

MEMORANDUM

To: Parties in PSB Docket Nos. 7081 and 7466; EEU e-mail service list

From: Susan M. Hudson, Clerk of the Board

Re: EEU-2010-05 (Forecast 20 spending issues)

Date: August 18, 2010

In Docket 7081, the Public Service Board ("Board") approved a Memorandum of Understanding ("MOU") filed by most of the parties to the Docket. Paragraph 61 of the MOU requires the Energy Efficiency Utility ("EEU") to prepare "estimates, looking 20 years ahead, of DSM savings expected to be achieved from System-wide Programs." This 20-year forecast, commonly referred to as "Forecast 20," must be prepared every three years. The first Forecast 20 was completed in 2009 and the EEU is currently developing the second Forecast 20.

Paragraph 64 of the MOU outlines the source of funding for the development of Forecast 20:

Starting in calendar year 2007, the Parties agree that the annual EEU budgets to be collected via the EEC shall be increased in order to include the amounts determined by the Board to be necessary for the provision of the services to be performed by the EEU under paragraph 61, above. This paragraph shall not constitute a waiver by any Party of any right to contest on another basis a particular level of expenditure for the EEU or the amount determined to be necessary to provide services under paragraph 61, above.

Forecast 20 Expenditures

In 2007, the Board established a Forecast 20 budget of \$129,500 and calculated the 2008 EEC to collect that amount, in addition to the budget amount for that year. In 2008, the Forecast 20 budget was adjusted to \$162,500 to account for \$32,500 that was

incremental to EEU planning, and the Board included a clause in the 2006-2008 contract with Vermont Energy Investment Corporation ("VEIC")¹ that the costs of developing the first Forecast 20 were not to exceed \$162,500.

In 2008, VEIC spent \$81,700 on Forecast 20 activities. In 2009, VEIC spent an additional \$156,917 on these efforts, bringing the total amount to \$238,617. Also in 2009, a new contract with VEIC was put into effect — the contract did not include a cap on the amount VEIC could spend on the first Forecast 20. The Board did not raise the costs associated with Forecast 20 through an adder to the EEC in 2009, and accordingly did not collect any money to specifically fund the Forecast 20 activities. Given that the 2008 EEC collected \$129,000 for the first Forecast 20 activities, there is a gap of \$109,617 that was not collected via the EEC specifically to fund the first Forecast 20 activities. However, VEIC has already been paid for these activities.

Forecast 20 Activities and the Demand Resource Plan

On November 24, 2009, the Board issued an Order in Docket 7466² determining that the structural model of the EEU would be altered from a contract-based model to an Order of Appointment model. In the November 24 Order the Board found that it is appropriate for the EEU to develop a Long-Term Demand Resource Plan ("DRP") that addresses the following issues:

The Long-Term DRP should be a set of year-by-year values for the EEU's demand-side electricity resource acquisition savings goals and the associated budgets by calendar year for the twenty-year period following Board adoption of the DRP.

The Long-Term DRP . . . should provide short-term (e.g., three years) savings goals and budgets that can serve as the basis for performance indicators to assess the EEU's performance. It should also provide operating assumptions for long-term (e.g., 20 years) budgets and savings goals that can be used for long-term electricity resource planning by the EEU, the Department, distribution utilities, and VELCO.

The Long-Term DRP could be used to fulfill the EEU's long-range planning and forecasting responsibilities. This approach would also support greater

¹VEIC is the entity under contract to the Board to administer the efficiency programs provided by Efficiency Vermont.

²For further information on the Board's proceedings in Docket 7466, *see*, <http://psb.vermont.gov/docketsandprojects/eeu/7466>.

use of longer-term (market transformation) strategies and provide a long-term planning horizon consistent with that of energy supply utilities.³

In an Order dated June 25, 2010, the Board determined that it was appropriate to determine the details of the DRP in additional proceedings, which are ongoing in Docket 7466.

The parties to Docket 7466 are currently drafting a detailed proposal for the DRP, and have indicated that, to be effective for the 2012-2014 time period, the first DRP should be completed by May of 2011. Although the Board has not adopted parties' specific recommendations in Docket 7466, it is reasonable, given the timing for the DRP to be completed, to consider any interactions between Forecast 20 and the DRP at this time.

On July 14, 2010, VEIC sent a memorandum to Board staff addressing the interaction between Forecast 20 and the DRP (attached). VEIC states that there are several areas where the Forecast 20 and DRP activities overlap, and it is aligning the delivery of Forecast 20 to coincide with the completion date of the DRP. In addition, VEIC states that it will incur additional costs associated with developing the DRP that are not included in the 2010 or 2011 EEU budget.

VEIC provides two specific recommendations regarding the funding of Forecast 20 and the DRP:

1. Instead of funding the VSPC forecasting activities through a continuation of the standalone VSPC [Vermont System Planning Committee] EEC adder, VEIC recommends that on a forward-going basis, these costs be integrated into the overall Efficiency Vermont budget as a non-resource acquisition scope of work.
2. Under this new funding structure, VEIC requests a budget of an additional \$100,000 to cover the previously unbudgeted costs of participating in the DRP process through the end of the current 2009-2011 contract period, with a corresponding reduction in resource acquisition goals (no change in overall EEU budget for this period). . . . As part of this request, VEIC would not request any additional funding be provided by the Docket 7081 parties, owing to higher-than-expected costs for production of the first Forecast 20 report.

Request for Comments

Pursuant to paragraph 64 of the 7081 MOU, the costs associated with Forecast 20 activities are to be incremental to the EEU budget. Accordingly, the Board must collect the

³Docket 7466, Order of 11/24/09 at 65 (findings 107-109).

additional \$109,617 that was spent on the first Forecast 20 without altering the budget available for the 2009-2011 period.

There are at least two possible approaches to addressing this issue: the first option is to raise these funds through an increase in the 2011 EEC; the 2011 EEC is calculated in the fall of 2010. Alternatively, the Board could wait until the end of the 2009-2011 contract period to determine whether there is sufficient interest or unspent funds that could be used to pay for the Forecast 20 activities. Under this approach, if there were insufficient funds available at the end of the 2009-2011 period, the Board could collect the necessary funds through an increase in the 2012 EEC. The Board requests comments on these possible approaches, as well as any other proposals to address this issue.

The Board is also requesting comments on VEIC's recommendations regarding funding the DRP activities, including: (1) whether Paragraph 64 of the 7081 MOU should be modified such that the costs associated with future Forecast 20 activities will be included in the EEU budgets and do not need to be raised separately through an adder to the EEC; and (2) whether VEIC's resource acquisition goals should be reduced to reflect the budgeted DRP costs.

Any comments on these issues should be filed with the Board by August 25, 2010. Any reply comments should be filed by September 1, 2010.

Enclosure (1)