

STATE OF VERMONT  
PUBLIC SERVICE BOARD

EEU-2010-05

(Order Re: Forecast 20 Spending)

Order entered: 10/5/2010

**ORDER RE: FORECAST 20 SPENDING ISSUES**

**Introduction**

In this Order we address the following issues: (1) the appropriate method for collecting the incremental cost of \$109,617 to develop the first "Forecast 20"; (2) revisions to the mechanism for funding Forecast 20; and (3) whether Vermont Energy Investment Corporation's ("VEIC's")<sup>1</sup> resource acquisition goals should be reduced to reflect VEIC's costs related to developing the Demand Response Plan ("DRP").

**Background**

In Docket 7081, the Board approved a Memorandum of Understanding ("7081 MOU") filed by most of the parties to that Docket. Paragraph 61 of the 7081 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."<sup>2</sup> This 20-year forecast, commonly referred to as "Forecast 20," must be prepared every three years. Paragraph 64 of the 7081 MOU outlines the source of funding for the development of Forecast 20, and requires that the costs associated with Forecast 20 be collected through an adder to the energy efficiency charge ("EEC").

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

2. Demand-Side Management (DSM).

On August 18, 2010, the Clerk of the Board issued a memorandum requesting comments on the following issues: (1) the need to collect incremental costs associated with development of the first Forecast 20; (2) possible revisions to Paragraph 64 of the 7081 MOU; and a request by VEIC to reduce its resource-acquisition goals to reflect its budgeted costs to participate in the DRP proceeding.<sup>3</sup>

### **Collecting Incremental Costs of the First Forecast 20**

In 2007, the Board established a Forecast 20 budget of \$129,000 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 \$161,500 to account for \$32,500 that was incremental to EEU planning, and the Board included a clause in the 2006-2008 contract with VEIC 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 — this contract did not include a cap on the amount VEIC could spend on the first Forecast 20.

Pursuant to Paragraph 64 of the 7081 MOU, the costs associated with Forecast 20 activities are to be incremental to the EEU budget. VEIC, in its role as Efficiency Vermont, has been paid \$238,617 for preparing the forecast. However, only \$129,000 was raised through an EEC adder, collected in 2008. Accordingly, there is \$109,617 that VEIC has spent on the first Forecast 20 that has not been raised through the EEC.

The August 18 memorandum requested comments on the most appropriate method of addressing this issue.

### **Comments**

Central Vermont Public Service Corporation ("CVPS"), the Department of Public Service ("Department"), and VEIC all recommend that the Board wait until the end of the 2009-2011

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3. The DRP proceeding addresses, among other items, future resource-acquisition goals and associated budgets for the EEU. See, EEU-2010-06, *In re: EEU Demand Resources Plan*, Order of 9/9/10.

contract period to determine if there is sufficient interest or unspent funds that could be used to pay the Forecast 20 activities.

International Business Machines Corporation ("IBM") states that the Board authorized an expenditure of \$178,000 for the first Forecast 20 activities. Since only \$129,000 was raised from the EEC, there is \$49,000 that was authorized but not collected through the EEC. IBM recommends that the Board determine, after the 2009-2011 contract period, whether there are EEU funds available to pay this amount. IBM further asserts that any cost overruns associated with Forecast 20, the amount in excess of \$178,000, should not be treated as incremental to the EEU budget, nor should they result in adjustment of the EEU's performance goals.

#### Discussion and Conclusion

We conclude that it is reasonable to wait until the end of the current contract period to determine whether there are sufficient funds that can be used to pay the incremental costs of the first Forecast 20. Based on prior experience, it is likely that there will be funds available at the end of the contract period, both in interest earned over the contract period and unspent funds, that can be used to cover some or all of the costs associated with the first Forecast 20. If the amount of available funds is less than \$109,617, the amount that needs to be raised can be factored into the calculation of the 2011 EEC.

With respect to IBM's proposal regarding the cost of the first Forecast 20 activities in excess of the amount authorized by the Board, VEIC has already received payment for this amount, and Paragraph 64 of the 7081 MOU requires the costs associated with the Forecast 20 activities to be paid.<sup>4</sup>

#### **Revision of Paragraph 64**

Paragraph 64 of the 7081 MOU sets forth the funding mechanism for Forecast 20 activities. In particular the paragraph specifies that "the annual EEU budgets to be collected via the EEC shall be increased in order to include the amounts necessary" for Forecast 20 activities.

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4. In the context of Docket 7644, the Board's investigation into the EEU structure, the Board will review the procedures for approving VEIC expenditures.

The August 18 memorandum requested comments on whether Paragraph 64 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.

### Comments

CVPS, the Department, IBM, and VEIC all support revising Paragraph 64 of the Docket 7081 MOU to allow the costs associated with Forecast 20 activities to be included in the EEU budgets, thereby eliminating the need to collect these amounts separately through an adder to the EEC. No party to Docket 7081 opposed the change.

### Discussion and Conclusion

In order to increase administrative efficiency, we will revise Paragraph 64 of the Docket 7081 MOU as follows:

~~Starting in calendar year 2007, the~~ The Parties agree that the annual EEU budgets ~~to be collected via the EEC shall be increased in order to~~ shall 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.

We are issuing a separate order in Docket 7081 to implement this change.

### **Possible Reduction of VEIC's Resource Acquisition Goals**

In a July 14, 2010, filing, VEIC stated that several aspects of the DRP process being undertaken under the Order of Appointment model overlap with the Forecast 20 activities. VEIC's July 14 filing further states that it will be incurring additional costs associated with developing the DRP that are not included in the 2010 or 2011 EEU budget. VEIC requests a budget of an additional \$100,000 to participate in the DRP process. VEIC further states: "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."

Comments

The Department recommends that the Board allow VEIC to invoice its costs of participating in the DRP proceeding and associated work products. However, the Department further recommends that these costs not be reflected in a corresponding reduction in VEIC's resource acquisition goals for the 2010 - 2011 period, although future costs for DRP proceedings should be incorporated into the budgets and targets for future performance periods.

The Department states that VEIC's estimate of the costs to participate in the DRP proceedings appear to include work assigned to the Department under the draft documents being prepared in Docket 7466 (termed "governance documents" by the Department). The Department suggests that it may not be in the best interests of ratepayers to have duplicate studies and analyses conducted.

The Department also notes that, because VEIC will receive an Order of Appointment,<sup>5</sup> VEIC will not be required to commit its own resources to respond to a Board request for proposals for a new EEU contractor or negotiate a contract. The Department contends that many of these resources are similar to what is required to effectively participate in the DRP proceedings.

Finally, the Department notes that the draft governance documents being developed in Docket 7466 specifically state that there would not be changes to performance targets if funding changes are within \$100,000. Accordingly, the Department suggests that not reducing VEIC's performance goals is consistent with the preliminary agreements that parties have reached in Docket 7466.

IBM also recommends that VEIC's performance goals not be reduced to reflect the costs associated with development of the DRP. IBM notes that VEIC will no longer have to bear the costs of contract bidding under the Order of Appointment model. Additionally, IBM states that the estimated incremental cost of \$100,000 for the first DRP is only 0.1% of VEIC's three-year budget of \$94.2 million.

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5. As a result of the Board's investigation into the EEU structure, the Board has determined that the entity administering programs provided by Efficiency Vermont should serve under an Order of Appointment model, rather than the existing contract model. Docket 7466, Orders of 11/24/09 and 8/20/10.

VEIC contends that the portion of the governance documents cited by the Department are not pertinent to its request to reduce the performance goals. VEIC states that the section of the governance documents cited by the Department relate to unanticipated additional funding, while a more pertinent portion of the document that references additional non-resource acquisition services allows the Board to modify the performance goals as a result of necessary activities that do not contribute to resource acquisition activities.

VEIC further states that it has been an active participant in Docket 7466, with the costs of these activities being borne by VEIC rather than the EEU. VEIC represents that the costs associated with these activities "easily exceed the modest savings that would accrue to VEIC as the result of shifting the costs associated with negotiation of the performance indicators to the EEU budget."

Finally, VEIC contends that, while the EEU is not required to develop efficiency potential studies, it may be in the public interest for the entity carrying out the efficiency services to perform such studies.

#### Discussion and Conclusion

We conclude that VEIC's performance goals should not be reduced to reflect costs associated with DRP activities. VEIC, in its July 14 filing, states that, as part of its request regarding DRP funding, "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." VEIC has already been paid for the work associated with the first Forecast 20, and the 7081 MOU provides that the EEU will be paid the costs of preparing the Forecast 20 report.

VEIC has stated that it is willing to forego the \$109,000 associated with the first Forecast 20 that was not collected through the EEC. However, the Board is obligated under the 7081 MOU to reflect the costs of the Forecast 20 activities in the EEU budget.

As the Department points out, VEIC will not be incurring any costs associated with responding to requests for proposals, as a result of the Order of Appointment. While VEIC has incurred costs associated with participating in Docket 7466, it has had a significant economic interest in participating in the docket.

For these reasons, we conclude that VEIC's resource acquisition goals should not be reduced as a result of its spending on DRP activities, although VEIC may be compensated for the amount it expends on DRP activities.

**SO ORDERED.**

Dated at Montpelier, Vermont, this 5th day of October, 2010.

s/ James Volz )

) PUBLIC SERVICE

s/ David C. Coen )

) BOARD

s/ John D. Burke )

) OF VERMONT

OFFICE OF THE CLERK

FILED: October 5, 2010

ATTEST: s/ Susan M. Hudson  
Clerk of the Board

*NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*