

# PSB Orders in Docket 5854 for Restructuring the Electric Industry Investigation into Restructuring

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 5854

Investigation Into the )  
Restructuring of the Electric )  
Utility Industry in Vermont )

Order entered: 10/17/95

## I. INTRODUCTION

The electric utility industry in the United States is undergoing fundamental change, prompting a substantial rethinking of pricing and structures in regional markets for electric generation and transmission services. Lower fuel prices, developments in technology, and slow load growth have resulted in prices for wholesale generation services that are now well below the historic costs incurred by utilities in order to provide service. These market developments are increasingly attracting the attention of retail customers, particularly large users, who seek access to low-cost suppliers of electricity. In many states throughout the nation, regulatory commissions, utilities, and customers are examining the framework for electric utility regulation, seeking new mechanisms to bring greater competition, customer choice, and market discipline to the industry, while retaining the public benefits associated with the franchise system.

Vermont has been among those states. In October 1994, the Vermont Public Service Board and the Department of Public Service ("DPS" or "Department") convened a Roundtable on Competition and the Electric Industry to focus on options for restructuring the electric industry. The Roundtable established a Competition Workgroup to study issues related to restructuring and to develop recommendations for how Vermont should proceed. After several months of extensive research and discussions, the Workgroup developed two sets of principles to guide restructuring activities. These principles focus on key concerns both for the transition period and for the resulting industry structure. The Workgroup stated that the two overarching principles that should guide the establishment of a restructured electric industry are equity and efficiency. Because these statements of principle demonstrate substantial progress on important issues by a broad group of participants, we believe

they provide a solid foundation for analysis in this investigation.

On September 14, 1995, the Department petitioned the Board to open an investigation into how the regulated electric utility industry in Vermont ought to be restructured to best meet the future needs of Vermonters. Today, we grant that request. We conclude that such an investigation is timely and appropriate, and can materially assist this state and the region in developing a more effective electric industry.

Overall, our goal in this investigation is to develop a framework for electric utility activities that will provide benefits from a more competitive environment while maintaining and enhancing desirable features of the current regulatory system. This can be broken down into two discrete objectives.

The first is to identify appropriate mechanisms and structures that will enable Vermont to realize the additional efficiencies and benefits that market forces can provide -- this is the goal of greater market discipline. We also seek to improve the alignment between retail customer energy demands and the services ultimately delivered -- the goal of greater customer choice. Participants in our proceedings will be asked to propose alternatives to the existing state regulatory regime in order to improve incentives for utility efficiency and to promote regulatory economy.

We will also ask participants to identify and implement mechanisms to preserve key benefits derived from the existing regulatory environment. The current regulatory regime has assured the provision of a high level of service quality and reliability that is critical to the state's economy and to the economic and physical well being of ratepayers. The benefits provided through this structure actions to small business and low-use customers. Responsible utilities have also been able to promote the long-term public good of Vermont with respect to end-use efficiency, environmental protection, and resource diversity. Effective transition mechanisms must also be created to ensure equitable treatment of utility investments and commitments made on behalf of customers under the historic franchise system. An important purpose of this investigation is to ensure a smooth transition to a restructured electric industry, a transition that deals efficiently and responsibly with these well-established aspects of the public good.

We note that Vermont can and should create plans and a structure to secure and accommodate competition in ways that reflect the unique character and values of our state. At the same time, we recognize that electricity markets are regional in scope, that all Vermont utilities are members of NEPOOL (a tightly-integrated regional power pool) and that Vermont is a member of NESCAUM (an air-quality maintenance region). Our internal restructuring efforts must recognize these realities. Moreover, Vermont representatives must continue efforts outside the state to create an effective market for generation services and to establish mechanisms that ensure consistency with parallel initiatives in neighboring states. Regional initiatives that will improve the efficiency of the overall generation market should continue to be advanced.

## II. PROCEDURE AND SCHEDULE

In its September 14th filing, the Department requests that the Board require all of Vermont's twenty-two electric distribution electric companies to file restructuring "plans" by May 1, 1996. The Department's goal is to achieve a restructured electric industry in Vermont by December 31, 1997. On October 11,

1995, the DPS submitted a "Supplemental Filing on Structure of Proceeding." In its second filing, the Department requested two procedural phases for this investigation:

- (1) that this proceeding contain an "initial period" for negotiation and consensus building in order to "solidify and further strengthen the principles" of the Workgroup and to "identify the elements that should be addressed by every utility restructuring plan"; and
- (2) that a subsequent phase be established that would involve development of "utility specific plans" by each Vermont electric utility.

The Department also requested that the Board establish milestones for reporting progress and for seeking further guidance from the Board through workshops and conferences. In parallel, the Department proposes to make progress through the Workgroup of the Roundtable. Communication and direction between the Workgroup and the Board and other parties to this investigation would take place at the workshops. Consensus principles and plans could be presented to the Board at a workshop or public hearing. Absent a consensus, the parties would be given an opportunity to file comments, and the Board would by rule or order establish the principles and plan elements for Vermont utilities.

As previously noted, the Department's goal is to achieve a restructured electric industry in Vermont by December 31, 1997. The Department has attached a high priority to the timely consideration of these issues, a priority that we share. We will endeavor to proceed expeditiously on these issues, and will establish a schedule for attaining meaningful regulatory reform. We recognize that there may be factors beyond the control of the Board or any of the participants that will restrain the pace of activities. Nevertheless, we intend to advance these issues with all deliberate speed consistent with the Department's proposal. An extended period of regulatory uncertainty is not in the best interest of Vermont's economy, our electric service providers, or their customers.

In this Order, pursuant to 30 V.S.A. 2(c), 203, and 209, we open an investigation into electric industry restructuring in Vermont. In its initial period, at least, the purpose of this investigation is to develop the information and policy bases necessary to structure rulemaking by the Board and statutory proposals to the legislature. The initial conference is scheduled for November 7, 1995, from 9:30 AM to 1:00 PM. The purpose of this initial conference will be to establish a vision for procedure and timetables in this investigation. While we expect to proceed in a manner consistent with the Department's proposal, we invite comment on these issues from others interested in participating in the process. We also invite the DPS to provide further detail and clarification of their proposal.

At this point, we intend that this investigation will produce a framework for industry restructuring through rule and through proposals to the legislature. We recognize that as the docket develops, the need may arise to resolve specific matters through contested case procedures. For example, utility specific filings may become individual docket investigations in the context of a contested proceeding. We invite comment from the participants on this intended procedure.

### III. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public

