

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 6140

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

**CITY OF BURLINGTON ELECTRIC DEPARTMENT'S POSITION PAPER**

By Order dated September 15, 1998, the Vermont Public Service Board ("Board") opened this investigation into the reform of Vermont's electric supply and ordered all Vermont utilities to participate. That Order also requested participants to file Position Papers with the Board that address the scope of the investigation and present substantive proposals for consideration.

The City of Burlington Electric Department ("BED") supports the responsible reform of Vermont's electric industry<sup>1</sup> and applauds the Board's efforts in this regard. Attention to the largest component of electric cost in Vermont, power supply, will focus efforts on the goal of lowering power costs and benefit Vermont residents and businesses for many years to come.

This filing outlines BED's proposals for reforming key elements of Vermont's power supply without restructuring the existing franchise system. BED responds to the Board's inquiries as set forth on pages 3-4 of its Order in the order presented.

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<sup>1</sup> The Burlington Board of Electric Commissioners adopted a resolution in favor of the responsible reform of the electric utility industry on February 2, 1998 (Attachment 1).

**Describe the necessary or optimal sequence of events which are necessary to achieve the highest value proposal(s) for reform.**

BED submits the following sequence of events as its reform proposal to achieve the highest value for Vermont:

1. Renegotiation and mitigation of long-term, above-market cost, non-Vermont generation contracts;
2. Renegotiation and mitigation of the statewide contract for in-state qualifying facilities under Rule 4.100;
3. Renegotiation and mitigation of Vermont Yankee costs;
4. Mitigation of costs associated with McNeil Generating Station;
5. Enhancement of energy efficiency efforts across Vermont; and
6. Reduction of reliance on fossil fuels with increased emphasis on sustainable, renewable, in-state resources.

**For each event, explain who must act or be involved, and when the event must occur in relation to other events in the process or relative to other milestones. To the extent possible, include a realistic timetable for accomplishment of the milestones in your reform proposal.**

1. Renegotiation and mitigation of long-term, above-market cost, non-Vermont generation contracts.

Steps: Although BED is not a participant in the Hydro Quebec ("HQ") contract, it recognizes the importance of a successful renegotiation of that contract to the State of Vermont. One possible way to get HQ to renegotiate the HQ/Vermont Joint Owner contract is to construct transmission facilities

through Vermont, and provide HQ with access to densely populated markets in southern New England. Vermont Electric Power Company ("VELCO") has developed a proposal that BED supports so long as the transmission project includes increased transmission capacity for the McNeil Generating Station ("McNeil"), which would enhance McNeil's ability to sell more renewable power in the region and mitigate its costs.

Securitization of above-market HQ costs is also a viable alternative so long as the utilities (and their customers) that have opted out of the HQ contract are not allocated a portion of the securitized above-market costs.

VELCO, all Vermont utilities, large power suppliers, regulators, the Governor, Vermont citizens and the financial community need to be involved in this process in order to bring it to successful completion. Although preliminary discussions are occurring, a determination of the feasibility of this project must be made by VELCO within the next six months. Negotiations with Hydro Quebec should commence immediately, with final agreement reached during calendar year 1999.

2. Renegotiation and mitigation of the statewide contract for in-state qualifying facilities under Rule 4.100

Steps: BED supports securitization of the above-market costs of Rule 4.100 qualifying facilities ("QF") contracts so long as the owners of QFs first conduct a good-faith negotiation with Vermont regulators and utilities to lower their costs. All Vermont electricity users already pay a portion of Rule 4.100 costs. These costs are simply passed onto ratepayers as a result of Rule 4.100. Securitization of the above-market costs could result in

significant present value savings with minimal impact on the owners of the facilities.

This step should involve regulators, Vermont utilities, QF owners and the financial community. Discussions should occur immediately with final agreement and securitization in 1999.

3. Renegotiation and mitigation of Vermont Yankee costs

Steps: BED's Vermont Yankee entitlement expires in 2002. However, since Vermont Yankee is licensed to operate longer, to the extent its costs are above-market and/or its decommissioning costs are excessive it could have a negative impact on Vermont's overall energy price. Vermont Yankee should be required to prepare a long-term operating and decommissioning plan with an emphasis on reducing costs. The costs and benefits of an early decommissioning of Vermont Yankee should be thoroughly evaluated. Vermont Yankee, the Board and the Department of Public Service should be the lead participants in this evaluation.

4. Mitigation of costs associated with McNeil Generating Station

Steps:

- A. Vermont needs to commit to an aggressive policy relative to renewable energy, particularly as it relates to biomass energy and McNeil. It is apparent the legislature, the Dean administration and the Board support native Vermont renewable energy as a primary source of power in the future. However, at the Board's recent forum on electricity futures, Central Maine Power indicated that, in its view, wood-fired power plants were "uneconomic," and emphasized how it aggressively sought to close them down as one of its mitigation efforts. It's important to the future of

renewable energy in Vermont that Vermont not follow this example. It's also important for Vermont to identify its long-term objective for renewable resources. A comprehensive plan that specifically outlines how existing and future renewable power sources will be fully utilized should be prepared by the DPS in coordination with the owners of renewable resources, and ultimately approved by the Board. This should happen immediately.

- B. Vermont needs to work with other states to create competitive "green markets" distinguished by "fuel types" (e.g. biomass, solar, hydro, wind). The Governor and Board should lead a coordinated effort with other states in the region to ensure the region is working in a manner that will lower bills, utilize indigenous resources, enhance local economies and protect the environment.
- C. Require transmitters of electricity through Vermont to "pick up" a portion of renewable power (e.g. McNeil) as a condition for approval to construct new transmission facilities. Transmission facilities funded by power marketers exclusively for transfer through Vermont without specific terms for access and sale of McNeil output could effectively block McNeil access to regional markets. As noted above, VELCO has developed a proposal which BED supports so long as the transmission project includes increased transmission capacity for McNeil so as to enhance its ability to sell more renewable power in the region and mitigate its costs.
- D. Adoption of a renewable portfolio requirement as a pre-condition to retail choice in Vermont. This would require all sellers of electricity in Vermont to include a portion of Vermont-based renewable energy in their total supply portfolio. Initially, this portion should be based upon the present amount of the State's renewable resources. The portfolio requirement

should be flexible and aggressively grow to reflect future increases in production at McNeil and other facilities so as to encourage the further use of renewables. This step would probably require legislative action.

5. Enhancement of energy efficiency efforts across Vermont

Steps: BED has a rich history of supporting and implementing energy efficiency programs. One of the best ways to mitigate a high cost power supply is to lessen the dependence on that power supply through a reduction in end usage. There needs to be a serious educational effort to explain that final bill amounts are much more important than the traditional cost (or revenue) per kwh comparisons. Rate comparisons are meaningless when customers are using widely disparate amounts of energy to accomplish the same end result. Those customers who use less will ultimately pay less regardless of relatively equal per unit prices. While BED supports statewide efforts to increase the use of energy efficiency, BED urges the Board to strongly consider alternatives to the DPS' proposal to accomplish this goal. BED has developed one such proposal and has filed it with the Board both in Docket 5980 and in connection with a separate petition.

6. Reduction of reliance on fossil fuels with increased emphasis on sustainable, renewable, in-state resources

Natural gas is often seen as a less-expensive, cleaner alternative to many existing power supply options and is being aggressively marketed in Vermont. It is important to note that at the Board's forum on electricity futures a representative from The Williams Companies remarked that North America's natural gas reserves are good for another 58 years. For the sake of our children and our grandchildren, Vermont's power supply priorities should be established with an eye towards long-term sustainability. Any future Board approval of gas pipelines and gas contracts

in (or through) Vermont should be conditional and linked to the further use of in-state renewable resources.

**Describe what Board actions will be necessary or helpful to facilitate your proposal.**

The opening of this docket is a significant first step by the Board in facilitating this proposal. Specific Board actions, such as a requirement for transmission facilities through Vermont to take a portion of McNeil power, have been mentioned in each of the proposed solutions. Board coordination with other efforts, particularly the Governor's Working Group on Utility Reform, would be extremely helpful as well. We would also ask that the Board take notice of BED's alternative energy efficiency program design proposal which was filed in Docket 5980.

**State whether any legislation is necessary to implement this proposal, or in the alternative, what reform is possible absent enabling legislation.**

The only enabling legislation required would be a renewable portfolio requirement for power sales in a retail choice environment.

**Explain how your reform proposal can be accomplished independent from comprehensive restructuring of Vermont's electric utility industry, yet in a manner consistent with possible future transition to retail choice.**

Overall reduction of power supply costs through the steps identified above can be accomplished without comprehensive restructuring of Vermont's electric utility industry. Any of these steps taken prior to comprehensive restructuring would put Vermont customers in a better position to evaluate power supply choices and understand Vermont's values for power supply sources. Successful completion of all of these proposals could significantly reduce future power supply costs so as to make comprehensive restructuring, including the introduction of retail choice,

optional, not necessary.

**Explain whether and why different approaches to reform are appropriate for different categories of Vermont's power supply resources, or whether there are advantages to applying the same approach to all resources as a group.**

Particularly in the case of public power customers in Vermont who have had the opportunity to voice a preference for the source of power they receive, it would be inappropriate to take a "one solution fits all" approach to all of Vermont's power supply resources. For situations such as Rule 4.100 power, for which all ratepayers currently pay, an across-the-board solution as defined above is appropriate. For situations such as HQ, however, where some ratepayers have opted out of the contract, allocation of securitized costs to those ratepayers would be inappropriate as it would override the democratic process and the ratepayers choice to not participate in this contract.

**Explain whether or why different circumstances of different utilities, such as different forms of ownership or differing resource mixes, warrant different approaches to reform.**

Vermont's current mix of electric utilities are the result of more than a century of choice, free enterprise and community spirit in action. There is a significant difference between public power systems and investor-owned electric utilities. Public power systems, such as BED, have the strong support of the communities they serve and reflect the uniqueness and values of each community. Differences between public power and IOUs, preservation of the community values as well as respect for community decisions should be enough reason to warrant different circumstances for different utilities.

**Describe the advantages of your proposal relative to alternatives.**

BED presents these proposals for reforming Vermont's power supply as some of the many that should be considered by the Board. These proposals represent realistic options to achieve savings for all Vermont residents and businesses, do not preclude options for more comprehensive restructuring and should complement a transition to a fully reformed industry.

In summary, BED is willing to work with all parties to implement options which achieve future savings for Vermont customers, ensure the viability and competitiveness of Vermont's economic climate and preserve the unique characteristics and long tradition of public power in Vermont. BED looks forward to participating in the technical conferences scheduled for October 8-9, 1998, and any additional workshops or hearings that the Board may schedule.