

Vermont's Delivery of Energy Efficiency

Part I: Electric Utilities



NARUC Energy Regulatory Partnership Program

The Energy Regulatory Commission of the Republic of Macedonia
and

The Vermont Public Service Board

by

Aaron Adler, Special Counsel
Vermont Department of Public Service

May 23, 2005



Overview of Presentation

Section I:

Institutional Structure

Section II: Funding

Section III: Performance

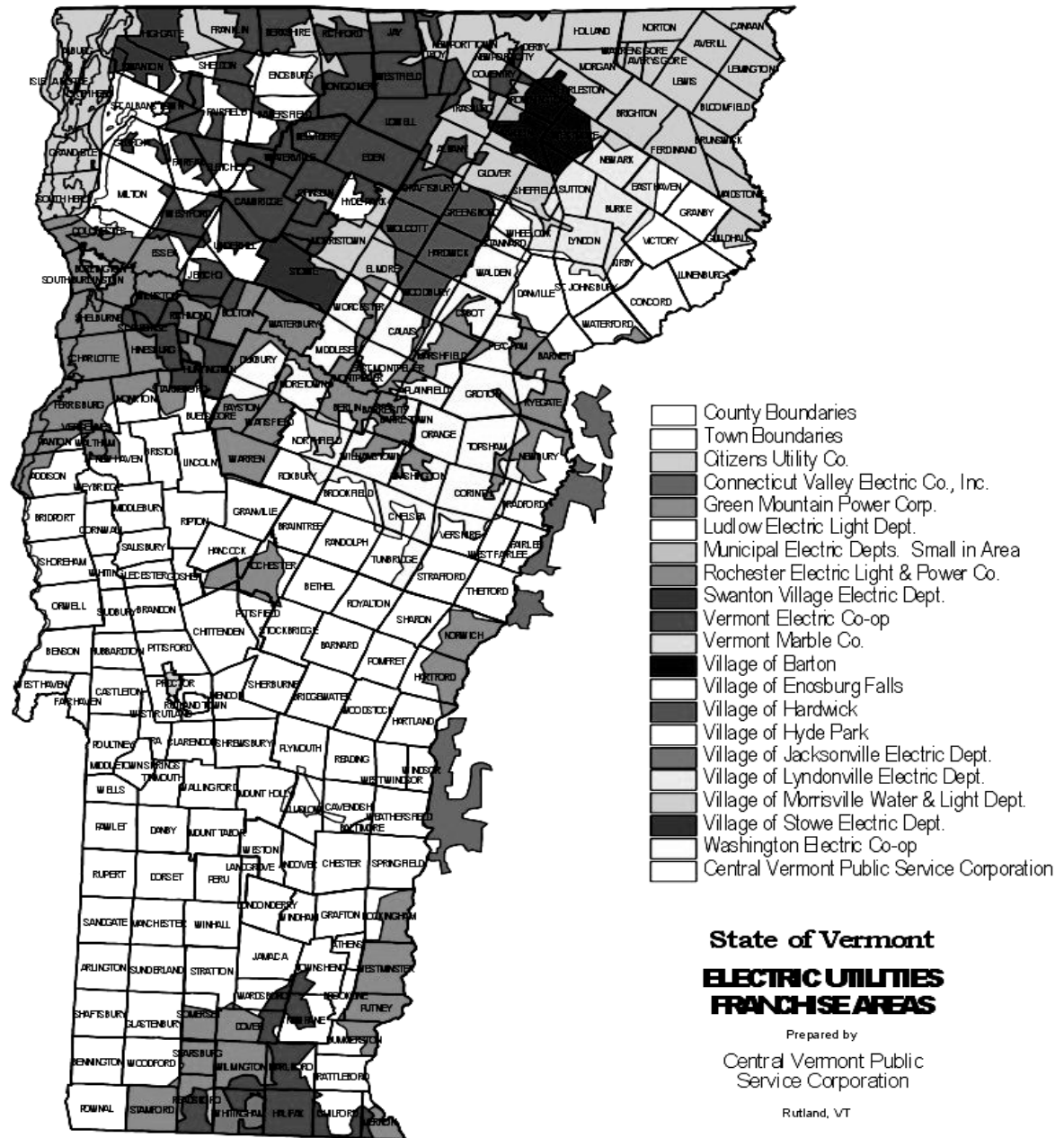


Section I: Electric Utility Institutional Structure (before Energy Efficiency Utility)

- ❖ 22 franchised distribution utilities providing retail service in separate territories (now 21)
 - 5 (now 4) investor-owned distribution utilities
 - 2 member-owned distribution utilities (cooperatives)
 - 15 municipal government distribution utilities
- ❖ One electric transmission utility, owned by the distribution utilities
- ❖ Serving a total population of approximately 600,000



Vermont Electric Utility Service Territories (as they existed before the Efficiency Utility)





Section I: Institutional Structure – State Government Entities

- ❖ Vermont Public Service Board
 - decision-making tribunal
 - typically functions like a court
 - determines utility rates, approves resource plans

- ❖ Vermont Department of Public Service
 - public advocate before the Board
 - provided testimony on utility efficiency program design and delivery, verification of savings claims
 - by statute, issues plans stating policies and objectives for Vermont's energy future



Section I: Institutional Structure – Utility Efficiency Service Delivery

- ❖ Electric distribution utilities obliged to deliver electric energy efficiency services
- ❖ Utilities deliver within their own territories, via own personnel or contractors
- ❖ Utilities required by state to obtain efficiency resources through state permit process for development projects



Section I: Institutional Structure – Issues in Utility Efficiency Service Delivery

Multiple service territories of utilities create issues for delivery of efficiency services, including:

- ❖ Programs, rebates, and incentives vary throughout small state
- ❖ Vendor, customer confusion
- ❖ Cost-effectiveness screening varies by territory



Section II: Funding Utility Energy Efficiency Delivery in Vermont

- ❖ Vermont electric utilities are compensated primarily by selling kilowatt hours
- ❖ Costs for efficiency were contained within utility rates for electric service
- ❖ Many utilities carried expenditures on books between rate cases
 - Accounts accumulated carrying costs until rate case
 - Once expenditures approved for rates, utilities received an amortization expense amount and a rate of return on unamortized balance
 - Increased costs to ratepayers over long term



Section II: Funding of Utility Energy Efficiency Delivery (cont.)

- ❖ “Accounts Correcting for Efficiency” was a mechanism to remove disincentive of lost sales due to efficiency
- ❖ Compensated utilities for net lost revenues incurred between rate cases due to their efficiency efforts
- ❖ Formula: net revenue loss = retail (gross) revenue reduction – system benefits during same period
- ❖ Added cost to ratepayers; was source of litigation



Section III: Vermont Electric Utility Performance in Delivering Efficiency

Variable utility performance:

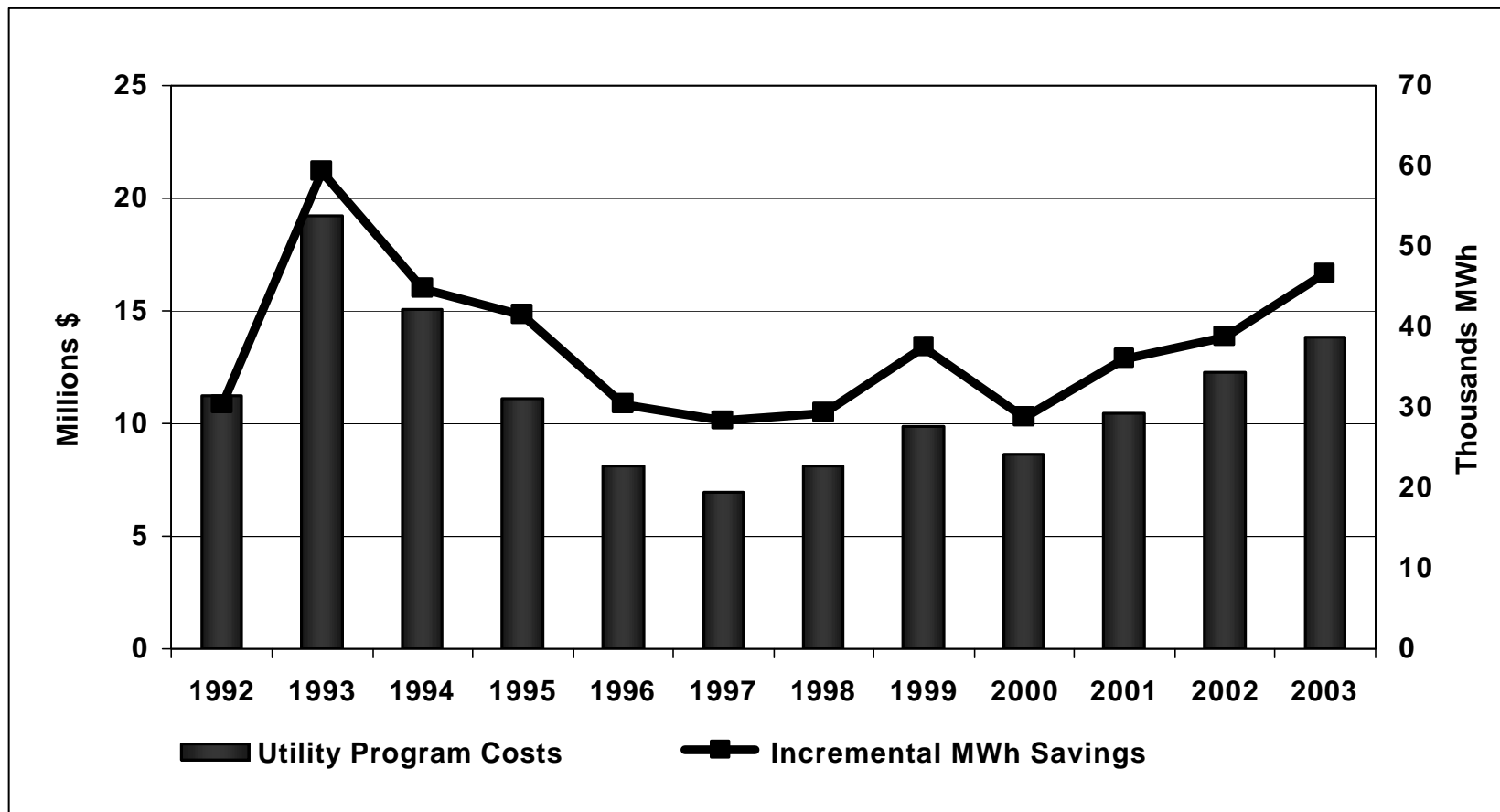
- ❖ Mission conflict: sell electricity v. reduce use
- ❖ Delivery by investor-owned utilities yields mixed results
 - Investment declines with energy market changes in U.S., consideration of retail choice in Vermont
- ❖ Delivery by 14 of 15 municipal utilities limited; one municipality, Burlington, embraces efficiency
- ❖ Delivery by member-owned utilities strong when supportive boards elected



Section III: Energy Efficiency Performance

1992-1999 – Vermont Electric Utilities

2000-on – Vermont's Efficiency Utility





Section III: Electric Utility Performance Leads to Litigation and a Plan for Change

- ❖ Disputes and falling performance result in litigation before Vermont Public Service Board
- ❖ Penalties could be and were assessed in rate cases and management investigations
- ❖ Resource plan reviews to encourage acquisition of efficiency result in litigation
- ❖ In 1997, Vermont Department of Public Service issues a plan called *The Power to Save*, proposing an energy efficiency utility