STATE OF VERMONT
PUBLIC SERVICE BOARD

DOCKET NO. 7032

Petitions of Vermont Electric Power Company	)
Inc. (VELCO), Green Mountain Power	)
Corporation (GMP), and the Town of Stowe	)
Electric Department (Stowe) for a certificate of	)
Public good, pursuant to 30 V.S.A. to construct	)
the so-called Lamoille Project	)

PREFILED DIRECT TESTIMONY OF SEAN FOLEY

ON BEHALF OF VERMONT DEPARTMENT OF PUBLIC SERVICE

April 11, 2005

The purpose of Mr. Foley's testimony is to discuss the economic impact of the Lamoille County Study Area (LCSA) project as measured pursuant to 30 V.S.A. 248(b)(4).

Prefiled Surrebuttal Testimony
of
Sean Foley

Q. Please state your name and occupation.

A. My name is Sean A. Foley, and I am a Utility Finance and Economic Analyst for the Department of Public Service (DPS).

Q. Please summarize your relevant background.

A. I have been with Vermont Department of Public Service since 1994. I currently work in the Utility Finance and Economic Division. I had previously worked in the Regulatory Planning Division as a Power Supply Planner.

Before joining the DPS I was with Barakat & Chamberlin Inc. (BCI), an energy-consulting firm that provided highly detailed, expert analyses for municipalities and for electric, gas, telecommunications, and water utilities. As a Senior Associate at BCI, I worked in the areas of energy policy analysis, planning, evaluation and energy economics.

Prior to working for BCI I was the Director of Resource Planning at the Burlington Electric Department (Burlington, VT.)

Q. Have you ever testified before the Vermont Public Service Board before?

A. Yes, I have testified in Docket Nos. 5270, 5965, 5970, 6018, 6120, 6430, 6495, 6596, 6750 and others. I have testified as a witness for BED and as a witness for the DPS.

Q. Please discuss the economic benefit provisions of 30 V.S.A. § 248(b)(4) as it relates to the proposed Lamoille County 115 kv Project (LCP).

A. 30 V.S.A. § 248(b)(4) states that a proposed investment "[W]ill result in an economic benefit to the state and its residents." This criterion requires an evaluation of the likely benefits and costs to the state and its residents of the LCP and any proposed alternatives.

Q. What are the expected costs of the LCP?

A. The LCP as has four cost components. They are 1) common PTF ($2,017,020), 2) specific ($17,420,875), 3) exclusive ($761,485) and 4) common VELCO ($57,191) as defined in the VELCO 1991 Transmission Agreement[1]. Department Witness George Smith estimates the project cost will be $3.5 M less than the petitioner's estimate[2].

Q. How are these cost expected to be allocated among the Vermont electric utilities?

A. The specific and exclusive costs will be shared by the entities benefiting from the project. Some are petitioners. Some are non-petitioners. The VELCO common costs will be shared by all of VELCO's owners' according to the 1991 Transmission Tariff.

The specific and exclusive costs of proposed facilities will be allocated among both the Petitioners and other non-petitioner entities. Negotiations are currently in progress to reach final settlement on the allocation of these project costs, including the permitting costs. The following chart shows the current allocations agreed to by the distribution utilities[3].

Utility	%	$	Annual Cost
Stowe	53.43%	$ 9,714,835	$ 1,651,522
GMP	17.81%	$ 3,238,278	$ 550,507
Morrisville	13.24%	$ 2,407,344	$ 409,249
Hardwick	5.58%	$ 1,014,576	$ 172,478
Village of Johnson	3.35%	$ 609,109	$ 103,549
Hyde Park	2.82%	$ 512,743	$ 87,166
VEC	1.63%	$ 296,372	$ 50,383
CVPS	1.29%	$ 234,552	$ 39,874
WEC	0.85%	$ 154,550	$ 26,274

Q. Would an evaluation of the impacts of the LCP on retail electric rates also be a factor

[1] Petitioners' Response to DPS1 at page 8, question . Stowe indicated that this number is preliminary because of the following unknowns: the final cost of the Project's components, financing terms and interest rates, and the contribution by Stowe Mountain Resort. VEC's share of the project cost is also not resolved. SMR's and VEC's ultimate contribution will have a significant effect on Stowe's rates..

[2] DPS witness G. Smith PTF at page 21.

[3] Petitioners' Response to DPS1 at page 8, question 2

in determining compliance with 30 V.S.A. § 248(b)(4)?

A. Yes. Higher electric rates can impose adverse economic impacts on the state's businesses and residents. In general the law of demand states that when the price of a good rises, the amount demanded falls; conversely, when the price falls, the amount demanded rises. With the rise in the electric rates the demand for electricity should fall. It is not just price that affects the quantity demanded; income affects amount demanded too. As real income rises, people buy more of some goods. Another influence on demand is the price of substitutes. When the price of electricity rises, all else being equal, demand for electricity falls and demand for substitutes (e.g. fuel oil) rises.

Q. What are the possible electric rate impacts?

A. Based on the cost allocations in Petitioners' Response to DPS1 question #2; the Stowe Electric Department estimates that the carrying costs of financing the proposed project will result in an increase in rates of approximately 9.6%[4], Green Mountain Power (GMP) estimates that based on estimated revenues at current rates of $202,328,069, the annual revenue requirements impact of the costs assigned to GMP (assuming no financing) will be 0.28%[5]. The table below shows the estimated impact on rates of the annual cost of the LCP as reported by the utilities[6].

Utility	%	$	Annual Cost	Utility COS	Rate Increase
Stowe	53.43%	$ 9,714,835	$ 705,086	$ 7,344,647	9.60%
GMP	17.81%	$ 3,238,278	$ 558,298	$ 202,328,069	0.28%
Morrisville			$ 180,000	$ 6,000,000	3.00%
Hardwick	5.58%	$ 1,014,576	$ 172,478	$ 4,349,637	3.97%
Village of Johnson	3.35%	$ 609,109	$ 103,549	$ 1,382,980	7.49%
Hyde Park	2.82%	$ 512,743	$ 87,166	$ 1,295,777	6.73%

The table below shows the estimate impact on rates of the annual cost of the LCP

[4] See footnote 1.
[5] Includes PTF and VELCO shared costs.
[6] Morrisville values were provided by Scott Corse of Morrisville Water & Light, the reason the costs variation from the petitioners' values was not given.

adjusted to include George Smith estimates[7].

Utility	%	$	Annual Cost	Utility COS	Rate Increase
Stowe	53.43%	$ 8,036,272	$ 1,366,166	$ 7,344,647	18.60%
GMP	17.81%	$ 2,678,757	$ 455,389	$ 202,328,069	0.23%
Morrisville	13.24%	$ 1,991,395	$ 338,537	$ 6,000,000	5.64%
Hardwick	5.58%	$ 839,274	$ 142,677	$ 4,349,637	3.28%
Village of Johnson	3.35%	$ 503,865	$ 85,657	$ 1,382,980	6.19%
Hyde Park	2.82%	$ 424,149	$ 72,105	$ 1,295,777	5.56%

VELCO will bill the carrying costs of exclusive and specific facilities pursuant to an agreed upon allocation among the Lamoille County Study Area utilities. Pool Transmission Facilities (PTF) and non-PTF common costs will be billed to all Vermont owners under the existing tariff of Vermont Electric Power Company, Inc. ("VELCO"). VELCO has no information on how such changes will affect the rates charged to non-petitioning utilities. (Petitioners' Response to DPS1 question #5)

Q. Have you determined the economic effect of the possible increase in electric rates in the Lamoille County Study Area (LCSA)?

A. I have not modeled the effect of the increase in electric prices due to the LCP on the economy of the LCSA. However, the petitioners have indicated that the project will increase electric rates. An increase in electric prices could lead to a decreased demand; decrease in the consumption of electricity, in turn, may be an indication of decreased economic activity. But the area has experienced significant load growth, and the LCSA distribution utilities forecast continued load growth (Moulton pf page 4,5) and the LCP will be required[8] to maintain this growth.

An example of the continued economic growth in the LCSA is the Stowe Mountain Resort Expansion. The expected capital investment to be made by the Stowe Mountain Resort for this development project totals nearly $250 million (Petitioners' Response to DPS2 question #8). At full build out, the Stowe Mountain Resort estimates that 658 operating level jobs will result from the project. (250 Application #5L1338-1 Findings Of Fact And Conclusions Of Law And Order #77 at page 22). I therefore believe that the expected

[7] These costs do not include any possible contribution from Stowe Mountain Resort and/or changes in the current level of VEC funding

[8] J. Riley Allen pft at page 2.

economic growth made possible by the LCP will provide significant economic benefits that will outweigh the effects of increased electric rates.

Q. What other economic impacts associated with development of the LCP are relevant to determining compliance of the LCP with 30 V.S.A § 248?

A. There are two other economic impacts that should be discussed. First, the issue of variation in property values, and property tax collections due to the building of the proposed LCP. A second economic issue is the need for reliable power to support the Vermont economy.

Q. Please discuss the property tax issue.

A. Reduced property values could adversely affect property tax collections in certain areas and thereby lead to adverse economic impacts if tax rates were increased to compensate for the loss in property values. It is conceivable that the LCP could result in somewhat lower market values for some properties, especially those that are currently near distribution/transmission facilities, and those that would be near such facilities if the LCP were constructed. Two academic reports submitted into the record of PSB Docket 6860 discussed these potential negative effects. (PSB Docket 6860 Exhs. VELCO Cross Wilson-1, VELCO Cross Wilson-2.)

> "In these reports, properties that were located adjacent to transmission rights of way were found to be appraised at values that were 5 to 10% less than comparable properties located in areas removed from the transmission rights of way. The reports concluded that the negative effects, where they existed, were narrowly confined along a strip adjacent to the rights of way and dissipate quickly with distance. At least one of these studies also found that neither the height of the pole nor the voltage of the lines had a material impact on property values."[9]

A list of landowners along the transmission corridor was compiled by VELCO's surveying contractor. There are 55 properties listed as being in Stowe, 126 properties listed as

[9] PSB Docket No. 6860 Order at 185

being in Waterbury and three properties in Duxbury. Conceptually there should be no impact on the value of existing properties along the existing rights of way. Changes in property values should occur only along changes in the rights-of-way corridor.

Q. How many of these properties will have new right of ways?

A. One property will have a new right of way, and one property will have its right of way moved/modified. All of the other properties have existing righting of ways.

Q. What would be the value of the property reduction and tax revenue?

A. The average price of a property[10] sold in Stowe in 2004 was $ 363,509. The average price of a property sold in Waterbury in 2004 was $ 195,490. The average price of a property sold in Duxbury in 2004 was $ 218,496.

If the value of the two properties with changes in right of way were to be reduced by 10%, it would be reasonable to assume a corresponding decrease in property tax revenue. The property tax rate in Stowe is approximately $2.75 per $100 of assessed property value. The property tax rate in Waterbury and Duxbury is approximately $2.10 per $100 of assessed property value. With a 10% reduction in property value the decrease in property tax revenue would be less than $1,500[11]. If the value of the all the properties on the VELCO list were included, the decrease in property tax revenue would be approximately $108,084[12].

Q. Are there any offsetting economic benefits to the decrease in property values?

A. Yes, any evaluation of the effects on property values and property tax collections must be compared against alternatives, and any potential increase in property value that might not occur without the project. The decrease in property values is offset with increases in the property values of VELCO and the other electric companies, and in the overall increase in property values in the region, which is due to general economic conditions in the region, which in large measure are driven and supported by the utility infrastructure. One such project that could be affected is the proposed expansion at Stowe Mountain Resort, which would provide

[10] State of Vermont Department of Taxes, Statistics - Property Transfer Tax Accumulated 2004. These average property prices do not include commercial, farm or open land properties sold.
[11] This assumes that properties are valued at the average sale price. It is my understanding that the average Grand List value of the affected properties is lower than the average price of properties sold in 2004.
[12] See footnote 11

an estimated additional property tax revenues of $162,277 (250 Application #5L1338-1 Findings Of Fact And Conclusions Of Law And Order #93 at page 24).

I therefore do not believe that the LCP would result in adverse economic impacts associated with reduced property values and lower tax collections.

Q. Please discuss the need for reliable electric power to support the Vermont economy.

A. One way the reliability of electric power can be valued is by examining the consequences and cost of an electrical outage. Unless an outage is truly short term, the consequences are not trivial: the contents of refrigerators may defrost and spoil; most business shut down; industrial companies could lose entire production lines or hours of lost output; and hourly workers may lose substantial wages. The Electric Power Research Institute (EPRI) has estimated that power outages and other power quality disturbances are costing the U.S. economy more than $119 billion annually[13], additionally the Anderson Economic Group[14] estimated that the economic impact of the August 14, 2003, blackout, including the lost earnings for workers and investors added to the spoiled goods, and the extra expenditures of governments and utility companies, was in the range of $4.5 to $8.2 billion. Unreliable electric power and/or electrical outages in the LCSA will cause significant economic loss, and limit any growth and development potential for existing customers and for any potential new customers.

A reliable bulk power system enhances efforts to promote economic development and create jobs in Vermont. PSB Docket 6860 Exh. VELCO TD-20 (letter from Vermont Chamber of Commerce dated April 4, 2003). Job growth[15] and economic revenue would be constrained without the project.

I therefore believe that LCP will provide significant economic benefits to the LCSA and the state of Vermont .

Q. Does that conclude your testimony?

A. Yes.

---

[13] EPRI Transmission Systems Highlights: http://www.epri.com/programHigh.asp?program=224784&objid=267912

[14] http://www.andersoneconomicgroup.com/Pubs/articles_pressreleases/aegreports/blackout_AEGwp2003-2.pdf

[15] Job growth in Stowe has been robust in recent years., The number of employees in Stowe increased from 1,689 to 3,872 during the period 1980 - 2000 (compound annual growth rate of 4.2%). The regional increase in employees was 15,855 (compound annual growth rate of 2.4%). The regional growth rate was characterized as "very healthy." 250 Application #5L1338-1 Findings of Fact and Conclusions of Law and Order at page 25