VERMONT

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January 10, 2014

Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: EEU 2013-01 Department of Public Service Estimated Thermal Energy and Process Fuels Budgets for Efficiency Vermont and City of Burlington Electric Department

Dear Mrs. Hudson:

Pursuant to the August 1, 2013 Vermont Public Service Board ("Board") Order entitled "Schedule and Request for Proposed Electric Budget and Savings Scenarios" issued in EEU-2013-01 on August 1, 2013, the Vermont Public Service Department ("Department") submits two separate estimated Thermal Energy and Process Fuel ("TEPF") budgets, for Efficiency Vermont ("EVT") and the City of Burlington Electric Department ("BED"). The estimated budgets represent year-by-year values based on estimated proceeds from ISO New England's Forward Capacity Market ("FCM") and the Regional Greenhouse Gas Initiative ("RGGI")[1] and are intended for use in the 2013-14 Demand Resource Plan ("DRP") proceeding.

Since the FCM and RGGI proceeds can vary significantly from auction to auction, estimated budgets necessarily involve significant uncertainty. The further out in time that the budget is predicted, the greater the uncertainty. In addition, both FCM and the RGGI are administered by regional groups and policy changes that happen at the regional level, over which Vermont has limited control, can seriously impact the proceeds from these two sources. For these reasons, the Department characterizes the FCM and RGGI revenue forecast as carefully crafted estimates that are subject to future revision. The forecast and associated year-by-year TEPF budgets for EVT and BED are attached to this memo in the Excel document titled "*TEPF Revenue Analysis 1_10_2104*".

Future EVT and BED FCM clearing prices have been estimated and can be found on the tab titled "*Annual FCM Rev Estimate 2014-24*". In addition, available RGGI revenue estimates, which are generally on the rise, for the years 2014 through 2021 are included on the tab titled "*RGGI rev Projection 2014 - 24* ". RGGI proceeds for years 2021-2024 have been estimated as "level" based on 2021 projections.

[1] 30 V.S.A. § 209(e)(1), EEUs are required to use certain net revenues from their participation in the FCM and net proceeds from Vermont's participation in RGGI to deliver thermal energy and process fuel energy efficiency services.

The following estimated costs were removed or deducted from the forecast in order to determine the most accurate estimation of EVT and BED TEPF budgets for the ten years period spanning 2015 through 2024.

- Estimated annual costs for the Department's TEPF program evaluation.
    - Tab titled "*Summary TEPF Revenue Est*", Rows 34, 44, 53 & 54.
    - Tab titled "*RGGI rev Projection 2014 – 24*", Rows 19 & 33.

- Estimated "other" allowable administrative annual TEPF costs for activities such as 1) Trustee fees (fiscal agent), 2) the Vermont Agency of Natural Resources[2] and 3) Board costs such as bank charges and travel.
    - Tab titled "*RGGI rev Projection 2014 – 24*", Row 18.

- For short term planning purposes related to TEPF costs that are unknown or may be underestimated at this time a reserve margin of 2% of the total projected FCM and RGGI revenues was established and removed from year 2015 the forecast.
    - Tab titled "*Summary TEPF Revenue Est*", Rows 35 & 45.
    - Tab titled "*RGGI rev Projection 2014 – 24*", Row 20.

After subtracting the items listed above the Department was able to estimate TEPF budgets for EVT and BED (which can be found in the tab titled "*EEU TEPF Budget Estimates*").

The Department, BED and EVT recommend these TEPF budgets be used for modeling of RA savings and for NRA budget planning. These same parties also discussed splitting out estimated RA and NRA budgets from the respective BED and EVT totals, as well as devising a compensation rate for EVT. However, since these values are uncertain at this time they should be deferred until the parties make the future budget and savings recommendations in Phase 3 of DRP. It should be noted that EVT's rate of compensation, while not currently established for the 2015-2017 period, is assumed to be included within the EVT budget values below.

Further, the Department and the EEU's also considered options for modifying the methodology for allocating TEPF funds in order to better match TEPF energy efficiency potential with the TEPF market in BED territory. Past allocations have been based on disbursing FCM proceeds proportionately back to BED and EVT customers in order for the funds to be reinvested in the respective territories. This allocation method has been revisited given that the TEPF market for cost-effective projects in BED territory is relatively small compared to the rest of the state. In part, this is due to BED's successful implementation of unregulated fuel efficiency programs and the relatively high penetration of customers served by natural gas in BED territory. The Department and BED have discussed numerous potential solutions to better align BED TEPF budgets with the available market.

The Department and BED recommend that the BED TEPF budgets for the 2015-2017 period be based on the expected market demand (given current cost-effectiveness screening of available technologies and energy efficiency policy). BED estimates approximately $107,000 would be

[2] 30 V.S.A. § 255

needed annually starting in 2015 to meet the anticipated TEPF market demand in its territory. This value is calculated to increase with inflation over the ten-year forecast period. The Department notes this allocation method is intended to facilitate BED's full expenditure of TEPF funds in the 2015-2017 period and will likely need to be revised as funding level fluctuations, policy changes and technology advances occur.

TEPF funds that would have otherwise been estimated for BED are allocated to EVT over the ten-year forecast in order to deliver statewide TEPF services. On average, for years 2015-2018 this is approximately $198,000 more allocated to EVT per year.

Recommended Estimated net FCM & RGGI Funds Directed to BED		
2015	$	107,100
2016	$	109,242
2017	$	111,427
2018	$	113,655
2019	$	115,928
2020	$	118,247
2021	$	120,612
2022	$	123,024
2023	$	125,485
2024	$	127,994

Recommended Estimated net FCM & RGGI Funds Directed to EVT		
2015	$	6,169,944
2016	$	6,836,899
2017	$	7,389,583
2018	$	7,910,286
2019	$	8,688,037
2020	$	9,140,860
2021	$	9,457,805
2022	$	10,004,801
2023	$	10,106,356
2024	$	11,021,056

Thank you for your consideration, and please do not hesitate to contact us with any questions.

For the Department of Public Service

Brian Cotterill

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Special Counsel

cc: EEU 2013-01 Service List (electronic service only)