

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7440

Petition of Entergy Nuclear Vermont Yankee,)
LLC, and Entergy Nuclear Operations, Inc.,)
for amendment of their Certificates of Public)
Good and other approvals required under 10)
V.S.A. §§ 6501-6504 and 30 V.S.A. §§)
231(a), 248 and 254, for authority to continue)
after March 21, 2012, operation of the)
Vermont Yankee Nuclear Power Station,)
including the storage of spent-nuclear fuel)

**SUMMARY OF PREFILED TESTIMONY OF J. RANDALL PRATT
ON BEHALF OF VERMONT ELECTRIC COOPERATIVE, INC.**

The testimony offered by Vermont Electric Cooperative, Inc. ("VEC") provides a broader view of the potential benefits from the Revenue Sharing Agreement (Paragraph 4 of the Docket 6545 MOU) that could accrue to all Vermont electric utility ratepayers from a more inclusive allocation among Vermont utilities. Mr. LaCapra presents a historical view of Vermont Yankee's role as a State asset, discusses the public policy framework for an equitable value sharing allocation, and gives an illustrative example of how an alternative allocation methodology could be applied. Mr. Pratt's testimony describes how all of Vermont would benefit from the RSA – from a consumer, business, and economic development standpoint. VEC will show that unanticipated current and future market conditions, which could not have been predicted despite the good faith efforts of all parties in negotiating the RSA, necessitate a broader consideration of the potential economic benefit requirements that would inure to Vermont from relicensing. Finally, VEC argues that the RSA benefits alone are not adequate to meet the economic benefit criteria.

**STATE OF VERMONT
PUBLIC SERVICE BOARD**

Docket No. 7440

Petition of Entergy Nuclear Vermont Yankee,)
LLC, and Entergy Nuclear Operations, Inc.,)
for amendment of their Certificates of Public)
Good and other approvals required under 10)
V.S.A. §§ 6501-6504 and 30 V.S.A. §§)
231(a), 248 and 254, for authority to continue)
after March 21, 2012, operation of the)
Vermont Yankee Nuclear Power Station,)
including the storage of spent-nuclear fuel)

PREFILED TESTIMONY OF JOHN RANDALL PRATT

1 **Q1. Please state your name and your position.**

2 **Response:** My name is John Randall Pratt and I submit this testimony on
3 behalf of the Vermont Electric Cooperative, Inc. ("VEC"). I am employed by VEC as the
4 Manager of Government Relations.

5 **Q2. Please briefly describe your education and work experience.**

6 **Response:** I hold a Master of Business Administration degree from Regis
7 College in Denver, Colorado, and a Bachelor of Science degree in Liberal Arts from
8 Colorado State University. I have received additional utility-related training from the
9 National Association of Utility Regulators, Electric Utility Consultants, Inc., the National
10 Judicial College, and others. My work experience includes ten years in cost analysis and
11 program management with the federal government from 1990 to 2000. From 2001 to
12 2007, I served as a Utility Analyst and Hearing Officer for the Vermont Public Service
13 Board ("Board"), where I presided over or provided staff assistance to the Board in
14 telecommunications, water, and electric utility matters. In that capacity I served as the
15 Board's lead financial analyst in Dockets 6545, 6812, and 7082 (Vermont Yankee

1 Nuclear Power Station's sale, uprate, and dry fuel storage proceedings). I joined VEC in
2 February of 2008.

3 **Q3. What is the purpose of your testimony?**

4 **Response:** My testimony is offered in response to that of Mr. Bruce W.
5 Wiggett which explains the Revenue Sharing Agreement ("RSA") contained in Paragraph
6 4 of the MOU.¹ I will address the benefits of the RSA to VEC if it is allocated equitably
7 across all Vermont utilities.² Notwithstanding suggestions to the contrary in Mr.
8 Wiggett's testimony and elsewhere, as it is currently structured the benefit of the revenue
9 sharing provision will not extend to all Vermont ratepayers. VEC respectfully submits
10 that, if the Vermont Yankee's operating license is extended past 2012, the Board should
11 condition its approval on an extension of the benefits of the revenue sharing provision to
12 all Vermont electric utility ratepayers.³

¹ This testimony will adopt the nomenclature contained in Mr. Wiggett's testimony. Thus, "Entergy VY" refers to the petitioners Entergy Nuclear Vermont Yankee, LLC, and Entergy Nuclear Operations, Inc. Similarly, the "MOU" refers to the Memorandum of Understanding among Entergy VY, The Vermont Department of Public Service ("DPS"), Central Vermont Public Service Corporation ("CV") and Green Mountain Power Corporation ("GMP") in Vermont Public Service Board Docket No. 6545 *Investigation into GENERAL ORDER No. 45 Notice Filed by Vermont Yankee Nuclear Power Corporation re: Proposed Sale of Vermont Yankee Nuclear Power Station and Related Transactions*. "VY Station" refers to the Vermont Yankee Nuclear Power Station.

² In my testimony I speak solely for VEC. However, I also reference "public power," by which I mean the: (1) Burlington Electric Department; (2) Washington Electric Cooperative; (3) Lyndonville Electric Department; (4) Hardwick Electric Department; (5) Morrisville Water & Light Department; (6) Ludlow Electric Department; (7) Stowe Electric Department; (8) Swanton Electric Department; (9) Town of Northfield; (10) Barton Village, Inc.; (11) Village of Enosburg Falls; (12) Village of Hyde Park; (13); Village of Johnson; (14) Village of Orleans; (15) Village of Jacksonville; and (16) Town of Readsboro. These municipally and cooperatively owned utilities serve approximately 29% of the load in Vermont.

³ VEC has had discussions with GMP and CV and understands that they are generally in agreement with this position.

1 VEC will show that relicensing of Vermont Yankee would be of significant
2 economic benefit to Vermont ratepayers if the Board grants such approval in conjunction
3 with favorable power purchase agreement terms.

4 My testimony should be read in tandem with the testimony of Richard La Capra
5 which is also being filed on behalf of VEC. Mr. La Capra's testimony outlines the
6 historical and public policy reasons for allocating the revenue sharing benefits on a
7 statewide basis. The purpose of my testimony is to call the Board's attention to some of
8 the positive effects that would accrue, and the undesirable consequences that may be
9 avoided by allowing the benefits to flow to all Vermont electric utilities. I do not suggest
10 that VEC has an entitlement to a portion of any RSA benefits because of any past wrong
11 that was inflicted upon it. Instead, I hope to take a broader view of the entire history of
12 Vermont Yankee as a state-wide asset, as well as the future equities available, now that
13 we all have a better understanding of current and expected electricity market conditions
14 in particular, and a broader view of the economic realities we all face.

15 **Q4. Please describe your understanding of the Revenue Sharing Agreement that is**
16 **a part of the MOU.**

17 **Response:** The MOU sets out several conditions regarding the sale of power,
18 decommissioning obligations and funding, spent fuel removal, and other provisions that
19 the parties agreed to in attesting that the transfer of Vermont Yankee from VYNPC to
20 ENVY would promote the general good of the State of Vermont. Paragraph 4 of the
21 MOU (I will refer to this section of the MOU as the "Revenue Sharing Agreement" or
22 "RSA") states in part:

1 **Sharing Excess Revenue After License Extension:** In the event that ENVY
2 extends the operation of the VYNPS pursuant to its NRC license, ENVY agrees to
3 share with VYNPC fifty percent of the "Excess Revenue" for ten years
4 commencing on March 13, 2012.
5

6 "Excess Revenue" equals the excess of VYNPS's revenues determined by taking
7 VYNPS's average energy price (dollars per MWh) during the fiscal year less the
8 "Strike Price" (dollars per MWh). If the average energy price is greater than the
9 "Strike Price," that difference (in \$/MWh) times the total MWh sold from
10 VYNPS by ENVY during the fiscal year commencing on March 13 shall be the
11 "Excess Revenue." Entergy agrees to provide the data necessary to verify this
12 calculation.[cite]

13 The Revenue Sharing Agreement sets the strike price at \$61/MWh on March 13, 2012,
14 and establishes factors by which it will escalate annually thereafter.

15 The parties to the MOU were ENVY, VYNPC, CV, GMP, and the DPS. At the
16 time that the MOU was executed, CV and GMP were the sole Vermont owners of
17 VYNPC. Two and a half months prior to the MOU, four Vermont utilities (VEC,
18 Burlington Electric Department, Washington Electric Cooperative, Inc., and Lyndonville
19 Electric Department) released their ownership shares of VYNPC stock, by executing a
20 December 19, 2001 settlement agreement. Mr. LaCapra's testimony provides a more
21 detailed background of VEC's circumstances at the time the settlement agreement was
22 reached. It is my understanding that VEC believed that VYNPC was expected to have
23 very few assets, and its revenues were expected to be limited to the administrative fees it
24 withheld for conducting power sale transactions between its owners and ENVY.
25 Regardless, and for various reasons, VEC and the rest of public power in Vermont were
26 no longer parties to Docket 6545, within which the DPS was able to structure very
27 positive agreements, including the RSA.

1 It is also my understanding that at the time of the settlement agreement and the
2 sale of Vermont Yankee to ENVY, there was little or no value ascribed to the possible
3 benefits from the RSA. This view is supported by the Board's own description when it
4 wrote:

5 We note that the \$61 strike price is higher than the prices that any party
6 has forecast for wholesale market power in 2012 (for example, it is
7 approximately 10 percent above the DPS 2001 forecast that we find
8 represents one end of the reasonable range of price projections). See
9 Finding 52. Thus, based upon present projections, **this sharing provision**
10 **is not likely to have any value to ratepayers.** Nonetheless, it does
11 provide protection should energy market prices change precipitously.
12 (Docket 6545, Order of 6/13/2002 at 71 (footnote 142.)) (emphasis
13 added.)
14

15 **Q6. Have you calculated the potential value of the RSA?**

16 **Response:** For the purposes of my testimony, I do not need to produce
17 alternative estimates but only note that the value is likely to be sufficiently high as to
18 have a material effect on electric rates in Vermont. I have reviewed and find reasonable
19 Mr. Wiggett's estimates which indicate that during the period in which it is in place, the
20 value of the RSA may amount to several hundred million dollars.⁴

21 **Q7. Has the RSA been identified as the reason that the license extension of Vermont**
22 **Yankee will benefit Vermont as a whole?**

23 **Response:** Yes, there have been general statements made in this Docket and
24 more broadly that seem to assume that the RSA will benefit all of Vermont. For
25 example, in a recent letter from Entergy to the Board, Entergy stated:

⁴ It is unclear to me why Mr. Wiggett chose to limit his calculations of CV's and GMP's share to 55% of the sharing benefit when their ownership share of VYNPC amounts to 92.5%. Wiggett pft. at 7; *see also* Response of Entergy VY to VEC's 1st Set of Information Requests: VEC:EN 1-12, 1-13, 1-14, and 1-15.

1 Vermonters stand to realize Revenue Sharing Clause benefits of almost \$1
2 billion in nominal dollars over ten years, or about \$4,000 **per Vermont**
3 **household.**⁵ (Letter from Jay K. Thayer to the Honorable Susan M.
4 Hudson, December 22, 2008)(emphasis added.)
5

6 While I presume that these Vermont households would include the Vermont electric
7 ratepayers served by public power as well as those served by CV and GMP, I also
8 recognize that CV and GMP have at times assumed a greater degree of investment in the
9 costs and benefits of Vermont Yankee. Accordingly, I believe any agreement that
10 revises the RSA should be structured in a way to reflect these differences.

11 **Q8. Why do you think the benefits of the RSA should be shared by all of Vermont's**
12 **ratepayers?**

13 **Response:** As Mr. La Capra describes in his testimony, all Vermont
14 ratepayers have shared in many of the past benefits and costs and they will continue to
15 share in many of the future risks associated with VY. Moreover, as described herein, the
16 economic disparity and dislocation among the citizens and businesses throughout
17 Vermont that would result from an inequitable sharing of RSA benefits could be severe.
18 Accordingly, I believe it is appropriate that the benefits of the RSA inure to all
19 Vermonters.

20 **Q9. What are the practical implications if an agreement on sharing RSA benefits**
21 **more broadly is not approved?**

⁵ There are approximately 240,000 households in Vermont; if each received \$4,000, the total benefit would be \$960 million, which is very close to the \$1 billion figure cited.

1 **Response:** Using the realistic assumption that there is a meaningful amount of
2 excess revenues to be shared, under certain scenarios a disproportionate allocation among
3 Vermont customers could have several negative effects. Among these are:

4 1) My first concern is one of equity and that concern is shared by Mr. La Capra
5 in his prefiled testimony. All Vermonters share in many of the risks of having
6 Vermont Yankee in our state. For example, it is not inconceivable that all
7 Vermont taxpayers could end up becoming responsible for a portion of any
8 shortfall in funds for decommissioning and radioactive waste storage. Thus,
9 if, all Vermonters are sharing in the risk of continued operation of the plant,
10 they should share in the benefits including benefits accruing from the RSA.

11 2) The next concern with the benefit not extending to public power is the effect it
12 could have on economic development. All areas of Vermont but, in
13 particular, many of the rural areas, struggle to attract and retain businesses.
14 One of the significant considerations for many businesses when considering
15 where to establish or move their business is the cost of electricity. Disparities
16 between regions could introduce an additional and extraordinary economic
17 disadvantage for communities and their constituents who are served by public
18 power. Similarly, in rural communities it is common that one or two major
19 employers may make up a much larger percentage of the whole community,
20 so any demographic shift caused by economic development imparity could be
21 long-lasting and severe. The Board has repeatedly recognized the implications

1 and impact of significant differentials in rates between neighboring utilities in
2 their ability to attract and retain new and existing businesses.⁶

3 3) Obviously, if the RSA benefits are distributed only to the investor-owned
4 utilities, they will be able to achieve significantly lower rates than public
5 power. VEC's service territory includes some of the poorest and most rural
6 areas of Vermont. Additionally, VEC's territory is among the costliest in the
7 state to serve. Unfortunately, many VEC ratepayers – who need rate relief the
8 most – would derive no benefit from the RSA as it is currently structured.

9 Moreover, if currently existing differences in rates are exacerbated, it could lead
10 to confusion and protracted disputes between customers, towns, regions, and different
11 demographics, all of which would consume significant time and many resources to
12 resolve. From a business perspective, any enterprise that is served by public power
13 would instantly be at a competitive disadvantage to those that are not.⁷ Relocation, were
14 it even a viable option, would further exacerbate hardships on already struggling regions
15 and communities.

16 In summary, VEC seeks an equitable sharing of any RSA money as a way to
17 ensure a level playing field for all Vermont residents, utilities, and businesses.

⁶ *In re Investigation of Vt. Elec. Coop.*, Vt. Pub. Serv. Bd., Docket Nos. 5630, 5631, 5632 (Oct. 13, 1993), pp. 37, 38, 42, 59; *In re Investigation of Vt. Elec. Coop.*, Vt. Pub. Serv. Bd., Docket Nos. 5810, 5811, 5812 (Feb. 8, 1996), pp. 18, 33, 53, 54; *In re Pet. of Vt. Elec. Coop.*, Vt. Pub. Serv. Bd., Docket Nos. 5971 (June 26, 1997), p. 5.

⁷ One conceptual solution to correct for such disparity might be for the IOU's to somehow acquire all of the public power utilities. Even if such consolidation were to occur, it would be a time- and cost-consuming process, which would require lengthy and costly regulatory proceedings, among other things. Ironically, after such a process, we would wind up in the same place as had we made an equitable RSA allocation from the beginning since, if the IOU's were to purchase all of public power, the IOU's would then need to have to reduce rates for their newly acquired customers.

1 **Q10. Will an equitable distribution of Revenue Sharing Agreement moneys provide**
2 **an economic benefit Vermont Electric Cooperative?**

3 **Response:** Yes, if market prices stay above \$61.00/MWh. If, on the other hand,
4 market prices stay below the equivalent of \$61.00/MWh for the ten years during the
5 period in which the RSA is in effect, license extension will be of no benefit to VEC. In
6 such case, however, if VEC were to obtain a power purchase agreement for VY power at
7 a lower than market rate, the license extension would be a continuing benefit to Vermont
8 and therefore supported by VEC.

9 **Q11. Does this conclude your testimony?**

10 **Response:** Yes, it does.