VERMONT

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May 21, 2014

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

Re: EEU 2013-01 EEU 2013-14 DRP Recommendation Final Comments

Dear Mrs. Hudson:

This memo responds to questions and comments raised during the recent Demand Resource Plan (DRP) workshops as well as some comments made by VEIC in its May 7, 2014 filing in this proceeding. The comments are grouped by theme and presented in the order they were covered in the above mentioned workshops held in this proceeding on May 14 and 15, 2014.

Potential Study

1. *The Inclusion of the Demand Reduction Induced Price Effect in the Maximum Achievable Potential Study.* The Department has confirmed that the avoided costs utilized for the potential study did not include any value associated with the Demand Reduction Induced Price Effect.

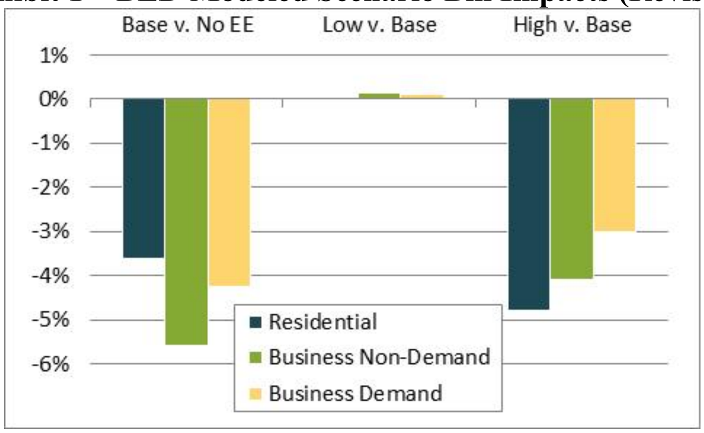
2. *Societal Benefit of Acquiring Maximum Achievable Potential*. Public Service Board Staff inquired about the difference between the societal benefit described in the maximum achievable potential study relative to the societal benefit modeled by VEIC in Scenario 3. The Department has confirmed that the core reason for the differences in the two studies for assumed total societal costs of energy efficiency, including incentive and non-incentive program costs and participant costs, is related to the fact that costs in the potential study and the VEIC models increase at different paces. The potential study estimates that ~$1.19 billion in net present value total societal costs (2014$) will be necessary to acquire approximately 2,690GWh over 20 years. While VEIC's modeled scenario 3 estimates that ~$1.46 billion ($2015) in net present value total societal costs will be needed to acquire 2,590GWh over 20 years. The total estimated costs increase much more slowly in the potential study than in the VEIC study. The potential study's estimated costs are constant in real terms except for 2015, 2021, and 2023, years in which federal standards take effect for various end uses, including lighting, while VEIC's estimates of costs rise more consistently through 2021 before becoming constant. In both analyses, significant societal net benefits accrue as a result of investments in energy

efficiency. Further consideration of expected costs for energy efficiency will continue throughout the next stage of the DRP as stakeholders consider recommendations for Quantifiable Performance Indicators.

Rate and Bill Impacts

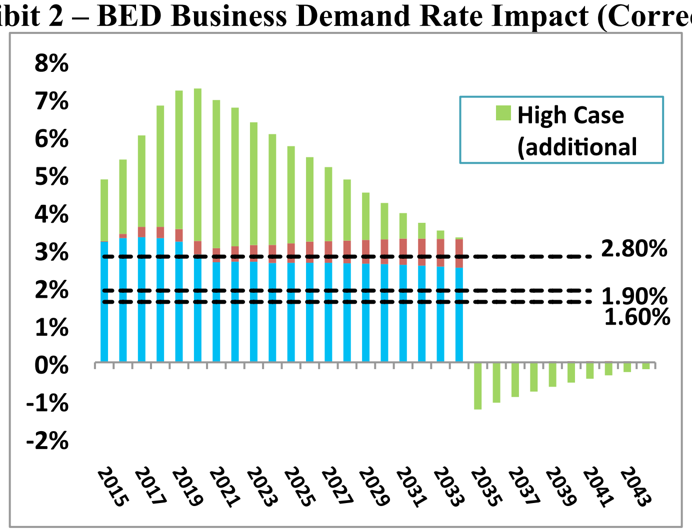
1. *BED Bill Impacts.* The correct bill impacts for the Burlington Electric scenarios modeled by the Department are shown below as Exhibit 1. The revised chart was included in the presentation materials distributed to stakeholders via the email service list on May 16.

Exhibit 1 – BED Modeled Scenario Bill Impacts (Revised)



2. *BED Business Demand Rate Impacts*. It was noted at the workshop that the rate impacts for BED Business Demand customers under modeled scenario 3 were not significantly higher than for BED scenario 2, whereas the difference in rate impacts for all other sectors for both utilities was much greater. An error was made in creating the chart for the presentation – the weighted average rate impact for BED scenario three is 2.8%, not 2.0% as previously shown. 2.8% is consistent with the values in the Synapse report. A revised chart is provided below as Exhibit 2. This chart was not updated in the May 16 distribution of presentation and appeared on page 22 of those materials.

Exhibit 2 – BED Business Demand Rate Impact (Corrected)



3. *Further Description of the Correction in Rate and Bill Impacts.* On May 7th, the Department filed a minor correction to the rate and bill impacts for the Business Demand sector for each Utility. Board Staff requested more detail as to the nature of the correction. The Department hereby confirms that these were not methodological changes, but minor calculation and transcription errors.

<u>DPS Evaluation Plan</u>

1. *During the May 15, 2014 workshop VEIC requested additional detail on the timing and contents of the Department's annual evaluation results report.* The Department plans to file with the Board an annual EEU evaluation summary report for program years 2015, 2016 and 2017. The annual evaluation report will include evaluation activities completed in the previous year and an outline of plans for the coming year. The summary report will focus mostly on results and outcomes of the evaluation activities undertaken and completed the previous year as well as links to the evaluation reports posted on the Departments web site. The Department will endeavor to file reports no later than February 15 each year.

2. *During the May 15, 2014 workshop Board staff and VEIC requested additional detail and comments related to Forward Capacity Market (FCM) evaluation cost savings.* It is important to note that the FCM evaluation is currently the primary and only rigorous impact evaluation of the EEU's electric claimed savings portfolio. Historically, the FCM evaluation has always been more comprehensive and yielded a lower realization rate than that for savings verification due to its very nature. Savings Verification is less comprehensive and it is a paper review of engineering estimates while the FCM utilizes actual metering data on performance of the equipment. Additionally, in the FCM evaluation participant interviews are conducted that gather such details as actual hours of use to serve as the basis for detailed analysis, rather than the less precise assumed hours of use that are the inputs utilized in savings verification.

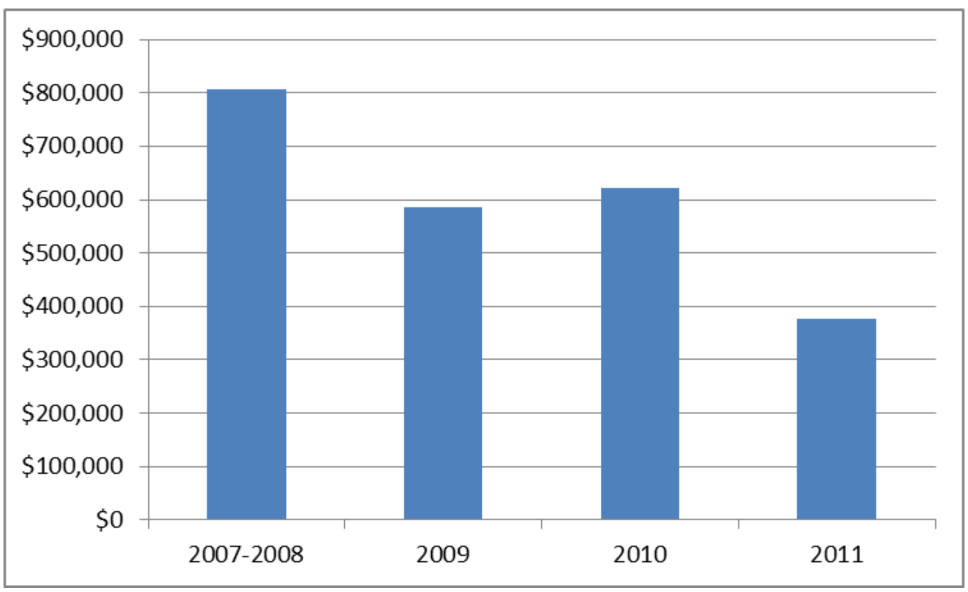
   The Department first proposed to combine Savings Verification with the Forward Capacity Market evaluation in the 2010-11 period as a way to reduce costs while increasing the level of rigor of the overall evaluation of the savings claim being measured. While the Department was able to reach agreement with BED on the combination of these two evaluations, no agreement was reached with EVT. Following the EEU process audit by Frontier, this issue was raised again and some progress has been made toward the Department's goal of combining these evaluations for EVT.

   As mentioned in the workshop, the Department is in the process of developing a RFP for an independent third party review of both the Savings Verification process and the Forward Capacity evaluations. A draft RFP has been shared with EVT for their comment and a final draft will be provided to them for additional comment before being issued. This review is intended to result in a series of recommendations on how to combine the two evaluations as well as to suggest potential ways to decrease costs while maintaining the current rigorous evaluation. The Department's aim in the combining of these two evaluations is to realize cost savings on the constrained FCM budget while increasing the rigor of the evaluation of the savings certified by the Public Service Board. While not definitive, since verification and the FCM measure different aspects of the impact of energy efficiency i.e. energy (kW) vs capacity (kWh) the results generally demonstrate that the FCM evaluation has a much higher level of precision. Therefore, by including the requirements for calculating the kW savings and TRB needed for the savings verification to the FCM evaluation, at a small incremental cost, the overall confidence levels of the certified results of verification are expected to increase.

For the purposes of sampling, the EVT portfolio is statistically separated into strata representing the small, medium and large projects. In an effort to reduce overall evaluation costs the Department reached agreement with EVT to effectively 'lock' the small and medium project strata for two years starting with the 2010 FCM evaluation. This resulted in only large projects requiring metering and review, this was possible due to the overall stability of the realization rates for small and medium sized projects since the inception of this evaluation. Every third year the entire portfolio is reviewed to reset the strata and the realization rates for small and medium projects. 2014 represents the first year for three years that EVT's entire portfolio shall be reviewed.

As shown in the table below in Exhibit 3, total costs for the FCM evaluation have decreased overall for the 2007-2008 report period through to the 2011 report period which represents the first year of only evaluating the large projects. However an unanticipated effect of locking the small and medium strata was a 25% increase in the number of 2012 projects requiring review and metering, as such the Department is still expecting the total expenditure for the 2012 FCM Report to be approximately $500,000.

Exhibit 3 – FCM Evaluation Costs



Cost per report year

As described in the Department's 2012-2014 evaluation plan the Department conducted additional reviews of EVT's portfolio taking into account the cost savings associated with not having to meter the small and medium projects. The first review was an assessment of EVT's overall portfolio to identify areas where high levels of uncertainty on the savings calculations intersected with high amounts of claimed savings. This assessment determined that additional evaluation was required to review the underlying structure of EVTs stipulated lighting sector. This subsequent evaluation is currently underway and a report will be produced in August 2014. For the 2015-2017 period no additional evaluations beyond that of EVT's Forward Capacity claim are planned pursuant to the Department's FCM evaluation plan and budget.

The Department has met with EVT staff regarding the work objectives of a statistical intern who will be gathering data on the FCM processes employed by other jurisdictions, and will examine initial bids, bid evaluations, and a correlation and analysis with respect to ISO-NE requirements. It is the Department's intention to remain an active participant in this process to increase its knowledge of what others are doing in the market as well as to identify new strategies and economies that may be introduced into Vermont's evaluation. This activity has potential to not only reduce costs but also to improve an already rigorous evaluation.

3. *DPS Evaluation costs relative to other states.* To provide some context related to the magnitude of the Department's proposed evaluation budget relative to other states, the Department conducted a limited comparative analysis of Vermont's energy efficiency evaluation budget in relation to that of other jurisdictions. Energy efficiency evaluation budget values as a percent of total budgets for each jurisdiction are presented in Exhibit 4 below. Where possible, *electric* efficiency evaluation budgets are presented as a percentage of a state's *electric* efficiency budget specifically. Relative to the top performing states, as characterized by the American Council for an Energy Efficient Economy (ACEEE) scorecard, the Department's proposed evaluation budget (2.4%) is less than the average of the top seven ranking states (3.1%) as a percent of the total energy efficiency budget.

Exhibit 4 - Evaluation Costs as Percent of Budget

State	EE Evaluation Budget (% of Total EE Budget)	Programs Evaluated	Year(s)	2013 ACEEE Scorecard Ranking*
New York[1]	5.0%	electric and gas	2008-Present	3
California [2]	4.0%	electric and gas	2013-2014	2
Massachusetts[3]	4.0%	electric and gas	2013-2015	1
Oregon[4]	3.1%	electric	2014	4
Vermont Proposed	**2.4%**	**electric**	**2015-2017**	**7**
Connecticut[5]	1.7%	electric and gas	2015	5
Rhode Island[6]	1.2%	electric	2014	6

*http://www.aceee.org/state-policy/scorecard

[1] NewYork_http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7BD9F7E0DF-A518-4199-84CC-C2E03950A28D%7D
[2] California_http://www1.eere.energy.gov/wip/solutioncenter/pdfs/bbs2013_best_ee_ca_public_utilities.pdf
[3] Massachusetts_http://www.mass.gov/eea/docs/doer/energy-efficiency/statewide-electric-and-gas-three-year-plan.pdf
[4] Oregon_http://energytrust.org/library/financials/final_approved_2014_annual_budget_and_2014-2015_action_plan.pdf
[5] Connecticut _http://www.energizect.com/sites/default/files/2014-2015%20Plan%20Update%20FINAL.pdf
[6] Rhode Island_http://www.ripuc.ri.gov/eventsactions/docket/4451-NGrid-Supplemnt-Electric-EEPP(11-22-13).pdf

NRA

1. *Non-resource acquisition budget comments in response to VEIC.* On page 21 of their May 7, 2014 filing VEIC states "*the DPS NRA budget recommendation filed on April 16, 2014 understates the 2015-2034 NRA budget by $7,284,732"*. The Department supports VEIC's full n20 year NRA budget. Guided by the following language in the 10/04/2013 order Attachment A in EEU 2013-05 titled *Interim Order Approving Modifications to Certain Portions of EEU Process and Administration Document* (P&A) the Department recommended electric NRA budgets for 20 years and thermal NRA budgets for 10 years. The understated portion of the NRA budget is the thermal NRA budget for years 2025-2034.

   > Section II (1)(F)
   > *Each entity appointed as an EEU shall propose electric non-resource-acquisition budgets for 3- and 20-year periods and thermal efficiency and process fuels non-resource- acquisition budgets for 3- and 10-year periods to the Board.*

   If the guidance above had stated *"…thermal efficiency and process fuel non-resource-acquisition budgets for 3- and 20 year periods…"* then the Department's NRA recommendation would not be understated. After review and discussion with VEIC about NRA activities and costs the Department agreed with VEIC that its 20 year NRA proposal was reasonable and appropriate. Subsequently, the Department split the 20 year NRA budget based on the ratio of electric budgets relative to thermal resource acquisition budgets (88% and 12% respectively). The understated amount does not have a material effect on the 2015-2017 budgets and the Department asserts that adding the understated amount to the electric NRA budgets for years 2025-2034, as VEIC suggests, would be inappropriate. Rather, while contrary to the P&A document guidance, the Department recommends applying the understated amount to the thermal budget forecast for years 2012-2034, as this is a more accurate representation of where the anticipated NRA expenses would occur.

Compensation

The Department's recommended absolute dollar amount of VEIC compensation for the 2015-2017 period remains unchanged from that recommended in this proceeding on April 16, 2014. The Department offers the following comments related to compensation:

Compensation Absolute Dollar Value and Rate

1. The Department emphasizes that it is most concerned that the absolute dollar amount of available compensation be reasonable and fair, and that the level of compensation strike a balance between what is reasonable and fair for VEIC and reasonable and fair from the viewpoint of the ratepayer. The Department's recommendation of $6,732,738 represents an approximately 22% increase relative to compensation available in the current 2012-2014 performance period. The Department believes this increase is reasonable and fair compensation for VEIC and also is a reasonable and fair amount for the ratepayers to expend. The Department does not support VEIC's compensation recommendation of approximately $8,637,610 as the Department does not find the magnitude of the increase to be reasonable or fair from the ratepayers' perspective. Further, the Department notes that its rate and bill impact analysis for Scenario 2 does not use VEIC's compensation

recommendation as a model input and therefore it is not represented in the analysis results. In addition, while the Department did not perform the analysis, if VEIC's compensation recommendation was used as a model input for the rate and bill impact analysis, then the Scenario 2 rate impacts would be greater and, because compensation is not used for programs implementation, bill impacts would remain the same. The additional rate impact associated with VEIC's proposal is another reason why the Department does not support the VEIC recommendation.

As stated on page 5 of their May 7, 2014 comments in this proceeding, VEIC agrees with the Department's total recommended electric resource acquisition budget. Should the Board order different resource acquisition budgets than those recommended by the Department and VEIC then the Department requests additional opportunity to comment and to make a revised compensation recommendation.

2. Relative to how the terms "mark-up" and "margin" were defined by VEIC at the May 15 workshop, the Department notes that during the workshop Department staff correctly *described* the Department's method for calculating compensation as "mark-up"; however incorrectly used "margin" as the *term to define* the calculation method. To be clear, the Department's recommended compensation rate of 4.1%, consistent with the Department's May 7, 2014 comments, utilizes a "mark-up" approach.

3. For the purpose of setting the compensation budget the Department recommends that it would be practical for the Board to first apply a mark-up rate of 4.1% to program resource and non-resource acquisition budgets.

Compensation Operations Fee and Performance Award Split

1. As stated in the May 15, 2014 workshop VEIC is not having cash flow issues and is well able to manage its cash flow under the current Operations Fee rate. Further, VEIC did not show that it has had issues securing a sufficient line of credit. Thus, the Department does not find justification to support an increase in the compensation associated with the Operations Fee: from its current level of 40% of total compensation to 50%; as recommended by VEIC. There was little to no evidence presented to suggest that maintaining the current operations fee would result in VEIC, or Vermont ratepayers, having to suffer the consequences of reduced access to capital or reduced lines of credit. In addition, it is clear that at its current rate of compensation VEIC will still be able to leverage its Vermont brand and bring additional value to Vermont from its presence and collaboration in other jurisdictions. Further, given the Department's recommendation that the absolute monetary compensation available to VEIC should be increased, this in and of itself should be beneficial in terms of cash flow and credit worthiness.

2. VEIC's compensation is comprised of an Operations Fee and Performance Award. The Department believes it is in the best interests of the ratepayer to negotiate with VEIC the percent split between Operations Fee and Performance Award as part of the QPI setting process outlined in the next Phase of the DRP. Leaving the split "on the table" until the setting of QPIs will allow the Department and VEIC to negotiate the performance incentive amount that is "at risk" as a Performance Award and consequently the dollar amount that is "guaranteed" as an Operations Fee. The following language in VEIC's Order of Appointment (page 10, item 3) supports such an approach and it is the

Department's view that leaving the split undefined, or defined as a range, at the current time, will serve Vermont ratepayers best.

> *The DRP proceeding shall be used to set the following elements of VEIC's compensation:*
> A. *QPIs, including types, definitions, quantifiable goals, corresponding incentive amounts attached to each (reflecting weighting) and any scaling calculations;*
> B. *Financial consequences for underperformance relative to QPIs; and*
> C. *Rates for any Operations fees for both RA and NRA activities.*

3. In the alternative, the Board could determine the percent split for Operations Fee and Performance Award when it establishes VEIC's budgets. If this is the Board's preferred option, then the Department recommends the split be the same as the current 2012-2014 period. That is, the Department's recommendation under this scenario is to set the compensation split at 40% for the Operations Fee and 60% for the Performance Award. When proposing QPIs, the Department will attempt to strike a balance between the performance risk associated with the predicted difficulty of achieving the QPIs and the amount of performance compensation at risk. If the Board were to order a split that increased the Operations Fee as a fraction of total compensation, thereby reducing VEIC's financial risk, the Department would expect to balance that reduction by increasing the stringency of its proposed QPIs.

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

For the Department of Public Service

/s/
Brian Cotterill
Energy Program Specialist

/s/
Jeanne Elias
Special Counsel

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