

**STATE OF VERMONT
PUBLIC SERVICE BOARD**

Docket No. 6140

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

**Burlington Electric Department's
Comments on Procedural Order**

Burlington Electric Department ("BED") appreciates this opportunity to comment on the Public Service Board's ("PSB's") Procedural Order dated December 23, 1998. In this order, the PSB has asked for comments regarding the sequence of events set forth in various filings by the PSB and other participants related to this Docket. BED does not intend to use this filing as an opportunity to state detailed positions on the various topics that have been proposed for discussion in the investigation. It reserves the right to participate more fully in the ongoing investigation and offer its comments during the appropriate (and upcoming) forums.

BED is not as concerned with the sequence of events as with the narrow scope of the investigation that has been proposed. It appears the three proposed workshops are more focused on the immediate need to reduce power costs for the state's two largest electric utilities rather than ensuring the long-term sustainability of Vermont's energy industry. While today's rising power costs are a concern to everyone, BED does not see increasing rates as a critical issue for its customers. In fact, the inflation adjusted average bill for Burlington residential customers is lower today than it was in 1978. For this reason BED does not wish to see this investigation become all-consumed by the desire to reduce electric rates in the short-term at the expense of the long-term public policy issues that are affected by this investigation. Therefore, BED wishes to highlight the following issues for the Board's consideration:

Public Power: This investigation should recognize the differences between publicly-owned utilities and IOUs. Publicly-owned utilities uniquely provide local control, which has resulted in system benefits including, but not limited to, environmental

protection and local/regional economic opportunities. Preservation of the future role for public power is a critical issue.

Retail Choice: BED does not see “retail choice” as a requirement to achieve cost savings for Vermonters. Customers within Vermont, and Vermont as a whole is relatively small compared to industrial customers and “aggregated” groups in other states. Therefore, BED believes the benefits attributed to “retail choice” can be achieved by forcing marketers to compete through “aggressive wholesale competition” in Vermont.

Securitization: BED is concerned that securitization, under certain conditions, can result in cost-shifting of contractual obligations and/or loss or limitation of tax-exempt financing for public power systems. BED believes it makes sense to pursue this mechanism as an option to reduce the costs associated with contractual obligations common to all Vermont utilities—the state’s existing contracts with Vermont’s independent power producers, which are the only such obligations. Using the securitization mechanism for only those obligations shared by all utilities will ensure there is no cost shifting among utilities and their customers. Because these are state contracts, refinancing with the use of tax-exempt bonds should not violate Federal private-use restrictions. BED believes the Board can address this issue under Rule 4.100, and that any review of these facilities should consider the best long-term interests of Vermont due to the environmental and local/regional economic benefits these facilities provide.

Mergers and Consolidations: BED urges the Board to exercise extreme caution in its consideration of mergers and consolidations. The Governor’s Working Group Report recommended a single option to merge the three largest Vermont IOUs. BED believes a study of the costs and benefits associated with mergers and consolidations has merit. However, we caution that cost savings should not be the only issue explored via these studies. Quality of service and reliability levels are important considerations and should not be sacrificed in an effort to gain economies of scale and reduce the number of utilities. BED also suggests that other ownership alternatives to the Working Group’s suggestions be explored, such as the option for public ownership of distribution facilities.

Public and Private Auctions: BED maintains that requiring divestiture of generation sources by all Vermont utilities is not an appropriate (or wise) course of action

to take. This course of action ensures that Vermont will lose control over its generation assets. Additionally, each utility is different in terms of their power supply outlook and business strategy. BED submits that such a one-size approach will not fit all. The Working Group's report states no Vermont utility will continue to own generation in the future. BED questions the grounds on which this comment is based particularly as the right to retain and own generation among the state's public power utilities is a local control issue and can not be usurped at the state level. In addition, we suggest municipals should not be required to functionally separate, as market power issues are not a concern due to their small size.

BED takes this opportunity to offer comments on the findings and recommendations of the Governor's Working Group. The Working Group's report seems to be more centered on the state's investor-owned utilities and does not address the state's 15 municipals and 2 cooperatives. BED, of course, recognizes any changes made affecting the IOUs will have an impact (directly or indirectly) on the other utilities. The report raises questions due to the legal, structural and financial differences between municipal utilities and IOUs, and how municipals may be affected by the recommendations. These differences should be examined and understood prior to implementing any recommendations the Working Group has made.

Finally, BED thanks the Board for the opportunity to comment and highlight some of the key issues of concern to Burlington. It is absolutely imperative that the Board broadens the scope of this investigation to consider issues necessary to ensure the survival and vitality of Vermont's public power systems and to ensure the sustainability of Vermont's long-term public policy.

DATED at Burlington, Vermont, this 7th day of January 1999.

BURLINGTON ELECTRIC DEPT.

By: _____

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