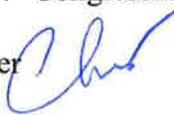


Memorandum

Vermont Department of Public Service

To: Bob Rogan, Chief of Staff, Office of Congressman Peter Welch

From: Christopher Recchia, Commissioner 

Subject: Vermont Energy and Telecommunications Priorities

Date: February 14, 2013

Thank you for your continued attention to Vermont's energy and telecommunication issues, and for asking about our needs and priorities. As we discussed, I have summarized below our Energy and Telecom Priorities. Please let me know if you have any questions.

Energy

In order to meet the state's 90% renewable energy goal, as well as the greenhouse gas goals, a significant acceleration of both efficiency and clean energy supply will be required. Particular areas of interest to keep or develop forward momentum are detailed below.

Thermal efficiency in buildings is an area of great interest in Vermont right now. Rep. Welch has been a leader on this, with the Home Star proposal, so he is familiar with the scale of the problem and the potential for positive impacts in Vermont if the pace of residential and commercial building thermal retrofits were to be accelerated. Continued support for the DOE Weatherization program would be valuable.

DOE's State Energy Program (SEP) supports the Department's ability to develop new programs and support innovative ideas and policy inside and outside of state government. SEP has very high leverage – each federal dollar has real ripple effects in state policy changes, better information, and new technology demonstration. SEP has suffered from its attachment to Weatherization, and funding has been level to declining – support for increases in this budget would be appreciated.

There is growing interest in district heating systems in Vermont – Montpelier's system, using heat from the state's biomass heating plant, is just the largest of a growing number of potential systems. Federal interest and support could consist of both technical R&D work or project support and financing or funding support. Similarly, support for installation or R&D on cold-weather air-source heat pumps or ground-source heat pumps would be valuable.



Almost half of Vermont's greenhouse gas emissions come from transportation. Plug-in electric vehicles (both plug-in hybrids and all-electric vehicles) will be required, in addition to the increases in conventional vehicle efficiency driven by the CAFE standards, to meet our GHG reduction goals. The federal tax credit for vehicle purchase is a key incentive that must be maintained; expansion would be very beneficial. One structural change that could be very beneficial here would be to restructure that tax incentive so that it can be settled at time of sale (so the buyer doesn't have to wait until next April 15 to get their money). The transition to EVs will also necessitate a transition in fueling infrastructure – EVs will most commonly charge at home or at work. Class 1 charging stations would be most useful at these locations and in downtowns and commuter lots where people will remain for a period of time. Fast chargers (Class 2) will be needed for EV corridors to ensure people can charge quickly. Federal support would be welcome for the corridor and park and ride infrastructure, as well as downtown and business installations for employees. Installations for residential EVSEs (particularly for multi-family like condos or apartment buildings) are areas where federal support would be important too. Tools like building codes and standards are available here as well.

One of the challenges Vermont faces is how to harness private investment capital to finance energy efficiency or renewables. Vermont is proceeding with a residential Property Assessed Clean Energy (PACE) program, having restructured the program to deal with the aversion of Fannie and Freddie to recognize the assessment as an assessment rather than a loan. Congressional interest in examining Fannie and Freddie's positions on PACE, and whether they can be changed, could be useful. Vermont's needs are too large for in-state capital to meet our full needs, yet proposed programs in the state are generally too small to attract the interest of Wall Street-type investment banks. For example, the state will have trouble using its Qualified Energy Conservation Bonds for anything other than state capital projects because Wall Street banks are not interested in a small offering of such bonds backed by anything other than the general obligation of the state. We are also interested in harnessing Private Activity Bonds for clean energy, but current structures, statutes, and definitions, have led to perhaps-unnecessary restraint in taking this path.

We would like to continue to make Vermont a leader in demonstrating a virtually fossil fuel free energy portfolio. Opportunities for two areas of federal assistance on this may come to your attention: First, we may need relief from Agency of Transportation restrictions on the ability to site and operate renewable energy infrastructure in federal interstate corridors and rights of way. I am interested in exploring what restrictions may inhibit these corridors serving as demonstration corridors for wind, solar, EV charging etc, and reducing those obstacles. Secondly, should ISO-NE should come to visit (which we understand they do occasionally), please emphasize with them that regional funding of non-transmission alternatives (NTAs) needs to be considered on par with transmission options. Currently, costs for transmission options needed for stability or reliability are shared regionally, whereas NTA projects are borne by the state alone.

Other regional energy issues include that in recent years the Federal Energy Regulatory Commission (FERC) has been very active in developing policies to encourage the regional planning and also to promote reliability. While both areas are very important for Vermont, there is some concern that FERC's activities may have a detrimental effect on Vermont ratepayers.

With respect to regional planning, FERC has recently, through its issuance of Order 1000, promoted regional planning that takes into account state renewable goals. While the PSD supports the concept of regional planning, especially where it promotes renewable energy, such planning should not interfere with Vermont's ability to determine how to achieve its public policy goals. During the course of the Order 1000 proceedings (filings have been submitted to FERC in December 2012 and January 2013) several groups have advocated for an approach that could impose transmission costs on Vermont irrespective of whether we believe that the transmission is necessary to achieve our renewable goals. FERC will be ruling on this issue sometime in 2013.

With respect to reliability; the PSD has a history of supporting transmission projects that increase reliability of the electric grid. However, we may be reaching the level where increased reliability standards are imposing significant costs for little gain. In recent years transmission costs are increasingly driving rate increases for electric customers. This is not to say that all of the FERC activities concerning reliability are not appropriate, but FERC must take into account the costs of reliability requirements when determining whether to impose such requirements.

One issue that FERC has begun to productively explore is the intersection between natural gas and electricity markets. New England is heavily reliant on natural gas for generation, and with the availability of shale gas driving down the price of natural gas, this reliance is increasing. The natural gas markets and the electricity markets are both regulated by FERC, however, until recently, there has not been much consideration of how the natural gas markets impact the electricity markets. Both FERC and ISO-NE are reviewing how these markets can be modified to maximize the benefit to ratepayers. One additional factor that is occurring in New England is a lack of sufficient natural gas pipelines to provide gas for both heating fuel and electricity generation; as a result, New England is relying more heavily on oil-fired units to ensure reliability this winter.

Telecom

AT&T has submitted a petition requesting that the FCC open a proceeding that could bring sweeping changes to the telecommunications regulatory environment, by, for instance, allowing telephone companies to provide universal telephone and broadband availability in rural areas through wireless services instead of traditional landline services.

The FCC Connect America Fund ("CAF") order from 2011 will have significant effects on Vermont companies. A forthcoming report by the state of Vermont projects that in 2020, as compared to 2012, Vermont telephone companies will have \$12M less annual revenue as a direct result of this order.

Customers in rural states throughout the country complain that they are unable to receive calls placed to them from out-of-state callers. Local public utilities commissions are unable to process these complaints because the problems are due to long distance companies subject solely to FCC jurisdiction; the FCC has thus far failed to address the issue as forcefully as is probably warranted.