

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 22-2954-PET

Petition of the Department of Public Service to open an EEU Demand Resource Plan proceeding for the 2024-2026 and 2027-2029 performance periods	Hearings via GoToMeeting June 27, 2023
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Order entered: 09/26/2023

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J. Riley Allen, Commissioner

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ORDER APPROVING 2024-2026 DEMAND RESOURCE PLAN UPDATE

FOR VERMONT GAS SYSTEMS, INC.

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I. INTRODUCTION

On July 27, 2022, the Vermont Department of Public Service (“Department”) filed a petition with the Vermont Public Utility Commission (“Commission”) to open a Demand Resources Plan (“DRP”) proceeding pursuant to 30 V.S.A. §§ 209(d) and (e) to determine the budgets, savings goals, and performance metrics for Vermont’s electricity, natural gas, and thermal-energy-and-process-fuels energy efficiency utilities (“EEUs”). While this proceeding addresses all three of Vermont’s EEUs, this Order is limited to the DRP Update proposed by Vermont Gas Systems, Inc (“Vermont Gas” or the “Company”).¹

A DRP is a set of year-by-year budgets, savings goals, and performance metrics for an energy efficiency utility program. A DRP results in a set of short- and long-term assumptions pursuant to which an EEU’s programs will operate. The establishment of both short- and long-term EEU budgets and savings goals through a DRP allows the EEUs, Vermont utilities, and other market participants to incorporate efficiency savings into their planning and allows these entities to estimate the impacts of savings that will occur as a result of energy efficiency efforts that are funded by the energy efficiency charge. Vermont law requires EEU budgets funded through an energy efficiency charge to be set at a level that would achieve “all reasonably available, cost-effective energy efficiency,” and describes specific objectives for the Commission to consider when setting EEU budgets.

On October 22, 2020, the Commission issued an Order approving a DRP for Vermont Gas for the 2021-2023 and 2024-2026 performance periods. In its DRP Update for 2024-2026, Vermont Gas proposes to retain the key structural elements of its Commission-approved DRP, with several program improvements focused on providing more services to low- and moderate-income Vermonters. Vermont Gas and the Department agree on nearly all aspects of the Company’s DRP Update. The only remaining disputed topic is the proposed performance incentive mechanism that links the Company’s level of return on its energy efficiency investments to its achievement of performance metrics.

¹ The Commission has appointed Vermont Gas to provide natural gas EEU services within its service territory. The Commission has also appointed the City of Burlington Electric Department (“BED”) to provide EEU services within its service territory and Vermont Energy Investment Corporation (“VEIC”) to provide EEU services in the rest of the state (known as “Efficiency Vermont”).

In this Order we approve the DRP Update for Vermont Gas agreed upon by the parties. We conclude it is appropriate to adopt a new performance incentive mechanism that ties financial returns to Vermont Gas's performance relative to the approved efficiency goals. The performance incentive mechanism will provide an incentive for Vermont Gas to continue to provide comprehensive efficiency services to its customers.

In reaching our conclusions, we recognize that continued investment in cost-effective energy efficiency will result in total natural gas costs for Vermont Gas ratepayers that are lower than they would otherwise be absent energy efficiency efforts. These efforts not only yield savings for customers who install natural gas efficiency measures, but also result in savings for all ratepayers through capacity reduction coincident with peak-day demand. These savings through additional investments in energy efficiency will be obtained at a cost below the cost of traditional supply-side resources.

II. BACKGROUND

Vermont law directs the Commission to appoint energy efficiency utilities to develop and implement electric, natural gas, and thermal-energy-and-process-fuels energy efficiency and conservation programs. To fund the electric and natural gas programs, the Commission is authorized to establish a volumetric energy efficiency charge on electric and natural gas customer bills. By law, the budgets funded by the energy efficiency charge ("EEC") must be set at a level to achieve "all reasonably available, cost-effective energy efficiency" with consideration given to specific statutory objectives.² In addition, the Commission's conclusions are guided by the objectives and criteria of 30 V.S.A. §§ 218c, 209(d), 209(f), 202(a), and other applicable sections of Vermont statutes and prior Commission orders.

The overall EEU program structure in Vermont is described in a document titled "Process and Administration of an Energy Efficiency Utility Order of Appointment" (the "Process and Administration Document").³ To facilitate the Commission's consideration of the statutory goals and criteria for Vermont's energy efficiency programs, the Process and Administration

² 30 V.S.A. § 209(d)(3)(B).

³ At the time the Commission initiated this proceeding, it had not yet approved the amended Process and Administration Document under consideration in Case No. 22-1647-PET and the process for this proceeding is dictated by the Process and Administration Document approved by the Commission in Case No. 18-2867-INV, Order of 11/26/19.

Document describes the process to be followed in developing a Demand Resources Plan. The first step is for the Department to assess the potential for demand-side resources (the “Potential Study”). Next, an energy efficiency utility must engage with stakeholders, including the Department, Vermont utilities, weatherization agencies, and regional planning commissions, to solicit input to inform the development of its Demand Resources Plan proposal. Finally, an energy efficiency utility must file its comprehensive Demand Resources Plan proposal with the Commission.

The Commission has conducted this proceeding using contested-case procedures as defined under the Vermont Administrative Procedure Act. The parties have filed testimony and evidence, engaged in multiple rounds of discovery, participated in public workshops and an evidentiary hearing, and filed proposed findings and legal briefs. Taken together, the parties’ filings are intended to address the requirement of Vermont law that energy efficiency utility budgets funded by an energy efficiency charge be set at a level that will realize “all reasonably available, cost-effective energy efficiency” and the specific objectives the Commission must consider when setting energy efficiency utility budgets.⁴

This proceeding culminated in an evidentiary hearing on June 27, 2023. The testimony and exhibits presented in the jointly filed exhibit list regarding Vermont Gas’s DRP Update were admitted at the hearing.⁵ The Department’s witnesses are Brian Cotterill, Melissa Bailey, Sean Foley, Kelly Launder, Keith Levenson, Barry Murphy, and Philip Picotte. Vermont Gas’s witnesses are Timothy Perrin and Karen Horne.

On July 14, 2023, the Department filed responses to records requests made at the hearing, and Vermont Gas filed comments in response to that filing on July 20, 2023. The parties agreed that both filings could be admitted into the evidentiary record. The Department and Vermont Gas post-hearing filings are admitted as if presented at the hearing.⁶

⁴ 30 V.S.A. §§ 209(d)(3)(B) and (f).

⁵ Exh. Joint-1.

⁶ The Department’s filing will be labeled “PUC-DPS-1” in ePUC and Vermont Gas’s filing will be labeled “PUC-VGS-1.” If any party has an objection to either of these documents being entered into evidence, the party shall submit its objection within 14 days of the date this Order is entered.

III. POSITIONS OF THE PARTIES

Vermont Gas and the Department agree on nearly all aspects of the Company's DRP Update, including the three-year resource-acquisition budget, the development and support services budget, quantifiable performance indications ("QPIs"), and minimum performance requirements ("MPRs"). Several of these metrics depend on final Commission-approved budgets, and the parties agree that those metrics will be recalculated and submitted following a Commission order. The only topic on which the parties have not reached agreement is whether a Performance Incentive Mechanism should be adopted for VGS, and if so, the structure and mechanics of that mechanism. The parties' positions on this topic are summarized below.

Vermont Gas

In Case No. 19-3272-PET, the Commission approved a financing mechanism whereby a portion of Vermont Gas's energy efficiency budgets would be financed by the Company's capital providers at the weighted average cost of capital, with 100 basis points off the Commission-authorized return on equity, and amortized over 15 years. Vermont Gas was directed to "consult with the Department regarding the implementation of a performance incentive mechanism that rewards performance relative to efficiency goals rather than spending."⁷ Vermont Gas consulted with the Department, filed status reports with the Commission, and proposed a performance mechanism as part of this proceeding.

Vermont Gas maintains that not adopting a performance incentive mechanism would be the best outcome for its customers. However, if the Commission does adopt a performance incentive mechanism for the Company, Vermont Gas contends that it should be its proposed *Basis Point Reduction with Sliding Scale*, subject to several modifications on which the parties agree. Vermont Gas suggests that this is the only performance incentive mechanism that provides opportunity for both rewards and penalties, which would be consistent with the Commission's requirement.

Department of Public Service

⁷ *Order Approving 2021-2023 Demand Resource Plan for Vermont Gas*, Case No. 19-3272-PET, Order of 10/22/20 at 22-24.

The Department maintains that ratepayer interests will be best served by adoption of a performance incentive mechanism. The Department contends that Vermont Gas is earning a healthy return on equity on a low-risk investment and that successful performance on its goals should allow the Company to earn the return authorized by the Commission in the prior DRP proceeding. The Department prefers adoption of its proposed performance incentive mechanism, which is consistent with the aspect of Vermont Gas's proposal that would reduce the Company's return on equity by an additional 50 basis points for failure to achieve any of the six minimum performance requirements and reduces the return on equity on a weighted basis of up to 50 basis points for failure to meet any of the eight quantifiable performance indicators.⁸

If the Commission adopts Vermont Gas's *Basis Point Reduction with Sliding Scale* performance incentive mechanism, the Department recommends several modifications described in detail below—some of which Vermont Gas agrees to—that it believes would provide an incentive for Vermont Gas to manage its programs to achieve all the diverse metrics that the quantifiable performance indicators represent.

IV. VERMONT GAS'S DEMAND RESOURCES PLAN

Title 30, Section 209(d)(3)(B) provides the Commission with the following guidance for determining a budget funded by an energy efficiency charge:

The charge established by the Commission pursuant to this subdivision (3) shall be in an amount determined by the Commission by rule or order that is consistent with the principles of least-cost integrated planning as defined in section 218c of this title. As circumstances and programs evolve, the amount of the charge shall be reviewed for unrealized energy efficiency potential and shall be adjusted as necessary in order to realize all reasonably available, cost-effective energy efficiency savings. In setting the amount of the charge and its allocation, the Commission shall determine an appropriate balance among the following objectives; provided, however, that particular emphasis shall be accorded to the first four of these objectives: reducing the size of future power purchases; reducing the generation of greenhouse gases; limiting the need to upgrade the State's transmission and distribution infrastructure; minimizing the costs of electricity; reducing Vermont's total energy demand, consumption, and expenditures; providing efficiency and conservation as a part of a comprehensive resource supply strategy; providing the opportunity for all Vermonters to participate in efficiency and conservation programs; and targeting efficiency and conservation efforts to locations, markets, or customers where they may provide the greatest value.

⁸ Department Brief at 37-38.

In addition, 30 V.S.A. § 209(f) contains additional goals and criteria for the Commission to consider, including the impact on retail rates of efficiency programs.⁹

Further, the process for carrying out the budget review prescribed by statute is detailed in the Process and Administration document. Section II.3.B.f. of the Process and Administration document provides that a DRP proceeding “[s]hall be scheduled to occur in full every six years, with opportunities to re-assess DRP elements every three years unless otherwise authorized by the Commission.”

In the following sections, we address the Demand Resources Plan Update recommendations for Vermont Gas’s energy efficiency programs, including the resource-acquisition budgets, development and support services budgets, and performance goals. Our determination reflects a careful balancing of the substantial net societal benefits of energy efficiency benefits with the rate and bill impacts that the natural gas energy efficiency charge will have on Vermont Gas’s customers.

A. Budgets and Expected Savings Funded by the Energy Efficiency Charge
Natural Gas Efficiency Potential

1. The Department provided an energy efficiency potential study as an objective third-party estimate of how much cost-effective energy efficiency potential is available in Vermont. A third-party assessment of energy efficiency potential is a useful tool that can be used to compare the costs and benefits of different scenarios to an energy efficiency utility’s proposal. The Department’s Potential Study assesses four types of energy efficiency potential, including technical potential, economic potential, and achievable potential. (This last category includes two types of potential: maximum achievable potential and program achievable potential.) Cotterill pf. (2/23/23) at 13-15; Potential Study at 30.¹⁰

2. Technical potential reflects the theoretical maximum amount of energy use that could be displaced by energy efficiency and disregards all non-engineering constraints, such as cost-

⁹ Although Section 209(f)(14) requires the Commission to consider the impact on retail *electric* rates and bills, we conclude it is important to consider the impact on retail natural gas rates and bills with respect to Vermont Gas’s energy efficiency programs.

¹⁰ The Potential Study is entered into the evidentiary record. If any party has an objection to this document being entered into evidence, the party shall submit its objection within 14 days of the date this Order is entered.

effectiveness and the willingness of customers to adopt efficiency measures. Cotterill pf. (2/23/23) at 13-15; Potential Study at 30.

3. Economic potential is a subset of technical potential that includes the amount of technical potential that is economically cost-effective and includes only the cost of the efficiency measures. Technical and economic potential are theoretical points of reference and are not intended to be implementable. Cotterill pf. (2/23/23) at 13-15; Potential Study at 30.

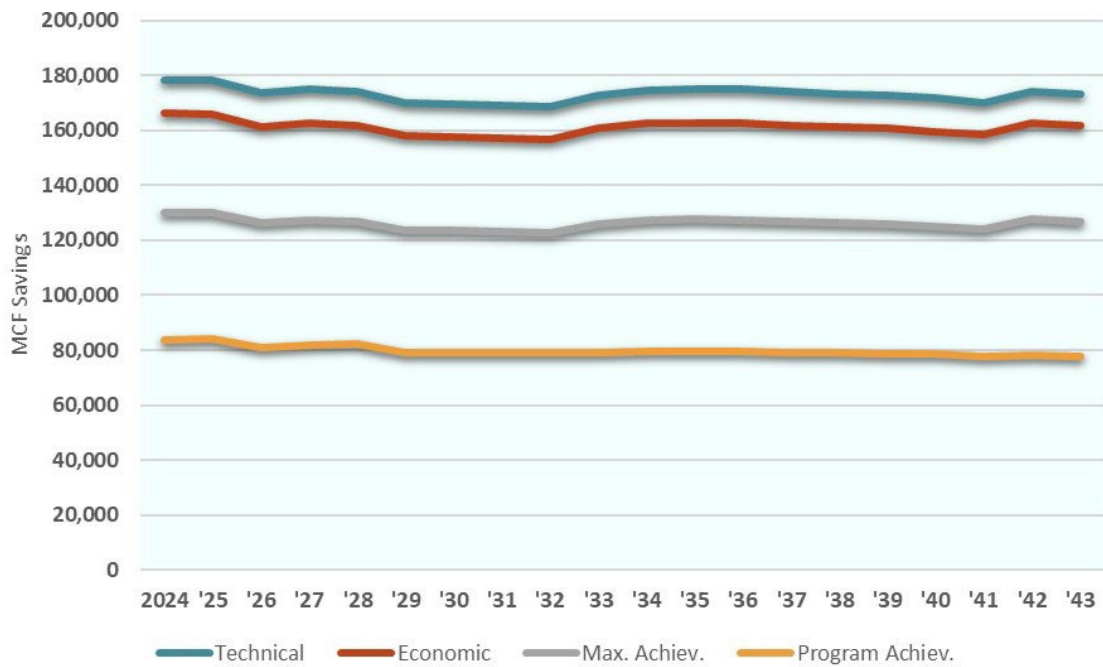
4. Achievable potential considers real-world barriers to the adoption of efficiency measures. The maximum achievable potential scenario reflects the most aggressive programs that provide customers with incentive payments for the entire incremental cost of energy-efficient equipment. Although still cost-effective, the maximum achievable scenario would come at a high cost to ratepayers. The program achievable scenario reflects the efficiency potential of real-world policy considerations and incentive and non-incentive program costs that are calibrated to historic levels. Cotterill pf. (2/23/23) at 13-15; Potential Study at 30.

5. The program achievable scenario attempts to mimic some of the real-world considerations and constraints faced by efficiency program implementers. For example, this scenario includes certain assumptions about sector equity (low-income and residential funding allocations as well as small business and geographic equity). Many of these sector equity assumptions are consistent with an energy efficiency utility's minimum performance requirements. Cotterill pf. at 5 (Case No. 19-3272-PET).

6. The Potential Study modeling assumptions were developed in coordination with the EEU's. Agreeing on modeling assumptions in advance can have the effect of minimizing differences in approach between the Potential Study analysis and program modeling performed by the EEU's. Cotterill pf. at 6 (Case No. 19-3272-PET); Potential Study at 3.

7. Figure 1-6 of the Potential Study shows the potential incremental annual natural gas savings for the four scenarios.

FIGURE 1-6 SUMMARY OF VGS POTENTIAL (INCREMENTAL ANNUAL MCF)



Potential Study at 8.

8. Table 1-1 of the Potential Study provides the incremental annual natural gas savings in Mcf for the 2024-2026 performance period and the cumulative savings over three-, 10-, and 20-year periods by type of potential.

	2024	2025	2026	3-Year	10-Year	20-Year
Technical	178,101	178,021	173,389	524,249	1,577,296	2,394,804
Economic	166,115	165,699	161,403	488,459	1,466,709	2,271,081
Max. Ach.	130,104	129,887	126,456	382,954	1,152,076	1,803,107
Prog. Ach.	83,696	84,024	81,131	246,741	737,933	1,139,041

Potential Study at 9.

9. Table 1-2 of the Potential Study provides the annual resource-acquisition budgets for the natural gas maximum achievable and program achievable scenarios in millions of dollars.

	Max. Achievable	Program Achievable
2024	\$17	\$6.2
2025	\$17	\$6.3

2026	\$17	\$6.1
2027	\$17	\$6.1
2028	\$17	\$6.1
2029	\$17	\$5.9
2030	\$16	\$5.9
2031	\$16	\$5.9
2032	\$16	\$5.9
2033	\$17	\$5.9
2034	\$17	\$5.9
2035	\$17	\$5.9
2036	\$17	\$5.9
2037	\$17	\$5.9
2038	\$17	\$5.9
2039	\$17	\$5.9
2040	\$17	\$5.8
2041	\$17	\$5.8
2042	\$17	\$5.8
2043	\$17	\$5.8

Potential Study at 10.

10. The Potential Study indicates lower program achievable savings compared to the savings levels approved in the prior DRP proceeding for the 2024-2026 performance period, but the savings are more levelized over the 20-year planning period. Most of the reductions to potential savings are associated with new construction programs. Over time, potential savings are reduced through increasing energy performance requirements in building energy codes. In addition, there has been a rapid increase in the number of new commercial and multifamily buildings greater than 50,000 square feet that use electric heat pumps as the primary heating source, thereby limiting Vermont Gas's energy efficiency utility role. Perrin pf. (12/20/22) at 25.

Demand Resources Plan Savings Levels

11. Vermont Gas worked with the Department’s potential study contractor to generate its savings scenario. Levenson pf. (4/20/23) at 8.

12. There was an error in the contractor’s model that was subsequently corrected. After correcting the error, the Department proposed a slight increase in savings based on the contractor’s model. Levenson pf. (4/20/23) at 8-9.

13. Vermont Gas and the Department agree to a total savings goal of 248,854 Mcf for the 2024-2026 performance period based on the corrected model. Levenson pf. (4/20/23) at 15; Perrin pf. reb. (5/11/23) at 12-13.

14. Vermont Gas and the Department agree to sector splits and total yield rates for the 2024-2026 performance period, as shown in the following table.

Vermont Gas Sector Split and Yield Rate 2024-2026		
Residential Sector	Commercial Sector	Yield (\$/Mcf)
40%	60%	\$70.84

Levenson pf. (4/20/23) at 15; Perrin pf. reb. (5/11/23) at 12-13.

15. Vermont Gas proposes to increase its focus on providing services to low- and moderate-income Vermonters through its “FastTrack” weatherization program and the Weatherization Repayment Assistance Program pilot. Perrin pf. (12/20/22) at 4.

16. Vermont Gas and the Department agree that the proposed resource-acquisition budgets will achieve the following expected savings over the 20-year planning period, from 2024-2043, derived directly from the program achievable scenario in the Potential Study.

2024-2043
1,139,041 Mcf

Levenson pf. (4/20/23) at 8; Perrin pf. reb. (5/11/23) at 12-13; Potential Study at 9.

Resource-Acquisition Budgets

Resource-acquisition (“RA”) activities are those that lead directly to measurable savings and represent the largest component of Vermont Gas’s annual efficiency budget. The Process and Administration Document calls for the establishment of resource-acquisition budgets for three-, six-, and 20-year periods.

17. Vermont Gas and the Department agree on resource-acquisition budgets for the 2024-2026 performance period, as shown in the following table.

3-Year Total	
Residential	\$12,302,261
Commercial/Industrial	\$5,326,619
Total	\$17,628,880

Department 7/14/23 Response at 1; Vermont Gas 7/20/23 Response at 1.

18. The agreed-upon 2024-2026 resource-acquisition budgets were derived by reducing the Potential Study program achievable resource-acquisition budgets by 5%. Levenson pf. (4/20/23) at 9.

19. For the residential sector, Vermont Gas proposes three categories of programs: retrofit, new construction, and equipment replacement. The program offerings include energy audits, financial incentives, technical assistance, and partnerships with Efficiency Vermont, Burlington Electric, NeighborWorks, and community activities. Exh. VGS-TP-1.

20. For the commercial sector, Vermont Gas proposes the same three categories of programs: retrofit, new construction, and equipment replacement. The programs encourage participants to install cost-effective natural-gas-saving space-, water-, and process-heating measures. Vermont Gas offers facility audits, outside engineering assistance, financial incentives, and technical assistance. Exh. VGS-TP-1.

21. Vermont Gas and the Department agree on resource-acquisition budgets for the 20-year planning period as shown in the following table.

2024	\$5,898,686
2025	\$5,974,400
2026	\$5,755,794
2027	\$5,599,197
2028	\$5,592,441
2029	\$5,273,011
2030	\$5,233,439
2031	\$5,161,343

2032	\$5,114,314
2033	\$5,073,542
2034	\$5,066,834
2035	\$5,067,560
2036	\$5,016,357
2037	\$4,972,701
2038	\$4,937,504
2039	\$4,896,496
2040	\$4,856,884
2041	\$4,778,547
2042	\$4,767,204
2043	\$4,730,112

Department 7/14/23 Response at 1; Vermont Gas 7/20/23 Response at 1.

Development and Support Services Budgets

The Process and Administration document and the EEU Orders of Appointment provide that the DRP process includes the consideration of appropriate development and support services (“DSS”) budgets. Specifically, the Process and Administration document requires the EEUs to propose EEC-funded DSS budgets for three-, six-, and 20-year periods. For this DRP update, we approve DSS budgets for three- and 20-year periods.

22. Development and support services represent initiatives that advance, improve, and support energy efficiency but may not result directly in energy savings. Exh. VGS-TP-1.

23. The Education and Training initiative invests in education and training for Vermont Gas’s staff to ensure they remain current on codes, efficiency best practices, and emerging technologies. This initiative also supports the Company’s partnership with the Vermont Energy Education Program and trainings for contractors. Exh. VGS-TP-1.

24. The Applied Research and Development initiative pertains to Vermont Gas’s efforts to remain current with emerging technologies, analytics, or data services geared around new concepts and technologies that are not yet proven or widely accepted. The Company shares costs

with Efficiency Vermont related to research and development for technology and demonstrations. Exh. VGS-TP-1.

25. The Planning and Reporting initiative covers Vermont Gas’s work to plan for and report on energy efficiency efforts to the Commission. This includes monthly, quarterly, and annual reports, fiscal agent reports, annual plans, the DRP process, and the energy efficiency portion of Vermont Gas’s integrated resource plan. Exh. VGS-TP-1.

26. The Evaluation initiative includes Vermont Gas’s costs, and the costs of any of its consultants, to participate in the evaluation process, including providing information to the Department for savings verification, evaluating the cost-effectiveness of equipment and measures, and participating in the technical advisory group. Exh. VGS-TP-1.

27. The Policy and Public Affairs initiative includes internal staff time budgeted to support participation in energy efficiency discussions, including regulatory matters and policy cases. Exh. VGS-TP-1.

28. The Information Technology initiative involves Vermont Gas’s energy efficiency database, which is regularly improved, including modification of existing tools, addition of new tools, and improved functionality of the system. Vermont Gas will also explore the modernization of existing software systems to lower administrative costs. Exh. VGS-TP-1.

29. The General Administration initiative includes Vermont Gas’s energy efficiency program costs that are not specific to individual programs. This includes staff meetings, coordination of program implementation, managing and monitoring overall performance, and collaboration with other energy efficiency utilities. Exh. VGS-TP-1.

30. Vermont Gas and the Department agree to the following DSS categories and budgets for 2024-2026.

Vermont Gas DSS Budgets 2024-2026				
	2024	2025	2026	Total
Education & Training	\$80,030	\$80,731	\$81,438	\$242,199
Applied R&D	\$10,621	\$10,727	\$10,834	\$32,181
Planning and Reporting	\$66,787	\$67,355	\$67,928	\$202,070
Evaluation	\$36,404	\$36,768	\$37,136	\$110,308

Policy and Public Affairs	\$15,610	\$15,766	\$15,924	\$47,300
Information Technology	\$36,880	\$37,049	\$37,217	\$111,146
General Administration	\$36,168	\$36,505	\$36,845	\$109,518
Total	\$282,500	\$284,901	\$287,322	\$854,723

Vermont Gas 6/23/23 Responses at 1-2; Levenson pf. (4/20/23) at 9.

31. After reviewing the Department’s direct testimony, Vermont Gas revised its three-year DSS Information Technology budget by moving \$10,000 annually starting in 2024, plus an additional 2% to account for inflation starting in 2025, to its resource-acquisition budgets.

Vermont Gas did not provide revised 20-year DSS budgets that reflect this shift. Vermont Gas 6/23/23 Responses at 1-2.

32. The Department intends to conduct a review of the Information Technology category in the DSS budgets, including what items warrant being included in the DSS budgets versus the resource-acquisition budgets. Vermont Gas anticipates participating in this review with the Department. Launder pf. (3/16/23) at 4; Vermont Gas 6/23/23 Responses at 1.

33. Vermont Gas proposes to include costs associated with fiscal agent reporting in the planning and reporting category of the DSS budgets. Vermont Gas’s fiscal agent costs related to reporting frequently overlap with Vermont Gas’s staff costs related to planning and reporting. Vermont Gas believes it will be less administratively burdensome to track these costs together rather than track them separately. Exh. VGS-TP-1 at 25, 33; Horne pf. (2/22/23) at 4.

Cost of Energy Savings

34. Vermont Gas analyzed the cost of energy saved of its original DRP Update proposal relative to natural gas efficiency programs in other jurisdictions. The Company’s cost per first-year and lifetime savings is comparable to or less than its New England peers. Horne pf. (2/22/23) at 4-6.

Rate and Bill Impacts

35. Pursuant to 30 V.S.A § 209(f)(14), the Commission must consider “the impact on retail electric rates and bills” of efficiency programs. Picotte pf. (4/20/23) at 2.

36. The rate and bill analyses presented by the parties allow the Commission to balance the impacts of efficiency budgets against performance targets. Picotte pf. (4/20/23) at 2.

37. The energy efficiency charge will affect each customer differently depending on the customer's consumption and level of participation in energy efficiency programs. Picotte pf. (4/20/23) at 2.

38. The Department's potential study contractor developed a spreadsheet-based rate and bill tool that forecasts utility system revenue requirements and the resulting change in customer rates based on the different potential study scenarios. Each scenario consists of an annual budget figure and energy savings. The gas version of the tool accounts for fixed and variable costs, such as distribution charges. The tool uses the avoided cost values approved for the screening of efficiency measures in Case No. 21-2436-PET. Picotte pf. (4/20/23) at 3.

39. For each scenario, the rate and bill tool estimates—by year—the cost of gas service with and without the energy efficiency program in place. The difference represents the rate impact, expressed as a percentage of the original (non-energy efficiency) rate expressed in dollars per Mcf. The bill impact is the change in systemwide revenue requirements with the effect of energy efficiency. Picotte pf. (4/20/23) at 3.

40. The tool calculates the average bill for representative participants and non-participants in the energy efficiency program. Participants always benefit from lower natural gas consumption, while non-participant consumption does not change. Both types of customers are affected by the rate impacts of the energy efficiency program. Non-participant bills rise, while participant bills decrease. Together, on average, overall customer bills decrease under all proposals. Picotte pf. (4/20/23) at 4.

41. Rate and bill impact forecasts are imprecise. However, they are useful tools that indicate the direction and relative magnitude of ratepayer impacts by customer class. Picotte pf. (4/20/23) at 5.

42. Vermont Gas and the Department used the calculator to assess the rate and bill impacts of their initial proposals. The rate and bill tool assesses the impact on residential and non-residential customers, as well as participants in energy efficiency programs and non-participants. Picotte pf. (4/20/23) at 6-7.

43. Table 1-4 of the Potential Study shows the rate and bill impacts of the program achievable and maximum achievable scenarios combined across customer classes averaged over the 20-year study period.

	Program Achievable Scenario		Max. Achievable Scenario	
	Rate Impacts	Bill Impacts	Rate Impacts	Bill Impacts
All VGS Customers	4.1%	-5.0%	9.4%	-5.7%

Potential study at 12.

44. The Department’s DRP proposal, which is nearly identical to the parties’ agreed-upon budgets, would have average 20-year rate and bill impacts as indicated in the following table.

Rate and Bill Impacts of the Department’s Proposal				
	Res. Rate Impact	C&I Rate Impact	Res. Bill Impact	C&I Bill Impact
2024-2043 Avg.	3.3%	0%	-5.6%	-9.2%

Picotte pf. (4/20/23) at 6.

45. The Department’s DRP proposal, which is nearly identical to the parties’ agreed-upon budgets, would have average annual bill impacts on participants and non-participants over the 20-year period as indicated in the following table.

Bill Impacts on Participants and Non-participants				
	Res. Non-participant bill Impact	C&I Non-participant bill Impact	Res. Participant Bill Impact	C&I Participant Bill Impact
2024-2043 Avg.	\$53	\$7	-\$108	-\$1,515

Picotte pf. (4/20/23) at 7.

46. Vermont Gas originally projected that its DRP Update proposal would result in an approximately 8.42% energy efficiency charge increase in 2024. This is due in part to lower-than-expected rates in 2022 and 2023 that resulted from returning funds to customers. The parties’ agreed-upon budgets and savings levels are projected to reduce this impact over time. Perrin pf. (12/20/22) at 25-26; Foley pf. (4/18/23) at 3.

47. Vermont Gas’s original DRP Update proposal assumed that approximately \$3.5 million of its total energy efficiency budget would be funded through its capital providers. Under the parties’ agreed-upon budget, the funding requirement would be reduced. The Department estimates that energy efficiency collections would be approximately \$3.6 million less over 15 years. Perrin pf. (12/20/22) at 26; Levenson pf. (4/20/23) at 5.

48. The Department estimates that total borrowing for the 2024-2026 performance period will be approximately \$10.1 million. Levenson pf. (4/20/23) at 6.

49. The Department recommends that the Commission establish a \$10.5 million cap on borrowing as an additional ratepayer protection. Levenson pf. (4/20/23) at 6-7.

50. Vermont Gas does not object to the cap as long as it is spread over the three-year performance period, as needed, based on spending and collections and with a focus on smoothing rate impacts. Vermont Gas 6/23/23 Responses at 3.

51. The parties' agreed-upon budget and savings proposal is a reasonable and achievable plan that minimizes rate increases for Vermont Gas customers. Levenson pf. (4/20/23) at 9.

Other Benefits

52. Vermont Gas's energy efficiency programs are part of a company-wide strategy to eliminate greenhouse gas emissions by 2050. The energy efficiency programs aim to provide tangible benefits to customers such as lower energy burden, improved comfort, healthier indoor environments, and lower greenhouse gas emissions. Exh. VGS-TP-1.

53. Vermont Gas's energy efficiency budgets, programs, and goals will contribute to goals articulated in 10 V.S.A. § 578, 580, and 581 by decreasing greenhouse gas emissions, reducing its customers' annual fuel needs, and prioritizing the needs of low-to-moderate-income Vermonters. Exh. VGS-TP-1.

54. Vermont Gas's DRP expands upon its past efforts focused on enhancing equity, access, and participation in its programs for income-qualified customers and underserved businesses. Exh. VGS-TP-1.

55. Vermont Gas's DRP will reduce demand across its system. Exh. VGS-TP-1.

56. Vermont Gas's DRP represents a comprehensive and evolving suite of energy efficiency services designed to benefit its customers and contribute to Vermont's energy and environmental goals. Exh. VGS-TP-1.

Discussion

Vermont law directs the Commission to set the EEC, and therefore efficiency budgets, at a level that is intended to achieve all reasonably available cost-effective energy efficiency. Our consideration of this directive is informed by the results of the Potential Study, proposed savings

and budget levels, the estimated impacts on customer rates and bills, and other benefits provided by a demand resources plan.

Resource-acquisition budgets and savings

The parties have agreed on resource-acquisition budgets and savings levels for the 2024-2026 performance period and 20-year planning period. We approve the agreed-upon budgets and savings levels. We conclude that the proposal strikes an appropriate balance among the requirements, goals, and criteria set forth in Sections 209(d) and (f). It will result in reduced gas purchases and consumption, will lower greenhouse gas emissions, and will limit the need to upgrade Vermont Gas's transmission and distribution infrastructure. The proposal will also reduce Vermont's total energy demand, lower customers' consumption and expenditures, and provide the opportunity for all Vermont Gas customers to participate in the Company's efficiency programs. As discussed further below, we also approve the proposal that financing of the energy efficiency program from Vermont Gas's capital providers should be limited to \$10.5 million over the three-year performance period.

Development and Support Services Budgets

The Department and Vermont Gas agree on the DSS budgets for the 2024-2026 performance period. Based on our review of Vermont Gas's budget assumptions and narratives, we find the proposed DSS budget assumptions and funding levels to be reasonable. The proposal generally reflects rising costs and inflation relative to the DSS budgets approved for 2021-2023. The proposed DSS activities represent valuable aspects of service delivery and development even though the activities may not directly result in energy efficiency savings. The proposed DSS budgets reflect the level of funding needed to support the resource-acquisition activities and budgets approved for the 2024-2026 performance period. We approve both the budget categories and the spending amounts within each category.

Vermont Gas has not filed revised long-term DSS budgets that reflect its proposal to move approximately \$10,000 per year (plus inflation) from the DSS information technology budgets to the resource-acquisition budgets. We direct Vermont Gas to file within 30 days of this Order 20-year DSS budgets reflecting this revision for Commission approval.

We adopt the Department's proposal to review the Information Technology category in the DSS budgets of each energy efficiency utility. As recommended by the Department, we direct that this review include a status update due by February 14, 2024, and final recommendations due by June 14, 2024.¹¹

20-Year Total Budgets

Although Vermont Gas's initial DRP Update proposal did include 20-year budgets, no party has filed total 20-year budgets---including RA, DSS, and Other EEU budget categories---that reflect the parties' agreed-upon amounts for the Vermont Gas DRP. The 20-year budgets serve as a planning tool to assess the future costs of the EEU program.

Within 30 days of today's Order, Vermont Gas should file final total budgets and goals reflecting the decisions made today. The budgets should be shown by category and should cover the 2024-2026 performance period as well as the 20-year 2024-2043 planning period.

B. QPIs, Minimum Performance Requirements, and Performance Incentive Mechanism

Quantifiable Performance Indicators

57. Vermont Gas and the Department agree on the definitions and targets of the proposed quantifiable performance indicators ("QPIs") and minimum performance requirements. The agreed-upon QPI targets are derived from potential study modeling. The parties also agree that QPI target values that are dependent on final budget approval will be recalculated following a Commission order. Perrin pf. reb. (5/11/23) at 13; Levenson pf. (4/20/23) at 10-11.

58. The agreed-upon targets for QPI #1-3 are derived directly from the Potential Study. Levenson pf. (4/20/23) at 11.

59. QPI #1 measures annual incremental savings in two ways. QPI #1a measures the annual incremental natural gas savings in Mcf. QPI #1b expresses the same goal measured in greenhouse gas emission reductions in metric tons of carbon dioxide. Levenson pf. (4/20/23) at 10.

¹¹ Department Brief at 43.

60. QPI #2 measures lifetime natural gas savings expressed in two ways. QPI #2a measures the present worth of lifetime natural gas avoided costs. QPI #2b expresses the same goal in terms of lifetime Mcf savings. Levenson pf. (4/20/23) at 11.

61. QPI #3 measures incremental peak-day capacity reductions---measured each year---for the three-year performance period. Levenson pf. (4/20/23) at 11; exh. VGS-TP-1 at 28.

62. QPI #4 measures the comprehensive treatment of residential single-family customers. The QPI contains two components: the first component measures the percentage of home energy audits that have cost-effective measures that are converted into measure installations within one calendar year, and the second component measures the percentage of installations of audit-identified, cost-effective measures within one calendar year. Exh. VGS-TP-1 at 28.

63. QPI #5 measures the number of residential buildings audited per year. Exh. VGS-TP-1 at 28.

64. QPI #6 measures the number of energy efficiency trainings offered to contractors each year. Exh. VGS-TP-1 at 28.

65. QPI #7 requires that energy efficiency initiatives designed and implemented for commercial retrofit projects include a diverse range of installed measures. Exh. VGS-TP-1 at 29.

66. QPI #8 is designed to encourage administrative cost reductions as a percent of total budget. The 5% reduction remains unchanged from the DRP approved for the 2021-2023 performance period. This indicator is designed to measure the administrative efficiency of program delivery. Exh. VGS-TP-1 at 29.

67. The parties’ agreed-upon QPI performance targets and weights are as follows.

QPI	Title	Performance Indicator	Target (2024-2026)	Policy Goal Advanced	Weight
1	Savings	a. Annual incremental net Mcf expected savings	248,854	Annual incremental Mcf savings indicator intended to encourage EEU to design and implement efficiency initiatives that will maximize natural gas energy savings	15%
		b Greenhouse gas emissions (carbon savings metric tons)	13,695	Annual incremental GHG emission indicator intended to encourage EEU to design and	10%

				implement efficiency initiatives that will maximize greenhouse gas emissions	
2	Lifetime Natural Gas Savings	a. Present worth of lifetime natural gas avoided costs	\$27,981,383	Encourage an EEU to design and implement efficiency initiatives that will maximize lifetime natural gas benefits	15%
		b. Lifetime Mcf Savings	4,265,242		15%
3	Peak Day Natural Gas Savings	Peak day incremental expected Mcf savings	1,384	Cumulative peak day savings indicator intended to encourage EEU to design and implement efficiency initiatives that will maximize the capacity reduction coincident with peak day demand	15%
4	Residential Single-Family Comprehensiveness	a. Percent of home energy audits converted to a measure installation within 12 months	30%	Intended to ensure that energy efficiency initiatives are designed and implemented to acquire comprehensive savings	3%
		a. [Addison Specific] Percent of home energy audits converted to a measure installation within 12 months	30%		2%
		b. Percent of all cost-effective measures as well as those measures recommended by the audit and installed by the customer within 12 months	70%		3%
		b. [Addison Specific] Percent of all cost-effective measures as well as those measures recommended by the audit and installed by the customer within 12 months	70%		2%
5	Residential Audits	Energy audits completed; including comprehensive, home performance, customer, energy snap shots, low income, condominiums, and mobile homes	600 Annually	Encourage customers to have energy audits performed, including comprehensive, home performance, custom, energy snap shots, low income, condominiums, and mobile homes	5%
6	Long-term Market Transformation	Offer energy efficiency training for contractors	Two Per Year	Encourage EEU to design and implement efficiency initiatives that maximize market transformation	5%
7	Business Comprehensiveness of Savings	Diversity of measures implemented in commercial retrofit projects	A minimum of measures installed during the prior 12 months will be: 5% control-related, 20% heating systems, heat	Intended to ensure that energy efficiency initiatives are designed and implemented to	4%

			recovery, or domestic hot water systems, 5% process-related, and 15% shell or other-related	acquire comprehensive savings	
		[Addison Specific] Diversity of measures implemented in commercial retrofit projects	A minimum of measures installed during the prior 12 months will be: 5% control-related, 20% heating systems, heat recovery, or domestic hot water systems, 5% process-related, and 15% shell or other-related	Intended to ensure that energy efficiency initiatives are designed and implemented to acquire comprehensive savings	1%
8	Administrative Efficiency	Administrative cost reductions as a percent of total budget	5% savings based on total administrative costs in DRP proposal, amount to be finalized after final budgets ordered	This indicator is intended to encourage the program administrator to continually assess its operations to continue to deliver services that maximize ratepayer value	5%

Exh. VGS-TP-1; Levenson pf. (4/20/23) at 10-13; Perrin pf. reb. (5/11/23) at 13.

68. The parties agree that any QPI target values that are dependent on final resource-acquisition and DSS budgets (such as QPI #4 and #8) will be recalculated and filed with the Commission for approval. Perrin pf. reb. (5/11/23) at 13.

Minimum Performance Requirements

69. MPR #9 encourages equity for all Vermont natural gas ratepayers by ensuring that the overall natural gas benefits are greater than the costs incurred to implement and evaluate the VGS efficiency programs. This metric requires that the total verified gas benefits divided by total costs be greater than 1.2. Exh. VGS-TP-1 at 29.

70. MPR #10 encourages equity for residential customers by ensuring that a minimum level of overall efficiency effort, as reflected by spending, is dedicated to residential customers. The spending level was set at 70% of the proposed residential sector resource-acquisition budget. Exh. VGS-TP-1 at 29; Levenson pf. (4/20/23) at 14.

71. MPR #11 encourages equity for low-income customers by ensuring that a minimum level of overall efficiency effort, as reflected by spending, is dedicated to low-income customers. Exh. VGS-TP-1 at 29.

72. MPR #12 encourages equity for smaller non-residential customers by ensuring that a minimum level of overall efficiency effort will be dedicated to small commercial accounts. This metric requires a minimum level of participation by customers whose annual natural gas usage is

600 Mcf per year or less. This metric aligns with commercial customers that are classified as Rate G1 or G2 on the Company’s rate classification. Exh. VGS-TP-1 at 30.

73. MPR #13 encourages the design and implementation of efficiency initiatives that will maximize the lifetime natural gas, other fossil fuels, and water benefits. This metric is designed to encourage Vermont Gas to calculate and track all components of total resource benefits (“TRB”), including water savings and delivered fuel savings associated with measures. The Company works with other EEU and distribution utility partners to ensure these benefits are not double counted. Exh. VGS-TP-1 at 30.

74. MPR #14 encourages Vermont Gas to maximize the percentage of Addison County customers that benefit from its energy efficiency programs. This metric requires the Company to meet minimum program participation rates for customers in Addison County by aggressively marketing and promoting its energy efficiency programs. Exh. VGS-TP-1 at 30.

75. The parties agree to the following minimum performance requirements for Vermont Gas during the performance period.

MPR	Title	Performance Indicator	Target (2024-2026)	Policy Goal Advanced	Weight
9	Minimum Natural Gas Benefits (Equity for all Natural Gas Ratepayers)	Total natural gas energy efficiency benefits divided by total utility costs	Equal or greater than 1.2 cost benefit ratio	Equity for all Vermont natural gas customers as a group by ensuring that the overall natural gas benefits are greater than the costs incurred to implement and evaluate the natural gas EEU and the natural gas EEC	0% (Minimum Requirement)
10	Equity for Residential Ratepayers	A minimum level of overall efficiency efforts, as reflected in spending, will be dedicated to residential customers	\$8,611,583	Equity for residential customers by ensuring that a minimum level of overall efficiency efforts, as reflected in spending, will be dedicated to residential customers	0% (Minimum Requirement)
11	Equity for Low-income Customers	A minimum level of overall efficiency efforts, as reflected in spending, will be dedicated to low-income customers	\$874,494	Equity for low-income customers by ensuring that a minimum level of overall efficiency efforts, as reflected in spending, will be dedicated to low-income households	0% (Minimum Requirement)
12	Equity for Small Business Customers	Percent of commercial (non-residential) installed end uses that are classified as Rate G1 or G2 (use 600 Mcf/yr. or less)	30%	Equity for small business customers by ensuring that a minimum level of overall efficiency efforts, as reflected in participation, will be dedicated to small business accounts	0% (Minimum Requirement)

13	Total Resource Benefits	Track and report non natural gas TRB	Annually	Encourage EEU to design and implement efficiency initiatives that will maximize the lifetime benefits	0% (Minimum Requirement)
14	Addison County Aggressive DSM	Meet minimum energy efficiency program participation rate for customers in Addison County	Achieve 30% energy efficiency participation in Addison County by Year 3	This indicator is intended to maximize the percent of Addison County customers that benefit from VGS energy efficiency programs	0% (Minimum Requirement)

Exh. VGS-TP-1; Levenson pf. (4/20/23) at 14; Perrin pf. reb. (5/11/23) at 13.

Discussion

We approve the QPI and MPR definitions and weighting for Vermont Gas for the 2024-2026 performance period as set forth above. The modeled expected savings from the potential study inform the establishment of QPI targets. The corresponding QPI weighting factors, coupled with the minimum performance requirements, will help focus the Company’s efficiency efforts.

As noted above, there are multiple performance metrics whose final target values may depend on decisions made in this Order. We direct Vermont Gas to make a compliance filing updating those target values based on today’s decisions within 30 days of this Order. Any comments on Vermont Gas’s compliance filing and any requests for additional process should be filed within 15 days of the Company’s filing.

Performance Incentive Mechanism

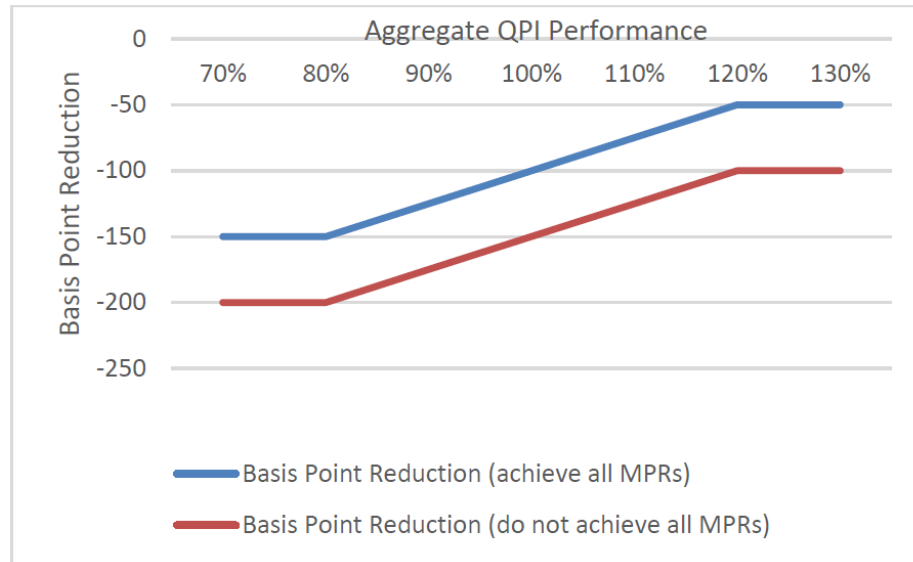
76. In the DRP proceeding for the 2021-2023 performance period, the Commission approved a proposal for Vermont Gas to finance increased energy efficiency investments through its normal debt and equity capital providers, and to amortize the investments over 15 years. For the equity portion of the capital investment, the Commission approved a 100-basis-point reduction to the Company’s authorized return on equity to reflect the lower risk of energy efficiency investments under the current regulatory regime relative to traditional gas utility capital investments. The Commission found that utility incentive mechanisms should be based on energy efficiency performance relative to efficiency goals rather than on spending. As such, the Commission directed Vermont Gas to consult with the Department and to propose a performance incentive mechanism that is transparent, appropriately sized, and rewards the Company’s performance toward objective targets. Order Approving 2021-2023 Demand Resource Plan for Vermont Gas, Case No. 19-3272-PET, Order of 10/22/20 at 22-24.

77. Vermont Gas fulfilled this requirement by consulting with the Department, filing status updates, and proposing a performance incentive mechanism as part of this proceeding. Perrin pf. (12/20/22) at 22-23.

78. If the Commission orders the adoption of a performance incentive mechanism, Vermont Gas prefers its proposed *Basis Point Reduction with Sliding Scale*. This performance incentive mechanism offers an opportunity for reward or penalty relative to Commission-approved performance metrics. The assumed baseline is a 100-basis-point reduction off Vermont Gas's approved return on equity. If Vermont Gas achieves all its minimum performance requirements, the basis-point reduction would remain unchanged. If Vermont Gas does not meet all its minimum performance requirements, the basis-point reduction would increase to 150 basis points. The second step of the proposal introduces a sliding scale based on Vermont Gas's achievement of each quantitative performance indicator multiplied by a weighting factor to determine aggregate value across all quantitative performance indicators. The total aggregate value would be used to determine further basis-point adjustment. Perrin pf. reb. (5/11/23) at 5-6; 10.

79. If Vermont Gas's aggregate achievement is 100%, there is no further basis-point adjustment. If Vermont Gas significantly underperforms, defined as aggregate value of less than 80%, the result would be a penalty of an additional 50-basis-point reduction. If Vermont Gas significantly overperforms, defined as aggregate achievement value of 120% or greater, the result would be an award in the form of a decrease of 50 basis points to the total basis-point reduction. If Vermont Gas's performance is between 80% and 120%, a sliding scale would apply a penalty for underperformance or an award for overperformance. The increase or decrease to basis-point reduction would be 2.5 basis points for each 1% of aggregate achievement. Perrin pf. reb. (5/11/23) at 7.

80. The potential outcomes of Vermont Gas's proposal are illustrated below.



Perrin pf. reb. (5/11/23) at 8.

81. The Department agrees that an additional 50-basis-point reduction to the Company's return on equity is appropriate if Vermont Gas fails to meet any of the minimum performance requirements. Levenson pf. sur. (6/2/23) at 3.

82. The Department suggests that if Vermont Gas were to fail to meet any of the applicable quantitative performance indicators, the return on equity would be reduced on a weighted basis up to an additional 50 basis points. Levenson pf. (4/20/23) at 16.

83. The Department agrees with the notion of linking the return on equity to Vermont Gas's energy efficiency utility performance. However, the Department believes it would not be in the best interest of ratepayers to increase the return if Vermont Gas meets its performance indicators. Instead, the Department holds that successful performance to goals should allow the Company to maintain the return on equity ordered by the Commission in the prior DRP proceeding. Levenson pf. (4/20/23) at 16.

84. The Department believes that the sliding scale proposal has merit subject to several modifications.

- a. First, aggregate performance would be based on four quantifiable performance indicators (#1, #2, #3, and #5) only. The Department contends that the other four are either not quantifiable on a percentage basis or are not appropriate for this sort of aggregate performance calculation.

- b. Second, the Department recommends imposing a performance threshold of at least 75%, rather than the 80% recommended by Vermont Gas, on the four quantifiable performance indicators (#1, #2, #3, and #5) to earn potential increases in the return on equity. According to the Department, this would be more consistent with the minimum earning threshold in the Efficiency Vermont performance incentive mechanism. The Department recommends that the maximum performance on the sliding scale would be increased to 125% aggregate performance.
- c. Third, the Department recommends that Vermont Gas could only earn a return on equity above the sliding scale minimum when it has achieved 75% performance on all four quantifiable performance indicators (#1, #2, #3, and #5), in order to provide incentive for Vermont Gas to achieve broad-based performance.
- d. Fourth, the Department recommends the Company can only earn a return on equity above baseline if it achieves 100% performance on the four quantifiable performance indicators.

Levenson pf. sur. (6/2/23) at 4; Department 7/14/23 Responses at 2-3.

85. Regarding the Department's first modification described above, Vermont Gas maintains that all eight quantifiable performance indicators should be used to measure aggregate performance to maintain the intent of weighting those metrics, which has the effect of balancing program impacts, comprehensiveness, and market transformation efforts. Vermont Gas asserts that this approach is also more consistent with performance measurement for the other energy efficiency utilities. Vermont Gas 7/20/23 Response at 1-2.

86. Regarding the Department's second modification described above, Vermont Gas and the Department agree that it is appropriate to increase maximum performance on the sliding scale to 125% aggregate performance. The parties also agree to change the 80% threshold for earning a performance award, as described in Vermont Gas's proposal, to 75%. Department 7/14/23 Responses at 2; Vermont Gas 7/20/23 Response at 2.

87. Regarding the Department's third modification described above, Vermont Gas contends that the assigned weighting for each indicator provides a sufficient threshold for determining the performance incentive. Vermont Gas notes that performance indicators #1, 2,

and 3 combined represent 70% of the weighting of all indicators, which provides sufficient incentive for the Company to focus on achieving or exceeding each indicator. Vermont Gas 7/20/23 Response at 2.

88. In addition, Vermont Gas contends that imposing a minimum threshold for any one performance indicator is effectively the imposition of an additional minimum performance requirement. Vermont Gas states that the parties have agreed not to modify minimum performance requirements in this DRP Update. The Company notes that this would also be inconsistent with the performance incentive mechanisms established for the other energy efficiency utilities. Vermont Gas 7/20/23 Response at 2.

89. Regarding the Department's fourth modification described above, Vermont Gas proposes a compromise where it would only be able to achieve more than 100% aggregate performance when it has achieved at least 75% performance on performance indicators #1, #2, #3, and #5. Vermont Gas represents that this is consistent with Efficiency Vermont's performance incentive mechanism. Vermont Gas 7/20/23 Response at 2.

90. Vermont Gas and the Department agree that it is appropriate to limit the performance of any one quantifiable performance indicator to 150% for purposes of calculating aggregate performance, regardless of how many metrics are included in that calculation. Department 7/14/23 Responses at 2; Vermont Gas 7/20/23 Response at 1.

91. The Department estimates that the magnitude of a 50-basis-point reduction in the return on equity over the term of the 15-year financing period would be in the vicinity of \$215,000. If Vermont Gas were to fail to meet all of its quantitative performance indicators and one or more of its minimum performance requirements, the return on investment would be reduced by approximately \$430,000. Leveson pf. (4/20/23) at 16.

92. Once the Commission has determined Vermont Gas's performance relative to its quantitative performance indicators and minimum performance requirements for the 2024-2026 performance period, the basis point increase or reduction to the return on equity would be applied in the following performance period, then reassessed on a triennial basis. Perrin pf. (12/20/22) at 24.

Discussion

The Commission is faced with two related questions: (1) Should the Vermont Gas energy efficiency program include a compensation-related performance incentive mechanism, and if so, (2) what should be the defining factors of that mechanism?

In the DRP proceeding for the 2021-2023 performance period, the Commission found that Vermont Gas's proposed incremental efficiency investments would carry significantly lower risk to the Company's capital providers than traditional utility investments. As such, the Commission adopted the parties' proposal to reduce the return-on-equity portion of the efficiency investments by 100 basis points from the Company's Commission-approved return on equity. In doing so, the Commission also found that it would be preferable to tie any returns to Vermont Gas to its performance relative to efficiency goals, rather than simply earning a return on low-risk spending. Therefore, the Commission directed Vermont Gas to consult with the Department in considering a performance incentive mechanism that is transparent, appropriately sized, and that rewards the Company's performance toward objective targets.

Vermont Gas prefers to have no performance incentive mechanism and believes that is the best result for its customers. According to Vermont Gas, the implementation burden would outweigh any potential benefits. In addition, Vermont Gas maintains that it is already highly motivated to maintain its energy efficiency utility order of appointment in good standing. However, if the Commission determines that a performance incentive mechanism is necessary, Vermont Gas contends that only its *Basis Point Reduction with Sliding Scale* proposal offers an incentive mechanism that is consistent with the prior DRP order guidance because it would provide for a reduction or increase to the approved 100 basis-point reduction. By contrast, Vermont Gas suggests that the Department's proposal offers no incentive or reward and would only allow for a reduction in the Company's return without a corresponding opportunity for an increase. In other words, the Department's proposal presents only downside risk with no corresponding opportunity for upside gain. Vermont Gas contends that this is inconsistent with the language in the Commission's previous decision that contemplates a mechanism that *rewards* performance relative to efficiency goals.¹²

¹² Vermont Gas Reply Brief at 2-4.

The Department contends that ratepayer interests will best be served by adoption of its proposed performance incentive mechanism. According to the Department, its preferred mechanism still provides a healthy return on a low-risk investment and provides motivation for Vermont Gas to meet its performance goals. According to the Department, under a worst-case scenario from the Company’s perspective, missing all quantifiable performance indicators and one or more minimum performance requirements would result in a reduced return of approximately \$430,000 over 15 years. The Department maintains that this is substantial enough to motivate performance and strikes an appropriate balance between risk and reward for the Company and ratepayers.¹³

If the Commission were to adopt Vermont Gas’s *Basis Point Reduction with Sliding Scale* proposal—which the Department does not believe would be in the best interest of ratepayers—the Department recommends that the Commission modify the proposal as suggested by the Department.

We conclude that it is appropriate to adopt a performance incentive mechanism for Vermont Gas’s investments in the energy efficiency program that links its financial return to performance relative to goals. Although we understand that adoption of a performance incentive mechanism will create a new administrative task for Vermont Gas, we do not find that the task would be overly burdensome or outweigh the important benefits. Our conclusion is significantly informed by Section 209(f)(2) of Title 30, which requires in relevant part “the use of compensation mechanisms for any energy efficiency entity appointed under subdivision (d)(2) of this section that are based upon verified savings in energy usage and demand, and other performance targets specified by the Commission.” We find that authorizing continued investment in the energy efficiency program at the Company’s weighted average cost of capital, rather than simply its cost of debt, constitutes a form of compensation. As such, it is appropriate and required by statute that the form of compensation be based upon verified energy and demand savings and other performance targets specified by the Commission. A performance incentive mechanism for Vermont Gas satisfies this requirement.

¹³ Department Brief at 40-41.

Having concluded to adopt a performance incentive mechanism, we now turn to the structure and mechanics of that mechanism. The *Basis Point Reduction with Sliding Scale* proposal reflects a reasonable initial performance incentive mechanism for the Vermont Gas energy efficiency program. The parties agree on many aspects of that proposal, and we adopt those agreed-upon aspects. Below, we resolve the remaining aspects where the parties disagree.

The first question is whether all of Vermont Gas's quantifiable performance indicators should be used in the calculation of aggregate performance, as suggested by the Company, or just four performance indicators, as suggested by the Department. We conclude it is appropriate for all eight performance indicators to be used in the calculation of Vermont Gas's aggregate performance. All eight performance indicators are calculable on a percentage basis, and each represents an important feature of comprehensive energy efficiency program administration. Including all eight performance indicators emphasizes the weighting assigned to each.

Because the parties have agreed on the minimum (75%) and maximum (125%) performance thresholds recommended by the Department, the second question is whether to adopt the Department's proposal that Vermont Gas could only earn a return on equity above the sliding scale minimum when it has achieved 75% performance on all four quantifiable performance indicators (#1, #2, #3, and #5). According to the Department, this is intended to provide incentive for Vermont Gas to achieve broad-based performance. Because we have determined that all eight performance indicators will be used to calculate aggregate performance, it is unclear whether this recommendation still applies. Assuming that it does apply, we find that imposing this requirement will not be needed to motivate Vermont Gas to achieve broad-based performance. This conclusion is based on two factors on which the parties have agreed. The parties agree to the relative weighting of each quantifiable indicator and to limit the performance of any one quantifiable performance indicator to 150% for purposes of calculating aggregate performance. The product of these two factors indicates that Vermont Gas would need to achieve 150% performance on the two indicators with the most weighting before the basis-point reduction would move above the minimum performance threshold, and the Company would need to achieve that same very high performance on at least three performance indicators before the basis-point reduction would move to the baseline 100 basis-point reduction. Based on Vermont Gas's performance relative to performance indicators in recent years, it seems unlikely that the

Company would achieve 150% performance on multiple performance indicators with large weightings. Instead, to earn a return on equity above the sliding scale minimum, of necessity Vermont Gas's performance will need to be broad-based.

The final question is whether to adopt the Department's proposal to only allow Vermont Gas to earn a return on equity above the baseline if it achieves 100% performance on the four quantifiable performance indicators (#1, #2, #3, and #5) to provide incentive for Vermont Gas to achieve broad-based performance. In response to this proposal, Vermont Gas offers a compromise where the 100% performance threshold would be lowered to 75% on these four indicators. We adopt Vermont Gas's compromise proposal. In a scenario that assumes Vermont Gas has met all its minimum performance requirements, and given the parties' agreement on weighting and that performance on each indicator will be capped at 150%, the math appears to suggest that if the Company were to achieve only 75% on any one of the four performance indicators, it would need to achieve 150% on the remaining three in order to achieve aggregate performance above 100%. Thus, we conclude that the compromise proposal, coupled with the weighting and 150% performance cap, will achieve the Department's desired effect of broad-based performance.

C. Budgets for Other Items

93. The Vermont Gas DRP proposal includes budgets to cover the cost of the annual financial audit, the Department's evaluation costs, and an estimated cost for a natural gas potential study in 2026. Perrin pf. reb. (5/11/23) at 12.

94. These cost categories do not contribute to the day-to-day operations of the Vermont Gas efficiency programs and therefore are not classified as either "resource-acquisition" or "DSS" but are required as part of regulated EEU services and therefore must be included in overall budgets. Exh. VGS-TP-1.

95. Vermont Gas assumes that it will not be allocated any costs for the TEPF Clearinghouse. Perrin pf. reb. (5/11/23) at 11-12.

96. The budgets for the Department's evaluation costs support the Department's evaluation of Vermont Gas's energy efficiency programs. Exh. VGS-TP-1.

97. The Department and Vermont Gas agree on 2024-2026 budgets for the cost categories as shown in the following table.

Other EEU Costs				
	2024	2025	2026	Total
DPS Evaluation	\$195,710	\$250,080	\$291,890	\$737,680
Potential Study	\$0	\$0	\$125,000	\$125,000
Fund Audit	\$7,500	\$7,600	\$7,700	\$22,800
Total	\$203,210	\$257,680	\$424,590	\$885,480

Perrin pf. reb. (5/11/23) at 12.

Discussion

As part of our review of Vermont Gas's DRP proposal, we approve the proposed budgets for the Department's evaluation activities, the potential study, and the annual EEU Fund audit, as shown above. The proposed budgets represent a reasonable estimate of the costs associated with these EEU activities.

Our approval of the EEU evaluation budgets used by the Department for its evaluation activities is addressed in a separate Order in this proceeding. The EEU evaluation budget values are presented in this Order for reference and completeness.

In the prior DRP, Vermont Gas budgeted for costs associated with maintenance of the TEPF Clearinghouse. That budget reflected the Vermont Gas share of costs to support the statewide information clearinghouse that was established to provide access and coordination across all TEPF services. In this DRP, Vermont Gas initially budgeted \$30,355 for this cost category.¹⁴ However, in rebuttal testimony and in its briefing, Vermont Gas removed that budgeted amount and now proposes to incur no costs.¹⁵ The Department and other EEUs did not respond through testimony or briefing to Vermont Gas's removal of this cost from its budgets. We note that in Case No. EEU-2013-10 the Department recommended, and the Commission approved, allocating 31% of the costs of creating, promoting, and maintaining the TEPF

¹⁴ Exh. VGS-TP-1 at 33.

¹⁵ Perrin pf. reb. (5/11/23) at 12.

Clearinghouse to regulated natural gas efficiency services under 30 V.S.A. § 209(d)(3).¹⁶ In the event that costs associated with the TEPF Clearinghouse arise during the 2024-2026 performance period, we expect Vermont Gas to cover its share of those costs with funds raised under Section 209(d)(3) and to properly account for them in its fiscal agent reports.

We note that Vermont Gas has not budgeted for the cost of the triennial independent audit that is performed under contract for the Commission and billed back to the energy efficiency utilities. Efficiency Vermont and Burlington Electric Department have each budgeted for this cost. When Vermont Gas makes its compliance filing it should include a budget for the Commission's triennial independent audit contract, after consultation with the Department and other EEU's on anticipated costs for this activity.

V. CONCLUSION

In this Order, the Commission approves Vermont Gas's resource-acquisition and development and support services budgets for the 2024-2026 performance period as well as QPI and minimum performance requirement definitions and weighting for that period. The budgets approved in this Order will set Vermont Gas on a path to acquire all reasonably available, cost-effective energy efficiency. The savings levels described in this Order will result in significant long-term benefits to Vermont Gas ratepayers. The performance targets are intended to push Vermont Gas to innovate while responsibly using ratepayer resources to encourage adoption of efficient technologies.

The Department and Vermont Gas agree that the Commission should direct Vermont Gas to make a compliance filing within 30 days of issuance of an order in this proceeding that would document final budgets and target values for the agreed-upon QPIs and MPRs, as well as finalizing administrative-cost budgets. We adopt this proposal and direct Vermont Gas to make such a filing within 30 days of today's decision. That filing should reflect all short- and long-term budgets and savings goals and should reflect all decisions and compliance matters determined in this Order.

¹⁶ *Establishment of a Thermal Energy and Process Fuels Statewide Information Clearinghouse*, Case No. EEU-2013-10, Order of 10/16/15 at 2.

Finally, we recognize that an additional phase to this proceeding may be conducted to address the appropriation of ARPA funds and to address Act 44, which allows programs to reduce greenhouse gas emissions in the thermal energy and transportation sectors.

VI. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Utility Commission (“Commission”) of the State of Vermont that:

1. The resource-acquisition budgets for Vermont Gas Systems, Inc. (“Vermont Gas”) for the 2024-2026 performance period are those approved in this Order.

2. The development and support service budgets, including budget categories, and budgets for other energy efficiency program regulatory expenses for Vermont Gas for the 2024-2026 performance period are those approved in this Order.

3. The quantifiable performance indicators and minimum performance requirements for Vermont Gas for the 2024-2026 performance period, including weighting factors, are those approved in this Order.

4. The maximum amount of borrowing from Vermont Gas’s capital providers to support its energy efficiency programs will be \$10.5 million over the 2024-2026 performance period.

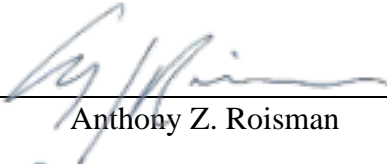
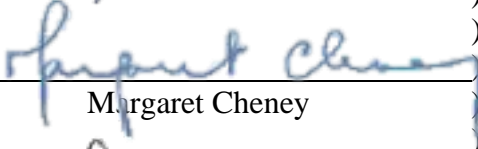
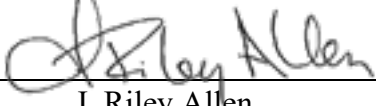
5. Within 30 days of the issuance of this Order, Vermont Gas is directed to make a compliance filing reflecting the decisions made in this Order. This should include total short- and long-term budgets by sector, updated quantifiable performance indicators and minimum performance metrics, and all other compliance matters discussed in this Order. Any comments on the Vermont Gas’s compliance filing shall be due 15 days later. All filings pursuant to this paragraph should be made in the compliance portion of this case.

6. We adopt the Department’s proposal to review the Information Technology category in the development and support services budgets of each energy efficiency utility. The deadline for a status report on the review of information systems category is February 14, 2024, and the deadline for final recommendations is June 14, 2024. All filings pursuant to this paragraph should be made in the compliance portion of this case.

7. Section V.9 of the Process and Administration of an Energy Efficiency Utility Order of Appointment requires Vermont Gas to file a triennial plan for the 2024-2026 performance

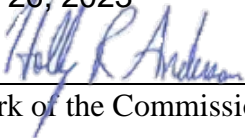
period by November 1, 2023. To the extent that a waiver or extension of the November 1 filing date is required, the parties should make a joint filing on this topic by October 20, 2023.

Dated at Montpelier, Vermont, this 26th day of September, 2023.

 _____)	Anthony Z. Roisman)	PUBLIC UTILITY)
_____)		
 _____)	Margaret Cheney)	COMMISSION)
_____)		
 _____)	J. Riley Allen)	OF VERMONT)

OFFICE OF THE CLERK

Filed: September 26, 2023

Attest: 

 Clerk of the Commission

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Commission (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: puc.clerk@vermont.gov)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Commission within 30 days. Appeal will not stay the effect of this Order, absent further order by this Commission or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Commission within 28 days of the date of this decision and Order.

PUC Case No. 22-2954-PET - SERVICE LIST

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