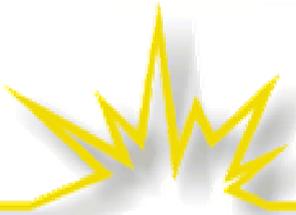


Toward Efficiency Vermont

Presentation to New Jersey Officials

December 11, 2003 -- VEIC

Richard Sedano and Richard Cowart

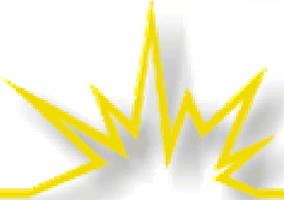


The Regulatory Assistance Project

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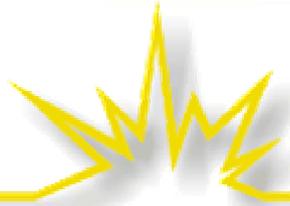
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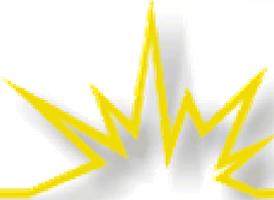
Parallel Paths Converge

- High Standards for Efficiency Delivery
- Restructuring Opens Doors to New Ways to accomplish important objectives



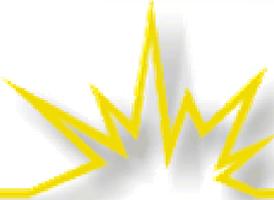
High Standards

- Vermont a Consuming State
- Legislative Policy Decisions Support Energy Efficiency
 - ❖ Copies of statutes illustrate
- Utilities display normal mixed motives arising from throughput incentive
- Regulators persist in pushing for least-cost resource portfolio



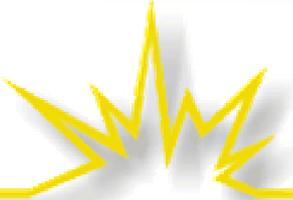
Energy Efficiency A Source of Conflict

- Out-sized portion of attention in each rate case
- 22 separate utilities, plans, programs
- ROE Penalty
- Observe that the problem is management, not staff
- No lack of efficiency opportunities



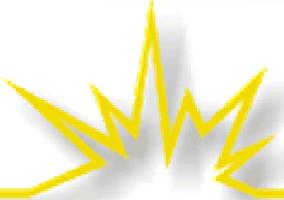
Restructuring

- What to do with Public Benefit activities?
 - ❖ Maintain regulatory attention
- Assign tasks to the entity in the best position to do a very good job
- Success of Vermont's Weatherization Trust Fund, and experience with other statewide utility programs (purchasing pool for QFs, telco universal service) suggest statewide administration is possible.



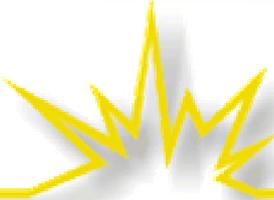
First idea

- Let the Department of Public Service deliver the programs
- DPS is the know-it-all in rate cases
- DPS is committed to success



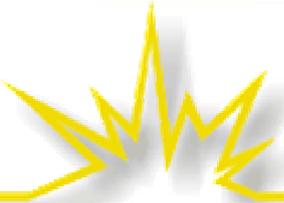
But think again...

- DPS is the consumer advocate
- DPS is best at reviewing what regulated entities do
- General rule: don't grow government
 - ❖ Budgetary vulnerability
 - ❖ Political exposure
 - ❖ Civil service and related limitations
- Efficiency is an *electric system function* -- a system resource -- *not a governmental social service*



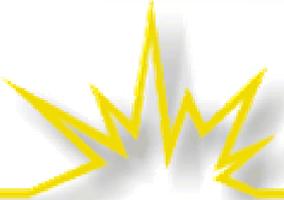
Second idea (better for VT)

- Solution: Energy Efficiency Utility
- “We propose the creation of one or more “efficiency utilities” to oversee the development and implementation of statewide benefits programs... Like other retail utilities...these entities will be certified or chartered by the Public Service Board...[and funded] with revenues from the systems benefits charge...” *PSB Order in Docket 5854 (December 1996)* :
- See S. 62 for initial legislative proposal
 - ❖ Initial proposal quite similar to what actually happened



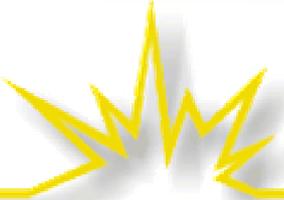
Goals motivating design of the Efficiency Utility

- Better delivery of efficiency services: cost-effectiveness and comprehensiveness
- Align public goals and company incentives (resolving throughput problem; creating savings incentive)
- Help ensure adequate funding over time
- Preserve the appropriate roles for the PSB and PSD
- Reduce regulatory burdens on everyone (administrative/regulatory simplicity)
- Consistency of messages, programs *over time* and *across the state*.



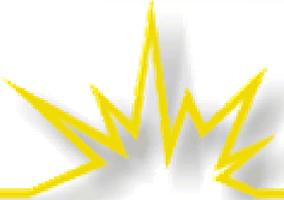
Restructuring Fails

- Monopoly prevails
- Efficiency process still broken
- Utilities under huge risk from Hydro-Quebec contract obligation
- Decision to go forward with efficiency utility as a stand alone initiative:
 - ❖ **DPS** files proposal– “The Power to Save”
 - ❖ **PSB** Docket 5980 -- Orders to utilities to participate in statewide programs
 - ❖ **Legislature** confirms approach, clarifies Board authority



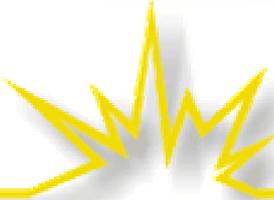
Going forward with EEU

- PSB docket
- Prior PSB support (5854)
 - ❖ Driven by statute, preferences of board
- Governor support
 - ❖ Reminiscent of McGreevey and RPS
- All party negotiation convened by DPS
 - ❖ Goal: stipulation will all parties: utilities, efficiency advocates, business groups



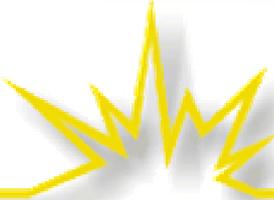
Negotiation Success

- Peace in our time for utilities
 - ❖ Recognition of utility specific factors
 - ❖ Access to customer data
- Commitment to go forward with meaningful budget
- Competitive selection
- Reduction in long term DSM costs in rates from then current figures
- Cost control and Budget control for 5 years
- High barrier for customer opt out of a portion
- Agreement to look at distributed utility planning



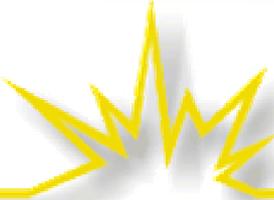
Roles

- PSB: supervises work as it would a utility, but with purpose built methods – contract management
 - ❖ If we could only reinvent all regulation
 - ❖ Also: defend against mission creep, politics
- DPS: program design; monitoring and verification; hectoring for change
- Utilities: partners in serving customers
- EVT: laser focus for opportunities; the “go-to” guys; bring reality to the vision for the future (new program needs, targeted DSM, demand response, renewable energy)



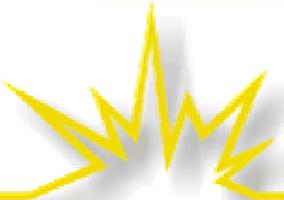
Key design issues

- **Basic Platform:** state agency (DPS?), utilities with statewide programs; or Efficiency Utility?
- **EEU identity and term:** What is the EEU? (“contractor” v. “franchise”) For how long? 3 years, 5 years, or forever? How chosen?
- **Financing:** what level of support? “are funds revenues of the state?”
- **Administrative structure and oversight**
 - ❖ Contract Administrator, relationship to Board
 - ❖ Roles of Board, DPS, utilities, etc.



Top Ten reasons I am happy about Efficiency Vermont

- They are tapping all markets
- They are doing the statewide job well -- statewide brand
- They are responsive and learning
- They feel pressure to do better
- They hired good people from utilities
- Utilities seem to like them
- They are national leaders
- They are principled and pragmatic
- No embarrassments
- Governor Dean can brag about them



Regrets and challenges

- Program may be fragile
 - ❖ Will less committed custodians will undermine it?
 - ❖ VEIC has to watch its ps and qs
 - ◆ Mutes a capable policy voice
 - ◆ Under contract performance pressure
- Spotlight taken off of utilities' remaining efficiency obligations:
 - ◆ Portfolio management still needed
 - ◆ Customer rate designs still powerful, need adjustment
 - ◆ Utility throughput problem remains
 - ◆ Distribution utility planning and investment decisions
 - ❖ Can EVT mandate be broadened to coordinate EE and other programs (e.g., load management, ISO reliability?)
- DSM still too much a “program,” not a “resource”