



H.40
Vermont Chamber Written Testimony
February 10, 2015
Prepared by Michael Zahner

The Vermont Chamber of Commerce (VCC) represents businesses throughout the state in all sectors and many of them list energy usage and cost which often depends on energy generation sources to be key components of the success of their business. The Vermont Chamber has consistently expressed concern about incremental costs associated with a rapid transition to a renewable energy future and Vermont's ability to retain regional competitiveness with respect to its electric rate structure. The continued ability to sell RECs into the New England market is central to retaining regional competitiveness.

It is with that perspective that the VCC supports the overall goal of increasing renewable energy resources in Vermont as long as this initiative is effectively balanced with the overall cost of energy in accordance with the renewable energy goals established by the Vermont legislature - 30 V.S.A. § 8001, and other cost containment measures.

30 V.S.A. § 8001. Renewable energy goals provide for a balancing of benefits to ensure "to the greatest extent possible the economic benefits of renewable energy flow to the Vermont economy in general, and to the rate paying citizens in particular" through the development of "affordable, long-term, stably priced renewable energy contracts that mitigate market price fluctuation for Vermonters."

Renewable energy goals

(a) The general assembly finds it in the interest of the people of the state to promote the state energy policy established in section 202a of this title by:

(1) Balancing the benefits, lifetime costs, and rates of the state's overall energy portfolio to ensure that to the greatest extent possible the economic benefits of renewable energy in the state flow to the Vermont economy in general, and to the rate paying citizens of the state in particular. *(emphasis added)*

(2) Supporting development of renewable energy and related planned energy industries in Vermont, and the jobs and economic benefits associated with such development, while retaining and supporting existing renewable energy infrastructure.

(3) Providing an incentive for the state's retail electricity providers to enter into affordable, long-term, stably priced renewable energy contracts that mitigate market price fluctuation for Vermonters. *(emphasis added)*

Electrical Energy Reduction

From January 1, 2005 to December 31, 2011, state-wide energy usage *decreased* by approximately 3.3 percent. A significant factor in the decline is the electricity usage reductions achieved through efficiency projects completed with the assistance of the Energy Efficiency Utilities ("EEUs"). In 2011, the efficiency

measures implemented by the EEU's conserved 101,256 MWh, or 1.8 percent of Vermont's energy usage. The Vermont Chamber is also aware that Vermont's largest electric utility, Green Mountain Power, has been able to reduce its residential electric rates by 2.46% (effective in October, 2014) in part due to the amount of smaller scale distributed generation facilities that have been installed within GMP's territory and in part due to profit sharing with Vermont Yankee which accounted for some of the decrease.

However, over the past few years, the PSB has reported that overall electric rates have risen in Vermont faster than the rate of inflation - and are now on par with electric rates in other New England states. See PSB Biennial Report dated April of 2013.

*The Department examined Vermont retail electric rates as they compare to other New England states and examined whether rates are rising faster than inflation. The charts below provide a comparison of Vermont's electric rates with electric rates in other New England states and illustrate that Vermont retail electric rates are rising faster than inflation as measured by the consumer price index ("CPI"). Statewide average electric rates have risen more than 0.2 percentage points per year faster than inflation over the preceding two or more years. **Note: This Report does not include the impact of GMP's rate reduction in October of 2014, the next Biennial Report is due at the end of this session and will reflect that information.***

In 2012, the Vermont Chamber of Commerce advocated for: 1) Alternative Compliance Payments 2) a market based RFP mechanism for "Standard Offer" renewable energy projects to meet the goals of the SPEED program and 3) "Reasonable Cost Thresholds" or reasonable cost containment measures incorporated into 30 V.S.A. § 8005b ("Biennial Report"). All three concepts are now either in existing law or proposed for introduction into this bill and we continue to support these elements.

PSB Biennial Report (2013)

In 2012, the Vermont Chamber successfully recommended the following amendment to **30 V.S.A. § 8005b (renewable energy programs; biennial report)** with the support of the Vermont Department of Public Service:

*(7)(A) An assessment of whether strict compliance with the requirements of section 8005a (SPEED program; standard offer) of this title: (i) Has caused one or more providers to raise its retail rates faster over the preceding two or more years than statewide average retail rates have risen over the same time period; (ii) Will cause retail rate increases particular to one or more providers; or (iii) Will impair the ability of one or more providers to meet the public's need for energy services in the manner set forth under subdivision 218c(a)(1) of this title (least-cost integrated planning). (B) Based on this assessment, **consideration of whether statutory changes should be made to grant providers additional flexibility in meeting requirements of section 8005a of this title. Note: Subdivision (7)(A) will apply to the RESET program***

RPS Compliance Costs [Over Time]

*Whether and the extent to which RPS compliance costs increase over time will, of course, depend on a great many factors. First and foremost, perhaps, is the **underlying cost of renewable energy technologies**, and whether they continue to decline as they have in recent years. Second is the **price of natural gas**, as gas-fired electricity is generally the baseline against which market-based REC prices or the calculated above-market costs of renewables are established. Third, **RPS costs may be significantly impacted by changes to state and federal tax incentives for renewables—in particular, the federal production tax credit (PTC), which (as of this writing) expired at the end of 2013, and the federal investment tax credit (ITC), which is scheduled to decline from 30% to 10% in 2017—as these tax incentives reduce the costs borne directly by***

utilities. Fourth, environmental policies related to the power sector, such as federal greenhouse gas regulations and air pollution regulations, could have a significant impact on RPS costs, by raising the cost of non-renewable resources and thereby reducing the incremental cost of renewables. Source: A Survey of State-Level Cost and Benefit Estimates of Renewable Portfolio Standards (2014)

RPS Cost Containment Mechanisms

*Given the inherent uncertainty in future RPS costs, and the desire among policymakers to limit the potential burden to ratepayers, **most RPS policies include one or more cost containment mechanisms or “off-ramps”.** Various approaches are used, though **the most common are ACPs and rate impact/revenue requirement caps.***

- ***ACPs.** Typical of restructured markets, ACPs function as a backstop compliance option for [utilities]. As such, they effectively cap REC prices and thus RPS compliance costs.*
- ***Rate impact/revenue requirement caps.** Many states cap RPS costs in terms of a maximum allowed percentage of revenue requirements, costs, or customer bills. This*
- ***Renewable energy contract price caps.** Caps may be placed on individual RPS contract prices—as in Montana, where RPS contract prices are capped based on the avoided costs of an equivalent non-renewable resource.*
- ***Renewable energy funding caps.** Where specific programs are established for the purpose of RPS procurement (e.g., New York), cost containment may occur through statutory or regulatory limits on program budgets.*

*Aside from cost containment mechanisms with some prescribed numerical limit, such as those listed above, **regulators in many states often have some level of discretionary power to control RPS costs. Some RPS laws grant the PUC [PSB] the authority to delay or freeze RPS requirements, or grant waivers to individual utilities, if costs would be deemed excessive (e.g., under a force majeure clause).** Regulators also often have the ability to review and approve PPAs and/or cost recovery for RPS resources, and thereby limit the costs incurred.*

*Source: A Survey of State-Level Cost and Benefit Estimates of Renewable Portfolio Standards
J. Heeter, G. Barbosa, L. Bird, S. Weaver, F. Flores-Espino, K. Kuskova-Burns, and R. Wiser (2014)
<http://www.nrel.gov/docs/fy14osti/61042.pdf>*

Finally, a balancing of costs and benefits with full consideration of the goals of 30 V.S.A. Section 8001 is vitally important to Vermont's economy, its ratepayers and to the ultimate success of the RESET Program.

Thank you for the opportunity to comment.

Michael Zahner
Vermont Chamber of Commerce
mzahner@vtchamber.com

