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January 20, 2012

Via Hand Delivery

Mrs. Susan Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: Docket No. 7770 – Joint Petition of Central Vermont Public Service Corporation, Danaus Vermont Corp., Northern New England Energy Corporation for itself and as agent for Gaz Métro Limited Partnership and its parents, Green Mountain Power Corporation and Vermont Low Income Trust for Electricity, Inc.

Dear Mrs. Hudson:

Enclosed please find the original and six copies of the Pre-filed Direct Testimony of Ellen Burt on behalf of the Town of Stowe Electric.

Thank you.

Sincerely,
STACKPOLE & FRENCH LAW OFFICES



Jeremy D. Hoff, Esq.

JDH/krr

cc: Service List (via electronic mail only)

STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition of Central Vermont Public Service)
Corporation, Danaus Vermont Corp., Northern)
New England Energy Corporation for itself and)
as agent for Gaz Métro Limited Partnership and)
its parents, Green Mountain Power Corporation)
and Vermont Low Income Trust for Electricity,)
Inc. for approval of: (1) the merger of Danaus) Docket No. 7770
into and with Central Vermont, (2) the)
acquisition by Northern New England of the)
common stock of Central Vermont, (3) the)
amendment to Central Vermont's Articles of)
Association, (4) the merger of Central Vermont)
into and with Green Mountain, and (5) the)
acquisition by VLITE of a controlling interest in)
Vermont Electric Power Company, Inc.)

**PRE-FILED DIRECT TESTIMONY OF ELLEN BURT
ON BEHALF OF THE TOWN OF STOWE ELECTRIC DEPARTMENT**

1 **Q. PLEASE STATE YOUR NAME, YOUR EMPLOYER, AND YOUR TITLE.**

2 **A.** My name is Ellen L. Burt. I am the General Manager of the Town of Stowe
3 Electric Department ("Stowe Electric"), a municipal utility serving the citizens of
4 Stowe, Vermont. I have served in this capacity since 2004. My office address is:
5 Stowe Electric Department, 56 Old Farm Road, P.O. Box 190, Stowe, VT, 05672. I
6 am testifying on behalf of Stowe Electric in this Docket.

7
8 **Q. PLEASE DESCRIBE THE TOWN OF STOWE ELECTRIC DEPARTMENT.**

9 **A.** Stowe Electric is a municipal public utility acting under the Charter of the
10 Town of Stowe. We are a semi-autonomous Department of the Town of Stowe and

1 are regulated by the Vermont Public Service Board. Stowe Electric serves 3,942
2 customers, all of whom reside within the municipal boundaries of the Town of Stowe.
3 Our customer base is diverse. We serve 744 commercial accounts and 3,198
4 residential accounts. The annual electrical load of our utility is 73,706.43 Megawatts,
5 broken down as follows: Residential Sales: 21,720,660 kWh and Commercial Sales:
6 51,985,773 kWh. Stowe Electric has served its customers and the community of Stowe
7 since 1911.

8 Stowe Electric is governed by a three member Board of Commissioners
9 consisting of citizens residing in our community who have agreed to carry out their
10 duties for nominal compensation. The Board of Commissioners is appointed by the
11 five person Select Board of the Town of Stowe, which is elected by the Town's voters
12 and which is also comprised of Town citizens who serve for a nominal compensation.
13 Both the Board of Commissioners and the Select Board have fiduciary obligations to
14 the citizens of Stowe. All of the meetings of the Commissioners and Select Board are
15 open to the public. Many of the major decisions of the Stowe Electric Commissioners,
16 whether they relate to long term contracts or the financing of capital improvements, are
17 subject to approval of the Stowe electorate.

18

19 **Q. WHAT IS YOUR GENERAL INTEREST IN THE PROPOSED MERGER**
20 **BETWEEN GREEN MOUNTAIN POWER AND CENTRAL VERMONT**
21 **PUBLIC SERVICE CORPORATION?**

1 **A.** The proposed merger between Green Mountain Power and Central Vermont
2 Public Service Corporation will represent a profound change in the Vermont utility
3 landscape. For as long as we all can remember, the Vermont mix of utilities has
4 included numerous small public and cooperative utilities, and two larger investor
5 owned utilities. Historically, the fact that there have been two larger investor owned
6 utilities has resulted in a significant degree of counterbalance and accountability when
7 it came to the consideration of policies and issues affecting the provision of electric
8 services to the State of Vermont as a whole, specifically with respect to the operation
9 of the State’s transmission grid by Vermont Electric Power Company, Inc. (“VELCO”)
10 and ownership of the grid by VERMONT TRANSCO, LLC (“TRANSCO”). The
11 merger of the two larger utilities will remove the counterbalance that has existed
12 between them leaving one corporately held utility whose primary goal will be to
13 promote its shareholders’ interests to the potential detriment of the interests of
14 ratepayers. So, our general interest is in ensuring that appropriate controls are put in
15 place to prevent a concentration of power on the VELCO Board and ensure that the
16 transmission grid remains available, reliable, and economical for all of the State’s
17 utilities and their ratepayers.

18

19 **Q. DOES STOWE ELECTRIC THEREFORE OPPOSE THE PROPOSED**
20 **MERGER?**

1 **A.** Stowe Electric relies upon the fact that the proposed merger will be subject to
2 careful scrutiny by the Public Service Board. For this reason, Stowe Electric does not
3 take a position on the actual merger itself. The predominant interests of Stowe Electric
4 are to ensure that the proposed merger receives full and adequate scrutiny, that the
5 interests of Vermont's electric ratepayers in general, and the other Vermont utilities
6 who serve those ratepayers in particular, are taken into consideration in the ultimate
7 decision concerning the merger, and that appropriate conditions are placed on the
8 merger, if it is approved. It is not too much to say that this proceeding will decide both
9 the manner in which critical utility decisions are made and how wide ranging policies
10 are implemented concerning the power supply of the State of Vermont for many
11 decades to come.

12 Stowe Electric believes that the Public Service Board should carefully review
13 the merger proposal to ensure that it will promote the general good of the State of
14 Vermont, and that any governance changes to VELCO/TRANSCO result in a fair and
15 open process for making decisions on power issues, particularly transmission issues,
16 taking into account the worthy, diverse, and creative input of all Vermont utilities. In
17 this regard, Stowe Electric is very concerned not only about remedying what it
18 determines to be deficiencies in the current VELCO/TRANSCO governance structure,
19 but also about creating a fair and lasting governance structure to guide the future
20 interplay of business relationships among the Vermont utilities, large and small,
21 municipal, cooperative, and investor owned alike.

1 Municipal and cooperative utilities provide great value to their ratepayers and
2 the State of Vermont. It is essential that the decisions made in this Docket
3 acknowledge and respect that value and place all of the State's utilities on equal
4 footing. We don't believe that the size of the investor owned utilities entitles them to
5 greater control over a resource which we feel should be managed in the public trust.
6 Of the 18 distribution utilities serving the State of Vermont, 16 are municipal or
7 cooperative including the Vermont Electric Cooperative, Washington Electric
8 Cooperative, and the municipal Electric Departments of Burlington, Hardwick,
9 Lyndon, Morrisville, Stowe, Swanton, Northfield, Barton, Enosburg, Hyde Park,
10 Johnson, Orleans, Jacksonville, and Readsboro. The ratepayers of each of these
11 utilities deserve the right to be involved in, participate in, and contribute to the future
12 of this vital resource.

13
14 **Q. FROM YOUR PERSPECTIVE, WHY IS THE GOVERNANCE STRUCTURE**
15 **OF VELCO/TRANSCO IMPORTANT?**

16 **A.** The VELCO/TRANSCO governance structure is of critical importance to the
17 electric ratepayers of Vermont. VELCO/TRANSCO owns, controls, manages, presides
18 over, and directs the overall electric transmission grid of the State of Vermont. As
19 such, it is in the position both to set overall policy with respect to present and future
20 initiatives affecting the electric grid, and to establish operating protocols and

1 procedures relating to all aspects of the grid. There is no other entity or
2 instrumentality of equal importance to our transmission grid.

3 The VELCO/TRANSCO governance structure controls the present and future
4 direction of the grid. It has the authority to decide the initiatives that
5 VELCO/TRANSCO will undertake, and the initiatives that will be postponed or put
6 aside. Most importantly, it has the authority to decide who will pay for grid facilities
7 and who will benefit from improvements and initiatives that are carried out. In this
8 regard, Stowe Electric refers the Board to the so-called 1991 Transmission Agreement
9 that gives VELCO/TRANSCO both governing authority and significant discretion to
10 designate which facilities will be common facilities and which facilities will be
11 specific facilities. The common facilities are paid for by all utilities as a component of
12 the broader common transmission system, while the specific facilities are only paid for
13 by the one or more utilities requiring or utilizing that project.

14 The reliability of the Vermont grid, and by extension the operation and
15 governance of VELCO/TRANSCO, is of equal and paramount importance to all of the
16 State's distribution utilities. Every utility, irrespective their load-share or number of
17 customers, is close if not 100% dependent on the grid and VELCO/TRANSCO in
18 ensuring it can meet the electric needs of its ratepayers. As stated in the Prefiled
19 Testimony of Michael Dworkin, it is extremely difficult to bypass the transmission
20 system, and actual or defacto control creates the risk of limited recognition of options,
21 alternatives, or the concerns of others. Dworkin pf. at 4-5. Given the diversity among

1 Vermont's utilities, and the difference in their scale and operations, it is essential that
2 the concerns of all of each utility be taken into account when making decisions with
3 respect to operation of the transmission system.

4

5 **Q. WHAT IS THE POSITION OF STOWE ELECTRIC ON THE PROPOSED**
6 **VELCO/TRANSCO OWNERSHIP AND GOVERNANCE STRUCTURE?**

7 **A.** Before stating Stowe Electric's position on the ownership and governance
8 structure of VELCO and TRANSCO proposed by the Petitioners in this Docket, it is
9 important to acknowledge the current ownership and governance structures of those
10 entities and identify Stowe Electric's concerns with them. I will not go into too much
11 detail, but a brief explanation will help lay the groundwork for consideration of
12 Petitioner's proposal.

13 Generally, TRANSCO is the entity which owns the facilities comprising the
14 Vermont transmission grid and VELCO is the entity which manages the grid pursuant
15 to a management agreement with TRANSCO. The Vermont utilities own both
16 VELCO and TRANSCO, and not necessarily in the same proportion. Ownership of
17 VELCO very closely approximates the load share of each utility. Ownership of
18 TRANSCO is tied to each utilities actual investment in the grid. Because TRANSCO
19 has greater capital needs to actually construct and maintain the transmission system, its
20 share ownership is more prone to fluctuation. The distinction between ownership of
21 VELCO and TRANSCO is important.

1 For example, SED owns 5.11% of the membership equity of TRANSCO, part
2 of which is designated as Specific Facilities Equity, which will be repurchased by
3 TRANSCO when the Lamoille County 115 kV transmission line becomes a common
4 facility in 2018. SED also owns 4,546 shares of VELCO stock and therefore has the
5 right of an owner under the VELCO Operating Agreement. SED's share amounts to
6 1.3492%. With respect to the Petitioners, while GMP owns 29.6806% of the
7 outstanding VELCO stock and 29.61% of outstanding TRANSCO stock, CVPS owns
8 47.7049% of outstanding VELCO stock, but only 37.95% of outstanding TRANSCO
9 stock.

10 The difference in book value of the stock owned by GMP/CVPS in VELCO
11 and TRANSCO shows where the value of the transmission grid rests within the two
12 entities. The combined GMP/CVPS ownership of 67.56% of TRANSCO stock is
13 \$262,564,610. The combined GMP/CVPS ownership of 77% of VELCO is valued at
14 \$18,952,724; and most of VELCO's value is comprised of its nearly 10% ownership of
15 TRANSCO and its management contract with TRANSCO.

16 Governance of VELCO has historically been by informal custom rather than in
17 accordance with the corporate documents of the Company. The current Board of 13
18 Directors is appointed by custom, consisting of CVPS (4), GMP (2), VPPSA (1), VEC
19 (1), BED (1), VELCO CEO (1), and Independent Members (3). Neither Stowe
20 Electric nor Washington Electric Cooperative has any representation on the VELCO
21 Board. The remaining municipal utilities have representation through VPPSA.

1

2 **Q. WITH THE BENEFIT OF THAT INTRODUCTION, HISTORICALLY WHAT**
3 **HAS THE POSITION OF STOWE ELECTRIC BEEN ON THE**
4 **VELCO/TRANSCO GOVERNANCE STRUCTURE?**

5 **A.** For a significant period of time prior to 2008, Stowe Electric was a member of
6 Vermont Public Power Supply Authority (“VPPSA”). As such, Stowe Electric’s
7 involvement in VELCO/TRANSCO was through the Executive Director of VPPSA,
8 who has through custom been “designated” to have a seat on the VELCO Board of
9 Directors.

10 The deficiencies in the VELCO/TRANSCO governing process became
11 painfully clear to Stowe Electric during the dispute that arose over the cost of
12 constructing the VELCO 115kV line to serve Lamoille County. The need for the
13 Lamoille County Project was first identified in the 1970s, after which numerous
14 patches and quick-fixes were made to the system to accommodate increased load
15 growth. Early in the 2000s a plan was conceived to construct a new 115kV line from
16 Duxbury to Stowe. Question arose as to who should be responsible for paying for the
17 project and in what proportion. Stowe Electric maintained that the specific facilities
18 allocation being advanced by VELCO was inconsistent with the 1991 Transmission
19 Agreement and that VELCO was attempting to push a disproportionate amount of the
20 costs off on Stowe Electric.

1 Leading up to and during the resulting legal struggle before the Federal Energy
2 Regulatory Commission and the Vermont Public Service Board over issues relating to
3 the costs of construction, we became acutely aware that the decision-making process at
4 the VELCO Board level was not at all responsive to the concerns of individual
5 members such as Stowe Electric. Serious decisions adversely affecting the interests of
6 Stowe Electric were made without any solicitation of input from the utility. Efforts
7 that Stowe Electric made to seek a fair hearing of our concerns were rebuffed. VELCO
8 made no effort to seek mutually beneficial solutions that would mitigate the financial
9 impact of the project on Stowe Electric. In the course of the proceeding, the VELCO
10 Board made a conscious decision to seek an amendment of the 1991 cost sharing
11 agreement among the Vermont utilities in order to ensure that Stowe would pay a
12 greater share of the costs for the transmission line. The established VELCO Board
13 culture of unanimity and consensus without consultation with the affected parties was
14 so entrenched that our own VELCO Board “representative” voted for the amendment
15 against our interests without even consulting with Stowe Electric.

16 In 2008, Stowe Electric chose to leave VPPSA. Since that time we have been
17 advocating without success for our own presence on the VELCO Board of Directors.
18 In response to our request for representation, we have encountered an institutional
19 exclusion of our utility from Board involvement, GMP is now seeking to make that
20 exclusion permanent and irreversible.

1 So, irrespective of the proposed merger of GMP and CVPS, we have seen
2 issues with the operation of the VELCO Board firsthand. As a non-generating utility
3 we are completely dependent on the grid to get power to our territory. We see no basis
4 that any utility should be denied the ability to participate in the governance of VELCO.

5

6 **Q. YOU SPEAK ABOUT YOUR DESIRE TO CORRECT THE**
7 **VELCO/TRANSCO GOVERNANCE STRUCTURE; WHAT ARE SOME OF**
8 **YOUR CONCERNS ABOUT THE CURRENT STRUCTURE?**

9 **A.** To a significant extent, this proceeding presents a unique opportunity to
10 recreate the VELCO/TRANSCO governance structure, and make it truly fair and
11 effective. For a long time, VELCO/TRANSCO has in essence operated as a private
12 club. The members of the VELCO Board have themselves determined how the Board
13 seats will be divided among themselves. The Board chooses its own members, even
14 when it comes to selection of the “outside” Directors. The fact that VELCO Board
15 members are compensated for their duties makes them seemingly beholden to those
16 who have chosen them to serve without any term limits. Most of the Directors have
17 served for significant periods of time on the Board. The Board prides itself on
18 consensus rather than full and open discussion of the issues. Whether or not one might
19 agree with the substance of the decisions that are made on the VELCO Board level, the
20 current operating structure creates a real and present danger that one powerful faction
21 of the Board could well impose its will upon others.

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Q. I UNDERSTAND THAT STOWE ELECTRIC SERVES ON THE VELCO OPERATING COMMITTEE. WHAT HAS YOUR EXPERIENCE BEEN IN THIS REGARD?

A. Soon after Stowe Electric agreed to purchase VELCO/TRANSCO specific facilities equity through the settlement of the dispute over the costs of the Lamoille County Transmission Line, Stowe Electric was offered a seat on the VELCO Operating Committee. My assumption is that our opportunity to serve on the Committee will extend no longer than the time when Stowe Electric has contracted to sell back our specific facilities equity in 2018. My experience on the Operating Committee has served only to heighten, rather than assuage, my concerns about the governance structure of VELCO. The concept of the “Operating Committee” is in itself a misnomer. The Operating Committee is advisory to and does not have ultimate authority over VELCO operations. Instead, it serves as a forum for the VELCO management to promote initiatives that it intends to seek approval for from the VELCO Board of Directors. In some cases, the initiatives that have been promoted have fallen squarely within the self interest of the larger utilities.

During the four years that Stowe Electric has been a member of the VELCO Operating Committee, every utility on the Committee has had one vote regardless utility size. This has generally worked well in negotiating sensible solutions for the benefit of all utilities. Where this means of governing has not worked is in instances

1 where the larger utilities have made decisions at VELCO Board level contrary to the
2 recommendations of the Operating Committee. For the purpose of further comparison,
3 the CFO Forum operated through VELCO is also set up the same way, with one vote
4 per utility. This forum has operated in a smooth and cooperative manner. The way to
5 make the VELCO Board more effective is for it to likewise adopt this “one utility/one
6 vote” governing structure.

7 One good example of an issue where the Operating Committee and the VELCO
8 Board have differed is with respect to the reach back period for transmission metering
9 discrepancies that occur when utilities are not reporting their loads correctly, as can
10 happen from time to time. The VELCO Operating Committee voted on clear and fair
11 procedures with respect to how the costs passed along to other utilities as a result of
12 such discrepancies should be treated and what for period of time the utility that was
13 misreporting its loads should be required to true up. After the GMP/CVPS merger was
14 announced, GMP made it known that it is now opposed to the approach adopted by the
15 Operating Committee, and for obvious reasons CVPS has remained silent on this issue.
16 GMP is clearly expecting that it will be in a position to promote its position through its
17 existing and future influence on the VELCO Board.

18 I am aware of other instances where the presence of Stowe on the Operating
19 Committee has prevented action that would have disadvantaged the smaller Vermont
20 utilities. Prior to the time when the 115kV Lamoille County Transmission Line was
21 completed and energized in 2009, the three affected municipal utilities, Stowe Electric,

1 Morrisville Water & Light, and Hardwick Electric, along with the two investor owned
2 utilities, were participants in the B22 Agreement (also known as the Northern Loop
3 Agreement). The Agreement provided for the three municipals to pay a much higher
4 line loss than the FERC approved 3% line loss, and Stowe Electric paid the highest
5 portion of this amount among the affected municipal utilities. When the term of the
6 Northern Loop Agreement ended, the obligation of the municipal utilities to pay the
7 increased line loss was significantly reduced.

8 Recently, CVPS has tried to convince the VELCO Operating Committee to
9 allow CVPS to collect additional transmission revenue in Lamoille County. Through
10 our involvement in the FERC transmission dispute, Stowe became much more
11 knowledgeable about how transmission costs should be allocated under FERC filed
12 tariffs. Without Stowe Electric present, having detailed knowledge of CVPS's FERC
13 filed tariff, the Operating Committee may have voted to approve an Agreement that
14 would have generated revenue for CVPS that it is not entitled to for transmission
15 services. In the end, the opposition by Stowe was accepted when CVPS admitted that
16 it would not prevail on the issue at FERC. If CVPS had convinced the Operating
17 Committee to vote on this, the three municipals that were party to the B22 Agreement
18 (Stowe, Morrisville and Hardwick) could have forced into a new agreement contrary to
19 the established FERC tariffs.

20 Regardless of how one analyzes the specific merits of a project such as the
21 foregoing, the experience for us fully elucidates the dangers of control even in the

1 existing structure of VELCO. It can only become more pronounced in the “new”
2 VELCO structure unless fundamental and significant changes are made. Serving on
3 the Operating Committee has demonstrated to me the potential danger of not having
4 representation on the VELCO Board and thus not being part of the decision making on
5 matters of vital importance to our utility. To the greatest extent possible, decisions
6 need to be made with the interests of all of the Vermont utilities in mind.

7

8 **Q. WHAT IS THE VISION THAT STOWE ELECTRIC HAS FOR**
9 **VELCO/TRANSCO GOVERNANCE?**

10 **A.** The VELCO/TRANSCO governance process should be designed to assure that
11 policy and operating decisions are made transparently, after reasoned analysis, and to
12 the greatest extent possible without the exercise of self interest. If made in this manner
13 it is most likely that such decisions will be in the overall interest of the ratepayers of
14 the State of Vermont. To achieve this goal, Stowe Electric proposes the following:

15

16 (1) THAT THE VERMONT UTILITIES COLLECTIVELY HAVE A SUPER
17 MAJORITY OF REPRESENTATION ON THE VELCO BOARD.

18 The operation of utilities and the associated management of the transmission
19 grid involves a significant knowledge of the utility business, technical know-how, and
20 familiarity with the power grid. Although a completely disinterested Board could in
21 theory be created through a lottery system or some similar procedure, Stowe Electric

1 does not believe that such a Board could succeed in the long term. Without sufficient
2 technical expertise, such a Board might actually be more prone to manipulation by
3 those who sought to impose their own self interest.

4 A Board maintained solely through political appointment would face similar
5 challenges. There would likely be a struggle behind the scenes over the appointments
6 with no guarantee of technical competence.

7 The most qualified pool of Board members, as a whole, comes from the very
8 industry that the grid serves. With appropriate controls to minimize the exercise of
9 self interest, those associated with the Vermont utilities comprise the natural pool of
10 candidates for service in the VELCO/TRANSCO governance structure.

11

12 (2) THAT EACH UTILITY HAS THE RIGHT AND DESERVES REPRESENTATION
13 ON THE VELCO BOARD

14 Stowe Electric is justifiably concerned, as Washington Electric Cooperative
15 must also be, about the resistance that it has received to its effort to achieve
16 representation on the VELCO Board. Since leaving VPPSA, Stowe Electric has not
17 been represented on the VELCO Board, despite the fact that it is a progressive utility
18 representative of a diverse community of ratepayers. What is most disturbing is that
19 both the existing “custom and tradition” and the Petitioners’ proposal are such that
20 Stowe Electric has absolutely no potential opportunity to ever sit as a Board member
21 of VELCO. As a very basic and unassailable proposition, Stowe Electric would assert

1 that a governance structure that systematically excludes specific utilities, without
2 regard to their experience or expertise, has to be contrary to the interest of the State of
3 Vermont as a whole. If the Vermont utilities are most likely to be the reservoir for
4 VELCO Board members, then the governance process should not exclude any specific
5 utility or its representatives from the selection of competent Board members. The fact
6 that GMP has proposed a governance structure that permanently institutionalizes such
7 an exclusion is clearly unacceptable. As I mentioned before, every utility relies on the
8 transmission system; it is unfathomable to me how anyone could genuinely suggest
9 that those utilities have no right to participate in the oversight and management of
10 those facilities on which they absolutely rely.

11 In asking for representation in the governance process by all utilities, Stowe
12 Electric is not necessarily advocating that each member of VPPSA should also have a
13 representative on the VELCO Board. For many reasons, practicality paramount among
14 them, the utilities in VPPSA seem comfortable in combining their Board
15 representation. There are some utilities for whom participation on the VELCO Board
16 may not be practicable, feasible, or economical. VPPSA was designed for precisely
17 this purpose. However, to the extent Stowe Electric or any other utility decides not to
18 participate in VPPSA, their right to participate in the management of VELCO should
19 not disappear with that decision.

20 In response to its request for a Board seat, Stowe Electric has heard from
21 others, including GMP, that Stowe Electric “chose” to leave VPPSA. Without getting

1 into all of the specific reasons for the departure of Stowe Electric from VPPSA, one of
2 those reasons was Stowe Electric's dissatisfaction with the manner in which we were
3 being represented at VELCO. There is no reason to now refuse Stowe Electric the
4 right to adequate representation in the VELCO governance process.

5

6 (3) THAT EACH UTILITY BE AN EQUAL AMONG EQUALS ON THE VELCO
7 BOARD

8 All of the Vermont utilities have common interests when it comes to the
9 VELCO/TRANSCO Transmission Grid: (a) that the Grid is maintained and operated
10 efficiently and effectively, both in normal times and in the event of an unexpected
11 event; (b) that it is constructed to the standard required to meet the needs of the electric
12 ratepayers of the State of Vermont; and (c) that it produces revenue through pooled
13 facilities and otherwise to pay the dividends on the VELCO/TRANSCO membership
14 shares. In the process of deliberating on any of these issues, there is no reason why
15 any utility should have a greater number of votes or more influence than any other
16 utility. Stowe Electric believes that an equal voting structure on the VELCO Board is
17 critical to removing any potential taint of self interest or unfair dealing when it comes
18 to the making of decisions.

19 History has proven to us that the existence of an institutionalized voting bloc
20 with the investor owned utilities having enhanced control over the other utilities has
21 removed both the desire and incentive to truly discuss and debate important issues. In

1 a systematic way, the existence of such a consistent voting bloc has to lead to decisions
2 that are less reasoned and more influenced by self interest. The VELCO Board has
3 become a forum to ratify projects and initiatives that have already been discussed
4 behind closed doors. We believe that the ideal Board should be a diverse group of
5 professionals with common interests and varying perspectives. Each Director should
6 believe he or she has a real ability to deliberate on matters that have not already been
7 decided and can truly vote his or her conscience.

8

9 (4) THAT EACH UTILITY SHOULD CHOOSE ITS OWN VELCO BOARD MEMBER

10 The obvious corollary to the foregoing points is that the VELCO Board should
11 not choose its own members. Having the utilities themselves choose their
12 representatives will do away with any perception that favors are being bestowed on
13 members who are asked to join the Board.

14

15 (5) THAT THERE SHOULD BE RESPECT FOR THE TENSION BETWEEN
16 CONTINUITY AND DIVERSITY BY IMPLEMENTING REASONABLE TERM
17 LIMITS.

18 One of the best ways to assure Board diversity, while also maintaining
19 appropriate continuity, would be to implement staggering terms for Board members,
20 with reasonable term limits for those who serve.

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**Q. BASED ON THOSE FIVE PRINCIPLES, HOW WOULD STOWE ELECTRIC
STRUCTURE THE VELCO BOARD?**

A. With those five principles, that (1) the Vermont utilities have a supermajority on the VELCO Board, (2) each utility has a right to and deserves representation on the VELCO Board, (3) each utility should be equal among equals, (4) that each utility should be able to appoint its representative on the VELCO Board, and (5) terms be staggered with reasonable term limits, Stowe Electric would create and seven member VELCO Board as follows:

- (1) GMP
 - (1) VPPSA
 - (1) Burlington Electric Department
 - (1) Stowe Electric Department
 - (1) Vermont Electric Cooperative
 - (1) Washington Electric Cooperative
 - (1) VELCO CEO
- 7 TOTAL

**Q. HOW DO YOU RESPOND TO THE POSITION THAT CONTROL OF THE
VELCO BOARD SHOULD MIRROR THE OWNERSHIP INTEREST IN
VELCO?**

1 **A.** First, it is important to distinguish between the ownership of VELCO and
2 TRANSCO. As discussed briefly earlier in my testimony, the ownership shares of
3 VELCO and TRANSCO are not the same in terms of percentage allocated to each
4 utility or the methodology by which each utility's share is calculated. If the basis for
5 arguing that control should mirror ownership is that the amount of control should be
6 commensurate to the level of investment, it should be the ownership percentages of
7 TRANSCO and not VELCO that determines the percentages, as those shares more
8 accurately reflect the investment into and ownership of the grid.

9 More broadly, however, VELCO is not your average run of the mill company.
10 The primary purpose of VELCO is clearly a public one: to maintain, operate, and plan
11 for a transmission system that benefits all of the citizens and ratepayers of the State of
12 Vermont. In light of this purpose, the fact that VELCO was created as a private
13 company is somewhat of an anomaly. Even the ultimate benefit from this investment,
14 which is the revenue that flows from ISO New England on account of the transmission
15 facilities that have been constructed, represents a common interest among all Vermont
16 utilities and their ratepayers.

17 VELCO operates pursuant to a Certificate of Public Good issued by the Public
18 Service Board, the prerequisite of which is proof that ongoing operation is in the
19 overall public good of the State of Vermont. To the extent that the Vermont
20 transmission grid is reliable and financially successful, all of the residents of Vermont
21 reap the benefits.

1 All of this leads to the conclusion that there should be no real connection
2 between the ownership/investment structure and the governance structure of the
3 transmission grid through VELCO and TRANSCO. The purposes of the two
4 companies are different, one was created to “own” while the other was created to
5 “operate”. This hybrid structure is a great starting-place for a reconstituted VELCO
6 Board. Management can take place through VELCO, while ownership of the
7 underlying assets occurs through TRANSCO. Operation in the public trust can be
8 undertaken collectively by all of the utilities, while ownership commensurate with
9 investment remains in TRANSCO.

10 The governance structure, by its very nature, has to be kept very separate and
11 independent from any potential taint of self-interest or self-dealing. To the extent that
12 the Public Service Board even acknowledges that the size of an investor’s share of
13 VELCO/TRANSCO should translate into greater “control” on the VELCO Board
14 level, it would be sanctioning the existence of an imbalance of power that is inherently
15 harmful to the integrity of the transmission system and the interests of the State of
16 Vermont.

17 The most successful governance structure has to be one that promotes diversity,
18 discussion, and reasoned decision making, all within the context of overall common
19 interest.

20

1 **Q. WHAT DO YOU SAY TO THE ARGUMENT THAT THE COMBINED**
2 **GMP/CVPS WILL BE REPRESENTING A SIGNIFICANT MAJORITY OF**
3 **THE RATEPAYERS OF THE STATE OF VERMONT AND SHOULD**
4 **THEREFORE HAVE GREATER CONTROL OVER THE VELCO BOARD?**

5 **A.** My response to this is that the combined GMP/CVPS entity will have the
6 greatest number of ratepayers of any utility in Vermont after the proposed merger, but
7 that it will not necessarily be representing those ratepayers in its Board decisions at
8 VELCO. As I understand it, the officers appointed by GMP/CVPS to the VELCO
9 Board will be primarily responsible for directly representing the investors in GMP, not
10 the ratepayers. The “representation” of the ratepayers through decisions made at the
11 VELCO Board level would be at best indirect.

12

13 **Q. WHAT ABOUT THE IMPLEMENTATION OF AN ALL PUBLIC VELCO**
14 **GOVERNANCE STRUCTURE?**

15 **A.** In its deliberation on the most effective and appropriate governance structure
16 for VELCO, Stowe Electric cannot help but place a significant degree of emphasis
17 and importance on the ability of those involved to manage and plan for the future of a
18 complex system. Stowe Electric believes that those best situated to make decisions
19 about the transmission grid are persons associated with the Vermont utilities, since
20 they have the greatest interest in its continued success. To the extent that some self-

1 interest will still exist, it will be significantly diluted or even eliminated through the
2 promotion of Board diversity and equal voting.

3 Stowe Electric also strongly believes that a completely public Board will be
4 subject to the sway of politics and interests that will not benefit the Grid, the utilities,
5 or the ratepayers of the State of Vermont.

6
7 **Q. WHAT IS STOWE ELECTRIC'S POSITION ON THE VLITE PROPOSAL?**

8 **A.** In making the proposal to create a public benefit Company to hold VELCO
9 shares for the benefit of the disadvantaged ratepayers of the State of Vermont, and then
10 proposing to give VLITE some presence on the VELCO Board, GMP gives the
11 impression that it is promoting rather than reducing the existence of self interest on the
12 VELCO Board. Stowe Electric believes that the VLITE proposal in its current form is
13 wrong for two reasons: its attempts to evade the obligations imposed in the AARP
14 Docket, Docket No. 7535, and interjects an entity into the management of VELCO
15 with overriding self interest.

16 Under the existing Order in the AARP Docket, the Public Service Board
17 mandated that GMP and CVPS both establish programs to address the issue of
18 disadvantaged ratepayers. While the VLITE proposal lacks significant substance since
19 none of underlying corporate documentation has been produced, it clearly is intended
20 to satisfy an obligation that GMP/CVPS already have. The difference is that
21 GMP/CVPS seem to be seeking to spin off the responsibility for the AARP initiative

1 on to a separate company which will presumably take over responsibility for the
2 success or failure of the program.

3 The goal of the merger process, as far as the VELCO governance issue is
4 concerned, should be to reduce, not increase, the possibility that the Board members of
5 VELCO will attempt to impose their self interest on VELCO decisions. There is little
6 or no connection between the administration of a subsidy program and the decisions
7 that will be made on a day-to-day level by the VELCO Board. If a VLITE Trust is
8 created, there should be no VELCO governance role for the Trust. It should, instead,
9 be only a vehicle to collect and pay out dividends to the purpose intended. The
10 motivation of VLITE would be to reduce costs and increase dividends rather than
11 investing in long term system stability and reliability.

12

13 **Q. HOW WOULD YOU SUMMARIZE YOUR TESTIMONY AND YOUR**
14 **REQUEST TO THE BOARD?**

15 **A.** As a public municipal utility operating in the State of Vermont, Stowe Electric
16 is very concerned about the proposed merger between GMP and CVPS, insofar as it
17 will impact the critical issue of VELCO/TRANSCO governance. As I have testified,
18 there are significant deficiencies in both the existing and proposed VELCO governance
19 models and the existing model will only be aggravated if the Petitioners' proposal is
20 not completely reshaped. What GMP and CVPS have proposed is largely a
21 continuance of the existing governance model with token modifications made in order

1 to accommodate the existence of their newly combined entity. It is the position of
2 Stowe Electric that the without the intervention of the Board through conditions
3 imposed on any approval of the proposed merger, that the combined entity's increased
4 influence on the VELCO Board will tip the control of power irretrievably towards the
5 Combined Company, to the detriment of other utilities such as Stowe Electric. Our
6 utility is progressive, diverse, and successful. We serve our ratepayers and our
7 community well. We seek to have fair representation in the VELCO governance
8 process so that we can thrive long into the future. We are asking the Public Service
9 Board to assist in the implementation of a VELCO governance structure that will
10 reflect the diversity of the State of Vermont's utilities, will be removed from any taint
11 of self interest, and will be well positioned to make the critical decisions concerning
12 our transmission grid for decades to come. The opportunities to set the course for
13 future generations are rare. The decisions made in this Docket will have ramifications
14 for decades to come, and we look forward to assisting the Board to the extent we can
15 in assuring that due deliberation goes into consideration of the merger proposal.

16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

18 **A.** Yes it does.
19
20

PSB Docket No. 7770 – SERVICE LIST

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