



MASSACHUSETTS
**DEPARTMENT OF
ENERGY RESOURCES**

Tools of Utility Regulation

Targeted Conversation | September 17, 2025

This presentation will be used to guide the Massachusetts Electric Rate Task Force's targeted conversation, designed to facilitate an open, inclusive dialogue and frame critical questions and opportunities.

Note: The contents of this presentation do not necessarily reflect the views or positions of the Massachusetts Department of Energy Resources.

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Ground rules & engagement

This work is complex – and your insight matters; let's focus on learning, listening, and shaping together!

Participation, Engagement, & Respect

- Everyone's perspective is valuable – this space works best when all voices are heard
- Respect differences in background, experience, and priorities
- Bring curiosity – ask questions and offer potential answers
- Focus on understanding others' goals and values, not just their positions
- It's okay not to have a solution – help us shape the right questions

Collaboration, Not Consensus

- This body is deliberative, it is not a decision-making space
- We don't need to agree on everything, but we should work toward shared understanding
- Where we disagree, help clarify what the tension is and why it matters

Transparency & Trust

- We'll be clear about how input is used
- Share what you can; identify when you're speaking on behalf of your organization or personally
- Materials, summaries, and key findings will be shared openly to support accountability

Focus & Productivity

- Stay on topic and honor the scope of the Task Force
- Raise related concerns, but help us stay anchored in the rate design and regulatory issues at hand
- Use the structures provided (i.e., expert sessions, targeted conversations, office hours) to deepen discussion
- Avoid discussion about open and ongoing proceedings at the DPU



Targeted Conversations

The Rate Task Force brings together diverse stakeholders to reimagine how electric rates and the regulatory framework can drive an affordable, equitable, and decarbonized energy future.

- Targeted conversations are intended to facilitate open, inclusive dialogue and frame critical questions and opportunities
- The Rate Task Force will use the Massachusetts Interagency Rates Working Group's Long-Term Ratemaking Study and Recommendations as a starting point for discussion and knowledge building on rate designs, ratemaking, and regulatory mechanisms.

Facilitate open, inclusive dialogue

Engage in **open, inclusive dialogue** about complex ratemaking and regulatory issues outside of a regulatory proceeding



Frame critical questions and opportunities

Empower stakeholders to identify **critical questions and opportunities** for the advancement of rate design and ratemaking reform



Expert Presentations

I. Reconciling Mechanisms, Riders, and Trackers in Massachusetts

Massachusetts Department of Energy Resources, Austin Dawson

Present on the current approaches and utilization of reconciling mechanisms, commonly referred to as riders and trackers, in Massachusetts

II. Allocated Cost Studies & Historical Test Years in Massachusetts

Massachusetts Electric Distribution Companies

Present on the current approach to allocated cost of service studies (ACOSS) and the development and application of historical test years in Massachusetts

III. Future and Multi-Year Test Years

Wisconsin Public Service Commission, Commissioner Kristy Nieto

Present the applications and use of future and multi-year test years in Wisconsin regulatory environment to support oversight over expanding levels of investment to support load growth

IV. CapEx/OpEx Equalization

RMI, Gennelle Wilson & Current Energy Group, Dan Cross-Call

Present on capex-opex equalization mechanisms, with examples including totex ratemaking as employed in Great Britain's Revenues = Incentives + Innovation + Outputs (RIIO) framework

Reminder

Expert presentation sessions are not for substantive deliberation amongst participants. Questions for each speaker will be taken as time allows.

Develop shared understanding

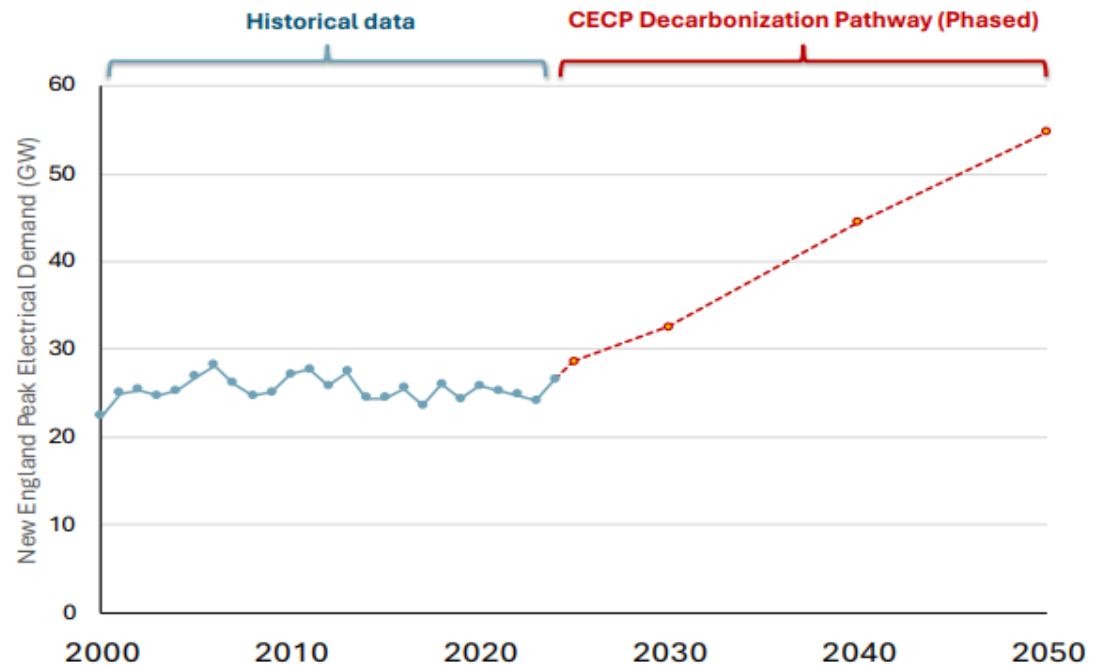
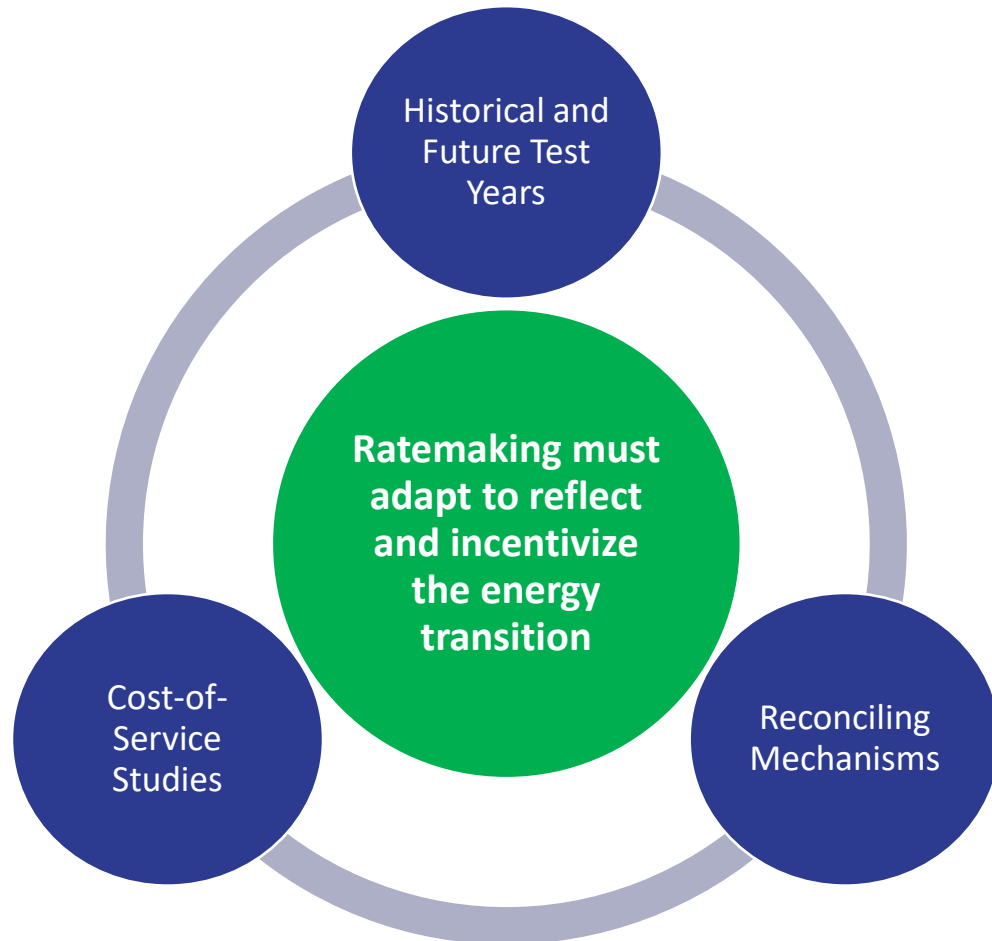
Converge towards **shared understandings** of the challenges and priorities

Agenda

- i. Introduction (5 minutes)
- ii. Historical and Future Test Years (35 minutes)
- iii. Allocated and Marginal Cost Studies (30 minutes)
- iv. Break (5-10 minutes)
- v. Reconciling Mechanisms (35 minutes)
- vi. Closing (5 minutes)

Effective regulatory reform requires retooling ratemaking mechanisms

In an era of rapid load growth and DER adoption, modification key tools of COSR may be equipped to ensure clean energy and affordability goals.



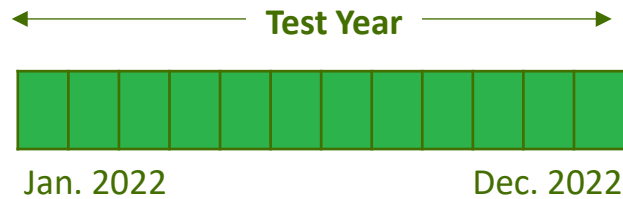


Historical and Future Test Years

25 minutes

A test year aligns expenses, revenues, and rate base over a period

A test year represents a 12-month period used to establish revenue requirement & distribution rates



← **Revenue Requirement (RR)** →
$$RR = O\&M + T + d + (RB * r)$$

← **Operating Revenues (OR)** →
$$OR = \text{customer charge revenue} + \text{energy (kWh) charge revenue} + \text{demand (kW) charge revenue}$$

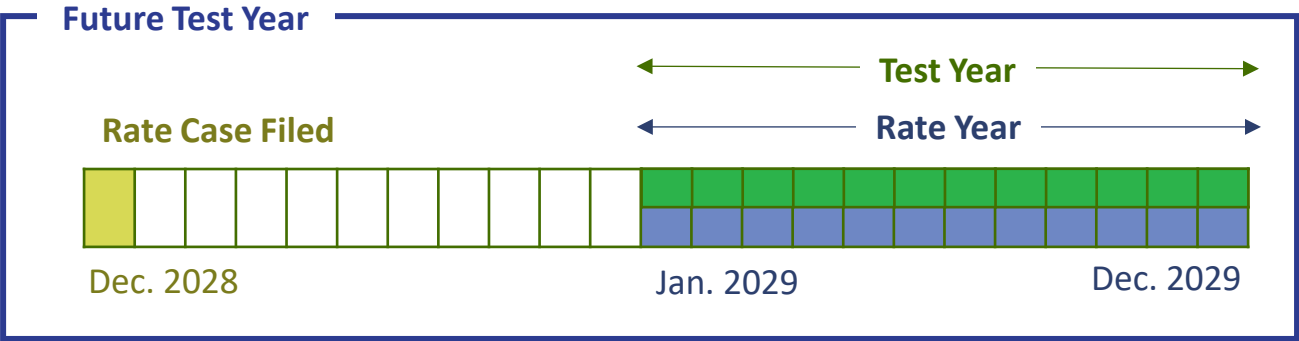
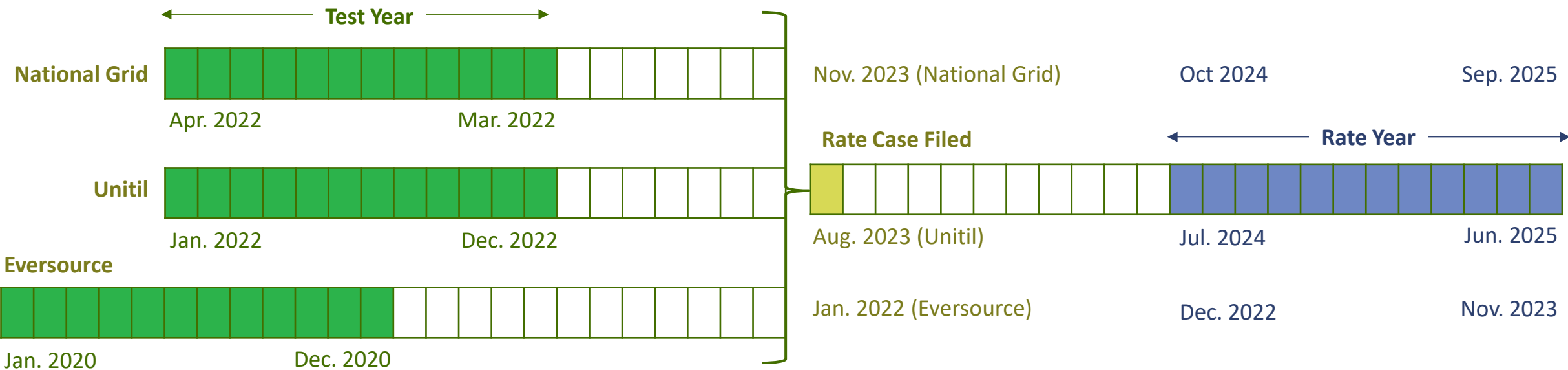
- Rate cases are justified when there is a significant gap between revenue requirement and operating revenues
 - The difference between RR and OR is considered the revenue deficiency (if $RR < OR$)

Base distribution rate filings have been traditionally based on an historic test year

- Department examines a test year to provide the most reasonable representation of utility's present financial situation and represent its cost to provide service
 - Theoretically, the revenue, expense, and rate base figures during that period accurately reflect the utility's present financial situation and fairly predict the utility's future performance
- Test year considered a representative level of utility's revenues and expenses, Department allows adjustments for *known and measurable changes*
 - The Department has allowed utilities to recover an inflation allowance on residual O&M expenses (i.e., test year O&M expenses less adjustments), recognizing inflationary pressures on O&M expenses

Comparison of recent historical test years and future test years

Test years are subject to Department review and approval, but the selection of the test year is largely up to the utility



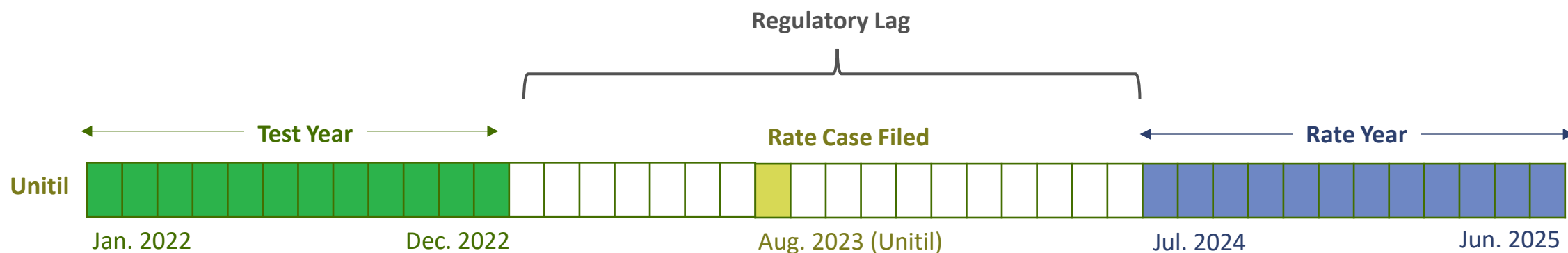
Historical and future test years present different challenges.

Historical Test Years

- Uses verifiable and audited costs and sales data, may not reflect inflation or anticipated investments
- Unless otherwise adjusted, maintains regulatory lag between when costs incurred and recovered in rates
 - Approved revenue requirement will generally reflect the cost to serve in test year, which can be 1.5 to 2 years before customers pay rates for that year

Future Test Years

- Forecasts operating revenue and expenses for rate year based on estimates for inflation, growth in costs, etc.
- Provides oversight of utility estimates while avoiding regulatory micromanagement; maintains incentive for utility to manage business risk and innovations to capture benefit of savings in between rate proceedings (see, e.g., [PSC Ref #527462](#), Docket 6690-UR-128, Final Decision at 26)





Allocated and Marginal Cost Studies

25 minutes

Cost of service studies inform cost allocation among ratepayers and aids rate design

Allocated Cost of Service Studies (ACOSS)

- ACOSS serve to distribute the test year's revenue requirement among customer classes
- Use embedded costs and historical test year in Massachusetts

Role of an Allocated Cost of Service Study in the Rate Making Process

Determine revenue requirement/ overall cost of service

Evaluate and categorize components of the cost study (functionalize and classify costs)

Assign and allocate costs to customer/rate classes (e.g., residential; small, medium and large general service; lighting)

Design cost-based rate elements for each customer class (depending on structure: customer, demand, volumetric based)

Marginal Cost of Service Studies (MCOSS)

- MCOSS estimate the *incremental*, or marginal cost of providing additional utility service to each customer class
- Use of MCOSS facilitates development of rates that provide consumers with price signals that accurately reflect the costs associated with consumption decisions
- MCOSS have not been used for EDCs in Massachusetts since 2019, but Department formerly provided methodological guidelines for marginal cost studies (see, e.g., D.T.E 02-24/25, D.T.E. 03-40, D.T.E. 05-27)
- Growth and increased investment driven by load and DERs escalate the urgency of setting rates at a level and pattern of prices that promote appropriate consumption decisions as well as an efficient allocation of societal resources

Marginal cost studies can promote efficiency, equity, and reliability through decarbonization

- Marginal cost studies promote:
 - **efficiency** in grid use (imports/exports), which can avoid unnecessary expansion of grid;
 - **equitable** cost allocation such that all grid users with similar import/export profiles pay similar costs;
 - **reliability** and resiliency through appropriate valuation of flexibility, allowing for the integration of DERs for grid services
- Marginal costs will be able to inform rate and non-rate decisions, including:
 - Size and price differentials in TOU and seasonal
 - energy charges, demand charges, capacity charges/payments
 - Floor for customer charge
 - Value stack (G, T, D) export rates
 - Economic development rates
 - Evolution of technology-specific rates
 - Addressing seasonal shift in cost drivers

Note: Slide relies on a summary of content from Nieto, Amparo. *Marginal Cost of Distribution Service and Use for Time of Use Delivery Rate Design*. Presentation for Massachusetts Electric Rate Task Force (May 19, 2025). <https://www.mass.gov/doc/topic-1-time-of-use-rate-design-expert-presentations/download>

Break: 5 minutes





Reconciling Mechanisms

25 minutes

Reconciling mechanisms are separate charges that support cost recovery associated with specific investments and programs.

Delivery electricity rates include charges from reconciling mechanisms.

cents/kWh	Eversource	National Grid	Unitil
Base Distribution	6.264	6.546	10.176
Other Charges (# of charges)	12.603 (26)	13.711 (28)	15.992 (21)
Total Delivery Rate	18.867	20.257	26.168

Most of these “other charges” are reconciling mechanisms

- **Base distribution charges** support the ongoing costs of delivering electricity, including capital and non-capital spending (i.e., O&M expenses).
 - DPU reviews and approves changes to base distribution charges by evaluating costs that may be:
 - Predictable and stable
 - Recurring on a frequent basis
 - Necessary for a utilities’ cost of business
- **Reconciling mechanisms** support capital investments and non-capital spending (i.e., O&M expenses), including those associated with grid modernization, energy efficiency programs, and ratepayer assistance offerings.
 - DPU reviews and approves reconciling mechanisms on a case-by-case basis by evaluating costs that may be:
 - Volatile and large in magnitude
 - Neutral to fluctuations in sales volume
 - Beyond company control

The number of reconciling mechanisms have approximately *doubled* for each EDC in the last 12 years.

In the last 12 months, the EDCs had at least 44 docketed proceedings solely to assess these mechanisms.

Existing reconciling mechanisms, cents/kWh	Eversource	National Grid	Unitil
Transmission (incl. base, adjustments, internal, and external)	4.545	5.798	4.076
Transition (incl. base and adjustments)	(0.095)	(0.036)	-
Grid Modernization (incl. grid modernization, advanced metering, and electric vehicle, and electric sector modernization plans)	1.003	0.609	1.094
Distributed Generation (incl. SMART, net metering, provisional system plan factor, solar program cost, solar expansion)	2.039	2.464	3.830
Energy Efficiency (incl. energy efficiency reconciliation factors)	2.256	2.629	2.424
Ratepayer Assistance (incl. residential discount and net debt management costs)	1.047	1.149	2.527
Renewable and Carbon-Free Electricity (incl. long-term renewable contract)	0.052	0.067	(0.030)
Other Distribution (incl. pension, AG expenses, vegetation management, storm costs, basic service, etc.)	1.456	0.731	1.771

Should these charges continue to be recovered through reconciling mechanisms or reflected in base distribution rates?

Reconciling mechanisms are used to support unique investments, programs, and policies

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Grid modernization and O&M reconciling mechanisms may be better suited for base distribution rates.

Grid Modernization

- Current grid modernization reconciling mechanisms recover costs for:
 - Grid modernization, including the Grid Modernization Factor (GMF) and Electric Sector Modernization Plan Factor (ESMPF)
 - Advanced Metering Infrastructure Factor (AMIF)
 - Electric Vehicle (EV) Factor
- DPU has asserted numerous times that the GMF and ESMPF should be transitioned to base distribution rates
 - In the era of electrification, grid modernization should become part of the utilities' normal course of business

Other Distribution

- Other distribution reconciling mechanisms recover costs for, typically O&M expenses:
 - Utility staff pensions
 - Attorney General Office's consultant expenses
 - Vegetation management
 - Storm recovery
 - Basic Service
- Some O&M costs, like AGO consultants, are predictable and recurring, but others, like storm recovery are more unpredictable

Reconciling mechanisms can reduce cost control incentives and shift risks to ratepayers, while also increasing rate complexity and administrative burden

Closing

Next Steps

Expert Presentation: Multi-Year and Formula-Based Rates

- September 29, 2025, from 1:00-3:30pm

In-person option available – email Chris Connolly at chris.connolly2@mass.gov by EOD Friday, September 26