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December 21, 2000

Mary Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2nd Floor  
Boston, MA 02110

RE: Western Massachusetts Electric Company, D.T.E. 00-110

Dear Secretary Cottrell:

On December 6, 2000, Western Massachusetts Electric Company ("WMECo" or "Company") filed a petition with the Massachusetts Department of Telecommunications and Energy ("Department") seeking approval of changes to a number of its rates. In particular, the Company proposes to:

increase its standard offer service rate by 62 percent (from 4.557¢/kWh to 7.383¢/kWh);

decrease its transition charge rate by 67 percent (from 1.598¢ to 0.535¢);

implement the statutory decrease in its demand side management and renewable technology charges (from 0.285¢/kWh and 0.125¢/kWh to 0.270¢/kWh and 0.100¢/kWh, respectively); and to

implement a substantial redesign of some of its distribution rates.

The net effect of the proposed changes is a 17.4 percent increase in the retail rates paid by WMECo's customers. (1) Pursuant to the Department's December 13 Notice of Filing and Request for Comments, the Attorney General hereby files this letter as his Initial Comments on the Company's filing. In these comments, the Attorney General urges the Department to limit the proposed increase for WMECo's standard offer rate to 1.321¢/kWh, to reject the proposed redesign of the Company's distribution rates, and, consistent with the position he has taken in regard to the filings of other electric companies, to reject any proposal to increase the Company's transition charge. (2)

COMMENTS

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1. The Company's Standard Offer Rate Should Be Subject To The Same Rules As Other Companies'

In its December 4, 2000 order on Standard Offer Service Fuel Adjustments, the Department adopted "a uniform mechanism" to determine the amount of any increase to be considered "fuel related" and outside the rate changes subject to the 15 percent rate reduction required by G.L. c. 164, § 1B(b). Standard Offer Service Fuel Adjustments, D.T.E. 00-66, 00-67, 00-70 (2000), p. 14. The uniform implementation of that mechanism results in a 1.321¢/kWh fuel adjustment to standard offer rates that is not subject to the 15 rate reduction requirement of G.L. c. 164, § 1B(b). Standard Offer Service Fuel Adjustments, D.T.E. 00-66, 00-67, 00-70, (December 12, 2000) ("While different costs are incurred to serve ... we determined that the SOSFA should be based on the most recently available twelve months of fuel data."). In its filing, the Company seeks Department approval for a 2.826¢/kWh fuel adjustment to its standard offer rate. While the Company argues that its proposal "is consistent with the SOSFAs allowed for the other distribution companies," Petition, p. 10, the Attorney General submits that the Company's approach and the resulting rate proposal is fundamentally different from the Department's adopted mechanism and that the Company should be required to submit a proposal based on the same rules and mechanism used by all other Massachusetts distribution companies.

2. The Department Should Reject The Proposed Redesign Of WMECo's Distribution Rates

The distribution rate redesigns proposed by the Company result in substantial revenue shifts between and within customer classes: e.g., increasing customer charges by \$1.48 for the R-1 class and \$387 for the T-2 class as well as reducing T-2 distribution rates by \$2.4 million and increasing R1 distribution rates by \$2 million. See Attachment 2 hereto. Such changes in otherwise permanent rates cannot be characterized fairly as minor and necessary to avoid either distribution revenue shortfalls or large transition cost deferrals. Compare 1999 Transition Charge Reconciliation Filings, p. 5, n. 6 (December 17, 1999). Instead, the proposed changes should be found to be fundamental rate changes that cannot be allowed in the absence of a full investigation, including the presentation and examination of allocated cost of service and marginal distribution cost studies. (3)

3. The Department Should Reject Any Proposal To Increase The Company's Transition Cost Charge

In light of the substantial increases in electric bills that Massachusetts consumers of electric power will endure this year as a result of increasing fuel costs, the Attorney General submits that the Department should reject any proposal to increase transition cost charges at this time. This is a necessary and a fair allocation of burdens of the present circumstances. Moreover, such an approach is consistent with the fact that not only has the Department not yet completed the inquiry into the Company's mitigation efforts initiated in its December 4, 2000 order in D.T.E. 00-66, 00-67, and 00-70, but it has not yet completed its review of the Company's March 31, 2000, reconciliation of its 1998 and 1999 transition costs and revenues, the Company's Millstone divestiture proposal, or its securitization proposal. All

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three of these proceedings concern matters that likely will result in substantial transition cost charge savings for consumers relative to the current level of that charge. In these circumstances and given that the transition charge rate is merely an arbitrary mechanism to provide for the recovery past uneconomic costs and does not provide any economic "price signal" for future behavior, the Attorney General believes that the Department should reject any proposal to increase the Company's transition charge at this time.

## CONCLUSION

The Department should reject the Company's proposed standard offer and distribution service rates changes and should instruct the Company to not propose any increase in its transition charge.

Respectfully,

George B. Dean

Joseph W. Rogers

Assistant Attorneys General

cc: Stephen Klionsky, Esq.

1. WMECo's petition also makes a passing request that it be allowed "to receive funds from the Ratepayer Parity Trust Fund." Petition, p. 15. In light of the fact that the Company does not disclose how it would apply any funds it might receive, it appears that this request is not so much a formal petition for relief as it is an attempt to demonstrate effort to mitigate. Thus, the Attorney General will not address this request at this time.

2. As is explained in the introduction to these comments, the Attorney General is aware that the Company's December 6 filing does not include a proposal to increase the transition cost rate. The comments above are intended to respond to any argument by the Company that any reduction in its proposed standard offer rate be offset, to the extent permitted under the inflation cap in G.L. c. 164, § 1B(b), with an increase to its current transition cost charge.

3. In addition to the problems with the distribution design, there appears to be design flaw in the proposed standard offer rates for the classes G-0, T-0, G-2, T-2 and T-4. In designing these rates the Company has developed both demand and energy rate elements. The use of a demand element results, on the customer level, in under and over recovery of costs that are incurred on a cents per kilo-watt hour basis because customers generally do not exhibit the "design" load factor (relationship of

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demand to energy) used to design the demand and kilo-watt hour charges. The problem may be illustrated by looking at the T-2 class where customers with high hours of use at the peak demand level will pay significantly less than the standard offer rate and those with low hours of use will pay more. High hours use customers would pay approximately 6.5¢/kWh and low hours use customers would pay up to 8.8¢/kWh. The Company's filing does not attempt to justify this differential. The Department should also reject this cost shifting.