

GMAC MEETING BRIEF:

ELECTRIC UTILITY COST RECOVERY



JANUARY 29, 2025

BACKGROUND

Electric distribution companies (EDCs) are natural monopolies, and therefore are regulated by the Department of Public Utilities (the Department).

One of the Department's key roles is to set electricity prices that are low enough to protect customers and high enough to allow the EDCs the opportunity to recover prudently incurred costs plus a reasonable return on investment.

RATE CASES

The Department holds rate cases periodically to determine the prices that EDCs can charge customers to recover the costs of providing reliable electricity.

[Summarize key elements of rate cases: cost of service, cost causation, cost allocation, rate design]

TYPES OF ELECTRIC SYSTEM COSTS

GENERATION COSTS

[Add text on basic service]

[Add text on independent retail electricity suppliers]

TRANSMISSION COSTS

Transmission costs reflect the cost of building, operating and maintaining the regional transmission system, which carries electricity over long distances. These prices are set by the Federal Energy Regulatory Commission and included on Massachusetts electric bills.

DISTRIBUTION SYSTEM COSTS

Distribution system costs are regulated by the Department and reflect costs associated with building, operating, and maintaining the grid such as the costs for electrical substations, transformers, poles, metering, billing, and connections to all homes and businesses. Grid modernization costs fall within this category.

PUBLIC BENEFITS PROGRAM COSTS

The EDCs offer several programs that provide electricity system and public benefits, including programs to support energy efficiency, renewable energy, distributed solar technologies, and electric vehicles.

COST RECOVERY MECHANISMS

BASE RATES

Base rates include capital costs, which are amortized over the life of the investment and include recovery of the costs, return on the costs, payment of debt, and taxes. Base rates also include labor, operating, and maintenance costs, which are passed directly through to customers without earning a return

RIDERS

Riders are a portion of the rates that are used to collect costs that are not included in base rates. EDCs currently collect some costs through several riders. Examples of riders include the energy efficiency charge (comprised of the SBC and EERF), AMI factor, storm fund replenishment factor, and the distributed solar charge.

GRID MODERNIZATION AND ESMP INVESTMENT COST RECOVERY

GRID MODERNIZATION INVESTMENTS IN THE PAST

Since 2018, the Department has allowed the utilities to recover grid modernization investments through [the grid modernization factor](#), where all costs are recovered in the year they are incurred.

ESMP PROCEEDING

In the [August 30, 2024 ESMP order](#), the Department of Public Utilities (Department) noted that Phase II of the ESMP proceedings would establish an interim ESMP cost recovery mechanism prior to establishing a framework for longer-term cost recovery through base distribution rates.

In a [November 21, 2024 procedural notice](#), the Department directed the EDCs to file a model interim ESMP cost recovery tariff for review and discussion. The Department will review the following issues: (a) costs eligible for recovery; (b) cost containment; (c) documentation; (d) alternatives; and (e) planned sunset.

INTERIM ESMP COST RECOVERY MECHANISM PROPOSAL

[Add summary of EDC's proposed cost recovery tariff]

PLACEHOLDER

- E.g., definitions of key terms
- [placeholder]
- [placeholder]
- [placeholder]

ADDITIONAL RESOURCES

- [Recent rate cases](#)
- [Eversource: Electric Delivery Charge and Supply Cost](#)
- [Current rates and tariffs](#)
- [DPU Understanding your Electricity Bill](#)