Overcharged

Supplier's Retail Premiums are Inflating Massachusetts Electric Bills

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Massachusetts customers are overpaying for electricity

Suppliers — Companies that sell Basic Service products to Massachusetts electric utilities.

Premium — The difference between the Basic Service rate charged to customers and the actual market cost of buying energy, capacity, RECs, and other attributes.

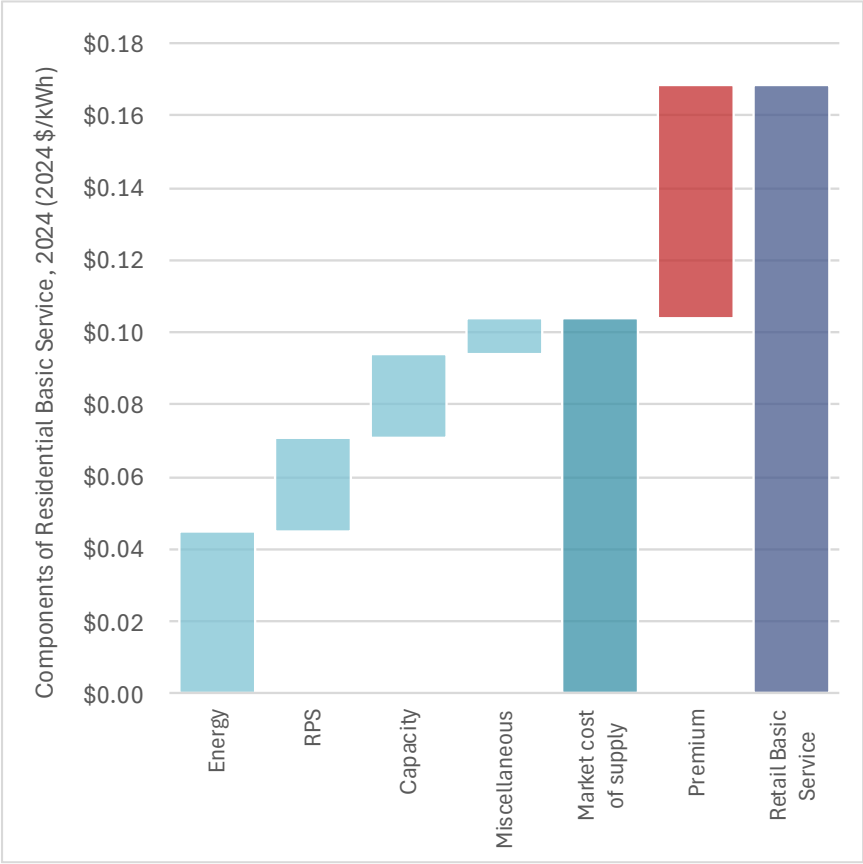
$3.4 billion — Total cost of premiums paid by residential Basic Service customers, 2015 through 2024.

$22 per month — Per-customer cost of premiums, 2015 through 2024.

$12 per month — Per-customer savings possible as a result of premium-reducing strategies used in other states. These strategies can also reduce month-to-month fluctuations in bills.

For more, see the accompanying technical report *Overcharged: Retail Premiums to Suppliers are Inflating Massachusetts Electric Bills*.

Figure 1. Average cost of supply and Basic Service rate components for residential customers, 2024



Note: Energy, RPS, capacity, and miscellaneous costs are calculated based on actual market costs. Premiums are calculated by subtracting the sum of energy, RPS, capacity, and miscellaneous costs from Retail Basic Service prices. See Chapter 2 in the accompanying report for more information on how these costs were compiled.

What Basic Service residential customers see on their bills

Residential electric bills in Massachusetts are split into two main categories:

Supply charges

- Energy costs
- Capacity costs
- Compliance with renewable portfolio standards (RECs)
- Miscellaneous costs (ancillary services, admin costs, etc.)
- Premium

Delivery charges

- Costs to build, operate, and maintain distribution and transmission infrastructure
- Payments for energy efficiency, electrification
- Some renewable energy programs
- Other costs

- In recent years, supply charges have made up 40-50% of total electric rates for residential customers. The largest component of supply charges is typically the energy cost.
- Supply charges are a “pass-through” to Basic Service customers. EDCs do not make any profit from supply charges.
- In Massachusetts, supply is purchased in two 12-month contracting periods, which are staggered by six months. In each contracting period, each month is priced separately but then combined in a weighted average price for six months. This six-month weighted average price is what most residential customers on basic service pay.

Purported purpose of premiums

- Suppliers have set prices for months at a time, but their costs to procure energy from the wholesale market can change daily.
- Suppliers build price hedges into their contracts with EDCs to hedge against this volatility. These prices, inclusive of hedging, tend to be based on futures market pricing.
- Suppliers also hedge for load. Residential customers can leave Basic Service at any time, or in large groups as part of community aggregation.
- In theory, hedging helps to shield suppliers from defecting customers and reduced kWh sales.
- But if a supplier sells electricity at a higher rate to consumers than the rate it pays to the wholesale market, the supplier keeps the difference. That's the **retail premium**.
- Premiums may also include other non-transparent costs, such as those related to profits or transaction costs (which may reduce profits to suppliers).

Wholesale market price volatility

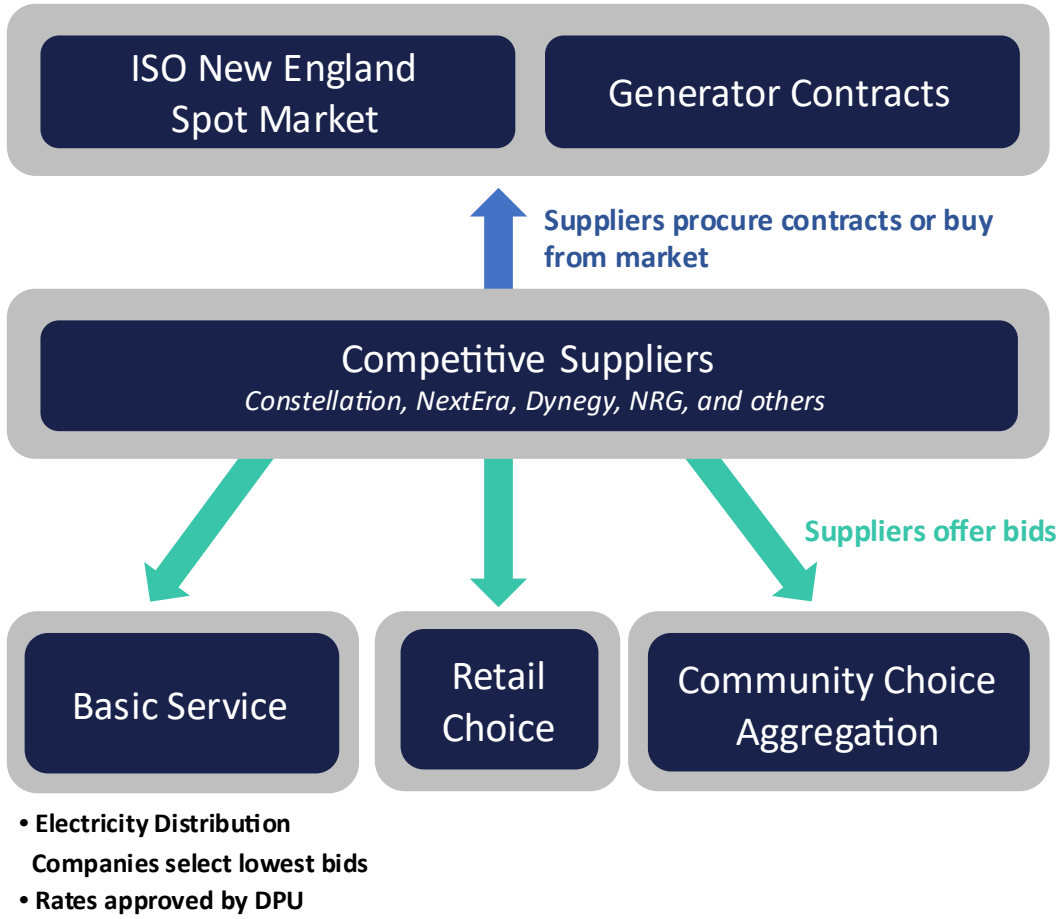
- ISO New England conducts day-ahead auctions to procure energy for each hour in the following day.
- It also conducts real-time auctions to true up any differences between day-ahead projections of demand and reality.
- Day-ahead and real-time pricing is volatile. It is reasonably easy to predict one day in advance, but is challenging to predict weeks or months in advance.
- Suppliers themselves purchase hedges to guard against market volatility.

Hedging against volatility is generally seen as a good thing for customers, **AND** suppliers have an incentive to increase hedges for greater profit.

- How much hedging is enough? How much is too much?
- How much is this hedging costing Massachusetts residential ratepayers?

Premiums are large and widespread

- Premiums have grown over time, with consumers paying as much as $47 per month in premiums in 2023 and 2024, compared to $18 per month in the preceding 8 years.
- Over the past 20 years, the median monthly retail premium has been 35 percent, with an upward trend over time. For example, the median over the past ten years was 43 percent, and for the most recent five years, it was 49 percent.
- In the past 10 years, retail premiums have been positive in 88 percent of months. In 12 percent of months, premiums were so large that retail customers paid double the actual cost of supply.
- Premiums are largest and have grown the most in winter and spring months. When looking at 2020 through 2024, median monthly premiums in January through April are $38 per customer.
- Premiums are also impacting other customers enrolled in Community Choice Aggregation and Retail Choice customers (see next slide).
- High retail premiums are unlikely to be a Massachusetts-only phenomenon. Our research identifies other jurisdictions around the United States where customers are likely facing the same impacts to affordability.



Basic Service prices, premiums, and customer costs

Figure 2. Wholesale prices and residential Basic Service, by month

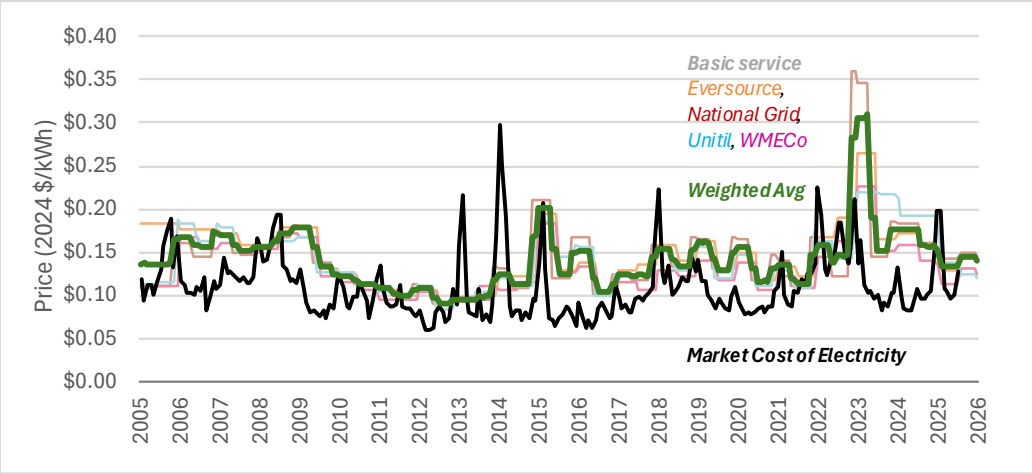


Figure 3. Estimated retail premiums (%)

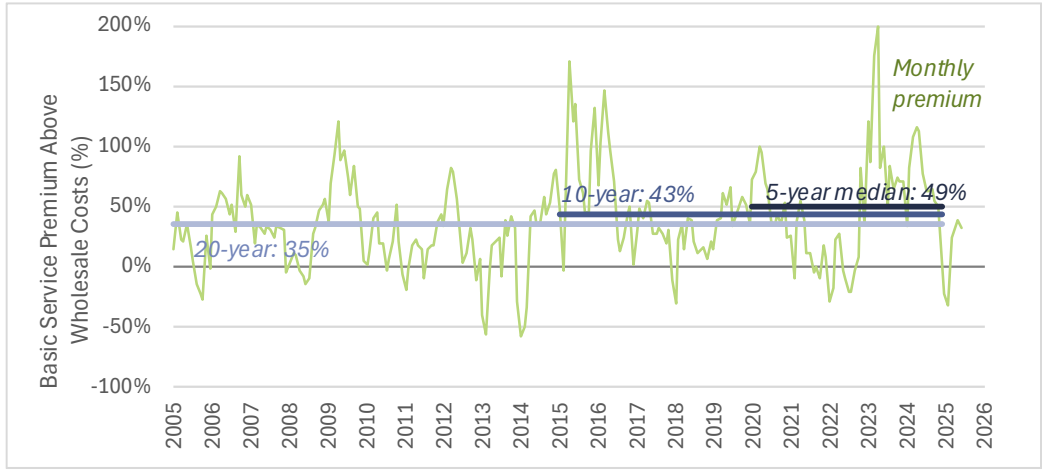


Figure 4. Estimated retail premiums (dollars)

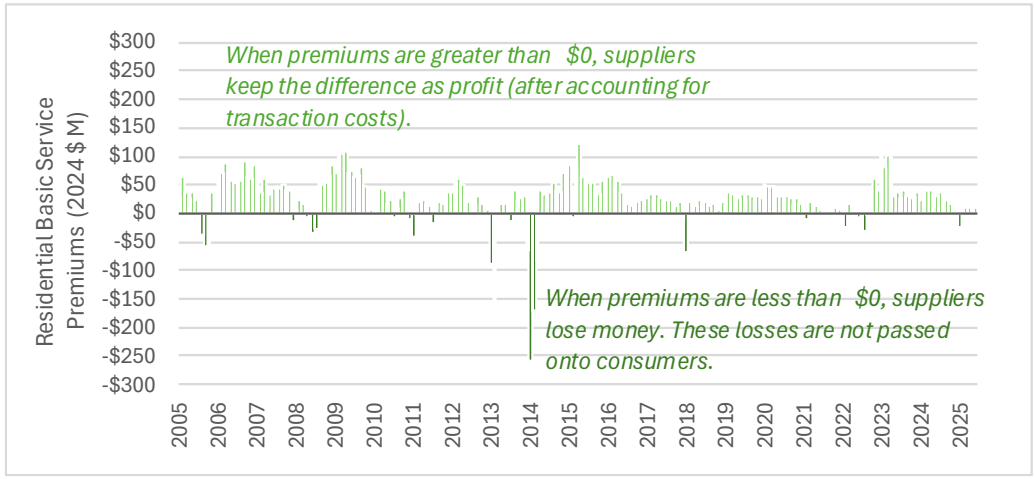
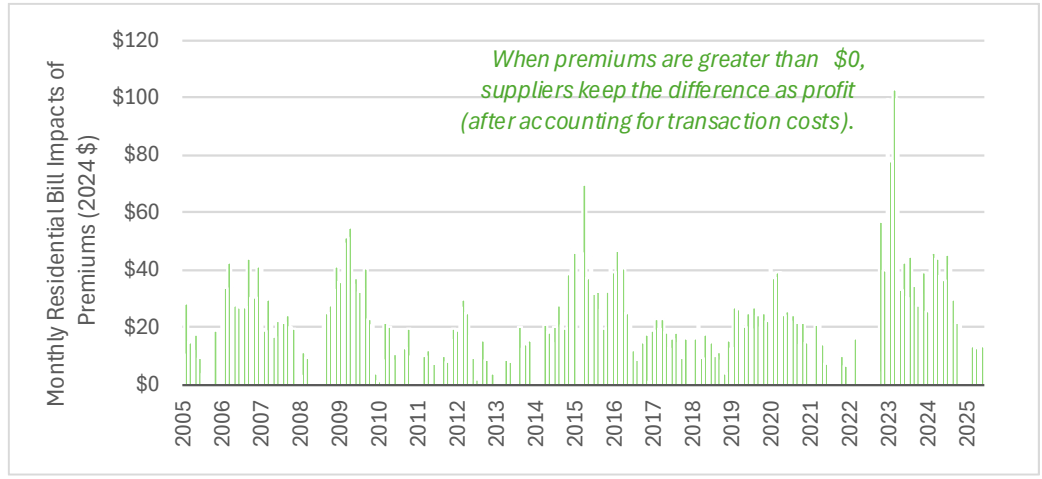


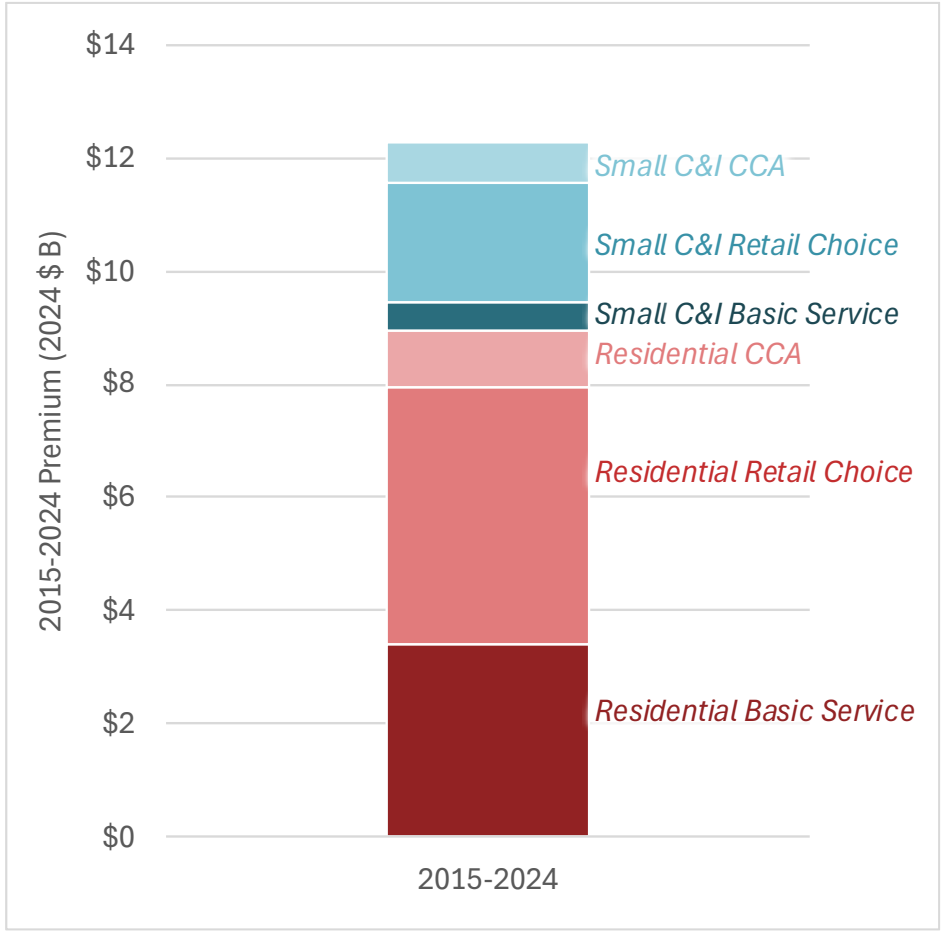
Figure 5. Estimated impact of *positive* retail premiums on residential electric bills



Note: See Chapter 3 in the accompanying report for more information on the sources and methods used to create these figures, and any associated caveats.

Premiums are unlikely to be limited to Basic Service Customers

Figure 6. Total estimated residential and small C&I premiums, 2015-2024



- By 2024, only about one-third of all residential customers in Massachusetts were on Basic Service.
- From 2015-2024, premiums have cost non-Basic Service residential customers an additional **$5.5 billion**. We also estimate that in the same time period, premiums have cost small C&I customers a further **$3.3 billion**. Combined with residential Basic Service premiums, this totals **$12.3 billion**.
- Premiums related to Community Choice Aggregation (CCA) are smaller than Basic Service premiums because:
  - CCA contracting allows for more flexibility in contract timing, allowing for lower supply prices.
  - Widespread use of CCAs is relatively new. As recently as 2015, CCAs likely comprised only 10 percent of all residential customers.
- Large differences between Retail Choice rates and market costs are likely only partly due to the same kinds of premiums estimated for Basic Service customers.
  - Cost differences are likely compounded by other factors, such as predatory sales pitches and deceptive marketing.
- Compared to this analyses' estimates of Basic Service premiums, these findings use more simplified assumptions due to less available data.

Other states offer insights on retail premiums

- Across the United States, 13 jurisdictions rely on competitive procurements to set Basic Service rates (or their equivalent).
- States vary widely in terms of procurement frequency, length, process, and governance.
- We have not yet conducted detailed analysis of premiums in other states. However, research done by others shows:
  - NH premiums of 32 precent (2018-2023)
  - OH premiums of 40 percent (2010-2022)
  - Compare to MA premiums of 43 percent (2015-2024)

Case study: Illinois Power Agency

In Illinois, a central agency called the Illinois Power Agency (IPA) runs the procurement process on behalf of Basic Service customers. As an independent administrator, the IPA is charged with keeping prices and price volatility low.

- It procures blocks of power (e.g., a certain quantity of MWh for a certain $/MWh price), rather than full-service contracts which cover 100 percent of load, 100 percent of the time, for monthly fixed prices.
- Illinois EDCs also purchase electricity from the spot market to make up the minor differences between block purchases and real-time load fluctuations. In Illinois, customers receive a "Purchased Electricity Adjustment" true up on their bill when actual electricity supply costs come in over or under the billed amount.
- In contrast with Massachusetts, where there appear to be a limited number of Basic Service suppliers, the IPA typically receives over ten bids per procurement.

Jurisdictions with competitive procurements that set Basic Service rates

RTO/ISO	State
ISO-NE	MA
	CT
	ME
	NH
	RI
NYISO	NY
PJM	DE
	DC
	MD
	NJ
	OH
	PA
PJM and MISO	IL

Different procurement strategies can reduce retail premiums: Block contracts & spot purchases

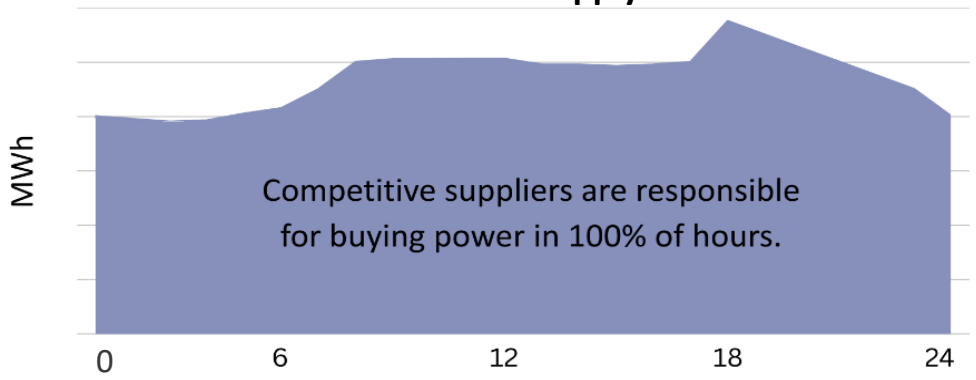
Full-Service Contracts

- Suppliers are responsible for serving load in 100% of hours, at a fixed price
- Likely use a mix of their own generators, bilateral contracts/PPAs, and spot market purchases
- ***Significant risk to suppliers****: they cannot predict instantaneous load and real-time market prices, yet still must set one fixed bid price*

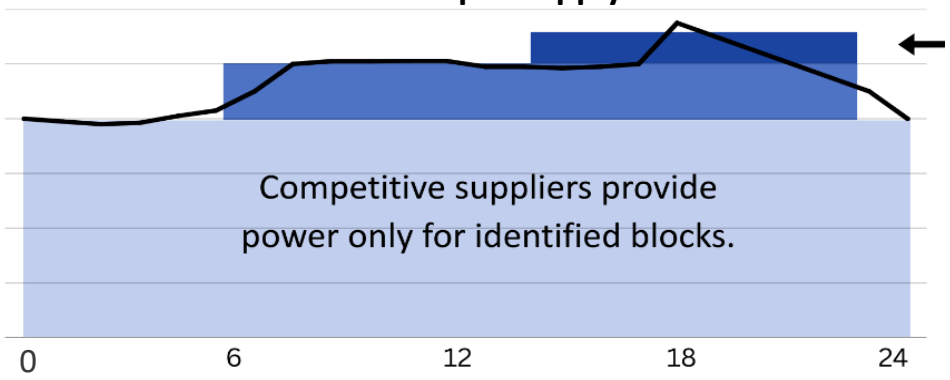
Block Contracts & and Spot Purchases

- Suppliers provide power in blocks of fixed MWh and fixed price
- Use their own generators and/or bilateral contracts/PPAs
- ***Minimal risk to suppliers****: quantity is known, price is straightforward to estimate*
- Requires spot market purchases to balance power blocks and real-time load (managed via reconciliation charge)

Full-Service Load Supply Structure



Block-and-Spot Supply Structure



Underages and Overages: Purchasing entity responsible for buying/selling power to true up differences between blocks and actual load

Different procurement strategies can reduce retail premiums: Continued

Other states and MA MLPs have shown that various strategies are effective and could be deployed for Massachusetts Basic Service.

Spot purchases and reconciliation	For each month, purchasing entities (e.g., utilities) set a Basic Service retail price, then refund or charge Basic Service customers during a subsequent time period for any over-charges or under-charges relative to the spot market.
Changing the purchasing entity	A third-party entity becomes responsible for purchasing Basic Service on behalf of utilities. It is given more flexibility in the kinds of supply products it can purchase (e.g., a mix of longer-term procurements and spot-market purchases).
Long-term purchases of clean energy	Continued investment in existing clean energy programs help to act as a hedge against volatile actual energy costs and high premiums.
Block purchases *(previous slide)*	Purchasing entities assume more of the risk in hourly fluctuations of prices and MWh quantities.

These strategies can work together and are not mutually exclusive.

We performed a "what-if" analysis estimating how these strategies could avoid premiums. We assume:

- 50 percent of residential Basic Service load from 2015-2024 was bought in a "spot market" tranche.
- Retail prices in this tranche are set equal to the historical Basic Service retail price, less an estimated bid premium.
- All over-collections associated with this tranche are refunded to Basic Service customers in the next 6-month cycle (or charged to customers, in the case of under-collection).
- The remaining 50 percent of load is priced at the same retail price observed in reality.

Different procurement strategies reduce bills and decrease volatility

Figure 7. Estimated monthly residential Basic Service rates compared to actuals

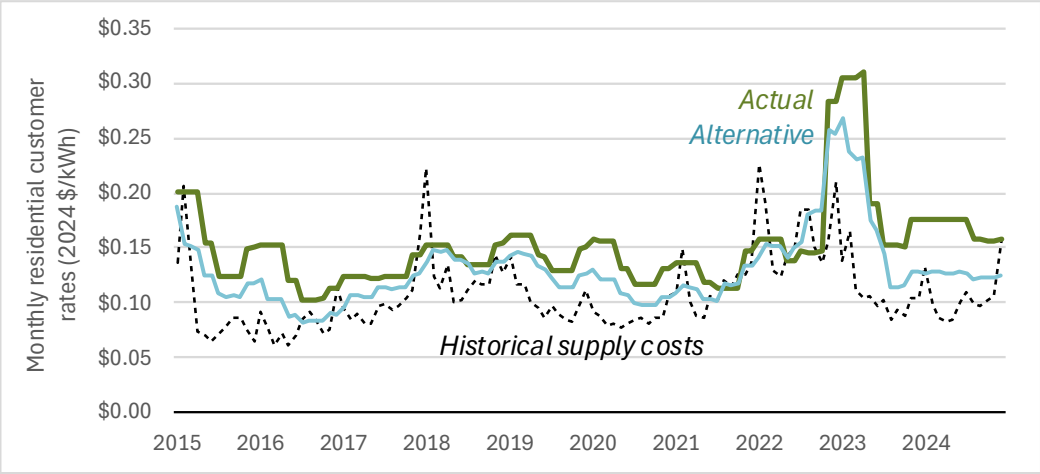


Figure 8. Cumulative residential basic service premium savings

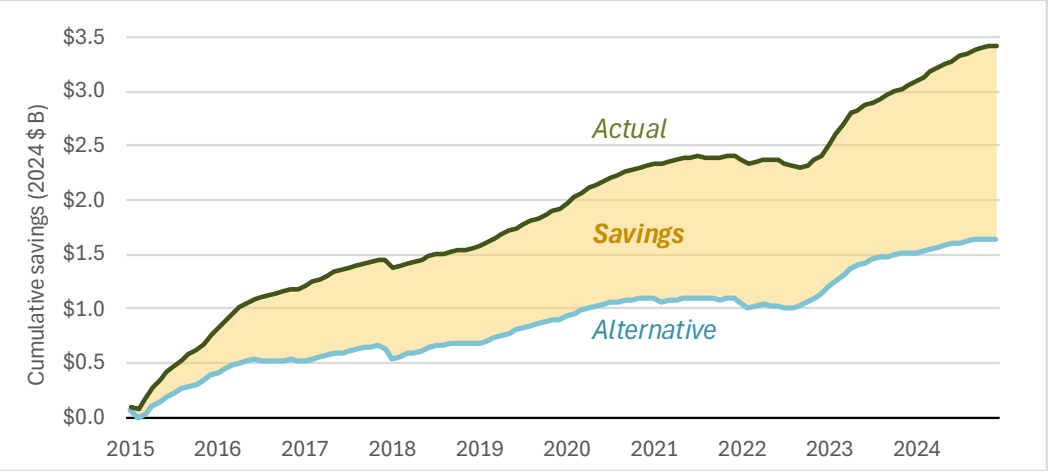
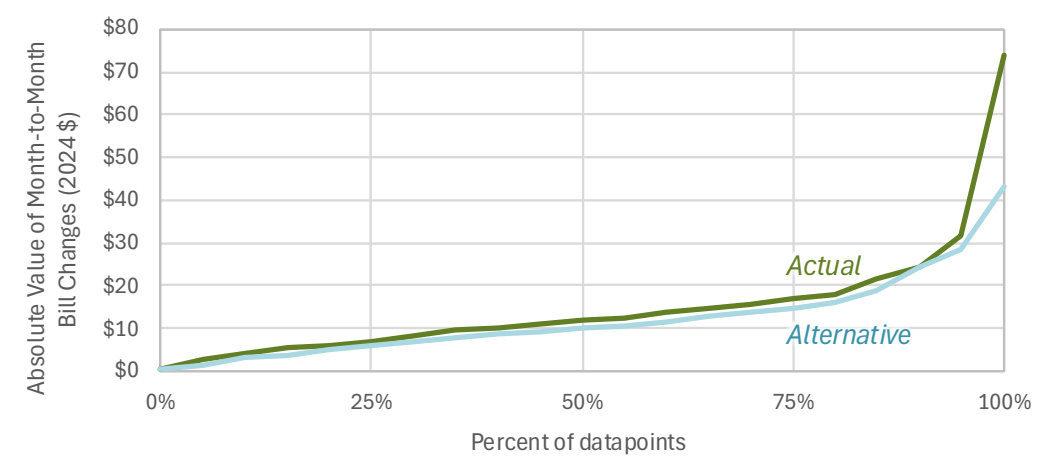


Figure 9. Distribution of month-to-month bill changes



Key Findings

- With these strategies, we estimate that from 2015-2024, residential Basic Service customers would have saved nearly **$1.8 billion**.
- This equates to savings of about **$12 per customer per month** over the last ten years, or about **8%** of a typical total monthly customer bill of $150.
- As a result of lower supply rates, month-to-month bill changes fall by $2 per month. This scenario yields **reduces both total bills and bill volatility**.

Note: See Chapter 5 in the accompanying report for more information on the sources and methods used to create these figures, and any associated caveats.

Contact us

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