MASSACHUSETTS
DEPARTMENT OF ENERGY RESOURCES

Decoupling and Capital Recovery

Targeted Conversation | October 27, 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. Revenue Decoupling in Massachusetts

Synapse Energy Economics, Tim Woolf

Present the origins and drivers under which the DPU implemented revenue decoupling in Massachusetts

II. Evolving Role of Energy Efficiency

Massachusetts Department of Energy Resources, Liz Reichart

Present on the existing landscape of pursuing all cost-effective energy efficiency and the implementation of performance standards, building codes, and other market transformations

III. Capital Recovery Needs and Mechanisms

Massachusetts Electric Distribution Companies

Present on the utilities' need for incremental capital recovery or revenues to support growing investments and current mechanisms that support those needs (e.g., k-bar)

IV. Evolution of Revenue Decoupling

Massachusetts Department of Energy Resources, Austin Dawson

Present on the challenges with revenue decoupling and the opportunities associated with modifying the existing approach to revenue decoupling

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

Revenue Decoupling

Revenue decoupling severs the link between a utility's sales and revenues

Establishing an annual target revenue

- In the rate case, the Department reviews and approves:
  - Revenue requirement, which represents the annual target revenue
    - Currently based on historical test year, adjusted for known and measurable change
  - Distribution revenue allocator, which percentage of distribution revenues the different customer/rate classes are responsible for
    - Revenue requirement is allocated to each customer/rate class
  - Rates are designed based on annual target revenues for each customer class using *historical* billing determinants (e.g., # of customers, kWhs, billed kW, etc)

Annual revenue decoupling adjustments

- National Grid's annual target revenue in 2023, for example, was $984 million
  - However, National Grid's actual revenues were $949 million
  - Resulting in an under-recovery of $35 million that were collected from ratepayers between Mar 2024 – Apr 2025
  - The under-recovery (or in some cases, over-recovery) is charged (or credited) to customers in a future period

Customer Class	Distribution Revenue Allocator	Over/(Under) Recovery ($million)	Allocation of Under-Recvoery
Residential	57.7%	($9)	$20
Small Commercial	12.9%	($5)	$4
Medium Commercial	11.9%	($7)	$4
Industrial	16.9%	($4)	$6
Streelights	0.6%	($9)	$0

Shifting costs between customer classes

Over- and under- recovery from each customer class are pooled before allocating to customer classes based on distribution revenue allocators

- In the past decade, National Grid's medium commercial, industrial, and streetlighting customers underpaid their target revenue by $92 million, while residential and small commercial customers overpaid their target revenue by $92 million.

National Grid, $million

R = Recovered in calendar year from customer class; over/(under) recovered
A = Allocation of total under recovery from calendar year, collected through rates effective March after calendar year (e.g., $24 million under recovery in CY2024 is recovered through revenue decoupling mechanism effective March 1, 2025

	2024		2023		2022		2021		2020		2019		2018		2017		2016	
	R	A	R	A	R	A	R	A	R	A	R	A	R	A	R	A	R	A
Residential	(5)	15	(9)	20	12	7	15	4	13	9	(27)	28	(11)	13	(27)	22	(14)	18
Small Commercial	1	3	(5)	4	(2)	2	(4)	1	(7)	2	(3)	6	0	3	(2)	5	0	4
Medium Commercial	(6)	3	(7)	4	(8)	1	(6)	1	(9)	2	(5)	6	(2)	3	(3)	4	(3)	4
Industrial	(6)	4	(4)	6	(6)	2	(6)	1	(8)	3	(8)	8	(8)	4	(5)	7	(10)	6
Streetlighting	(7)	0	(9)	0	(8)	0	(7)	0	(6)	0	(5)	0	(3)	0	(2)	0	(5)	0
Total	(24)	24	(34)	34	(12)	12	(8)	8	(15)	15	(48)	48	(23)	23	(39)	39	(31)	31

Discontinuing revenue decoupling provides new revenue stream

Utility will make investments to support electrification

- Earnings ≠ revenues
  - Utility investments will increase rate base and thereby return on rate base (return on equity = earnings)
  - Revenues are the income from utility operations (i.e., charges to customers for grid access, energy/demand use, etc.)
  - Earnings = revenues less expenses/costs
- Utilities require revenue to support investments; growing scale of investments require new streams of revenues
  - Capital cost tracker mechanisms, revenue adjustment mechanisms, K-Bar mechanisms, etc. provide that additional revenue, but each increases the cost of electricity

Recoupling provides an opportunity to earn revenues to support investments without inflating rates

- Recoupling aligns the incentive for load growth with the utilities need for additional revenue
- Recoupling also shifts risk back onto the utility, which ratepayers are otherwise burdened with

Load Growth and Revenue Projections, Eversource

	2026	2027	2028	2029	2030
Forecasted kWh (billion)	23.5	23.7	24.0	24.2	24.5
Projected Net Load Growth %		0.9%	1.2%	0.8%	1.1%
Excess Revenue from Load Growth ($million)	$43	$53	$65	$74	$86

Sources: D.P.U. 24-10, Attachment DOER-Common-6-8(a)

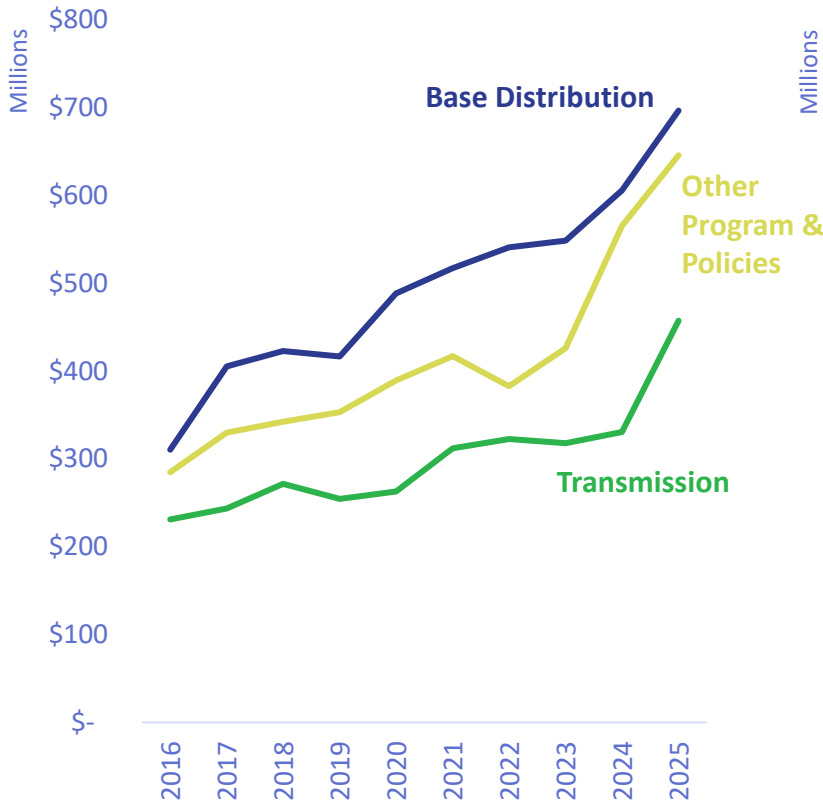
Affordability

Growing costs and revenue requirement paired with stagnant or diminishing sales drives rates up

Delivery rates, including distribution, transmission, and other programs & policies, are collected volumetrically (kWh) and based on average cost

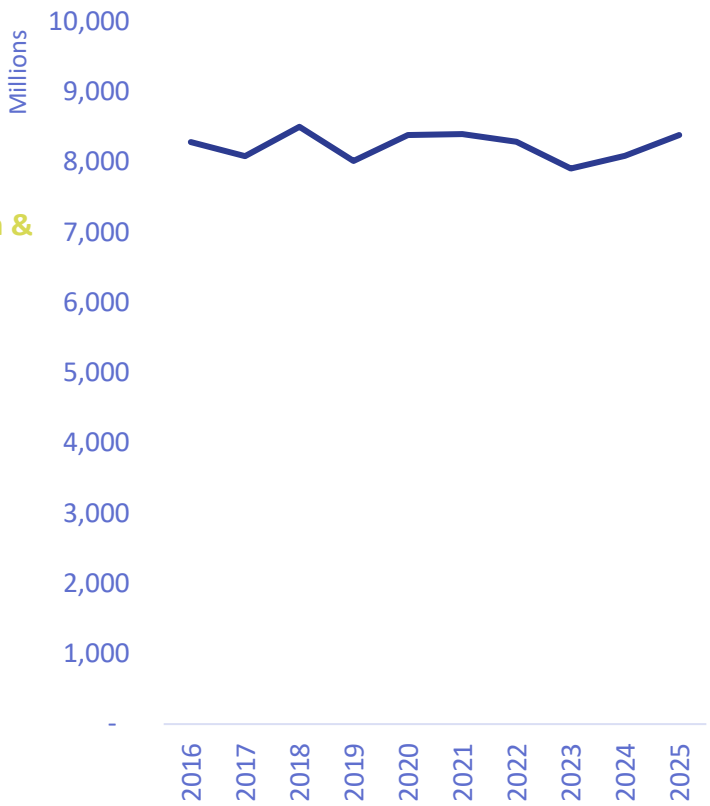
Residential Revenue Requirement

$millions (nominal)



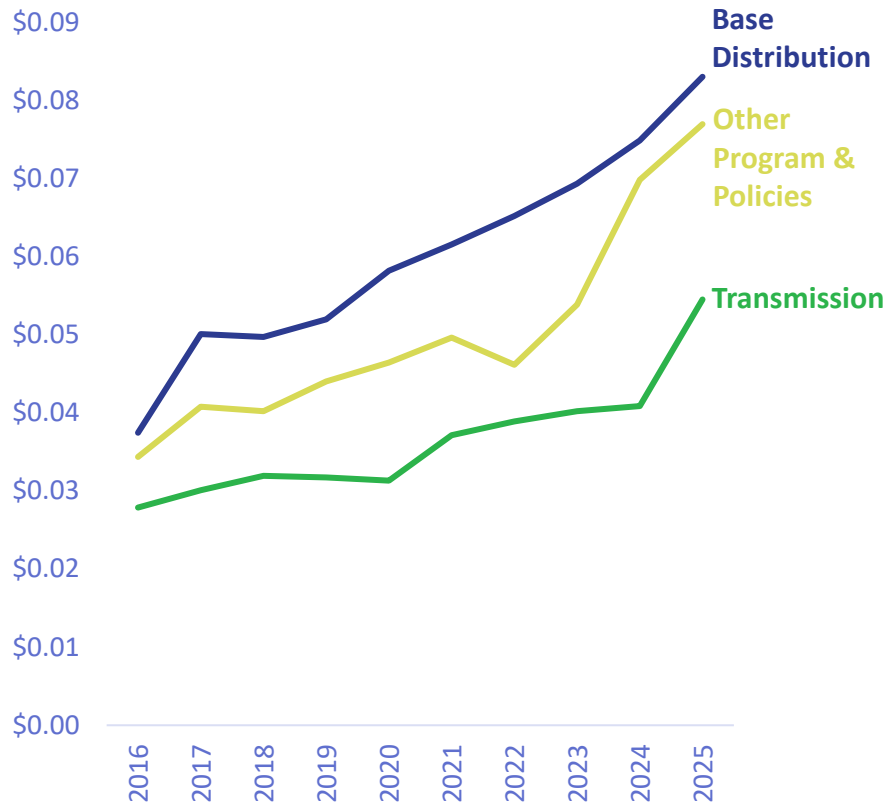
Residential Sales

Million kWh



Residential Average Prices

$/kWh (nominal)



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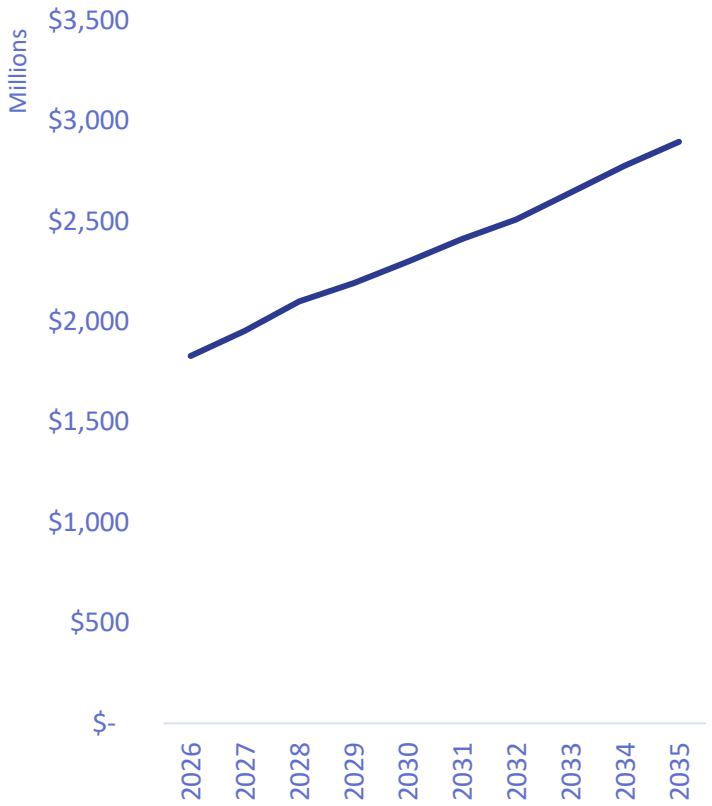
Continued growth in costs and revenue requirement *without* load growth will sharply raise delivery rates

Residential electric delivery rates could increase 66% over the next ten years without reducing revenue requirement and costs collected through electric bills or increasing net load growth

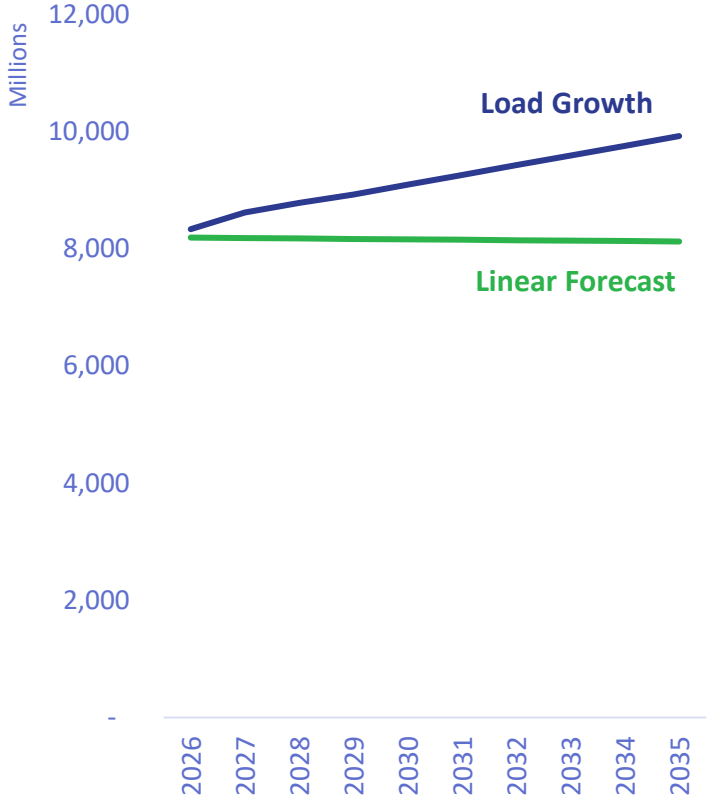
Forecasted Residential Revenue Requirement

$millions (nominal)



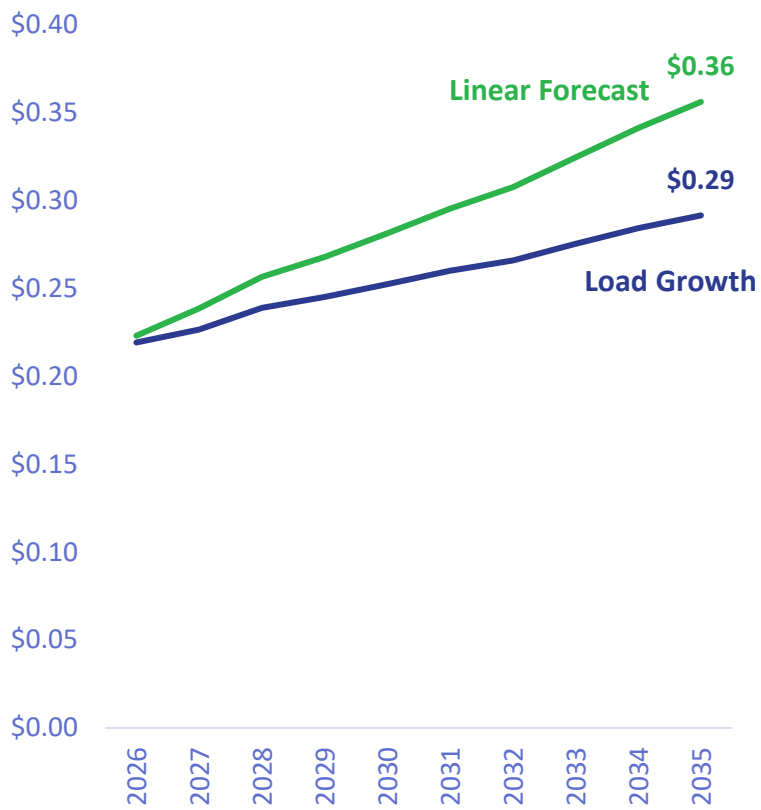
Forecasted Residential Sales

Million kWh



Forecasted Residential Average Prices

$/kWh (nominal)



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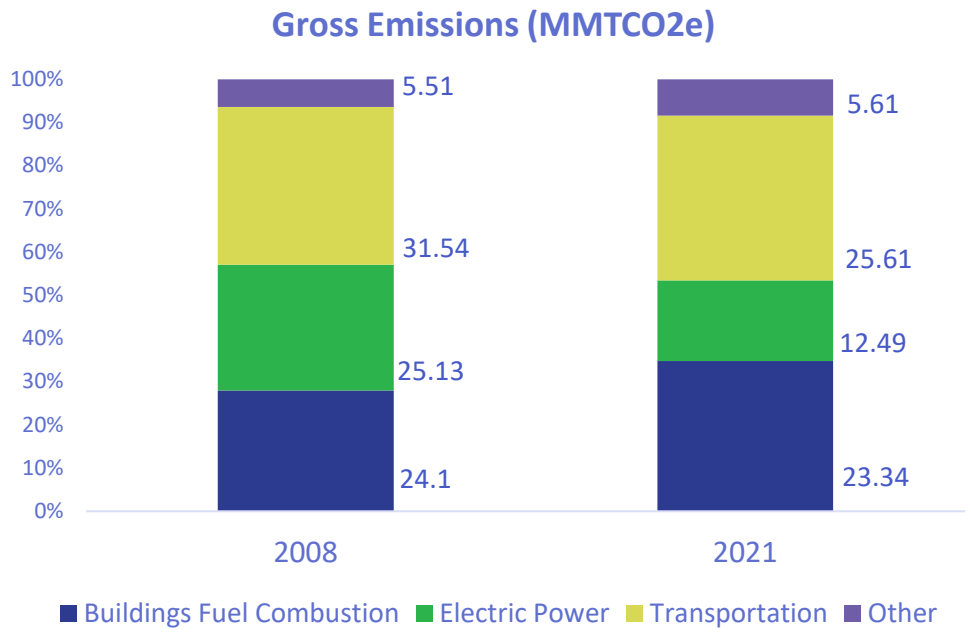
Break: 5-10 minutes
(if time allows)

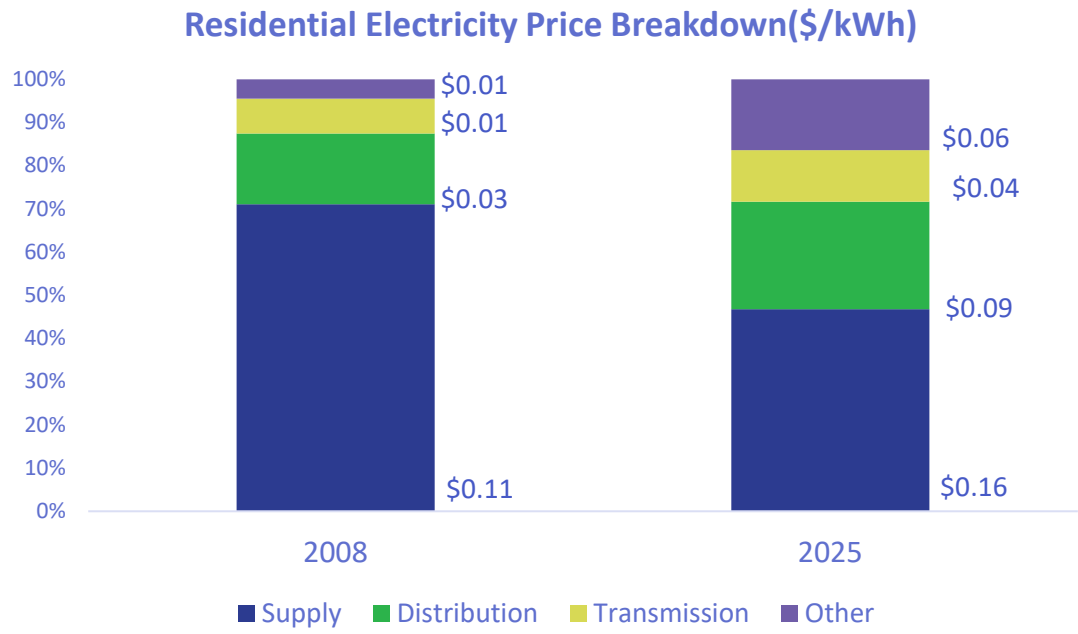
Decarbonization

Electrification is critical for decarbonization and affordability

Electric power emissions have more than halved since 2008



Energy supply is no longer the majority of retail electricity prices



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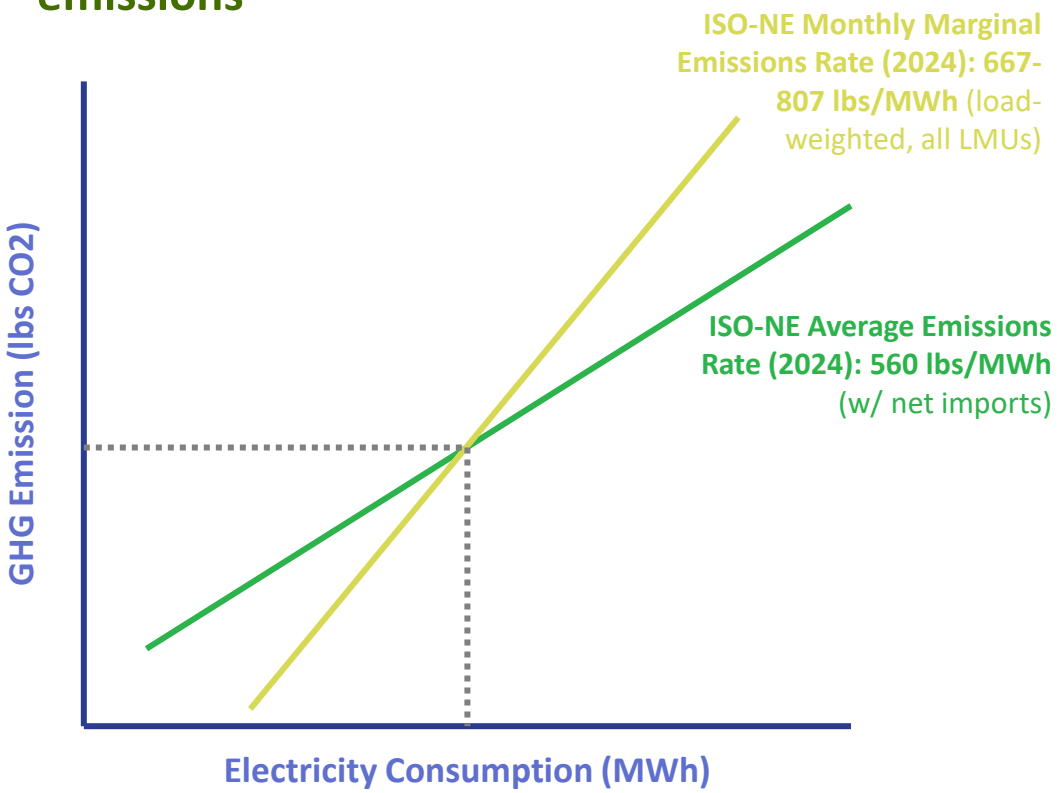
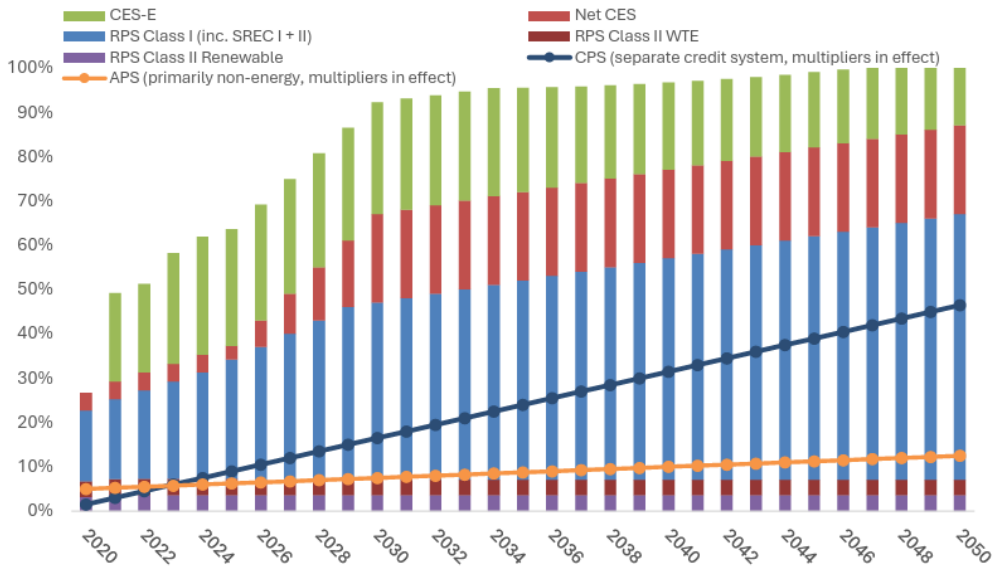
Decreasing electricity use is no longer the principal strategy to reduce emissions

Fuel switching (e.g., gas to electric heat pump or gasoline to EV) results in reduced net emissions



Massachusetts electricity use is coupled with clean and renewable portfolio standards

Figure 1: Combined MA Standards as Percent of Projected Retail Electricity Sales



Sources: Executive Office of Energy and Environmental Affairs, Massachusetts Clean Energy and Climate Metrics, accessible at: https://www.mass.gov/info-details/massachusetts-clean-energy-and-climate-metrics; ISO-New England, 2024 ISO New England Electric Generator Air Emissions Report, accessible at https://www.iso-ne.com/system-planning/system-plans-studies/emissions; Massachusetts Department of Environmental Protection, Clean Energy Standard (CES) Frequently Asked Questions, accessible at https://www.mass.gov/doc/frequently-asked-questions-massdep-clean-energy-standard/download.

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Discontinuing revenue decoupling provides new revenue stream

Innovative efforts to promote decarbonization and electrification

- Utilities can earn incremental revenues from customers electrifying end-uses
  - Conversion of a customer with a gasoline car to an electric vehicle creates a new stream of revenue
  - Conversion of a gas customer to an electric heat pump customer creates a new stream of revenue
- Utilities can incentivize electrification through additional rebates, zero-cost equipment and installation, equipment leasing, on-bill financing, promotional pricing, etc.
  - Instead of current ratepayers financing these initiatives, which raises electricity rates, the utility can use its access to capital to make these revenue-generating investments

Efficient use of electric infrastructure

- Utility can increase revenues with incremental load growth
- Recall, a utility will maximize earnings between rate cases by keeping costs low
- If a utility can grow load off-peak, they can increase revenue without an associated increase in costs
- As a result, system efficiency is incentivized by utility earnings

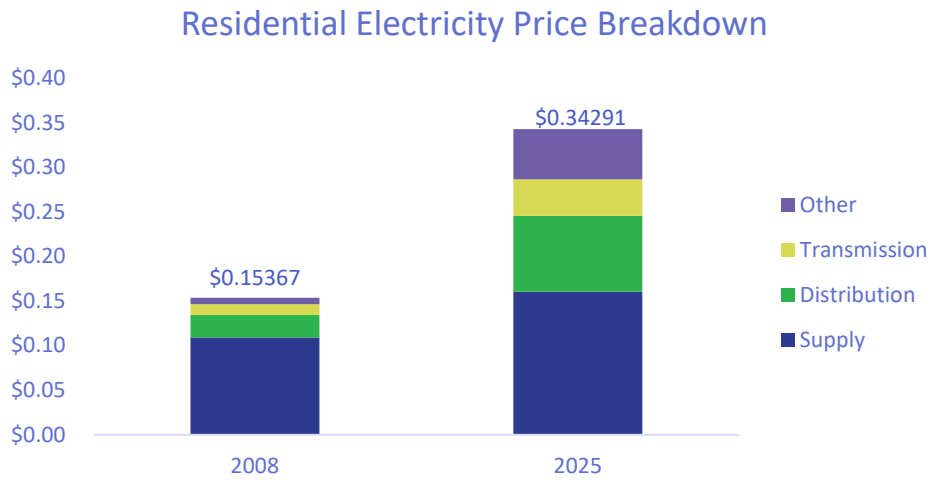
Load Reducing Demand Resources

Decoupling used to promote load reducers

Load reducers as demand resources

Efficiency and conservation incentives

- Increased price signal to conserve
- Mass Save (weatherization, building energy retrofits, etc.)
- Energy Appliance Standards
- Building Energy Codes
- Large Building Energy Reporting



Distributed generation incentives

- Increase price signal to self-supply
- Net metering expansions
- Solar Massachusetts Renewable Target (SMART)
- Interconnection timeline enforcement mechanism
- Provisional system planning program and long-term system planning program

Decoupling used to promote load reducers

Load reducers as demand resources

Lost base revenue for conservation and efficiency

- Revenue deficiency associated with incremental kWh savings from energy efficiency programs
  - Currently, the deficiency of distribution revenues is recovered through the revenue decoupling mechanism
- Under a revenue decoupling mechanism, the EDCs no longer needed to separately account for lost base revenue for any energy savings associated with the Three Year Plans
- Lost base revenue mechanism can be maintained if revenue decoupling is discontinued to replace revenues associated with energy-savings measures through Mass Save (e.g., weatherization, deep energy retrofits, etc)

Revenue displaced from distributed generation

- Revenue deficiency associated with the kWh generated by net metering facilities minus any kWh exports to distribution system
  - Currently, the deficiency of distribution revenues is recovered through the revenue decoupling mechanism
  - Without revenue decoupling, the deficiency would be recovered through the net metering recovery surcharge (NMRS)
- Distribution portion of revenue displaced (DDR) can be maintained if revenue decoupling is discontinued to replace revenues associated with net metering facilities

Closing

Next Steps

Expert Series: Performance Mechanisms

- November 10, 2025 from 1:00-3:30pm

In-person option available – email Chris Connolly at chris.connolly2@mass.gov by EOD Friday, November 7, 2025

Future Task Force Sessions

- Performance Mechanism Expert Presentation: November 10, 2025 from 1:00-3:30pm
- Performance Mechanism Targeted Conversation: November 19, 2025 from 2:00-4:00pm
- Final Debrief: November 24, 2025 from 1:00-3:30pm
  - DOER will present a proposed framework on (1) Rate Design and (2 Ratemaking and Regulatory Mechanisms and invite Task Force participants to provide written comment by December 19, 2025
  - Encourage participants to revisit previous expert session and targeted conversation materials, and connect with DOER ahead of session, particularly if you anticipate submitting written comments