

GMP MULTI-YEAR REGULATION PLAN

Public Utilities Commission
Workshop
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ENCOURAGING GMP TO CONTINUE TO THINK “OUTSIDE THE BOX”

“We note the importance of any such proposed plan in advancing State energy policy, as required by Section 218d(4). . . as a tool that may be utilized to enable and encourage energy service innovation in the achievement of those policies. Therefore, we encourage utilities to think ‘outside the box’ . . . and not to be bound by conventional approaches. The time has come to find creative solutions to achieve policy goals, and it is imperative that we, as regulators, confront and consider these solutions with open minds.”

– PUC Order, Case No. 17-3142-PET, 7-23-18

WHY WE ARE LEAPING OUT OF THE BOX

- ▶ New paradigm of flat or declining sales
- ▶ GMP sells fewer kWh now than 15 years ago, but with far more grid connections and complexities
- ▶ State and regional policy is critical for lower carbon but can create rate pressure
- ▶ Climate change causing increasing severity/ changing times of storms
- ▶ Status Quo will lead to continued cost pressure
- ▶ All of this requires new approaches where innovation is key for utilities to find ways to drive down costs and leverage technology to benefit customers

GMP'S PROPOSAL

- ▶ **Transparent:**
 - ▶ Book-ended by traditional rate cases
 - ▶ Major cost items such as capital spending locked or forecasted
 - ▶ Fewer items set by uncertain yearly updates; easier to review
- ▶ **Customer-focused and Innovative:**
 - ▶ Sales decoupled from overall profit
 - ▶ Continues critical support for Innovative Pilots
 - ▶ Proposed performance metrics focused on stretch goal service quality and also on innovation
- ▶ **Short, 3-year plan:**
 - ▶ Aligns with end of 10-year merger commitment
 - ▶ Allows PUC/DPS/Public/GMP to review outcomes & adjust
 - ▶ Multiple opportunities for public comment in setting Plan; filing details on GMP and PUC web site:
<https://greenmountainpower.com/regulatory/filings/2019-multi-year-regulation-plan/>



PROPOSED REVIEW SCHEDULE

- ▶ GMP filed plan in early June 2018
- ▶ Discovery and testimony through March 2019
- ▶ Technical hearings in April 2019
- ▶ PUC order by May/June 2019, to allow plan to govern rates set to commence October 2019

CAPITAL PROPOSAL

- ▶ Three-year capital investment plan to balance reliability, service quality and continued innovation for customers in this new energy future
- ▶ Committing to ~\$85M/Year of Capital Investment in FY2020, 21, & 22, with equivalent fixed property tax and depreciation amounts per year
 - ▶ Bookending Feature: Three Year Capital track based off of 2019 traditional rate case proceeding & will be followed by expected 2023 traditional rate case proceeding
 - ▶ Total plant additions over three years will not exceed \$256M
- ▶ Other Elements:
 - ▶ Provision for new capital investment level in any year due to unforeseen opportunity vetted by regulatory review (Like Enel)
 - ▶ Flexible treatment for new initiatives that generate customer benefit and program-specific customer revenues as offsets to cost
 - ▶ Treatment of investments in cloud platforms as capital

PROPOSAL FOR RETAIL REVENUE DECOUPLING AND POWER SUPPLY ADJUSTOR

- ▶ Quarterly true up of retail electric revenues: actual vs. forecasted in rates, dollar for dollar
- ▶ Quarterly true up of Component A power supply costs
- ▶ Quarterly true up of Component B power supply cost, subject to sharing of cost variance with customers
 - ▶ Cost variance means change in actual cost/kWh vs. benchmark cost in rates
 - ▶ GMP absorbs first +/- \$150,000 /quarter of cost variance, plus 10% of additional variance
- ▶ Current Volume Variance Adjustor is no longer needed

BENEFITS

- ▶ Revenue true up is a contemporary methodology and removes any concern that GMP would have interest in driving up sales for any other reason than the reduction of carbon and ensuring the grid is used cost effectively to benefit all customers (Or be financially harmed by unanticipated sales declines)
- ▶ Current PSA structure still makes sense, has worked well
 - ▶ Component A true up, for costs that are largely outside GMP's control, don't depend on sales volumes
 - ▶ Component B costs are subject to short-term variances, particularly due to fluctuations in loads & renewable generation volumes
- ▶ New cost variance calculation for Component B items will more transparently encourage GMP to manage power supply expenses, benefitting customers
- ▶ \$150k/quarter deadband is appropriate, in view of weather-driven variances (adverse correlations) and historical GMP results

COST VARIANCE VS. VOLUME VARIANCE

What is Cost Variance?

Cost variance is a managerial cost accounting equation used to help distinguish how much of a total variance in expense is due to differences between forecasted vs. actual cost, rather than volume.

Example:	Volumes	Cost/Unit	Total \$\$\$
Budget	10,000	\$50	\$500,000
Actual	15,000	\$45	\$675,000
		Difference	\$175,000 (unfavorable, meaning higher costs)

Volume Variance = $(15,000 - 10,000) * 50 =$ \$250,000 (unfavorable, meaning higher costs)

Cost Variance = $(45 - 50) * 15,000 =$ -\$75,000 (favorable, meaning lower costs)

Difference \$175,000

- ▶ The example above is generic, to define and illustrate terms
- ▶ GMP proposes to measure and share cost variances for Component B (i.e., changes in average cost/kWh)
 - ▶ The following slide contains an illustration

Plan Details

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QUARTERLY ILLUSTRATION OF RETAIL REVENUE ADJUSTOR & POWER SUPPLY ADJUSTOR

Assumptions:

- 1.) Actual retail sales are lower than forecast by 10,000 MWh, and \$1.4 million.
- 2.) GMP avoids purchasing that 10,000 MWh on spot market at an average of \$30/MWh. The net of other Component B costs & revenues is assumed to otherwise equal the benchmark level.
- 3.) Actual Component A costs come in \$3 million lower than the benchmark.
- 4.) Benchmark values for the quarter are illustrative, but similar in magnitude to Q2 FY18

Step 1: Raw Variances in Revenue & Costs

	Actual	Benchmark	Variance	Notes
Revenue	\$162,600,000	\$164,000,000	-\$1,400,000	Per Assumption #1 above
Component A	\$38,500,000	\$41,500,000	-\$3,000,000	Per Assumption #3 above
Component B	\$58,700,000	\$59,000,000	-\$300,000	Per Assumption #2 above

Step 2: Cost Variance calculation and bandwidths

	Actual	Benchmark	Variance	
Retail Sales in kWh	1,102,000,000	1,112,000,000	-10,000,000	Per Assumption #1
Component B Cost per kWh	\$0.0533	\$0.0531	\$0.0002	Actual Component B costs per kWh were slightly higher than benchmark
Component B Cost Variance:	\$230,576			Variance in Component B costs per kWh times actual retail sales
Amount GMP (absorbs)/keeps:	-\$158,058			\$150 K Efficiency Band + 10% thereafter. In this example, GMP absorbs about \$158k of cost increase
Component B Variance (adjusted for Cost Variance)	-\$458,058			(\$300,000) raw Component B variance, plus about \$158k of cost variance absorbed by GMP

Step 3: Calculation of Retail Revenue Adjustor and Power Supply Adjustor

Retail Revenue Adjustor:	\$1,400,000	Collection from customers of \$1.4 million, offsetting the decline in retail sales
Component A:	-\$3,000,000	Actual Component A costs \$3 million below benchmark; full return to customers.
Component B:	-\$458,058	Actual Component B costs \$300k below benchmark; GMP absorbs \$158k of cost variance.
Power Supply Adjustor	-\$3,458,058	Total Power Adjustor: Component A + Component B (adjusted for cost variance)

Step 4: Net Retail Revenue Adjustor and Power Adjustor

Retail Revenue Adjustor:	\$1,400,000	Recovery from Customers of \$1,400,000 due to lower retail sales.
Power Supply Adjustor:	-\$3,458,058	Return to customers
Net Adjustment:	-\$2,058,058	Return to customers
Forecasted Retail Sales in Collection Quarter (kWh)	1,050,000,000	
Power Cost and Sales True-Up (\$/kWh)	(0.00196)	A bill reduction of about 0.2 cents/kWh during the collection quarter

Source:
Exhibit GMP-DCS-1

PERFORMANCE METRICS

- ▶ Plan proposes a small incentive for meeting stretch customer service and reliability metrics to support and encourage an outstanding customer experience
 - ▶ Continues current SQRP requirements for the three year period because SQRP was updated and made more aggressive one year post-GMP/CVPS merger (2014)
- ▶ Plan introduces a set of shadow performance measures for the three-year period on innovation
 - ▶ Proposing a progressive set of performance metrics related to customer, carbon, and innovation that encourage progress toward energy delivery transformation
 - ▶ GMP proposes these be tracked & measured over plan term, but not compensated
 - ▶ This will help establish a baseline should these measures be included in future regulation plans

EXOGENOUS CHANGE ADJUSTOR

Exogenous Non-Storm Changes

- ▶ No definitional changes from current plan
- ▶ Clarifies \$1.2 million is a threshold, not a deductible

Exogenous Storm Changes

- ▶ No definitional changes from current plan
- ▶ One-time annual \$1.2 million deductible is fixed over the term of the MYRP

Proposed Recovery Return

- ▶ Improve predictability and consistency of exogenous change cost recovery (major storms) by collecting \$8 million annually from customers during the term of the MYRP through a separate bill line item on a surcharge percentage basis
- ▶ This will also cover the cost of major storms incurred prior to the inception of the MYRP and approved for recovery by the Commission but not yet collected from customers (currently estimated at more than \$12M)
- ▶ Allows exogenous changes that benefit customers (i.e. tax reform) to be returned separately through a line-item credit on the customer bill
- ▶ Allows for adjustments if there are significant over or under collections of exogenous change costs
- ▶ Collection method would help alleviate liquidity issues created by the accumulated unrecovered storm costs and provide more timely recovery of future storm costs and alleviate future liquidity pressures due to single, extremely large storm events
- ▶ Exogenous Change regulatory account will accrue interest income/expense

EARNINGS SHARING ADJUSTMENT

- ▶ GMP does not expect the ESAM to create significant cost or benefit during the plan term
- ▶ GMP would file financial results annually, 60 days after end of FY. ESAM adjustment will be a separate line item on the customer's bill
- ▶ GMP has proposed deadband of 50 bp+/- from allowed ROE, with 50 bps +/- 50/50 sharing band beyond that
- ▶ Actual earnings will be calculated on a regulatory basis (i.e. exclude disallowed costs and the results of unregulated operations). Actual earnings will include the actual earnings impacts of the Power and Exogenous Change Adjustments, and actual expenses of "fixed" items like capital, but will treat merger-related adjustments like now (include Base O&M, not actual, and include customer synergy offset)
- ▶ Low Income support: GMP proposes to contribute to it Power Partners Program 5% of any excess of earned utility net income above allowed utility net income

ROE PROPOSAL

- ▶ Index FY2020 from Rate Period 2019 proposed 9.3 ROE (same as proposed for '19 rate period & among lowest for all vertically integrated utilities in US). ROE will be updated in FY21 & FY22 using same index methodology.
- ▶ Index will be formula based, using mix of gov't and utility bonds, which has backward-looking and forward-forecast components. More balance than just 10-year T-bill measure.
- ▶ Similar to methodology used in other jurisdictions.

QUESTIONS?



MULTI-YEAR REGULATION PLAN MAJOR ELEMENTS

Category	Element	Summary
Infrastructure Costs	Capital Expenditures	Detailed project by project based on known and measurable standard for RY19 in rate case; then for Plan period FY20-22, fixed amount, category by category (i.e., Gen, T&D, IT, fleet, facilities, new initiatives), with limited exceptions. Locked in ~\$85 million/year spending for each year of regulation plan, with limited exceptions, and total Closed to Plant during Plan term of \$256.5.
	Depreciation	1) Set up front, based upon forecasted cost by rate year through 2022 due to set capital spend by year. 2) Adjusted for adoption of new depreciation study to be applied starting FY2021. Locked in \$/year, adjusted only for depreciation study in FY21 and FY22.
	Property Taxes	Set based upon forecasted cost by rate year through 2022, based upon set capital spend by year and inflation expectations. Locked in \$/year.
Power Supply, Transmission, Revenue	Energy, Capacity, RECs, Ancillary Services, Transmission Generation O&M Costs & Revenue	Forecasted annually through FY2022, as filed no later than 3 months prior to start of rate year (i.e., no later than July 1 for Oct. 1 start). Adjustors used to true up power costs and retail revenue. See below.
Financing Costs	Debt	Detailed known and measurable costs for RY19. Forecasted annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year.
	Equity	Set number based on witness testimony/evidence from 2019 rate case, adjusted by indexing annually 2020-22 and modest performance-based ROE adjustments, if achieved. Proposed 50/50 debt/equity ratio for life of plan, +/-1%.

MULTI-YEAR REGULATION PLAN MAJOR ELEMENTS

Category	Element	Summary
Other Costs	O&M	O&M Platform adjusted for inflation through 2022, period of merger platform. Off platform O&M items subject to reforecast yearly for inflation and payroll changes, as filed no later than 3 months prior to start of rate year.
	Taxes: Federal, State, & Other non-Prop Taxes	Detailed known and measurable costs for RY19. Forecasted annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year.
	Equity in Affiliates	Detailed known and measurable costs for RY19. Investments and earnings forecasted annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year. Any investments in new affiliates subject to PUC approval.
	Other Items	Detailed known and measurable costs for RY19. Forecasted or calculated annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year.
Refresh & Adjustors	Revenue & Power Supply Adjustor (PSA)	Plan proposes a new retail revenue adjustor for decoupling and an improved power supply adjustor that better aligns GMP incentives to control power costs with customer incentives to reduce energy spending. Quarterly true-up proposed.
	Exogenous (including Storm) Adjustor	Plan proposes new ongoing \$8M/yr collection of exogenous costs booked to regulatory account to cover accumulated costs in current regulation plan and allow greater certainty and reduced volatility from Major Storm recovery. Same thresholds/storm deductible.
	Earnings Adjustor Sharing Mechanism (ESAM)	Plan proposes a new, modest ESAM with 50+/- dead band and symmetrical sharing 50/50 of over -or under-earning outside dead band through next 50 +/- bps, with 100% customer return/collection beyond sharing band. Other provisions of Plan will limit need for ESAM, but it is a backstop.

MULTI-YEAR REGULATION PLAN MAJOR ELEMENTS

Category	Element	Summary
Other	Innovative Pilot	Plan continues strong current program.
	Innovation & Performance Metrics	Plan incorporates Service Quality and Reliability Plan, proposes small ROE adjustments for superior performance on customer service stretch goals, and includes Innovation metrics for measurement.
	Cloud capital expenses New Initiatives cap ex	GMP suggests cloud-based projects should be treated as capital cost, not expense, per evolving business model as recommended by NARUC. Plan also proposes greater spending flexibility for new initiatives that are positive for customers.
	Opener for Unforeseen Strategic Cap Ex	Plan proposes provision to allow request recovery of unforeseen but important capital projects for customers (i.e., strategic hydro acquisition).
	Ability to seek rate case—exit clause	Plan allows GMP or Department to suspend plan and go to traditional case if costs become materially disconnected from what is in rates.

... GMP looks forward to feedback and improving upon its proposal through this process