

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6370

Tariff filing of Vermont Gas Systems, Inc.)
requesting a 7.6% increase in its firm rate, to)
take effect April 15, 2000)

Order entered: 9/21/2000

I. INTRODUCTION

On February 18, 2000, Vermont Gas Systems, Inc. ("VGS") filed with the Vermont Public Service Board ("Board") tariff sheets and supporting documents requesting a 7.6 percent increase in firm rates, proposed to be implemented November 1, 2000. The 7.6 percent increase in firm rates represents a rate increase of \$2,788,741.

On March 29, 2000, the Vermont Department of Public Service ("DPS" or "Department") indicated that it had reviewed the filing and that it had concerns about several of its aspects, including rising wholesale gas costs, equity return, rate base, other operating expenses, and demand-side management. The Department recommended that the Board suspend and investigate the filing.

I convened a prehearing conference on April 26, 2000. Appearing on behalf of VGS was John Marshall, Esq. Sarah Hoffman, Esq., appeared on behalf of the Department. At the prehearing conference, VGS and the Department indicated their intent to engage in discussions, informal discovery and negotiations with respect to VGS' filing.

On June 1, 2000, I convened a duly noticed and publicized public hearing at the South Burlington High School. No members of the public attended.

After a period of informal discovery and negotiations, on August 23, 2000, the DPS and VGS filed a Memorandum of Understanding (the "MOU") proposing a settlement of the proposed rate change. I review the MOU and the prefiled testimony below.

II. POSITIONS OF THE PARTIES

VGS and the DPS agree that an increase in firm rates of 7.6 percent will result in just and reasonable rates. Both parties have requested that the Board view the MOU as a negotiated settlement presented to the Board for approval as a whole, in the context of this rate request and tariff filing. Moreover, the DPS and VGS request that the MOU not be construed by any party or tribunal as having any precedential or other effect in any future proceedings involving other utilities. Finally, both the Department and VGS reserve the right in any future proceeding to advocate positions that differ from the positions set forth in this MOU.

III. FINDINGS OF FACT

Based on the evidence of record, I hereby report the following findings to the Board in accordance with 30 V.S.A. § 8.

1. VGS filed with the Board on February 18, 2000, tariff sheets and supporting documents requesting a 7.6% increase in firm rates, proposed to be effective on April 15, 2000, for services to be implemented on or after November 1, 2000. The 7.6% increase in firm rates represents a rate increase of \$2,788,741. Tariff Filing #3790 and Attachments, February 18, 2000.

2. VGS and the Department have engaged in discussions, review, informal discovery, and negotiations with respect to this filing. MOU ¶ 2.

3. As a result of those negotiations, VGS and the Department agree that an increase in the firm rates of VGS by 7.6% will result in just and reasonable rates and that, upon Board approval, a firm-rate increase of 7.6% shall be applied to all components of firm-service rates, effective for services rendered on or after November 1, 2000. *Id.* at ¶ 3.

4. For purposes of the MOU, VGS uses a return on equity of 11.25%. VGS's and the Department's agreement to the return on equity does not represent a determination of the appropriate return for VGS, but is solely for settlement purposes. *Id.* at ¶ 4.

5. Approximately 60 percent of the increase requested by VGS is due to rising gas costs. The increased cost of service also reflects the operational expenses, costs of depreciation, property tax, and return on investment associated with the third phase of VGS's transmission-

system expansion. VGS and the Department agree that the cost of service, rate base, capital structure, and cost of capital are provided in the schedules attached to VGS's filing in this case (TF #3790 / Docket 6370). They also agree that these schedules establish overall rate levels that are just and reasonable. Stipulation to these schedules is not intended by either party to constitute sponsorship or approval of any particular component of the cost of service contained therein. Tariff Filing #3790 at 2; MOU at ¶ 5.

6. Although the MOU is a final settlement of Docket No. 6370, the parties reserve the right to review the demand-side management ("DSM") components of this case in a future VGS rate request. Specifically, the parties agree that notwithstanding any agreements in the MOU, the Department may review all DSM components of VGS's filing in this case in the next VGS rate request which is being investigated in Docket 6413. MOU at ¶ 6.

7. The parties agree that the MOU relates only to these parties and shall not be construed by any party or tribunal as having precedential or any other impacts on proceedings involving other utilities. The parties have made compromises on specific issues to reach the agreements set forth in the MOU. The MOU shall not be construed by any party or tribunal as having precedential impact in this or any future proceeding involving the parties, except as necessary to ensure the parties' implementation of the MOU or to enforce a Board order resulting from the MOU. VGS and the Department reserve the right in any future proceedings to advocate positions that differ from the calculations set forth in the cost of service that accompanies the MOU. The MOU shall not be used against any party in any future proceeding unless it is to ensure the parties' implementation of this MOU or to enforce an order of the PSB resulting from the MOU. *Id.* at ¶ 7.

8. VGS and the Department have stipulated to the entry of an order by the Board and waive the issuance of a Proposal for Decision and an opportunity to comment. *Id.* at ¶ 9.

IV. CONCLUSION

The MOU would allow VGS to increase its firm rates by 7.6 percent, effective with service rendered November 1, 2000. This rate increase is justified by the increased cost of VGS's wholesale gas supply as well as depreciation, DSM and other operational costs.

I recommend that the Board approve the MOU jointly submitted by the Department and VGS. I further conclude that VGS's proposed increase in firm rates of 7.6 percent is just and reasonable, and recommend that the Board approve it. I also recommend that the issue of the appropriateness of VGS's DSM expenditures be reserved for future proceedings. Finally, I recommend that the Board require VGS to provide individual notice to customers of the rate change.

Dated at Montpelier, Vermont, this 20th day of September, 2000.

s/David Farnsworth
David C. Farnsworth
Hearing Officer

V. ORDER

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

1. The findings and conclusions of the Hearing Officer are adopted.
2. The Memorandum of Understanding submitted by the Department of Public Service and Vermont Gas Systems, Inc. ("VGS") is approved.
3. VGS may implement a firm rate increase of 7.6 percent, which shall be applied to all components of VGS firm rates, to be effective for service rendered on and after November 1, 2000.
4. VGS shall also provide individual notice to its customers of the rate change prior to November 1, 2000.

DATED at Montpelier, Vermont this 21st day of September, 2000.

s/Michael H. Dworkin)	PUBLIC SERVICE
)	
s/David C. Coen)	
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)	BOARD
)	OF VERMONT
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OFFICE OF THE CLERK

FILED: September 21, 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.