STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 24-2137-TF

Tariff filing of Vermont Gas Systems, Inc. re: annual base rate filing consisting of a 9.42% to be effective with bills rendered on and after November 1, 2024	

Order entered:

ORDER APPROVING ANNUAL BASE RATE FILING

I. INTRODUCTION

This case involves the annual base rate filing that Vermont Gas Systems, Inc. ("Vermont Gas") is required to file with the Vermont Public Utility Commission ("Commission") pursuant to Paragraph 3 of Vermont Gas's current Alternative Regulation Plan (the "Plan").[1] As discussed below, the Commission concludes that the base rate filing is consistent with the requirements of the Plan. The Commission also grants a request from Vermont Gas for approval of an Exogenous Event adjustment related to an unexpectedly large increase in property tax rates. Based on these determinations, the Commission's approves Vermont Gas's requested 9.42% rate adjustment.

II. PROCEDURAL HISTORY

On August 18, 2023, the Commission approved the Plan in Case No. 22-5085-PET.

On June 28, 2024, Vermont Gas filed its annual base adjustment as a compliance filing in Case No. 22-5085-PET. Vermont Gas was subsequently directed by the Commission to re-file its base rate adjustment as a new tariff case in ePUC.

On July 12, 2024, Vermont Gas filed its annual base rate adjustment in this case. Vermont Gas's filing was supported by a cover letter, revised tariff sheets, and several attachments detailing the data and cost-of-service information that was used by Vermont Gas to calculate its proposed base rate adjustment. The Commission requested that the Vermont

[1] The Plan was approved by the Commission on August 18, 2024, in Case No. 22-5085-PET.

Department of Public Service ("Department") file a recommendation on Vermont Gas's proposed base rate adjustment no later than July 26, 2024.

On July 26, 2024, the Department filed a recommendation on the proposed base rate adjustment. The Department explained that based on the magnitude of Vermont Gas's proposed rate adjustment, the Department "has scrutinized [Vermont Gas's] filing very closely and has determined that the methodologies employed by [Vermont Gas] in determining the proposed rate increase of 9.42% are consistent with those approved in the [Plan]."[2] The Department further stated that "while it is the Department's customary practice to recommend an investigation for a rate increase of this size, the Department is not doing so in this case."[3] The Department recommends that the Commission approve Vermont Gas's requested Exogenous Event determination and proposed 9.42% rate adjustment without further hearings or investigation.

III. Base Rate Adjustment Provisions Under the Plan

Paragraph 3 of the Plan sets out a formulaic and mechanical process that Vermont Gas must follow to make its annual base rate adjustments over the term of the Plan. For Vermont Gas's 2025 annual base rate adjustment, which is at issue in this case, Paragraph 3(c)(ii) of the Plan provides that the annual base rate adjustment must:

> be set based on (1) the Rate Smoothing Adjuster, (2) 2024 Operating Costs as adjusted by the Indexed Market Adjustment and any Additional Innovation Expense, if applicable, and (3) Non-Operating Costs, as adjusted by Additional Innovation Capital, if applicable.

The Rate Smoothing Adjuster is a mechanism embedded in the Plan "to smooth the 2024 Base Rate Change by reducing FY2024 rates and creating a regulatory asset that amortizes over the term of the Plan and will be zero at the end of the Plan."[4]

Operating Costs are defined under the Plan to include "all costs categorized as operating costs under VGS's non-gas Cost of Service for FY2024, which includes Production, Transmission, Distribution, Customer Accounts, Sales, Admin & General, and Other Income."[5] The "Indexed Market Adjust" is pegged to changes in inflation as determined by fluctuations in

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[2] Department's July 26, 2024, Comments at 2.

[3] *Id.*

[4] Plan at Paragraph 3(b)(ii). The Commission also examined the Rate Smoothing Adjuster in Case No. 23-0561-TF, which involved Vermont Gas's most recent traditional cost-of-service rate case.

[5] Plan at Paragraph 3(b)(iii).

the consumer price index and the U.S. Bureau of Labor & Statistics Employment Cost Index. The Plan also establishes that changes in Operating Costs "shall be no higher than 4% and no lower than 2%."[6]

Non-Operating Costs include depreciation, taxes, and cost to finance rate base.[7] Under the Plan, Vermont Gas was required to fix its total plant in service for a three-year term ("Three Year Rate Base Plan"). Therefore, its depreciation expense is fixed for a three-year period.[8] Vermont Gas's Non-Operating Costs, however, can be adjusted based on changes to its property tax rates. Vermont Gas is also required to adjust the cost to finance its rate base annually. The Plan fixes Vermont Gas's debt-to-equity ratio at 50%/50%,[9] but Vermont Gas's authorized rate of return on equity ("ROE") must be adjusted annually based on fluctuations in the yield on the 10-Year Treasury Note Rate.[10] Any changes to Vermont Gas's short- or long-term debt rates also flow through the annual base rate adjustment.

Paragraph 4 authorizes Vermont Gas to include costs from an "Exogenous Event" in its annual base rate filing. The Plan defines "Exogenous Event" as

> An event outside of the Company's control exceeding $200,000 in cost or benefit during a 12-month period, such as but not limited to: changes in state or federal tax law; unforeseen operational costs or capital investments; changes in Generally Accepted Accounting Principles; an ROE adjustment under Paragraph 6 of this Plan that exceeds 150 basis points; other regulatory, judicial, or legislative changes affecting the Company, including rules or orders issued or promulgated by the Commission pursuant to the Affordable Heat Act; or changes to state or federal pipeline safety, operation, or maintenance requirements.

In this case, Vermont Gas requests an Exogenous Event determination based on unanticipated increases to property tax rates.

IV. Discussion

Vermont Gas proposes that the Commission approve a 9.42% base rate increase, which it calculated by following the base rate adjustment mechanisms included in Paragraph 3 of the Plan and adding costs associated with an Exogenous Event adjustment based on unanticipated

[6] Plan at Paragraph 3(b)(iv).
[7] Plan at Paragraph 3(b)(v).
[8] Paragraph 3(b)(v) of the Plan allows Vermont Gas to adjust depreciation expense based on updates that result from a depreciation study, but that provision of the Plan is not applicable for this year's base rate adjustment.
[9] Plan at Paragraph 3(b)(v).
[10] Plan at Paragraph 6.

property tax increases. With respect to the overall 9.42% increase, Vermont Gas clarifies that the total adjustment can be broken down into the following components:

- A 2.98% increase is attributable to a portion of the deferred fiscal year 2024 rate increase under the Rate Smoothing Adjuster;
- A 1.85% increase is based on the fiscal year 2025 capital investment additions that are fixed in VGS's Three-Year Rate Base Plan;
- A 1.28% increase is tied to the formulaic change in operating expenses based on the consumer price index and employment cost index;
- A 1.26% increase is caused by formulaic adjustments to VGS's authorized ROE and cost to finance rate base;
- A 1.05% increase is due to the fact that fiscal year 2024 was the last year that money from the System Expansion and Reliability Fund ("SERF") was used to reduce rates; and
- A 1.00% increase is attributable to increased property taxes.

The Department represents that it carefully scrutinized Vermont Gas's filing materials and found no errors with Vermont Gas's formulaic calculations. The Department concluded that the proposed base rate adjustment is consistent with the requirements of the Plan.

We have also a completed detailed review of Vermont Gas's proposed base rate adjustment and supporting documentation within the context of the formulae set out in the Plan. We likewise conclude that Vermont Gas correctly calculated the formulaic adjusts required by the Plan. These formulaic adjustments, which account for a substantial majority of the overall proposed base rate change, are driven largely by inflationary pressures outside of Vermont Gas's control and the final winddown of the SERF. Because we conclude that Vermont Gas accurately calculated its base rate adjustment consistent with the requirements of Paragraph 3 of the Plan, we approve Vermont Gas's proposed 2025 annual base rate calculations for: (1) the Rate Smoothing Adjuster; (2) 2024 Operating Costs as adjusted by the Indexed Market Adjustment; and (3) Non-Operating Costs.

We also approve Vermont Gas's request for an Exogenous Event determination based on its projected increase to its property tax expense. We conclude that Vermont Gas submitted adequate calculations and documentation to demonstrate that its property tax expense is expected to increase by $633,032.82, or 11.7%, due to changes in state tax law. Because this amount exceeds the $200,000 Exogenous Event threshold included in Paragraph 4 of the Plan, we approve Vermont Gas's requested Exogenous Event determination.

We note that in Case No. 22-5085-PET, Vermont Gas filed documents showing that it projected a 6.25% increase for its 2025 base rate adjustment.[11] We recognize that the 9.42% increase requested by Vermont Gas in this case substantially exceeds the 6.25% increase that we anticipated when we approved the Plan. Vermont Gas's filing materials in this case, however, demonstrate that this difference is caused almost entirely by larger than anticipated increases to: (1) the cost to finance rate base, and (2) property taxes. The changes to these two cost components, which are largely driven by factors outside of Vermont Gas's control, resulted in an approximately $1.638 million increase to the Non-Operating Costs included in the projections that Vermont Gas filed in Case 22-5085-PET.

While we share the Department's concern over the magnitude of the rate change, we also recognize that Vermont Gas has little control over the components of its annual base rate filing that are responsible for the unanticipated upward pressure on rates. Therefore, we agree with the Department's recommendation that no further investigation into Vermont Gas's proposed base rate adjustment is necessary or warranted.

V. CONCLUSION

Based on our review of Vermont Gas's filing materials and the Department's recommendation, we conclude that the annual base rate filing conforms with the requirements of the Plan. We also approve Vermont Gas's request for an Exogenous Event determination. Therefore, we approve Vermont Gas's tariff filing for a 9.42% increase in base rates, effective with bills rendered on or after November 1, 2024.

Vermont Gas is also reminded that, consistent with our order in Case No. 22-5085-PET, it must file the annual compliance tariffs reflecting base rate changes required by Paragraph 3(d) of the Plan or any other provision of the Plan as new tariff cases in ePUC. The Commission also requests that Vermont Gas file copies of its supporting documentation in future base rate filings in native file format (e.g. Microsoft Excel) in ePUC if practicable.

SO ORDERED.

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[11] Attachment 4 to Alternative Regulation Plan filed on October 26, 2023, in Case No. 22-5085-PET.

SO ORDERED.

Dated at Montpelier, Vermont, this ____________________________________.

____________________	)	
Edward McNamara	)	PUBLIC UTILITY
	)	
	)	
____________________	)	COMMISSION
Margaret Cheney	)	
	)	
	)	OF VERMONT
____________________	)	
J. Riley Allen	)	

OFFICE OF THE CLERK

Filed:

Attest:____________________________________
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.

PUC Case No. 24-2137-TF - SERVICE LIST

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