January 8, 1999

Richard Cowart, Esq., Chairman
Vermont Public Service Board
112 State Street
Montpelier, VT 05620

Re: Docket No. 6140

Dear Chairman Cowart:

This letter is the response to the Board's Order of December 11, 1998 in the above-captioned proceeding, as well as in response to the Report made by the Working Group on Vermont's Electricity Future in this docket on December 18, 1998. We intend to continue to monitor all of these proceedings and to participate to the extent appropriate and necessary.

COMMENTS ON THE ORDER DATED DECEMBER 11, 1998

§III. A. Technical Conference on Resource Sales and Auctions. We have no comment on this proposal as presently described as it does not appear to directly affect the interests of our members.

B. Technical Conference on Securitization. This workshop is of interest to our members. We have supported and strongly continue to support securitization as the best method for reducing rates that independent power producers charge for electricity they produce pursuant to state and federal law. It is our intention to continue to work through and with VEPPI in this matter.

C. Technical Conference on Mergers and Industry Consolidation. As presently described, we have no comment on this proposal as it does not appear to directly affect the interests of our members at this time.

D. Additional Topics Recommended by Participants.

1. Near Term Financial Stability. We fully support the settlements reached in PSB Dockets 6120 and 6107.

2. Source-by-Source Review. We agree with the Board that the VPPSA proposal to segregate independent power producers is premature, at this time.

3. Costs and Rate Analysis. We support the proposal to make further analysis of this issue.

4. Green Power Marketing. We support this notion, and we believe we can continue to work through VEPPI in this regard.

5. Modifying Rule 4.100. We believe it would be premature at this time to move forward with a rule change until the broader issues in this docket are further explored and other proposals become more substantive in nature, thereby providing a basis for evaluation and discussion about what prospective changes to Rule 4.100 might be appropriate or necessary. Without exception we share the Board's thoughts expressed on page 13 with regard to the Board's authority.

> "We will also be interested to receive evidence and argument, at some later point, on the extent of the Board's authority, if any, to unilaterally modify existing Rule 4.100 contracts, and would be interested to learn whether Rule 4.100 producers are willing to modify the contracts voluntarily."

We are not currently aware of any legal basis for the proposal set forth by AIV et. al. With regard to this issue.

6. Voluntary Opening of Utility Service Areas to Competition. As currently proposed, we take no position on this issue at this time as it does not appear to directly affect the interests of our members.

7. Requests for Intervenor Funding. As currently proposed, we take no position on this issue at this time as it does not appear to directly affect the interests of our members.

§IV. Hydro Quebec/Bankruptcy Issues.

We believe it would be inappropriate at this time for VIPPA to comment on the contractual relationship between Hydro Quebec and the Vermont Joint Owners. Likewise, we believe it would be inappropriate for us to comment on the relationship between the Vermont Joint Owners themselves (with regard to their contract with Hydro Quebec.)

However, we believe it would be unworkable and unproductive to convene any type of proceeding regarding the bankruptcy issue. In this regard, we strongly support the comments Public Service Department Commissioner, Richard Sedano, made on December 18, 1998 before the Board at the Technical Conference about this critical issue. VIPPA has had special bankruptcy counsel undertake extensive research on our behalf on this subject. We would not disclose our knowledge and strategy with regard to potential utility bankruptcies in Vermont, nor do we believe any of the other parties would want to disclose whatever information and strategy they may have. Also, we do not see the value in speculating on law and facts whose ultimate interpretation will be the responsibility of a Federal Bankruptcy Judge.

COMMENTS ON THE WORKING GROUP'S REPORT TO GOVERNOR HOWARD DEAN, M.D. DATED DECEMBER 18, 1998

Generally we found the Working Group's Report to be enlightening. The report accurately presented and made conclusions about many issues our members have attempted to portray as the restructuring dialogue has proceeding over the past few years. Of particular interest were the following conclusions in the report:

- Vermont has few customers per mile of line than most of the region.
- Vermont has historically chosen known and stable rates by design and has moved out of the market by choice.

- Vermont's demand side management initiatives have become expensive in light of the falling electrical energy market prices.

- Vermont has an unusual customer mix when compared with other jurisdictions.

- Vermont has less heavy industry than New England and New York.

- Interestingly, the report found that Vermont has the lowest amount of above-market cost per KWH in the region (LaCapra).

- Vermont has the cleanest supply in the Northeast, 85% to 90% less emissions per KWH.

However, we were struck by one fundamental (and apparently proprietary) assumption in the Report which is based on a graph prepared by LaCapra Associates on page 9 of the Working Group's Report. Mr. LaCapra apparently believes, as he stated, that the projected retail price of electricity will remain flat for the next decade, in large part because billions of dollars will be invested in gas transmission and high efficiency gas-fired generation facilities in which the owners will take a substantial loss on their investment for the foreseeable future. Frankly, unless we misunderstood Mr. LaCapra's position, this fundamental assumption seems implausible at best. The sophisticated multi-national financial institutions and energy companies which are involved in these projects are unlikely to make investments of this magnitude with the expectation of a loss on investment for the next decade.

Even assuming Mr. LaCapra is correct, the chart illustrates that if there is no change to Vermont's current electric supply scenario, Vermont electric rates will be at or just slightly above the regional average. If, however, Mr. LaCapra's fundamental assumption is wrong, then rates (without any change from current conditions) will be well below the regional average.

One should not infer from these comments that we support the status quo, but rather that caution should be exercised to avoid the disappointment resulting from unrealistic expectations.

Mike Ranger, Managing Director of Donaldson, Lufkin and Jenerette, made several interesting points:

- Most of the elements used across the country to effectuate rate reductions through restructuring do not exist in Vermont.
- Vermont has few assets, all of which are small.
- Above market costs are mostly contract related.
- Contracts do not get wished away.
- Contracts are mostly upheld in bankruptcy.
- There must be a comprehensive settlement of all issues to effectuate a restructuring proposal in order to access the money and close a complete deal.
- If Vermont wants competition in the future, it will have to trade away the price certainty it has pursued in the past and will be at the risk of the market.

VPPSA's position on several issues strikes us as curious at best. VPPSA appears to be opposed to retail choice. VPPSA has apparently presented a proposal with regard to restructuring the relationship with the independent power producers to the Working Group, and would like to proceed to immediately open Rule 4.100. However, VPPSA's counsel, Bill Piper, informs us that his client will not provide this proposal to VIPPA, and apparently it has not been made available to the Board. From what we have been able to glean from the Working Group Report, part of the VPPSA proposal involves using municipality backed tax exempt debt to finance securization of our contracts. This notion was pursued in 1996 by the independent power producers through VEPPI. A report on this subject was prepared by McKee, Giuliani & Cleveland and Vermont Fund Advisors, Inc., on February 14, 1997. A number of questions were raised by this Report, and the issue was not pursued further at that time by VEPPI because of the perceived substantial impediments.

Regarding Hydro Quebec, we were pleased to see that the letter dated December 18th from the President of Hydro Quebec to Govern Dean has eliminated the pre-condition of Hydro Quebec's willingness to renegotiate their contract with the Vermont Joint Owners to the willingness of our members to renegotiate our contracts. We have

always believed that this stated pre-condition on Hydro Quebec's part was a cute but otherwise illegitimate attempt to hide behind legal shields available only to the members of our association under the Public Utility Regulatory Policy Act of 1978.

With respect to page 12 of the Working Group's Report, we do not understand the meaning or intent of the last sentence of paragraph 3: "The substantial additional savings from buyout or buydown discounts would also be sought."

We appreciate this opportunity to provide the Board with comments.

VERMONT INDEPENDENT POWER
PRODUCERS ASSOCIATION

By:_____
John L. Warshow, Member

JLW/scc