

Rate Flexibility and Innovation Bill

An act relating to allowing rate flexibility for municipal and cooperative utilities

This bill provides flexibility to municipal and cooperative utilities in two areas:

- 1) The ability to implement minor rate adjustments (typically below inflation) to absorb cost drivers without added expense of full rate case.
- 2) The ability to offer innovative rates on a pilot basis with the option for these rates to become permanent following a pilot period.

Purpose:

- Allows municipal and cooperative utilities to quickly respond to energy industry changes
- Facilitates innovation necessary to meet Vermont's increasing reliance on renewable resources
- Reduces costs and administrative burden of litigation and regulatory ratemaking process
- Improves municipal credit ratings and reduces ratepayer costs
- Provides rate stability by minimizing large, sporadic rate increases that must be absorbed all at once.

Background:

Vermont's municipal electric utilities are presently experiencing several specific challenges with ratemaking within the existing regulatory framework:

- 1) Traditional rate proceedings are slow, costly, and hampered by a rigid structure.
 - a. This limitation has been illustrated with the utilities' recent experiences during the COVID-19 pandemic. Municipal utilities have had difficulty justifying rate adjustments using the traditional "test year" and "rate year" process that does not capture one-time or short duration costs well.
- 2) The changing energy landscape is requiring utilities to adapt to industry changes and customer desires.
 - a. Increasing deployment of renewables and customer-sited generation
 - b. Increasing electric loads due to a growing reliance on the electric sector to power the transportation and heating sectors
 - c. Growing need to control the timing of electric load to coincide with renewable generation
 - d. Aggressive renewable goals create cost pressures in the electric sector
 - e. Ratings agencies are increasingly concerned about the ability of utilities to adjust rates in response to more dynamic business requirements

- i. VPPSA was created as a state Authority under 30 V.S.A Chapter 84 to assist public power utilities, including acting as a financing agency. In recent years, Moody's Investment Services has noted the inability of Vermont public power entities to adjust their own rates has a negative impact on VPPSA's rating. In their 2020 review of VPPSA bonds, Moody's listed VPPSA's scorecard rating based on its financial status as A3 but then reduced VPPSA's rating to Baa1 specifically due to the inability of Vermont utilities backing VPPSA bonds to adjust rates without state approval.

The Bill addresses these issues by:

- 1) Setting both annual and cumulative thresholds for when a municipal or cooperative utility could adjust rates with local approval by a vote of the local governing body (such as the elected Select Board or Board of Directors)
- 2) Allowing municipal and cooperative utilities to implement pilot rates and services for an 18-month period with local approval and to make those rates permanent without a full state regulatory process if no objection is raised

Regulatory Safeguards:

- Utilities will only be able to exercise rate flexibility for a period of **ten years** from their last rate change that was approved by the Public Utility Commission (PUC).
- Maintains Department of Public Service and PUC oversight through required notices and check points
- Requires full PUC rate proceeding for larger individual rate increases and after cumulative smaller increases reach a threshold
- Leaves in place full PUC authority to investigate a pilot rate or minor rate adjustment at any time
- Requires approval of the utility governing body

Summary:

The proposal would provide greater local control to public power utilities in a way that allows them to be more responsive to business needs and customer expectations. It creates similar flexibility utilized by investor owned utilities under existing "Alternative Regulation" while maintaining state regulatory guardrails and oversight.