Funding for the Public Utility Commission

Presentation to House Committee on Energy and Technology

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Utility Regulation in Vermont

<u>Public Utility Commission</u>

- Independent
- Quasi-judicial
- Infrastructure siting and construction
- Rates, quality of service, overall management of utilities (electric, gas, energy efficiency, telecommunications, water)
- Implementation of policy directives
- Adoption of rules pursuant to Administrative Procedures Act

<u>Department of Public Service</u>

- Executive branch agency
- Represents the "public interest" in proceedings before the Commission
- Long-term State energy and telecommunications planning
- Works with customers to resolve complaints about utilities (Consumer Affairs & Public Information division)

PUC Responsibilities

- Traditional economic regulation, such as rates, quality of service, overall management of utilities (electric, gas, energy efficiency, telecommunications, water, and some aspects of cable television)
- Infrastructure siting and construction (projects proposed by electric and gas utilities, merchant generators, net-metering applicants)
- Implementation of policy directives (for example, energy efficiency programs, net-metering rules, standard-offer program, Renewable Energy Standard)

Sources of Funding for PUC

- PUC receives <u>no general funds</u>
- PUC is funded by the gross receipts tax paid by electric, natural gas, telecommunications, cable, and water utilities
  - By statute the Public Utility Commission receives 40% of these tax revenues; the Department of Public Service receives the other 60%
- A small amount of the PUC's actual costs are "billed back" to utilities and applicants (for example, court reporter costs)

Declining Gross Receipts Tax Revenues

- Overall gross receipts tax revenues have declined between 2016 and 2018 by 2.6% or roughly 1.3% annually
- Almost 2/3 of gross receipts tax revenues come from the electric sector
  - Electric gross receipts tax revenues are declining because of decreased kWh sales and net-metering
- Gross receipts tax revenues from telecommunications declined more than 22% from 2015 to 2018
  - Reasons for the decline include: steady decrease in traditional landline telephone service, more options for voice services (including voice plus data packages), decreasing prices for basic voice services

PUC Funding Shortfalls

Fiscal Year	FY15	FY16	FY17	FY18	FY19	
Spending Authority	$3,399,076.00	$3,480,181.00	$3,545,000.00	$3,647,838.00	$3,700,815.00	
Actual Expenditures	$3,130,254.42	$3,204,301.45	$3,400,825.59	$3,647,977.50		
Revenues						
Gross Receipts Tax	$3,466,836.65	$3,522,130.46	$3,352,371.25	$3,467,437.72	*$3,531,442.80*	*
Billback	$33,408.51	$57,883.45	$23,031.59	$80,069.97	*$42,000.00*	*
Total Revenues	$3,500,245.16	$3,580,013.91	$3,375,402.84	$3,547,507.69	*$3,573,442.80*	*
Change in Reserves	$369,990.74	$375,712.46	-$25,422.75	-$100,469.81	*-$127,372.20*	*
**Estimated*						

Increase in Net-Metering Cases

- In 5 years, the number of applications for net-metering projects more than tripled

Table 4 – Net-Metered Cases Over Time

Number of Applications for Net-Metering Certificates of Public Good						
	FY13	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Number of Applications Filed	925	1062	1408	2251	3252	3271

Source: Sustainable Funding for the PUC and the PSD, p. 11

PUC Workload by Industry

Table 6 – Commission Percentage of Personnel Costs by Industry and Work Function

Division		Industry Group - Percentage of Personnel Costs									
		Electric Utility	Merchant Generation	Net-metering	Telecom	Cable	Gas	Water	Energy Efficiency		Sub-Total
	Regulation	11.70%	2.13%	1.11%	4.07%	2.05%	3.09%	2.20%	2.94%		29.28%
	Policy	4.51%	2.91%	2.66%	0.86%	0.05%	0.43%	0.11%	2.73%		14.27%
PUC	Siting	3.72%	9.09%	34.49%	0.46%	0.00%	1.21%	0.00%	0.00%		48.96%
	Compliance	1.59%	1.96%	1.11%	0.10%	0.27%	2.38%	0.05%	0.05%		7.50%
	Sub-total	21.52%	16.09%	39.35%	5.49%	2.36%	7.10%	2.36%	5.72%		100.00%

Source: Sustainable Funding for the PUC and the PSD, p. 13

Funding Inequity

- Today, more than 50% of the PUC's work is performed on behalf of people and companies that do not pay the gross receipts tax.

Proposed Application Fee

- PUC agrees in principle with the Department's recommendation in the funding report for an application fee that would be assessed on entities that <u>do not pay the gross receipts tax</u>
- The fee should be assessed on any company or person proposing to build a generation project that does not pay the gross receipts tax
- There should also be a fee assessed when amendments are proposed
- Revenues from the fee should be split 60/40 between the Department and the PUC (same as historic split for revenues from gross receipts tax)

Proposed Application Fee Structure

- Fee proposed by the Department is based solely on the size (capacity, which is measured in kW) of a project
- However, some larger projects are eligible for streamlined review processes

Alternative Application Fee Structure

- An alternative fee structure could be based on the type of application process used:
  - Projects eligible to use the net-metering registration form or the application form (rooftop projects with a capacity of 500 kW or less, ground-mounted projects with a capacity of 50 kW or less) = $100
  - All other projects = $5/kW
  - Amendments to all projects = $25 for projects that initially used the net-metering registration form or application form, $100 for all other projects

Other Funding Report Recommendations

- The Department makes two additional recommendations in the funding report that would affect the PUC's funding:
  - Changing the legislatively established 60/40 statutory split of gross receipts tax revenues so that the Department receives 65% and the PUC receives 35%
  - A one-time allocation from the PUC's reserve to offset the Department's negative reserve balance at the end of FY19

Maintain Current Gross Receipts Tax Split

- The PUC strongly recommends no change to the current statutory 60/40 split of gross receipts tax revenues between the Department and the PUC
- As the Department's funding report notes: "Neither agency appears to be adequately funded on a going-forward basis." (Sustainable Funding for the PUC and PSD at p. 34)

Maintain Current Gross Receipts Tax Split

- The PUC strongly agrees with the statement in the October 8, 2018, public draft of the Department's funding report that:
  - "**Adjusting the split at best would be a temporary expedient.** Thus, rather than adjusting the relative split between the funds, it would make more sense in the long term to ensure that (1) each agency is well-funded relative to its regulatory responsibilities . . ." (October 8, 2018, draft funding report at p. 35, emphasis added)

Financial Reserve

- For many years both the PUC and the Department of Public Service had a reserve.
- In some years, including as recently as the end of FY12, the Department's reserve was larger than the PUC's.

PUC's Reserve

- The PUC has accumulated its reserve as a result of prudent financial management over the years.
- The purpose of the reserve is to enable the PUC to absorb changes in gross receipts tax collections over time.
- The PUC anticipates using the reserve to make up any funding shortfalls until gross receipts tax revenues increase as a result of, for example, strategic electrification (electric vehicles, heat pumps, etc.)