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October 9, 2002

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: Fitchburg Gas and Electric Light Company, D.T.E. 02-25, Initial Brief of NSTAR Electric

Dear Secretary Cottrell:

Enclosed for filing please find the Initial Brief of NSTAR Electric, a Limited Participant in the above-referenced proceeding. Also enclosed is a certificate of service.

Kindly contact me should you have any questions concerning this filing.

Sincerely yours,

Robert N. Werlin

Enclosures

cc: Jeannie Voveris, Hearing Officer
John Geary, Hearing Officer
Sean Hanley, Asst. Director, Rates and Revenues Requirements Div. (3 copies)
Paul Osborne, Asst. Director, Rates and Revenues Requirements Div. (3 copies)
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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Fitchburg Gas and Electric Light Company	)	D.T.E. 02-25

INITIAL BRIEF OF NSTAR ELECTRIC

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Dated: October 9, 2002

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DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Fitchburg Gas and Electric Light Company	)	D.T.E. 02-25

INITIAL BRIEF OF NSTAR ELECTRIC

I. INTRODUCTION

On May 17, 2002, Fitchburg Gas and Electric Light Company ("Fitchburg") filed with the Department of Telecommunications and Energy (the "Department") rate schedules pursuant to G.L. c. 164, § 94, requesting a rate increase for its electric division.[1] The Department docketed the request as D.T.E. 02-25.

On June 11, 2002, pursuant to 220 C.M.R. § 1.03, Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric Company ("Commonwealth") (collectively, "NSTAR Electric") petitioned the Department to participate in the proceeding as Limited Participants with the right to file briefs. The Department granted NSTAR Electric's petition on June 21, 2002.

On September 25, 2002, the Attorney General and Division of Energy Resources (the "DOER") filed initial briefs. In response, NSTAR Electric hereby submits its initial brief on the limited issue of the ratemaking treatment of certain costs relating to the provision of Standard Offer Service and Default Service.

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[1] Fitchburg also filed for rate increases for its gas sales and a proposal for performance-based regulation. NSTAR Electric's initial brief is limited to an issue raised only with respect to electric ratemaking.

II. DISCUSSION

Fitchburg has proposed to recover uncollectible revenues (i.e., bad debt expenses) attributable to the generation component of Standard Offer Service and Default Service through the charges to those customers, rather than through distribution rates (Exh. FGE-MHC-1 (Electric), at 48-49). In order to determine the level of such costs to be recovered through the generation service rates, Fitchburg proposes that a portion of the total expense be allocated to Standard Offer Service and Default Service based on the actual level of customer-account write-offs recorded and tracked for the Standard Offer Service and Default Service billing components as a ratio of the total amounts of the write-offs for Fitchburg's electric division (id. at 49).

In its initial brief, the DOER requests that the Department require Fitchburg "to allocate all appropriate costs (direct and indirect) related to the provision of electric generation...services to the corresponding components of the electric utility bill" (DOER Initial Brief at 5) (footnote omitted). DOER describes a number of categories of costs that it claims should be removed from distribution rates and (presumably) included in the rates for Standard Offer Service and Default Service (id. 11-15). Although acknowledging that the Department is considering similar issues in a generic investigation into the provision of Default Service,[2] it states nonetheless that "[t]he Department should act in this proceeding to reflect true cost-causation to the maximum

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[2] On June 21, 2002, the Department opened a generic investigation, Default Service, D.T.E. 02-40, wherein the Department indicated that it would evaluate whether certain costs should be included in Default Service rates (e.g., administrative and bad-debt costs). D.T.E. 02-40, at 6 (2002). NSTAR Electric is an active participant in the Department's generic investigation and has submitted initial and supplemental comments to the Department on August 9, 2002 and September 9, 2002, respectively.

extent possible by removing all [Default Service] related costs from distribution rates and allocating [them] to the Default Service charge" (id. at 25).

While not advocating a position regarding the allocation of costs for Default Service, in his initial brief, the Attorney General cautioned the Department against implementing a cost-allocation policy until Fitchburg has established a methodology to allocate partial payments and recoveries (Attorney General Initial Brief at 77-78).

In addition to the specific proposal made by Fitchburg relating to uncollectible revenues, the record in this proceeding contains information regarding the allocation of other costs to Standard Offer Service and Default Service (Tr. 7, at 842-870; RR-DTE-26 through RR-DTE-29).

NSTAR Electric supports Fitchburg's proposal in this proceeding to recover certain uncollectible revenues associated with generation services in the rates for those services. However, in view of the position taken by DOER and the questions posed by the Bench, NSTAR Electric is concerned that the Department may consider, in this rate case, implementing broader changes in, or refinements to, the Department's well-established polices regarding the recovery of costs in the rates for Standard Offer Service and Default Service. NSTAR Electric urges that the Department refrain from instituting any significant policy changes regarding cost recovery in this case. However, if the Department considers this issue, NSTAR Electric offers the following comments, which are consistent with and expand upon the comments filed in D.T.E. 02-40.[3]

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[3] In accordance with the provisions of 220 CMR 1.10(3), NSTAR Electric requests that the Department incorporate by reference in this proceeding NSTAR Electric's initial and reply comments filed in D.T.E. 02-40.

A. Only Incremental, Identifiable, and Avoidable Costs Should Be Collected in Rates for Standard Offer Service and Default Service.

As an initial matter, artificially increasing the price of Default Service (or Standard Offer Service), as suggested by some commenters in D.T.E. 02-40, is not consistent with the public interest and has been consistently rejected by the Department. See NSTAR Electric Reply Comments [D.T.E. 02-40], at 23; D.T.E. 99-60-A at 11. NSTAR Electric believes that costs should be included in the price for these generation services only if the costs meet three criteria: they must be identifiable, incremental, and avoidable costs that a distribution company incurs specifically to provide generation services. This means that costs to be recovered in rates for generation services: (1) must be directly caused by the distribution company's obligation to provide that service; (2) must be in addition to those costs that would otherwise be incurred by the distribution company; and (3) must be directly avoided (on a unit basis) when a customer moves to a competitive generation supplier.

The first two elements are self-evident. For example, a distribution company's costs to provide customer service do not differ between customers taking Standard Offer Service or Default Service, and customers purchasing generation services from competitive retail marketers. As the record in this proceeding indicates, there are no discernable customer-service costs that are associated exclusively with the generation service procured by a distribution company, nor does the distribution company incur any incremental costs for serving Default Service customers over those costs incurred to provide customer-service activities to customers purchasing generation from competitive suppliers (Tr. 7, at 853-856). Similarly, costs relating to billing overhead are not incremental for providing Standard Offer Service or Default Service, identifiable to

specific customers, or avoidable after migration to a competitive supplier. As stated in the record, a distribution company must maintain a billing department whether or not it has customers taking generation service (id. at 848-849).

The last of the three criteria is of critical importance, especially in the context of the responses to RR-DTE-26 through RR-DTE-29. In framing these questions, the Department was asking Fitchburg to identify costs that would go to zero if all customers moved to competitive supply (id. at 868, 873). Costs incurred in procuring supplies, including associated legal expenses and participation in regulatory proceedings are fixed and unavoidable until the obligation to procure generation services is completely extinguished. A ratemaking policy that recovers such costs in rates for generation services is inappropriate since, as customers migrate to competitive suppliers, recovery of those fixed costs from an ever-smaller customer base would be unworkable and would inevitably result in the accrual of a new category of unrecovered costs. These fixed costs are incurred by distribution companies to provide statutorily required Standard Offer Service and Default Service, which benefit, directly or indirectly, all customers; accordingly, the costs should be recovered in rates applicable for all customers (e.g., base distribution rates).

It should be noted that Fitchburg's proposal to recover the generation portion of the uncollectible revenues fulfills all three criteria. Those costs are identifiable, incremental and, most importantly, are actually avoided when an individual customer migrates to a competitive supplier. The record demonstrates that Fitchburg's billing system is designed to track account write-offs by specific billing component, and therefore, the incremental level of write-offs associated with generation services can be

identified and tracked (Exh. FGE-MHC-1 (Electric) at 49). Lastly, the level of test-year uncollectible revenues for generation services would actually be avoided when a customer migrates.

B. Inclusion of Unavoidable Costs Would Require the Establishment of a Cost-Reconciliation Mechanism.

If the Department were to require the inclusion of costs in generation services that are not actually avoided when a customer migrates to a competitive supplier, it must establish a reconciliation mechanism to provide for the timely recovery of any unrecovered costs. For example, if $100,000 of procurement costs were included in Default Service rates, and 60 percent of the Default Service load migrated, only $40,000 would be recovered, since the procurement costs do not vary with the number of customers taking the service. Thus, the unrecovered $60,000 should be collected during the next year[4] in a charge applicable to all sales (e.g., transition charge or default service adjustment charge).

As discussed in Section II.A, supra, the Department should not adopt a ratemaking convention that would include non-avoidable costs in generation services. However, if it did so, the Department would need to include a reconciliation mechanism to avoid the confiscatory impact of requiring the expenditure of costs without a reasonable means of recovery. Distribution companies are required by statute to provide Standard Offer Service and Default Service to all eligible customers and are entitled to a reasonable ratemaking mechanism for the recovery of those costs.

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[4] Early recovery would avoid the accumulation of deferrals and the associated carrying costs that would increase overall costs to customers.

C. Recovery of Costs in Generation Rates Should Be Implemented in a Base Rate Proceeding.

Policy determinations with regard to the categories of costs that should (or should not) be included in generation rates are best decided in the context of a generic proceeding (e.g., D.T.E. 02-40), in which all interested persons have the ability to provided comments. However, actual rate adjustments designed to implement the recovery in generation rates of costs incurred to provide Standard Offer Service and Default Service should be implemented in a general rate proceeding. When a revenue requirement is being reviewed and established, a complete evidentiary record can be compiled regarding a company's costs incurred to provide Standard Offer Service and Default Service (see, e.g., Tr. 7, at 866-867).[5] Because distribution rates are set based on the cost of service determined in a rate proceeding, it is relatively easy to ensure that the company is neither overcollecting nor undercollecting total costs when new rates are set. The process is much more complex outside of the context of a general rate case.

Assuming that generation rates were to be increased to include certain identifiable, incremental, and avoidable costs, the Department: (1) would need to identify the level of costs that were to be included; and (2) would then need to determine, what, if any, costs are already being recovered in distribution rates. The latter determination would be no easy task. The unbundled rates for most distribution companies are based on test years that are many years old and predate industry

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[5] Although some information was adduced on the record in this proceeding about the types of costs that might be included in generation rates, the full factual and policy implications were not explored in detail, nor were all interested persons given the opportunity to participate. As indicated above, policy decisions on the types of costs are best left to generic or rulemaking proceedings. Once the policy is set, companies would be able to propose specific adjustments in a rate case in which all costs and base rates are subject to review.

restructuring. Moreover, they are often based on settlements, which don't require the Department to make specific findings on individual cost categories. Not only would it be difficult, time-consuming and expensive to determine any adjustments needed for distribution rates, it would not appear that any potential benefit would justifiable. A purported reason to increase generation rates is to ensure that not including such costs has a negative impact on competitive markets (DOER Initial Brief at 9). But as confirmed by the record in this case, the costs are *de minimus*. Uncollectible revenues for Fitchburg amount to only 0.7 percent of revenues and even the grossly inflated administrative costs computed in response to RR-DTE-26 and RR-DTE-28 are only approximately $300,000 or less than 1.0 percent of its revenues for Standard Offer Service and Default Service generation (Exh. FGE-MHC-(Electric), Sch. MHC-7-8 and Sch. MHC-1, p. 2). This is consistent with the Department's finding that administrative costs relating to the procurement of Default Service are likely to be minimal. Default Service, D.T.E. 99-60-B at 19 (2000).

III. CONCLUSION

For the reasons described herein, only incremental, identifiable, and avoidable costs should be included in the rates for Standard Offer Service and Default Service, as determined on a company-specific basis, preferably in a base rate proceeding. If any unavoidable costs are included, the Department must establish a reconciliation mechanism to ensure the prompt recovery of all costs incurred to provide these services.

Respectfully submitted,

NSTAR ELECTRIC

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Date: October 9, 2002

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Fitchburg Gas and Electric Light Company	)	D.T.E. 02-25

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the Department of Telecommunications and Energy and those on the service list in this proceeding, in accordance with the requirements of 220 C.M.R. 1.05.

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