Report on 2013 Energy Efficiency Utility Program Revenues and Expenditures

Pursuant to

30 V.S.A. § 209(d)(3)(A)

by the

Vermont Public Service Board

January 22, 2015

In accordance with 30 V.S.A. § 209, the Vermont Public Service Board ("Board") is providing the Legislature with a final report ("Report") on the Energy Efficiency Utility Fund ("EEU Fund") for activity through December 31, 2013, and information summarizing the results of the activities paid for by the EEU Fund in 2013.[1] This Report is for the 2013 program year because the EEU Fund has not yet been audited and the program savings have not yet been verified for 2014.[2]

This Report provides a summary of Energy Efficiency Utility ("EEU") services delivered during 2013. These energy efficiency services were provided primarily by EVT;[3] however, BED provided many of these services in its service territory.[4]

As this Report shows, both EVT and BED are providing substantial benefits to the state's electricity consumers by reducing participating customers' electrical energy consumption and by offsetting statewide electric energy load growth. The energy efficiency investments lead to financial savings for all Vermonters. When Vermonters save energy, utilities generally need to buy less energy. As a result, utility costs associated with buying energy are less than they otherwise would be, and therefore the rates paid by all consumers are less than they otherwise would be. The customers who have worked directly with EVT and BED accrue additional savings as a result of their reduced electricity consumption.

While the statute does not specifically require the Board to report on the program activities of the EEUs, this Report summarizes EVT's key accomplishments in 2013.[5] The investments made by EVT in 2013 are projected to save Vermont a net present value of

[1] The statute reads as follows: "The Board will annually provide the General Assembly with a report detailing the revenues collected and the expenditures made for energy efficiency programs under this section." 30 V.S.A. § 209(d)(3)(A).

[2] There is typically a lag in reporting this information to the Legislature because the program savings must be verified by the Department of Public Service ("Department") and an independent audit of the EEU Fund must be completed during the calendar year following the program year. For example, the Department provided a final report on its verification activities for the 2013 program year to the Board in July 2014; the Board made its determination regarding the achieved savings in November 2014 (EEU-2014-05, Order of November 24, 2014). The City of Burlington Electric Department ("BED") and Efficiency Vermont ("EVT") filed annual reports on 2013 activities in April 2014 and November 2014, respectively. The Board received the independent audit of the EEU Fund for 2013 in October 2014.

[3] Vermont Energy Investment Corporation ("VEIC"), a non-profit corporation, serves as a statewide EEU, known as EVT. In 2010, the Board adopted an Order of Appointment structure for implementation of EEU services, in accordance with 30 V.S.A. § 209(d)(5) (which has since been renumbered 30 V.S.A. § 209(d)(4)). On December 20, 2010, the Board issued an order appointing VEIC to serve as a statewide EEU through December 31, 2021.

[4] When the Board first created EVT, it authorized BED to deliver many of the same services in its own service territory that EVT provides throughout the rest of the state. (For simplicity's sake, this report refers to these services collectively as "EEU services.") On April 19, 2011, the Board issued an order appointing BED to serve as an EEU for its service territory through December 31, 2021.

[5] The kilowatt-hour savings and benefit figures included in EVT's 2013 Annual Report have been verified by the Department as part of its evaluation activities.

$59,200,000 over the 11-year average lifetime of the investments ($130,200,000 in net present value benefits minus $71,000,000[6] in 2013 investments).

Business customers received approximately 59 percent of the direct benefits of EVT's services in 2013, while residential customers received approximately 41 percent of these benefits. The kilowatt-hours saved by EVT cost Vermont electric consumers approximately 4.2[7] cents per kilowatt-hour, which is approximately 50 percent of the cost that utilities would have paid for a comparable electric supply in 2013.

EVT's activities include not only electric efficiency, but thermal-energy-and-process-fuels efficiency as well. EVT's savings for thermal-energy-and-process-fuels efficiency, primarily associated with the Home Performance with ENERGY STAR service, totaled 53,900 MMBtu in 2013. These services are funded through a combination of proceeds from Vermont's participation in the Regional Greenhouse Gas Initiative ("RGGI") and EVT's participation in the regional grid's Forward Capacity Market.[8] For more information about EVT's activities, please see the attached introduction of the report written by Efficiency Vermont entitled "Efficiency Vermont Annual Report 2013" (Attachment A).

This Report also includes an excerpt from BED's 2013 Energy Efficiency Annual Report that summarizes the results of BED's energy efficiency activities that were paid for by the EEU Fund (Attachment B). The excerpt from BED's report shows that the investments in EEU services made by BED in 2013 are projected to save BED customers a net present value of $5,115,000 over the 12-year average lifetime of the investments ($8,976,000 in net present value benefits minus $3,861,000[9] in 2013 investments).[10] Business customers will receive approximately 63 percent of these savings, while residential customers will receive approximately 37 percent of the savings. The kilowatt-hours saved by BED's EEU services cost BED's ratepayers approximately 2.6[11] cents per kilowatt-hour.[12]

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[6] This value includes costs paid for by participants and third parties.

[7] This cost does not include costs paid for by participants and third parties.

[8] Pursuant to 30 V.S.A. §§ 209(e)(1)(A), 209(e)(1)(B), and 255(d), proceeds from the ISO New England's Forward Capacity Market and RGGI auctions are used, in part, to provide thermal-energy-and-process-fuel-efficiency services.

[9] This value includes costs paid for by participants.

[10] BED's kilowatt-hour savings and benefit figures have not yet been independently verified. The Department plans to verify BED's 2013 savings and benefits claims in 2015.

[11] This cost does not include costs paid for by participants.

[12] BED's cost per kilowatt-hour savings is less than the statewide EEU's cost per kilowatt-hour. This is attributed to BED's customer mix and compact service territory. Additionally, funds are allocated to the statewide EEU to achieve savings in Board-determined geographic areas in order to defer or eliminate the need for costly transmission and distribution upgrades in those areas. The costs to achieve these savings are higher than the average cost per kilowatt-hour.

Batchelder Associates, PC, is the company under contract with the Board as the Fiscal Agent[13] for the EEU Fund. The firm of Clark Schaefer Hackett & Co, PC, was engaged by the Board to perform an independent audit of the EEU Fund's revenues and expenditures for 2013. For more information about this audit, please see Independent Auditors' Report with Combined Financial Statements (Attachment C). A brief summary of the EEU Fund follows.

Total revenues collected by the EEU Fund during calendar year 2013 were \$51,859,815 (including revenues collected via the energy efficiency charge on electric customers' bills, EVT's and BED's participation in the Forward Capacity Market, RGGI, and interest income accrued).[14] Total expenditures from the EEU Fund during calendar year 2013 were \$46,731,060. It is expected that revenues and expenditures will be closely matched over the life of the three-year budget cycle for the EEU services.[15] Expenses paid by the EEU Fund included:

- energy efficiency services provided by EVT;
- EEU services provided by BED;
- unregulated thermal-energy-and-process-fuel efficiency services provided by EVT and BED using revenues from the Forward Capacity Market and RGGI; and
- administrative costs such as the services of the EEU Fiscal Agent, and EEU monitoring and evaluation activities undertaken by the Department of Public Service.

The documents attached to this Report show: (1) the EEU Fund is being appropriately managed; and (2) the energy savings achieved by EVT and BED in the past

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[13] The Fiscal Agent provides the accounting services necessary to administer the EEU Fund. These services include: (1) receiving funds collected by Vermont electric distribution companies and those that accrue from participation in RGGI and the Forward Capacity Market; (2) disbursing funds to pay approved invoices; (3) managing any cash balances in the EEU Fund; and (4) reporting on EEU Fund financial activities.

[14] The revenue and expenditure figures in this paragraph are presented on an accrual basis. The EEU Fund's cash balance as of December 31, 2013, was \$8,924,474. At the start of 2013, the EEU Fund's cash balance was \$3,781,256.

[15] The Board established the EEU Budgets for 2012, 2013, and 2014 in an order issued on August 1, 2011, in EEU-2010-06. The EEU program is operated on a three-year performance cycle, and expenses can outpace revenue in a given year but are capped by the three-year budget approved by the Board. In an order issued on September 12, 2012, in EEU-2011-06, the Board determined that an additional \$1.6 million will be collected through the EEC collection during 2013 and 2014 to address the one-month lag between EEC collections and energy-efficiency program expenditures. (The associated EEC collections are sufficient to cover only 35 of 36 months of the three-year budgets; the 36th month of collections occurs after the end of the three-year budget period.) In an Order issued on March 29, 2013, in EEU-2011-06, the Board determined that the additional \$1.6 million will be collected during 2014 and 2015 instead.

year benefitted all Vermonters, whether or not they directly participated in EVT's or BED's programs.

Please keep in mind that, with this Report, the Board is not reporting on all electric energy efficiency initiatives that are being implemented throughout the state; instead, this report is limited to describing the use of the funds received through the energy efficiency charge as authorized under 30 V.S.A. § 209(d)(3) and the statewide efficiency services delivered by EVT and BED. Electric utilities have an obligation to implement electric energy efficiency initiatives as part of distributed utility planning, and some choose to offer initiatives as a service to their customers.

Additional information about the various oversight activities related to the EEU that the Board and other entities conduct is available on the Board's website at:

http://psb.vermont.gov/utilityindustries/eeu/generalinfo/oversightactivities

This information includes, among other items:

- various reports produced by EVT and by BED;
- financial reports such as the independent audit of the EEU Fund and the independent audit of VEIC;
- the most recent audit required by statute of the EEU program's energy and capacity savings and program cost-effectiveness; and
- website links to savings verification and evaluation reports produced by the Department of Public Service.

Attachment A

ANNUAL REPORT

2013

NOVEMBER 26, 2014

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1. RESULTS OVERVIEW

In 2013, Efficiency Vermont helped Vermont businesses, institutions, households of all income levels, and communities get the most out of their energy dollars while strengthening local economies and protecting the environment. Efficiency Vermont's comprehensive, statewide electric and thermal energy efficiency services helped Vermonters at critical decision-making moments in new construction projects, during renovations, and in the purchase of efficient equipment. Of equal importance was Efficiency Vermont's work to help Vermonters obtain optimal savings by approaching efficiency, on the customer's terms, as an energy management process rather than a one-time project.

Efficiency Vermont's ongoing success in obtaining cost-effective energy savings continued to define efficiency as the cleanest, least expensive, and most locally-acquired way to reduce Vermonters' energy costs and to meet the state's energy needs. In 2013, Efficiency Vermont worked to:

- **Motivate energy efficiency actions** with: 1) technical and financial analysis; 2) information about energy use and planning, efficient technologies, and building science to empower Vermonters with the ability to identify how their actions control their energy costs, and 3) resources to bring efficiency within financial reach for Vermonters of all income levels and to enable Vermonters in all regions of the state to make informed decisions about cost-effective efficiency investments to benefit their households, businesses, and communities.
- **Make efficiency the standard** by ensuring that high-quality, efficient technologies and approaches are available and knowledgeably installed and serviced through: 1) training and support for building retrofit and new-construction designers, contractors, as well as the builders, retailers, installers, and service technicians to whom Vermonters turn for efficient services and products, and 2) maintenance of upstream relationships with and services to equipment manufacturers, distributors, and suppliers.
- **Benefit Vermonters** through involvement in state, regional, and national efficiency planning, policy, programming, and research efforts that have a lasting, positive impact.

The close of 2013 marked the completion of two of the three years in Efficiency Vermont's current performance period[1]. Fittingly, the energy-related savings acquired through Efficiency Vermont's efforts in these two years was at or above two-thirds of most key savings goals for the 2012-2014 period. Although this short-term alignment is neither a requirement nor an aim of Efficiency Vermont's long-term efforts, it is an indicator of strong progress toward overarching three-year goals.

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[1] Efficiency Vermont's performance periods and savings goals are established with the Vermont Public Service Board, as discussed in Section 1.1.

Efficiency Vermont maintained this progress despite relatively slow energy savings results in the first half of 2013. Through its rigorous, ongoing monitoring of its performance, Efficiency Vermont was able to identify and reverse early 2013 results through aggressive program adjustments that increased participation. The positive momentum from these program modifications was expected to continue into the final year of the performance period.

Corresponding to energy savings amounts was the level of economic benefit to Vermont resulting from Efficiency Vermont's work. As detailed in Section 1.2, Efficiency Vermont's 2013 services resulted in $59.1 million in net, lifetime economic value to Vermont. Although this single-year result was lower than the previous year's, a period-to-date figure of $161.4 million[2] positioned Efficiency Vermont well for a successful 2012-2014 performance period yielding benefits of deep value to Vermont.

1.1 QUANTIFIABLE PERFORMANCE INDICATORS[3]

Efficiency Vermont continued to operate under a performance-based model. This model ties a significant portion of compensation to specific, aggressive goals in order to encourage high levels of performance, innovation, quality, and operational efficiency. These goals—for specified energy savings acquisitions, administrative performance elements, and other areas—are established with the Vermont Public Service Board as Quantifiable Performance Indicators (QPIs) for a three-year performance period. The results shown in **Table 1** reveal strong progress toward Efficiency Vermont's QPI goals for the 2012-2014 performance period. These results were achieved within the budget parameters set by the Vermont Public Service Board.

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[2] In the first year of the 2012-2014 period, Efficiency Vermont's services resulted in $102.3 million in net, lifetime economic value to Vermont. Source: Efficiency Vermont 2012 Annual Report.

[3] Unless otherwise noted, results provided in the narrative section of this report include Customer Credit data, but do not include savings from efficiency measures installed via Burlington Electric Department, Vermont Gas Systems, or the Green Mountain Power Energy Efficiency Fund.

Table 1. Selected QPI results (approximated) and progress toward 2012–2014 goals[4]

Key Quantifiable Performance Indicators (QPIs)	Funding Pool	Period to Date Results	3-year Goal	% of 3-year Goal Achieved
Electric savings (in megawatt-hours)	Electric Efficiency Charge	195,761	274,000	71%
Total Resource Benefits	Electric Efficiency Charge	$202,188,622	$315,710,000	64%
Summer peak kilowatt (kW) demand reduction	Electric Efficiency Charge	25,658	41,920	61%
Summer peak kW demand reduction in Geographic Targeting areas - St. Albans	Electric Efficiency Charge	1,269	1,800	71%
Summer peak kW demand reduction in Geographic Targeting areas - Susie Wilson Road	Electric Efficiency Charge	1,626	1,570	104%
Ratio of gross electric benefits to spending	Electric Efficiency Charge	2.3	1.2	190%
MMBtu Savings (in million British thermal units)	Thermal Energy and Process Fuel Revenues	132,261	155,000	85%

Efficiency Vermont also engaged in efforts related to an Administrative QPI plan, requiring continual assessment of operations and service delivery. This plan establishes performance indicators under two main categories:

- Management Span of Control, intended to optimize administrative efficiencies while ensuring continued market impact and effectiveness.
- Key Process Improvements, utilizing lean processes to provide value to customers by increasing efficiency.

[4] The total electric and MMBtu savings in this table may differ from the summed savings shown in the remainder of the narrative of this document, which reports the results of efforts funded by both the Energy Efficiency Charge and Thermal Energy and Process Fuel revenues.

In 2013, Efficiency Vermont:

- continued to exceed the target metric for management span of control;
- trained 30% of staff on lean processes and value stream mapping, and
- met a 2013 milestone requirement of the Administrative QPI plan by completing value stream mapping workshops and establishing baseline performance metrics for six key processes:
    - Prescriptive Process (2012 completion)
    - Metering Process (2012 completion)
    - Demand Resources Plan Proceeding
    - Engineering Custom Project Process
    - Home Performance with ENERGY STAR® Process
    - Residential New Construction Process

Full results of QPI activities are provided in Section 3.3 through Section 3.6 of this report.

1.2 ECONOMIC BENEFITS

Efficiency Vermont continued to provide a solid economic value for Vermonters. One measure of this value can be seen in the benefit-to-cost ratio, which was 1.83 to 1. **Table 2** shows the factors that contributed to this ratio.

Table 2. Net lifetime economic value of electric and thermal energy efficiency investments in 2013

Benefits	$107,300,000	Total Resource Benefits
	$22,900,000	Operations and maintenance savings
	$130,200,000	**Total Benefits**
Minus Costs	$37,100,000	Efficiency Vermont resource investments
	$33,900,000	Participant and third-party investments
	$71,000,000	**Total Costs**
Equals Net Benefits	$59,200,000	**Net Lifetime Economic Value to Vermont**

Total Resource Benefits in 2013 for Efficiency Vermont's reporting categories:

Business New Construction	$17.5 million
Existing Businesses	$47.6 million
Retail Efficient Products	$20.7 million
Residential New Construction	$7.1 million
Existing Homes	$10.2million
Customer Credit	$4.2 million

Efficiency Vermont delivered excellent value compared to the costs of other sources of energy[5]:

- Efficiency Vermont supplied electric efficiency in 2013 at 4.2 cents per kilowatt-hour (kWh). Taking into account participating customers' additional costs and savings, the levelized net resource cost of saved electric energy in 2013 was 1.2 cents per kWh. By contrast, the cost of comparable electric supply in 2013 was 8.4 cents per kWh.
- Efficiency Vermont's efforts focused on thermal energy and process fuels (TEPF) supplied fossil fuel efficiency in 2013 at less than 1 cent per million British thermal units (MMBtu). Taking into account participating customers' additional costs and savings, the levelized net resource cost of fossil fuel saved through efficiency in 2013 was 1.6 cents per MMBtu, whereas the avoided cost for that fuel was 2.7 cents per MMBtu.

Investments in energy efficiency continued to strengthen local businesses and to secure jobs. For example, Vermont's 70 Home Performance with ENERGY STAR and Building Performance contractors completed approximately 1,190 projects with a value of $8.5 million in 2013. Efficiency Vermont also helped retailers statewide to promote and sell efficient products that strengthen their bottom line. In 2013, local retail sales of energy-efficient appliances, lighting, and consumer electronics promoted by Efficiency Vermont totaled approximately $13.8 million.

1.3 ELECTRIC EFFICIENCY SAVINGS[6]

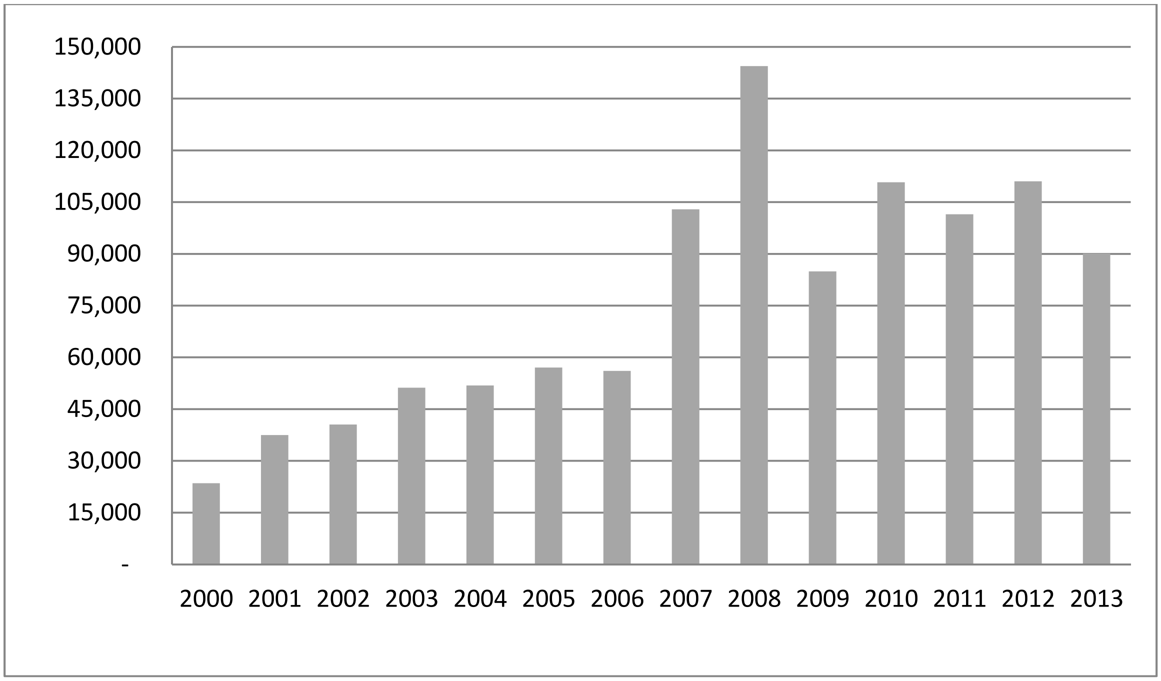
Energy savings resulting from electric efficiency measures installed in 2013 provided an estimated 1.58% of Vermont's overall electric energy requirements for the year. This percentage represents approximately $11.7 million in retail value, annually, based on a rate of 13 cents per kWh[7]. **Figure 1** and **Figure 2** show Vermont's history of energy savings from electric efficiency measures.

[5] Numbers in the two ensuing bulleted items do not include Customer Credit. The "levelized net resource cost of saved electric energy" comprises: 1) Efficiency Vermont costs of delivery, plus customer and third-party contributions to measure costs, all adjusted to reflect the comparative risk adjustment of 10% adopted by the Vermont Public Service Board in Docket 5270, and 2) costs or savings associated with fuel, water, and building operation and maintenance.

[6] All data in Section 1.3 includes savings from efficiency measures installed through Burlington Electric Department and the Green Mountain Power Energy Efficiency Fund, with the exception of Figure 1, which includes only Efficiency Vermont results.

[7] This represents a blended average of commercial, industrial, and residential rates.

Figure 1. Efficiency Vermont annualized megawatt-hour savings



Cumulatively, efficiency measures installed since 2000 provided 930 gigawatt-hours[8] of savings for Vermont by the end of 2013. This figure represents 12.8% of the state's estimated electric energy requirements, with a retail value of more than $107.6 million, based on a rate of 13 cents per kWh. As the lowest-cost approach to fulfilling these requirements, energy efficiency significantly strengthens Vermont's ability to limit energy cost increases and corresponding consumer rate hikes. This impact becomes greater as the share of energy needs supplied by efficiency increases. **Figure 3** shows the increasing percentage of Vermont's annual electric needs met by efficiency savings.

Energy efficiency also provided significant benefits to Vermonters via avoided or deferred transmission and distribution investments. According to the Vermont Electric Power Company, the combination of aggressive energy efficiency and local distributed generation in Vermont resulted in $400 million in projects being deferred across the region overseen by the Independent System Operator - New England (ISO-NE). These savings benefited all ratepayers; participant and non-participant alike.

[8] This number is the sum of efficiency measures reported by Efficiency Vermont, Burlington Electric Department, Customer Credit, GMP Energy Efficiency Fund and GMP Community Energy & Efficiency Development Fund.

Figure 2. Savings from efficiency as a percentage of statewide electric resource requirements

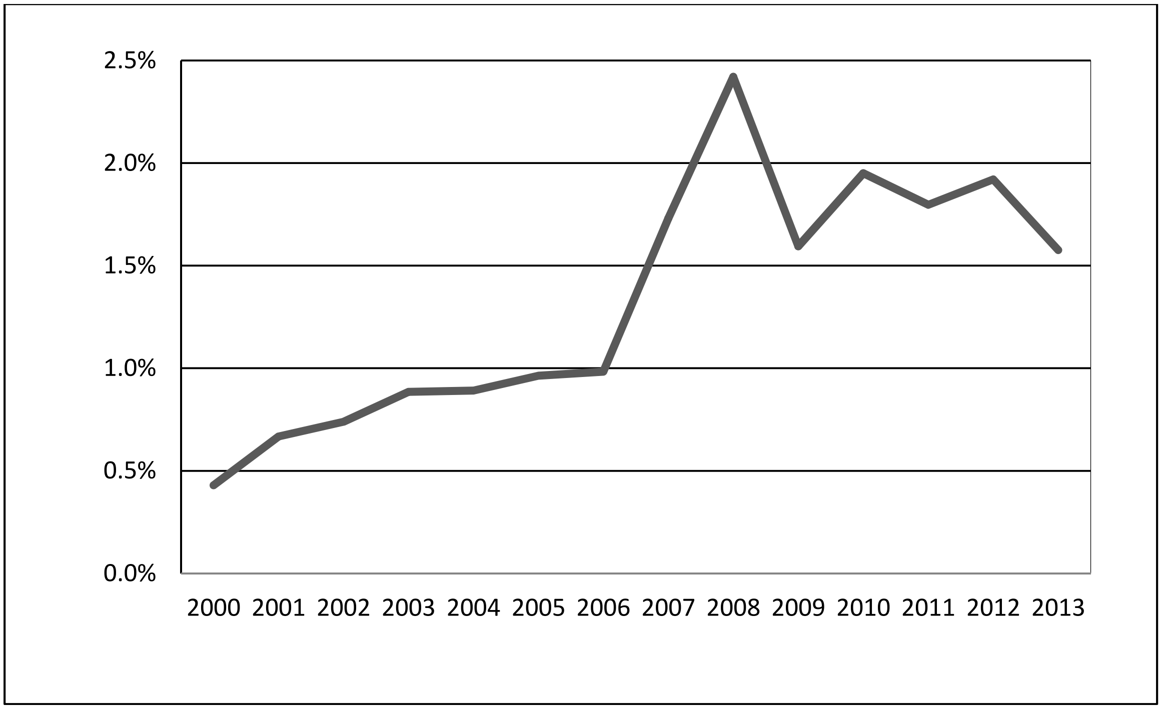
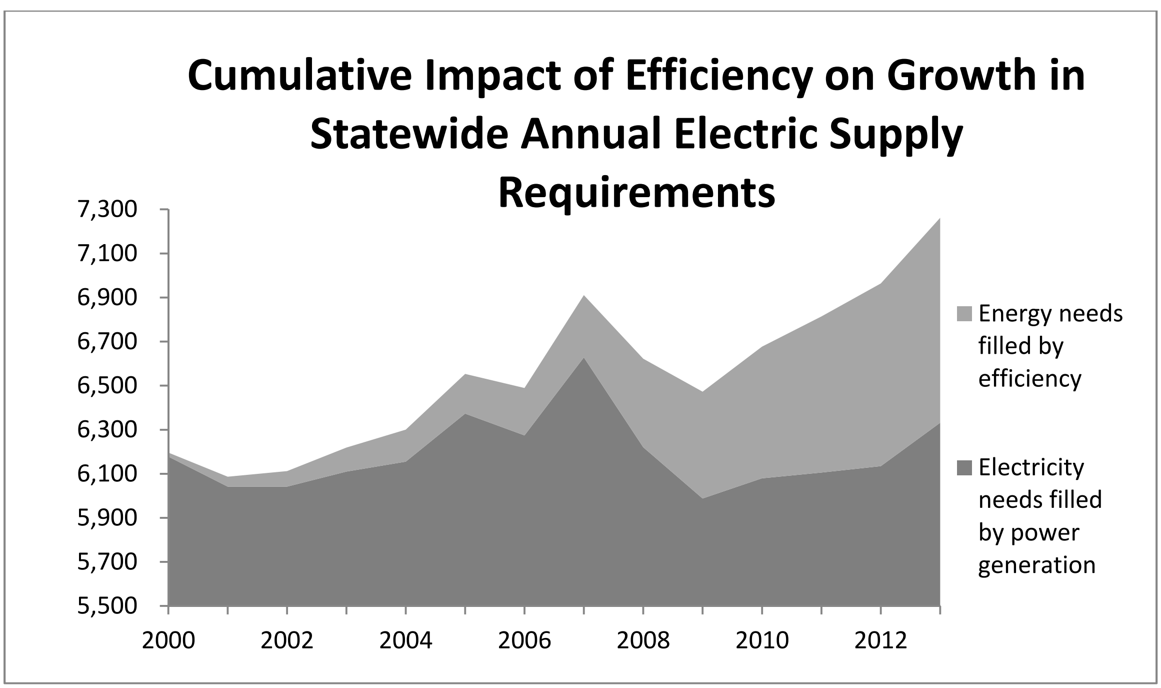


Figure 3. Vermont's annual electric needs, in gigawatt-hours



In accordance with Vermont Public Service Board and statutory requirements, the funding source for Efficiency Vermont's electric efficiency services was separate and distinct from funding sources for efficiency services related to unregulated TEPF (also referred to as "thermal efficiency" services). Electric services were funded through the Energy Efficiency Charge, whereas TEPF services were funded by Vermont's Regional Greenhouse Gas Initiative (RGGI) revenues and by revenues earned from meeting electric capacity commitments (demand savings) bid into the regional grid's Forward Capacity Market (FCM). The Efficiency Vermont administrator, the Vermont Energy Investment Corporation, bids these expected demand savings into the FCM on behalf of the State of Vermont. Efficiency Vermont ensured that, from the customer's perspective, provision of services was seamless, regardless of the funding source. In 2013, 13% of Efficiency Vermont spending[9] drew from TEPF funding sources. More detailed budget information is provided in Section 3.2.

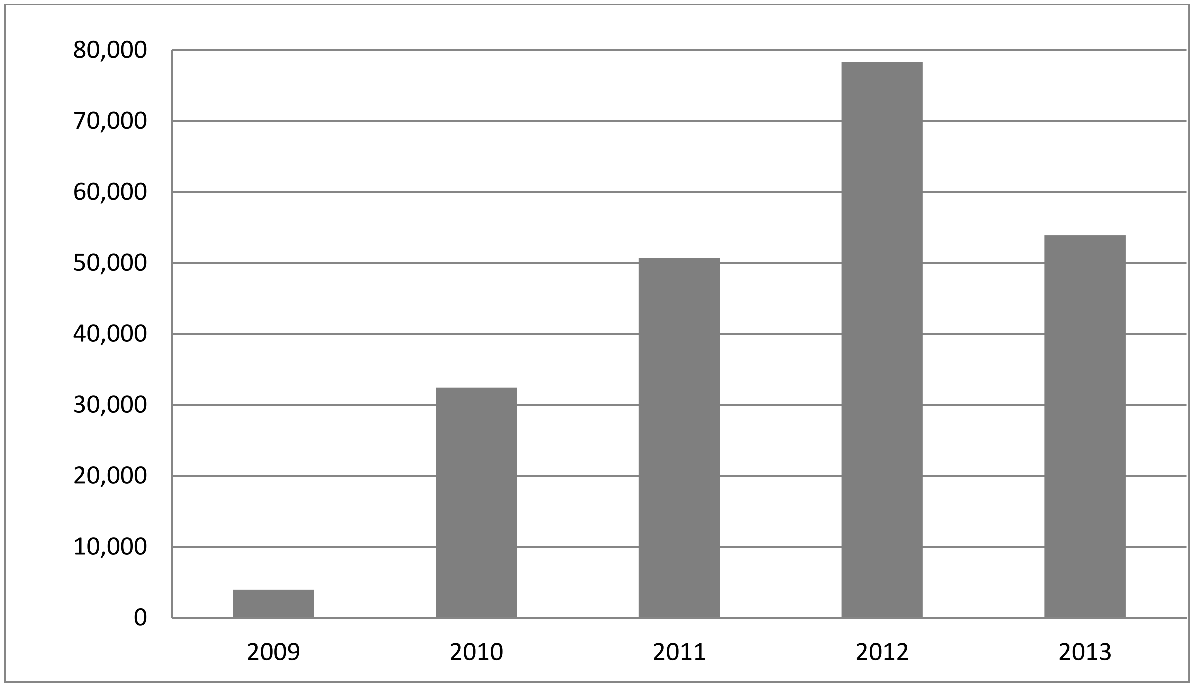
1.4 THERMAL ENERGY AND PROCESS FUEL EFFICIENCY SAVINGS[10]

Efficiency Vermont provided thermal energy and process fuel (TEPF) efficiency services in addition to electric efficiency services, helping Vermont homes and businesses to reduce their fossil fuel use and allowing for a comprehensive approach to energy savings. Savings in 2013 from TEPF-funded services totaled approximately 53,900 MMBtu, acquired through such services as:

- Home Performance with ENERGY STAR and its business-facility counterpart, Building Performance, supplying building improvements that cut heating fuel use;
- technical information and financial incentives for high-efficiency residential and commercial heating equipment, including biomass systems, and
- thermal project partnerships with Vermont Gas Systems, the Green Mountain Power (GMP) Community Energy & Efficiency Development Fund and NeighborWorks® of Western Vermont, as well as with the Vermont Fuel Efficiency Partnership and Vermont's Weatherization Program, both of which focus on service to low-income households.

[9] Excluding smart grid carryover funds.
[10] Savings data in this section do not include Customer Credit.

Figure 4. Efficiency Vermont's annual thermal energy and process fuel savings, in MMBtu



As noted in Section 1, 2013 energy savings occurred in a year of aggressive third- and fourth-quarter program adjustments that corrected initially slow participation. At the close of 2013, Efficiency Vermont had reached 85% of its target for cumulative TEPF savings at the two-year mark of its 2012-2014 performance period.

In June 2013, Section 209(e)(2) of Act 89 became effective, requiring the allocation of program costs among the funding sources for the regulated and unregulated fuel sectors in proportion to benefits provided to each sector. Accordingly, Efficiency Vermont shifted more of the burden of residential and business thermal costs to TEPF funding, thereby effectively reducing available TEPF funding. Efficiency Vermont's TEPF services were aligned with requirements specified by the Vermont Public Service Board and also supported Vermont State energy policy goals as outlined in Section 581 of Act 92 (the Vermont Energy Efficiency and Affordability Act, enacted in 2008) and the 2011 Vermont Comprehensive Energy Plan. A key provision of Act 92 is improving the energy fitness of 80,000 homes by 2020. Although TEPF funding levels were not sufficient on their own to achieve these numbers, Efficiency Vermont continued to design TEPF services to be scalable to levels consistent with these public policy goals.

1.5 ENVIRONMENTAL BENEFITS

In addition to energy savings and economic benefits, Efficiency Vermont's performance in 2013 provided benefits for Vermont's environment. These benefits resulted from avoided emissions associated with the use of fossil fuels for electricity generation, heating, and industrial processing equipment. Efficiency's role in pollution prevention is of particular note in times of peak electricity demand, when additional fossil fuel-fired power plants are brought on line. In these times, efficiency measures—such as the use of efficient air conditioners instead of inefficient models during a heat wave—provide their optimal environmental benefit. Avoided pollutants over the lifetime of measures:

Carbon dioxide	690,000 U.S. tons
Nitrogen oxides	69 U.S. tons
Sulfur oxides	25 U.S. tons

Avoidance of these pollutants resulted in a combined environmental benefit equal to that of taking 131,800 gasoline-powered cars off the road for a year.

Attachment B

BURLINGTON ELECTRIC DEPARTMENT

2013 Energy Efficiency Annual Report

Burlington Electric Department
585 Pine Street • Burlington, VT 05401
Phone 802.658.0300 • Fax 802.865.7400

Table 4: EEU Business & Residential - Total Resource Benefits

Avoided costs of Electricity	$8,974,165.64
Fossil Fuel Savings	($162,267.99)
Water Savings	$163,685.10
TRB Total	$8,975,583.01

	Annualized	**Lifetime**
Meter MWh	7,026	79,466
Generation MWh	7,006	82,273
Meter Demand Kw	4,050	43,021
Generation Peak Summer Kw	910	10,370
Generation Peak Winter Kw	1,267	14,571
Water Savings	1,465	19,684
Fuel Increase	-2,088	-11,953
O+M Savings	$408,746	$3,666,360

Table 5: EEU Business & Residential - Summary

	Prior Year 2012	Current 2013	Program to date
Participants	1,386	1,229	25,043
--- Program Costs --			
BED Administration Costs			
General	$250,020	$237,904	$3,863,345
Implemntation	$18,547	$28,064	$1,998,731
Planning	$1,650	$0	$106,711
Marketing	$25,860	$23,088	$796,186
IT Development	$0	$0	$211,957
	$296,077	**$289,056**	**$6,976,930**
BED Service Costs			
Participants	$425,616	$472,270	$4,553,599
Trade Allies	$0	$0	$11,761
	$425,616	**$472,270**	**$4,565,360**
BED Incentive Costs			
Participants	$1,032,200	$1,216,007	$9,892,644
Trade Allies	$2,850	$12,553	$63,783
	$1,035,050	**$1,228,561**	**$9,956,426**
BED Total Costs	**$1,756,743**	**$1,989,886**	**$21,498,716**
Evaluation Costs	**$63,671**	**$77,562**	**$841,462**
Participant	**$1,964,714**	**$1,793,534**	**$24,551,910**
Total Program Costs	**$3,785,127**	**$3,860,983**	**$46,892,088**
--- Benefits ---			
Annualized mWh	6,424	7,007	114,514
Lifetime mWh	74,975	82,273	1,422,141
Winter peak Kw	1,117	1,267	19,647
Summer Peak Kw	951	910	12,875
mWh / Participant	5	6	5
Weighted Lifetime	12	12	12

Table 8: EEU Business - Total Resource Benefits

Avoided costs of Electricity	$5,221,226.59
Fossil Fuel Savings	$52,055.05
Water Savings	$0.00
TRB Total	$5,273,281.80

	Annualized	**Lifetime**
Meter MWh	4,078	51,289
Generation MWh	4,439	55,667
Meter Demand Kw	1,080	13,024
Generation Peak Summer Kw	537	6,535
Generation Peak Winter Kw	533	6,621
Water Savings	0	0
Fuel Increase	-72	5,210
O+M Savings	$272,744	$2,574,132

Table 9: EEU Business - Summary

	Prior Year 2012	Current 2013	Program to date
Participants	322	355	1,872
--- Program Costs --			
BED Administration Costs			
General	$122,413	$125,207	$1,997,235
Implemntation	$13,880	$25,297	$1,259,856
Planning	$834	$0	$62,003
Marketing	$16,695	$15,592	$265,519
IT Development	$0	$0	$110,564
	$153,822	**$166,097**	**$3,695,177**
BED Service Costs			
Participants	$307,899	$384,773	$3,082,264
Trade Allies	$0	$0	$6,780
	$307,899	**$384,773**	**$3,089,044**
BED Incentive Costs			
Participants	$719,997	$940,360	$6,694,745
Trade Allies	$1,050	$11,953	$30,661
	$721,047	**$952,314**	**$6,725,406**
BED Total Costs	**$1,182,767**	**$1,503,184**	**$13,509,627**
Evaluation Costs	**$49,516**	**$64,371**	**$503,767**
Participant	**$1,664,103**	**$1,320,521**	**$16,250,242**
Total Program Costs	**$2,896,386**	**$2,888,076**	**$30,263,636**
--- Benefits ---			
Annualized mWh	4,211	4,440	71,045
Lifetime mWh	54,711	55,668	933,794
Winter peak Kw	493	533	9,131
Summer Peak Kw	674	537	8,723
mWh / Participant	13	13	38
Weighted Lifetime	13	13	13

Table 17: EEU Residential - Total Resource Benefits

Avoided costs of Electricity	$3,752,939.05
Fossil Fuel Savings	($214,323.04)
Water Savings	$163,685.10
TRB Total	$3,702,301.21

	Annualized	**Lifetime**
Meter MWh	2,948	28,176
Generation MWh	2,567	26,606
Meter Demand Kw	2,970	29,997
Generation Peak Summer Kw	373	3,835
Generation Peak Winter Kw	734	7,949
Water Savings	1,465	19,684
Fuel Increase	-2,016	-17,163
O+M Savings	$136,003	$1,092,228

Table 18: EEU Residential - Summary

	Prior Year 2012	Current 2013	Program to date
Participants	1,064	874	23,171
--- Program Costs --			
BED Administration Costs			
General	$127,607	$112,696	$1,866,110
Implemntation	$4,668	$2,766	$738,875
Planning	$815	$0	$44,709
Marketing	$9,164	$7,496	$530,668
IT Development	$0	$0	$101,393
	$142,254	**$122,959**	**$3,281,753**
BED Service Costs			
Participants	$117,717	$87,496	$1,471,335
Trade Allies	$0	$0	$4,981
	$117,717	**$87,496**	**$1,476,316**
BED Incentive Costs			
Participants	$312,203	$275,647	$3,197,898
Trade Allies	$1,800	$600	$33,121
	$314,003	**$276,247**	**$3,231,020**
BED Total Costs	**$573,975**	**$486,702**	**$7,989,089**
Evaluation Costs	**$14,155**	**$13,191**	**$337,695**
Participant	**$300,611**	**$473,013**	**$8,301,668**
Total Program Costs	**$888,741**	**$972,906**	**$16,628,452**
--- Benefits ---			
Annualized mWh	2,213	2,567	43,469
Lifetime mWh	20,264	26,605	488,347
Winter peak Kw	624	734	10,516
Summer Peak Kw	277	373	4,152
mWh / Participant	2	3	2
Weighted Lifetime	9	10	11

Attachment C

VERMONT ENERGY EFFICIENCY UTILITY FUND

Combined Financial Statements

Year Ended December 31, 2013

With Independent Auditors' Report

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Vermont Public Service Board
Montpelier, Vermont:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Vermont Energy Efficiency Utility Fund ("the Fund') and its component unit, the Regional Greenhouse Gas Initiative Fund of Vermont ("RGGI"), both special revenue funds of the State of Vermont as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund and its component unit, RGGI, as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the combined financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
October 16, 2014

This discussion and analysis provides key information from management highlighting the overall financial performance of the Vermont Energy Efficiency Utility Fund (the Fund) for the year ended December 31, 2013. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the Fund's financial statements.

Financial Highlights

Major financial highlights for the year ended December 31, 2013 are listed below:

- The assets of the Fund exceeded its liabilities at year-end by $8,924,474 (net position). Of this amount, $5,364,715 is available to meet the Fund's ongoing obligations to citizens and creditors.
- In total, net position increased by approximately $5,143,218, or 136%.
- The Fund had total operating expenses of $46,731,060, an increase of $1,936,652 over 2012. However, total operating revenue of $51,859,815 was more than adequate to covers expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements comprise of a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows, and notes to the financial statements.

The statement of net position presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Fund's financial position.

The statement of revenues, expenses and changes in net position presents information showing how the Fund's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The statement of cash flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Fund's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the statement to assist in understanding of the difference between cash flows from operating activities and operating income or loss.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

A. Net Position at year-end

The following table presents a condensed summary of the Fund's overall financial position at December 31, 2013 and 2012:

	2013	2012
Current assets	$ 25,999,359	$ 13,706,796
Total assets	25,999,359	13,706,796
Current liabilities	14,932,865	8,893,881
Long-term liabilities	2,142,020	1,031,659
Total liabilities	17,074,885	9,925,540
Restricted net position	3,559,759	2,830,812
Unrestricted net position	5,364,715	950,444
Total net position	$ 8,924,474	$ 3,781,256

Total assets increased by $12,292,563. The majority of the increase occurred in cash and cash equivalents due to a 17% increase in revenue while experiencing only a 4% increase in expenses.

Total liabilities increased by $7,149,345. The majority of the increase occurred in current liabilities due to increases in energy efficiency programs and services. Energy efficiency utilities operate under a 3-year performance and budget cycle, with 2013 being second year in the current cycle. Historically, program activity and related liabilities increase from the first year to the second year, before decreasing in the third and final year in the performance cycle.

Long-term liabilities, which comprise of accrued performance incentives for Vermont Energy Investment Corporation, increased by $1,110,361. The liability is accrued ratably over the 3-year performance cycle, which will be paid upon completion of the cycle, after a verification process has taken place to validate achievement of performance goals.

B. Change in Net Position during 2013

The following table presents a condensed summary of the Fund's activities during the years 2013 and 2012 and the resulting change in net position:

	2013	2012
Operating revenue:		
Assessments	$ 44,877,492	$ 38,997,046
Forward Capacity Market proceeds	4,188,116	3,538,565
Regional Greenhouse Gas Initiative	2,696,207	1,385,882
Other revenue	98,000	324,305
Total operating revenue	51,859,815	44,245,798
Operating expenses:		
Energy programs	39,278,192	38,011,355
Monitoring and evaluation	1,169,553	1,381,809
Administrative	5,859,643	5,015,136
Taxes	423,672	386,108
Total operating expenses	46,731,060	44,794,408
Operating income (loss)	5,128,755	(548,610)
Non-operating revenue:		
Interest earnings	14,463	3,780
Change in net position	5,143,218	(544,830)
Net position - beginning	3,781,256	4,326,086
Net position - ending	$ 8,924,474	$ 3,781,256

The Fund experienced an increase in net position of $5,143,218. Assessments revenue increased $5,880,446 due to an average 10% increase in the energy efficiency charge rate and increases in electric usage sold. Additionally, RGGI auction proceeds also experienced increases due to increased CO_2 allowances being auctioned at increasingly higher clearing prices. Operating expenses increased approximately 4% as program activity increased during the second year of a three-year performance cycle.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In 2006, ISO-New England established a Forward Capacity Market (FCM) that will pay suppliers to ensure sufficient capacity is available to meet future peak loads, with the value of such payments determined by auction. This market is unique in that it allows energy efficiency, distributed generation, and other demand resources to compete directly with generators of electricity. On December 14, 2006, The VT Public Service Board (Board) issued an Order authorizing the EEU to participate in ISO-New England's FCM. Both Vermont Energy Investment Corporation (VEIC) and Burlington Electric Department (BED) now participate in the FCM. BED and VEIC's joint revenues from their FCM participation was $4,188,116 in year 2013.

By order dated August 1, 2011, the Board established the electric Energy Efficiency Utility spending budgets for 2012, 2013 and 2014. The 2012 electric portion of the budget was set at $40.1 million, the 2013 electric portion of the budget was set at $42.8 million, and the 2014 electric portion of the budget was set at $45.9 million. The budget levels represent increases of 4.2%, 6.7%, and 7.2% in energy efficiency charge (EEC) rates. The Board determined in an order dated September 12, 2012, that an additional $1.6 million will be collected via the EEC during 2013 and 2014 to address the one-month lag between EEC collections and energy efficiency program expenditures. However, in an order dated March 29, 2013, the Board determined that this amount would instead be collected in 2014 and 2015, and not in 2013.

State law requires that all of the Regional Greenhouse Gas Initiative (RGGI) auction revenue, net of administrative costs, be deposited into the Fund, and that any such net revenues not transferred to the state PACE reserve fund must be used for funding thermal energy and process-fuel efficiency services. The 2013 RGGI revenue deposited into the Fund was $2,696,207, and the 2012 RGGI revenue deposited into the Fund was $1,385,882.

The RGGI Fund is presented as a component unit of the Fund. Net position as of December 31, 2013 was $865,493 compared to $295,321 as of December 31, 2012. Total operating revenue was $670,249 ($0 in 2012) with total operating expenses of $100,870 ($77,303 in 2012). As of December 31, 2013, the RGGI Fund had $726,147 in auction proceeds payable to the Vermont Energy Efficiency Utility Fund.

The Board has changed the structure of Vermont's Energy Efficiency Utility program from a Contract model to an Order of Appointment model in 2010. As determined by the Board, under this new model, the Vermont Department of Public Service reviews and approves all vendor invoices except its own (reviewed and approved by the Board) while the Board retains ultimate authority over approval of invoices for payment from the Fund.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide users with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vermont Public Service Board, 112 State Street, Montpelier, VT 05620-2701.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Net Position
December 31, 2013

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 17,807,818	$ 1,634,051	$ 19,441,869
Accounts receivable:			
Receivable from energy distributors	7,465,394	-	7,465,394
Receivable from RGGI	726,147	-	726,147
Prepaid expense	-	1,000	1,000
Total Assets	25,999,359	1,635,051	27,634,410
LIABILITIES			
Current Liabilities:			
Payable for energy programs	10,959,918	-	10,959,918
Payable to energy distributors for uncollectibles and overpayments	135,021	-	135,021
Accounts payable and accrued expenses	3,520,036	43,411	3,563,447
Accounts payable to VEEUF	-	726,147	726,147
Taxes payable	317,890	-	317,890
Total current liabilities	14,932,865	769,558	15,702,423
Noncurrent Liabilities:			
Accrued VEIC performance incentive	2,142,020	-	2,142,020
Total Liabilities	17,074,885	769,558	17,844,443
NET POSITION			
Restricted:			
Restricted for SMEEP	93,184	-	93,184
Restricted for TEPF	3,274,714	855,493	4,130,207
Restricted for GMP EEF monitoring & evaluation	94,217	-	94,217
Restricted for CEED	97,644	-	97,644
Total Restricted	3,559,759	855,493	4,415,252
Unrestricted	5,364,715	10,000	5,374,715
Total Net Position	$ 8,924,474	$ 865,493	$ 9,789,967

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2013

	Primary Fund						Component Unit	Combined
	Unrestricted	**SMEEP**	**TEPF**	**GMP EEF**	**CEED**	**VEEUF Total**	**RGGI**	**Total**
OPERATING REVENUES:								
Assessments (Energy Efficiency Charge)	$ 44,877,492	$ -	$ -	$ -	$ -	$ 44,877,492	$ -	$44,877,492
Forward Capacity Market	-	-	4,188,116	-	-	4,188,116	-	4,188,116
Regional Greenhouse Gas Initiative	-	-	2,696,207	-	-	2,696,207	670,249	3,366,456
CEED	-	-	-	-	98,000	98,000	-	98,000
Total Operating Revenues	44,877,492	-	6,884,323	-	98,000	51,859,815	670,249	52,530,064
OPERATING EXPENSES:								
Energy programs	34,480,762	-	4,797,074	-	356	39,278,192	93,757	39,371,949
Monitoring and evaluation	535,178	5,340	609,125	19,910	-	1,169,553	-	1,169,553
Administrative costs	5,038,072	-	821,571	-	-	5,859,643	7,113	5,866,756
Taxes	423,672	-	-	-	-	423,672	-	423,672
Total Operating Expenses	40,477,684	5,340	6,227,770	19,910	356	46,731,060	100,870	46,831,930
Operating Income (Loss)	4,399,808	(5,340)	656,553	(19,910)	97,644	5,128,755	569,379	5,698,134
NONOPERATING REVENUES:								
Investment earnings	14,463	-	-	-	-	14,463	793	15,256
Change in Net Position	4,414,271	(5,340)	656,553	(19,910)	97,644	5,143,218	570,172	5,713,390
Net Position - Beginning	950,444	98,524	2,618,161	114,127	-	3,781,256	295,321	4,076,577
Net Position - Ending	$ 5,364,715	$ 93,184	$3,274,714	$ 94,217	$97,644	$ 8,924,474	$ 865,493	$ 9,789,967

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Cash Flows
For the Year Ended December 31, 2013

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from distribution utilities	$ 43,958,101	$ -	$ 43,958,101
Proceeds from Forward Capacity Market	4,108,574	-	4,108,574
Receipts from RGGI Fund	1,970,060	-	1,970,060
Proceeds from CO_2 allowance auctions	-	3,366,456	3,366,456
Receipts from GMP for CEED monitoring	98,000	-	98,000
Payments to energy efficiency utilities	(34,538,164)	-	(34,538,164)
Payments to VEEUF	-	(1,970,060)	(1,970,060)
Payments for TEPF efficiency programs	(4,365,675)	-	(4,365,675)
Payments for SMEEP programs	(12,374)	-	(12,374)
Payments for GMP energy efficiency fund	(47,309)	-	(47,309)
Payments for other administration	(204,654)	(57,459)	(262,113)
Payments for taxes	(413,539)	-	(413,539)
Net cash flows from operating activities	10,553,020	1,338,937	11,891,957
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	14,463	793	15,256
Net change in cash flows	10,567,483	1,339,730	11,907,213
Cash and cash equivalents - beginning	7,240,335	294,321	7,534,656
Cash and cash equivalents - ending	$ 17,807,818	$ 1,634,051	$ 19,441,869

Reconciliation of operating income to net cash from operating activities:

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
Operating income	$ 5,128,755	$ 569,379	$ 5,698,134
Adjustments to reconcile operating income to net cash from operating activities:			
Change in receivables	(1,725,080)	-	(1,725,080)
Change in payable for energy programs	4,013,009	-	4,013,009
Change in payables to energy distributors	(20,773)	-	(20,773)
Change in accounts payable and accrued expenses	2,036,615	769,558	2,806,173
Change in taxes payable	10,133	-	10,133
Change in accrued VEIC performance incentive	1,110,361	-	1,110,361
Net cash flows from operating activities	$ 10,553,020	$ 1,338,937	$ 11,891,957

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Vermont Energy Efficiency Utility Fund (the Fund) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies utilized by the Fund are summarized below.

A. Reporting Entity

Pursuant to 30 Vermont Statutes Annotated (V.S.A.) § 209(d), the Vermont Public Service Board (the Board) established the Vermont Energy Efficiency Utility Fund (the Fund) to fund statewide electric and thermal energy and process fuels (TEPF) efficiency programs.

The Fund is reported as part of the Special Fund within the State of Vermont and is part of the State's primary government.

In 2009, the Board established the current structure of the Fund, operating under an Order of Appointment model. Under this model, the Board appoints energy efficiency utilities to deliver energy efficiency services. The appointments are for an initial rolling 12-year term appointment and subsequent "renewal" terms of approximately 11 years, as opposed to the 3-year contract terms under the previous structure. Currently, the Board has appointed two entities to serve as energy efficiency utilities (EEUs): Vermont Energy Investment Corporation (VEIC) (d.b.a. Efficiency Vermont) to deliver energy efficiency services throughout most of the state through December 31, 2021 and the City of Burlington Electric Department (BED) to deliver energy efficiency services within its service territory.

The Vermont Department of Public Service (DPS) a separate state agency, serves as the State's energy office and as the public advocate in proceedings before the Board. The DPS is the lead entity for evaluating and monitoring the EEUs. In addition, the Board determined that the DPS would review and approve all vendor invoices, except its own which are reviewed and approved by the Board, with the Board holding ultimate authority over approval of invoices for payment from the Fund.

Pursuant to 30 V.S.A. § 209, the Board established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. The EEC is collected by distribution utilities throughout the State and remitted to the Fund on a monthly basis. In 2013, there were seventeen distribution utilities assessing these charges. Pursuant to Board Rule 5.300, the Board issued a Memorandum dated November 1, 2012 which set the 2013 EEC rates to take effect with bills rendered February 1, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

A. Reporting Entity – *continued*

Forward Capacity Market

In 2006, the Board authorized VEIC and BED to participate in ISO-New England's Forward Capacity Market (FCM). The FCM allows demand resources, such as energy efficiency, to bid into the market on a comparable basis with supply resources, such as generation. The capacity payments received from the FCM are restricted for use by the Fund for TEPF energy efficiency services.

Regional Greenhouse Gas Initiative

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by nine Northeastern and Mid-Atlantic states, including Vermont, to reduce carbon dioxide emissions. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The Board implements the auction provisions of the RGGI program and has established a process to allocate the carbon credits that Vermont receives as part of its participation in RGGI. Pursuant to 30 V.S.A. § 255(d), auction proceeds (net of administrative costs) are deposited into the Fund and restricted for TEPF energy efficiency services. The transactions of the RGGI are accounted for separately under the Regional Greenhouse Gas Initiative Fund of Vermont (VT RGGI) by a Board-contracted RGGI Trustee. However, since the Fund is legally entitled to all of the proceeds of the VT RGGI, pursuant to GASB Statement No. 61, the financial activity of the VT RGGI has been included as a component unit of the Fund (Note 8).

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred, regardless of the timing of receipt or cash payment related to those transactions. All transactions are accounted for in a single enterprise fund.

Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Fund finances and meets its cash flow needs of its enterprise activities.

Operating revenues are defined as income received from sources dedicated for energy efficiency programs and services. Operating expenses are defined as ordinary costs and expenses of the Fund to provide energy efficiency programs and services. Revenues and expenses not meeting this definition are reported as non-operating.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

C. Fiscal Agent

The Board has appointed and contracted with Batchelder Associates, PC as the Fund's fiscal agent to provide the accounting function of managing the Fund. The current contract covers the period January 1, 2012 through December 31, 2013, with an opportunity for a two-year renewal. For the year ended December 31, 2013, the fiscal agent was paid $16,800 in fixed costs and $52 in variable costs.

D. Cash and Cash Equivalents

For purposes of these statements, cash and cash equivalents include all highly liquid securities with a maturity of three months or less. Interest is credited to the Fund when earned.

E. Receivables

Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. Typically, the monthly assessments received from the distribution utilities were assessed on electric usage sold two months prior. Other revenue sources are received in the subsequent month it was earned.

F. Accrued Performance Incentive

The Board approves a Demand Resource Plan (DRP) that establishes the programs and services to be provided on a three-year performance cycle; the current performance cycle covers 2012 – 2014. The DRP includes quantifiable performance indicators that monetarily incentivize non-utility entities to meet its goals. Currently, VEIC is the only EEU that qualifies for these monetary incentives. The incentives are accrued ratably over the three-year cycle, when upon completion, are subject to verification by DPS and approval by the Board prior to being disbursed. The maximum electric energy efficiency performance incentive that VEIC can earn for the period January 1, 2012 through December 31, 2014 is $2,931,370. The maximum TEPF energy efficiency performance incentive for the same period is $404,700.

G. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted for SMEEP – The Board established the self-managed energy efficiency program (SMEEP), pursuant to 30 V.S.A. § 209(h). The SMEEP allows an eligible customer to be exempt from the EEC assessment, provided that the customer commits to spending an average of no less than $3 million over a three-year period on energy efficiency investments. Funds received are restricted for DPS' monitoring and evaluation of the program.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

G. Net Position – *continued*

Restricted for TEPF – State statutes restrict the net proceeds from participation in the FCM and RGGI to thermal energy and process fuels (TEPF) energy efficiency services.

Restricted for GMP EEF monitoring & evaluation – The Board set up an Energy Efficiency Fund (EEF) to invest in projects that deliver significant and incremental benefits to Green Mountain Power (GMP) ratepayers. GMP was directed to invest $7.4 million in existing business sector energy efficiency services and new residential programs within its service territory over a five-year period. EEF monies received by the Fund are restricted for DPS's evaluation and verification of the EEF activities.

Restricted for CEED – As part of the merger between GMP and Central Vermont Public Service Corporation, the Board approved the establishment of a Community Energy and Efficiency Development (CEED) Fund, a plan by GMP to invest approximately $21 million of windfall profits in demand-side management, renewable energy, and other efficiency programs. CEED monies received by the Fund are restricted for DPS' evaluation and verification of CEED Fund activities.

In accordance with National Council on Governmental Accounting Statement No. 1 (NCGAS 1), paragraph 120, contractual customer commitments and DPS funding set-asides for Smart Grid participation and monitoring and evaluation of the Fund are disclosed as a designation of net position in Note 7 of the combined financial statements. Designations represent financial resources available to finance expenses which by their nature are tentative. Contractual customer commitments only result in payment after customers have made agreed upon improvements relating to energy efficiency. The actual amounts of such payments are not known in advance, but have been estimated as the balance of contractual commitments likely to be fulfilled. DPS monitoring and evaluation is budgeted for a three-year contract period and prorated to designated net position each year. Actual monitoring and evaluation expenses may differ from these funding set-asides. The Smart Grid designation was authorized by the Board and gave VEIC permission to use certain unspent funds from 2006-2008 contract period as matching funds towards a federal grant pilot program to provide residential energy efficiency services related to Smart Grid implementation.

When both restricted and unrestricted resources are available for use, it is the policy of the Fund to use restricted resources first and unrestricted resources as needed, pursuant to approval and order of the Board.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

H. <u>Estimates</u>

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reporting of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

The Fund maintains its cash balances with a local financial institution under the control of the fiscal agent. The Fund follows the State of Vermont investment policies under 32 V.S.A. § 433. Excess balances are "swept" into government securities on a daily basis under a repurchase agreement.

Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits may not be returned to it. As of December 31, 2013, the Fund's bank balance of $16,024,304 was exposed to custodial credit risk since it was uninsured and collateralized with by two pools of Federal Home Loan Mortgage Corporation securities held by the Federal Reserve Bank of New York for People's United Bank. As of December 31, 2013, these securities provided collateral value 102% of deposit balances.

3. ENERGY PROGRAM DISTRIBUTIONS

Distributions for energy efficiency services were made to the VEIC, for Efficiency Vermont, and BED during the year by the fiscal agent in accordance with the terms of their contracts, or as directed by the DPS, with concurrence of the Board. Distributions for the year ended December 31, 2013 were made as follows:

3. ENERGY PROGRAM DISTRIBUTIONS – *continued*

	Unrestricted	TEPF	CEED
Energy Efficiency Programs:			
Efficiency Vermont:			
Business New Construction	$ 3,735,721	$ -	$ -
Business Existing Facilities	13,146,625	-	-
Business TEPF	-	545,877	-
Customer Credit Program	1,917,336	-	-
Residential New Construction	2,862,208	-	-
Residential Existing Homes	3,875,777	-	-
Residential TEPF	-	4,151,436	-
Energy Efficient Products	6,782,515	-	-
Smart Grid Participation	156,679	-	-
Subtotal	32,476,861	4,697,313	-
Burlington Electric Department:			
Business New Construction	204,996	-	-
Business Existing Facilities	1,312,203	-	-
Business Unregulated Fuels	-	1,413	-
Residential New Construction	158,564	-	-
Residential Existing Homes	106,789	-	-
Residential Unregulated Fuels	-	-	-
Energy Efficient Products	221,349	42,650	-
Subtotal	2,003,901	44,063	-
Green Mountain Power:			
CEED Fund	-	-	356
Efficiency Fund Capacity	-	55,698	-
Subtotal	-	55,698	356
Total	$ 34,480,762	$ 4,797,074	$ 356

4. ADMINSTRATIVE COSTS

Administrative costs incurred by the Fund for the year ended December 31, 2013 were:

	Unrestricted	TEPF
Efficiency Vermont:		
Applied R&D	$ 478,713	$ 24,721
Education	728,761	87,670
Evaluation	529,034	221,650
General Administration	243,233	30,304
Information Technology	750,504	89,147
Planning & Reporting	474,956	152,944
Policy & Public Affairs	479,327	61,242
Performance Incentives	974,010	136,351
Subtotal	4,658,538	804,029
Burlington Electric Department:		
Applied R&D	7,431	-
Education	40,205	6,199
Evaluation	28,766	1,733
General Administration	24,501	5,853
Information Technology	27,266	166
PACE Loan Pilot	-	200
Planning & Reporting	42,510	2,223
Policy & Public Affairs	14,106	1,168
Smart Grid & AMI	10,868	-
Subtotal	195,653	17,542
Other:		
EEU Advertising	5,990	-
Uncollectibles	149,516	-
Fiscal Agent & Audit Fees	26,800	-
Bank Fees and Postage	1,575	-
Subtotal	183,881	-
Total	$ 5,038,072	$ 821,571

5. DPS MONITORING AND EVALUATION

The Department of Public Services (DPS) monitoring and evaluation expenses incurred by program for the year ended December 31, 2013 were:

	Unrestricted	SMEEP	TEPF	GMP EEF	Total
VEEUF	$ 516,253	$ -	$ -	$ -	$ 516,253
Forward Capacity Market	-	-	609,125	-	609,125
Unregulated Fuels	18,925	-	-	-	18,925
GMP Energy Efficiency Fund	-	-	-	19,910	19,910
SMEEP	-	5,340	-	-	5,340
	$ 535,178	$ 5,340	$ 609,125	$ 19,910	$1,169,553

6. TAXES

Pursuant to 33 V.S.A. § 2503, a gross receipts fuel tax of one-half percent on assessment collections is payable to the Home Weatherization Assistance Fund. Payments are made quarterly to the Vermont Department of Taxes. Additionally, pursuant to 30 V.S.A. §22, a gross operating revenue tax of one-half percent on assessment collections is payable to the Vermont State Treasurer annually to finance the DPS and the Board.

As of December 31, 2013, the following taxes were payable:

Gross Operating Revenue Taxes	$ 242,327
Home Weatherization Assistance Fund Taxes	75,563
	$ 317,890

Expenses related for the year ended December 31, 2013 were:

Gross Operating Revenue Taxes	$ 211,836
Home Weatherization Assistance Fund Taxes	211,836
	$ 423,672

7. DESIGNATED NET POSITION

As of December 31, 2013, the Fund's unrestricted net position balance had the following designations:

	2013
Unrestricted Net Position:	
Designated	
Contractual customer commitments	$ 2,026,767
DPS monitoring and evaluation	1,369,563
Smart Grid	332,037
Undesignated	1,636,348
Total	$ 5,364,715

8. COMPONENT UNIT

Regional Greenhouse Gas Initiative Fund of Vermont

In 2005, Vermont joined the Regional Greenhouse Gas Initiative (RGGI), an effort among nine states to cap and reduce CO_2 emissions from fossil-fuel-fired electric generation facilities with a nameplate capacity of 25 MW or greater. Vermont will have approximately 1.2 million tons of CO_2 allowance annually through 2014, before reducing them over the subsequent four years. The allowances will be sold through auction, and the proceeds, net of administrative costs, will be used for the benefit of the State's consumers.

30 V.S.A. § 255 requires the Agency of Natural Resources and the Board to establish a process to participate in the RGGI auction, while further providing several goals for the Board to consider in allocating RGGI carbon dioxide allowances and the proceeds from their auction.

Basis of Presentation and Accounting

The financial statements solely reflect the financial activities of Vermont's portion of the RGGI through the Regional Greenhouse Gas Initiative Fund of Vermont (VT RGGI). The financial statements for VT RGGI have been presented as a component unit of the Fund (Note 1). The financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred, regardless of the timing of receipt or cash payment related to those transactions. All transactions are accounted for in a single enterprise fund.

Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the VT RGGI finances and meets its cash flow needs of its enterprise activities.

8. COMPONENT UNIT – *continued*

Regional Greenhouse Gas Initiative Fund of Vermont – *continued*

Operating revenues are defined as income received from CO_2 allowance auctions. Operating expenses are defined as ordinary costs and expenses of the VT RGGI to provide energy efficiency programs and services. Revenues and expenses not meeting this definition are reported as non-operating.

Cash and Cash Equivalents
All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to VT RGGI when earned.

VT RGGI maintains its cash balances with a local financial institution under the control of the fiscal agent. VT RGGI follows the State of Vermont investment policies under 32 V.S.A. § 433. Excess balances are "swept" into government securities on a daily basis under a repurchase agreement.

Custodial credit risk is the risk that, in the event of a bank failure, VT RGGI's deposits may not be returned to it. As of December 31, 2013, VT RGGI's bank balance of $1,634,051 was exposed to custodial credit risk since it was uninsured and collateralized by a pool of Federal National Mortgage Association securities held by the Federal Reserve Bank of New York for People's United Bank. As of December 31, 2013, these securities provided collateral value 102% of deposit balances.

Energy Program Distributions

Energy program distributions made by VT RGGI for the year ended December 31, 2013 to the Vermont Agency of Natural Resources were $93,757.

Administrative Costs

Administrative costs incurred by VT RGGI for the year ended December 31, 2013 were:

Trustee Fees	$	4,000
Bank Charges		2,459
Travel		654
	$	7,113

8. COMPONENT UNIT – *continued*

Regional Greenhouse Gas Initiative Fund of Vermont – *continued*

Trustee

The Board has appointed and contracted with Batchelder Associates, PC as VT RGGI's trustee to provide the accounting function of managing the VT RGGI. The current contract covers the period January 1, 2012 through December 31, 2013, with an opportunity for a two-year renewal. For the year ended December 31, 2013, the trustee was paid $4,000.

Net Position

The Board established a minimum balance of $10,000 to minimize administrative costs. The remaining net position balance at December 31, 2013 of $855,493 was restricted for use by the Vermont Energy Efficiency Utility Fund for thermal energy and process fuels energy efficiency programs.

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Vermont Public Service Board
Montpelier, Vermont:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Vermont Energy Efficiency Utility Fund (the Fund) and its component unit, the Regional Greenhouse Gas Initiative Fund of Vermont (RGGI), as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Fund's combined financial statements and have issued our report thereon dated October 16, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
October 16, 2014