

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 22-4100-TF

Tariff filing of Washington Electric Cooperative, Inc. for a 14.19% rate increase effective with service-rendered November 1, 2022	
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Order entered: 05/19/2023

FINAL ORDER APPROVING REDUCED RATE INCREASE

I. INTRODUCTION

This case involves the Commission’s investigation into a tariff filing by WEC requesting a 14.19% rate increase effective on a service-rendered basis on November 1, 2022. Over the course of this investigation, the Vermont Department of Public Service (“Department”) and WEC have come to agreement that a 12.83% rate increase should be authorized. In today’s Order, the Commission approves the agreed-upon rate increase and requires WEC to file a plan to return the excess amount collected to its ratepayers.

II. PROCEDURAL HISTORY

On September 16, 2022, WEC filed the petition and proposed tariffs with the Commission. The prefiled testimony and exhibits accompanying the petition are as follows: testimony of Louis Porter and Exhibits WEC-1 through -5; testimony of Teia Greenslit; and testimony of Shawn Enterline and Exhibits SPE-1 through -11.

On October 17, 2022, the Department, pursuant to 30 V.S.A. § 225, informed the Commission that it had reviewed the filing and recommended that the Commission investigate the proposed rate increase “[d]ue to the magnitude of WEC’s proposed rate change and other significant macroeconomic uncertainties.”

On October 27, 2022, the Commission issued an order opening an investigation. Pursuant to 30 V.S.A § 226(b), WEC implemented the tariff by means of an identical 14.19% surcharge on each class of ratepayers, subject to the requirement that it refund any amounts collected that are in excess of the amount finally determined to be just and reasonable by the Commission.

On January 4, 2023, the Commission conducted a public hearing in this case via videoconference. Of the members of the public who were in attendance, only one spoke, and his comments were in support of the rate increase. The Commission received 10 written public comments that expressed concern with the magnitude of the rate increase and with WEC's rates as compared to other Vermont electric utilities. These comments were especially helpful in identifying areas of concern that the Commission pursued through information requests for WEC and the Department. No motions to intervene were filed.

On January 6, 2023, the Commission issued an information request to WEC.

On January 23, 2023, WEC filed responses to the information request. This filing included supplemental testimony of Louis Porter, Shawn Enterline, and Teia Greenslit, and Exhibits PUC-2A through -2D, PUC-3, PUC-4A through -4D, PUC-5, and PUC-9.

On January 24, 2023, the Department filed testimony and exhibits as follows: testimony of Sean Foley; testimony of Carol Flint; testimony of Bill Jordan; and testimony of Walter (TJ) Poor and Exhibits DPS-WP-1 through -3. In its testimony, the Department recommended that the proposed rate increase be reduced to 12.83%.

On February 3, 2023, WEC filed a letter stating that it concurs with the Department's recommendation and that it does not request a hearing.

Also on February 3, 2023, the Commission issued a request for information to the Department.

On February 17, 2023, the Department filed supplemental testimony of Sean Foley and Carol Flint.

On February 24, 2023, the Department filed comments stating that it does not take issue with WEC's February 3 letter.

No party requested an evidentiary hearing in this proceeding. After reviewing the record, the Commission has determined that an evidentiary hearing is not needed to render a decision in this proceeding. The testimony and exhibits identified above are admitted as if presented at a hearing.¹

¹ If any party has an objection to any of these documents being entered into evidence, the party must submit its objection within 14 days of the date this Order is entered.

III. FINDINGS

1. An increase in WEC's rates of 12.83%, to take effect on a service-rendered basis as of November 1, 2022, will allow WEC to recover reasonably incurred costs and continue operating in a safe and efficient manner. Sean Foley, Department ("Foley") pf. at 6.

2. WEC's cost of service was calculated based on a test year beginning on July 1, 2021, and ending on June 30, 2022. WEC made adjustments to the test-year costs to calculate its revenue requirement for the rate year beginning November 1, 2022, and ending October 31, 2023. Louis Porter, WEC ("Porter") pf. at 2.

A. **Cost Drivers**

3. The key cost driver for the proposed rate increase is net power supply costs. WEC estimates that these costs will increase by \$703,618 above test-year levels. This increase is approximately 30% of the requested revenue increase. This increase is being primarily driven by higher energy market costs caused by an increase in natural gas prices in New England. Shawn Enterline, WEC ("Enterline") pf. at 2; exh. WEC-1.

4. WEC's power sources are 100% renewable. However, as a load-serving entity in New England's power market, WEC must purchase 100% of its energy requirements from the grid operator, ISO New England. Enterline pf. at 3.

5. WEC's 100% renewable power supply is sold to ISO New England, and the proceeds act as a financial hedge against the cost of buying WEC's energy needs in the ISO New England auction market. Enterline pf. at 3.

6. The current price of Vermont Tier I Renewable Energy Credits ("RECs") is about \$10/MWh according to GT Environmental, which is about double the cost in the test-year. This increase accounts for \$263,790 of the increase in costs. Enterline pf. at 4, 10.

7. WEC's labor cost increases include a 2.95% wage increase for union employees and a 2.7% increase for non-union employees. Health insurance costs are increasing by 5%, and the retirement security plan costs are increasing by 3%. Teia Greenslit, WEC ("Greenslit") pf. at 2.

8. WEC has developed its proposed rate increase based on a target times interest earned ratio ("TIER") of 2.0. Porter pf. at 3.

9. WEC's proposed TIER of at least 2.0 is reasonable as it helps to maintain adequate cash flow, to fund capital improvements, and to meet requirements for loan covenants. Foley pf. at 5.

10. The financial health of a utility determines its flexibility to respond to unplanned circumstances and events. It is important for a utility to maintain a cash contingency to protect against uncertainties that lead to unfavorable trends. The right amount of cash reserves for an electric utility company can vary based on factors such as the size of the company, its overall financial stability, and regulatory requirements. Foley supp. pf. at 4-5.

11. WEC currently has about \$1.5 million in cash (including short-term securities). That amount represents only four weeks of operating costs. It is prudent for WEC to have at least two months of cash for operating on hand to avoid short-term borrowing for operating costs. Porter pf. at 3.

12. The proposed rate increase will allow WEC to meet the financial ratio requirements set by its lenders to ensure continued ability to borrow money. One of WEC's lenders, the USDA's Rural Utilities Service, requires WEC to meet a TIER calculation of 1.25 or above in the two best of every three years. WEC is unlikely to meet a tier of 1.25 in 2022, although it did achieve it in both 2021 and 2020, with a TIER of 1.84 and 2.32 respectively. Porter pf. at 3.

13. The proposed TIER of 2.0 provides a high likelihood that WEC will meet its minimum TIER obligation of 1.25 in 2023 and provides revenue to support contingencies such as large storms that lead to repair costs greater than a five-year average and higher-than-anticipated costs for purchased power. Porter pf. at 2-3.

B. Adjustments Proposed by the Department

14. The Department identified two adjustments to WEC's proposed rate increase. Together, the two adjustments reduce WEC's proposed revenue requirement by \$227,104, with a corresponding reduction of \$2,328 to the gross receipts and gross revenue tax. Foley pf. at 6.

15. WEC did not account for the avoided costs associated with net-metering in its initial tariff filing. Net-metering avoids the purchase of energy and capacity as well as Tier I RECs. Walter (TJ) Poor, Department ("Poor") pf. at 6.

16. In response to discovery, WEC estimated the avoided cost of energy and Tier I RECs related to net-metering to be \$187,104. WEC indicated that avoided capacity costs are *de minimis*. Accordingly, the Department recommends that WEC's revenue requirement be adjusted downward by \$187,104 to account for net-metering avoided costs. Poor pf. at 6; exh. DPS-WP-3.

17. In its initial tariff filing, WEC included \$60,000 in its cost of service to cover costs associated with completing its Integrated Resource Plan ("IRP") as required by 30 V.S.A. § 218c. Because IRPs are required once every three years, the Department recommends spreading the \$60,000 cost over three years, which results in a downward adjustment of \$40,000 in the rate year. Poor pf. at 7.

C. Customer Service and Service Quality Reporting

18. WEC has actively participated in programs that can assist customers in paying bills. Carol Flint, Department ("Flint") pf. at 4.

19. WEC's customer service is average. WEC has met or exceeded its service quality metrics for 2022. However, customer complaints also jumped in 2022, and WEC has failed to meet the baseline for percentage of calls not answered within 20 seconds for 11 quarters of the 15 quarters reviewed. Flint pf. at 8.

20. WEC's fourth-quarter service quality reports have had errors for the past few years. The Department recommends that the Department's Consumer Affairs and Public Information Division ("CAPI") provide WEC with training in service quality reporting. Flint pf. 8.

IV. DISCUSSION AND CONCLUSION

WEC's initial tariff filing requested a 14.19% increase. After its review, the Department recommended that WEC's proposed cost of service be reduced by \$229,432, corresponding to an overall rate increase of 12.83%. This amount is comprised of a reduction of \$227,104 in rate-year costs with a corresponding reduction of \$2,328 to the gross receipts and gross revenue tax. While the Department and WEC did not enter into a formal memorandum of understanding or settlement agreement, the parties agree that 12.83% is an appropriate rate increase.

WEC is requesting a rate increase primarily due to rising power supply costs and increases in operating costs. Geopolitical circumstances, such as the Russian invasion of

Ukraine, have caused supply shortages and price increases to oil and natural gas. A large percentage of power plants in New England are fueled by oil and natural gas, and WEC is directly affected by these increased prices through its participation in the ISO New England markets. WEC is seeing increased operating costs related to labor and employee healthcare plans. WEC has proposed a 2.0 TIER to ensure that it is able to meet its loan covenants. WEC has also explained that its cash needs factor into the increased cost of service. The Department supports WEC's proposal to keep enough cash on-hand to cover two months of operating costs. We find that the rate increase is necessary to fund increasing costs and to support WEC's financial health.

The Department recommends that, as a condition of the Commission's approval of the rate increase, WEC receive training from CAPI on service quality reporting. The Department recommends that this training be completed within three months of today's Order, or sooner if possible.²

Based on the evidence presented in this proceeding, the Commission concludes that a 12.83% rate increase for WEC will result in just and reasonable rates. WEC is directed to refund in its entirety the difference in the amount collected between the 14.19% increase initially requested and implemented by WEC on an interim basis and the 12.83% overall rate increase agreed upon by both parties and approved in today's Order. WEC is required to file a plan to return the excess amount collected to its ratepayers and to former customers. WEC must also file compliance tariffs that reflect the final approved rate increase. Further, we require WEC to complete training on service quality reporting with CAPI within three months of this Order.

² Flint supp. pf. at 1-2.

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Utility Commission (“Commission”) of the State of Vermont that:

1. A rate increase by Washington Electric Cooperative, Inc. (“WEC”) of 12.83%, effective with service rendered on or after November 1, 2022, is just and reasonable, and is approved.
2. Revenues collected through the temporary surcharge in excess of the 12.83% rate increase must be credited to WEC’s customers and refunded to former customers. Within 10 business days of the issuance of this Order, WEC must file for Commission approval its plan to return these funds.
3. WEC must file compliance tariffs in the compliance subcase in ePUC within 10 business days of the issuance of this Order.
4. WEC must complete training on service quality reporting with the Department of Public Service Consumer Affairs and Public Information Division within three months of the issuance of this Order. WEC must file a status update on the completion of this training in the compliance subcase in ePUC within four months of the issuance of this Order.

PUC Case No. 22-4100-TF - SERVICE LIST

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