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State of Vermont
Public Utility Commission

The Honorable Janet Ancel
Chair, House Committee on Ways and Means
Vermont Statehouse
Montpelier, VT 05602

Dear Chair Ancel:

During my February 5, 2019, testimony before the House Committee on Ways and Means, the Committee asked me to provide it with options that would raise sufficient funds to support the Vermont Public Utility Commission ("Commission") such that we would not use our reserve funds to support any ongoing operations. Attached is a spreadsheet that provides three such options. If you would like this spreadsheet in Excel, I would be happy to provide it.

Each option combines (a) an application fee for generation projects proposed by people and companies that do not pay the gross receipts tax with (b) changes to the gross receipts tax rates for electric and gas utilities.[1] Under each option, the gross receipts tax rate for gas utilities would be increased to be equal to the rate for electric utilities for each fiscal year starting with FY20. We also propose in each option that the gross receipts tax rate be increased in phased steps. In general, the higher the application fees, the longer the time period before the electric and gas gross receipts tax would be increased and the smaller the total increase by FY23. Each option assumes that the long-standing statutory 60/40 allocation of gross receipts tax revenues between the Vermont Department of Public Service ("Department") and the Commission remains the same and that it would also apply to revenues from application fees.

The Committee asked for multi-year revenue and expense projections. The attached spreadsheet shows estimated collections for FY19 under current law and four-year revenue projections under each funding option.

- The gross receipts tax revenue projections for the years FY20 through FY23 are greater than those provided by the Department to the Legislature because they reflect the increased revenues that changes in the gross receipts tax would generate.

- The application fee revenue projections were calculated using the number and size (measured in kW) of initial applications received by the Commission in FY18 and an estimate of the number of amendments filed that year. The Commission expects that application fee revenue would fluctuate from year to year, depending on the number and size of applications received, but we have not tried to predict those fluctuations.

[1] The Committee also asked about the possibility of extending the gross receipts tax to non-utility generators. This would be difficult to implement and might raise issues of federal law that Legislative Counsel would need to review.

- The Commission's expense projections started with FY19 and, for simplicity, assumed a flat 4% increase per year. This increase of 4% for all future fiscal years takes into account the facts that the Commission must self-fund all salary and benefit increases, and that approximately 93% of the Commission's budget is salaries, benefits, and internal services.

- The attached spreadsheet does not include expense projections for the Department, other than to note the gross receipts tax portion of the Department's FY19 budget and its proposed FY20 budget.

The Committee also asked me who would ultimately pay any gross receipts tax increases and any application fees.

- Gross receipts taxes are included in the rates paid by utility customers. The impact of an increase on any single customer will depend on that customer's usage and the utility's overall rates. However, using statewide electric utility revenue and number of customers in calendar year 2017 (the most recent year for which data is available), if the electric gross receipts tax rate had been 0.006 instead of 0.005 (the amount proposed for FY23 under Option 1), an average residential customer would have paid an additional $1.34 per year.[2]

- Application fees would be paid by the applicant for a project. Applicants for smaller net-metering projects are typically individuals or businesses whose primary business is not developing generation projects. Applicants for larger projects are typically developers. It is possible that ratepayers could indirectly pay the application fees for larger projects; for example, developers could factor in the cost of the fee when determining the price at which they are willing to sell their power to utilities, and utilities would then include the price that they pay for the power in their rates.

There are a few additional points that bear on consideration of these funding options.

- All three of the options provide sufficient funding for the Commission's operating costs for the next four years without the use of the Commission's reserves.

- The Commission anticipates electric usage to increase in the long term as the State makes progress on its renewable energy and greenhouse gas reduction goals and strategic electrification occurs. However, the pace at which this will occur is uncertain. In addition, it is unknown how many and what type of applications for new generation will be filed each year. The annual budget-setting process will provide an opportunity to review the adequacy of funding for the Commission and the Department.

- Gross receipts tax revenues are a more stable funding source than application fees because it is uncertain how many applications would be filed in each year.

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[2] In 2017 residential electric customers provided approximately 44% of electric utility retail revenues. Commercial customers provided 36%. Industrial customers provided 18%. The remaining 2% is from streetlights and interdepartmental sales. Source: Vermont Electric Utility kWh Report (2017) available at: https://publicservice.vermont.gov/sites/dps/files/Annual_Reports/kWh_Density_Reports/2017%20KWH%20%20Revenue%20Rankings%207-18-18%20post%20Correction%20to%20Morrisville.pdf

- None of the options includes high enough application fees to cover all of the costs incurred by the Commission in reviewing projects proposed by people and companies that do not pay the gross receipts tax. However, the Commission is concerned that such a high application fee could be a barrier to economic development and the achievement of the State's ambitious renewable energy goals.

Finally, I inadvertently did not mention during my testimony earlier this week that the Commission had just seen the fee bill's proposed language regarding refunds of application fees. Now that we have reviewed this proposed language, we would appreciate an opportunity to bring some suggested changes to that language to the Committee's attention.

I hope these funding options are helpful. If you have any questions or if I can be of further assistance, please do not hesitate to let me know.

Sincerely,

Anthony Z. Roisman
Chair

cc: The Honorable Timothy Briglin, Chair, House Committee on Energy and Technology
The Honorable Catherine Toll, Chair, House Committee on Appropriations
The Honorable June Tierney, Commissioner, Vermont Department of Public Service