Via EPUC

October 3, 2022

Holly R. Anderson
Clerk of the Commission
112 State Street
Montpelier, VT 05620-2701

Re: Case 22-2417-INV Investigation into 2023 Energy Efficiency Charge Rates

Dear Ms. Anderson:

Pursuant to Commission Rule 5.300, Vermont Gas Systems, Inc. ("VGS") submits this letter and the attached spreadsheet to support its calculation of the proposed VGS energy efficiency charge ("EEC") for 2023.[1] VGS's proposed 2023 EEC represents a 1.6% decrease from the currently-effective EEC. As discussed below, the calculation includes the following elements: (1) updated load projections; (2) a true-up of under-collected funds; (3) inclusion of a portion of the reallocated 2018-2020 unspent funds; and (4) estimated investments and carrying costs.

I. Updated Load Projections

Pursuant to Rule 5.304(F), VGS used the projected Mcf sales and revenue data from its most recent purchased gas forecasts.

II. Under-Collected EEC Funds

In its 2022 EEC calculation, VGS estimated that by the end of 2021 it would have under-collected $159,749, but final 2021 collections came in at $192,371 under-collected. Thus, VGS has included a true-up in the 2023 EEC for the $32,622 under collected in 2021 that was not accounted for in the 2022 EEC calculation (- $192,371 minus - $159,749 =$ -32,622 under collected). For 2022 collections, VGS used actuals through August 2022 as well as its most recent forecasts for September through December and is projecting 2022 to be under-collected by $23,508, as reflected in the attached Table 1.

[1] The Commission approved VGS's EEU budget by Order dated Oct. 22, 2020 in Case No. 19-3272-PET (the "DRP Proceeding").

III. Reallocation of Unspent Funds

In Case No. 21-1616-PET, the Commission approved returning $251,387 in VGS unspent 2018-2020 Energy Efficiency Funds to ratepayers.[2] The Commission also granted "the EEUs flexibility to determine the exact amounts to be credited to ratepayers in 2022 and 2023 [in order] to mitigate potential swings in the EEC due to unforeseen over- or under-collections."[3] Accordingly, VGS applied half of its unspent 2018-2020 funds to EEC 2022 and proposes applying the other half to 2023 ($125,693.50 each year).

IV. True-Up of Investments and Estimated Carrying Costs

To date, we have underspent relative to our Commission-approved investment amounts for both 2021 and projected 2022. This is largely due to a combination of events which include the completion of many commercial projects in the last couple months of 2020, the Covid-19 pandemic which has resulted in commercial projects taking longer to move forward as well as issues involving higher material costs, limited material availability, and contractor workforce constraints. However, the residential retrofit and equipment replacement programs are tracking close to budget and we have been actively rebuilding our commercial projects queue in pursuit of our Triennial Plan goals.

As the Commission is aware, in addition to approved budgets, the financing mechanism that VGS had proposed in the DRP Proceedings for 2021-2023 included approved amortizing investments over 15 years. This allowed for a cost recovery period to better match the useful life of the efficiency measures. The increased spending combined with the investment amounts allowed for a smooth EEC rate path.

VGS spent less than budgeted for 2021 and our investment amount for that year was lower than allowed by the Commission.[4] Spending for 2022 is projected to be slightly below budget at this time. Conversely, we project a larger investment than approved for 2023, but the total amount of VGS financing in 2021, 2022, and 2023 all combined will be at or less than what was approved by the Commission when aggregated over the three-year period. With increased engagement in commercial projects and residential initiatives like BTV Sound and expanded weatherization incentives, we expect increased spending in 2023. Thus, the proposed EEC calculation rolls the remaining budgets for 2021 and 2022 forward to 2023.

The difference between the projected investment amount for 2021 estimated in EEC 2022 and the current forecasted 2022 investment amounts have been adjusted to reflect true-ups between

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[2] *See Petition of Vermont Department of Public Service for determination of reallocation of unspent 2018-2020 Energy Efficiency Charge and Thermal Energy and Process Fuel Funds*, Case No. 21-1616-PET (Pub. Util. Comm'n, Aug. 31, 2021).

[3] *Id.* at 5.

[4] The Commission approved a $1,205,755 investment amount for 2021 and $2,006,848 for 2022 and $2,659,474 for 2023 based on the Department's proposal. See Case No. 19-3272-PET, Petition of Vermont Department of Public Service to initiate an EEU Demand Resource Plan proceeding for the 2021-2023 performance period (Vt. Pub. Util. Comm'n, Oct. 22, 2020) at 34, Appendix A. During 2022 EEC, VGS estimated Year one 2021 investment at $690,132 and finalized it at $642,301 with the above EEC 2023 calculations including a true up for the variance. VGS is currently estimating 2022 investment at $1,965,034 and 2023 to be at or less than $3,364,742 which collectively are less that the cumulative Commission approved investment amounts for all three years.)

the estimated investment amount and the actual investment amount booked for 2021 as well as the true-up for projected 2022. VGS will not know the exact amount financed for calendar year 2022 until close out of both actual spending and collections. At that time, it will true-up the projected versus actual investment amounts and associated amortization of principal and carrying costs in the same manner it trues up Year One and Year Two over/under collections under Rule 5.504(D). Table 1 reflects Loan 1 where VGS has included principal and carrying costs[5] for the 2021 investment along with the true-up based on the actual investment amount versus the estimated amount used during EEC 2022. For Loan 2, VGS has also included the estimated principal and carrying costs for 2022 investment and will true that up during the next EEC calculation based on the actual amount required. Loan 3 includes estimated 2023 investment amounts utilizing principal only.

Similar to 2022, questions remain about the timing of financing as it relates to the 2023 investment. For example, the projected investment date for 2023 varies depending on program progress. If the EEC generates sufficient revenue to fund the efficiency programs through June, only six months of carrying costs will be necessary. But if the programs get off to a slower start and the EEC generates sufficient revenue to fund the programs through September, only three months of carrying costs will be necessary. To address this uncertainty, VGS's carrying costs in Year One for the 2023 investment on the unamortized balances for the 2023 projected financed amount, are not included in this filing. Rather, the calculations include the principal amount divided by the expected lifetime of fifteen years and includes a multiplier of .75 assuming they are only collected for a partial year. This projection is similar to how EEC 2021 and EEC 2022 were calculated. Should collections outpace forecasted spending in 2023, VGS expects a true-up of that investment to be made in the subsequent EEC adjustment filing. Additionally, when the carrying costs on the Year One 2022 investment are known, they will be included as a true-up in that filing as well.

V. EEC Calculations

The VGS EEC calculations are set forth in the tables below and are supported by the attached spreadsheet. Table 1 reflects the proposed VGS 2023 EEC charges by rate class, which have an overall 1.6% EEC rate decrease. The proposed rate for 2023 is $0.3714 per Mcf which also accounts for the Gross Receipts and Weatherization Tax collections. Table 2 reflects the average rate impact both annually and monthly from current EEC charges to proposed EEC charges for 2023.

VGS's calculations for the impact to 2023 rate impact are less than the Department's proposal in the DRP Proceeding where it projected approximately a 5% EEC increase from 2022 to 2023 to create a smooth rate path. The Commission-approved level of financing was based on the forecasts used during the DRP Proceeding but did not contemplate over/under collections on any

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[5] VGS estimated the carrying costs for the first year of investment and trues them up similar to over/under collections the following year. Carrying costs are estimated to be 100 basis point reduction on weighted average cost of capital on the average investment amount across one year.

given year or credits for unspent carryover funds[6] or lower carrying costs due to lower investment levels than anticipated. Similarly, to calculate the 2021 and 2022 EEC, VGS followed the Department's methodology of utilizing the projected EEC increase for 2023, updating the revenue forecast, and including over/under collections according to Rule 5.300 to result in a smooth and stable rate path. VGS anticipates larger discussions and explorations of budgets and impact to rates for 2024 and beyond as a result of DRP Proceedings (2024-2026).[7]

Pending regulatory approval, VGS will notify its customers of changes to the Energy Efficiency Charge beginning with bills rendered on December l, 2022. Per Rule 5.300, the 2023 EEC is proposed to be effective with bills rendered on and after February 1, 2023.

VGS will continue its efforts helping customers reduce their energy usage, save money, and lessen their impact on the environment by investing in efficiency measures. As always, I am available to answer any questions you may have regarding this filing.

Sincerely,

Karen Horne

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[6] EEC 2021 contained Give Backs in Case 20-2241 in the amount of $177,840 for reallocation of unspent funds from 2015-2017, EEC 2022 contained Give Backs in the amount of $125,694 in Case 21-1616-PET for unspent funds from 2018-2020 and EEC 2023 proposed containing Give Backs in the amount of the remaining $125,694 in Case 21-1616-PET for unspent funds from 2018-2020.

[7] Case 22-2954-PET Petition to open DRP Proceedings for 2024-2026.

Table 1: Projected Revenue by Rate Class and Proposed 2023 EEC by Rate Class

Attachment: VGS Proposed 2023 EEC rates

	Forecasted 2023 Mcf	Current GEEC Rates	Projected GEEC Revenues at Current Rates	Class Share GEEC Revenues at Current Rates	GEEC To Be Billed by Rate Class	Proposed GEEC Rates per MCf	VGS Proposal: Proposed GEEC Rates per CCf	VGS Proposal: Percent Change GEEC
Residential	3,778,154	0.0514	$1,941,971	52.2%	$1,910,304	0.5056	0.0506	-1.6%
Low Income	189,267	0.0411	$77,826	2.09%	$76,557	0.4045	0.0405	-1.6%
G1 Class	618,771	0.0486	$300,723	8.1%	$295,819	0.4781	0.0478	-1.6%
G2 Class	201,626	0.0377	$76,013	2.0%	$74,773	0.3709	0.0371	-1.6%
G3 Class	754,508	0.0379	$285,959	7.7%	$281,296	0.3728	0.0373	-1.6%
G4 Class	1,579,257	0.0292	$461,143	12.4%	$453,623	0.2872	0.0287	-1.6%
Interruptible	2,731,119	0.0211	$576,266	15%	$566,869	0.2076	0.0208	-1.6%
Totals	9,852,702	0.0378	$3,719,901	100.0%	$3,659,242	0.3714	0.0371	-1.63%

VGS Total Budget 2022 Rule 5.305 D		5,765,226	
Projected 2022 Underspent		164,792	Not included in 2022 projected loan
2021 Actual Underspent		654,470	Not included in 2021 loan
Total NG EEU Fund	**$**	**6,584,488**	
Reallocation of unspent funds (2018-2020)			
Give back per Case 21-1616-PET (credit)	**$**	**125,694**	Half applied to 2022 EEC of the $251,087 to mitigate rate impact
Under Collections of funds Rule 5.300 section (D)			
Estimate of Collections 2022	$	(23,508)	Actuals through August of 2022
True up actual collections 2021	$	(32,622)	
	$	**(56,130)**	
CY2023 Funding requirements 5.305 (B)	**$**	**6,402,664**	Total NG EEU FUND not including loan mechanism projections and true up
VGS Finance Mechanism Amortization only			
Loan 1	$	70,705	True up of 2021 based on actual loan amount carrying costs and amortization
Loan 2	$	240,723	2022 Projected Investment with true up from EEC 2022 Estimate
Loan 3	$	163,237	2023 Projected Investment, amortization principal only
Total carrying costs and principal	**$**	**474,665**	
Funding including amortization and carrying costs	**$**	**6,877,329**	Funding requirements plus estimated amortization of loans and carrying costs
Projected 2023 Investment	$	(3,264,742)	
Total EEC Collection for 2023 for smooth rate path		**$3,659,242**	Adjusted for GRT and Weatherization
Collections minus GRT and Wx	$	3,612,587	Excluding GRT and Wx
GRT and Wx	$	46,655	
GRT and Wx combined	$	0.012750	GRT increased to .00525 effective 7/1/19. DPS/PUC remains at .003. Wx .0075
Gross Receipts	$	0.00525	GRT .00525 effective 7/1/19
Weatherization Tax		$0.00750	Wx .0075

Table 2: Average Rate Impact

	Average Annual		Proposed 2023 EEC	
	EEC 2022 Current	**EEC 2023 Proposed**	**Annual Variance**	**Monthly Variance**
Residential	$ 41.68	$ 41.00	$ (0.68)	$ (0.06)
Low Income	$ 38.09	$ 37.47	$ (0.62)	$ (0.05)
G1 Class	$ 74.55	$ 73.33	$ (1.21)	$ (0.10)
G2 Class	$ 71.48	$ 70.32	$ (1.16)	$ (0.10)
G3 Class	$ 548.95	$ 539.97	$ (8.98)	$ (0.75)
G4 Class	$ 821.03	$ 807.53	$ (13.50)	$ (1.12)
Interruptible	$ 13,747.90	$ 13,526.37	$ (221.53)	$ (18.46)

VGS Proposed EEC Rates from 2022 to 2023 Per Ccf

	2022 Per Ccf	**2023 Per Ccf**
Residential	0.0514	0.0506
Low Income	0.0411	0.0405
G1 Class	0.0486	0.0478
G2 Class	0.0377	0.0371
G3 Class	0.0379	0.0373
G4 Class	0.0292	0.0287
Interruptible	0.0211	0.0208