STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 20-2022-INV

Determination of 2021 Energy Efficiency Charge Rates	

Order entered: 11/05/2020

ORDER APPROVING EFFICIENCY VERMONT'S PROPOSED ENERGY EFFICIENCY CHARGE RATES FOR 2021

I. INTRODUCTION

In this Order, the Vermont Public Utility Commission ("Commission") sets the energy efficiency charge ("EEC") rates to take effect with electric bills rendered on and after February 1, 2021, for customers in Efficiency Vermont's territory. The Commission approves the use of an alternative method for calculating the EEC, and the EEC shall remain level in 2021, with no increase from 2020 levels. The 2021 EEC rates by customer class are attached to this Order.

I. PROCEDURAL HISTORY

On July 28, 2020, the Commission opened an investigation into the 2021 energy efficiency charge rates.

Between July 28 and July 31, 2020, the electric distribution utilities served by Efficiency Vermont submitted load, sales, and revenue data.

On September 4, 2020, Efficiency Vermont submitted its proposed 2021 EEC rates and supporting documentation ("Efficiency Vermont Comments").

On September 23, 2020, Efficiency Vermont submitted a sensitivity analysis of the EEC calculation with varying assumptions regarding forecasted sales ("Efficiency Vermont Sensitivity Analysis").

On September 30, 2020, the Vermont Department of Public Service submitted comments on Efficiency Vermont's proposed rates ("Department Comments").

II. POSITIONS OF THE PARTICIPANTS

Efficiency Vermont

Commission Rule 5.300 governs the calculation of EEC rates. Under Rule 5.306(B), an energy efficiency utility may propose calculating the EEC using an alternative method. Efficiency Vermont proposes an alternative EEC calculation method because the standard Rule 5.300 methodology results in a significant rate reduction for residential customers and a moderate rate decrease for industrial customers, while significantly increasing rates for commercial customers. Efficiency Vermont states that such an increase in commercial rates has the potential to cause undue hardship for commercial customers.[1]

The Efficiency Vermont alternative methodology differs from the Rule 5.305 standard calculation method. After reducing the revenue requirement to account for unspent funds from previous periods, Efficiency Vermont proposes to: allocate the revenue requirement across customer classes to create an identical 1.62% increase for all classes rather than use historical share of revenue to allocate the revenue requirement.[2]

First, Efficiency Vermont's proposal reflects two recent Commission decisions that together have the effect of reducing the overall revenue requirement by approximately $2.9 million.[3]

Second, Efficiency Vermont proposes to use a modified forecast of 2021 sales as the basis for its calculation of the EEC.[4] In 2020, there have been significant changes to electric sales due to the COVID-19 pandemic and ensuing economic recession. The Rule 5.300 methodology would use historic sales as the basis for calculating the 2021 EEC. However, 2020 sales to date show significant change from 2019 across sectors. Efficiency Vermont anticipates

---

[1] Efficiency Vermont Comments at 9

[2] Efficiency Vermont also incorporates six months of gross consumption or fixed monthly EEC for net-metering customers, pursuant to Commission Rule 5.303(B)(2). This provision will take effect on July 1, 2021.

[3] See *Vermont Department of Public Service request for determination of reallocation of unspent 2015-2017 Energy Efficiency Charge funds*, Case No. 20-2241-PET and *Order Approving Changes to Efficiency Vermont Budgets and Goals for the 2018-2020 Performance Period*, Case No. EEU-2016-03, Order of 10/29/2020. These decisions would be in force under both the standard Rule 5.300 methodology and Efficiency Vermont's alternative proposal.

[4] The EEC may be calculated using forecasted sales as the denominator. If sales meaningfully depart from prior years, a significant over- or under-collection can occur. Over- and under-collections are rolled into the following year's calculation of the EEC. Arriving at a reasonable assumption for sales for 2021 will minimize upward and downward swings in the EEC for 2022.

that 2020 revenue in the residential sector will likely be 3% (or $725,000) higher than projected, collections will be down by $2.2 million for the commercial sector, and industrial sector collections will likely be close to 2019 levels. In calculating the 2021 EEC, Efficiency Vermont proposes to apply a 7.7% reduction in sales to commercial customers, a 3.5% reduction in sales to industrial customers, and no change in sales to residential customers.[5] These shifts suggest that commercial rates should be higher and residential and industrial rates lower given expected sales volumes in 2021. However, rather than use historical share of revenue to allocate the 2021 revenue requirement, Efficiency Vermont plans to allocate its revenue requirement across the three classes in such a way so that each class would experience the same rate increase.

Third, Efficiency Vermont proposes to apply a 1.62% EEC rate increase to all customer classes. Under the standard Rule 5.300 methodology, the revenue requirement is allocated across rate classes according to previous-year retail sales. If that method were applied in 2021, commercial customers would see an increase in rates between 20% and 32%.[6] Residential customers, on the other hand, would see a rate reduction of 11.5%. Industrial customers would see an EEC rate reduction of 6.3%. As an alternative, Efficiency Vermont proposes to raise EEC rates across-the-board, for all rate classes by 1.62%. This method would result in roughly $3 million more in revenue being collected from residential customers when compared to the Rule 5.300 methodology.[7]

Department of Public Service

The Vermont Department of Public Service ("Department") does not object to the use of an alternative methodology for calculating the 2021 EEC. However, rather than a 1.62% rate increase, the Department requests that the Commission order a 0% increase in EEC for all rate classes in 2021. Noting that the revenue forecast assumptions probably underestimate revenue for 2021, the Department points out that there are many likely economic scenarios in which a 0% increase in the EEC would yield revenue sufficient to meet Efficiency Vermont's approved 2021 revenue requirement.

---

[5] The reductions in sales are relative to 2019 sales, the most recent year for which complete data are available.

[6] Some commercial customers are billed a demand charge and others are not. The 20% to 32% range in rate increase presented by Efficiency Vermont reflects different billing determinants among commercial customers.

[7] See the spreadsheet submitted by Efficiency Vermont titled "Attachment A – 2021 EEC Rate Calculation," EEC Rates Report tab, Column M, Rows 8-10.

The Department points out that "several areas that directionally point to potential higher consumption than estimated by Efficiency Vermont, which … allows for the EEC rates to remain constant while collecting sufficient revenue to fund the budget in 2021."[8]

In particular, the Department identifies two areas of the forecast where Efficiency Vermont's assumptions have likely underestimated 2021 revenue, noting that "the residential sector could be assumed to continue to see higher loads than forecasted by Efficiency Vermont, or if the residential sector loads are expected to be back to historical levels, the commercial sector could see greater loads as Vermonters return to offices."[9] A second set of assumptions likely underestimate sales to industrial customers because Efficiency Vermont did not use weather-normalized assumptions for industrial load. The Department notes that "the trend forecasted by Efficiency Vermont likely overstates the decline in load because it doesn't normalize for weather impacts. Generally, one-year, nonweather normalized data is not a good basis on which to forecast load."[10]

III. Discussion and Conclusion

Rule 5.300 is designed to formulaically set EEC rates that will raise the annual revenue requirement amounts approved in the Demand Resources Plan proceeding.[11] Under Rule 5.306(B), an energy efficiency utility may propose an alternative to the standard calculation method. In doing so, the utility must provide an explanation of the proposed alternative, the formulas used, the reason for proposing the alternative, and the effect the alternative calculation method will have on customers. Efficiency Vermont's proposal meets these requirements. Due to the COVID-19 pandemic, consumption patterns among rate classes are expected to be significantly different in 2021 than they were in 2019. For this reason, an alternative methodology that applies an across-the-board allocation of revenue collection rather than one determined by historical loads by sector is reasonable.

---

[8] Department Comments at 4-5.

[9] Department Comments at 5.

[10] Department Comments at 5-6.

[11] The annual budgets for an energy efficiency utility are determined in a separate Commission process. *See Order Approving Efficiency Vermont's 2021-2023 Demand Resource Plan*, Case No. 19-3272-PET, Order of 10/22/20.

In the annual EEC proceeding, the Commission seeks to set the EEC at a level that will result in the collection of funds sufficient to meet the revenue requirement for that year and account for past years' over- and under-collections. When alternative calculation methodologies are proposed, the Commission 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.

Under the standard Rule 5.300 methodology, the EEC is calculated using recent years' kWh and kW sales and revenue data to determine the amount of total revenue to be collected from each customer class. This method works relatively well when there is little fluctuation in usage patterns from year to year. When sales across customer classes vary significantly between years, the standard Rule 5.300 method can produce wide swings in collections for each rate class. Due to the COVID-19 pandemic, consumption patterns among rate classes are expected to be significantly different in 2021 than they were in 2019, leading to double-digit changes in rates for residential and commercial rate classes.

Equity among residential, industrial, and commercial sectors

When compared to a strict application of the standard Rule 5.300 method, the alternative method proposed by Efficiency Vermont would collect over $3 million more from residential ratepayers and $623,000 more from industrial ratepayers, while under-collecting more than $3.7 million from commercial customers. Traditional rate-making principles would seek to avoid such an outcome because each customer class should reasonably contribute to the revenue requirement consistent with the billing determinants for the sector. In addition, in Demand Resource Plan proceedings, where budgets for efficiency are determined, the Commission has approved proposals that encourage an increasing amount of spending in the residential sector to "catch up" residential program investments to the residential collections.

While some amount of cross-subsidy is acceptable, the long-term goal should be a gradual transition toward greater equity among the sectors. Efficiency Vermont's alternative methodology "exacerbates this cross-subsidy for 2021" by allocating the revenue requirement across-the-board rather than using historical share of revenue.[12]

[12] Department Comments at 4.

Although traditional rate-making principles would seek to avoid such a cross-subsidy, in this instance the Commission adopts, in part, the alternative method proposed by Efficiency Vermont, despite the cross-subsidy, for two reasons. First, 30 V.S.A. § 218e directs the Commission to consider "…the impact on manufacturing and other businesses when issuing orders, adopting rules, and making other decisions affecting the cost and reliability of electricity.…" If the Commission were to adopt a strict application of Rule 5.300 in this case, rates for commercial customers would increase very dramatically during a time of severe economic stress. Such a steep increase could affect viability for some businesses. Second, making substantial changes to the collections for each sector based on the one-year trend associated with very unusual economic conditions caused by the pandemic may cause rate instability for all classes. All classes could see double-digit changes, both up and down, to rates over the next few years as the economy continues to change. Such rate instability is undesirable and affects the ability of all sectors to plan for energy expenditures.

In determining reasonable EEC rates under an alternative proposal, the Commission considers whether each rate class is contributing an appropriate amount to the overall revenue requirement. In this instance, we recognize that consumption patterns and sector loads have changed because of the COVID-19 pandemic, and that many customers -- residential, commercial, and industrial -- are experiencing financial hardship. We must balance the desire for equitable rate class contributions with the goal of avoiding undue rate shock and additional hardship for customers. For 2021, the Commission approves the use of the alternative method that spreads collections across rate classes rather than strictly allocating collections based on historical shares of sales.

<u>The magnitude of change to the EEC</u>

Efficiency Vermont recommends a 1.62% increase in the EEC for 2021. The Department recommends no increase. Efficiency Vermont estimates that using its proposed forecast and applying 2020 EEC rates would lead to approximately $750,000 in under-collections. This is a result of assumptions made by Efficiency Vermont in its revenue forecast. Those assumptions together constitute a prediction that sales in 2021 will be significantly lower than sales in 2020, a scenario we find unlikely. Efficiency Vermont assumed that residential loads shrink back to pre-pandemic levels, while at the same time commercial loads remain at historic lows and industrial loads shrink to lows associated with unusual weather conditions. While any one of these assumptions may prove accurate, it is highly unlikely that all three will occur, in a confluence of historically low sales across all sectors that are even lower than we have observed during the pandemic in 2020. As the Department points out, the confluence of these three events appears unlikely. If residential loads shrink, commercial loads will likely grow as people return to work. Conversely, if commercial loads remain low as people remain at home during the pandemic, residential loads will likely remain at higher levels, as has been the case in 2020.

There are many feasible alternative scenarios that would yield higher sales and revenue. For example, if residential loads were to remain higher during 2021 due to the ongoing pandemic, or if commercial loads rebounded slightly, or if industrial loads were higher due to more normal weather-related demand (e.g., snow-making), the revenues generated from a level-set EEC would likely be sufficient to meet revenue requirements in 2021 and avoid under-collections.[13] While loads and revenues among sectors for 2021 are difficult to predict accurately, we conclude it is reasonable to expect that, with EEC rates unchanged from 2020 levels, revenues will be close to the approved 2021 budget. Any under-collections in 2021 may be recovered in future rates or by other mechanisms such as mid-year rate or budget adjustments.

We conclude that the Department's proposal to leave EEC rates unchanged from 2020 levels is reasonable and will likely result in adequate collections to meet Efficiency Vermont's 2021 revenue requirement. Therefore, there shall be no change in the EEC rates for 2021. The EEC rates for Efficiency Vermont's territory shall remain at 2020 levels for electric bills rendered on and after February 1, 2021.

Because rates will be unchanged for 2021, we waive Commission Rule 5.308(A), and distribution utilities are not required to provide notice to customers of the EEC rates.[14] This Order is the final judgement regarding the 2021 electric EEC rates for all customers except those served by the City of Burlington Electric Department.[15]

SO ORDERED.

[13] Department Comments at 4-6; Efficiency Vermont Sensitivity Analysis.

[14] Commission Rule 2.107 notes that "…for other good cause, the Commission may waive the application of rule upon such conditions as it may require, unless precluded by the rule, itself, or by statute."

[15] Commission Rule 2.103 and Vt. R. Civ. P. 54(b).

Dated at Montpelier, Vermont, this 5th day of November, 2020.

Anthony Z. Roisman	)	PUBLIC UTILITY
	)	
Margaret Cheney	)	COMMISSION
	)	
Sarah Hofmann	)	OF VERMONT

OFFICE OF THE CLERK

Filed: November 5, 2020

Attest: Judith C. Whitney
Clerk of the Commission

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Commission (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: puc.clerk@vermont.gov)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Commission within 30 days. Appeal will not stay the effect of this Order, absent further order by this Commission or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Commission within 28 days of the date of this decision and Order.

Appendix A – 2021 EEC Rates

The 2021 electric EEC rates shall be as follows for customers of all utilities except for Burlington Electric Department:

Rates for Customers Without Demand Charges

Residential	$0.01188/kWh
Commercial	$0.01024/kWh
Industrial	$0.00757/kWh

Rates for Customers with Demand Charges

Commercial demand customers	$0.00662/kWh plus $1.13825/kW
Industrial demand customers	$0.00521/kWh plus $1.21316/kW

Rates for Unmetered Street and Security Light Customers

$0.01024/kWh times the nominal wattage of the light times 360 hours per month

PUC Case No. 20-2022-INV - SERVICE LIST

Carolyn Browne Anderson, Esq. Green Mountain Power Corporation 2152 Post Road Rutland, VT 05702 carolyn.anderson@greenmountainpower.com	(for Green Mountain Power Corporation)
Reginald Beliveau, Jr. Swanton Village, Inc. Electric Department P.O. Box 279 120 First Street Swanton, VT 05488 rbeliveau@swanton.net	(for Swanton Village, Inc. Electric Department)
Erin C. Bennett, Esq. Vermont Department of Public Service 112 State Street Montpelier, VT 05620 erin.bennett@vermont.gov	(for Vermont Department of Public Service)
Meredith Birkett Village of Johnson Water & Light Department P.O. Box 603 Johnson, VT 05656 vojmanager@townofjohnson.com	(for Village of Johnson Water & Light Department)
Victoria J. Brown, Esq. Vermont Electric Cooperative, Inc. 42 Wescom Road Johnson, VT 05656 vbrown@vermontelectric.coop	(for Vermont Electric Cooperative Inc.)
Ellen Burt Town of Stowe Electric Department P.O.Box 190 Stowe, VT 05672 eburt@stoweelectric.com	(for Town of Stowe Electric Department)
William F. Ellis McNeil, Leddy & Sheahan 271 South Union Street Burlington, VT 05401 wellis@mcneilvt.com	(for City of Burlington Electric Department)

Jonathan Elwell Village of Enosburg Falls Water & Light 42 Village Drive Enosburg Falls, VT 05450 jelwell@enosburg.net	(for Village of Enosburg Falls Water & Light Department Inc.)
Elijah D Emerson, Esq. Primmer Piper Eggleston & Cramer PC PO Box 1309 Montpelier, VT 05601 eemerson@primmer.com	(for Village of Johnson Water & Light Department) (for Town of Hardwick Electric Department) (for Town of Northfield Electric Department) (for Village of Enosburg Falls Water & Light Department Inc.)
Steven R Farman Vermont Public Power Supply Authority 5195 Waterbury-Stowe rd Waterbury Center, VT 05766 sfarman@vppsa.com	(for Vermont Public Power Supply Authority)
James Gibbons City of Burlington Electric Department 585 Pine Street Burlington, VT 05401 jgibbons@burlingtonelectric.com	(for City of Burlington Electric Department)
Jeremy D. Hoff Stackpole & French P.O. Box 819 Stowe, VT 05672 jhoff@stackpolefrench.com	(for Town of Stowe Electric Department)
Bill Humphrey Village of Lyndonville Electric Department P.O. Box 167 20 Park Avenue Lyndonville, VT 05851 bhumphrey@lyndonvilleelectric.com	(for Village of Lyndonville Electric Department)
Penny Jones Village of Morrisville Water & Light Department 857 Elmore Street Morrisville, VT 05661 pjones@mwlvt.com	(for Village of Morrisville Water & Light Department)

Katelyn Kran Barton Village Inc. Electric Department KKRAN@BARTONVT.COM	(for Barton Village Inc. Electric Department)
Michael Lazorchak Town of Stowe Electric Department PO Box 190 Stowe, VT 05672 mlazorchak@stoweelectric.com	(for Town of Stowe Electric Department)
Megan Ludwig, Esq. Vermont Department of Public Service 112 State Street Montpelier, VT 05620-2601 megan.ludwig@vermont.gov	(for Vermont Department of Public Service)
James Massie Efficiency Vermont-Vermont Energy Investment Corporation 20 Winooski Falls Way 5th Floor Winooski, VT 05404 jmassie@veic.org	(for Efficiency Vermont - Vermont Energy Investment Corporation)
Mari McClure Green Mountain Power Corporation 163 Acorn Lane Colchester, VT 05446 ceo@greenmountainpower.com	(for Green Mountain Power Corporation)
Joseph McKearin Green Mountain Power Corporation 2152 Post Road Rutland, VT 05701 Joseph.McKearin@greenmountainpower.com	(for Green Mountain Power Corporation)
Pamela Moore Village of Jacksonville Electric Company P.O. Box 169 Jacksonville, VT 05342 pmoore@jacksonvilleelectric.net	(for Village of Jacksonville Electric Company)

John Morley Village of Orleans Electric Department Municipal Building One Memorial Square Orleans, VT 05860 jmorley@villageoforleansvt.org	(for Village of Orleans Electric Department)
Ken Nolan Vermont Public Power Supply Authority P.O. Box 126 Waterbury Center, VT 05677 knolan@vppsa.com	(for Vermont Public Power Supply Authority)
Jessica Patterson Town of Hardwick Electric Department PO Box 516 Hardwick, VT 05843 jess@hardwickelectric.com	(for Town of Hardwick Electric Department)
Thomas Petraska Village of Ludlow Electric Light Department 9 Pond Street Ludlow, VT 05149 tpetraska@tds.net	(for Village of Ludlow Electric Light Department)
Jill Pfenning Vermont Gas Systems, Inc. 85 Swift Street South Burlington, VT 05403 jpfenning@vermontgas.com	(for Vermont Gas Systems, Inc.)
Patricia Richards Washington Electric Cooperative, Inc. P.O. Box 8 East Montpelier, VT 05651 patty.richards@wec.coop	(for Washington Electric Cooperative Inc.)
Carol Robertson Village of Hyde Park Electric Department P.O. Box 400 Hyde Park, VT 05655 carol.robertson@hydeparkvt.com	(for Village of Hyde Park Electric Department)

Jeffrey Schulz Town of Northfield Electric Department 51 South Main Street Northfield, VT 05663 jschulz@northfield.vt.us	(for Town of Northfield Electric Department)
Ronald A. Shems, Esq. Tarrant, Gillies, Richardson & Shems P.O. Box 1440 Montpelier, VT 05601-1440 rshems@tarrantgillies.com	(for Washington Electric Cooperative Inc.)
Eileen Simollardes Vermont Gas Systems, Inc. 85 Swift Street South Burlington, VT 05403 esimollardes@vermontgas.com	(for Vermont Gas Systems, Inc.)
Darren Springer City of Burlington Electric Department 585 Pine Street Burlington, VT 05401 dspringer@burlingtonelectric.com	(for City of Burlington Electric Department)
Emily Stebbins-Wheelock City of Burlington Electric Department 585 Pine Street Burlington, VT 05401 estebbins-wheelock@burlingtonelectric.com	(for City of Burlington Electric Department)
Michael Sullivan Town of Hardwick Electric Department P.O. Box 516 Hardwick, VT 05843 msullivan@hardwickelectric.com	(for Town of Hardwick Electric Department)
Rebecca Towne Vermont Electric Cooperative, Inc. 42 Wescom Road Johnson, VT 05656 rtowne@vermontelectric.coop	(for Vermont Electric Cooperative Inc.)

Matthew J. Walker
Efficiency Vermont-Vermont Energy Investment Corporation
20 Winooski Falls Way
5th Floor
Winooski, VT 05404
mjwalker@veic.org

(for Efficiency Vermont - Vermont Energy Investment Corporation)

David C. Westman
Efficiency Vermont - Vermont Energy Investment Corporation
20 Winooski Falls Way
5th Floor
Winooski, VT 05404
dwestman@veic.org

(for Efficiency Vermont - Vermont Energy Investment Corporation)