

# MASSACHUSETTS INTERAGENCY RATES WORKING GROUP

A Collaboration to Advance Near- and Long- Term Rate Designs that Align with the Commonwealth's Decarbonization Goals

**LONG-TERM RATEMAKING DRAFT STUDY WORKSHOP**

EDC/MLP/SUPPLIER – NOV 5



# AGENDA

- I. Introduction & Overview (5 minutes)
- II. Facilitated Discussion (45 minutes)
- III. Debrief and Close (10 minutes)



# IRWG OBJECTIVES

- **Near-Term Rates Strategy** to address barriers to near-term electrification through rate design offerings available before electric consumers receive advanced metering infrastructure (AMI) meters.
- **Long-Term Ratemaking Study** to present a vision and recommendations for advancing ratemaking mechanisms and rates for a decarbonized energy system and the associated technologies and capabilities available.
  - **Regulatory and ratemaking mechanisms** that:
    - incentivize least-cost distribution system upgrades as the Commonwealth seeks to achieve its Clean Energy and Climate Plan targets through 2050;
    - incentivize improved grid reliability, communication, and resiliency; and
    - promote DER and generation for decarbonization;
  - **Rates** that:
    - accommodate transportation and building electrification, in addition to new loads
    - provide appropriate price signals, including to effectuate load management; and
    - minimize or mitigate impacts on ratepayers, especially low- and moderate-income ratepayers.



# PURPOSE OF LONG-TERM RATEMAKING STUDY

## ■ Rate Design

- Review of potential rate design options in Massachusetts with the deployment of advanced metering infrastructure (AMI)

## ■ Regulatory & Ratemaking Mechanisms

- Review of existing regulatory and ratemaking mechanisms in the Commonwealth, with attention to barriers to decarbonization and affordable electrification
- The Long-Term Ratemaking Study and the IRWG's accompanying recommendations will provide a vision for advancing ratemaking to achieve a decarbonized energy system.



# STAKEHOLDER ENGAGEMENT OPPORTUNITIES

IRWG will release recommendations at the end of the year; please register for engagement opportunities at [IRWG's website](#)

## OCTOBER

| M                                                                | T  | W  | TH | F  |
|------------------------------------------------------------------|----|----|----|----|
|                                                                  | 1  | 2  | 3  | 4  |
| 7                                                                | 8  | 9  | 10 | 11 |
| 14<br>Indigenous Peoples Day                                     | 15 | 16 | 17 | 18 |
| 21                                                               | 22 | 23 | 24 | 25 |
| 28<br>E3 Presentation of Draft Long-Term Ratemaking Study (LTRS) | 29 | 30 | 31 |    |

## NOVEMBER

| M                  | T                                      | W                               | TH                                       | F                                     |
|--------------------|----------------------------------------|---------------------------------|------------------------------------------|---------------------------------------|
|                    |                                        |                                 |                                          | 1<br>DG/DER Workshop (LTRS)           |
| 4                  | 5<br>EDC/MLP/ Supplier Workshop (LTRS) | 6                               | 7<br>Consumer & Advocacy Workshop (LTRS) | 8                                     |
| 11<br>Veterans Day | 12                                     | 13<br>Synthesis Workshop (LTRS) | 14                                       | 15<br>Public Comment Due on LTRS Deck |
| 18                 | 19                                     | 20                              | 21                                       | 22                                    |
| 25                 | 26                                     | 27                              | 28<br>Thanksgiving Day                   | 29                                    |



# INTRODUCTION TO E3 PRESENTATION

- IRWG is requesting feedback on the **Long-Term Ratemaking Study Draft** presented by E3
- Feedback will inform the Long-Term Ratemaking Study prepared by E3
- The IRWG is hosting a workshop series to engage in dialogue with and between stakeholders on the draft Report
- **Written comments on the Long-Term Rate Strategy Draft Report are due by November 15, 2024 to give sufficient time for consideration and should be sent to [Rates.WG@mass.gov](mailto:Rates.WG@mass.gov)**

## Stakeholder Feedback

### Long-Term Ratemaking Study



Energy+Environmental Economics



### Long-Term Recommendations



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# Key research questions explored in this report

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1. What are the anticipated drivers of electric system cost growth?
2. What is the range of rate options under “TVR” (time-varying rates), and what are best practices in designing TVR to reflect avoidable system costs?
3. How can TVR provide price signals to enable customer flexibility and efficient dispatch of distributed energy resources?
4. What are alternative regulatory approaches to traditional cost-of-service ratemaking that could supplement those already in place in the Commonwealth?
5. Could certain components of today’s electricity rates be shifted to non-ratepayer cost recovery to better support decarbonization and affordability?

# Key takeaways

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- + TVR covers a range of different rate design strategies with an inherent tradeoff between complexity and ability to reflect system conditions**
- + To provide customers with economically efficient price signals, TVR should ideally reflect changes in avoidable system costs over time**
  - Customers should anticipate that TVR rates will be expected to evolve year-to-year as system costs change
- + Many jurisdictions have taken the approach of implementing simpler TOU rates as default, with more complex TOU designs and/or CPP as opt-in rate options**
  - Affordability impacts for low-income customers should be considered prior to any TVR rate rollout
  - For real-time pricing (RTP), near- to mid-term potential is for highly flexible customers and end uses, likely not whole-home RTP
- + A winter-peaking grid will have high costs during the coldest hours of the year. A key challenge will be maintaining affordable building electrification while providing efficient price signals**
  - Key roles for TVR, non-bypassable charges, alternative ratemaking (PBR), and changes to cost recovery
  - Also key roles for programs and technologies that reduce winter peak impacts such as building shell measures, ground-source heat pumps, networked geothermal systems, and nascent technologies like thermal storage

# DISCUSSION QUESTIONS (KEY SLIDES FOLLOW)

## AMI-Enabled Rate Design

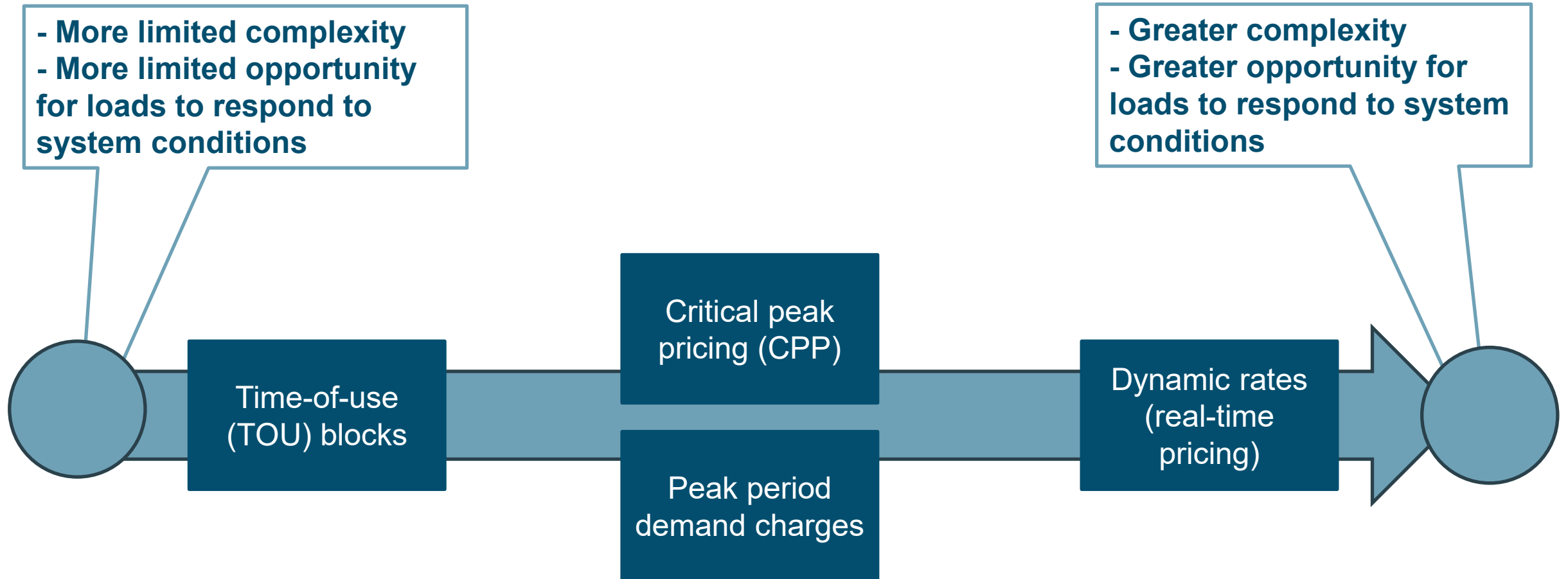
- What other advantages or disadvantages of different AMI-enabled rate designs (e.g., TOU blocks, critical peak pricing, demand charges, etc.) will impact the effectiveness of managing peak demand and reducing total system costs?
- To what extent should time-varying rate designs be applied to distribution, transmission, and generation/supply components of residential customers' rates? How do TVR design principles expressed by E3 align with principles developed by utilities in conjunction with AMI and ESMP investments?
  - **Distribution:** Should TOU apply to base distribution rates only, or the entire delivery rate? For the distribution component of rates, how should the peak to off-peak differential or ratio be determined?
  - **Transmission:** How should transmission rate design encourage efficient use of the transmission system by distribution customers?
  - **Supply:** How should a time-varying Basic Service offering be designed? What practices/policies are needed to facilitate the offering of TVR for municipal aggregations or competitive suppliers?
- How would AMI-enabled rate designs impact existing rate mechanisms (e.g., net metering) and programs (e.g., SMART, Clean Peak Standard, etc.)?
- What AMI data should be collected to inform future rate design?

## Regulatory & Ratemaking Mechanisms

- How can alternative ratemaking mechanisms better align utility performance with policy goals? How can they incentivize key objectives such as system and cost efficiency, affordability, and electrification?
  - Massachusetts has implemented advanced ratemaking mechanisms such as performance-based ratemaking, multi-year rate plans, performance incentive metrics, capital trackers, and revenue decoupling. How can these be modified or revisited?



# Time-varying rate designs will have tradeoffs between complexity and opportunity for economic load response



# Several regulatory reforms have been proposed that have the potential to better align utility and public interests

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- + **Traditional cost of service model enables utilities to earn a fair rate of return on capital investments**
  - This does not provide a clear incentive for utilities to prioritize efficient capital spending to support energy affordability or pursue other policy goals including decarbonization and instead incentivizes greater capital investment
- + **Advanced ratemaking mechanisms seek to align utility performance with the public interest, including examples such as:**
  - **Performance-Based Ratemaking**, including Reporting Metrics, Scorecard Metrics, Performance Incentive Mechanisms, and Earnings Sharing Mechanisms. These entail utilities reporting to regulators on specified metrics related to goals such as decarbonization and customer service, with clear financial incentives to pursue these goals and share benefits with ratepayers
  - **Revenue Decoupling** ensures that utilities only recover approved revenue requirement; additional revenue generated through greater-than-expected sales is passed back to ratepayers
  - **Multi-year Rate Plans and Formula Rates** are alternatives to frequent utility rate cases, reducing the regulatory burden on utilities, boosting revenue certainty (and thus reducing borrowing costs), and creating an incentive to increase operational efficiency
- + **These approaches have important risks that must be considered, including:**
  - Risk that reducing scrutiny of utility expenditures may lead to higher costs for ratepayers
  - Risk that certain incentive elements may be “gamed” by the utility



# THANK YOU!

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