

Southern Loop Options – Important Information Regarding the “Estimated CVPS Electric Retail Rate” Chart on Display Tonight

The Southern Loop Background Report and the Technical Report compared the capital costs and societal costs for all the Southern Loop solution options. At the August 24, 2006 Community Working Group Meeting, there was a request for an estimate of relative electric rates as an additional way to compare the options. Since the CWG recommended Options 7, 4, 2 and 9 for consideration by CVPS and VELCO, those options were analyzed to create rough estimates of the relative rate impacts. Those relative rate impacts are on display tonight on the chart entitled “Estimated CVPS Retail Electric Rate.”

In general the Southern Loop options (*e.g.* 7 and 9) that include Distributed Resources (*i.e.* energy efficiency and distributed generation or cogeneration) will have the largest attendant rate increases since the costs of Distributed Resources are not shared regionally like Pool Transmission Facilities (high voltage lines that form the New England grid) and both energy efficiency and distributed generation can reduce energy sales. In such cases, the numerator (costs) increases more and the denominator (sales or kilowatt-hours) decreases, thus the resulting electric rate (\$/kwh) increases. The other driver of relative rates is the amount of costs shared in New England rather than being borne solely by CVPS customers. The line segments A and B are largely shared in New England while the synchronous condenser costs are borne entirely by CVPS customers. If line segments C and D are built they might receive regional cost sharing to some extent, but if only line C (or for that matter if only line A) is built then those costs would be borne by CVPS customers until (or if) line segments D and B were constructed, respectively.

The relative rates on display tonight are an important consideration when evaluating the various options for the Southern Loop, but Vermont Least Cost planning guidelines put most emphasis on the Societal Test to make electric utility investment decisions (see the document entitled “Important Utility Planning Concepts” elsewhere in this information packet for an explanation of the terms “Least Cost” and “Societal Test”). For example, Option 7 shows slightly negative costs (*i.e.* savings) from a Societal Cost perspective since the power savings and other savings (less water, fuel and equipment costs) outweigh the capital costs of Distributed Resources and the lines in Option 7. Only the costs of solutions are reflected in rates, so the relative rates for Option 7 appear high. However for those CVPS customers who receive energy efficiency measures, or who use cogeneration plants, will see large offsets in their energy consumption so their bills may well decrease even though the electric rates increase.

No one knows what future rates will be due to the uncertainty in power costs, infrastructure cost upgrades (including the Southern Loop components) and the level of future electric sales. With all those assumptions being equal, the relative CVPS electric rates for the Southern Loop options can be compared head to head to see the differences, but the rate paths **are only illustrative**.