



# The Commonwealth of Massachusetts

## DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 13-83-A

April 30, 2014

Petition of Massachusetts Electric Company, Nantucket Electric Company, Boston Gas Company, and Colonial Gas Company, each d/b/a National Grid, for approval by the Department of Public Utilities of a residential automatic meter reading opt-out provision set forth in tariffs M.D.P.U. Nos. 1215, 26, and 17.

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FOR: MASSACHUSETTS ELECTRIC COMPANY,  
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COMPANY, AND COLONIAL GAS COMPANY  
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## I. INTRODUCTION

On June 5, 2013, Massachusetts Electric Company (“MECo”), Nantucket Electric Company (“Nantucket Electric”), Boston Gas Company (“Boston Gas”), and Colonial Gas Company (“Colonial”), each d/b/a National Grid (collectively “National Grid” or the “Company”), filed a request with the Department of Public Utilities (“Department”) for approval of proposed electric and gas tariffs, each entitled “Residential Automatic Meter Reading Opt-Out Provision.” The proposed tariffs would allow a residential customer to request that the Company replace an advanced meter reading (“AMR”) meter (“AMR meter”), which is equipped with a radio frequency (“RF”) transmitter, with a meter that does not use an RF transmitter (“non-AMR meter”). The proposed electric tariff for MECo and Nantucket Electric is M.D.P.U. No. 1215; the proposed Boston Gas tariff is M.D.P.U. No. 26; and the proposed Colonial tariff is M.D.P.U. No. 17. The Department docketed this matter as D.P.U. 13-83 and suspended the effective date of the tariffs until May 1, 2014 to investigate the propriety of the Company’s request.

On June 28, 2013, the Attorney General of the Commonwealth (“Attorney General”) filed a notice of intervention pursuant to G.L. c. 12, § 11E(a). Pursuant to notice duly issued, the Department held a public hearing on July 30, 2013. The following members of the public presented comments at the public hearing: Clare Donegan, Thea Fournier, Helen Walker, Jean Lemieux, and Janet Johnson. The Attorney General submitted written comments on the same day in which she recommended that the Department fully investigate the propriety of the proposed

tariff changes in an administrative adjudication (Attorney General Comments at 1-2). Members of the public submitted written comments between July 29 and July 31, 2013.<sup>1</sup>

On November 14, 2013, the Department conducted an evidentiary hearing at its offices. The Company presented two witnesses in support of its filing: Michael J. Coles, senior analyst, New England electric pricing, in the Regulation and Pricing Department of National Grid USA, Inc.; and Peter T. Zschokke, director of regulatory strategy for National Grid USA Service Company, Inc. The record consists of 47 exhibits and the Company's response to nine record requests. On December 3, 2013, the Company and the Attorney General submitted initial briefs, and the Company filed a reply brief on December 10, 2013.

On March 31, 2014, the Company submitted a letter to the Department with a March 2014 article from the Berkshire Record as an attachment ("Company Letter"). On April 7, 2014, the Attorney General filed a Motion to Strike Newspaper Article Filed by National Grid ("Motion to Strike").

## II. MOTION TO STRIKE

### A. Introduction

On March 31, 2014, National Grid filed the Company Letter with the Department. The Company Letter included as an attachment a March 27, 2014 article from the Berkshire Record regarding an agenda item for the town of Sheffield, Massachusetts's upcoming town meeting (Company Letter at 2). According to the article, the proposal calls for Sheffield to place a

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<sup>1</sup> Comments from members of the public both in writing and at the public hearing primarily expressed concerns about RF-related effects on privacy and human health. These issues will be discussed in Modernization of the Electric Grid, D.P.U. 12-76.

moratorium on the installation of smart meters<sup>2</sup> for utility customers within its borders until National Grid allows communities to enact “Community Opt Outs” whereby a town determines whether it will permit the broad deployment of smart meters (Company Letter at 2). On April 7, 2014, the Attorney General filed the Motion to Strike the Company Letter.

B. Positions of the Parties

1. National Grid

In filing the Company Letter, National Grid claims that the article demonstrates that the desire for advanced meter opt-out is topical, and that it shows that the Company’s proposed tariffs would address a need (Company Letter at 1).

2. Attorney General

The Attorney General argues (1) that the Company Letter failed to comply with Department requirements for offering material into the evidentiary record after the close of evidence per 220 C.M.R. § 1.11(8); and (2) that National Grid did not meet its burden to show good cause because the Berkshire Record article is not relevant to the issues in this docket (Motion to Strike at 3).

C. Analysis and Findings

Department precedent has established that fact-finding after the record has closed is an unacceptable tactic that is potentially prejudicial to the rights of other parties even when the evidence is excluded. New England Gas Company, D.P.U. 10-114, at 8 (2011), citing Boston Gas Company, D.P.U. 88-67 (Phase II) at 7 (1989). Department regulations provide that no person may present additional evidence after having rested except upon motion and a showing of

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<sup>2</sup> The broad category of “smart meters” includes meters that use RF transmitting capabilities.

good cause. 220 C.M.R. § 1.11(8). Good cause has been defined as a showing that the proponent has previously unknown or undisclosed information regarding a material issue that likely would have a significant impact on the decision. Machise v. New England Telephone and Telegraph Company, D.P.U. 87-AD-12-B at 4-7 (1990); D.P.U. 88-67 (Phase II) at 7; Tennessee Gas Pipeline Company, D.P.U. 85-207-A at 11-12 (1986).

Although the Berkshire Record article may appear topical, the Company has not demonstrated that the article likely would have a significant impact on the decision in this case. Therefore, the Attorney General's Motion to Strike is granted and the Company Letter, and the attachment, is stricken from the record.

The manner in which the Company Letter was submitted deserves comment. National Grid submitted the Berkshire Record article attached to the Company Letter. In seeking to reopen the evidentiary record, the moving party must first submit a motion that states the subject or issue that the proffered evidence would address. D.P.U. 88-67 (Phase II) at 7. Only if the motion is granted is it then proper to present the evidence itself. The Department's rationale for this rule is that the presentation of extra-record evidence to the fact finder after the record is closed is potentially prejudicial to rights of the other parties even when the evidence is excluded. D.P.U. 88-67 (Phase II) at 7.

### III. THE PROPOSED OPT-OUT TARIFFS

#### A. National Grid's Proposal

##### 1. Introduction

The Company proposes to provide an option to its residential electric and gas customers to replace the Company's AMR meters with non-AMR meters (Exh. NG-PTZ-1, at 3). The

Company has received 20 requests from residential electric customers and four requests from residential gas customers to have their AMR meters replaced by non-AMR meters (Exh. NG-PTZ-1, at 3-4; Tr. at 84-86). The Company stated that most of these requests resulted from customers' aversions to RF-emitting devices at their homes (Exh. NG-PTZ-1, at 4). The Company stated that customers of National Grid's affiliates in New York and Rhode Island have returned meters to those affiliates after the customers had removed their AMR meters themselves and replaced them with non-AMR meters (Exh. NG-PTZ-1, at 4). The Company states that a customer replacing a meter creates significant safety risks both for the customer and for Company employees (Exh. NG-PTZ-1, at 4). National Grid therefore proposes to offer residential customers the choice to opt out of their AMR meters, provided those customers pay the incremental costs associated with this option (Exh. NG-PTZ-1, at 4).

## 2. Proposed Residential Electric Opt-Out Tariff

The Company's proposed opt-out tariff for residential electric customers would require customers to pay an installation fee of \$26.00, which includes National Grid's incremental labor costs to remove an existing AMR electric meter and replace it with a non-AMR electric meter (Exh. NG-MJC-1, at 6). Opt-out electric customers' bills would include an additional \$11.00 monthly charge for manually reading a non-AMR electric meter (Exh. NG-MJC-1, at 6). National Grid states that this monthly fee includes the incremental labor costs associated with Company employees' manually reading the non-AMR electric meter, as compared to costs associated with reading AMR electric meters (Exh. NG-MJC-1, at 6).<sup>3</sup> Should an electric

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<sup>3</sup> The Company performs AMR meter readings by driving vehicles equipped with RF receivers past residences with AMR meters; the vehicles receive an RF signal transmitted by the AMR meter with the pertinent usage and customer information.

opt-out customer choose to revert to an AMR meter, National Grid proposes a reinstallation fee of \$26.00, which includes the cost of removing the non-AMR meter and replacing it with an AMR meter (Exh. NG-MJC-1, at 6).

### 3. Proposed Residential Gas Opt-Out Tariffs

National Grid proposes that residential gas customers who choose to opt out of their AMR meter pay an installation fee of \$67.00 (Exh. NG-MJC-1, at 7). The Company states that this fee includes the Company's incremental labor costs to remove an existing AMR gas meter and replace it with a non-AMR gas meter (Exh. NG-MJC-1, at 7). The Company also proposes that gas opt-out customers' bills reflect an additional \$13.00 monthly charge for gas meter reads (Exh. NG-MJC-1, at 7). National Grid states that this monthly fee includes the incremental labor costs associated with Company employees manually reading the non-AMR gas meter, as compared to costs associated with reading AMR gas meters (Exh. NG-MJC-1, at 7). Should a gas opt-out customer choose to revert to an AMR meter, National Grid proposes a reinstallation fee of \$67.00, which includes the Company's cost to remove the non-AMR meter and replace it with an AMR meter (Exh. NG-MJC-1, at 7).

### 4. Proposed Fee Calculation

National Grid states that it calculated the proposed installation fees by multiplying the sum of the average travel and "wrench time" (time worked on the customer's premises) for a meter exchange by the average straight-time hourly rate of a full-time employee qualified to do a meter exchange (Exh. NG-MJC-1, at 7-8). The Company states that it calculated the proposed monthly meter read fees by multiplying the sum of the average travel and wrench time for a manual meter read by the average straight-time hourly rate of a full-time employee qualified to

perform a meter read (Exh. NG-MJC-1, at 8). Lastly, the Company states that it set the AMR re-installation fees equal to the respective non-AMR installation fee because it assumes that this procedure requires the same amount of time, and the same type of employee, as is required for the initial AMR meter removal and non-AMR meter installation (Exh. NG-MJC-1, at 9).

The Company states that both the proposed installation and meter read fees for AMR gas meters are higher than corresponding fees for AMR electric meters because the labor times for gas meter exchanges and manual gas meter reads are higher than those for electric meters (Exh. NG-MJC-1, at 8). The Company contends that the average wrench time for a gas meter exchange is 40 minutes compared to 13 minutes for an electric meter exchange, and that the average time to perform a manual gas meter read is 12 minutes, compared to 8 minutes for an electric meter (Exh. NG-MJC-1, at 8).

B. Positions of the Parties

1. Introduction

In this Order we address whether the Department should approve these opt-out tariffs. In doing so, we address the Attorney General's following five arguments: (1) the charges proposed by the Company applicable only to residential customers are unduly discriminatory; (2) the proposed charges will be unjust and unreasonable, allowing the Company to earn a return higher than its allowed return; (3) the proposed charges fail to take into account reductions in costs associated with non-AMR meters; (4) the Department should not establish new surcharges in between base rate cases for services that are substantially similar to those already being charged through existing rates; and (5) the Department should not establish new rates for existing services without a cost allocation study.

2. Whether the Proposed Charges Are Unduly Discriminatory

a. Attorney General

The Attorney General claims that the tariffs proposed by National Grid are unduly discriminatory because the proposed surcharge only applies to one class of customers: those residential customers who currently have an AMR meter and who wish to opt out (Attorney General Brief at 3-4). The Attorney General argues that it is unduly discriminatory to charge those opt-out customers, but not other customers who currently require manual meter reading services and are not subject to an additional charge (Attorney General Brief at 4, citing Tr. at 70). The Attorney General argues that this rate structure contradicts the Department's basic regulatory principle that rates should be just and reasonable, and not unjustly discriminatory or unduly preferential (Attorney General Brief at 4, citing Rate Decoupling, D.P.U. 07-50, at 11-12 (2007)).

b. National Grid

National Grid claims that, because AMR meters have been in place for over a decade, the Company's current rate structure does not include the incremental costs associated with manually reading new non-AMR meters (National Grid Brief at 5). National Grid argues that requiring customers who choose to have a non-AMR meter installed to pay the incremental costs to perform a meter exchange and manually read their meter is consistent with the Department's long-standing policy of avoiding cross subsidization (National Grid Brief at 5, citing Exh. NG-PTZ-1, at 4; Tr. at 20; National Grid Reply Brief at 2). In addition, the Company does not want to encourage customers to opt-out of existing AMR meters given the value received by customers from those meters (National Grid Brief at 5-6; National Grid Reply Brief at 3, 4). The

Company claims that its proposal makes transparent the real costs to those customers who may be concerned about AMR meter technology so that they can make an informed decision (National Grid Brief at 5-6). The Company further states that it anticipates additional customers will choose to opt-out of AMR meters if the option to do so does not send the appropriate economic signals (National Grid Reply Brief at 4, citing Exh. DPU-1-2).

The Company also argues that the proposed fees are not unduly discriminatory because the costs to serve the existing manual meter read customers are already recovered in base rates and would not be considered incremental (National Grid Reply Brief at 2-3). The Company claims that the proposed tariffs are entirely consistent with the Department's cost causation and cost allocation principles because the Company is proposing to charge only those customers who are causing the incremental costs to be incurred (National Grid Reply Brief at 2). The Company argues that it is equitable that residential customers who opt out of AMR meter technology be responsible for the incremental costs associated with the service that they receive (National Grid Reply Brief at 3).

3. Whether the Proposed New Charges Will Unfairly and Unjustly Create Net New Income for Shareholders over and above the Company's Allowed Return

a. Attorney General

The Attorney General claims that these new charges will create new revenues for National Grid, but that the Company has not demonstrated that it will incur any new incremental costs associated with these services (Attorney General Brief at 4-5). The Attorney General argues that the Company's proposed new charges will create revenue for the Company without incremental costs because the Company already has employees who provide this service

(Attorney General Brief at 4-5, citing Tr. at 6). The Attorney General contends that without any incremental costs, the proposed tariffs will allow the Company to earn a rate of return above and beyond what the Department found to be just and reasonable in the Company's last base rate case (Attorney General Brief at 5).<sup>4</sup>

b. National Grid

The Company states that the proposed opt-out fees are based on the assumption that National Grid will receive requests from customers in individual residences (National Grid Brief at 6). The Company claims that this method is reasonable and administratively efficient, and reflects the incremental cost for the average customer requesting the service (National Grid Brief at 6). The Company states that the fees were derived by multiplying the average time it takes for a qualified full-time employee to perform the work by the average wage rate of such employees (National Grid Brief at 7). The Company states that it did not include the material cost of the meter or information technology costs because those costs are already reflected in the Company's rates and are not incremental to the opt-out service (National Grid Brief at 7). The Company further states that it did not include transportation overhead costs as these costs are de minimis compared to the incremental labor cost (National Grid Brief at 8, citing Exh. AG-1-4).

National Grid contends that it has presented evidence that the proposed installation fees include the Company's incremental labor to remove the AMR meter and replace it with a non-AMR meter (National Grid Reply Brief at 4). The Company also argues that the monthly fee offsets the incremental labor costs associated with manually reading the meters

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<sup>4</sup> The Attorney General contends that, even if there are incremental costs, they are de minimis given the small number of customers who have requested non-AMR meters (Attorney General Brief at 5).

(National Grid Reply Brief at 2). The Company claims that these costs were not contemplated at the time of the Company's last base rate case, and therefore are incremental to its base rates (National Grid Reply Brief at 4). The Company argues that the Attorney General has provided no evidence to support her assertion that the proposed opt-out fees will allow the Company to earn a rate of return above what the Department determined to be just and reasonable in the Company's last base rate case (National Grid Reply Brief at 5).

4. Whether the Company's Proposed Surcharges Reflect the Reduction in Cost Associated with Non-AMR Meters

a. Attorney General

The Attorney General argues that the Company miscalculated its proposed surcharges because it failed to account for the costs that will decrease when it provides manual meter services to opt-out customers (Attorney General Brief at 5-6). The Attorney General argues that the proposed tariffs do not reflect cost savings associated with non-AMR meters, such as lower: (1) invoice costs; (2) return on rate base; (3) income taxes on the return; (4) depreciation expense; and (5) property taxes (Attorney General Brief at 6). The Attorney General maintains that the failure to take such cost reductions into account results in an overstatement of the costs of providing meter opt-out services (Attorney General Brief at 6).

b. National Grid

Regarding the inclusion of the differential in invoice costs, the Company states that it did not include the discrepancy in material costs of types of meters in its calculus of the cost to provide opt-out service because the Company's residential base distribution rates already include those costs (National Grid Brief at 8; National Grid Reply Brief at 6). The Company also maintains that the Attorney General's allegation that the Company failed to reflect cost savings

associated with the return on its rate base, depreciation expense, income taxes on the return, and property taxes is inapplicable because each of those items is part of the calculation of the capital costs of the meter (Tr. at 35-37). The Company maintains that the fees it is proposing do not include the material costs of the meter (Tr. at 37; Exhs. AG 1-1; AG 1-5). The Company also argues that it designed the proposed fees to send an appropriate price signal to customers regarding the cost savings associated with AMR technology (National Grid Brief at 9; National Grid Reply Brief at 6, citing Exh. NG-PTZ-1, at 5). Therefore, the Company argues that designing the proposed fees to collect only the incremental labor costs associated with the meter exchange and manual meter reads is appropriate (National Grid Reply Brief at 6).

5. Whether the Department Should Allow New Charges between Base Rate Cases for Services that Are Substantially Similar to Those Provided under Existing Tariffs

a. Attorney General

The Attorney General asserts that the Department should reject the proposed tariffs because National Grid proposes to apply them only to new opt-out customers, but not to existing manual meter customers whose costs of service the Company recovers through the existing base rates set in dockets Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, D.P.U. 09-39 and Boston Gas Company, Essex Gas Company, and Colonial Gas Company d/b/a National Grid, D.P.U. 10-55 (Attorney General Brief at 6-7). The Attorney General contends that cost assignment should not be done outside of a general base rate case, because rate cases provide access to cost of service studies and reviews of the reasonableness of the existing base rates (Attorney General Brief at 7). Lastly, the Attorney General argues that this case provides no compelling reason to allow cost assignment outside of a rate case because

any incremental costs to provide non-AMR services are de minimis (Attorney General Brief at 7).

b. National Grid

National Grid contends that it is not proposing new charges for services that it currently provides and that are currently recovered in base rates (National Grid Reply Brief at 6). Rather, the Company argues that it is providing customers with a new meter opt-out choice with associated costs that are directly assignable to the requesting customer (National Grid Reply Brief at 6).

National Grid argues that Department precedent provides examples of companies setting optional services and associated rates outside of a base rate case, including rates associated with advanced metering services (National Grid Reply Brief at 6, citing Advanced Metering, D.T.E. 01-28 (2001) (setting rates for advanced metering services); Massachusetts Electric Company, D.T.E. 03-54 (2003) (setting rates for second feeder service).

6. Whether the Department Should Establish New Rates for Existing Services without a Cost Allocation Study

a. Attorney General

The Attorney General argues that the Department should not establish new rates for existing service without a fully allocated cost of service study (Attorney General Brief at 7). The Attorney General maintains that a cost of service study is a prerequisite to a company's separating particular parts of its service from its base rates (Attorney General Brief at 7). The Attorney General states that such a study should provide for and determine charges for new services that apply to all customers (Attorney General Brief at 7, citing D.P.U. 07-50, at 11–12).

b. National Grid

The Company argues that a cost allocation study would serve no purpose here because the Company has identified the incremental costs that are directly related to the customers causing the costs (National Grid Reply Brief at 7). The Company contends that a cost allocation study would not be necessary to determine appropriate costs in this instance (National Grid Reply Brief at 7).

IV. ANALYSIS AND FINDINGS

A. Whether the Proposed Charges Are Unduly Discriminatory

The Attorney General claims that the Company's proposal is unduly discriminatory because National Grid has other customers who require a manual meter read who are not subjected to this proposed new charge (Attorney General Brief at 4, citing Tr. at 70). In ratemaking, providing different treatment for different classes of customers, reasonably classified, is not unlawful discrimination. American Hoechst v. Department of Public Utilities, 379 Mass. 408, 411 (1980) ("American Hoechst"); Boston Real Estate Board v. Department of Public Utilities, 334 Mass. 477, 495 (1956); see also Bertone v. Department of Public Utilities, 411 Mass. 536, 549 (1992) ("Bertone") (holding that new customer hook-up charges were "sufficiently particularized" to justify distributing their costs only among new customers, and not to all customers).

The Company installed its AMR meters for residential electric customers in the early 2000s (Tr. at 19). It installed its AMR meters for residential gas customers between 1989 and 1990 (RR-AG-4). The Company provides service to those customers who require a manual read of their meters, and the costs to serve those customers are included in the Company's current

base rates (Tr., at 32-33; see also D.P.U. 09-39 (2009) and D.P.U. 10-55 (2010)).<sup>5</sup> National Grid's current base rates include the costs to serve residential customers (i) who take service with an AMR meter and (ii) take service with meters requiring a manual read (Tr. at 32, 33). See D.P.U. 09-39 and D.P.U. 10-55. The costs to serve customers who choose to have their existing AMR meter replaced with a non-AMR meter are not presently included in base rates because the Company did not anticipate customers' desire to opt out during its previous gas and electric rate cases (Tr. at 15-16). The Company's current base rates are therefore based on costs associated with AMR meters, with some costs associated with the non-AMR meters that the Company never replaced and continues to read manually (Tr. at 14-16). The proposed tariffs apply to customers who are receiving service from the Company through an AMR meter and opt to have the meter replaced by a non-AMR meter (Exhs. NG-MCJ-2, at 1; NG-MJC-3, at 1; NG-MJC-4, at 1). National Grid has properly identified the incremental costs to provide this opt-out service, specifically (a) the labor costs to change out the meters and (b) the labor costs to manually read the non-AMR meters (Exh. NG-MJC-1, at 6-9). See American Hoechst, 379 Mass. at 411 (cost of service is a well-recognized basis for rate design).

To date, the Company has received 24 requests for a change out of AMR meters (20 residential electric customers, 4 residential gas customers) (Exh. NG-PTZ-1, at 3-4; Tr. at 84-86). Although this number is small, the Department recognizes that, as the use of smart meters has increased nationwide, so too has the need for public utility commissions to address

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<sup>5</sup> The primary reasons that the Company provides manual meter reading service to these customers are: (1) the incompatibility of AMR technology with certain complex rate designs; (2) the Company's inability to access the customer's property to perform a meter exchange; and (3) AMR meter failure (Exh. DPU 1-14).

related opt-out issues.<sup>6</sup> Thus, we find that there is a reasonable likelihood that the number of National Grid customers pursuing opt-out service will increase. Because customers will be taking a new service from the Company priced at the cost of providing the service, the Department does not find that National Grid's opt-out service is unduly discriminatory.

B. Whether the Proposed New Charges Will Unfairly and Unjustly Create Net New Income for Shareholders over and above the Company's Allowed Return

In providing a customer with the choice to opt out of the AMR meter, National Grid will incur costs not included in its base rates (Exhs. NG-MJC-5 (electric); NG-MJC-6 (gas)). These costs consist of two components: (1) switching out the AMR meter; and (2) the monthly manual meter reading (Exh. NG-MJC-1, at 3). These costs have not been included in the Company's cost of service in setting base rates. See, e.g., D.P.U. 09-39 and D.P.U. 10-55; see also Boston Gas Company, D.T.E. 03-40 (2003); Essex Gas Company, D.P.U. 96-107 (1996). Therefore, these costs are incremental to the Company's costs that serve as the basis for its current base rates. National Grid is offering a new service and is incurring new costs associated with that service (Exh. NG-PTZ-1, at 3). Therefore, charging customers for these incremental costs will not allow the Company to earn a higher return than allowed by the Department.

The Attorney General also contends that any incremental costs incurred by the Company to serve these opt-out customers are de minimis because so few customers have opted to have

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<sup>6</sup> See Elisa Boxer-Cook, et al., Maine Public Utilities Commission, 2010-345, Order I (2011) (directing electric distribution companies to assess opt-out customers an initial charge and a monthly charge); Idaho Public Utilities Commission, Bonnie Menth & Vicky Davis IPC-E-12-04, 2012 (rejecting requests from customers requesting to opt out of smart meter installation at their residences); Potomac Electric Power Company, et al., Public Service Commission of Maryland, Order No. 82600 (2014) (Order establishing charges for opt-out customers both initially and monthly).

their meters switched (Tr. at 63-65). National Grid's proposed tariffs are designed to send price signals to customers who are considering opting out of service with an AMR meter (Exh. NG-PTZ-1, at 5). We find that the costs included in the proposed tariffs are reasonably related to the incremental cost of taking service without AMR meters, for those customers who already have AMR meters. See Bertone, 411 Mass. at 546, citing American Hoechst, 379 Mass. at 411 (cost of service is a "well-recognized basis" for rate design). Thus, we find that, in this circumstance, sending an appropriate price signal to customers considering opting out of AMR meters warrants establishing these opt-out tariffs.

C. Whether the Company's Proposed Surcharges Reflect the Reduction in Cost Associated with Non-AMR Meters

The Attorney General argues that the Company has overstated the cost of its proposed non-AMR meter services by ignoring the lower costs associated with the non-AMR meters (Attorney General Brief at 6). All of the cost categories listed by the Attorney General<sup>7</sup> pertain to a non-AMR meter. The charges in the proposed opt-out tariffs do not include the cost of a meter itself (Tr. at 37; Exhs. AG-1-1; AG-1-5). We do acknowledge that the material costs of both electric and gas non-AMR meters are lower than those of AMR meters.<sup>8</sup> However, we find that it is not necessary to conduct a cost study to include these meter investments considering the

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<sup>7</sup> The Attorney General identified the following cost categories: (1) invoice costs; (2) return on rate base; (3) income taxes on return; (4) depreciation expense; and (5) property taxes (Attorney General Brief at 5-6).

<sup>8</sup> Recent price quotes are as follows: (1) \$25.50 and \$32.49 for a non-AMR and an AMR electric meter, respectively; (2) \$47.24 and \$87.49 for a non-AMR and an AMR gas meter capable of passing 250 cubic feet of gas per hour, respectively; and (3) \$98.65 and \$138.90 for a non-AMR and an AMR gas meter capable of passing 425 cubic feet of gas per hour, respectively (Exhs. AG-1-1, at 1; AG-1-5, at 1).

material costs of the meters and the expected useful lives of the meters.<sup>9</sup> Thus, we find that National Grid's treatment of meter capital costs in setting charges for the opt-out tariffs is reasonable. As stated above, the charges in the opt-out tariffs are based on the incremental costs of the opt-out service, specifically the cost of changing out the meters and the cost of manually reading the meters (Exh. NG-MJC-1, at 6-9). Therefore, the Department finds that the Company has appropriately set the charges for opt-out service and there is no overstatement of the costs

D. Whether the Department Should Allow New Charges between Base Rate Cases for Services that are Substantially Similar to Those Provided under Existing Tariffs

The Attorney General contends that the Department should not allow new charges between base rate cases when those services are substantially similar to those provided under existing tariffs (Attorney General Brief at 6-7). As we stated above, the Company's properly established particularized service shows that current rates do not reflect customers' taking opt-out service. National Grid has not previously allowed electric or gas customers the option to switch out their AMR meter with a non-AMR meter (Exh. NG-PTZ-1, at 3). This service became necessary because of requests made by customers within the last few years (Exh. NG-PTZ-1, at 3). Therefore, the Department finds that it is appropriate for the Company to file a new tariff for this service.

E. Whether the Department Should Establish New Rates for Existing Services without a Cost Allocation Study

The opt-out service proposed by National Grid is for a new service: opting out of service with AMR meters and taking service with non-AMR meters. The Company has identified

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<sup>9</sup> The typical useful life of a gas meter is approximately 32 years, and the typical useful life of an electric meter is approximately 22 years (Tr. at 38).

sufficiently particularized circumstances to justify proposing a new service. In proposing its opt-out service, the Company has appropriately set charges based on the identified incremental costs to provide this service to residential customers. In this circumstance, we find that a cost allocation study is not needed.

F. Conclusion

The Company properly designed its opt-out service tariffs to send price signals to customers of the costs associated with opt-out service. The Department has found that fees for various services must be based on the costs that a company actually incurred associated with these functions. Aquarion Water Company, D.P.U. 11-43, at 249 (2011). In addition, the Department has found that the costs to provide a service should be charged to the customers that cause the cost, rather than be subsidized by other customers. D.P.U. 11-43, at 250. Fairness in rate setting dictates that customers pay the cost to serve them. D.P.U. 11-43, at 250. The charges in the Company's proposed opt-out tariffs include the incremental costs related to taking service with a non-AMR meter. The services under these tariffs are sufficiently particularized and reasonably directed at expanded interest to justify establishing new tariffs. Therefore, the Department approves the proposed opt-out service tariffs proposed by the Company: M.D.P.U. No. 1215 (MECo and Nantucket Electric), M.D.P.U. No. 26 (Boston Gas), and M.D.P.U. No. 17 (Colonial)). As a compliance filing to this Order, the Company must provide updated tariffs with the proper effective date.

V. ORDER

Accordingly, after notice, opportunity for comment, hearing, and due consideration, it is

ORDERED: That tariff M.D.P.U. No. 1215 filed by Massachusetts Electric Company and Nantucket Electric Company is APPROVED and shall become effective for electricity consumed on and after May 1, 2014; and it is

FURTHER ORDERED: That tariff M.D.P.U. No. 26 filed by Boston Gas Company is APPROVED and shall become effective for natural gas consumed on and after May 1, 2014; and it is

FURTHER ORDERED: That tariff M.D.P.U. No. 17 filed by Colonial Gas Company is APPROVED and shall become effective for natural gas consumed on and after May 1, 2014; and it is

FURTHER ORDERED: That Massachusetts Electric Company and Nantucket Electric Company shall file a copy of tariff M.D.P.U. No. 1215 with the Rates and Revenue Requirements Division of the Department; and it is

FURTHER ORDERED: That Boston Gas Company shall file a copy of tariff M.D.P.U. No. 26 with the Rates and Revenue Requirements Division of the Department; and it is

FURTHER ORDERED: That Colonial Gas Company shall file a copy of tariff M.D.P.U. No. 17 with the Rates and Revenue Requirements Division of the Department; and it is



An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.