

Summary of Proposed Alternative Regulation Plan (“Plan”)

Purpose: The Plan is a multi-year, performance-based vehicle to establish VGS’s rates—gas and non-gas components—in an efficient and transparent manner that supports high performance; promotes VGS’s Climate Action Plan, which is aligned with Vermont’s Comprehensive Energy Plan and statutory climate goals; advances strategic innovation; and supports continued focus on safety. The Plan reduces the time and resources needed for traditional rate litigation, ensures customers pay only VGS’s reasonable costs, and provides for rate stability. The Plan will allow VGS to timely recover its appropriate costs, including cost of capital, while balancing risks in a way that favors customers through an asymmetrical Earning Sharing Mechanism. The Plan maintains the approved use of the System Expansion Reliability Fund (“SERF”) to reduce and smooth the rate impact of the recent expansion, ensuring all remaining balances are returned to customers. The Plan encourages innovation by establishing a Climate Action and Innovation Budget and creating Climate Action and Innovation Performance Metrics that require VGS to report on its efforts to advance State energy and climate goals.

Term: FY22 to FY24 (3 years) with one opportunity for a 2-year renewal (FY25 to FY26)

Features:

1. Establishes fixed Base Rate changes per year, with SERF withdrawals used as required to smooth rates:
 - a. Base Rate change and SERF withdrawals to be filed by June 30 each Plan year.
 - b. All SERF-related balances to be returned to customers by end of FY2024.
 - c. Base Rate changes to be set after filing COS in February 2021.
 - d. Base Rates to include Climate Action and Innovation Budget of \$2 million per year.
2. Provides a greater share of any regulatory over-earnings flowing to customers through asymmetrical Earning Sharing Mechanism (“ESM”)(75% of over-earnings back to customers; VGS and customers split under-earnings 50%/50%):
 - a. Based on actual rate base, authorized ROE, and 50% equity ratio.
 - b. 50 basis point symmetrical dead band.
 - c. 200 basis point extraordinary off ramp—fully recoverable or returnable to customers.
 - d. Return or recovery will be a bill credit or charge to avoid base rate quarterly changes.
3. Sets return on equity (ROE) based on FY21 rate case with indexing thereafter:
 - a. Subsequent adjustment 50% of difference in 10-year Treasury notes.
 - b. 50% of difference 3-month period current year to prior year—6/1 to 9/1.
4. Provides limited exceptions to Base Rate changes:
 - a. “Exogenous Event” costing more than \$200K.
 - i. Outside Company control—i.e., changes in law, taxes, or new state or federal pipeline safety requirements.
 - b. Earning sharing yields a 200 basis point variance.
 - c. ROE change described above is more than 150 basis points.

- d. Recovery of PUC-approved Case No. 17-3550-INV costs.
 - e. Strategic Climate Action and Innovation spending above the Climate Action and Innovation Budget.
 - f. Any changes required due to Commission rate design orders.
5. Supports transparent, steady capital spending:
- a. Provides initial 3-year forecast with filing of FY22 rate case.
 - b. In subsequent years, provides annual variance analysis from forecast.
 - c. Provides for reporting on Climate Action and Innovation Performance Metrics.
6. Maintains current Purchased Gas Adjustment mechanism for gas cost portion of VGS's costs with express feature for RNG:
- a. Adjusts natural gas charge quarterly to ensure natural gas charge reflects actual gas costs, contributes to rate stability, provides appropriate price signal.
 - b. Flows through 100% of interruptible margin—ensures firm customers get maximum benefit from interruptible load.
 - c. Allows increased use of RNG of up to 2% of VGS's retail sales annually.
 - d. Maintains weather normalization—ensures customers pay rates set on “normal” weather, eliminates windfalls when it is cold or shortfalls when it is warm.
7. Supports Climate Action and Innovation, increased renewable supply, strategic climate initiatives, and emerging technologies, services, and products within bounds of fixed Base Rate adjustments that include a Climate Action and Innovation Budget.
8. Requires robust reporting (Gas Supply Management, Safety, Innovation, SQRP):
- a. Continues with SQRP and annual gas supply reporting.
 - b. Requires reporting on additional safety, performance and integrity management metrics.
 - c. Requires reporting on Climate Action and Innovation Performance Metrics.