STATE OF VERMONT
PUBLIC SERVICE BOARD

EEU-2010-06

In re: EEU Demand Resources Plan)

Order entered: 12/28/2011

ORDER RE HEATING-AND-PROCESS-FUEL EFFICIENCY BUDGETS AND PLANS

I. INTRODUCTION

In this Order, the Public Service Board ("Board") approves the heating-and-process fuel ("HPF") plan for 2012 submitted by the City of Burlington Electric Department ("BED"). Additionally, we approve the general framework for Vermont Energy Investment Corporation's ("VEIC") HPF plan for the 2012 to 2014 time period. Finally, we approve the general framework for developing the HPF three-year and ten-year budgets and require VEIC and BED to each file an HPF addendum to its Annual Plan that will contain updated budget estimates.

II. BACKGROUND

Pursuant to our Order of November 24, 2009, in Docket 7466, and the resulting Orders of Appointment for VEIC and BED, the Board initiated a Demand Resources Plan proceeding to address the various functions that BED and VEIC are required to carry out in their roles as Energy Efficiency Utilities. Since 2008, these energy efficiency functions have included the provision of heating-and-process-fuel energy efficiency services.

The Demand Resources Plan proceeding was divided into various tracks.[1] This track of the Demand Resources Plan proceeding is designed to establish three-year HPF budgets for VEIC and BED that will be used to develop specific quantitative performance indicators, and ten-year HPF budgets that will be used for longer-term planning purposes. In addition, this track provides general guidance regarding the types of HPF services that VEIC and BED are expected to provide during the 2012 to 2014 period as well as the quantitative performance indicators used to determine whether VEIC and BED are meeting the necessary goals.

Pursuant to 30 V.S.A. §§ 209(d)(7), 209(d)(8), and 255(d), revenues from the ISO New England's ("ISO-NE") Forward Capacity Market ("FCM")[2] and Regional Greenhouse Gas Initiative ("RGGI")[3] auctions are used to provide heating-and-process-fuel-efficiency services. Sections 209(d)(7) and (8) call for heating-and-process-fuel services to be provided "to Vermont consumers of such fuel on a whole-building basis to help meet the state's building efficiency goals established by 10 V.S.A. § 581." Section 581 sets forth ambitious goals:

> It shall be the goals of the state:
> (1) To improve substantially the energy fitness of at least 20 percent of the state's housing stock by 2017 (more than 60,000 housing units), and 25 percent of the state's housing stock by 2020 (approximately 80,000 housing units).
> (2) To reduce annual fuel needs and fuel bills by an average of 25 percent in the housing units served.
> (3) To reduce total fossil fuel consumption across all buildings by an additional one-half percent each year, leading to a total reduction of six percent annually by 2017 and 10 percent annually by 2025.

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1. Track A (Electric Resource Acquisition), Track B (Heating-and-Process Fuel Resource Acquisition), Track C (Geographic Targeting), Track D (Non-Resource Acquisition and Evaluation), and Track E (Performance Indicators and Compensation Structure).

2. ISO-NE is the regional transmission organization for New England. The Forward Capacity Market is a market-based structure designed to ensure that there are sufficient resources to serve New England's peak load. The FMC utilizes an auction structure through which capacity resources compete to obtain a market-priced capacity payment, in exchange for a commitment to be available in future years to meet the region's electricity needs. Energy efficiency is eligible to bid into the FCM.

3. The Regional Greenhouse Gas Initiative is a cooperative effort by Northeastern and Mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island and Vermont) to reduce carbon dioxide emissions through the implementation of a multi-state cap-and-trade program with a market-based emissions trading system involving a regional auction platform to sell CO_2 allowances.

> (4) To save Vermont families and businesses a total of $1.5 billion on their fuel bills over the lifetimes of the improvements and measures installed between 2008 and 2017.
> (5) To increase weatherization services to low income Vermonters by expanding the number of units weatherized, or the scope of services provided, or both, as revenues become available in the home weatherization assistance trust fund.

The FCM and RGGI funds are, by themselves, insufficient to accomplish the ambitious goals set forth in Section 581. In addition to providing incentives for heating-and-process-fuel efficiency programs, Sections 209(d)(7) and (8) require that FCM and RGGI auction proceeds be used to provide incentives for the installation of woody biomass heating systems.[4] Additionally Section 18h of Act 47[5] authorizes the Vermont State Treasurer to transfer up to $1,000,000 of the FCM and RGGI proceeds to the State PACE [Property Assessed Clean Energy][6] Reserve Fund.

Since the RGGI and FCM auction proceeds can vary significantly from auction to auction, any HPF budget will necessarily involve significant uncertainty, and the further out in time that the budget is predicted, the greater the uncertainty. In addition, both RGGI and the FCM are administered by regional groups. Accordingly, policy changes that happen at the regional level, and over which Vermont has limited control, can impact the proceeds from these two sources. For these reasons, any HPF budget level established by the Board must, of necessity, be an estimate, and there must be a mechanism in place to adjust the efficiency goals in response to changes in the available HPF budget.

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4. Section 20 of Act 47 requires that the EEU:

> give priority to incentives for the installation of woody biomass heating systems [with] . . . a goal of offering an incentive that is equal to 25 percent of the installed cost of such a system . . . . Provision of an incentive under this subdivision . . . for a woody biomass heating system shall not be contingent on the making of other energy efficiency improvements at the property on which the system will be installed.

5. Public Act 47 (2011 Vt., Bien. Sess.).

6. PACE is a mechanism for funding energy-related improvements to a property whereby the municipality provides a loan to residential or commercial customers to conduct the improvements, with the loans repaid through an assessment on the property tax bill. The PACE Reserve Fund is designed to make whole any municipalities that cannot recover the loan amount from the property owner.

III. HPF BUDGETS

In order to determine the HPF budgets available to VEIC and BED, it is necessary to deduct the funds dedicated to the PACE Reserve Fund and the funds used to evaluate HPF activities. The maximum amount that the Vermont State Treasurer can withdraw from HPF funds for the PACE Reserve Fund is $1,000,000.[7] We conclude that it is reasonable to reduce the available HPF budget by $1,000,000 to reflect the maximum allowed transfer of funds to the Pace Reserve Fund.[8]

The Department of Public Service ("Department" or "DPS") is responsible for evaluating the claimed savings resulting from VEIC and BED's HPF services. In addition, pursuant to the Board's May 25, 2011, Order, the Department is responsible for evaluating FCM savings, as required by ISO-NE. The FCM evaluation is funded from FCM proceeds and the HPF program evaluations are funded from both FCM and RGGI proceeds.

On March 3, 2011, the DPS filed its Energy Efficiency Evaluation Plan for 2012-2014. The Evaluation Plan included activities and budgets for both electric and heating-and-process-fuel evaluation activities. The DPS proposed an HPF-funded evaluation budget of $176,800. In addition, the DPS proposed to continue to perform evaluation activities associated with participation in the FCM. These activities are also funded with heating-and-process-fuel funds, but are represented in a separately tracked line-item totaling $1,878,900. Pursuant to the Board's Order of May 25, 2011, the Department is responsible for conducting the FCM evaluation activities.

On April 1, 2011, the DPS filed a revised Evaluation Plan and budget. The overall budget, which includes evaluation activities funded by the energy efficiency charge ("EEC"), increased by $130,700, from $4,896,900 to $5,027,600. Only the HPF budget increased, in order to reflect cost-sharing among EEC and HPF evaluation activities. The EEC and FCM evaluation budgets were reduced slightly.

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7. *See,* Act 47, Section 18h.

8. In developing revised HPF budgets to be filed with the HPF addendums, VEIC and BED may propose a lower dollar amount that it expects to be transferred to the PACE Reserve Fund if the Vermont State Treasurer's Office determines that it is likely to withdraw a smaller amount from available HPF funds.

On April 17, 2011, VEIC filed comments stating that it supports the Department's revised plan and associated budgets. No other party filed comments on the DPS Evaluation Plan.

We find the DPS's heating-and-process-fuel-funded evaluation proposal to be a reasonable approach. Accordingly, the heating-and-process-fuel (including the FCM) portion of the 2012 to 2014 Evaluation Plan and associated budget of $2,180,595 is approved. We encourage the DPS to seek further efficiencies in its evaluation activities through continued coordination with VEIC and BED.

A. EVT HPF Budgets

On January 11, 2011, VEIC and the Department filed a joint proposal for HPF budgets.

On January 16, 2011, Board staff held a workshop to discuss the VEIC filing.

On June 29, 2011, VEIC filed revised budget estimates, and represented that its projections take into account the changes to HPF budgets as a result of Act 47.

On July 1, 2011, the Department filed proposed budget estimates; however, the Department stated that the estimates do not account for budgetary changes resulting from Act 47.

On July 12, 2011, VEIC filed a letter asserting that its May and June budget recommendations accounted for the potential downward adjustment of $1,000,000 from RGGI proceeds to the PACE Reserve Fund. Additionally, VEIC states that the Act 47 requirements that incentives be provided to efficient woody biomass heating units will impact HPF programs under consideration in the DRP. VEIC represents that it will work with the Department to update its HPF program plans and quantitative performance indicators proposals after the Board has determined the estimated budget levels for HPF services.

On July 13, 2011, the Department filed a letter stating that, pursuant to the Process and Administration document,[9] VEIC should propose a method by which to alter performance targets. Additionally, the Department asserts that interested parties should take this opportunity to revisit expected revenues from the RGGI and FCM auctions, based on updated information regarding these markets.

VEIC's proposed HPF budget estimate for the 2012 to 2014 time period is as follows:

9. The Process and Administration document was approved in Docket 7466, Order of December 20, 2010.

Table 1. VEIC's Three-Year HPF Budget Estimate

	2012	2013	2014
Resource Acquisition Budget	$3,414,280	$3,973,180	$4,566,840
Non-Resource Acquisition Budget	$834,000	$790,410	$830,120
EVT Operations Fees and Maximum Performance Incentive Payment	$181,626	$203,657	$230,736

In addition, VEIC proposed the following budget estimate for the 2012 to 2021 time period; this budget is used for planning purposes.

Table 2. VEIC's Ten-Year HPF Budget Estimate

	Resource Acquisition	Non-Resource Acquisition	Operations Fee and QPI
2012	$3,414,280	$834,00	$181,626
2013	$3,973,180	$790,410	$203,657
2014	$4,566,840	$830,120	$230,736
2015	$4,516,400	$848,330	$229,358
2016	$4,092,000	$867,940	$212,052
2017	$4,319,300	$887,950	$222,625
2018	$4,746,600	$907,260	$241,719
2019	$5,125,200	$928,070	$258,795
2020	$5,452,300	$950,280	$273,729
2021	$5,831,300	$970,790	$290,809

VEIC's budget proposes that 75% of the HPF resource acquisition funds be directed to services for residential customers, with the remaining 25% allocated to services for business customers. In addition, VEIC proposes that a portion of the HPF funds be allocated to non-resource acquisition activities. Finally, the filings indicate that approximately 5% of the total budget will be set aside for operations fee and performance incentive payments, with 60% of that amount set aside for performance payments and the remaining 40% set aside for an operations fee. In the Board's Order of August 1, 2011, we determined that a 4.1% set-aside for performance payments and an operations fee, with 60% of that amount set aside for performance payments and 40% set aside for an operations fee, was reasonable for VEIC's electric efficiency programs. The August 1 Order did not include a determination regarding the appropriate amount to be set aside for an operations fee and performance payments related to VEIC's HPF programs.

No party objected to the allocation of funds among residential and business customers, or the percentage of funds allocated to non-resource acquisition activities. We conclude that these allocations are reasonable. No party has objected to a 5% set-aside for the operations fee and performance payments related to VEIC's HPF programs. However, VEIC did not provide a basis for why the set-aside for its HPF programs would be greater than the set-aside for its electric efficiency programs. We conclude that a 4.1% set-aside for an operations fee and performance payments related to VEIC's HPF program, rather than the 5% proposed by VEIC, is warranted. Additionally, of the 4.1% set-aside, 60% shall be available for performance payments and 40% shall be available for an operations fee, consistent with the Board's determination in the August 1 Order.

However, because of the recent reductions in RGGI auction proceeds[10] we are concerned that the proposed budgets no longer reflect expected RGGI revenues. Therefore, we direct VEIC to file revised HPF budget estimates in an updated HPF Addendum to its Annual Plan. The updated budget numbers must also include a break-down of the budget for non-resource acquisition activities by category. The HPF Addendum should be filed concurrent with the Geographic Targeting Addendum.[11]

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10. In the second, third, and fourth quarter of 2011, not all of the Vermont allowances offered in the RGGI auctions were sold, resulting in a significant reduction in auction proceeds compared to the RGGI auction that took place during the first quarter of 2011.

11. The schedule for the geographic targeting track of the Demand Resources Plan proceeding requires that VEIC file an addendum to its 2012 Annual Plan setting forth VEIC's proposed geographic targeting activities.

B. BED HPF Estimated Budget

On January 14, 2011, BED and the Department filed a joint proposal for HPF budgets.

BED's January 14 filing provides estimated budget amounts for the 2012 to 2014 time period, as well as deductions related to FCM administration, FCM metering and monitoring and evaluation, DPS program monitoring and evaluation, as well as non-resource acquisition activities.

Table 3. BED's Three-Year HPF Budget Estimate

	2012	2013	2014
Total HPF Budget	$303,486	$314,983	$329,015
Resource Acquisition Budget	$248,197	$258,683	$271,915
Non-Resource Acquisition Budget	$9,050	$9,200	$9,200
Evaluation Activities	$24,239	$24,700	$25,100
BED FCM Administration	$22,000	$22,400	$22,800
Residential (75%)	$186,148	$194,012	$203,936
Commercial (25%)	$62,049	$64,671	$67,979

Table 4. BED's Ten-Year HPF Budget Estimate

2012	2013	2014	2015	2016
$303,486	$314,983	$329,015	$337,647	$307,818

2017	2018	2019	2020	2021
$298,497	$320,220	$344,851	$371,750	$399,354

On March 4, 2011, BED filed proposed revisions to its HPF plans, and requests that it be allowed to use a portion of its available 2012 HPF budget for non-resource acquisition activities related to capitalizing PACE projects in Burlington. BED represents that it worked with the DPS and VEIC on the development of the specific initiatives. The DPS offered comments on only one aspect of BED's non-resource acquisition proposal. The DPS states that it finds BED's proposal to use HPF funding to support a pilot project related to Vermont's PACE program to be acceptable (BED's proposed PACE program is discussed further, below). The DPS represents that "through the inclusion of this pilot proposal in BED's [non-resource acquisition] budget, BED has allocated nearly all of its expected 2012 HPF funding."

Similar to VEIC, BED proposes to allocate 75% of the HPF funds to services for residential customers, with the remaining 25% allocated to services for business customers.

No party objected to the allocation of funds among residential and business customers, or the percentage of funds allocated to non-resource acquisition activities. We conclude that these allocations are reasonable.

As discussed above, we are concerned that the budget estimates currently before the Board do not accurately reflect the expected proceeds from the RGGI auctions. Therefore, we direct BED to file revised HPF budget estimates in an updated HPF Addendum to its Annual Plan. The updated budget numbers must also include a break-down of the budget for non-resource acquisition activities by category. The HPF Addendum should be filed concurrent with the Geographic Targeting Addendum.

IV. HPF PROGRAMS

A. Efficiency Vermont

On January 11, 2011, the Department and VEIC submitted a joint proposed HPF plan.

VEIC proposes five "high-level objectives" that it intends to accomplish. First, VEIC proposes to "support the achievement of building efficiency goals" set forth in Section 581. Section 581 provides that a state goal is to "improve substantially the energy fitness of at least 20 percent of the state's housing stock by 2017 (more than 60,000 housing units), and 25 percent of the state's housing stock by 2020 (approximately 80,000 housing units)." VEIC recognizes that the budget available from the FCM and RGGI auctions is insufficient to meet these goals; however, VEIC states that "through its Home Performance with Energy Star and Building Performance services, Efficiency Vermont is using a market-based approach to build and support a network of contractors delivering comprehensive, whole-building energy efficiency retrofits."

Second, VEIC represents that it will "provide comprehensive treatment that minimizes the creation of lost opportunities." Section 581 provides that a state goal is to "reduce annual fuel needs and fuel bills by an average of 25 percent in the housing units served." VEIC states that the Home Performance with Energy Star and Building Performance services "are designed to deliver moderate to deep energy savings in each building through measures such as whole-building air sealing, insulation, and heating system upgrades."

Third, VEIC claims that "to best serve customers and reduce overhead, Efficiency Vermont strives to integrate HPF services with its existing electrical efficiency services, as well as those offered by partners" such as Vermont Gas Systems, Inc. ("VGS"), BED, and the Green Mountain Power Corporation Energy Efficiency Fund.

Fourth, VEIC asserts that it will provide HPF services to a range of customers, including low-income and non-low-income residential customers. Additionally, VEIC states that 75% of the HPF budget is allocated to residential efficiency services and 25% to commercial efficiency services, based upon the approximate share of heating-and-process fuels consumed in the two sectors.

Fifth, VEIC states that it will work to overcome barriers to participation by low-income customers by focusing on low-income multifamily buildings to address the fact that owners of rental properties may not have sufficient incentives to conduct energy efficiency improvements.

VEIC has developed a proposal that attempts to address the goals of Section 581 with the limited funds available. We conclude that VEIC's general proposal is sound and provides a sufficient basis for VEIC's HPF activities.

The Department and VEIC's joint filing also recommends the following quantifiable performance indicators ("QPIs") and their associated targets:

1. Incremental net MMBtu savings (three-year total): 140,000 MMBtu
2. Residential Single Family Comprehensiveness: Maintain percentage targets equivalent to those for current performance period
3. Minimum level of spending in the residential sector: 62.5%
4. Minimum level of spending on low-moderate income customers (contingent upon agreement on definition of a certification process for low-moderate income customers): 17%

The Board previously approved the framework for HPF QPIs in our December 1, 2010, Order. The QPIs are consistent with the approved framework[12] and we approve the QPIs.

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12. The December 1 Order contemplated an administrative efficiency QPI related to VEIC's provision of HPF programs. In our *Order Approving Electric Quantifiable Performance Indicators*, of December 27, 2011, we

However, as we are requiring revised HPF budget proposals, it will also be necessary to revise the QPI targets. Revised QPI targets should be proposed in the updated HPF Addendum to its Annual Plan. In addition, we direct VEIC to file a proposal for making adjustments to the QPI targets in the likely event that the actual HPF budget available differs from the estimated budget.

B. BED Programs

On January 11, 2011, the Department and BED filed a Joint Proposal for Heating and Process Fuel Budgets and Performance Targets.

On January 14, 2011, BED filed an HPF plan with savings targets, budgets and quantitative performance indicators.

On January 16, 2011, Board staff held a workshop with interested parties to discuss the HPF filings. At the workshop parties discussed whether it was appropriate to allow BED to provide HPF services to VGS customers within BED's service territory. VGS provides efficiency programs to its customers; however, a significant majority of BED's customers are also VGS customers.

On March 4, 2011, BED filed a significantly revised proposal for its HPF program. BED requests Board authority to utilize up to $175,000 of BED's FCM funds to capitalize 10 to 20 PACE projects in Burlington. BED proposes that the funding for the PACE capitalization program would come from BED's HPF non-resource-acquisition budget, as the funds would not be used to provide direct incentives for heating-and-process-fuel efficiency programs. BED's HPF funds would be used to pay down the up-front costs of implementing efficiency measures; however, the participating customer would be responsible for repaying these costs through its property taxes. Under BED's proposal, VGS customers would be eligible to participate in the PACE effort but would only have access to VGS incentives and these customers would not receive BED HPF funds.

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conclude that a QPI to measure the overall administrative efficiency of Efficiency Vermont's programs, including electric and HPF efficiency programs, is appropriate. Accordingly, an administrative efficiency QPI to measure HPF programs alone is not necessary.

On March 18, 2011, the Department filed a letter supporting BED's proposal. The Department emphasizes that the HPF funds utilized by BED would not be used to provide incentives for VGS customers, but "would be used to capitalize projects and would be available as loans that the customers would then repay through their property taxes."[13] In addition, the Department states that "using HPF monies to run this pilot in Burlington appears to the Department to be a valuable and appropriate use of funds."[14]

The Board is currently exploring whether Efficiency Vermont and BED should be allowed to use HPF funds to provide services to customers in VGS's service territory.[15] BED has previously stated that, given the high percentage of VGS customers within its service territory, it has had difficulty developing HPF programs that would not include VGS customers. BED's proposal will provide time to determine whether VGS customers should be eligible to participate in HPF programs. The Department agrees that it is reasonable to defer BED's HPF program review for the 2013 and 2014 period until the Board has made a final determination regarding the use of HPF funds within VGS's service territory.

We conclude that BED's approach is reasonable. We direct BED to file an updated budget for its 2012 activities with its HPF Annual Plan Addendum. The question of whether VGS customers should be eligible for HPF funds will be decided in the EEU-2010-02 proceeding. Subsequent to that determination, BED will be required to file a proposed plan for the use of HPF funds in the 2013 and 2014 time periods.

V. Order

It Is Hereby Ordered, Adjudged and Decreed by the Public Service Board of the State of Vermont that:

1. The general framework for Vermont Energy Investment Corporation's heating-and-process-fuel efficiency programs, as detailed in its January 11, 2011, filing, is approved. The

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13. Letter of March 18, 2011, from TJ Poor to Susan M. Hudson, Clerk of the Board, at 1.

14. Letter of March 18, 2011, from TJ Poor to Susan M. Hudson, Clerk of the Board, at 2.

15. The Board's review of this issue is occurring in proceeding EEU-2010-02.

quantifiable performance indicators detailed in Vermont Energy Investment Corporation's January 11 filing are approved; however, Vermont Energy Investment Corporation is directed to file updated targets for its quantifiable performance indicators in a revised Heating-and-Process-Fuel Efficiency Annual Plan Addendum.

2. The City of Burlington Electric Department's heating-and-process-fuel efficiency program, as detailed in its March 4, 2011, filing, is approved.

3. The general framework of the heating-and-process-fuel efficiency budgets proposed by the City of Burlington Electric Department is approved. The general framework of the heating-and-process-fuel efficiency budgets proposed by Vermont Energy Investment Corporation is approved, with the exception of the set-aside for the operations fee and performance payments related to its HPF programs. Vermont Energy Investment Corporation shall use a set-aside of 4.1% for its operations fee and performance payment in establishing its heating-and-process-fuel efficiency budgets. Vermont Energy Investment Corporation and the City of Burlington Electric Department are directed to file a revised Heating-and-Process-Fuel Efficiency Annual Plan Addendum that provides updated HPF budgets and breakdowns of non-resource acquisition budgets by category.

Dated at Montpelier, Vermont, this 28th day of December, 2011.

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

OFFICE OF THE CLERK

FILED: December 28, 2011

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)