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VILLAGE OF LYNDONVILLE ELECTRIC DEPARTMENT

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To: All Lyndonville Electric Department Ratepayers
From: Ken Mason, LED Manager

During the month of May, we sent a letter out to all of our ratepayers that explained what we feel is the “need” for a VELCO owned 115 KV substation to be built within our electric service territory. I explained that it would probably be the first of two or three informational letters that we will send out addressing different aspects of the substation project and how we feel it will affect you, the ratepayer. This is letter number two and it explains the project’s “**financial**” aspects and ramifications as we see them over the short term and also over the longer term of ten to twenty years.

First let me begin by saying that this is a huge undertaking by this moderately sized municipal electric utility. When VELCO first developed total project cost estimates in their 2008 feasibility study, the estimated cost for this project was \$24.4 million. Since then VELCO has refined the project cost estimate from a feasibility grade estimate to a planning grade estimate and now to an engineering grade estimate. The cost has dropped to \$16.8 million and more recently to \$15.4 million respectively. VELCO will do only one more estimate which will be a construction grade estimate, after the Vermont Public Service Board (PSB) issues a Certificate of Public Good (CPG) for this project.

The '91 Vermont Transmission Agreement ('91 VTA) and the Substation Participation Agreement (SPA) govern how and who pays for all VELCO transmission projects. These agreements determine how costs are allocated between ISO New England (ISO-NE), the sponsoring distribution utilities (CVPS and LED) and then all 20 of the Vermont distribution utilities. Because this substation is being installed on a looped portion of the VELCO 115 KV transmission system, it qualifies as Pool Transmission Facilities (PTF) and that qualifies the 115 KV section of the substation to be paid for by funds collected by ISO-NE. ISO-NE collects the 115 KV costs from all the New England states based on their percentage share of the New England load and Vermont represents approximately 5% of that. About 58% of the total cost of the VELCO substation is considered to be PTF.

The balance of the equipment in the substation then falls under the provisions of the '91 VTA and SPA. The '91 VTA primarily addresses the substation transformer and the breakers used to protect that transformer, and who and how the utilities pay for them. If the particular equipment just mentioned does not benefit all the distribution utilities in Vermont, then the requesting distribution utilities must pay the carrying cost for the “Specific Facilities” for the first ten years of operation. For the second ten years, the

carrying costs revert to “Common” and are then paid for by all Vermont distribution utilities based on their pro-rata share of the state-wide load.

The last piece of the substation puzzle is the SPA. The SPA governs who pays for the equipment that just benefits the requesting distribution utility or utilities. The SPA defines “Exclusive Facilities” as equipment that is paid for and owned by a distribution utility. In our case, we will have three 34.5 kV breakers installed so we can connect the four 34.5 kV sub-transmission lines that feed our four 34.5 kV distribution substations (Burke Mt, Pudding Hill, No. 2 and Industrial Park). The SPA also addresses Operation and Maintenance (O&M) and Shared costs.

So that gives you a brief idea of what costs are passed onto us and how and why they’re allocated. Last Fall CVPS and LED entered into cost allocation negotiations in an attempt to come to an agreement as to what percentage of the new substation we would each fund. We finally reached an agreement that CVPS would fund 22.5% of the “specific” costs and LED would fund the balance of 77.5% for the first ten years. During the second ten years, when the costs become “Common”, CVPS will fund about 45% of the carrying costs and LED about 1.6%. The remaining approximately 53% will be funded by the other 18 distribution utilities in Vermont.

Based on our initial positive assessment of what type of financial impact this project will have on this utility and its ratepayers, we have kept the pressure on to keep this project moving forward. As we reached the point of considering filing a Section 248 CPG application as a co-petitioner with VELCO, the Board of Trustees and I felt it important to have an independent entity take a “second look” at the project and perform a due diligence review of the financial ramifications to LED and its ratepayers.

The independent entity selected was Kittell Branagan & Sargent, which is also the independent auditing firm that does LED’s annual audit. The person assigned the task was Harold F. Nisun (Satch), CPA, and the task assigned to Satch was to look at only the first ten years of the project and determine the financial feasibility and ramifications. He began first by collecting data from VELCO, the Vermont Public Power Supply Authority and LED and by also contacting other relevant interested parties. After about two months of concentrated effort, Satch provided to the Lyndonville Board of Trustees and me a letter (report) and spread sheets that can be best summed up by saying, “We conclude from reviewing available information, inquiries made and various analysis that it appears reasonable that the 115 kV Sub Station in Lyndonville is a financially feasible project”.

In summary, our belief that this is a good financially sound project has been borne out by an independent opinion. Over the most costly first ten years of “specific” financing of a VELCO facility by LED, Satch predicted that we will have a \$369,000 reduction in costs. I predict the savings, over the second ten year period, and for every ten year period after that, to be much larger, in the \$3-4 million range. If you have any questions or want to see a copy of the independent analysis, please contact me at the LED business office by calling 626-3366 or e-mailing me at kmason@lyndonvilleelectric.com. Thank you.