WHAT'S HAPPENING IN ELECTRICITY MARKET REFORM?
An Overview of the Massachusetts DPU’s Restructuring Order

Janet Gail Besser, Commissioner
Massachusetts Department of Public Utilities

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DEPARTMENT GOAL FOR FUTURE ELECTRIC INDUSTRY

"Reducing costs, over time, for all consumers of electricity is the primary objective of the Department’s efforts in restructuring the electric industry. The Department’s overall goal in this proceeding is the development of an efficient industry structure and regulatory framework that minimize long-term costs to consumers while maintaining the safety and reliability of electric services with minimum impact on the environment."

D.P.U. 95-30 at i.
PRINCIPLES FOR A RESTRUCTURED ELECTRIC INDUSTRY

1. Provide the broadest possible customer choice.

2. Provide all customers with an opportunity to share in the benefits of increased competition.

3. Ensure full and fair competition in generation markets.

4. Functionally separate generation, transmission, and distribution services.
PRINCIPLES FOR A RESTRUCTURED ELECTRIC INDUSTRY
(continued)

5. Provide universal service.

6. Support and further the goals of environmental regulation.

7. Rely on incentive regulation where a fully competitive market cannot exist, or does not yet exist.

D.P.U. 95-30 at iii-iv.
PRINCIPLES FOR THE TRANSITION

1. Honor existing commitments.

2. Unbundle rates.


4. Maintain demand-side management programs.

5. Ensure that the transition is orderly and expeditious, and minimizes customer confusion.

D.P.U. 95-30 at iv.
TRANSITION PRINCIPLE 1:

HONOR EXISTING COMMITMENTS

"Utilities should have a reasonable opportunity to recover net, non-mitigatable, stranded costs associated with commitments previously incurred pursuant to their legal obligations to provide electric service."

D.P.U. 95-30 at iv.
POLICY RATIONALE FOR RECOVERY OF STRANDED COSTS

1. An appropriate measure of stranded cost recovery would help ensure the provision of reliable electric service during the transition to a fully competitive electricity market;

2. Existing contracts and commitments should be honored because the reliability of commitments in general is an essential element in any stable future industry structure;
WHAT ARE STRANDED COSTS?

STRANDED COSTS INCLUDE:

1. The amount of the book cost or fixed cost associated with producing electricity from existing generation facilities that might not be recovered by the competitive market price for generation;

2. The amount by which the cost of existing contractual commitments for purchased power exceed the competitive market price for generation;
WHAT ARE STRANDED COSTS?
(Continued)

3. Liabilities for future decommissioning and radioactive waste disposal associated with nuclear power plants that might not be recovered by the market price for generation; and

4. Prudently incurred regulatory assets related to generation that were intended to be collected over time consistent with regulatory precedent or order.

D.P.U. 95-30 at 32.
POLICY RATIONALE FOR RECOVERY OF STRANDED COSTS
(Continued)

3. Consistent treatment of stranded costs among New England states and the FERC will provide benefits from expanded and coordinated economic electricity exchanges; and

4. Failure to address the billions of dollars at stake would provoke litigation, delaying the benefits of restructuring to all customers for many years

D.P.U. 95-30 at 35-36.
CONSIDERATIONS IN STRANDED COST RECOVERY

1. Investor-owned utilities are directed to develop restructuring proposals and seek negotiated settlements that include the reasonable opportunity for utilities to recover net, non-mitigable stranded costs.

2. Specific recovery mechanisms should:
   - Provide strong incentives to mitigate stranded costs;
   - Minimize any anti-competitive effects;
   - Limit the bulk of recovery to 5 yrs. and terminate by 10 years;
   - Not discriminate or be bypassable;
   - Include transfer rights to subsequent owners; and
   - Demonstrate how they facilitate restructuring in the public interest.

SCHEDULE OF COMPANY FILINGS

1. FEBRUARY 16, 1996:
   Boston Edison Company
   Massachusetts Electric Company
   Western Massachusetts Electric Company

2. AUGUST 16, 1996:
   Cambridge Electric Light Company
   Commonwealth Electric Company

3. THREE MONTHS AFTER DEPARTMENT DECISION IN THE FIRST THREE CASES:
   Remaining investor owned utilities