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June 5, 2015

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

Re: Updated Thermal Energy and Process Fuel 2015-2017 Budget and Updated Thermal and Electric Quantifiable Performance Indicator Tables

Dear Ms. Hudson:

On July 9, 2014, the Vermont Public Service Board (Board) issued an Order in Docket EEU-2013-01. In that **ORDER RE: ENERGY EFFICIENCY UTILITY BUDGETS FOR DEMAND RESOURCES PLAN**, the Board required Vermont Energy Investment Corporation (VEIC) to submit revised Thermal Energy and Process Fuel (TEPF) budget estimates each year, to address any significant funding and related savings target changes. The Board also required VEIC to identify these changes prior to the end of the 2015-2017 Efficiency Vermont performance period. VEIC submits this memo in fulfillment of this annual obligation.[1]

The Board ordered VEIC to submit an updated 2015-2017 TEPF Resource Acquisition, Non-Resource Acquisition, operations fee and performance award budget. This budget was originally estimated at $20,396,427; further, the TEPF Quantifiable Performance Indicator (QPI) Target #1 was estimated at 246,000 annual incremental net MMBTU savings.

Subsequent to the July 9, 2014, Board Order, in the spring of 2015, changes in Regional Greenhouse Gas Initiative (RGGI) revenue, Forward Capacity Market (FCM) revenue, set-asides for the PACE loan loss reserve funding and for the beginning stages of planning for the TEPF Information Clearinghouse have triggered a revision to the 2015-2017 TEPF budget. In recognition of these changes, VEIC is proposing a decrease in the 2015-2017 TEPF budget of $819,280 (or 4%), relative to the July 9, 2014, Board-ordered TEPF budgets. This adjustment results in a 2015 – 2017 TEPF budget of $19,577,150. In addition, VEIC is proposing a decrease in the QPI Target #1 of 11,000 annual net MMBtu savings for an adjusted 2015-2017 target of 235,000 annual incremental net MMBtu savings. While making proposed modifications to the TEPF budget and the associated TEPF QPI tables, VEIC and the Public Service Department (PSD or Department) have identified additional QPI table revisions. A comprehensive list of all the proposed changes is provided as the first worksheet in the attached excel spreadsheet entitled *Attachment A EVT 2015-17 QPI Tables Revised 06.05.15.xlsx.*

A list and description of changes to the 2015-2017 TEPF Budget relative to the July 9, 2014, Board-ordered budget are:

[1] State of Vermont Public Service Board, Docket EEU-2013-01, Order Re: Energy Efficiency Utility Budgets for Demand Resources Plan, page 71.

1 An increase of $722,740 in RGGI revenue
2 A decrease of $4,683,415 in FCM revenue
3 An increase due to the addition of $3,791,395 from the December 31, 2014, TEPF fund balance (unspent TEPF funds)
4 A decrease due to a set-aside of $150,000 for the PACE loan loss reserve fund
5 A decrease due to a set-aside of $500,000 for anticipated estimated expenditures associated with the TEPF Information Clearinghouse

RGGI Revenue Increase:
Due to the decrease in the number of allowances available for sale, the purchase price per unit increased leading to a revenue increase.

FCM Revenue Decrease:
A description of the circumstances that led to the significant decrease in FCM revenues for 2015-2017 follows:

At a January 15, 2015 presentation to the Board on the Vermont Efficiency Portfolio Participation in the ISO-NE Forward Capacity Market, VEIC notified the Board of its inability to meet its current FCM capacity obligations. Starting in mid-2013, VEIC has participated in ISO New England's secondary (reconfiguration) auctions to purchase capacity from participants with excess capacity to cover any expected shortfalls. In the last six years of reconfiguration auctions for the purchase of year-long obligations, and in the last five years of reconfiguration auctions for the purchase of a single month of capacity, purchase prices have been substantially below the corresponding initial auction clearing price. Consequently, through February of 2015, VEIC's bidding strategy lessened the financial impact from our capacity shortfalls. This pricing structure dramatically changed starting in March of 2015.

Because of the predicted shortfall in VEIC's capacity relative to its commitment for the period beginning June 2015, in March, 2015, ISO-NE submitted a bid on VEIC's behalf into the annual reconfiguration auction for the 12 months of that delivery period. The auction cleared at a price more than four times higher than any seen previously. This will require that VEIC pay a significantly higher price than the earlier estimates used to produce previous TEPF budget projections. VEIC estimates a capacity shortfall of approximately 15 MW in June 2015. The ISO-NE reconfiguration auction resulted in the purchase of 7.7 MW at $11.466 per kW per month for the 12-month period. VEIC will be credited $3.43 per kW from ISO. This results in a net cost of $8.04 per month per kW for the 12 month period beginning June, 2015 for this 7.7 MW. The revenue estimates included here are based on a conservative estimate that the price in monthly reconfiguration auctions to purchase the additional 7.3 MW will be at the same level. Thus, VEIC will pay an estimated net amount of $8.04 per month per kW to purchase a total of 15 MW to cover the shortfall. This shortfall only affects the seven summer capacity months and may decrease over time as new capacity resources are acquired.

Three-and-a-half years ago, the initial FCM auction for the delivery period starting June 2015 had a large capacity surplus which was reflected in the relatively low ($3.43 per kW month) clearing price. The capacity shortage that has been reflected in the high clearing prices in the two most recent initial FCM auctions, for 2017 and 2018 delivery, is occurring sooner than anticipated and is now affecting the short-term reconfiguration auctions. VEIC notes that FCM initial auction prices are no longer accurate predictors of capacity surplus or shortage three years in the future.

TEPF Fund Balance on December 31, 2014:
VEIC is proposing to budget the unspent, available 2014 TEPF funds[2] of $3,791,400 for Efficiency Vermont 2015 – 2017 program activity. The combined unspent fund balance as of December 31, 2014 is sourced from:

- FCM revenue available to Efficiency Vermont;
- FCM revenue available to the Burlington Electric Department (BED), and;
- RGGI revenue available for TEPF activities.

VEIC has coordinated with BED and the PSD regarding available FCM and RGGI revenue in the TEPF fund as of December 31, 2014. BED informed VEIC that the unspent FCM and RGGI balances in the TEPF fund will not be needed for future BED TEPF activities because BED FCM revenue generated during 2015-2017 will amply fund TEPF expenditures for that period. The PSD confirms that the December 31, 2014 balance was not included in the TEPF budget forecast that the PSD filed as part of the most recent Demand Resources Plan proceeding and that it is appropriate to use the TEPF balance as part of this TEPF budget adjustment.

PACE Loan Loss Reserve Funding:
Based on prior year required funding needs for the loan loss reserve funds, VEIC has revised its projections to more accurately reflect estimated PACE loan activity in 2015-2017. PACE loan loss reserve funding is budgeted at $150,000 for 2015-2017.

TEPF Information Clearinghouse:
The PSD has requested $500,000 be set-aside from the TEPF fund for estimated expenses related to the new TEPF Information Clearinghouse. The PSD has estimated a disbursement of $400,000 in 2015 for development and promotion and $50,000 in each of 2016 and 2017 for maintenance of the Clearinghouse platform. To track expenditures for TEPF Information Clearinghouse activity, VEIC and PSD propose that a new line item be added to the Vermont Energy Efficiency Utility Fund (VEEUF) Fiscal Agent Monthly Report on the “Program-Admin Disburse” worksheet and the “Monthly Disbursements” worksheet, under the “Other” category.

Table 1 provides a summary of the budget changes, in the context of the July 9, 2014, Board Order.

Table 1. Proposed TEPF budget revision

[2] Vermont Energy Efficiency Utility Fund (VEEUF) Fiscal Agent Monthly Report, Available Thermal Energy and Process Fuels Funds, as reported in Year 2014 Year-End Report, dated April 28, 2015.

	Board Ordered Budgets - July 9, 2014			
	2015	***2016***	***2017***	***TOTAL***
RGGI	$2,154,353	$2,677,664	$2,998,199	$7,830,216
FCM	$4,015,591	$4,159,235	$4,391,385	$12,566,211
Total	**$6,169,944**	**$6,836,899**	**$7,389,583**	**$20,396,427**

	Current 2015 Forecast			
	2015	***2016***	***2017***	***TOTAL***
RGGI	$2,702,006	$2,760,008	$3,090,942	$8,552,956
FCM	$2,889,221	$1,481,349	$3,512,226	$7,882,796
TEPF Fund	$1,384,317	$2,378,519	$28,559	$3,791,395
PACE Funding	($50,000)	($50,000)	($50,000)	($150,000)
TEPF Clearinghouse	($400,000)	($50,000)	($50,000)	($500,000)
Total	**$6,525,544**	**$6,519,876**	**$6,531,727**	**$19,577,147**

	Change: Board Budgets *vs* 2015 Budgets			
	2015	***2016***	***2017***	***TOTAL***
RGGI	$547,653	$82,344	$92,743	$722,740
FCM	($1,126,370)	($2,677,886)	($879,159)	($4,683,415)
TEPF Fund	$1,384,317	$2,378,519	$28,559	$3,791,395
PACE Funding	($50,000)	($50,000)	($50,000)	($150,000)
TEPF Clearinghouse	($400,000)	($50,000)	($50,000)	($500,000)
Total	**$355,600**	**($317,023)**	**($857,857)**	**($819,280)**

Table 2 indicates the recommended TEPF QPI Target #1 and performance award adjustment corresponding to the proposed budget change.

Table 2: Proposed TEPF QPI Target #1 revision

QPI #	Title	Performance Indicator	Target*	Incentive Weight	Incentive Amount (100%)
1	Thermal & Mechanical Energy Efficiency Savings	Annual incremental net MMBTU savings	235,000	75%	$330,016
2	Residential Single Family Comprehensiveness (Note 4)	a. Average air leakage reduction per project (Note 1)	34%	25%	$110,005
		b. Percent of projects with square feet of insulation added at least 50% of the home's finished square feet of floor area (Note 2)	44%		
		c. Percent of households (premises) with both shell measures and heating system measures installed, within contiguous calendar years. (Note 3)	16%		
			TOTALS	**100%**	**$440,021**

As noted above, in conjunction with updates to the TEPF QPI tables, additional modifications were identified and made to both the Thermal and Electric QPI tables. The proposed changes are listed and described in the first worksheet of *Attachment A EVT 2015-17 QPI Tables Revised 06.05.15.xlsx.* The proposed changes are primarily intended to address the TEPF

Budget and QPI updates but also to ensure consistency and clarity of interpretation across Electric and Thermal QPI tables. Please note that any changes to numerical values are highlighted in yellow and language or wording changes are highlighted in green.

Supporting workbooks and calculations are available upon request.

VEIC has shared this proposal with the PSD and is not aware of any outstanding issues. As always, VEIC welcomes the Board's questions or comments.

Sincerely yours,

Carole S. Hakstian

Carole S. Hakstian
Economic and Forecasting Consultant

cc: Demand Resources Plan e-mail distribution list