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July 9, 2009

Ms. Susan M. Hudson, Clerk  
Chittenden Bank Building, Fourth Floor  
112 State Street, Drawer 20  
Montpelier, Vermont 05620

*Via Electronic Mail*

Re: Docket No. 7523 – Central Vermont Public Service Corporation Reply Comments  
Re: Parties Preliminary Positions on Issues List

Dear Ms. Hudson:

This letter will serve as Central Vermont Public Service Corporation's ("Central Vermont," "CVPS" or the "Company") comments on the preliminary position statements offered by parties on the matters described in the Public Service Board's Docket Issues List dated July 26, 2009 and served on the parties in the above referenced matter.<sup>1</sup> Central Vermont's comments are organized by topic.

1. Distribution Wheeling Tariff. In its comments, the Burlington Electric Department ("BED") observes that the resolution of issues affecting the acquisition of power under standard offer contract implicates the need for distribution wheeling terms and condition. BED suggests that no utilities in Vermont have distribution level wheeling tariffs. CVPS advises that its wheeling tariff does contain some terms and conditions that govern wheeling over distribution facilities. See: [http://www.iso-ne.com/regulatory/tariff/sect\\_2/sch21/sched\\_21-cv-clean.pdf](http://www.iso-ne.com/regulatory/tariff/sect_2/sch21/sched_21-cv-clean.pdf).

2. Tier Pricing for Projects. Northern Power Systems ("Northern Power"), Renewable Energy Vermont ("REV"), VPIRG and the Vermont Agency of Agriculture ("Ag Agency") suggest that different sized projects (of the same technology) be paid different rates to support mismatches in economies of scale. Even though the legislation establishes size classes, CVPS recommends that the Board tread carefully in this area. The price signal that the PSB sends to developers should be one that attracts the most efficient, most economic projects for utility customers. This helps to address the Legislature's direction to avoid creating excessive rates. Northern Power's cost graph on page 5 of its comments suggests that very large cost differences between 1.5 MW turbines (\$0.06) and 10kW turbines (\$0.42) exist. Where possible under the Act 45 mandate, CVPS urges that the Board adopt rates, terms and conditions for Standard Offer Contracts that encourage efficiency in all aspects of the SPEED program.

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<sup>1</sup> In accordance with the Procedural memorandum issued by the Board that accompanied the Docket Issues List, these comments are being served via electronic mail on Docket participants but not by mail service.

3. Separate Rates for Taxable and Non-taxable Entities. In their comments Northern Power, Renewable Energy Vermont and others suggest that the Board should establish separate rates for taxable and non-taxable entities to account for cost differences between those entities that are able to capture a federal tax benefit and those who are not. When considering the desirability of offering such rates, the Board should be guided by an efficiency principle and try to signal potential developers to recognize all available benefits (grants, tax credits, etc.) so that these incentives can be leveraged to produce the lowest cost projects for customers. This would put the developer in the position of attempting to propose business structures that are efficient and makes the most sense for them and consumers.

4. Wind Resource Modeling. Northern Power suggests that the Board should consider setting pricing according to the available wind resources. In other words, in places where wind speed renders a lower quality wind resource, a higher price would be paid to make the project economic. As discussed in Central Vermont initial comments, the Company does not believe that prices should be set to encourage the development of inefficient resources and that such development means that customers will have to pay more than they otherwise would have to for the same volume of any specific renewable energy resource.

5. Waiver of Wheeling Charges. Renewable Energy Development, LLC (“RED”) suggest that since the existing Rule 4.100 contracts between producers and the purchasing agent do not include charges to producers for project wheeling no wheeling on the Standard Offer contracts should be required. *See* RED Comments at 1. CVPS has noted that the existing arrangements remain grandfathered but that there has been a sea change in the regulation of wheeling since the time that these arrangements were entered. The Company reiterates its belief that a working group should develop a recommendation that best serves the interest of customers and meets existing wheeling requirements and notes that RED has expressed a willingness to work towards the resolution of this matter.

6. Project Milestone Requirements. In their comments the Group of Municipal Utilities (“GMEU”) and REV suggest that the Standard Offer process incorporate project milestones to track the progress of each project during the development cycle. CVPS concurs in the need for such requirements which, if properly implemented, should be able to help utilities to plan and manage their supply portfolios while helping the SPEED Facilitator to efficiently manage the Standard Offer queue.

7. Standard Offer Contract Terms and Conditions. In its comments the GMEU suggests that before the VEPPI contracts can serve as models for the new standard offer contracts, they need to be updated to address commercial terms such as security, events of default, etc.... CVPS supports the effort to modernize these arrangements to address the needs of utilities within the current market structure (and throughout the term of the arrangement) to be able to maximize the value of the various commercial products to be delivered by producers and to protect consumers. The Company believes that this effort lends itself to a dedicated working group. CVPS is prepared to participant in this effort.

8. Duty to Obtain RPS Certification for Standard Offer RECs. In its comments, Green Mountain Power (“GMP”) suggests that the burden should be assigned to the producers to seek

and maintain eligibility for the output of their projects within the state Resource Portfolio Standards (“RPS”) where such Renewable Energy Credits (“RECs”) may be monetized for the benefit of Vermont electricity customers (including such jurisdictions as may be developed during the pendency of the agreement). Under the Standard Offer arrangement, except for exempted methane projects, REC values will be factored into the Standard Offer rates to be assigned to utilities for recovery from Vermont electricity consumers. Since these values will be paid by purchasers, Producers rightly should pay the cost for the work necessary to maintain RPS and REC certification for all market products delivered throughout the term of the standard offer supply arrangement. There may be limits to the requirements to be placed reasonably on producers, but the failure of a producer to take such actions as are required to maintain RPS and REC certification means the products are no longer being delivered to purchasers (and some value is no longer being transmitted under the contract). Producers’ efforts will have to be coordinated with the SPEED Facilitator who will presumably have privity of contract under the Standard Offer contracts. It should not be the responsibility of the receiving utilities to undertake this effort although they should coordinate with the SPEED Facilitator to make sure that producers seek qualifications subject to the rules and regulation of the appropriate jurisdictions and cooperate with the purchasers to maximize project values.<sup>2</sup>

9. Project Settlement. In their comments GMP and the Vermont Electric Cooperative suggest that SPEED projects should be treated as load reducers instead of as ISO-NE recognized assets. While CVPS acknowledges that this settlement process can work and there can be attendant benefits, it advises that such treatment also results in an administrative burden that should be explored as a part of this investigation. For example, for a project to be eligible for recognition under the Massachusetts RPS, an independent third-party meter reader has to be certified by the MA DOER and has to submit monthly meter data and emissions data to the NEPOOL GIS system. This is a service ISO-NE normally provides as a part of the settlement process. But if ISO doesn’t recognize the asset in settlement and has no associated meter data, it cannot perform this task. Perhaps the technical aspects of this aspect of the program should be addressed through a working group composed of the SPEED Facilitator, the distribution utilities and VELCO who could make a recommendation to the Board and participants on an appropriate process and strategy for settlement of purchased resources.

10. Interconnection Costs. REV suggests that the cost for interconnection and system improvements may need to be shared for SPEED projects. *See* REV Comments at 7. This approach is inconsistent with the requirements for the interconnection of generators generally in effect throughout New England. The SPEED program should not alter this approach. These costs arise on account of the introduction of the proposed generator and are rightly a cost of the project. The rate set for projects should be set to encourage developers to look for efficient system locations or to factor the cost for interconnection and system upgrades into their development strategies. This will promote efficiency by using the pricing signal to encourage developers to take interconnection and system upgrade costs into account when making decision about the reasonable of specific development proposals.

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<sup>2</sup> An exception to this requirement may be appropriate where an exempt methane project does not convey RECs to the SPEED Facilitator however, in all other respects, such producers should be required to help to qualify their products for the markets that are appropriate and help purchase to get value for the customer under the arrangement.

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11. Producer Risks. CVPS observes that the Standard Offer contracts should be a low risk supply arrangement from the producer's perspective since it will presumably be entered into by the SPEED Facilitator subject to PSB Rule and Order. The nature of this supply arrangement should be taken into account when the terms and conditions of the Standard Offer arrangements are considered. In the comments offered by the Vermont Department of Public Service, the DPS suggest that standard offer contract terms might need to contain assurances to developers that utilities remain creditworthy. Utilities will not be parties to these arrangements and instead will be allocated power by the SPEED Facilitator. Given the design of this system, CVPS recommends that such terms are not appropriate to a standard offer contract.<sup>3</sup> Since the agreements proposed are for such a long term, the Board should exercise caution in taking steps that would result in adverse accounting or financial treatment of these arrangements for the utilities receiving power from the Facilitator under the SPEED Program.

Central Vermont notes that a number of parties have offered comments on the matters described on the Board's Docket Issues List. Due to the volume these comments and the time provided for reply, Central Vermont has only highlighted significant areas of agreement or disagreement. While CVPS has endeavored to review all comments, its failure to address an issue raised by a party should not be interpreted as a waiver of its opportunity to comment on said issue or the policy and other considerations that may flow there from.

Should you have questions regarding this submission, please do not hesitate to contact me. In the meantime I remain,

Respectfully yours,

/s/

Morris L. Silver  
Counsel for  
Central Vermont Public Service Corporation

MLS/m  
Enclosure  
cc: Electronic Service List

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<sup>3</sup> Central Vermont notes that the Rule 4.100 contract system was implemented and continues to be administered without such terms and conditions.