

ALTERNATIVE REGULATION PLAN

This Alternative Regulation Plan (the “Plan”) is established pursuant to 30 V.S.A. § 218d. The Plan establishes the method by which the Public Utility Commission (the “PUC” or the “Commission”) will regulate the rates charged for certain jurisdictional products and services offered by Vermont Gas Systems, Inc. (“VGS” or the “Company”) during the term of the Plan.

1. Term of the Plan.

- a. The Plan shall be effective on October 1, 2021, to be implemented with bills rendered November 1, 2021, and have a term that will expire on September 30, 2024, after three years (hereinafter “Plan Years”) unless extended under Paragraph 1(b) of this Plan, provided however amounts due from or owed to customers related to the PGA Adjustment or Weather Variance relating to periods prior to termination shall continue beyond the end of the Plan’s term, and any remaining balances after the Plan is terminated shall be deferred and recovered from or returned to customers in a subsequent rate proceeding.
- b. VGS shall have the option, after consultation with the Department of Public Service (the “Department” or “PSD”), to request that the Plan be extended for a two-year term beginning on October 1, 2024, and expiring on September 30, 2026. If VGS seeks to extend the Plan, it shall make such request no later than February 15, 2024, and the request will be accompanied by an assessment of the Plan’s effectiveness, specifically addressing the criteria contained in 30 V.S.A. § 218d as well as any other criteria required by the PUC. Such request will also include any proposed amendments to the Plan during the two extended Plan Years. The PUC will approve or reject the amendment by May 1, 2024.

2. Regulatory Framework.

- a. Title 30, including Sections 218, 225, 226, 227 and 229, will continue to apply except as specified herein.
- b. The goal of this Plan is to fulfill the objectives of Section 218d(a), including to provide smooth and transparent rates for customers, to support VGS’s provision of safe and reliable service, and to encourage innovation by VGS to meet Vermont energy goals, including on carbon reduction. To accomplish these goals, the Plan sets out the method by which the Company shall be entitled to recover its gas costs in accordance with the Purchased Gas Adjustment (“PGA”), as established by Paragraph 4 of this Plan.

3. Base Rates.

- a. Changes to Base Rates during the Term of the Plan shall be determined through the filing of a traditional Cost of Service (“COS”).
- b. Base Rates shall include a Climate Action and Innovation Budget as set forth in Paragraph 5(b).

4. Purchased Gas Adjustments.

The PGA during the Plan are designed to separate the cost of gas incurred by the Company for its customers from the Company’s other costs as reflected in its Base Rates, as follows:

- a. PGA shall consist of an average cost per Ccf based on forecasted costs and volumes for the rate year and to correct for any under- or over-collection of gas costs and weather normalization during the previous quarter, as follows:
 - i. Costs to be recovered through the PGA are costs related to the purchasing, storing, production, and transporting of natural gas to serve sales customers. As further described in **Attachment 1**, they include: a) Firm commodity costs (including Renewable Natural Gas (“RNG”)); b) Interruptible commodity costs (including spot purchases and RNG); c) Storage withdrawals, including variable injection and withdrawal costs; d) Peaking commodity costs; e) Commodity costs for off-system sales; f) Propane air commodity (propane only) costs; g) TC Energy, Enbridge or other pipeline tolls and charges; h) Storage-related demand charges; i) Peaking demand charges; j) Hedging positions: natural gas and foreign exchange; k) Hedging instrument premiums; l) Capacity or asset management revenues; m) Canadian federal or provincial taxes imposed on gas purchases or pipeline tolls, including any gains or losses due to changes in exchange rate on tax payments and reimbursements; n) System losses and Company use; and o) Other gas costs that may occur and are appropriately charged to FERC Accounts 800 through 805.
 - ii. The definition and determination of these components is shown in Attachment 1. In its annual supply filing pursuant to Paragraph 7 of this Plan, VGS will highlight any changes to its supply portfolio or to the definitions and determinations shown in Attachment 1.
 - iii. Schedule for PGA filings: Quarterly, no later than the third-to-last business day of November, February, May, and August, VGS shall notify the PUC and PSD of the

PGA that will be billed to firm customers commencing on the first day of the third subsequent month (e.g., adjustment filed on November 25 is effective on bills rendered on and after February 1).

- iv. The rate year reflected in the PGA shall be the twelve-month period beginning with the second subsequent month (e.g., adjustment filed on November 25 reflects upcoming January to December rate year).
 - v. VGS shall give individual notice to customers of each PGA not less than 55 days before bills are rendered and not less than 25 days before service is rendered.
 - vi. Content of PGA filings: The quarterly PGA filing shall include:
 - a) Forecasted Gas Costs for the 12 months beginning two months forward. Forecasted Gas Costs will be calculated based on then current pipeline tolls, fixed-price contracts, and market forecasts for unhedged indexed supplies, minus projected interruptible and off system sales revenue;
 - b) Forecasted Gas Sales Volumes for the 12 months beginning two months forward, based on projected numbers of customers and 10-year normal weather;
 - c) Actual Gas Costs for the previous quarter, net of interruptible and off-system revenue;
 - d) Actual Firm Gas Sales Volumes for the previous quarter;
 - e) Actual Firm Gas Charge Revenues for the previous quarter;
 - f) The proposed new Gas Charge, which will be calculated to recover on a 12-month basis Forecasted Gas Costs and to discharge any Adjustment required by over- or under- collection of Gas Costs and weather variance from the previous quarters; and
 - g) The amount of RNG added to VGS's general supply portfolio along with an explanation of the considerations identified in Paragraph 4(d) below.
- b. The PGA will be calculated using the following formula:
- $$\text{GAS CHARGE} = (\text{12-MONTH COST FORECAST} \pm \text{PGA ADJUSTMENT} \pm \text{WEATHER VARIANCE}) / \text{12-MONTH VOLUME FORECAST}$$

Where:

Gas Charge	Price per Ccf for gas sold to firm customers.
12-Month Cost Forecast	Forecast of Gas Costs identified above.
PGA Adjustment	The difference between previous quarters' Actual Gas Costs (net of interruptible and off-system revenue) and Actual Firm Gas Charge Revenues.
Weather Variance	The difference between previous quarters' actual firm distribution revenue and weather-normalized distribution revenue.
12-Month Volume Forecast	Forecast of firm Gas Sales Volumes for the 12 months beginning 2 months forward, based on projected numbers of customers and 10-year normal weather.

- c. For purposes of determining weather-normalized variance, the use per degree day, per customer, by firm rate class in the most recent August PGA filing will be applied to the difference between actual degree days and degree days in the most recent August PGA filing multiplied by the actual number of customers. The resulting Mcf adjustment, by rate class, will be multiplied by the distribution charge, by rate class, to determine the weather adjustment. The calculation, by firm rate class, by month will be as follows:

$$WV = (\text{Customers} * UDD * (DD_a - DD_n)) * DR$$

Where:

WV	=	Weather Variance
Customers	=	Actual number of customers
UDD	=	Use per degree day from August PGA filing
DD _a	=	Actual Degree Days
DD _n	=	Degree Days per August Filing
DR	=	Distribution Rate

The resulting WV will be returned to or collected from customers in the subsequent PGA filing.

- d. PGA RNG Feature: Over the term of this Plan, VGS may include RNG as a component of its overall supply. During each year of this Plan, VGS may incrementally increase the amount of RNG under the PGA by up to 2% of VGS's overall retail gas sales. The amount

of RNG included in each PGA filing will be based on considerations regarding the overall impact on rates, VGS's competitive position, the extent to which VGS is increasing RNG under its Voluntary RNG Program, and the environmental benefits of adding RNG supply. This PGA RNG Feature is designed to advance the State's energy goals and lower carbon emissions at least cost. Nothing in this paragraph mandates an increase in RNG during any given year of the Plan.

- e. Nothing in this Plan will be interpreted as preventing PSD from asking the PUC to investigate or the PUC from investigating the prudence of the gas costs charged to VGS customers under the PGA.

5. Climate Action and Innovation Programs.

- a. Climate Action Initiatives: During the Term of this Plan, VGS shall pursue and consider projects, programs, and services that support Vermont's statewide energy goals by advancing promising technologies to facilitate efficient, lower carbon energy choices for its customers (e.g., researching and seeking to pursue district energy, RNG, uses of waste heat to lower usage of natural gas, power-to-gas projects, more efficient or less carbon-intensive equipment for heating and industrial processes, etc.).
- b. Climate Action and Innovation Budget: VGS's Base Rates under this Plan shall include \$2 Million in spending, per year, for Climate Action and Innovation, a portion of which shall be operating and maintenance costs of no more than \$500,000 annually.
- c. In the event that VGS's spending on a project is expected to exceed VGS's Climate Action and Innovation Budget, VGS will seek advance approval of such spending from the Commission in a filing that includes the elements set forth in Paragraph 5(e) or such spending shall otherwise be subject to review in a traditional rate case.
- d. VGS shall provide 30 days' advance notice to the Department and the Commission before commencing any spending on a project, program, or service under the Climate Action and Innovation Budget that exceeds \$25,000. Such notice shall include the elements set forth in Paragraph 5(e). If there is no objection nor request for formal process from the Department or the Commission, VGS may proceed with the expenditure without any further delay.
- e. Innovative projects, programs, or services that trigger the requirement of Paragraph 5(c) or 5(d) shall require a filing that contains the following:

- i. A description of the program, project, or service VGS will pursue, including, where applicable, information on the type, number, and eligibility of customers to which such offering will be made.
 - ii. How it supports Vermont's energy goals, including where possible quantification of expected carbon savings or other benefits that help advance Vermont's Comprehensive Energy Plan of meeting 90% of energy supply with renewable resources by 2050 and reducing fossil fuel consumption and reducing greenhouse gas emissions 80-95% below 1990 levels by 2050.
 - iii. How such a program will enhance and complement the efficiency work undertaken by VGS as a part of its EEU appointment.
 - iv. The cost of the program, project, or service to VGS's participating and non-participating customers, including capital expenditures (if any), expected Base Rate impacts, along with all relevant assumptions utilized for such analysis.
 - v. The timeline for the program, project, or service offering.
 - vi. A description of any variances from tariffed terms and conditions that are required to pursue such program, project, or service, and the customer terms under which VGS will implement it.
 - vii. A description of customer outreach and education that will be utilized by the Company in conjunction with the offering.
 - f. For any projects, programs, or services triggering the notice requirements in Paragraph 5(d) above, VGS will provide status reports annually to the Department and the Commission.
 - g. Climate Action and Innovation Performance Metrics: The Company will track the data and trends for each applicable category shown on the Climate Action and Innovation Performance Metrics sheet included as **Attachment 2** to the Plan. The Company will report on its innovative performance metrics under this Paragraph by November 30, 2022, and annually by November 30 thereafter. For innovative services provided, VGS will include a report regarding the manner in which such services advance Vermont's energy and climate goals, including quantification of carbon savings where applicable, estimated level of investments and expense.
6. Performance, Safety and Service Quality and Reliability Plan Reporting.
- a. VGS shall continue to comply with its existing Service Quality and Reliability Plan (the "SQRP").

- b. The Company shall annually report by November 30 on key performance metrics and information including but not limited to:
 - i. Cross-bore program progress.
 - ii. Timeliness of pipeline leak repair.
 - iii. Customer safety awareness.¹

7. Management of Gas Supply.

- a. Annually, no later than July 1 during the term of this Plan, the Company shall file with PSD and the PUC its gas supply plan for the gas year commencing on October 1 of that year (the “Gas Supply Plan”), which Gas Supply Plan shall also provide an overview of the Company’s progress in advancing the amount of RNG available to its customers.

8. Dispute Resolution.

- a. VGS and PSD will resolve any disputes about regulation of VGS under this Plan in accordance with the provisions of this Paragraph 8.
- b. VGS or PSD, as the case may be, will provide notice in writing of any such dispute.
 - i. For PSD, notice shall be provided to the PSD Commissioner.
 - ii. For VGS, notice shall be provided to its Chief Executive Officer (“CEO”).
- c. Within 30 days of such notice, representatives of VGS and PSD will meet to attempt to resolve the dispute.
- d. If the representatives of VGS and PSD are unable to resolve the dispute within 60 days of such notice, the dispute will be referred to the PSD’s Commissioner and VGS’s CEO, who will meet at least once to attempt to resolve the dispute.
- e. If the dispute is not resolved within 90 days of such notice, either VGS or PSD may petition the PUC to resolve the dispute, which, if appropriate, may be treated by the PUC as a petition to amend the Plan under Paragraph 9 of this Plan.

9. Amendment of Plan.

- a. Subject to the requirements of 30 V.S.A. § 218d, VGS or PSD, jointly or separately, may request that this Plan be amended to modify its existing provisions or to add provisions.
- b. If the request to amend is not made jointly by the parties, then the procedures of Paragraph 8 will apply to any request to amend the Plan.

¹ As measured from annual customer satisfaction survey.

10. Plan Termination.

- a. Nothing in this Plan will be interpreted as preventing the Department from requesting a Commission investigation into VGS's rates or the Commission from undertaking such an investigation. The retroactive effect of any such investigation shall be consistent with 30 V.S.A. § 227(b).

**DEFINITION AND COMPONENTS OF
PURCHASED GAS ADJUSTMENTS**

- A. Firm commodity costs, including spot purchases, are non-storage, non-peaking supplies, including RNG, incurred for resale to the firm market and will be based on the contractual pricing and volumes associated with VGS's supply contracts in effect for the twelve-month forecast period.
1. If VGS's supply contracts expire during the twelve-month forecast period and no replacement contracts have been executed, the remaining months of the forecast period will reflect current market pricing.
 2. Current pricing for natural gas that has not been pre-purchased or is not under contract will be priced at the then-current NYMEX (Henry Hub) strip for the forecast period, adjusted for the then-current basis differential for the forecast period to the spot market purchase point.
 3. NYMEX-based contracts will be priced at the then-current NYMEX (Henry Hub) strip for the forecast period.
 4. AECO or Empress-based contracts will be priced at the then-current NYMEX (Henry Hub) strip for the forecast period, adjusted for the then-current NYMEX (Henry Hub) to AECO or Empress basis differential for the forecast period.
 5. RNG purchased for inclusion in VGS's supply portfolio will be priced at the projected RNG Adder which incorporates the terms of the RNG contracts then in effect.
 6. The then-current NYMEX (Henry Hub) strip and basis differential will be based on the average of the last five trading days ending between two and five trading days before filing.
 7. Pre-purchased natural gas purchases will be reflected at the volumes and price agreed to in a confirmation transaction.
 8. Contracts stated in Canadian dollars will be expressed in U.S. dollars based on the Canadian Exchange Rate for the same five trading days as used for NYMEX and basis differential and any Canadian Exchange Hedges that have been executed for the period.

9. Capacity or asset management revenues will be reflected to the extent they are guaranteed during the forecast period. Otherwise such revenues will be credited to gas costs as they are incurred and reflected in the deferral balance.
 10. RNG balances consistent with the framework of the RNG plan approved in Docket No. 8667 or as subsequently modified.
- B. Interruptible commodity costs (including spot purchases and RNG) will be determined as follows:
1. Interruptible commodity costs are all commodity costs incurred for resale to the interruptible market and will be based on the contractual pricing and volumes associated with VGS's supply contracts in effect for the twelve-month forecast period, including any pre-purchase of spot gas.
 2. If VGS's supply contracts expire during the twelve-month forecast period and no replacement contracts have been executed, the remaining months of the forecast period will reflect current market pricing.
 3. Current pricing for natural gas that has not been pre-purchased or is not under contract will be priced at the then-current NYMEX (Henry Hub) strip for the forecast period, adjusted for the then-current basis differential for the forecast period to the spot market purchase point.
 4. NYMEX-based contracts will be priced at the then-current NYMEX (Henry Hub) strip for the forecast period.
 5. AECO or Empress-based contracts will be priced at the then-current NYMEX (Henry Hub) strip for the forecast period, adjusted for the then-current basis differential for the forecast period.
 6. The then-current NYMEX (Henry Hub) strip and basis differential will be based on the average of the last five trading days ending between two and five trading days before filing.
 7. Pre-purchased natural gas purchases will be reflected at the volumes and price agreed to in a confirmation transaction.
 8. Contracts stated in Canadian dollars will be expressed in U.S. dollars based on the Canadian Exchange Rate for the same five trading days as used for NYMEX and basis

differential and any Canadian Exchange Hedges that have been executed for the period.

- C. Storage withdrawals, including variable injection and withdrawal costs, will be determined as follows:
1. Variable storage injection and withdrawal costs will be reflected at the rates in place at the time of the PGA filing.
 2. Storage withdrawals are volumes of gas withdrawn from storage, including fuel, and will be priced using the projected storage Weighted Average Cost of Gas (“WACOG”). The projected WACOG will reflect projected injection and withdrawal volumes, current market prices for injected volumes, including the impact of any hedge positions in effect for storage injections, and then-current TC Energy fuel ratio for storage withdrawals.
- D. Peaking commodity costs will be determined as follows:
1. Peaking commodity costs will be based on the contractual pricing and volumes associated with VGS’s peaking supply contracts in effect for the twelve-month forecast period.
 2. Market-based pricing such as an “Iroquois price” will be determined from then-current NYMEX (Henry Hub) strip for the forecast period plus a basis differential using the same 5 trading days previously described.
- E. Off-system commodity costs will be priced at the point of sale and priced at the then-current NYMEX (Henry Hub) strip for the forecast period adjusted for the then-current basis differential.
- F. Propane commodity costs will be based on the then-current actual propane WACOG and will only include the cost of propane consumed, not any other costs of operating the propane air plant.
- G. TC Energy and other pipeline tolls and charges will be established using the TC Energy or other pipeline tolls to be in effect during the contract period applied to the contractual contract demand for the forecast period. Projected increases or decreases in such pipeline tolls will not be included until approved by the applicable regulatory agency, i.e., Canada Energy Regulator. Toll stated in Canadian dollars will be expressed in U.S. dollars based on the then-current rate or hedged Canadian dollars as defined above.

- H. Storage-related fixed charges will be based on the fixed charges pursuant to the pricing provisions contained in any storage contract in effect during the twelve-month forecast period.
- I. Peaking demand charges will be set based on the contractual demand charges, if any, established in the peaking supply contracts in effect for the twelve-month forecast period.
- J. Hedging positions for natural gas, oil, and foreign exchange will reflect all hedges executed at the time of the PGA filing and in effect during the twelve-month forecast period, whether for firm or interruptible customers.
- K. Hedging instrument premiums will reflect any premiums actually incurred by VGS for the twelve-month forecast period.
- L. System losses and Company Use will be based on VGS's historical actual system losses, including company use for the most recent 12-month period.
- M. Fuel Rates will be based on the most recent 12-month period available from the applicable pipeline.
- N. Other gas costs include costs that may occur and are appropriately charged to FERC accounts 800 through 805, for example, the purchase of LNG or RNG. To the extent VGS includes any other gas costs in its quarterly PGA filing, such costs will be identified in the supporting information and will be described in the annual reports described in Paragraph 7 of the Alternative Regulation Plan.

**VGS Alternative Regulation Plan:
Climate Action and Innovation Performance Metrics**

Attachment 2

Category 1: Renewable Supply (RNG) in the PGA						
No.	Description	Metric	Metric Unit/Type	Rate Year 2022	Rate Year 2023	Rate Year 2024
1	Cost	Total cost of renewable supply by year	Dollars			
2	Volume	Total volume of renewable supply by year	MMBTU			
3	Cost per MMBTU	Blended overall cost per MMBTU (on annual basis)	\$/MMBTU			
4	Volume in portfolio	Total percentage of renewable supply in retail sales by year	%			
5	GHG emissions	Total reduction in GHG emissions year over year	%			
6	Fossil gas displacement	Total MMBTU/Mcf of fossil gas displacement by year	MMBTU/Mcf			
7	Rate impact: overall	Comprehensive rate impact by year (percent change)	%			
8	Rate impact: gas cost	Impact on gas cost by year (percent change)	%			

Category 2: Investment in Renewable Supply						
No.	Description	Metric	Metric Unit/Type	Rate Year 2022	Rate Year 2023	Rate Year 2024
1	Capital spending	Total amount of capital spending by year	\$			
2	O&M spending	Total amount of O&M spending by year	\$			
3	Carbon reduction	Cost per tonne of carbon reduction	\$			
4	GHG emissions	Total reduction in GHG emissions by year	%			
5	Fossil gas displacement	Total MMBTU/Mcf of fossil gas displacement by year	MMBTU/Mcf			
6	Cost benefit	Description of cost-benefit analysis	Written Report			
7	EEU assessment	Description of analysis of EEU cost sharing	Written Report			
8	Cost of renewable supply	Impact of investment on cost of renewable supply by year	\$			
9	Significance of VGS involvement	Analysis of likelihood of project going forward without VGS	Written Report			

Category 3: R&D/Electrification						
No.	Description	Metric	Metric Unit/Type	Rate Year 2022	Rate Year 2023	Rate Year 2024
1	Capital spending	Total amount of capital spending by year, as applicable	\$			
2	O&M spending	Total amount of O&M spending by year	\$			
3	Carbon reduction	Cost per tonne of carbon reduction	\$			
4	GHG emissions	Total reduction in GHG emissions by year	%			
5	Fossil gas displacement	Total MMBTU/Mcf of fossil gas displacement by year	MMBTU/Mcf			
6	Cost benefit	Description of cost-benefit analysis	Written report			
7	EEU assessment	Description of analysis of EEU cost sharing	Written report			
8	Cost of renewable supply	Impact of investment on cost of renewable supply by year	\$/Written Report			
9	Storage support for beneficial electrification	Total MW of storage	MW			
10	Support of Tier 3	Total MW supported	MW			
11	Additional revenue from other sources	Total dollars by year	\$			