

November 2010

Report to Stowe, Vermont

on the Potential

Sale of the Stowe Electric Department

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Table of Contents

Summary	1
Financial Data on SED	3
Offers from GMP and CVPS	4
Rate Comparison	6
The Mt. Mansfield Contract	11
Estimate of Future Rate Impacts	14
SED's Existing Obligations	21
VELCO/VT Transco Equity	28
Economies of Scale	30
Other Factors to Consider	32
Attachment A	36

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Summary

This Report by Whitfield Russell Associates (“WRA”) discusses the facts surrounding a potential sale of the Stowe, Vermont Electric Department (“SED”) to either of Green Mountain Power (“GMP”) or the Central Vermont Public Service Company (“CVPS”). Both of these investor-owned utilities (“IOUs”) have expressed interest in acquiring the assets of SED.

SED operates a small, vertically integrated municipally-owned electric system with a peak demand of 15 MW and annual sales of about 71 million kWh in 2009. SED expects its peak demand to grow to 25 MW in 2011, now that a recently constructed 115 kV transmission line has increased the capacity of the system. SED’s service area is compact and previously had a relatively high load factor of about 60%. SED’s system is characterized by high quality distribution facilities and considerable undergrounding of distribution lines. Recently, SED made an equity investment in VT Transco, LLC. This investment paid for SED’s share of transmission assets VT Transco recently constructed in order to serve SED at 115 kV.

WRA has reviewed the offers to buy SED that Stowe received, and has examined the facts and issues surrounding such potential sales. There are strengths and weaknesses arising from each utility’s prospective purchase, or SED’s retention, of the SED system.

The offer by GMP offers the following benefits:

- The lowest rates of all three utilities for most customers in Stowe
- A premium paid by GMP to Stowe that GMP will not recover in future rates
- The lowest rate increase of the three utilities
- Economies of scale and buying power attributed to the large size of GMP

The weaknesses associated with GMP's offer include:

- Potential loss of GMP's Vermont Yankee Nuclear Plant entitlement in 2012 (42% of GMP's current power supply), and replacement of that power with higher cost purchases
- Stowe may be left with certain existing power purchase agreements that contain restrictions with respect to assigning the agreements and transferring the associated assets, leaving the Town responsible for making payments under these contracts with no load to absorb or pay for the power; GMP has made a written commitment to work with Stowe (at GMP's expense) to obtain approvals that are conditions precedent to the assignments and to hold Stowe harmless for any post-assignment liability but is not yet in a position to state whether Stowe can obtain the needed approvals or assignments
- GMP's existing snowmaking tariff is not available to new customers without regulatory approval, and its analysis of the costs to the Mt. Mansfield Company, Inc was flawed

The strengths associated with the CVPS' offer include:

- Lower rates for most customers in Stowe
- A premium payment that is higher than that proposed by GMP
- Economies of scale and buying power attributed to the larger size of CVPS

The offer by CVPS has the following weaknesses:

- Potential loss of CVPS' Vermont Yankee entitlement in 2012 (52% of its current power supply), and replacement of that power with higher cost purchases
- Stowe may be left with certain existing power purchase agreements that contain restrictions with respect to ownership of the assets, leaving the Town responsible for making payments under these contracts with no load to absorb or pay for the power
- CVPS has proposed the highest increase in rates of the three utilities
- CVPS has made its offer contingent on regulatory approval of recovering the premium it pays in future rates

The strengths associated with retaining SED as a municipal utility include:

- Customers would retain local control over utility
- The Town would not have to unwind existing power purchase arrangements and pay the costs of doing so
- The resolution of several issues creating uncertainties (e.g., construction of 115 kV supply to the Town of Stowe, resolved legal issues, adjustment of power supply arrangements)
- SED is already purchasing 45% of its power in the market, and doesn't face the uncertainties or potential rate shock associated with loss of Vermont Yankee

Retaining SED as the municipal utility has weaknesses, including:

- SED currently has higher rates for most customer classes than does either of the IOUs
- The smaller utility has less buying power and less ability to achieve economies of scale

Because a sale of the SED system has both positive and negative attributes to the customers in Stowe and the Town of Stowe government, the decision to move forward with a sale of the SED system should be based on the relevant facts and circumstances presented in this report. If the Stowe governing body chooses to sell the SED, the Vermont Board of Public Service approval is required with a finding that the transfer is in the public good.

Financial Data on SED

The most recent annual data on SED's financial condition is found in the Town of Stowe, VT Electric Department Financial Statements, December 31, 2009 ("2009 Financials"), as well as in the Annual Report of Stowe to the State of Vermont Department of Public Service ("DPS") ("Annual Report").¹ The 2009 Financials indicate that SED's revenues in 2009 were \$10,221,607, about the same as those in 2008 (\$10,205,573).² The gross plant value of Stowe's

¹ Data reported in the Annual Report to the DPS is derived from audited data taken from the 2009 Financials.

² See 2009 Financials, Statements of Revenues, Expenditures and Changes in Net Assets for the Years Ended December 31, 2009 and 2008, page 2.

utility plant (mostly distribution facilities) at yearend 2009 was \$8,858,317. Accumulated depreciation was \$5,351,526 at yearend 2009, leaving Net Utility Plant at \$3,606,791, up \$344,137 from Net Utility Plant at yearend 2008.³ Largely because of an unusual arrangement for financing SED's new 115 kV transmission line, SED's total assets at yearend 2009 (\$32,142,759) were far greater than the Net Utility Plant value of SED's distribution plant (\$3,606,791). SED's total liabilities amounted to \$27,327,610, producing Total Net Assets of \$4,815,149.⁴ Total Net Assets, or Proprietary Capital, for a municipal utility is similar to equity on a corporate balance sheet.

SED's Total Assets at yearend 2009 included (1) cash in the amount of \$2,324,406, (2) restricted cash of \$750,000, (3) \$1,757,052 in accounts receivable and (4) \$995,059 of unbilled revenue.⁵ Accounts receivable and unbilled revenue represent near cash equivalents. Under the offers to acquire SED's System, each of the potential buyers propose that SED retain its cash and accounts receivable. WRA understands that both buyers propose to step into SED's shoes and assume its right to collect the unbilled revenues valued at almost \$1.0 million at yearend 2009. The remainder of the cash items and accounts receivable are approximately equal to the Total Net Assets of \$4.8 million.

Offers from GMP and CVPS

³ See Annual Report, page F-2.

⁴ See 2009 Financials, page 1 and Annual Report, page F-3.

⁵ See 2009 Financials at page 1.

GMP made an offer to Stowe on June 9, 2010, and revised this offer on July 27, 2010.⁶ The information provided on this offer is confidential, and should be treated as such. GMP's offer involves a fixed premium over SED's yearend 2010 net book value (which has, as yet, not been established). GMP anticipates that the transfer would close on September 30, 2011, and it does not expect to recover the premium over net book value in future rates.

Of the amount provided by GMP, a substantial portion would be applied to repayment of SED debt, particularly its debt arising from its investment in VT Transco, LLC, and the 115 kV transmission facilities recently completed to serve SED, among others. GMP estimated that Stowe would retain net proceeds that would consist primarily of the premium and the return of SED's own cash and accounts receivable.⁷ GMP also predicts that its property tax payments to the Town of Stowe will increase substantially because GMP will pay full property taxes rather than the much lower payment in lieu of taxes of about \$30,000 annually that the Town of Stowe municipal government currently receives from SED.

GMP bases its offer on four prongs—it believes its acquisition of the SED will provide the area with (1) service quality and positive relationships; (2) capital and smart grid investments; (3) financial strength; and (4) energy strategy. Its presentation of June 9, 2010, illustrated that GMP has decreased in size and number of employees, while increasing its number of customers. It also claims to have achieved improvements in service that it provided to its customers over the 1998-2008 period.

⁶ Not being a party to the discussions, WRA may not have all of the information about the GMP and CVPS offers that are currently on the table.

⁷ Separately, we understand that SED staff believes that payments receivable from Mt. Mansfield and SED plant additions will increase the net proceeds Stowe can expect to realize on the sale and that these amounts are not reflected in GMP's offer.

GMP has provided several comparisons of rates under SED and GMP management. The proposal also contained two rate options: (1) move SED's customers to GMP rates immediately, or (2) freeze SED rates for three years beginning in 2011. Under the rate freeze, the estimated value of operational synergies was projected to be lower than that expected under the other methodology.

CVPS, on the other hand, has made an offer based upon a certain multiple of net book value, with the amount of the offer that is more than net book value established as the premium. The CVPS offer is contingent upon (1) the CVPS expectation that regulators will authorize CVPS to recover the premium through a post-acquisition rate increase, and (2) its ability to finance the transaction. Initially, CVPS represented that residential customers would see an immediate 14.5% reduction in rates and that all customer classes would receive an average rate reduction of 2.5%. More recently, CVPS provided a detailed rate comparison of representative customers of SED, which is described below.

Similar to GMP, CVPS also commits to provide (1) outstanding customer service, (2) smart grid⁸ and other customer offerings, (3) outstanding storm response, (4) ski area expertise, (5) successful transaction experience gained through acquiring other service territories, and (6) itself as a trustworthy partner.

Without getting into details, the offers from GMP and CVPS, based upon yearend 2009 data, would provide approximately \$5 million to \$10 million in proceeds to the Town of Stowe. Nearly \$5 million of these proceeds consist of the cash and accounts receivable accounts currently on the books of the SED. If and when a sale actually occurs, the estimate will be updated with actual figures.

⁸ WRA would note that all Vermont utilities have signed a Memorandum of Understanding ("MOU") concerning the implementation of smart metering. See Order on MOU, August 3, 2009, Docket No. 7307. .

Rate Comparison

As an initial task, WRA reviewed the existing rates and rankings for Stowe, GMP and CVPS. Below is a table illustrating the rankings of each of Stowe, CVPS and GMP under the various categories of residential, commercial and industrial categories, based upon revenue received divided by megawatt-hours (“MWH”). Based upon this 2009 data, Stowe has higher rates on average than does either of GMP or CVPS.

Vermont Department of Public Service 2009

Utility	Revenue (\$)	kWh	# of Cust.	Avg. Use	Rev/kWh (cents)	Rank
Residential						
Stowe	3,631,000	20,998,529	3,172	6,620	17.29	18
GMP	85,481,010	570,263,000	80,136	7,116	14.99	12
CVPS	138,295,632	981,838,000	136,242	7,207	14.09	8
Commercial						
Stowe	4,969,354	37,209,804	683	54,480	13.35	7
GMP	83,498,584	688,061,000	14,496	47,466	12.14	3
CVPS	103,353,329	825,010,000	22,577	36,542	12.53	4
Industrial						
Stowe	1,071,433	9,519,090	1	9,519,090	11.26	6
GMP	52,524,921	610,092,000	29	21,037,655	8.61	2
CVPS	32,311,427	364,516,000	36	10,125,444	8.86	3
Totals						
Stowe	10,156,938.0	70,794,588.0	3,907		14.35	9
GMP	222,687,661.0	1,872,798,000	94,716		11.89	3
CVPS	275,840,387.0	2,177,762,000	159,030		12.67	4

When the rankings in 2008 are compared to those above, GMP remained the third best utility when comparing the ratio of Total revenues received over Total kilowatthours sold. SED

improved its ranking in this category from 12th place in 2008 to 9th place in 2009. CVPS also improved from 6th place to 4th place. Thus, all three utilities are maintaining or improving their positions.

Both CVPS and GMP performed rate comparisons of 30 different customers of SED, based upon these specific customers' bills for the 2009 period. WRA reviewed each of these rate comparisons, and performed its own limited analyses of 2009 rates.

Below is a summary sheet of the CVPS rate comparison of the 30 customers. WRA has also combined this with the rates of these same customers as performed by GMP, comparing its rates with those of SED and with those of CVPS.

CVPS Rate Analysis					GMP Rate Analysis			
Actual Rates July 2009 through June 2010 Bills					Actual Rates July 2009 through June 2010 Bills			
CVPS vs Stowe Electric Department					GMP vs. SED vs. GMP Estimate of CVPS			
	Stowe Total	CVPS Total	CVPS- Stowe Annual	Percent			GMP - Stowe Annual	Percent
Residential	Annual Bill	Annual Bill	Difference	Difference	Stowe	GMP	Difference	Difference
A	\$ 456.54	\$ 470.38	\$ 13.84	3.0%	456.54	478.01	21.47	4.7%
B	469.38	477.71	8.33	1.8%	469.38	486.86	17.48	3.7%
C	434.96	455.57	20.61	4.7%	434.96	463.20	28.24	6.5%
D	401.24	427.49	26.25	6.5%	401.24	432.73	31.49	7.8%
E	1,142.90	999.17	(143.73)	-12.6%	1,142.90	1,060.33	(82.57)	-7.2%
F	1,403.50	1,209.17	(194.33)	-13.8%	1,403.50	1,279.45	(124.05)	-8.8%
G	1,971.34	1,644.82	(326.52)	-16.6%	1,971.34	1,757.15	(214.19)	-10.9%
H	1,922.41	1,604.73	(317.68)	-16.5%	1,922.41	1,716.37	(206.04)	-10.7%
I	2,148.72	1,786.35	(362.37)	-16.9%	2,148.72	1,906.03	(242.69)	-11.3%
J	20,282.30	16,531.47	(3,750.83)	-18.5%	19,982.30	15,317.88	(4,664.42)	-23.3%
Small Commercial	Annual Bill	Annual Bill	Difference	Difference	Stowe	GMP	Difference	Difference
K	\$ 2,282	\$ 2,683	\$ 401	17.6%	2,282	2,195	(87)	-3.8%
L	9,533	8,178	(1,355)	-14.2%	9,533	8,076	(1,457)	-15.3%
M	3,936	4,181	245	6.2%	3,936	3,791	(145)	-3.7%
N	5,477	5,872	395	7.2%	5,477	5,275	(202)	-3.7%
O	4,376	4,616	240	5.5%	4,376	4,217	(159)	-3.6%
P	15,473	15,477	4	0.0%	15,473	14,261	(1,212)	-7.8%
Q	21,572	18,182	(3,390)	-15.7%	21,572	18,987	(2,585)	-12.0%
R	86,611	76,608	(10,003)	-11.5%	86,611	74,759	(11,852)	-13.7%
S	31,256	21,819	(9,437)	-30.2%	31,256	22,027	(9,229)	-29.5%
T	11,827	11,196	(631)	-5.3%	11,827	13,405	1,578	13.3%
U	6,630	7,113	483	7.3%	6,630	6,368	(262)	-4.0%
V	9,724	10,452	728	7.5%	9,724	9,328	(396)	-4.1%
W	211	186	(25)	-11.5%				
X	5,706	6,135	429	7.5%	5,706	5,483	(223)	-3.9%
Y	6,131	6,603	472	7.7%	6,131	5,888	(243)	-4.0%
Large Commercial	Annual Bill	Annual Bill	Difference	Difference	Stowe	GMP	Difference	Difference
Z	\$ 452,627	\$ 392,904	\$ (59,723)	-13.2%	452,627	364,698	(87,929)	-19.4%
AA	294,330	227,515	(66,815)	-22.7%	294,330	255,289	(39,041)	-13.3%
BB	182,409	163,595	(18,814)	-10.3%	182,409	158,575	(23,834)	-13.1%
CC	620,767	541,601	(79,166)	-12.8%	621,767	519,553	(102,214)	-16.4%
DD	124,859	111,139	(13,720)	-11.0%	124,859	108,146	(16,713)	-13.4%

In reviewing the rate comparisons performed by CVPS and GMP, WRA noted several issues. A complication arises from the fact that CVPS and GMP have time-of-use (“TOU”) tariffs for certain residential and commercial customers, whereas Stowe does not have TOU rates. TOU tariffs charge different prices during on-peak and off-peak hours. On-peak hours tend to be the hours between 7 a.m. and 11 p.m. Monday through Friday, with off-peak hours being all other hours (e.g., the nights and weekends, when electric use is not as strong). Because

SED customers have not had TOU tariffs, their bills did not include information as to the amount of energy purchased during these different periods. Therefore, no precise comparison is possible because Stowe does not have comparable TOU rates or customer billing histories. Moreover, insufficient information is available for calculating the impact on an SED customer as a result of moving to CVPS or GMP and electing to take service under a TOU rate schedule.

Because of this lack of information, CVPS and GMP made different assumptions concerning TOU rates. For the residential customers, CVPS assumed all SED customers would move to its flat residential tariff Rate 1. GMP assumed all but one would move to its flat tariff Rate 01, except for the last customer, which GMP assumed would have a 50/50 on-peak/off-peak balance of energy use. For small and large commercial customers, GMP assumed a split of 57/43 for on-peak/off-peak energy usage, and also assumed that the highest off-peak demand was 86% of the highest on-peak demand. CVPS, on the other hand, did not make assumptions about on-peak/off-peak for small commercial customers, but did use TOU rates for the large commercial customers. For these customers, CVPS assumed a 55/45 on-peak/off-peak ratio, and assumed that the off-peak highest demand was 75% of the highest on-peak demand. Thus, each IOU used different estimates of on-peak/off-peak energy and capacity amounts. Actual usage of customers who get moved to TOU rates will vary from what either GMP or CVPS have estimated, as their actual usage will vary from that which the IOUs have assumed. Furthermore, over time, these TOU customers may learn to manage their energy usage in order to profit from cheaper off-peak energy prices, while some may not be able to take advantage of shifting usage.

Another problem with the rate comparison is that CVPS did not use the correct ratchet to calculate demand charges for the large commercial customers. SED customers get charged based upon either the demand for the month, or 85% of the highest previous peak demand in the

prior 11-month period. On the other hand, CVPS Rate 10 charges a transmission and distribution-related demand charge based upon the peak demand established during the current or any of the prior 11 months, whichever is greater (e.g., a 100% ratchet). Thus, CVPS' bills for large commercial customers are understated in the table provided above.

There are some other unexplained elements going into these rate comparisons, such as CVPS or GMP moving a customer to a different type of tariff than was assumed for other customers. For instance, it appears that CVPS should have moved two of the small commercial customers (Customers R and S) away from its General Service tariff (Rate 2) to either Rate 4 or Rate 10, because these customers purchased more energy during the winter months than allowed under CVPS' Rate 2. A quick attempt to show the impact of moving these customers to Rate 10 revealed that the rate differences change from -11.5% and -30.0% to -6% and -8%, respectively. Thus, by making such a move, these SED customers would pay CVPS more than that shown in the table above.

In summary, WRA has found fewer problems with the GMP rate comparison than with the CVPS rate comparison. However, neither of the IOUs' estimates of how SED customers' bills would be calculated under TOU rates can be verified, because actual usage will be different than that estimated by either CVPS or GMP. As shown in the table above, GMP's rates and monthly charges tend to be lower than those of SED for nearly all customers, except for those of the smallest residential customers.⁹

None of these rate comparisons will be applicable in the future, as each of the utilities expects to increase rates. At this time, SED has proposed a rate increase of 6.53% beginning

⁹ GMP has agreed to work with Stowe in analyzing discrepancies between GMP and CVPS with respect to calculations of existing and future rates. See the November 5, 2010, email from Mr. Ed French to Ms. Ellen Burt *et al.*.

October 1, 2010. GMP has proposed an increase of 3.11%, also to go into effect in October of 2010. CVPS recently proposed a rate increase of 8.34%, beginning January 1, 2011. Of the rate increases proposed by any of the three utilities, that of CVPS is the highest

The Mt. Mansfield Contract

The Mt. Mansfield Company, Inc. (“Mt. Mansfield”) resort is SED’s largest customer, and its continued viability is important to Stowe and the surrounding communities as an employer, taxpayer and tourist attraction. Because Mt. Mansfield has considerable flexibility to curtail its snowmaking equipment, SED has offered Mt. Mansfield interruptible service under a special contract (the “August 2010 Contract” between SED and Mt. Mansfield), and Mt. Mansfield receives a discounted rate for power used in snowmaking.

In brief, under the basic concept of the August 2010 Contract, interruptible usage by Mt. Mansfield is allowed to “fill in the valley” in SED’s load pattern. During on-peak periods, Mt. Mansfield can take power until its load, together with SED’s other load, drives SED’s total demand to the vicinity of a set amount that SED has set as its peak amount. During off-peak periods, the targeted level for curtailing Mt. Mansfield is higher, so that Mt. Mansfield can make snow during the evening and weekend periods in greater quantities. Mt. Mansfield has installed equipment that enables it to continuously monitor both SED’s demand and its own demand. Mt. Mansfield goes into alert mode when SED’s load approaches the contract limits and curtails if high load levels persist.

Both CVPS and GMP also serve ski resorts that have substantial amounts of snow-making load that can be curtailed. Neither CVPS nor GMP is obligated to continue rendering

service to Mt. Mansfield at the same discounted rate that SED provides, nor has either committed to do so. In September of 2010, CVPS provided to SED's General Manager a comparison of the rates and total revenue for which Mt. Mansfield was responsible for taking service from SED during 2009 versus the rates and revenues it would have paid under the CVPS snow-making tariff during the same time period. CVPS also provided calculations underlying its comparison. GMP provided some information as of October 4, 2010, but did not provide its complete calculation. GMP noted that its existing snowmaking rate is grandfathered and not available to new customers at this time without regulatory approval.

Both the CVPS and GMP snowmaking tariffs contain prices that are linked to the ISO-New England energy markets. CVPS provided an estimate of costs that Mt. Mansfield would have been charged under CVPS Rate 16, its Ski Area Snowmaking Load Management Service Rate. Under this tariff, CVPS prices all of the non-firm energy related to this contract at the Day-Ahead locational marginal price ("LMP") of the ISO-New England. This means that each customer bears the risk of energy prices as they rise and fall from hour to hour. During the 2009 period, CVPS's rate comparison showed that prices under the CVPS tariff would be roughly equal to those paid by Mt. Mansfield under the 2009 SED contract. CVPS expects that it will curtail Mt. Mansfield during high demand or high-priced periods. Under the SED August 2010 Contract, Mt. Mansfield normally manages its loads itself, and is therefore not curtailed unexpectedly by SED. With CVPS as its supplier, Mt. Mansfield would have to keep its eye on the LMP prices in order to determine whether continued operation of its snowmaking equipment is economic.

GMP also provided an estimate of its charges to Mt. Mansfield under its grandfathered tariff. GMP's Snowmaking Tariff is comprised of its Commercial and Industrial Time-of-Use

Rate 63, but with a Curtailable Load Rider. Rate 63 has fixed prices for on-peak and off-peak periods, but the Curtailable Load Rider allows GMP to curtail the customer with adequate notice for any system limitation (e.g., a plant outage, transmission line outage or excessive loading) or unexpected wholesale energy price increases. Under the Half Curtailable Load Option, GMP can inform the customer of a Curtailable Period (when Expected Energy Prices exceed \$200/MWH) or Half Curtailable Load Period (when Expected Energy Prices may be less than \$200/MWH). The Expected Energy Price is dependent upon ISO-New England energy prices and prices under other bilateral contracts of GMP. A customer under this rider can choose to “buy-through” a portion of the curtailment, subjecting itself to higher energy prices for this benefit. GMP would have to gain approval from the Public Service Board in order to offer this tariff to Mt. Mansfield. GMP’s rate comparison illustrated a large savings to Mt. Mansfield by switching from SED to GMP. However, its estimate did not include any charges for Mt. Mansfield operations during peak period hours, an operating scenario that seems unlikely to occur. Depending upon the peak chosen to place into GMP’s analysis, GMP’s rate comparison can show either savings or increased costs for Mt. Mansfield under this tariff.

The Stowe Electric Commissioners have received separate oral commitments from each of GMP and CVPS to the effect that Mt. Mansfield would suffer no harm if the respective IOU succeeds in acquiring the SED system and provides service to Mt. Mansfield. However, it has been WRA’s experience that in order to be enforceable, such a commitment must be the subject of a written offer which includes (a) the specific metrics for determining whether harm has occurred, (b) specific metrics for measuring the extent of that harm and (c) a detailed formula for compensating Mt. Mansfield for that harm.

Estimate of Future Rate Impacts

It is difficult to provide a clear and concise analysis of future rates for SED, GMP and CVPS. Future rates are based upon the costs to a utility of providing power, as well as the costs of transmitting that power over high voltage transmission lines, and then distributing the power over the local, low voltage distribution system. WRA has concentrated on power supply costs because the costs of transmission and distribution of power tend to be of a smaller magnitude. Although regional network transmission charges imposed by ISO-New England have been rising since 1997 at more than 12% per year (and are projected to continue increasing at a similar rate through 2014), all utilities in Vermont bear a proportionate share of these costs. Because all utilities share these costs, the transmission rates for customers are fairly comparable, and can be ignored when comparing costs between utilities. The primary driver of costs is the cost to supply power. Utilities supply power based upon generation that they own, generation that they purchase from others, and from purchases from ISO New England energy and capacity markets.

For 2009, CVPS had the lowest cost of power, as calculated by its power cost divided by MWH sold. GMP was second-lowest, and SED had a higher cost of power.

Power Supply Costs	
2009	
Utility	\$/MWH
CVPS	54.29
GMP	66.75
SED	83.89

As noted previously, both CVPS and GMP have existing entitlements to the Vermont Yankee Nuclear Plant (180 MW for CVPS and 100 to 106 MW for GMP). This plant's current operating

license expires in March of 2012. The IOUs will lose these entitlements should the plant not be relicensed.¹⁰ All Vermont utilities who currently buy power from Hydro Quebec will also see a 50% drop in the amount of energy provided by Hydro Quebec when deliveries under a new contract begin in 2015. The new Hydro Quebec contract calls for prices to be adjusted to reflect the movement of prices in the ISO New England energy market. The power supply of each of the three utilities is listed below, with “Other/Market” being equal to the owned generation, purchases from plants other than Vermont Yankee, and market purchases. For SED, the market purchases can be separately determined, and is shown below.

Percentage Share of Power Supply				
	<u>VT Yankee</u>	<u>Hydro Queb</u>	<u>Market</u>	<u>Other</u>
CVPS	52.6%	30.8%		16.6%
GMP	42.0%	35.0%		23.0%
SED	0.0%	32.2%	46.1%	21.7%
CVPS or GMP may consider some "Other" to be "Market"				

With the advent of deregulation and open access to transmission, as well as the creation of the energy and capacity markets of such entities as the ISO New England, utilities have become reluctant to lock in power purchases under long-term power supply contracts. Nuclear, hydro and other renewable resources tend to be the types of resources that are able to sign long term power supply contracts with purchasing utilities.¹¹ In WRA’s experience, more utilities are

¹⁰ On November 4, 2010, the current owner of Vermont Yankee, Entergy, announced its intention to explore the potential sale of the plant. Newspaper articles note that the potential sale comes in part because Vermont’s newly elected governor had led the effort to prevent Entergy from receiving a license to continue operating Vermont Yankee.

¹¹ See, e.g., “Wholesale Competition in Regions with Organized Electric Markets,” Order No. 719-A, 128 FERC ¶ 61,059 (2009) , and “The Effect of Long-Term Generation Contracts on Valuation of Electricity Generating Assets under the Regional Greenhouse Gas Initiative,” by Nathan Wilson, Karen Palmer and Dallas Burtraw, Resources for the Future, August 2005.

moving either to build their own generation, or to purchase from energy markets run by regional transmission organizations such as the ISO New England. Just as SED has entered into the market to purchase power, WRA believes that both CVPS and GMP will turn to the market to purchase the bulk of their power that needs to be replaced if Vermont Yankee is not relicensed. Each of the three utilities has already signed a new contract with Hydro Quebec that in essence cuts their power supply from Hydro Quebec in half, beginning in 2015. The replacement for this power may also be purchased from ISO New England energy markets. If the full amount of the Vermont Yankee and Hydro Quebec power that may need to be replaced is purchased from the market, each of these companies will end up purchasing approximately 60% or more of their power supply from the market by 2015-2016. Since SED is already purchasing 46% from the market already, it will only need to replace that portion of its Hydro Quebec purchase that will not be covered under the new contract, bringing its total to approximately 60% as well.

Because of this expected move to the market, WRA expects that the power supply costs of the utilities will tend to become more closely aligned after 2015. ISO New England power supply costs tend to fluctuate from year to year, dependent upon costs of the various fuels underlying power generation, as well as other factors. Over the past three years, the ISO has seen the total costs of power fluctuate as follows:¹²

¹² ISO New England's 2009 Annual Markets Report at page 22.

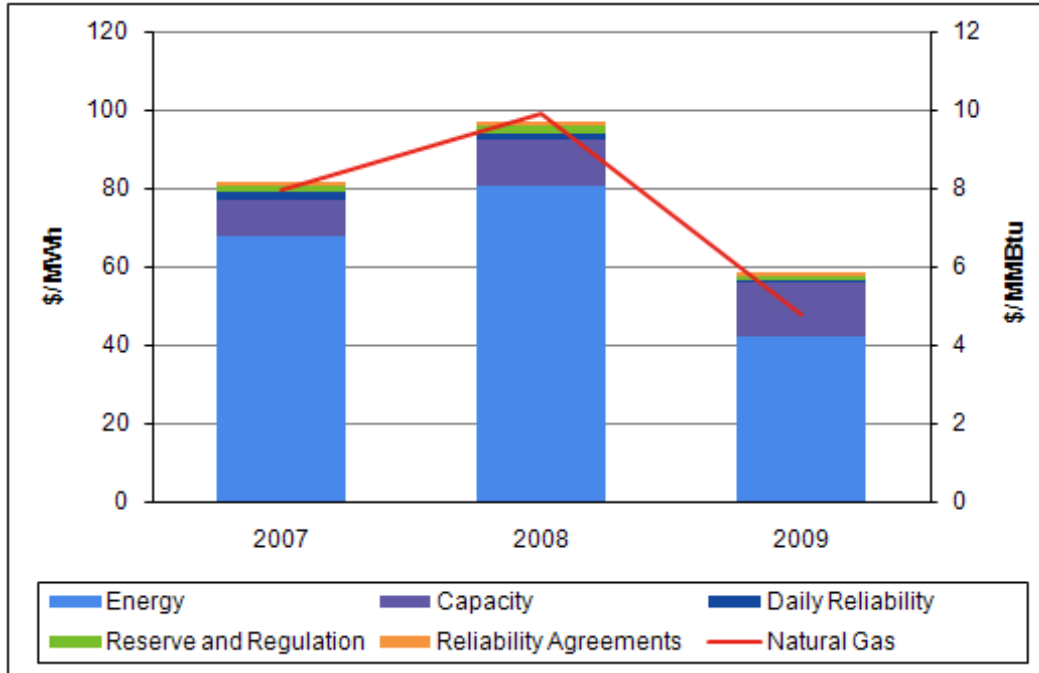


Figure 1-8: All-in cost for electricity.

Notes: The daily reliability and Reliability Agreement costs are allocated systemwide to enable a systemwide rate to be calculated. These costs actually are allocated to the load zone in which they occur. MMBtu stands for millions of British thermal units, a measure of the amount of heat energy in natural gas.

Source: Natural gas price information provided by the Intercontinental Exchange, Inc. (ICE); <http://www.theice.com>.

Currently, ISO-NE forward prices for 2011 are averaging even lower than shown for 2009 above.¹³ SED is still feeling the effect of having entered into market purchases that locked SED into higher prices in 2008. Since then, SED has changed power marketers and has been able to enter into lower cost market purchases as the price of power has dropped.

Larger utilities such as CVPS and GMP may have the ability to use their buying power to purchase at lower costs than can a smaller utility such as SED. This is because larger utilities can purchase larger quantities, which can lower the price overall on a per unit basis.

¹³ See Megawatt Daily, November 2, 2010, Platts-ICE Forward Curve Electricity for the Mass Hub at p. 4, showing Calendar Year 2011 Prices at approximately \$50/MWH..

Furthermore, these larger utilities also tend to enter into hedges in order to protect against price and/or fuel risk.

In order to approximate the future impact upon the power costs and rates of both Vermont IOUs as a result of the potential loss of their entitlements in Vermont Yankee and half of their entitlements from Hydro Quebec, WRA substituted estimated market power prices for the costs that each of CVPS and GMP paid in 2009 for their entitlements in Vermont Yankee. WRA also reduced the amount of purchases from Hydro Quebec by 50% in order to illustrate the drop in purchases from Hydro Quebec recently announced in the press and replaced that 50% reduction in purchases from Hydro Quebec with market-priced power. WRA reduced the amount of SED's purchases from Hydro Quebec by 50% as well, and replaced that reduction with power purchased from the market. This calculation illustrates the possible magnitude of future cost impacts associated with projected realignments in the power supplies of Stowe and the two IOUs, assuming that each utility will purchase market power at the same price.

The table below illustrates the effect of assuming varying prices for market power, based upon the prior years of total power costs in ISO New England, and a forward estimate as described above. The calculation was made based on data taken from the 2009 Federal Energy Regulatory Commission ("FERC") Form 1s of CVPS and GMP and from the 2009 Stowe Annual Report and 2009 Financials. Because each of SED, CVPS and GMP would rely upon market-priced power to differing degrees, the rate impact of a sale of the Stowe system would differ depending upon the assumed price of power purchased from the market.

Vermont Power Cost Comparison					
	Stowe	GMP	CVPS		Stowe as
2009 Costs of Power	<u>\$/MWH</u>	<u>\$/MWH</u>	<u>\$/MWH</u>		<u>% of GMP</u>
Actual Costs	83.89	66.75	54.29		126%
Market Prices at \$50/MWH	73.12	66.89	56.02		109%
Market Prices at \$80/MWH	91.79	84.73	76.42		108%
Market Prices at \$100/MWH	104.23	96.62	90.03		108%

In the table above entitled “Vermont Power Cost Comparison,” the “%” in the rightmost column shows SED’s cost of power as a percentage of GMP’s adjusted power cost. As can be seen, the percentage rate differential would have dropped (from 126% to 109% or 108%) had GMP switched a large portion of its 2009 power supply from reliance upon low-cost Vermont Yankee and Hydro Quebec to market purchases. When market prices are at \$80/MWH, the cost of power for each of CVPS, GMP, and SED would increase. SED’s increase would occur because one-half of its Hydro Québec purchase is also assumed to be switched to purchases from the market. As a result, SED would also feel the impact of higher market prices, but the impact would be less pronounced because SED’s rates already reflect its reliance on market-priced power. This table illustrates that the power supply cost differential between SED and the other two utilities narrows as these utilities move to purchase more power from the market.

WRA has also examined the components of SED’s and the IOUs’ revenue. Through this analysis, one can gain an understanding of the differences in other costs comprising a utility’s revenue requirement. As transmission costs for 2009 were fairly comparable among the utilities, the remaining differences should be attributed to costs of distribution, including administrative and general costs, as well as return and income taxes for the IOUs. In the table below, labeled

“Total Revenue Less Production Costs,” we show that GMP appears to have the lowest cost per MWH for these other costs, with the SED system not far behind.

Total Revenue Less Production Costs			
	Stowe	GMP	CVPS
2009 Costs of Power	<u>\$/MWH</u>	<u>\$/MWH</u>	<u>\$/MWH</u>
Revenue \$/MWH	143.50	118.90	126.70
Production Cost \$/MWH	83.89	66.75	54.29
Other Cost \$/MWH	59.61	52.15	72.41
Total Cost	143.50	118.90	126.70
Sources: VT DPS 2009 Revenue per KWH, FERC Form 1, Stowe Annual Report			

Using 2009 figures, WRA then examined the impact of moving GMP and CVPS to market power if, as, and when these IOUs lose their nuclear power entitlements and half of their Hydro Quebec entitlements. As before, SED also bears the additional costs of moving one half of its Hydro Quebec entitlement to the market. Including the various estimates of market power at different prices as described above, WRA determined that GMP’s present advantage over SED in overall cost is cut in half and that of CVPS is nearly eliminated. That is, SED’s 2009 cost disadvantage drops from 121% to about 110% relative to GMP and from 115% to about 101% relative to CVPS.

Estimated Total Revenue at Different Market Prices							
		STOWE		GMP		CVPS	
		\$/MWH	% Stowe	\$/MWH	% Stowe	\$/MWH	% Stowe
Revenue		143.50	100.00%	118.90	120.69%	126.70	113.26%
Production Cost (2009)		83.89		66.75		54.29	
Other Cost		59.61		52.15		72.41	
Revenue		132.73	100.00%	119.04	111.51%	128.43	103.35%
Production Cost (\$50/MWH Mkt)		73.12		66.89		56.02	
Other Cost		59.61		52.15		72.41	
Revenue		151.40	100.00%	136.88	110.61%	148.83	101.73%
Production Cost (\$80/MWH Mkt)		91.79		84.73		76.42	
Other Cost		59.61		52.15		72.41	
Revenue		163.84	100.00%	148.77	110.13%	162.44	100.86%
Production Cost (\$100/MWH Mkt)		104.23		96.62		90.03	
Other Cost		59.61		52.15		72.41	

In summary, GMP and CVPS currently have an advantage over SED as both IOUs’ power supply costs are lower than those of SED. At the present time, GMP experiences the least amount of “Other Costs” aside from the cost of power. However, if GMP and CVPS are forced to move away from reliance on Vermont Yankee and Hydro Quebec toward supplies based on market prices, the differential in costs between these IOUs and SED may be reduced.

SED’s Existing Obligations

Under the offers as proposed by GMP and CVPS, each of the IOUs is proposing to take over SED’s system in a form of pre-packaged liquidation under which the buyer will acquire only the specific assets necessary to taking over SED’s revenue stream and its customers. Stowe will retain the remaining assets (and the obligation to liquidate those assets) and all continuing

liabilities. Upon being informed of possible liabilities resulting from Stowe's existing obligations, GMP has offered to hold Stowe harmless from any post-assignment liability as explained in further detail *infra*.

SED's liabilities include (1) its debt, which is easy to quantify, and (2) minimum payment obligations for purchased power, which will continue until SED transfers the contracts to a third party. Several of SED's power supply contracts require SED to receive power that is more costly than power currently available on the market and would thus be unattractive to the prospective buyer. Several of SED's entitlements to power are competitive, yet can only be transferred to an issuer of tax exempt debt or are preference power from the New York Power Authority ("NYPA") that cannot be resold and can only be transferred to another preference entity.

Under the terms of the offers from each of CVPS and GMP, Stowe may be required to retain liability for substantial annual costs (\$1.6 million in 2009, 27% of SED's total cost of purchased power) associated with SED's continuing obligation to purchase power for which it would no longer have any retail load. Stowe may also be required to assume risks associated with finding a buyer for these power supplies. Any costs that Stowe is required to absorb in connection with continuing to operate under those purchased power contracts (e.g., selling the output associated with Stowe's entitlement at a loss) and/or in assigning them to third parties will cut into the proceeds from a system sale and, in the worst case scenario, could wipe them out.

Stowe's contract for the output of the McNeil power project is with the Vermont Public Power Supply Authority ("VPPSA"). Using its tax exempt status, VPPSA issued bonds to participate in the project. Under commitments made when the bonds were issued, no more than

5% of the project output could go for the benefit of non-municipal entities such as cooperatives or private utilities or else the tax exempt status would be revoked. In other words, if GMP or CVPS were to buy SED's assets, SED's entitlement to McNeil's output could not be assigned or sold to either of those IOUs because of restrictions on McNeil's tax exempt financing. These restrictions on alienability cause a problem which should be resolved before SED goes forward with any sale. The contract with VPPSA is a "hell-or-high-water" commitment, meaning that SED is obligated to pay for its share of McNeil's costs in almost all circumstances. It is possible that Stowe could negotiate with VPPSA a termination of the contract but would need to arrange for other municipal power systems to accept SED's share of power and costs. When Stowe left VPPSA, some negotiations were conducted about the power contracts, but the negotiators did not resolve how to deal with a future sale of the SED system to an IOU that would deprive SED of the continuing legal ability to take delivery of its output and would deny the IOU buyer the legal right to participate in McNeil. The investigating team contacted VPPSA regarding the McNeil bonds and was informed that the bonds will be fully retired as of 2015, and SED's share of the costs through 2014 equal approximately \$440,000 per year.

VPPSA also indicated to the investigative team that there would be some large capital improvements on the Highgate converter in the next several years and that it is VPPSA's intention to issue additional debt for those improvements. Stowe, being a participant in the Highgate converter project, would be obligated for its share of the debt or would be required to sell its share back to VPPSA. Because of the nature of the new HQ contract, Stowe's entitlement in Highgate may turn out to be a desirable asset that could produce a gain for the Town upon divestiture. At this time, WRA does not know the exact percentage of the new debt service for which Stowe is obligated nor does it have a precise estimate of overall annual debt service.

Stowe also participates in the Stony Brook combined cycle plant through the Massachusetts Municipal Wholesale Electric Company (“MMWEC”), which participation is on terms very similar to those governing SED’s participation in McNeil under the VPPSA arrangement. In a sense, MMWEC is the VPPSA of Massachusetts and is also tax exempt. SED is a signatory to a power purchase agreement for Stony Brook’s output that is also a “hell-or-high-water” contract.

In both these cases, arrangements would have to be made to sell SED’s entitlements to other municipal power systems in order for bondholders to retain the tax exempt status of their bonds. Immediately after selling the SED system’s distribution assets, SED (and the Town of Stowe) would remain obligated to continue to make fixed payments and market their entitlements, possibly at a loss. Moreover, it is possible that sale of SED’s entitlements to McNeil and Stony Brook would be delayed. Given the downturn in the bulk power markets, a delay could cause SED to continue meeting the fixed charges on McNeil and Stony Brook for a prolonged period, eating into net proceeds from the sale.

GMP has made a written commitment to work with Stowe (at GMP’s expense) to obtain approvals from MMWEC and VPPSA that are conditions precedent to the assignments and to hold Stowe harmless for any post-assignment liability, but GMP is not yet able to state whether Stowe can obtain the needed approvals or assignments. The hold harmless commitment extends only to “Stowe” and not to SED or to the bondholders of MMWEC or VPPSA. This commitment was provided in a November 4, 2010, email from Mr. Donald J. Rendall, Jr., GMP’s Vice President and General Counsel in response to discussions with Stowe’s attorney, Mr. Edward French.¹⁴ WRA is aware of no similar commitment from CVPS.

¹⁴ A copy of Mr. Rendall’s email is reprinted in Attachment A.

Although not conclusive, GMP's commitment went as far as it reasonably could, especially in view of the facts that GMP has not yet communicated with either MMWEC or VPPSA and has conducted only a preliminary investigation. A more comprehensive analysis of the potential costs relating to the existing obligations needs to be performed in order to determine the potential cost implications to Stowe and/or its purchaser. It is not yet clear what would happen if Stowe agreed to GMP's acquisition of SED's system while the disposition of these assets remained unresolved, particularly if:

1. MMWEC or VPPSA ultimately did not agree to the assignments after a long period of negotiation. I.e., would SED continue to operate its system independently pending resolution of the assignment negotiations? If so, how would SED conduct long-term planning and acquire power supplies during the period of uncertainty? Or would the sale of the distribution system and GMP's takeover of service move forward and be required to be unwound at some later time?
2. A long period of negotiation ensued with MMWEC and/or VPPSA during which Stowe was required to engage bond counsel, outside accountants, devote considerable staff time, etc. I.e., would GMP reimburse Stowe for Stowe's "pre-assignment" liabilities if GMP later decided to withdraw its offer?
3. MMWEC and/or VPPSA agreed to the assignments and then IRS later revoked their tax-exempt status and the issuers of the bonds and their members were sued by the bondholders. Would GMP defend Stowe against actions brought by IRS and/or the bondholders?

Stowe's general obligations bonds issued through the Vermont Bond Bank do not appear to present a problem. Should a sale of SED's system take place, the proceeds from the sale would have to be put into a trust account from which SED could meet the bond payment schedule. Under prevailing practice, the bond trustee would repay the bond bank on the repayment schedule as if SED continued to be obligated on the bonds. The amount put into the trust account would also take into consideration interest that the trust would earn. Accordingly, SED would not be required to make a dollar-for-dollar transfer to liquidate those bonds at the time of any system sale.

SED's Hydro Quebec arrangements are not expected to constitute a problem. Both CVPS and GMP are major players in the new contract and would presumably want to take over Stowe's share.

The portion of SED's NYPA entitlement derived from the Niagara Project is preference power and presumably would be redistributed by the Vermont DPS to the remaining municipalities and cooperatives in Vermont. Upon expiration of the NYPA contract, the power would be reallocated by NYPA, possibly lowering Vermont's entitlement. The portion of SED's NYPA entitlement from the St. Lawrence Project is not deemed to be preference power and could presumably go to an IOU buyer without complication or restriction. The power SED purchases from independent power producers could also presumably be assigned to an IOU buyer without complication.

In summary,

- (1) The NYPA power from Niagara cannot be assigned to an investor-owned utility.

From Stowe's perspective, this should not be an issue because Stowe purchases the NYPA power at a rate below market price. In conjunction with any

sale, the DPS would reallocate the Niagara power to the remaining Vermont municipal and cooperative utilities, while the St. Lawrence power could go to the acquiring utility.

- (2) There would be significant issues associated with any effort to assign Stowe's interest in Stony Brook to GMP or CVPS. Stowe owns a participation share through MMWEC, which has financed the project with tax-exempt debt. There is a provision in the agreement prohibiting any assignment which will adversely affect the tax exempt status of the project.
- (3) The same issues affect Stowe's interest in the McNeil Project which is owned as a participation interest through VPPSA. The VPPSA contract also contains a clause prohibiting any assignment that will adversely affect the tax-exempt status of the deal.
- (4) Both Stony Brook and McNeil are of concern because the costs incurred under each contract are acknowledged to be significantly above market prices. Further analysis would be required in order to demonstrate approximately how much SED would lose if it ended up transferring its participation shares to other qualified utilities.
- (5) Both the Stony Brook and McNeil projects have step-up provisions (up to a total share of 25%), which would undoubtedly affect the marketability of Stowe's respective interests.¹⁵

¹⁵ A typical step-up provision states that if one or more of the participants in a project defaults, the other participants must "step-up" to share the financial responsibility for the share in default (up to a total 25% increase in the project ownership share of each).

- (6) Assignment of SED's participation in McNeil to a third party requires the approval of VPPSA, which is not currently inclined to do Stowe any favors because of its recent decision to leave the VPPSA organization.
- (7) On November 4, 2010, GMP offered to help negotiate the assignment of these existing obligations, and has committed to hold Stowe harmless from any post-assignment liabilities, but the scope of the commitment is unclear if MMWEC and/or VPPSA do not agree to the assignments.

There will clearly be significant hurdles to overcome with the Stony Brook and McNeil contracts. There is almost certainly a solution to each of the enumerated problems although implementing such a solution may be costly.

VELCO/VT Transco Equity

SED's balance sheet reflects a relatively heavy weighting of long-term liabilities taken on in order to make equity investments in affiliated transmission enterprises, VELCO and VT Transco, LLC, with \$20.460 million out of SED's total investment of \$20.822 million invested in VT Transco.¹⁶ This is a secure investment that is primarily attributable to the recent construction of a 115 kV transmission line that now serves SED directly. Much of this investment was financed with borrowings that will be repaid in 2018 out of the proceeds SED is scheduled to receive from VT Transco's buyback of Stowe's equity investment. With the proceeds from the buyback, SED will be able to pay off an \$18.7 million note payable to Key Bank in December 2018.

¹⁶ See 2009 Financials at Note 4, page 8.

This 115 kV transmission line was originally estimated to cost \$15-17 million, but ended up costing about \$40 million. Stowe protested paying its share of the increased amount, and filed a complaint at FERC. On March 27, 2008, Stowe reached an uncontested settlement of the complaint, and FERC accepted the settlement on August 22, 2008.¹⁷ In accepting a settlement, the FERC order provides SED with a fixed cap on its share of the specific facility project cost. The 2009 Financials at Note 15 states that the FERC order requires Stowe to:

. . . purchase and hold for ten year[s] \$18,700,500 of VT Transco, LLC equity and eliminates the department from any risk on the dividends to be paid on the equity which are to be applied to pay the debt service on the loan incurred to purchase the equity. Dividends in excess of debt service requirements on the equity loan will be contributed to the project cost. The order requires the equity to be repurchased from the department, at par, in ten years. The loan to purchase the equity will be a non-amortizing loan due in full in ten years and will be paid with the proceeds of the equity sale at that time. The fixed annual charge to the department for the specific facility will be \$1,100,000 for the ten year period. On December 30, 2008, both the loan and the equity purchase took place and are reflected in these financial statements.

During the years ended December 31, 2006 and 2007, SED incurred and deferred legal costs of \$1,313,794 relating to the above proceedings. As this matter has been settled and SED was not authorized by the VPSB to amortize the costs over a ten year period, they are included in legal expense for the year ended December 31, 2008.

One of the complications faced by SED under the “asset-only” nature of both IOU offers is that the buyer would acquire the VT Transco asset and the right to receive dividends from VT Transco but would not assume SED’s associated liability to Key Bank. Instead, the IOU would pay a lump sum based upon the net value of the VT Transco asset to SED at the time of closing for this particular asset. SED had intended to apply the excess of (1) its VT Transco dividends over (2) its Key Bank obligation, to paying down the cost of SED’s transmission upgrade that must be paid over a ten year period. Accordingly, SED will retain the liability for interest payments to Key Bank while it works its way through liquidation of the debt to Key Bank but

¹⁷ See Note 15 of the 2009 Financials.

lose the associated stream of dividends from VT Transco. This complication should not pose major difficulties but warrants careful consideration and planning.

Therefore, a ratepayer moving from SED as supplier to CVPS or GMP would not experience a marked change in transmission costs. There is an exception to this general expectation because of SED's recent transmission investment, as these costs (amounting to \$1.1 million per year) are specifically assigned to SED for the 2010-2019 period and will eventually be rolled into the general category and be shared by all Vermont customers after this period.

Two benefits to be realized by any entity serving SED are (1) a reduction in transmission charges from historic 2009 levels attributable to SED's receiving transmission service at 115 kV and (2) the elimination after 2019 of the \$1.1 million/year fixed charge directly assigned to SED for the Lamoille County Project. It is unclear whether or, if so, how each of the IOUs accounted for these benefits in comparing its respective rates to those of SED.

Economies of Scale

One of the primary differences arising from a sale of the SED system to either GMP or CVPS will be the change in the size of the utility serving the community of Stowe. Currently, Stowe is served by a small municipal utility, which focuses only on its nearly 4,000 customers. However, if SED is acquired by one of the other utilities, those customers will be enveloped into a larger customer base. The primary benefit of this larger customer base relates to economies of scale. Economies of scale arise when the cost per unit falls as output increases. Economies of scale are the main advantage of increasing the scale of production.

As businesses grow, they need to order larger quantities of production inputs. For example, they will purchase more fuel, or more power under individual contracts. As the order value increases, a business obtains more bargaining power with suppliers. It may be able to obtain discounts and lower prices for the raw materials. In the electric power industry, large utilities, including multi-tiered holding companies, gain the benefit of economies of scale, as the costs of doing business are spread over more customers than those of smaller municipal systems. For instance, SED has approximately 4,000 customers and revenues of approximately \$10 million annually. CVPS, on the other hand, has nearly 160,000 customers and revenues of \$275 million annually. GMP sells power to approximately 95,000 customers, and earns \$222 million in revenues. Standardized contracts for market-based power tend to call for 50 MW blocks, well above the block size of power SED would purchase for its soon-to-be 25 MW load. Thus, SED would generally pay a premium to buy non-standard blocks of power.

Economies of scale benefit the customer if the larger business passes on its lower costs to customers through lower prices. The larger company can also increase its share of the market, which can pose a threat to smaller business that can be “undercut” by the competition. This, in fact, is the reason that GMP and CVPS can make their offers for SED attractive—they have been able to keep prices lower for their customers.

Other Factors to Consider

Other important factors for Stowe to consider are the effect of a potential sale upon its local control and upon reliability of service. One of the benefits of public power systems is the ability of local ratepayers and citizens to exercise control over the development of an electric system in ways that comport with local public policy choices. Managers and workers of SED

live in and around Stowe, reflect local attitudes and concerns, should be readily reachable and responsive to local political governance (e.g., for prioritizing restoration of service after an ice storm) and should support the local economy with their wages and salaries. Local preferences with respect to electric utility planning and operations (e.g., tree trimming, maintenance, undergrounding, demand side management) can be carried out through local governance without resort to regulatory initiatives or the need to gain the attention of a larger utility's management that may be remote or indifferent to local preferences.

On the other hand, local control can provide risks because there are fewer customers to absorb additional costs, as noted in the section on economies of scale. In addition, because Vermont is one of the few states that regulate municipal utilities, Stowe must bear the costs of its own regulation, similar to the regulatory costs that each IOU in Vermont must bear. These costs appear large in part because the customer base over which these costs are allocated is smaller for SED than it is for a large utility. It is difficult to determine specifically how much the various utilities spent on regulatory expenses. Regulatory costs tend to be “lumpy” rising from a year of low activity to higher levels when several applications or litigation are required in a single year. However, recent annual total Administrative and General (“A&G”) costs for the various companies are as follows:

Comparison of Administrative & General Costs			
	<u>A&G \$</u>	<u>kWh</u>	<u>\$/kWh</u>
SED	873,212	70,794,588	0.0123
GMP	12,962,615	1,872,798,000	0.0069
CVPS	37,247,746	2,177,762,000	0.0171

The table above shows that GMP has the lowest costs of A&G per kWh, nearly half as much as SED. Those costs for CVPS, on the other hand, are almost 40% higher than those for SED.

SED now plans and operates its distribution system and has the ultimate responsibility for providing reliability service to its customers. In carrying out those responsibilities, SED sets the design criteria for matters affecting distribution and generation system reliability, such as distribution system voltage, conductor size, acceptable voltage ranges, undergrounding, provision for backup and redundancy, system layout, type of generation, amount of installed generating reserves, etc. Moreover, SED controls the quality and size of the workforce employed to design, construct, operate and maintain its distribution facilities and has a major say in those activities with respect to generation which it procures from marketers, independent power producers and others, and which it owns jointly or exclusively. If Stowe sold the SED system, the responsibility for providing reliable service by planning and operating distribution facilities and by procuring generation would be transferred to the new owner.

Both GMP and CVPS have stressed their reliable system operations, and their customer service in their offers to Stowe. Indeed, all utilities in the United States are subject to reliability standards established under the auspices of the National Electric Reliability Council (“NERC”). All utilities are expected to meet these standards, and face penalties imposed by NERC or FERC under certain circumstances. As with other economies of scale, both GMP and CVPS are able to spread the costs of compliance with reliability standards over a larger customer base, thereby lowering the costs of compliance to each individual customer.

A major disadvantage relating to reliability for a customer served by a larger utility is that larger utilities may be less responsive in restoring local service in an emergency, such as a snow storm. Because the local municipal utility has fewer customers, it will focus on restoring service to its own customers first. If Stowe becomes part of a larger service territory, the larger utility will tend to be most responsive to its most important customers—be they large industrial

customers such as IBM, or government offices. In the case of an ice storm, Stowe's residents would be no more likely to be tended to than other areas within the IOU service territory, unlike the situation for Stowe today, when the sole priority of its own employees is to restore service to the Town as soon as possible. WRA understands that GMP and CVPS representatives have made verbal representations that each company plans to keep service at or above the existing service provided by SED upon purchase. However, WRA's experience has been that it is difficult to ascertain damages for a failure to keep such a commitment and/or to obtain compensation for such a failure. Moreover, setting standards for measuring service quality is typically a matter that is subject to regulators, not parties to a buyout agreement. In any event, such commitments need to be written, with detailed explanations of how service is going to be analyzed and compared (e.g., by what metrics), in order to ascertain whether such commitments have not been kept and, if so, to determine compensation to ratepayers for the utility's breaking such a commitment.

As a final factor, WRA would note that, at the present time, SED appears to have finished completing several tasks that caused increased expense to the system. These actions include the completion of the 115 kV transmission project, completion of the litigation concerning cost overruns of that transmission project, as well as SED's withdrawal from VPPSA and some high-priced power contracts. On the other hand, CVPS and GMP appear to be facing a period of uncertainty regarding the status of Vermont Yankee, although they may have contingency plans in place. WRA's experience has been that it is more difficult for a local community to leave the service territory of an IOU and form a municipal utility than it is for an IOU to purchase a municipal utility. Stowe may wish to delay consideration of a sale until the uncertainties involving CVPS' and GMP's future power supply are resolved.

ATTACHMENT A

----- Original Message -----

From: [Donald Rendall](#)
To: [Ed French](#)
Cc: [Dawn Bugbee](#) ; [Tony Kvedar](#) ; [Mary Powell](#)
Sent: Thursday, November 04, 2010 4:30 PM
Subject: Stowe Electric

Ed, I thought it would be helpful to send you a note regarding assignment of the McNeil and Stonybrook [sic] contracts.

Our conclusion is that consent of the counterparties would be required to accomplish an assignment of these contracts. Our plan would be to work together with you to obtain the required consents. We have not yet engaged in direct discussions with the McNeil Joint Owners, VPPSA or with MMWEC, pending Stowe's decision whether to proceed with us.

- McNeil: We believe that . . . the 1993 contract can be assigned without consent, incident to a sale of Stowe's assets. We believe that the 1982 contract will require VPPSA's consent to effectuate assignment. The 1982 contract provides that an assignment does not relieve Stowe of liability. The 1982 contract also provides that no assignment can be made if the assignment would adversely affect the tax exemption of VPPSA's debt. We believe that we should be able to obtain an assignment.
- MMWEC Stony Brook. This contract has assignment provisions similar to [those governing] McNeil: It requires MMWEC's consent to assignment, and provides that an assignment does not relieve Stowe of liability. This contract also provides that no assignment can be made if the assignment would adversely affect the tax exemption of MMWEC's bonds. We are hopeful that we could obtain an assignment.
- GMP plan: Upon Stowe's decision to proceed with GMP, we commit to working with you (at GMP's expense) and with VPPSA and MMWEC to accomplish the assignments and to obtain any other assurances or protections Stowe would require to eliminate liability. This would begin with a direct discussion with VPPSA and with MMWEC about how to accomplish the assignments and assure Stowe of no continuing liability. If there is an impediment to assignment (e.g., assignment would impact tax-exempt status of bonds), we would explore options for transferring or cancelling the contracts at no cost to Stowe. If this is not economically feasible, we believe there are simple options for implementing a "pass through" of the power to GMP. In all events, GMP would hold Stowe harmless for any post-assignment liability. We recognize that this would not be ideal from Stowe's perspective, but we want to be clear that our goal will be to achieve an economically sensible outcome that achieves Stowe's objectives.

Hope this is helpful. As always, let us know if you have additional questions.

Thank you.

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