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MEMORANDUM

To: Members of the House Committee on Natural Resources and Energy

From: Darren Springer, Deputy Commissioner, Public Service Department

Date: February 9, 2015

Re: SPEED Program/H.40 briefing paper

Vermont's SPEED program is our primary renewable energy deployment program, enacted to support the development of new renewable energy projects in Vermont. SPEED relied on a requirement that utilities sign long-term contracts for renewable power, providing critical support for project development. The SPEED goal is for Vermont utilities cumulatively by 2017 to provide 20% of our power through SPEED contracts.

However, unlike our neighboring 5 states in New England, and the majority of states across the nation, Vermont does not require the ownership and retirement of renewable energy credits (RECs) through the SPEED program. That leaves utilities free to sell the RECs from their SPEED projects into the regional market, and they currently derive roughly \$50 million annually in revenue from these sales, which is equivalent statewide to an approximate 6% rate benefit.

It is worth noting that when a renewable energy project comes online it provides three distinct attributes: energy in the form of megawatt hours, capacity in the form of its ability to produce megawatt hours during periods of peak load, and RECs which are the environmental benefits associated with a megawatt hour of renewable energy. These attributes can be provided bundled in a package to the market, or sold separately. In a state that has a Renewable Portfolio Standard (RPS), the requirement for the utilities is to own a certain amount of RECs (not energy or capacity) equivalent to some percentage of their energy portfolio. RECs are how we typically account for renewable megawatt hours, since we cannot physically track renewable electrons on the grid. SPEED, on the other hand, is an energy requirement (20% of Vermont's retail sales must come from SPEED projects by 2017), not a REC requirement.

The SPEED program has helped get projects built while also minimizing impacts to ratepayers by allowing the sale of RECs. However it was always intended to expire in 2017, making it timely for Vermont policymakers to discuss what comes next. The Legislature asked the Department to analyze the transition from SPEED to a new renewable program as part of the Act 99 Net Metering legislation passed in 2014. In addition some concerns have been raised in the regional market context about the compatibility of SPEED with neighboring state renewable programs.

The good news is that the H. 40 policy approach preserves the ratepayer benefits of REC sales from existing projects while phasing in new renewable energy targets that offer flexibility and help Vermont reach statutory energy and carbon goals. H. 40 has several key elements:

- 1. Transition from SPEED:** H. 40 completes a transition from the SPEED program goals to a new program more in harmony with the rest of the region, and by doing so helps address regional market concerns regarding the compatibility of SPEED. Although Vermont utilities would be required to retire a certain amount of RECs, H.40 would not require all RECs from renewable resources owned or under contract to Vermont utilities be retired.;
- 2. Set New Renewable Electric Targets:** It sets up a new Tier 1 overall renewable electric target, building on existing law, of 55% total renewable electricity for Vermont utilities, rising to 75% by 2032. By counting all resources, big and small, new and existing, and setting the price cap (alternative compliance payment) at 1 cent per kilowatt hour, this Tier keeps costs low;
- 3. Establish New In-State Distributed Generation Tier:** It sets up a Tier 2 to support new, in-state, distributed generation renewable projects 5 megawatts or less. This Tier supports projects that qualify as customer-sited net metering, as well as Standard Offer projects that are typically the somewhat larger solar projects. Tier 2 provides support for Vermont's growing clean energy industry, which according to a 2014 Clean Energy Development Fund report already provides 15,000 jobs. Tier 2 also helps reduce our need for costly transmission build-out by siting more generation near customer load. VELCO, our statewide transmission utility, has already found that distributed generation and energy efficiency have avoided \$400 million in new transmission project costs just in the last few years, saving money for ratepayers; and
- 4. Create Program for Innovative Utility-led Projects that Save Customers Money:** It sets up a new and truly innovative Tier 3 to support energy transformation projects. Building off existing utility efforts including Green Mountain Power's heat pump lease program, Washington Electric's solar hot water discount, Burlington Electric and Stowe Electric's electric vehicle charging station investments, and many other examples, Tier 3 asks utilities to help save their customers money by reducing fossil fuel consumption. Utilities have different tools to bring to the table, including leasing programs, on-bill repayment options for financing, marketing partnerships, and direct investment. This Tier, done correctly, will help deploy new efficient cold-climate heat pumps and electric vehicles that provide more sales for utilities while advancing state energy and climate policy and supporting clean energy jobs. Coupled with demand management strategies these projects can avoid driving up peak demand. If we sell

more kilowatt hours using the same infrastructure (poles, wires, generation) and same fixed costs we have now, rates come down per unit of energy sold. Tier 3 savings allow the proposal as a whole to save customers a net of \$275 million and are the main reason why the Department's rate analysis shows that H. 40 would, over the long-term, have a modest net benefit for ratepayers.

H. 40 would, in addition to the benefits mentioned, make Vermont's biggest strides yet toward reaching the 2050 statutory carbon reduction goal. H. 40 would achieve roughly 25% of the carbon reduction needed to reach our 2050 targets. At the same time the Regional Economic Models Inc. (REMI) projection shows that H. 40 would help the economy add over 1,000 new jobs during the course of the program. Without hyperbole, this legislation would be good for the economy and the environment.