



# The Commonwealth of Massachusetts

## DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 15-155

February 9, 2016

Investigation by the Department of Public Utilities on its own motion as to the propriety of the rates and charges proposed by Massachusetts Electric Company and Nantucket Electric Company in their petition for approval of an increase in base distribution rates for electric service pursuant to G.L. c. 164, § 94 and 220 C.M.R. § 5.00 et seq., filed with the Department on November 6, 2015, to be effective December 1, 2015.

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### INTERLOCUTORY ORDER ON SCOPE OF PROCEEDING

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## I. INTRODUCTION

On November 6, 2015, Massachusetts Electric Company and Nantucket Electric Company, together doing business as National Grid (“National Grid” or “Company”), filed a petition with the Department of Public Utilities (“Department”) for an increase in its base distribution rates for electric customers. The Department has docketed this matter as D.P.U. 15-155, and it has suspended the effective date of the proposed rate increase until October 1, 2016, to investigate the propriety of National Grid’s request.

As part of its initial filing, the Company proposed ratemaking treatment of certain forward capacity market (“FCM”) costs and proceeds associated with bidding the capacity of customer-owned net metering facilities into the regional FCM, which is administered by ISO New England Inc. (“ISO-NE”)<sup>1</sup> (see Prefiled Testimony of Stefan Nagy at 2-24; Exhibits NG-SN-2 through NG-SN-9; Prefiled Testimony of Pricing Panel at 80-81). As discussed in further detail below, the Department has determined that it is appropriate to reserve adjudication of the Company’s FCM-related proposals for a subsequent proceeding. Thus, consistent with the Department’s obligation to conduct proceedings in an efficient and orderly manner, we issue this Interlocutory Order in an effort to avoid the expenditure of additional time and resources on this aspect of the Company’s filing.

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<sup>1</sup> ISO-NE is a not-for-profit, private corporation that serves as the regional transmission organization (“RTO”) for New England. ISO-NE operates the New England bulk power system and administers New England’s wholesale electricity market. Investigation Into The Need For Additional Capacity In NEMA/Boston, D.P.U. 12-77, at 1 n.1 (2013).

## II. FORWARD CAPACITY MARKET

### A. Introduction

The FCM is a market in which ISO-NE projects the needs of the power system three years in advance and then holds an annual auction to purchase power resources to satisfy the region's future needs. Investigation Into The Need For Additional Capacity In NEMA/Boston, D.P.U. 12-77, at 5 (2013). The objective of the FCM is to send appropriate price signals to attract new investment and maintain existing resources where and when they are needed, thus ensuring cost-effective reliability of the New England electricity grid. D.P.U. 12-77, at 5. The annual auction to procure capacity is called the Forward Capacity Auction (“FCA”). D.P.U. 12-77, at 5. During the FCA, ISO-NE procures sufficient capacity to meet the Installed Capacity Requirement (“ICR”) for New England. D.P.U. 12-77, at 5, citing ISO-NE Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (“ISO-NE Tariff”), § I.2.2. The ICR is a measure of the installed capacity resources that are projected to meet projected demand (i.e., the capacity necessary to meet reliability standards in light of total forecasted electric load requirements for New England and to maintain sufficient reserve capacity to meet reliability standards). D.P.U. 12-77, at 5, citing ISO-NE Tariff, § III.12.

As the Company explains, bids that clear the FCA are given a Capacity Supply Obligation (“CSO”), which requires that the participants with the clearing bids deliver the capacity three years into the future and for the duration of at least a one-year Capacity Commitment Period (“CP”) (Prefiled Testimony of Stefan Nagy at 4-5). Any participant that meets its CSO on time will receive monthly base payments equal to the capacity clearing price, scaled by the megawatts (“MW”) of capacity being delivered (Prefiled Testimony of Stefan

Nagy at 5). Further, in addition to the monthly base payments, participants may be eligible to receive incentive payments and/or penalties based on their performance during times of system shortage (Prefiled Testimony of Stefan Nagy at 5).

If, after ISO-NE conducts its annual FCA, a capacity deficit exists or arises, the ISO-NE Market Rules provide a number of additional measures that ISO-NE can take to satisfy a capacity need. D.P.U. 12-77, at 6. Further, ISO-NE has the ability to procure additional capacity in subsequent annual or monthly reconfiguration auctions. D.P.U. 12-77, at 6, citing ISO-NE Tariff, Section III.13.4.<sup>2</sup>

According to the Company, the most recent FCA occurred in February 2015, which was for the delivery of capacity from June 1, 2018 to May 31, 2019 (Prefiled Testimony of Stefan Nagy at 5). The Company states that it has begun to assert title to capacity products associated with new solar net metering facilities, but it has not yet bid this capacity into the FCM (Prefiled Testimony of Stefan Nagy at 6).

B. Company's Proposals

As noted above, National Grid proposes ratemaking treatment of certain FCM costs and proceeds associated with bidding the capacity of customer-owned net metering facilities into the regional FCM (Prefiled Testimony of Stefan Nagy at 2). In particular, the Company notes that these facilities are owned and operated by customers that take service pursuant to the Company's current Net Metering Provision Tariff, M.D.P.U. No. 1223 (Prefiled Testimony of Stefan Nagy

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<sup>2</sup> The ISO-NE Tariff allows reconfiguration auctions for a number of reasons, including but not limited to: (1) changes in the load forecast; (2) delayed or canceled new resources; and (3) shortfalls attributable to the underperformance of new capacity. D.P.U. 12-77, at 6, citing ISO-NE Tariff, Section III.



at 2). The Company proposes to recover the administrative and ISO-NE costs to participate with net metering facilities in the FCM, and to share with distribution customers the net annual proceeds or costs, as applicable, of this activity (Prefiled Testimony of Stefan Nagy at 2-3, 5, 13-22). National Grid provides various reasons supporting its proposals and why the Company contends that the proposals benefit ratepayers (Prefiled Testimony of Stefan Nagy at 5-22). Finally, the Company proposes to revise its current tariffs to implement its FCM proposals (Prefiled Testimony of Stefan Nagy at 23-24; Prefiled Testimony of Pricing Panel at 80-81).

### III. ANALYSIS AND FINDINGS

The Department has reviewed the Company's initial filing with respect to its FCM-related proposals. While we acknowledge that adequate notice of the Company's filing was provided, we nevertheless are concerned that relevant interested persons, not parties to this proceeding, may not have an opportunity to adequately address the Company's specific proposals. In particular, given the nature of the proposals, we would expect that net metering project developers and third-party aggregators, as well as the other distribution companies, would have a legitimate interest in these issues. However, a significant number of these interested persons are not actively involved in this proceeding.<sup>3</sup> In fact, outside of a base rate case, in the context of the Department's net metering rules and regulations, the Department has addressed issues surrounding rights to capacity payments from bidding excess electricity

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<sup>3</sup> In particular, two other electric distribution companies – NSTAR Electric Company and Western Massachusetts Electric Company – are participating in this proceeding, but as limited participants.

generated by net metering facilities. See Net Metering Model Tariff, D.P.U. 09-03-A at 17-19 (2009).<sup>4</sup>

Further, the Department, which is responsible for regulating net metering, has made significant efforts to ensure that the rules, regulations, and policies governing net metering are applied in a consistent manner across the different distribution company service territories. See, e.g., D.P.U. 09-03-A at 4, 27-28 (Department's goal is to achieve uniformity across the Commonwealth in the provision of net metering services, including the adoption of a model net metering tariff and the approval of revisions to the model interconnection tariff); see also, generally, Order Adopting a System of Assurance of Net Metering Eligibility, D.P.U. 11-11-A (2012); Rulemaking on Net Metering, D.P.U. 11-10-A (2012).<sup>5</sup> In keeping with this objective, we find that the Company's proposals to bid net metering capacity into the FCM and to use the resulting revenues to offset the cost of net metering warrant broader inquiry, with relevant input from appropriate interested persons, in order to determine whether and to what extent a consistent and reasonable ratemaking approach may be developed.

Based on these findings, we conclude that it would be inefficient to expend additional resources on the adjudication of the Company's FCM-related proposals in the instant proceeding. See Eastern Energy Marketing, Inc. and Enserch Energy Services, Inc., D.P.U. 96-47, at 2 (1996) (Department finding it inefficient to develop and issue a policy statement and generic

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<sup>4</sup> The Company's FCM proposals do not involve typical rate case issues, such as revenue requirement issues, cost allocation, and rate design. The FCM proposals are primarily set forth in a portion of volume five of nine volumes of the filing in the prefiled testimony of Stefan Nagy.

<sup>5</sup> See also, G.L. c. 164, §§ 138, 139, 140; 220 C.M.R. § 18.00 et seq.

guidelines mandating the unbundling of gas services in light of specific proposals before it). Rather, we have determined that it would be more appropriate to open a proceeding to investigate the participation of net metering facilities in the FCM. Among other issues, we expect to discuss the establishment of rules for distribution companies to bid the capacity from net metering facilities into the FCM and the use of FCM revenues to offset the cost of net metering. The Department expects to open the proceeding following the conclusion of the instant base rate case.

The Department finds that reserving adjudication of the Company's FCM-related proposals for a subsequent proceeding is reasonable and necessary for a fair resolution of the issues presented. Further, we find that our decision will not impact adjudication of any of the Company's remaining proposals in the instant base rate case, including determination of the Company's overall revenue requirement. As the Company notes in its initial filing, it proposes to track and reflect FCM-related costs and revenues in its net metering recovery surcharge and not in base distribution rates (Prefiled Testimony of Stefan Nagy at 9). Therefore, the Department finds that it can appropriately establish just and reasonable rates in the instant proceeding without adjudication of the FCM-related proposals. Further, we note that our decision today makes no findings with respect to the substance of the Company's FCM-related proposals and, therefore, nothing prevents the Company from raising the proposals at a later time in a more appropriate forum.<sup>6</sup>

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<sup>6</sup> In this regard, we note that the Company's proposed ratemaking treatment and tariff changes may be implemented, if approved, outside of a base rate case.

Based on the foregoing and without prejudice to the Company, the Department will not adjudicate the Company's FCM-related proposals in the instant base rate proceeding. In the interest of administrative efficiency, we direct the parties to act accordingly in conducting discovery, cross-examining witnesses at the evidentiary hearings, and submitting comments in accordance with the briefing schedule.

IV. ORDER

Accordingly, after due consideration, it is hereby

ORDERED: That the Company's proposed ratemaking treatment of certain costs and proceeds associated with bidding the capacity of customer-owned net metering facilities into the regional forward capacity market will not be adjudicated in the instant base rate proceeding; and it is

FURTHER ORDERED: That the parties to this proceeding shall comply with all other orders and directives contained in this Interlocutory Order.

By Order of the Department,

/s/

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Angela M. O'Connor, Chairman

/s/

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Jolette A. Westbrook, Commissioner

/s/

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Robert E. Hayden, Commissioner