

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7533

Investigation Re: Establishment of a Standard Offer )  
Program for Qualifying Sustainably Priced Energy )  
Enterprise Development ("SPEED") Resources )

Order entered: 7/8/2011

**ORDER RE ALLOCATION OF SPEED FACILITATOR COSTS**

**I. INTRODUCTION**

On September 30, 2009, the Public Service Board ("Board") issued an Order establishing a standard-offer program for qualifying sustainably priced energy enterprise development ("SPEED") resources pursuant to the Vermont Energy Act of 2009 ("Act 45").<sup>1</sup> Act 45 requires that the Board "[d]etermine a SPEED Facilitator's reasonable expenses arising from its role and the allocation of such expenses among plant owners and Vermont retail electricity providers."<sup>2</sup> To date, the SPEED Facilitator's costs have been borne solely by Vermont's electric distribution utilities ("utilities"). In this Order, we establish a procedure for the allocation of the SPEED Facilitator's costs among plant owners and the utilities.

**II. BACKGROUND**

The Board's September 30 Order addressed the allocation of SPEED Facilitator costs, stating as follows:

Section 8005(h)(1) directs the Board to determine the SPEED Facilitator's reasonable expenses and allocate these costs among the utilities and developers. Given the significant uncertainty regarding the number and type of projects there is insufficient information to make such a determination at this time. However,

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1. Public Act No. 45 (2009 Vt., Bien. Sess.).

2. 30 V.S.A. § 8005(h)(1).

this is an issue that could impact developers' decisions to participate in the program. Accordingly, we provide the following guidance regarding the allocation, and will provide a final determination after receiving additional information from the SPEED Facilitator, as well as input from participants to these proceedings.

A portion of the SPEED Facilitator's costs will be assigned to developers, and these costs will be considered a cost item in setting the January 15 prices, to the extent that such costs are material. It is our intent to design an allocation methodology that does not impose material costs for any standard-offer projects receiving the pre-January 15 interim prices. This may require a different allocation methodology for projects receiving the interim prices than for those receiving the subsequent prices.

We direct the SPEED Facilitator to propose a methodology or methodologies for allocating costs between developers and utilities that meets these guidelines. The Board will provide participants the opportunity to comment on the proposal.

In the *First Order Re Implementation Issues*, dated October 16, 2009, the Board found that it was not in a position to "specifically establish the methodology that will be used to allocate expenses between the SPEED Facilitator and the project owners."<sup>3</sup> The Board also reiterated that the methodology it does adopt would "ensure that the expenses allocated to individual projects will not represent material costs for those projects."<sup>4</sup>

In a memorandum dated November 13, 2009, the Board requested that the SPEED Facilitator develop a proposal that would be consistent with the Board's October 16 Order for allocation of SPEED Facilitator Costs and circulate the proposal for comments by interested parties. All participants in Docket 7533 received the November 13 memorandum and were offered an opportunity to file comments with the Board.

### **III. THE ALLOCATION METHOD**

#### **VEPP Inc.'s ("VEPPI") Proposals**

By a letter dated December 7, 2009, VEPPI, the Board-appointed SPEED Facilitator, proposed to allocate 50% of its costs to the utilities and 50% of its costs to the standard-offer

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3. *Investigation Re: Establishment of a Standard Offer Program*, Docket 7533, Order of 10/16/09 at 17–18.

4. Docket 7533, Order of 10/16/09 at 18.

project owners.<sup>5</sup> VEPPI proposed allocating the costs assigned to project owners among the projects by calculating a percentage share for each project based on the theoretical annual revenue of the individual project as a percentage of the total theoretical annual revenue of all the projects in the standard-offer program. VEPPI's proposed calculation for establishing the standard-offer projects' theoretical annual revenues follows:

$$\begin{aligned} & (\text{Plant Capacity}) \times 8760 \times (\text{theoretical Capacity Factor}) \times (\text{Standard Offer Rate}) \\ & = (\text{theoretical Annual Revenue})^6 \end{aligned}$$

VEPPI suggested that it may be necessary to perform this calculation several times in the first several years until the standard-offer program is fully subscribed with commissioned projects.

VEPPI's December 7 letter also proposed three methods for the allocation of its costs during the time period before the standard-offer program is fully subscribed with commissioned projects. The three proposals are as follows:

- 1) Until the standard-offer projects are commissioned, all SPEED Facilitator costs are allocated to the Vermont Utilities. This is the method currently used to pay for the SPEED Facilitator's costs.
- 2) Until the standard-offer projects are commissioned, all SPEED Facilitator costs are paid for as part of VEPPI's power billing to the Vermont utilities. When the standard-offer projects are commissioned, the project owners would be allocated an amount that is more than 50% of the SPEED Facilitator costs. Amounts collected in excess of expenses would be credited back in VEPPI's power billing to the Vermont utilities. This credit back would continue until the utilities received credits equaling the amounts paid by the utilities in the first several years above the proposed 50/50 allocation, at which time the projects would then be allocated an amount equal to 50% of the SPEED Facilitator costs.
- 3) Until the standard-offer projects are commissioned, an amount equal to 50% of the SPEED Facilitator costs (the projects' share) would be borrowed by VEPPI (potentially from the Clean Energy Development Fund). When the standard-offer

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5. VEPPI noted that splitting the SPEED Facilitator's costs equally among the utilities and project owners would be consistent with the method under Board Rule 4.100, which allocates the Purchasing Agent's costs equally between utilities and small power producers and which establishes the method for collecting the utilities' share. We also point out that Board Rule 4.104 requires that the electric utilities' share of the power purchases and costs be distributed "based on their pro-rata share of total Vermont retail kilowatt-hour sales for the previous calendar year, for distributions commencing May 1st of each year." In addition, VEPPI currently utilizes a pro-rata share based on retail kilowatt-hour sales for the allocation of all of its costs among the utilities.

6. The figure 8,760 represents the number of hours in a year (365 x 24).

projects are commissioned, the project owners would be allocated an amount that is more than 50% of the SPEED Facilitator costs. Amounts collected in excess of expenses would be credited back to VEPPI. This credit-back would continue until VEPPI received credits equaling the amount borrowed, with interest and costs, at which time the projects would then be allocated an amount equal to 50% of the SPEED Facilitator costs.

By a letter dated December 10, 2009, VEPPI proposed a fourth method for the allocation of its costs during the time period before the standard-offer program is fully subscribed with commissioned projects. VEPPI's fourth proposed method would require all projects accepted in the standard-offer queue<sup>7</sup> with a signed standard-offer contract to pay a monthly charge equal to the monthly charge that the project would be required to pay after all the projects are operational. VEPPI suggested that this proposal would provide administrative efficiency and encourage project developers with projects in the queue to rapidly progress with project development or, if the project turns out not to be viable, voluntarily withdraw from the queue.

#### Comments on VEPPI's Proposals

On December 21, 2009, comments were submitted by Central Vermont Public Service Corporation ("CVPS") and Green Mountain Power Corporation ("GMP"). No other party filed comments.

GMP expressed support for VEPPI's December 7 proposals to: 1) allocate 50% of its costs to the utilities and 50% of its costs to the project owners; and 2) allocate the project owners' 50% allocation among the projects by calculating a percentage share for each project based on the theoretical annual revenue of the individual project as a percentage of the total theoretical annual revenue of all the standard-offer projects in the standard-offer program. In addition, GMP and CVPS both expressed support for VEPPI's December 10 fourth proposed method for allocating costs during the time period before the standard-offer program is fully subscribed with

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7. The Board's Order of 9/30/09 in Docket 7533 established the so-called "queue" for the standard-offer program. On October 19, 2009, the standard-offer program opened a lottery for project applications to fill the queue. At that time, the queue consisted of all projects that won acceptance into the program under the lottery and that became eligible to sign a standard-offer contract. Currently, the queue consists of all projects accepted into the program with an executed standard-offer contract, whether operational or still under development. Projects that have submitted applications to the SPEED Facilitator and are still waiting for acceptance are considered to be on the "waiting list."

commissioned projects. GMP and CVPS agree that VEPP's fourth proposed method would provide administrative efficiency and encourage project developers with projects in the queue to move the projects along or withdraw from the queue, allowing opportunities for other viable projects.

### Discussion and Conclusion

After considering the issues raised, we are adopting the following allocation method based upon VEPP's comments. We agree with the general proposal that will allocate 50% of the SPEED Facilitator's costs to the utilities and 50% of the costs to the owners of standard-offer projects.<sup>8</sup> Initially, however, we will not allocate costs to all projects that have been accepted into the standard-offer program because we do not want to risk having projects still under development drop out of the queue prematurely because of these costs.<sup>9</sup> We believe that having projects still under development drop out of the queue prematurely because of these costs would be contrary to the statutory mandate to encourage rapid development and commissioning of standard-offer projects.<sup>10</sup> Instead, the costs will be allocated between the utilities and only the operational standard-offer projects. Accordingly, until all of the standard-offer projects are commissioned, the utilities will be allocated a larger share of the costs than the standard-offer projects.

At this time, the majority of the projects that have been accepted into the standard-offer program are still under development and are not yet operational. Therefore, although the adopted

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8. A 50–50% split would be consistent with Board Rule 4.307(A), which dictates that "[t]o the extent possible, considering the number and size of the SPEED projects, the SPEED Facilitator shall attempt to allocate [its] costs equally between Vermont utilities and the owners of SPEED projects."

9. In particular, large projects still under development in the queue could have extensive development lead times and, based on the adopted calculation, above, would be required to pay \$638 per month to remain in the queue without having established a revenue stream. In addition, regardless of whether the Board imposes SPEED Facilitator costs on projects still under development, the majority of the projects currently in the queue will either be developed or removed from the queue within the next year because the majority of standard-offer projects currently in the queue executed a Vermont SPEED Standard Offer Purchase Power Agreement ("contract") in 2009 and must be commissioned within three years of executing the contract. Docket 7533, Order of 9/30/09 at 28-29 and Attachment Contract at 5.

10. 30 V.S.A. § 8005(b)(2)(B)(i).

method is designed to split the SPEED Facilitator costs equally between the utilities and all of the projects, the method will initially allocate approximately 90% of the SPEED Facilitator costs to the utilities and 10% of the SPEED Facilitator costs to the operational standard-offer projects. As more standard-offer projects are commissioned, the utilities will be allocated a smaller percentage of the costs until the operational standard-offer projects and the utilities are each allocated 50% of the costs.

The allocation method will charge the utilities as a whole a monthly charge equal to the total SPEED Facilitator costs minus the operational standard-offer project's monthly charges. As in the past, the SPEED Facilitator shall utilize a pro-rata share system, based on retail kilowatt-hour sales for allocating the utilities' share of the SPEED Facilitator costs among the utilities. The operational standard-offer projects will be charged a flat monthly fee based on the project's capacity, capacity factor, standard offer rate, and technology type, detailed below. The adopted calculation method, with reference to the table on the following page, is as follows:

1. Estimate the total capacity in MWs of each technology type at 100% build-out of the 50-MW standard-offer program = Estimated Build-out Capacity (Col. 1);
2. For each technology type, calculate: Estimated Build-out Capacity (Col. 1) x 8,760 x Theoretical Capacity Factor (Col. 2) x Standard Offer Rate (Col. 4) = Theoretical Annual Revenue (Col. 5);
3. Calculate: 50% of the total SPEED Facilitator costs (based on the current contract), represented below as the Total Required Revenue (bottom of Col. 7);
4. Calculate: Total Required Revenue (bottom of Col. 7) / Total Theoretical Annual Revenue (Col. 5) = Facilitator Fee Factor (Col. 6);
5. For each technology type, calculate: Theoretical Annual Revenue (Col. 5) x Facilitator Fee Factor (Col. 6) = Required Revenue (Col. 7);
6. For each technology type, calculate: (Required Revenue (Col. 7) x 100) / (Estimated Build-out Capacity (Col. 1) x 1000) = Yearly Facilitator Fee per 100 kW of Capacity (Col. 8); and
7. For each technology type, calculate: Yearly Facilitator Fee per 100 kW of Capacity (Col. 8) / 12 = Monthly Charge per 100 kW of Capacity (Col. 9).

<b>Actual 2011 Calculation</b>									
	1	2	3	4	5	6	7	8	9
Technology	Estimated Build-out	Theoretical Capacity Factor*	Annual Generation	Standard Offer Rate**	Theoretical Annual Revenue***	Facilitator Fee Factor	Required Revenue	Fee per 100 kW of Capacity	Monthly Fee per 100 kW of Capacity
	(MW)		(kWh)	(\$/kWh)	(\$)		(\$)	(\$)	(\$)
Biomass	2.0	0.850	14,892,000	0.125	1,861,500	0.361%	6,720	336	28
Landfill Methane	0.5	0.900	3,942,000	0.120	473,040	0.361%	1,708	342	28
Farm Methane	8.0	0.765	53,611,200	0.150	8,041,680	0.361%	29,030	363	30
Wind	10.0	0.258	22,600,800	0.125	2,825,100	0.361%	10,199	102	8
Hydro	9.5	0.449	37,365,780	0.100	3,736,578	0.361%	13,489	142	12
Solar	20.0	0.145	25,404,000	0.270	6,859,080	0.361%	24,761	124	10
Total Theoretical Annual Revenue					<b>23,796,978</b>				
Approx. 50% of the 2010-2011 SPEED Facilitator Costs (Total Required Revenue)							<b>85,907</b>		
<p>*The Board established the theoretical capacity factor for each technology in <i>Order Re Standard Offer Price Determination for SPEED Resources</i>, Docket 7533, Order of 1/15/10.</p> <p>**For administrative efficiency, the adopted allocation method employs a generalized standard offer rate for each technology. Although several technologies have more than one rate within the standard-offer program (<i>i.e.</i>, solar, which has a .24/kWh rate and a .30/kWh rate), in this context, we find that using a generalized standard offer rate for each technology does not materially impact the fee per 100 kW of capacity.</p> <p>*** The SPEED Facilitator's costs are the same regardless of whether projects are producing at the capacity used by the Board to determine the appropriate standard offer rate for each technology. Therefore, we are using the theoretical annual revenue rather than actual annual revenue to allocate the SPEED Facilitator's costs among the projects.</p>									

For standard-offer projects with capacities that are not in even 100-kW increments, the monthly charge will be pro-rated based on the project's actual capacity (*e.g.*, a 155 kW solar project would be allocated a monthly fee of \$10.00 x 1.55 or \$15.50 per month). For projects with less than 100 kW of capacity, we adopt a minimum monthly payment equal to the fee allocated for 100 kW of capacity. Therefore, an operational solar project with less than 100 kW of capacity will be charged a monthly fee of \$10.

The adopted methodology does not include a "credit-back" system as proposed by VEPI in its December 7 letter that would reimburse the utilities for any payments they have made over 50%. Similarly, we have not adopted a "true-up" system that would require the SPEED Facilitator to charge the projects still under development the same fee as operational projects and allow the charges to accrue until the projects are commissioned. The credit-back and true-up

systems would create an unnecessary administrative burden on the SPEED Facilitator whereas including such systems in the adopted methodology imposes a relatively minor burden on the utilities.<sup>11</sup>

The first monthly charge, based on the allocation method detailed above, shall be billed to the standard-offer projects as of August 1, 2011. After August 1, 2011, new operational standard-offer projects shall be billed a monthly charge on the first day of the month following the project's commissioning. Once a standard-offer project begins operation and is billed an initial monthly charge, the project will continue to be billed a monthly charge even if it operates below its expected capacity or not at all, unless the developer is granted a waiver by the Board.<sup>12</sup>

To ensure the accuracy of the utilities' monthly charges, the SPEED Facilitator must recalculate the charges as the total number of operational standard-offer projects increases or decreases. At a minimum, the SPEED Facilitator shall recalculate the utilities' monthly charges every four months, with the first recalculation billed to the utilities as of December 1, 2011. The SPEED Facilitator shall also file a report with the Board detailing the actual charges billed to the utilities and the standard-offer projects every four months, with the first report due by August 15, 2011.

**SO ORDERED.**

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11. The Cost Analysis subgroup estimated "the administrative budget for the first year that most of the projects are operational to be \$329,800 and \$399,000 if the costs of the first two years are amortized." Docket 7533, Order of 9/30/11. Currently, the SPEED Facilitator's 2010–2011 budget is \$171,580. Considering that the 2010-2011 SPEED Facilitator costs are less than half of the amount contemplated by the Cost Analysis subgroup, we find that allocating even 90% of the costs among the utilities, utilizing the methodology described on the following pages, represents a relatively minor burden.

12. Waivers will only be granted in exceptional circumstances. Any request for a waiver must be submitted to the Board as a formal petition.

Dated at Montpelier, Vermont, this 8<sup>th</sup> day of July, 2011.

<u>s/James Volz</u>	)	
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<u>s/David C. Coen</u>	)	
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<u>s/John D. Burke</u>	)	

PUBLIC SERVICE  
BOARD  
OF VERMONT

OFFICE OF THE CLERK

FILED: July 8, 2011

ATTEST: s/Judith C. Whitney  
Deputy Clerk of the Board

*NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*