

The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 23-50

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Investigation by the Department of Public Utilities on its own Motion into the Provision of Basic Service.

VOTE AND ORDER OPENING INVESTIGATION

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I. INTRODUCTION

During the past year, Massachusetts electricity customers have experienced significant increases in basic service rates.¹ These increases are the result of wholesale energy market dynamics including the conflict in Ukraine and regional natural gas transportation constraints for electric generation, as well as uncertainty in customer load. See, e.g., Fitchburg Gas and Electric Light Company, D.P.U. 22-BSF-A4, Order Approving Modified Procurement Schedule and Alternative Procurement and Pricing Plan at 1, 3, 7, 9 (September 14, 2022). The increases in basic service rates are distinct from changes in the rates customers pay to the Commonwealth's electric distribution companies² to deliver electricity; these distribution rates are fully regulated by the Department of Public Utilities ("Department").³ Nonetheless, the Department is very concerned about basic service rate impacts on customers and is

¹ Basic service electricity rates refer to the rates charged for electricity supply by electric distribution companies to their customers that are not served by a licensed competitive supplier, including customers served by a competitive supplier in a municipal aggregation program. 220 CMR 11.02. Electric distribution companies do not earn a return on or derive a profit from providing basic service. See G.L. c. 164, § 1B(d); Pricing and Procurement of Default Service, D.T.E. 02-40-B at 15-18 (2003).

² The electric distribution companies that are subject to the Department's jurisdiction are: Fitchburg Gas and Electric Light Company d/b/a/ Unitil ("Unitil"), Massachusetts Electric Company and Nantucket Electric Company each d/b/a/ National Grid ("National Grid"), and NSTAR Electric Company d/b/a Eversource Energy ("NSTAR Electric" which is comprised of "Eversource East" and "Eversource West" service territories).

³ The Department fully regulates the rates charged by the distribution companies for the local delivery of electricity to retail customers.

committed to exploring any opportunity to mitigate such increases due to their effects on customers. Concurrent with these rate increases, the distribution companies have experienced declining participation by wholesale suppliers in basic service solicitations, with potential negative impacts for customers. To address these issues, the Department opens this investigation into the procurement and pricing of basic service. This Order provides further background on these issues and, to facilitate discussion, sets forth a straw proposal for ways in which the Department could consider modifying its existing basic service procurement and pricing policies to better serve customers.

II. BACKGROUND

In 1997, the Massachusetts Legislature changed the manner in which electric service is provided to customers in the Commonwealth with the enactment of the Electric Restructuring Act.⁴ In the restructured electric industry, customers have the option of selecting an entity other than their distribution company to provide the supply component of retail electric service. For customers that do not select a competitive entity to provide their retail electric supply service, the electric distribution companies provide basic service.⁵

⁴ “An Act Relative to Restructuring the Electric Industry in the Commonwealth, Regulating the Provision of Electricity and Other Services, and Promoting Enhanced Consumer Protection Therein.” St. 1997, c. 164.

⁵ The Electric Restructuring Act uses the term “default service” rather than “basic service.” St. 1997, c. 164, § 187. In Default Service Procurement, D.T.E. 04-115-A (2005), the Department determined that the term “default service” was confusing some customers because of its unintended suggestion of nonfeasance. D.T.E. 04-115-A at 4. The Department found that the term “basic service” appropriately defines the nature of the service being provided by the distribution

The Electric Restructuring Act requires: (1) that each distribution company provide basic service; (2) that basic service be competitively procured; (3) that the basic service rate “shall not exceed the average monthly market price of electricity;” and (4) that bids to supply basic service “shall include payment options with rates that remain uniform for periods of up to six months.” G.L. c. 164, § 1B(d). In 1999, the Department opened an investigation into the pricing and procurement of basic service in order to determine the average monthly market price of electricity and to determine how this price should be incorporated in the basic service rate. Pricing and Procurement of Default Service, D.T.E. 99-60 (1999). In 2002, the Department opened a second investigation into the pricing and procurement of basic service in order to ensure that the manner in which basic service is provided is compatible with the development of an efficient competitive market in Massachusetts. Pricing and Procurement of Default Service, D.T.E. 02-40 (2002). The Department specifically evaluated policies in the following three areas: (1) the price components to be included in basic service rates, including administrative and bad debt costs and the effects of locational marginal pricing; (2) basic service pricing options; and (3) procurement schedules and strategies. D.T.E. 02-40, at 5-6. The basic service procurement and pricing policies

companies without being confusing, misleading, or anticompetitive. Thus, the Department directed the distribution companies to refer to the service provided by it after March 1, 2005 as “basic service.” Subsequent legislation added the definition of basic service. See St. 2008, c. 169, § 57; G.L. c. 164, § 1. Throughout this Order, we use the term basic service rather than default service.

established by the Department in the D.T.E. 02-40 proceeding remain in effect (see Section III, below).

In 2015, the Department opened an investigation into the provision of basic service in response to significant increases seen in basic service rates during the preceding winter months. Provision of Basic Service, D.P.U. 15-40 (2015). The Department set forth potential modifications to the basic service procurement policies established in the D.T.E. 02-40 proceeding (see Section IV, below).

III. EXISTING BASIC SERVICE PROCUREMENT AND PRICING POLICIES

A. Procurement of Supply

The distribution companies procure basic service supply separately for their residential customers, small commercial and industrial (“C&I”) customers, and large C&I customers.⁶ D.T.E. 99-60-B at 12-14. For their residential and small C&I customers, the distribution companies procure supply through competitive solicitations, which are conducted every six months to procure 50 percent of the supply requirement for a twelve-month period. D.T.E. 02-40-B at 44-45. Table 1, below, identifies each distribution company’s twelve-month procurement period.

In each solicitation for residential and small C&I customers, the distribution companies procure supply for two consecutive six-month basic service periods for each ISO New England Inc. (“ISO-NE”) load zone in which its service territory is located.

⁶ Unitil, however, procures basic service supply jointly for its residential and small C&I customers. D.T.E. 99-60-B at 14.

D.T.E. 02-40-A at 8-11; D.T.E. 02-40-B at 44-45. For each six-month period, the distribution companies divide the procurement into blocks of supply, with each block representing a specified percentage of the total supply being procured for the period (residential or small C&I) and for each ISO-NE load zone in which its service territory is located.⁷ See, e.g., NSTAR Electric Company, D.P.U. 22-BSF-C2, App. A at 4-5 (May 20, 2022). For example, for each load zone, Eversource East divides its residential procurement into four blocks of 12.5 percent, totaling 50 percent, and divides its small commercial procurement into two blocks of 25 percent, totaling 50 percent. Since Eversource East operates in two load zones, the total number of load blocks per procurement for each six-month period is twelve. Wholesale suppliers must identify a bid price for each month of the applicable six-month period and for the block(s) for which they seek to provide supply.

D.T.E. 99-60-A at 6-9.

For their large C&I customers, the distribution companies, with one exception, procure supply through competitive solicitations conducted every three months to procure 100 percent of the supply requirement for each ISO-NE load zone in which its service

⁷ The Commonwealth has three ISO-NE load zones, Northeast Massachusetts (“NEMA”), Southeast Massachusetts (“SEMA”), and West/Central Massachusetts (“WCMA”). National Grid’s service territory is located in all three load zones. Eversource East’s service territory is located in the NEMA and SEMA load zones. Eversource West’s and Unitil’s service territories are located entirely in the WCMA load zone.

territory is located.⁸ D.T.E. 02-40-C at 20-22. As with the solicitations for residential and small C&I supply, (1) the distribution companies divide the procurement into blocks of supply (with each block representing a specified percentage of the total supply being procured for the three-month period in each load zone in which its service territory is located), and (2) wholesale suppliers must identify a monthly bid price for the block(s) for which they seek to provide supply. D.T.E. 99-60-A at 6-9.

B. Basic Service Rates

The distribution companies currently offer two pricing options to their basic service customers: (1) a monthly variable rate that is based on the monthly bids submitted by the winning bidders for each customer class⁹ and (2) a six-month (for residential and small C&I customers) or three-month (for medium and large C&I customers) fixed rate that is calculated as the weighted average of the monthly rates.¹⁰ D.T.E. 99-60-A at 6-10; D.T.E. 02-40-C at 20-22. For residential and small C&I customers, the six-month fixed rate serves as the default option; while for medium and large C&I customers, the monthly variable rate serves

⁸ The exception is Unitil, which procures basic service supply for its large C&I customers directly from the wholesale markets administered by ISO-NE. Fitchburg Gas and Electric Light Company, D.P.U. 11-16 (2012).

⁹ For residential and small C&I customers, the monthly rates are based on the winning monthly bids in the two preceding solicitations in which 50 percent of the basic service supply was procured for the month. D.T.E. 02-40-B at 44-45.

¹⁰ The basic service rate is set as a “pass through” of the wholesale and retail market costs that the distribution companies incur in providing basic service to customers. As noted above, the distribution companies do not earn a return on or derive a profit from providing basic service. See G.L. c. 164, § 1B(d); D.T.E. 02-40-B at 15-18.

as the default option. D.T.E. 99-60-B at 6-10; see also D.T.E. 02-40-B at 33-34. All customers can change their pricing option. D.T.E. 02-40-B at 33-34. Table 1, below, identifies the months included in each six-month fixed-rate period.

Table 1 – Twelve-Month Procurement Periods and Six-Month Fixed-Rate Periods

Company	Twelve-Month Procurement Period	Six-Month Fixed-Rate Periods
National Grid	November through October	November through April
		May through October
NSTAR Electric	January through December	January through June
		July through December
Unitil ¹¹	December through November	December through May
		June through November

C. Reconciliation of Cost Over- and Under-Recoveries

The distribution companies currently reconcile under- and over-recoveries of basic service costs during each pricing period from all distribution customers. D.T.E. 99-60-C at 10, 13. The Department determined that basic service cost over- and under-recoveries should be spread among all distribution customers for two reasons: (1) basic service acts as insurance for customers who enter the competitive market, and thus all customers benefit

¹¹ The Department notes that, on a going forward basis, Unitil’s six-month rate periods will be February through July, and August through January. Consistent with this, its twelve-month procurement period will be February through January. Fitchburg Gas and Electric Light Company, D.P.U. 22-BSF-A4, Order on Alternative Procurement and Pricing Plan at 11 (September 14, 2022).

from the safety net provided by the existence of basic service and (2) although the basic service reconciliation ideally should be recovered from, or refunded to, the customers that cause the costs, it is difficult to do so because the number of customers on basic service at one time may change. D.T.E. 99-60-C at 13.

IV. D.P.U. 15-40

As stated above, the Department opened an investigation in 2015 into the provision of basic service in response to significant increases seen in basic service rates during the then-preceding winter months, and declining participation by wholesale suppliers in basic service solicitations. D.P.U. 15-40, at 1.¹² As discussed below, the investigation followed an instance where a distribution company was unable to secure any bids for a portion of its basic service supply. The Department put forth the following potential changes to basic service procurement to address these issues: (1) increase the number of solicitations in which the distribution companies procure basic service supply for residential and small C&I customers, in an effort to provide greater rate stability for customers; (2) provide the distribution companies with greater discretion to structure their basic service supply procurement practice in responses to market conditions, in an effort to reduce rates; (3) change the existing “all requirements” obligation (i.e., by procuring fixed amounts of supply), in order to insulate suppliers from fluctuations in basic service load and thus reduce supplier risk; and

¹² The Department noted that declining supplier participation applied particularly to solicitations for medium and large C&I customers. D.P.U. 15-40, at 1.

(4) procure basic service supply directly from the ISO-NE wholesale energy markets.

D.P.U. 15-40, at 10-12.

The Department has not issued any final determination in D.P.U. 15-40. Due to various factors, including changes in initial circumstances, the proceeding has been inactive since July 2016. With the passage of time and emerging events in the energy markets, the Department has determined that it is appropriate to close D.P.U. 15-40 and open a new investigation into basic service issues in this proceeding. Accordingly, the Department closes our investigation in D.P.U. 15-40.

V. DISCUSSION

A. Failed Solicitations

The distribution companies' solicitations for basic service supply require that wholesale suppliers take on an "all-requirements" obligation, which means that the suppliers are responsible for procuring all of the wholesale products and services required to fully serve the basic service load included in the block(s) for which they were selected.

D.T.E. 02-40-B at 8, 15. Accordingly, suppliers incorporate into their bid prices the costs they project to incur to procure those products and services during the applicable period, as well as risk premiums that take into account variations in both future wholesale costs (price risk) and basic service load (volume risk). D.T.E. 02-40-B at 8.

Wholesale costs to supply basic service customers are comprised primarily of energy and forward capacity from the wholesale markets.¹³ Wholesale energy costs can vary significantly from the time that suppliers submit bids to the time they actually supply the energy to meet their basic service load obligation.¹⁴ Basic service suppliers face both price risk and volume risk under all-requirements contracts. Historically, suppliers have been able to hedge risks by including premiums in their bid prices that the distribution companies have found to be reasonable. However, as discussed below, the abnormally high wholesale energy price volatility that Massachusetts (and the world) has experienced during the prior year has presented suppliers with significantly higher levels of risk that required them to either include extraordinarily high risk premiums in their bid prices (premiums that, as discussed below, the distribution companies have in several instances found to be unreasonable) or refrain from responding to basic service solicitations. See, e.g., NSTAR Electric Company,

D.P.U. 22-BSF-C4, Order Approving Alternative Basic Service Procurement and Pricing

¹³ Energy and capacity costs comprise greater than 95 percent of total wholesale costs that apply to competitive suppliers (this does not include transmission-related costs). For example, in 2021, total wholesale costs that apply to competitive suppliers were equal to \$8.5 billion, of which \$8.3 billion were associated with energy (\$6.1 billion) and capacity (\$2.2 billion) costs. The remaining wholesale costs are associated with, among other things, the provision of ancillary services. ISO-NE 2021 Annual Markets Report at 7-8.

¹⁴ Wholesale capacity costs vary far less than wholesale energy costs because they are determined through ISO-NE's Forward Capacity Market, which, in large part, identifies such costs through Forward Capacity Auctions that are conducted well in advance (i.e., three years) of the time that suppliers must project these costs in submitting their bids.

Plan at 4, 9-10 (December 22, 2022). In addition to high and volatile energy prices, the growth of municipal aggregation programs and the uncertainty of program start dates has increased the basic service load risk. See, e.g., D.P.U. 22-BSF-A4.

Prior to 2022, the distribution companies were, with one exception, able to successfully procure all-requirements supply contracts from wholesale suppliers.¹⁵ During 2022, there were numerous instances in which the distribution companies were not able to fully procure supply for a customer class through their solicitations. Specifically, of the 14 total solicitations the distribution companies conducted during 2022,¹⁶ a distribution company was unable to fully procure the supply in seven solicitations (see Table 2, for a list

¹⁵ The exception was for Western Massachusetts Electric Company (now NSTAR Electric's Eversource West territory), which received no bids in response to a 2014 solicitation for its large C&I customers and subsequently procured basic service supply for these customers directly from the wholesale markets administered by ISO-NE. Western Massachusetts Electric Company, D.P.U. 14-BSF-B2, Stamp-Approved Alternative Procurement Plan (May 22, 2014).

¹⁶ National Grid, Eversource East, and Eversource West each conducted four basic service supply solicitations during 2022 (four included large C&I customers and two included residential and small business customers). D.P.U. 22-BSF-D1; Massachusetts Electric Company and Nantucket Electric Company, D.P.U. 22-BSF-D2 (June 14, 2022); Massachusetts Electric Company and Nantucket Electric Company, D.P.U. 22-BSF-D3 (September 21, 2022); Massachusetts Electric Company and Nantucket Electric Company, D.P.U. 22-BSF-D4 (November 16, 2022); NSTAR Electric Company, D.P.U. 22-BSF-C1 (February 18, 2022); NSTAR Electric Company, D.P.U. 22-BSF-C2 (May 20, 2022); NSTAR Electric Company, D.P.U. 22-BSF-C3 (August 19, 2022); D.P.U. 22-BSF-C4; NSTAR Electric Company, D.P.U. 22-BSF-B1 (February 11, 2022); NSTAR Electric Company, D.P.U. 22-BSF-B2 (May 13, 2022); NSTAR Electric Company, D.P.U. 22-BSF-B3 (August 12, 2022); NSTAR Electric Company, D.P.U. 22-BSF-B4 (November 14, 2022). Until conducted two solicitations during 2022 for its residential and small C&I customers. D.P.U. 22-BSF-A2; D.P.U. 22-BSF-A4.

of failed procurements). In four of these solicitations, the distribution company did not procure supply for one or more blocks because it determined that the bid prices for the block(s) were substantially higher than the expected price the company had calculated for the block, based on New York Mercantile Exchange (“NYMEX”) futures energy prices for the applicable period, and its projections of wholesale capacity costs, ancillary services costs, and other wholesale costs. In the other three solicitations, the distribution company did not receive any bids for one or more of the blocks. Massachusetts Electric Company and Nantucket Electric Company, D.P.U. 22-BSF-D1, Stamp-Approved Basic Service Filing (March 22, 2022); Fitchburg Gas and Electric Light Company, D.P.U. 22-BSF-A2, Order on Alternative Procurement and Pricing Plan at 11 (March 21, 2022); D.P.U. 22-BSF-A4.

As stated in Section III, above, for residential and small C&I customers, the distribution companies solicit supply twice per year each for 50 percent of their expected load requirements over a twelve-month period. For large C&I customers, distribution companies solicit supply for 100 percent of projected load for a three-month period (except Unitil). In the instances in which a solicitation for these customer classes failed because a distribution company was unable to fully procure the first 50 percent of supply for a given six-month rate period, the distribution company informed the Department of its intention to attempt to procure the supply in its upcoming solicitation (for large C&I customers). No further regulatory process was required. In contrast, in the instances in which a solicitation for large C&I customers failed, or a solicitation for residential and small C&I customers failed because a distribution company was unable to fully procure the second 50 percent of supply for the

upcoming six-month period, the distribution company was required to develop and petition the Department for approval of alternative procurement and pricing plans for the upcoming six-month fixed-rate period, under tight time constraints. This required the Department to issue a notice of filing, solicit public comment, and review the proposed alternative plans on an expedited basis. These reviews create an administrative burden for the Department, the distribution companies, and interested persons.

Because of the time sensitive nature of the competitive procurement process, the distribution companies keep the Department and the Attorney General informed of their basic service solicitations. The following is an example of the solicitation process used during 2022:

- A distribution company receives bid responses on or about the 15th of a month for a basic service period commencing on the first day of the month following the solicitation date (for example, December 15th bid response for basic service period beginning February 1st).
- If, upon reviewing its bid responses, the distribution company determines that the solicitation is successful, the distribution company will notify the Department and the Attorney General and make its basic service filing with the Department within three days of the solicitation response.
- The Department then has five business days to review and approve the distribution company's basic service filing. Once a basic service solicitation and rate filing is approved, the Department requires the distribution company to provide its basic service customers with 30 days' notice before the new rates take effect.
- If, however, upon reviewing bid responses (or if there are no bid responses) the distribution company determines that the solicitation has failed, the distribution company will notify the Department and the Attorney General, and file with the Department a petition for approval of an alternative basic service procurement and pricing plan (which also includes requests for waivers from Department requirements) supported by prefiled testimony and exhibits.

- Such petitions are typically filed within five to ten days after the bid responses are received.
- Once filed, the Department notices such petitions for public comment (typically allowing only ten business days to accommodate the constrained review period).
- The distribution company typically requires a Department Order on its petition three business days before the start of the basic service period.

As this example demonstrates, the time for comment, review, and issuing an Order on a petition for an alternative procurement and pricing plan is compressed in order to accommodate the wholesale energy markets. Table 2 lists the failed basic service procurements during 2022; the cited dockets support the typical solicitation scenario described above. The procedural history of these proceedings demonstrates the necessary, expedited review of any alternative procurement proposal due to a failed basic service solicitation.

Table 2 - Failed Basic Service Procurements in 2022 by Customer Class

Company	Docket	Customer Class/ Procurement Period	Reason for Failure	Outcome
National Grid	22-BSF-D4	Large C&I NEMA/ February 2023 - April 2023	High bid prices	Self-supply
National Grid	22-BSF-D3	Large C&I NEMA/ November 2022 - January 2023	High bid prices	Self-supply
		Residential and Small C&I/ November 2022 – April 2023	High bid prices	Re-bid in later procurement
National Grid	22-BSF-D1	Residential and Small C&I/ May 2022 – October 2022	No bids received	Re-bid in later procurement
Eversource East	22-BSF-C4	Large C&I NEMA/ January 2023 -March 2023	High bid prices	Self-supply
Eversource East	22-BSF-C3	Large C&I NEMA/ October 2022 -December 2022	High bid prices	Self-supply
Until	22-BSF-A4	Residential and Small C&I/ December 2022 - July 2023	No bids received	Self-supply
Until	22-BSF-A2	Residential and Small C&I/ December 2022 – July 2023	No bids received	Re-bid in later procurement

To eliminate the administratively burdensome process currently associated with failed solicitations, the Department sets forth below a proposal in Section VI, below, to establish

(1) uniform criteria by which the distribution companies would define a failed solicitation and

(2) a uniform procurement and pricing approach that the distribution companies would implement in instances of failed solicitations. The Department’s objective is to establish a process for the filing and review of failed solicitations that is as effective and efficient as the current process for successful solicitations.

B. Rate Differences Between Fixed-Rate Service Period and Among the Distribution Companies

As discussed in Section III, above, each distribution company establishes a fixed-rate period for which the basic service rate is calculated as the average of the monthly rates included in the period. D.T.E. 99-60-B at 15-16. For residential and small C&I customers, for which the distribution companies establish two fixed-rate periods, each company includes the months of January and February in the same period (see Table 1, above). In recent years, January and February have been the months in which wholesale electricity prices are highest.¹⁷ As shown in Table 3, below, this has led to significant differences in basic service rates between each distribution company's fixed-rate periods. Specifically, the fixed-rate "Winter" periods that include the months of January and February have had significant higher rates than the "Summer" periods that do not.

¹⁷ See <https://www.mass.gov/info-details/basic-service-information-and-rates> for monthly basic service rate history. Wholesale energy prices are a primary factor for variations in the monthly basic service rates.

Table 3 - Residential Basic Service Rates, Cents / kWh

	National Grid		Eversource East		Eversource West		Unitil	
	Winter	Summer	Winter	Summer	Winter	Summer	Winter	Summer
2022	33.891	11.491	25.649	17.871	21.864	15.348	17.810	13.436
2021	14.821	9.707	15.764	10.753	13.731	9.468	15.298	9.554
2020	12.388	9.898	11.795	9.877	10.708	9.020	11.239	9.300
2019	13.982	10.793	12.517	10.836	11.666	9.851	12.388	9.980

To minimize the significant changes in basic service rates that customers currently experience between Winter and Summer fixed-rate periods, the Department proposes that each distribution company place the monthly rates for January and February into separate periods. As discussed in the Section VI.C below, this will require the distribution companies to adopt the same six-month fixed-rate periods, which will serve to minimize the differences in basic service rates that historically have occurred across the distribution companies.

VI. DEPARTMENT PROPOSAL

A. Introduction

As described above, basic service supply solicitations during the past year have led to record high rates and, in some cases, failed procurements that required the Department to review and approve alternative procurement and pricing plans in a compressed time period. In addition, the months included in the distribution companies' fixed-rate periods have contributed to significant differences in basic service rates between the two periods, as well as differences across the distribution companies. Below, the Department presents a proposal

for modifications to the existing basic service procurement and pricing policies that focuses on (1) alleviating the burdensome regulatory process that has resulted from recent failed solicitations and (2) lessening the differences in basic service rates between fixed-rate periods and across the distribution companies. As discussed below, the proposed modifications are derived in large part from the procurement and pricing alternatives that the distribution companies have proposed (and the Department has approved) during the past year. As such, the Department expects that the distribution companies would be able to implement the proposed modifications in a short timeframe and, thus, can resolve the issues associated with recent solicitations in a timely manner.

The Department is greatly concerned about the effect that high basic service rates have on customers. While the Department does not have control over wholesale energy market dynamics, it is committed to exploring opportunities to mitigate the effects of wholesale energy costs on customers, as well as promoting the Commonwealth's energy policies. As such, in a second phase of this investigation, the Department will examine ways in which the existing basic service procurement and pricing policies can be modified to improve the accuracy of the price signals sent to basic service customers regarding the underlying cost of electricity, consistent with the Department's Orders in New Technologies and Advanced Metering Infrastructure Proposals, D.P.U. 21-80-B/D.P.U. 21-81-B/D.P.U. 21-82-B (2022) ("AMI Order"), and Time Varying Rates, D.P.U. 14-04 (2014). Providing customers with the opportunity to respond to the

actual varying costs of electricity will allow them to reduce their electric bills by reducing their usage during hours in which electricity prices are highest.

B. Failed Solicitations and Alternative Procurement and Pricing Policies

1. Introduction

As discussed in Section V.A, above, over the past year, the Department has approved seven proposals made by the distribution companies in response to failed solicitations. While approving these proposals, the Department has recognized (1) what constitutes a failed basic service supply solicitation and (2) the manner in which a distribution company should procure and price basic service supply in instances in which it was not able to fully procure its supply requirements for a customer class and load zone through its solicitations. The intention of the proposal set forth here is to establish this practice as the Department's policy to streamline and clearly define the regulatory process associated with failed solicitations.

2. Criteria for Failed Solicitation

In granting distribution companies' petitions for alternative procurement and pricing plans over the past year, the Department has acknowledged that a failed solicitation is one in which (1) a distribution company did not receive any bids from wholesale suppliers for one or more supply blocks included in the solicitation or (2) prices that were bid for one or more supply blocks significantly exceeded the expected bid price calculated by the distribution company. To streamline and clearly define the regulatory process associated with failed solicitations, the Department seeks to establish a uniform method by which the distribution companies calculate their expected bid prices.

For residential and small C&I customers, each distribution company would calculate, for each supply block, an expected bid price for each month of the applicable six-month period,¹⁸ based on: (1) the NYMEX futures energy prices on the day prior to the day that the distribution company received final bid prices from wholesale suppliers and (2) the distribution company's projections of other capacity, ancillary services, and other wholesale costs for the month. The distribution company would then calculate an expected bid price for the entire period as the load-weighted average of the monthly expected bid prices. A distribution company would deem a solicitation as having failed for a block if the "best" bid price(s) submitted for that block for the period (as determined by the distribution company's existing bid evaluation criteria) exceed the expected bid price by more than a specified amount (e.g., 20 percent).

The Department recognizes that there are a number of assumptions that a distribution company must make in the calculation of expected bid prices. The Department would work with the distribution companies and stakeholders to develop a uniform method by which the distribution companies would calculate expected bid prices and the threshold over the expected price that would constitute a failed bid. Once this method is finalized, a distribution company that determines that the best bid price(s) received for one or more supply blocks exceeds the distribution company's expected bid price(s) for the block(s) should be able to

¹⁸ For large C&I customers, the distribution company would calculate an expected bid price for each month of the three-month period.

quickly move forward with the alternative procurement and pricing strategies discussed below, pursuant to an effective and efficient regulatory process.

3. Alternative Procurement Strategies

As has been demonstrated during the past year, a distribution company may succeed in procuring supply for some (but not all) blocks. Consistent with the Department's decisions in basic service proceedings over the past year, the distribution company would continue to procure supply for these blocks from the winning bidder, subject to the Department's approval. Further, for those blocks for which the distribution company did not procure supply through a solicitation for residential and small C&I customers, the alternative procurement would depend on whether the supply block(s) applies to the first or second 50 percent of supply for a given six-month period.¹⁹ If the block applies to the first 50 percent of supply, the distribution company would attempt to procure supply for the block in its subsequent solicitation for large C&I customers (*i.e.*, three months following the failed solicitation). If the distribution company is unable to procure supply for the block in this solicitation for large C&I customers, the distribution company would then attempt to procure such supply in its subsequent solicitation for residential and small C&I basic service supply by soliciting bids to provide the full 100 percent (rather than 50 percent) of the supply requirement for the upcoming six-month period.

¹⁹ This does not apply to the solicitations for large C&I customers, which include only a single three-month period.

If a distribution company was unsuccessful in procuring supply (1) for a block that applies to the second 50 percent of supply for the upcoming six-month pricing period included in a solicitation for residential and small C&I customers or (2) for any block included in its solicitation for large C&I customers, the distribution company would procure supply for the block directly from the wholesale markets administered by ISO-NE.

Specifically, the distribution company would be responsible for procuring all of the wholesale products and services (e.g., energy, capacity, and ancillary services) required to serve the basic service load included in the block(s) (the Department refers to this as “self-supply”).

The Department recognizes that there a number of details associated with implementing the self-supply approach (in particular the manner in which the distribution companies would procure wholesale energy directly from the ISO-NE energy markets). The Department would work with the distribution companies and stakeholders to establish these implementation details. Once the self-supply approach is finalized, a distribution company should be able to implement the proposed approach pursuant to an effective and efficient regulatory process.

4. Alternative Pricing Policies

During the past year, the Department approved two alternative pricing strategies proposed by the distribution companies in instances in which they were procuring some or all supply for a customer class and load zone during a fixed-rate period through self-supply. For National Grid and Unitil, the Department approved each distribution company’s proposal to calculate projected wholesale costs for large C&I customers, and residential and small C&I

customers, respectively, based on NYMEX futures prices, plus distribution company projections of other wholesale costs. D.P.U. 22-BSF-D4; D.P.U. 22-BSF-A4. In contrast, the Department approved Eversource East's proposal to determine projected wholesale costs for its large C&I customers located in the NEMA load zone based on the bid prices selected from the same solicitation for large C&I customers located in the SEMA load zone (see Section V.A, above). D.P.U. 22-BSF-C4.

Here, the Department proposes an alternative pricing strategy similar to those approved for National Grid and Until. Specifically, in instances in which a distribution company procures one or more of the supply blocks for a pricing period through self-supply, the distribution company would set the monthly wholesale prices for the block equal to the distribution company's expected monthly bid prices for the block (based on NYMEX futures prices, plus projections of other wholesale costs).²⁰

Under the Department's proposal, the method by which the distribution companies calculate monthly wholesale prices would not change from the current method, i.e., the distribution companies would continue to calculate such prices as the average of their projected monthly wholesale prices of the blocks that comprise the period. Similarly, the proposal would not change the methods by which the distribution companies calculate retail basic service rates. Monthly rates would continue to be calculated as the sum of (1) the

²⁰ For those blocks for which the distribution company procured supply through its solicitations, the monthly wholesale prices would continue to be based on the winning bid(s) in those solicitations.

wholesale price for the month and (2) adders for renewable, clean energy, and administrative costs. Fixed rates would continue to be calculated as the load-weighted average of the monthly rates that comprise the pricing period.

5. Reconciliation of Basic Service Cost Under- and Over-Recoveries

The Department recognizes that procuring basic service supply through a self-supply approach increases the potential for a wider range of under- and over-recoveries of basic service costs. This is because, unlike the all-requirements approach, the wholesale costs that a distribution company may incur over the course of a fixed-rate period under self-supply may vary significantly from the projected costs on which the basic service rates were based.

In D.P.U. 22-BSF-A4, the Department approved a proposal by Unitil to permit the company to adjust its basic service rates for residential and small C&I customers for the period December 2022 through July 2023 based on changes in wholesale futures prices. Specifically, Unitil must seek an adjustment of its fixed and monthly retail rates if the projected wholesale power supply costs for the balance of the period vary by more than 20 percent from the wholesale power supply costs projected over the same period at the time the retail rates were set. D.P.U. 22-BSF-A4, at 12-13. If an interim adjustment occurs, Unitil must make a filing with the Department for approval of a new rate no later than the 15th of the month prior to the proposed effective date, which would be the first day of the month. D.P.U. 22-BSF-A4, at 13 n.9.

The Department proposes to include a threshold mechanism in instances in which a distribution company is procuring basic service for a customer class through self-supply. To

ensure a streamlined and more transparent regulatory process, the Department would not provide discretion to a distribution company on updating its fixed basic service rate. If the updated fixed rate calculated by a distribution company for a customer class differs from the existing fixed rate by more than a specified amount, the distribution company would be required to file with the Department a request to revise the existing rate.

The Department recognizes that there a number of details associated with implementing this basic service rate update approach. The Department would work with the distribution companies and stakeholders to establish these implementation details. Once the method for updating rates is finalized, a distribution company should be able to update its basic service rates pursuant to an effective and efficient regulatory process.

6. Filing Requirements

As stated above, the Department's objective in putting forth this proposal is to streamline the regulatory process associated with failed solicitations – said differently, the Department seeks to establish a process for failed solicitations that is no more administratively burdensome to the Department, the distribution companies, and interested persons than those for successful solicitations. Consistent with this, the Department would work with the distribution companies and stakeholders to develop the filing requirements that would provide sufficient information regarding failed solicitations that would facilitate a streamlined and more transparent process.

C. Basic Service Fixed-Rate and Procurement Periods

As discussed in Section V.B, above, the Department seeks to have each distribution company include the monthly basic service rates for January and February in separate fixed-rate periods in order to minimize the significant changes in basic service rates that customers currently experience between periods (noting January and February historically have been the highest rate months for wholesale electricity in Massachusetts). Consistent with this goal, the Department proposes that each distribution company adopt the following six-month fixed-rate periods for residential and small commercial customers: (1) February through July and (2) August through January.²¹ For large C&I customers, the Department proposes that each distribution company adopt the following three-month fixed-rate periods: (1) February through April; (2) May through July; (3) August through October; and (4) November through January.²² As discussed in Section V.B, above, establishing uniform fixed-rate periods for the distribution companies will have the additional benefit of minimizing the differences in basic service rates that historically have occurred across the distribution companies.

Accommodating the above proposal requires that the distribution companies adopt the same twelve-month procurement periods, February through January, and August through

²¹ The Department notes that this is consistent with the fixed-rate periods approved by the Department for Until in D.P.U. 22-BSF-A4, at 11.

²² This does not apply to Until, which procures basic service supply for large C&I customers through self-supply. Fitchburg Gas and Electric Light Company, D.P.U. 11-16 (2012).

July. The Department would work with the distribution companies and stakeholders to determine (1) strategies for transitioning from the existing to the new fixed-rate periods and (2) solicitation schedules for the distribution companies that will best ensure wholesale supplier participation (e.g., final bid due dates staggered by one week) for each distribution company.

VII. NEXT STEPS

The Department invites all interested persons to participate in this investigation. The Department seeks written comments on the proposal set forth above, related to: (1) the criteria to be used to determine a failed solicitation (Section VI.B.2); (2) alternative procurement strategies (Section VI.B.3); (3) alternative pricing strategies (Section VI.B.4); (4) reconciliation of basic service under- and over-recoveries (Section VI.B.5); (5) regulatory process (Section VI.B.6); and (6) basic service fixed-rate periods and procurement periods (Section VI.C). Specifically, the Department seeks comments on how the proposed modifications to existing basic service procurement and pricing policies could be revised so as to (1) better alleviate the administratively burdensome regulatory process that has characterized recent failed solicitations and (2) further lessen the differences in basic service rates between fixed-rate periods and across the distribution companies. The Department requests that commenters take into consideration our objective of setting forth modifications that the distribution companies would be able to implement in a short timeframe, and that it is our intention to examine more extensive modifications to the existing procurement and pricing policies in a second phase of this investigation.

The Department seeks comments no later than **5:00 p.m. on February 8, 2023**. The Department anticipates and hopes for significant interest in this proceeding. Therefore, we encourage interested person to present consensus positions and submit comments jointly, when possible. All comments must be accompanied by an executive summary. Comments must be filed with Mark D. Marini, Secretary, Department of Public Utilities and Hearing Officer Julianne Desmet.²³

Any person interested in participating in this investigation but chooses not to file comments should indicate such interest by informing Department Secretary Mark D. Marini, via email (mark.marini@mass.gov) and Hearing Officer Julie Desmet, via email (julianne.desmet@mass.gov), no later than **5:00 p.m. on February 8, 2023**. To be included on the distribution list for this investigation, the request to the Department must include the following information: (1) name and organization represented, if any; (2) address; (3) telephone number; and (4) email address.

²³ All documents should be submitted to the Department in electronic format by e-mail attachment to https://massgov.sharepoint.com/sites/DPU-Share/DPU_Shared/BasicService/2022_NOI/Staff_Work_Space/dpu.efiling@mass.gov and Hearing Officer, Julianne Desmet julianne.desmet@mass.gov. The text of the e-mail must specify (1) the docket number of the proceeding (D.P.U. 23-50); (2) the name of the person or company submitting the filing; and (3) a brief descriptive title of the document. The electronic filing should also include the name, title, and telephone number of a person to contact in the event of questions about the filing. All documents submitted in electronic format will be posted on the Department's website by looking up the docket by its number in the docket database at: <https://eeaonline.eea.state.ma.us/DPU/Fileroom/dockets/bynumber> (enter "23-50").

VIII. ORDER

Accordingly, the Department of Public Utilities

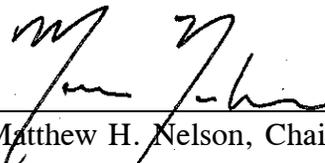
VOTES: To open an investigation into the provision of basic service electricity supply in the Commonwealth; and it is

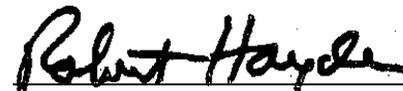
ORDERED: That the Secretary of the Department of Public Utilities shall publish notice of this investigation in a statewide paper of daily circulation with the Commonwealth; and it is

FURTHER ORDERED: That the Secretary of the Department of Public Utilities shall serve a copy of this Order upon all persons on the Department's official service list; and it is

FURTHER ORDERED: That our investigation in Provision of Competitive Supply, D.P.U. 15-40 (2015) is hereby CLOSED.

By Order of the Department,


Matthew H. Nelson, Chair


Robert E. Hayden, Commissioner


Cecile M. Fraser, Commissioner