

The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 25-08

March 21, 2025

Inquiry by the Department of Public Utilities on its own Motion into a Seasonal Heat-Pump Rate.

VOTE AND ORDER OPENING INQUIRY

I. INTRODUCTION

The Department of Public Utilities (“Department”) opens this inquiry into seasonal heat-pump rates. Consistent with the Commonwealth’s transition to clean energy, the Department supports customer conversion to electrified and decarbonized heating technologies, including heat pumps that transfer thermal energy from outside for use in interior structural heating. See, e.g., Three-Year Energy Efficiency Plans for 2022 through 2024, D.P.U. 21-120 through D.P.U. 21-129, at 230-231 (2022) (discussing statewide effort to encourage heat pumps).

Recently, the Department approved a seasonal heat-pump rate for residential customers of Fitchburg Gas and Electric Light Company, d/b/a Unitil (“Unitil”) and Massachusetts Electric Company and Nantucket Electric Company, d/b/a National Grid (“National Grid”), as part of the utilities’ recent base distribution rate proceedings. Massachusetts Electric Company and Nantucket Electric Company, D.P.U. 23-150, at 509-513 (2024); Fitchburg Gas and Electric Light Company, D.P.U. 23-80/D.P.U. 23-81, at 406-409 (2024). The Department directed Unitil and National Grid to implement those seasonal heat-pump rates in time for the 2025-2026 winter heating season (i.e., November 1st through April 30th). The Department also provided directives regarding outreach and education efforts to raise customer awareness of the new rate offerings. D.P.U. 23-150, at 513; D.P.U. 23-80/D.P.U. 23-81, at 409.

On January 31, 2025, the Department of Energy Resources (“DOER”) filed a petition (“Petition”) with the Department and requested an investigation into seasonal heat-pump rate design (Petition at 1). To advance rate design and ratemaking that align with the Commonwealth’s decarbonization and energy affordability priorities, DOER has partnered with the Massachusetts Clean Energy Center, the Attorney General of the Commonwealth of

Massachusetts (“Attorney General”), and the Executive Office of Energy and Environmental Affairs to establish an Interagency Rates Working Group (“IRWG”) tasked with advancing near- and long-term rate solutions and innovations (Petition at 1).

The Petition requests that the Department direct the Commonwealth’s electric distribution companies (“EDCs”), including Unitil and National Grid, to: (1) establish, or modify, an optional seasonal heat-pump rate for residential customers with seasonally differentiated volumetric delivery rates, inclusive of each EDC’s base distribution charge and all reconciling mechanisms; (2) prepare, or revise, a seasonal heat-pump rate tariff for residential customers; (3) begin preparations for the implementation of seasonal heat-pump rates as each EDC prepares tariff filings for the Department to ensure the rate offerings are available to customers by fall 2025; (4) prepare marketing, education, and outreach plans that incorporate the customer-centric principles identified in the IRWG recommendations for review and approval in addition to the proposed tariffs; and (5) report on enrollment, customer outcomes, energy usage, and bill impacts consistent with the IRWG recommendations, expanding on the reporting requirements the Department set for Unitil’s and National Grid’s seasonal heat-pump rates (Petition at 1-2).

In support of these requests, DOER states that the IRWG, in studying barriers and opportunities for electric rates, found that households switching from fossil fuel heating (including natural gas or delivered fuels) to electric air-source heat pumps may experience increases in their overall heating costs, driven by the current rate levels and rate designs for electricity (Petition at 3). According to DOER, without an alternative rate offering that addresses

this barrier, households are unlikely to adopt heat-pump technology at a pace and scale necessary to achieve Massachusetts' electrification targets and decarbonization mandates, as outlined in the Commonwealth's Clean Energy and Climate Plan for 2050¹ (Petition at 3). DOER states that the IRWG conducted a stakeholder engagement strategy over the course of 2024 that ultimately identified broad support for a seasonal heat-pump rate (Petition at 4).

DOER states that an optional heat-pump rate with seasonal differentiation will reduce winter heating costs, thus promoting affordability, while minimizing incremental grid costs and remaining cost-reflective in the near-term (Petition at 4). DOER also submits that the seasonal heat-pump rate could be set on a revenue-neutral basis, such that the rate will recover the same level of costs as from an average, non-participating residential customer (Petition at 4-5).

Further, according to the Petition, the IRWG recommends modifications to Until's and National Grid's Department-approved seasonal heat-pump rates to ensure that the rates can reduce the energy burden for customers switching from natural gas to heat pumps (Petition at 5). Finally, DOER states that the Attorney General supports the aforementioned requests and intends to actively participate in any proceeding opened as a result of the petition (Petition at 7).

II. RELEVANT BACKGROUND

In Unutil's most recent base distribution rate case, the company proposed a heat-pump rate offering for its residential customers, including low-income customers.

¹ <https://www.mass.gov/info-details/massachusetts-clean-energy-and-climate-plan-for-2050>.

D.P.U. 23-80/ D.P.U. 23-81, at 399. DOER was a party to that proceeding and recommended a seasonal heat-pump rate for residential customers inclusive of reconciling mechanisms, similar to DOER's request in the instant docket. D.P.U. 23-80/D.P.U. 23-81, at 402-404. The Department did not accept this recommendation. D.P.U. 23-80/D.P.U. 23-81, at 407-408. Rather, we determined that Unitil's proposal appropriately balanced the competing goals of electrification and conservation at this stage of the energy transition in the Commonwealth.

D.P.U. 23-80/ D.P.U. 23-81, at 407-408.

The Attorney General also was a party to the proceeding and recommended that the Department delay the implementation of a seasonal heat-pump rate until the IRWG finished its work. D.P.U. 23-80/D.P.U. 23-81, at 401. The Department also did not accept this recommendation. D.P.U. 23-80/D.P.U. 23-81, at 407. Instead, we directed Unitil to implement a heat-pump rate within six to nine months of the final Order in that proceeding.

D.P.U. 23-80/D.P.U. 23-81, at 409. The Department also directed Unitil to closely monitor the impact of the heat-pump rates, as well as progress towards increased electrification in the Commonwealth, and to include an analysis and discussion in its next base distribution rate case regarding the successes, failures, and lessons learned from its heat-pump rate offering.

D.P.U. 23-80/D.P.U. 23-81, at 408-409. Additionally, we directed Unitil in its next base distribution rate case filing to propose necessary changes to the heat-pump rate offerings or to propose alternative rate offerings designed to address electric home heating solutions.

D.P.U. 23-80/D.P.U. 23-81, at 409. Finally, the Department noted that it expected Unitil to begin its outreach and education efforts to promote awareness of the new rate offerings (e.g., by

using the company's established framework for new rate offerings) and that the company was to report on the progress of such efforts in its annual reconciliation filings.

D.P.U. 23-80/D.P.U. 23-81, at 409. Neither DOER nor the Attorney General sought reconsideration of the Department's heat-pump rate decision.

On January 30, 2025, Unitil submitted heat-pump rate compliance tariffs. The Department approved the compliance filing on February 14, 2025. D.P.U. 23-80/D.P.U. 23-81, Heat-Pump Rate Compliance Filing (February 14, 2025).

In National Grid's most recent base distribution rate case, the company initially proposed an electrification pricing option for Rate R-1 customers that would replace the volumetric base distribution charge with a monthly fixed base distribution charge but retain all other applicable Rate R-1 charges, including the customer charge. D.P.U. 23-150, at 495. DOER was a party to that proceeding and recommended that the Department reject the proposed electrification pricing option and instead approve a heat-pump rate similar to Unitil's rate, but with modifications to National Grid's reconciling mechanisms to ensure sufficient financial incentives for heating electrification. D.P.U. 23-150, at 500-502. DOER also recommended that the Department direct the Company to conduct robust marketing, education, and outreach activities regarding the availability and benefit of DOER's proposed seasonally discounted heat-pump rate. D.P.U. 23-150, at 502. The Attorney General, also a party to the proceeding, supported DOER's approach, but she recommended approving a heat-pump rate on an interim basis and limiting

access to the rate only to those customers with heat pumps capacity-sized to heat the customer's entire home. D.P.U. 23-150, at 500.²

The Department rejected National Grid's electrification pricing option and instead directed the company to implement a heat-pump rate offering for all Rate R-1 and Rate R-2 customers who install heat pumps for space heating in all or part of their homes, similar to the offering approved for Unitil. D.P.U. 23-150, at 512. The Department strongly encouraged National Grid to implement the heat-pump rate expeditiously to ensure that the Company's residential customers using heat pumps benefit from the rate during the next heating season. D.P.U. 23-150, at 513. The Department also rejected DOER's recommendation to modify National Grid's reconciling mechanisms, finding that because reconciling mechanism rates are adjusted annually and can be either positive or negative, further investigation was required to analyze the range of potential bill impacts, as well as additional annual administrative costs, that would result from such a modification. D.P.U. 23-150, at 513. The Department accepted the Attorney General's recommendation to approve the heat-pump rate on an interim basis until the Company's next base distribution rate case or until the Department approves an alternative. D.P.U. 23-150, at 512-513. No party to that proceeding sought reconsideration of the Department's heat-pump rate decisions.

² The Low-Income Weatherization and Fuel Assistance Program Network and the Low-Income Energy Affordability Network; and Acadia Center, Conservation Law Foundation, and the Environmental Defense Fund also were parties in this proceeding. D.P.U. 23-150, at 6. They opposed National Grid's proposed electrification option and, instead, recommended that the Department approve a heat-pump rate. D.P.U. 23-150, at 503-505.

On December 30, 2024, National Grid submitted heat-pump rate compliance tariffs, as well as a heat-pump rate implementation plan that included marketing, outreach, and education objectives. The Department approved the compliance filing on February 14, 2025.

D.P.U. 23-150, Heat-Pump Rate Compliance Filing (February 14, 2025).

III. SCOPE OF PROCEEDING

The Department appreciates the efforts of DOER and the IRWG to develop comprehensive recommendations for a seasonal heat-pump rate. The Department finds the IRWG short-term recommendations valuable and seeks to investigate the opportunity to implement the proposals. On its own motion, the Department opens this inquiry into seasonal heat-pump rates, including the IRWG recommendations. The Department and interested stakeholders must fully examine the various complex heat-pump rate design issues presented by the IRWG, which ultimately will require adequate time for supporting testimony, discovery, cross-examination, and comments/briefing. The Department also must reserve sufficient time to deliberate and issue an Order. We conclude that the investigation will require more time than initially contemplated by DOER and the IRWG.

The Department intended the respective heat-pump rates approved in the Unitil and National Grid base distribution rate cases to be in effect for the next winter heating season beginning November 1, 2025. Although we acknowledge our finding in the National Grid proceeding that the modification of reconciling mechanisms needed additional investigation and that National Grid's offering was an interim rate, the Department did not contemplate modifying Unitil's and National Grid's respective heat-pump rates only a few months after approving them in a fully adjudicated base distribution rate proceeding. Accordingly, consistent with our prior

directives, we find that it is appropriate for Unitil's and National Grid's Department-approved heat-pump rates to remain in effect for the next heating season and for Unitil and National Grid to monitor the impact of the heat-pump rate. D.P.U. 23-150, at 513; D.P.U. 23-80/D.P.U. 23-81, at 408-409.³

The remaining EDC, NSTAR Electric Company, d/b/a Eversource Energy ("NSTAR Electric), currently does not offer a heat-pump rate. Thus, to ensure consistent access to heat-pump rates, the Department finds that it is imperative to expeditiously establish a heat-pump rate for NSTAR Electric's customers for the 2025-2026 heating season. Accordingly, on or before May 15, 2025, NSTAR Electric shall file a proposed revenue-neutral heat-pump rate for the 2025-2026 heating season, similar to the Department-approved heat-pump rates for Unitil and National Grid.⁴ Implementing comparable heat-pump rates across all three service areas will ensure that the EDCs, as energy efficiency Program Administrators, are able to leverage statewide Mass Save marketing campaigns to drive heat pump acceptance while minimizing customer confusion regarding heat pump operating costs.

³ We also note that there is an important public interest in promoting the finality of Department orders, and the need for finality provides companies with certainty in the conduct of their business. Boston Consolidated Gas Company v. Department of Public Utilities, 321 Mass. 259, 265 (1947); Nunnally, D.P.U. 92-34-A at 5 (1993). No matter how well intentioned, using a new proceeding to re-litigate issues fully and recently adjudicated would undermine the certainty and predictability critical to Department precedent.

⁴ The proposed heat-pump rate shall adjust the base distribution charge in a revenue-neutral manner to reflect the higher winter usage of heat-pump customers relative to customers heating with fossil fuels.

With its filing, NSTAR Electric shall provide complete and detailed testimony and exhibits supporting its proposal (including illustrative tariffs and a full bill impact analysis). NSTAR Electric also shall include a detailed proposal for marketing, outreach, and education. The Department will investigate NSTAR Electric's rate proposal in a separate adjudicatory proceeding, to be docketed as D.P.U. 25-55, where interested parties and stakeholders will have an opportunity to participate.⁵

In the instant docket (i.e., D.P.U. 25-08), the Department will investigate whether the EDCs, including NSTAR Electric, should implement a modified heat-pump rate design at some time after the 2025-2026 heating season to address, among other things, the policy principles contained in the IRWG recommendations. Further, we will continue to investigate issues related to marketing, education, and outreach, to promote customer enrollment. The Department intends to complete the instant inquiry in time for the start of the 2026-2027 heating season.

As a first step in this inquiry, the Department requests that Unitil, National Grid, NSTAR Electric, and interested stakeholders provide detailed comments on the following issues, consistent with the timeframe set forth below in Section IV:

1. (The IRWG only) The IRWG's process for developing its recommendations, including conversations with stakeholders and the EDCs;
2. (EDCs only) The extent to which each EDC has engaged the IRWG regarding heat-pump rates;

⁵ The Department intends to move expeditiously in that docket, with appropriate due process afforded the parties, to complete the investigation in time for NSTAR Electric to implement a heat-pump rate for the 2025-2026 heating season.

3. The merits of the IRWG recommendations, as set forth in DOER's Petition and the Near-Term Rate Strategy Recommendations for seasonal heat-pump rates (*i.e.*, Petition, Exhibit B) including seasonally differentiated volumetric delivery rates, inclusive of base distribution charges and all reconciling mechanisms; and
4. The merits of the IRWG recommendations regarding customer marketing, outreach, and education methods.

We expect that the EDCs' experiences with heat-pump rates for the 2025-2026 heating season will inform the instant investigation. Beyond the objectives of the instant inquiry, the Department also will continue to study appropriate heat-pump rate structures in the broader context of time-varying rates.

IV. REQUEST FOR COMMENTS

For the issues discussed above, the Department seeks comments from EDCs and interested stakeholders. We strongly encourage interested stakeholders to present consensus positions and submit comments jointly, where possible. **Comments shall be due on June 2, 2025.**

All comments should be submitted in electronic format by e-mail attachment to the Department at dpu.efiling@mass.gov and marc.tassone@mass.gov. The text of the e-mail must specify: (1) the docket number of the proceeding (D.P.U. 25-08); (2) the name of the person or entity submitting the filing; and (3) that the document is a written comment. The electronic filing also should include the name, title, and telephone number of a person to contact in the event of questions about the filing. For comments and any attachments, the electronic file name for each document should identify the document but should not exceed 50 characters in length. Importantly, all large files submitted must be broken down into electronic files that do not

exceed 20 MB. To facilitate transparency, commenters should not submit confidential materials in this matter.

All documents submitted in electronic format will be posted on the Department's website as soon as practicable. The Department will post docket materials on its website at <https://eeaonline.eea.state.ma.us/DPU/Fileroom/> (enter "25-08").

V. ORDER

Accordingly, the Department

VOTES: To open an investigation into seasonal heat-pump rate design, along with appropriate marketing, education, and outreach requirements; and it is

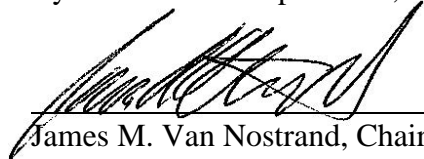

ORDERED: That NSTAR Electric Company, d/b/a Eversource Energy shall file a proposed revenue-neutral heat-pump rate for the 2025-2026 heating season on or before May 15, 2025, to be docketed as D.P.U. 25-55; and it is

FURTHER ORDERED: That the Secretary of the Department shall send a copy of this Order to Massachusetts Electric Company and Nantucket Electric Company, d/b/a National Grid; Fitchburg Gas and Electric Light Company, d/b/a Unitil; NSTAR Electric Company, d/b/a Eversource Energy; and to the service lists in Massachusetts Electric Company and Nantucket Electric Company, D.P.U. 23-150 (2024); Fitchburg Gas and Electric Light Company, D.P.U. 23-80/D.P.U. 23-81 (2024); and NSTAR Electric Company, D.P.U. 22-22 (2022); and it is

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

FURTHER ORDERED: That Massachusetts Electric Company and Nantucket Electric Company, d/b/a National Grid; Fitchburg Gas and Electric Light Company, d/b/a Unitil; and NSTAR Electric Company, d/b/a Eversource Energy shall comply with all directives contained in this Order.

By Order of the Department,


James M. Van Nostrand, Chair
Cecile M. Fraser, Commissioner
Staci Rubin, Commissioner