

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Case No. 18-1633-PET

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

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

February 4, 2019

Summary of Testimony

Eddie Ryan responds to the recommended changes of the Department of Public Service (the “Department” or “DPS”) to Green Mountain Power’s (“GMP”) proposed Multi-Year Regulation Plan (“MYRP” or the “Plan”). Mr. Ryan explains GMP’s concerns with the Department’s proposal to use a comprehensive formula-based indexing method to set annual rate adjustments, and describes why this approach is not in customers’ best interests nor appropriate at this time given GMP’s existing regulatory requirements. Mr. Ryan also explains GMP’s proposed changes to the Plan meant to address DPS’s stated goals. Specifically, GMP proposes to lock non-power costs at the start of the Plan term and to use a rate smoothing adjustor to address DPS’s request for a more certain, stable rate path. He outlines how these changes, along with the other features included in the Plan design, result in a simpler and more transparent Plan that appropriately balances risks while incentivizing innovation and efficiency to benefit customers.

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- Attachment 2 (Rev.)	Innovative Pilots
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- Attachment 4	Component A and B Power Supply Costs
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Introduction

1 **Q1. Please state your name, address, and occupation.**

2 A1. My name is Edmund F. Ryan, and I am employed by Green Mountain Power as
3 Controller.

4 **Q2. Have you previously submitted testimony in this proceeding?**

5 A2. Yes, I provided prefiled direct testimony in this proceeding dated June 4, 2018 and
6 supplemental prefiled direct testimony on October 9, 2018.

7 **Q3. What is the purpose of your testimony today?**

8 A3. The purpose of my testimony is to respond to issues raised by the Department regarding
9 GMP's proposed Plan.

10 **Q4. Please summarize your position on the Department's testimony regarding the Plan.**

11 A4. There are many areas of agreement between GMP and the Department, as well as shared
12 goals underlying GMP's and the Department's testimony regarding the Plan. I discuss
13 those below, and then respond to Mr. Allen's recommendations for changes to GMP's
14 proposed Plan, including his recommendation to use a set formula with a productivity
15 factor for all non-power cost base rate adjustments and his proposed changes to the
16 earnings sharing adjustor mechanism ("ESAM"). In my opinion, Mr. Riley's proposals

1 do not fulfill the goals of simplicity, transparency, and stability that he seeks, and are not
2 appropriate for GMP during the proposed three-year term.

3 GMP agrees with the Department's goals and wants to improve the Plan to meet
4 them. Below I offer proposed changes to the Plan to make it easier to implement and
5 understand and to create greater rate stability for customers. Specifically, in addition to
6 the features previously described, GMP proposes to lock all of our non-power costs up
7 front based on a three-year forecast, and to use a rate smoothing adjustor to decrease
8 variability in rates over the term of the Plan.

9 I also describe other changes GMP proposes, all related to the accelerating
10 impacts of climate change that have created an even greater sense of urgency now
11 compared to when we filed the Plan last June. These include:

- 12 • Changes to the exogenous storm adjustor that are necessary to collect already
13 incurred storm costs, which have increased substantially since the Plan was first
14 filed.
- 15 • A new adjustor during the term of the Plan to proactively address the newly
16 discovered Emerald Ash Borer infestation in Vermont, which threatens to have
17 significant impacts statewide, including on the reliability and safety for our line
18 crews in our service territory if not properly and promptly mitigated.
- 19 • A new provision to allow GMP to submit a thorough Climate Resiliency Plan for
20 Public Utility Commission ("PUC" or the "Commission") review and approval
21 during the term of the Plan.

1 **Q5. How is your testimony organized?**

2 A5. In Section I of my testimony, I provide a summary of the Department's proposed changes
3 to the Plan and explain GMP's general response to the Department's testimony,

4 identifying the areas of general agreement and the differences in the parties' proposals.

5 In Section II, I describe GMP's concerns with the DPS's proposal to use a formula-based
6 indexing method to set annual rate adjustments, and why this approach is not in our

7 customers' best interests or appropriate at this time given GMP's existing regulatory

8 requirements. In Section III, I outline the changes GMP is proposing to make to the Plan

9 to address the Department's comments and explain how those changes meet the overall
10 goals of the Plan, providing a more transparent and simplified process for customers

11 compared to the mechanisms proposed by the Department. I also describe some of the

12 new information that has become available since GMP filed its proposed Plan in June of

13 2018, which we believe should be addressed through limited changes to some

14 components of the Plan.

I. Summary of Parties' Positions

15 **Q6. Can you please start by summarizing the areas of consensus between GMP and the**
16 **Department's proposals?**

17 A6. Yes. As noted in Mary Powell's testimony, the Department's testimony reflects a general
18 agreement on the overarching goals of the Plan, and expresses support for many major

19 components of the Plan, which we appreciate. That said, there are important differences

20 in some key areas. I summarize the major areas of agreement and also note the important

1 differences below. I also briefly note GMP’s proposed changes in each of these areas and
2 identify the GMP witnesses who address each issue in more detail:

3 1. Term of the Plan: The Department supports the three-year term of the Plan
4 commencing this summer for rates effective October 1, 2019, and agrees that the
5 Plan should be book-ended by traditional cost of service filings. This would mean
6 that GMP would expect to file a traditional cost of service rate case prior to Fiscal
7 Year 2023 (October 1, 2022).

8 2. Infrastructure costs & capital investments: The Department supports GMP’s
9 proposal to cap overall base capital investments during the three-year Plan, and
10 supports GMP’s proposal for the amount of base capital investment over the Plan
11 term. DPS also supports setting depreciation and property taxes at the beginning
12 of the Plan based upon forecasts of the capital investments, and agrees that the
13 Plan should include a mechanism for the PUC to approve unexpected, strategic
14 opportunities or specific innovative efforts that require additional capital beyond
15 the approved base investment.

16 3. Power Supply, Transmission & Revenue: DPS agrees with GMP that power
17 supply and transmission costs as well as GMP’s retail revenue should be
18 forecasted and updated annually. DPS also agrees with GMP’s proposal to fully
19 decouple sales from revenue, with quarterly true-ups in combination with the
20 Power Supply Adjustor (“PSA”), and the Department appreciates the
21 improvements proposed by GMP to the PSA. The Department does propose
22 changes in the PSA components and dead bands. Mr. Smith’s testimony

1 addresses these recommended changes, explaining that he does not agree with the
2 DPS's rationale for excluding certain costs from the PSA or imposing an
3 asymmetrical dead band.

- 4 4. Return on Equity ("ROE"): DPS and GMP generally agree that the ROE should
5 be adjusted annually based on changes in market conditions. DPS proposes a
6 slightly different methodology than GMP for calculating the annual adjustment,
7 based in part on concerns with the accessibility of some of the economic data on
8 which GMP's methodology relies. GMP proposed a method meant to be less
9 volatile, based on changes in the 10-year treasury note blended with changes in
10 corporate bond rates; DPS proposes to adjust by 50% of the change in the 10-year
11 treasury note as measured over a limited period of time. These different
12 methodologies are addressed further by Mr. Coyne, who explains why GMP's
13 proposed approach is less volatile, more predictable, and better calibrated to track
14 actual changes in utility capital costs. It is also in line with current best practices
15 in the industry. He also explains the change GMP proposes to make in its ROE
16 formula to address the Department's concern about access to corporate bond data.

- 17 5. Exogenous Storm Adjustor: DPS agrees that the storm adjustor should continue
18 and agrees with GMP's proposed structure. However, as a result of prior major
19 storms, including a significant storm that occurred in November 2018, GMP now
20 has approximately \$24M of incremental major storm costs, net of the \$1.2M
21 deductibles, awaiting future recovery from customers. GMP's original proposal
22 to collect \$8M per year for the term of the Plan therefore will no longer be

1 sufficient to cover both major storm costs—those incurred prior to the inception
2 of the Plan and those incurred during the term of the Plan as part of increased
3 impacts from climate change. As described in Section III below, GMP
4 recommends certain changes to the exogenous storm change adjustor, which
5 would use the \$8M collected per year for the term of the Plan to cover the cost of
6 major storms incurred prior to the inception of the Plan and then would collect
7 major storm costs that occur during the term of the Plan on a quarterly basis in the
8 second quarter after the storm occurs.

9 6. Earning Sharing Adjustment Mechanism (ESAM): DPS agrees that it is
10 appropriate to include an ESAM in the Plan, but proposes a slightly different
11 design based on asymmetrical bands. In light of the overall changes GMP is
12 proposing in this rebuttal testimony, we believe maintaining a symmetrical
13 sharing band in the ESAM is important. As I explain further below, the approach
14 advocated by the Department would expose GMP to unreasonably large potential
15 swings in net income, which could adversely impact GMP's credit rating, and
16 therefore increase costs for customers. Mr. Coyne also speaks to this risk in his
17 testimony.

18 7. Innovative Pilot Program: DPS supports GMP's proposal to continue the
19 innovative pilot program included in GMP's current regulation plan, but proposes
20 some structural changes to the pilot program, including a requirement to seek
21 specific PUC approval for individual pilot programs over \$5M, and seeks a
22 mechanism for creating pilot programs that provide comparable benefits to third-

1 party energy service providers. Mr. Castonguay addresses these
2 recommendations in his testimony, noting that GMP generally accepts the
3 Department's proposals with some clarifications.

- 4 8. Performance Incentive Metrics: The Department and GMP agree that the Plan
5 should track and report GMP's performance in certain key categories. GMP
6 proposed several categories, and recommended specific incentives for meeting
7 some of these performance incentive metrics. The Department proposes to add
8 other categories, and recommends that for purposes of this Plan, that the metrics
9 be tracked only, with no incentive or penalties for specific performance under
10 each metric. As described further in Mr. Otley's testimony, GMP is open to
11 adding other metrics and agrees that, for purposes of this Plan, these metrics
12 should be tracked and not be tied to specific incentives at this time.

13 **Q7. Can you summarize the major areas of disagreement between GMP's proposed**
14 **Plan and the Department's testimony, and explain how GMP plans to address those**
15 **concerns?**

- 16 A7. Yes. While DPS supports many aspects of the Plan, we have significant concerns with
17 some of the Department's proposed changes.

18 The most fundamental difference between the parties' proposals is the
19 Department's recommendation to set all categories of GMP's non-power costs over the
20 term of the Plan based on an overarching, comprehensive inflation minus a productivity
21 factor formula (usually referred to as an "I-X formula"). DPS states that it has proposed
22 this change because it seeks simplicity and transparency in the Plan—goals GMP shares,

1 but we have concerns that the implementation of these ideas is quite complex and will
2 lead to an outcome that is neither simple to implement nor transparent for customers.

3 As discussed further below, setting the proper productivity factor is a complex
4 process which takes significant time to analyze and justify, and even then often results in
5 arbitrarily established standards for assumed efficiency savings. DPS's proposal also
6 leaves significant uncertainty about the mechanics for implementation, including how the
7 "bottom up" adjustments to the productivity factor would be determined either at the
8 beginning of the Plan or on an annual basis. The Department also proposes to apply the
9 I-X formula to all non-power costs, including capital (already subject to locked three-year
10 investments as described) and the O&M Platform (already subject to the methodologies
11 and guarantees in the Docket 7770 Merger Order for the term of the Plan). This approach
12 is inconsistent with the requirements established in Docket 7770, further increases the
13 complexity of DPS's approach, and may result in an under-return of actual merger
14 savings to customers. In addition, as explained further by Mr. Coyne, the Department's
15 blanket formula methodology is out of step with the modern regulatory trend toward a
16 hybrid "building block" approach for regulatory plans, like that proposed by GMP.
17 These hybrid approaches are more appropriate in periods of flat or declining load growth
18 and ultimately are better positioned to encourage innovation in specific areas of utility
19 performance during times of significant market transformation. Overall, we are
20 concerned that the Department's formula will not result in just or reasonable rates and
21 will lead to a significant under-recovery of costs which could impact GMP's credit rating
22 and ultimately increase borrowing costs and harm customers.

1 **Q8. Are there other approaches to address DPS's stated goals that you believe would be**
2 **more appropriate? If so, can you explain how GMP proposes to incorporate those**
3 **changes into the Plan?**

4 A8. Yes. Although we don't agree with the Department's specific proposal for a formula rate
5 plan, we appreciate the issues the Department has raised, and we agree that the Plan
6 should set rates in a way that is as simple, transparent, and stable as possible. We also
7 agree that the Plan should be designed to encourage continued superior performance and
8 cost efficiency while maintaining GMP's ability to accelerate innovative work to cut
9 carbon and drive down future costs for customers. With all of that in mind, there are
10 several changes that we believe will streamline the design of the Plan and help address
11 the issues raised by the Department, without creating the uncertainty and challenges
12 presented by the Department's blanket I-X formula approach.

13 **Locked Non-Power Costs.** First, rather than rely on annual forecasts of non-
14 power costs updated each year, as GMP original proposed, GMP will lock all of its non-
15 power costs based on a three-year forecast reviewed and utilized at the beginning of the
16 Plan, and then will manage its costs to this locked forecast over the term of the Plan.
17 This approach, coupled with the capped investment in capital as previously described,
18 will provide certainty for customers on all costs that are largely within GMP's control. It
19 will also eliminate the need for annual filings of non-power cost forecasts, the risk of rate
20 swings caused by annual variances in these categories of costs, and the time spent to
21 review those filings. While this places greater risk on GMP, it also avoids the complexity
22 associated with initially establishing, and potentially adjusting through the Department's

1 “bottom up” review, the I-X productivity factor annually based on variation in non-power
2 costs over the term of the Plan, as proposed by the Department.

3 Under GMP’s revised proposal, once non-power costs have been locked, the only
4 annual changes that will occur will be in the areas of costs the Department agrees should
5 be adjusted annually. These would be limited to a) power supply costs and revenue
6 forecasts, b) any changes in return on equity based on overall market condition changes,
7 along with associated income tax changes related to the change in return on equity, and c)
8 the derivative impact the overall annual change in the revenue requirement has on Gross
9 Revenue and Fuel Gross Receipts taxes. Any other changes would have to be
10 specifically authorized by the Commission under the Plan. We believe this vastly
11 simplifies the Plan and its implementation over the three years, providing more certainty
12 for customers, an appropriate balance of risks and rewards between GMP and customers,
13 and strengthening the incentives for GMP to further manage its costs. A copy of the
14 Revised Plan is attached as *Exhibit GMP-ER-1 (Rev)*.¹

15 **Rate Smoothing.** Second, in conjunction with locking non-power costs, GMP
16 proposes to apply a rate-smoothing adjustor to minimize variations in forecasted costs
17 over the three-year Plan. The Department expressed interest in a smoother, more

¹ *Exhibit GMP-ER-1 (Rev.)* is a clean version of the Revised Plan, with all of our proposed changes incorporated. I have also attached a redline version of the Plan, showing changes from the original proposal as *Exhibit GMP-ER-2*. For the sake of completeness, *Exhibit GMP-ER-1 (Rev.)* contains a version of all of the Attachments to the original Plan, including the Attachments that remain unchanged from the original Plan (Attachments 4, 5, & 6) and Attachments that have been revised, and are described by other witnesses, or later in my testimony. These updated Attachments include Attachment 1, 2, 3, 7, and a new Attachment 8 (timeline for filings). With respect to the categories of non-power costs that will be forecasted and locked discussed in this section of my testimony, Attachment 1 of *Exhibit GMP-ER-1* has been updated to show how the various elements of the cost of service will be treated under the Revised Plan.

1 predictable rate path, even though the actual application of its blanket I-X formula as
2 proposed may not achieve that. We agree that rate stability is an important goal. We
3 propose to accomplish that by providing for review a forecast of all costs and revenues at
4 the start of the Plan and developing a projected average rate path target based on that
5 forecasted revenue requirement over three years. Once established, this projected rate
6 path would set the actual rate for Year 1 of the Plan. Then, because non-power costs are
7 locked for the life of the Plan, in Year 2 and 3 rates would only be adjusted from the
8 projected rate path to account for the items in the plan that are variable from year to year
9 (power costs, revenue, and the non-power cost changes discussed above). We will utilize
10 a regulatory asset or liability account to shift and smooth the variability in rates year to
11 year, as further described in the Revised Plan.

12 Together, locking non-power costs and applying a rate smoothing adjustor will
13 help reduce the variability of rate changes over the term of the Plan, and will allow GMP
14 to clearly communicate the source of any year-over-year changes that may occur in Year
15 2 or 3, based on the adjustable components of the Plan.

16 **Q9. Why do you believe the improvements GMP proposes will better meet the**
17 **Department's stated goals than an overarching I-X formula?**

18 A9. There are several advantages of GMP's revised proposal compared to a formula I-X plan.
19 Locking non-power costs based on a single reviewed forecast and applying a rate
20 smoothing adjustor can be implemented in a simple manner at the beginning of the Plan.
21 No structural changes would be required during the term of the Plan, as likely would be
22 the case with adjustments from the "bottom up" review required by DPS's proposed

1 productivity factor. And, importantly, both mechanisms can be implemented consistent
2 with the guaranteed merger savings mechanisms GMP is already obligated to implement
3 during the term of the Plan. As I describe further below, it appears that DPS’s proposed
4 I-X formula approach double counts prior merger savings in setting the “X” and also
5 conflicts with the required method for calculating merger savings under the
6 Commission’s prior orders, presenting some risk that not all required merger savings will
7 be returned to customers. GMP’s proposal instead complements these requirements.
8 Under the merger order, GMP is already required to return 100% of any savings from its
9 O&M Platform to customers in the last two years of the Plan period, and 50% of such
10 savings in the first year. GMP will be responsible for managing all of its non-power
11 costs within a fixed limit, while continuing to return O&M Platform savings—whether
12 achieved because of the Plan or as a result of the merger itself—directly back to
13 customers. GMP’s proposed improvements also work seamlessly with the other
14 structural components of the Plan that are supported by the Department—including the
15 Power Supply Adjustor, Exogenous Change Adjustment, and the Earning Sharing
16 Adjustment Mechanism. We believe this design better fulfills the goal for a simple and
17 transparent plan compared to the proposal advanced by the Department, and meets the
18 statutory requirements for regulation planning in Vermont, benefitting our customers
19 over the life of the Plan.

20

II. Specific Response to Department's Proposed Formula Methodology

1 **Q10. Can you please summarize GMP's concerns with the Department's proposed**
2 **formula methodology?**

3 A10. The major concerns GMP has with the DPS's proposed formula methodology are:

4 1. The application of the formula is uncertain from the Department's testimony and
5 discovery responses, and would be complex and not transparent;

6 2. Applying the formula to Platform O&M costs and merger savings is both
7 unnecessary and at odds with the way the parties have fulfilled the Docket 7770
8 Order; and

9 3. The methodology the Department used to calculate the "X" component of the
10 formula is inappropriate and also results in the double counting of merger savings.

11 I address items 1 and 2 below and Mr. Coyne addresses item 3 in his testimony.

12 **Q11. You mentioned that implementation of the Department's formula would be complex**
13 **and may not be as transparent as suggested. Can you explain that concern further?**

14 A11. Basically, my concern is that the Department's blanket I-X formula plan proposes to
15 apply an inflation-based index to a number of costs that simply do not follow inflation.
16 Under the Department's Plan, the rate period non-power cost of service is calculated by
17 applying a fully indexed formula to all non-power costs included in the then-current base
18 rates (i.e. use annualized FY 2019 non-power costs to calculate the FY 2020 non-power
19 cost of service). These non-power costs consist of a wide variety of costs and revenues
20 such as O&M costs, depreciation expenses, regulatory amortizations, income, municipal
21 and other taxes, return on utility rate base, equity in earnings of affiliates, and other

1 operating revenues. The actual, real world year-over-year changes in many of these
2 items are variable, do not follow inflation, and are not subject to productivity
3 improvements. Therefore, without significant annual adjustments, the Department
4 formula would almost certainly diverge from GMP's actual costs over the term of the
5 Plan, which would not result in just and reasonable rates.

6 While the Department seems to acknowledge this concern by suggesting a
7 "bottom up" adjustment to the productivity factor in the formula, it is not clear how the
8 Department would expect GMP to actually implement such adjustments to address this;
9 some of its discovery responses indicate that an annual reset of the productivity factor
10 may be necessary, or that other variables/adjustments may be needed in particular years.
11 Identifying the other items that might go into this proposed "bottom up" adjustment will
12 not be simple or transparent and will take significant time to analyze and justify,
13 particularly if done annually, as noted above. Developing an annual review process for
14 re-calibrating the productivity factor or otherwise adjusting the application of the formula
15 is at odds with the Department's stated goal to create a simple, transparent, and stable
16 rate path from the Plan.

17 **Q12. How would the DPS proposal set base rates in the first year of the plan?**

18 A12. We are not quite sure, and this is another challenge with the complexity inherent in the
19 Department's proposal. Mr. Allen states on page 32 of his testimony that DPS, "want[s]
20 the best forecast and formulation of expected base-rate cost elements included at the
21 onset of the plan," but does not clarify on how this information would be incorporated
22 into initial base rates. This is an important issue as there are significant one-time benefits

1 included in GMP’s 2019 non-power cost base rates associated with GMP’s JV Solar
2 Storage projects and sale of Transco’s investment in Utopus. The Commission
3 authorized the return of these one-time benefits to customers in 2019 because the
4 immediate return provided the greatest net present value to customers. While these
5 benefits offset existing costs in 2019 rates, once those benefits have been returned the
6 existing costs must still be covered and accounted for in the cost of service for 2020.
7 This requires an adjustment at the beginning of the Plan period.

8 It is not clear how the Department’s I-X formula would account for this change.
9 Despite Mr. Allen’s testimony that known costs should be incorporated into base rates at
10 the on-set of the Plan, the Department’s red-line edits to the Plan (*see Exhibit PSD-JRA-*
11 *I*) seems to suggest that the I-X formula will be applied to the annualized 2019 cost of
12 service and then used to calculate the 2020 non-power cost of service, without any
13 adjustments for one-time items included in the 2019 annualized cost of service. In
14 discovery, the Department acknowledged that the expiration of these one-time benefits
15 must be covered in the 2020 cost of service but again did not explain specifically how it
16 would account for these types of changes, stating only that such changes “will inform the
17 refinement of the [attrition relief mechanism]”² The Department appears to propose
18 addressing these issues by applying “bottom up” adjustments to the productivity factor in
19 the formula, rather than making straightforward adjustments directly to the cost of
20 service. But the DPS proposal leaves limited time for formulation of the productivity

² PSD Responses to GMP’s First Set of Discovery, response to Q.GMP.1-12, attached as *Exhibit GMP-ER-3*.

1 factor in its “implementation phase,” and there is no indication of how this bottom up
2 adjustment will incorporate these or other important cost of service changes between the
3 2019 and FY20 periods. This adjustment is handled more simply in GMP’s proposal by
4 incorporating known and measurable changes directly into the FY20 base rate as part of
5 the three-year forecast to set non-power costs at the start of the Plan.

6 **Q13. Can you explain further your concerns with applying a comprehensive I-X formula**
7 **within the context of GMP’s merger savings obligations under Docket 7770?**

8 A13. Yes. Under the June 15, 2012 Final Order in Docket 7770, GMP is required to return
9 50% of all merger savings to customers in FY20, the first year of the proposed MYRP,
10 and 100% of all savings to customers in FY21 and FY22, the last two years of the Plan.³
11 The order also specifies the Platform O&M costs included in rates changes each year by
12 the change in the Consumer Price Index.⁴ New England inflation factor and synergy
13 savings are calculated by comparing the Platform O&M costs included in rates to the
14 actual Platform O&M costs incurred in the rate period. The DPS proposal applies an
15 indexed formula to the Platform O&M costs which the DPS contends will result in the
16 appropriate level of Docket 7770 merger savings being returned to customers and
17 suggests that the productivity factor can be used to capture Platform O&M efficiency
18 savings/productivity gains beyond the Docket 7770 Platform O&M merger savings.

³ Final Order of 6/15/2012 at p.52 (Docket No. 7770). ePUC Document No. 61848/16204.

⁴ *Id.* at Finding #206.

1 This approach is problematic for two reasons. First, in order to comply with the
2 Docket 7770 order, GMP would need to separately track merger savings from these other
3 potential—but unspecified—productivity gains. The DPS plan does not indicate what
4 specific types of additional productivity savings beyond the required merger savings can
5 be achieved, and also does not provide guidance on how to separately track these items
6 from the merger savings GMP is already obligated to return to customers. In our view, it
7 is not feasible to functionally separate these different categories of potential savings, as
8 the merger savings and the other potential efficiency saving/productivity gains would be
9 captured within the same series of FERC accounts. The Department acknowledged this
10 in discovery, stating that “[i]t seems unlikely that GMP will be able to readily distinguish
11 savings attributable to the merger from savings relative to the multi-year rate plan.”⁵ But
12 the Department did not provide any specific mechanism for addressing this fundamental
13 problem. Ultimately, this could result in GMP either under- or over-returning merger
14 savings to customers or not being able to determine what the actual level of synergy
15 savings are, all of which would be inconsistent with the Docket 7770 Final Order.

16 Second, as discussed further by Mr. Coyne, the productivity factor the
17 Department includes in its I-X formula relies on historical data as the benchmark for the
18 anticipated savings, but that data set includes merger savings already achieved by GMP.
19 This results in merger savings being incorporated into the Department’s proposed
20 efficiency savings/productivity gains which results in a double counting of the merger

⁵ PSD Responses to GMP’s First Set of Discovery, response to Q.GMP.1-9, attached as *Exhibit GMP-ER-4*.

1 savings, essentially penalizing GMP for the substantial efficiencies it has already
2 achieved, and the value it has already returned to customers.

3 **Q14. Do you have other specific concerns with respect to the Department's proposal to**
4 **incorporate merger savings into its formula?**

5 A14. Yes. It appears that the Department is proposing to take into account the anticipated
6 future merger savings when setting the appropriate productivity factor under the proposed
7 Plan, simply locking that assumed savings into rates rather than forecasting anticipated
8 savings and then truing those forecasts up with actual savings each year, as has been done
9 to date. For example, on pages 30–32 of Mr. Allen's testimony, he suggests that the
10 savings GMP currently anticipates under the remainder of the 10-year merger savings
11 guarantee represent 0.2% of the 0.86% productivity factor proposed by the Department.
12 He builds this factor in, without a mechanism for adjusting amounts to reflect the actual
13 savings achieved (greater or lesser) under the merger savings agreement in any specific
14 year. This does not appear consistent with the PUC order in Docket 7770, which requires
15 a 50/50 split of actual savings in FY20, and a return of 100% of actual savings to
16 customers in FY21 and FY22⁶. If GMP achieves greater than presently anticipated
17 merger savings, those amounts would not be returned to customers under the
18 Department's proposals, or vice versa if GMP does not achieve the anticipated savings
19 (even if, as we expect, we surpass the original \$144M guaranteed 10-year savings). This
20 is complicated by the measurement/tracking challenges described above, which are

⁶ Final Order of 6/15/2012 at p.52 (Docket No. 7770). ePUC Document No. 61848/16204.

1 created by layering-on a required level of productivity savings as part of the
2 Department's proposal, which are different than the merger savings but cannot easily be
3 identified or separately tracked.

4 GMP proposes to continue the merger savings report that has been used over the
5 life of the 10-year merger savings guarantee to measure savings and ensure these
6 promised benefits continue to flow to customers. In conjunction with our proposal to
7 lock all non-power costs, the merger savings report would track all differences between
8 forecasted merger savings included rates and actual merger savings, and would return any
9 net variances through the Merger Savings Adjustor either at the end of the Plan or as
10 ordered by the Commission during the Plan. One advantage of a three-year Plan term
11 followed by a traditional rate case is that the end of the 10-year guarantee will coincide
12 with the end of the Plan. The Department's blanket I-X formula approach possibly may
13 make sense after the merger savings platform is completed, but implementing it now
14 would only add complexity, reduce transparency, and created more uncertainty for GMP
15 and its customers.

16 **Q15. Why should the Commission be concerned with adopting in this Plan a blanket I-X**
17 **formula for GMP's base rates?**

18 A15. Under 30 V.S.A. § 218d, while a regulation plan may alter the application of traditional
19 cost of service review, it must do so in a way that still results in just and reasonable rates.
20 Given the complexities and uncertainties discussed above, it is not clear that the
21 Department's proposal will ultimately meet this basic standard; rather there is a real risk
22 that the approach will not allow GMP to cover its basic operating costs.

1 I am also concerned that the Department’s I-X plan represents a step backward in
2 regulatory planning in Vermont. It relies primarily on a formulaic rate setting which is
3 similar to—but even broader than—the limited cost cap formulas that were imposed in
4 some prior regulation plans in Vermont, such as CVPS’s last regulation plan (from 2009–
5 2012) and GMP’s own prior plans. History has shown that there were challenges
6 implementing some portions of these plans related to the formula. GMP’s former plan
7 contained a complex benchmarking methodology for adjusting the formula annually.
8 CVPS’s plan required multiple modifications during the first three years of the plan,
9 including modifying the formula and providing further carveouts and exceptions to the
10 formula. It is also worth noting that CVPS’s more stringent cost cap formula coincided
11 with a period of under-investment in its infrastructure, which ultimately did not serve
12 customers’ best interests in the long run. As GMP has previously noted, immediately
13 after the merger, in 2013, legacy CVPS circuits represented all 20 of the 20 worst circuits
14 in the combined PUC Rule 4.900 report filed that year. GMP has spent several years
15 making up for these under-investments to better serve customers. Our customers cannot
16 afford returning to a system that discourages long-term innovations and investments
17 simply to hit a formulaic short-term cap.

18 The Commission recently conducted a thorough review of the history of
19 regulation planning in Vermont, and provided some guiding principles for the future of
20 regulation planning, in Case No. 17-3142-PET. As part of that process, the Commission
21 expressed the view that future regulatory plans should not be tied unnecessarily to the
22 limited provisions of prior regulation plans, and that regulatory planners should be

1 “boundless in their creativity”⁷ when looking for new approaches to achieve the State’s
2 public service and energy goals. GMP has taken that direction to heart, looking for
3 responsible new mechanisms that allow the company to continue to deliver safe and
4 reliable service for our customers in an efficient and low-cost manner, while driving
5 forward with the type of innovative new services that are critical to meet our customers’
6 needs and our State’s bold energy goals. We believe the proposal GMP has outlined in
7 this rebuttal, locking non-power costs based on realistic forecasts of anticipated costs,
8 coupled with appropriate adjustors, best fulfills the statutory requirements, the
9 Department’s stated goals, and the Commission’s direction for innovation while avoiding
10 the pitfalls of formulaic rate setting.

III. GMP’s Proposed Changes to the Plan

11 **Q16. You summarized earlier several changes, other than locked non-power costs and**
12 **smoothing, that GMP is proposing to the Plan. Can you identify these other**
13 **changes?**

14 A16. Yes. As noted above, based on our consideration of the comments offered by the parties
15 in this proceeding, as well as some changed circumstances since the time we filed the
16 Plan in June of 2018, GMP is proposing a handful of changes we believe improve the
17 overall design of the Plan, without raising the same challenges presented by the
18 Department’s recommended methodology. I discussed the two primary changes to our

⁷ Order Re Vermont Utility Regulatory Structure: Challenges and Opportunities of 7/23/2018 at 8. ePUC Document No. 283180/86887.

1 proposal above—locking non-power costs and applying a rate smoothing adjustor. The
2 other changes include:

- 3 1. Changes to the Major Storm component of the Exogenous Change Adjustor;
- 4 2. Addition of an Emerald Ash Borer Adjustor (“EAB”);
- 5 3. Provision for GMP to file a Climate Resiliency Plan (“CRP”) for PUC review and
6 approval during the term of the MYRP;
- 7 4. Revised Performance Metrics (“PMs”) and related consolidation of annual
8 reporting requirements, including proposed bi-annual public meetings; and a
9 5. Revised Innovative Pilot to accept the Department’s recommendation that GMP
10 seek PUC approval for any innovative pilot that would result in more than \$5M in
11 capital rate base additions.

12 I address the Major Storm component, the EAB adjustor, and the CRP proposal below,
13 and also explain why, in light of changes in our Plan, the Department’s proposed changes
14 in the ESAM are not necessary or appropriate. Mr. Otley addresses our recommended
15 changes in Performance Metrics and updated annual reporting requirements, and Mr.
16 Castonguay addresses the proposed revisions to the Innovative Pilot program.

17 **Q17. Can you explain the changes GMP is proposing to the collection of exogenous major**
18 **storm costs in detail?**

19 A17. Yes. GMP experienced a very significant major storm in November 2018 which caused
20 extensive damage throughout GMP’s entire service territory. GMP now has
21 approximately \$24M of incremental major storm costs, net of the \$1.2M deductibles—
22 about double the amount we had when we filed this Plan. GMP’s original Plan proposal

1 was to collect \$8M per year for the term of the Plan to cover the cost of major storms
2 already incurred prior to inception of the Plan, and hoped to also be able to cover those
3 storms that occurred during the term of the Plan with this collection. Given this recent
4 significant storm, it is clear that the \$8M we proposed will not be sufficient to accomplish
5 this goal.

6 To meet this new reality in a manner that helps dampen the impact of these
7 significant stacked collections for our customers, while also tying more closely the
8 experience of future storms with the recovery of costs, GMP is proposing to bifurcate the
9 recovery of storm costs. We still propose to collect \$8M a year for the term of the Plan,
10 but this will go exclusively towards the recovery of all major storm costs incurred prior to
11 the inception of the Plan. For major storms that may occur during the Plan period, GMP
12 proposes to move to a quarterly major storm adjuster to recover the incremental costs, net
13 of the \$1.2M annual fiscal year deductible, incurred during the term of the Plan. Major
14 storms that occur in a quarter would be reported 30 days after the end of the quarter; if
15 costs are approved, they would be recovered from customers, net of the annual \$1.2M
16 deductible if applicable, in the subsequent quarter. This will increase transparency by
17 eliminating the stacking of major storm costs that has occurred because reporting and
18 approval have significantly lagged the occurrence of the storms themselves, and will
19 result in a closer to real time collection period for customers. The proposed measurement
20 periods, filing dates, and collection/recovery periods are as follows:

21

Exogenous Major Storm	Quarterly Period	Filing Date	30 Day Review Period End Date	Start Customer Notice	Adjustor Collection Period	
	FY 2020 - 2022					
	Q1	Oct 1 -- Dec 31	Jan 30	Mar 1	Mar 2	Apr 1 -- Jun 30
	Q2	Jan 1 -- Mar 31	Apr 30	May 30	Jun 1	Jul 1 -- Sept 30
	Q3	Apr 1 -- Jun 30	Jul 30	Aug 30	Sep 1	Oct 1 -- Dec 31
1	Q4	Jul 1 -- Sept 30	Oct 30	Nov 30	Dec 1	Jan 1 -- Mar 31

2 **Q18. Why does GMP now propose to add a new adjustor for invasive species remediation**
 3 **related to the EAB?**

4 A18. The Emerald Ash Borer has now been detected in Vermont. GMP presently has two hot
 5 spots in its territory with active, significant infestation. Once infested by EAB, ash trees
 6 rapidly decline and are killed in three to five years. These are mature trees that will cause
 7 significant damage if allowed to decline, die, and fall without remediation. This is a
 8 rapidly damaging invasive species that will require targeted work to avoid harm to
 9 GMP’s T&D system. GMP has developed an EAB action plan, discussed with the
 10 Department and all the Vermont utilities. The current estimated cost of targeted 100%
 11 removal of ash trees from the utility corridors within current and confirmed high risk
 12 areas is approximately \$1.2M per year. Given the damage we have seen from falling
 13 trees during significant storms, we have no doubt—at all—that the most cost-effective
 14 solution to this unfortunate invasive species infestation is to remove these trees before
 15 they have a chance to fall and damage the infrastructure that serves our customers. The
 16 Plan as revised now includes an EAB adjustor to cover EAB remediation costs. Given
 17 that this is a targeted and time-limited exercise over and above routine tree maintenance,

1 we propose this as a separate line item on the customer bill. The Plan requires GMP to
2 report on its actual costs and adjust the assessment if required.

3 **Q19. Can you explain GMP's proposal to allow review and approval of a Climate**
4 **Resiliency Plan?**

5 A19. Yes. As explained in more detail in Mary Powell's testimony, GMP's transmission and
6 distribution system is experiencing more severe storms as a result of climate change, and
7 these impacts are expected to accelerate, resulting in increased costs for our customers.
8 To address this significant concern, we have included a provision in the Revised Plan that
9 would give us an opportunity to submit a thorough CRP which would outline GMP's plan
10 to accelerate storm hardening and other measures to mitigate these climate change
11 impacts on our transmission and distribution system. In the event that GMP proposes
12 such a plan during the term of the MYRP, it would be supported by analysis
13 demonstrating why the additional expenditures are necessary, appropriate, and in the best
14 interests of customers, and would be subject to Commission review and approval. We
15 believe this is a more responsible, transparent approach to this specific, directed
16 investment, rather than seeking approval to set an overall higher base capital investment
17 limit during the term of the Plan. Mary Powell's testimony describes further why we
18 believe a provision allowing us to file such a request is necessary.

19 **Q20. Is GMP proposing any changes to the Earning Sharing Mechanism?**

20 A20. No, GMP is not proposing any changes to the ESAM. We believe the approach we
21 originally outlined is appropriate, particularly in light of the additional changes we have

1 proposed in this rebuttal testimony, which increase the risk GMP carries for additional
2 locked costs. Overall, DPS and GMP agree there should be a 50-basis-point dead band
3 above the allowed ROE and an additional 50-basis-point sharing band above the dead
4 band. This will result in GMP's actual earned ROE never being greater than 75 basis
5 points above the allowed ROE during the term of the Plan. DPS and GMP disagree,
6 however, on what the dead band and sharing band should be below the allowed ROE.
7 GMP is proposing the ESAM be symmetric so the dead band below the allowed ROE
8 would be 50 basis points and the sharing band would be an additional 50 basis points
9 below the dead band. Under this approach GMP's actual earned ROE would never be
10 more than 75 basis points below its allowed ROE. The DPS is proposing the ESAM
11 should be asymmetrical and the dead band below the allowed ROE would be 100 basis
12 points below the allowed ROE and the sharing band would be an additional 100 basis
13 points below the dead band. Under this approach GMP's actual earned ROE would never
14 be more than 150 basis points below its allowed ROE.

15 GMP disagrees with the DPS ESAM lower bound proposal because it creates the
16 potential for significant variability in GMP's net income and cash flows which could
17 impact GMP's credit rating and thereby increase costs to customers. The lack of
18 geographic diversity, a relatively small customer base, the locking of the non-power costs
19 for the term of the Plan, the PSA and Revenue Adjustor dead bands, and the \$1.2M
20 annual exogenous storm deductible will all create variability in GMP's net income and
21 cash flows. The DPS's asymmetrical ESAM band will potentially allow too much of that
22 variability to flow through to GMP's net income and cash flows if operating results are

1 less than expected. I have created the following example which illustrates this variability
 2 that could flow through to GMP's net income and cash flows under the GMP and DPS
 3 ESAM proposals:

			Pro-forma ESAM Calculation	
Effective Income Tax Rate			27.715%	
Return on Equity:			9.3%	
Common Equity % of Capital Structure:			50.0%	
Rate Base:			1,588,302,000	
Net Income at Allowed ROE			\$ 73,856,043	
GMP Proposal		2020 - 2022 ROE Range		Maximum Exposure Net Income
50/50 Return to Customer Ceiling	10.050%	0.50%	\$	5,956,133
Deadband Ceiling	9.800%	0.50%	\$	3,970,755
Allowed ROE	9.300%			
Deadband Floor	8.800%	-0.50%	\$	(3,970,755)
50/50 Collection From Customer Floor	8.550%	-0.50%	\$	(5,956,133)
DPS Proposal		2020-2022 ROE Range Bands		Maximum Exposure Net Income
50/50 Return to Customer Ceiling	10.0500%	0.50%	\$	5,956,133
Deadband Ceiling	9.8000%	0.50%	\$	3,970,755
Allowed ROE	9.3000%	0.00%		
Deadband Floor	8.300%	-1.00%	\$	(7,941,510)
50/50 Collection From Customer Floor	7.800%	-1.00%	\$	(11,912,265)

4
 5 For this example, the expected net income (income at allowed ROE) is \$73.856M. Under
 6 GMP's proposed ESAM, GMP's actual net income will never be more than \$5.956M
 7 above or below the expected net income. Under the DPS ESAM proposal, GMP's actual
 8 net income will never be more than \$5.956M above the expected net income but could be
 9 as much as \$11.912M below the expected net income. Under the GMP ESAM proposal

1 GMP's actual net income would be within +/- 8.1% of the expected net income, a
2 significant but manageable variance. Under the DPS ESAM proposal GMP's actual net
3 income will be within +8.1% and -16.2% of the expected net income—twice the
4 potential downside, and at a level that will be both hard to manage and likely viewed as
5 unreasonable by the ratings agency when viewed in the context of the changes GMP is
6 not proposing to make to the Plan. We believe the potential variability in net income is
7 too great under the DPS proposal and the lower bound should be adjusted to reduce this
8 variability.

9 That is particularly true in light of the other changes GMP is now proposing to the
10 Plan, which more appropriately balances the risks and rewards between GMP and
11 customers. The symmetrical ESAM proposed by GMP strengthens the incentives for
12 GMP to further manage those costs that are largely under its control.

13 **Q21. Are there any other aspects of GMP's Revised Plan that you wish to note?**

14 A21. Yes. The Department requested that the initial base rate filing for FY20 be filed June 1,
15 2019 and requested that the Department have 60 days to review the filing. GMP does not
16 object to this proposal and we have reflected those dates in the Revised Plan. However, I
17 would note that the timing of the filing for FY20 will depend, in part, on when the PUC
18 issues its order on the proposed Plan, which would be no later than June 4, 2019 under
19 the one-year review requirement for regulation plans in 30 V.S.A. § 218d. To
20 accommodate this, the Revised Plan provides that GMP's initial base rate filing would be
21 filed by June 1, 2019 or two weeks after the PUC order, whichever is later. *See Exhibit-*
22 **GMP-ER-1(Rev.)** at Sec. III. We have also applied the June 1 filing date and 60-day

1 review period to FY21 and FY22. With respect to the schedule for filings under the Plan,
2 I would also note that we have also added a new Attachment 8 to the Plan, which
3 identifies relevant filing dates for all items under the Plan. We originally prepared this
4 document at the Commission's request after the workshop in this proceeding, and have
5 updated the document to reflect the Revised Plan and formally incorporated it into the
6 Plan. Attachment 8 contains two parts, the first showing filings for FY20, FY21, and
7 FY22 in timeline form, and the second showing filing deadlines and relevant review and
8 approval periods in a table format.

9 **Q22. Does that conclude your testimony today?**

10 A22. Yes, it does.