

Chapter 8 Next Steps

A. Solicitation of Input on the Report

- The Department should establish a comment period to solicit comments on the Report after the Stakeholder Working Group files the Report with the Department on July 3, 2013.
- All interested parties, including members of the public who may not have participated in the Working Group process, should be allowed to submit initial comments and reply comments on the recommendations and proposals contained in the Report.
- The Department may opt to set a date for legislative-style hearings to gain a better understanding of the various proposals made within the Report through a dialogue with members of the Stakeholder Working Group, public officials and experts recommended by the Stakeholder Working Group.¹
- As further explained below, once the Department completes the comment period and legislative-style hearings (if it opts to hold such hearings) concerning the Report, the Department should expeditiously (within 3 months or within some other reasonable time frame) issue an Order to provide the Distribution Companies and all other stakeholders with direction for the path ahead to facilitate enhancement of the distribution system in Massachusetts.

B. A Roadmap for Implementing the Enhanced Regulatory Framework

The Office of the Attorney General requests that the Department issue an order to adopt the Enhanced Regulatory Model; a generic investigation is not needed to do so.² The model builds on the existing base rate case model to provide a framework that the Department may expeditiously adopt to encourage the utilities to facilitate enhancement of the electric distribution systems. As such, the utilities may move forward by facilitating enhancement of the electric distribution system, and will then be required to file a rate case to obtain recovery of costs. As explained below, the Department should take three main steps to implement the model:

- Increase the reliability standards provided under the Department's Service Quality Guidelines to facilitate reliability related grid-facing investments;
- Require the utilities to file a report on their grid-facing activities, which would then be implemented by the utilities after stakeholder input, and;

¹ As noted below, the Department should review sweeping policy changes within the context of adjudicatory proceedings.

² The Enhanced Regulatory Model provides for a cost-effectiveness evaluation to review customer-facing activities that relies on a revenue requirements analysis as described in Chapter 6 and 7 of this report. However, the evaluation recognizes that energy benefits may be included in the test under some circumstances. The extent of the inclusion of these energy benefits should be evaluated by the Department in the context of the contemplated TVR/TOU investigations.

- Open investigations into Time Varying Rates (“TVR”), and Direct Load Control (“DLC”) primarily to evaluate the utilities’ roles in providing such services to their customers.

No other action is necessary at this time given that the Enhanced Regulatory Model does not recommend major changes to the existing regulatory system. If the Department seeks to adopt a new policy that would result in major changes in the Commonwealth’s current ratemaking and cost-effectiveness policies for capital investments, then the Department should initiate a formal proceeding to collect evidence in the way of sworn testimony, discovery, evidentiary hearings and briefing prior to making such changes. Implementation of a new policy such as a performance based rates will require the utilities to file a rate case.³ Such is necessary to explore how major changes may significantly impact the affordability of customer rates, the operations of the distribution system and the like.

For grid-facing investments, implementation of the Enhanced Regulatory Model would entail the following:

- To encourage investment in cost-effective grid-facing technologies that enhance reliability, the Department should establish more stringent reliability requirements under the Department’s Service Quality Guidelines in D.P.U. 12-120.
- In its order on the Report, the Department should direct each utility to file a plan to illustrate their grid-facing plans for the future within 6 months of its order, or within some other timeframe that the Department deems reasonable. Consistent with the Enhanced Regulatory Framework, each utility should design its plan to meet the Department’s reliability targets for each utility that are established pursuant to the Service Quality Guidelines established by the Department’s Order in D.P.U. 12-120. The Department should solicit broad stakeholder input on the plans. Filing of the plans must not amount to pre-approval of specific investments, and recovery of costs to implement those plans would occur through a base rate case as outlined in the Enhanced Regulatory Model. The Department should also set a schedule for the utilities grid-facing plans to be reviewed in 3-5 years.

³ See *Decoupling Order*, D.P.U. 07-50-A, p. 82 (2008) (requiring each utility to file a rate case to implement decoupling after stating that “the Department can not conclude that it is appropriate to use these as initial rates [in place today] for decoupling without investigating issues related to cost allocation, rate design, and cost reconciling mechanisms.”).

For customer-facing investments, implementation of the Enhanced Regulatory Model would entail the following:

- The Department should open generic investigations into the appropriate role of the Distribution Companies in offering TVR and Direct Load Control⁴ options to basic service customers upon issuance of its order on this Report.
 - If after a generic investigation, the Department determines that distribution companies should offer TVR programs to achieve peak load reduction or other supply-related objectives, the Department should ensure that such programs should not be adopted or designed on a wide scale basis until the results from the Department-approved smart grid programs becomes available and have been publicly reviewed in a formal proceeding to consider the evaluation report submitted by each utility.
 - If the Department determines that the utilities should implement direct load control programs, the Department should require each utility to file a DLC pre-implementation filing to evaluate the costs and benefits of a utility-administered direct load control program for its customers and compare such a program in terms of costs and benefits to one or more such programs administered by third parties, consistent with the Enhanced Regulatory Model. This evaluation and consideration of each utilities' DLC proposal should be considered in a utility-specific adjudicatory proceeding
- In its order on this Report, the Department should not mandate that distribution companies deploy advanced metering. Any distribution company that seeks to deploy advanced metering should submit a business case that is considered in a formal adjudicatory proceeding before the Department, after the smart grid pilot programs are completed, as noted above. Such a proposal should be reviewed based on the cost effectiveness principles set forth in the Enhanced Regulatory Model and costs associated with approved advanced metering investments should be recovered in distribution base rates in a future rate case after it is determined that the benefits of the proposal have in fact exceeded the costs.
- The Department's order on this Report should also make clear that alternative suppliers and aggregators can offer TVR and DLC programs to customers at any time and that the costs associated with providing those programs, such as metering and billing expenses incurred by the distribution companies, must be allocated to the participating customers. This policy includes TVR options for Electric Vehicle customers.

These steps are either expressly contemplated by the Enhanced Regulatory Model, and if not, they should be implemented in a manner that is consistent with the spirit and letter of the model (as well as the companion cost-effectiveness framework provided in Chapter 7).

⁴ The Department may distinguish between TVR that is enabled by advanced metering and direct load control programs that can be implemented with current metering systems so that direct load control programs could be designed and implemented sooner.