

JAMES H. DOUGLAS
Governor



State of Vermont
OFFICE OF THE GOVERNOR
May 27, 2009

The Honorable Donald G. Milne
Clerk of the House of Representatives
State House
Montpelier, VT 05633-5401

Dear Mr. Milne:

Pursuant to Chapter II, Section 11 of the Vermont Constitution, I will allow H. 446, *An Act Relating to Renewable Energy and Energy Efficiency*, to become law without my signature.

I fully support the development of renewable energy in Vermont and I have worked hard to encourage this industry. I believe this bill, however, fails to recognize the current viability of renewable energy in a competitive setting and will needlessly increase costs to Vermont consumers so as to subsidize this one favored business sector.

Vermont continues to lead the nation in virtually all aspects of energy market transformation. We are globally recognized for our green ethic and commitment to the environment. Our citizens pay more, per capita, than any other people in the nation for electric efficiency. The highly successful Clean Energy Development Fund provides incentives for renewable energy investments. And Vermont's existing electric portfolio is one of the cleanest in the nation. I believe we can still carry the mantle of energy leadership without unnecessarily increasing rates on Vermonters.

As state government struggles to deal with new fiscal realities and tries to contain costs, we cannot lose sight of the fact that working Vermonters are experiencing the same difficulties. We should not add to the burdens of working families, especially when it can be avoided.

This legislation puts in place a so-called "standard offer," that will establish minimum rates to be paid by electric customers for various renewable sources in long-term fixed price contracts. The rates set out in H. 446 are well beyond the current market price for electricity, and worse, also beyond the price that utilities in Vermont are paying for renewables in the competitive market. If we want additional renewables in our supply, that can be accomplished at a fraction of the prices set in H.446.

This sort of scheme was done before and we are still feeling the effects of it today. Under federal legislation known as PURPA, utilities were forced to purchase electricity from Independent Power Producers under long-term fixed prices. Vermont consumers to date have paid a premium of more than \$400 million for that electricity.

Honorable Donald G. Milne

May 27, 2009

Page 2

Furthermore, this legislation reverses a long-standing principle that electric rates pay for the cost of providing Vermonters with clean, reliable and affordable electricity at the lowest cost. In addition, any gains in the renewables sector brought about by this legislation may very well be offset by job losses in other sectors due to the increased cost of doing business from higher electric rates.

I remain committed to renewable energy development in Vermont, especially by building on what we have already done through the Clean Energy Development Fund (CEDF). Since it's inception in 2005, the program has distributed \$13.2 million in grants and \$2.2 million in low interest loans to 84 projects in Vermont, resulting in 9.6 MW of capacity for the state. Based on data from the most recent round of applications for CEDF funding, wholesale electricity produced from projects that get this initial funding will cost less than \$.06 per kilowatt hour - after taking into account all credits - almost a 25% reduction in price. This lower, close to the market energy price, demonstrates that the existing incentives can encourage renewable energy without burdening ratepayers.

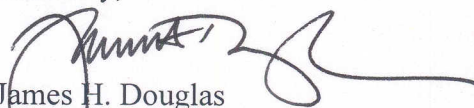
And significantly, the American Recovery and Reinvestment Act of 2009 (ARRA) provides many exciting new opportunities to affordably develop renewable energy sources in our state. With \$30 million in ARRA energy funds available, leveraged with state funds, an estimated \$150 million of projects will be made possible. And this investment in renewables is made *without* adding to the electric energy prices paid by Vermonters.

While I have serious reservations about H. 446 as outlined above, I do not believe that the process will be well served by my veto of this legislation. This bill does require that by September 15 of this year the Public Service Board open and complete a noncontested case docket to determine whether or not the standard offer prices constitute a reasonable approximation of the prices required to meet the bill's criteria. If the Board finds the prices are inadequate or excessive, it is required to establish new ones.

Further, no later than January 15 of next year, the Public Service Board is required to set prices for standard offers that take into full account the value of all economic incentives--state, federal, including ARRA funds, and other funds. I am confident that the Board will implement fair and balanced pricing for the benefit of Vermont's ratepayers.

Even though this bill does set statutory standard offer rates, which I believe is inappropriate, because the Public Service Board must revisit those rates within the next four months and periodically thereafter, I will allow this bill to become law without my signature.

Sincerely,


James H. Douglas
Governor

JHD/sy