

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6325

Investigation of Vermont Electric Cooperative,)	Hearing at
Inc.'s tariff filing requesting a 12.87% rate increase,)	Montpelier, Vermont
to take effect January 1, 2000)	May 26, 2000

Order entered: 6/30/2000

PRESENT: Ennis John Gidney, Hearing Officer

APPEARANCES: Aaron Adler, Esq.
for the Vermont Department of Public Service

Michael Burak, Esq.
Burak, Anderson & Melloni, PLC
for Vermont Electric Cooperative, Inc.

I. INTRODUCTION

On November 15, 1999, Vermont Electric Cooperative, Inc. ("VEC") filed with the Public Service Board ("Board") tariff sheets and supporting documents requesting a 12.87 percent increase in its rates, to be effective on a service-rendered basis commencing January 1, 2000. The proposed rate increase would produce additional annual revenues in the amount of \$1,918,270. VEC provided notice of the proposed rate increase to its customers via individual notice and by publication in its membership newsletter, *Co-op Currents*.

On December 17, 1999, the Vermont Department of Public Service ("Department"), pursuant to 30 V.S.A. Section 225, informed the Board that it had reviewed the filing and recommended that it be investigated. On December 23, 1999, pursuant to 30 V.S.A. Section 226(b), the Board ordered an investigation into the justness and reasonableness of the proposed rate change, ordered that the increased rates be implemented by means of an additional 12.87 percent surcharge to existing rates until a final determination is made in this proceeding, and appointed Ennis John Gidney, Chief Economist, as Hearing Officer in this proceeding.

On April 25, 2000, the Department filed a Stipulation ("Exhibit Joint-1" or "the Stipulation")

between itself and VEC in which the Department and VEC agreed that, subject to several conditions, described below, the revenue requirement contained in VEC's filing was just and reasonable.¹ No other person has sought to intervene in this investigation.

A public hearing on the rate request was held on February 25, 2000. On May 26, 2000, a technical hearing was held at the Board's hearing room. The parties entered into evidence the Stipulation and sworn testimony explaining the basis for the conditions contained in the Stipulation.

I have reviewed the petition and the exhibits, including the Stipulation and the supporting cost of service study (Exhibit VEC-1). I conclude that, with the conditions set forth in the Stipulation, the rates presently in effect, including the 12.87 percent surcharge, are just and reasonable, and I recommend that the Stipulation be approved by this Board.

II. THE STIPULATION

In the Stipulation, VEC and the Department agree that the revenue requirement contained in VEC's rate request filing of November 15, 1999, is just and reasonable under several conditions.

The first group of conditions pertain to accounting and ratemaking treatment of demand-side management ("DSM") expenditures. First, VEC agrees to reduce its DSM payroll expense by \$107,000. Second, VEC agrees to increase its amortization of deferred DSM costs by \$107,000. Third, VEC agrees to reduce by \$10,000 the total amount of capitalized DSM expenses from 1996 through 1999. The cumulative effect of these three adjustments is neutral with respect to VEC's adjusted test year revenue requirement. Exhibit VEC-2, a cost of service summary, reflects these three changes and supports a total revenue requirement equal to that filed initially by VEC. Fourth, VEC agreed that, from the effective date of the tariff revision forward, it would expense, rather than capitalize, all DSM expenditures.

VEC also agrees to provide to the Board and the Department, by December 31, 2000, a "comprehensive evaluation and report respecting staffing levels and compensation," the scope of which is further defined in the Stipulation.

Finally, VEC agrees not to file for a rate increase prior to January 1, 2002, unless a situation arises in which VEC (a) will not meet its bond covenants without a rate increase or (b) would qualify for temporary rate relief under 30 V.S.A. Section 226(a).

1. A copy of the Stipulation is attached to this Proposal for Decision as Appendix 1.

III. FINDINGS OF FACT

Based upon the evidence of record, including the testimony of the Department and VEC witnesses, the Stipulation, and exhibits, I hereby report the following findings and conclusions to the Board in accordance with 30 V.S.A. § 8.

1. On November 15, 1999, VEC filed with the Board tariff sheets and supporting documents requesting a 12.87 percent increase in its rates, to be effective on a service-rendered basis commencing January 1, 2000. The proposed rate increase would produce additional annual revenues in the amount of \$1,918,270. Petition.

2. VEC's cost of service study used calendar year 1998 as the historical test period, and made adjustments to reflect costs that VEC expects to incur during calendar year 2000, the adjusted test period. Exh. VEC-1.

3. Of the \$1,918,270 additional required revenue, \$1,524,093 (79%) is additional purchased power and transmission costs. Property taxes account for \$132,630 (7%) of the increase. The loss of dividends that would result from the proposed sale of generating assets by Vermont Yankee Nuclear Power Corporation, and a decrease in interest income as a result of bond redemption, comprise \$221,104 (12%) of the additional revenue requirement. The remaining increases and decreases (totaling 2%) of the additional revenue requirement are spread between distribution operations and maintenance, customer accounts, administrative and general expenses, interest on long-term debt, and DSM expenses. Exh. VEC-1 at 1.

4. VEC has a "net-requirements" purchased power contract with Northeast Utilities ("NU") that runs through 2002. Under the contract, NU serves VEC's electrical load, in excess of that met through VEC's entitlements in VDPS/NYPA sources (St. Lawrence and Niagara), VEC's obligations to purchase Rule 4.100 power from Vermont Electric Power Producers, Inc., and VEC's contracts with small power producers. NU is expected to serve approximately 82% of VEC's energy needs during the adjusted test period. Exhibit VEC-1, narrative summary and page S-2; Kieny pf. at 3-4.

5. Relative to expenses incurred during the 1998 test year, VEC's purchased power expenses during calendar year 2000, the adjusted test period, are expected to increase by \$1,320,256. Costs under the NU contract will increase by \$1,419,000 compared to a similar contract with New England Power Company that was in place during the test year; the average net-requirements wholesale price will increase from \$27.96 per MWh in the 1998 test year to \$39.14 per MWh in 2000. Exhibit VEC-2.

6. From 2000 to 2001, the rates under VEC's power purchase agreement with NU will increase by approximately 2 percent. VEC anticipates offsetting those increases with decreasing expenses elsewhere in the organization. From 2001 to 2002, the rates VEC pays to NU will not increase. Tr. 5/26/00 at 22 (Kieny).

7. VEC continues to administer two energy conservation programs. Kieny pf. at 10.

8. Consistent with the bilateral agreement between VEC and the Department in Docket 5980, VEC now expenses on a current basis the costs of the two energy conservation programs it continues to administer. Tr. 5/26/00 at 20-21 (Kieny, Welch).

9. The Department has investigated VEC's costs and VEC has responded to information requests by the Department. Stipulation (Joint-1) at ¶ 2.

10. VEC and the Department entered a Stipulation, which is described in Section II, above. Stipulation.

11. By Stipulation, the Department and VEC agreed that several adjustments to VEC's cost of service and deferral accounts were appropriate. First, VEC's adjusted test year DSM payroll expense was reduced by \$107,000. Second, VEC's adjusted test year amortization of deferred DSM costs was increased by \$107,000. Third, VEC agreed to reduce by \$10,000 the balance of capitalized DSM expenses which it booked from 1996 through 1999. The cumulative effect of these three adjustments is neutral with respect to VEC's adjusted test year revenue requirement. Exhibit VEC-2, a cost of service summary, reflects these three changes and supports the same total revenue requirement as that initially filed by VEC. Fourth, VEC agreed that, from the effective date of the tariff revision forward, it would expense, rather than capitalize, all DSM expenditures. Stipulation at ¶ 3; tr. 5/26/00 at 16-19; exh. VEC-2.

12. VEC's debt obligations require VEC to achieve a Margins for Interest ("MFI") ratio equal to 2.2 times the annual expense on VEC's long-term debt. Tr. 5/26/00 at 26 (Camp).

13. At the rates established by the Stipulation, VEC expects to achieve an MFI ratio of 2.2 during the year 2000 and during 2001, as well, thereby satisfying the MFI requirement. Tr. 5/26/00 at 19 (Reeve).

III. DISCUSSION AND CONCLUSION

The rates now in effect under all of VEC's tariffs are 12.87 percent greater than the rates that were in effect immediately prior to January 1, 2000. The Stipulation filed by the parties on April 25, 2000, resolves all of the contested issues in this docket; the Department and VEC agree that, under the

several conditions contained in the Stipulation, the rates now in effect are just and reasonable.

I have reviewed the Stipulation, the Cost of Service submitted with the original tariff filing, and the testimony of the respective parties. Based upon all of the foregoing and the evidence in the record, I conclude that the present rate level, reflecting the 12.87 percent increase, is just and reasonable. I, therefore, recommend that the MOU be approved by this Board, and that the Board close this docket without adjustment to VEC's tariffs.

The Stipulation provides that VEC shall not file for a rate increase prior to January 1, 2002, unless it will be otherwise unable to meet its bond covenants (notably the required MFI ratio) or unless it would otherwise qualify for temporary rate relief under 30 V.S.A. § 226(a). The pre-determined and relatively stable price of wholesale power from VEC's principal power resource enables VEC to make this commitment. While VEC's commitment to stable rates during this year and next year has value to VEC's customers, the overall creditworthiness of VEC and its need to provide adequate, safe and reliable service are important as well.

The parties waived, under the Stipulation, their rights under 3 V.S.A. § 811 to provide written comments or request oral argument on a proposal for decision, provided that any proposal for decision or final Board decision on the matter of the Stipulation is consistent in all respects with the Stipulation and approves the Stipulation in its entirety.² This Proposal for Decision adopts the Stipulation in its entirety, and, in my view, is fully consistent with the Stipulation. Accordingly, I judge that the parties have waived their rights under 3 V.S.A. § 811, and I recommend that the Board issue a final Order adopting my Proposal for Decision without requesting written comment or oral argument.

DATED at Montpelier, Vermont, this 28th day of June, 2000.

s/Ennis John Gidney

Ennis John Gidney
Hearing Officer

2. Stipulation at ¶ 6.

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

- 1. The Findings and Conclusion of the Hearing Officer are adopted.
- 2. The Stipulation dated April 25, 2000, between Vermont Electric Cooperative, Inc. and the Vermont Department of Public Service, is approved.
- 3. The 12.87 percent temporary rate surcharge to VEC's tariffs, which took effect January 1, 2000, and which increases revenues by an annual amount of \$1,918,270, shall be incorporated into final rates.
- 4. VEC shall file, within ten days, tariffs implementing the 12.87 percent rate increase effective for service rendered on or after July 1, 2000.
- 5. This investigation is closed.

DATED at Montpelier, Vermont, this 30th day of June, 2000.

<u>s/Michael H. Dworkin</u>)	PUBLIC SERVICE
)	
)	BOARD
<u>s/Suzanne D. Rude</u>)	
)	OF VERMONT
)	
<u>s/David C. Coen</u>)	

OFFICE OF THE CLERK

Filed: June 30, 2000

Attest: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or mail) of any technical errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.

