

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6140

Investigation into the Reform of Vermont's)
Electric Power Supply)

POSITION PAPER OF FOURTEEN VERMONT MUNICIPAL
ELECTRIC UTILITIES*

I. Introduction.

On September 15, 1998, the Vermont Public Service Board (the "Board") issued an Order opening this investigation into the reform of Vermont's electric power supply. The Board ordered all Vermont electric utilities to participate. The Order requested that participants submit position papers ". . . that address the scope of the investigation and present substantive proposals for reform."

The fourteen Vermont municipal electric utilities (the "Fourteen Municipals") have reviewed the Consolidated Position Paper of Associated Industries of Vermont, Central Vermont Public Service Corporation ("CV"), Citizens Utilities Company and Green Mountain Power Corporation ("GMP"). In that position paper, those entities set forth in detail a proposed

* Barton Village, Inc. Electric Department, Enosburg Falls Electric Light Department, Town of Hardwick Electric Department, Hyde Park Electric Department Jacksonville, Inc. Electric Department, Johnson Electric Light Department, Ludlow Electric Light Department, Lyndonville Electric Department, Morrisville Water & Light Department, Northfield Electric Department, Orleans Electric Department, Town of Readsboro Electric Department, Stowe Electric Department and Swanton Electric Department.

scope of the proceeding and specific substantive proposals to reform Vermont's power supply. The Fourteen Municipals for the most part support and adopt the positions set forth in the Consolidated Position Paper. Furthermore, the Fourteen Municipals will, subject to the concerns set forth below, propose specific substantive reforms that reflect the unique nature of Vermont's municipal utilities and their access to low cost tax-exempt financing in the workshops or hearings that the Board schedules in the future.

Necessary Pre-condition to Reform of Vermont's Electric Power Supply.

The focus of this position paper is not on the scope or on substantive reform proposals, however. The focus instead is on what necessary pre-conditions must exist in order to both successfully investigate and ultimately implement reforms of Vermont's electric power supply.

Broadly speaking, all proposals to reform Vermont's power supply will have at least two elements in common. All proposals will almost certain require time and money. Given recent events in Vermont's electric utility industry; specifically, the Department of Public Service's (the "Department") prefiled testimony in Public Service Board Docket No. 6107 (the tariff filing of GMP) and the attendant public comments of the Department and the Dean administration, it appears to the Fourteen Municipals that the participants in Docket No. 6140 are likely to have neither the time nor the money to investigate or implement reforms of Vermont's power supply.

The Department's prefiled testimony in GMP's rate case, if adopted by the Board, would deny GMP the revenues from rates necessary to cover GMP's power purchase obligations to Hydro-Quebec. The Department's apparent willingness to have GMP file for bankruptcy if Hydro-Quebec does not negotiate an acceptable reduction in the price of Hydro-Quebec power has already created adverse credit implications for GMP and is likely, due to the participation by many of the Fourteen Municipals in the H-Q contract, to have adverse credit implications for them as well. Of course, should GMP file bankruptcy in the next several months as a result of Docket 6107, any meaningful discussions of a reform of Vermont's power supply at the Public Service Board will become irrelevant.

The undertakings necessary to effectuate a comprehensive reform of Vermont's electric power supply are not possible in the context of the bankruptcy of GMP. The necessary precondition to reform of Vermont's electric power supply is a public commitment by the State of Vermont through the Department and the Board that GMP and each utility will be given adequate revenue to meet its obligations, at least for a period of time sufficient to investigate and implement such reform.

Why do the Fourteen Municipals Care What Happens to GMP in the Rate Case?

The short answer from the perspective of rate of return on investment, profitability of the company, level of retail rates, etc. is that the Fourteen Municipals are indifferent as to how GMP, CV or any other investor-owned utility fares before the Board. However, for at least thirty years, it has been the public policy of the State of Vermont (and appropriately so) to

encourage and allow all of Vermont's distribution utilities to participate in long-term power supply resource acquisitions on a joint, pro rata participation basis. This has been the case with the Hydro-Quebec Power, Vermont Yankee, the recently-concluded Merrimack Contract, the McNeil Generating Station, the Board's own Rule 4.100, and even the high voltage transmission system in Vermont (through VELCO). The ratepayers of the State of Vermont have benefitted enormously over the years from the efficiencies realized through joint participation and up to now there really has been no down side. The only obligation that the State of Vermont has incurred to make this longstanding practice possible and consistently beneficial, is to insure that each distribution utility be allowed and required to implement rates sufficient to meet its own financial obligations as they arise.

Should any Vermont utility be allowed to default on its own obligations, because of the required inter-related credit support provisions that exist in one form or another in all of the above-mentioned joint power supply arrangements (and others), it could become necessary for the ratepayers of other Vermont utilities to pay the share of costs properly allocable to the ratepayers or shareholders of a defaulting Vermont utility. Regardless of whether the power supply costs from any single source are currently above or below market, it cannot be consistent with sound public policy or with the concept of just and reasonable rates, to shift the costs associated with that power supply arrangement from one set of Vermont ratepayers to another. Put more specifically, the ratepayers of the Village of Lyndonville, for example, voted to purchase a certain share of Hydro-Quebec power. The Board approved the acquisition by GMP on behalf of its ratepayers, of a certain amount of Hydro-Quebec power.

It is just and reasonable for the Lyndonville ratepayers to pay for their own share of this power; it is not just or reasonable to require them to pay for a share of power that was acquired for the benefit of their neighbors who are served by GMP. Even though it is unlikely that the ratepayers of Lyndonville would be able to pay for the defaulting shares of GMP and/or CV should they be forced into bankruptcy, the realization of the step-up obligation and Lyndonville's subsequent breach of that obligation could create catastrophic material adverse implications for Lyndonville, the other municipal electric utilities in the State of Vermont, VPPSA, and perhaps the Vermont Bond Bank and the State of Vermont itself, in terms of access to capital, cross-defaults in other purchase power and financial obligations and increased costs in other joint power supply arrangements.

As one simple example, if GMP and CV were to file bankruptcy and reject their above-market obligations under the McNeil Joint Ownership Agreement, then these investor-owned utilities' combined 30% share of McNeil operating costs must be picked up by the municipal owners of McNeil. The municipal owners of McNeil are prepared to pay their own costs of the operations of that plant, but are not prepared to absorb a 30% increase in those operating costs due to a shift in obligations from the ratepayers of the investor-owned utilities to the ratepayers of the municipal McNeil participants. Similar "step-up" consequences are possible for some or all of the municipals in regard to the Stonybrook Unit, Wyman Unit No. 2 and Millstone Unit No. 3. The impact on Vermont Yankee of the bankruptcy of its prime sponsors could likewise be very serious.

Will all of these horrible events occur? Must the customers of Lyndonville Electric learn to speak French in order to call for information about a bill? Probably not. Will it be possible to reduce the cost of Vermont's electric power supply while these issues are being litigated? Again, probably not. Will Vermont municipal distribution companies be able to continue to make progress in rebuilding their distribution systems using tax exempt financing as Barton did last spring? No, they will not. Will VPPSA be able to further lower McNeil costs through tax-exempt refinancing as it did last spring? No. Will Vermont fall further behind its neighboring states who are reforming their electric industries and reducing rates? Yes, it will.

Conclusion.

The Fourteen Municipals intend to participate fully in Docket No. 6140. Furthermore, the municipals and their financial advisors believe that there definitely are real, significant reductions in above-market costs possible in a comprehensive reform of Vermont's electric power supply. However, the undertaking to effectuate these reforms will require enormous work and a substantial investment of time and money. None of the reforms of which the Fourteen Municipals are aware, will be possible in the context of the bankruptcy of the two largest domestic corporations in the State of Vermont. Accordingly, the Fourteen Municipals believe that the first order of business must be a public commitment by the State of Vermont through the Department of Public Service and the Public Service Board that each utility in the State of Vermont will be given adequate revenue to prudently manage its endeavors and pay its own bills, at least for a period of time sufficient to investigate and implement reform

of Vermont's electric power supply. In fact, the Board should require all of Vermont's distribution companies to meet their commitments to the benefit of all of Vermont's ratepayers. The Fourteen Municipals believe that the chances are excellent to make substantial progress in the reform of Vermont's power supply, lowering rates for all Vermont ratepayers, on a permanent and sustainable basis, but only if pre-conditions are established which allow the Vermont electric industry, financial markets and prospective and existing power suppliers to focus on the specifics of power supply reform rather than the catastrophic consequences of utility bankruptcy.

Respectfully submitted,

THE FOURTEEN VERMONT MUNICIPALS

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