STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. _________

Petition of Green Mountain Power for approval of	)
a multi-year regulation plan pursuant to 30 V.S.A.	)
§§ 209, 218, and 218d	)

PREFILED TESTIMONY OF
EDMUND F. RYAN
ON BEHALF OF GREEN MOUNTAIN POWER

June 4, 2018

Summary of Testimony

Eddie Ryan's testimony describes how GMP proposes to set the various components of the cost of service throughout the Multi-Year Regulation Plan ("MYRP") and describes how GMP arrived at its proposals. Mr. Ryan describes GMP's proposed Earnings Sharing Mechanism, Exogenous Adjustor, and other adjustment mechanisms proposed in the MYRP, and explains how GMP's MYRP meets the criteria of 30 V.S.A. §218d.

Exhibit List

Exhibit GMP-ER-1 Multi-Year Regulation Plan

- Attachment 1 - Summary of Cost of Service Treatment
- Attachment 2 – Innovative Pilots
- Attachment 3 – Annual ROE Indexing Methodology
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I. Introduction

Q1. Please state your name, address and occupation.

A1. My name is Edmund F. Ryan, and I am employed by Green Mountain Power ("GMP") as Controller.

Q2. Please describe your educational and business background.

A2. I received a master's degree in Business Administration in 1992 from the University of Vermont. I also hold a Bachelor of Arts degree from Castleton State College with a concentration in Accounting and have successfully passed the Vermont Certified Public Accountant and Certified Internal Auditor exams. I have worked in the accounting field for over 30 years.

Q3. Have you previously testified before the Public Utility Commission ("Commission" or "PUC")?

A3. Yes, I have provided testimony before the Commission in Docket Nos. 5701/5724, 5863, 6120, 6300, 7162, 7191, 7210, 7612, 7660, 7770, 8190, 17-3112-INV and 18-0974-TF. I have also presented testimony before the New Hampshire Public Utilities Commission on behalf of Central Vermont Public Service Corporation's ("CVPS") former New Hampshire subsidiary, Connecticut Valley Electric Company ("CVEC"), in Docket DR 20 96-170, a petition for an increase in base rates by CVEC.

Q4. What is the purpose of your testimony in this case?

A4. As Mary Powell's testimony indicates, GMP's proposed Multi-Year Regulation Plan ("MYRP") framework will set the procedure to determine GMP's cost of service for the three fiscal years following the end of the 2019 rate period proposed in GMP's recent rate filing. This means that the MYRP would be in place from October 1, 2019 through September 20, 2022 ("the MYRP period"). My testimony describes how GMP proposes to set the various components of the cost of service throughout the MYRP and describes how GMP arrived at its proposals to be responsive to the needs of its customers and to ensure that GMP will remain financially sound to serve the vast majority of electric customers in the state. I also describe GMP's proposed Earnings Sharing Adjustment Mechanism, Exogenous Adjustor, and other mechanisms proposed in the MYRP, and I explain how GMP's MYRP meets the criteria of 30 V.S.A. §218d. The MYRP is attached as **Exhibit GMP-ER-1**.

Q5. What is the purpose of the MYRP?

A5. Many states, including Vermont, have utilized some version of a regulation plan over multiple years to improve outcomes for customers compared to the traditional rate principles that otherwise apply to cost of service rate regulation. Generally, utility commissions find benefits to implementing such plans, including:

- more strongly encouraging the implementation of state energy goals;
- more closely aligning customer needs with company performance; and

- avoiding the costs borne by customers and the complexities associated with litigating multiple traditional rate cases.

These are the same reasons GMP is proposing a new plan here. GMP believes the regulation plan we have proposed, which will be book-ended with traditional rate cases, will support the innovation and customer-focused performance needed to transition to the home-, business-, and community-based energy system our customers tell us they want.

Q6. You mention that the MYRP will be bookended by traditional rate cases. Can you explain how that will work?

A6. Yes. We propose that the 2019 traditional cost of service rate case ("2019 Rate Case") underway now will serve as the base year for adjustments that will be made in fiscal years 2020-22 during the MRYP. This means that we expect to utilize the MYRP to set rates for fiscal year 2020, starting October 1, 2019; for fiscal year 2021, starting October 1, 2020; and for fiscal year 2022, starting October 1, 2021. GMP would then expect to seek another traditional rate review in early 2022, for rates commencing October 1, 2022 (fiscal year 2023). GMP could also at that time seek a renewed MYRP, if such a plan continues to support just and reasonable rates.

This three-year period of time for the regulation plan aligns exactly with the end of the $144 million merger savings commitment made to customers and measured through the O&M Platform and also aligns with the Department of Public Service's ("DPS" or "Department") recommendation in the Public Utility Commission's workshops regarding regulation plans in Case No. 17-3142-PET ("Future of Regulation

Workshop"). The next rate case review in 2022 will include a comprehensive analysis of O&M costs to coincide with the end of the O&M Platform. For the MYRP, GMP will continue the same treatment for the O&M Platform costs and Merger Savings it has followed since the merger.

Q7. How is your testimony organized?

A7. In Sections II-VII, I cover GMP's proposed treatment of costs and revenue in all categories other than capital cost, which are covered in Mr. Otley's testimony, and power supply costs and retail revenue, which are covered in Mr. Smith's testimony. In Sections VIII-X, I discuss the details of GMP's proposed Earnings Sharing Adjustment, Exogenous Change Adjustment, and the Merger Savings Adjustment which will run through the course of this regulation plan. In Section XI, I discuss other plan provisions and in Section XII, I discuss how GMP's plan fits the criteria of Section 218d.

II. Debt and Equity Components

Q8. Please describe how GMP proposes to set the debt and equity components of the MYRP.

A8. GMP proposes to utilize a 50/50 debt to equity ratio to calculate annual rates for the life of the MYRP.[1] GMP expects to refresh the debt cost component of its rates annually, utilizing a forecast for each rate period based upon its costs and projected changes in the

[1] For the purposes of calculating the annual rate change under the MYRP the capital structure will be 50/50 plus/minus 1%. The actual capital structure for the rate period may vary slightly from this structure. The benefit/cost of the actual capital structure significantly varying from the capital structure used to set rates would be captured in the ESAM.

instruments it carries. For equity, as further described by James Coyne, GMP proposes to utilize a Return on Equity ("ROE") adjustment from the ROE adopted by the Commission in the 2019 Rate Case, with indexing based upon the methodology Mr. Coyne describes plus any ROE adders resulting from exceeding Performance Metrics as defined in the MYRP for the prior calendar year. In other words, if GMP's proposed ROE of 9.3 in the 2019 Rate Case is adopted, GMP's ROE would adjust in fiscal year 2020 if the indexing formula shows that the ROE should change and for any Performance Metrics ROE adders. GMP must notify the Commission of the updated debt forecast and ROE indexing results and Performance Metrics ROE adders 3 months prior to the commencement of the new rate period (July 1st for an October 1st adjustment), and whether GMP seeks to adjust rates based upon them.

Q9. Why do you believe GMP's proposed treatment of debt and equity will result in just and reasonable rates?

A9. The debt to equity ratio GMP proposes to maintain is in the middle of the range supported by previous Commission decisions, including the merger order in Docket 7770, and is at a level that gives GMP a chance to maintain a strong credit rating and necessary liquidity while meeting its obligations. As explained by Mr. Coyne, GMP's current ROE is the lowest of any vertically-integrated utility in the country, and its agreed ROE of 9.3 for 2019 is significantly lower than he recommends. GMP's equity proposal favors customers because it is based off this low starting point, with limited adjustments (which will be market-based and transparent) for the remainder of the period. Meanwhile, the reforecasting of debt costs annually will allow GMP to make any necessary adjustments to its rates to cover appropriate costs.

III. Depreciation and Property Tax Forecasts Associated with Capital Expenditures

Q10. You mentioned that Mr. Otley covers GMP's treatment of Capital Additions for the period of the MYRP. Please describe how GMP will treat associated depreciation expense for the MYRP period.

A10. In a traditional rate case, depreciation is tied to existing plant-in-service balances, plant additions and retirements occurring through the end of the rate period and depreciation accrual rates that are applied to these plant balances. That is how GMP is treating depreciation in its 2019 Rate Case. During the MYRP, GMP proposes to live with a capped depreciation expense by year based upon the projected plant in service balance at the beginning of the MYRP, the expected annual plant additions as described by Mr. Otley, known retirements and changes in depreciation accrual rates resulting from a Depreciation Study. That study is now underway and GMP is proposing to implement it beginning in Fiscal Year 2021, so it will impact the Fiscal Year 2021 and Fiscal Year 2022 depreciation expense.

Although depreciation expense will be fixed over the life of the MYRP, we believe the risk of a lesser expense is quite low since such a significant portion of the depreciation expense is based upon GMP's existing plant-in-service balances and we are confident that the plant additions presented by Mr. Otley are needed and appropriate to provide reliable service to our customers. In the event that GMP's actual depreciation expense during the MYRP period is significantly less than the fixed amounts, the

Earnings Sharing Adjustor Mechanism would work to appropriately recapture that benefit for customers.

Q11. Why is GMP having a Depreciation Study performed?

A11. A Depreciation Study develops company-specific depreciation accrual rates based on informed engineering judgement which incorporates analysis of the company's historical plant retirement data; a review of the company's practices and outlooks as they relate to property, plant and equipment operations and retirement; and consideration of current practices in the electric utility industry, including knowledge of service lives and net salvage estimated used by other electric companies. A company's depreciation accrual rates need to be periodically reviewed to make sure they reflect the most current estimates of the net salvage value and remaining service life of the company's property, plant and equipment. GMP's last Depreciation Study was performed in 2013 and updated depreciation accrual rates were implemented October 1, 2013 and reflected in GMP's Fiscal Year 2014 base rate filing.

Q12. When will the Depreciation Study be completed?

A12. GMP expects its Depreciation Consultant will issue a draft Depreciation Study by the end of July 2018. The draft Depreciation Study will be provided to the Vermont Department of Public Service, and GMP and the Depreciation Consultant will meet with the Department to discuss and resolve any issues or questions that the Department has with the draft report. GMP is planning on filing the Depreciation Study with the Commission by the end of October 2018 and will propose the new depreciation accrual rates go into effect October 1, 2020, the start of Fiscal Year 2021.

Q13. Why is GMP proposing the new depreciation accrual rates go into effect October 1, 2020?

A13. Based on preliminary discussions with the Depreciation Consultant, GMP expects the change from the existing to the new depreciation accrual rates will result in an increase in annual depreciation expense. Customers will begin receiving 100% of the merger savings beginning in Fiscal Year 2021 (rate period October 1, 2020 to September 30, 2021) and this increase in customer merger savings will mitigate the impact the new depreciation accrual rates will have on overall depreciation expense.

Q14. What about property taxes – how does GMP propose to treat them during the MYRP?

A14. As I testified in the 2019 Rate Case, GMP adjusted its cost of service to reflect the escalation of property taxes based on recent trends. For the MYRP, GMP will calculate and fix property taxes, based on GMP's historical trend in property tax expense and the impact projected plant additions and known retirements will have on property tax expense. Here are the amounts by year GMP proposes to include for property taxes:

Fiscal Year 2020: $31.2 million

Fiscal Year 2021: $32.7 million

Fiscal Year 2022: $34.3 million

IV. O&M

Q15. Please describe how GMP will treat O&M costs for the MYRP period.

A15. During the MYRP period, GMP proposes to treat O&M costs in the same manner it has since its merger with CVPS, because the MYRP will run coextensive with the remainder of the Merger Savings Platform specified in the Commission's Order in Docket 7770.

Q16. Will the O&M forecast account for the O&M savings realized as a result of GMP's merger with Central Vermont Public Service ("CVPS")?

A16. Yes. Currently the company is on a path to exceed the regulatory commitment of $144 million in merger savings returned to customers in a ten-year period. As required by the Commission's Order in Docket 7770 approving the GMP-CVPS merger, GMP's cost-of-service is not subject to changes for a specific group of O&M accounts that comprise the "Base O&M Platform" for a period of 10 years ending in 2022, which coincides with the end of the MYRP period. The O&M Platform consists of an identified set of accounts for which a base cost was established under the regulation plan in effect at the time of the merger. Under the Commission's Order approving the merger, the O&M Platform accounts included in rates are adjusted based on the change in a consumer price index. The O&M Platform is then used as the benchmark to determine the level of annual savings achieved because of the merger. The difference between the O&M Platform costs and actual O&M costs within those platform accounts are measured annually for a period of 10 years to ensure customers receive the amount of savings to which they are entitled each year and that they receive the total amount of merger savings guaranteed to them over the ten-year period.

For other O&M costs, GMP proposes to forecast these costs annually based upon inflation and payroll expense changes. GMP will notify the Commission of the updated forecast for these O&M items 3 months prior to the commencement of the new rate period (July 1st for an October 1st adjustment).

V. Equity in Affiliates, Other Revenue

Q17. Please describe how GMP proposes to treat investments and earnings from equity in affiliates for the MYRP period.

A17. Earnings from equity in affiliates go 100% to our customers, and as such are an important benefit to our customers. GMP is proposing investments and earnings from existing equity in affiliates (predominately Velco, VT Transco, JV Solar and JV Solar/Battery) be forecasted and reflect impacts of forecasted investments in, and distributions from, these affiliates. These earnings include important transmission company investments which help maintain a reliable grid and bring significant returns to our customers to lower overall costs.

Any proposal to invest in new affiliates during the term of the MYRP will require specific PUC approval. The request for approval will include a summary of the cost of service impacts and/or benefits of the proposed new affiliate investment. This will mitigate any concern that GMP could expand its rate base through decisions to expand its affiliate commitments during the MYRP and include the new costs in rates through reforecasting, without specific review by the Department and the Commission.

Q18. How are investments and returns attributable to VT Transco treated by GMP, and what impact do these have on GMP's customers?

A18. GMP has a direct ownership interest in VT Transco and an indirect ownership interest in VT Transco through its ownership interest in VELCO that benefits customers.[2] Currently GMP's direct and indirect ownership interest in VT Transco is approximately 74% and GMP's direct investment in VT Transco is approximately $435 million. Prior to the December 2017 federal income tax reform legislation, GMP customers were benefiting from a 19% return on this investment; after tax reform, GMP customers are benefitting from a return of approximately 14% on this investment. In its cost of service filings, GMP reduces the cost of service by the earnings GMP receives from its investment in VT Transco and includes the investment in rate base, offset by associated Accumulated Deferred Income Taxes. In GMP's 2019 base rate filing, including the Transco investment in rate base increased cost of service by $31.9 million, but the VT Transco equity in earnings cost of service credit was $53.2 million – meaning that GMP's ownership interests created net reduction for customers to cost of service of $21.3 million. It is important to note that the 2019 rate case is a 9-month cost of service; on an annual basis, GMP's ownership interests in VT Transco provide even greater benefit to customers. This is a significant, recurring value to our customers.

[2] GMP owns 39% of VELCO, the operating company for VT Transco. GMP reduced its VELCO ownership interest and Board of Director seats as a condition of its merger with CVPS, as ordered by the Commission in Docket 7770.

Q19. What about Other Revenue? What Other Revenue does GMP receive and how does it plan to account for it in the MRYP?

A19. GMP receives other revenue from various sources such as mutual aid, pole attachments, innovative services, contributions in aid of construction tax adder and transmission tariffs that benefit customers. For these other revenue items, GMP proposes to forecast these annually based upon most recent forecast projections, but some revenue sources may be based on our most recent 12-month historical actual information. GMP will notify the Commission of the updated forecast for these items 3 months prior to the commencement of the new rate period (July 1st for an October 1st adjustment), and whether GMP seeks to adjust rates based upon them.

VI. <u>Taxes</u>

Q20. Please describe how GMP proposes to treat tax expense for the MYRP period.

A20. As I testified in GMP's 2019 rate case, GMP pays Social Security, Federal and State income, Gross Revenue, and Fuel Gross Receipts taxes. GMP proposes to forecast these annually based upon known changes to payroll, tax rates, and forecasted revenue. GMP will notify the Commission of the updated forecast for these tax items 3 months prior to the commencement of the new rate period (July 1st for an October 1st adjustment), and whether GMP seeks to adjust rates based upon them.

Q21. Does the tax proposal account for accumulated deferred income tax ("ADIT")?

A21. Yes. GMP will include in every year's forecast the portion of ADIT that will be returned to customers in the upcoming year as an offset to its tax obligations. As described in

GMP's 2019 Rate Case, based on the methodology prescribed in current tax regulations, GMP is returning all of the value to customers from $86.9 million in property, plant and equipment depreciation ADIT over 33 years and $64.5 million of VT Transco related ADIT in varying annual amounts over approximately 25 years. (This is in addition to the significant credit customers are receiving now, in 2018 and will in 2019, due to federal tax reductions.) In the event any further unprotected ADIT amounts become available for return to customers more promptly within a single year, GMP expects to propose to include those as bill credits, as it has done for 2018 and has proposed in 2019.

Q22. Does the tax expense proposal take into account the continuing benefits from the recent federal tax changes?

A22. Yes. In addition to the inclusion of recurring ADIT as described above, the treatment of tax expenses in the MYRP will utilize the new lower income tax rates at the federal level, along with any changes at the state level, in order to ensure that the full effect of recent federal changes continue to flow 100% to benefit customers.

VII. Other Cost of Service Items

Q23. Please explain how any other COS items not specifically enumerated above will be treated in the MYRP.

A23. **Exhibit GMP-ER-1, Attachment 1** shows by line item how GMP proposes to treat all elements of its Cost of Service and Rate Base Investment. For each item that indicates "annual forecast," GMP will forecast it three months ahead of each fiscal year; GMP will inform the Commission of the forecast and whether GMP requests change in base rates to account for it. For each item that indicates "flat" or "fixed," GMP will collect a set amount per fiscal year through base rates. For items that are listed as "formulaic" or "calculated," GMP will apply its usual methodology to determine the amount to include in base rates each year. For example, Gross Receipts Tax is calculated by applying the retail revenue forecast to the State's tax rate.

VIII. Earnings Sharing Adjustment Mechanism

Q24. Does the MYRP include an Earnings Sharing Adjustment Mechanism?

A24. Yes. The MYRP includes an Earning Sharing Adjustment Mechanism ("ESAM").

Q25. Please explain the purpose of the ESAM.

A25. The ESAM is essentially a mechanism for distributing the risk that GMP's actual ROE varies significantly from the Commission-approved ROE during the term of its regulation plan. It does so by sharing some over- or under-recoveries between GMP and its customers.

Given the other MYRP features proposed by GMP, including complete revenue decoupling, GMP does not expect the ESAM to create a significant cost or benefit during the MYRP. Utilizing an ESAM ensures that rates will remain just and reasonable because it prevents GMP from significantly over-earning its allowed return on equity by flowing significant over-earnings back to customers.

Q26. How would the ESAM work?

A26. The ESAM measurement periods are the rate periods under the MYRP: Fiscal Years 2020, 2021 & 2022. For each of these measurement periods, GMP's actual return on equity is calculated in the same manner as a cost of service filing. Rate adjustments are then made, based on how far GMP's actual return on equity falls above or below its approved return. The ESAM is designed to be symmetrical, with GMP and customers sharing the impact from lower earnings, and the benefit from higher earnings, outside a dead band.

The tiers, and resulting adjustments, are as follows:

- 50 basis points above or below the approved return: no adjustment is made.
- 50–100 basis points above or below approved return: 50 percent of the revenue impact of the lower earnings is collected from, or 50 percent of the revenue benefit of the higher earnings is returned to, customers.
- 101 or more basis points below or above the approved return: the entire revenue impact or benefit above or below this level flows to customers.
- In addition, the MYRP retains the feature of the prior ESAM to provide support for low-income customers. GMP will contribute up to 5% of excess net utility income above allowed income, if any, through existing programs, as designed in consultation with the DPS and its Consumer Affairs division.

Q27. Explain the methodology GMP proposes to employ to calculate and implement the ESAM.

A27. On or before December 1, 2020, 2021, and 2022 (within 60 days of each fiscal year close), GMP will file with the Commission and Department its complete financial results for the preceding calendar year, with calculations and documentation supporting the ESAM. Actual earnings will be calculated on a regulatory basis (i.e., excluding disallowed costs and the results of unregulated operations). Actual earnings shall include the earnings impact of the Power Supply Adjustor, Revenue Adjustor, and Exogenous Change Adjustor, but will not include the earnings impact of shareholder merger-related adjustments to Base O&M Costs. The ESAM adjustment will be a separate line item on the customer's bill.

In order to provide a transparent mechanism to demonstrate how hard the company works to control costs, small earnings variations will not be subject to true-up or reconciliation. In particular, there will be no rate adjustment if actual earnings are within a range equal to 50 basis points above or below the Commission-approved return on equity. There is a 50/50 sharing of earnings shortfalls or earnings excesses between 50 and 100 basis points below or above the target return. Above or below that range, customers will receive 100% of the credit or charge.

Under the Plan, the revenue impact of the variance between target and actual earnings (calculated as just described) then will be divided by the retail revenue projected for the 12-month period that the ESAM will be in effect, to yield a total refund or surcharge to be paid to or assessed from customers over the collection period. The format of the ESAM filing will be consistent with previous regulation plan ESAM filings made by GMP. **Exhibit GMP-ER-1, Attachment 6** is a sample calculation of the Earnings Sharing Adjustment under the MYRP.

The Plan provides that the Commission may open an investigation into the accuracy of the ESAM calculation and, to the extent it finds that the calculation was inaccurate, require a modification of the associated rate adjustment to correct the inaccuracy. The ESAM will be implemented by a positive or negative surcharge to each rate element for each rate class reflecting a uniform percentage rate change.

Over or under collection of the Earnings Sharing Adjustor, due to variances between actual and projected revenue, shall be deferred and included in the next base rate adjustment (i.e., the following fiscal year).

Note that to the extent the Company's actual earned return varies from the target return by an amount that exceeds the Earnings Sharing Band, under Generally Accepted Accounting Practices ("GAAP") the Company must accrue the revenue impact of the difference for book purposes and either create a regulatory asset (if the actual return is less than the target) or defer the revenue impact of the difference and create a regulatory liability (if the actual return is greater than the target). The regulatory asset or liabilities that are created are eliminated over the twelve-month true-up period.

Q28. Why is GMP proposing an ESAM in the MYRP.

A28. Although there will always be ebbs and flows in earnings in response to everyday business activities occasionally there are unforeseen events that have a significant impact, both positively and negatively on GMP's earnings, and the company views the ESAM as an important backstop to protect our customers and the company in the event of significant over or under collection. This is true even though the company believes the ESAM will be a less important feature of this plan than it was in the prior regulation plan, due to this plan's greater use of revenue decoupling.

IX. Exogenous Change Adjustor

Q29. Please describe the Exogenous Change Adjustor GMP proposes.

A29. Overall, GMP proposes the same straightforward approach to defining the Exogenous Change Adjustor as it presently utilizes. GMP proposes a new collection methodology that will improve the predictability and scale of Major Storm costs to customers, given the frequency and severity of storms due to climate change.

Q30. Why does GMP propose a new method for recovery of exogenous costs in this MYRP?

A30. In my decades in utility accounting, I have seen that the occasional major storm which would infrequently occur years ago has given way to more frequent and costly major storms recurrent throughout a rate period. Since 2013, GMP has experienced eight major storms. Here is an overview of major storms impacting our customers since October 1, 2013:

- Measurement period October 1, 2013 to September 30, 2014 – Two major storms (12/22/13 and 4/3/14) occurred for an incremental cost of $4.2 million (excluding exogenous storm deductible).

- Measurement period October 1, 2014 to March 31, 2015 – one major storm (12/9/14) occurred for an incremental cost of $15.3 million (excluding exogenous storm deductible).
- Measurement period April 1, 2015 to March 31, 2016 – no major storms occurred.
- Measurement period April 1, 2016 to March 31, 2017 – one major storm (7/23/16) occurred with an incremental cost of $2.3 million (excluding exogenous storm deductible).
- Measurement period April 1, 2017 to December 31, 2017 – Two major storms occurred (5/5/17 and 10/29/17) for an incremental cost of approximately $7.7 million (excluding exogenous storm deductible). GMP filed its request to recover these costs on February 28, 2018 and the Department is currently reviewing this request. No timeline to recover these deferred costs has been established if the Commission ultimately approves recovery of these costs. As noted below, we propose to wrap recovery of these costs into the MYRP.
- Measurement period January 1, 2018 to December 31, 2018 – Although this measurement period is not completed, two major storms have already occurred (on April 4, 2018 and May 5, 2018) for an estimated incremental cost of $4.5 million (excluding the exogenous deductible). GMP will file a request to recover the incremental major storm costs incurred during

this measurement period after the measurement period is completed, and proposes to wrap recovery of these costs into the MYRP.

There is no doubt that GMP has seen increased frequency and costs associated with Major Storms as defined in its regulation plan. This is consistent with the more intense storms predicted to occur in Vermont due to climate change. This damage has at times been severe and has occurred despite a strong and proactive right of way maintenance program. GMP believes a different treatment of Major Storm costs for the period of this regulation plan will help alleviate stacked cost pressures due to already incurred, but not yet collected costs from 2017 and 2018, while also helping us analyze whether this new method for collecting these costs is better for customers going forward beyond this regulation plan period.

GMP notes that this MYRP is proposed to end September 30, 2022, coincident with the end of its O&M Platform that forms the basis of the merger savings guarantee for customers. In fiscal year 2023 and beyond, GMP can work with the Commission and Department to consider whether the budget and collection method for base O&M costs related to storm repair and for Major Storms should be changed. We can determine at that time whether the ongoing collection for Major Storms during the MYRP should continue, and, if so, can examine the balance in the corresponding regulatory liability account to determine whether the level of collection should be adjusted.

Q31. What stacked costs for Major Storms are you referring to?

A31. As I discussed above, 8 major storms have occurred since October 1, 2013 and the incremental cost per major storm during this period has ranged from $2 million to $15 million. Major storm costs were being collected through a separate line item on the bill but the Company recently began collecting major storm costs through an adjustment to base rates. On April 1, 2018, base rates were increased by 0.2% to recover $2.3 million of major storm costs incurred during the April 1, 2016 to March 31, 2017 measurement period. These costs will be collected over a 2-year period ending March 31, 2020. This proposal does not impact the timing or mechanism to recover these storm costs.

GMP has already filed a request on February 28, 2018 to recover approximately $7.7 million of major storm costs incurred during the April 1, 2017 to December 31, 2017 measurement period. We know we have already incurred two other Major Storms during the January 1, 2018 to December 31, 2018 measurement period. Subject to Department review and Commission approval, the estimated incremental cost, after the deductible, to be collected from customers for these two additional storms, is $4.5 million. Unfortunately, there are still seven months remaining in this measurement period and additional major storm costs could be incurred.

This means that GMP customers already have more than $12 million in Major Storm costs that have not yet been collected — on top of the 0.2% in rate recovery that is currently in effect and will last until March 2020. These stacked costs create significant rate pressure, with very little predictability for our customers.

Q32. How does GMP propose to change its recovery for exogenous costs under the MYRP?

A32. In order to avoid the stacked cost pressure of Major Storms and year over year fluctuation in customer bills driven by the recovery of Major Storm costs in our current Exogenous Change Adjustor, GMP proposes that under the Multi-Year Rate Plan exogenous costs be recovered as follows:

1. Beginning October 1, 2019, GMP would collect funds through a separate line item on the bill sufficient to collect $8 million annualized for purposes of exogenous cost recovery. All of the Fiscal Year 2020 and most of the Fiscal Year 2021 collections from customers will be used to offset the approximately $12 million of current deferred Major Storm expense (plus any additional incremental qualifying storm costs incurred hereafter under the current regulation plan).
2. The amount being collected from customers will be recorded to an "Exogenous/Storm Cost" regulatory liability account.
3. The Major Storm definition will remain the same as in the current GMP plan, and the deductible will be $1.2 million per measurement period; the measurement periods will be October 1 to September 30 for each year.
4. The Exogenous Major Storm Filing will be made within 60 days of the end of each measurement period (December 1st).
5. Actual incremental Major Storm costs, net of the deductible, will be deferred to a regulatory asset (along with any other exogenous costs, though these other exogenous costs occur very infrequently). Actual exogenous costs will not be

offset against the regulatory liability account until the exogenous filing is approved by the Commission.

6. The Exogenous/Storm Cost regulatory liability account will accrue interest income/expense based on the Company's credit facility interest rate. This regulatory liability account is to be equal to the cumulative exogenous costs collected from customers minus the incremental exogenous costs approved for recovery by the Commission, plus/minus accrued interest income/expense.
7. In the event a particularly costly storm or multiple major storms were to occur in a measurement period, the Company may request additional major storm cost recovery only if Major Storm costs exceed $12 million in any measurement period.
8. In order to prevent large regulatory liabilities or assets from accruing over the term of the MYRP, if at the end of a measurement period the Exogenous/Storm regulatory liability (cumulative exogenous costs collected from customers exceeds the cumulative exogenous costs approved for recovery by the Commission) or the Exogenous/Storm Cost regulatory asset (cumulative exogenous costs approved for recovery by the Commission exceeds cumulative exogenous costs collected from customers) is greater than $12 million, the Company will file a proposal with the Commission on how best to return or collect up to 50% of the amount over $8 million.

9. On or before December 1st of each year, GMP will also make an informational filing of the monthly activity of the regulatory liability account for the previous fiscal year (October 1 to September 30).

X. Merger Savings Adjustor

Q33. Please describe the Merger Savings Adjustor GMP proposes.

A33. GMP proposes to treat the Merger Savings Adjustor in the MYRP in the exact same manner it has since the merger was completed. Specifically, GMP will include the customers' share of merger savings as a reduction to the cost of service. At the end of each rate period, the customer's actual share of merger saving for that rate period will be calculated and the difference between actual and the amount reflected in the rate period cost of services will be returned to or collected from customers in a subsequent rate filing. Importantly, in 2021 and 2022, 100% of merger savings will flow to customers – further decreasing rate pressure – and these savings will be accounted for as a part of GMP's guarantee to provide at least $144 million in total synergy savings for customers because of the merger. GMP will file the required Synergy Savings Schedule with the annual ESAM filing required under the MYRP.

XI. Other Plan Provisions

Q34. Does the MYRP allow GMP to make major strategic investments for important customer-focused opportunities presently not contemplated to occur in the next three years?

A34. Yes. As proposed, GMP will live within the capital spending cap described by Mr. Otley. Mr. Otley explains that GMP is committing to spending approximately $85 million per year during the plan period, an amount essentially equal to its expected capital spend in Fiscal Year 2019. GMP also expects to manage its Closed to Plant to $85 million each year of the MYRP and will include that amount when calculating its base rates each year. To account for timing variances in plant closings year to year, GMP commits to close no more than $256.5 million in overall capital projects over the three years of the plan. This commitment to manage and cap spending is good for our customers; in addition, the proposed Earnings Sharing Mechanism will provide protection for customers if there were any material variations in the amounts of capital closed to plant during any given year.

In the event an opportunity to make a major strategic investment arises, GMP will file with the Commission a request to exceed its cap and make the investment. As an example, GMP invested $16.3 million in the Enel Hydro assets in 2017; while this had not been a part of its expected capital plan leading up to the opportunity, GMP felt very strongly that it should not pass up the chance to acquire these assets for the good of its customers. Should a similar opportunity arise during the MYRP, it will be important for GMP to have an outlet from the plan to make such an investment. While these investments normally would involve other Commission approval (through Section 240, 231 or otherwise), it is important that the regulation plan account for the treatment of any such opportunity in rates. The provision applies to significant unforeseen capital projects and strategic investments – in other words, things we do not expect to arise at this time. Nevertheless, it is an important provision to provide flexibility in the event an important opportunity arises in the three years of the plan.

Q35. Does the MYRP make any provision for significant market or other changes affecting the fundamental regulatory environment?

A35. Yes. In the event of the Plan becomes detrimental to the financial stability and health of the company, the MYRP allows GMP to file a traditional rate case. This is an important protection for customers and the company and would only be used in an exigent circumstance. The Plan also allows the Department to request an investigation to terminate the Plan in the event it believes such an action is appropriate to protect ratepayers.

Q36. What about bill adjustors already approved or that will be approved by the Commission under GMP's current regulation plan for collection during the MYRP term – are those affected by the MYRP?

A36. Other than Major Storm costs, no. While GMP proposes to roll approved Major Storm cost collection from the current regulation plan into the proposed annual Exogenous Cost assessment in order to help avoid stacked cost pressures for customers, other adjustors approved by the Commission prior to the commencement of the MYRP will be collected as planned and not affected by the MYRP.

XII. Section 218d Criteria

Q37. In your view, does the Multi-Year Regulation Plan meet the criteria for least cost service under 30 V.S.A. § 218d(a)(1)?

A37. Yes. First, the MYRP provides encouragement for GMP to continue to provide least cost service because GMP and customers directly benefit by keeping costs down under the Plan, as required under § 218d(a)(1). Specifically, GMP must true up retail revenue collections versus its forecast and will bear a portion of the cost for spending more than its power cost forecast in any quarter. GMP has meaningful funds at risk under the Power Supply Adjustor when its actual quarterly power costs vary from benchmark figures. The design of the Retail Revenue and Power Supply Adjustors also removes potential disincentives to providing least cost service using resources that would reduce retail electricity sales or produce intermittently (such as renewable sources that lower carbon and are encouraged by state policy).

Q38. How does the Multi-Year Regulation Plan provide just and reasonable rates for service to all GMP customers as required under § 218d(a)(2)?

A38. The plan's elements provide for just and reasonable rates for service to GMP customers, consistent with § 218d(a)(2). Through capped capital spending, revenue decoupling, and adjustors with dead bands that incentivize smart and efficient choices, customers win when GMP wins. Since GMP is incented to reduce costs, to the extent it succeeds, customers see lower bills than they otherwise would. Moreover, these adjustments pass through to customers the actual cost of electricity consumed, which sends to customers appropriate price signals so they can properly value and adjust their energy consumption. In addition, the plan will support a strong credit rating, which benefits our customers. S&P, our credit rating agency, specifically highlights that GMP is able to manage its regulatory risk effectively based on the regulatory mechanisms in place such as a power cost adjustor and storm cost adjustor, which supports GMP's ability to earn close to allowed returns. Finally, the process of annual refreshed forecasts for sales and certain costs, with quarterly true-ups and an Earnings Sharing Adjustment Mechanism, will ensure that GMP does not significantly over or under collect on its actual cost of service.

Q39. Please explain how the Multi-Year Regulation Plan allows GMP to deliver safe and reliable service as required under § 218d(a)(3).

A39. The Exogenous Change Adjustment enables GMP to deliver safe and reliable service when unexpected costs arise that threaten safety or reliability—in other words it ensures we will have all the right incentives (i.e., safety and reliability first). Meanwhile, although capital spending will be capped, GMP will retain flexibility to adjust spending within the cap as needed to ensure safe and reliable service, and the allowance to petition for relief if unforeseen significant costs arise will also support safe and reliable service.

Q40. Section 218d(a)(4) requires "incentives for innovations and improved performance that advance state energy policy such as increasing reliance on Vermont-based renewable energy and decreasing the extent to which the financial success of distribution utilities between rate cases is linked to increased sales to end use customers and may be threatened by decreases in those sales." Does the Multi-Year Regulation Plan meet this requirement? Please explain.

A40. Yes. Several of the plan features directly support GMP's move toward innovation and an electric system that is less centralized and more home-, business-, and community-based. In particular, the Innovative Pilot provision described by Mr. Otley provides strong incentives for innovation and improved performance that advances state energy policy. The capital spending plan includes outlays for New Initiatives designed to support these innovations, and a process for increasing expenditures when a New Initiative shows significant customer demand and provides revenues that help lower customer costs. The revenue decoupling feature of this plan also advances this criterion as it significantly decreases the link between sales and financial success. Finally, the Power Supply Adjustor is very supportive of reliance on Vermont-based renewable energy because, as discussed by Mr. Smith, it reduces key potential barriers by managing fluctuations in power costs and revenues that are naturally associated with reliance on intermittent power sources.

Q41. How does the Multi-Year Regulation Plan promote improved quality of service, reliability, and service choices as required under § 218d(a)(5)?

A41. In addition to the support for safe and reliable service already mentioned, the regulation plan supports the criteria of § 218d(a)(5) through the use of Innovation and Performance Metrics, as further described by Mr. Otley. Furthermore, the Innovation Pilot provision will expand service choices (such as controllable Electric Vehicle Chargers) and promote technologies that will lead to improved reliability (for example, the Tesla Powerwall as an emergency back-up for customers).

Q42. Does the Multi-Year Regulation Plan encourage innovation in the provision of service as required under § 218d(a)(6)? If so, please explain.

A42. Yes, it does. The MYRP's Innovation and Performance Metrics directly address this. As Mr. Otley describes in detail, the Innovative Pilot provision is designed to encourage and promote use of innovative technologies in a way that ensures only those that have enduring value for all customers will be advanced into mature programs. The capital allowance for New Initiatives, and the ability to seek more spending for those areas that provide material benefit to customers, also support this provision of Section 218d.

Q43. Please explain how the Multi-Year Regulation Plan establishes a reasonably balanced system of risks and rewards that encourages GMP to operate as efficiently as possible using sound management practices, as required under § 218d(a)(7).

A43. We have designed the plan to do exactly that. The Innovation and Performance Metrics, the dead bands for various adjustors, and the multiyear plan length, bounded by traditional rate cases, all work together to balance the risks and rewards available under this plan and to encourage GMP to continue to operate efficiently and exercise sound management. For example, as set forth in Mr. Smith's testimony, the Retail Revenue and Power Supply Adjustor we propose, while decreasing overall volatility and providing better signals to both GMP and our customers, would have performed on a net basis almost exactly the same as our current regulation plan over the last 5 years – meaning that the plan we have proposed is not unduly weighted toward the company. Similarly, the relatively low ROE commitment and the symmetrical and modest Earnings Sharing Adjustment Mechanism show balance between customer and company interests.

Q44. Does the Multi-Year Regulation Plan provide a reasonable opportunity, under sound and economical management, to earn a fair rate of return as required under § 218d(a)(8)? Please explain.

A44. Yes, it likely does. While the ROE allowed under our proposal is low and the cost variance calculation and dead bands in the Power Supply Adjustor likely will require GMP to absorb greater costs than otherwise would occur, the incentives and shared benefits of the plan are designed to promote efficient operation while still allowing GMP to earn fair rate of return, with some limited opportunity for upside in the event of superior performance.

Q45. If savings result from the Multi-Year Regulation Plan, how will savings be shared with Customers, as required by § 218d(b)? Please explain.

A45. All of the adjustors are designed to work both ways, thus ensuring that customers will share in any savings while also encouraging GMP to achieve those savings. In addition, the merger savings adjustment ensures that savings resulting from the GMP/CVPS merger continue to benefit customers, as required in pursuant to the Board's order in Docket No. 7770.

Q46. Does the Multi-Year Regulation Plan avoid an adverse impact to GMP's eligibility for rate-regulated accounting in accordance with applicable generally accepted accounting standards, as required by § 218d(m)(1)? Please explain.

A46. Yes. Nothing proposed here adversely impacts GMP's ability to meet rate-regulated accounting in accordance with generally accepted accounting standards because: rates are established by a third-party regulator; rates are designed to recover the costs of providing regulated products and services to customers; and there will be customers to charge and collect those costs from.

Q47. How does the Multi-Year Regulation Plan reasonably preserve the availability of capital on favorable terms, as required by § 218d(m)(2)?

A47. As further described by Ms. Powell and Mr. Coyne, the stability of a Multi-Year Regulation Plan and the design of the proposed adjustors are critical to maintaining a good credit rating to be able to borrow on favorable terms and at lower costs for customers. Approval of these provisions will therefore reasonably preserve the availability of capital on favorable terms.

Q48. Does that conclude your testimony at this time?

A48. Yes, it does.