

Vermont's Energy Efficiency Utility



NARUC Energy Regulatory Partnership Program

*The Energy Regulatory Commission of the Republic of Macedonia
and*

The Vermont Public Service Board

by

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Overview

Part I: Institutional Structure

Part II: Funding

Part III: Performance Contract

Part IV: How Other States

Deliver Energy Efficiency

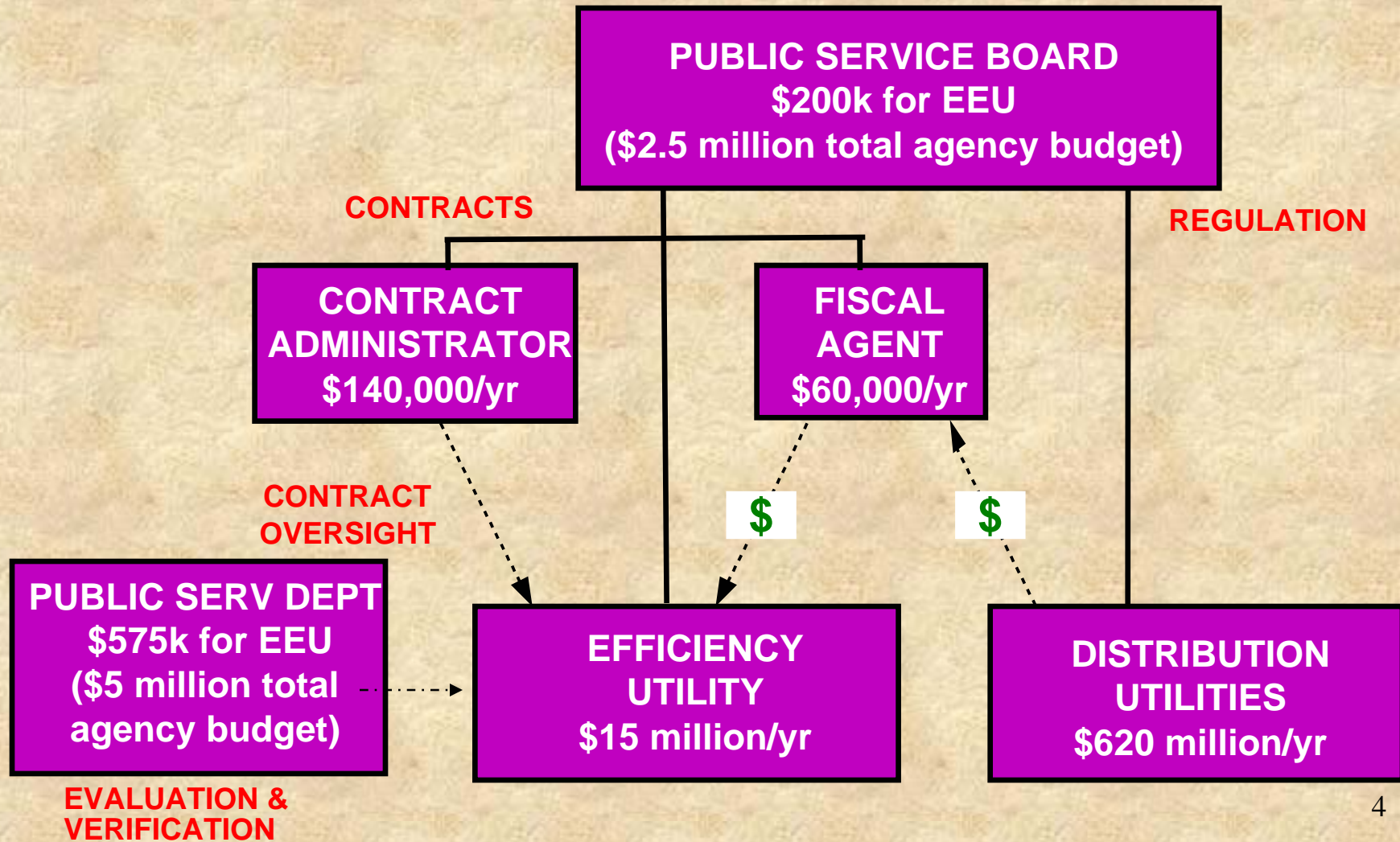


Major Changes from Previous Institutional Structure

- ❖ Statewide program designs
 - Uniformity of program structure, incentives
 - Statewide costs used for screening
- ❖ Single delivery entity, the Energy Efficiency Utility, for majority of state
 - Contractor to Public Service Board; not franchised
 - Retained through open bid process
 - Barred from delivery of power
- ❖ Burlington Electric Department delivers same programs within its locality; cooperation required



EEU Structure





Roles of Contractors

- ❖ *Efficiency Vermont*: Contractor hired by Board to design, propose, deliver, and subcontract efficiency services
- ❖ Contract Administrator: Contractor hired by Board to oversee performance of *Efficiency Vermont* and resolve disputes
- ❖ Fiscal Agent: Contractor hired by Board to collect and disburse Energy Efficiency Charge funds



Roles of State Agencies

❖ Public Service Board

- Hires (after RFP process) *Efficiency Vermont*, Contract Administrator, Fiscal Agent
- Approves *Efficiency Vermont's* Annual Plans
- Approves payment of any performance incentives
- Establishes total EEU program budget and energy efficiency charge rates
- Reports to legislature annually on the revenues collected via the energy efficiency charge and EEU program expenditures



Roles of State Agencies (cont.)

❖ Department of Public Service

- Proposed initial efficiency programs, can propose changes and new programs
- Verifies *Efficiency Vermont's* energy savings claims
- Performs efficiency program evaluations
- Evaluates *Efficiency Vermont's* performance
- Evaluates market conditions and available DSM potential
- Annual evaluation budget from funds collected via energy efficiency charge



Roles of Other Entities

❖ Advisory Committee

- Consists of representatives of all stakeholder groups appointed by Board
- Meets at least quarterly to provide advice to *Efficiency Vermont*
- Purely advisory, no managerial authority

❖ Electric distribution utilities

- provide information to and receive data from efficiency utility
- retain active obligation to deliver efficiency to address system constraints; may hire efficiency utility to do so



Funding

- ❖ The EEU is funded by a non-bypassable volumetric wires charge known as the Energy Efficiency Charge (“EEC”) that is shown separately on customers’ bills
 - First three years was set individually for each distribution utility; now a statewide charge that differs by customer class
 - Initially replaced previous utility DSM spending, so the charge was offset by rate reductions for most customers



Funding (cont.)

- ❖ The Board determines the total budget for the EEU program and the amount to be collected via the wires charge
 - Statutory cap of \$17.5 million on energy efficiency services funded via wires charge
 - Statute requires Board to provide “reasonably stable multi-year budget and planning cycle”



EEU Budget

- ❖ Budgets have been ramping up, reached the statutory cap in 2005
- ❖ Board has used different procedures to establish budgets
 - Settlement agreement (years 1-3)
 - Administrative process, based in part on DPS technical potential study (years 4-6 and 7-9)
 - Contested case proceeding (year 4)



Design of EEC

- ❖ Initially was a percent of bill, differed by utility service territory, was the same for all customer classes in each service territory
- ❖ Because underlying utility rates differed, customers in different service territories were paying different amounts for EEU services
- ❖ Low-usage customers paid a large amount of EEC compared to the savings they could realize from EEU services



Design of EEC (cont.)

- ❖ In 2003 moved to statewide kW and kWh EEC charges, methodology refined in 2004, now described in a Board Rule
 - Allocate total EEC collections between residential, commercial and industrial customers based on their contributions to utility revenues
 - Determine kWh rates for each class
 - For commercial and industrial demand customers, use energy/demand revenue split to determine portion of revenues to be collected via kW and kWh charges



How the Dollars Flow

- ❖ Each distribution utility bills their customers the EEC
- ❖ Each utility sends the Fiscal Agent the total amount of EEC billed (not collected) the prior month, along with certain accounting forms
- ❖ The Fiscal Agent pays invoices that have been approved by the Contract Administrator and certain taxes that are collected as part of the EEC
- ❖ In the following year, there is a “true-up” for utility EEC uncollectibles



Performance Contract

- ❖ 3-year, performance-based contract, with option to renew for up to 3 more years
- ❖ Performance indicators are an excellent tool for focusing *Efficiency Vermont's* attention on Board's policy goals
- ❖ Well-designed performance indicators are easier to administer than detailed budget restrictions



Performance Contract (cont.)

- ❖ Board determines policy objectives for EEU
- ❖ Specific performance measures and goals are negotiated with contractor at the beginning of the contract
- ❖ Portion of contractor's pay is tied to achieving the performance goals (\$1.28 million over 3-year contract)



Board's Policy Objectives

- ❖ Resource acquisition (primary focus)
- ❖ Market transformation
- ❖ Equity considerations
 - Customer class
 - Geographic region
- ❖ Board recognizes some of these objectives conflict with others
 - Performance goals provide guidance to contractor on how to balance competing objectives



Board's Policy Objectives (cont.)

- ❖ Achieve maximum societal net benefits while acquiring comprehensive cost-effective electric efficiency savings
- ❖ Respond appropriately to markets in order to increase the level of and comprehensiveness of energy efficiency services to Vermonters
- ❖ Effectively capture potential “lost opportunity” markets
- ❖ Strive for distributional equity across customer classes and geographic regions

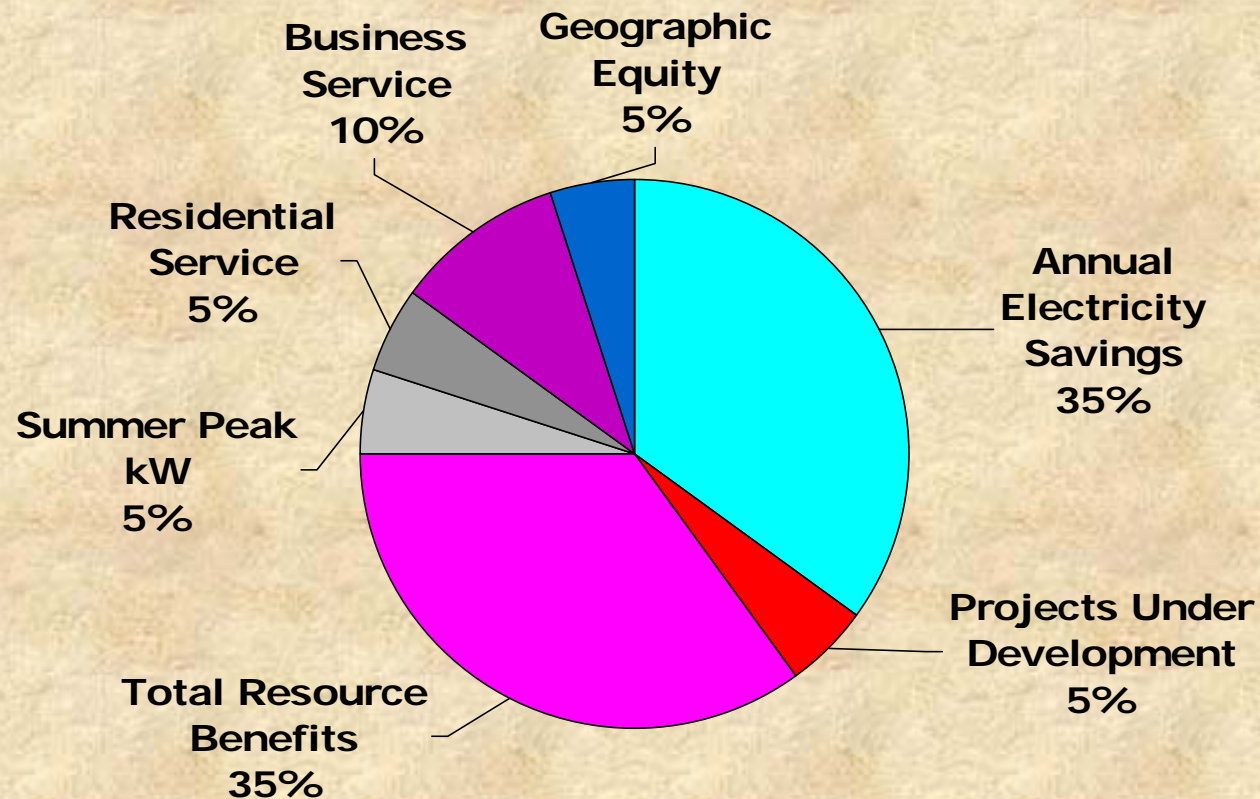


Performance Indicators

- ❖ Cumulative annual electricity savings
- ❖ Total resource benefits – includes electricity, fossil fuel, and water savings
- ❖ Summer peak kW demand savings
- ❖ Program results incentives – direct market impacts
- ❖ Geographic equity
- ❖ Projects under development – projects not completed at end of contract



Performance Indicators (cont.)





Performance Indicators (cont.)

- ❖ All performance indicators are multi-year
 - When the EEU was first created, there were some “activity milestones” related to creating a new organization
- ❖ All performance indicator awards are scaled
 - *Efficiency Vermont* must achieve a minimum level in order to receive any award for that indicator
 - If *Efficiency Vermont* reaches the target, it earns 100% of the award for that indicator
 - If *Efficiency Vermont* exceeds the target, it can earn more than 100% of the award for that indicator; however, the total performance award is capped



Minimum Performance Standards

- ❖ Electric benefits must exceed costs; failure to meet means ineligible for any performance incentive
- ❖ Minimum low-income spending; failure to meet reduces performance award cap by \$300,000
- ❖ Minimum participation by small non-residential customers; failure to meet reduces performance award cap by \$300,000



Process for Verifying EEU's Performance

- ❖ For annual electricity savings, total resource benefits, and summer peak kW savings, each year:
 - *Efficiency Vermont* submits annual report that establishes its claimed savings
 - DPS verifies the savings claims, makes recommendation to Contract Administrator
 - Contract Administrator attempts to resolve any disputes, makes recommendation to the Board
 - Board makes final determination regarding *Efficiency Vermont's* performance



Process for Verifying EEU's Performance (cont.)

- ❖ For other performance indicators, claims are made by *Efficiency Vermont* at end of three years, same verification process is followed



How Other States Deliver Energy Efficiency

- ❖ Two primary funding mechanisms
 - Electric rates
 - Public benefits funds
- ❖ Three types of entities delivering efficiency
 - Electric utilities
 - Third party administrators
 - Government agencies
- ❖ Some states use a combination of funding mechanisms and delivery entities