2019 WL 7461354 (Vt.P.S.B.)

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

Case No. 19-1270-TF.

Vermont Public Utility Commission

Order entered: December 19, 2019.

ORDER APPROVING RATE DESIGN WITH IMPLEMENTATION IN THREE PHASES

APPEARANCES:

Daniel C. Burke, Esq. for Vermont Department of Public Service

Ronald A. Shems, Esq. Tarrant Gillies & Richardson for Washington Electric Cooperative

BEFORE: Roisman, Chair, Cheney, and Hofmann, Commissioners.

PUBLIC UTILITY COMMISSION OF VERMONTAnthony Z. Roisman; Margaret Cheney; Sarah Hofmann.

***1** Hearing at Montpelier, Vermont October 22, 2019

I. INTRODUCTION

This case concerns the Vermont Public Utility Commission's ("Commission") investigation into Washington Electric Cooperative Inc.'s ("WEC") petition for rate design changes. When a utility proposes rate design changes, there is no change to the total amount of revenue that the utility is authorized to recover from its ratepayers. Rather, rate design changes may include adjustments to reallocate costs among rate classes (e.g., residential, commercial, and large-power) or among the components of charges (e.g., customer charge and energy rates per kWh), or both.

In this proceeding, WEC proposes (1) to increase the residential customer charge from $14.19 to $25.00 per month; (2) to reduce the low block of its inclining-block rate structure for Residential members from 200 kWh to 100 kWh; and (3) to reduce the kWh rates for the low block from $0.1135 to $0.0800 and for the tail block from $0.25341 to $0.19961. The proposal similarly increases the customer charges for Small Commercial and Large Power rate classes and reduces the energy rate for the small commercial class from $0.20747 to $0.19005. WEC does not propose any changes that would reallocate costs among the rate classes. The bill impacts of WEC's proposed changes would depend on each member's energy-usage level. Members in the Residential class using 500 kWh or more per month would see lower overall bills, and members using less than 500 kWh would see higher overall bills. WEC recognizes the adverse financial impacts of the proposed changes on its low-income members at low energy-usage levels.

WEC asserts that its rate design proposal has been vetted through extensive outreach efforts to its members including focus groups, public meetings, newsletters, and "vigorous debate among its democratically-elected Board of Directors." [1] WEC explains that its members and Board of Directors ""strongly believe" that implementation of the proposed rate design changes "most fairly achieves the mutual goal of strategic electrification and does not sacrifice other critical policy goals of fairness, stability, energy efficiency, and balanced rate design." [2]

1 WEC Brief at 2.

2 WEC Brief at 2.

The Vermont Department of Public Service ("Department"), the only other party to this proceeding, advocates for an alternative rate design proposal that would eliminate WEC's inclining-block rate structure to further strategic electrification goals. The Department does not oppose WEC's proposed increases to customer charges but recommends a four-step implementation phase-in period for the Residential class. The bill impacts of the Department's proposal similarly affects WEC's members based on each individual member's usage; higher energy users would see their bills decrease and lower energy users would see their bills increase. The Department recommends that WEC be required to collaborate with the Department and report back to the Commission within 12 months on the feasibility of developing a support mechanism for low-income members.

***2** The Department also recommends that the Commission institute a 12-month deadline for WEC to file proposed time-of-use and electric-vehicle rates or a report on why implementation of such rates is not feasible. The Department recommends that an electric vehicle rate be designed to recognize the flexible nature of the new electric vehicle load and incorporate opportunities for WEC to manage that load. The Department states that WEC should design time-of-use rates that are more attractive to and understandable for consumers and "send a more compelling price signal." The Department also notes that the time-of-use rates may be beneficial to some members who are most adversely affected by the proposed rate design changes. [3]

3 Potter pf. at 8-9.

In today's Order, the Commission finds that the changes proposed by WEC in this case will result in just and reasonable rates, if the residential customer charge increase is phased in over two years, and approves the rate design changes for implementation in three steps. These changes shall be permitted to take effect on a service-rendered basis no sooner than 3 days after the Commission issues its Order approving compliance tariffs. These compliance tariffs shall include a three-phase implementation period for the change to the customer charge for the Residential class in order to alleviate the initial financial impacts on affected low-income members. WEC is authorized to increase the Residential customer charge to $17 for the first phase, to $21 one year after, and to $25 one year after that and to adjust the energy charge for the tail block to accommodate the phase-in period. As a condition of our approval, WEC is required to file compliance tariffs that comply with the terms of this Order, including the necessary adjustments to the energy rate, within 7 days of the issuance of this Order.

Because the proposed rate design changes will significantly impact low-income members with low energy usage levels, we are requiring WEC to implement the change to the Residential customer charge in three phases over two years. In further recognition of these financial impacts on low-income members, we are also requiring that WEC collaborate with the Department on the development of a program to support low-income members. WEC shall report back to the Commission on these efforts within 12 months of the issuance of this Order. In addition, WEC is required to file a report within 3 years of the issuance of this Order on its plans for its next rate design filing as well as on the results of the implementation of the current proposed rate design in achieving the policy goals identified in this case. Lastly, if WEC has not filed time-of-use or electric-vehicle rates within 12 months of the issuance of this Order, at that time it shall file a report with the Commission on its efforts to develop such rates.

II. PROCEDURAL HISTORY

***3** On May 1, 2019, WEC filed its proposed rate design reallocation, requesting changes to the design of its rate structure. This petition included prefiled testimony and exhibits sponsored by Patricia Richards and Jason A. Strong.

On June 3, 2019, the Department recommended that the Commission open an investigation into WEC's proposed rate design changes.

On June 13, 2019, the Commission issued an order opening this investigation.

On June 28, 2019, the Commission held a scheduling conference.

On July 31, 2019, the Commission held a workshop on WEC's petition.

On August 5, 2019, the Commission conducted a public hearing in East Montpelier, Vermont. One member of the public spoke in support of the proposed rate design changes.

On August 19, 2019, WEC filed supplemental testimony and exhibits of Ms. Richards in response to questions that the Commission raised at the July 31 workshop. WEC also made corrections to Ms. Richard's initial testimony.

On September 4, 2019, the Department filed testimony and exhibits sponsored by Daniel Potter, Sean Foley, and Carol Flint.

On September 25, 2019, WEC filed rebuttal testimony and exhibits sponsored by Ms. Richards and Mr. Strong.

On October 22, 2019, the Commission conducted an evidentiary hearing in the Susan M. Hudson Hearing Room at the Commission's offices in Montpelier, Vermont. The parties stipulated to the admission of all prefiled testimony and exhibits.

On November 7, 2019, WEC and the Department filed briefs. Reply briefs were filed by both parties on November 14, 2019.

III. PUBLIC COMMENTS

A public hearing in this proceeding was held at the Old Brick Church, in East Montpelier, on August 5, 2019. One member of the public spoke in support of WEC's rate design change petition. There were no other comments at the hearing. The Commission received written comments opposing WEC's rate design change petition from three of WEC's members. These comments included concerns related to WEC's rates in general as well as the impact of the proposed rate design changes on low-use and low-income members' bills. The public comments were helpful to the Commission's identification of issues to explore with the parties in this matter.

IV. FINDINGS

A. Rate Design Elements

1. WEC is a duly organized public service cooperative formed under 30 V.S.A. Chapter 81 and a not-for-profit corporation. WEC is a company as defined by 30 V.S.A. § 201 and is subject to the Commission's jurisdiction pursuant to 30 V.S.A. § 203. Petition at 1.

2. WEC's power supply is comprised of 100% renewable power resources. Richards pf. at 13.

3. WEC's proposed rate design changes are based on a class cost-of-service study that uses a fully distributed cost-allocation methodology. The test year is the adjusted rate year ending December 31, 2019. Strong pf. at 11.

***4** 4. Cost allocation is the process of allocating costs among customer classes based upon cost causation. Costs are directly allocated only when specific investments or expenses serve only a particular member or group of members. Strong pf. at 10.

5. The results of the class cost-of-service study show that each class of customers (Residential, Small Commercial, Large Power, and Lighting) is relatively close to recovering the cost to serve that class and is providing a return on member investments. Strong pf. at 20.

6. WEC proposes no changes to the revenue levels for the Residential, Small Commercial, Large Power, and Lighting classes. Strong pf. at 21.

7. The results of the class cost-of-service study indicate that fixed costs, particularly as reflected in the customer charge, could be higher than the amount that WEC recovers through currently effective tariff rates. Strong pf. at 21.

8. WEC proposes revenue-neutral changes including (1) increased customer charges for the Residential, Small Commercial, and Large Power rate classes to better reflect the customerrelated costs identified in the class cost-of-service study and (2) reduced energy charges. Strong pf. at 21.

9. Under WEC s proposal,
a. the monthly customer charge for the Residential class increases from $14.19 to $25.00. The baseload block reduces from 200 kWh to 100 kWh;

b. the kWh energy rate for the baseload block reduces from $0.11350 to $0.08000; and

c. the kWh energy rate of the tail block (usage after the first 100 kWh) reduces from $0.25341 to $0.19961. Exh. WEC-2-PR-2.

10. Under WEC's proposal, for the Small Commercial class, the monthly customer charge increases from $14.14 to $25.00 and the energy rate decreases from $0.20747 to $0.19005. Exh. WEC-2-PR-2.

11. Under WEC's proposal, for the Large Power class, the monthly customer charge increases from $24.13 to $30.00 and the energy rate decreases from $0.11014 to $0.10792. Exh. WEC-2-PR-2.

12. WEC is the “least dense” electric distribution utility in Vermont and serves 8 customers per mile of distribution line. The City of Burlington Electric Department is the “densest utility” and serves 159 customers per mile of distribution line. Vermont's largest electric distribution utility, Green Mountain Power Corporation, serves 23 customers per mile of distribution line. Vermont Electric Cooperative, the only other cooperative-owned electric distribution utility in Vermont, serves 14 customers per mile. Richards supp. pf. at 4.

13. The utility's “density” may affect its rates because fixed costs, such as costs associated with distribution line maintenance, must be covered by a smaller group of customers per mile of distribution line than for other utilities. Richards supp.pf. at 4.

14. Several rural cooperative electric utilities in the Northeast are moving toward higher monthly customer charges and are effectively capturing more fixed costs in these revenues. New Hampshire Electric Cooperative's monthly residential customer charge ranges from $29.32 to $58.64. The monthly residential customer charge for members of Adams Electric Cooperative of Pennsylvania is $35.75. In New York State, Delaware County Electric Cooperative charges $21.50 per month, Otsego Electric Cooperative charges $25.66 per month, and Steuben Rural Electric Cooperative charges $25.75 per month. Richards supp. pf. at 5.

***5** 15. Traditionally, WEC has maintained a relatively low customer charge, which has resulted in nearly all of the residential fixed costs needing to be included in the energy charge. Increasing the customer charge allows WEC to make gradual progress toward a more balanced alignment of cost recovery with cost causation. Strong pf. at 25.

16. Increasing the monthly customer charge also improves equity and fairness to members using WEC's distribution system by more accurately charging for the cost of service based on cost-causation principles. Richards pf. at 18.

17. Recovering more fixed costs through the monthly customer charge makes gradual improvements in efforts to stabilize and ensure more aligned collection of operating revenue which is needed to meet operating expenses, margins, and debt service covenant obligations. Richards pf. at 18.

B. Bill Impacts

18. WEC's membership is predominantly residential (which also includes some small farms). 94% of meters in WEC's territory receive service under the Residential rates. Of WEC's 11,963 total meters, 11,280 are Residential, 671 are Small Commercial, and 12 are Large Power. Richards pf. at 8.

19. WEC's retail energy sales are 87% Residential, 7% Small Commercial, and 6% Large Power. Richards pf. at 8.

20. Average electricity usage for WEC's Residential class members is 473 kWh per month. Richards corrected pf. at 13.

21. After the rate design changes are implemented, Residential members using 500 kWh or more per month will see lower overall bills and members using less than 500 kWh per month will see higher overall bills. 58% of members will see lower bills and 42% will see higher bills. Richards pf. at 21-22.

22. Members using 200 kWh per month will see their bills increase by 44% from $36.89 to $52.96 per month. Richards pf. at 21.

23. Members using 400 kWh per month will see their bills increase by 6% from $87.57 to $92.88. Exh. WEC-SUP1-PR-3.

24. For members using approximately 500 kWh per month, the rate design changes are essentially revenue neutral. Richards pf. at 21.

25. Members using 800 kWh per month will see their bills decrease by 9% from $188.94 to $172.73 per month. Exh. WEC-SUP1-PR-3.

26. Approximately 16% of WEC's members use 200 kWh or less per month, and 10% of members use more than 1000 kWh per month. Exh. WEC-6-PR-6.

27. Low-income members who have low usage will experience adverse financial impacts as a result of the rate design changes. For example, for households with a $1,000 monthly income and 200-kWh monthly electricity usage, the increase represents more than 2% of their monthly income. At least 400 WEC members may suffer financial hardship as a result of the rate design changes. Flint pf. at 8-9.

28. Implementing the monthly customer charge increase for the Residential class in phases rather than all at once will mitigate the financial impacts on low-income members but will not eliminate the underlying affordability concern for these members. Flint pf. at 9.

***6** 29. It is important for WEC, the Department, and the Commission to revisit this affordability issue in the near future to determine whether it is necessary to develop an energy assistance program or similar mechanism for WEC's members. Flint pf. at 9-10.

C. Policy Goals

30. The Board of Directors, who are elected by WEC's members, are responsible for representing WEC and conducting WEC's business and affairs. WEC held focus groups and a membership meeting to solicit feedback from members on the proposed rate design and included 20 articles in its newsletter to educate members. Richards pf. reb. at 4.

31. The purpose of WEC's proposed rate design changes is to increase strategic electrification. Because of WEC's renewable energy power supply portfolio, any fossil-fuel use that is replaced with electric power will work toward combatting the harmful effects of climate change. Richards pf. 6.

32. Lowering the energy charge rates helps remove the disincentive for members to invest in strategic electrification opportunities. Potter pf. at 3.

33. WEC members want to incentivize strategic electrification while continuing to encourage energy efficiency and limiting the economic impacts of bill increases. Richards pf. at 29-31.

34. Maintaining an initial block of lower-priced energy mitigates the bill impacts on WEC's members with lower levels of electricity usage and helps encourage and promote energy efficiency. Richards pf. reb. at 5, 9.

V. DISCUSSION

The Department supports most aspects of WEC's proposed rate design, including the proposal to increase the monthly residential customer charge. The Department agrees that the proposed rate design changes will better align WEC's rates with State energy policies that promote greenhouse-gas reductions through beneficial electrification. The Department supports WEC's proposal to limit the impact of its inclining-block rate structure by reducing both the size of the initial block and the kWh difference between WEC's initial and tail block rates in order to send a better price signal for strategic electrification. However, the Department contends that public policy would be better served by wholly removing the inclining-block structure from WEC's rates. [4] The Department argues that an inclining-block rate structure is a barrier to consumers investing in electric transportation and heating. If the Commission rejects this proposal, the Department recommends that WEC be required to file rate design changes within five years that eliminate the inclining-block structure or a report on why WEC believes that it should continue to maintain the inclining-block structure.

4 Department Brief at 1-2.

The Department also recommends that the Commission require that WEC phase in its proposed increased customer charge for the Residential class to limit rate shock and to better promote rate stability. Additionally, the Department urges the Commission to require WEC to collaborate with the Department on the feasibility of developing a support mechanism for lowincome members and to report back within twelve months. The Department also recommends that WEC either file proposed time-of-use rates within one year or report to the Commission why such rates are not feasible. [5]

5 Department Brief at 2.

***7** In response to the Department's recommendation that the inclining-block rate structure be removed, WEC states that the Department's proposal: (1) is not supported by a specific analysis or study, (2) was not developed in consultation with other agencies, utilities, organizations, or with public or legislative review, and (3) is not supported by 30 V.S.A. § 218(b), which requires that rate designs promote efficiency and include the consideration of an inclining-block rate structure for residential customers. We do not need to address these arguments because we conclude that maintaining the inclining-block rate structure will help to mitigate the financial impacts of the rate design changes on low-energy users. [6] We therefore conclude that it is not appropriate to adopt the Department's proposal at this time.

6 If the initial block of power is removed, then all members-including low-income, low-usage members- will pay more for the initial block of power than they pay now. Maintaining the inclining-block rate structure allows members who continue to use very low levels of energy to benefit from the lower-priced energy for the initial block.

The Department states that its recommendation to remove the initial block of lowerpriced power is “driven in large part by the infrequency of rate design filings from WEC.” [7] WEC has historically filed rate design tariff changes approximately every ten years. The Department's recommendation to require WEC to remove the inclining-block rate structure within five years or to file a report explaining why WEC has decided not to do so appears to be intended to address these concerns. We do not believe it is appropriate to impose a requirement that WEC eliminate its inclining-block rate structure within a prescribed time period. However, we wish to emphasize the importance of WEC continuing to regularly evaluate (and certainly more often than once every 10 years) the effectiveness of its inclining-block rate structure in light of the State's policy goals to encourage beneficial electrification. WEC states its willingness to work with the Department to “develop metrics on the efficacy of its proposed rate design that could determine the timing of WEC's next rate design adjustment.” [8] We encourage collaboration between WEC and the Department in this regard. Further, we direct WEC to file a report within three years of the issuance of this Order on when it expects to file its next rate design changes, including detailed information on the criteria used to determine the timing of that filing as well as an evaluation of the success of the currently proposed rate design changes in achieving the policy goals identified in this case.

7 Department Brief at 7.

8 WEC Brief at 22.

***8** The Department does not oppose WEC's proposal to increase the residential customer charge from $14.19 to $25.00 per month to offset a reduction to its kWh rates. [9] However, the Department recommends that WEC be required to phase-in implementation of the residential customer charge increase in four adjustments over a three-year period. We agree that a phasedin implementation period is an appropriate measure to mitigate immediate rate shock for residential members caused by the large increase in the monthly customer charge. WEC has concerns with a four-step phased-in implementation period because "this number of changes to rates would be very confusing to members and lacks stability which WEC members value and desire." [10] To minimize confusion and lessen the administrative burden of implementing the rate design in multiple phases, we conclude that a three-step implementation period to phase in this large increase to the monthly customer charge is adequate. Accordingly, WEC is required to make the necessary adjustments to its tariffs to reflect an initial increase to $17, a second increase to $21 effective one year after, and a third increase to $25 effective one year after that, with adjustments to the energy charge for the tail block to accommodate the phase-in period.

9 Department Brief at 1.

10 Richards pf. reb. at 7.

As described above, we have decided that WEC should maintain the inclining-block rate structure to help alleviate bill impacts on low-energy-use members. Even with the inclining block rates in place, the proposed rate design changes will significantly impact low-use members whose households fall within the category of low-income. [11] The Department states that this proceeding has highlighted affordability concerns within WEC's service territory, specifically with regard to the approximately 400 low-income members who will be most directly affected by the new rate design structure. At the evidentiary hearing, WEC stated that "monitoring impacts of [its] rates on low-use and low-income [members] is something that we would want to pay attention to." [12] For these reasons, we accept the Department's recommendation that WEC be required to consult with the Department and report back to the Commission within one year on its efforts to develop a low-income support mechanism or program.

11 For instance, members who use less than 350 kWh per month will see double-digit percentage bill increases even with the inclining-block structure in place. *See* Exh. WEC-SUP1-PR-3.

12 Tr. 10/22/19 at 28 (Richards).

***9** In its brief, the Department recommends that WEC be required to file either an electricvehicle specific rate or time-of-use rates within one year of the issuance of a final Order in this proceeding.[13] If WEC believes that such rates are "impractical or cost-prohibitive," the Department recommends that WEC instead be required to file a report with the Commission detailing the reasons why it has decided not to propose these rates. In its rebuttal testimony, WEC objected to the Department's initial recommendation that it be required to propose time- ofuse rates within six months. According to WEC, it "needs sufficient time to implement this [current] rate design before embarking on a time-of-use rate structure."[14] However, the Department now recommends a 12-month evaluation period to either propose new rates or to explain why such rates are not feasible, and we conclude that 12 months will allow WEC to continue to assess innovative rate design options that may help achieve the State's policy objectives. We therefore include this requirement as a condition of our approval of WEC's rate design changes.

13 Department brief at 8.

14 Richards pf. reb. at 13.

VI. CONCLUSION

In conclusion, based on the evidence presented in this case, the Commission finds that WEC's rate design will result in just and reasonable rates if the residential customer charge increase is phased in over two years. The proposed changes to WEC's tariffs are approved with the conditions stated below.

VII. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Vermont Public Utility Commission ("Commission") that:

1. The rates proposed by the Washington Electric Cooperative, Inc. ("WEC") are just and reasonable if the residential customer charge increase is phased in over two years and are therefore approved for implementation in two steps.

2. The monthly customer charge for the Residential class shall be implemented in three phases. The first phase will increase the charge to $17 per month. One year after, the second phase will increase the charge to $21 per month. WEC shall implement the third step increasing the charge to $25 per month one year after the second phase. WEC shall adjust the energy charge for the tail block to accommodate the phase-in period.

3. Within 7 days, WEC shall file tariffs in compliance with this Order that reflect the approved rate design, the appropriate effective date, and any other tariff changes if applicable. This compliance filing shall be filed in this case in ePUC.

4. WEC shall consult and collaborate with the Department on developing a program to support low-income members. WEC shall report back to the Commission on these efforts within 12 months after the issuance of this Order. This filing shall be made in a new case in ePUC.

***10** 5. WEC shall file a report within three years of the issuance of this Order on when it expects to file its next rate design changes, including detailed information on the metrics used to determine the timing of that filing and an evaluation of the success of the implementation of the current rate design changes in achieving the policy goals identified in this case. This filing shall be made in a new case in ePUC.

6. If WEC has not filed time-of-use or electric-vehicle rates within 12 months of the issuance of this Order, at that time it shall file a report with the Commission on its efforts to develop such rates. This filing shall be made in a new case in ePUC.

Dated at Montpelier, Vermont this 19th day of December, 2019.

OFFICE OF THE CLERK Filed: December 19, 2019 Attest: Judith C. Whitney Deputy Clerk of the Commission

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