

**Commonwealth of Massachusetts  
Department of Public Utilities**

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Investigation by the Department of Public Utilities )  
On its own Motion into Rate Structures that will )  
Promote Efficient Deployment of Demand Response )

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D.P.U. 07-50

**Initial Comments of  
Constellation Energy Commodities Group, Inc. and  
Constellation NewEnergy, Inc.**

**I. INTRODUCTION**

Constellation Energy Commodities Group, Inc. (“CCG”) and Constellation NewEnergy, Inc. (“CNE”) (collectively, “Constellation”) are pleased to submit the following initial comments to the Department of Public Utilities (the “Department”) in response to the Department’s request for comments dated June 22, 2007 and revised on July 26, 2007 in the above captioned docket.

CCG is a wholesale supplier of electric power to many of New England’s electric utilities in connection with either their standard offer or default service obligations. CCG is a regular participant in default service power supply solicitations in Massachusetts and is from time to time a successful bidder.

CNE is the leading competitive retail supplier of electricity in the United States and is a licensed electric retail supplier in 17 states, including Massachusetts, and two Canadian provinces. CNE currently provides over 15,000 megawatts (“MW”) of electric supply directly to businesses throughout the country

for their own use and has over 2700 Massachusetts commercial and industrial customers.

CNE and CCG are subsidiaries of Constellation Energy Group, Inc., a Fortune 200 company headquartered in Baltimore, Maryland, which also owns Baltimore Gas and Electric Company, a regulated utility.

## **II. COMMENTS**

On June 22, 2007, the Department opened on its own motion, this investigation into rate structures that will promote the efficient deployment of demand resources. The Department's stated objective is to investigate rate structures and revenue recovery mechanisms that may reduce disincentives to the efficient deployment of demand resources in Massachusetts. The Department states that the existing rate structures for both electric and gas utilities puts in place a strong incentive for utilities to take actions to increase sales, and thereby increase revenues, and an equally strong incentive to avoid any decrease in sales, thereby decreasing revenues. Therefore, there is an inherent conflict between the incentive to increase sales and the employment of demand resources.

The Department wishes to (1) capture all available and economic system and end-use efficiencies and (2) foster the advancement of price-responsive demand in regional wholesale energy markets. To that end, the Department has put forth a straw proposal for a base revenue adjustment mechanism which renders electric and gas companies' revenue levels immune to changes in sales between rate proceedings. Implementation of such a mechanism would represent a significant departure from historical rate making in the Commonwealth of Massachusetts.

As an initial matter, Constellation applauds the Department's interest in promoting additional energy efficiency and demand response. Constellation strongly supports efforts to reduce energy consumption and is an active participant in demand response initiatives in Massachusetts and throughout the country. The societal benefits of reducing peak demand and overall energy consumption are clear, and include the reduction of the carbon footprint, the need for fewer additional generating plants, and lower overall costs for consumers.

As relates to the Department's straw proposal, Constellation is intrigued with the overall concept of revenue decoupling but is at this time not prepared to recommend or oppose the proposal at hand. While we are aware that California has many years of experience with revenue decoupling it is a new phenomenon in Massachusetts and the rest of the country. The threshold question is whether revenue decoupling, will be an effective regulatory mechanism to accomplish the objective of greater demand response and application of energy efficiency measures. For instance, will revenue decoupling result in greater utility involvement in demand response? Utilities already have actively promoted energy efficiency and demand response with the existing incentives, for example the Lost Base Revenue programs. Also, Southwestern Connecticut has achieved high demand response enrollment levels supplied by competitive providers. Are there better, more easily implemented mechanisms to achieve the same goal? Does rate decoupling ignore the fact that many factors can cause a utility to sell less energy between rate cases, including weather, changing economic conditions, shifts in population, loss of large industrial customers, etc? By guaranteeing a specific rate

of return does rate decoupling eliminate a utility's incentive to manage its operation in an efficient manner? Are there other unforeseen consequences associated with rate decoupling? Constellation expects that many of these questions will be vetted as part of the Department's investigation.

Without taking a position on the wisdom of rate decoupling generally, Constellation does respectfully request that should the Department implement rate decoupling that it do so in a manner that continues to foster the wholesale and retail competitive marketplace. The Department's straw proposal delineates nine Principles in Designing a Base Revenue Adjustment Mechanism. Constellation requests that a tenth principle be added to read as follows: "be consistent with and promote competitive wholesale and retail markets." The Massachusetts Electricity Restructuring Act of 1998 successfully introduced competition in wholesale and retail electricity markets. Massachusetts is one of the success stories across the country for restructured electricity markets exhibiting vibrant wholesale and retail competitive markets. Achieving innovation and efficiency through competition remains the cornerstone of Massachusetts energy policy under that Act. The Department should assure that any changes in Transmission and Distribution rates as significant as revenue decoupling be accomplished in a manner that at a minimum does no harm to those markets.

Constellation looks forward to further participation in this docket and to reviewing the comments of others.

### **III. CONCLUSION**

In conclusion, Constellation takes no position on the effectiveness of revenue decoupling at this time. However, should the Department implement revenue decoupling, Constellation requests that it be done in a manner that continues to foster a vibrant wholesale and retail competitive electric marketplace.

Respectfully submitted,

/s/ Dan Allegretti

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