November 4, 2011

Commissioner Elizabeth Miller
Department of Public Service
112 State Street, Drawer 20
Montpelier, VT 05620-2601

RE: Draft Comprehensive Energy Plan Comments

Dear Commissioner Miller:

As organizations representing employers and employees from across the Vermont economy, we recognize the importance of Vermont's Comprehensive Energy Plan in framing debate and providing impetus and guidance to specific laws and regulations that will have tremendous influence over the state's economic environment and the future welfare of working Vermonters and their families.

In light of this importance, we offer the following suggestions to help improve the draft Plan and help ensure that it can provide a positive and constructive foundation for future legislative and regulatory actions.

Overarching Energy Policy Goals and Criteria

Key Points

- Minimizing the cost of energy – electric rates, heating and transportation fuel costs – should be the primary goal and criteria for the Plan and its recommendations, and the Plan should explicitly recognize that energy policy is fundamentally economic policy.

- Given Vermont's clean energy portfolio and negligible contribution to greenhouse gas emissions, climate-related goals and criteria should be kept secondary to cost and other economic priorities impacting jobs, wages, and investment.

Discussion

The cost and reliability of energy in Vermont are directly connected with the need to retain and grow jobs in the state. Many of the most high-value and high-profile jobs in the state, from manufacturing to agriculture to retail to travel and tourism, can be heavily dependent on energy, especially electricity, and sensitive to local costs of doing business. The affordability and reliability of energy, therefore, impact job security, wages and benefits, investment decisions, and growth opportunities.

Vermont is already a high-cost state for businesses generally, owing to taxes, insurance, regulations, labor costs, transportation challenges, and other factors. Any increase in the cost of energy only adds to the overall cost disadvantages facing Vermont employers.

Electric rates present a particular competitive challenge to Vermont employers, especially those who export goods and services and compete nationally and internationally. Despite talk about Vermont electric rates being among the most competitive in our immediate region, that comparison is of limited relevance to our actual competitiveness. Most states that Vermont competes against for new businesses and retention of existing businesses, and where the competitors of existing Vermont businesses are located, are outside New England. As one illustration of the challenges faced by Vermont, according to preliminary

year-to-date data through December 2010 from the Energy Information Administration, Vermont had average industrial ratepayer costs approximately 32.2% higher than the other 47 contiguous states and commercial costs approximately 39.7% higher.

As noted in various Vermont studies in recent years, there are relatively few jobs sustained by efficiency programs and most types of instate renewable energy generation, especially smaller scale projects. The largest subset of related jobs tend to be in construction, which is obviously a fleeting effect in the context of sustained increases in electric rates. Moreover, the Vermont market is too small for instate mandates to be a cost effective or responsible (given cost increases for other employers) means to support renewable energy or efficiency technology related manufacturing jobs, given the far greater importance for such companies to compete successfully in national and even international markets.

Indeed, even the draft Plan's own analysis of total economic benefits of efficiency and renewable energy policies (Section 3.2.3.2 of Volume 2) raises serious cost/benefit questions – even before the underlying assumptions are questioned.

In the context of existing economic disadvantages, the additional harm caused by policies that increase the cost or reduce the reliability of energy cannot reasonably be justified by the non-economic goals and priorities emphasized in the current draft Plan.

Vermont's electric portfolio is already heavily invested in clean and renewable energy generation. Indeed, Vermont already has higher renewable energy dependence than other states are even attempting to achieve through renewable portfolio standards. Moreover, as noted by state utilities during the Public Service Board's development of its recent report on new renewable energy mandates for the state, it appears unlikely that Vermont's dependence on renewable energy will decline in the years ahead even absent new laws or regulations.

Even beyond electricity, Vermont's contributions to greenhouse gas emissions and any resulting environmental effects are negligible given our small size. Moreover, recent state analyses of climate change issues found that Vermont was actually a net absorber of carbon, owing largely to our forest-based resources and industries.

Energy Efficiency

Key Points

- A primary focus of the Plan should be reducing or eliminating dependence on the Energy Efficiency Charge (EEC) to support efficiency programs and investments, particularly for commercial and industrial ratepayers.

- Measures should include revisiting Energy Efficiency Utility (EEU) budget levels to ensure a better balance of short and long term costs and benefits, development of financing mechanisms paid for by customers benefiting from projects, consideration of tax incentives, and more education and outreach to encourage best practices and market transformation without the need for subsidization.

- New or expanded thermal and other non-electric programs should not be funded through the EEC or similar mechanisms.

- Commercial and residential building efficiency policies and programs should not be enacted if they add costs or raise regulatory obstacles to the construction and sale of such buildings.

Discussion

The Public Service Board's consideration and August decision to increase the EEU budgets illustrate the problems with the EEC. The new funding levels will result in increases in the EEC of several million dollars each year, starting at over $40 million in 2012. The estimated net increase in electric rates caused by the EEC and efficiency programs is estimated by the Department of Public Service to increase from nearly 7% in 2012 to over 12% by 2017.

However, during the Board proceedings leading up to the budget decision, Vermont utilities raised concerns that projected system wide savings from efficiency investments were overestimated, which if true would result in much higher rate increases – perhaps as high as 18%.

Companies that are unable to make sufficient efficiency investments will see a net increase in electricity costs owing to the existing and any increased budget levels, and there is insufficient information as to the extent and severity of this imbalance across companies in Vermont. Also, the EEC and related rate impacts can often exceed the price of making efficiency investments, especially over time, and therefore companies can end up effectively paying more than they would have on their own to make efficiency investments, suffering lost opportunity costs.

These are just a few of the problems created by using the EEC to fund efficiency programs, many of which could be substantially reduced or eliminated by adjusting budget levels, encouraging more lending and related financing mechanisms to pay for projects directly out of the savings they produce, considering tax incentives and related policies, or simply providing education and information to encourage efficiency without subsidy support.

Given the problems with the EEC, similar funding mechanisms should be avoided in the expansion or creation of new thermal or other non-electric efficiency policies and programs.

Given already existing financial and regulatory obstacles to economic development and affordable housing in the state, any new commercial or residential efficiency policies and requirements should be carefully considered to avoid creating any new or increased costs and obstacles.

Renewable Energy

Key Points

- Vermont should not adopt any new renewable energy mandates. Rather, statutory and regulatory requirements on utilities to acquire least cost electricity should be strengthened to help minimize electric rates.

- To the extent that environmental goals are established as secondary priorities to rate and economic impacts, utilities should be guided to pursue the most cost effective generation sources, without regard to scale, location, or technology. Moreover, the climate and related environmental advantages of nuclear power should be recognized on par with renewable power.

- With regard to distributed generation in particular, projects should be pursued strictly on the basis of reducing electric rates and addressing legitimate transmission grid reliability concerns, rather than to meet arbitrary quotas or other policy goals.

Discussion

With regard to new renewable energy policies, the draft Plan projects costs to ratepayers of $292 million over 20 years and, as noted above, presents some questionable cost/benefit forecasts. However, the Public Service Board's recent report recommending a renewable portfolio standard (RPS) provides a more concrete legislative and regulatory model to consider, and more sobering cost projections and uncertainties. The report calls for mandating that Vermont utilities obtain 75% of their electricity from renewable generation by 2033. Within the portfolio mandate, utilities would have to maintain 40% renewables from existing or replacement generation of any scale or location. An additional 25% would have to come from new renewable generation. Finally, 10% would have to come from new small scale, instate generation functioning as distributed generation. The distributed generation tier of the mandate could come from net-metered projects as well as an expansion of the existing 50 megawatt Standard Offer Program, similar to one of the recommendations in the draft Plan.

The Board has estimated that its proposal would cost Vermont between $311 million and $435 million, and increase electric rates between 6% and 9% over what would otherwise be the case. However, there is reason to believe the costs would be much higher. As pointed out by Vermont utilities during the Board's development of its report, the analysis commissioned by the Board to help frame cost issues appears to seriously overestimate the baseline cost of power against which the RPS proposal is being compared, and to seriously underestimate the cost of power contracts with new renewable energy producers. With the cost of renewable energy likely to be much higher than the Board is assuming and the cost of alternative power likely to be much lower, the true cost to Vermont ratepayers is likely to be much higher than the Board suggests in its report.

In light of the negligible practical environmental benefits of new renewable mandates in Vermont discussed previously, the projected costs (and likely higher real costs) would appear to be unwise and counterproductive to more important economic priorities for the state.

In addition to the general concerns about renewable energy mandates outlined previously, we would particularly note that distributed generation is only of value if it sufficiently reduces costs and increases reliability. As such, any real value is highly case and context specific. Therefore, distributed generation can and should be pursued within appropriate rules and policies governing such utility investments on the merits of specific possible projects. To instead impose a mandated percentage of distributed generation would be to require such investments without regard to ultimate costs and benefits, and would therefore not be responsible policy.

Vermont Yankee

Key Point

- Should Vermont Yankee continue to operate beyond 2012, the Plan should include measures to help ratepayers take maximum advantage of the many benefits of purchasing power from that facility.

Discussion

The draft Plan assumes that Vermont Yankee will not be part of the state's energy future. There is every possibility, however, that Yankee will in fact continue to operate under its new federal license for an additional 20 years. Given Yankee's potential to be the single most affordable large-scale, reliable, and clean power generation source for the state, it would not be responsible for any final Plan to fail to include measures to try and take full advantage of Vermont Yankee in the state's power portfolio should it in fact continue to operate.

Land Use and Transportation

Key Points

- Land use restrictions or discriminatory incentives and disincentives should not be part of the state's energy policies.

- Transportation fuel policies, including fuel content standards and CAFE standards, should not be inconsistent with national policies or increase costs of doing business to Vermont employers.

Discussion

Vermont is already in need of permit and related reforms to help facilitate economic development; new restrictions or discriminatory incentives would be a step in the wrong direction, especially for high-value industrial or other forms of development that might not be compatible with certain "smart growth" policies, particularly those that are "village" or "downtown" oriented. Land use policies should be focused on high-value economic goals and criteria.

As with other areas of regulation and costs of doing business, any new transportation or fuel related law or regulation that would make it more expensive or administratively complicated to do business in Vermont would undermine economic goals and priorities.

Process and Content

Key Points

- The final version of the Plan should be postponed pending resolution of the legal proceedings regarding continued operation of Vermont Yankee.

- The final version of the Plan should include credible and thorough cost and economic impact forecasts associated with all of the major elements of the Plan, including rate and state-wide job impacts of renewable energy and energy efficiency programs and policies. These forecasts should address credibility concerns regarding underestimating costs and rate impacts raised during recent Public Service Board deliberations on EEU budgets and renewable energy mandates.

Discussion

As noted above, whether or not Vermont Yankee operates beyond 2012 could make a significant difference in what would constitute a responsible, affordable, and reliable energy future for Vermont and Vermont ratepayers. With relevant court decisions expected in the

near future, it would be prudent to postpone finalization of the Plan until Yankee's future is more clear.

The goals and initiatives included in the draft Plan have significant economic consequences. As noted in discussion of related Board analyses above, the economic analyses of the draft Plan's efficiency and renewable energy recommendations would appear to need revision and greater transparency and clarity. Other major areas, including non-electric energy and transportation policies, are in need of similar economic context.

Conclusion

The draft Plan is broad in scope and very detailed. The comments and suggestions outlined above are not comprehensive, but would help improve the final Plan significantly.

We appreciate the Department's consideration of these comments, and we would be very interested in working with the Department in helping to integrate our suggestions into the final Plan. Please do not hesitate to contact us regarding any of the points above or other areas of the Plan you would like to discuss.

Sincerely,

Associated General Contractors of Vermont
Associated Industries of Vermont
Barre Granite Association
Champlain Water District
Franklin County Industrial Development Corporation
Green Mountain Dairy Farmers Cooperative Federation
Green Mountain Economic Development Corporation
Home Builders & Remodelers Association of Vermont
International Brotherhood of Electrical Workers Local 300
Lamoille Economic Development Corporation
National Federation of Independent Business/VT
Rutland Economic Development Corporation
St. Alban's Cooperative Creamery
United Dairy Farmers Association of Vermont
Vermont Association of REALTORS
Vermont Business Roundtable
Vermont Energy Partnership
Vermont Farm Bureau*
Vermont Fuel Dealers Association
Vermont Petroleum Association
Vermont Ski Areas Association
Vermont Truck & Bus Association
Vermont Vehicle and Automotive Distributors Association

* added after November 4