

Market-based rates support local economic development



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A recent decision by the Public Service Commission (PSC) demonstrates strong support for market-based rates (MBRs) as a tool of economic development when “appropriately” designed.

MBRs have been offered by public utilities in Wisconsin since 2005. Intended as a tool of economic development, the rates allow large industrial and commercial customers to pay hourly market energy prices rather than standard embedded-cost rates. The tariffs are offered by all investor-owned utilities in Wisconsin as well as 25 of the state’s municipal utilities.

Most MBR tariffs work by establishing a baseline for demand and energy usage based on historical monthly data and then charging the market-based rate for incremental load that exceeds the baseline. New customers with less than usage history of 12 months are generally given an estimated baseline of no less than 70% of forecasted consumption for the year, which is then subsequently reset based on actual

usage. Despite their prevalence, many utilities struggle to attract customers to these tariffs.

One example is Manitowoc Public Utilities (MPU), which obtained Commission approval for an MBR tariff in 2016. Known as a “New Load Market Pricing” (NLMP) tariff, MPU designed its tariff with a minimum incremental load level of 200 kW, which is the minimum demand level for customers taking service under MPU’s Cp-2 tariff. However, to remain consistent with other municipal NLMP tariffs, the Commission increased the threshold to 500 kW. MPU signed up one customer under the new tariff, but the customer was unable to maintain the load level and was removed from the tariff after only five months.

In response to this experience, MPU sought to revise its NLMP tariff in 2019. In PSCW Docket 3320-TE-108, MPU proposed to lower the incremental load level to 200 kW, as well as to eliminate a restrictive “but for” clause, which required customer applicants to certify that the NLMP tariff was the sole factor in their decision to expand. MPU also proposed to set new customer baselines at zero, rather than utilizing the 70/30 split of forecasted

usage, and to extend the NLMP contract term by four years in order to provide customers with a longer on-ramp before being required to pay embedded-cost rates.

At its Open Meeting on April 23, 2020, the PSC Commissioners agreed to two of MPU’s requested revisions — with important modifications — while rejecting the other two.

The Commission began by recognizing that the “but for” test is a high hurdle since commercial customers seldom make expansion decisions for only one reason. In order to preserve the link to actual economic expansion, however, the three commissioners agreed to remove the “but for” clause from the tariff, but require customers to declare affirmatively that the NLMP was a factor in their decision to expand.

Turning to the crucial issue of incremental load level, the Commission acknowledged that several utilities have been granted variations from the 500 kW threshold in their MBR tariffs, including WEPCo, whose Real-Time Market Pricing tariff has no minimum incremental load level requirement. Concerned that the 200 kW level requested by MPU might be too low, however, to

achieve the tariff’s purpose of incentivizing real long term growth, the three Commissioners agreed to take an incremental approach and lower the threshold to 400 kW, which is similar to MGE’s NLMP tariff.

MPU’s other proposals, to alter the baseline determination for new customers and to lengthen the NLMP contract term, were rejected by the Commission out of concern for customer class cross-subsidization and lack of sufficient information.

The Commission’s decision suggests a willingness to calibrate tariff design to suit the service territory needs of individual utilities, rather than impose more of a “cookie-cutter” approach. Given the economic turbulence caused by the current public health crisis, MBR tariffs may be worth a second look by municipal utilities looking for ways of attracting new load. ●



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