

July 2, 2009

**Mrs. Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, Vermont 05620**

VIA EMAIL

Re: Docket No. 7523

Dear Mrs. Hudson:

Please accept this letter as the Department's comments on the issues that have been raised in the above-referenced docket. The Department is submitting comments only on those issues highlighted as to the September review and will be filing our comments of the other issues next week.

Development of Standard Offer Terms – There are several models for contracts which the Board can use to provide guidance. The existing PURPA contracts as well as the EEI standard contract will provide some guidance regarding appropriate terms and conditions. The unique aspects of the proposed system in Vermont involve one purchasing agent buying and allocating power for all utilities. The terms under which this is to happen must be clear to developers before they commit to a project. Issues here would include resolution of the nature and extent of wheeling charges and who is responsible for them, SPEED administrator charges and what assurances utilities might need from developers to incorporate these projects into their power planning scenarios and what assurances needed by developers that utilities remain creditworthy. Distinct from PURPA implementation in Vermont, levelization of rates is not contemplated (and would be opposed by the Department) so there does not appear to be a need for financial performance assurances from developers. Metering and reporting and interconnection issues also need to be addressed as contract terms.

Review of the Default Prices Established by Act 41– The legislation requires that, by September 15, the Board determine if the rates proposed initially are reasonable, given the other criteria established in the legislation. Given the number of issues that

need to be resolved to do this in a comprehensive manner, the Department recommends the Board adopt an expeditious procedure to accomplish that task, with the intent being to develop more permanent and more thoroughly researched rates by January. This verification process could involve a survey of existing programs in other states or regions to look at their success rate, or looking at Vermont based programs such as the Clean Energy Development Fund, or the net metering program. Once interim rates have been established, parties can focus on a more detailed, cost based approach to determining long term rates. Any changes to the initial rates proposed in the legislation should be issued a proposed rate with opportunity for comment by the parties.

Establishment of a Queuing Process - The Board should establish a qualification process that allows a developer to reserve an allocation of the 50 MW cap, commit to a rate and terms at a time of their choosing, and provide a mechanism to ensure a project is proceeding on a reasonable schedule. This should be a substantive commitment, possibly including a reservation fee which could be forfeited should project development not occur on a reasonable schedule. Once a developer has completed this hurdle, they have reserved a place in the queue and locked in a rate for their project. The initial terms should be as generic as possible with minimal granulation within categories. Initially, the Department does not see a need to establish quotas for each project type by Sept 15, but this may be desirable for the January rate setting process.

Determination of Project Eligibility – The Department recommends that only projects put into service after July 1, 2009 be eligible for this program. Incremental additions to existing projects can be eligible, provided there are adequate provisions to separate the qualifying output. The SPEED administrator should be assigned the task of project qualification. As suggested above, allocation of a portion of the 50 MW should be made to projects which can demonstrate a reasonable likelihood of success.

Auction – In addition to consideration of the highlighted issues, the Department urges the Board to examine the benefits of developing an auction based procurement system. The goal is to provide rates that provide sufficient incentive for rapid development of resources, but are not excessive. The Department believes that it may not be possible to anticipate the response to any particular rate offering until it is made. On the one hand, history shows individuals are installing these systems in response to a net metering rate which is well below the proposed solar rate. And while the total installed capacity is small, there are a significant number of systems. On the other hand, the legislation contemplates somewhat larger scale systems, which may require improved financial performance to insure their viability and it also contemplates increasing the rate of installation. A well designed auction process will provide an opportunity for developers to determine the rate they need to develop their

projects, while assuring that sufficient capacity is provided an incentive to come on line. The approach used by ISO-NE for its forward capacity auctions could serve as a model for a renewable capacity auction. Using this strategy for the January price setting round would provide ample notice for developers to enter projects into the queue.

Thank you and please let me know if you have any questions.

Sincerely,

Jim Porter

cc: Service List