Dear Chair Watson and Senate Natural Resources and Energy Committee Members,

During the Committee's consideration of S.65, questions have arisen about the financial impacts of the changes proposed. In the following testimony, I hope to add to the Committee's understanding of the financial impacts of S.65.

Some of the concerns raised seem to stem from the perspective that S.65 would significantly alter the course of Vermont's highly successful energy efficiency programs. Therefore, before getting into the specific financial questions, I wanted to provide some additional information about the current measures[1] Efficiency Vermont supports and their associated greenhouse gas impacts (Table 1). The Comprehensive Energy Plan and Climate Action Plan direct many of these specific measures. *Each measure in Table 1 also creates cost-effective electric and/or thermal energy savings*:

Table 1:

Portfolio	Measure	Lifetime CO2e (metric tons) per $ of incentive	Lifetime CO2e Savings per Measure
Electric	Refrigerant leak repair	1.188	1,188
Electric	Custom refrigeration	1.05	1,574
Thermal	Biogas Heating Fuel Switch	0.2664	3,996
Thermal	Industrial Process Heating Efficiency	0.26	1,755
Thermal	Automated Feed Pusher (agriculture)	0.1433	1,433
Thermal	Fuel switch- space heater- wood pellet	0.1319	56
Thermal	Fuel switch- space heater- wood	0.1209	56
Electric	Permanent Refrigerant Leak Detection System	0.1188	1,188
Electric	Variable frequency drive motor control	0.0965	289
Thermal	Biomass Fuel Switch	0.053	530
Electric	Industrial Process Efficient Chiller	0.039	976
Thermal	Unmatched Air Source Heat Pump (TEPF Savings)	0.0368	12.6
Electric	Efficient Refrigeration Rack - Natural Refrigerant	0.0336	3,363

[1] A measure refers to a specific action that a customer takes or technology that a customer installs to reduce their energy usage. All measures supported by Energy Efficiency Utilities are regularly evaluated by a PUC-sponsored Technical Advisory Group to ensure the accuracy of assumptions around how much energy they will save.

Thermal	Biomass Fuel Switch	0.0323	109
Thermal	Whole-building insulation	0.0213	54
Electric	Ductless variable speed heat pump	0.0202	3.2
Electric	Ducted variable speed heat pump	0.0159	6.3
Thermal	Insulate and air seal	0.0149	38
Electric	Efficient Refrigeration Rack	0.0132	1,316
Electric	Heat Pump Water Heater	0.007	3.6
Thermal	HPwES - 6036HPES (Market Rate)	0.0033	13.4

Every three years, as part of the Demand Resources Plan Proceeding, Efficiency Vermont develops detailed models to determine the best measure mix and makes a recommendation to the PUC. If S.65 is enacted, Efficiency Vermont will develop that full plan and submit it through the same rigorous regulatory process that is currently used to ensure Vermont and Vermonters receive continued, excellent value from their investments in statewide energy programs.

Four primary financial questions have come up during testimony and committee discussion. In consideration of those conversations, I provide the following information as it relates to "Draft No. 1.1 – S.65" ("S.65, Version 1.1"), the current version in front of the Committee:

1. Will S.65 lead to an increase in the overall collection of EEC above inflation?

No, in fact, S.65 caps the budget for the electric bill-derived portion of the revenue that supports Efficiency Vermont at the 2026 level approved by the Public Utility Commission (the "Commission") plus inflation. The revenue from the Regional Greenhouse Gas Initiative and the Forward Capacity Market, which are not funded directly by ratepayers, fluctuate and would continue to do so under S.65, Version 1.1.

A concern was expressed that S.65 would lead to increased EEU budgets due to language that requires the EEUs to pursue societally cost-effective greenhouse gas emissions (S.65, Version 1.1, Page 7, Lines 9-10). There are three reasons why that concern is not valid:

1. The Committee removed the cross-reference to Act 153, the Global Warming Solutions Act (GWSA), in Version 1.1, thus repudiating the argument that S.65 would require EEU plans to meet all GWSA-required emission reductions
2. The language provides guidance to the PUC as to how, within this new prioritization scheme, it should evaluate cost-effectiveness to be "consistent with the principles of least-cost integrated planning as defined in" 30 V.S.A. § 218c (S.65, Version 1.1, Page 7, Lines 10-11)
3. In the underlying statute, which has not changed in S.65, the PUC is directed to achieve "all reasonably available, cost-effective energy efficiency savings" (30 V.S.A. §

209d(3)B). The General Assembly provided that high level direction and left it to the Commission to determine a process for implementation, which would continue to be employed under S. 65. That process, which is documented in regulations stipulated by the Commission in the *Process and Administration of an Energy Efficiency Utility Order of Appointment* ("P&A") begins with the Department of Public Service (the "Department") conducting an energy efficiency "Potential Study" to determine what energy efficiency is feasible at three levels: "technical, economic, and achievable" potential. The first two address any technically available or cost-effective energy efficiency, of which there is significantly more than what EEU plans ultimately seek to deliver for Vermonters. The final category is based upon what energy efficiency programs <u>can</u> accomplish, and it's further broken down into a range of costs, with the two end points of the range being: maximum-achievable and program-achievable. Maximum achievable potential envisions a scenario where measures are fully funded, which is not realistic. In the program-achievable subcategory, upon which the EEU triennial plans are based, the Department evaluates efficiency gains based on realistic scenarios and incentive amounts. The Department then includes a 5% adder to the program-achievable model to challenge the EEUs to go further. We accept that challenge. EEU plans and budgets have been developed based upon that longstanding regulatory practice. That will continue to be the practice should S.65 go into effect.

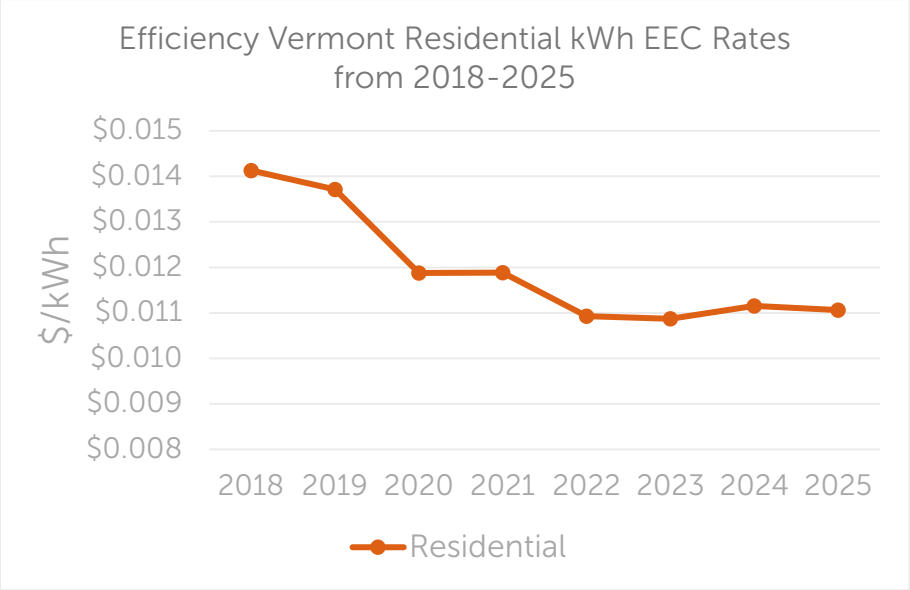
2. How will the changes proposed in S.65 affect EEC rates?

The Energy Efficiency Charge (EEC) rates are established annually by Commission approval after a public review and generally must follow the Commission-directed formula in PUC Rule 5.300,[2] which is based on using historic electricity sales data to forecast delivery and sales estimates of the next calendar year. The Commission orders different rates for different customer types (e.g., residential, commercial, large industrial), based on the Rule's formula allocation of costs. The formula starts with the simple premise that the Commission-approved budget divided by the total volume of electricity sales equals the EEC rate necessary to support energy efficiency programs. Thus, when the budget is capped in statute as S.65 proposes to do in Version 1.1, Section 1, Page 4, Lines 5-7 and electricity sales increase due to increased support for electrification measures, EEC rates should continue to decline, while revenue remains consistent.

[2] https://puc.vermont.gov/document/commission-rule-5300-energy-efficiency-charge

As stated in my February 21, 2025 testimony, residential rates declined 21% (42% in inflation-adjusted terms) from 2018-2025. Figure 1 shows the Commission-approved residential EEC rates. Based on historical trends, with a capped budget, EEC rates should continue to decline.

Figure 1



3. How will the changes proposed in S.65 regarding electrification affect electricity costs?

The Department concluded in its 2025 Annual Energy Report, published pursuant to 30 V.S.A. § 202b(e), that the electrification measures created in compliance with 30 V.S.A. § 8005a(3) would reduce net Renewable Energy Standard compliance costs due to fact that such "programs build load and generate additional retail sales revenues leading to a net cost reduction over time" (Page 62). As implemented, S.65 would likely increase electrification and encourage further collaboration across Vermont's Energy Efficiency and Distribution Utilities. Based on the Department's analysis above - combined with a strong continued focus on electric efficiency – under S.65, the work of the EEUs should continue to put downward pressure on electricity costs.

4. How will the changes proposed in S.65 affect Vermonters' household finances?

I believe there is a misperception that S.65 would impact the significant ratepayer value that Efficiency Vermont adds. Since 2000, Efficiency Vermont has helped Vermonters and Vermont businesses complete projects with an associated $3.7 billion in lifetime savings. We have done that while responding to multiple, sometimes competing, priorities. The General Assembly in enacting, and the Commission in implementing, 30 V.S.A. § 209 have required Efficiency Vermont to tackle serious challenges facing Vermont families and the grid, including greenhouse gas emissions reductions as one of the four top priorities. *S.65 directs the*

Commission to prioritize greenhouse gas emission reductions. It does not, however, remove the other priorities already in statute. The Commission will still hold Efficiency Vermont accountable for achieving the following objectives. For ease of comparison, the list below reflects the formatting of the list in S.65, Version 1.1, Page 8, beginning on Line 19:

1. reducing Vermont's total energy demand, consumption, and expenditures
2. reducing the size of future power purchases
3. equitable distribution of benefits using geographic and economic indicators
4. limiting the need to upgrade the State's transmission and distribution infrastructure
5. minimizing the costs of electricity
6. reducing Vermont's total energy demand, consumption, and expenditures
7. providing efficiency and conservation as a part of a comprehensive resource supply strategy that includes implementation of electrification
8. providing the opportunity for all Vermonters to participate in efficiency and conservation programs
9. targeting efficiency and conservation efforts to locations, markets, or customers where they may provide the greatest value

The measures the EEUs support will still need to be balanced to achieve ALL nine of these goals as well. Many of these goals are explicitly designed to decrease business and household electricity expenditures.

One of my favorite parts about the statewide service Efficiency Vermont provides is that we get direct feedback on our offers and how they do or do not meet the needs of individuals and businesses. Our success only happens when Vermonters save money. Unless our programs offer real value (from unbiased advice to technical assistance and financial support), Vermonters won't pursue energy-saving projects. That mission is the core of our DNA and won't change. I can lend my support to S.65 because you are not changing our mission; you are just updating it – after twenty-five years of strong performance – to be better aligned with the current (expanded) set of State of Vermont energy and policy objectives.

Sincerely,

Peter Walke
VEIC