STATE OF VERMONT
PUBLIC SERVICE BOARD

EEU-2010-06

In re: EEU Demand Resources Plan)

Order entered: 7/16/2013

ORDER RE: FUTURE FUNDING MECHANISM FOR GEOGRAPHIC TARGETING OF ENERGY EFFICIENCY UTILITY SERVICES

In an Order issued on February 16, 2012, in this proceeding, the Vermont Public Service Board ("Board") requested that the Vermont System Planning Committee[1] ("VSPC"): (1) provide the Board with annual updates to the VSPC's geographic targeting[2] ("GT") area recommendations; and (2) provide a recommendation or status update on the VSPC's evaluation of appropriate funding sources for GT areas. The VSPC filed status reports regarding its consideration of the funding source issue on July 6 and October 1, 2012, and its recommendation on October 24, 2012. The VSPC provided an update to its GT area recommendations on December 31, 2012. In today's Order, we adopt a mechanism for funding GT areas in future Energy Efficiency Utility ("EEU") performance periods[3], and approve, for 2013, the continuation of the current GT programs.

I. INTRODUCTION AND PROCEDURAL HISTORY

By Order dated August 1, 2011, the Board established budgets and savings goals for the Efficiency Vermont ("EVT") 2012-2014 performance period, and directed that a portion of

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1. The VSPC and its associated planning process were created in Docket 7081 (the Board's investigation into least-cost integrated resource planning for Vermont Electric Power Company, Inc.'s transmission system) to facilitate consideration of cost-effective non-transmission alternatives to new transmission projects. The VSPC provides for increased collaboration among Vermont utilities and transparency of the planning process.

2. Energy efficiency geographic targeting efforts are energy efficiency services that are targeted to those circuits and substations that are facing capacity constraints, in an attempt to avoid or defer system upgrades.

3. The EEU program operates on a three-year performance cycle. The next performance period will start January 1, 2015.

EVT's 2012 and 2013 electric efficiency resource-acquisition budgets be directed toward GT programs. By Order dated February 16, 2012, the Board determined that EVT shall implement GT efforts in St. Albans and in the Susie Wilson Road Area of Essex, Vermont. The Board also addressed a Motion for Reconsideration and Clarification filed by the Department of Public Service ("Department") in that Order. The Board directed Board staff to convene a proceeding to investigate the appropriate funding mechanism(s) for any future GT programs. In addition, the Board requested that the VSPC: (1) provide the Board with annual updates to the VSPC's GT area recommendations; and (2) provide a recommendation or status update on the VSPC's evaluation of appropriate funding sources for GT programs.

The VSPC provided several status updates regarding its progress in considering the issue of an appropriate funding mechanism for GT programs, and on October 24, 2012, filed a recommendation regarding funding sources.

On December 31, 2012, the VSPC provided its recommendations for GT areas for 2013.

On February 21, 2013, Vermont Energy Investment Corporation ("VEIC") filed comments regarding the VSPC's funding mechanism proposal and GT area recommendations.

On February 22, 2013, the Department and Green Mountain Power Corporation ("GMP") each filed comments regarding the VSPC's funding mechanism proposal and GT area recommendations.

On March 8 and March 11, 2013, VEIC and GMP, respectively, filed reply comments.

On April 5, 2013, Board staff convened a workshop to discuss the VSPC recommendations and comments filed thereon. The workshop was attended by representatives of GMP, VEIC, the Vermont Public Power Supply Authority ("VPPSA"), the Department, and Vermont Electric Power Company, Inc. ("VELCO").

On May 17, 2013, GMP filed additional information related to utility-specific energy efficiency charges.

No other comments have been filed.

II. Geographic Targeting Areas

VSPC Recommendation

The VSPC recommends that GT continue during 2013 in the St. Albans and Susie Wilson Road Area of Essex. In addition, the VSPC recommends that the St. Albans constrained area be classified as distribution and the Susie Wilson Road constrained area be classified as sub-transmission.

A. St. Albans

The VSPC reviewed and updated its analysis of the St. Albans area, including changed conditions, loads, and projections for the area. The updated analysis suggests that additional area load reductions would now be required to maintain load under the critical load level, a result primarily caused by the unexpected request for 4.33 MW of new demand from a new manufacturing facility. Nonetheless, the VSPC recommends that GT continue in St. Albans during 2013 given the uncertainties in the analysis, the remaining opportunities within the affected area to close the gap, and the potentially adverse impact on both customers and program delivery if the GT program were ramped down now.

B. Susie Wilson Road

The VSPC reviewed and updated its analysis of the Susie Wilson Road area, including an updated load forecast and updated energy efficiency potential estimates. The VSPC's updated analysis shows that the peak load forecast is lower and the energy efficiency potential is greater than originally forecast. As a result, the Susie Wilson Road substation project would not be needed until 2025. While the VSPC has been operating under the principle that a system constraint may be eligible for GT if the need date falls within a 3-to-10-year window, it recommends that GT programs continue in this area for at least one more year because there is significant uncertainty in the load growth forecast and because it would be costly to EVT and potentially confusing to customers if the GT program were ramped down now.

Comments

VEIC, the Department, and GMP each support the VSPC's recommendations regarding GT programs in these areas for 2013. The Department recommends, however, that GMP should be required to complete its assessment of non-transmission alternatives ("NTA") on a more accelerated schedule than GMP had proposed in its updated reliability plan for the St. Albans area, filed on February 13, 2013. If it is determined that NTA resources cannot assist in cost-effectively avoiding the St. Albans project, then the Department recommends that GT programs in this area should cease in 2014.

In its reply comments, GMP states that it can have the St. Albans analysis of cost-effective distributed technologies and other NTAs completed by October 1, 2013.

Discussion and Conclusion

We note that the February 16, 2012, Order provided funding for GT programs in these two areas through 2014. Based on the VSPC's recommendation that GT programs continue in these areas for 2013, and the fact that no participant objects to the continuation of GT programs in St. Albans and the Susie Wilson Road area for 2013, we will not direct Efficiency Vermont to stop the GT programs in St. Albans and the Susie Wilson Road area in Essex at this time.

However, the 2012 VSPC analyses for these two areas have changed materially from the 2011 VSPC analyses due, in part, to an unforseen new industrial load in St. Albans, and what appears to be corrupt supervisory control and data acquisition ("SCADA") data and erroneous account omissions in the energy efficiency potential study in the Susie Wilson Road area. These changes in load forecasts and energy efficiency potential have pushed these two areas to the outer limits of acceptability as NTA solutions. For this reason, we put Efficiency Vermont on notice that, depending on the results of the 2013 VSPC analyses for these areas, we may direct that the GT programs cease in one or both of these areas in 2014. In addition, we direct GMP and other participants to take any steps necessary to foreclose the possibility of such errors of forecasting and energy efficiency potential in the future. In addition, we request that the VSPC make its GT area recommendations for 2014 at its earliest convenience so that we may make a determination regarding 2014 GT programs in a timely manner.

We recognize the tension that exists in establishing three-year budgets for GT programs, while at the same time reconsidering the appropriateness of each GT program area on an annual basis. This structure is intended to appropriately balance the planning interests of program implementers, contractors, and customers with long lead times with the interests of ensuring the most efficient use of ratepayer funds, e.g., avoiding funding GT programs in areas where incremental energy efficiency spending may no longer be appropriate. In this light, we encourage the VSPC and participants in this process to continue to consider the efficient implementation and administration of GT programs generally, and to make any specific recommendations regarding improvements to the implementation and administration of GT programs within the context of the EEU-2013-01, the 2013-2014 Demand Resources Plan proceeding, or any future proposals for modifications to the Process and Administration of an Energy Efficiency Utility Order of Appointment document.

III. Geographic Targeting Funding

VSPC Recommendation

A. Transmission and Sub-Transmission

The VSPC recommends that GT programs intended to defer grid constraints where the "wires" solution would be a transmission or sub-transmission infrastructure investment should continue to be funded via the statewide energy efficiency charge ("EEC"). The VSPC recommends that a solution should be classified as a transmission or sub-transmission solution if a significant portion of the total solution capital cost is associated with the transmission or sub-transmission components of the solution. The VSPC states that if a transmission infrastructure project were built, the infrastructure costs would be allocated under various transmission tariffs, primarily the ISO-New England Open Access Transmission Tariff ("OATT") and the 1991 Vermont Transmission Agreement ("VTA"). Transmission infrastructure upgrades that are classified as Pool Transmission Facilities ("PTF"), as defined in the OATT, provide regional benefit and are funded through Regional Network Service ("RNS") rates. Each Vermont utility is required to pay a share of Vermont's portion of PTF project costs based on its contribution to Vermont's monthly peak load. Thus, the VSPC recommends that because a PTF infrastructure upgrade would otherwise be funded by all utilities, GT programs to avoid or defer the PTF upgrades should be funded by the statewide EEC.

In contrast, non-PTF and sub-transmission infrastructure upgrades that would be built in Vermont are allocated to the affected Vermont utilities with guidance from the VTA, which governs the transmission capacity charge from VELCO to the Vermont distribution utilities. The VTA also provides the cost allocation mechanism for facilities serving one or more utilities. VELCO and individual utilities enter into Substation Participation Agreements ("SPA") to govern the cost allocation when a distribution utility co-locates a facility for the sole purpose of providing service to its customers. The recovery of costs by distribution utilities is governed by their wheeling tariffs and contracts. Some distribution utilities, including GMP, have established Local Service Schedules (Schedule 21) as part of the OATT. Schedule 21 governs the terms and conditions for service taken by transmission customers over the distribution utility's transmission system. As a practical matter, most Vermont utilities are transmission customers of GMP. Schedule 21 provides that a significant majority of network sub-transmission costs are allocated to all of the company's transmission customers based on their percentage of required transmission capacity. The VSPC recommends that because most of the costs of non-PTF and sub-transmission infrastructure upgrades would be allocated to most Vermont utilities, GT programs to avoid or defer non-PTF and sub-transmission upgrades should be funded by the statewide EEC. The VSPC acknowledges that this is not a perfect solution because not all Vermont distribution utilities are transmission customers of GMP – the Vermont Electric Cooperative, Inc. ("VEC") and the Village of Lyndonville Electric Department both in part take transmission service directly from VELCO. Further, the statewide EEC does not include City of Burlington Electric Department ("BED") ratepayers. Nonetheless, the VSPC contends that this is a reasonable approach as the allocation of costs and benefits of GT programs are likely to equalize over time, and because the proposed funding mechanism is straightforward and transparent.

B. Distribution

The VSPC recommends that the incremental cost of GT programs that are intended to defer grid constraints where the "wires" solution is expected to be a distribution infrastructure investment should be funded by the distribution utility via a distribution utility-specific EEC adder or other potential mechanism.[4] The VSPC states that a distribution infrastructure

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4. While the VSPC recommends that the St. Albans area be classified as distribution, it nonetheless recommends that both the St. Albans and Susie Wilson Road areas continue to be funded via the statewide EEC for the time being.

investment would be paid for by the ratepayers of the affected utility only, therefore, GT programs intended to avoid or defer such investments should not be allocated to ratepayers in other utility service areas.

Comments

The Department, GMP, and VEIC each support the VSPC's recommendations regarding funding mechanisms for future GT programs. In addition, GMP recommends that for utility-specific EEC adders, a rate design and collection mechanism that mirrors the design of the current statewide EEC would be the least disruptive to both utility billing systems and affected utility customers. Specifically, GMP recommends that annual funds for distribution-related GT programs would be an adder to and proportional to the amounts collected via the EEC. As an example, if a utility currently generates $20 million from its residential customers, $5 million from its commercial customers, and $5 million from its industrial customers via the EEC, and it needed to collect an additional $3 million via a utility-specific adder, then each EEC rate would be increased by 10% (i.e., $3 million/$30 million). GMP contends that this method mimics the EEC rate changes that take effect each February, and shares the burden of the utility-specific revenue requirement to each customer class and individual customer in proportion to the way the existing EEC rates are designed. GMP states that it would be preferable for the timing and implementation of the utility-specific adder to coincide with the determination and implementation of statewide EEC rates.

Discussion and Conclusion

We conclude that the funding mechanisms proposed by the VSPC and supported by all participants are reasonable, straightforward, and transparent. Accordingly, we approve the use of the proposed funding mechanisms starting in 2015. Our February 16, 2012, Order concluded that the two current GT programs should be funded via the statewide EEC through 2014. While it is conceivable that a utility-specific EEC adder could be implemented for the St. Albans area beginning in 2014, no participant has suggested that we do so. Accordingly, we will leave in place the statewide funding of the current GT programs for the remainder of this budget cycle. We further conclude that GMP's recommendations regarding the design of utility-specific EEC adders are reasonable and appropriate. If in the future the Board approves GT programs in distribution-constrained areas, utility-specific EEC adders should follow the design parameters set forth above.

We recognize that there remains an issue of whether the statewide EEC should continue to fund all GT program expenses for transmission or sub-transmission projects, or whether the statewide EEC should be used for GT programs only up to the incremental value associated with the transmission and sub-transmission benefits, with the remainder of the GT expenses borne by the affected utilities. We encourage the VSPC and workshop participants to continue to consider this issue, and to update the Board and make recommendations, if any, in the context of the VSPC's annual GT area recommendations.

SO ORDERED.

Dated at Montpelier, Vermont, this 16th day of July, 2013.

s/James Volz) PUBLIC SERVICE
s/David C. Coen) BOARD
s/John D. Burke) OF VERMONT

OFFICE OF THE CLERK

FILED: July 16, 2013

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and Order.