

THE WALL STREET JOURNAL

NEW ENGLAND

ECONOMIC FOCUS

Contract Deal Is Proposed To Aid Vermont Utilities

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The Vermont utility industry's efforts to resolve one of its expensive and thorny electricity issues may be back on track.

A private nonprofit corporation that facilitates the buying and selling of alternative power says it's beginning to work on a deal to either refinance or buy out altogether the high-priced electricity contracts it has with the Vermont-based independent producers that own those generation facilities.

The company, **Vepp Inc.**, which stands for Vermont Electric Power Producers, two weeks ago hired Wall Street investment firm Prudential Securities Inc. to draw up proposals to float \$150 million to \$200 million in bonds. As proposed, the bonds would be repaid with special surcharges on Vermont utility bills.

Proceeds would be used to either buy out all or a portion of the long-term contracts the producers have with the utilities, or to refinance the producers' debt at lower rates, allowing them to cut prices as well.

"There is progress," says John Spencer, Vepp's executive director. "Everyone involved has come to the realization that this type of method is in everyone's best interest."

The 20 small power plants, mostly hydroelectric projects, are a vestige of the 1980s, when the Carter Administration promoted cheaper home-grown alternative energy sources in the face of oil shortages and rising prices from abroad. In 1983, Vermont regulators began requiring utilities to buy a portion of their power from in-state-based renewable energy sources. At the time, traditional energy prices were projected to be much higher, so the prices from these alternative power plants — at anywhere between 9.6 cents and 17.5 cents a kilowatt/hour — seemed like a good deal.

Power Surge

The power prices of selected Vermont independent power plants

Nantana Mill	17.5
Comtu Falls	16.9
Newbury Hydro	14.7
Winooski One	13.0
Martinsville Hydro	12.0
Woodside Hydro	12.0
Dodge Falls	11.9
Killington Hydro	11.7
Barnet Hydro	11.5
Ryegate	10.5
New England average	3.5

NOTE: prices in cents per kilowatt/hour

Sources: Central Vermont Public Service, industry data

But as deregulation has swept the industry nationally, and new technologies made electricity from, say, natural gas cheaper to produce, the energy from the small Vermont plants became an expensive lesson in environmental altruism.

For example, Vermont utilities separately buy about 38% of their power supply from **Hydro-Quebec**, which at around 6.5 cents a kilowatt/hour is considerably cheaper than the electricity from the independent producers. Officials say that nationally the average wholesale price for electricity is 3.5 cents.

Complicating the situation is that unlike states like Massachusetts and Rhode Island — which have deregulated the electric industry and ordered the break-up of the old monopolies — Vermont has pressured its utilities to find ways to cut costs

and restructure on their own. Utilities say they have no choice but to restructure, since they're locked into long-term contracts for power at such high prices that they face the prospect of bankruptcy.

By far, the biggest controversy for Vermont utilities is their contract with **Hydro-Quebec**, which runs to 2020. The utilities say that at current prices, power from Hydro-Quebec will cost Vermont \$450 million more than energy at prevailing market rates. And so they're involved in a nasty fight with the Canadian power company to get out of the contract. Separately, they're selling off interests in the Vermont Yankee nuclear plant. (That sale still needs approval from state and federal regulators.)

Meantime, efforts are again under way to try to resolve the issues regarding the Vepp contracts, which generate about 74 megawatts of electricity and supply about 6% of the state's power.

The utilities and independent power producers tried to renegotiate the contracts last summer; the power producers offered to refinance their contracts in such a way that Vermont consumers would save "tens of millions" of dollars off electricity bills, says John Warshow, a partner in three hydro projects.

But the utilities say the power companies' offer was insufficient, and in August they abruptly broke off talks, and instead petitioned state regulators to consider various mechanisms to ease the burden of the contracts.

Mr. Spencer of Vepp hopes that the financial proposals Prudential is expected to develop over the next few weeks will serve as a catalyst to restart the stalled negotiations.

The ultimate goal, officials say, is a net reduction in electricity prices for Vermont consumers.

"This deal will only go forward if we

(over please)

were to lower rates for the retail customer, while meeting the contractual obligations with the independent "producers," says Joseph Fichera, a managing director and head of Prudential's power group. "We think we can show savings."

Though still saving some strong words for each other, both utilities and the power producers cautiously welcomed the attempt by Vepp to forge a middle ground.

"As soon as they have something concrete to discuss with us," says Mr. Warshow, "I am open" to considering it, so long as it "does not adversely impact the producers and is of benefit to the rate payers." The power producers say it was they, not the utilities, who have kept the settlement process alive by pushing to have Prudential hired and a proposed financial package developed.

Meanwhile, says Robert Rogan, a vice president of Central Vermont Public Service Corp. in Rutland, who serves as a spokesman for the state's utilities in restructuring issues: "We welcome any progress. The true test will be when the negotiators come back to the table."

A settlement would need the approval of Vermont regulators, who are concerned about the level of animosity between the utilities and power producers.

Richard Sedano, commissioner of the Vermont Department of Public Service, suggests independent power producers would be wise to accept a less-than-ideal settlement. He says the high price of their electricity makes them a political target, either for regulators who are trying to lower prices in Vermont, or for state legislators who have so far held off mandating deregulation of the industry.

"A safe harbor is a nice thing to have in these times," says Mr. Sedano, "even if it costs you a little."