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Massachusetts Department of Public Utilities to Investigate Revenue Decoupling and Alternative Rate Structures

The Massachusetts Department of Public Utilities (“DPU” or “Department”) has launched an important investigation to evaluate gas and electric utility revenue decoupling in Massachusetts. The DPU’s kick-off order also seeks comments on a “straw proposal” under which utilities could recover revenues otherwise lost due to implementation of energy efficiency, demand reduction, and distributed resource programs.

The goal of DPU’s proposal is to reduce disincentives for utilities to foster energy efficiency and demand-reduction programs. The proposed mechanism is to “decouple” the relationship between utility sales and profits so that reduced sales and revenues do not automatically reduce profits. Wholesale generators, demand response providers, energy efficiency enterprises, renewables companies, and other major stakeholders may wish to participate in the Department’s proceeding in order to present their views on whether and/or how to incentivize utilities to promote energy efficiency and demand-reduction.

In its order issued on June 22, 2007 as D.P.U. No. 07-50, the Department expressed concern that existing rate structures may not properly incentivize utilities to implement efficiency and demand-response programs. Instead, current rate designs may encourage utilities to avoid actions that would lower revenues and profits by reducing demand or increasing efficiency. Thus, the Department notes, existing utility rate structures may be inconsistent with policy goals such as promoting efficient use of resources, enhancing price responsiveness of wholesale markets, and mitigating risks of climate change and other environmental impacts associated with energy production.

In order to “better align” utility incentives with energy efficiency and

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demand-resource goals, the straw proposal would compare actual versus allowed revenues per customer and either credit or collect any differences between actual and allowed revenues in subsequent periods following DPU review. The true up would allow utilities to capture revenues that would otherwise be unrecovered due to the implementation of energy efficiency/demand reduction programs.

The straw proposal provides for:

- a base revenue filing, including determination of actual and allowed revenues and an annual reconciliation of actual revenues with allowed revenues;
- a mechanism to recover a fixed amount of revenues per customer class (to align revenues with “a significant driver of utility costs—the number of customers”);
- the evaluation of a utility’s risk profile (distribution of risk among the company, shareholders, and customers) given changes from traditional rate making and the implementation of a new recovery mechanism;
- a shared earnings provision that creates a deadband around the allowed return on equity;
- revision of existing performance-based regulation plans;
- termination of lost base revenue programs; and
- an implementation schedule.

Participants in the proceeding are invited to comment on the straw proposal generally and on other issues “related to the investigation” not otherwise addressed. In addition, participants are specifically asked to comment on the base revenue mechanism, the allowed revenues per customer, the nature and timing of the reconciliation calculation, annual base rate adjustments, changes in risk, shared earnings, performance based regulation, shareholder incentives, and implementation. The Department may welcome comments on whether decoupling is warranted and to what extent existing programs (*e.g.*, lost revenues), industry restructuring, the competitive wholesale market, cost-based ratemaking, advanced distribution monitoring/management, and metering technologies/controls may impact its straw proposal.

Comments are due August 10, 2007, and public hearings are expected during the weeks of September 17 and September 24, 2007. The Department plans to organize several panels for comments at the hearings (the panels present an additional opportunity to introduce additional information). Potential participants on the panels are instructed to notify the Department of their interest by the August 10th

deadline.

This proceeding certainly will generate intense interest as the Patrick administration begins to implement its energy policy. The DPU's investigation is the start of a major initiative to implement conservation-related programs in Massachusetts. Participants will have a unique opportunity to shape the important debate on what mechanisms the Department may require to promote energy efficiency and reduce demand, and at what cost.

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