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STAR Group, LLC

Date: September 1, 2006
 To: Members of the Southern Loop Community Working Group
 From: Chris Kenny, Process Manager
 Re: Notes from August 24, 2006 CWG Meeting

| <u>Members Present</u> | <u>Members Absent</u> |
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| Rick Foley, Keene State College | Eric Stevens, Windham Regional Commission |
| Marge Fish, Londonderry Rescue Squad | Lee Krohn, Town of Manchester |
| Tad Montgomery, Brattleboro Climate Protection | Rachael Pendleton, Efficiency Vermont |
| Kevin Dailey, Mack Molding | Rick Gauthier, Bennington Police Department |
| Alan Dann, Progressive Party | John Haugsrud, Quadra-Tek/Arlington Industries |
| Jenna Pugliese, Stratton Mountain | Mark Gilmore, Vermont Yankee |
| John Cueman, Bromley Mountain | Greg Wordon, Town of Brattleboro |
| Bill Calfee, Consultant | Debbie Boyle, Brattleboro Development Corporation |
| Lissa Stark, Bennington Regional Commission | Hervey Scudder, Northeast Center for Social Issues Studies |
| Kevin Duby, Brattleboro Retreat Healthcare | Audrey Garfield, Town of Brattleboro |
| Brian Keefe, Office of Senator Jim Jeffords | Ellen Viereck, Forest Watch |
| Kim Jones, CVPS | Paul Carroccio, Sr., TPW Management |
| Rip Kirby, CVPS | <u>Guests Present</u> |
| Dean LaForest, VELCO | Jim Matteau, Leadership Team |
| | David Lamont, DPS |
| | Ralph Roam, VELCO |
| | Bruce Bentley, CVPS |
| | Greg White, CVPS |

The Southern Loop Community Working Group (“CWG”) held a meeting at the Inn at Stratton Mountain on Thursday, August 24, 2006 from 4 – 6:00 p.m. Chris Kenny of STAR Group explained that the focus of today’s meeting was to prepare for the upcoming Informational Open House Meetings, which will be held from 4 – 8 p.m. according to the following schedule:

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| Tuesday, September 12 | Stratton (Inn at Stratton Mountain) |
| Wednesday, September 13 | Bennington (Mt. Anthony Country Club) |
| Thursday, September 14 | Brattleboro (Quality Inn & Suites) |

The group was asked whether there were any open issues or questions from our last meeting. Among the issues discussed and questions raised were the following:

Q: The C-D upgrade to the Southern Loop is part of the four “preliminary preferred” options. Can you explain again why the utilities believe that the C-D line could not obtain a Certificate of Public Good at this time?

A: First, CVPS and VELCO are required to make system improvements that are “needed” and reviewed on a “least cost” basis in accordance with sections 218c and 248 of the Vermont statutes. The standard historically applied to test projects under these requirements does not generally consider whether a proposed infrastructure upgrade might improve opportunities for distributed resources not planned at the time that the upgrade is proposed. Our analysis shows that the reliability problems across the Southern Loop can be addressed by the other alternatives currently under consideration by the CWG at a lower cost. To build a line that cannot be shown to be necessary for the system under current and forecasted loads would raise issues under the “need” criteria as well as the “least cost” test.

Second, Vermont has adopted a policy to implement distributed resources where those resources are economically feasible and can be developed and operated in a manner that would defer building more traditional utility infrastructure. The work we have done to date shows that there are cost-effective distributed resources that may be utilized in the Southern Loop that would defer the need for the additional C-D transmission upgrade. Finally, most distributed generation facilities that would tie into the Southern Loop grid are likely to be under 10 MW of capacity. The existing transmission line should be capable of handling that type of local generation. Should a larger generation project seek to interconnect to the electric system, other systems are already in place, or are being promulgated, that would address the attendant issues including cost responsibility for needed utility facilities and interconnection requirements.

Q: If the C-D upgrade is not part of the solution, what impact will that have on the ability of local generation to be built in the western part of the Southern Loop and to tie into the existing grid?

A: As a general rule, the ability of local generation to be added to the existing transmission system depends on the size and type of the generator being connected to the grid. Larger generators would likely require upgrades to the existing system because they would likely be selling power into the

market and in order to operate economically they would have to run a significant amount of the time. During light load periods on the Southern Loop there could be large power flows off the local network thus requiring a more robust system to export the power. In addition certain types of generation (*e.g.*, wind) require a more robust system in order to start and connect to the grid. Despite these limitations, however, we believe that the existing Southern Loop has adequate capability to enable local distributed generation to come on line because (a) existing and forecasted load growth on the Southern Loop will be able to utilize the additional capacity and (b) most of the distributed generation tying into the system is predicted to be relatively small. It should also be noted the effectiveness of distributed generation to mitigate the reliability issues created by load growth will depend heavily on where the distributed generation is connected to the Southern Loop.

- Q: Why doesn't CVPS and VELCO acquire additional right of way in the western portion of the Southern Loop today, so that if an upgrade were necessary in the future, at least you'd own the right of way? After all, the existing right of way seems constrained, and buying land isn't going to get any easier.
- A: While it may be possible to acquire additional right of way now, we don't believe that is a prudent strategy. We believe the distributed resources efforts that are under way and that are planned for the Southern Loop may enable us to defer new transmission line construction, which is consistent with our understanding of state policy. Also, technology is constantly changing. At the point in time, if any, that the western portion of the Southern Loop needs to be upgraded, technology in existence at that time may not require additional right of way.
- Q: Will CVPS actively seek partnerships for distributed generation within the Southern Loop.
- A: Yes. Bob Young, CVPS President, made that commitment in his closing remarks at the Utility Search Conference and we stand by that commitment. Moreover, while not the technological equivalent of a generator, the synchronous condenser that was recommended at the Utility Search Conference has many characteristics that make it similar to a local generator.
- Q: FERC recently developed a new "forward capacity" market. ISO-NE had adopted a funding mechanism that provide payments to utilities who can demonstrate that they have quantified distributed resources available to either reduce demand on the grid or to provide additional power to the grid when needed. How much money would these programs generate for Vermont if the forecasted 20 MW of distributed resources are implemented within the Southern Loop?

A: The programs you are referring to will not be in place until 2009. While it's difficult to say precisely, a rough estimate is that Vermont would receive approximately \$600,000 per year if we are able to demonstrate conclusively that Vermont has implemented distributed resources equal to 20 MW. These payments, together with other incentives (such as renewable energy credits) may help some of the less economic forms of distributed resources become more economical (on a private cost, and not societal costs, basis) and therefore more able to be implemented than if those payments were not available. It is also important to note, however, that current estimates show that it costs roughly \$1,000 per kW to build distributed generation. This means that 20 MW of DG would cost roughly \$20 million to build. Spread out over 20 years, that would require an annual carrying cost of approximately \$3 million, for which the state would receive payments of approximately \$600,000 per year. The additional \$2.4 million per year would be borne by Vermont ratepayers or would have to come from revenue from other ISO market products.

The group discussed the format and content of the upcoming Informational Open House Meetings, including the following:

- The need for upgrading the Southern Loop, together with the utilities' reasons why doing "nothing" is not an option, should be explained clearly.
- People need to understand the utilities' legal obligations to maintain the system.
- The Welcome Packet should include a glossary of common terms and acronyms.
- In order to avoid confusion, the "Options" workstation should focus on the four "preliminary preferred" options. The other options will be presented in the Information Packet that will be provided to all attendees.
- The potential ratepayer impacts of each option needs to be presented. This should include the possible impacts of each of the four preliminary preferred options on a customer's bill. If this level of detail cannot be described with reasonable accuracy, the group agreed that at a minimum the information presented should include a comparison of the relative costs of each option as well as a description of how the costs of each option would be borne by Vermont ratepayers.
- The Vermont Department of Public Service has agreed to send a representative to each of the Informational Open House Meetings. A workstation will be set up so that the DPS representatives can speak to members of the public regarding the current and planned policy initiatives around the state. The group agreed that this would be a very beneficial addition to the meetings, particularly in light of the fact that long-range policy changes were identified as part of the

recommendations from the Utility Search Conference and also were an important part of the CWG's deliberations.

- Given the four “preliminary preferred” options, some type of outreach should be conducted in the area between Dummerston and Coolidge. Chris told the group that he would work with VELCO and CVPS to address this issue.
- It would be useful to have someone at the Informational Open House Meetings to discuss combined heat and power technology and how this might be utilized within the Southern Loop.

Chris Kenny and Steve Costello described how the public would be notified of the Informational Open House Meetings. Members of the CWG offered additional recommendations and were asked to send additional suggestions on this topic to Chris via email. Chris also stressed the need for each CWG member personally to identify and contact individuals to attend the Informational Open House Meetings. Chris agreed to email members with a sample invitation.

Finally, in order directly to provide information to and to hear feedback from the public regarding the four “preliminary preferred options,” CWG members were strongly encouraged to attend as many of the Informational Open House Meetings as possible.

Our next CWG meeting will be held at the Brattleboro Quality Inn & Suites on **Thursday, September 21** from 4 – 6 p.m. The meeting will focus on the information received at the September 12, 13 and 14 Informational Open House Meetings. Depending on the information received at the Informational Open House Meetings, the CWG may be asked to finalize its recommendations to CVPS and VELCO.