Efficiency Vermont

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September 4, 2020

Judith Whitney, PUC Clerk
Vermont Public Utility Commission
112 State Street
Montpelier, VT 05620-2701

Re: Case No. 20-2022-INV, Calculation of the Efficiency Vermont Energy Efficiency Charge ("EEC") Rates for Calendar Year 2021

Dear Ms. Whitney,

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 2021 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 rate increases for commercial customers, which has the potential to cause undue hardship. The alternative methodology proposes rate credits to offset revenue requirements, forecasts future sales, incorporates six months of gross consumption for net metered customers, and a flat rate increase for all customers. The effect for customers would be a 1.62% rate increase for all customers. This

letter explains the alternative methodology in detail, and requests approval for the rates to go into effect on January 1, 2021.

EEC Collection Trends

The EEC for the next calendar year is calculated pursuant to the methodology of PUC Rule 5.300. Rule 5.300 uses numerous inputs from recent utility sales and revenue collections by customer classes from each utility for setting an EEC rate for each customer class. The sum of the projected revenue is equal to Efficiency Vermont's proposed Demand Resources Plan budgets in 19-3272- PET for the next calendar year. However, there is significant complexity and uncertainty in making assumptions about how different customer classes, including net metering customers, will consume electricity year over year, and Rule 5.300 allows for both forecasting and alternative methodologies to be presented to the commission in the EEC rate filing. The COVID-19 pandemic is one significant change in assumptions that has resulted in abnormal sales and EEC collections, thus affecting the assumptions underlying the 2021 EEC rate calculation, and which must be addressed in this filing and through adoption of an alternative rate methodology.

At the height of the COVID pandemic, the effect of having all but essential workers staying home across the region was described by the ISO-NE as the equivalent to a "snow day" every day. Wherein, sales of electricity to commercial facilities were significantly diminished, and sales to residential customers were up by significant amounts. While the broader economic and social impact of the pandemic continues, albeit at a slightly diminished effect, Efficiency Vermont anticipates that reduced electric sales will reduce the scheduled EEC collections by approximately $1.5 million in 2020. Efficiency Vermont notes that if it continued to spend the full 2020 budget authorized in Case No. EEU-2016-03, uncollected EEC monies would be considered in this EEC rate calculation as an additional revenue requirement for the 2021 rate year, putting significant upward pressure on rates. Rather, Efficiency Vermont believes it should align spending in 2020 with what is expected in 2020 EEC revenues.

Efficiency Vermont seeks to avoid having COVID-related under collections put upward pressure on rates during this challenging economic recession. Coterminous with this filing, Efficiency Vermont has filed a request in Case No. EEU-2016-03 for the Commission to reduce the budget and goals commensurate to these and other revenue reductions for the performance period ending in 2020. The 2021 EEC rate methodology presented herein presumes approval of Efficiency Vermont's budget reduction request in EEU-2016-03. As proposed, the budget reduction for 2020 will serve as a rate credit under the rule 5.300 methodology for 2021 EEC rates.

A second rate credit is pending under Case No. 20-2241-PET, wherein the Department recommended that $1,453,053 of unspent 2015-2017 budgets be applied to the 2021 EEC budgets as a rate credit.[1] Efficiency Vermont supports this proposal, and has applied the Department's credit in the 2021 EEC rate calculation and proposal. The Department also recommended that the EEUs present their 2021 EEC

[1] Department of Public Service Recommendation for Reallocation of 2015-2017 Energy Efficiency Charge Carryover Funds, 8/12/20.

rate calculations with and without this credit, and Efficiency Vermont has provided these additional rate calculations in **Appendix A** of this filing.

In 2017, Efficiency Vermont proposed a flat 2018-2020 budget in the Demand Resources Plan after hearing from a broad array of stakeholders that they were satisfied with the level of service provided by Efficiency Vermont, but who wanted stability in their EEC rates. Maintaining stable EEC rates over the last three years has been a stated objective for Efficiency Vermont, which at times necessitated the EEU finding operational efficiencies to create cost savings that were used to flatten rates. Efficiency Vermont has reemphasized this objective in the most recent Demand Resources Plan (DRP) proceeding (Case No. 19-3272-PET), where the effects of the COVID pandemic and economic recession are expected to carry into 2021, and rate stability for all customers takes on a great degree of importance.

As mentioned, the declining sales and the impacts of COVID-19 have created a large gap in collections that can largely be addressed in Case No. EEU-2016-03 through the requested change in budget. However, changes in usage patterns in 2019 and 2020 have also created significant variability within rate classes, and an unanticipated under-collection from 2019 is also factored into the 2021 EEC rate alternative methodology. Here, Efficiency Vermont summarizes some of the sector trends that have been observed that affect the 2021 EEC rate calculation and alternative rate methodology.

Residential

Due to COVID-19 impacts, the State of Emergency, and Stay at Home orders, Efficiency Vermont has seen an increase in residential EEC collections since March 2020. These increases have continued through the summer and are expected to continue through the end of the year. Efficiency Vermont is projecting that residential collections will end the year 3% or $725,000 over the collections originally forecasted for the 2020 EEC rate established in Case No. 19-3402.

Commercial

Vermont is experiencing declines in commercial sector collections, partly due to the pandemic, but also due to longer trends that have been evident since 2018. The 2020 commercial collections were budgeted at $18,986,000, but the current forecast is to collect $16,787,000 or $2.2M under budget. This variance further stresses the 2021 EEC rate calculations because 2019 commercial collections ended up being close to $1.5 million lower than anticipated. These variances may be due in part to larger economic trends, including closure of colleges, retail consolidation, and changes in hospitality trends, including where visitors are staying when they come to Vermont. **Table 1** illustrates utility reported sales in 2018 and 2019, and Efficiency Vermont's estimates for year-end 2020 sales.

Table 1. Utility Reported Commercial MWh and MW Sales 2018-2020

Utility Sales Year	Commercial Non-Demand MWh	Commercial Demand MWh	Commercial Demand On-Peak MW
Actual 2018	321,561	1,533,131	4,871
Actual 2019	324,008	1,491,129	4,826
Projected 2020	315,935	1,347,149	4,069

These trends could indicate a long-term decline in commercial load. But more specifically, if the COVID pandemic and economic recession persist well into 2021, commercial loads are likely to look more like 2020 than 2019. Accordingly, Efficiency Vermont has accounted for this in assuming 2021 commercial revenues will be 7.7% lower than the last full year of collection data, which is 2019.

Industrial

Revenue from industrial customers is close to target, but the spread between collections from energy (kWh) and demand (kW) has shifted. This customer class usage can be highly dependent on weather (e.g., snowmaking), but the projected revenues are forecast to be within 1% of budget. Overall the sector appears to be on a gradual decline. **Table 2** illustrates utility reported sales in 2018 and 2019, and Efficiency Vermont's estimates for year-end 2020 sales.

Table 2. Utility Reported Industrial MWh and MW Sales 2018-2020

Utility Sales Year	Industrial Non-Demand MWh	Industrial Demand MWh	Industrial Demand On-Peak MW
Actual 2018	8,702	714,469	1,391
Actual 2019	5,578	727,465	1,745
Projected 2020	6,568	677,846	1,526

2021 Budget

The PUC Rule 5.300 requires that if Efficiency Vermont proposes to use an alternative methodology for determining EEC rates, that it file its EEC rate calculation and proposal by Sept 1st.[2] This year, as will likely happen most every three years, the EEUs are completing a DRP proceeding before the Commission (Case No. 19-3272-PET). In the DRP proceeding, the budget for performance years 2021-2023 will be decided by the Commission several weeks or months later than the required filing for this EEC rate proposal. As such,

[2] In this proceeding, the Commission granted a short extension of three days to file this methodology by September 4, 2020.

Efficiency Vermont proposes this 2021 EEC rate calculation using the 2021 budget it has proposed in the DRP Proceeding.[3]

Efficiency Vermont's budget proposal currently before the Commission is very similar to the budget proposal made by the Department in the DRP proceeding, whereby both budgets are intended to produce mostly flat rates for customers in 2021. However, because the Commission has yet to make a determination regarding Efficiency Vermont's 2021-2023 budget, Efficiency Vermont notes that the 2021 EEC collections may need to be adjusted slightly at a later date for any inconsistencies or taken into account with the next EEC rate calculation. At this time, Efficiency Vermont believes that any such modifications are likely to be minor, and is willing to work with the Department, distribution utilities, and the Commission on a reasonable process to ensure customers are being charged an EEC rate in accordance with the budget being established in the DRP.

EEC Calculation Methodology

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.*

Efficiency Vermont appreciates the flexibility granted to the EEU for being able to identify alternative calculation methods that may stabilize the erratic fluctuations of the EEC from year to year. This allowance for flexibility is extremely useful, and particularly in this year, where significant over-collections in the residential sector are more than offset by under-collections for the commercial sector. Without adjustments in the alternative methodology, the standard EEC formula would result in double-digit EEC rate *decreases* for residential customers and double-digit *increases* for commercial customers.

Efficiency Vermont believes this variability is highly undesirable, and the large increases in rates for commercial customers would likely be a significant and severe economic hardship for many commercial customers struggling through a major economic recession brought about by the global COVID-19 pandemic. For this reason, Efficiency Vermont believes it is reasonable to propose an alternative methodology that eliminates the wide swings in EEC rates, and instead presents a small but uniform increase of 1.62% to all rate classes. As required, the 2021 EEC calculation, attached as a separate Excel file, uses the approved

[3] In Case No. 19-3272-PET, Efficiency Vermont filed its revised 2021-2023 budget proposal on April 17, 2020. See rebuttal testimony and exhibits.

Rule 5.305 calculation methodology for establishing the 2021 EEC rates without modifications, and a second calculation methodology with the following elements described below.[4]

2021 Rate Factors

The EEC rates are determined according to the approved budgets and allowable expenses (*$*-numerator) and the sale of electricity (*kWh & kW*-denominator) for all eligible customer classes. The resulting rate 2021 *$/kWh* and *$/kw* rates are thus being determined with Rate Factors identified in Rule 5.300. **Table 3** identifies the budget, and budget adjustments, Efficiency Vermont uses to establish the denominator in its 2021 EEC rate calculation.[5]

Table 3. The budget, and budget adjustments, Efficiency Vermont uses to establish the denominator in its 2021 EEC rate calculation.

Line	**Budget Item**	**Amount**
A	**Proposed 2021 Budget**	**$46,762,301**
B	**Budget Adjustments (positive value means adding back to collections)**	
C	Uncollectibles[6] 2019 True Up	$9,975
D	Uncollectibles 2020 Estimate	$162,454
E	Actual 2019 Collections True up (excludes tax ommission[7])	$1,198,026
F	Estimated 2020 True up (includes tax ommission and under collections forecast)	$1,504,116
G	Credits	-$2,957,169
H	**Total Budget Adjustments**	**-$82,599**
I	Total Collections Net of Tax	$46,679,702
J	Gross Revenue and Weatherization Tax (1.025%)	$478,467
K	**Total to be Collected by Utilities with Tax**	**$47,158,169**
L	**Rate Adjusters/Credits**	
M	2015-2017 Carryover (DPS) 20-2241-PET	-$1,453,053
N	Unbudgeted Taxes due to July 1, 2019 Tax Change	$-7,143
O	2020 Efficiency Vermont RA budget reduction	-$1,432,510

[4] Note that the EEC rate calculation presented in Attachment A includes the comparison requested by the Department in Case No. 20-2241-PET of rates with and without the use of the 2015-2017 carryover funds.

[5] This table is also provided in Attachment A (see the worksheet labeled *2021 Rate Factors)*.

[6] Uncollectible EEC funds refer to payments not received by customers

[7] The estimated 2019 impact for the period July 1-December 31, 2019 due to a change in the rate to be collected for gross receipts on the Energy Efficiency Charge (30 V.S.A. § 22) that went into effect on July 1, 2019 is $150.

P	2020 Operations Fee from underspend	-$19,339
Q	2020 Performance Award from under spend	-$45,124
R	**Total Rate Adjusters**	**-$2,957,169**

Several rate factors are worth additional explanation. In line *M*, unspent EEC funds from 2015-2017 are accounted for as a credit against future collections; meaning they offset 2021 EEC rates. The Department recommends returning $1,453,053 in unspent (non-program) Efficiency Vermont EEC funds for 2015-2017 (line M), as a credit to ratepayers in the 2021 EEC rate calculation. For these same reasons, Efficiency Vermont believes the relevant portion of these funds should be applied to Efficiency Vermont's 2021 EEC rate calculations.[8]

As discussed above, Efficiency Vermont has requested that the Commission approve a $1.5 million budget reduction for 2020 which will count as a rate credit under the balancing methodology of Rule 5.300 (lines N, O, P, & Q). In effect, the under-collection of EEC funds in 2020 is an incremental revenue requirement for 2021 as identified in line F, but is offset by the credit on lines N, O, P and Q for reducing the 2020 budget

Alternative Methodology:

Pursuant to Commission Rule 5.305, Efficiency Vermont budgets are primarily allocated to the residential, commercial and industrial sectors according to the distribution of retail sales revenue reported by the electric distribution utilities. A secondary allocation within the commercial and industrial rate classes distributes the funds and therefore the rates within classes through the distribution of energy (kWh) and peak demand (kW) EEC rates for non-demand and demand-billed customers. This secondary allocation is based upon the retail sales for energy and demand within each customer class.

Efficiency Vermont has identified that the Rule 5.300 methodology for forecasting 2021 commercial and industrial sales, for both kW and kWh, would likely be inaccurate given the ongoing COVID-19 pandemic and economic recession. In effect, the unaltered methodology would have the estimated 2021 sales and revenue from this sector be based largely on the verified utility sales in 2019. But this could be an example where the past may not be indicative of the future, and Efficiency Vermont believes commercial and industrial sales are likely to remain below 2019 levels for most or all of 2021. As such, Efficiency Vermont is proposing in the alternative methodology a 7.7% reduction in commercial sales from 2019 values, and a 3.5% reduction in industrial sales. These sales reductions appear consistent with the pace of economic recovery in Vermont and would safeguard against under-collecting EEC costs in 2021.

However, the introduction of a realistic sales adjustment puts far too much upward pressure on commercial rates, which compounds under collections from 2019 and 2020 and puts significant upward pressure on rates. And so, if the 2021 EEC rates were to be calculated using the standard EEC methodology in Rule 5.305, commercial non-demand and demand-billed customers would experience double-digit rate

[8] In Case No. 20-2241-PET, the Department's 8/12/20 filing recommended a schedule for determining the reallocation of the unspent 2015-2017 EEC funds. The schedule proposes a final Commission decision by September 25, 2020.

increases, as shown in Table 4 below. This volatility creates significant uncertainties and potential hardships for affected customers attempting to manage their costs.

Efficiency Vermont's second change in the alternative methodology is intended to reduce this rate pressure for commercial customers by applying a small, but uniform rate escalator of 1.62% to all customer classes and rates. This escalator is equitable, in that it affects all customer classes equally, and yet significantly helps to ameliorate the effect of lower sales volumes resulting from the COVID-19 pandemic and economic recession. This approach also helps customers better manage their costs and doesn't put undue burden and hardship on individual customers.

Accordingly, the alternative method being used is as follows:

1. Calculate estimated 2021 sales per Rule 5.305, including sales related to the change to 5.303 (B)(2) to include gross consumption for net metered customers commencing July 1, 2021.[9]

2. Determine if calculated sales present a realistic forecast for 2021 customer sales (which they are not). Thus, the first alternative method being proposed is:

    a. Apply a forecast reduction of 7.7% for all commercial sales (based on 2019 levels), and;

    b. Apply a forecast reduction of 3.5% for all industrial sales (based on 2019 levels).

3. Calculate customer rates per Rule 5.305.

4. Determine how rates by sector and customer class would impact customers using the standard EEC methodology in Rule 5.305.

5. Using the standard EEC methodology in Rule 5.305, nearly all rates would have changed by double-digits.[10] Thus, the second alternative being proposed is:

    a. Apply a uniform 1.62% adder to all 2021 rates

Table 4 illustrates how the EEC rates are impacted using Efficiency Vermont's proposed methodology.

[9] Case No. 19-0053-Rule, Commission Order of August 9, 2019 concerning changes to Rule 5.300 Energy Efficiency Charge.

[10] Residential and industrial rates would decrease by more than 10%, and commercial rates would increase by more than 20%.

Table 4. 2021 EEC Charge Methodology Comparison

EEC Rate Comparison		5.305 Methodology		Alternative Methodology	
Rate Classifications	2020 EEC Rates	2021 EEC Rates	% Change 2020 to 2021	2021 EEC Rates	% Change 2020 to 2021
Customers Without Demand Charges					
Residential	$0.01188	$0.01051	-11.5%	$0.01207	1.62%
Commercial	$0.01024	$0.01248	21.9%	$0.01040	1.62%
Industrial	$0.00757	$0.00710	-6.3%	$0.00769	1.62%
Customers with Demand Charges					
Commercial					
kWh	$0.00662	$0.00796	20.3%	$0.00673	1.62%
kW	$1.13825	$1.50763	32.5%	$1.15665	1.62%
Industrial					
kWh	$0.00521	$0.00477	-8.4%	$0.00529	1.62%
kW	$1.21316	$1.06691	-12.1%	$1.23277	1.62%
Customers with Unmetered Street and Security Lights					
	$0.01024	$0.01248	21.9%	$0.01040	1.62%

As discussed above, the Department recommended that Efficiency Vermont model the rates both with and without the 2015-2017 carryover values. In **Appendix A**, Efficiency Vermont provides a comparison of rates including and excluding those carryover credits as applied to the Alternative Methodology proposed by Efficiency Vermont. Note that without applying the 2015-2017 carryover balances, there is an unreasonable rate impact for customers. For that reason, Efficiency Vermont supports the Department's request for 2015-2017 carryover balances to be applied in 2021 as a rate credit.

Conclusion & Schedule

Efficiency Vermont appreciates the Commission's willingness to allow Efficiency Vermont to propose alternative methodologies. 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.

Accordingly, Efficiency Vermont requests that the Commission approve its use of the revised 2020 budget that has been applied to its alternative 2021 EEC rate methodology. As discussed, coterminous with this filing, Efficiency Vermont has filed a request to adjust its 2020 budget in Case No. EEU-2016-03. Application of these factors to its alternative methodology is reasonable to reforecast 2020 electric utility sales, and to add a small uniform adjuster to make up for past and current under collections, as well as anticipated lower 2021 sales. The combined effect of these variations in the methodology will assure reasonable 2021 EEC rates for all ratepayers in Efficiency Vermont's service area.

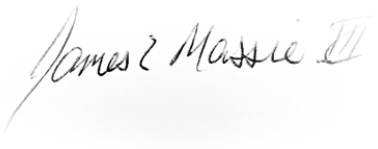
To this end, and considering the opportunity for stakeholders to comment on both Efficiency Vermont filing's and those made to the Commission by the Department in Case No. 20-2241-PET, Efficiency Vermont recommends that the Commission modify the Department's proposed schedule as follows:

- **September 4, 2020** - Efficiency Vermont files alternative methods for 2021 EEC rate calculation in Case No. 20-2022-INV; and 2018-2020 Budgets and Goals Adjustment Request in Case No. EEU-2016-03.
- **September 18, 2020** - Comments due in Case No. 20-2241-PET regarding 2015-2017 carryover EEC funds, *and* Case No. EEU-2016-03 regarding Efficiency Vermont's 2018-2020 budget and goals adjustment request. Parties are requested to file a single set of comments in both cases.
- **September 25, 2020** – Opportunity for reply comments in cases 20-2241-PET and EEU-2016-03 respectively.
- **October 9, 2020** - Commission decision(s) on 2021 EEC rate in 20-2022-INV, 2018-2020 budget and goals adjustment proposal in EEU-2016-03, and the Department's petition regarding 2015-2017 EEC carryover funds in Case No. 20-2241-PET.
- **October 23, 2020** - Efficiency Vermont compliance filing (reflecting new budgets, QPIs, and performance tables) in EEU-2016-03.
- **November 9, 2020** - Commission Final Order on 2021 EEC rates in 20-2022-INV.

Given the complexity of the material and anticipating the need for informal discussion between parties before filing comments in both cases, Efficiency Vermont has proposed extended time for comments and reply comments. Efficiency Vermont would also propose a conference meeting of parties the week of Sept 8th to discuss and finalize dates so that the Commission may issue a Scheduling Order(s) in the affected cases.

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

Sincerely,



James E. Massie III

Director, Budget and Reporting

Appendix A. 2021 EEC charge comparison with and without 2015-2017 carryover credits

2021 EEC Rate Comparison			5.300 Methodology All Credits Included		Alternative A Flat % Increase All Credits Included		Alternative B Flat % Increase without Carryover Credit	
Rate Classifications	2021 Projected Retail Sales	2020 EEC Rates	2021 EEC Rates	% Change 2020 to 2021	2021 EEC Rates	% Change 2020 to 2021	2021 EEC Rates	% Change 2020 to 2021
Customers Without Demand Charges					1.62%		4.75%	
Residential	2,017,308,355	$0.01188	$0.01051	-11.5%	$0.01207	1.62%	$0.01245	4.75%
Commercial	305,506,221	$0.01024	$0.01248	21.9%	$0.01040	1.62%	$0.01072	4.75%
Industrial	6,789,470	$0.00757	$0.00710	-6.3%	$0.00769	1.62%	$0.00793	4.75%
Customers With Demand Charges								
Commercial								
kWh	1,358,651,965	$0.00662	$0.00796	20.3%	$0.00673	1.62%	$0.00693	4.75%
kW	4,069,140	$1.13825	$1.50763	32.5%	$1.15665	1.62%	$1.19228	4.75%
Industrial								
kWh	700,597,467	$0.00521	$0.00477	-8.4%	$0.00529	1.62%	$0.00546	4.75%
kW	1,526,886	$1.21316	$1.06691	-12.1%	$1.23277	1.62%	$1.27075	4.75%
Customers with Unmetered Street and Security Lights								
	13,126,578	$0.01024	$0.01248	21.9%	$0.01040	1.62%	$0.01072	4.75%