



ALLOCATING RATE INCREASES AMONG ELECTRIC RATE CLASSES

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CL&P RATE CLASSES

- CL&P has 20 different rate classes: three are residential, seven are commercial and industrial, and the remaining 10 are for other specific uses (e.g., churches and schools, or street lighting).
- Time-of-day rates vary depending on what time of day the customer is using electricity. They are optional for residential and smaller commercial and industrial customers, but mandatory for commercial or industrial customers with large electricity demands.
- Residential rates are based on a customer's kilowatt hours of usage, but commercial and industrial rate customers pay rates based on their electricity demand per kilovolt ampere.

ISSUE

How did the Public Utilities Regulatory Authority (PURA) allocate rate increases to different rate classes in Connecticut Light and Power's (CL&P) most recent distribution rate case?

SUMMARY

In CL&P's most recent distribution rate case ([Docket No. 14-05-06](#)), PURA relied on CL&P's cost of service study that showed the previous rates for its commercial and industrial rate classes were producing a significantly higher level of profitability than the rates for residential classes. Thus, they were helping to subsidize lower rates for the company's residential customers. To address this discrepancy, PURA generally allotted larger rate increases to the residential rate classes that were being subsidized under the previous rate allocation and smaller rate increases to the commercial and industrial rate classes.

For example, the general residential rate, which produced a 1.10% rate of return for CL&P under the previous rate allocation, was increased by 5.51%. In contrast, the rate for large manufacturers, which

produced a 12.39% rate of return under the previous rate allocation, was increased by 1.02%.

COST OF SERVICE STUDY

In general, PURA sets a utility company's rates by (1) determining the company's revenue requirements, including a return on its investments, and (2) setting rates that allow the company to meet those requirements. To help determine how those rates should be allocated among different rate classes, PURA uses a cost of service study (COSS), which is a mathematical business model that (1) assigns cost responsibility for different company assets and expenses to the different customer rates classes and (2) summarizes customer, demand, and total costs and revenue by rate class.

In CL&P's most recent distribution rate case, CL&P produced a COSS that showed the company's residential rate classes producing a rate of return (ROR) that was "well below" the company's 4.16% average, while the commercial and industrial rate classes produced a rate of return that "significantly" exceeded the company's average. (In general, the rate of return measures the profitability of the company's infrastructure investments.) In effect, by paying rates that provide a greater than average ROR, customers in the commercial and industrial rate classes were subsidizing a lower ROR and lower rates for customers in residential rate classes (PURA Docket 14-05-06, [12/17/14 Final Decision](#), p. 173).

Table 1 shows CL&P's rate classes and their ROR under the previous rate allocation, as calculated in the COSS.

Table 1. CL&P Rate Class Rates of Return Prior to 12/17/14 Final Decision

Rate	Class Description	ROR
1	Residential - Regular	1.10%
5	Residential - Electric Heat Regular	2.87%
7	Residential - Time-of-Day (TOD)	1.10%
18	Controlled Water Heating	-0.38%
27	TOD General	10.47%
29	Outdoor Lighting	6.17%
30	Small General	10.47%
35	Intermediate General	12.59%
37	Intermediate TOD	12.59%
39	Interruptible Menu	6.01%
40	Church and School	6.81%
41	Large Church and School	17.12%
55	Intermediate TOD Manufacturers	11.97%
56	Intermediate TOD Non-Manufacturers	13.17%
57	Large TOD Manufacturers	12.39%
58	Large TOD Non-Manufacturers	12.44%
115	Unmetered	4.45%

Table 1 (continued)

Rate	Class Description	ROR
116	Street & Security Lighting	0.50%
117	Partial Street Lighting Service	0.50%
119	Special Contracts	7.79%

Source: PURA Docket 14-05-06, [12/17/14 Final Decision](#), p. 178.

PURA ANALYSIS & DECISION

In its final decision, PURA ruled that to reduce interclass subsidies, the rates for each class should be gradually set to produce RORs for each class that were closer to the company's average. Thus, since it approved an overall 3.5% rate increase, it allocated rate increases greater than 3.5% to those classes with below average RORs and allocated rate increases less than 3.5% to those classes with above average RORs. In general, the farther the class was from the average ROR, the larger the percentage increase or decrease was allocated to align its class revenues to the average.

Table 2 shows the approved rate increases by class and their resulting average per kilowatt hour (kWh) rate. The averages are based on total revenue per kilowatt hour and include customer, usage, demand, and other class-related charges. The actual billed rates may vary depending on various other factors (see sidebox).

Table 2. PURA Approved Rate Increases by Class and Resulting Average Rate

Rate	Class Description	2014 Average Rate (\$/kWh)	ROR Prior to PURA Decision	Allowed Rate Increase	Resulting Average Rate (\$/kWh)
1	Residential – Regular	0.1840	1.10%	5.51%	0.1942
5	Residential – Electric Heat	0.1761	2.87%	4.26%	0.1837
7	Residential – TOD	0.1740	1.10%	4.45%	0.1828
18	Controlled Water Heating	0.1674	-0.38%	4.37%	0.1748
27	TOD – general	0.1885	10.47%	3.40%	0.1994
29	Outdoor Lighting	0.2399	6.17%	5.98%	0.2544
30	Small General	0.1822	10.47%	2.69%	0.1871
35	Intermediate General	0.1565	12.59%	1.42%	0.1588
37	Intermediate – TOD	0.1524	12.59%	1.61%	0.1549
39	Interruptible Menu	0.0978	6.01%	0.67%	0.0984
40	Church and School	0.1751	6.81%	3.31%	0.1810

Table 2 (continued)

Rate	Class Description	2014 Average Rate (\$/kWh)	ROR Prior to PURA Decision	Allowed Rate Increase	Resulting Average Rate (\$/kWh)
41	Large Church and School	0.1709	17.12%	1.67%	0.1737
55	Intermediate TOD Manufacturers	0.1256	11.97%	1.40%	0.1274
56	Intermediate TOD Non-Manufacturers	0.1299	13.17%	1.40%	0.1318
57	Large TOD Manufacturers	0.1168	12.39%	1.02%	0.1180
58	Large TOD Non-Manufacturers	0.1220	12.44%	1.20%	0.1234
115	Unmetered	0.1649	4.45%	3.97%	0.1715
116	Street & Security Lighting	0.2641	0.50%	8.14%	0.2805
117	Partial Street Lighting Service	0.1443	0.50%	4.14%	0.1503
119	Special Contracts	0.3731	7.79%	7.66%	0.4020

Sources: PURA Docket 14-05-06, [12/17/14 Final Decision](#), p. 182 and [12/23/14 Compliance Filing](#), Exhibit 7.

LRH:jk