

## The Restructured Electric Industry in Massachusetts

### *From the Massachusetts Department of Telecommunications and Energy Electric Industry Restructuring Webpage*

It is useful to think of the electric industry as being comprised of four components: (1) generation, the power plants that create the electricity that is transported to homes and facilities in Massachusetts; (2) transmission, the wires and associated facilities that transport the electricity (at high voltage levels) from power plants to distribution substations; (3) distribution, the wires and associated facilities that transport the electricity (at lower voltage levels) from distribution substations to customers' facilities and homes; and (4) customer services, which covers, among other things, metering, billing, and information services. In the electric industry as it existed before restructuring, these components were bundled and provided as monopoly services by electric companies, at prices fully regulated by the Department.

As of March 1, 1998, the generation component has been unbundled from the other components of electric service. Customers are now able to purchase generation services from entities other than their traditional electric companies. The prices that these "competitive suppliers" of generation service may charge customers will be determined by the competitive market; these prices will not be regulated by the Department, although the suppliers will be licensed by the Department.

The other components of electric service (transmission, distribution and customer services) have not been opened to competition; instead, these components will continue to be provided as monopoly services by the electric companies. With regard to metering, billing, and information services, the Legislature directed the Department to investigate whether these services should be unbundled and provided through a competitive market. In a December 29, 2000 report to the Legislature, the Department concluded that these services should not be provided competitively.

Customers' bills currently are presented in an unbundled format that shows the various components of electric service, as shown below. The rates and the format of the sample bill shown below are intended for illustrative purposes only; they do not represent the format or charges for any particular Distribution Company's bill. Below the sample bill is a brief description of each line item shown on the bill.

#### **Delivery Services**

Distribution Service	Customer charge	\$7.00/month
	Energy charge	\$0.035/kwh
Transmission Service		\$0.007/kwh
Transition Costs		\$0.015/kwh
DSM charge		\$0.0025/kwh
Renewables charge		\$0.00075/kwh

#### **Supplier Services**

Generation Service		\$0.06/kwh
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**Distribution Service** - Very little has changed in the way that distribution service is provided to customers. Distribution service remains a monopoly service provided exclusively to customers in a particular service territory by the local electric company (now referred to as a Distribution Company). Rates for distribution service continue to be fully regulated by the Department at levels that allow each Distribution Company a reasonable opportunity to recover the costs it incurs in providing this service to its customers.

**Transmission Service** - Similar to distribution service, there is little change in the manner in which transmission service is provided to customers at the retail level. Retail transmission rates continue to be

fully regulated by the Department at levels that allow each Distribution Company a reasonable opportunity to recover the costs it incurs in providing this service to its customers. However, there have been significant changes in the manner in which transmission service is provided at the wholesale level. In its Order 888, issued April 24, 1996, the Federal Energy Regulatory Commission ("FERC") established the principle that owners of transmission facilities must provide transmission services to third parties on the same (or comparable) basis, and under the same (or comparable) terms and conditions, as applies to the owners' uses of their systems.

**Transition Costs** - Transition charges are set at levels that allow each Distribution Company a reasonable opportunity to recover its fully-mitigated stranded costs. The Restructuring Act established certain categories of costs that qualify as stranded costs. For costs incurred prior to January 1, 1996, these categories are (1) fixed generation-related costs, (2) above-market purchased power contracts, (3) generation-related regulatory assets, and (4) nuclear decommissioning costs. For costs incurred after January 1, 1996, transition cost categories are (1) employee-related costs related to restructuring, (2) payments in lieu of taxes, and (3) removal and decommissioning costs for fossil-fuel generators.

**Demand Side Management ("DSM") and Renewable Charges** - The Restructuring Act established the following rate schedules for DSM and renewable energy activities.

Year	DSM	Renewables
1998	0.33 cents/kWh	0.075 cents/kWh
1999	0.31	0.1
2000	0.285	0.125
2001	0.27	0.1
2002	0.25	0.075
2003		0.05

Revenue from the DSM charges will be collected by each Distribution Company and will be used to fund DSM programs and activities that will administered individually by each Distribution Company, consistent with the manner in which DSM programs have previously been administered in Massachusetts.

Revenue from the renewable charges is presently collected by each Distribution Company, which transfers the revenue to the Renewable Energy Trust Fund. This fund is being administered by the Massachusetts Technology Park Corporation through its newly created Massachusetts Renewable Energy Initiative.

**Generation Service** - There are three generation service options available to consumers: (1) Standard Offer Service, provided by Distribution Companies; (2) Default Service, provided by Distribution Companies; and (3) competitive generation service, provided by competitive suppliers. It is important to remember that a customer that is connected to a Distribution Company's system will receive electric service, regardless of the option under which the customer is receiving generation service. However, the price that the customer pays for generation service is dependent on the type of service the customer is receiving.

Standard Offer Service is a transition generation service that will be available to customers of record of each Distribution Company through 2004. A customer that did not select a competitive supplier as of March 1, 1998 automatically was placed on Standard Offer Service (customers who move into a Distribution Company's service territory after March 1, 1998 are not eligible to receive Standard Offer - these customers are placed on Default Service until they select a competitive supplier). In general, once customers select a competitive supplier, they are no longer eligible to return to Standard Offer Service, except that (1) low-income customers can return at any time; (2) residential and small commercial and industrial customers can return within 120 days of selecting a supplier (this option is available only until March 1, 1999); and (3) customers participating in a municipal aggregation program can return within 180 days of joining the program. The rates for Standard Offer Service are regulated by the Department and are

set at levels that provide a 10 percent overall bill reduction to customers receiving Standard Offer Service; the level of the overall bill reduction for Standard Offer customers will increase to 15 percent on September 1, 1999.

Default Service is the generation service that is provided by Distribution Companies to those customers who are not receiving either competitive generation or Standard Offer Service. Customers who move into a Distribution Company's service territory after March 1, 1998 will receive Default Service until they select a competitive supplier. Prices for Default Service are regulated by the Department and may not exceed the average market price for electricity in New England.

Competitive Generation Service will be provided by competitive suppliers and electricity brokers that have been licensed by the Department. A Competitive Supplier is an entity that is licensed by the Department to sell electricity and related services to customers (DTE Supplier/Broker License Application). An Electricity Broker is an entity that is licensed to facilitate or otherwise arrange for the purchase and sale of electricity and related services to customers, but is not licensed to sell electricity to customers. An applicant for a competitive supplier or electricity broker license must demonstrate, among other things, the financial and technical capability to provide the applicable services. Prices for Competitive Generation Service will be set by the competitive electricity marketplace; these prices will not be regulated by the Department.

Before initiating generation service to a customer, a competitive supplier must complete a three-step process. First, the supplier must obtain authorization from the customer either through (1) a letter of authorization, (2) third-party telephone verification, or (3) the completion of a toll-free telephone call initiated by the customer. Second, once customer authorization is obtained, the competitive supplier must send an information disclosure packet to the customer, describing, among other things, the contractual terms the customer has agreed to, and the fuel mix and environmental characteristics associated with the supplier's generating resource portfolio. Third, the competitive supplier must allow for a three-day rescission period to elapse before initiating generation service to a customer (the rescission period begins upon the customer's receipt of the information packet). Once these steps are completed, the competitive supplier may initiate generation service to the customer by informing the customer's Distribution Company that, upon the customer's next meter read date, the supplier will be providing generation service to the customer.

Customers receiving generation service from a competitive supplier have two billing options: (1) complete billing, under which a customer would receive a single bill from the Distribution Company, including charges for generation service; and (2) pass-through billing, under which a customer would receive two bills, one from the Distribution Company for non-generation charges and a second bill from the competitive supplier for generation service charges.