

The Commonwealth of Massachusetts

REPORT OF THE DEPARTMENT OF PUBLIC UTILITIES (pursuant to Chapter 22 of the Acts of 1976) SUBMITTING CONCLUSIONS AND RECOMMENDATIONS ON THE QUESTION OF ADOPTING THE UNIFORM ELECTRIC RATE PROPOSALS CONTAINED IN THE INITIATIVE PETITION INTRODUCED INTO THE GENERAL COURT (current House document numbered 4201)

Senate, April 22, 1976.

The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

State Office Building, Government Center

100 Cambridge Street, Boston 02202

April 21, 1976

The Honorable Edward B. O'Neill

Clerk of the Senate

334 State House

Boston, Massachusetts 02133

Dear Sir:

Pursuant to Chapter 22 of the Acts of 1976, we submit herewith for filing a copy of our Conclusions And Recommendations On The Question Of Adopting The Uniform Electric Rate Proposals Contained In The Initiative Petition Introduced Into The General Court (Current House Document Numbered 4201) with Appendix A thereto.

Sincerely yours,

HAROLD J. KEOHANE

Chairman

EUNICE P. HOWE

Commissioner

REGINALD C. LINDSAY

Commissioner

CONCLUSIONS AND RECOMMENDATIONS ON THE
QUESTION OF ADOPTING THE UNIFORM ELECTRIC RATE
PROPOSALS CONTAINED IN THE INITIATIVE PETITION
INTRODUCED INTO THE GENERAL COURT
(CURRENT HOUSE DOCUMENT NUMBERED 4201)

Chapter 22 of the Acts of 1976, in pertinent part, directs the Department of Public Utilities to make "an investigation and study and to submit to the general court its conclusions and recommendations on the question of adopting the uniform electric rate proposals contained in the initiative petition" denominated House Document 4201 (the "Bill").

We submit herewith our report.

Approximately one year ago Governor Dukakis appointed the present three member full-time Public Utilities Commission. This action was in part a response to serious public dissatisfaction with rising utility costs and a rate structure that was widely perceived as discriminatory and unfair.

After taking office, the Commission was forced by time limitations imposed by statute to concentrate almost exclusively on pending rate cases in which requests for rate relief totalled more than \$400 million. We scrutinized each of these requests as meticulously as possible within the time limitations. As a result of our investigations, we found that in only one case was the request justified in full. In others, we found that the companies were only partially entitled to relief. In one case, we determined after considering all the evidence that the Company should get no rate increase. In still another case, we ordered a reduction in present rates, the first time in recent history that has occurred here. In all, the Commission denied more than one-half of the more than \$400 million requested rate increases.

We did, however, discover that strict rate-making oversight alone is not sufficient to stem the frustration caused by the rising tide of utility prices. Some changes are necessary in the electric rate structure — the method by which rates are charged to the various customers.

The single largest factor in accelerating prices is the cost of

building new power plants to meet additional demand for electricity. When coupled with inflation and fuel costs, this growth in construction has had a devastating effect upon all consumers' rates. Therefore, we believe that a rate structure must be designed to encourage conservation. This will not only lessen the need for more power plants; it will also result in inestimable benefits to our environment.

In addition to promoting conservation, a rate structure must be fair. The burden of high utility bills becomes even more intolerable when one customer believes that he is unduly subsidizing another. The Commission endorses the concept that each customer should pay his fair share.

Unfortunately, the Commission cannot state at this moment what precise rate structure will satisfy the twin goals of conservation and fairness. We can say, however, that we plan to examine most closely the justification for the existing declining block rates. These rates may be suspect on two grounds: they may not reflect costs fairly; and they may promote consumption rather than conservation of electricity.

One promising alternative is the concept of peak pricing. Stated quite simply, this rate structure would force those who use electricity at peak periods (and thus contribute to the need for new, costly power plants) to pay higher prices. Electricity consumed at off-peak hours could be priced correspondingly less.

We turn now to a specific consideration of the Initiative Petition contained in House Bill 4201. The Commission applauds the Bill as a praiseworthy attempt to achieve the goal of fair rates. We must, however, point out what we consider to be shortcomings in the Bill as presently drafted.

The basic question is what effects uniform rates would have in Massachusetts. The short answer is that we do not know. No formal presentation has been made to date by any party in any proceeding before this Commission on the question of the adoption of a rate structure providing for a uniform rate per kilowatt hour. Accordingly, in order to respond to the mandate of Chapter 22, the Commission was required to go beyond existing proceedings. We have consulted with various experts in the field of utility rate design and pricing and have reviewed "rate flattening" measures which have either been adopted or proposed in other jurisdictions.

Our study has revealed that while some states have adopted various proposals which would result in a levelling of existing rate structures, to some extent, no state has adopted measures which would result in a uniform rate applicable to all customers for each kilowatt hour of electricity consumed.¹ In the absence of any actual experience with uniform rates, the Commission is unable to predict what effects, if any, they might have on the state's economy.²

A second concern is that we are not even sure that the uniform rate proposal will achieve its avowed purpose of establishing fair and equitable rates. We know that electricity is supplied under varying conditions of cost. The voltage may differ sharply; supply may be on an interruptible basis; certain customer loads may be more predictable than others; metering and connection costs may vary widely. If costs differ, fairness and equity would seem to demand that rates differ as well.

There is also the question of whether or not the uniform rate proposals would promote the efficient and economical use of energy. As we have indicated, we strongly believe that any rate structure must create positive incentives for conservation. We simply do not know, however, whether the uniform rate proposals will have such an effect. To the extent that they would cause some customers to pay more for their electricity, those customers may make greater efforts toward conservation. On the other hand, to the extent the proposals will result in a reduction of rates for some customers, such customers may be less thoughtful about the needs for energy conservation. All this, of course, depends upon facts as yet not firmly established.

Finally, while we have considered it our principal responsibility to respond to the substantive aspects of Bill, we think it also appropriate to note certain problems having to do with the administration of the Bill if it is enacted. First, we observe, that as presently drafted, the Bill would mandate that each utility company set a uniform rate for all its customers. At the same time, however, it would create certain optional exceptions. The adoption of any

¹ See Appendix A for other state action. (Copies of Appendix A are on file in the offices of the Clerks of the Senate and House of Representatives).

² We note that in 1974, the Great and General Court instituted a uniform per kilowatt hour charge for fuel costs, as distinguished from base rate charges. Massachusetts General Laws c. 164, §94G.

one or more of these exceptions by a utility would negate the principal aim of the Bill, namely, to establish a uniform rate for all customers. Secondly, it appears that the decision to adopt any one or more of the exceptions could be left up to each utility.

In conclusion, we recommend a rate structure which promotes conservation and provides fair and equitable rates. The Department of Public Utilities stands ready to implement such a rate structure under power granted to it by Massachusetts General Laws c. 164 §76C.

