

Vermont's pending price shock

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Last month, the State of Massachusetts approved the most expensive power purchase agreement in the country -- a 15-year contract negotiated between Cape Wind and National Grid to sell one-half the project's 468 megawatts at 18.7 cents per kilowatt hour.

National Grid understood from the outset that the sticker shock of selling Cape Wind's energy on monthly electric bills would be enough to send some customers, particularly large industrial and commercial users, shopping for alternative, low-cost energy suppliers. To buffer the impact, the State approved allocating the entire cost of the project to the delivery side of the electricity bill. By spreading the cost to as many customers as possible the price shock to any one customer would be less, or at least that was the thinking.

The population of Massachusetts is approximately 6.5 million people; National Grid's customers number in the millions. There is plenty of opportunity to spread the pain. But what if a similar proposal were presented to a State like Vermont with a tenth the population? We may learn soon enough.

The State of Vermont is served by roughly twenty-one utilities the largest two being Central Vermont Public Service (CVPS) and Green Mountain Power (GMP) which together represent 250,000 customers or 70 percent of the customer base. Most of the 5 million megawatt-hours of electricity sold by CVPS and GMP is purchased through low-cost long-term agreements with Vermont Yankee, an in-state nuclear facility, and Canada's Hydro Quebec whose contract was just renewed. Vermont is ranked as having one of the lowest consumptions of electricity, its electric sector produces the lowest carbon emissions in the country, and the State currently boasts the lowest electricity rates in New England.

Vermont Yankee's operating license is set to expire in 2012. Public opposition to nuclear power coupled with a recent vote by Vermont's legislature to not support the plant's relicensing has created uncertainty

about the plant's future. CVPS and GMP have each signaled privately that they are looking for replacement power, including renewables and wind. In October, the utilities each signed separate 20-year power purchase agreements to acquire a total of 85% of the energy produced by Noble Environmental's 99 megawatt wind facility to be built in neighboring New Hampshire. While no prices were disclosed publicly, the president of Noble told regulators this spring that he was looking at a wholesale price of 9-11 cents per kwh. This price represents 6+ cents higher than Vermont Yankee's contracted rates, 4-5+ cents above in-region natural gas rates, and 3+ cents higher than the recently renewed contract with Hydro Quebec.

And more wind is on the way.

Vermont's Public Service Board (PSB) approved three wind energy projects to be built in the State since 2007: Sheffield Wind at 40 MW, Deerfield Wind at 30 MW, and Georgia Mountain Community Wind at 12 MW. A fourth project now under review will add another 63 MW bringing the total to about 230 MW -- about the same number of megawatts under contract between Cape Wind and National Grid!

For each of the in-state wind projects, Vermont's PSB included wording similar to the below which was incorporated into the Deerfield Wind order:

"...given the significant impacts from the construction and operation of the Project, we conclude that the general good will not be promoted, nor are sufficient economic benefits obtained, unless we condition our approval of the Project on the requirement that Deerfield enter into stably-priced power contracts with Vermont utilities." (Deerfield Wind Vermont PSC Order Docket No. 7250)

So let's be clear hear: With onshore wind selling at 9-11 cents per kwh in New England, the State is forcing the high cost of wind on its ratepayers and calling it an economic benefit? It may be a benefit, but the ratepayers are not the ones benefiting. For them, it's more like an energy tax.

In the Cape Wind case, National Grid argued, and Massachusetts agreed, that in order to reduce the price shock of the project's 230 megawatts on its customers, the cost needed to be spread to as many ratepayers as possible.

For Vermont, spreading 230 megawatts of wind across a much smaller

customer base -- even at half the price per kwh of Cape Wind -- will be a shock to State's economy. Since none of the 230 megawatts has been built yet, the public has not felt the impact, but that will change in the next 3-4 years when the projects come online. Still, larger businesses in Vermont are paying attention now. Vermont opted not to adopt deregulation, so larger users cannot shop for competitive energy suppliers. Their only choice is to pay the higher electric rates or leave the State.

David O'Brian, Commissioner of Vermont's Department of Public Service, is well aware of the economic impacts of above market electricity prices on the State. Earlier this year, his department published the [results of a study](#) to evaluate the consequences of adding just 50 megawatts of renewable energy at prices that were higher than market based alternatives. The report concluded that "above-market energy costs due to higher electricity prices would have the deleterious effects of "reshuffling consumer spending and increasing the cost of production for Vermont businesses" and that "increased costs for households and employers would reduce the positive employment impacts of renewable energy capital investment and the annual repair and maintenance activities".

Remarkably, the State's legislature, which has enacted aggressive policies promoting wind energy, appears to lack even a fundamental understanding of how its policies will impact Vermont's economy. The same holds for the State's PSB which has responsibility for approving energy projects and rate cases. With project approvals conditioned on the energy being sold to in-state utilities, can the State change its mind once the higher costs are realized? Unlikely.

It's time for Vermonters to stand up now and demand a realistic accounting of pending energy costs and benefits.