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Testimony to Senate Natural Resources and Energy Committee- March 30, 2017
Miscellaneous Energy Bill (draft 1.2)
Andrea Cohen, Manager, Government Affairs and Member Relations, VEC

Thank you for the opportunity to testify. We would like to share VEC's legislative priorities as you continue your work on the Miscellaneous Energy bill. As a member-owned Cooperative our primary interest is to provide our members with safe, cost-effective, reliable, and environmentally responsible electric service. Every decision, and every legislative position we take, is towards this purpose. We operate our business democratically and transparently.

1. <u>Net Metering</u>

We support the proposed language in Sections 1 and 2 of the draft Miscellaneous Energy Bill (draft 1.2). VEC has actively participated in the extensive PSB rulemaking process and we have testified to this committee and other legislative committees about what we believe is required to ensure a successful and sustainable net metering program. **Our current position is that we support adoption of the original draft rules that the PSB brought to LCAR. If these rules are changed in a way that exacerbates the current cost shift we could no longer support those rules and would advocate for a variety of other changes to the rules to alleviate that cost pressure.** We need to ensure that all users of the grid contribute their fair share to the cost of maintaining that grid and to the energy efficiency programs that they also benefit from. We also need to ensure that we are not required to pay above market rates for renewable energy when we have other options for supplying renewable energy to our members. Unnecessary costs, and costs shifts, do not help us create a sustainable net metering system for those who want to take advantage of that opportunity.

In our previous testimony to this committee we have demonstrated that:

- **The proposed rule is not a deterrent to a robust metering program**.
  2017 applications for net metering in VEC service territory have been brisk. 2017 applications currently total 2,663 kW which equates to 3.2 % of our (2016) peak. This pace is already greater than in any prior year for VEC. If the remainder of 2017 keeps pace with the first 3 months of 2017, the total capacity of applications in 2017 will exceed the total of all net metering capacity prior to 2017.
- **We need to reduce the upward cost and rate pressure from net metering.**
  When we testified to this committee a year ago, we estimated net metering was increasing costs to the Co-op at a rate of $125,000 for every 1% of VEC's peak capacity. At the end of 2016, our total net metering applications were equivalent to 12.6 % of VEC peak which totals nearly $1.6 million in increased costs annually. That cost could double if the pace of net metering in 2017 continues.

- **There are other ways to deliver renewable energy and at a lower cost.**
  VEC's three solar PPA projects are priced for 2017 between $.105 to $.124/kWh. Our HQ contracts and the Sheffield project that qualify as TIER 1 renewables have pricing at less than $.08/kWh. In late 2015, VEC received a proposal for consideration of a 600 kWh project with a price of $.129. With the new net metering pricing for 500 kWh projects of $.1692, we are paying a 31% premium over the market price.

2. <u>Standard-Offer Program</u>

As the Public Service Board outlined in their letter of February 8, 2017, exemptions from the program as allowed under current statute are highlighting the need to evaluate it in light of today's conditions. Exemptions cause the pro-rata share for the remaining utilities to increase not only for future standard-offer projects but for all the active standard-offer contracts that are expensive compared to today's contracts. It is indeed possible that exemptions under current law will continue and there could be fewer and fewer utilities remaining to contribute to program costs.

We support the PSB report proposed in Section 15. In addition, we support broadening the scope of the report to include an evaluation of the standard-offer program in its entirety, an assessment of the current and future benefits of the program, and recommendations on ways to improve program effectiveness. Finally, we believe it would be prudent to add a "time-out" on any additional exemptions until the cost sharing issue can be equitably resolved.

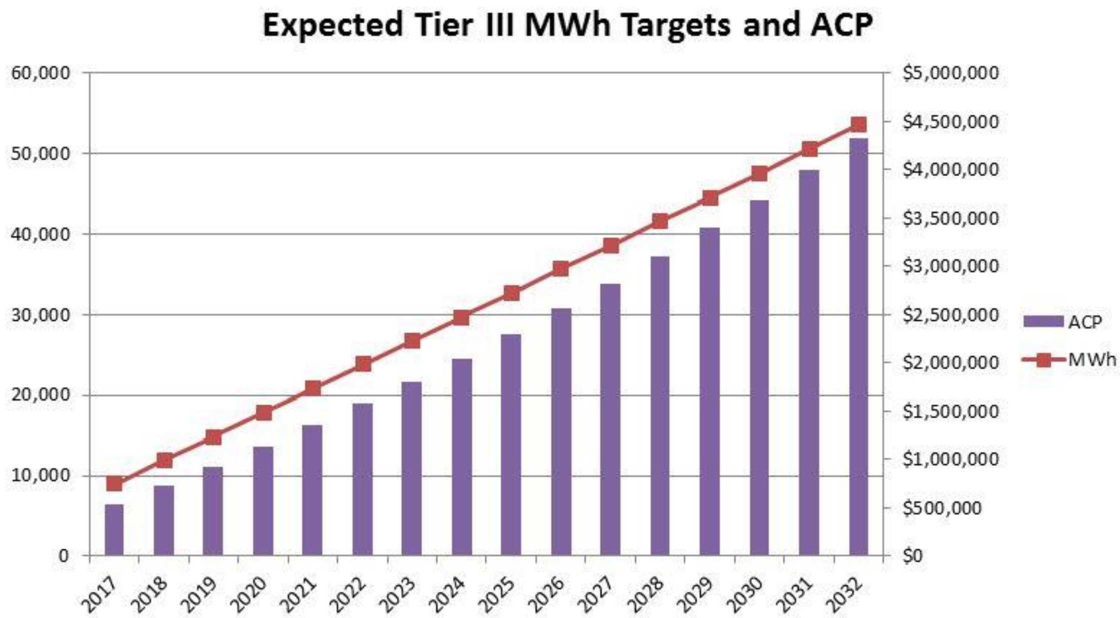
3. <u>Tier III program targets</u>

The Energy Transformation provisions of Act 56, passed by the Vermont Legislature in 2015, set targets for utility-led or utility-partnership projects that will reduce fossil fuel usage and greenhouse gas emissions. We support this program and are pleased to have the opportunity to help our members and help reduce carbon production. Since enactment of the legislation we gained experience with annual planning, partner collaborations, initial program implementation, and the competing fuel marketplace. Our current assessment is that the targets are much more challenging than anticipated, especially in light of the changing fuel markets. We bring this to your attention now because we have concerns that the targets will not be attainable, even in the early years and despite our best efforts.

The current legislated targets are as follows:

"…… the required amounts shall be two percent of each retail electricity provider's annual retail electric sales during the years beginning January 1, 2017, increasing by an additional two-thirds of a percent each subsequent January 1 until reaching 12 percent on and after January 1, 2032"

If the two-thirds of a percent each year is indeed cumulative, the targets will be as illustrated in the next chart. For example, under this requirement, the new carbon reduction activities in year 4 will need to produce twice as much in new carbon savings as in year 1.



If we do not meet the targets, we can potentially satisfy the Tier III requirement through additional distributed renewable generation (Tier II), or by paying an Alternative Compliance Payment (ACP). These options are not financially beneficial and would put upward pressure on VEC rates. We also have the option of petitioning the PSB if there would be "significant" rate pressure but the only relief provided would be to defer that obligation forward to a future year. We believe we need to begin to take steps to remedy the expensive problem that we see coming, while we continue to implement the Tier III program in earnest. Options could include adjustment of the targets, and elimination or reduction of the alternative compliance penalty.

4. Other Bill Provisions

   Sections 3-6. Building Energy Performance. We are continuing to evaluate the proposed language to ensure that it complies with our privacy policies. We are extremely careful about sharing members' usage data in any way that would allow someone to see their usage patterns without their permission. When a member "opts-in" we have no concerns so that is always our preferred approach. Since the information will be aggregated on a monthly basis and "anonymized" that helps to assuage our concerns.

   Sec. 7-14. 90% by 2050 Renewable Energy Goal. At this time we are interested in learning more about the Department's position on these sections and how codifying the planning goals integrates with the State Comprehensive Energy Plan, the State Energy Efficiency Program, Utility Least Cost Integrated Planning, and the RES legislation. The impact of these sections is not entirely clear at this time.

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