

December 12, 2000

Stephen Klionsky, Esq.
Western Massachusetts Electric Company
260 Franklin Street - 21st Floor
Boston, MA 02110-4778

Re: Western Massachusetts Electric Company - Default Service Tariff Filing

Dear Attorney Klionsky:

On November 30, 2000, Western Massachusetts Electric Company ("WMECo" or "Company") filed with the Department of Telecommunications and Energy ("Department") its proposed market-based rates for default service for the period beginning January 1, 2001 through June 30, 2001 (WMECo Filing at 1). As required by the directives contained in Default Service Pricing and Procurement, D.T.E. 99-60-A, 99-60-B and 99-60-C, WMECo's proposal contains both a variable pricing option¹ where charges differ by class and month and a fixed pricing option² where charges vary

¹ WMECo's proposed variable default service rates for the months of January through June, 2001 are:

	\$0.09355,
	\$0.09445,
	\$0.07075,
	\$0.06675,
	\$0.06975, and
	\$0.08075 per kilowatt hour ("KWH") for residential

custom
ers;
\$0.092
85,
\$0.093
35,
\$0.070
65,
\$0.066
85,
\$0.072
05, and
\$0.083
95 per
KWH
for
small
comme
rcial
custom
ers;
\$0.092
75,
\$0.093
15,
\$0.070
65,
\$0.066
65,
\$0.071
35 and
\$0.082
45 per
KWH
for
large
comme
rcial
and
industri
al

by class alone.

WMECo's proposed rates result from a competitive solicitation for default service supply that was intended to procure supply for calendar year 2001 (WMECo Filing at 2). WMECo states that it was unable to finalize a contract with the company that was initially selected to be the default service supplier. WMECo states that it subsequently contacted the next lowest bidders, and was able to reach an agreement with a company to provide default service supply for the six-month period beginning

customers;
and
\$0.084
25,
\$0.083
85,
\$0.066
25,
\$0.061
35,
\$0.064
35 and
\$0.069
95 per
KWH
for
outdoor
r
lighting
customers
(WME
Co
Filing

at 3).

² The fixed charges are calculated by weighing retail variable charges by monthly KWH sales percentages based on a forecast of monthly KWH sales (WMECo Filing at Att. 2). WMECo's proposed fixed default service rates are: \$0.08063 per KWH for residential customers, \$0.08033 per KWH for small commercial customers, \$0.07959 per KWH for large commercial and industrial customers and \$0.07222 per KWH for street lighting customers (id.).

January 1, 2001 (id.). WMECo states that this agreement “is the best that can be achieved at present day fuel prices and that the market may be more favorable for the next solicitation ... for the second half of 2001” (id.). Because of this series of events, WMECo states that it was not able to enter into a contact with its default service supplier until November 27, 2000, and is thus unable to meet the 30- and 45-day customer notification requirements set out in D.T.E. 99-60-C at 5-7 (2000).³

WMECo has requested a waiver from the customer notification requirements set out in D.T.E. 99-60-C at 6-7 (2000). In D.T.E. 99-60-C, the Department stated that notification must “appropriately take into account the need for significant advance notice to customers during the initial transition to market-based default service prices.” Id. at 6. The Department recognizes that, unlike other electric distribution companies, WMECo’s default service rates have been market-based for the past year. However, WMECo’s proposed rates for default service are significantly higher than its current rates. In order to implement WMECo’s new default service pricing for January 1, 2001, default service customers would receive, at most, no more than 14 days advance notice of the new default service prices, which may not provide customers with sufficient time to investigate their competitive options or take other steps to mitigate the effects of the price increase.

While we recognize that WMECo used its best efforts to secure the lowest-cost default service supply in a timely manner, the present circumstances do not justify such a significant departure from the customer notification requirements. Therefore, the Department does not accept WMECo’s request for a waiver from the customer notification requirements. The Department directs WMECo to charge the currently approved rate for default service for the month of January, 2001. After compliance with all applicable customer notification requirements, WMECo may begin charging the new default service rates for electricity consumption on and after February 1, 2001.

The Department now addresses two issues associated with WMECo’s proposed default service rates. First, WMECo proposes to establish separate default service prices for its street lighting customers, based on the results of its competitive solicitation. The Department has often stated the objective of establishing default service prices that send appropriate price signals to customers and competitive supplier regarding the underlying costs of providing default service to customers: “Default service prices that do not represent the actual costs of providing the service would inhibit the

³ Electric distribution companies are required, for the initial transition to market-based rates, to send notice of new default service rates to its customers by direct mail 30 days prior to the effective date of the new rates. In addition, the electric distribution companies are required to post on their Web sites and on a toll-free telephone number their default service prices 45 days prior to implementation. D.T.E. 99-60-C at 5-7 (2000). The Department has the discretion to shorten the 45-day notice period if, in our judgment, circumstances so warrant. Id.

development of a competitive generation market.” D.T.E. 99-60-A at 9. Consistent with this objective, the Department directed distribution companies to solicit separate bid prices for three groups of customers classes (residential, commercial, and industrial) in order to determine whether there are significant cost differences associated with providing default service to the different customer classes. D.T.E. 99-60-B, at 12-14. The Department stated that street lighting customers should be included in the commercial category for the purpose of soliciting bid prices for different customer groups. Id. at 14, n.14. Notwithstanding the Department’s directive, WMECo’s solicitation called for bidders to submit separate prices for street lighting customers, which produced default service prices for this customer class that are significantly lower than the prices for the other classes. Allowing WMECo to implement separate prices for its street lighting customers is consistent with our objective of establishing cost-based default service prices. Therefore, the Department accepts WMECo’s proposal to establish a separate default service price for its street lighting customers.⁴

Second, under WMECo’s competitive solicitation, bidders were instructed to determine their bid prices by applying a single adjustment factor for all customer classes to account for the difference between the wholesale electricity that is delivered and metered at the default service supplier’s delivery point,⁵ and the retail electricity that is delivered and metered at customers’ homes and facilities (WMECo Filing, Att. 1, at 9).⁶ This approach is inconsistent with the Department’s recently stated policy that “adjusting the wholesale supply prices by customer-class-specific line loss adjustment factors best satisfies the objective of establishing market-based prices that represent the actual costs of providing default service to each customer class.” See Letter to Fitchburg Gas and Electric Company,

⁴ The Department notes that the situation presented by WMECo’s proposal differs from that recently presented by Fitchburg Gas and Electric Company, for which the Department rejected a proposal to establish separate default service prices for its outdoor lighting customers. See Letter to Fitchburg Gas and Electric Company, November 22, 2000 at 4. Unlike WMECo, Fitchburg’s competitive solicitation did not submit default service supply prices that differed among customer classes -- Fitchburg’s proposal to establish separate default service prices for its outdoor lighting customers was based solely on distribution line losses attributed to that customer class.

⁵ The delivery point for the default service supplier is the point where WMECo’s local transmission and distribution system interconnects with the regional transmission system operated by the Independent System Operator - New England (WMECo Filing, Attachment 1, at 3).

⁶ This adjustment factor, which WMECo refers to as the “delivery efficiency factor,” includes line losses as well as other factors that contribute to the difference between wholesale and retail meter reads (WMECo Filing, Attachment 1, at 9).

November 22, 2000 at 4. However, the Department will not require WMECo to revise its proposed default service prices to account for customer-class-specific line loss adjustment factors for this solicitation, because 1) its solicitation process was designed and underway before the Department's policy was established, and 2) to do so would require allowing bidders the opportunity to revise their bid prices to take into account the different adjustment factors. The Department directs

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WMECo, in future default service price solicitations, to use customer-class-specific line loss adjustment factors in the calculation of its default service prices.

Sincerely,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner