VERMONT ENERGY EFFICIENCY UTILITY FUND

Combined Financial Statements

Fiscal Year Ended June 30, 2019

With Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAs & Advisors

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CLARK SCHAEFER HACKETT
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INDEPENDENT AUDITORS' REPORT

To the Vermont Public Utilities Commission
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 combined as an enterprise fund of the State of Vermont as of and for the fiscal year ended June 30, 2019, 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.

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 June 30, 2019, and the respective changes in financial position and cash flows thereof for the fiscal 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 Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that collectively comprise the Fund's basic financial statements. The accompanying supplementary schedules of revenues, expenses and changes in net position and cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019 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 solely 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 the effectiveness of the Fund's 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
October 17, 2019

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 fiscal year ended June 30, 2019. 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 fiscal year ended June 30, 2019 are listed below:

- The assets of the Fund exceeded its liabilities at fiscal year-end by $20,752,731 (net position).
- In total, net position increased by $19,654,359.
- The Fund had total operating revenue of $75,199,303, an increase of $2,400,723 from fiscal year 2018. However, total operating expenses decreased $22,318,619 to $55,615,564, resulting in operating income of $19,583,739.

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. 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 Fiscal Year-End

The following table presents a condensed summary of the Fund's overall financial position at June 30, 2019 and 2018:

	FY19	FY18
Current assets	$ 29,574,587	$ 11,619,363
Total assets	29,574,587	11,619,363
Current liabilities	6,104,514	9,609,333
Long-term liabilities	2,717,342	911,658
Total liabilities	8,821,856	10,520,991
Restricted net position	8,289,493	1,691,081
Unrestricted net position	12,463,238	(592,709)
Total net position	$ 20,752,731	$ 1,098,372

Total assets increased by $17,955,224. The majority of the increase occurred in cash and cash equivalents due to significant decreases in program costs as Efficiency Vermont experienced slower demand for programs.

Total liabilities decreased by $1,699,135. The decrease in current liabilities was due to the payout of the performance incentives to Vermont Energy Investment Corporation on the 2015-2017 performance cycle in the second half of 2018. The increase in long-term liabilities is due to accrual of performance incentives on the 2018-2020 performance cycle that will be paid out in 2021.

B. Change in Net Position during Fiscal Year 2019

The following table presents a condensed summary of the Fund's activities during the fiscal years 2019 and 2018 and the resulting change in net position:

	FY19	FY18
Operating revenue:		
Assessments	$ 59,867,996	$ 61,980,236
Forward Capacity Market proceeds	13,730,732	9,013,964
Regional Greenhouse Gas Initiative	1,500,575	1,804,380
SMEEP revenue	100,000	-
Total operating revenue	75,199,303	72,798,580
Operating expenses:		
Energy programs	47,706,640	69,072,145
Monitoring and evaluation	1,170,712	1,142,486
Administrative	6,119,563	7,099,160
Taxes	618,649	620,392
Total operating expenses	55,615,564	77,934,183
Operating income (loss)	19,583,739	(5,135,603)
Non-operating revenue:		
Interest earnings	70,620	14,609
Change in net position	19,654,359	(5,120,994)
Net position - beginning	1,098,372	6,219,366
Net position - ending	$ 20,752,731	$ 1,098,372

The Fund experienced a significant increase in net position of $19,564,359. Assessments revenue decreased $2,112,240 due to flat utility usage and an average 2% decrease in the energy efficiency charge between calendar years. Forward Capacity Market auction proceeds experienced significant increases due to a combination of increased unit auction prices and savings volume increases. Operating expenses decreased approximately 29% due to lower demand for Efficiency Vermont's programs and services.

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 Utility Commission (Commission) 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 $13,730,732 in fiscal year 2019.

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 fiscal year 2019 RGGI revenue deposited into the Fund was $1,500,575, and the fiscal year 2018 RGGI revenue deposited into the Fund was $1,804,380.

The RGGI Fund is presented as a component unit of the Fund. Net position as of June 30, 2019 was $584,813 compared to $447,372 as of June 30, 2018. Total operating expenses of $579,418 in fiscal year 2019, compared $127,178 in fiscal year 2018. The increase in expenses was attributable to difference in timing of distribution of excess auction proceeds during fiscal year 2019.

The Commission 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 Commission, under this new model, the Vermont Department of Public Service reviews and approves all vendor invoices except its own (reviewed and approved by the Commission) while the Commission retains ultimate authority over approval of invoices for payment from the Fund.

In August 2018, the Commission opened a proceeding to investigate how energy efficiency utilities are regulated within the State. While the proceeding is ongoing, several changes are being reviewed, including allowing each energy efficiency utility to be its own fiscal agent and moving away from the current single third-party fiscal agent model.

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 Utility Commission, 112 State Street, Montpelier, VT 05620-2701.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Net Position
June 30, 2019

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 19,551,005	$ 1,132,629	$ 20,683,634
Accounts receivable:			
Receivable from energy distributors	10,023,582	-	10,023,582
Total Assets	29,574,587	1,132,629	30,707,216
LIABILITIES			
Current Liabilities:			
Payable for energy programs	4,866,683	-	4,866,683
Accounts payable and accrued expenses	952,721	546,694	1,499,415
Taxes payable	285,110	-	285,110
Total current liabilities	6,104,514	546,694	6,651,208
Noncurrent Liabilities:			
Accrued VEIC performance incentive	2,717,342	-	2,717,342
Total Liabilities	8,821,856	546,694	9,368,550
NET POSITION			
Restricted:			
Restricted for SMEEP	240,508	-	240,508
Restricted for TEPF	6,823,137	575,935	7,399,072
Restricted for GMP EEF monitoring & evaluation	15,806	-	15,806
Restricted for Natural Gas	1,077,633	-	1,077,633
Restricted for CEED	132,409	-	132,409
Total Restricted	8,289,493	575,935	8,865,428
Unrestricted	12,463,238	10,000	12,473,238
Total Net Position	$ 20,752,731	$ 585,935	$ 21,338,666

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

	Primary Fund							Component Unit	
	Unrestricted	SMEEP	TEPF	GMP EEF	CEED	Natural Gas	VEEUF Total	RGGI	Combined Total
OPERATING REVENUES:									
Assessments (Energy Efficiency Charge)	$ 56,139,230	$ -	$ -	$ -	$ -	$3,728,766	$ 59,867,996	$ -	$ 59,867,996
Forward Capacity Market	-	-	13,730,732	-	-	-	13,730,732	-	13,730,732
Regional Greenhouse Gas Initiative	-	-	1,500,575	-	-	-	1,500,575	720,850	2,221,425
SMEEP	-	100,000	-	-	-	-	100,000	-	100,000
Total Operating Revenues	56,139,230	100,000	15,231,307	-	-	3,728,766	75,199,303	720,850	75,920,153
OPERATING EXPENSES:									
Energy programs	37,029,249	-	7,915,894	-	1,254	2,760,243	47,706,640	579,418	48,286,058
Monitoring and evaluation	634,434	794	352,052	-	-	183,432	1,170,712	-	1,170,712
Administrative costs	4,931,401	-	942,300	-	-	245,862	6,119,563	5,395	6,124,958
Taxes	552,385	-	-	-	-	66,264	618,649	-	618,649
Total Operating Expenses	43,147,469	794	9,210,246	-	1,254	3,255,801	55,615,564	584,813	56,200,377
Operating Income (Loss)	12,991,761	99,206	6,021,061	-	(1,254)	472,965	19,583,739	136,037	19,719,776
NONOPERATING REVENUES:									
Investment earnings	64,186	-	-	-	-	6,434	70,620	2,526	73,146
Change in Net Position	13,055,947	99,206	6,021,061	-	(1,254)	479,399	19,654,359	138,563	19,792,922
Net Position - Beginning	(592,709)	141,302	802,076	15,806	133,663	598,234	1,098,372	447,372	1,545,744
Net Position - Ending	$ 12,463,238	$ 240,508	$ 6,823,137	$ 15,806	$ 132,409	$1,077,633	$ 20,752,731	$ 585,935	$ 21,338,666

See accompanying notes to the financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from BED	$ 2,715,713	$ -	$ 2,715,713
Receipts from VGS	3,707,607	-	3,707,607
Receipts from GMP	42,448,500	-	42,448,500
Receipts from other electric distribution utilities	11,532,084	-	11,532,084
Proceeds from Forward Capacity Market	13,341,274	-	13,341,274
Receipts from RGGI Fund	1,500,575	-	1,500,575
Proceeds from CO_2 allowance auctions	-	2,221,425	2,221,425
Receipts from SMEEP participants	100,000	-	100,000
Payments for electric energy efficiency programs	(44,139,080)	-	(44,139,080)
Payments to VEEUF	-	(1,500,575)	(1,500,575)
Payments for TEPF efficiency programs	(9,371,696)	-	(9,371,696)
Payments for SMEEP programs	(261)	-	(261)
Payments for CEED programs	(106,678)	-	(106,678)
Payments for natural gas programs	(2,882,348)	-	(2,882,348)
Payments for other administration	(204,709)	(38,119)	(242,828)
Payments for taxes	(609,927)	-	(609,927)
Net cash flows from operating activities	18,031,054	682,731	18,713,785
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	70,620	2,526	73,146
Net change in cash flows	18,101,674	685,257	18,786,931
Cash and cash equivalents - beginning	1,449,331	447,372	1,896,703
Cash and cash equivalents - ending	$ 19,551,005	$ 1,132,629	$ 20,683,634
Reconciliation of operating income to net cash from operating activities:			
Operating income	$ 19,583,739	$ 136,037	$ 19,719,776
Adjustments to reconcile operating income to net cash from operating activities:			
Change in receivables	146,450	-	146,450
Change in payable for energy programs	1,231,531	-	1,231,531
Change in accounts payable and accrued expenses	(302,391)	546,694	244,303
Change in taxes payable	8,722	-	8,722
Change in accrued VEIC performance incentive	(2,636,997)	-	(2,636,997)
Net cash flows from operating activities	$ 18,031,054	$ 682,731	$ 18,713,785

See accompanying notes to the financial statements.

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 Utility Commission (the Commission) 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 enterprise fund within the State of Vermont and is part of the State's primary government.

In 2009, the Commission established the current structure of the Fund, operating under an Order of Appointment model. Under this model, the Commission 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 Commission has appointed three 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, the City of Burlington Electric Department (BED) to deliver energy efficiency services within its service territory, and Vermont Gas Systems, Inc. (VGS) to deliver natural gas 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 Commission. The DPS is the lead entity for evaluating and monitoring the EEUs. In addition, the Commission determined that the DPS would review and approve all vendor invoices, except its own which are reviewed and approved by the Commission, with the Commission holding ultimate authority over approval of invoices for payment from the Fund.

Pursuant to 30 V.S.A. § 209, the Commission 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. During fiscal year 2019, there were eighteen distribution utilities assessing these charges. Pursuant to Rule 5.300, the Commission issued a Memorandum dated November 1, 2018, which set the 2019 EEC rates on electricity and natural gas usage to take effect with bills rendered February 1, 2019.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

A. <u>Reporting Entity</u> – *continued*

<u>Forward Capacity Market</u>

In 2006, the Commission 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.

<u>Regional Greenhouse Gas Initiative</u>

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 Commission 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 Commission-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 7).

B. <u>Basis of Accounting and Presentation</u>

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

C. Fiscal Agent

The Commission 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 initially covered the period January 1, 2016 through December 31, 2017, with an optional two-year renewal through December 31, 2019 that was exercised. For the fiscal year ended June 30, 2019, the fiscal agent was paid $24,840 in fixed costs and $24 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 and natural gas usage sold two months prior. Other revenue sources are received in the subsequent month it was earned.

F. Accrued Performance Incentive

The Commission 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 the triennial period 2018 through 2020. 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 Commission prior to being disbursed. The maximum electric energy efficiency performance incentive that VEIC can earned in the current performance cycle (2018-2020) is $5,452,200.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

G. 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 Commission 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 Commission 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 monitoring & evaluation – As part of the merger between GMP and Central Vermont Public Service Corporation, the Commission 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.

Restricted for Natural Gas – Collections of EEC assessments received on natural gas usage is restricted for natural gas energy efficiency services.

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 Commission.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

H. 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 June 30, 2019, the Fund's bank balance of $19,551,343 was exposed to custodial credit risk since it was uninsured and collateralized by a pool of eligible U.S. agency securities pledged to secure the repayment of all public monies deposited in the financial institution. As of June 30, 2019, market value of these securities provided collateral value of 105% of deposit balances being secured.

3. ENERGY PROGRAM DISTRIBUTIONS

Distributions for energy efficiency services were made to the VEIC, for Efficiency Vermont, BED, and VGS during the fiscal year by the fiscal agent in accordance with the terms of their contracts, or as directed by the DPS, with concurrence of the Commission. Distributions for the fiscal year ended June 30, 2019 were made as follows:

3. ENERGY PROGRAM DISTRIBUTIONS – *continued*

	Unrestricted	TEPF	CEED	Natural Gas
Energy Efficiency Programs:				
Efficiency Vermont:				
Business New Construction	$ 2,253,001	$ -	$ -	$ -
Business Existing Facilities	15,300,276	-	-	-
Business TEPF	-	1,591,738	-	-
Customer Credit Program	793,788	-	-	-
Residential New Construction	3,173,633	-	-	-
Residential Existing Homes	4,149,321	-	-	-
Residential TEPF	-	5,978,350	-	-
Energy Efficient Products	9,075,951	-	-	-
Subtotal	34,745,970	7,570,088	-	-
Burlington Electric Department:				
Business New Construction	682,302	-	-	-
Business Existing Facilities	862,054	-	-	-
Business TEPF	-	13,149	-	-
Residential New Construction	165,969	-	-	-
Residential Existing Homes	248,738	-	-	-
Residential TEPF	-	32,631	-	-
Energy Efficient Products	324,216	-	-	-
Subtotal	2,283,279	45,780	-	-
Green Mountain Power:				
CEED Fund	-	-	1,254	-
Efficiency Fund Capacity	-	300,026	-	-
Subtotal	-	300,026	1,254	-
Vermont Gas Systems:				
Residential New Construction	-	-	-	265,212
Residential Equipment Replace	-	-	-	953,503
Residential Retrofit Program	-	-	-	853,288
Commercial New Construction	-	-	-	215,644
Commercial Equipment Replace	-	-	-	187,053
Commercial Retrofit Program	-	-	-	285,543
Subtotal	-	-	-	2,760,243
Total	$37,029,249	$7,915,894	$ 1,254	$2,760,243

4. ADMINSTRATIVE COSTS

Administrative costs incurred by the Fund for the fiscal year ended June 30, 2019 were:

	Unrestricted	TEPF	Natural Gas
Efficiency Vermont:			
Applied R&D	$ 335,088	$ 65,498	$ -
Education	471,382	83,767	-
Evaluation	402,244	74,418	-
Information Technology	1,093,750	224,022	-
Planning & Reporting	391,470	80,181	-
Policy & Public Affairs	387,569	75,497	-
Performance Incentives	1,515,023	308,273	-
Subtotal	4,596,526	911,656	-
Burlington Electric Department:			
Applied R&D	4,075	-	-
Education	34,178	2,639	-
Evaluation	14,920	915	-
General Administration	52,180	8,141	-
Information Technology	9,552	-	-
Planning & Reporting	12,981	637	-
Policy & Public Affairs	2,200	282	-
Smart Grid & AMI	80	-	-
Subtotal	130,166	12,614	-
Vermont Gas Systems:			
Applied R&D	-	-	33,875
Education & Training	-	-	57,117
Evaluation	-	-	19,926
General Administration	-	-	35,261
Information Technology	-	-	33,141
Planning & Reporting	-	-	52,787
Policy & Public Affairs	-	-	11,594
Subtotal	-	-	243,701
Other:			
EEU Advertising	3,326	-	-
Uncollectibles	136,269	-	-
Fiscal Agent & Audit Fees	61,940	-	-
Bank Fees and Postage	3,174	-	2,161
TEPF Clearinghouse	-	18,030	-
Subtotal	204,709	18,030	2,161
Total	$ 4,931,401	$ 942,300	$ 245,862

5. DPS MONITORING AND EVALUATION

The Department of Public Services (DPS) monitoring and evaluation expenses incurred by program for the fiscal year ended June 30, 2019 were:

	Unrestricted	SMEEP	TEPF	Natural Gas	Total
VEEUF	$ 634,434	$ -	$ -	$ -	$ 634,434
Forward Capacity Market	-	-	318,325	-	318,325
TEPF Initiatives	-	-	33,727	-	33,727
SMEEP	-	794	-	-	794
Natural Gas	-	-	-	183,432	183,432
	$ 634,434	$ 794	$ 352,052	$ 183,432	$ 1,170,712

6. TAXES

Pursuant to 33 V.S.A. § 2503, a fuel tax of 0.5 percent on electricity assessment collections and a fuel tax of 0.75 percent on natural gas assessment collections are 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 0.5 percent on electricity assessment collections and 0.3 percent on natural gas assessment collections is payable to the Vermont State Treasurer annually to finance the DPS and the Commission.

As of June 30, 2019, the following taxes were payable:

Gross Operating Revenue Taxes	$ 189,843
Home Weatherization Assistance Fund Taxes	95,267
	$ 285,110

Expenses related for the fiscal year ended June 30, 2019 were:

Gross Operating Revenue Taxes	$ 287,263
Home Weatherization Assistance Fund Taxes	331,386
	$ 618,649

7. 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 CO_2 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 CO_2 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 Commission to establish a process to participate in the RGGI auction, while further providing several goals for the Commission 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.

Operating revenues are defined as income received from CO_2 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.

7. COMPONENT UNIT – *continued*

Regional Greenhouse Gas Initiative Fund of Vermont – *continued*

Cash and Cash Equivalents – *continued*

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 June 30, 2019, VT RGGI's bank balance of $1,132,629 was exposed to custodial credit risk since it was uninsured and collateralized by a pool of Federal Home Loan Mortgage Corporation securities held by the Federal Reserve Bank of New York for People's United Bank. As of June 30, 2019, these securities provided collateral value 105% of deposit balances.

Energy Program Distributions

Energy program distributions made by VT RGGI for the fiscal year ended June 30, 2019 to the Vermont Agency of Natural Resources were $38,725.

Administrative Costs

Administrative costs incurred by VT RGGI for the fiscal year ended June 30, 2019 were:

Trustee Fees	$ 4,000
Bank Charges	1,395
	$ 5,395

Trustee

The Commission 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 initially covered the period January 1, 2016 through December 31, 2017, with an optional two-year renewal through December 31, 2019 that was exercised. For the fiscal year ended June 30, 2019, the trustee was paid $4,000.

Net Position

The Commission established a minimum balance of $10,000 to minimize administrative costs. The remaining net position balance at June 30, 2019 of $575,935 was restricted for use by the Vermont Energy Efficiency Utility Fund for thermal energy and process fuels energy efficiency programs.

8. FISCAL AGENT CHANGES

In August 2018, the Commission opened a proceeding to investigate changes in the regulation of energy efficiency utilities in the State of Vermont. One change currently being considered is a move from the single third-party fiscal agent model to allowing each of the energy efficiency utilities to be their own fiscal agent. The investigation is currently ongoing, with any changes becoming effective in 2020 or later.

VERMONT ENERGY EFFICIENCY UTILITY FUND
Supplemental Schedule of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
OPERATING REVENUES:			
Charges for sales and services	$ 75,199,303	$ 720,850	$ 75,920,153
OPERATING EXPENSES:			
Cost of sales and services	53,789,329	579,418	54,368,747
Contractual services	61,940	4,000	65,940
Promotions and advertising	3,326	-	3,326
Administrative expenses	1,136,985	-	1,136,985
Other operating expenses	623,984	1,395	625,379
Total Operating Expenses	55,615,564	584,813	56,200,377
Operating Income	19,583,739	136,037	19,719,776
NONOPERATING REVENUES:			
Investment earnings	70,620	2,526	73,146
Change in Net Position	19,654,359	138,563	19,792,922
Net Position - Beginning	1,098,372	447,372	1,545,744
Net Position - Ending	$ 20,752,731	$ 585,935	$ 21,338,666

VERMONT ENERGY EFFICIENCY UTILITY FUND
Supplementary Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2019

	Primary Fund VEEUF	Component Unit RGGI	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 75,345,753	$ 2,221,425	$ 77,567,178
Cash paid to suppliers for goods and services	(57,314,699)	(1,538,694)	(58,853,393)
Net cash flows from operating activities	18,031,054	682,731	18,713,785
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	70,620	2,526	73,146
Net change in cash flows	18,101,674	685,257	18,786,931
Cash and cash equivalents - beginning	1,449,331	447,372	1,896,703
Cash and cash equivalents - ending	$ 19,551,005	$ 1,132,629	$ 20,683,634
Reconciliation of operating income to net cash from operating activities:			
Operating income	$ 19,583,739	$ 136,037	$ 19,719,776
Adjustments to reconcile operating income to net cash from operating activities:			
Change in accounts receivable	146,450	-	146,450
Change in accounts payable	929,140	546,694	1,475,834
Change in other liabilities	(2,628,275)	-	(2,628,275)
Net cash flows from operating activities	$ 18,031,054	$ 682,731	$ 18,713,785

See accompanying notes to the financial statements.

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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 Utilities Commission
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 fiscal year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Fund's combined financial statements and have issued our report thereon dated October 17, 2019.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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
October 17, 2019