

VERMONT BUSINESS ROUNDTABLE  
2009 POSITION STATEMENT ON ELECTRIC ENERGY POLICY  
Approved by the Board  
February 9, 2009

## Introduction

Due to long-term, fixed-price contracts with both Hydro-Quebec (HQ) and Vermont Yankee (VY) that provide over 60% of our base load power, Vermont has had very little exposure to price variability in the electricity marketplace, and our rates are, relatively speaking, quite competitive within the New England/Northeast region. Looking to the future, however, these supplies will need to be renewed in significant measure, and demand for electricity could increase as economic growth expands and if Vermont consumers move away from their heavy reliance on transportation vehicles and home heating fuels.

With its long-term contracts due to expire in 2012 and 2015 (VY and HQ, respectively) and the new realities of the wholesale power market and its aging delivery network, Vermont must make fundamental changes in the way we plan for and provide electricity. Vermont last made new power commitments in the early 1990s. Since then the new, competition-based wholesale power markets have replaced utility generation, and the importance of a market participant's credit status has been elevated by the high-profile failures of the leading merchant generators.

Network reliability remains the most significant requirement of an advanced economy, and Vermont's providers must be able to make the investments needed to maintain reliability on what will otherwise become an aging network. Much of Vermont's electrical distribution infrastructure was constructed 40 or more years ago and will require increased replacement in the next decade.

The electric sector remains by far the most capital intensive sector of the US economy. Capital markets have undergone unprecedented trauma over the last year, and Vermont must be prepared to adjust as the implications of this upheaval for the availability and cost of new capital becomes evident. Policy makers must be aware that the rules of the game for those who need capital have changed for the worse and will continue to evolve, potentially in unexpected ways.

The following statements identify policy positions that the Roundtable advocates and also some short-term action items that it believes the state must undertake relative to electric energy policy.

## Policy Principles

1. If contract pricing remains competitive, Vermont's energy portfolio mix should continue to include diverse, economical, and environmentally responsible power from its major providers. However, Vermont must be prepared to procure power from other providers, and our regulatory policy must result in stronger credit status so that Vermont utilities are seen more broadly as feasible counterparties in today's harsher wholesale power markets.
  2. While rates and total bills, on average, are relatively competitive on a regional level,
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Vermont's overarching policy focus must be on reliability and costs, the major drivers of value and electric rates to business. Competitive businesses will not locate in an area that does not provide 21<sup>st</sup> century reliability. Because short-term electric rates are a concern to many businesses, investment in longer-term, least-cost resources must be tempered by consideration of short-term rate impact.

3. The electric supply portfolio must emphasize affordability, reliability, and diversity (including price and operational flexibility in addition to fuel characteristics) with due consideration of environmental impacts and emission reduction goals.
4. With the change in the US Administration, national energy and global warming policies may undergo significant change in the next 12 months. Vermont regulators and utilities should work to meet new national priorities or requirements but remain mindful not to place Vermont at a counterproductive economic disadvantage to the other states or economies with which it competes.
5. Because of Vermont's commitment to clean air and low carbon footprint, Vermont must give priority to environmentally-clean energy sources where they are cost competitive. Cost-effective energy efficiency should be considered first to meet our future electricity requirements and environmentally-clean sources of electric supply should be prioritized. Cost competitive, in-state renewable energy should be our first choice for new energy generation.
6. Regulatory policy should be designed to support and encourage investments by utilities in their networks and stably priced power supply – including, but not exclusively, energy efficiency and renewable generation. Load serving utilities need to achieve sufficient financial standing to make them feasible, attractive counterparties to power sellers while also maintaining their capacity to invest in their networks. The rate setting policies of Vermont's Public Service Board ("PSB") are one of the important determinants of the utilities' credit status. The Legislature's and PSB's support and implementation of legislation allowing alternative-regulation plans are positive initiatives that have helped Vermont streamline utility regulation and thereby reduce costs and increase efficiency. VBR supports continued refinement of the State's regulatory practices through alternative forms of regulation to facilitate commitments to long-term contracts as well as investment in infrastructure and energy efficiency.
7. Vermont policy must support the development and maintenance of a reliable transmission and distribution system throughout the state, one that supports reliable service to consumers and a robust market for all types of generation. Cost-effective technology (such as smart meters) and energy efficiency can also be important tools for assuring a reliable, efficient system, but the fundamental integrity of the network must take precedence from an economic perspective.

## Action Items

8. Realistically, Vermont's future electric energy portfolio must be considered under two juxtaposed scenarios, with and without a maximum of 25% of power supply from Vermont Yankee (VY). Once a VY Purchased Power Agreement (PPA) has been offered

by Entergy, lawmakers and regulators should examine such scenarios as a way to help assess the short and long-term cost implications of this policy alternative.

9. Subject to meeting the legislative and Public Service Board criteria for continued operation and provided that economic, safety and reliability, and environmental concerns are adequately addressed, Vermont should support the relicensure of VY through 2032. The 2012- 2022 revenue sharing agreement that is already in place as part of the 2002 sale to Entergy provides a valuable hedge should power market prices prove to be high during that decade. If it is forthcoming from Entergy, an attractive PPA that complements the other power supply sources in Vermont's portfolio may also be beneficial to Vermont.
10. The state should encourage collaboration across regulatory agencies to maximize the development of in-state renewable energy projects. Regulatory review – across agencies and departments – must clearly articulate the criteria that will be used to assess proposed renewable energy projects. This review must ensure that critical investments in Vermont's energy infrastructure are not unduly delayed or stalled by conflicting or narrowly-focused regulations that are in conflict with the big picture.
11. In looking ahead, the state should weigh the merits of 20 very small, separately owned electric utilities against the potential benefits of synergies derived from shared services, such as continued joint efforts on power purchases.

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