2015 – 2017 Compensation for Efficiency Vermont

Presentation to
Vermont Public Service Board
May 15, 2014

Vermont Energy Investment Corporation

Overview

- VEIC recommendation for 2015-2017 compensation rate
- Comparing VEIC compensation rate to that of other jurisdictions
- Comparing VEIC and Public Service Department recommendations
- Summary

VEIC Recommendation for 2015-2017 Compensation

1. Increase compensation rate from 4.1% to 5%
    - Reflects VEIC's revision in its May 7 comments

2. Distribution of compensation
    - 2.5% Operations Fee
    - 2.5% Performance Award

3. Set compensation rate and the split of compensation as part of DRP decision

What Is the Compensation Rate?

- Compensation = Operations Fee + Performance Award

- "Mark-up" Rate = Compensation ÷ Budget (without compensation)

- "Margin" Rate = Compensation ÷ Budget (including compensation)

Fair Compensation

"An EEU shall be afforded the opportunity to recover just and reasonable costs and expenses accrued in the provision of services and initiatives under an Appointment, and to earn a fair return."

Vermont Public Service Board, *Process and Administration of an Energy Efficiency Utility Order of Appointment,* approved by the Public Service Board, 2010. P. 18.

The Role of Compensation

- Fair return
  - "Equivalent compensation for equivalent work"
- Compensation in a nonprofit is used for:
  1. Investment for expansion of mission
  2. Investment to stay competitive
  3. Cash flow and economic viability
  4. Hedge against economic downturns
- VEIC has always agreed that a portion of compensation is "at risk"
  - 100% of "at risk" compensation should be based on a combination of achievable "stretch" and "super-stretch" targets

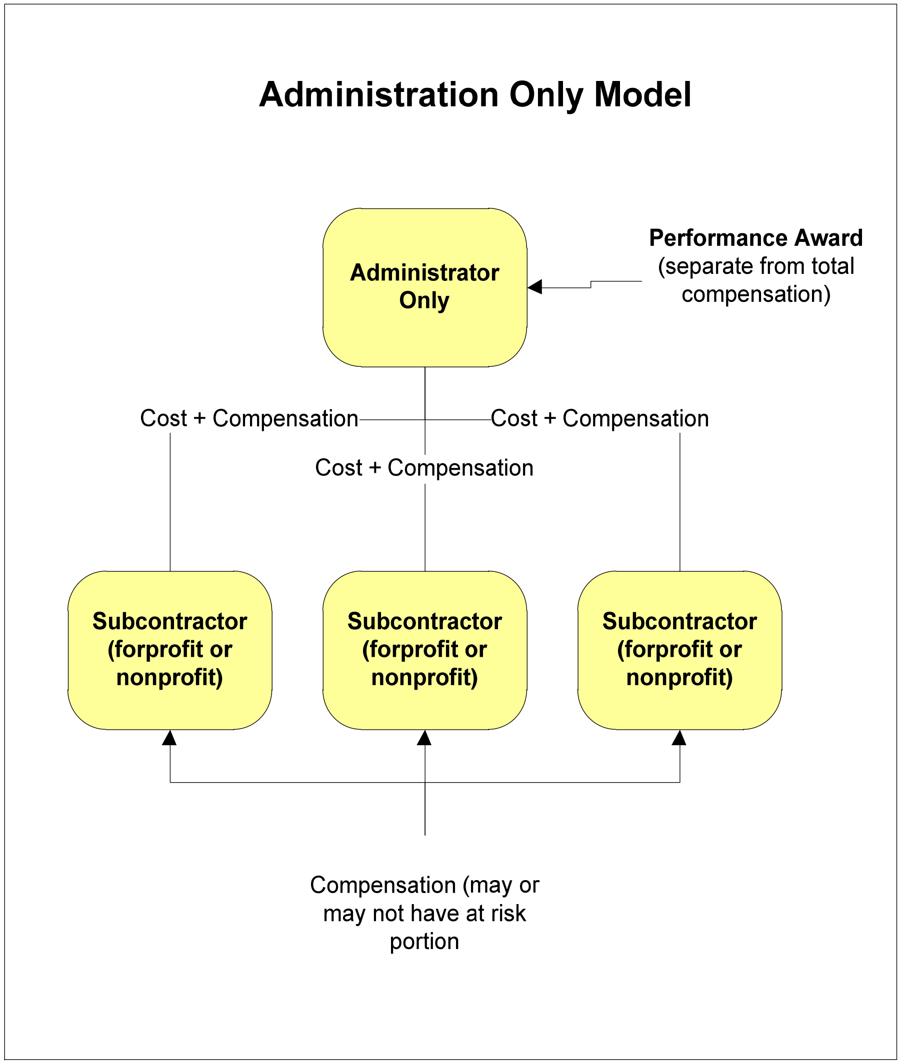
Understanding Energy Efficiency Service Delivery Models

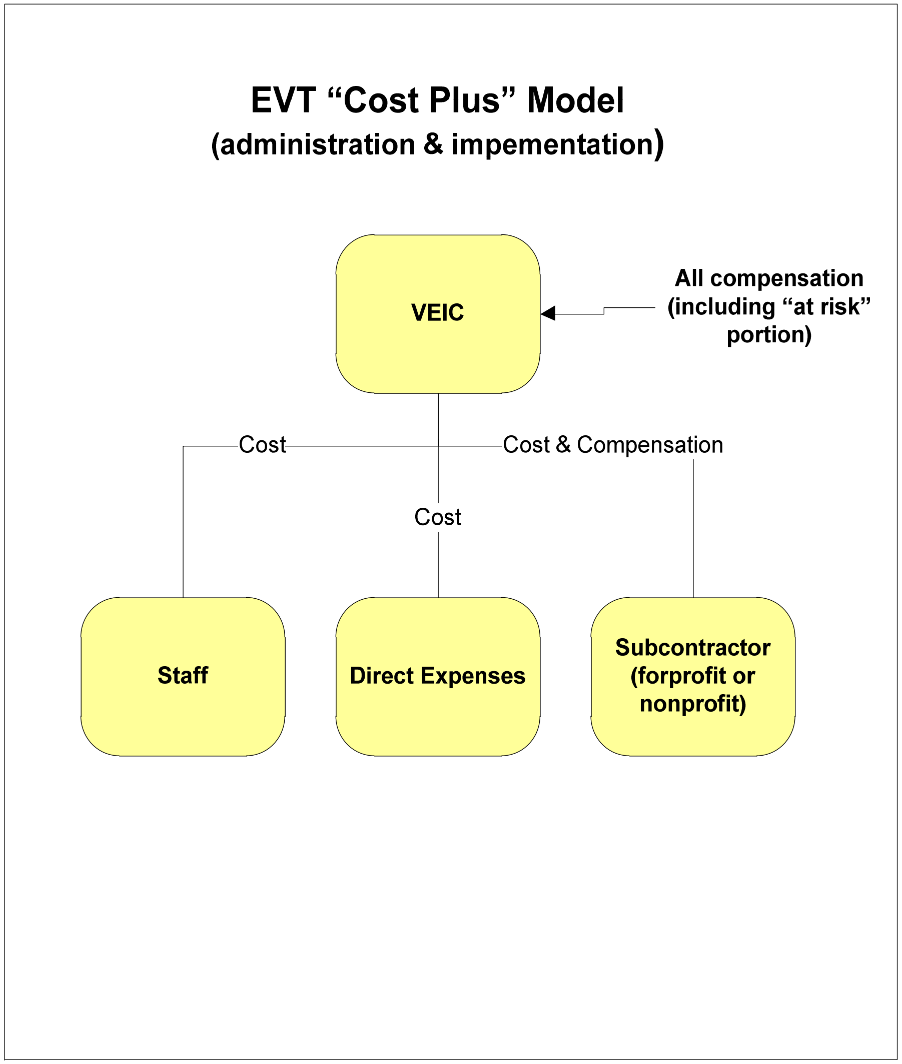
Legend

Yellow	Frequent
Green	Less Frequent
Blue	Rare

	Administration Only		Administration and Implementation		Implementation Only	
Entity	**Admin**	**Implementation**	**Admin**	**Implementation**	**Admin**	**Implementation**
Regulated investor–owned utilities	● (Frequent)	Subcontractor(s) (Frequent)	● (Less Frequent)	● (Less Frequent)	NA	NA
For-profit businesses	● (Frequent)	Subcontractor(s) (Frequent)	● (Less Frequent)	● (Less Frequent)	NA	● (Frequent)
Nonprofit businesses	● (Frequent)	Subcontractor(s) (Frequent)	● (Rare)	● (Rare)	NA	● (Frequent)
Municipal / cooperative utility	● (Frequent)	Subcontractor(s) (Frequent)	● (Less Frequent)	● (Less Frequent)	NA	NA
Government or quasi-governmental agency	● (Frequent)	Subcontractor(s) (Frequent)	● (Less Frequent)	● (Less Frequent)	NA	NA

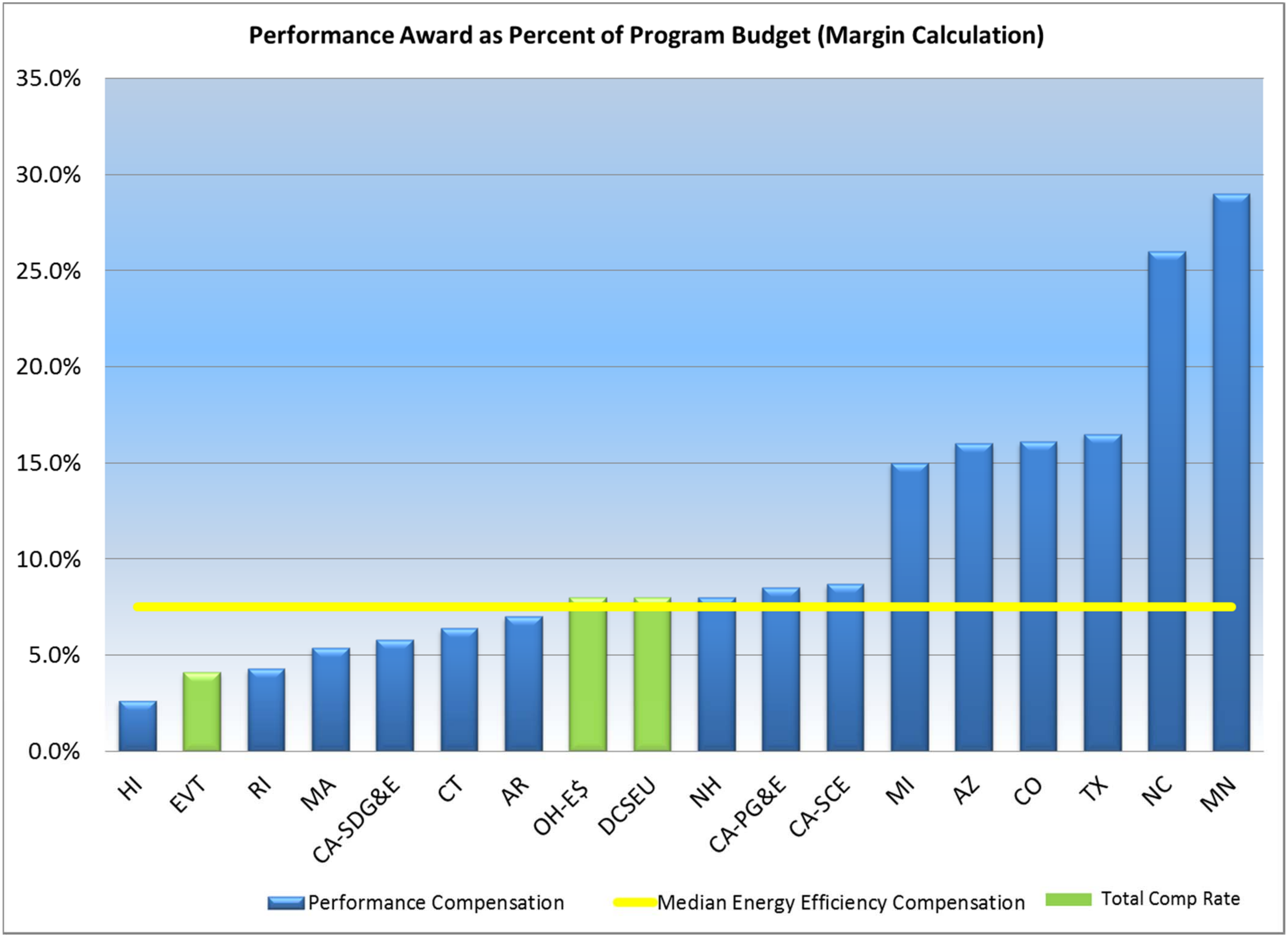
Two Essential Models for Compensation





Research in Performance Awards

- VEIC and the Department both looked only at the "at risk" portion of compensation models
  1. VEIC looked at 15 states comprising 37 energy efficiency programs
  2. Department looked at 8 programs operating in 4 states and 1 Canadian province
  3. Performance Award rate = PA ÷ Budget (including Performance Award)


Performance Award as Percent of Program Budget (Margin Calculation)
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
HI
EVT
RI
MA
CA-SDG&E
CT
AR
OH-E$
DCSEU
NH
CA-PG&E
CA-SCE
MI
AZ
CO
TX
NC
MN
Performance Compensation
Median Energy Efficiency Compensation
Total Comp Rate

Applicability of the Department's Research - IOUs

Department:
Ruled out Comparison to IOUs

1. "… differences in regulatory framework"
2. Shareholder financial interests
3. Sensitivity to lost revenue

VEIC Response:
There Are Important Similarities

1. Compensation, although used differently by VEIC, is an important part of VEIC's business model for its mission
2. Nationally, decoupling has reduced the impact of energy efficiency programs on shareholder profits
3. Increasing baselines of energy efficiency require greater efforts to achieve targets

Applicability of the Department's Research – Choice of Entities

Department

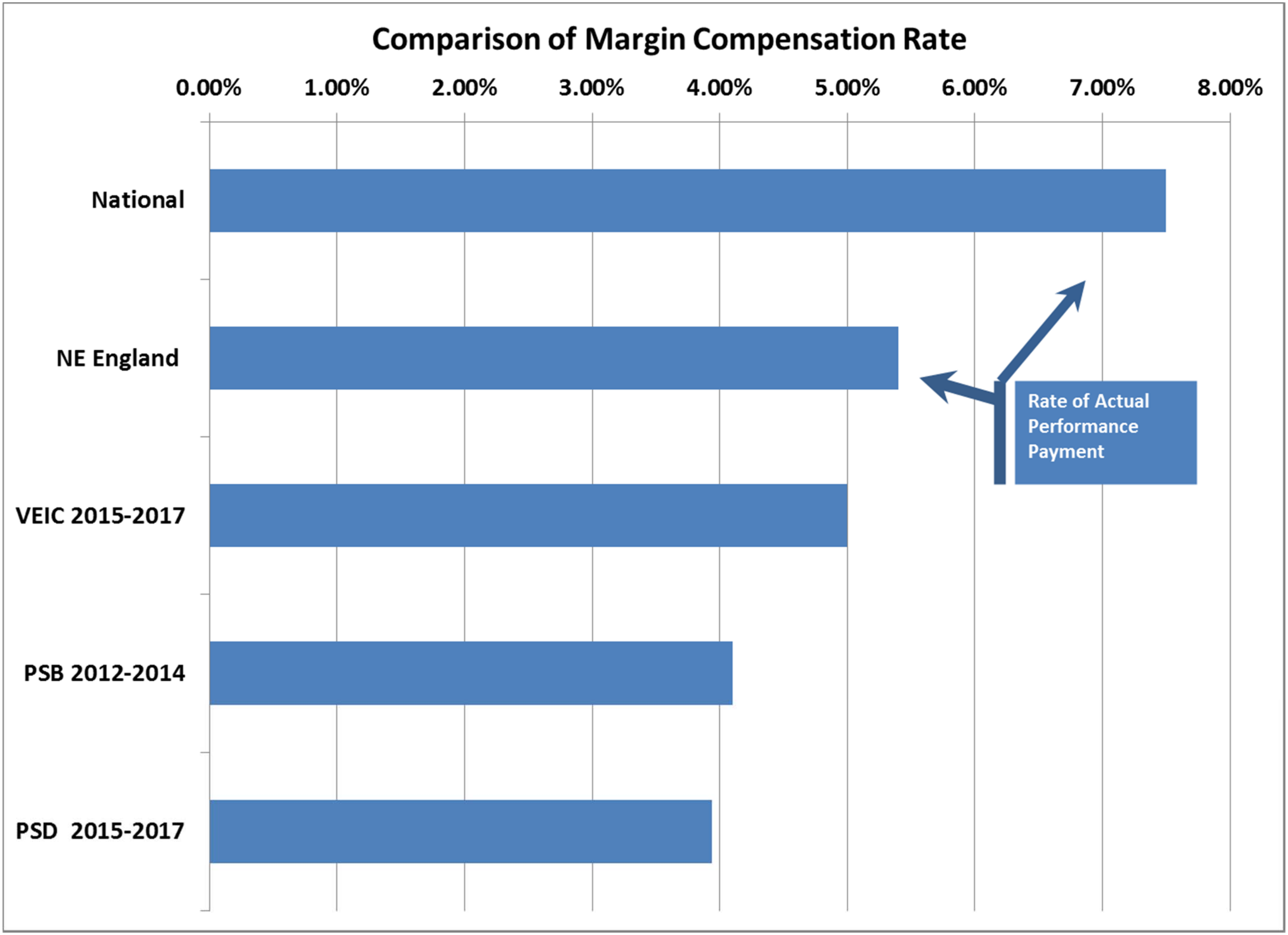
- Government formed
  1. Energy Trust of Oregon
  2. Efficiency Nova Scotia
  3. NYSERDA
  4. Burlington Electric
  5. Efficiency Maine
- 3rd-party private corporation
  1. Leidos (for Hawaii Energy)

VEIC Response

- Government formed
  1. VEIC is a private nonprofit, **not government formed**
  2. ETO has assets of $46 million
  3. ETO & Efficiency Maine use subcontractor model (compensation built into expenses)
- 3rd-party private corporation
  1. Leidos - very little compensation at risk

Compensation Rates

	Operations Fee (Based on Margin)	Performance Award (Based on Margin)	Mark-up Rate	Margin Rate
PSB 2012-2014	1.64%	2.46%	4.28%	4.1%
Department 2015-2017 (proposed)	TBD	TBD	4.1%	3.94%
Department research	0%	0% - 1.3%	-	0% - 1.3%
VEIC national research	Not available*	7.5% (median)	-	7.5% + operating margin
VEIC New England research	Not available*	5.4%	-	5.4% + operating margin
VEIC 2015-2017 (proposed)	2.5%	2.5%	5.26%	5.00%
* Competitively sensitive information				


Comparison of Margin Compensation Rate
0.00%
1.00%
2.00%
3.00%
4.00%
5.00%
6.00%
7.00%
8.00%
National
NE England
VEIC 2015-2017
PSB 2012-2014
PSD 2015-2017
Rate of Actual Performance Payment

Rationale for Equal Distribution of Operations Fee & Performance Award

Increase Percent of Operations Fee

- Slight increase
  - From 40% of compensation to 50% of compensation
- Increased 2015-2017 budgets require greater creditworthiness for VEIC
  - Banks look at operating margins
- Current structure puts more compensation at risk than other energy efficiency programs

Decrease Percent of Performance Award

- A slight reduction
  - From 60% of compensation to 50% of compensation
- Change will not affect VEIC's motivation to perform
- Still keeps more compensation "at risk" than other energy efficiency programs

Summary

- VEIC proposes a fair and reasonable compensation rate, when one considers:
  - How compensation is earned in Efficiency Vermont's "cost plus" model
  - Comparative compensation rates earned by other energy efficiency service providers
  - High percent of "at risk" compensation compared to other energy efficiency providers
  - VEIC's demonstrated ability to meet performance targets
  - VEIC's demonstrated ability to be innovative and responsive to State needs