

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Case No. 19-3529-PET

Petition of Vermont Gas Systems, Inc. for approval of an Alternative Regulation Plan, pursuant to 30 V.S.A. § 218d	
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**VERMONT GAS SYSTEMS, INC.’s REVISED PETITION
FOR APPROVAL OF AN ALTERNATIVE REGULATION PLAN**

Now comes Vermont Gas Systems, Inc. (“VGS” or the “Company”) and, pursuant to 30 V.S.A. § 218d, states as follows:

1. VGS is a Vermont corporation providing natural gas service by pipeline in the State of Vermont, and is subject to the regulatory authority of the Vermont Public Utility Commission (“Commission”). 30 V.S.A. §§ 203, 209, 225.

2. The Company proposes that it be regulated in accordance with the Alternative Regulation Plan (“Proposed Plan”) provided as **Exhibit VGS-JMP-1** accompanying the Prefiled Direct Testimony of Jill Pfenning.

3. As set forth in the Prefiled Testimony of VGS witnesses and summarized in **Exhibit VGS-JMP-2**, the Proposed Plan is intended to govern both the gas and non-gas components of VGS’s rates for a 3-year term in a manner that is efficient and transparent while also encouraging high performance, innovation, safety, cost reductions, and rate stability. Key features of the Proposed Plan include:

- (a) **Fixed Annual Base Rate Changes:** The Proposed Plan establishes a fixed rate path over the 3-year term based on a Cost of Service (“COS”) filing that will be filed in February 2021 to go into effect in the 2022 rate year. System Expansion and Reliability Funds (“SERF”) will be returned to customers to

maintain a fixed percentage rate change for the 3-year term, returning all SERF to customers by the end of 2024.

(b) **Earning Sharing Mechanism:** The Proposed Plan establishes an asymmetrical Earning Sharing Mechanism (“ESM”), with a greater share (75%) of any regulatory over-earnings flowing to customers and under-earnings shared equally at 50%. The Proposed Plan establishes a 50-basis-point symmetrical dead band and contemplates an off-ramp for extraordinary results deviating by 200 basis points or more. Return or recovery under the ESM is established through a bill credit or charge, which avoids Base Rate changes.

(c) **Return on Equity:** The Proposed Plan relies on the Return on Equity (“ROE”) baseline to be established by the Commission in VGS’s upcoming 2021 traditional rate filing, with subsequent adjustments based on 50% of the difference in 10-year Treasury notes.

(d) **Exceptions:** The Proposed Plan establishes several key exceptions to the Base Rate changes, including a change in the ROE greater than 150 basis points, earning sharing with a 200-point variance, exogenous events that cost \$200,000 or more and are outside VGS’s control, strategic Climate Action Plan initiatives that exceed Climate Action and Innovation Budget in the Plan, recovery of costs associated with Case No. 17-3550-INV, and/or Commission-approved rate design changes.

(e) **Capital Spending:** The Proposed Plan contemplates a 3-year forecast of capital spending, which will be filed with VGS’s upcoming February 2021 rate filing, and annual reporting requirements with a variance analysis.

(f) **Purchased Gas Adjustment:** The Proposed Plan includes the continuation of VGS’s current Purchased Gas Adjustment mechanism (“PGA”), which adjusts the natural gas charge component of rates on a quarterly basis. This ensures that the natural gas charge reflects actual gas costs. The PGA also flows through 100% of the interruptible margin and maintains weather normalization, which ensures that customers pay rates set on “normal” weather, eliminating windfalls or shortfalls associated with unusually cold or warm weather. The PGA Renewable Natural Gas (“RNG”) feature included in the Plan allows VGS to gradually increase RNG in a cost-effective manner not to exceed 2% of retail sales on an annual basis in order to promote Vermont clean energy goals and VGS’s Climate Action Plan.

(g) **Innovation, Service Quality, and Safety:** The Proposed Plan continues the existing Service Quality and Reliability Plan and establishes enhanced reporting and key safety and performance metrics. It also encourages and enables the pursuit of innovation and strategic investments and builds in innovation performance metrics that VGS will report on during the Plan period.

4. The Proposed Plan provides substantial benefits over traditional regulation, including: encouraging efficient operations; ensuring rates are cost based; reducing regulatory costs passed on to customers; sharing the risks and the benefits with customers; promoting transparency, predictability, and rate stability; and providing incentives that align with regulatory and policy goals.

5. The Proposed Plan requires approval of the Commission pursuant to 30 V.S.A. § 218d, after an opportunity for a hearing, and through finding that the Proposed Plan meets the

criteria established by subsections (a), (b), and (m) of that section. As demonstrated in the accompanying Prefiled Direct Testimony and Exhibits, the Plan meets those criteria, because it:

- (1) Establishes a system of regulation in which such companies have clear incentives to provide least cost energy service to their customers;
- (2) Provides just and reasonable rates for service to all classes of customers;
- (3) Delivers safe and reliable service;
- (4) Offers incentives for innovations and improved performance that advance State energy policy such as increasing reliance on Vermont-based renewable energy and decreasing the extent to which the financial success of distribution utilities between rate cases is linked to increased sales to end use customers and may be threatened by decreases in those sales;
- (5) Promotes improved quality of service, reliability, and service choices;
- (6) Encourages innovation in the provision of service;
- (7) Establishes a reasonably balanced system of risks and rewards that encourages the Company to operate as efficiently as possible using sound management practices; and
- (8) Provides a reasonable opportunity, under sound and economical management, to earn a fair rate of return, provided such opportunity must be consistent with flexible design of alternative regulation and with the inclusion of effective financial incentives in such alternatives.

30 V.S.A. § 218d(a). The Proposed Plan meets these criteria for the reasons set forth in the Prefiled Direct Testimony of Neale Lunderville, Jill Pfenning, and Ashley Wainer. In summary:

- (1) The Proposed Plan incentivizes least-cost service under Section 218d(a)(1) through the PGA, fixed base rate changes, and the ESM, under which VGS recovers prudently incurred gas costs more efficiently than under traditional regulation and is incentivized to maintain least-cost operations through clear financial incentives established by fixed rate adjustments and the ESM.
- (2) The Proposed Plan establishes just and reasonable rates under Section 218d(a)(2) by establishing a full cost of service review before implementation of the Plan and fixed base rate adjustments thereafter. Through the annual ESM calculations, quarterly PGA adjustments, and indexed return on equity, the Plan ensures customers share in the benefits of cost savings and provides the Company a fair opportunity to earn a return on equity.
- (3) The Proposed Plan will deliver safe and reliable service under Section 218d(a)(3) through robust reporting requirements, enhanced reporting over prior requirements, and the promotion of continued investment in safe and reliable service.

(4) The Proposed Plan provides incentives to innovate and improve performance in a manner that advances State energy policy under Section 218d(a)(4) and in accordance with the Commission's Order in Case No. 17-3142-PET by expressly supporting VGS's Climate Action Plan, which seeks to reduce greenhouse gas emissions 30% by 2030 and achieve net-zero emissions by 2050. The Plan establishes increases in RNG supply and supports investment in climate action initiatives and research and development needed to transform VGS's business through efficiency and other energy services.

(5) The Proposed Plan promotes improvements in VGS's quality of service, reliability, and safety under Section 218d(a)(5) through measured performance metrics and incentives for VGS to deliver high levels of customer service and reliability. The Plan also supports expanded service opportunities through the RNG feature in the PGA and supports VGS's innovation efforts, which aim to expand the scope of energy services.

(6) Through revenue decoupling under the PGA and other plan features that promote VGS's Climate Action Plan, the Proposed Plan encourages innovation in the provision of service as required by Section 218d(a)(6).

(7) The Proposed Plan establishes a balanced system of risks and rewards under Section 218d(a)(7) by encouraging VGS to operate efficiently while also using sound management practices; this balance is tested through a shared excess ESM, weighted toward customers, with limited exceptions that are narrowly tailored to meet express regulatory objectives, energy policy, and climate goals.

(8) Pursuant to Section 218d(a)(8), the Proposed Plan provides a reasonable opportunity, under sound and economical management, to earn a fair rate of return through a predictable and fair mechanism that adjusts the Commission-approved ROE in VGS's upcoming traditional rate case based upon 50% of the difference in 10-year Treasury notes, while also establishing flexibility and effective financial incentives through other provisions such as the PGA and ESM.

6. The Proposed Plan is effective on October 1, 2021, to be implemented with bills rendered November 1, 2021, with a term that expires on September 30, 2024, after 3 years. VGS proposes to include the option to extend the Proposed Plan for 2 additional years after consultation with the Department of Public Service and upon approval by the Commission.

7. VGS will file a traditional COS in February 2021 for rates effective at the commencement of the Proposed Plan.

8. VGS plans to confer with the Department of Public Service and propose a new procedural schedule in this case within 14 days.

9. VGS requests that the Commission set a scheduling conference if needed to address consideration of scheduling and related issues, including customer notice.

10. VGS moves the Commission to take action on this Revised Petition by September 1, 2021, to be implemented by October 1, 2021 in accordance with 30 V.S.A. § 218d(g).

11. With this Petition, VGS is filing:

- (a) The Proposed Plan; and
- (b) Prefiled Direct Testimony and Exhibits of Neale Lunderville, Jill Pfenning, and Ashley Wainer.

WHEREFORE, Vermont Gas Systems, Inc. requests that the Commission:

1. Order a scheduling conference on the Company's Revised Petition and issue an order establishing procedural requirements, including the scheduling of technical hearings, as may be appropriate for the Commission's review of the Proposed Plan;
2. Make findings of fact and conclusions of law with respect to the matters set forth in this Revised Petition and issue an order approving the Proposed Plan, to be effective on October 1, 2021, and implemented on bills rendered November 1, 2021; and
3. Take such other actions as in the Commission's judgment are necessary or advisable in connection with this Revised Petition.

DATED at Burlington, Vermont this 25th day of November, 2020.

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