

# The Commonwealth of Massachusetts

---

## DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 23-50-A

September 1, 2023

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

---

ORDER ON BASIC SERVICE FIXED-RATE AND PROCURMENT PERIODS

## I. INTRODUCTION

On January 4, 2023, the Department opened Investigation by the Department of Public Utilities on its own Motion into the Provision of Basic Service, D.P.U. 23-50 (January 4, 2023).

The Department opened this investigation into the procurement and pricing of basic service supply in response to the significant increases that Massachusetts electricity customers experienced in basic service supply rates during 2022. D.P.U. 23-50, at 1-2.<sup>1</sup> These rate increases are the result of wholesale energy market dynamics including the invasion of Ukraine, regional natural gas transportation constraints for electric generation, and the uncertainty of basic service customer load. D.P.U. 23-50, at 1. In some instances, the wholesale market conditions resulted in “failed” basic service supply solicitations because of higher-than-expected bids or lack of bidders. D.P.U. 23-50, at 2, 15.

The Department stated it would conduct this investigation in two phases: (1) Phase I of the investigation would focus on ways to respond to failed solicitations, and lessen the difference in basic service rates between fixed-rate periods and across the distribution companies; and (2) Phase II of the investigation would focus on ways in which the existing basic service

---

<sup>1</sup> In the restructured electric industry in Massachusetts, 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. St. 1997, c. 164 (“Electric Restructuring Act”); Default Service Procurement, D.T.E. 04-115-A (2005); St. 2008, c. 169, § 57; G.L. c. 164, § 1 (tracing the evolution of the term “default service” to “basic service”). The Electric Restructuring Act requires that: (1) each distribution company provide basic service; (2) basic service be competitively procured; (3) the basic service rate “shall not exceed the average monthly market price of electricity”; and (4) 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).

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. D.P.U. 23-50, at 17-19. As part of the first phase of this proceeding, the Department set forth proposals related to: (1) criteria for failed solicitations; (2) alternative procurement strategies in response to a failed solicitation; (3) alternative pricing strategies in response to a failed solicitation; (4) reconciliation of cost under- and over-recoveries; and (5) splitting the monthly basic service rates for January and February into separate fixed-rate periods. D.P.U. 23-50, at 19-27. In this Order, the Department addresses its proposal to make uniform the distribution companies' basic service fixed-rate periods and procurement periods, with the intent to lessen the difference in basic service rates between fixed-rate periods and across the distribution companies.

## II. PROCEDURAL HISTORY

The Department requested that interested persons submit comments on the proposals by February 8, 2023. D.P.U. 23-50, at 28. Comments were submitted by the Attorney General of the Commonwealth of Massachusetts (“Attorney General”); State Representative John Barrett III; Cape Light Compact JPE; Constellation Energy Generation, LLC (“Constellation”); Fitchburg Gas and Electric Light Company d/b/a Unitil (“Unitil”); Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid (“National Grid”); NSTAR Electric Company d/b/a Eversource Energy (“Eversource”); Green Energy Consumers Alliance; NRG Retail Companies;<sup>2</sup> NextEra Energy Marketing, LLC; the Retail Energy Supply Association (“RESA”); and Vitol, Inc (“Vitol”).

---

<sup>2</sup> Direct Energy Business, LLC; Direct Energy Services, LLC; Energy Plus Holdings, LLC; Green Mountain Energy Company, Inc.; NRG Home f/k/a Reliant Energy Northeast,

On May 17, 2023, the Department held a technical session to discuss the following topics: (1) changes to distribution company schedules for basic service procurement and fixed rate periods; (2) calculation of expected bid prices and criteria for failed solicitations; (3) distribution company self-supply procurement and rate setting; and (4) reconciliation of distribution company self-supply costs (Hearing Officer Memorandum at 2 (April 10, 2023)). During the technical session, representatives from the Attorney General, the distribution companies, Constellation, NRG Retail Companies, RESA, and Vitol made presentations and participated in the technical session to discuss the proposals set forth in D.P.U. 23-50 and the comments received.

Following the technical session, the Department requested further comment on its proposal regarding basic service fixed-rate and procurement periods, in which monthly basic service rates for January and February would be split into separate six-month fixed-rate periods. D.P.U. 23-50, Hearing Officer Memorandum at 2 (May 31, 2023) (“May 31 Hearing Officer Memorandum”). In the May 31 Hearing Officer Memorandum, the Department requested that: (1) Eversource and National Grid include in their comments a proposal for the transition from their existing pricing and procurement periods to the Department’s proposed periods; (2) the distribution companies work collaboratively to develop a proposed staggered procurement schedule, based on the procurement periods proposed by the Department; (3) Constellation, RESA, and Vitol, (and others as appropriate) include in their comments, to the extent possible, information that quantifies the effect that the Department’s proposal might have on the wholesale

---

LLC; and XOOM Energy Massachusetts, LLC collectively filed comments as “NRG Retail Companies.”

energy markets (May 31 Hearing Officer Memorandum at 2). The Department of Energy Resources (“DOER”), National Grid, Eversource, Unitil, and NRG Retail Companies submitted comments on June 22, 2023. On July 6, 2023, the Attorney General submitted reply comments.

### III. BASIC SERVICE FIXED-RATE AND PROCURMENT PERIODS

#### A. Introduction

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 class<sup>3</sup> and (2) a six-month (for residential and small commercial and industrial (“C&I”) customers) or a three-month (for medium and large C&I customers) fixed rate that is calculated as the weighted average of the monthly rates.<sup>4</sup> Pricing and Procurement of Default Service, D.T.E. 99-60-A at 6-10 (2000); Pricing and Procurement of Default Service, D.T.E. 02-40-C at 20-22 (2003). 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 as the default option. Pricing and Procurement of Default Service, D.T.E. 99-60-B at 6-10 (2000); see also D.T.E. 02-40-B at 33-34.

---

<sup>3</sup> For residential and small commercial and industrial 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. Pricing and Procurement of Default Service, D.T.E. 02-40-B at 44-45 (2003).

<sup>4</sup> 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. 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.

The fixed-rate and procurement periods currently vary by distribution company. For example, Eversource's six-month rate periods begin in January and July. National Grid's six-month rate periods begin in May and November. Unitil's six-month rate periods begin in February and August, which conforms with the schedule proposed by the Department in this instant proceeding, as described below. D.P.U. 23-50, at 7 n.11, citing Fitchburg Gas and Electric Light Company, D.P.U. 22-BSF-A4, Order on Alternative Procurement and Pricing Plan (September 14, 2022).

B. Department Proposal

In D.P.U. 23-50, the Department set forth a proposal to have each distribution company split the monthly basic service rates for January and February into separate fixed-rate periods to minimize the significant changes in the basic service rates that customers currently experience between periods and across distribution companies. D.P.U. 23-50, at 17-18, 26-27. In recent years, January and February have been the months in which wholesale electricity prices are highest. D.P.U. 23-50, at 16. This has led to significant differences in basic service rates between each distribution company's fixed-rate periods. D.P.U. 23-50, at 16. Specifically, the fixed-rate "winter" periods that include the months of January and February have had significantly higher rates than the "summer" periods that do not. D.P.U. 23-50, at 16-17.<sup>5</sup>

To mitigate the large variations in fixed rates, the Department proposed that each distribution company implement the following six-month fixed rate periods for residential and small C&I customers: (1) February through July and (2) August through January. D.P.U. 23-50,

---

<sup>5</sup> Table 3 in D.P.U. 23-50 demonstrates the difference in residential basic service rates from 2019 through 2022 across the different distribution companies. D.P.U. 23-50, at 17.

at 26. For large C&I customers, the Department proposed that each distribution company implement the following three-month fixed rate periods: (1) February through April; (2) May through July; (3) August through October; and (4) November through January. D.P.U. 23-50, at 26.

In addition to the rate schedule change, the proposal requires that the distribution companies implement the same twelve-month periods for which retail electric supply would be procured semi-annually, February through January, and August through July.

D.P.U. 23-50, at 26-27. The Department stated that it 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.

D.P.U. 23-50, at 27.

### C. Summary of Comments

#### 1. Department Proposal

Constellation, NRG Retail Companies, RESA, and Vitol oppose the Department's proposal, stating that while well-intentioned, the proposal would likely result in higher basic service rates (Constellation February 8 Comments at 5-6; NRG Retail Companies June 22 Comments at 4-5, RESA February 8 Comments at 16-19; Vitol February 8 Comments at 5-6). These commenters state that, because of their similar weather and load profiles, January and February are combined as a two-month wholesale supply product in the bilateral trading markets, and that buying and selling January and February as individual months on a forward basis is more difficult and expensive than transacting both as a package (Constellation February 8 Comments at 5-6; NRG Retail Companies June 22 Comments at 4-5; RESA February 8

Comments at 16-19; Vitol February 8 Comments at 5-6). These commenters assert that splitting these months into two separate basic service procurement periods would increase wholesale suppliers' transaction costs and risks in procuring supply, leading to increased prices for basic service supply (Constellation February 8 Comments at 5-6; NRG Retail Companies June 22 Comments at 4-5; RESA February 8 Comments at 16-19; Vitol February 8 Comments at 5-6). Constellation and RESA recommend that, instead of placing January and February in separate six-month procurement periods, the Department should direct the distribution companies to conduct more frequent (i.e., quarterly instead of semi-annually) procurements to reduce risk premiums and establish basic service rates that better reflect market conditions (Constellation February 8 Comments at 5-6; RESA February 8 Comments at 16-19). NRG Retail Companies add that the Department's proposal conflicts with its stated objective of sending accurate price signals to basic service customers regarding the underlying cost of electricity (NRG Retail Companies June 22 Comments at 6, citing D.P.U. 23-50, at 18).

The Attorney General, DOER, Eversource, National Grid, and Until support the Department's proposal (Attorney General July 6 Comments at 3-5; DOER June 22 Comments at 2-3; Eversource June 22 Comments at 4-5; National Grid June 22 Comments at 1-2; Until June 22 Comments at 1).<sup>6</sup> The Attorney General and Eversource state that absent quantifiable evidence that the proposal will have any material negative impact on prices, the Department should move forward with implementing its proposal (Attorney General July 6 Comments at 3; Eversource June 22 Comments at 4-5, citing RESA February 8 Comments at 6-17; Constellation

---

<sup>6</sup> In addition, State Representative John Barrett III submitted a letter dated February 8, 2023 expressing his support of the Department's proposal.



February 8 Comments at 5; NRG February 8 Comments at 4-5, 14; Vitol February 8 Comments at 5-6).

## 2. Distribution Company Proposals

Pursuant to the Department's request in the May 31 Hearing Officer Memorandum, Eversource and National Grid propose a transition from their existing pricing and procurement periods to the Department's proposed periods (Eversource June 22 Comments at 5-8; National Grid June 22 Comments at 5-11). Eversource proposes to transition to the new periods by procuring in its November 2023 solicitation for residential and small C&I customers: (1) the remaining 50 percent of the supply obligation for the months January 2024 through June 2024; (2) 100 percent of the supply obligation for the month of July 2024; and (3) 50 percent of the supply obligation for the months August 2024 through January 2025 (Eversource June 22 Comments at 5-6).<sup>7</sup> In its May 2024 solicitation, Eversource would procure the remaining 50 percent of the supply obligation for the months August 2024 through January 2025, as well as the initial 50 percent of the supply obligation for the six-month period, February through July 2025 (Eversource June 22 Comments at 6).

National Grid provided four options for the transition from its existing pricing and procurement periods to the Department's proposed periods. Under Option 1, National Grid would transition to the new periods by procuring in its September 2023 solicitation: (1) the remaining 50 percent of the supply obligation for the months November 2023 through April 2024; and (2) 100 percent of the supply obligation for the months of May through

---

<sup>7</sup> Throughout the Order, the month and year identified for procurements refer to when final bids are due (Eversource June 22 Comments at 5-7).

July 2024 (National Grid June 22 Comments at 5-6). National Grid states this would allow it to establish basic service rates for its residential and small C&I customer classes for the nine-month period, November 2023 through July 2024 (National Grid June 22 Comments at 5). National Grid would then conduct subsequent solicitations: (1) in December 2023 to procure the initial 50 percent of the supply obligation for the months August 2024 through January 2025; and (2) in June 2024 to procure the remaining 50 percent of the supply obligation for the months August 2024 through January 2025, as well as the initial 50 percent of the supply obligation for the six-month period February through July 2025 (National Grid June 22 Comments at 5-6). Option 2 is similar to Option 1, except that it includes National Grid's proposal to transition to quarterly solicitations in which it would procure 25 percent of its basic service supply for twelve-month periods for the residential and small C&I customer classes (National Grid June 22 Comments at 6-7).

Under Option 3, National Grid would transition to an approach in which it would establish basic service rates for six-month periods of January and February into separate six-month pricing periods (February through July, and August through January), consistent with the Department's proposal, but procure January and February together through a six-month procurement period, January through June (National Grid June 22 Comments at 7-9). National Grid states that it developed this approach in response to the concerns raised by commenters regarding placing January and February into separate procurement periods (National Grid June 22 Comments at 7-8). National Grid states that it would transition to the new six-month periods by procuring in its September 2023 solicitation: (1) the remaining 50 percent of the supply obligation for the months November 2023 through April 2024; and (2) 100 percent of the

supply obligation for the months of May through August 2024 (National Grid June 22 Comments at 8-9). National Grid states this would allow it to establish basic service rates for its residential and small C&I customer classes for the nine-month period November 2023 through July 2024, while allowing it to transition to its proposed pricing and procurement schedules (National Grid June 22 Comments at 8-9). National Grid states that under Option 3, at the time that it must set its basic service prices for each upcoming six-month pricing period, it will have not yet procured the final 50 percent of the supply obligation for the final month of the pricing period (i.e., July or January) (National Grid June 22 Comments at 11-13). To estimate supply costs for the final month of the pricing period, National Grid proposes to use bid prices from the procurement in which it procured the initial 50 percent of the supply obligation for the month (National Grid June 22 Comments at 11-12). National Grid states that, because Option 3 requires it to estimate 50 percent of the supply costs for the final month of the pricing period, the approach increases the potential for cost under- and over-recoveries. To minimize cost reconciliations under Option 3, National Grid proposes a threshold mechanism for resetting basic service prices similar to the mechanism proposed by the Department for failed procurements that result in self-supply (National Grid June 22 Comments at 12-13, citing D.P.U. 23-50, at 24-25). Option 4 is similar to Option 3, except that it includes the proposal to transition to quarterly solicitations to procure for 25 percent of its basic service supply for twelve-month periods for the residential and small C&I customer classes (National Grid June 22 Comments at 9-11).

The Attorney General states that, while she appreciates the innovative options presented by National Grid, the increased potential for basic service cost under- and over-recoveries and price resetting under its proposed Options 3 and 4 is problematic (Attorney General July 6

Comments at 5-6). The Attorney General supports National Grid's proposed Option 2, stating that more frequent procurements, and procuring a smaller share of the supply obligation in each procurement, will reduce market risks and increase rate stability (Attorney General July 6 Comments at 6).<sup>8</sup>

### 3. Staggered Schedule

Eversource, National Grid, and Unitil state that, pursuant to the request in the May 31 Hearing Officer Memorandum, they worked collaboratively to devise a sample staggered procurement schedule that will help ensure an orderly process for the distribution companies, bidders, and the Department in facilitating its review of basic service solicitation results (Eversource June 22 Comments at 6-8; National Grid June 22 Comments at 13; Unitil June 22 Comments at 3). Table 1, below, shows the proposed schedules for the two procurements in which the distribution companies would procure supply for the twelve-month periods August 2024 through July 2025 and February 2025 through January 2026, the first procurements in which each of the distribution companies will have transitioned to their new schedules.

---

<sup>8</sup> In her reply comments, the Attorney General proposed that:

instead of their current practice of setting basic service fixed rates based on the average of six-month blended prices that result from the basic service auctions, the Distribution Companies could set the six-month basic service fixed rates based on the average of twelve-month blended prices that would result from the basic service auctions

(Attorney General July 6 Comments at 6-7). Because no stakeholder had the opportunity to respond to the Attorney General's proposal, the Department does not address it further in this Order.

Table 1 – Proposed Procurement Schedule

Distribution Company	Due Dates for Final Bids	
	August 2024 – July 2025	February 2025 – January 2026
NSTAR West	May 7, 2024	November 12, 2024
NSTAR East	May 14, 2024	November 19, 2024
Unitil	June 4, 2024	December 3, 2024
National Grid	June 12, 2024	December 11, 2024

(Eversource June 22 Comments at 6-8; National Grid June 22 Comments at 13; Unitil June 22 Comments at 3).

D. Analysis and Findings

As discussed in Section III.B, above, the Department proposal seeks to have each distribution company set basic service rates according to a schedule that separates January and February. The purpose of this change is to minimize significant differences in basic service rates that customers currently experience between rate periods and across distribution companies due to high wholesale electricity prices in the winter months, especially January and February.

D.P.U. 23-50, at 18.

Constellation, NRG Retail Companies, RESA, and Vitol assert that the change in rate schedule could lead to increased costs for basic service customers because January and February tend to trade together in the wholesale market (Constellation February 8 Comments at 5-6; NRG Retail Companies June 22 Comments at 4-5; RESA February 8 Comments at 16-19; Vitol February 8 Comments at 5-6). This potential unintended consequence is a concern to the Department. Consequently, the Department included in the May 31 Hearing Officer Memorandum at 2, a request for additional information that quantifies the effect of the

Department's proposal. Constellation, RESA, and Vitol did not provide information or comments. No other comments were received that quantified or otherwise validated this assertion.

The Department does not have sufficient information that demonstrates the proposed change in rate schedule will result in increased costs to customers due to the separation of the months of January and February for Eversource and National Grid customers. On September 14, 2022, the Department did, however, approve Unital's proposal to change the basic service fixed-rate periods for residential and small C&I customers as outlined by the Department in Section III.B, above. D.P.U. 22-BSF-A4. Unital's initial procurement that separates January and February occurred in June 2023. Fitchburg Gas and Electric Light Company, D.P.U. 23-BSF-A2, Stamp-Approved Compliance Filing (June 15, 2023). The result was a successful procurement based upon Unital's evaluation of prices received.

In the absence of sufficient information or data supporting the comments of Constellation, NRG Retail Companies, RESA, and Vitol, the Department is not persuaded by the assertion that the proposed schedule change will increase costs for customers. Instead, the Department expects that its proposal to separate January and February for basic service procurement periods will benefit ratepayers and the Department directs the electric distribution to implement the proposal. In the event the Department determines that the separation of January and February in future distribution company procurements has an adverse impact on customers, the Department may revisit this decision.

In the May 31 Hearing Officer Memorandum, the Department requested that Eversource and National Grid include in their comments a proposal for the transition from their existing

pricing and procurement periods to the Department's proposed periods. Eversource proposed a single transition plan to move to the proposed rate schedule beginning in January 2024 (Eversource June 22 Comments at 5-6). We find that Eversource's transition rate plan is consistent with the Department's proposal. Accordingly, we approve Eversource's transition rate plan.

National Grid proposed four options to transition existing pricing and procurement periods to the Department's proposed periods beginning in November 2023 (National Grid June 22 Comments at 5-11). Options 2, 3, and 4 vary from the Department proposal for residential and small C&I customers by either increasing the number of procurements, by allowing for pricing periods and procurement periods that are different by one month, or both. The Department appreciates National Grid's initiative and creativity in proposing various transition plan options for the Department to consider. National Grid's proposed Options 2 and 4 increase the number of procurements and is, therefore, outside the scope of Phase I of this investigation. Accordingly, the Department declines to accept National Grid's proposed Options 2 and 4. Furthermore, since the Department disagrees with commenters that costs to supply customers will increase under this proposal, the Department finds that National Grid's proposals that result in different pricing and procurement periods (Options 3 and 4) are not an improvement compared to the Department proposal. We therefore do not accept National Grid's Option 3. After review and consideration, the Department approves National Grid's Option 1 transition rate plan, which is consistent with the Department's proposal.

In the May 31 Hearing Officer Memorandum, the Department requested that the distribution companies work collaboratively to develop a proposed staggered procurement

schedule, based on the procurement periods proposed by the Department. Eversource, National Grid, and Unitil proposed procurement schedules for the period August 2023 to December 2024. (Eversource June 22 Comments at 6-8; National Grid June 22 Comments at 13; Unitil June 22 Comments at 3). Following the transition period, the schedule for a given customer class (e.g., residential) spreads the procurement dates across an approximate six-week timeframe. No commenters opposed the distribution companies' proposed schedule. After review and consideration of the impacts of the staggered procurement schedule, the Department finds the joint procurement schedule proposed by the distribution companies is a reasonable approach. The Department approves the proposed staggered procurement schedule of Eversource, National Grid, and Unitil.

NRG Retail Companies assert that the proposed rate schedule change would move in the opposite direction of sending basic service customers a price signal that indicates the region's reliance on natural gas and oil during the winter (NRG Retail Companies Comments February 8 at 4-5). The Department appreciates NRG Retail Companies' concern and intends to investigate structural changes to basic service that includes time-varying rates in a future investigation. The Department has long held that it must balance rate stability and market price signals. Fitchburg Gas and Electric Light Company, D.P.U. 21-BSF-A4, at 11-12, Order on Mitigating the Impact of the Increase of Standard Basic Service Rates (2021); D.T.E. 02-40-B at 44-45. The proposed basic service rate schedule is consistent with this policy. Under the proposed rate schedule, the distribution companies will continue to procure all requirements supply through a competitive wholesale solicitation in the same manner as it has for many years. This approach results in market-based prices under both the current and proposed rate schedules but does not necessarily



reflect market prices at the time the customer consumes electricity. Consequently, we are not persuaded by NRG Retail Companies' assertion that the proposed rate schedule change is counter to Department policy.

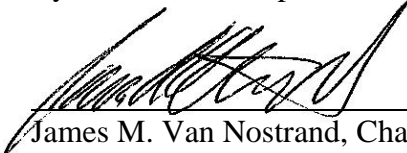
IV. ORDER

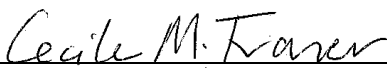
Accordingly, after due notice, opportunity for comment, and consideration, it is

ORDERED: That Fitchburg Gas and Electric Light Company d/b/a Unitil, Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, and NSTAR Electric Company d/b/a Eversource Energy shall modify their procurement of basic service consistent with the directives set forth herein;

FURTHER ORDERED: That Fitchburg Gas and Electric Light Company d/b/a Unitil, Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, and NSTAR Electric Company d/b/a Eversource Energy shall comply with the directives set forth herein.

By Order of the Department,

  
James M. Van Nostrand, Chair

  
Cecile M. Fraser, Commissioner

  
Staci Rubin, Commissioner