

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6140

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

RESPONSE TO THE SUPPLEMENTAL QUESTIONS
RAISED BY THE BOARD AT THE TECHNICAL CONFERENCE OF
ASSOCIATED INDUSTRIES OF VERMONT
CENTRAL VERMONT PUBLIC SERVICE CORPORATION,
CITIZENS UTILITIES COMPANY, AND
GREEN MOUNTAIN POWER CORPORATION

On October 8, 1998, the Vermont Public Service Board (the "Board" or "PSB") convened a technical conference as an initial step in its investigation into the reform of Vermont's electric power supply. At the conclusion of the workshop, the Board invited participants to file supplemental responses indicating with greater specificity the "priorities" that should be addressed in this proceeding, and the specific "action steps" that should be taken in order to provide the greatest assistance in the effort to mitigate Vermont's power supply costs.

This filing sets forth the responses of Associated Industries of Vermont, Central Vermont Public Service Corporation, Citizens Utilities Company, and Green Mountain Power Corporation (together the "Parties") to the Board's questions, and supplements the Parties' Consolidated Position Paper of October 5, 1998 in this proceeding.

I. PRIORITIES.

As indicated in the Consolidated Position Paper, the Parties maintain that this investigation should be targeted to explore the reasonable and appropriate strategies as expeditiously as possible that may be available to lower power costs to all classes of Vermont's electricity customers and that the Board should seek proposals on methods that can be implemented to reduce the cost of committed supply resources now in service to meet Vermont consumers' demands for energy. Toward that end, the Parties recommend that the Board adopt the following priorities for this investigation:

1. establish policies and promptly approve utility rates that will assure that all Vermont electric utilities achieve financial stability and are allowed to collect adequate revenues to meet their current obligations for a period of time sufficient to investigate and implement cost savings reforms as contemplated by this proceeding;
2. examine the consequences of utility insolvencies and bankruptcies; and
3. explore the goals, tactics, timing and processes for the mitigation of above-market committed power supply resources. This will primarily consist of:
 - a. defining the goals and parameters for power cost mitigation that will be sufficient and acceptable. In addition, it will be necessary to understand the regional power supply context, including the relative rates, costs and sources of power, and unbundling of rates into component parts (*i.e.*, distribution and transmission, power supply, and societal program costs including energy efficiency);
 - b. creating a favorable dynamic for renegotiation of committed power supply arrangements including contracts with Hydro-Quebec and the small power producers that sell power pursuant to PSB Rule 4.100 without threatening the economic viability of the utilities or other entities;
 - c. examining the possibility and potential timing of utility resource auctions that could be perused individually or in concert with other complementary mitigation strategies, including the proposal to develop additional Vermont transmission capacity;

- d. considering the possible sale or closure of the Vermont Yankee nuclear power generating station and other above-market in-state generating facilities;
- e. examining the means of facilitating the financing of appropriate buy-out and/or buy-down arrangements including the use of asset-backed securitization, other utility financing options and the role of public financing; and
- f. examining power supply, environmental and least cost planning considerations that arise in the context of power supply mitigation and resupply efforts.

We note that the Governor's Working Group on Vermont's Electricity Future is also considering similar and related issues in its complementary efforts to work on the reform of the Vermont electric utility industry. We believe that these priorities are consistent with the matters being considered by the Working Group and will afford the Parties the opportunity to appraise both forums of the significant matter attendant thereto.

II. ACTION STEPS.

When considering the priorities we have described, it is important for the Board to focus its efforts on the specific action steps that it can, should and/or would consider taking to help to mitigate committed power costs. This includes actions that are authorized under current law and actions that would be beneficial if the law were amended to provide the requisite authority for the Board or other state entities. Specifically the Parties recommend that the Board consider the issues attendant to:

1. the issuance of orders under 30 Vermont Statutes Annotated ("V.S.A.") §§225-227 allowing "temporary" or other rates for utilities at levels that are reasonable and adequate to ensure financial stability for the Vermont electric utility industry for a temporary period that is long enough to permit the completion of beneficial power supply cost mitigation pursuant to appropriate strategies;
2. the issuance of declaratory rulings and/or generic orders pursuant to 30 V.S.A. §§108 *et. seq.*, allowing for the financing of power cost buy-out/buy-down arrangements and providing assurances to power suppliers to encourage them to

pursue such contact buy-outs/buy-downs (*e.g.*, guarantees that utilities will be allowed to include financing costs in their allowed rates throughout the term of any financings). This should include consideration of the adequacy of the Board's authority to issue a so-called "qualified rate order" that would provide the necessary security to prospective financiers to enable asset-backed securitization, other utility financings or public financing options;

3. the issuance of declaratory rulings and/or generic orders pursuant to 30 V.S.A. §§109 and 248 permitting the sale by auction and transfer of previously-issued certificates of public good of identified generating assets and power supply contracts subject to certain criteria respecting the conduct of the auction, qualifications of buyer, terms of payment, security, and other related matters. This should include consideration of the types of security that the Board can and would consider authorizing to induce mitigation partners and other interested parties to participate in any such auctions (*e.g.*, provisions finding that the purchase of the assets and any resultant utility obligations are just, reasonable, prudent, used-and-useful, and recoverable from consumers through retail rates);
4. the issuance of declaratory rulings and/or generic orders pursuant to 30 V.S.A. §248 for the expansion of transmission capacity in and through Vermont expressing specifically that the ultimate approval of such a project will be dependent upon the demonstration that overall arrangements for it will produce explicit power supply cost reductions for Vermont consumers;
5. the opening of an expedited investigation to consider modifications to the rates, terms and conditions of existing power supply contracts pursuant to PSB Rule 4.100 as well as a rule making proceeding to consider modifications to Rule 4.100 to enable buy-outs, buy-downs and refinancing of existing power supply contracts;
6. the issuance of declaratory rulings and/or generic orders pursuant to 30 V.S.A. §218c establishing the criteria for determining the appropriate economic and environmental costs to be considered in connection with utility efforts to replace supply resources in the event of contract buy-out or asset sales; and
7. the voluntary opening of utility service areas to retail competition and customer choice in connection with mitigation efforts under 30 V.S.A. §§225-229 and 30 V.S.A. §§249 *et. seq.*

Of course, as the investigation proceeds, more specific proposals and hypothetical mitigation transactions will no doubt require that this list be expanded and that the terms of other proposed Board orders and ruling be considered.

In summary, the Parties have attempted to clarify the issues raised in their Position Paper and to address the matters that arose at the technical conference. We therefore urge the Board to convene the next workshop so that we can conclude this proceeding by year's end. Time is of the essence and the Parties stand ready to immediately work toward reductions in the cost of committed power supply resources.

DATED at MONTPELIER, VERMONT this 16th day of October, 1998.

Respectfully Submitted,

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