



February 15, 2012

Ms. Susan Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: EEU-2010-06 Heating-and-Process-Fuel Annual Plan Addendum

Dear Ms. Hudson;

In the December 28, 2011 Board Order re: Heating-and-Process-Fuel Efficiency Budgets and Plans, the Board directed Vermont Energy Investment Corporation (VEIC) to file:

1. A revised Heating-and-Process-Fuel (HPF) Efficiency Annual Plan Addendum that provides updated HPF budgets and breakdowns of Non-Resource Acquisition (NRA) budgets by category,
2. Updated targets for its HPF Quantifiable Performance Indicators (QPI), and
3. A proposal for making adjustments to the QPI targets in the likely event that the actual HPF budget available differs from the estimated budget.

Please accept this letter and its three attachments as VEIC's filing.

Introduction

Upon receipt of the Order, VEIC has been working in consultation with the Department of Public Service (Department) to revise the Heating-and-Process-Fuel resource acquisition (RA) and non-resource acquisition (NRA) budgets, to update the HPF QPIs, and to develop an adjustment protocol for HPF QPI targets. That process began with the Department providing an updated forecast of

- a. Forward Capacity Market (FCM) revenue,
- b. Regional Greenhouse Gas Initiative (RGGI) revenue,
- c. Department FCM evaluation costs,
- d. Property Assessed Clean Energy (PACE) Reserve Fund allocation,
- e. Estimated HPF carry-over from 2011, and
- f. Burlington Electric Department HPF expenses.

As a result of this collaboration, VEIC revised its RA and NRA budgets incorporating the Department's new estimates. Due to the uncertainty surrounding the RGGI revenue forecast, the quantification of unspent 2011 HPF funding, and the Department's 2012 – 2014 FCM evaluation budget, VEIC and the Department agreed that VEIC should not alter its filed 2012 NRA budget and planned activities but rather reduce 2013 and 2014 HPF NRA budgets to reflect the current forecast of estimated 2012 – 2014

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HPF funding. VEIC calculates the decrease as a reduction of \$321,535 in NRA funding. VEIC's tables (see below) reflect that reduction. The reduction in 2013 and 2014 HPF funding was allocated across the NRA categories in proportion to the relative size of the individual budget categories. VEIC and the Department plan to reassess these budget allocations later in 2012 when better information is available about total available 2012 – 2014 HPF funding. If HPF RA and/or NRA changes are believed to be warranted, VEIC will work with the Department and file a revised proposal.

1. VEIC's revised HPF RA and NRA Budget for the 2012 – 2021 Time Period

Table 1. VEIC's Three-Year Performance Period HPF Budget

	2012	2013	2014
Resource Acquisition Budget	\$3,868,700	\$3,377,200	\$3,877,600
Non-Resource Acquisition Budget	\$834,200	\$629,643	\$669,353
EVT Operations Fee and Maximum Performance Incentive Payment	\$195,834	\$173,926	\$196,998

VEIC provides the following revised HPF budget for 2012-2021; the budget is used for planning purposes.

Table 2. VEIC's Ten-Year HPF Budget

	Resource Acquisition	Non-Resource Acquisition	Operations Fee and QPI	Total
2012	\$3,868,700	\$834,200	\$195,834	\$4,898,734
2013	\$3,377,200	\$629,643	\$173,926	\$4,180,768
2014	\$3,877,600	\$669,353	\$196,998	\$4,743,951
2015	\$4,087,600	\$734,177	\$206,145	\$5,027,922
2016	\$3,763,300	\$773,370	\$193,957	\$4,730,627
2017	\$3,996,200	\$799,351	\$205,024	\$5,000,575
2018	\$4,556,900	\$791,982	\$228,678	\$5,577,561
2019	\$4,898,800	\$833,963	\$245,092	\$5,977,855
2020	\$5,245,600	\$862,640	\$261,145	\$6,369,385
2021	<u>\$5,751,400</u>	<u>\$854,468</u>	<u>\$282,421</u>	<u>\$6,888,290</u>
Total	<u>\$43,423,300</u>	<u>\$7,783,147</u>	<u>\$2,189,220</u>	<u>\$53,395,667</u>

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VEIC provides the following revised HPF non-resource acquisition budgets by category.
Table 3. VEIC's HPF Funded NRA Budget

Budget Categories	2012-2014
#1 Education & Training	\$308,418
#2 Applied R&D	\$65,073
#3 Planning and Reporting	\$390,440
#4 Evaluation	\$817,207
#5 Policy and Public Affairs	\$130,147
#6 IT	\$313,965
#7 Administration - Not Program Specific	\$107,945
Totals	\$2,133,195

VEIC provides the following summary table of Efficiency Vermont NRA Categories.

Table 4. VEIC's Combined EEC and HPF NRA Categories Budget

Budget Categories	EEC Totals	HPF Totals	Combined Total
#1 Education & Training	\$2,153,700	\$308,418	\$2,462,118
#2 Applied R&D	\$1,246,469	\$65,073	\$1,311,542
#3 Planning and Reporting	\$882,770	\$390,440	\$1,273,210
#4 Evaluation	\$1,644,200	\$817,207	\$2,461,407
#5 Policy and Public Affairs	\$917,700	\$130,147	\$1,047,847
#6 IT	\$2,208,700	\$313,965	\$2,522,665
#7 Administration - Not Program Specific	\$647,461	\$107,945	\$755,406
Totals	\$9,701,000	\$2,133,195	\$11,834,195

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2. VEIC updated targets for its HPF QPIs

VEIC reduced its HPF 2012 - 2014 MMBtu goal from 140,000 to 120,774 MMBtu (rounded to 121,000 in the QPI proposal). This is a reduction of 13.7% and reflects the reduction in HPF RA funding. The attached file, **HPF QPI Adjustment calculation 2.15.12.pdf**, provides details of that calculation. The other HPF QPIs are stated as a percentage of spending or as a percentage of completed projects. Therefore, they are self-adjusting and remain as stated. The attached file **HPF QPI Tables 2.15.12.pdf** details the specifics of the proposed HPF QPI.

3. Proposal for making adjustments to the HPF QPIs

The attached file, **HPF QPI Adjustment Protocol 2.15.12.pdf**, details VEIC's proposal. VEIC proposes a two tiered, time variable adjustment mechanism to adjust for potential changes in HPF funding.

VEIC looks forward to the Board's upcoming Annual Plan workshop to discuss these proposals and answer questions. As always, please feel free to contact me with any questions or comments.

Sincerely,

A handwritten signature in blue ink that reads "Michael J. Wickenden".

Michael Wickenden
Planning Manager
Policy and Public Affairs

Heating and Process Fuels QPI Adjustment Calculation

Resource Acquisition Budget			
Heating and Process Fuel Resource Acquisition Budget	<u>Original</u> \$12,894,300	<u>Updated</u> \$11,123,500	<u>% Change</u> -13.7%

Performance Indicators			
1. Incremental net MMBtu Savings (3 yr total):	<u>Original</u> <u>Metric</u> 140,000	<u>%</u> <u>Change</u> -13.7%	<u>Adjusted</u> <u>Metric</u> 120,774
2. Residential Single Family Comprehensiveness:			
a. Average air leakage reduction per project	34%	0%	34%
b. Percent of projects with square feet of insulation added equivalent to at least 50% of the home's finished square feet of floor area	44%	0%	44%
c. Percent of projects with both shell measures and heating system measures installed	16%	0%	16%

Minimum Performance Indicators			
3. Minimum spending in residential sector	62.5%	0%	62.5%
4. Minimum spending on low-moderate income customers	17.0%	0%	17.0%

Table HPF-1: 2012-2014 Unregulated Heating and Process Fuel Funds Performance Indicators and Awards

PI#	Title	Performance Indicator	Target*	Incentive Weight	Incentive Amount (100%)
1	Thermal & Mechanical Energy Efficiency Savings	Annual incremental net MMBTU savings	121,000	75%	\$255,000
2	Residential single family comprehensiveness	a. Average air leakage reduction per project [Note 1]	34%	25%	\$85,000
		b. Percent of projects with square feet of insulation added at least 50% of the home's finished square feet of floor area [Note 2]	44%		
		c. Percent of projects with both shell measures and heating system measures installed [Note 3]	16%		
			TOTALS	100%	\$340,000

* The Department of Public Service will verify all results through the annual savings verification process

Notes

- 1 Projects are defined as a work project completed by a Home Performance with ENERGY STAR (HPwES) contractor in a single family (1-4 units). All single family homes in which Unregulated Heating and Process Fuel-funded incentives are provided through HPwES will be included in the average, regardless of whether or not air infiltration reduction is achieved.
- 2 The total shall include all insulation that is installed in the home, including attic and ceiling insulation, wall insulation, floor insulation, foundation
- 3 Significant heating system measures will include system replacements, distribution improvements such as duct sealing or installing improved or right-sized ductwork, burner replacements, etc. with a cost of at least \$200 per reported job. Neither setback thermostats nor clean and tunes shall count as significant heating system measures for this Performance Indicator. Shell measures include any measures that reduce conductive losses through the building shell (typically insulation measures) as well as air infiltration reductions.

**Table HPF-2: 2012-2014 Unregulated Heating and Process Fuels Funds
Threshold and Scaling Up to 100% Target Level**

PI #1: Thermal and mechanical energy efficiency savings (MMBtu)

	Minimum	100% Target Level	Increase Rate
Achievement	90,750	121,000	\$4.215
% of target	75%	100%	Per MMBTU between 90,750 and 121,000
% of award	50%	100%	
Award amount	\$127,500	\$255,000	

PI # 2: Comprehensiveness - average percentage achieved of all metrics [Note 1]

	Minimum	100% Target Level	Increase Rate
Achievement	70%	100%	\$1,416.667
% of target	70%	100%	Per average percentage point increase between 70% and 100%
% of award	50%	100%	
Award amount	\$42,500	\$85,000	

Notes

1

The average percentage will be calculated using a maximum of 120% for any criterion (a,b,c) even if the actual performance is greater than 120% for any criterion.

**Table HPF-3: 2012-2014 Unregulated Heating and Process Fuel Funds
Scaling Above 100% Target Level**

PI #1: Thermal and Mechanical Energy Efficiency Savings (MMBtu)

<i>100% Target Level</i>	<i>Increase Rate</i>
121,000	\$7.438
	<i>per MMBtu above 100% Target Level</i>

PI # 2: Comprehensiveness - Average Percentage Achieved of All Metrics

<i>100% Target Level</i>	<i>Increase Rate</i>
100%	\$3,000.000
	<i>per % above 100% Target Level</i>

**Table HPF-4: 2012-2014 Unregulated Heating and Process Fuels Funds
Minimum Performance Requirements**

MPR#	Title	Minimum Requirement*	Policy Goal Advanced	Impact on Performance Incentive(s)
1	Threshold (or minimum acceptable) Level of Participation by Residential Customers	Total residential sector spending is greater than 62.5% of the total Unregulated Heating and Process Fuel Fund expenditures	Equity for residential customers by assuring that a minimum level of overall efficiency efforts, as reflected in spending, will be dedicated to residential customers	Reduces total performance incentive award at <i>100% Target Level</i> by 10% or \$34,000
2	Threshold (or minimum acceptable) Level of Participation by Low Income Customers	Total low-income spending is greater than 17% of the total Unregulated Heating and Process Fuel Fund expenditures	Equity for low-income customers by assuring that a minimum level of overall efficiency efforts, as reflected in spending, will be dedicated to low-income customers	Reduces total performance incentive award at <i>100% Target Level</i> by 10% or \$34,000

* The Department of Public Service will verify all results through the annual savings verification process

Unregulated Heating and Process Fuels Funds Calculation of PI Payments Threshold and Target

Available HPF RA Funds: \$11,301,100

Calculation of PI Payments up to 100% Targets				
<u>PI#</u>	<u>Minimum</u>	<u>100% Target*</u>	<u>Incentive \$ To Be Spread</u>	<u>Increase Rate Per Unit</u>
1	90,750	121,000	\$127,500	\$4.215
2	70%	100%	\$42,500	\$1,416.667

PI Descriptions and Targets

<u>PI#</u>	<u>Name</u>	<u>Target</u>
1	MMBtu	121,000
2.a.	Air Leakage	34%
2.b.	Insulation	44%
2.c.	Shell & Heating	16%

* Calculation of Adjustments to Targets will be based on February 15, 2012 PSB filing by VEIC

Calculation of Superstretch PI Payments if Targets Exceeded					
Total Possible Incentive to be Earned =		\$340,000			
Super Stretch Incentive =		\$60,000			
Percent Increase for Super Stretch =		5%			
<u>PI#</u>	<u>100% Target</u>	<u>"Super Stretch" Target</u>	<u>"Super Stretch" Weighting</u>	<u>Incentive Dollars</u>	<u>Increase Rate</u>
1	121,000	127,050	75.0%	\$45,000	\$7.438
2	100	105	25.0%	\$15,000	\$3,000.000
			100.00%	\$60,000	

MPR and Target

<u>MPR#</u>	<u>Name</u>	<u>Minimum</u>
1	Residential Spending	\$7,063,000
2	Low Income Spending	\$1,977,692

Heating and Process Fuels Quantitative Performance Indicator Target Adjustment Protocol

Introduction

In the December 28, 2011 Board Order EEU-2010-06 re: HEATING-AND-PROCESS-FUEL EFFICIENCY BUDGETS AND PLANS, the Board directed VEIC to file a proposal for making adjustments to the Heating and Process Fuel (HPF) Quantitative Performance Indicator (QPI) targets in the likely event that the actual HPF budget available differs from the estimated budget (Order, page 11).

Proposal

VEIC proposes the following two tiered, time variable adjustment mechanism. VEIC chose a tiered approach due to the variance in program adaptations that significant budget adjustments may require. The time element was introduced to account for the variance in effects caused by the timing of the budget adjustment relative to the length of the remaining performance period.

1. If the 3 year EEU HPF resource acquisition (RA) budget changes by less than \$1,200,000 (prorated to account for the number of months remaining in the performance period from the time of Board Ordered Implementation), then the MMBtu QPI will be prorated at the same rate as the RA budget change. For example, if the HPF RA budget increases or decreases by 8%, the resulting MMBtu QPI will consequently be increased or decreased by that same 8%. The other HPF QPIs are stated as a percentage of spending or as a percentage of completed projects. Therefore, they are self- adjusting and remain as stated.
2. If the 3 year EEU HPF RA budget changes more than \$1,200,000 (prorated to account for the number of months remaining in the performance period from the time of Board Ordered Implementation), VEIC will make a recommendation to the Board whether QPIs should be adjusted using the process in Step 1, above, or whether updated program planning is necessary to evaluate the overall impact on potential savings based on collective yield rates resulting from the new budget. This option would consider changes to all HPF QPIs. Interested stakeholders shall have the opportunity to comment on the VEIC recommendation.

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Financial Threshold

The 3 year, \$1,200,000 amount was chosen as the threshold to consider updated program planning because budget reductions of \$100,000 per year are substantial enough to potentially require significant programmatic changes in business sector offerings, including the start-up or elimination of business initiatives. Spending of HPF funding is targeted to 25% business customers and 75% residential customers. \$100,000 in business spending per year equates to approximately \$300,000 in residential spending per year, which would be roughly \$400,000 per year or \$1,200,000 in total HPF RA funding over three years. It should also be noted that the residential Home Performance with ENERGY STAR program is more established, and is less likely to require start-up or elimination of programs. Instead, smaller changes in the residential sector will more likely be associated with a ramp up or ramp down of that program.

Timing Mechanism

In order to determine whether a budget adjustment meets the threshold, the budget adjustment will be prorated by the number of months remaining in the performance period from the time a Board Order for budget adjustment is issued. If this change is greater than \$33,333 per month (\$400,000 per year), then the budget adjustment will be considered to be above the threshold. For example, if a Board Order is issued on 10/1/2013, there would be 15 months remaining in the performance period (October through December in 2013, and January through-December in 2014). At \$33,333 per month, 15 months equals a threshold level of \$500,000. Therefore, for an RA budget change of \$300,000 (with 15 months remaining in the period), a simple percentage change would be made to the HPF MMBtu QPI, but a RA budget change of \$600,000 (with 15 months remaining in the period) would be above the threshold, and VEIC would have the option of a simple percentage reduction, or performing updated program planning to propose new HPF QPIs.

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