

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6140

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

Order entered: 9/15/98

ORDER OPENING INVESTIGATION

Introduction

Historically, Vermont's electric rates have been the lowest in New England, and among the lowest in the Northeast. Today, however, this competitive advantage is eroding; electric rates for most Vermont businesses and residences are increasing, while neighboring states are pursuing a variety of techniques to lower power costs, including contract reformation, asset sales and a move to retail competition in their electric industries. Power costs of Vermont's electric utilities are presently well above market prices and, absent reform, may continue to be so for many years due to the nature of the state's long-term supply obligations.¹

Over the past few years, Vermont's utilities, customers, legislators, and regulators have pursued a number of complementary paths to manage the state's increasing power costs. Important initiatives in energy efficiency have significantly moderated the effects of price increases on individual customers, and on the Vermont economy; at the same time, utilities have mitigated some power cost increases through contract renegotiations, off-system sales, and internal cost controls. This Board, the Department of Public Service, the Legislature, and many interested parties developed comprehensive restructuring proposals that could lead to overall power sector reform. Finally, the Department, major customers, and other ratepayer advocates have pursued power cost containment through the careful scrutiny of costs in rate cases before the Board.

1. Vermont Yankee Nuclear Power Corporation is currently licensed to operate through 2012; the bulk of Vermont's independent power producer contracts, executed pursuant to PSB Rule 4.100, run until 2012; and Vermont's Hydro-Quebec contracts run through 2015 or later.

These initiatives have all been important -- however, they have not yet been sufficient to capture the full scope of achievable power cost savings. A review of above-market power costs in a traditional rate case typically results in the allocation of costs between the utility and its customers, and among customer classes; while an important and necessary step, the simple apportionment of high costs offers only a limited remedy to the underlying problem now facing Vermont utilities. Another option is comprehensive restructuring, leading to retail competition and franchise reform, a matter still under executive and legislative review. However, as the Board observed in its Order in the recent Green Mountain Power Corporation rate case, Docket 5983, other options may well exist. In that Order, we called for a “creative process of mitigating and reforming Vermont’s historic power supply arrangements,”² with or without comprehensive franchise restructuring.

Such a process would seek ways to reduce the costs and enhance the value of Vermont utilities’ power supply portfolios. For instance, contracts can be renegotiated, assigned, or recombined in new ways to lower costs and enhance their value; auctions or requests for proposals to assume existing power supply obligations or to purchase utility-owned generation facilities might elicit offers from parties who could derive greater efficiencies or economic value from Vermont’s power supply resources than presently exist.

The Board’s recent Workshop, “Electricity Futures: Reforming Vermont’s Power Supply”, which was organized to facilitate power supply reform, generated a great deal of interest. Over 140 people attended, representing Vermont retail electric utilities, both large and small electricity consumers, public officials and interest groups, and several current and aspiring energy suppliers. At that Workshop, participants heard reports on successful power supply reforms in other states, followed by a discussion intended to identify opportunities and next steps, and to elicit the best possible proposals for reformulating Vermont’s electric power supply. We conclude from those successful examples and from that discussion that the time has come to open a formal proceeding on these topics.

Today’s Order opens that proceeding. It is our goal in this investigation to create a regulatory environment and a procedural framework that will call forth, for disciplined review,

2. Order 6/8/98 in 5983 at 3.

the best proposals for reducing current and future power costs in Vermont. We intend that this investigation will define one or more acceptable courses for reform, and will create the framework to enable Vermont utilities and other interested parties to pursue them and to present them for regulatory approval in an open, public process.

This docket will proceed through a formal, open hearing process. However, it must proceed on an expedited basis in order to achieve timely results. Therefore, prior to establishing a formal schedule for this docket, we will convene a technical conference, to be held October 8 and 9, 1998. At the technical conference, participants will be invited to present their recommendations regarding the scope of the investigation and potential courses for reform of Vermont's power supply. To assist the Board and other participants, we request participants to submit position papers³ by the close of business on Monday, October 5, 1998, that address the scope of the investigation and present substantive proposals for reform. Any position papers we receive will be available for review on the Board's web site⁴, and from the Clerk of the Board, on October 7. Time will be reserved at the technical conference for brief presentations of proposals and discussion; participants are therefore encouraged to collaborate and consolidate their proposals as much as possible. Persons will be allowed to submit position papers and participate in the technical conference without attaining party status.

In general, we seek suggestions as to what substantive proposals are the most promising, and what future steps are necessary to effect those proposals. More specifically, we ask that position papers:

- ! Describe the necessary or optimal sequence of events which are necessary to achieve the highest value proposal(s) for reform.
- ! 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.
- ! Describe what Board actions will be necessary or helpful to facilitate your proposal.
- ! State whether any legislation is necessary to implement the proposal, or in the alternative, what reform is possible absent enabling legislation.

3. An original, ten copies, and an electronic version of each position paper should be filed with the Clerk of the Board by close of business Monday, October 5, 1998. The electronic version should be submitted on diskette in either WordPerfect or Word format.

4. The Board's web address is: <http://www.state.vt.us/psb/>

- ! Explain how your reform proposal can be accomplished independent from comprehensive restructuring of Vermont's electric utility industry, yet in a manner consistent with a possible future transition to retail choice.
- ! 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.
- ! Explain whether or why different circumstances of different utilities, such as different forms of ownership or differing resource mixes, warrant different approaches to reform.
- ! Describe the advantages of your proposal relative to alternatives.

Finally, a comment seems in order regarding the relationship of this docket to initiatives to restructure the state's electric industry. Over the past few years, the Legislature, the Governor, utilities, the Department of Public Service, the Board, and business, consumer and environmental interests have prepared and reviewed proposals to restructure Vermont's electric industry. Some of the initiatives -- for example the Governor's Working Group on Vermont's Electricity Future -- are still underway. At this point, mandatory franchise restructuring is a policy matter that must be decided through the political process. This docket is not intended to repeat the historic efforts, nor duplicate the continuing efforts to restructure Vermont's electric industry. Rather, in this docket, the Board will address the possibilities for reforming key elements of Vermont's *power supply* without necessarily restructuring the existing franchise system. Our intention is that the results of this investigation should not preclude options for more comprehensive restructuring, should they be enacted, and should, if possible, be able to complement such a transition.

ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Service Board of the State of Vermont that:

1. Pursuant to 30 V.S.A. §§ 2, 203, and 209, we open an investigation into reform of Vermont's electric power supply. The purpose of this investigation will be to define one or more acceptable courses for power supply reform.
2. The Clerk of the Board shall provide copies of this Order to all Vermont electric utilities, to Vermont Electric Power Producers, Inc., on behalf of the independent power producers operating in Vermont, and to interested members of the public.

3. All Vermont electric distribution utilities are ordered to participate in this investigation.

4. Persons who wish to submit position papers shall file them with the Clerk of the Board by Monday, October 5, 1998.

5. Pursuant to 30 V.S.A. § 10, a technical conference shall be convened on Thursday, October 8, and Friday, October 9, 1998, at 9:30 A.M., at the Capitol Plaza Hotel, Montpelier Room, 100 State Street, Montpelier, Vermont. The purpose of this conference will be to discuss the scope of this investigation as well as specific proposals for reform.

DATED at Montpelier, Vermont, this 15th day of September, 1998.

<u>s/Richard H. Cowart</u>)	
)	PUBLIC SERVICE
)	
<u>s/Suzanne D. Rude</u>)	BOARD
)	
)	OF VERMONT
<u>s/David C. Coen</u>)	

OFFICE OF THE CLERK

FILED: SEPTEMBER 15, 1998

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board of any technical errors, in order that any necessary corrections may be made.