

SUMMARY

The Department of Public Utilities (“Department”) issues this Order addressing the petition filed by Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid (“National Grid” or “Company”) on November 16, 2023, seeking an increase in electric base distribution rates. Pursuant to G.L. c. 164, § 94, the Department conducted an intensive ten-month investigation of the Company’s petition, which included reviewing and evaluating National Grid’s annual revenues and expenses; current and proposed cost-recovery mechanisms; residential and commercial and industrial rate design; and capital structure and return on equity. To facilitate our investigation, the Department required the parties to submit written testimony; gathered evidence through written discovery; held eight public hearings to receive public comments; conducted twelve days of evidentiary hearings to cross-examine witnesses and collect additional information; and weighed the parties’ arguments submitted through legal briefs. As noted in our decision below, the evidentiary record in these proceedings includes approximately 2,500 exhibits.

The Department recognizes the economic impact that higher electric base distribution rates have on individual customers, businesses, and communities. The Department appreciates hearing from hundreds of residents, municipal officials, and business owners who shared personal experiences struggling with high energy costs and their opinions regarding the Company’s filing. These comments and opinions helped the Department gather evidence and inform our decision.

As part of today’s decision to allow an electric rate increase, the Department reduces the Company’s initially requested revenue deficiency by approximately 40 percent. This reduction includes lowering the Company’s requested return on equity from 10.50 percent to 9.35 percent.

The Department also recognizes the disproportionate impact of high electricity bills on low-income customers. As such, the Department approves with modifications the Company’s proposal to implement a five-tiered discount for qualifying electric income-eligible customers ranging from a discount of 32 percent to 71 percent, which does not require a customer to receive Low-Income Home Energy Assistance Program benefits. The discount structure is designed to offer higher discounts to customers at lower income levels, and to assist the spectrum of income-eligible customers in managing their electric energy burden. The Department also allows the Company, in a future filing, to seek costs associated with the hiring of additional employees as part of expanded education, outreach, and verification efforts to increase enrollment of eligible customers into the discount program. The Department also directs the Company to establish a two-year self-attestation pilot for customers to demonstrate eligibility for the discount offering. Resources are available for customers having difficulty paying their utility bills. Please visit: <https://www.mass.gov/info-details/help-paying-your-utility-bill>.

The Department supports customer conversion to electrified and decarbonized heating technologies, including heat pumps. The Company proposed a heating electrification pricing option for Rate R-1 that the Department rejects. Instead, the Department directs the Company to submit for approval a residential heat-pump rate available to all customers in rate classes R-1 and R-2 who install and use heat pumps in all or part of their homes similar to a heat-pump rate

approved for Fitchburg Gas and Electric Light Company. The heat pump rate offerings will reduce the variable kilowatt hour rate associated with electric use during the winter when heat pumps would result in increased electricity use to replace traditional fossil fuel heating equipment. The Company's heat-pump rate will be a reasonable, cost-efficient solution to assist in the reduction of greenhouse gas emissions and encourage non-emitting renewable sources of energy. The Department directs the Company to engage in meaningful outreach and education efforts to raise awareness of the heat-pump rate option once it is approved.

The Department recognizes the importance of establishing a regulatory paradigm that enables utilities to navigate the Commonwealth's transition to clean energy in a cost-effective manner that provides significant benefits to customers. In today's Order, the Department approves a five-year performance-based ratemaking ("PBR") plan relative to the Company's operations and maintenance expenses. The plan is intended to incentivize the Company to identify and implement operating efficiencies to minimize future cost increases to customers. As part of the plan, the Company agrees not to file a petition that seeks to increase base distribution rates during the five-year term. To measure progress towards the objectives of the PBR plan, the Department approves a set of performance scorecard metrics in the following categories, which are tied to the goals of the PBR and consistent with the Department's regulatory objectives: (1) improvements to customer service and engagement; (2) reductions in greenhouse gas emissions; and (3) enrollment in clean energy programs.

Over the next five years, the Company expects to complete capital projects designed to protect and improve the electric delivery system by repairing failed or damaged equipment, addressing load growth and migration, sustaining system viability through targeted capital investments driven primarily by asset condition, and maintaining a continuing level of inspection and maintenance. The Department approves a cost recovery mechanism for core investments, planned investments to maintain the safety and reliability of the electric distribution system, to provide the Company with necessary funding to complete these important tasks, but with cost control and prudence measures to ensure that customers are protected from over- or mis-investment.

The Department also approves two performance incentive mechanisms that are designed to create new benefits and value for customers based on the Company's targeted achievement of specific policy goals or outcomes. The performance incentive mechanisms will measure the Company's efforts to enroll new customers in the enhanced low-income discount program discussed above, as well as the Company's rate of deployment of solar and storage projects interconnected to the distribution system to support the Commonwealth's clean energy transition. The performance incentive mechanisms are symmetrical, such that the Company is rewarded for exceptional performance and penalized if it fails to deliver results above a target range.

Under even normal operations, it is essential that utilities maintain a safe and reliable distribution system. As the Commonwealth moves toward electrification, there is heightened scrutiny on the ability of the distribution system to deliver for customers. To that end, the Department reviewed and modified, as necessary, the Company's vegetation management program, which is designed

to reduce outages during storms by minimizing the potential for tree and vegetation contact with overhead utility lines and reducing tree exposure along select circuits. The Department also made changes to the Company's storm cost recovery mechanism to provide necessary resources to ensure safe and timely service restoration following major storm events.

The Department's decision today seeks to enable the Commonwealth to move into its clean energy future while simultaneously safeguarding ratepayer interests and maintaining affordability for customers; ensuring safe and reliable electric service; and minimizing the burden on low- and moderate-income households as the transition proceeds.