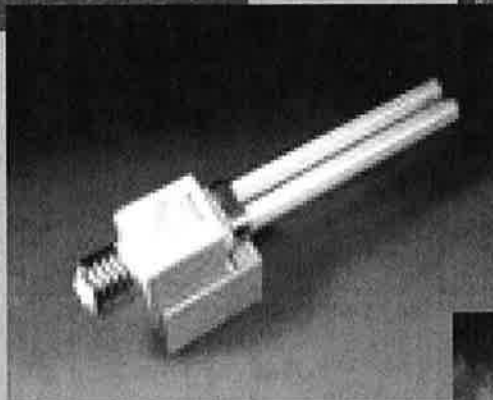


Vermont ELECTRIC PLAN 2005

January 19, 2005



Department of Public Service
112 State Street -- Drawer 20
Montpelier, VT 05620-2601
802/828-2811
TTY (VT): 1-800-734-8390

CONSOLIDATION OF UTILITIES AND/OR SERVICE TERRITORIES

Vermont is currently served by four relatively large electric utilities and 17 smaller utilities. The number of utilities has recently been reduced through consolidation. In 2003, Vermont Electric Cooperative (VEC) agreed to purchase Citizens Communications Company—Vermont Electric Division (VED). VED had been the subject of much oversight because of a number of accounting irregularities and disregard of the PSB Orders. The parent company has been restructuring itself to focus solely on telecommunications and has been divesting its electric, gas, and water utility divisions for a number of years. The PSB approval of the sale of VED to VEC was completed in the first half of 2004, and promises savings to ratepayers through consolidation of operations, coordinated distribution system planning, and improved reliability.

The potential for economies of scale raises the question of whether it would be less expensive and/or improved electric service in Vermont could result if there were fewer separate utilities. Continued consolidation of both large and small companies, or opportunities for shared service capacities, to achieve competitive economies of scale, may be desirable over this 20-year planning period.

Small utilities have played an important role in the development of Vermont's rural communities. They typically have responded to the local community's needs for service in a manner that reflected the characteristics of the local community, the customers, and territories they have served. High electricity rates have raised questions and concerns about the Vermont's utility composition, specifically whether a small state can continue to absorb the additional costs associated with so many utilities.

To date, while consolidation has been discussed, no formal studies of the costs and benefits of consolidation have been performed. Without more empirical evidence, the extent of the value of consolidation cannot be fully gauged or appreciated. Further study of the issue appears warranted.

SECURITIZATION OF QUALIFYING FACILITY POWER

In the 2001 session, the Legislature passed a bill authorizing securitization that is a financial tool whereby contracts can be bought out or bought down to a lower, more reasonable level. Under this approach, Vermont or some other bonding authority would issue bonds, the proceeds of which would be paid to producers in return for lower rates. Since Vermont is issuing the bonds, very favorable bond rates will result in substantial savings relative to current QF price levels.

The potential savings from successful buy downs of the existing agreements could be substantial, especially in an environment of low interest rates. The amount of potential savings from contract buy downs is time sensitive and the available benefit decreases with the passage of time. State regulators should ensure that QF owners fulfill commitments to work toward the buy down of existing contracts through securitization.