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September 1, 2022

Holly Anderson, PUC Clerk
Vermont Public Utility Commission
112 State Street
Montpelier, VT 05620-2701

Re: Case No. 22-2417-INV, Calculation of the Efficiency Vermont Energy Efficiency Charge ("EEC") Rates for Calendar Year 2023

Dear Ms. Anderson,

Pursuant to Public Utility Commission ("Commission" or "PUC") Rule 5.306(B), Efficiency Vermont may propose calculating the energy efficiency charge ("EEC") using alternative methodologies.

> An EEU may propose calculating the Energy Efficiency Charge using alternative methodologies. If the EEU proposes alternative methodologies to calculate the Energy Efficiency Charge, the EEU shall provide the Department and the Commission with two calculations of the Energy Efficiency Charge by September 1 of the calendar year. The first calculation shall use the methodologies established by this rule under Sections 5.305(E), 5.305(F), and 5.305(G), as applicable, and the second calculation shall use the proposed alternative methodologies. The EEU shall include an explanation of the proposed alternative methodologies, the formulas used to calculate the Energy Efficiency Charge under the alternative methodologies, the reason for proposing the alternative methodologies, and the effects of the alternative methodologies on ratepayers.

By this letter and its attachment, pursuant to PUC Rule 5.306(B), Efficiency Vermont proposes an alternative calculation methodology for the 2023 EEC rates and compares this alternative methodology to the unmodified PUC Rule 5.305 calculation methodology. Efficiency Vermont proposes this alternative methodology on the basis that an unmodified application of the Rule 5.305 calculation methodology would result in significant reductions to revenue requirements as a result of previously (Commission) approved budget credits and recent over collections. If these adjustments are all applied to 2023 rates as per Order and Rule 5.305, significant rate decreases for most customer classes would occur in 2023 followed by the potential for significant increases in 2024[1]. As a general matter, wide variations in rates from year to year are undesirable and have the potential to cause burdens on ratepayers. The alternative methodology Efficiency Vermont proposes herein allows for rate credits prescribed through Rule 5.306(B) to be allocated over multiple years to balance revenue requirements and strive to hold rates relatively flat. This letter explains the alternative methodology in detail, and requests approval for the rates to go into effect for electric bills rendered on and after February 1, 2023.

EEC Collection Trends

Pursuant to the methodology of PUC Rule 5.300, the EEC rates for the next calendar year uses prior year utility sales and revenue collections by customer class, and several other inputs and adjustments to revenue requirements in setting an EEC rate for each customer class. The 2023 revenue requirement is based upon Efficiency Vermont's Demand Resources Plan budgets approved in 19-3272-PET and other Commission Orders[2] adjusting these budgets. These Commission Orders call for budget adjustments related to unspent funds from the 2018-2020 performance period (21-1616-PET), unearned performance award from the 2018-2020 performance period (21-1250-PET), and unspent 2021 funds (22-0946-PET) all to be applied to the 2023 EEC rate calculation.

Maintaining stable EEC rates has been a priority for Efficiency Vermont for several years, and particularly through the COVID-19 pandemic rate stability for all customers continues to be of great importance. Due to the complexity and uncertainty about how different customer classes will consume electricity year over year, Rule 5.300 allows for both forecasting and alternative methodologies to be presented to the Commission in the EEC rate filing. The impacts of the COVID-19 pandemic continue to produce abnormal sales and EEC collections, thus again affecting the assumptions underlying the 2023 EEC rate calculation.

Figures 1, and 2 below illustrate the variability of distribution utility reported consumption and demand values for the 2016-2021 period[3].

[1] Pending the outcome of Commission Case No. 22-2954-PET EEU Demand Resources Plan proceeding.
[2] Case #s 21-1250-PET, 21-1616-PET, and 22-0946-PET.
[3] Efficiency Vermont's understanding is that the values being reported by the distribution utilities for the 2023 EEC rate calculations include net metering gross consumption for the full year 2021.

Figure 1. 2016-2021 Distribution Utility Reported Consumption by Customer Sector

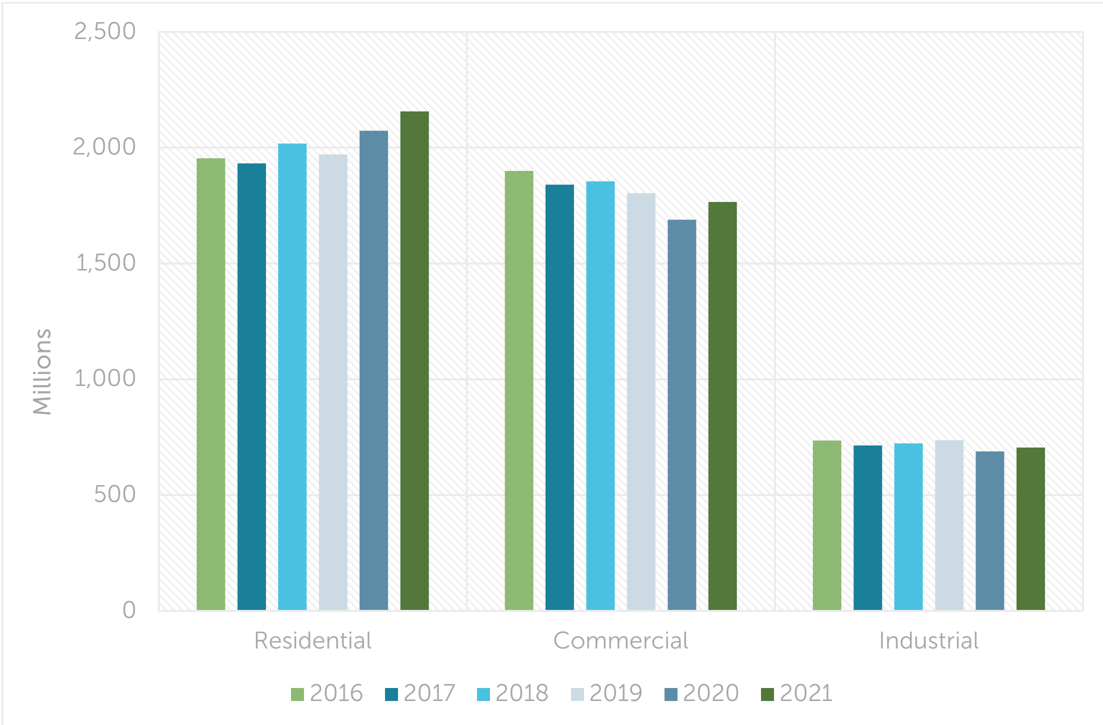
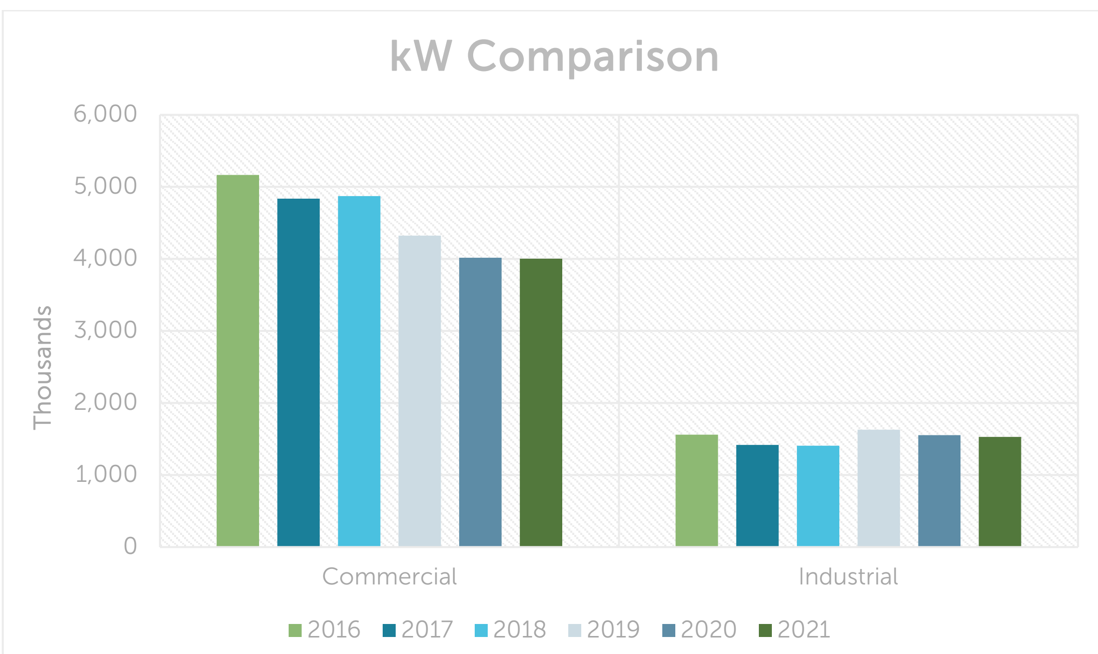


Figure 2. 2016-2021 Distribution Utility Reported Demand by Customer Sector



EEC Calculation Methodology

Efficiency Vermont has proposed alternative calculation methods each of the last three years and is again proposing an alternative methodology this year. The flexibility provided by Rule for proposing alternative methods has proven useful and demonstrated its effect by managing and stabilizing the erratic fluctuations of the EEC rates from year to year. The November 6, 2018, Commission Order in Case No. 18-2907-INV states:

> *It is evident from the results of the Department's calculation of (2019) EEC rates that Rule 5.300 must be updated to reflect contemporary electricity consumption levels and patterns and that there must be a clearer nexus between the budgets that we approve in a Demand Resource Plan proceeding and the EEC rates that follow. The erratic year-over-year EEC rate changes, both up and down, are the result of past-year collection true-ups and past-year sales volumes.*

Changes to year-over-year energy and demand consumption are presented above. Below, *2023 Adjustments* are presented and show over- or under-collections from prior years, and recent unspent funding being returned to ratepayers through rate credits. These combined factors result in significant shifts in the calculated EEC rate for customer classes, presented in the *Rule 5.300* EEC rate section below. Efficiency Vermont has reviewed these results of the unaltered Rule calculations and has determined that, without modification to the revenue adjustments, the standard EEC formula would result in significant EEC rate *decreases* for most customer classes in 2023 followed by significant *increases in 2024*. For this reason, Efficiency Vermont proposes an *Alternative Methodology* intended to smooth rates over several years.

2023 Adjustments

Revenue True-ups; Over- or Under- Collections:

Each year, the rate methodology prescribed in Commission Rule 5.304(D) incorporates true-up calculations for prior and current year distribution utility uncollectible[4] amounts and EEC collections. The true-up calculations typically produce variances from estimates made in the previous rate calculations when comparing with actual data. The adjustments are reflected in the Commission-approved amounts to be collected for the proposed rate year.

In the 2023 rate calculation, the following true-up and over- or under- adjustments were calculated:

- 2021 EEC Uncollectibles: $131,222 (an over-collection- decreases the 2023 collection requirements)[5]

[4] Uncollectible refers to EEC payments not paid to distribution utilities by their customers.

[5] Per 5.305 (E) 4, the distribution utilities estimate their uncollectibles for the current year and that value is added to the revenue requirement. Then the following year, a true-up to the actual uncollectibles occurs. In 2021, that was a difference or "over-collection" of $131,222.

- 2021 EEC Collections: $398,105 (an over-collection- decreases the 2023 collection requirements)
- 2022 EEC Uncollectibles: $68,161 (an estimate of 2022 uncollectibles- increases the 2023 collection requirements)
- 2022 EEC Collections: $461,733 (an estimated over-collection-decreases the 2023 collection requirements)

EEC revenue credits:

- 2018-2020 Uncommitted Funds: On August 31, 2021, in Case No. 21-1616-PET, the Commission issued an Order determining that $864,201 of unspent 2018-2020 budgets can be applied to the EEC collection schedule as a credit over the 2022 and 2023 rate years. Efficiency Vermont applied 50% of the credit, or a decrease of $482,101, to the 2022 EEC collection requirements and is applying 50% or $482,101 to the 2023 EEC collections requirement. This credit is used to determine the amount to be allocated per Commission Rule 5.305(E)2.
- 2018-2020 Unearned EEC Performance Award: On September 20, 2021, in Case No. 21-1250-PET, the Commission issued an Order determining that $361,032 of unearned 2018-2020 EEC performance award be applied to the EEC collection schedule as a credit during the calculation of the EEC rate-setting proceeding. Efficiency Vermont applied $180,627 to the 2022 EEC collections requirement and has applied the balance of $180,405, to the 2023 collection requirements.[6]
- 2021 Unspent EEC Funds: On June 2, 2022, in Case No. 22-0946-PET, the Commission issued an Order approving Efficiency Vermont's proposal to return $256,553 in the form of a credit to 2023 rates. Efficiency Vermont has applied this amount to reduce the 2023 EEC revenue requirements.

Other Adjustments:

- Act 151 EM&V: In Case No 21-1616-PET, the Commission approved the Department of Public Service ("Department") request for $100K of uncommitted 2018-2020 EM&V funds be used to fund evaluation for Act 151 activities in the 2021-2023 period. Efficiency Vermont included one-third, or an increase of $33,333, in the 2022 residential collections amount, and another $33,333 in the 2023 EEC residential collections amount.[7] This adjustment is allocated to the residential collections amount because Efficiency Vermont's 2021-2023 Act 151 proposal is funded completely through the residential budget.

[6] 5.305(E)2. Refers to this as "Electric EEU Total Budget".

[7] This amount is added as a new collection requirement because it has not been included in the budget, and this new expenditure increases spending has not been accounted for in 5.300. The new requirement is offset by the revenue credit due to 2018-2020 uncommitted funds.

- Electric fund interest: For the period January 2021 through May 2022, the Fiscal Agent reported that the electric efficiency fund has accrued $38,044 in interest on the fund balance[8]. Efficiency Vermont has applied this interest to reduce EEC revenue requirements in 2023.

With the exception of the uncollectibles true-ups and the Act 151 adjustment, the adjustments were allocated to the residential, commercial, and industrial sectors based upon the equity splits prescribed by Rule 5.300, which are based on utility retail sales revenues from 2021. Table 1 identifies the budget, and budget adjustments, Efficiency Vermont uses to establish the numerator (i.e., total 2023 revenue requirement) in its 2023 EEC rate calculation.[9]

Table 1. The budget, and budget adjustments, Efficiency Vermont uses to establish the numerators in its 2023 EEC rate calculation.

Row	Budget Item	Amount
A	**PUC-Approved 2023 Budget**	**$46,453,902**
B	**Adjustments (positive value means an increase in collections)**	
C	Uncollectibles 2021 (true-up of 2021 uncollected amounts)	-$131,222
D	Uncollectibles 2022 (estimate of 2022 uncollectible amounts)	$68,161
E	Budget Credit (2018-2020 uncommitted funds)	-$662,506
F	Collections 2021 (true up of 2021 collections)	-$398,105
G	Collections 2022 (estimate of 2022 over- collections)	-$461,733
H	Unspent 2021 electric funds (2021 uncommitted funds)	-$256,553
I	Other Adjustments (Act 151 EM&V)	$33,333
J	Other Adjustments (Electric Fund Interest)	-$38,044
K	**Total Adjustments**	**-$1,846,668**
L	Total Collections Net of Tax	$44,607,234
M	Gross Revenue and Weatherization Tax (1.025%)	$457,224
N	**Total to be Collected by Utilities with Tax**	**$45,064,458**

2023 EEC Rate Methodologies

Rule 5.300

Efficiency Vermont performed the rate calculation following rule 5.300 with one modification as noted here to incorporate the Commission approved 2022 EEC rates used to calculate the projected 2022 EEC collections. The Commission ordered year-over-year flat rates for 2022 (except for an 8% residential reduction), and the projected 2022 collections in the adopted rate structure as compared to the collections calculated under the unmodified 2022 rate calculation would show a material variance and substantially impact the over/under collections estimate for

[8] As reported in the Efficiency Vermont Fiscal Agent monthly reports for the period January 1, 2021, through May 31, 2022.
[9] Table 5 is also provided in Attachment A (see the worksheet labeled 2023 Rate Factors).

2022. As such, Efficiency Vermont modified the projections using the Commission approved 2022 rates. The modifications were made to normalize the standard calculation methodology in Attachment A *2022-09-01_22-2417-INV_ 2023 Efficiency Vermont EEC Calculation.xlxs* to the PUC-ordered values.

The 2023 EEC calculations are filed as Attachment A to this letter. The unmodified application of the rule would result in significant rate reductions for nearly all rate classes in 2023. The Rule 5.300 methodology is determined according to the approved budgets and allowable adjustments (*$*-numerator), and the sale of electricity (*kWh & kW*-denominator) for all eligible customer classes. The resulting rate 2023 *$/kWh* and *$/kW* rates are thus being determined with Rate Factors identified in Rule 5.300 with modification explained above. The spreadsheet also includes one other calculation methodology with the elements described below.

<u>Alternative 1- Multi-Year Rate Proposal</u>

When the Commission reviews alternative EEC rate proposals, it considers several factors "including the degree to which the proposed EEC results in cross-subsidies between rate classes, and the degree to which over- or under-collections are likely to occur that must be accounted for in the future"[10]. Efficiency Vermont suggests that this year the Commission should also consider the impacts of a sizable adjustment in the form of credits to the 2023 revenue requirement.

In this preferred alternative, Efficiency Vermont recommends deferring 50% of the revenue adjustments to 2024 and to set the 2023 rate with a goal of pursuing multi-year rate stability while achieving an equitable distribution of the revenue requirement by sector. The presence of negative adjustments available for the 2023 rate year provides an opportunity to reset the rate structure to the 5.300 methodology, completing a true-up of recent rates decisions. However, in both the standard Rule 5.300 rate and the preferred alternative, the 2023 rates have a detrimental effect on most classes of net metered customers without production meters. These customers are charged a monthly fixed fee. The only exception is the commercial demand class which would see a decrease in their monthly fee. While the volume of the change is relatively small for most customers and the volume of customers is also small, the percentage-size of impact is significant. In total, the increased collections from these customers represents 0.030% of the total revenue requirement under Rule 5.300, and 0.035% under the preferred alternative.

Efficiency Vermont has put forth an alternative method that also sets the stage for the possibility of multi-year EEC rates being proposed in the Demand Resources Plan proceeding or future rate cases. In Case No. 21-2701-INV issued on November 9, 2021, the Commission stated:

> *In future EEC rate proceedings, Efficiency Vermont and the Department are encouraged to continue to give thoughtful consideration to reasonable alternatives that balance the interests articulated here and in recent case law. (For example, if they conclude it would be consistent with applicable law, Efficiency Vermont or the Department may consider whether multi-year EEC rates, or a multi-year rate-smoothing mechanism, would promote*

[10] November 5, 2020, Order in 20-2022-INV page 5.

greater customer class equity and administrative and regulatory efficiency while avoiding year-to-year rate shock or instability.)

In Table 1, Efficiency Vermont presents a comparison between rule 5.300 rates, and one with 50% of the revenue adjustments being deferred to future rates.

Table 1 Projected Revenue from Rule 5.300 and the Alternative Method[11]

	2021 Retails Sales Sector %	Rule 5.300		Preferred Alternative Defer 50% of Revenue Adjustments to 2024	
Customer Sector		Revenue	Sector %	Revenue	Sector %
Residential	51.3%	$22,881,549	51.3%	$23,330,557	51.3%
Commercial	37.5%	$16,709,284	37.5%	$17,049,840	37.5%
Industrial	11.2%	$5,016,400	11.2%	$5,118,641	11.2%
Total (Net of Taxes)	100.0%	$44,607,234	100.0%	$45,499,037	100.0%

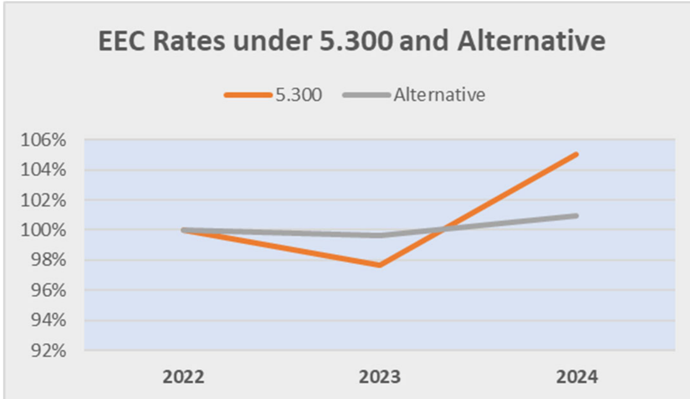
Contemporaneous to this filing, Efficiency Vermont has provided notice to the Commission that it is preparing to file an update to the DRP, which will include budgets for the 2024-26 performance period that drive future collections. Efficiency Vermont has developed early estimates of the 2024 budget based on current Efficiency Vermont modeling and the Department's potential study and developed a rate estimate for 2024.[12] Figure 3 illustrates how rates are anticipated to fluctuate under the 5.300 Rule and alternative methodologies between 2023 and 2024. The Rule 5.300 Rates are significantly more variable than the Alternative Methodology, which spreads out rate credits over two years to help smooth transitions between rates. As a general matter, large fluctuations in rates have the potential to cause undue hardship, compared to consistent rates with the same total collections. For this reason, Efficiency Vermont believes it is reasonable to propose an alternative methodology that ameliorates large swings in EEC rates by presenting a model that delivers stable and predictable rates.[13]

Figure 3 EEC Rate Fluctuations under the standard and alternative methodologies

[11] All values are reported net of taxes.

[12] Effectively, Efficiency Vermont is basing its projected 2024 budget on a 2% increase for inflation above the 2023 PUC-approved budget.

[13] In the November 5, 2020, Order in Case No. 20-2022-INV page 6 of 16, the Commission stated: "We must balance the desire for equitable rate class contributions with the goal of avoiding undue rate shock and additional hardship for customers."



The proposed alternative helps customers better manage their costs while not altering total collections or exacerbating cross-subsidization of rates between customer classes. The Alternative method provides a rate reduction to most customer classes and while maintaining revenue collections by sector to assure the equity requirement outlined in Commission Rule 5.305(E)3[14] is maintained. Further, Efficiency Vermont advances this methodology as satisfying the Commission's consideration of "…the impact on manufacturing and other businesses when issuing orders, adopting rules, and making other decisions affecting the cost and reliability of electricity…."[15] for promoting smooth transitions between rate periods. Efficiency Vermont requests the Commission consider this alternative as a viable methodology for approving rates for 2023.

The Alternative method described here is as follows:

1. Calculate estimated 2023 sales per Rule 5.305.
2. Calculate customer rates for 2023 (and modeled rates for 2024) per Rule 5.305.
3. Determine how rates by sector and customer class would impact customers for 2023 (and 2024) using the standard EEC methodology in Rule 5.305. Result: Using the standard EEC methodology in Rule 5.305, nearly all rates would have decreased significantly in 2023 and increase by similar amounts in 2024. Thus, the alternative being proposed is:
4. Apply 50% of the revenue adjustments to 2023 and defer 50% to the 2024 or future rate setting processes.

[14] In the November 5, 2020, Order in Case No. 20-2022-INV page 5 of 16, the Commission stated: "While some amount of cross-subsidy is acceptable, the long-term goal should be a gradual transition toward greater equity among the sectors."
[15] 30 V.S.A. § 218e directs the Commission to consider these impacts.

Table 2 illustrates how the EEC rates are impacted using the standard 5.300 methodology or Efficiency Vermont's proposed methodology.

Table 2. 2023 EEC Charge Methodology Comparison

Rate Classifications	2022 EEC Rates	Rule 5.300 Methodology: 2023 EEC Rates	Rule 5.300 Methodology: % Change 2022-2023	Preferred Alternative Methodology: 2023 EEC Rates	Preferred Alternative Methodology: % Change 2022-2023
Customers Without Demand Charges					
Residential ($/kWh)	$ 0.01093	$ 0.01067	-2.4%	$ 0.01087	-0.5%
Commercial ($/kWh)	$ 0.01024	$ 0.00954	-6.8%	$ 0.00974	-4.9%
Industrial ($/kWh)	$ 0.00757	$ 0.00713	-5.8%	$ 0.00728	-3.8%
Customers With Demand Charges					
Commercial					
o Energy ($/kWh)	$ 0.00662	$ 0.00608	-8.1%	$ 0.00621	-6.2%
o Peak Demand ($/kWh)	$ 1.13825	$ 1.14884	0.9%	$ 1.17226	3.0%
Industrial					
o Energy ($/kWh)	$ 0.00521	$ 0.00480	-7.9%	$ 0.00489	-6.0%
o Peak Demand ($/kWh)	$ 1.21316	$ 1.07041	-11.8%	$ 1.09222	-10.0%
Unmetered Street and Security Lights ($/kWh)	$ 0.01024	$ 0.00954	-6.8%	$ 0.00974	-4.9%
Net Metered Customers without Production Meters ($/month)					
Residential	$ 6.26	$ 6.38	1.9%	$ 6.50	3.9%
Commercial without Demand	$ 6.33	$ 7.50	18.5%	$ 7.65	20.9%
Commercial with Demand	$ 85.53	$ 70.41	-17.7%	$ 71.85	-16.0%
Industrial without Demand[16]	$ 586.49	$ 3,303.90	463.3%	$ 3,371.24	474.8%
Industrial with Demand	$ 1,915.71	$ 3,366.68	75.7%	$ 3,435.29	79.3%

Conclusion

Efficiency Vermont proposes an alternative methodology for the calculation of the 2023 EEC rates. For the reasons and facts presented above – and to minimize impacts on customers – Efficiency Vermont maintains that is has presented the Commission good cause to waive the Rule 5.305 EEC rate calculation methodology and to accept the alternative methodology described herein.

[16] There are currently no customers being reported in this class.

Accordingly, Efficiency Vermont requests that the Commission approve its alternative 2023 EEC rate methodology that defers 50% of the 2023 revenue adjustment to future rate cases to ensure rates remain relatively stable over the next two rate years. The proposed alternative achieves desired equity targets and strives to reset the rate structure to the 5.300 methodology. This proposal has been shared with the Department.

Please do not hesitate to contact me if you have any questions.

Sincerely,

James E Massie III

James E Massie III

Budget and Reporting Director