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Department of Public Service
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May 7, 2014

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

Re: EEU 2013-01 Public Service Department 2015-2017 Budget Recommendation Comments

Dear Mrs. Hudson:

On April 16, 2014, stakeholders including the Department of Public Service (Department) submitted recommendations for Energy Efficiency Utility (EEU) budgets. The Department offers comments on the recommendations of Vermont Energy Investment Corporation (VEIC) and Burlington Electric Department (BED). The Department also provides a minor correction to the rate and bill impact analysis it submitted as part of its initial recommendation. The corrections do not alter the Department's recommendation.

Vermont Energy Investment Corporation – Budget

The Department understands that VEIC intends to file a revised electric Resource Acquisition (RA) budget recommendation that is substantively very similar to the budget recommendation the Department filed on April 16. The Department appreciates the productive conversations we have had with VEIC regarding this budget, and expects that any remaining minor differences in RA budget recommendations will be resolved prior to the May 14 workshop. We expect this to include a common understanding regarding the amount, timing, and treatment of RA Research and Development (R&D) funds.

Vermont Energy Investment Corporation - Compensation

The Department agrees with VEIC that there are a number of factors to consider when establishing a compensation rate. The Department also agrees with VEIC's statement about the uniqueness of its VEIC/EVT business model.

“A review of the many different types of energy efficiency delivery entities indicates that few, if any, have structures that align with that in Vermont.”

6 VEIC Compensation Structure filed on April 16, 2014 at page 2



While there are other factors to consider when establishing a compensation rate, the Department commissioned research with the goal of identifying a select peer group of energy efficiency service providers as well as a comparative analysis of their compensation structures relative to VEIC's. Considerations of the regulatory framework, lost revenue provisions, and organizational structure were determined to be important factors to include in representative benchmarking when determining the energy efficiency program administrators most comparable to VEIC/EVT. The full research report is attached to this memo and is titled "Comparison of Compensation Framework for Selected EVT Peer Group Organizations". Key findings include:

1. The unique overall structure of EVT and its non-profit administrator, VEIC, present challenges to finding a truly equivalent and comparable situation.
2. The overall organization type, and regulatory framework under which the DSM program administrator operates, are key factors in assessing which organization types are the most appropriate benchmark for compensation purposes.
3. IOUs are not an appropriate organization type for comparison to EVT for purposes of assessing performance compensation given the significant differences in the regulatory framework under which IOUs operate (e.g. shareholder financial interests and sensitivity to lost revenue).
4. With respect to VEIC/EVT, if one considers VEIC as the non-profit program administrator, on par with other entities like the Energy Trust of Oregon or Efficiency Nova Scotia, then VEIC was the only program administrator to receive performance compensation in the select peer group. If one considers EVT to be equivalent to a third party implementation contractor, working on behalf of a program administrator, then the use of performance compensation is more common.

As VEIC's filing infers, and the Department's commissioned research confirms, there is not in fact an entity who services and programs are truly comparable to VEIC's administration and implementation of Efficiency Vermont. Trends associated with VEIC's historical compensation as a percent of budget, compensation dollar amounts, and absolute compensation dollar increases over time are illustrated in the upper half of the table below. The lower half of the table illustrates both the Department and VEIC's proposed compensation rates relative to the current performance period¹. The Department recommends VEIC historical compensation rates and absolute dollar amounts be weighted more heavily than those of entities in other jurisdictions when revisiting compensation and establishing a rate for the 2015-2017 period.

¹ Note that the VEIC scenario 1, 2, and 3 lines are based on real 2015\$, while the PSD scenario 2 calculation is in nominal dollars.

Exhibit 1: VEIC Historical Compensation and 2015-2017 Proposals

VEIC Electric Only Compensation (Historical)									
Performance Period	Three year Elec Budget	Total Possible Compensation	Absolute % compensation \$ increase (nominal)	Total Possible Compensation as %	Max Performance Award Comp	Performance Award % of Total Comp	Operations Fee on Costs	Estimated Operations Fee Comp.	Operations Fee % of Total Comp
2000-2002	\$27,824,481	\$1,170,300	N/A	4.2%	\$795,000	68%	1.45%	\$375,300	32%
2003-2005	\$44,133,353	\$1,892,492	62%	4.3%	\$1,280,000	68%	1.45%	\$612,492	32%
2006-2008	\$66,179,500	\$2,820,510	49%	4.3%	\$2,347,000	83%	0.75%	\$473,510	17%
2009-2011	\$95,274,004	\$3,252,867	15%	3.4%	\$2,532,000	78%	0.75%	\$720,867	22%
2012-2014*	\$119,161,650	\$4,885,610	50%	4.1%	\$2,931,370	60%	1.71%	\$1,954,240	40%
Electric Only Compensation (PSD & VEIC Proposals for 2015-2017 Period)									
Performance Period 2015-2017	Three year Elec Budget	Total Possible Compensation	Absolute % compensation \$ increase (nominal) relative to 2012-2014 Period	Total Possible Compensation as %	Max Performance Award Comp	Performance Award % of Total Comp	Operations Fee on Costs	Estimated Operations Fee Comp.	Operations Fee % of Total Comp
PSD Scenario 2	\$145,025,669	\$5,946,052	22%	4.1%	-	-	-	-	-
VEIC Scenario 1	\$133,144,740	\$7,988,684	64%	6.0%	\$3,994,342	50%	3.00%	\$3,994,342.21	50%
VEIC Scenario 2	\$140,081,454	\$8,404,887	72%	6.0%	\$4,202,444	50%	3.00%	\$4,202,443.63	50%
VEIC Scenario 3	\$191,410,590	\$9,570,529	96%	5.0%	\$4,785,265	50%	2.50%	\$4,785,264.74	50%

*Current Performance Period

VEIC's recommended compensation rates for Scenarios 1, 2 and 3 are significantly higher than historical values and the absolute percent compensation increase in dollar amount relative to 2012-2014 values are 64%, 72%, and 96% greater, respectively. Given VEIC's performance in meeting Quantifiable Performance Indicators (a factor that also is considered in the recommendation to increase the implementation budgets), the Department asserts that these higher levels of compensation are not required to motivate performance and deliver value to ratepayers.

While the Department does not agree with VEIC's proposed compensation rates, the Department does agree with VEIC's characterization that the rate should be established as a percent of the "program budget"². The Department recommends the method for calculating compensation explained below, whereby program budget is defined as total VEIC resource acquisition and non-resource acquisition budgets. This is a "markup" approach to the calculation of compensation, in contrast to a "margin" approach.

$$\text{Compensation} = (\text{RA} + \text{NRA}) \times \text{Rate}$$

Where:

RA = Resource Acquisition Budget

NRA = Non-Resource Acquisition Budget

Rate = Compensation rate (as percentage)

Compensation = Dollar amount to be collected as a set-aside

On pages 10 and 11 of its April 16, 2014 "6 VEIC Compensation Structure" filing VEIC cites assumptions about the Quantifiable Performance Indicator ("QPI") structure and suggests that compensation may need to be revisited after weighting and scaling of QPI structure is established. The Department considers the weighting and scaling of the QPI structure to be critical in the development of a comprehensive set of QPIs. Thus, we recommend the Board not make a decision on assumptions associated with weighting and scaling of QPIs at this point in

² Page 11 of VEIC's April 16, 2014 filing in this proceeding titled "6 VEIC Compensation Structure".

the proceeding. Instead, the Department requests that the Board establish only a compensation rate in this phase of the DRP. In addition, the Department recommends that the Board not approve the disposition of the total possible compensation between available Performance Award and Operations Fee at this time. It is not necessary to establish the allocation between fixed and performance-based compensation in order to evaluate the rate impacts of the proposed budgets. Additionally the Department views this allocation as a factor in determining the appropriate level of performance risk associated with QPIs; the total overall budget levels and compensation rates also inform this consideration. Once the total available budget is established, the Department anticipates being able to work with VEIC and recommend a reasonable QPI structure.

Terminology Regarding Behavior and Conservation Measures

The Department's February 10, 2014 filing regarding the inclusion of behavioral measures in scenario modeling used the terms "hard-wired" and "non-hard-wired" measures. In VEIC's comments of April 16, VEIC describes a continuum with respect to the extent to which a given measure is "hard-wired" or based on consumer behavior. For example, lighting measures such as CFLs are commonly not "hard-wired" and depend on the behavior of the product's user to install and use the bulb. (The EEU's, the PSB, and the Department have expended significant effort characterizing how measures are actually used and determining the right baselines.) The Department recognizes that the terms "hard-wired" and "non-hard-wired" are not optimal, because these terms raise the continuum issue identified by VEIC. The Department does not have fundamental concerns with the entire class of "non-hard-wired" measures. Instead, we propose to clarify our concerns using the terminology of equipment measures; controls measures; and behavioral measures.³ These are the terms the Department used in our April 16 filing regarding the smart grid R&D budget proposal.

Equipment measures constitute the bulk of the EEU's current programs – appliances, building shell, lighting, etc. Equipment measures are almost exclusively efficiency, rather than conservation, measures – they deliver the same service, but use less energy. Controls measures involve means to improve the operation of existing equipment, such as through retro-commissioning, system optimization, or lighting or motor controls. Behavioral measures involve no change in hardware or control systems, but instead rely solely on changes in the behavior of individuals. Using the fruits of behavioral science can impact the pace of deployment of all three types of measures (for example, by impacting equipment purchase behavior or system operations behavior).

The Department recognizes that there are grey areas between these different kinds of measures, particularly between controls and behavioral measures. For example, an *Opower*-like Home Energy Report may result in a homeowner changing their thermostat to have a setback during the day – this would be a controls measure, but not identified as such because the savings are determined in aggregate – or result in simply setting the thermostat to be warmer in the summer (a behavioral conservation measure). The boundary between efficiency and conservation is also

³ The Department recognizes that the term energy conservation measure, or ECM, as defined in VEIC's filing is a common term for all potential measures that an EEU might deploy. However, in this context, we find the term potentially confusing because it includes efficiency measures as well as conservation measures, and risks obscuring the important differences between efficiency and conservation.

grey – some actions may reduce the energy service provided (no AC during the day), but that service may not have been necessary (where the building was unoccupied during the day). Controls and equipment measures can also be difficult to distinguish – for example, the installation of a new variable frequency drive controller for a pump motor is equipment that enables controls.

Compared with controls or behavioral measures, equipment measures are simpler to evaluate, measure, and verify. These measures also form the bulk of the EEU's historical savings portfolios. However, the Department recognizes the potential of additional information, such as that available due to smart grid investments, to facilitate additional controls measures beyond those currently pursued, and to add behavioral measures to the portfolio. These new measures should be examined and evaluated in detail in order to determine whether and how they can best be incorporated into an EEU's portfolio. The Department remains concerned that the results shown to date for behavioral measures indicate measures with short measure life and marginal cost-effectiveness, but we support research to create performance and persistence data in Vermont that can be used to make informed portfolio decisions. Inclusion of the Distribution Utilities in smart grid R&D planning is essential due to their role and responsibility for demand response, time-dependent rates, and other dynamic efforts enabled by smart grid technology which can save ratepayers energy and money.

Burlington Electric Department

The Department has no comments on BED's April 14, 2014 filing in this proceeding. The Department understands its recommendation is the same as BED's.

Public Service Department Rate and Bill Impact Analysis – Corrections

As described in the Department's comments of April 16, 2014, the Department commissioned Synapse Energy Economics (Synapse) to complete an analysis of the rate and bill impacts of the scenarios modeled by VEIC and BED. After that submission, a calculation error was discovered in the business demand sector analysis, affecting the rate and bill impacts for that sector in both BED's and EVT's territory. A second transcription error was found in the BED analysis, affecting the analysis for all scenarios in the business demand sector. No other sectors were affected by the error or the correction described herein.

Exhibit 2 below shows the impact of the correction for EVT's business demand customers. The highlighted column illustrates the magnitude of the difference between the April 16 initial filing and this correction. As is shown, the magnitude of the difference is relatively small. The correction does not change the Department's recommendation with regard to appropriate budgets for Efficiency Vermont as articulated in its April 16 filing.

Exhibit 2 - Efficiency Vermont Business Demand Sector Rate Impact Correction									
	Revised Rate Impact			April 17 Rate Impact			Percentage Point Difference		
	S.1 (Low)	S.2 (DRP)	S.3 (High)	S.1 (Low)	S.2 (DRP)	S.3 (High)	S.1 (Low)	S.2 (DRP)	S.3 (High)
2015	4.90%	4.90%	6.07%	4.90%	4.90%	6.07%	0.00	0.00	0.00
2016	4.57%	4.82%	6.29%	4.57%	4.59%	6.29%	0.00	0.22	0.00

2017	4.13%	4.60%	6.44%	4.13%	4.37%	6.44%	0.00	0.22	0.00
2018	3.58%	4.04%	6.57%	3.58%	3.83%	6.57%	0.00	0.21	0.00
2019	3.09%	3.56%	6.34%	3.09%	3.34%	6.34%	0.00	0.22	0.00
2020	2.01%	2.46%	5.47%	2.01%	2.25%	5.47%	0.00	0.21	0.00
2021	1.28%	1.72%	5.17%	1.28%	1.52%	5.17%	0.00	0.21	0.00
2022	0.91%	1.38%	4.59%	0.91%	1.16%	4.59%	0.00	0.22	0.00
2023	0.57%	1.07%	3.59%	0.57%	0.84%	3.59%	0.00	0.23	0.00
2024	0.22%	0.73%	2.88%	0.22%	0.48%	2.88%	0.00	0.25	0.00
2025	-0.08%	0.45%	2.19%	-0.08%	0.18%	2.19%	0.00	0.26	0.00
2026	-0.36%	0.16%	1.58%	-0.36%	-0.12%	1.58%	0.00	0.28	0.00
2027	-0.25%	0.25%	1.40%	-0.25%	0.13%	1.40%	0.00	0.12	0.00
2028	-0.12%	0.40%	1.36%	-0.12%	0.30%	1.36%	0.00	0.10	0.00
2029	0.27%	0.83%	1.70%	0.27%	0.88%	1.70%	0.00	-0.05	0.00
2030	0.31%	0.89%	1.70%	0.31%	0.83%	1.70%	0.00	0.06	0.00
2031	0.09%	0.69%	1.23%	0.09%	0.51%	1.23%	0.00	0.19	0.00
2032	0.40%	1.02%	1.59%	0.40%	1.06%	1.59%	0.00	-0.04	0.00
2033	0.46%	1.08%	1.55%	0.46%	1.02%	1.55%	0.00	0.05	0.00
2034	0.48%	1.11%	1.81%	0.48%	1.06%	1.81%	0.00	0.05	0.00
2035	-1.92%	-2.09%	-2.69%	-1.92%	-2.06%	-2.69%	0.00	-0.03	0.00
2036	-1.63%	-1.77%	-2.23%	-1.63%	-1.73%	-2.23%	0.00	-0.04	0.00
2037	-1.36%	-1.48%	-1.82%	-1.36%	-1.43%	-1.82%	0.00	-0.05	0.00
2038	-1.11%	-1.21%	-1.45%	-1.11%	-1.16%	-1.45%	0.00	-0.05	0.00
2039	-0.90%	-0.98%	-1.13%	-0.90%	-0.93%	-1.13%	0.00	-0.05	0.00
2040	-0.55%	-0.77%	-0.84%	-0.55%	-0.72%	-0.84%	0.00	-0.05	0.00
2041	-0.39%	-0.58%	-0.38%	-0.39%	-0.52%	-0.38%	0.00	-0.05	0.00
2042	-0.24%	-0.26%	-0.18%	-0.24%	-0.16%	-0.18%	0.00	-0.11	0.00
2043	-0.11%	-0.12%	0.00%	-0.11%	-0.08%	0.00%	0.00	-0.05	0.00

Exhibit 3 describes the impact of the correction to the BED business demand sector rate impact analysis and demonstrates that the magnitude of these differences associated with the correction are much higher than for EVT. However, the relative difference between sectors remains similar. For example, the revised rate impact for Scenario 3 in 2015 remains approximately 1.5 times that of scenario 2. The correction does not change the Department's recommendation with regard to BED.

Exhibit 3 - Burlington Electric Business Demand Sector Rate Impact Correction									
	Revised Rate Impact			April 17 Rate Impact			Percentage Point Difference		
	S.1 (Low)	S.2 (DRP)	S.3 (High)	S.1 (Low)	S.2 (DRP)	S.3 (High)	S.1 (Low)	S.2 (DRP)	S.3 (High)
2015	3.20%	3.21%	4.85%	4.72%	4.73%	7.14%	-1.52	-1.52	-2.29
2016	3.29%	3.40%	5.37%	4.87%	4.81%	7.96%	-1.58	-1.41	-2.58
2017	3.31%	3.59%	6.01%	4.91%	5.11%	8.91%	-1.60	-1.52	-2.90
2018	3.29%	3.59%	6.80%	4.86%	5.12%	10.05%	-1.57	-1.53	-3.24
2019	3.20%	3.53%	7.20%	4.70%	5.07%	10.59%	-1.50	-1.54	-3.39
2020	2.86%	3.21%	7.25%	4.14%	4.56%	10.50%	-1.28	-1.35	-3.25
2021	2.65%	3.02%	6.95%	3.83%	4.31%	10.03%	-1.18	-1.29	-3.08
2022	2.67%	3.07%	6.75%	3.85%	4.45%	9.75%	-1.19	-1.38	-3.00
2023	2.66%	3.11%	6.36%	3.85%	4.53%	9.18%	-1.18	-1.43	-2.82
2024	2.63%	3.11%	6.04%	3.80%	4.59%	8.73%	-1.17	-1.48	-2.69

2025	2.64%	3.15%	5.73%	3.81%	4.71%	8.27%	-1.17	-1.56	-2.55
2026	2.64%	3.20%	5.43%	3.81%	4.83%	7.86%	-1.18	-1.63	-2.43
2027	2.64%	3.21%	5.17%	3.81%	4.90%	7.48%	-1.18	-1.69	-2.31
2028	2.62%	3.22%	4.84%	3.80%	5.08%	7.01%	-1.17	-1.86	-2.17
2029	2.61%	3.24%	4.50%	3.79%	5.08%	6.51%	-1.17	-1.84	-2.02
2030	2.60%	3.26%	4.22%	3.77%	5.08%	6.12%	-1.17	-1.83	-1.90
2031	2.58%	3.28%	3.95%	3.74%	5.08%	5.73%	-1.16	-1.81	-1.78
2032	2.56%	3.28%	3.70%	3.71%	5.04%	5.36%	-1.15	-1.77	-1.66
2033	2.54%	3.27%	3.49%	3.68%	5.02%	5.06%	-1.14	-1.75	-1.57
2034	2.51%	3.26%	3.31%	3.64%	4.98%	4.80%	-1.13	-1.72	-1.49
2035	-0.01%	-0.01%	-1.25%	-0.01%	0.28%	-1.81%	0.00	-0.28	0.56
2036	0.00%	0.00%	-1.07%	0.00%	0.25%	-1.55%	0.00	-0.25	0.48
2037	0.01%	0.01%	-0.90%	0.02%	0.22%	-1.31%	-0.01	-0.21	0.41
2038	0.02%	0.02%	-0.75%	0.03%	0.20%	-1.09%	-0.01	-0.17	0.34
2039	0.02%	0.03%	-0.62%	0.03%	0.18%	-0.90%	-0.01	-0.15	0.28
2040	0.03%	0.03%	-0.51%	0.04%	0.16%	-0.73%	-0.01	-0.13	0.23
2041	0.03%	0.03%	-0.40%	0.04%	0.15%	-0.58%	-0.01	-0.12	0.18
2042	0.03%	0.03%	-0.31%	0.04%	0.14%	-0.45%	-0.01	-0.10	0.14
2043	0.02%	0.02%	-0.23%	0.03%	0.11%	-0.34%	-0.01	-0.09	0.10

The Department has provided the above referenced exhibits, as well as revised versions of the rate impact tables, in the attached file “*20140507 Rate Impact Corrections.xlsx*” and a revised version of the final report “*Synapse-VT-Rates-Bills-2014-04-23.pdf*” per these corrections

The Department appreciates the opportunity to provide these comments and looks forward to the upcoming workshop in this proceeding on May 14, 2014. Please do not hesitate to contact us with any questions.

For the Department of Public Service

/s/

Asa Hopkins

Director of Energy Policy and Planning

/s/

Jeanne Elias

Special Counsel

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