



October 2, 2015

Ms. Susan Hudson, Clerk  
Vermont Public Service Board  
112 State Street, Drawer 20  
Montpelier, VT 05620

Re: **Response to the Public Service Board's Independent Audit**

Dear Ms. Hudson,

This letter serves as the City of Burlington Electric Department's (BED) response to the Evergreen Economics, Inc. (Evergreen) Independent Audit of the Vermont Energy Efficiency Utilities (EEUs) dated September 11, 2015.

Based on our review of the "*Management Letter*" (*Letter*), it is clear that Evergreen conducted, on behalf of the Public Service Board (PSB), a thorough and in-depth review of the EEUs. The *Letter* conveys useful information that BED will rely on to adjust its operational, administrative and reporting functions.

BED appreciates the opportunity to attach our response to Evergreen's audit as a means to provide the Legislature with additional context to select audit findings and recommendations. Specifically, BED responds to findings that pertain to:

- Efficient Products Program savings
- Savings by sector
- Annual Cost effectiveness

Efficient Products Program reported savings (pgs. 22-24)

Section 4.1 of the *Letter* includes three tables comparing BED's reported savings (MWhs) and peak reductions (summer kW and Winter kW) to Evergreen's calculated savings and peak reductions. According to Evergreen, calculated results were 88 percent of reported



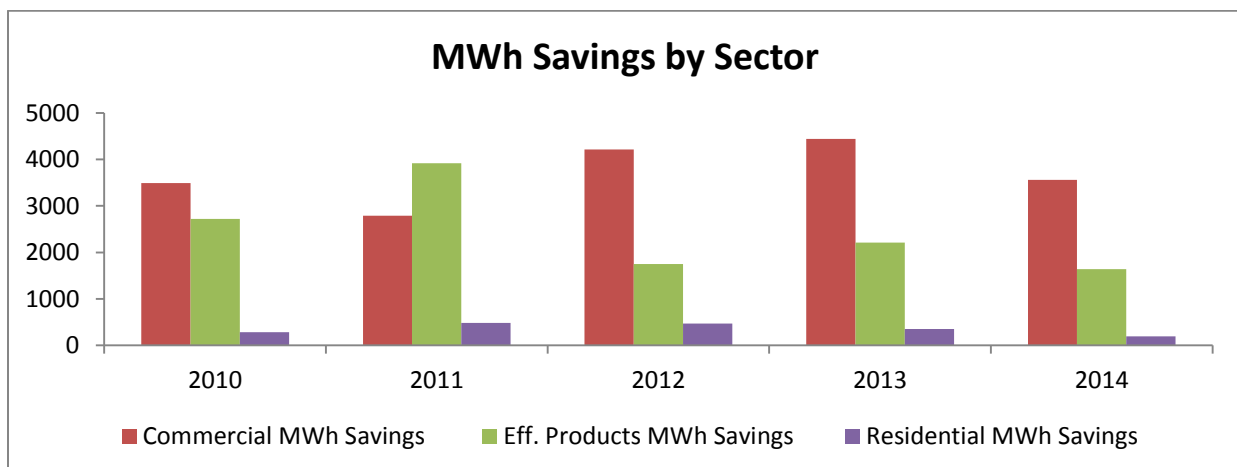
energy savings (MWhs), 90% of reported winter peak reductions and 79% of summer peak reductions.

As noted in the *Letter*, the main reason for the differences is due to retroactive changes by BED to reported savings for known adjustments to the program's realization rates, measure persistence and net-to-gross factors. BED makes changes because unlike Efficiency Vermont, BED is both a distribution utility and an energy efficiency utility. As a distribution utility, BED takes a conservative approach to estimating the long term impacts of energy efficiency on MWh loads. If BED did not take such an approach, it could overestimate savings and underestimate its future power requirements. In accordance with prudent utility practices, BED makes these adjustments to ensure that the distribution side of the utility has purchased sufficient amounts of future power to maintain reliability, safety and customer convenience at a reasonable cost. Irrespective of its conservative approach, BED has noted Evergreen's recommendation to "freeze" database entries as of calendar year end to ensure future evaluators can reconcile past reports with the BED's databases.

#### Savings by Sector (pg24)

Evergreen's *Letter* noted that in 2011, there was a 30 percent shift in savings from the commercial sector to the residential sector. The report, however, does not explain why 2011 was anomaly.

Typically, BED reports a majority of its savings from the commercial sector, as shown in the graph below.





Commercial savings as a percent total portfolio savings are typically in the range of 66 to 70 percent. But, as the graph above shows, 2011 was the exception. The shift in sector savings is largely due to the stellar performance of the efficient products program, which BED reports as residential savings, and a relatively weaker performance of the business new construction program. The uptick in 2011 savings from the efficient products program was driven by a LED special promotion and resulted in a significantly larger participation rate than originally expected. At the same time, there was a very low level of commercial new construction activity. These two factors led to the shift in savings that Evergreen made note of in its *Letter* report.

It is important to explain the 2011 anomaly because under BED's approved Demand Resource Plan, BED is expected to derive a majority of its savings from the commercial sector. This expectation is based on the fact that commercial customers represent roughly 75 percent of BED's total load and pay approximately the same percentage into the EEU budget. As a consequence, BED has been directed to acquire savings from the commercial sector in roughly the same proportion to maintain customer equity. As the graph above highlights, the proportional shares of commercial sector savings have returned to normal.

#### Annual Cost effectiveness (table 17, pg.39)

Evergreen's *Letter* report highlights that every dollar invested in energy efficiency results in \$4.65 in societal benefits (Table 18). This is a great return on investment. The *Letter* report also suggests that BED spent \$2.3 million on administrative expenses over three years, approximately 38 percent of total EEU spending. BED believes Evergreen has mischaracterized BED's administrative spending. This may have occurred due to miscommunications.

Since 1991, BED's annual efficiency reports breakdown costs into 4 main categories: administrative, service, incentive and evaluation.

Administrative costs are defined in BED's annual report as: costs associated with general management, budgeting, legal costs, implementation management, business development, customer service, IT, program design and marketing.

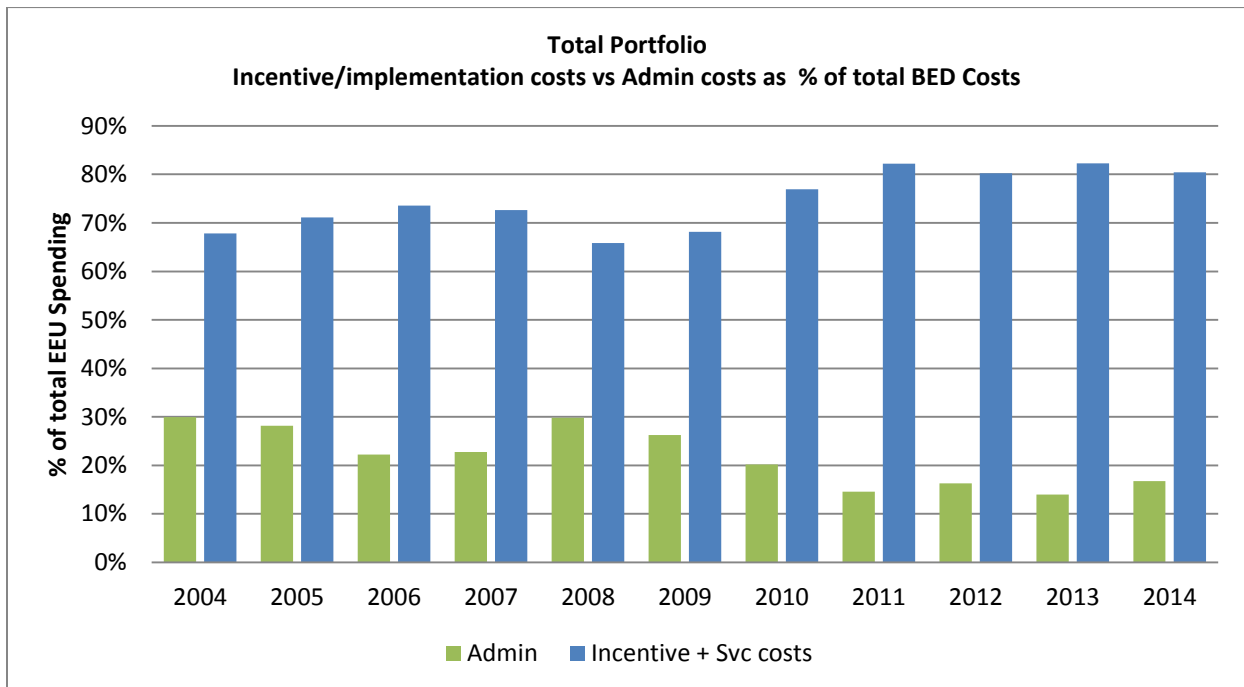
Service costs are defined as: costs related to technical services, auditing, energy analysis, customer project management and post project completion follow-up as well as customer-specific education and support.



Incentive costs are defined as direct payments to customers, manufacturers, distributors and other trade allies. 95 percent or more of these payments are to customers.

Evaluation costs are defined as measurement and verification costs, excluding tracking and reporting expenditures. These monies are paid to the Department of Public Service.

In BED's opinion, service related costs and incentives directly benefit customers. Without service related expenditures, many projects would not have been implemented. Thus, service costs are not administrative costs. By recasting Evergreen's table 17 to include service costs as an incentive or customer benefit, then purely administrative costs would amount to 20 percent of total program costs, as shown in the graph below.





### Conclusion

BED appreciates the Board's interest in its EEU operations. As noted above, BED will rely on the *Letter* findings to implement operational, administrative and reporting improvements over time. BED also appreciates this opportunity to respond to the report and provide additional context.

Should the legislature or any other stakeholder have additional questions or concerns, please do not hesitate to call the Energy Services group.

Sincerely,

Chris Burns  
Director of Energy Services

Thomas Lyle,  
Energy Efficiency Programs and Policy

Burlington Electric Department  
585 Pine Street  
Burlington Vermont 05401  
Tel: 802-865-7335