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Witness: Edward A. Davis, Kimberly R. Parsons, Matthew Nelson and Michael Goldman
Request from: CLF and Sierra Club

Question:

Refer to Exhibit CLP-IAP-1, at 70, which states: "When customers want to electrify, the rate structure should make that choice affordable, on terms that are fair to both the customers who convert and to those who do not." Provide the definition of "fair" in this context and explain how the Optional Residential Space Heating Rate promotes such fairness for customers who convert to heat pumps and those who do not.

Response:

The use of the word "fair" in the development of the ORSHR indicates that customers who qualify for the rate and customers who do not qualify for the rate each pay rates that reflect at least the cost of serving such customers, so that neither group bears costs caused by the other.

For customers who qualify for the rate, "fair" is used to convey economics that are below standard retail rates for some portion of their usage, which encourages transition from delivered fuels to electric heat pumps. This is also "fair" because it does not cause a burden to the system since the cost of serving winter-weighted heating load is less and the distribution system can largely accommodate it with capacity already in place.

For customers not qualifying for the ORSHR, "fair" is meant to convey the fact that they will not be subsidizing ORSHR customers because the ORSHR is set above marginal costs, meaning that the costs incurred to serve ORSHR customers are being paid for by those customers. In fact, customers who are not qualifying for the ORSHR may see lower rate impacts than they would have in the absence of the rate because the additional load encouraged by the ORSHR will contribute toward costs already incurred on the system.