliers will see the value of time varying rates and effectively develop, educate, and market time varying rate offerings to the public (see, e.g., CLC Comments at 8), though some suggested that this might be the case only if basic service remains a flat rate (see, e.g., FTC Comments at 12; Constellation Comments at 4; Direct Energy Comments at 7; National Grid Comments at 18-19); (5) that if basic service remains a flat rate, it is likely that competitive suppliers will continue providing flat-rate products and will not provide new time varying rate offerings (see, e.g., NECEC Comments at 17); and (6) that the Department should obtain information from competitive suppliers regarding their ability and interest in offering time varying rates (see, e.g., Attorney General/AIM/LEAN Comments at 18).

b. Department Response

The change in basic service from a predominately flat-rate structure to one in which time varying rates become the default option will not occur overnight and is likely to be a multi-year process. Thus, by signaling the Department's policy direction early, we provide ample time for stakeholders and customers to adjust to this change.

Because most basic service customers have long been accustomed to flat-rate pricing for electricity, we anticipate that the change to time varying rates will require a significant amount of customer outreach, marketing, and education to engage customers and provide them with simple,

clear information about why the Department is implementing time varying rates and what time varying rates mean for their electricity service. Such marketing, outreach, and education will require a concerted effort by all stakeholders, including distribution companies, ratepayer advocates, and the Commonwealth. In D.P.U. 12-76-B at 26, the Department emphasized that customer marketing, education, and outreach is crucial to enabling the successful implementation of grid modernization and, therefore, we directed electric distribution companies to include a comprehensive marketing, education, and outreach plan in their grid modernization plans. The Department anticipates that customer education about time varying rates generally and the transition to basic service time varying rates specifically will comprise a major component of this effort.

Further, as described in D.P.U. 12-76-B, at 17, 35-36, the distribution companies are required to propose and deploy advanced metering functionality for all customers, which will enable time varying rates. Once the distribution companies have deployed advanced metering functionality, as part of their customer outreach efforts they have the option of proposing tools such as “shadow billing” to enable customers to see what their bills would have been under a time varying rate option, in advance of time varying rate implementation. Finally, as noted above, we expect that competitive suppliers can use the time before basic service time varying rates are fully implemented to develop and market their own time varying rate offerings.

III. SOLICITATION OF COMMENTS

The Department seeks comment from interested persons on the policy framework outlined above. Written comments must be submitted no later than the close of business (5:00 p.m.) on July 3, 2014. Written comments may not exceed 25 pages in length.

A paper copy of all submissions should be filed with Mark D. Marini, Secretary, Department of Public Utilities, One South Station, 5th Floor, Boston, Massachusetts 02110. An electronic copy of all submissions should be filed with the Department using one of the following methods: (1) by e-mail attachment to dpu.efiling@state.ma.us and marc.tassone@state.ma.us; or (2) on CD-ROM. The text of the e-mail or CD-ROM label must specify: (1) the docket number of the proceeding (D.P.U. 14-04); (2) the name of the person, company, or organization submitting the filing; and (3) a brief descriptive title of the document. The electronic filing should also include the name, title, telephone number, and e-mail address of a person to contact in the event of questions about the filing. All documents submitted in electronic format will be posted on the Department's website: http://www.mass.gov/dpu.

IV. ORDER

Accordingly, after notice, an opportunity for comment, and due consideration, it is

ORDERED: That the Secretary of the Department shall distribute electronically and, where requested, serve by mailing this Order on the Department's official distribution list for this proceeding; and it is

FURTHER ORDERED: That written comments on the Department's anticipated policy framework may be submitted no later than the close of business (5:00 p.m.) on July 3, 2014.

By Order of the Department,

/s/

Ann G. Berwick, Chair

/s/

Jolette A. Westbrook, Commissioner

/s/

Kate McKeever, Commissioner