

Report on
2014 Energy Efficiency Utility Program Revenues and Expenditures
Pursuant to 30 V.S.A. § 209(d)(3)(A)

by the
Vermont Public Service Board

February 12, 2016

In accordance with 30 V.S.A. § 209, the Vermont Public Service Board (“Board”) is providing the Legislature with a final report (“Report”) on the Energy Efficiency Utility Fund (“EEU Fund”) for activity through December 31, 2014, and information summarizing the results of the activities paid for by the EEU Fund in 2014.¹ This Report is for the 2014 program year because the EEU Fund has not yet been audited and the program savings have not yet been verified for 2015.²

This Report provides a summary of Energy Efficiency Utility (“EEU”) services delivered during 2014. These energy efficiency services were provided statewide by Efficiency Vermont (“EVT”);³ however, the City of Burlington Electric Department (“BED”) provided many of these services in its service territory.⁴

As this Report shows, both EVT and BED are providing substantial benefits to the state’s electricity consumers by reducing participating customers’ electrical energy consumption and by offsetting statewide electric energy load growth. Energy efficiency investments lead to financial savings for all Vermonters. When Vermonters save energy, utilities generally need to buy and deliver less energy, thereby avoiding the need for additional utility infrastructure such as generating plants, poles, and wires. In addition, reduced energy consumption decreases potential impacts on the environment. As a result, utility costs associated with buying energy are less than they otherwise would be, and therefore the rates paid by all electricity consumers are less than they otherwise would be. The customers who have worked directly with EVT and BED accrue additional savings as a result of their reduced electricity consumption.

¹ The statute reads as follows: “The Board will annually provide the General Assembly with a report detailing the revenues collected and the expenditures made for energy efficiency programs under this section.” 30 V.S.A. § 209(d)(3)(A).

² There is typically a lag in reporting this information to the Legislature because the program savings must be verified by the Vermont Department of Public Service (“Department”) and an independent audit of the EEU Fund must be completed during the calendar year following the program year. For example, the Department provided a final report on its verification activities for the 2014 program year to the Board in July 2015; the Board made its determination regarding the achieved savings in July 2015 (EEU-2015-03, Order of July 29, 2015). The City of Burlington Electric Department and Efficiency Vermont filed annual reports on 2014 activities in April 2015 and October 2015, respectively. The Board received the independent audit of the EEU Fund for 2014 in August 2015.

³ Vermont Energy Investment Corporation (“VEIC”), a non-profit corporation, serves as a statewide EEU known as Efficiency Vermont. In 2010, the Board adopted an Order of Appointment structure for implementation of EEU services, in accordance with 30 V.S.A. § 209(d)(5) (which has since been renumbered 30 V.S.A. § 209(d)(4)). On December 20, 2010, the Board issued an order appointing VEIC to serve as a statewide EEU through December 31, 2021. In an order issued on October 16, 2015, in Docket 8455, the Board determined that it would grant VEIC an Order of Appointment for a new term of 11 years commencing on January 1, 2016, and extending through December 2026.

⁴ When the Board first created the EEU program, it authorized BED to deliver many of the same services in its own service territory that EVT provides throughout the rest of the state. (For simplicity’s sake, this report refers to these services collectively as “EEU services.”) On April 19, 2011, the Board issued an order appointing BED to serve as an EEU for its service territory through December 31, 2021.

While the statute does not specifically require the Board to report on the program activities of the EEUs, this Report summarizes EVT's key accomplishments in 2014.⁵ The investments made by EVT in 2014 are projected to save Vermont a net present value of \$46,600,000 over the 12-year average lifetime of the investments (\$124,600,000 in net present value benefits minus \$78,000,000⁶ in 2014 investments).

Business customers received approximately 59 percent of the direct benefits of EVT's services in 2014, while residential customers received approximately 41 percent of these benefits. The kilowatt-hours saved by EVT cost Vermont electric consumers approximately 4.9 cents per kilowatt-hour,⁷ which is approximately 59 percent of the cost that utilities would have paid for a comparable electric supply in 2014.

EVT's activities include not only electric efficiency, but thermal-energy-and-process-fuels efficiency as well. EVT's savings for thermal-energy-and-process-fuels efficiency, primarily associated with the Home Performance with ENERGY STAR service, totaled 36,500 MMBtu in 2014. These services are funded through a combination of proceeds from Vermont's participation in the Regional Greenhouse Gas Initiative ("RGGI") and EVT's participation in the regional grid's Forward Capacity Market.⁸ For more information about EVT's activities, please see the attached introduction of the report written by EVT entitled *Efficiency Vermont Annual Report 2014* (Attachment A).

This Report also includes excerpts from BED's *2014 Energy Efficiency Annual Report* that summarize the results of BED's energy efficiency activities that were paid for by the EEU Fund (Attachment B). The excerpts from BED's report show that the investments in EEU services made by BED in 2014 are projected to save BED customers a net present value of \$3,418,000 over the 12-year average lifetime of the investments (\$8,963,000 in net present value benefits minus \$5,545,000⁹ in 2014 investments).¹⁰ Business customers will receive approximately 66 percent of these benefits, while residential customers will receive approximately 34 percent of the benefits. The kilowatt-

⁵ The kilowatt-hour savings and benefit figures included in EVT's 2014 Annual Report have been verified by the Department as part of its evaluation activities.

⁶ This value includes costs paid for by participants and third parties.

⁷ This cost does not include costs paid for by participants and third parties.

⁸ Pursuant to 30 V.S.A. §§ 209(e)(1)(A), 209(e)(1)(B), and 255(d), proceeds from the ISO New England Forward Capacity Market and RGGI auctions are used, in part, to provide thermal-energy-and-process-fuel-efficiency services.

⁹ This value includes costs paid for by participants.

¹⁰ BED's kilowatt-hour savings and benefit figures have not yet been independently verified. The Department plans to verify BED's 2014 savings and benefits claims in 2016.

hours saved by BED's EEU services cost BED's ratepayers approximately 4.1¹¹ cents per kilowatt-hour.¹²

Batchelder Associates, PC, is the company under contract with the Board as the Fiscal Agent¹³ for the EEU Fund. The firm of Clark, Schaefer, Hackett & Co, PC, was engaged by the Board to perform an independent audit of the EEU Fund's revenues and expenditures for 2014. For more information about this audit, please see Independent Auditors' Report with Combined Financial Statements (Attachment C). A brief summary of the EEU Fund follows.

Total revenues collected by the EEU Fund during calendar year 2014 were \$56,119,059 (including revenues collected via the energy efficiency charge on electric customers' bills, EVT's and BED's participation in the Forward Capacity Market, Vermont's participation in the Regional Greenhouse Gas Initiative, and interest income accrued).¹⁴ Total expenditures from the EEU Fund during calendar year 2014 were \$57,504,020. It is expected that revenues and expenditures will be closely matched over the life of the three-year budget cycle for the EEU services.¹⁵ Expenses paid by the EEU Fund included:

- energy efficiency services provided by EVT;
- energy efficiency services provided by BED;
- thermal-energy-and-process-fuel efficiency services provided by EVT and BED using revenues from the Forward Capacity Market and RGGI; and

¹¹ This cost does not include costs paid for by participants.

¹² BED's cost per kilowatt-hour savings is less than the statewide EEU's cost per kilowatt-hour. This is attributed in part to BED's customer mix and compact service territory.

¹³ The Fiscal Agent provides the accounting services necessary to administer the EEU Fund. These services include: (1) receiving funds collected by Vermont electric distribution companies and those that accrue from participation in RGGI and the Forward Capacity Market; (2) disbursing funds to pay approved invoices; (3) managing any cash balances in the EEU Fund; and (4) reporting on EEU Fund financial activities.

¹⁴ The revenue and expenditure figures in this paragraph are presented on an accrual basis. The EEU Fund's cash balance as of December 31, 2014, was \$10,026,198. At the start of 2014, the EEU Fund's cash balance was \$16,024,304.

¹⁵ The Board established the EEU Budgets for 2012, 2013, and 2014 in an order issued on August 1, 2011, in EEU-2010-06. The EEU program is operated on a three-year performance cycle, and expenses can outpace revenue in a given year but are capped by the three-year budget approved by the Board. In an order issued on September 12, 2012, in EEU-2011-06, the Board determined that an additional \$1.6 million would be collected through the EEC collection during 2013 and 2014 to address the one-month lag between EEC collections and energy-efficiency program expenditures. (The associated EEC collections are sufficient to cover only 35 of 36 months of the three-year budgets; the 36th month of collections occurs after the end of the three-year budget period.) In an Order issued on March 29, 2013, in EEU-2011-06, the Board determined that the additional \$1.6 million would instead be collected during 2014 and 2015.

- administrative costs such as the services of the EEU Fiscal Agent, the EEU Fund audit, and EEU monitoring and evaluation activities undertaken by the Department.

The documents attached to this Report show: (1) the EEU Fund is being managed appropriately; and (2) the energy savings achieved by EVT and BED in the past year benefitted all Vermonters, whether or not they directly participated in EVT's or BED's programs.

Please keep in mind that, with this Report, the Board is not reporting on all electric energy efficiency initiatives that are being implemented throughout the state; instead, this report is limited to describing the use of the funds received through the energy efficiency charge as authorized under 30 V.S.A. § 209(d)(3) and the statewide efficiency services delivered by EVT and BED. Electric utilities continue to consider opportunities to implement electric energy efficiency initiatives as part of distributed utility planning and may choose to offer such initiatives as a service to their customers.

Additional information about the various oversight activities related to the EEU that the Board and other entities conduct is available on the Board's website at:

<http://psb.vermont.gov/utilityindustries/eeu/generalinfo/oversightactivities>

This information includes, among other items:

- various reports produced by EVT and by BED;
- financial reports such as the independent audit of the EEU Fund and the independent audit of VEIC;
- the most recent audit required by statute of the EEU program's energy and capacity savings and program cost-effectiveness; and
- website links to savings verification and evaluation reports produced by the Department.

For further information on the revenues and expenditures of Vermont's EEU programs, see the following three attachments:

Attachment A: *Efficiency Vermont Annual Report 2014*

Attachment B: *Burlington Electric Department - 2014 Energy Efficiency Annual Report*

Attachment C: Independent Auditors' Report on the Combined Financial Statements of the Vermont Energy Efficiency Utility Fund and the Regional Greenhouse Gas Initiative Fund

Attachment A



ANNUAL REPORT

2014

OCTOBER 7, 2015

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This report is submitted to the Vermont Public Service Board and to the Vermont Public Service Department, in fulfillment of the regulatory requirement for submitting Efficiency Vermont's Annual Report for 2014.

1. RESULTS OVERVIEW

In 2014, Efficiency Vermont helped Vermonters take control of their energy costs while strengthening local economies, protecting the environment, and helping to ensure a secure energy future for the state. Efficiency Vermont designed and delivered comprehensive services to make it easy for Vermont businesses, institutions, households of all income levels, and communities to benefit from energy efficiency. These services helped Vermonters optimize their use of electricity, heating fuels, and process fuels at critical decision-making moments—regarding new construction, renovations, and equipment—and on an ongoing basis as they managed their energy use.

Efficiency Vermont's success in obtaining cost-effective energy savings continued to define efficiency as the cleanest, least expensive, and most locally acquired way to reduce Vermonters' energy costs and to meet the state's energy needs. In 2014, Efficiency Vermont:

- **Engaged and empowered Vermonters to take action** through the delivery of: 1) technical and financial information and analysis; 2) guidance about energy use and planning, efficient technologies, and building science to help Vermonters identify how their actions control their energy costs; and 3) resources to bring efficiency within financial reach for Vermonters of all income levels and to enable Vermonters in all regions of the state to make informed decisions about cost-effective efficiency investments to benefit their households, businesses, and communities.
- **Helped all Vermonters benefit from efficiency** through involvement in State, regional, and national efficiency planning, policy, programming, and research efforts that have a lasting, positive impact.
- **Made efficiency the simple choice, statewide**, by ensuring that high-quality, efficient technologies and approaches are available and knowledgeably installed and serviced through: 1) training and support for building retrofit and new construction designers and builders, as well as the contractors, retailers, installers, and service technicians to whom Vermonters turn for efficient services and products; and 2) maintenance of vital, long-term relationships with—and services to—equipment manufacturers, distributors, and suppliers.

The close of 2014 marked the completion of Efficiency Vermont's 2012–2014 performance period.¹ **Table 1** presents Efficiency Vermont's key results for the period.

¹ Efficiency Vermont's performance periods and savings goals are established with the Vermont Public Service Board, as discussed in Section 1.1.

Table 1. Key results for 2012–2014

	2012	2013	2014	2012–2014 Total
Energy savings in megawatt-hours (MWh)	110,179	85,582	91,146	286,907
Total Resource Benefits ²	\$118,358,445	\$83,830,177	\$82,101,439	\$284,290,061
U.S. tons of carbon dioxide emissions avoided through efficiency	800,000	690,000	700,000	2,190,000

The above results demonstrate solid performance for 2012–2014. As shown in **Table 2**, on the following page, Efficiency Vermont achieved 105% of its MWh goals and 93% of Total Resource Benefits goals for the 2012–2014 period. These results reflect the strength of the three-year performance period structure, enabling Efficiency Vermont to make strategic adjustments in anticipation of—or response to—market forces, in accordance with the best short- and long-term interests of ratepayers.

1.1 QUANTIFIABLE PERFORMANCE INDICATORS³

Efficiency Vermont continued to operate under a performance-based model. This model ties a significant portion of compensation to specific, aggressive goals in order to encourage high levels of performance, innovation, quality, and operational efficiency. These goals—for specified energy savings acquisitions, administrative performance elements, and other areas—are established with the Vermont Public Service Board (PSB) as Quantifiable Performance Indicators (QPIs) for a three-year performance period. The information in **Table 2** shows Efficiency Vermont’s QPI goals and results for the 2012–2014 performance period. These results were achieved within the budget parameters set by PSB.

² The measure of Total Resource Benefits is the present value of lifetime economic benefits resulting from resource-saving measures, including avoided costs of electricity, fossil fuels, and water. Results are shown in 2012 dollars.

³ Unless otherwise noted, results provided in the narrative section of this report include Customer Credit data, but do not include savings from efficiency measures installed via Burlington Electric Department, Vermont Gas Systems, the Self-Managed Energy Efficiency Program, or the Green Mountain Power Community Energy & Efficiency Development (CEED) Fund.

Table 2. Selected QPI results for the 2012–2014 performance period⁴

Key Quantifiable Performance Indicators (QPIs)	Funding Pool	2012–2014 Goals	2012–2014 Results	% of Goal Achieved
Electric savings (MWh)	Electric Efficiency Charge	274,000	286,907	105%
Total Resource Benefits	Electric Efficiency Charge	\$305,984,352	\$284,290,061	93%
Statewide summer peak kilowatt (kW) demand reduction	Electric Efficiency Charge	41,920	35,979	86%
Summer peak kW demand reduction in Geographic Targeting areas—Susie Wilson Road	Electric Efficiency Charge	1,570	1,626	104%
Summer peak kW demand reduction in Geographic Targeting areas—Saint Albans	Electric Efficiency Charge	1,800	2,086	116%
Ratio of gross electric benefits to spending	Electric Efficiency Charge	1.2	2.0	163%
Million British thermal unit (MMBtu) savings	Thermal Energy and Process Fuels Revenues	155,000	168,795	109%

Efficiency Vermont also engaged in efforts related to an Administrative QPI (AQPI) plan, requiring continual assessment and improvement of key business processes and service delivery. This plan establishes performance indicators under two main categories:

- Management Span of Control, intended to optimize administrative efficiencies while ensuring continued market impact and effectiveness
- Key Process Improvements, utilizing lean processes to provide value to customers by increasing efficiency

In 2014, Efficiency Vermont:

- Continued to exceed the target metric for Management Span of Control
- Continued to train and mentor staff on lean process improvements and engaged in value stream improvement activities for six key business processes:

⁴ The total electric and thermal energy and process fuel savings in this table may differ from the summed savings shown in the remainder of the narrative of this document, which reports the results of efforts funded by both the Energy Efficiency Charge and Thermal Energy and Process Fuels revenues.

- Prescriptive Process
- Metering Process
- Demand Resources Plan Proceeding
- Engineering Custom Project Process
- Home Performance with ENERGY STAR® Process
- Residential New Construction Process
- Received a review of the AQPI work by Navigant Consulting, on behalf of the Vermont Public Service Department, which determined that Efficiency Vermont had met all requirements of the AQPI.

Full results of QPI activities are provided in Section 3.3 through Section 3.6 of this report.

1.2 ECONOMIC BENEFITS

Efficiency Vermont continued to provide a solid economic value for Vermonters. One measure of this value can be seen in the benefit-to-cost ratio, which was 1.6 to 1. Table 3 shows the factors that contributed to this ratio.

Table 3. Net lifetime economic value of electric and thermal energy efficiency investments in 2014

Benefits	\$93,900,000	Total Resource Benefits
	\$30,700,000	Operations and maintenance savings
	\$124,600,000	Total Benefits
Minus Costs	\$47,200,000	Efficiency Vermont resource investments
	\$30,800,000	Participant and third-party investments
	\$78,000,000	Total Costs
Equals Net Benefits	\$46,600,000	Net Lifetime Economic Value to Vermont

Total Resource Benefits in 2014 for Efficiency Vermont's reporting categories:

Business New Construction	\$12.3 million
Existing Businesses	\$43.5 million
Retail Efficient Products	\$22.0 million
Residential New Construction	\$6.7 million
Existing Homes	\$9.4 million
Customer Credit	\$28 thousand

Efficiency Vermont delivered excellent value compared to the costs of other sources of energy.⁵

- Efficiency Vermont supplied electric efficiency expected to cost approximately 4.9 cents per kilowatt-hour (kWh) over the average lifetime of the efficiency measures installed in 2014. Taking into account participating customers' additional costs and savings, the levelized net resource cost of saved electric energy was 1.4 cents per kWh. By contrast, the cost of comparable electric supply was 8.3 cents per kWh.
- Efficiency Vermont's efforts that were focused on thermal energy and process fuels savings supplied efficiency in 2014 at \$15 per million British thermal units (MMBtu). Taking into account participating customers' additional costs and savings, the levelized net resource cost of fossil fuel saved through efficiency in 2014 was \$26 per MMBtu, whereas the avoided cost for that fuel was \$29 per MMBtu.⁶

Investments in energy efficiency continued to strengthen local businesses and to secure jobs. For example, 54 Vermont businesses, employing a combined 80 Home Performance with ENERGY STAR and Building Performance contractors, completed approximately 860 projects with a value of more than \$6.6 million in 2014, and more than 200 additional projects were expected to be completed in the first quarter of 2015. Efficiency Vermont also helped retailers statewide promote and sell efficient products that strengthened their bottom line. In 2014, Efficiency Vermont's retail partners sold more than 3,900 energy-efficient appliances, 16,000 consumer electronics products, and 717,000 lighting products.

1.3 ELECTRIC EFFICIENCY SAVINGS⁷

Energy savings resulting from electric efficiency measures installed in 2014 provided an estimated 1.6% of Vermont's overall electric energy requirements for the year. This percentage represents approximately \$10.2 million in retail value, annually, based on a rate of 13 cents per kWh.⁸ Figure 1 and Figure 2 show Vermont's history of energy savings from electric efficiency measures.

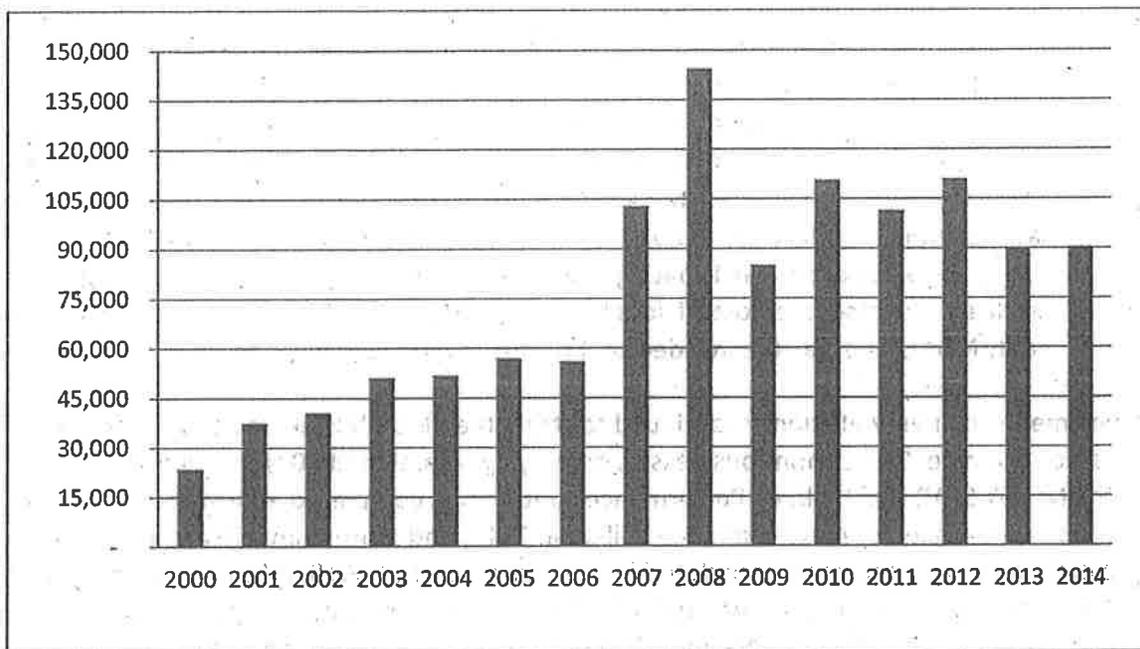
⁵ Numbers in the two ensuing bulleted items do not include Customer Credit. The "levelized net resource cost of saved electric energy" comprises: 1) Efficiency Vermont costs of delivery, plus customer and third-party contributions to measure costs, all adjusted to reflect the comparative risk adjustment of 10% adopted by the PSB in Docket 5270; and 2) costs or savings associated with fuel, water, and building operation and maintenance.

⁶ The levelized net resource cost of fossil fuel savings were off by a factor of 1,000 in the original filing of the Savings Claim Summary. See Erratum for additional details.

⁷ All data in Section 1.3 include savings from efficiency measures installed through Burlington Electric Department and the Green Mountain Power Community Energy & Efficiency Development (CEED), with the exception of Figure 1, which includes only Efficiency Vermont results.

⁸ This represents a blended average of commercial, industrial, and residential rates.

Figure 1. Efficiency Vermont annualized megawatt-hour savings



Cumulatively, efficiency measures installed since 2000 provided 967 gigawatt-hours (GWh)⁹ of savings for Vermont by the end of 2014. This figure represents 13.7% of the state's estimated electric energy requirements, with a retail value of more than \$112 million, based on a rate of 13 cents per kWh. As the lowest-cost approach to fulfilling these requirements, energy efficiency significantly strengthens Vermont's ability to limit energy cost increases and corresponding consumer rate hikes. This impact becomes greater as the share of energy needs supplied by efficiency increases. Figure 3 shows the increasing percentage of Vermont's annual electric needs met by efficiency savings.

Energy efficiency also provided significant benefits to Vermonters via avoided or deferred transmission and distribution investments. The combination of aggressive energy efficiency and local distributed generation in Vermont resulted in \$400 million¹⁰ in projects being deferred across the region overseen by the Independent System Operator–New England (ISO-NE). These savings benefited all ratepayers, whether or not they participated in Efficiency Vermont services.

⁹ This number is the sum of efficiency measures reported by Efficiency Vermont, Burlington Electric Department, Customer Credit, the Green Mountain Power (GMP) Energy Efficiency Fund, and the GMP Community Energy & Efficiency Development (CEED) Fund and accounts for measures that have expired over time.

¹⁰ ISO-NE deferred \$238 million in projects in 2011. Due to continued decline of load forecasts, ISO-NE deferred an additional \$161 million in projects in 2013.

Figure 2. Savings from efficiency as a percentage of statewide electric resource requirements

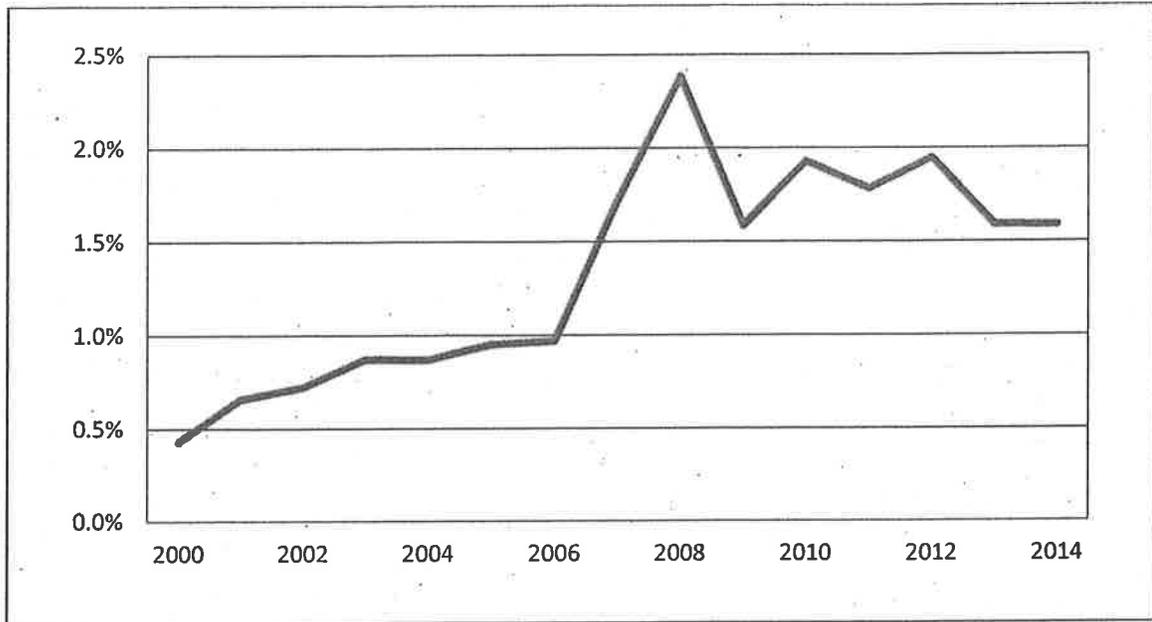
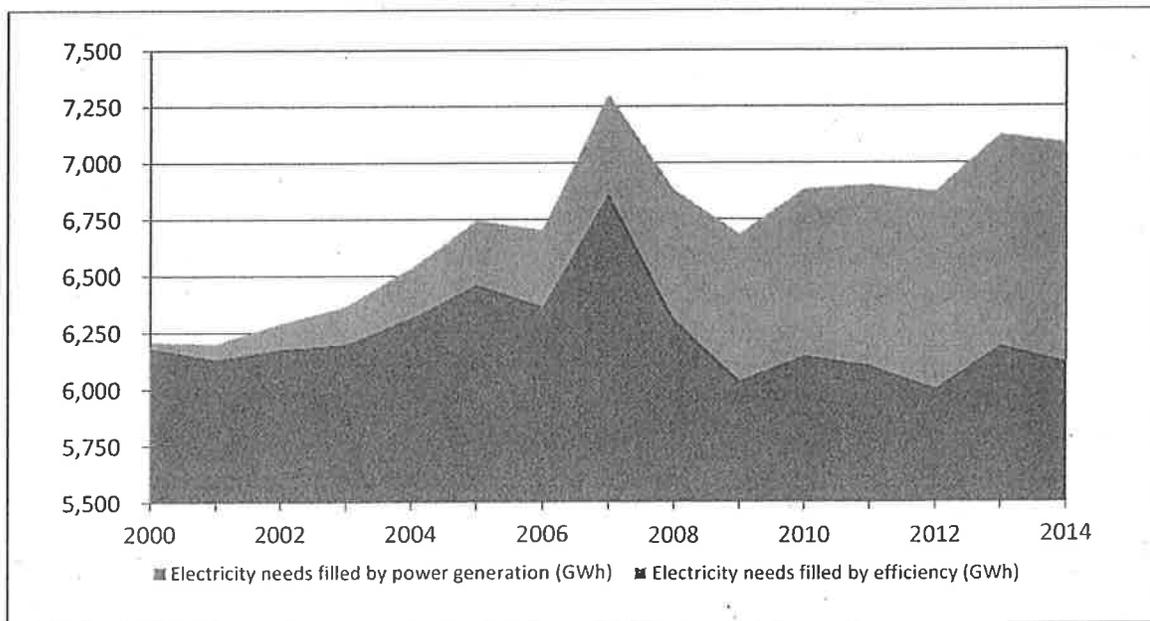


Figure 3. Cumulative impact of efficiency on growth in statewide annual electric supply requirements



In accordance with Vermont Public Service Board and statutory requirements, the funding source for Efficiency Vermont's electric efficiency services was separate and distinct from funding sources for efficiency services related to thermal energy and process fuels (TEPF). Electric services were funded through the Energy Efficiency Charge, whereas TEPF services were funded by Vermont's Regional Greenhouse Gas Initiative revenues and by revenues earned from meeting electric capacity commitments (Efficiency Vermont demand savings) bid into the regional grid's Forward Capacity Market (FCM). The Efficiency Vermont administrator, the Vermont Energy Investment Corporation, bids these expected demand savings into the FCM on behalf of the State of Vermont. Efficiency Vermont ensured that, from the customer's perspective, provision of services was seamless; regardless of the funding source. In 2014, 11% of Efficiency Vermont spending drew from TEPF funding sources. More detailed budget information is provided in Section 3.2.

1.4 THERMAL ENERGY AND PROCESS FUELS (TEPF) EFFICIENCY SAVINGS¹¹

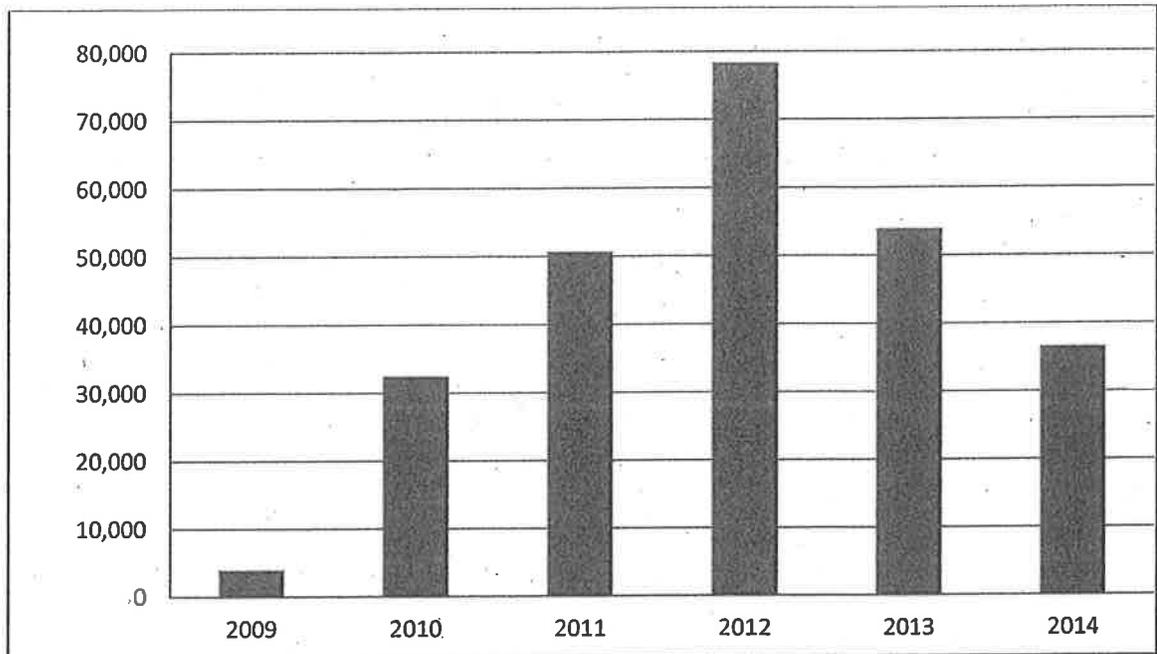
Efficiency Vermont provided both TEPF efficiency services and electric efficiency services, helping Vermont homes and businesses with a comprehensive approach to energy savings. Savings in 2014 from TEPF-funded services totaled approximately 36,500 MMBtu, acquired through the following:

- Services to Efficiency Vermont's statewide network of Home Performance with ENERGY STAR contractors, offering energy efficiency home improvements
- Technical information and financial incentives for high-efficiency residential and commercial heating equipment, including biomass systems and certain efficient oil and propane systems
- Partnerships with fuel dealers, heating contractors, and hot water system installers to enable them to provide specified services to Vermont homeowners regarding efficient heating, ventilation, and air conditioning (HVAC) systems
- Thermal-shell improvements for small businesses and private multifamily property owners through Efficiency Vermont's Building Performance service
- Coordination with affordable housing providers, the Vermont Fuel Efficiency Partnership, and Vermont's Weatherization Program to offer comprehensive multifamily services to low-income households
- Services promoting the installation of recommended efficient non-electric commercial kitchen equipment
- Thermal project partnerships with Burlington Electric Department, Vermont Gas Systems, the Green Mountain Power Community Energy & Efficiency Development (CEED) Fund, and NeighborWorks® of Western Vermont

Figure 4 shows Efficiency Vermont's annual thermal energy and process fuels savings.

¹¹ Savings data in this section do not include Customer Credit.

Figure 4. Efficiency Vermont's annual thermal energy and process fuels savings, in MMBtu



At the close of 2014, Efficiency Vermont had reached 109% of its target for cumulative TEPF savings for the 2012–2014 performance period.

Efficiency Vermont's TEPF services were aligned with requirements specified by the PSB and also supported Vermont State energy policy goals as outlined in Section 581 of Act 92 (the Vermont Energy Efficiency and Affordability Act, enacted in 2008) and the 2011 Vermont Comprehensive Energy Plan. A key provision of Act 92 is improving the energy fitness of 80,000 homes by 2020. Although TEPF funding levels were not sufficient on their own to achieve these numbers, Efficiency Vermont continued to design services to be scalable to levels consistent with these public policy goals.

1.5 ENVIRONMENTAL BENEFITS

In addition to energy savings and economic benefits, Efficiency Vermont's performance in 2014 provided benefits for Vermont's environment. By lowering the use of fossil fuels for electricity generation, heating, and industrial processing equipment, energy efficiency prevents associated emissions. Efficiency's role in pollution prevention is of particular note in times of peak electricity demand, when additional fossil fuel-fired power plants are brought on line. In these times, efficiency measures, such as the use of efficient air conditioners instead of inefficient models during a heat wave, provide their optimal environmental benefit. Table 4 shows avoided pollutants over the lifetime of efficiency actions taken in each performance period year.

Table 4. Avoided pollutants over the lifetime of 2012–2014 measures, in U.S. tons

Pollutant	Reduction		
	2012	2013	2014
Carbon dioxide	800,000	690,000	700,000
Nitrogen oxides	86	69	76
Sulfur oxides	31	25	27

Attachment B

BURLINGTON ELECTRIC DEPARTMENT

2014 Energy Efficiency Annual Report



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Table 6: EEU Business & Residential - Total Resource Benefits

Avoided costs of Electricity	\$6,821,179.17
Fossil Fuel Savings	\$1,725,867.45
Water Savings	<u>\$416,098.34</u>
TRB Total	\$8,963,144.74

	<u>Annualized</u>	<u>Lifetime</u>
Meter MWh	5,482	63,504
Generation MWh	5,398	64,789
Meter Demand Kw	3,056	35,321
Generation Peak Summer	784	9,146
Generation Peak Winter Kw	959	11,728
Water Savings	4,487	50,211
Fuel Increase	8,696	165,072
O+M Savings	\$257,290	\$2,214,856

Table 7: EEU Business & Residential - Summary

	<u>Prior Year</u> 2013	<u>Current</u> 2014	<u>Program</u> <u>to date</u>
Participants	1,229	988	26,031
--- Program Costs ---			
BED Administration Costs			
General	\$237,904	\$333,701	\$4,197,046
Implementation	\$28,064	\$14,351	\$2,013,082
Planning	\$0	\$0	\$106,711
Marketing	\$23,088	\$32,109	\$828,295
IT Development	<u>\$0</u>	<u>\$0</u>	<u>\$211,957</u>
	\$289,056	\$380,161	\$7,357,091
BED Service Costs			
Participants	\$472,270	\$577,196	\$5,130,795
Trade Allies	<u>\$0</u>	<u>\$0</u>	<u>\$11,761</u>
	\$472,270	\$577,196	\$5,142,556
BED Incentive Costs			
Participants	\$1,216,007	\$1,242,024	\$11,134,667
Trade Allies	<u>\$12,553</u>	<u>\$4,460</u>	<u>\$68,243</u>
	\$1,228,561	\$1,246,484	\$11,202,910
BED Total Costs	\$1,989,886	\$2,203,840	\$23,702,556
Evaluation Costs	\$77,562	\$63,671	\$905,133
Participant	\$1,793,534	\$3,277,600	\$27,829,468
Total Program Costs	<u>\$3,860,983</u>	<u>\$5,545,111</u>	<u>\$52,437,157</u>
--- Benefits ---			
Annualized mWh	7,004	5,399	118,424
Lifetime mWh	80,440	64,811	1,485,119
Winter peak Kw	1,272	959	20,611
Summer Peak Kw	909	785	13,659
mWh / Participant	6	5	5
Weighted Lifetime	11	12	13

Table 10: EEU Business - Total Resource Benefits

Avoided costs of Electricity	\$4,261,137.37
Fossil Fuel Savings	\$1,638,557.42
Water Savings	<u>\$0.00</u>
TRB Total	\$5,899,694.89

	<u>Annualized</u>	<u>Lifetime</u>
Meter MWh	3,379	41,861
Generation MWh	3,559	43,676
Meter Demand Kw	1,137	14,551
Generation Peak Summer	524	6,363
Generation Peak Winter Kw	526	6,673
Water Savings	0	0
Fuel Increase	8,647	155,878
O+M Savings	\$161,841	\$1,417,470

Table 11: EEU Business - Summary

	<u>Prior Year</u> 2013	<u>Current</u> 2014	<u>Program</u> <u>to date</u>
Participants	355	365	2,237
--- Program Costs ---			
BED Administration Costs			
General	\$125,207	\$158,998	\$2,156,234
Implementation	\$25,297	\$11,877	\$1,271,733
Planning	\$0	\$0	\$62,003
Marketing	\$15,592	\$22,499	\$288,018
IT Development	<u>\$0</u>	<u>\$0</u>	<u>\$110,564</u>
	\$166,097	\$193,375	\$3,888,552
BED Service Costs			
Participants	\$384,773	\$434,315	\$3,516,579
Trade Allies	<u>\$0</u>	<u>\$0</u>	<u>\$6,780</u>
	\$384,773	\$434,315	\$3,523,359
BED Incentive Costs			
Participants	\$940,360	\$842,775	\$7,537,520
Trade Allies	<u>\$11,953</u>	<u>\$4,060</u>	<u>\$34,721</u>
	\$952,314	\$846,835	\$7,572,241
BED Total Costs	\$1,503,184	\$1,474,525	\$14,984,152
Evaluation Costs			
Participant	\$64,371	\$47,753	\$551,520
	\$1,320,521	\$3,006,372	\$19,256,602
Total Program Costs	<u>\$2,888,076</u>	<u>\$4,528,650</u>	<u>\$34,792,274</u>
--- Benefits ---			
Annualized mWh	4,437	3,559	73,204
Lifetime mWh	53,835	43,676	975,637
Winter peak Kw	538	526	9,662
Summer Peak Kw	536	524	9,246
mWh / Participant	12	10	33
Weighted Lifetime	12	12	13

Table 19: EEU Residential - Total Resource Benefits

Avoided costs of Electricity	\$2,560,041.81
Fossil Fuel Savings	\$87,310.04
Water Savings	<u>\$416,098.34</u>
TRB Total	<u>\$3,063,449.85</u>

	<u>Annualized</u>	<u>Lifetime</u>
Meter MWh	2,104	21,643
Generation MWh	1,839	21,113
Meter Demand Kw	1,920	20,770
Generation Peak Summer	260	2,783
Generation Peak Winter Kw	433	5,055
Water Savings	4,487	50,211
Fuel Increase	48	9,194
O+M Savings	\$95,449	\$797,386

Table 20: EEU Residential - Summary

	<u>Prior Year</u> 2013	<u>Current</u> 2014	<u>Program</u> <u>to date</u>
Participants	874	623	23,794
--- Program Costs ---			
BED Administration Costs			
General	\$112,696	\$174,703	\$2,040,812
Implementation	\$2,766	\$2,474	\$741,349
Planning	\$0	\$0	\$44,709
Marketing	\$7,496	\$9,610	\$540,277
IT Development	<u>\$0</u>	<u>\$0</u>	<u>\$101,393</u>
	\$122,959	\$186,786	\$3,468,539
BED Service Costs			
Participants	\$87,496	\$142,880	\$1,614,215
Trade Allies	<u>\$0</u>	<u>\$0</u>	<u>\$4,981</u>
	\$87,496	\$142,880	\$1,619,196
BED Incentive Costs			
Participants	\$275,647	\$399,249	\$3,597,147
Trade Allies	<u>\$600</u>	<u>\$400</u>	<u>\$33,521</u>
	\$276,247	\$399,649	\$3,630,669
BED Total Costs	\$486,702	\$729,315	\$8,718,404
Evaluation Costs	\$13,191	\$15,918	\$353,613
Participant	\$473,013	\$271,228	\$8,572,866
Total Program Costs	<u>\$972,906</u>	<u>\$1,016,461</u>	<u>\$17,644,883</u>
--- Benefits ---			
Annualized mWh	2,567	1,840	45,220
Lifetime mWh	26,605	21,135	509,482
Winter peak Kw	734	433	10,949
Summer Peak Kw	373	261	4,413
mWh / Participant	3	3	2
Weighted Lifetime	10	11	11

Attachment C

VERMONT ENERGY EFFICIENCY UTILITY FUND

Combined Financial Statements

Year Ended December 31, 2014

With Independent Auditors' Report



CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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INDEPENDENT AUDITORS' REPORT

To the Vermont Public Service Board
Montpelier, Vermont:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Vermont Energy Efficiency Utility Fund ("the Fund") and its component unit, the Regional Greenhouse Gas Initiative Fund of Vermont ("RGGI"), both special revenue funds of the State of Vermont as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund and its component unit, RGGI, as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the combined financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 28, 2015

VERMONT ENERGY EFFICIENCY UTILITY FUND
Management's Discussion and Analysis
For the Year Ended December 31, 2014

This discussion and analysis provides key information from management highlighting the overall financial performance of the Vermont Energy Efficiency Utility Fund (the Fund) for the year ended December 31, 2014. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the Fund's financial statements.

Financial Highlights

Major financial highlights for the year ended December 31, 2014 are listed below:

- The assets of the Fund exceeded its liabilities at year-end by \$8,796,654 (net position). Of this amount, \$4,611,656 is available to meet the Fund's ongoing obligations to citizens and creditors.
- In total, net position decreased by \$1,362,084, or 13%.
- The Fund had total operating expenses of \$57,504,020, an increase of \$10,772,960 over 2013. Total operating revenue increased similarly to \$56,119,059, but wasn't sufficient to cover operating costs, resulting in an operating loss of \$1,384,961.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements comprise of a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows, and notes to the financial statements.

The statement of net position presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Fund's financial position.

The statement of revenues, expenses and changes in net position presents information showing how the Fund's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The statement of cash flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Fund's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the statement to assist in understanding of the difference between cash flows from operating activities and operating income or loss.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

A. Net Position at year-end

The following table presents a condensed summary of the Fund's overall financial position at December 31, 2014 and 2013:

	<u>2014</u>	<i>Restated</i> <u>2013</u>
Current assets	\$ 20,000,817	\$ 27,233,623
Total assets	<u>20,000,817</u>	<u>27,233,623</u>
Current liabilities	7,868,093	14,932,865
Long-term liabilities	<u>3,336,070</u>	<u>2,142,020</u>
Total liabilities	<u>11,204,163</u>	<u>17,074,885</u>
Restricted net position	4,184,998	3,559,759
Unrestricted net position	<u>4,611,656</u>	<u>6,598,979</u>
Total net position	<u>\$ 8,796,654</u>	<u>\$ 10,158,738</u>

Total assets decreased by \$7,232,806. The majority of the decrease occurred in cash and cash equivalents due to the timing of paying invoices at year-end. This also contributed to the decrease in accounts payable and total liabilities.

Long-term liabilities, which comprise of accrued performance incentives for Vermont Energy Investment Corporation, increased by \$1,194,050. The liability is accrued ratably over the 3-year performance cycle, which will be paid upon completion of the cycle, after a verification process has taken place to validate achievement of performance goals.

B. Change in Net Position during 2014

The following table presents a condensed summary of the Fund's activities during the years 2014 and 2013 and the resulting change in net position:

	2014	<i>Restated</i> 2013
Operating revenue:		
Assessments	\$ 48,215,286	\$ 44,993,360
Forward Capacity Market proceeds	4,970,551	4,188,116
Regional Greenhouse Gas Initiative	2,886,322	2,696,207
Other revenue	46,900	98,000
Total operating revenue	<u>56,119,059</u>	<u>51,975,683</u>
Operating expenses:		
Energy programs	49,852,112	39,278,192
Monitoring and evaluation	1,418,768	1,169,553
Administrative	5,762,912	5,859,643
Taxes	470,228	423,672
Total operating expenses	<u>57,504,020</u>	<u>46,731,060</u>
Operating income (loss)	(1,384,961)	5,244,623
Non-operating revenue:		
Interest earnings	<u>22,877</u>	<u>14,463</u>
Change in net position	(1,362,084)	5,259,086
Net position - beginning	<u>10,158,738</u>	<u>4,899,652</u>
Net position - ending	<u>\$ 8,796,654</u>	<u>\$ 10,158,738</u>

The Fund experienced a decrease in net position of \$1,362,084. Assessments revenue increased \$3,221,926 due to an average 6% increase in the energy efficiency charge. Additionally, RGGI auction proceeds also experienced increases due to increased CO₂ allowances being auctioned at increasingly higher clearing prices. Operating expenses increased approximately 23% due to increased spending during 2014 of unspent carryovers from 2013 in existing business facility and market-based energy efficiency programs.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In 2006, ISO-New England established a Forward Capacity Market (FCM) that will pay suppliers to ensure sufficient capacity is available to meet future peak loads, with the value of such payments determined by auction. This market is unique in that it allows energy efficiency, distributed generation, and other demand resources to compete directly with generators of electricity. On December 14, 2006, The VT Public Service Board (Board) issued an Order authorizing the EEU to participate in ISO-New England's FCM. Both Vermont Energy Investment Corporation (VEIC) and Burlington Electric Department (BED) now participate in the FCM. BED and VEIC's joint revenues from their FCM participation was \$4,970,551 in 2014.

By order dated August 1, 2011, the Board established the electric Energy Efficiency Utility spending budgets for 2012, 2013 and 2014. The 2012 electric portion of the budget was set at \$40.1 million, the 2013 electric portion of the budget was set at \$42.8 million, and the 2014 electric portion of the budget was set at \$45.9 million. The budget levels represent increases of 4.2%, 6.7%, and 7.2% in energy efficiency charge (EEC) rates. The Board determined in an order dated September 12, 2012, that an additional \$1.6 million will be collected via the EEC during 2013 and 2014 to address the one-month lag between EEC collections and energy efficiency program expenditures. However, in an order dated March 29, 2013, the Board determined that this amount would instead be collected in 2014 and 2015, and not in 2013.

State law requires that all of the Regional Greenhouse Gas Initiative (RGGI) auction revenue, net of administrative costs, be deposited into the Fund, and that any such net revenues not transferred to the State PACE reserve fund must be used for funding thermal energy and process-fuel efficiency services. The 2014 RGGI revenue deposited into the Fund was \$2,886,322, and the 2013 RGGI revenue deposited into the Fund was \$2,696,207. Additionally, the Fund contributed \$50,000 to the State PACE reserve fund during 2014.

The RGGI Fund is presented as a component unit of the Fund. Net position as of December 31, 2014 was \$739,103 compared to \$865,493 as of December 31, 2013. Total operating revenue was \$0 in 2014 (\$670,249 in 2013), with total operating expenses of \$126,900 in 2014 (\$100,870 in 2013). The decrease in revenue was attributable to the RGGI Fund having \$726,147 in auction proceeds payable to the Vermont Energy Efficiency Utility Fund at the end of 2013.

The Board has changed the structure of Vermont's Energy Efficiency Utility program from a Contract model to an Order of Appointment model in 2010. As determined by the Board, under this new model, the Vermont Department of Public Service reviews and approves all vendor invoices except its own (reviewed and approved by the Board) while the Board retains ultimate authority over approval of invoices for payment from the Fund.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide users with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vermont Public Service Board, 112 State Street, Montpelier, VT 05620-2701.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Net Position
December 31, 2014

	<u>Primary Fund VEEUF</u>	<u>Component Unit RGGI</u>	<u>Combined Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 10,019,905	\$ 738,103	\$ 10,758,008
Accounts receivable:			
Receivable from energy distributors	9,366,483	-	9,366,483
Prepaid expense	-	1,000	1,000
Regulatory assets	<u>614,429</u>	<u>-</u>	<u>614,429</u>
 Total Assets	 <u>20,000,817</u>	 <u>739,103</u>	 <u>20,739,920</u>
 LIABILITIES			
Current Liabilities:			
Payable for energy programs	5,710,909	-	5,710,909
Payable to energy distributors for uncollectibles and overpayments	193,924	-	193,924
Accounts payable and accrued expenses	1,597,982	-	1,597,982
Taxes payable	<u>365,278</u>	<u>-</u>	<u>365,278</u>
Total current liabilities	<u>7,868,093</u>	<u>-</u>	<u>7,868,093</u>
 Noncurrent Liabilities:			
Accrued VEIC performance incentive	<u>3,336,070</u>	<u>-</u>	<u>3,336,070</u>
 Total Liabilities	 <u>11,204,163</u>	 <u>-</u>	 <u>11,204,163</u>
 NET POSITION			
Restricted:			
Restricted for SMEEP	92,570	-	92,570
Restricted for TEPF	3,881,752	729,103	4,610,855
Restricted for GMP EEF monitoring & evaluation	72,190	-	72,190
Restricted for CEED	<u>138,486</u>	<u>-</u>	<u>138,486</u>
Total Restricted	<u>4,184,998</u>	<u>729,103</u>	<u>4,914,101</u>
 Unrestricted	 <u>4,611,656</u>	 <u>10,000</u>	 <u>4,621,656</u>
 Total Net Position	 <u>\$ 8,796,654</u>	 <u>\$ 739,103</u>	 <u>\$ 9,535,757</u>

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2014

	Primary Fund						Component	Combined Total
	Unrestricted	SMEEP	TEPF	GMP EEF	CEED	VEEUF Total	Unit RGI	
OPERATING REVENUES:								
Assessments (Energy Efficiency Charge)	\$ 48,215,286	\$ -	\$ -	\$ -	\$ -	\$ 48,215,286	\$ -	\$ 48,215,286
Forward Capacity Market	-	-	4,970,551	-	-	4,970,551	-	4,970,551
Regional Greenhouse Gas Initiative	-	-	2,886,322	-	-	2,886,322	-	2,886,322
CEED	-	-	-	-	46,900	46,900	-	46,900
Total Operating Revenues	<u>48,215,286</u>	<u>-</u>	<u>7,856,873</u>	<u>-</u>	<u>46,900</u>	<u>56,119,059</u>	<u>-</u>	<u>56,119,059</u>
OPERATING EXPENSES:								
Energy programs	44,238,817	-	5,607,237	-	6,058	49,852,112	119,679	49,971,791
Monitoring and evaluation	586,949	614	809,178	22,027	-	1,418,768	-	1,418,768
Administrative costs	4,929,492	-	833,420	-	-	5,762,912	7,221	5,770,133
Taxes	470,228	-	-	-	-	470,228	-	470,228
Total Operating Expenses	<u>50,225,486</u>	<u>614</u>	<u>7,249,835</u>	<u>22,027</u>	<u>6,058</u>	<u>57,504,020</u>	<u>126,900</u>	<u>57,630,920</u>
Operating Income (Loss)	<u>(2,010,200)</u>	<u>(614)</u>	<u>607,038</u>	<u>(22,027)</u>	<u>40,842</u>	<u>(1,384,961)</u>	<u>(126,900)</u>	<u>(1,511,861)</u>
NONOPERATING REVENUES:								
Investment earnings	22,877	-	-	-	-	22,877	510	23,387
Change in Net Position	(1,987,323)	(614)	607,038	(22,027)	40,842	(1,362,084)	(126,390)	(1,488,474)
Net Position - Beginning, <i>restated</i>	<u>6,598,979</u>	<u>93,184</u>	<u>3,274,714</u>	<u>94,217</u>	<u>97,644</u>	<u>10,158,738</u>	<u>865,493</u>	<u>11,024,231</u>
Net Position - Ending	<u>\$ 4,611,656</u>	<u>\$ 92,570</u>	<u>\$ 3,881,752</u>	<u>\$ 72,190</u>	<u>\$ 138,486</u>	<u>\$ 8,796,654</u>	<u>\$ 739,103</u>	<u>\$ 9,535,757</u>

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Cash Flows
For the Year Ended December 31, 2014

	<u>Primary Fund</u>	<u>Component Unit</u>	<u>Combined Total</u>
	<u>VEEUF</u>	<u>RGGI</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from distribution utilities	\$ 47,594,124	\$ -	\$ 47,594,124
Proceeds from Forward Capacity Market	4,924,888	-	4,924,888
Receipts from RGGI Fund	3,612,469	-	3,612,469
Proceeds from CO ₂ allowance auctions	-	2,850,679	2,850,679
Receipts from GMP for CEED monitoring	46,900	-	46,900
Payments to energy efficiency utilities	(54,615,697)	-	(54,615,697)
Payments to VEEUF	-	(3,612,469)	(3,612,469)
Payments for TEPF efficiency programs	(8,746,439)	-	(8,746,439)
Payments for GMP energy efficiency fund	(21,884)	-	(21,884)
Payments for CEED programs	(4,354)	-	(4,354)
Payments for other administration	(177,957)	(134,668)	(312,625)
Payments for taxes	(422,840)	-	(422,840)
Net cash flows from operating activities	<u>(7,810,790)</u>	<u>(896,458)</u>	<u>(8,707,248)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	<u>22,877</u>	<u>510</u>	<u>23,387</u>
Net change in cash flows	(7,787,913)	(895,948)	(8,683,861)
Cash and cash equivalents - beginning	<u>17,807,818</u>	<u>1,634,051</u>	<u>19,441,869</u>
Cash and cash equivalents - ending	<u>\$ 10,019,905</u>	<u>\$ 738,103</u>	<u>\$ 10,758,008</u>
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	\$ (1,384,961)	\$ (126,900)	\$ (1,511,861)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Change in receivables	59,322	-	59,322
Change in regulatory assets	(614,429)	-	(614,429)
Change in payable for energy programs	(5,249,009)	-	(5,249,009)
Change in payables to energy distributors	58,903	-	58,903
Change in accounts payable and accrued expenses	(1,922,054)	(769,558)	(2,691,612)
Change in taxes payable	47,388	-	47,388
Change in accrued VEIC performance incentive	<u>1,194,050</u>	<u>-</u>	<u>1,194,050</u>
Net cash flows from operating activities	<u>\$ (7,810,790)</u>	<u>\$ (896,458)</u>	<u>\$ (8,707,248)</u>

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Vermont Energy Efficiency Utility Fund (the Fund) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies utilized by the Fund are summarized below.

A. Reporting Entity

Pursuant to 30 Vermont Statutes Annotated (V.S.A.) § 209(d), the Vermont Public Service Board (the Board) established the Vermont Energy Efficiency Utility Fund (the Fund) to fund statewide electric and thermal energy and process fuels (TEPF) efficiency programs.

The Fund is reported as part of the Special Fund within the State of Vermont and is part of the State's primary government.

In 2009, the Board established the current structure of the Fund, operating under an Order of Appointment model. Under this model, the Board appoints energy efficiency utilities to deliver energy efficiency services. The appointments are for an initial rolling 12-year term appointment and subsequent "renewal" terms of approximately 11 years, as opposed to the 3-year contract terms under the previous structure. Currently, the Board has appointed two entities to serve as energy efficiency utilities (EEUs): Vermont Energy Investment Corporation (VEIC) (d.b.a. Efficiency Vermont) to deliver energy efficiency services throughout most of the state through December 31, 2021 and the City of Burlington Electric Department (BED) to deliver energy efficiency services within its service territory.

The Vermont Department of Public Service (DPS) a separate state agency, serves as the State's energy office and as the public advocate in proceedings before the Board. The DPS is the lead entity for evaluating and monitoring the EEUs. In addition, the Board determined that the DPS would review and approve all vendor invoices, except its own which are reviewed and approved by the Board, with the Board holding ultimate authority over approval of invoices for payment from the Fund.

Pursuant to 30 V.S.A. § 209, the Board established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. The EEC is collected by distribution utilities throughout the State and remitted to the Fund on a monthly basis. In 2014, there were seventeen distribution utilities assessing these charges. Pursuant to Board Rule 5.300, the Board issued a Memorandum dated November 1, 2012 which set the 2014 EEC rates to take effect with bills rendered February 1, 2014.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

A. Reporting Entity – *continued*

Forward Capacity Market

In 2006, the Board authorized VEIC and BED to participate in ISO-New England's Forward Capacity Market (FCM). The FCM allows demand resources, such as energy efficiency, to bid into the market on a comparable basis with supply resources, such as generation. The capacity payments received from the FCM are restricted for use by the Fund for TEPF energy efficiency services.

Regional Greenhouse Gas Initiative

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by nine Northeastern and Mid-Atlantic states, including Vermont, to reduce carbon dioxide emissions. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The Board implements the auction provisions of the RGGI program and has established a process to allocate the carbon credits that Vermont receives as part of its participation in RGGI. Pursuant to 30 V.S.A. § 255(d), auction proceeds (net of administrative costs) are deposited into the Fund and restricted for TEPF energy efficiency services. The transactions of the RGGI are accounted for separately under the Regional Greenhouse Gas Initiative Fund of Vermont (VT RGGI) by a Board-contracted RGGI Trustee. However, since the Fund is legally entitled to all of the proceeds of the VT RGGI, pursuant to GASB Statement No. 61, the financial activity of the VT RGGI has been included as a component unit of the Fund (Note 8).

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred, regardless of the timing of receipt or cash payment related to those transactions. All transactions are accounted for in a single enterprise fund.

Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Fund finances and meets its cash flow needs of its enterprise activities.

Operating revenues are defined as income received from sources dedicated for energy efficiency programs and services. Operating expenses are defined as ordinary costs and expenses of the Fund to provide energy efficiency programs and services. Revenues and expenses not meeting this definition are reported as non-operating.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

C. Fiscal Agent

The Board has appointed and contracted with Batchelder Associates, PC as the Fund's fiscal agent to provide the accounting function of managing the Fund. The current contract covers the period January 1, 2012 through December 31, 2013, with an optional two-year renewal that was executed through December 31, 2015. For the year ended December 31, 2014, the fiscal agent was paid \$16,800 in fixed costs and \$96 in variable costs.

D. Cash and Cash Equivalents

For purposes of these statements, cash and cash equivalents include all highly liquid securities with a maturity of three months or less. Interest is credited to the Fund when earned.

E. Receivables

Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. Typically, the monthly assessments received from the distribution utilities were assessed on electric usage sold two months prior. Other revenue sources are received in the subsequent month it was earned.

F. Regulatory Assets

The Fund records regulatory assets for expenses to be recovered from rates in future periods. At December 31, 2014, the Fund recorded \$614,429 in regulatory assets for 2012-2014 performance period expenses that will be deferred to the 2015-2017 performance period in accordance with Board Order EEU-2011-04.

G. Accrued Performance Incentive

The Board approves a Demand Resource Plan (DRP) that establishes the programs and services to be provided on a three-year performance cycle; the current performance cycle covers 2012 – 2014. The DRP includes quantifiable performance indicators that monetarily incentivize non-utility entities to meet its goals. Currently, VEIC is the only EEU that qualifies for these monetary incentives. The incentives are accrued ratably over the three-year cycle, when upon completion, are subject to verification by DPS and approval by the Board prior to being disbursed. The maximum electric energy efficiency performance incentive that VEIC can earn for the period January 1, 2012 through December 31, 2014 is \$2,931,370. The maximum TEPF energy efficiency performance incentive for the same period is \$404,700.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted for SMEEP – The Board established the self-managed energy efficiency program (SMEEP), pursuant to 30 V.S.A. § 209(h). The SMEEP allows an eligible customer to be exempt from the EEC assessment, provided that the customer commits to spending an average of no less than \$3 million over a three-year period on energy efficiency investments. Funds received are restricted for DPS' monitoring and evaluation of the program.

Restricted for TEPF – State statutes restrict the net proceeds from participation in the FCM and RGGI to thermal energy and process fuels (TEPF) energy efficiency services.

Restricted for GMP EEF monitoring & evaluation – The Board set up an Energy Efficiency Fund (EEF) to invest in projects that deliver significant and incremental benefits to Green Mountain Power (GMP) ratepayers. GMP was directed to invest \$7.4 million in existing business sector energy efficiency services and new residential programs within its service territory over a five-year period. EEF monies received by the Fund are restricted for DPS's evaluation and verification of the EEF activities.

Restricted for CEED – As part of the merger between GMP and Central Vermont Public Service Corporation, the Board approved the establishment of a Community Energy and Efficiency Development (CEED) Fund, a plan by GMP to invest approximately \$21 million of windfall profits in demand-side management, renewable energy, and other efficiency programs. CEED monies received by the Fund are restricted for DPS' evaluation and verification of CEED Fund activities.

In accordance with National Council on Governmental Accounting Statement No. 1 (NCGAS 1), paragraph 120, contractual customer commitments and DPS funding set-asides for Smart Grid participation and monitoring and evaluation of the Fund are disclosed as a designation of net position in Note 7. Designations represent financial resources available to finance expenses which by their nature are tentative. Contractual customer commitments only result in payment after customers have made agreed upon improvements relating to energy efficiency. The actual amounts of such payments are not known in advance, but have been estimated as the balance of contractual commitments likely to be fulfilled. DPS monitoring and evaluation is budgeted for a three-year contract period and prorated to designated net position each year. Actual monitoring and evaluation expenses may differ from these funding set-asides.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

H. Net Position – *continued*

The Smart Grid designation was authorized by the Board and gave VEIC permission to use certain unspent funds from 2006-2008 contract period as matching funds towards a federal grant pilot program to provide residential energy efficiency services related to Smart Grid implementation.

When both restricted and unrestricted resources are available for use, it is the policy of the Fund to use restricted resources first and unrestricted resources as needed, pursuant to approval and order of the Board.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reporting of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

The Fund maintains its cash balances with a local financial institution under the control of the fiscal agent. The Fund follows the State of Vermont investment policies under 32 V.S.A. § 433. Excess balances are “swept” into government securities on a daily basis under a repurchase agreement.

Custodial credit risk is the risk that, in the event of a bank failure, the Fund’s deposits may not be returned to it. As of December 31, 2014, the Fund’s bank balance of \$10,026,198 was exposed to custodial credit risk since it was uninsured and collateralized with by two pools of Federal Home Loan Mortgage Corporation and collateralized mortgage securities held by the Federal Reserve Bank of New York for People’s United Bank. As of December 31, 2014, these securities provided collateral value 102% of deposit balances.

3. ENERGY PROGRAM DISTRIBUTIONS

Distributions for energy efficiency services were made to the VEIC, for Efficiency Vermont, and BED during the year by the fiscal agent in accordance with the terms of their contracts, or as directed by the DPS, with concurrence of the Board. Distributions for the year ended December 31, 2014 were made as follows:

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

3. ENERGY PROGRAM DISTRIBUTIONS – continued

	<u>Unrestricted</u>	<u>TEPF</u>	<u>CEED</u>
Energy Efficiency Programs:			
Efficiency Vermont:			
Business New Construction	\$ 3,155,694	\$ -	\$ -
Business Existing Facilities	22,146,772	-	-
Business TEPF	-	786,820	-
Customer Credit Program	851,996	-	-
Residential New Construction	2,523,529	-	-
Residential Existing Homes	3,749,528	-	-
Residential TEPF	-	4,649,725	-
Energy Efficient Products	9,419,807	-	-
Smart Grid Participation	186,266	-	-
Subtotal	<u>42,033,592</u>	<u>5,436,545</u>	<u>-</u>
Burlington Electric Department:			
Business New Construction	497,678	-	-
Business Existing Facilities	982,232	-	-
Business Unregulated Fuels	-	8,675	-
Residential New Construction	178,126	-	-
Residential Existing Homes	110,918	-	-
Energy Efficient Products	436,271	44,886	-
Subtotal	<u>2,205,225</u>	<u>53,561</u>	<u>-</u>
Green Mountain Power:			
CEED Fund	-	-	6,058
Efficiency Fund Capacity	-	67,131	-
Subtotal	<u>-</u>	<u>67,131</u>	<u>6,058</u>
Vermont State Treasurer:			
PACE Reserve	-	50,000	-
Subtotal	<u>-</u>	<u>50,000</u>	<u>-</u>
Total	<u><u>\$ 44,238,817</u></u>	<u><u>\$ 5,607,237</u></u>	<u><u>\$ 6,058</u></u>

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

4. ADMINSTRATIVE COSTS

Administrative costs incurred by the Fund for the year ended December 31, 2014 were:

	<u>Unrestricted</u>	<u>TEPF</u>
Efficiency Vermont:		
Applied R&D	\$ 404,509	\$ 19,589
Education	505,287	53,852
Evaluation	527,380	246,531
General Administration	220,544	32,597
Information Technology	885,508	110,279
Planning & Reporting	358,431	148,585
Policy & Public Affairs	473,898	61,991
Performance Incentives	1,046,340	147,710
Subtotal	<u>4,421,897</u>	<u>821,134</u>
Burlington Electric Department:		
Applied R&D	4,187	-
Education	72,495	6,035
Evaluation	28,762	137
General Administration	41,197	2,367
Information Technology	8,884	1,281
Planning & Reporting	85,579	1,317
Policy & Public Affairs	9,340	1,149
Smart Grid & AMI	20,291	-
Subtotal	<u>270,735</u>	<u>12,286</u>
Other:		
EEU Advertising	5,456	-
Uncollectibles	194,645	-
Fiscal Agent & Audit Fees	35,000	-
Bank Fees and Postage	1,759	-
Subtotal	<u>236,860</u>	<u>-</u>
Total	<u>\$ 4,929,492</u>	<u>\$ 833,420</u>

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

5. DPS MONITORING AND EVALUATION

The Department of Public Services (DPS) monitoring and evaluation expenses incurred by program for the year ended December 31, 2014 were:

	<u>Unrestricted</u>	<u>SMEEP</u>	<u>TEPF</u>	<u>GMP EEF</u>	<u>Total</u>
VEEUF	\$ 485,008	\$ -	\$ -	\$ -	\$ 485,008
Forward Capacity Market	-	-	809,178	-	809,178
Unregulated Fuels	101,941	-	-	-	101,941
GMP Energy Efficiency Fund	-	-	-	22,027	22,027
SMEEP	-	614	-	-	614
	<u>\$ 586,949</u>	<u>\$ 614</u>	<u>\$ 809,178</u>	<u>\$ 22,027</u>	<u>\$ 1,418,768</u>

6. TAXES

Pursuant to 33 V.S.A. § 2503, a gross receipts fuel tax of one-half percent on assessment collections is payable to the Home Weatherization Assistance Fund. Payments are made quarterly to the Vermont Department of Taxes. Additionally, pursuant to 30 V.S.A. §22, a gross operating revenue tax of one-half percent on assessment collections is payable to the Vermont State Treasurer annually to finance the DPS and the Board.

As of December 31, 2014, the following taxes were payable:

Gross Operating Revenue Taxes	\$ 235,797
Home Weatherization Assistance Fund Taxes	<u>129,481</u>
	<u>\$ 365,278</u>

Expenses related for the year ended December 31, 2014 were:

Gross Operating Revenue Taxes	\$ 235,114
Home Weatherization Assistance Fund Taxes	<u>235,114</u>
	<u>\$ 470,228</u>

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

7. DESIGNATED NET POSITION

As of December 31, 2014, the Fund's unrestricted net position balance had the following designations:

	2014
Unrestricted Net Position:	
Designated	
Contractual customer commitments	\$ 2,784,416
DPS monitoring and evaluation	1,779,374
Smart Grid	47,866
Total	\$ 4,611,656

8. COMPONENT UNIT

Regional Greenhouse Gas Initiative Fund of Vermont

In 2005, Vermont joined the Regional Greenhouse Gas Initiative (RGGI), an effort among nine states to cap and reduce CO₂ emissions from fossil-fuel-fired electric generation facilities with a nameplate capacity of 25 MW or greater. Vermont will have approximately 1.2 million tons of CO₂ allowance annually through 2014, before reducing them over the subsequent four years. The allowances will be sold through auction, and the proceeds, net of administrative costs, will be used for the benefit of the State's consumers.

30 V.S.A. § 255 requires the Agency of Natural Resources and the Board to establish a process to participate in the RGGI auction, while further providing several goals for the Board to consider in allocating RGGI carbon dioxide allowances and the proceeds from their auction.

Basis of Presentation and Accounting

The financial statements solely reflect the financial activities of Vermont's portion of the RGGI through the Regional Greenhouse Gas Initiative Fund of Vermont (VT RGGI). The financial statements for VT RGGI have been presented as a component unit of the Fund (Note 1). The financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred, regardless of the timing of receipt or cash payment related to those transactions. All transactions are accounted for in a single enterprise fund.

Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the VT RGGI finances and meets its cash flow needs of its enterprise activities.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

8. COMPONENT UNIT – *continued*

Regional Greenhouse Gas Initiative Fund of Vermont – *continued*

Operating revenues are defined as income received from CO₂ allowance auctions. Operating expenses are defined as ordinary costs and expenses of the VT RGGI to provide energy efficiency programs and services. Revenues and expenses not meeting this definition are reported as non-operating.

Cash and Cash Equivalents

All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to VT RGGI when earned.

VT RGGI maintains its cash balances with a local financial institution under the control of the fiscal agent. VT RGGI follows the State of Vermont investment policies under 32 V.S.A. § 433. Excess balances are “swept” into government securities on a daily basis under a repurchase agreement.

Custodial credit risk is the risk that, in the event of a bank failure, VT RGGI’s deposits may not be returned to it. As of December 31, 2014, VT RGGI’s bank balance of \$738,103 was exposed to custodial credit risk since it was uninsured and collateralized by a pool of collateralized mortgage securities held by the Federal Reserve Bank of New York for People’s United Bank. As of December 31, 2014, these securities provided collateral value 102% of deposit balances.

Energy Program Distributions

Energy program distributions made by VT RGGI for the year ended December 31, 2014 to the Vermont Agency of Natural Resources were \$84,036.

Administrative Costs

Administrative costs incurred by VT RGGI for the year ended December 31, 2014 were:

Trustee Fees	\$ 4,000
Bank Charges	2,756
Travel	<u>465</u>
	<u>\$ 7,221</u>

VERMONT ENERGY EFFICIENCY UTILITY FUND
Notes to the Financial Statements
For the Year Ended December 31, 2014

8. COMPONENT UNIT – *continued*

Regional Greenhouse Gas Initiative Fund of Vermont – *continued*

Trustee

The Board has appointed and contracted with Batchelder Associates, PC as VT RGGI's trustee to provide the accounting function of managing the VT RGGI. The current contract covers the period January 1, 2012 through December 31, 2013, with an opportunity for a two-year renewal. For the year ended December 31, 2014, the trustee was paid \$4,000.

Net Position

The Board established a minimum balance of \$10,000 to minimize administrative costs. The remaining net position balance at December 31, 2014 of \$729,103 was restricted for use by the Vermont Energy Efficiency Utility Fund for thermal energy and process fuels energy efficiency programs.

9. RESTATEMENT

The Fund restated its beginning net position to correct recording errors due to incorrectly prepared remittance documents provided by a Vermont utility which gave rise to the incorrect financial statement reporting of remittances. Net position at December 31, 2013 has been restated to reflect the correction of this error.

Net position, December 31, 2013	\$ 8,924,474
Correction of remittance reporting	<u>1,234,264</u>
Restated net position, December 31, 2013	<u>\$ 10,158,738</u>

10. NATURAL GAS ENERGY EFFICIENCY SERVICES

On April 17, 2015, the Public Service Board issued an Order of Appointment to Vermont Gas Services, Inc. ("VT Gas") to serve as the natural gas energy efficiency utility ("EEU") within its service territory. Budgets and performance standards applicable to VT Gas are currently being developed in a Public Service Board proceeding. It is anticipated that collection of the energy efficiency charge with respect to VT Gas' EEU services will commence in early 2016.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Vermont Public Service Board
Montpelier, Vermont:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Vermont Energy Efficiency Utility Fund (the Fund) and its component unit, the Regional Greenhouse Gas Initiative Fund of Vermont (RGGI), as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the Fund's combined financial statements and have issued our report thereon dated August 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as finding 2014-001 in the accompanying schedule of findings and responses to be a material weakness

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fund's Response to the Finding

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 28, 2015

VERMONT ENERGY EFFICIENCY UTILITY FUND
Schedule of Findings and Responses
Year Ended December 31, 2014

Finding 2014-001 – Prior Period Restatement

The Fund restated beginning net position to correct an error made in prior years for incorrectly prepared remittance documentation provided to the Fund by one utility distribution. The utility distribution had undergone numerous employee turnover and the reporting information being reported to the Fund was submitted under incorrect dates, which crossed over a fiscal year. This created the prior restatement, once corrected by the utility. Our professional standards consider the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error a material weakness in internal control over financial reporting.

Management Response: Management concurs.