Feasibility Study Of Prorating Electricity Distribution Price Exclusively For Buildings With Heat Pumps

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Executive Summary

This report aggregates the core economic and logical arguments developed in consideration of the new premise as is advanced by clean energy advocacy groups—such as New Yorkers for Clean Power. These groups argue that utilities should implement dedicated, technology-specific "heat pump rates" to incentivise the electrification of building heat.

This report establishes that **the only logically consistent, tech-agnostic, and structurally fair framework for utility rate design is a uniform, prorated distribution charge tied dynamically to remaining real-time grid capacity for all users.**

Part I: The Original Premise & Its Limitations

Advocacy groups argue for specialized seasonal delivery discounts based on two current grid realities:

1. **Current Summer Peaks:** Because the current NY State grid is sized for a summer air conditioning peak, winter delivery utilizes existing "headroom," implying that winter distribution costs are essentially fixed and already paid for with capacity to spare.
2. **Volumetric Mismatch:** Under standard rate designs, heat pump adopters experience a 109% increase in their supply AND delivery charges merely as a result of their increased total electricity usage. It is argued that any seasonal off peak spare capacity of the distribution network only costs the utility 2% more to serve on the distribution side.

The Transition Paradox

The core weakness of this original premise is the unfairness to all other rate payers who do not have a heat pump and will not receive the special rate. This specialized seasonal discount proposition is also based on a temporary grid paradigm. Under New York's Climate Leadership and Community Protection Act (CLCPA), the widespread adoption of beneficial electrification will inevitably flip the state from a summer-peaking grid to a **winter-peaking grid** by the mid-to-late 2030s. At this point the rationale for this concept will sunset.

Once this inversion occurs, heat pumps transition from "byproduct users" of idle winter capacity to the primary drivers of localized grid stress, peak demand, and required infrastructure upgrades.

Part II: The Counter-Framework—Dynamic Capacity-Based Pricing

To establish true fairness (horizontal equity) and politically robust frameworks, while respecting the laws of cost-causation, utility commissions should reject boutique, fractured rate classes. Instead, all ratepayers should be subject to identical distribution charges calculated via a **prorated price based upon remaining electricity grid capacity,** In a similar way as to how the wholesale supply is allowed to vary. Both of these improvements over the current system will require the widespread installation of real time electrical meters which are already well known.

In this counter proposal, if the available excess grid distribution capacity is high, the distribution cost would be low for everyone including the heat pump home. If the transmission capacity is heavily burdened, the cost will be increased.

This will allow the Load Serving Entities (National Grid, NYSEG, PG&E) to maintain the annual average revenue levels that are needed to insure continued reliable service in a way that is equitable to all rate payers.

This framework operates on three foundational pillars:

1. Absolute Horizontal Equity

The rules are structurally identical for every ratepayer. A kilowatt-hour drawn from the grid is priced entirely based on the physical state of the network at the moment of consumption and the real time supply price, completely independent of the appliance, technology, or vehicle consuming it. This eliminates cross-subsidization and prevents regressive wealth transfers to affluent early adopters of heat pumps.

2. Market-Preserved Conservation Signals

Unlike a Straight Fixed-Variable (SFV) rate design—which moves all delivery costs to a flat monthly fee and severely dilutes the financial payback for building efficiency—a capacity-prorated volumetric charge preserves a powerful price signal.

- Consumers retain an active financial incentive to reduce overall consumption to save on **supply** charges. A key step in realizing this is a pressing need for widespread installation of realtime use smart meters
- Simultaneously, customers can take advantage of a hyper-accurate **delivery and supply** price signals that reward them for avoiding the physical constraints of the local grid and supply capacity during high demand events. These can occur in any season of the year as was recently demonstrated by the near blackout conditions during the January 2026 Winter Storm Fern event which pushed downstate generation capacity to its highest breaking point even before building heat electrification has been widely adopted.

3. Automatic Structural Self-Correction

Because the distribution fee is dynamically tied to remaining localized capacity, the rate automatically self-corrects as the grid evolves under the CLCPA transition:

- **Present Day (Summer Peak):** When a heat pump draws power on a quiet winter night, remaining grid capacity is high. The distribution charge automatically drops to near zero, naturally granting the homeowner a cost-reflective benefit without needing a specialized policy variance.
- **Future Paradigm (Winter Peak):** When the grid transitions to a winter peak in the late 2030s as a result of building heat electrification mandates and high Carbon fees on Natural Gas and Fuel Oil, a sub-zero January morning will naturally result in low remaining capacity. The delivery price will automatically spike during those exact hours to maintain acceptable annual revenue to the grid providers and generators.

Part III: Behavioral and Operational Implications

- **Incentivizing True Grid Flexibility:** Under this framework, a heat pump owner is not penalized for heating their home; they are only penalized if they draw power at the exact peak hour when the local transformer is constrained and supply price is high. This creates a direct, uncorrupted financial incentive to invest in home insulation, smart thermostats, thermal storage, and peak-shaving behaviors.
- **Equal Accountabilities for the Transition:** A uniform rate ensures that any consumer who strains the system—whether via an electric vehicle, a heat pump, or standard commercial/residential appliances—pays an identical premium for diminishing the remaining capacity of the shared public asset.

Conclusion

Boutique "heat pump rates" are an administrative band-aid for a deeply complex consideration. True equity in a post-CLCPA landscape cannot be achieved by fragmenting ratepayers into specialized technology classes. Fairness is achieved only when **all ratepayers face the exact same distribution pricing schedule—one that treats every consumer identically while allowing the prorated price of delivery to rise and fall in perfect harmony with real-time remaining grid capacity.**

Here is the activist Group’s current proposal for the heat pump only rate carve out:

https://earthjustice.org/press/2026/new-report-new-york-heat-pump-customers-overpay-for-electricity-delivery-rates-heres-how-utilities-can-fix-the-discrepancy