Attachment II

Revised DPS/GMP MOU

Green Mountain Power Corporation

Community Energy & Efficiency Development Fund

Reflecting Revisions Agreed to Between DPS and GMP

SUMMARY

The purpose of the Community Energy & Efficiency Development Fund ("Fund") is to satisfy the windfall sharing mechanism requirement of the Public Service Board ("Board") Order in Docket 6460/6120. GMP has committed that Fund investments will be in an amount at least equal to the amount of $16 million adjusted by inflation from 2001 (approximately $21 million; the "Required Investment"). GMP has further committed to the customers of Central Vermont Public Service Corporation ("CVPS") net benefits in an amount at least equal to 1.2 times the Required Investment (i.e. approximately $25 million) ("Required Benefit") through investments in the Fund.

The Fund will be implemented and administered by GMP after closing of the acquisition of CVPS by Northern New England Energy Corporation and in some respects, as described in the Memorandum of Understanding between Petitioners and the Department of Public Service dated March 26, 2012 ("DPS MOU"), prior to the merger of CVPS into GMP. The Fund will invest in projects intended to result in positive net benefits for customers within the current CVPS service territory, which may include new and existing energy efficiency programs, including thermal efficiency programs, renewable/clean energy programs, other demand resources, and new and innovative technologies. The Company will explore innovative methods of financing to be used in conjunction with a portion of these investments as a means of leveraging value for customers. Projects proposed by the Company, except for those specifically committed to as reflected in the DPS MOU, will be reviewed in a stakeholder process and will be subject to Board approval. The cost of Board-approved project investments will be recovered in the Company's rates.

STAKEHOLDER PROCESS AND BOARD APPROVAL

Except for weatherization programs to be funded through December 1, 2013, as described in the "DPS MOU," projects identified by the Company or proposed by stakeholders will be reviewed in a stakeholder process, consisting of recurring scheduled meetings, open to all interested parties and intended to inform the decision-making regarding allocation of funds. Based on information provided in the stakeholder process, and consistent with the Required Benefit, the Company will select projects to file with the Board for approval. The filing will describe in detail the projected investment and estimated net benefit amount, the delivery mechanism, and the plan for performance monitoring (including Department of Public Service ("DPS") audits), benefits measurement and reporting.

QUALIFYING PROJECTS

Subject to stakeholder review and Board approval, projects within the following categories ("Qualifying Project Categories") and meeting the following criteria are appropriate candidates for Fund investments. Projects must benefit customers in the Company's service territory formerly served by CVPS ("CVPS Customers") and will be selected based on the project's ability to provide benefits to Company customers.

Each project must meet a "but for" test, through a demonstration that, in the absence of the Fund investment, the project either would not be undertaken or would not receive incremental funding in the Fund amount, and will require a statement to that effect by the Company. The investments may involve unique financing methods that provide incremental benefits to customers. Investments will be made in rough proportion to customer classes of CVPS Customers, with the intention of achieving net benefits in rough proportion as well.

1. <u>New and existing energy efficiency projects</u>: Potential efficiency projects include expanded existing Efficiency Vermont ("EVT") programs, and new programs and efforts targeted to specific service territories and customer segments. The Company expects to work with Vermont Energy Investment Corporation ("VEIC") to identify opportunities for projects that benefit the Company's customers, including its low-income customers. Thermal efficiency projects will be eligible for investment if they increase the amount of additional savings for CVPS Customers or if they improve the ability to deliver proportionate net benefits among customer classes.

2. Renewable/clean energy programs: The Company intends to focus on renewable projects that are consistent with the 2011 Comprehensive Energy Plan that generally would be community based and smaller than typical utility-scale investments. The Company may utilize the stakeholder process or the Clean Energy Development Fund for identification and delivery of suitable renewable/clean energy projects.

3. Other Demand Resources: These may include distributed generation, combined heat and power or other demand response technologies.

4. New and emerging technologies: The Company intends to rely generally on a variety of sources, including the Clean Energy Development Fund, for identification and delivery of suitable new and emerging technologies including the Company's own work or work done at or in coordination with the Company's Energy Innovation Center in Rutland. These could include new methods of leveraging our investments in smart grid technology (SmartPower). Other new technology investments may come out of the stakeholder process.

REQUIRED BENEFIT

The Required Benefit amount of approximately $25 million shall increase over time by using the Company's weighted average cost of capital to adjust for expected net benefits not yet achieved so the investments deliver the required amount of expected net benefits on a net present value basis. In the event that the Company fails to provide the Required Benefit within 7 years after this CEED Fund ("Plan") and DPS MOU are approved by the Board ("Completion Date"), within 90 days thereafter the Company will file a plan for Board approval specifying how the remaining benefits will be delivered. The Company will file for Board approval a similar plan in the event the achieved amount of net benefits is less than Required Benefit, due to a variance between projected and achieved net benefits.

CALCULATION OF NET BENEFITS

Benefits may include, among other things, energy and capacity savings, avoided investments in infrastructure, reduced supply risk resulting from fossil fuel and geographic diversity, comparative savings when compared with similar technologies, environmental benefits (emission reductions), economic development benefits and other customer savings (water, fossil fuel) as applicable. Costs include Fund investments, participating customer investments, and costs associated with project delivery mechanisms, performance monitoring (including DPS audits), benefits measurement and reporting, and any other administrative costs charged by any contracted parties relating to Fund investments as applicable. Aggregate costs will be deducted from aggregate benefits in calculating expected net benefits for approved projects.

To the extent applicable, projected and achieved net benefits for efficiency investments, which for the most part are expected to be administered by VEIC, will be calculated using the measurement methodology that VEIC currently uses in administering EVT projects. Where the EVT methodology is not directly applicable to efficiency investments, or where investments are made in renewables, demand response programs, or new technologies, the Company will develop appropriate valuation methodologies in coordination with the DPS and any interested stakeholders, and will submit the methodologies to the PSB for approval.

REQUIRED INVESTMENT

The Required Investment of approximately $21 million will be adjusted prospectively by inflation from the time of Plan approval by the Board and continuing on uninvested amounts until investment in the amount of the Required Investment has been made. To the extent that the Company fails to make the Required Investment by the Completion Date, any shortfall will be provided to CVPS Customers on a uniform percentage basis in the form of a bill refund.

IMPLEMENTATION OF EFFICIENCY FUND PROJECTS

The Company intends to hire subcontractors where appropriate to manage implementation of Fund programs. For energy efficiency programs, the Company expects to contract with VEIC for delivery of approved efficiency project services and reporting the results to the Board and participants in the stakeholder process. For renewable investments, and new and emerging technologies, the Company will coordinate with the DPS or its contractor for the delivery of approved renewable/clean energy investments and report the results to the Board and participants in the stakeholder process.

RESULTS MEASUREMENT AND REPORTING

The Company will submit to the Board for approval, the Department and to stakeholder participants an annual plan describing for each requested project, the projected investment, the requested benefit and cost calculation methodology, the net benefit amounts expected from adoption of such benefit and cost calculation methodology, and the delivery mechanism. The plan will be submitted each year by November 15 and subject to Board approval. The Company may also propose projects at other times of the year through the same process. If the Board disapproves any projects or their associated benefit and cost calculation methodologies, the Company will submit for Board approval replacement projects or alternative benefit and cost calculation methodologies, after appropriate stakeholder review. Concurrent annual reporting to the Board and the Department will also include previous amounts invested by year, the net benefit results by year net of any performance monitoring adjustments, if applicable, and the amount of remaining net benefits due customers expected at December 31 of the year of submittal based on net benefits from previously completed projects and projected net benefits from approved projects expected to be completed by year-end (accounting for growth in the Required Benefit). The reporting will also identify estimated inflation growth on uninvested amounts expected through December 31 of the year of submittal.

The Company agrees to support an independent review of the CEED Fund performance to be undertaken after the third year of the Plan's operation, if the Board orders such a review. This review would evaluate CEED Fund performance and suggest improvements to program design and/or execution.

RECOVERY OF INVESTMENTS

The Company's investment in each Board-approved project will generally be ratably recovered in rates over a ten-year period and the unrecovered amount will be included in rate base. In the event the Company invests in renewable generation or other equipment to be owned by the Company, the recovery period will match the life of the Company's investment. There will be no provision for an Account Correcting for Efficiency ("ACE").

QUALIFYING PROJECT EXAMPLE

1. Fund invests $1 million, covering 50% of the qualifying project costs
2. Participating customers invest $1 million, covering 50% of the qualifying project costs
3. If the efficiency benefit: cost ratio is 2:1, the $2 million combined investment yields:
    - $4 million in total benefits (avoided energy, capacity, etc.)
    - $2 million in net benefits to customers
4. Result: $1 million investment from the Fund yields $2 million in net benefits to customers