STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 19-1270-TF

Washington Electric Cooperative tariff filing for rate design changes and a change in rate schedules to be effective on services rendered beginning June 17, 2019	

BRIEF OF THE DEPARTMENT OF PUBLIC SERVICE

This case involves the review of a petition and proposed tariff amendments from the Washington Electric Cooperative, Inc. (WEC) that reflect adjustments to WEC's rate design. The most notable changes proposed by WEC include a restructuring of its inclining block-rate mechanism and an increase to its monthly customer charges. Although WEC's proposed rate design adjustments are revenue neutral, they will generally result in reduced kWh rates that are offset by the increased customer charge and modified inclining-block rate structure.

The Department of Public Service (Department) conducted a thorough review of WEC's prefiled testimony, exhibits, discovery responses, and cost-of-service study prepared in support of the proposed rate design changes. The Department is supportive of most aspects of WEC's proposed rate design adjustments. First, the Department does not object to WEC's proposal to increase its monthly customer charges to offset a reduction to its kWh rates. The Department agrees with WEC that this rate design adjustment will better align WEC's rates with state energy policies that promote greenhouse gas (GHG) reductions through beneficial electrification. Second, the Department does not challenge WEC's proposal to not adjust or redistribute revenues among its rate classes. Specifically, the Department does not challenge WEC's position that the results of its cost-of-service study do not justify redistributing revenues amongst WEC's rate classes. Third, the Department is generally supportive of WEC's proposal to limit the impact

of its inclining-block rate structure. Reducing both the size of the initial block and the kWh difference between WEC's initial and tail block rates will send better price signals for strategic electrification than WEC's current rate design.

The Department, however, respectfully recommends that the Public Utility Commission (Commission) require that WEC make two adjustments to its proposed rate design. First, the Department recommends that the Commission require that WEC eliminate the inclining block rate structure from its rate design. While WEC's proposal to modify its inclining block rate is directionally appropriate from a policy perspective, removing the inclining block rate and setting a lower overall fixed kWh rate will better promote state energy policy and provide better incentives for reducing GHGs. Second, the Department recommends that WEC be required to phase-in its modified rate design in four adjustments over a three-year period. Regardless of whether the Commission adopts the Department's recommendation on eliminating the tail-block rate, a phased approach will limit the immediate rate shock from the revised monthly customer charge and better promote rate stability. The Department also recommends that the Commission require that WEC collaborate with the Department and report back to the Commission within twelve months about the feasibility of implementing a support mechanism for low-income customers. Similarly, the Department modifies its recommendation on time-of-use rates (TOU) to require that WEC either file proposed TOU rates within one year or report to the Commission why such rates are not feasible. This brief focuses on the remaining areas of disagreement between the Department and WEC.

As part of its overall rate design proposal, WEC seeks to modify its inclining block rate structure. Specifically, WEC seeks to reduce the initial low-block energy rate from 200 kWh to

100 kWh.[1] As proposed by WEC, when coupled with the increased monthly customer charge, this adjustment would result in the rate for the low block decreasing from $.1135 per kWh to $0.08 per kWh.[2] The tail block rate would decrease from $0.25341 to $0.19961.[3] While the Department supports WEC's decision to narrow the size of the initial block and significantly reduce the kWh rate for the tail block, the Department nonetheless contends that public policy would be better served by wholly removing the inclining block structure from WEC's rates.

In a recent order from a traditional cost-of-service rate case for a different utility, the Commission highlighted its "belief that utilities should be encouraged to be innovative when it comes to seeking solutions to climate change."[4] Similarly, in its final order in the recent generic investigation into alternative regulation, the Commission provided the following guidance:

> The achievement of public-service objectives and State energy goals is of paramount importance. The widespread deployment of existing, nascent, and future technologies and services will be necessary to achieve these objectives and goals.[5]

These orders reflect a policy consideration that utility rate structures are an important and meaningful tool for furthering state policies directed at reducing GHG emissions. The Department contends that a utility's rate design, which establishes clear price signals that have the ability to directly affect consumer behavior, has a particularly important role in fostering the proliferation of beneficial electrification and nascent technologies that will mitigate the impacts of climate change. Indeed, revenue neutral rate design adjustments can allow for utilities to

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[1] Richards pf. supp. at 23; Potter pf. at 3.
[2] Potter pf. at 3.
[3] Potter pf. at 3.
[4] *Tariff filing of the Green Mountain Power Corporation*, Case No. 18-0974-TF, Order of 12/21/18, at 18.
[5] *Department of Public Service request for workshop on utility rate regulation*, Case No. 17-3142-PET, Order of 07/23/2018, at 8; *see also Petition of Noverco Inc. for approval of an indirect acquisition of a controlling interest in GMP and VGS*, Case No. 19-1081-PET, Order of 10/01/19 at 3 ("The Commission remains committed to carbon reduction in the face of climate change.").

stimulate the adoption of new technologies without increasing the utility's overall cost-of-service.

The Department's recommendation that the Commission require that WEC eliminate the tail-block rate is grounded in these broader policy considerations. In support of its recommendation, as the Department noted in its testimony:

- Vermont's 2011 Comprehensive Energy Plan (CEP) set an ambitious goal of reaching 90% renewable energy across all sectors by 2050;[6]
- Vermont's electric sector is well along this path, due to efforts of utilities like WEC that have elected to purchase renewable energy credits (RECs) sufficient to cover their load as well as the mandates of the RES which calls for utilities to be 75% renewable by 2032;[7]
- Progress in the transportation and heating sectors has been much slower and significant challenges remain in these sectors. Electrification of these sectors, e.g. through the use of cold-climate heat pumps (CCHP) for heating and electric vehicles (EV) for transport, are promising strategies that displace the use of combustible fuels with renewable energy;[8]
- Inclining block rates send a price signal that encourages less electric consumption.[9]

Ultimately, the Department's recommendation is directed at reducing financial disincentives for investing in beneficial electric technologies. Although increasing block rates encourage electric energy efficiency, they pose a barrier against investment in electric transportation, heating, and the replacement of fossil-fuel fired appliances with newer electric technologies. Indeed, increasing block rates actually create a financial incentive to fuel-switch

[6] Potter pf. at 5.
[7] Potter pf. at 5.
[8] Potter pf. at 5.
[9] Potter pf. at 5.

from electric to other fossil-fuel fired home appliances,[10] which directly contradicts state policy and the guidance established by the Commission regarding climate change in recent rate orders.

The Department recognizes that its recommendation, though revenue neutral, will affect underlying rates for WEC customers. As threshold matter, the Department acknowledges that rate stability is an important policy consideration in reviewing any rate design proposal. However, where a utility's rate design conflicts with state policy or is significantly out of sync with the utility's underlying cost-of-service, then rate stability should not be relied upon as a justification to maintain that rate design. In other words, a poorly designed rate structure should not be maintained solely for the sake of rate stability. The Department's position is that rate designs that include inclining block rates contradict state energy policy, including the objectives set out in the CEP. As the Department's witness noted under cross-examination, the CEP establishes that "customers should always retain the right to choose a flat rate."[11] WEC's proposed rate design, which relies on inclining block rates for all customers, does not satisfy this objective.

With respect to the Department's recommended adjustments to WEC's rate design, customers that use in excess of 500 kWh per month will see reduced monthly bills; customers under this threshold will experience higher monthly bills.[12] These changes and any accompanying affordability concerns will be most acutely felt by low-income customers that use around 200 kWh per month.[13] Therefore, in furtherance of promoting rate stability, the Department recommends that WEC be required to phase-in its rate design adjustments with four

[10] Potter pf. at 7; Tr. at 120 (Potter).
[11] Tr. at 108 (Potter).
[12] Foley pf. at 3.
[13] Flint pf. at 8–9.

steps over a three year period (step 1 would take effect immediately after approval by the Commission, with a commensurate increase each of the next three years).[14] The phased-in approach would require an initial per kWh rate that decreases as the monthly charge increases,[15] but the underlying calculations would be simple to implement.[16] As noted above, the Department recommends that the Commission require a phased-in approach even if it does not accept the Department's recommendation to eliminate the increasing block rate.

With respect to protecting the low-income, low-usage customers that would be most directly affected by the adjusted rate design, the Department recommends that within one-year WEC report back to the Commission on the feasibility of implementing a program that supports low-income consumers. To be clear, the Department is not proposing a specific recommendation as to how WEC can best assist low-income customers. Indeed, as a Department witness testified at the evidentiary hearing, there are a multitude of options for how WEC may be able to provide assistance to low-income consumers.[17] This case, however, has highlighted affordability concerns within WEC's service territory, with a particular focus on approximately 400 low-income WEC members that will be most directly affected by the adjusted rate structure.[18] From the Department's perspective, these concerns justify the need to examine the possibility of implementing a regulatory solution to mitigate such affordability problems. Thus, the Department respectfully recommends that the Commission require that WEC consult with the Department and report back to the Commission within one year as to the feasibility of

[14] Foley pf. at 3–4.
[15] Tr. at 77 (Foley).
[16] Tr. at 81 (Foley).
[17] Tr. at 53–54 (Flint).
[18] Flint pf. at 9.

implementing a low-income support mechanism or program.

Additionally, in making its recommendation to eliminate WEC's tail block, the Department recognizes that WEC's proposed rate design reflects decisions made by WEC's Board of Directors which were informed, in part, by WEC member feedback obtained through various surveys and a focus group session. WEC's cooperative corporate structure allows for its board to operate with the benefit of valuable democratic feedback. However, unlike many electric cooperatives in other jurisdictions, WEC remains subject to regulation by the Commission,[19] which is the jurisdictional entity charged with implementing and enforcing state energy policy.

It is also important to emphasize that the Department's recommendation on the tail-block rate is driven in large part by the infrequency of rate design filings from WEC. As WEC's witness acknowledged, WEC has historically filed rate design cases approximately every ten years.[20] As noted above, the Department supports WEC's decision to reduce the size of its initial block to promote beneficial electrification. However, for the reasons articulated above and throughout the Department's testimony, Vermont's energy policy and its emphasis on reducing GHGs militate against the use of inclining block rate structures. Waiting another decade to revisit WEC's rate design is simply too long to re-examine the inclining block rate issue. Therefore, if the Commission rejects the Department's recommendation on the removal of the inclining-block rate, the Department recommends that the Commission require that within five years WEC either: (1) file a petition and revised tariff sheets for a rate design that eliminates the inclining block structure; or (2) report to the Commission why WEC believes it should continue

[19] Tr. at 12 (Richards).
[20] Tr. at 23–24 (Richards).

to maintain the inclining block rate design in light of current market conditions and state policy.

Finally, the Department slightly modifies its recommendation on time-of-use (TOU) rates. During the evidentiary hearing, WEC presented testimony that implementing TOU rates would require "a redeployment of the entire AMI system which would be many millions of dollars."[21] While the Department does not necessarily dispute this assertion with respect to TOU rates for all WEC customers, a Department witness testified that such investment would only be required for "some large percentage of WEC customers."[22] In any event, the Department withdraws its recommendation that WEC be required to file a TOU rate within six months. Instead, the Department now recommends that WEC be required to file either an electric-vehicle (EV) specific rate or a TOU within one year of the final order of this case. To the extent that WEC believes that such rates are either impractical or cost-prohibitive, it should instead file a report with the Commission detailing the reasons for why it is not feasible to implement an EV-specific or TOU rate.

In conclusion, the Department supports WEC's proposal to increase its monthly customer charge. The Department, however, recommends that the Commission require the following:

- Removal of the tail block from WEC's rate design; or, in the alternative, require that within five years WEC either: (1) file a petition and revised tariff sheets for a revised rate design that eliminates the inclining block structure; or (2) report to the Commission why WEC believes it should continue to maintain the inclining block rate design in light of

[21] Tr. at 47 (Richards).
[22] Tr. at 108 (Potter). Mr. Potter also testified that "Conversations I have had with [Ms. Richards], [Ms. Richards] has indicated that moving all customers to a rate such as that would, as I believe you stated earlier, swamp [WEC's] back haul and data processing systems. But a percentage of customers could be served by a smart rate like that. I don't know where that threshold lies. But my understanding was that some amount of WEC customers could be served by smart rates like that." Tr. at 107 (Potter).

current market conditions and state policy.;

- A phased-in implementation of the proposed rate design adjustments;
- WEC consult with the Department and report back to the Commission within one year as to the feasibility of implementing a low-income support mechanism or program; and
- WEC be required to file either an electric-vehicle (EV) specific rate or a TOU within one year of the final order of this case.

Dated at Montpelier, Vermont, this 7th day of November.

Vermont Department of Public Service

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