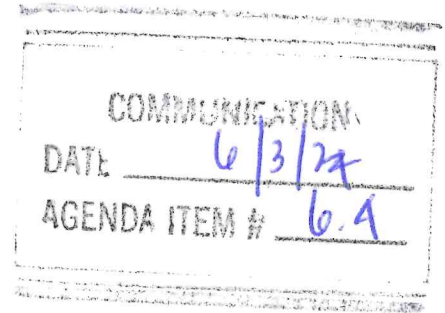




MEMORANDUM

To: Burlington Board of Finance and City Council

From: Darren Springer, General Manager
Emily Stebbins-Wheelock, CFO and Manager of Strategy & Innovation

Date: 6/3/2024

Subject: **BED FY25 Rate Change**

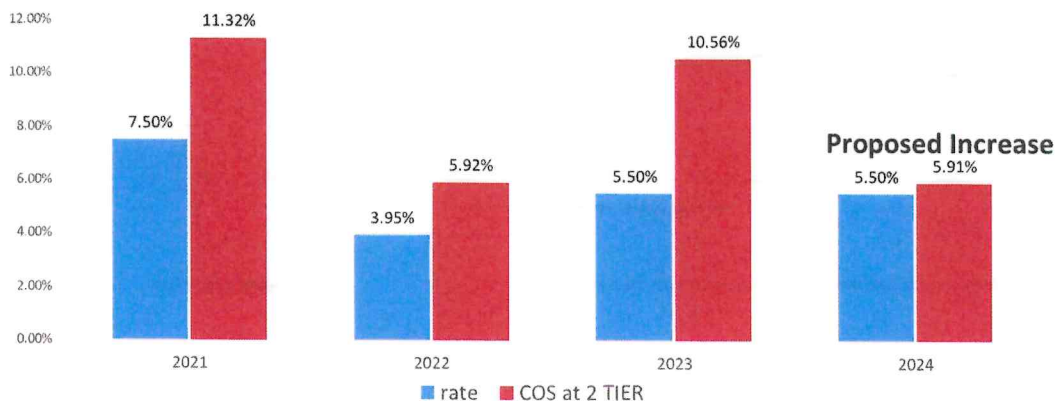
6/3/24
At their meeting of the Burlington City Council voted to approve the motion as written*
Adam Joci Alleg-

Introduction

Following Burlington Electric Department's (BED) first rate change in 12 years in FY22, BED informed customers and Councilors that we would likely need more frequent rate adjustments going forward, but that our goal was to keep them more moderate. For context, while BED sought a 7.5 percent increase in FY22, our documented need during the Public Utility Commission (PUC) process was 11.32 percent, meaning we asked for less than what was necessary. In FY23, BED sought a 3.95 percent increase, while our documented need for the PUC process was 5.92 percent. That trend continued in FY24 with BED requesting a 5.5 percent increase even with justification for a 10.56 percent increase. BED has asked for less than what is justified to limit the impacts on our customers, particularly coming out of the pandemic and with continued economic challenges such as relatively high inflation.



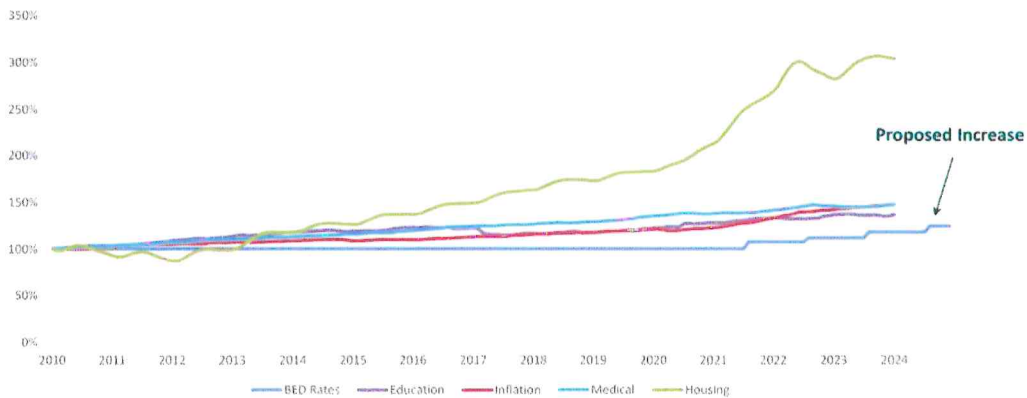
BED Requested Rate Changes vs. Cost of Service since 2021



For FY24, BED is proposing a 5.5 percent rate increase. All told, BED's rate changes over the past several years (including the proposed 5.5 percent in FY25) would still be below inflation rates during that time period (see graph below), and even with this rate change BED's total rates will remain low compared to the Vermont utility average.



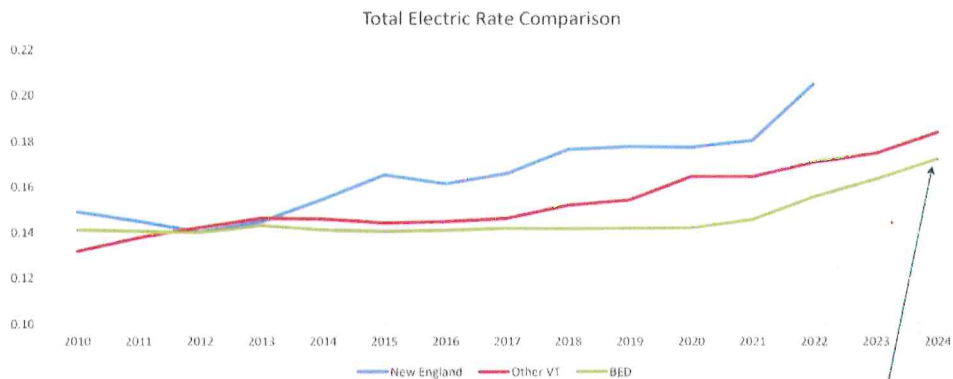
Change in Cost of BED Electricity vs. Other Goods/Services since 2010



¹ Data sources from FRED Economic Data and BED sales



Rate Comparison: Total Cost to Serve, 2010-2024



Source: BED sales data, EIA data up to 2022, Other VT 2023 and 2024 based on GMP rate increases

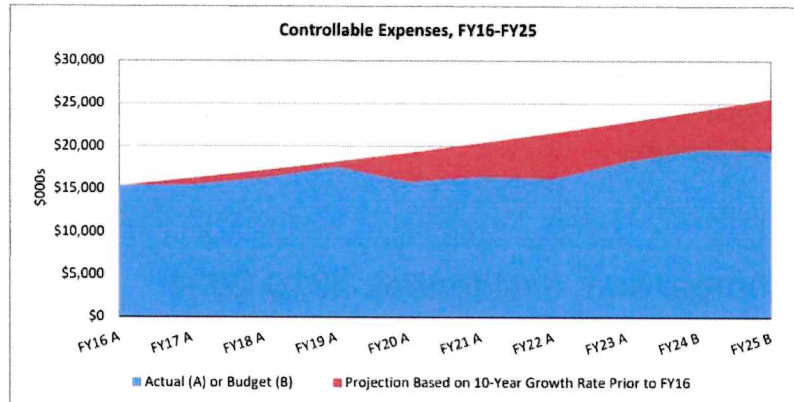
Proposed Increase

BED has worked diligently to reduce costs for FY25, holding controllable operating expenses lower in FY25 than the FY24 level.



Holding Down Controllable Expenses

Controllable, non-power supply O&M expenses 0.4% or \$80K lower than FY24 budget



Continued fiscal discipline since FY16 has moderated annual increases in controllable expenses to 3.3% on average, compared to 5.84% between FY07-FY16

At the same time, BED faces increased cost pressures from several factors, some of which are outside of our control, including increased transmission costs, relatively flat sales to customers, implementation of COLAs under the current 4-year labor contract, lower forward prices for the sale of excess winter energy, and power supply costs. Electricity costs in general across the nation have been rising at rates above inflation levels, as outlined in the following graph:



U.S. Electricity Prices Rising Faster than Inflation

STICKY ELECTRICITY PRICES

Electricity prices have ticked higher for the past six months as overall inflation has cooled.



SOURCE: BUREAU OF LABOR STATISTICS

yahoo!finance

- Nationally, electricity averaging 7.7% annual increases over past three years
- Transmission cost increases, volatility in fuel prices are drivers

<https://www.utilitydive.com/news/us-electricity-prices-rise-customer-eia-outlook/710113/> and <https://money.usnews.com/investing/articles/5-areas-where-inflation-is-highest>

The FY25 rate change will help BED to maintain credit rating and financial metrics that are in-line with expectations, and continue to invest in critical Net Zero Energy related incentives and infrastructure for

our customers, supported by capital financing and liquidity from our Net Zero Energy Revenue Bond. As we expect to spend the remainder of the proceeds from our 2022A revenue bond in FY25 and we look at the options for issuing a next revenue bond to support additional progress towards Net Zero Energy and grid reliability, maintaining strong financial metrics for our credit rating will remain important.

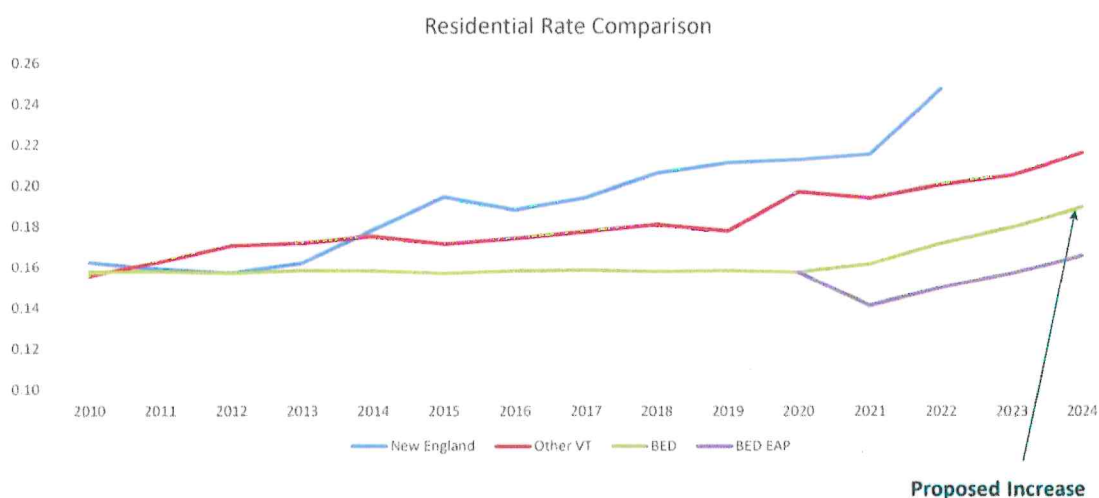
Attached to this memo are BED's FY25 rate change slides, as they were presented to the Board of Finance on May 13th.

Rate Change

For BED's residential customers, even with the proposed change, rates will remain lower than the Vermont and New England average.



Rate Comparison: Residential, 2010-2024



While average residential bills would increase by approximately \$4.51 per month, BED's Energy Assistance Program, which provides income-qualified residential customers with a 12.5 percent bill discount, was just approved on 5/21 as a permanent program. The PUC has also approved BED's proposed "automatic opt-in" enrollment for customers we know are eligible, which we anticipate could quadruple enrollment in the near-term. Eligibility requirements include being enrolled in the State of Vermont Fuel Assistance Program, the federal Housing Choice Voucher (Section 8) Program, or 3SquaresVT, which support customers with eligible incomes. In addition, BED has a lower customer charge than other utilities and discounts the first 100 kWh used as part of a statewide energy procurement program. This effectively provides a significant discount to customers who use less electricity than to customers using more.

For the bulk of BED's commercial customers (who are on the small general service rate), the average bill increase would be about \$5.71 per month. BED's commercial rate is not perfectly analogous to the

combined commercial/industrial rate of other utilities used in our slides, but as noted in the slides the commercial rate with the proposed increase may be slightly higher than the Vermont average (full data for utility rates for 2023/2024 is not yet available). We will be watching closely to ensure our commercial rates remain competitive going forward.

Timeline

The Burlington Electric Commission reviewed BED's FY25 budget, discussed the proposed rate change, and unanimously recommended the proposed rate change to the City Council by a vote at their meeting on May 8, 2023.

After BED files its rate case with the PUC, members of the Burlington community will have the opportunity to provide comment at public hearings and through written testimony during the PUC's thorough rate review process, which is expected to span at least several months. The rates charged to customers of Vermont public utilities must be reviewed and will be approved only if the PUC determines that the proposed rates are just and reasonable. Prior to a final decision from the PUC and in accordance with PUC rules, BED will add a 5.5 percent rate surcharge on customer bills beginning September 1, 2024. This surcharge will continue until the rate case is finalized, at which time BED will adjust customer bills based on the outcome of the rate case. The public can learn more about PUC rate case procedures by visiting https://puc.vermont.gov/sites/psbnew/files/doc_library/rate-case-procedures.pdf.

BED's FY25 budget assumes implementation of the 5.5 percent rate surcharge mentioned above starting with bills rendered on or after September 1, 2024. In order to meet that timeline BED must file the rate case with the Vermont PUC by mid-June 2024.

Forward-Looking Steps

BED has taken several steps since last year to support strong financial metrics and reduce future upward rate pressure for customers, including:

- **Increase to the credit line** – BED proposed a charter change to voters on Town Meeting Day 2024 to increase our line of credit from \$5 million to \$10 million, and voters approved. The line of credit is considered in our days cash on hand metric for our Moody's credit rating. The charter change was incorporated into H. 881, which passed the Vermont House and Senate and was signed by the Governor on May 29th, 2024. As a result, BED is bringing forward (also at the June 3 Board of Finance and City Council meetings) an item to enter a new line of credit agreement at the \$10 million level so ratepayers can benefit immediately from this change.
- **Net Zero Revenue Bond 2.0** – BED had estimated a capital need of approximately \$40 million originally for a Net Zero Energy Revenue bond, but sought half of that (approved by voters in December 2021) for the initial Net Zero Energy Revenue Bond issued in March 2022. BED is continuing to review its capital needs, and is planning to propose a future revenue bond finance proposal for later in 2024 or early 2025 for voters to consider. It is also possible that BED would seek approval at that time to issue taxable revenue bonds to support our continued investment in VELCO equity, which yields a positive return for our customers, but which also is challenging to continue to invest in without financing from a cash standpoint.

- **H. 289** – The Vermont Renewable Energy Standard legislation update includes a provision that would permit municipalities to avoid fully litigated rate cases when rate requests are 3 percent or less in a given year, up to a maximum of 10% cumulatively prior to needing a fully litigated rate case. Rate case litigation is costly from a staff time and outside counsel standpoint, and this could reduce BED expenditures in future rate cases if we can keep rate requests at or below the 3 percent level if H. 289 is enacted.

Conclusion

BED is aware of the continued challenging environment for our customers and the economy due to some persistence in elevated inflation rates, and the cumulative burden from other rate and tax changes more broadly. We have worked to keep this rate request as low as possible while still investing in key initiatives and infrastructure to provide reliable energy to our community and maintaining strong credit rating and financial metrics. BED's renewable energy assets continue to mitigate volatility from market-based fossil fuel resources and help BED avoid the more dramatic double- or even triple-digit rate increases that have been seen elsewhere in New England in recent years.

BED staff will be present at the Board of Finance meeting and City Council meetings on June 3, 2024 to answer any questions Councilors may have.

Motions

Board of Finance:

To approve and recommend that the City Council authorize the General Manager of the Burlington Electric Department or their designee to file tariff amendments and supporting documents with the Vermont Public Utility Commission requesting an increase in Burlington Electric Department rates of 5.5 percent on bills rendered on or after September 1, 2024 as proposed.



City Council:

To approve and authorize the General Manager of the Burlington Electric Department or their designee to file tariff amendments and supporting documents with the Vermont Public Utility Commission requesting an increase to Burlington Electric Department rates of 5.5 percent on bills rendered on or after September 1, 2024 as proposed.