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Sent: Thursday, February 05, 2015 11:46 PM
To: Tony Klein; 'Rebecca Ellis'
Subject: Narrative

Hi Tony and Rebecca,

Here below is my best attempt at an informal narrative capturing the rationale for H. 40 in plain English. Let me know if this is what you had in mind. Happy to share with others if helpful.

Thanks,
Darren

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

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

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

The SPEED program has benefitted ratepayers through the sale of RECs, and helped get projects built. However, Vermont's legislators have considered changing the program. In 2012 legislators considered moving to an RPS, which would, like other states, require utilities to own and retire RECs to meet the targets. That effort did not result in a new RPS, however several critiques of the SPEED program have persisted. One critique is that because SPEED does not require REC ownership by utilities, it is inconsistent with the rest of our region's policies. Another critique from an environmental perspective is that SPEED helps other states meet their RPS goals but does not result in renewable energy (via REC retirement) for Vermont's own goals.

Regardless of anyone's view of SPEED, two events led the Department of Public Service to believe it is time to transition from SPEED to a new program. The first is that as part of the Act 99 Net Metering legislation passed in 2014, the Legislature asked the Department to analyze whether Vermont should undertake such a transition to an RPS. Some legislators, motivated by a variety of goals including economic and environmental goals, clearly desired to move from SPEED to a new program. Second, later in 2014, NextEra, a regional REC market trader, raised concerns that SPEED projects were "double-counting" renewable energy by providing RECs for compliance in Connecticut while allowing the project to count toward Vermont's SPEED goal. Connecticut had passed new legislation outlawing projects that count toward other states' goals from providing RECs to meet the Connecticut RPS. That led to a regulatory proceeding at the Connecticut PURA (their version of the Public Service Board) which is scheduled to issue a draft decision in late February of 2015. Regardless of their decision, the signal from the regional markets requires that we consider whether it is time transition from SPEED (and the potential rate risk of losing access to the \$50 million in annual revenue derived from REC sales) to a new program more in harmony with

the region.

The good news is that in considering how to transition from SPEED to a new program, the Department believes H. 40 is a policy approach that can preserve the ratepayer benefits of REC sales from existing projects while phasing in new renewable energy targets that offer flexibility and help Vermont reach statutory energy and carbon goals. The proposal embodied in H. 40, does several key things:

1. It ends the SPEED program goals, and removes the rate risk;
2. It sets up a new Tier 1 overall renewable electric target, building on existing law, of 55% total renewable electricity for Vermont utilities, rising to 75% by 2032. By counting all resources, big and small, new and existing, and setting the price cap (alternative compliance fee) at 1 cent per kilowatt hour, this Tier keeps costs low;
3. It sets up a new Tier 2 to support new, in-state, distributed generation renewable projects 5 megawatts or less. This Tier supports projects that qualify as customer-sited net metering, as well as Standard Offer projects that are typically the somewhat larger solar projects. Tier 2 provides support for Vermont's growing clean energy industry, which according to a 2014 Clean Energy Development Fund report already provides 15,000 jobs. Tier 2 also helps reduce our need for costly transmission build-out by siting more generation near customer load. VELCO, our statewide transmission utility, has already found that distributed generation and energy efficiency have avoided \$400 million in new transmission project costs just in the last few years, saving ratepayers money; and
4. It sets up a new and truly innovative Tier 3 to support energy transformation projects. Building off of existing utility efforts including Green Mountain Power's heat pump lease program, Washington Electric's solar hot water discount, Burlington Electric and Stowe Electric's electric vehicle charging station investments, and many other examples, Tier 3 asks utilities to help save their customers money by reducing fossil fuel consumption. Utilities have different tools to bring to the table, including leasing programs, on-bill repayment options for financing, marketing partnerships, and direct investment. This Tier, done correctly, will help deploy new efficient cold-climate heat pumps and electric vehicles that provide more sales for utilities, but coupled with demand management can do so without driving up peak demand and requiring more transmission lines. If we sell more kilowatt hours using the same infrastructure and same fixed costs we have now, rates come down per unit of energy sold. Tier 3 is projected to save customers a net of \$275 million and is a big reason why the Department's rate analysis shows that H. 40 would, over the long-term, have a modest net benefit for ratepayers.

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

Sent from my iPad