Vermont Energy Investment Corporation

128 Lakeside Avenue, Suite 401
Burlington, VT 05401 USA
Tel: (802) 658-6060
Toll-free: (800) 639-6069
veic.org

EEU 2013-01 – Re: Department of Public Service and Vermont Energy Investment Corporation joint proposal to implement electric and thermal energy efficiency performance metrics during the 2015-2017 performance period

Pursuant to its Order of Appointment Vermont Energy Investment Corporation ("VEIC") and the Department of Public Service ("Department") jointly propose the following 2015-2017 electric and thermal performance metrics below for Efficiency Vermont ("EVT").

SECTION ONE – ELECTRIC

Below are electric quantifiable performance indicators ("QPIs") and Minimum Performance Requirements ("MPRs") for Efficiency Vermont ("EVT") that address annual incremental MWh savings; total resource benefits ("TRB"); cumulative summer and winter peak demand savings; business comprehensiveness, long-term market transformation; equity for electric customers; equity for residential customers; equity for low-income customers; small business customer equity; geographic equity; program implementation efficiency ; service quality and; performance period spending.

PROPOSED Electric QPI's:

QPIs 1-7 have a positive performance award associated with them and include 100% target levels, "super-stretch" targets, corresponding incentive amounts attached to each (reflecting weighting) and scaling calculations. QPIs 8-14 are minimum performance requirements where the impact for failure to meet the proposed QPI target is the forfeiture of the opportunity to earn a portion of the performance award.

QPIs 1-4: Annual Incremental MWh Savings, Total Resource Benefits, Cumulative Summer Peak Demand Savings, Cumulative Winter Peak Demand Savings

1. 2015-2017 QPI 100% target level for annual incremental MWh savings is 321,800.

2. 2015-2017 QPI 100% target level for total resource benefits is $336,300,000.

3. 2015-2017 QPI 100% level target for cumulative coincident summer peak demand savings is 41.3 MW.

4. 2015-2017 QPI 100% level target for cumulative coincident winter peak demand savings is 53.7 MW.

This concept of a "stretch" target applies to all QPIs (QPIs 1-7) that have a positive performance award associated with them. All 100% target and stretch target values are shown in the tables in **Attachment A**.

QPI 5: Business Comprehensiveness of Savings

This QPI describes that EVT will achieve 11% average (100% target) 3-year depth of savings ("DOS") across all companies that complete one or more projects in the performance period. DOS has been defined as the ratio of the combined savings achieved at one or more of a company's utility accounts over a three year performance period (2015-2017) to the sum of the company's annual electrical usage for these same accounts in the year proceeding the performance period (2014).

The 2015-2017 QPI target for Business Comprehensiveness is 11% savings as a percent of baseline year usage for companies who complete Business Existing Facilities and Efficient Products efficiency projects.

The incentive amount is $170,785 of the performance award for the 100% target level and a maximum of $196,000 for the "super-stretch" target.

Additional detail of the construction of this QPI can be found below.

Business Comprehensiveness QPI Methodology

Data parameters:

- Includes all Business Retrofit (6012), Business Market Opportunity (6013), and Efficient Products (6032) projects with a measure installed with a REPORT DATE between 1/1/2015 and 12/31/2017 (inclusive) associated with a premise that is linked to a unique company.
- Excludes:
  - project type = "municipal streetlighting"
  - projects with no MWh savings
  - any company with average 3-year DOS > 50%
  - companies with < 11 months of usage in 2014
- Funding source = Electric *ONLY*
- Baseline usage = MWh sum for 2014 between 1/1/2014 and 12/31/2014
- Savings numbers = MWh Gross

Rationale for exclusions:

- Municipal streetlighting projects are not considered appropriate to include in a comprehensive or DOS approach since the meter typically only serves one end-use (street lights) which limits the program's ability to include other measures or increase savings.
- Projects that do not generate electric savings were excluded from the data set prevent their impact on either the average savings or total usage of the company.
- 50% DOS was chosen as a cut-off to ensure that any errors in the data set do not cause the average DOS to increase incorrectly. Although efforts are made to ensure measures are connected to the correct utility accounts, and these are accurately attached to the correct companies, errors can still occur. Although it is technically possible to reduce electric usage at a commercial customer's accounts by more than 50%, it is considered highly unlikely and more likely the result of an incorrect utility account being matched to the project (or some other error in the data). Other utilities have taken a similar approach to address this issue by using 50% DOS as an appropriate cut-off point when performing similar DOS analysis.
- Only companies with at least 11 months of usage in the baseline year were included in the data to prevent the inclusion of new accounts with only a portion of their actual annual usage reported in the baseline year.

Rationale for including upstream:
The results achieved through the upstream approach show significant increase in market transformation and uptake of new technologies while delivering these services in a highly efficient manner. The EVT portfolio will likely be increasing the use of this service delivery model as a result of its success. For this reason, we recommend the inclusion of the upstream approach in our depth of savings analysis going forward. In order to be more inclusive of the upstream measures we will be instituting steps in the future to capture customer account data for upstream measures and link to utility accounts when possible.

<u>QPI 6 Residential Market Transformation</u>
This QPI is intended to encourage EEUs to design and implement programs to maximize long-term efficiency savings for building and equipment stock in Vermont.

The Vermont Comprehensive Energy Plan calls for 60% of homes to be built to above code tiers by 2020, and sets a path towards promoting net zero energy for new residential and commercial construction by 2030. While many market and government actors will have a role to play in reaching this target, EVT is expected to have a significant influence in this market through its Residential New Construction ("RNC") program.

The Department and VEIC propose that the target for the 2015-2017 performance period is to achieve 42% of homes constructed between 2015 and 2017 participating in EVT comprehensive RNC above code service tiers, be the subject of the residential market transformation indicator.[1]

Market share will be calculated by dividing total 2015-2017 substantially complete[2] EVT single family Residential New Construction projects by 2014-2016 single family Vermont building permits:

$$\frac{\text{Substantially complete '15-'17 EVT single family residential new construction projects}}{\text{2014-2016 single family Vermont residential building permits}}$$

The incentive amount is $102,471 of the performance award for the 100% target level and a maximum of $117,000 for the "super-stretch" target.

QPI 7: Business Market Transformation

This QPI is intended to encourage EEUs to design and implement programs to maximize long-term efficiency savings for building and equipment stock in Vermont.

Business efficiency investments usually involve at least one portion of the supply chain – including contractors and suppliers. To transform the market for products and equipment, these market actors must be aware of, stocking, and promoting efficient products and techniques to enhance efficiency in any given project. The Department and VEIC propose that these supply chain market actors are an appropriate focus of a business market transformation QPI.

The proposed QPI for business market transformation requires an increase in the number of supply chain market actors who partner with EVT on three or more

[1] EVT residential new construction service tiers currently include Energy Code Plus, ENERGY STAR Homes, and High Performance Homes. EVT may change tier names or add additional service tiers in the future, but if so, any new services would be at least as stringent as the requirements in the current Energy Code Plus service. The requirements and incentives for these service tiers are detailed here:https://www.efficiencyvermont.com/docs/for_partners/rnc/rnc-tier-comparison.pdf.

[2] The term substantially complete is defined as: any single family home that received technical support from EVT, met RBES, and successfully achieved key energy saving program criteria, including above-grade wall and ceiling R-values, window U-values, air sealing, and applicable lighting/appliance/heating system criteria.

completed business projects over the performance period. EVT must identify 500 supply chain partners[3] meeting the criteria of three or more completed business projects. This represents an increase of 25% over current performance period results. The incentive amount is $102,471 of the performance award for the 100% target level and a maximum of $117,000 for the "super-stretch" target.

MPR 8: Electric Ratepayer Equity

The performance metric to address electric ratepayer equity is structured to ensure equity for all Vermont electric customers by assuring that the overall electric benefits are greater than the sum of the costs incurred to implement and evaluate the EEU. Total electric benefits divided by total costs must equal a ratio greater than 1.2.

Consistent with past performance cycles, the impact for failure to meet this minimum performance requirement is the forfeiture of the opportunity to earn 100% percent of the 100% target level performance award.

MPR 9: Residential Customer Equity

The performance metric to address residential customer equity is structured to ensure equity for residential customers by requiring a minimum level of resource acquisition spending to be dedicated to the residential sector. A residential spending minimum ensures that a minimum level of residential spending occurs. The Department and VEIC propose that the minimum performance requirement for residential customer equity require minimum three-year spending of $32,500,000. This dollar amount is greater than 70 percent of the projected resource acquisition spending in the residential sector. This target is set in accordance with the residential sector equity requirements established in the Board’s September 30, 2013 Order in EEU-2013-01 determining electric resource acquisition scenarios to be analyzed and electric and thermal energy and process fuel quantitative performance indicator framework. It is also representative of the assumptions used to increase the level of residential spending as a proportion of total spending over time.

Consistent with past performance cycles, the impact for failure to meet this minimum performance requirement is the forfeiture of the opportunity to earn 18% percent of the 100% target level performance award.

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[3] For purposes of this metric, supply chain partners are defined as contractors (design/build, electrical, general, HVAC, insulation, plumbing and heating, refrigeration, VFD/Motor Controls, or others as agreed to by the Department and VEIC) and suppliers (building material, compressed air equipment, electrical equipment, farm equipment, HVAC distributor (regional), HVAC equipment (local), lighting, motors, process equipment, refrigeration equipment, wholesale distributors, or other as agreed to by the Department and VEIC)

MPR 10: Low-Income Customer Equity

The performance metric to address low-income customer equity is structured to ensure equity for low-income customers by requiring a minimum level of spending on low-income services. The Department and VEIC propose to increase the minimum amount of low-income spending to $10,500,000. While accurate Vermont-specific information regarding low-income sector consumption and contribution to the Energy Efficiency Charge ("EEC") is difficult to secure, the minimum target appears to be roughly commensurate with the sector's expected contribution to the portion of the EEC

Total low-income single and multifamily services spending must be greater than 8.1% of projected resource acquisition spending.

Consistent with past performance cycles, the impact for failure to meet this minimum performance requirement is the forfeiture of the opportunity to earn 18% percent of the 100% target level performance award.

MPR 11: Small Business Customer Equity

The performance metric to address small non-residential customer equity is structured to ensure equity for smaller non-residential customers whose efficiency projects may result in smaller overall savings than large customers, by requiring a minimum level of participation from customers whose annual energy usage is under 40,000 kWh/year. The Department and VEIC propose that the minimum performance requirement be set to ensure participation of at least 2,000 of such customers.

Consistent with past performance cycles, the impact for failure to meet this minimum performance requirement is the forfeiture of the opportunity to earn 18% percent of the 100% target level performance award.

MPR 12: Geographic Equity

The performance metric to address geographic equity is structured to ensure equity for all Vermont electric customers by requiring that energy efficiency benefits are geographically distributed across the state. The Department and VEIC propose that the minimum performance requirement for geographic equity establishes a minimum TRB by county. Minimum targets are based on an overall minimum Economic Benefit value developed by multiplying the Board-approved 2015-2017 electric budgets by a factor of 1.1. Weighting by county is established by using 2013 actual county usage. As in the past performance period, Essex and Orleans counties are combined. New to this performance period, Grand Isle and Lamoille counties are combined to form a single county. VEIC and the Department propose combining Grand Isle and Lamoille counties to address their individual limited energy savings opportunities and to make the uniform application of the method for determining counties minimum level of benefits more reasonable. The following three points describe the primary issues distinguishing the two counties from others: 1) Grand Isle and Lamoille counties have low population bases (Grand Isle being the lowest in Vermont with 1.1% of total state population and Lamoille being the 2nd lowest with 3.9% of the total Vermont population); 2) Grand Isle has the lowest reported kWh usage in Vermont and Lamoille has the 3rd lowest; 3) Grand Isle has the highest percent of residential usage to total customer usage of any county in Vermont and no industrial customers whereas Lamoille has a small industrial base with only 1.7% industrial usage as a percent of its total usage.

Consistent with past performance cycles, the impact for failure to meet this minimum performance requirement is the forfeiture of the opportunity to earn 6% percent of the 100% target level performance award.

MPR 13 Program Implementation Efficiency - Key Process Improvements

The performance metric is intended to encourage the program administrator to continually assess its operations and to deliver services at the maximum value to Vermont's ratepayers. The Department and VEIC propose modifying the title of this metric from "Administrative Efficiency" to better reflect and characterize the intent of this work.

VEIC and the Department propose setting milestone indicators for the 2015-2017 performance period that will expand and deepen the key business process ("KBP") improvement gains from the current period.

These milestone indicators have been developed to encourage VEIC to clearly identify, document, and measure KBPs associated with delivery of services under the Order of Appointment which were not included in the previous work, and to delve more deeply into sub-processes within the KBPs that are undergoing process improvement. Further, VEIC and the Department propose to establish a procedure whereby VEIC can determine when processes in the improvement program have reached a cost effective breakpoint. Specifically VEIC will establish a monitoring and maintenance ("M&M") program for processes that have achieved any reasonably cost effective improvements that will report out the ongoing status of the M&M processes relative to a predetermined target range of performance. Significant variances over time from the target range of performance would indicate a need to re-evaluate the process effectiveness utilizing appropriate improvement methods as determined by VEIC.
This approach is intended to continue to foster a program of continuous improvement of program implementation effectiveness, maximize value to the ratepayer, and provide

a system that will support VEIC in applying program implementation efficiency resources where the returns will be greatest. The overall KBP work would include both baseline analysis and mapping of new KBPs, and monitoring and maintenance of previously improved processes. VEIC and the Department recognize VEIC will need to plan this work effectively around existing resources, schedules, and strategic implementation plans to achieve the improvements while providing continuous program delivery services to ratepayers. Therefore, the proposed milestones are subject to change to adapt to program delivery needs as long as the general scope of work is completed within the three year performance period in a manner acceptable to the Department.

The milestone schedule for this minimum performance requirement will be as follows:

#	**Milestone**	**Due Date**
1	Annually, VEIC will have identified and submitted to the Department a plan for KBP work, to include specific KBPs for baseline analysis and the monitoring and maintenance program.	January 31st in each year of the performance period (2015, 2016 & 2017)
2	Annually, VEIC will have identified, analyzed and measured KBPs planned for the year and submitted to the Department a report of the year's KBP work, including summaries of analysis, mapping and improvement targets for new KBP work, and trending information for the metrics of processes in the monitoring and maintenance program. This milestone will be completed when VEIC has established an efficiency measurement baseline and a target level of improvement for the next full annual reporting period and submits the report of that work to the Department.	December 31st of each year in the performance period (2015, 2016 & 2017)

The Department and VEIC will file status updates within two weeks of the respective EEU milestone completion dates. Status updates will indicate if milestones were achieved on time and report relevant results. If milestones are not reached, status updates will indicate the reason(s) why and propose next steps including adjustments to future milestone dates if needed.

If the Department, in its obligations related to this performance indicator, has delays in contractor reports that significantly affect VEIC's ability to meet one of the above deadlines, VEIC will not have been considered to miss a milestone; rather the date for completion shall be adjusted commensurate with the Department delay. Any irresolvable disputes shall follow the dispute resolution process identified in the "Process and Administration of an Order of Appointment."

Consistent with past performance cycles, the impact for failure to meet this minimum performance indicator is the forfeiture of the opportunity to earn 2% percent of the 100% target level performance award.

MPR 14: Service Quality

This performance metric has been developed to promote the quality of service provided by EVT in fulfilling its Energy Efficiency Utility functions. The mechanism incentivizes excellent service quality and provides financial disincentives for failure to meet service quality metrics. The Department and VEIC propose the following performance indicator for measuring, evaluating and monitoring customer service quality of EVT:

> The Amended Service Quality and Reliability Plan (SQRP) as approved by the Board on July 29, 2014 sets a minimum performance target of 92 performance points over the length of the performance period. Points are accumulated for achieving individual metrics including call responsiveness, customer feedback, and complaint rate and resolution. Results from different metrics are reported at different time intervals. Some results are measured and reported quarterly, some are measured and reported annually, and some are measured and reported once during each performance period.

The impact for failure to meet this minimum performance is the forfeiture of the opportunity to earn $150,000 or 4.4% percent of the 100% target level performance award.

MPR 15: 2015-2017 Spending

The policy objective for this minimum performance requirement is to minimize three year total EVT spending variances above Board approved budgets. EVT expenditures above a Board established spending threshold of a total three year performance period budget (not including the maximum performance award) would result in a financial penalty. The financial penalty depends upon the size of the variance. That is, a minimum penalty would be established and the penalty would increase based upon increasing variances.

All spending above an approved budget and any associated energy savings and other quantifiable performance indicator benefits would be recorded and reported in the following year. This would result in a reduction in the following performance period budget to maintain the integrity of the Board's performance period budgets and the associated performance goals.

The Performance Period Spending performance metric applies to electric and thermal energy and process fuels resource acquisition budgets for the three year performance period. A spending threshold is defined as the incremental amount above a Board approved three-year performance period budget that EVT can spend without financial penalty.

The spending thresholds are determined as a percent of the Board approved third year performance period budgets and applicable operations fees (but not performance incentives); excluding any non-EEC or non-TEPF funding that is not included in the establishment of Board approved EVT budgets or performance indicators. Performance period spending threshold allowances for are 103% of electric third year budgets and TEPF third year budgets.

Budget variances above a spending threshold result in a reduction in the potential performance award available at the 100% level. The size of a reduction varies depending upon the size of the variance.

The framework proposed for the 2015-2017 period essentially mirrors the Performance Period Spending metric utilized in the 2012-2014 period. Tables calculating thresholds and associated penalties can be found in **Attachment A**.

WEIGHTING, SCALING, SUPERSTRETCH, FUTURE ADJUSTMENTS to ELECTRIC QPIs:

Weighting of QPIs

The Department and VEIC propose that the performance awards associated with QPIs 1-7 be weighted in accordance with Table A-1, column F of **Attachment A**.

Scaling of QPIs up to 100% Target

VEIC and the Department propose that the targets for QPIs 1-7 be scaled according to

Table A-2 of **Attachment A**. Scaling up to 100% target level is consistent with past performance cycles. For QPIs 1-7, the opportunity to earn a performance incentive begins when VEIC reaches 90% of the modeled results. This is mathematically equivalent to 75% of the 100% target level.

"Super-stretch" QPI Targets

The Department and VEIC, consistent with past performance cycles, propose targets for achievement beyond the 100% target level for QPIs 1-7. The proposed "super-stretch" target is to achieve up to 5% above the 100% target level, as described in Table A-6 of **Attachment A**. For the 2015-2017 performance period, the total amount of incentive dollars allocated to the super-stretch is $500,000 however the amount of the super stretch available for QPIs 1-4 that can be earned in total is limited only by the maximum amount of the performance award totaling $3,915,693.

Future Adjustments to Electric Quantifiable Performance Targets

The Department and VEIC propose two mechanisms to allow for future adjustments of QPI targets during the 2015-2017 performance period. The mechanisms, consistent with the 2012-2014 performance period, allows the Department and VEIC to adjust the targets for TRB (QPI 2) due to changes in Board-approved avoided costs without further Board process. In addition, the proposed mechanism allows the Department and VEIC to adjust the targets for TRB to reflect other potential changes to the State screening tool for efficiency investments that could have potential effects on performance targets. The second mechanism allows the Department and VEIC to propose adjustments to QPI targets to reflect market changes that affect measure assumptions, baselines or net-to-gross factors used for to establish performance targets. The proposed mechanisms are described in more detail below.

<u>**Adjustments to target levels for TRB (QPI 2) due to changes in Board-approved avoided costs, discount rate, or inflation rate used in State Screening Tool**</u> In past performance periods, the 100% target level and super-stretch target level for TRB has been adjusted to reflect changes in Board-approved avoided costs without additional Board proceedings. The Department and VEIC propose that this practice continue. It is also proposed that any changes to the discount rate or inflation rate used in the State Screening Tool follow the same process to modify target levels for TRB. These two variables can have a significant impact on TRB depending on how they are applied.

The method for adjusting the QPI for TRB to reflect changes in Board-approved avoided costs, or the discount rate or inflation rate used in the State Screening Tool, is proposed to be a three-step process:

1. Credit VEIC with accomplishments from the beginning of the performance period through the end of the last full year of the previous factors;
2. Revalue the remainder of the original performance period TRB target levels utilizing the new factors; and
3. Calculate new hybrid performance period TRB target levels based on a combination of the TRB achieved prior to the adoption of the new factors and the remainder of the target levels with new factors.

Adjustments to QPIs based on market changes

The 20-year forecast of savings that lead to the development of performance targets contains a myriad of assumptions, including those related to the baselines used to measure savings from "market opportunity" or "replace on burnout" measures, and "net to gross" assumptions made to estimate the amount of freeriders and/or spillover associated with a particular measure. These assumptions are subject to change during a three-year performance period. Such changes are reflective of enhanced understanding of markets, and should not necessarily affect program administrator performance toward QPIs either positively or negatively.

If assumptions related to measures, baselines, or net-to-gross factors that have previously been agreed upon by the Department and VEIC significantly change[4] over the course of a three-year performance period, the Department and VEIC agree to adjust applicable QPIs with the following Board process:

1. The Department and affected Energy Efficient Utilities ("EEUs") jointly notify the Board and characterize the adjustment under consideration;
2. The Board issues notice to interested stakeholders in the Demand Resources Plan process, providing an opportunity to request a workshop and/or make comments;
3. If no comments are made and a workshop is neither requested by a stakeholder nor desired by the Board, then the Board will notify the Department and affected EEUs that they can adopt the adjusted goals;
4. If a workshop is requested, then the Board will identify a process at that workshop; and
5. If comments are provided, then an opportunity for reply comments should be provided and a Board decision shall be issued following conclusion of the comment periods.

[4] Any such measure baseline adjustments must cumulatively account for changes in savings equal to or greater than 5 percent of any of the three-year MWh, MW, or TRB 100% targets. Any adjustments subsequent to the first adjustment will cumulatively account for new changes in QPIs equal to or greater than 1 percent of total (revised) three-year 100% targets. Any agreed-upon adjustments to performance targets will be reflected in the EEU's annual report, and next practicable quarterly report.

Any agreed upon adjustments to performance targets will be reflected in the VEIC annual report, and next practicable quarterly report. Any disagreements between the Department and VEIC regarding the above processes shall follow the dispute resolution process set forth in the "Process and Administration of an Order of Appointment."

SECTION TWO – THERMAL ENERGY and PROCESS FUEL (TEPF)
Enclosed below are the proposed TEPF performance metrics including QPIs for EVT that addresses annual incremental MMBtu savings and Residential Single Family Comprehensiveness and MPRs that include minimum spending requirements for the Residential Sector and Low Income customers.

PROPOSED TEPF QPI's:
The Department and VEIC propose QPI's #1 and #2 that have a positive performance award associated with them that includes 100% target levels, "super-stretch" targets, corresponding incentive amounts attached to each (reflecting weighting), scaling calculations, and the financial consequences for under-performance. QPIs #3 and #4 are minimum performance requirements where the impact for failure to meet the proposed QPI target is the forfeiture of the opportunity to earn a portion of the performance award.

QPI 1: Annual Incremental MMBtu Savings
2015-2017 QPI 100% target level for annual incremental MMBtu savings is 246,000. This value represents the equivalent of 100% of the modeled results and is significantly higher than the 2012-2014 performance target due to the sector split assumptions used in modeling.

This concept of a "stretch" target applies to QPI 1, which has a positive performance award. All 100% target and stretch targets are shown in the tables in **Attachment A**.

QPI 2: Residential Single Family Comprehensiveness
The QPI to address Residential Single Family Comprehensiveness is structured to encourage VEIC to prioritize comprehensive thermal retrofits consistent with the State Energy Plan. Within this TEPF QPI, comprehensive projects which result in electric and / or TEPF savings are eligible, in recognition of delivering consumer benefits which are truly comprehensive. The Department and VEIC propose that the QPI target include three components:

a. **Average Air Leakage Reduction: 34% / per project**
Projects are defined as a work project completed by a Home Performance with ENERGY STAR (HPwES) contractor in a single family (1-4 units) home. All single family homes in which TEPF-funded incentives are provided through HPwES will be included in the average, regardless of whether or not air infiltration reduction is achieved.

b. **Percent of projects with square feet of insulation added at least 50% of the home's finished square feet of floor area: 44% of projects**
The total shall include all insulation that is installed in the home, including attic and ceiling insulation, wall insulation, floor insulation, foundation insulation, etc.

c. **Percent of households (premises) with both shell measures and heating system measures installed, within contiguous calendar years: 16% of premises.**
Significant heating system measures will include system replacements, distribution improvements such as duct sealing or installing improved or right-sized ductwork, burner replacements, etc. with a cost of at least $200 per reported job. Neither setback thermostats nor clean and tunes shall count as significant heating system measures for this Performance Indicator. Shell measures include any measures that reduce conductive losses through the building shell (typically insulation measures) as well as air infiltration reductions. Example of qualifying contiguous calendar years: a household implementing shell measures in 2014 and a heating system measure in 2015, or vice versa.

The average percentage for 2a, 2b, and 2c will be calculated using a maximum of 120% for any criterion (a,b,c) even if actual performance is greater than 120% for any criterion.

MPR 3: Minimum Level of Residential Sector Spending
This performance metric is structured to ensure equity for residential customers by requiring a minimum level of resource acquisition spending to be dedicated to the residential sector. The Department and VEIC propose that total TEPF residential sector spending is greater than 62.5% of the total TEPF Fund expenditures. This target is set in accordance with the residential sector equity requirements established in the Board's December 20, 2013 Order in EEU-2013-01 determining thermal energy and process fuel resource acquisition modeling inputs.

Consistent with the past performance cycle, the impact for failure to meet this minimum performance indicator is the forfeiture of the opportunity to earn 10% percent of the 100% target level performance award.

MPR 4: Minimum Level of Low-Income Spending

The performance metric to address low-income customer equity is structured to ensure equity for low-income customers by requiring a minimum level of spending on low-income services. The Department and VEIC propose that total low-income spending is greater than 17% of the total Thermal Energy and Process Fuel Fund expenditures. This target is set in accordance with the low-income sector equity requirements established in the Board's December 20, 2013 Order in EEU-2013-01 determining thermal energy and process fuel resource acquisition modeling inputs.

Consistent with the past performance cycle, the impact for failure to meet this minimum performance requirement is the forfeiture of the opportunity to earn 10% percent of the 100% target level performance award.

WEIGHTING, SCALING, SUPERSTRETCH, FUTURE ADJUSTMENTS to TEPF QPIs:

Weighting of QPIs

The Department and VEIC propose that the performance awards associated with QPIs 1-2 be weighted in accordance with Table A-7, column E of **Attachment A**.

Scaling of QPIs up to 100% Target

VEIC and the Department propose that the targets for QPIs 1-2 be scaled according to Table A-8 of **Attachment A**. Scaling up to 100% target level is consistent with the past performance cycle. For QPI 1, the opportunity to earn a performance incentive begins when VEIC reaches 75% of the 100% target level performance award. For QPI 2, the opportunity to earn a performance incentive begins when VEIC reaches 70% of the 100% target level performance award.

"Super-stretch" QPI Targets

The Department and VEIC, consistent with past performance cycles, propose targets for achievement beyond the 100% target level for QPIs 1-2. The proposed "super-stretch" target is to achieve up to 5% above the 100% target level, as described in Table A-11 of **Attachment A**. For the 2015-2017 performance period, the total amount of incentive dollars allocated to the super-stretch is $70,000.

Future Adjustments to TEPF Quantifiable Performance Targets

VEIC and the Department propose the following two tiered, time variable adjustment mechanism. Consistent with past performance cycles, a tiered approach addresses the variance in program adaptions that significant budget adjustments may require. The time element was introduced to account for the variance in effects caused by the timing of the budget adjustment relative to the length of the remaining performance period.

1. If the 3 year EEU TEPF resource acquisition (RA) budget changes by less than $1,200,000 (prorated to account for the number of months remaining in the performance period from the time of Board Ordered Implementation), then the MMBtu QPI will be prorated at the same rate as the RA budget change. For example, if the TEPF RA budget increases or decreases by 8%, the resulting MMBtu QPI will consequently be increased or decreased by that same 8%. The other TEPF QPIs are stated as a percentage of spending or as a percentage of completed projects. Therefore, they are self- adjusting and remain as stated.

If the 3 year EEU TEPF RA budget changes more than $1,200,000 (prorated to account for the number of months remaining in the performance period from the time of Board Ordered Implementation), VEIC will make a recommendation to the Board whether QPIs should be adjusted using the process in Step 1, above, or whether updated program planning is necessary to evaluate the overall impact on potential savings based on collective yield rates resulting from the new budget. This option would consider changes to all TEPF QPIs. Interested stakeholders shall have the opportunity to comment on the VEIC recommendation.