



MASSACHUSETTS
**DEPARTMENT OF
ENERGY RESOURCES**

Multi-Year & Formula-Based Rates

Targeted Conversation | October 8, 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. Performance-Based Regulation in Massachusetts

Massachusetts EDCs

Present on the current application and operation of utilities' revenue cap (I-X) formulas and supporting mechanisms in Massachusetts

II. Multi-Year and Formula-Based Rates

Pacific Economics Group, Mark Newton Lowry

Present on the theory and application of multi-year rate plans and formula-based rates for electric distribution companies

III. Multi-Year Rate Plan and Performance-Based Regulation Approaches

Current Energy Group, Matthew McDonnell

Present an overview of peer jurisdictions that have implemented various PBR revenue adjustment, including MYRPs, ESMs, and approaches to capital expenditure and operation expenditure

IV. Consumer Advocate Perspective on Multi-Year Rate Plans

Maryland Office of People's Counsel, David Lapp

Present analysis and position on multi-year rate plans and formula-based rates, in addition to lessons learned from Maryland's pilot multi-year rate plan

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

Rate regulation fundamentals

Approved revenue requirement is a representative level of the cost to serve for a particular year

← Revenue Requirement (RR) →

$$= O\&M + T + d + (RB * r)$$



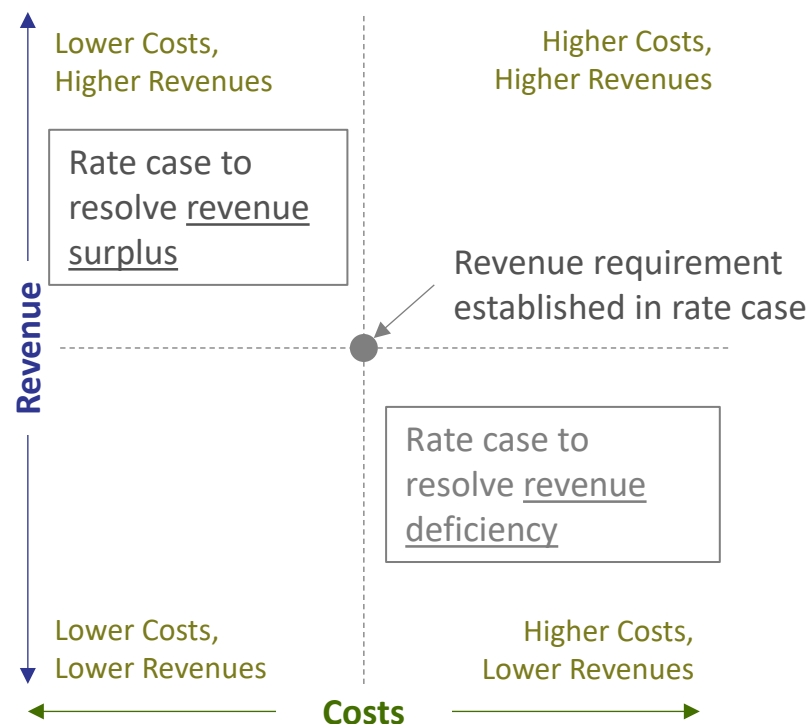
- Rates are established at a level to collect the revenue requirement

← Operating Revenues (OR) →

$$= (\text{customer charge} * \# \text{ of customers}) + \\ (\text{energy (kWh) charge} * \text{energy sales}) + \\ (\text{demand (kW) charge} * \text{billed demand})$$

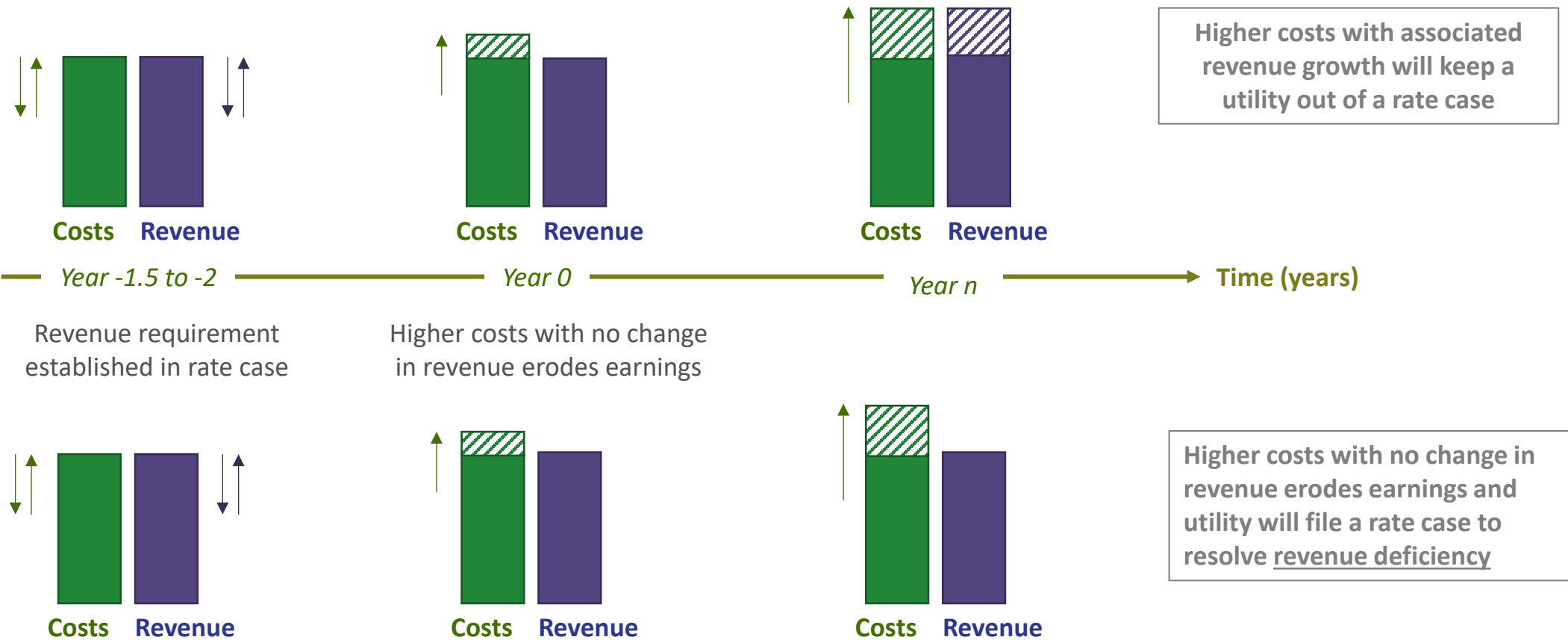


Revenues, costs, and earnings are not guaranteed and will likely be higher or lower than estimated



Traditional rate regulation

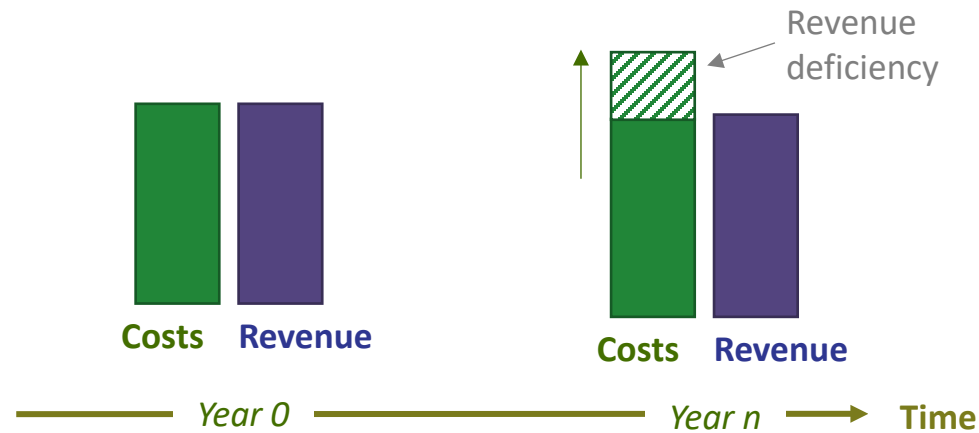
Utilities will generally avoid rate cases when possible, so long as rate levels are providing adequate revenue support



Alternative regulatory mechanisms for providing incremental revenues between rate cases

Regulatory mechanisms designed to address growing cost pressures and investment need

- Utility financial attrition refers to the erosion of earnings over time where revenues do not keep pace with costs
- Revenue adjustment mechanisms provide rate relief between rate cases

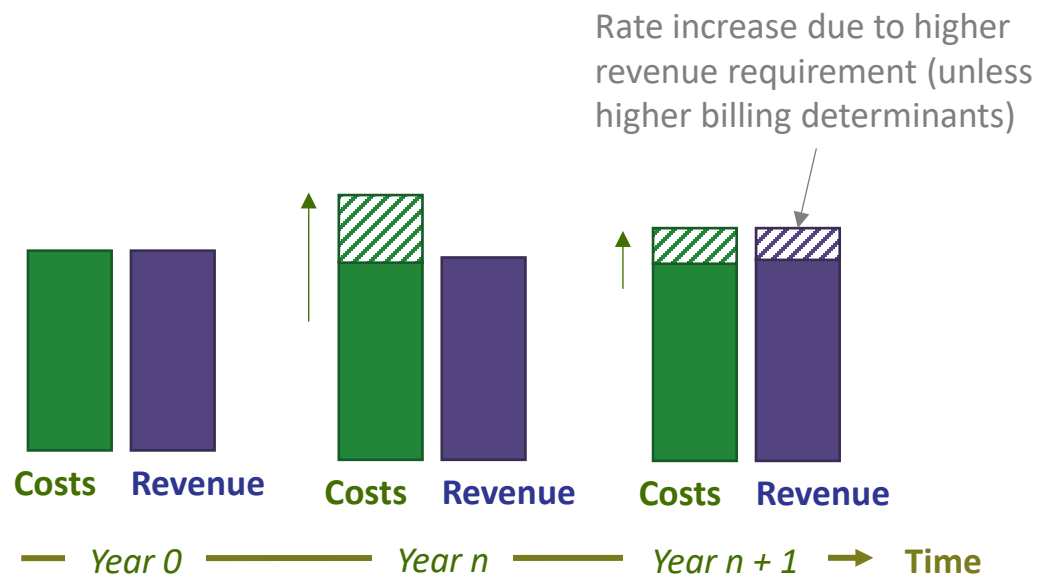


- Several options for addressing revenue attrition (not mutually exclusive):
 - More regular rate cases
 - Broaden revenue opportunities
 - Future test year
 - Multi-year rate plans
 - Capital cost recovery mechanisms
 - I-X regulation (i.e., revenue cap or price cap formulas)
- Alternative regulatory mechanisms that provide incremental revenues accelerate cost recovery and inflate electric rates – cost containment, connection to distribution system planning, utility performance, and prudence review are cornerstones of consumer protection

Regulatory mechanisms to address revenue attrition

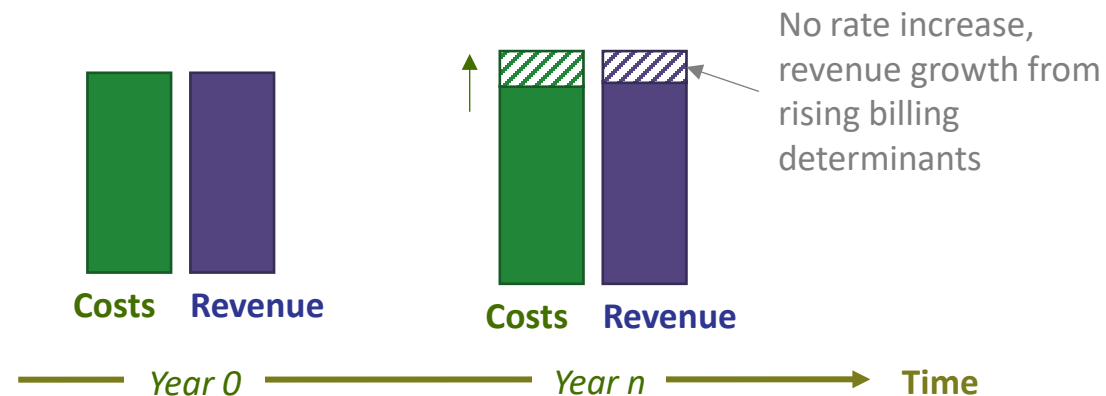
More regular rate cases

- Rate cases provide an opportunity for the utility to demonstrate its revenue deficiency and request a rate adjustment to earn revenues consistent with cost to serve



Broaden revenue opportunities

- Under revenue decoupling, utility does not retain revenue growth from billing determinants
 - New customers, higher electricity use, and growth in billed demand raise additional revenues



- Additional revenue opportunities for the utility that align with customer interest:
 - Operational expenditure/capital expenditure (Opex/Capex) equalization
 - Export tariffs for DERs
 - Etc.

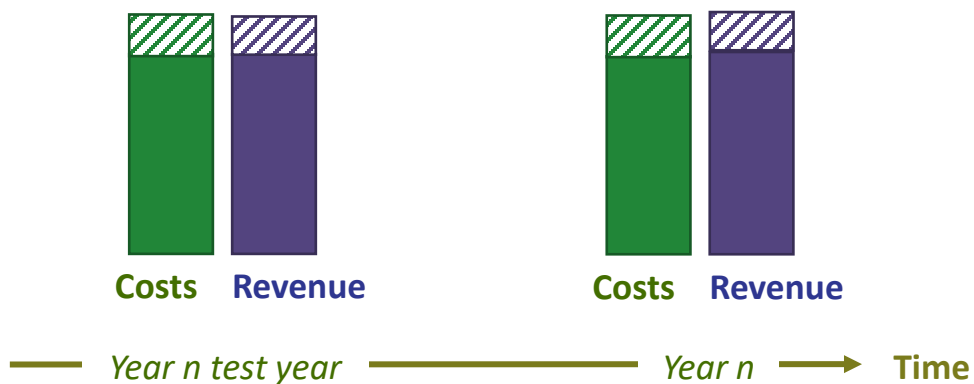
Regulatory mechanisms to address revenue attrition

Future test year

- Future test years reduce the revenue attrition associated with the time between test year and the rate year
- Provides oversight and burden of proof on utility for forecasted costs and expenses

Test year now reflects the costs and revenues estimated for year rates go into effect

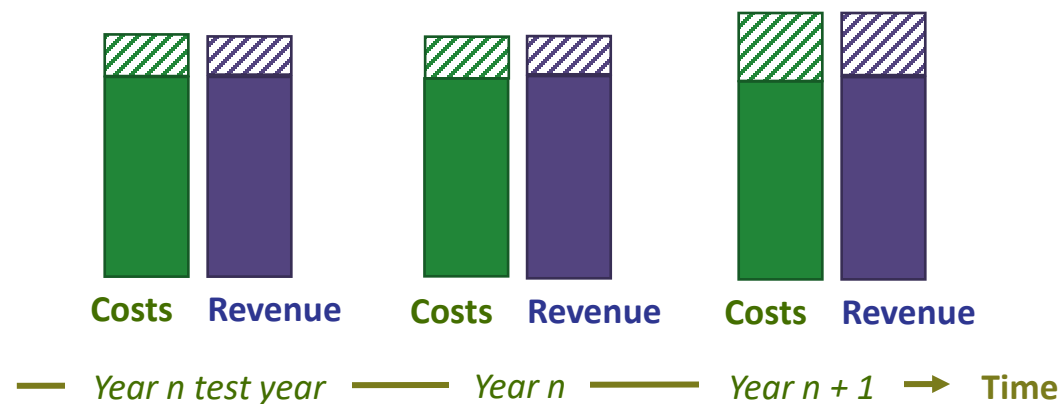
Rates change in year n and reflect estimated costs and revenues in same year



Multi-year rate plans

- Multi-year rate plans can utilize multi-year test years (e.g., Wisconsin) or otherwise forecasted “stairstep” rate increases
- In a rate case, each year’s cost to serve is determined or forecasted and rates are designed to provide utilities earnings opportunity in each year

Multiple test years reflect the estimated costs and revenues for more than one year

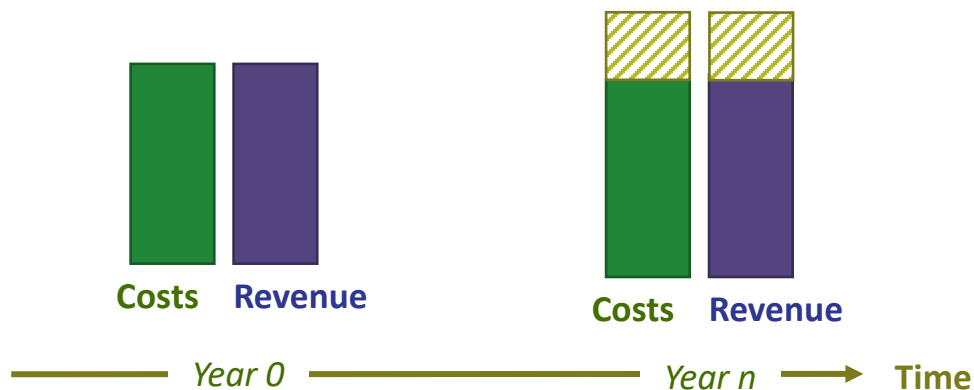


Regulatory mechanisms to address revenue attrition

Capital cost recovery mechanism

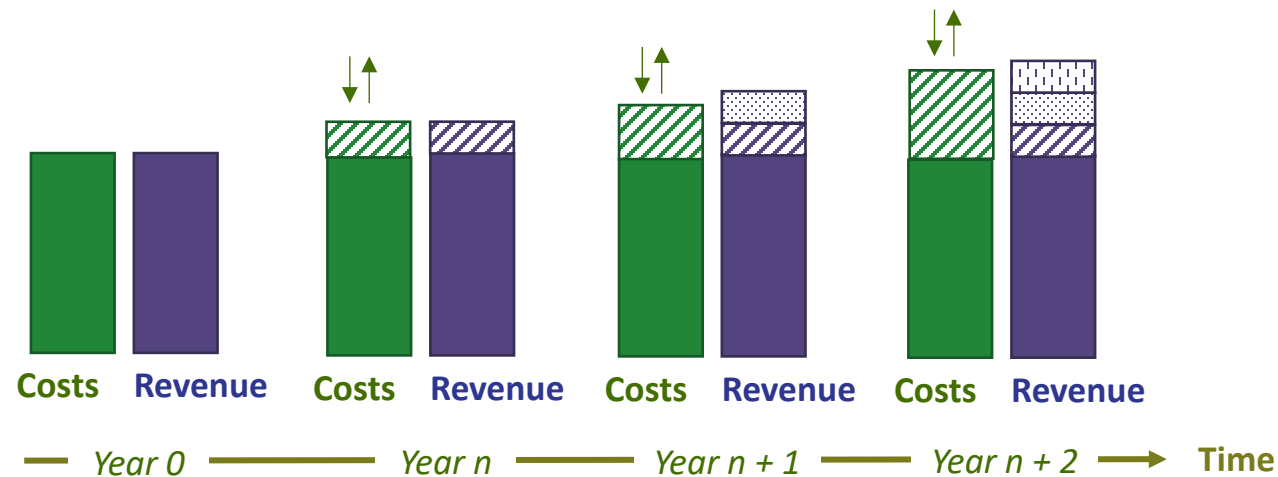
- Capital cost recovery mechanisms operate as a special purpose reconciling mechanism
- The next Rate Task Force topic will discuss capital cost recovery mechanisms further

Capital cost recovery mechanisms typically provide dollar-for-dollar recovery



I-X regulation (i.e., revenue cap or price cap)

- After years of operating various capital cost recovery mechanisms, each electric utility in Massachusetts moved to replace those mechanisms with I-X regulation, particularly revenue-cap formulas
- As opposed to the capital cost recovery mechanisms, revenues and costs are not tracked dollar-for-dollar



I-X Regulation in Practice Today

$$\text{Revenue}_t = (\text{Revenue}_{t-1} * (1 + I_t - X - \text{CD})) + Z_t + \text{ESM}_t$$

		Eversource (revenue-cap)	Unitil (revenue-cap)	National Grid (revenue-cap – O&M only)
Term	Stay-out period	5 years, with option to request 5-year extension	5 years	5 years
I	Measure of inflation	Gross Domestic Product Price Index (GDP-PI), with 5% cap and 0% floor	GDP-PI, with 5% cap and 0% floor	Weighted average of ECI-Northeast Utility Labor Index and Producer Price Index for Electric Utilities, with 5% cap and 0.21% floor
X	Productivity factor	0	0	0.21
CD	Consumer dividend	0.25 when inflation exceeds 2%	0.25 when inflation exceeds 2%	0.40 when inflation exceeds 2%
Z	Exogenous cost mechanism	Individual event must exceed threshold set at \$4 million, adjusted for inflation	Individual event must exceed threshold set at \$110k, adjusted for inflation	Individual event must exceed threshold set at \$3.6 million, adjusted for inflation
ESM	Earnings sharing mechanism	If earnings exceed 100 bps of authorized ROE, 75% will be shared with customers	If earnings exceed 100 bps of authorized ROE, 75% will be shared with customers	If earnings exceed 100 bps of authorized ROE, 75% will be shared with customers

Annual Adjustments of I-X Regulation (i.e., PBR)

Utilities annually file adjustments for DPU review and approval

- Proceedings generally focused on if the utility calculated adjustment in a manner consistent with the DPU’s order and the terms of the PBR tariff
- Additional issues are addressed related to any exogenous events and other incremental capital support mechanisms (e.g., K-Bar and capital cost recovery mechanisms)

Rate Cases* and PBR Adjustments

Eversource

DPU Docket	Rates Effective
17-05*	Jan 2018
18-101	Jan 2019
19-115	Jan 2020
20-96	Jan 2021
21-106	Jan 2022
22-120	Jan 2023
22-22*	Jan 2023
23-92	Jan 2024
24-137	Jan 2025
25-136	Jan 2026

National Grid

DPU Docket	Rates Effective
18-150*	Oct 2019
20-68	Oct 2020
21-74	Oct 2021
22-73	Oct 2022
23-55	Oct 2023
23-150*	Oct 2024
25-73	Oct 2025

Unitil

DPU Docket	Rates Effective
23-80*	Jul 2024
25-25	Jul 2025

Annual Adjustments of I-X Regulation (i.e., PBR)

Eversource

	Jan 2018	Jan 2019	Jan 2020	Jan 2021	Jan 2022	Jan 2023	Jan 2024	Jan 2025	Jan 2026
Target Base Rev. Req. (\$M)	\$956	\$988	\$1,022	\$1,052	\$1,088	\$1,125	\$1,230	\$1,285	\$1,340
PBR Adjustment (%)		3.38%	3.45%	2.97%	3.55%		4.75%	3.02%	2.19%
PBR Adjustment (\$M)		\$32	\$34	\$30	\$37		\$51	\$35	\$25
K-Bar Adjustment							\$54	\$19	\$30

National Grid

	Oct 2019	Oct 2020	Oct 2021	Oct 2022	Oct 2023	Oct 2024	Oct 2025
Target Base Rev. Req. (\$M)	\$826	\$872	\$924	\$968	\$1,034	\$1,125	\$1,142
PBR Adjustment (%)		3.237%	2.709%	5.720%	7.113%		3.190%
PBR Adjustment (\$M)		\$26	\$23	\$44	\$67		\$18
Capex Recovery Mechanism		\$20	\$29				

Unitil

Target Base Rev. Req. (\$M)	\$33	\$34
PBR Adjustment (%)		2.16%
PBR Adjustment (\$M)		\$0.7
K-Bar Adjustment		\$0.9

Closing

Next Steps

Office Hours

- October 15, 2025 from 2-4:00pm

In-person option available – email Chris Connolly at chris.connolly2@mass.gov by EOD Friday, October 10

Expert Series: Decoupling and Capital Recovery

- October 22, 2025 from 1:00-3:30pm

In-person option available – email Chris Connolly at chris.connolly2@mass.gov by EOD Friday, October 17