



128 Lakeside Avenue, Suite 401  
Burlington, VT 05401 USA

Tel: (802) 658-6060  
Toll-free: (800) 639-6069

[veic.org](http://veic.org)

July 18, 2017

Ms. Judith C. Whitney, Clerk  
Vermont Public Utilities Commission  
112 State Street  
Montpelier, Vermont 05620

Re: **Case No. 17-3142-PET**  
**Vermont Energy Investment Corporation**  
**Comments on Potential Issues for the Workshop of August 8, 2017**

Dear Ms. Whitney:

This letter provides Vermont Energy Investment Corporation's ("VEIC") comments on potential issues for the Workshop on the regulation of electric and natural gas utilities to be held by the Vermont Public Utilities Commission (the "Commission" or "PUC") on August 8, 2017 in the above-referenced matter.

By Order issued June 26, 2017, the Commission opened this investigation to take a broad look at the regulatory practices employed in Vermont to regulate electric and gas utilities. Changes to these practices could affect the activities of all utility providers, including energy efficiency utilities ("EEUs") like VEIC. Review of Vermont's regulatory structure also creates the opportunity to explore strategies to better align the interests of all utility providers so together they can better serve the needs of their customers and society.

As described in the Order, significant trends in the utility sector have resulted in changes affecting Vermont's electric and natural gas utilities that draw into question the reasonableness of the existing forms of utility regulation. The trends are the result of changing consumer needs, technological change, market forces and the adoption of policies to de-carbonize the energy sector. While developing an exhaustive list of all such changes may be of limited value, understanding the impacts of these trends on utilities can illuminate the environment in which utilities, regulators, market participants and customers interact. When looking at these interactions, VEIC suggests that there are additional factors driving the need for regulatory reform:

- Weather and climate is changing the way Vermonters use energy for heating and cooling. Warmer winters result in fewer heating degree days and hotter summers will drive greater cooling load, especially in commercial centers;

- Despite market growth for electrification measures like cold climate heat pumps and electric vehicles, customer electric loads have been flat or declining, creating upward pressure on rates due to the need to recover fixed costs and increasing regional transmission charges.<sup>1</sup> Greater utilization of electrification has been discussed in other proceedings as a means to put downward pressure on rates;<sup>2</sup>
- Access to information technologies including smart phones and computer devices have helped to commercialize energy control technologies, which enable customers and utilities to directly manage energy use;<sup>3</sup>
- The cost of non-regulated fuels has fallen, altering long-term trends in the avoided cost of electricity and changing the cost-effectiveness of electric and non-electric end-use technologies;
- The shift of Vermont’s regulatory paradigm to include designated EEU appointees has resulted in the development of a robust system for the acquisition of demand side-resources through structured investments in energy efficiency and conservation; and
- A critical value for Alternative Regulation was to “decouple” utility revenues from electric sales, making utilities’ theoretically agnostic to the effect of declining loads from efficiency and distributed generation. Any proposed replacement to Alternative Regulation should ensure that the effect of “decoupling” persists.

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<sup>1</sup> VEIC supports electrification where the deployment of incremental loads is:

- Strategic – meaning it is used in locations with excess generation, and is capable of time-based responses to help create more level and manageable load duration curves;
- Beneficial – meaning it is used to help reduce air emissions, and avoid the use of fossil fuels, such as for heating or transportation; and
- Efficient – meaning it employs only the most efficient technologies, and in a way that results in total energy savings for the customer and “no regrets” solutions for society.

<sup>2</sup> See EEU-2016-03, 2016-2017 Demand Resources Plan Proceeding.

<sup>3</sup> Important market and tech trends that have large implications for the way utilities should be regulated include:

- the treatment of stationary storage on the customer’s side of the meter including battery based as well as controllable thermal such as advanced water heaters;
- the role of solar and other distributed generation; and
- access to advanced metering data and standards for customer aggregation for load management.

From VEIC's perspective, the primary goal for this proceeding should be to consider the relationship of these trends to the public interest. The regulatory reforms that come out of this proceeding ought to align the interests of the regulated utilities with outcomes that are good for customers and beneficial to society. This investigation was opened under 30 V.S.A. §§ 209, 218 and 218d. When read together these statutes confer broad power on the Commission to regulate the activities of Vermont's utilities. These statutes also provide a helpful frame to consider the issues before the PUC at this time. Toward that end, VEIC recommends that the Commission, when conducting this investigation, consider how regulatory reforms fare against the criteria established for the review of an alternative regulation plan under 30 V.S.A. § 218d.<sup>4</sup> These criteria are equally applicable to the development of regulatory reforms and would help to better align the interests of utilities, the markets they operate in, and the customers that they serve.

Secondarily, this process can serve as a forum for stakeholders to collaborate and refine their roles and performance requirements so that least-cost services can be provided to and for the benefit of customers. Vermont's energy market is comprised of a variety of regulated and unregulated providers that offer an array of services to help customers meet their needs. The challenge is to establish regulatory reforms that align the activities of all of the regulated utilities to produce least-cost outcomes for customers and society, while ensuring the ability for non-regulated market participants to participate in an open and competitive market. This challenge must be met in order to achieve the best outcomes for Vermont and its energy consumers. In this context, it is important that this proceeding give attention to the roles and performance requirements of the regulated distribution utilities and energy efficiency utilities, and ensure that their services are complementary, cost-effective, and least-cost.

Lastly, to the extent that regulatory reform may result in changes to utility tariffs and non-bypassable charges such as the energy efficiency charge, all charges should be treated as price signals to customers and the market. Decision-makers should consider how such price signals could be used as tools for furthering Vermont's energy goals and objectives. For example, the creation of a statewide Demand Response tariff to pay customers for load

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<sup>4</sup> When considering the approval of an alternative regulation plan under 30 V.S.A. § 218d, the Board is asked to make findings as to how the plan helps to:

- foster a system of regulation that provides utilities clear incentives to provide least cost energy service;
- provide just and reasonable rates for service to all classes of customers;
- enhance the delivery of safe and reliable service;
- offer incentives for innovations and improved performance that advance state energy policy while decreasing the extent to which the financial success of utilities between rate cases is linked to increased sales to end use customers and is threatened by decreases in those sales;
- promote improved quality of service, reliability, and service choices;
- encourage innovation in the provision of service;
- establish a reasonably balanced system of risks and rewards that encourages each utility to operate as efficiently as possible using sound management practices; and
- provide a reasonable opportunity, under sound and economical management, to earn a fair rate of return.

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curtailment during the times of heaviest load could be a valuable tool for managing the state's total Regional Network Service charge from the ISO-NE. A pay-for-performance customer tariff could reward customers for participation in the program, and foster collaboration between the EEU and the Distribution Utilities by helping to bring more grid-enabled efficiency devices and technologies to the state.

VEIC very much appreciates the opportunity to provide comments and recommendations to the Commission to help shape the proceedings in this investigation. VEIC suggests that any of the topics discussed above are ripe for inclusion in the agenda for the upcoming workshop. Also enclosed are Notices of Appearance being submitted on behalf of VEIC.

Should you have questions concerning this submission, please do not hesitate to contact me.

Sincerely,



David C. Westman  
Director of Regulatory Affairs

Enclosures