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Witness: Edward A. Davis and Kimberly R. Parsons
Request from: Office of Consumer Counsel

Question:

(Rate 6 – Residential Space Heating Rate) Please explain whether Rate 6 was designed to be revenue-neutral on a standalone basis, assuming no load shifting and a range of enrollment scenarios. If so, provide the revenue sufficiency analysis and workpapers, including assumptions regarding enrollment levels and per-customer incremental usage, in live Excel format with all formulas intact.

Response:

Please see the Company's responses to information requests OCC-474[i], OCC-475[ii], and OCC-476[iii]. The proposed Distribution rate design involved the following elements: a winter period charge for incremental distribution usage set at the year-round marginal unit cost, marked up proportionately against the total average cost for Rate 1, such that the Winter Period incremental rate ensures that customers will contribute to additional recovery of existing costs, i.e.., beyond incremental costs; an increase in the customer charge relative to the residential Rate 1 fixed charge, and a redesign of tier 1 volumetric rate for service. Reconciliation with total approved Distribution revenues occurs through revenue decoupling. Given the average usage bright line between block 1 and block 2 pricing of 700 kWh, the differences between actual and such average usage will determine the individual customer contribution. Projected Rate 6 enrollment levels and individual or average per-customer incremental usage are not known. Please refer to Exhibit CLP-RATES-6, at page 2, for design kWh and customer counts associated with the base revenue requirement and rate design, along with the details of design for any incremental usage. Exhibit CLP-RATES-6, at page 3 of provides details and illustrates bill impacts for assumed incremental load. The Company does not propose modifications to rates for other components of service (i.e., transmission, public benefits or supply rates), as those rates provide either an annual reconciliation or are set directly based on price (supply).

Prior Referenced Responses:

[i] OCC-474 Question:

(Rate 6 – Residential Space Heating Rate) Please explain how the two volumetric discount levels (4.7 cents/kWh for heating season usage above 700 kWh and 2.8 cents/kWh for all other usage) were derived. Specifically:

a. Were the discounts calibrated to the incremental cost of serving heat pump load? If so, please provide the calculation and workpapers in live Excel format with all formulas intact. If not, why not?
b. Did the Company consider other discount levels? If so, explain the alternatives considered and why they were ruled out. If not, why not?

OCC-474 Response:

a. Please refer to Exhibit CLP-RATES-6, at page 2. An Excel version of that exhibit was provided as part of the Company's filing. Costs and the associated proposed incremental load rate is calibrated with the marginal cost of providing service, as detailed on page 2 of the exhibit.

b. Please note, the Company did not develop the 2.8 cents/kWh rate as a discount from the 4.7 cents/kWh rate, so no other level of discount was considered. Rather, the Winter Block 2 Rate is based on the marginal cost of service and reconciling adjustments that allocate a proportional share of the corresponding volumetric rate, as detailed in Exhibit CLP-RATES-6, at page 2.

[ii] OCC-475 Question:

(Rate 6 – Residential Space Heating Rate) Refer to Exhibit CLP-RATES-1, at 35-36, which acknowledges that incremental load from EV charging can also benefit from the Rate 6 discount for usage above 700 kWh.

a. Was the discount sized to account for this "free rider" effect? If so, how? If not, why not?
b. What percentage of Rate 6 enrollees does the Company expect to also have EV charging load?
c. Has the Company modeled the revenue impact if a significant share of Rate 6 bill savings is attributable to EV charging rather than heat pump load? If so, provide the associated workpapers in live Excel format with all formulas intact. If not, why not?

OCC-475 Response:

a. Yes. The Winter Block 2 rate for Rate 6 is based on marginal distribution costs and a reconciling adjustment that effectively marks up the rate on an average load basis to ensure an additional share of demand related distribution costs are charged to incremental load (PLEASE refer to the Company's response to OCC-474[ii]). As a prerequisite to the rate, a customer must add new heat pump load not already included in the underlying revenue requirement applied in the rate design for Rate 1. By moving fixed cost recovery into the customer charge and the "tier 1" volumetric rates for Distribution, the Winter Block 2 rate that applies to incremental load, whether primarily for the heat pump load or secondarily any other incremental load, we are pricing that block based on, but above marginal cost to ensure positive contribution to distribution costs. Pricing for other components of service including transmission, public benefits and supply are unchanged relative to Rate 1. This helps mitigate the free rider effect.

b. The Company does not have such an estimate.

c. The Company has not conducted such an analysis. The workpapers provided in Exhibit CLP-RATES-6 may be utilized to estimate bill impacts for various levels of usage, which may be assumed to include incremental heat pump and EV charging load.

[iii] OCC-476 Question:

(Rate 6 – Residential Space Heating Rate) Refer to Exhibit CLP-RATES-1, at 36, which states that "additional EV charging during winter months can benefit from and contribute to system efficiency while receiving the benefit of reduced costs reflective of the heating season."

a. If the Company believes that EV charging load can provide the same system benefits as heat pump load during winter months, why did the Company not propose that EV charging customers without heat pumps be eligible for Rate 6?
b. Explain whether the Company believes that it is reasonable, from a cost causation and revenue neutrality perspective, for EV charging load to receive a discount during the winter without having to pay higher rates in the summer.

OCC-476 Response:

a. Rate 6 is designed for incremental winter load associated with adding a heat pump. However, the Company has no way of specifically identifying or differentiating such incremental heat pump load from other incremental load. Moreover, as with other residential rates this design is predicated on annual revenue requirements and average rates, that apply to whole house service. The design of Rate 6 is structured to ensure that the rate applies to the relevant period and includes the incremental load of the heat pump operating during the winter period, and increased system utilization may occur. The primary focus of this rate design is on space heating, and the comparative load that informs characteristics of this incremental load (i.e., that associated with electric space heating, not EV's) is a comparison of Rate 5 vs. Rate 1 monthly usage.

b. On balance the proposal provides a Distribution rate that can support incremental load during the winter period beyond that of heat pumps operating in a heating mode. This rate is not predicated on achieving an overall annual average rate that, due to a reduction in the rate for one period, an offsetting higher rate is required in another period. To ensure revenue neutrality with load across all months prior to consideration of any load increase in the targeted winter period, the proposed design moves a significant share of cost recovery, into the customer charge and the block 1 rate. This facilitates pricing for the incremental load using marginal costs, as fully detailed in Exhibit CLP-RATES 6.

   It is important to note that comparative load shapes of Rate 1 and Rate 5 indicate that both classes have increased electric load in the summer compared with the average, and while it hasn't been evaluated, the incremental load during the summer associated with a new heat pump added for electric space heating may already be represented in the summer load characteristics of Rate 1, with no incremental impact to cost of service or average distribution rates. Adding an EV load during the summer would represent an incremental load, and may drive additional costs relative to cooling loads already reflected in such rates. The Rate 7 time-of-day structure offers price signals whereby rates for incremental EV charging load during the summer would be expected to be lower during off-peak periods, and would therefore provide incentive to charge during the off peak and avoid causing additional costs. Given the nature of the Rate 6 design, the Company did not evaluate redesigning rates applicable to the summer period.