STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 18-1633-PET

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

PREFILED SURREBUTTAL TESTIMONY OF
J. RILEY ALLEN

ON BEHALF OF THE
DEPARTMENT OF PUBLIC SERVICE

MARCH 11, 2019

Summary: Mr. Allen responds to the Green Mountain Power Corporation's (GMP) rebuttal testimony. Mr. Allen outlines the Department's modified recommendations on GMP's proposed multi-year rate plan. In particular, Mr. Allen testifies that the Department no longer recommends that the multi-year rate plan include a formulaic index mechanism to establish a productivity offset. Mr. Allen also details the Department's support for GMP's proposed climate resiliency plan and mechanism for recovering previously incurred storm recovery costs. The Department, however, maintains its recommendation for an asymmetric earnings sharing adjustment mechanism (ESAM) and an asymmetric dead-band on GMP's proposed power adjustor. Finally, Mr. Allen recommends that the Commission deny, for now, GMP's request for a separate recovery mechanism for maintenance required for responding the presence of the Emerald Ash Borer in Vermont.

Surrebuttal Testimony
of
J. Riley Allen

Q1. Please state your name and occupation.

A1. My name is J. Riley Allen. I am the Deputy Commissioner for the Vermont Department of Public Service (Department).

Q2. Are you the same J. Riley Allen that testified during the direct phase of this investigation?

A2. Yes.

Q3. What is the purpose of your surrebuttal testimony?

A3. I address all portions of the proposed multi-year rate plan (Plan) that were discussed in the Green Mountain Power Corporation's (GMP) rebuttal testimony, except for areas of the Plan that relate to power supply and cost, which Ms. Maria Fischer and Mr. Edward McNamara discuss in their surrebuttal testimony on behalf of the Department. My testimony primarily responds to the rebuttal testimony of Mr. Edmund Ryan and Mr. James Coyne, but at the outset I also briefly address points raised by Mr. Joshua Castonguay and Mr. Brian Otley.

Q4. Please summarize your testimony

A4. In my direct testimony, I outlined the Department's policy goals and objectives with respect to GMP's proposed alternative regulation plan, which focus on ensuring that the

Plan results in just and reasonable rates and appropriately balances risks and rewards between GMP and its ratepayers. I raised concerns with some portions of GMP's then-existing approach to the Plan. I also provided discrete recommendations for modifying GMP's proposed Plan to conform to those overarching policy goals and objectives and establish reasonable incentives for GMP to manage its costs. In particular, on behalf of the Department, I recommended that the Plan be required to include asymmetrical earnings bands that flow through the power cost adjustor and the earning sharing adjustment mechanism (ESAM). The Department also raised concerns with the nature of the year-to-year updates called for under the Plan. Indeed, one of my primary concerns was that GMP's proposed Plan continued to rely on a "mini rate case" approach that plagued GMP's previous alternative regulation plans. My proposed revisions were intended to create a simplified and clear framework that reduced the Plan's reliance on forecasting updates and the corresponding compressed annual regulatory reviews.

As an approach to help address these objectives, the Department introduced the concept of an indexing formula approach to an alternative or multi-year rate plan that covered roughly 40% or 45% of GMP's cost-of-service. In its rebuttal testimony, GMP objected to this indexing approach, but it proposed some modifications to the Plan to address concerns that the Department raised in its direct testimony. The Department appreciates that GMP has been responsive to several of the Department's concerns, and I ultimately agree with much GMP's position regarding the indexing formula. After reviewing GMP's testimony and responses to discovery requests, I am persuaded that a broadly-framed index formula approach is not appropriate at this time. As I explain below, the Department still expects to pursue the approach in the future, but the merger savings framework coupled with GMP's modifications the proposed Plan adequately address the concerns that led to my recommendation for an indexed formula.

However, my testimony responds to various positions taken by Josh Castonguay, Brian Otley, Eddie Ryan, and William Coyne covering a range of topics related to the innovation pilot program, the performance indicators, further modifications from GMP to the Plan, and alternative approaches to the ESAM and the ROE adjuster. Also, the Department maintains its recommendation that the Plan include asymmetric earnings bands for the power adjustor and the ESAM.

Q5. Please start with GMP's proposal for innovative pilots under the Plan. Does the Department support continued development of GMP's innovative pilot program initiatives as described in Mr. Castonguay's testimony?

A5. Yes. Mr. Castonguay did a good job of characterizing the benefits of the innovative pilot program and opportunities for it the future. I agree with the characterization on page 18 of his rebuttal testimony of how an innovative service like Powerwall technology can evolve and extend to other value-added service providers. Among other things, a well-designed innovative services program can provide a relatively safe space for trialing services that promise benefits to non-participating ratepayers in the future. The Department also expects that GMP will use it to find innovative ways to reach retail customers and then third-party aggregators to further extend the potential for these service innovations. The Department believes that GMP is venturing into categories of services that inure to the benefit of all ratepayers. But these are areas that greatly overlap with services that are generally thought to be competitive services, which warrant continued regulatory scrutiny to ensure that GMP's monopoly position does not result in an unfair competitive advantage. Ratepayer value from GMP's innovative services can be extended much further through effective partnerships with a new class of providers that may have pre-established relationships with their customers, independent of their role as ratepayers of GMP.

Q6. On page 10 of Mr. Castonguay's testimony he refers to the need for further clarity around offerings to entities like third-party aggregators that might extend the value of GMP programs to more customers. How do you respond?

A6. I agree that more clarity is needed and welcome working with GMP and other interested parties to further develop the concept and any necessary regulatory changes.

Q7. Do you have any concerns with Mr. Castonguay's rebuttal testimony regarding GMP's innovative pilot projects?

A7. Yes. On pages 5–6 of his rebuttal testimony, Mr. Castonguay responds to the Department's recommendation that innovative pilot programs that exceed $5 million be subject to a regulatory approval prior to commencement. In response, Mr. Castonguay recommends that GMP either: (1) be permitted to spend up to $5 million on a single project without Commission approval (and subsequently seek approval for costs of a project that exceed $5 million), or (2) treat the program as a below the line expense. I do not agree with Mr. Castonguay's approach to projects that exceed $5 million. While the Department supports GMP's approach to innovation and recognizes the need for GMP to act nimbly, significant capital investments into new and potentially speculative technologies should be subject to regulatory review and approval before ratepayers are expected to shoulder the risk of the investment. I agree that GMP should act quickly to develop new technologies, but a decision to invest $5 million of ratepayer money into a new technology should be deliberate and entail robust financial analysis. It should not be an overnight decision, and any delay associated with a regulatory review would be minimal. Moreover, conducting a regulatory review after the pilot has proceeded through significant buildout wholly forecloses the possibility for the Commission to make any appropriate safeguards, limitations, or modifications to the pilot that would best protect ratepayer interests and promote state energy policy. Accordingly, the Department maintains its recommendation that innovative pilot projects that exceed $5 million be subject to regulatory approval from the Commission prior to commencement.

For innovative pilot projects that GMP treats as below the line, the Department recommends that GMP provide notice to the Department and the Commission that it intends to do so to avoid later confusion in subsequent proceedings. In the notice, GMP should clearly indicate its plans for the above and below the line treatment of revenues and costs to ensure fair treatment for ratepayers (participants and non-participants) and GMP shareholders.

Q8. On page 11 of his rebuttal testimony, Mr. Castonguay "cautions" that GMP would want to ensure that programs that involve commercially available products or services offered by third-parties provide a similar level of benefit for GMP's non-participating customers. How do you respond?

A8. I agree with Mr. Castonguay at a high level that the introduction of third-party commercially available products and services is fundamentally about system and ratepayer benefits. If Mr. Castonguay's statement is meant to allow offerings to third-parties that do not necessarily yield the same ratepayer benefit to each participating customer as the offerings from GMP, but that still leverage and extend the size of the market for ultimately greater system and participating customer benefit, then I agree. There may be small differences at a granular level, but there seems to be a welcome alignment of objectives at a high level. The Department expects new commercial providers and third-party aggregators to help extend the reach of GMP services and customer flexibility for system benefit. In the process, the Department hopes to see GMP foster new businesses and business models, but our primary focus is on the system and creating value for both participating and non-participating customers.

Q9. Do you have any comments or responses to Mr. Brian Otley's rebuttal testimony?

A9. Yes. I have several. First, Mr. Otley raised the prospect of additional capital expenditures in relation to a Climate Resiliency Plan (CRP) to address the challenges to GMP's transmission and distribution systems owning to climate-change-driven storms.

The Department supports the development of a CRP during the term of the Plan. The CRP, however, must be limited to network resiliency upgrades and expenditures would not be implemented "but for" the adoption of the CRP. In other words, the Department would expect that GMP would be able to clearly segregate spending associated with the CRP from capital spending that it would otherwise incur in the ordinary course of business of maintain its network. GMP should also be expected to demonstrate that the technologies and upgrades presented as part of the CRP are cost-effective and are expected to ultimately yield net ratepayer benefits.

The Department is sensitive to the need to find ways to strengthen GMP's system and wants to encourage sound and cost-effective investments that further ratepayer objectives for strengthening system reliability and the resilience of electricity service to end-users. If GMP has a plan for improving resilience in a way that benefits the system, and involves implementing measures that would not otherwise not be taken in the absence of a CRP, then the Department would not want to foreclose consideration of such investments during the term of the Plan. The Department would, however, need to fully understand the merits, the rate implications, and any accounting concerns if such a CRC is presented to the Commission during the term of the Plan.

Q10. Do you have comments or responses to Mr. Otley's comments on performance metrics?

A10. Yes. I appreciate GMP's efforts to address the Department's preliminary list of metrics. GMP's response was heartening. Many of the performance metrics suggested by the Department in its direct testimony are not proposed to be included in the Plan as tracking metrics. While I agree with Mr. Otley on many of the modified metric recommendations, below I outline several recommendations either: (1) not included in Mr. Otley's Exhibit GMP-BO-4 (Rev) that the Department still believes should be tracked during the Plan, or (2) metrics included in Exhibit GMP-BO-4 (rev) that the Department recommends that GMP modify.

i. **Change in power costs year-to-year based on regional benchmark**

The Department maintains that there would be value in comparing the costs of GMP's power-cost portfolio to a relevant benchmark. GMP has not included such a metric in the Plan, presumably because there is no obvious source for a comparable metric. GMP manages its portfolio and costs in a way that is distinct from neighboring states. GMP has performed well relative to neighbors, at least as is evidenced by a simple comparison of rates over time. Nevertheless, the Department is interested in an objective reference point for comparisons. Although an ideal comparison would be to compare GMP's power costs (exclusive of bulk transmission) to its neighbors, the Department is not aware of a basis for such a comparison without some heavy sifting of FERC data. As an alternative, I suggest that GMP simply compare its power supply costs relative to a simple weighting of historical costs from ISO-NE. The weighted average of GMP's portfolio life is relatively long, so we would suggest simply comparing GMP's weighted average costs to the region's costs based on 10-year simple average. The purpose of this comparison is not to judge GMP's absolute performance relative to the region, which we already know to be positive, but can also swing suddenly positively or negatively with sudden changes in the market. Rather it is to instill a reference point for GMP's performance relative to the region over time. Ideally, this comparison will provide an objective reference for both GMP's management and regulators that will help affect continuous improvements in management practices. It can also help to inform future incentives that might drive further improvement. Accordingly, the Department recommends that GMP include a simple average of energy and capacity costs on a weighted basis over a 10-year average that changes year to year based on an updated calendar year.

ii. **Share of generation that is carbon free/renewable**

In the Department's view the real challenge is to know which sources are carbon free, and which are renewable. GMP should keep track of both and not simply report what is carbon free or renewable as one combined metric.

iii. **Number of customers that adopt electric vehicle ("EV") rates and incentives**

GMP's proposed metric is slightly different from the Department's original recommendation on EV metrics. GMP proposes a metric to cover the number of EV home chargers with shared access. This proposed metric is good, but it does not acknowledge potential alternative rate design pathways that may or may not rely on GMP's shared access platform. There are many reasons that state policy firmly emphasizes the electrification of transportation, and rate design is a path that is currently in progress for GMP to further that policy. Effective rate design solutions should be of importance to GMP's own performance, as flexible EV loads should require management through rate mechanisms and performance programs. The relative success of GMP and other Vermont utilities in helping to move the market is a key performance indicator, and GMP should have an incentive to encourage customer migration. GMP should also be able to track which customers adopt EV rates and incentives with relative ease. This information would provide significant value regarding the efficacy of EV rate structures and the Department recommends that the number of customers that switch to an EV rate or adopt EV incentives also be tracked over the term of the Plan.

iv. **Make-ready number and response times for EV public charging stations**

The Department expects that public charging stations will increase in importance over the next several years. It will be helpful to have a good baseline and reference point for progress as these technologies reach actual implementation. Like interconnection, expanded integration of EV charging stations will likely become more challenging with time as the demand for larger and faster charging stations increases. Information regarding make-ready requests for EV public charging stations and GMP's response time should be tracked over the term of the Plan.

v. **Hosting capacity for distributed generation**

The Department proposes several measures that should be readily quantifiable by GMP relevant to the issue of hosting capacity for distributed generation. The Department proposes that either the number or percent of circuits with transmission ground fault over-voltage limitations be captured in the metrics. The Department also proposes that the number or percent of substation transformers with: i) over 20%, ii) less than 20% but over 10%, and iii) less than 10% of capacity remaining be separately identified.

vi. **Capacity of grid-connected DERs (visible to the utility)**

The Department also proposes that GMP share information on the number and capacity of distributed generation, storage systems, and utility controlled (or customer controlled through end-use specific rage) end uses including, electric vehicles, heat pumps, and water heaters.

Q11. Can you turn to Mr. Ryan's testimony? Do you have a general response to Mr. Ryan's testimony?

A11. Yes. Mr. Ryan responds to the Department's policy objectives for this Plan and focuses a significant portion of his rebuttal testimony on my recommendations regarding an index formula. While GMP rejects the adoption of an index formula, Mr. Ryan testifies that GMP would agree to lock-in all of the non-power costs at the onset of the plan. GMP proposes to achieve this result by relying on a three-year forecast of costs and then a rate smoothing adjustor to decrease the variability in rates over the course of the Plan. This is a notable modification to the Plan as initially proposed by GMP, and it serves to promote many of the goals that the Department seeks with respect to the Plan. There are risks to this approach for both ratepayers and shareholders, and it places added pressure on the review and vetting of those forecasts just prior to the Plan. The Department, however, is pleased that GMP is being responsive to the Department's underlying objectives. It appears that GMP is also proposing a smoothing mechanism that can be incorporated into the Plan. The Department supports this modified approach.

Q12. What else would be needed to address the Department's objectives for proposing an indexing formula?

A12. The Department's recommendations were designed, in part, to extract a material ratepayer dividend that would deliver immediate benefit from the Plan. We now conclude that the structure of the Plan, as modified by GMP, is well suited to flow through to ratepayers any benefits that materialize as a result of the Plan. I explain the Department's reasoning below.

Q13. Starting on page 6 of his rebuttal testimony, Mr. Ryan summarizes areas of agreement and disagreement between GMP and the Department regarding the plan. Do you agree?

A13. I generally agree. Specifically, the Department agrees with the following:

- The proposed term of the Plan;
- The proposal to spend $86.5 million in the first year of the Plan, followed by capital spending levels of $85 million in the second and third year of the Plan;
- A set plan for the cost-of-service during the three years of the Plan;
- That the PUC should have the ability to approve unexpected, strategic opportunities for capital investment beyond the approved base investment;
- A tracker mechanism should apply to qualifying power supply, transmission and revenue, and with a framework that allows for decoupling of sales from revenues with quarterly true-ups. As indicated in my earlier testimony, the conditions that are used to establish such a tracker must be satisfied;
- An ROE adjusted based on changing market conditions. However, the Department and GMP still have a residual disagreement around the formula. The Department is not persuaded that the mechanism proposed by GMP is superior, at least relative to the Department's approach, enough to justify the loss of transparency inherent with GMP's approach;
- An exogenous storm adjuster;

- An earning sharing adjustment mechanism (ESAM). However, GMP and the Department still have remaining disagreement around the symmetric or asymmetric character of the bands;
- Continued reliance on an Innovative Pilot Program (with the addition of minor constraints).

On page 11 of his rebuttal testimony, Mr. Ryan indicates that GMP "agree(s) that the Plan should set rates in a way that is as simple, transparent, and stable as possible…., and also agree that the Plan should be designed to encourage continued superior performance and cost efficiency while maintaining GMP's ability to accelerate innovative work to cut carbon and drive down future costs for customers." The Department appreciates that GMP recognizes and shares these objectives.

Q14. What is GMP's largest area of disagreement with the Department's proposed alternative?

A14. I believe that the largest area of disagreement is the Department's recommendation that the Plan include an indexing formula. Indexing formulas are commonly used in the United States, Canada, and other regions of the world in the context of a multi-year or incentive regulation plan to constrain growth in base rates by some form of I-X indexing formula to allow the company to recover expected growth in costs from the effects of inflation and then offset that by a measure of reasonably expected productivity.

Q15. After review of GMP's testimony, and the proposed modifications to the Plan, has the Department's position changed?

A15. The Department remains a strong proponent of the index formula approach and believes that such an approach should apply in the next revision to the Plan. In general, the approach offers greater latitude and management discretion than what I understand to be the building block approach advanced by GMP here. The Department, however, no longer concludes that it is necessary in the context of the current proceeding for the reasons described below.

Q16. Can the index formula work with the Merger Savings Agreement?

A16. I see no barrier to harmonizing the Docket 7770 Merger Savings Agreement and the I-X index formula. Practical concerns with the mechanics are not an issue.

Q17. What then is at issue?

A17. The issues are largely conceptual and, in the end, come down to basic fairness. I am now persuaded that most of the saving opportunities that are available to be harvested through an I-X formula were already captured in the context of the Merger Savings Agreement. On that basis, it comes down to a basic issue of fairness. Advancing an I-X framework at this juncture as an overlay on what exists and what is proposed provides substantial risk of capturing the benefits of efficiencies twice over. The Department now believes that the application of such an approach should await the conclusion of the Merger Savings Agreement in October of 2022, at the conclusion of the Plan.

Q18. What did the Department hope to achieve through an indexing formula?

A18. Among other things, the Department was trying to secure a stable and reasonable rate trajectory with greater certainty than was included in GMP's original proposal. The Department was fundamentally concerned that the rates and revenues were subject to annual re-forecasting. The Department sought an accessible framework for understanding the movement in rates and hoped to foster reasonable expectations of how electricity rates will change in the three years of the plan. The Department sought a clearer understanding of the revenues and rates over the term of the Plan, at least in relation to the rates of non-power costs. In essence, the Department wanted to have a greater sense of commitment (by GMP) and value for ratepayers.

The Department viewed annual updates to forecasts of costs as complex, potentially contentious, and out of public view. Securing rates at the front end of the Plan seemed more sensible and reduces uncertainty. Conceptually, the original approach offered by GMP seemed more analogous to the framework that previously existed with associated annual updates of the cost-of-service. In its place, the Department sought a system of risks and rewards normally associated with a traditional multi-year rate regulation plan that attempts to pin down the rates in a manner that allows more separation between rates and costs. Conceptually, this structure is intended to provide stronger management incentives to control costs for greater efficiency that will eventually flow into rates. Offsetting those incentives are the two of the building blocks that are already built into the proposed structure that flow through savings to ratepayers, almost completely in the second and third year of this Plan.

Beyond rate path certainty, the Department also seeks to smooth the rate path over the three years. The fact that the Plan applies over a three-year period allows the opportunity to manage the flow of changes to rates through formulaic adjustments.

Finally, the Department seeks and sought a reasonable share of the expected benefits from the Plan to flow to ratepayers. Here and below, I refer to this as a consumer dividend, but there are actually two related goals here. First, the Department wanted to capture historic levels of improvements in system performance that could reasonably be expected to continue into the future. This is just a matter of ratepayer fairness. Second, the Department was trying to flow through to ratepayers benefits that should reasonably be expected to materialize from the Plan itself. The Department holds a deep-seated belief that consumers deserve to share in the benefits of the Plan. As such this dividend can be built into the Plan's design.

Alternative regulation exists for a reason. It holds the promise of additional flexibility and certainty for shareholders that promises to improve the performance of the company over time. Title 30, Sections 218d(a)(1), (2), (4), (6), and (7) combine to send a message that this Plan should be structured to encourage the delivery of efficiency and lower costs. In particular, § 218d(b) mandates that "[i]f savings result from alternative regulation, the savings *shall* be shared with ratepayers as determined by the Commission."

Q19. Has GMP made proposals that address these concerns?

A19. Yes. At least in large part. GMP now proposes a framework that establishes the cost-of-service at the onset of the Plan for non-power costs. In effect, the core portions of non-power costs of the required revenues will be set for the three-year period. Minor adjustments will be allowed and are specified, but there is no need for the "mini-rate cases" that were associated with GMP's prior plans. Nor will there be a need for updated annual forecasts for the updating line-item portions of non-power costs. In its place, there will be a period for additional scrutiny of line item forecasts at the onset of the Plan (during this formal process). The Department values this approach for the added process that will occur within view of the parties, and because it helps to better quantify the rate impact that will ultimately be shouldered by ratepayers.

GMP is also proposing a deferral accounting mechanism that can be used to help move categories of expenses between years for a smoother rate trajectory. The Department supports this mechanism to help ensure rate stability.

Q20. Has GMP proposed any solutions to address the concept of a ratepayer dividend from an alternative regulation plan and to capture the amount of productivity improvement that should normally be expected to occur year-to-year under even traditional regulation?

A20. No. But I am now persuaded that these benefits should flow naturally to ratepayers based on the current construct for recovering merger savings from the Merger Savings Agreement from Docket 7770.

Q21. Please explain.

A21. The agreements in Docket 7770 created a framework for passing all differences between an inflation adjusted base level of O&M and actual costs in those accounts either back to ratepayers and/or shareholders. In my own view, these benefits largely materialize from three drivers: (1) real synergies from the merger of the two companies; (2) naturally occurring productivity improvements that result from background improvements in operations and technologies that would naturally (over time) drive the X-factor improvements that would materialize quite apart from the regulatory regime; and (3) the substitution of capital for labor with the potential escalation of capital expenditures. I would expect that all three were factors that were likely considered by GMP and the Department at the time in developing the agreements that formed the outcomes of Docket 7770. The three combine to form a level of shared savings that are deemed to be part of the Merger Savings Agreement, as if all three were somehow the result of the merger. I do not have any issues with this construct. The construct that was developed flows through the full amount of O&M "savings" to ratepayers in the last two years covered by the Merger Savings Agreement, and 50% to ratepayers in the preceding years. In point of fact, the structure of the formula simply returns to ratepayers O&M benefits (at least relative to the Base O&M platform), whatever the cause.

But what this means for us today is that any attempt to overlay a new construct to capture naturally occurring productivity improvements would likely duplicate elements that were already deemed to be part of the Merger Savings Agreement, at least as it related to the line item accounts that comprised the Base O&M platform. For reasons that GMP has explained, and for which I now better appreciate, any effort to capture a larger pool of savings associated with the entire pool of non-power related costs would be costly and, at least conceptually, likely duplicate categories of benefits that are already counted and returned to either ratepayers or shareholders. The issue of double counting is one that relates to the particulars of what costs are and are not included in the Base O&M platform. It should be possible to calibrate a productivity adjustment that excludes any double counting. However, after analyzing relevant data that GMP provided during discovery, I concluded that once this calibration occurs, the resulting productivity offsets would be *de minimis*; the overall savings likely would not justify the cost incurred by GMP to calculate and track the savings. I am now persuaded that the indexing approach would be costly and an attempt to harvest ratepayer benefits where there was little ground for additional customer benefit.

As I indicated above, the Department was also seeking a ratepayer return (or ratepayer dividend) for the benefits of this particular Plan. As a practical matter, this Plan offers considerable potential value to both shareholders and customers. The benefits include relative price and revenue certainty, cost recovery assurances for power and related costs, and relative stability for better financial performance. The plan also provides flexibility to operate and conduct some business and innovations with a lighter hand of regulation through, for example, the innovative pilot program. I would expect the Plan to help foster new service opportunities (and associated revenues) and potentially new categories of service for greater efficiency that would be of greater benefit to the company in the long term. Ratepayers deserve an immediate share of this value during the term of the Plan.

In the end, I conclude that the structure of the Plan is already set to return most of the value in relatively short order. This is the result of the flowback mechanisms that are already associated with the Power Supply Adjuster, the Base O&M Platform, and associated shared savings obligations.

Most of benefits from power costs savings flow back to ratepayers through the tracker mechanism that may apply to 55 or 60% of GMP's overall cost-of-service. The Base O&M platform that accounts for roughly 15% of costs that are associated with overall rate and is designed to return 100% of the difference between costs of the actual line item accounts and the inflation adjusted platform. Other major categories of costs would be less likely to be impacted. In short, I conclude that the structure of the Plan largely addresses even this category and what is not covered here, would eventually be recaptured in rates at a later time.

In summary, I am persuaded that the categories of benefits that the Department aspired to pursue are in fact covered by the existing framework whether by design or fortuitous consequence of the manner in which the Merger Savings Agreement and the power-related tracker are structured.

Q22. Although the Department is withdrawing its request for an indexing formula, do you still believe it is necessary to respond any portions of GMP's testimony regarding the use of index formulas in multi-year rate plans generally?

A22. Yes. On pages 12 through 29 of his rebuttal testimony, Mr. Coyne runs through a long list of areas where he believes the I-X index approach have been misapplied, or incorrectly specified. There are some areas where I believe that Mr. Coyne is correct. In crafting in initial X factor, I indeed over-weighted certain periods that I would want to recalibrate going forward. I continue to believe that reliance on four decades of history that is specific to GMP is a better reference point for specifying the X factor than an industry-wide measure. The conditions are more favorable in the Vermont context for innovation and improvement. There is no effort to penalize GMP for capitalizing on the opportunities that exist over time and we should expect to continue. I acknowledge, however, that reliance on an industry grouping typically makes sense and is used. There are also certain areas that would require further information to properly weigh, such as reconciling indicators of general measures of inflation, like the GDP deflator or the CPI-U, relative to industry specific total or multi-factor productivity determinations. Ultimately this analysis is not necessary for this case, as the Department is withdrawing its recommendation on the X factor (for reasons discussed above).

The Department still contends that an index formula approach will provide sensible path in the future, and recommends that GMP consider incorporating an index formula into future multi-year rate plans after the conclusion of the Base O&M platform.

Q23. Can you please turn to Mr. Ryan's testimony and characterize Mr. Ryan's concerns and respond to each in turn.

A23. Certainly.

Q24. How do you respond to Mr. Ryan's suggestion on page 10 of his rebuttal testimony (paraphrasing Mr. Coyne) that the Department's productivity factor proposal is "out of step with the modern regulatory trend toward a hybrid 'building block' approach for regulatory plans, like that proposed by GMP."

A24. Mr. Ryan's precise meaning of the "building block" approach is not totally clear to me. I understand it to mean that the separate elements of capital and expenses can be grouped into various categories for distinct treatment in affecting regulatory objectives. In the context of the proposed Plan certain categories of costs, like power costs and bulk transmission costs that loom large but are largely outside the direct control of GMP, might appropriately be recovered through a mechanism like the proposed tracker. Other costs that are almost purely outside a tracker would include unexpected costs like major weather events. A third grouping would include operating and management costs that are well within GMP's control. However, in the framework of the proposed Plan, these costs are largely covered by the Base O&M Platform. Other building blocks include capital and depreciation. In the context of the revised Plan, these costs are now constrained and corresponding depreciation and amortization rates are assumed to apply in the cost-of-service. The last major category of costs are associated with the authorized rate of return on equity (ROE).

Assuming that this categorization of costs is what is meant by "building block,", then I think a building block approach is indeed what has come together to form this Plan. I can support such an approach here, largely because of the pre-existence of the Merger Savings Agreement and the still active Base O&M Platform and associated sharing arrangements.

I am reluctant to allow this characterization as "modern" or "a trend" without further comment. These references imply favor with the current framework beyond that which it has earned, at least in Vermont. To work well, the blocks must combine to build the structure and each block must carry its own weight to generate value from such a plan.

In my own view, the blocks that comprised the broader construct of GMP's prior alternative regulation plans were not all well-formed, or at least in balance. For example, the O&M Platform was clear and sharing arrangements unambiguous. Other portions of the former plans seemed open ended and pliable. Capital investment did not enjoy the same level of specificity and emerged as a concern, at least to regulators and other interested parties. As a result, there was a shifting emphasis to somehow provide appropriate levels of regulatory oversight and encourage strong management by GMP.

I believe that the proposed Plan, which establishes a capital spending cap, will prove successful in providing the needed strength to support the Plan's overall structure. To be clear, the Department recognizes that a constraint on capital spending creates risk, but experience gained under this Plan will hopefully demonstrate whether the approach will work as conceived and should be carried forward to future alternative regulation plans. GMP's revised approach stands in contrast to the more generalized approach that the Department advanced in its direct testimony, which relied on a broader governing rate or revenue cap that was the I-X formula. Such an index formula does not require the same level of specification of each building block. Rather, it allows additional freedoms for the company to shift emphasis between the blocks for finding optimal results. But as discussed just above, the Department is persuaded that such an approach is not appropriate or warranted at this time, given the existence of the Base O&M Platform for sharing, but continues to believe it provides a sensible path looking forward beyond October of 2022.

Q25. Please characterize and respond to GMP's revised approach to fixing costs under the Plan.

A25. On page 11 of his rebuttal testimony, Mr. Ryan indicates that "GMP will lock all of its non-power costs based on a three-year forecast reviewed and utilized at the beginning of the Plan, and then will manage its costs to this locked forecast over the term of the Plan."

The Department supports such a proposal. From the Department's perspective, this proposal helps to better understand the potential rate trajectory by more firmly locking in a revenue requirement trajectory at the outset of the Plan. As noted above, roughly 55-60% of GMP's costs are associated with the upstream power and bulk transmission system costs which will largely move with conditions on the market. The Department believes that over time, GMP has the ability to manage all of its costs, not just non-power costs. However, the Department also acknowledges that due to the volatile and material nature of these costs on a year-to-year basis, GMP has much less influence over these categories of costs than it does over other categories. The non-power costs do not, for the most part, fit into these same exceptions. The regulatory regime should accordingly reinforce management objectives to control these costs through the system of regulation. We believe that establishment of the forecast approach envisioned is a sensible path to achieve this objective and provide ratepayer benefit, *provided there is a vigorous vetting of those non-power cost projections at the outset of the Plan*. In the end, even with a vigorous vetting of these line item forecasts, the Department still contends that there must be an overarching sense that ratepayers will be better off under such a rate and revenue forecast.

Q26. On page 12 of his rebuttal testimony, Mr. Ryan observes that the only categories of costs that would vary under the plan "would be limited to a) power supply costs and revenue forecasts, b) any changes in return on equity based on overall market condition changes, along with associated income tax changes related to the change in return on equity, and c) the derivative impact the overall annual change in the revenue requirement has on Gross Revenue and Fuel Gross Receipts taxes." Do you agree with Mr. Ryan?

A26. For the most part, yes. The Department also recognizes that costs related to exogenous weather-related events could potentially vary, but those variations are only partially within GMP's control. Also, ratepayers are entitled to the benefits due from the flow or savings under the Docket 7770 MOU. Ultimately these costs get trued up and are recovered. As Mr. Ryan further notes, there are off-ramps embedded in the proposal that allow for potential infusion of more investment and associated treatment of costs that would be subject to review and approval by the Commission. But my understanding is that this would be limited to either strategic investments or related to improving the resilience of the distribution system platform under the proposed, but as yet undefined, CRP.

Q27. On page 12 of his rebuttal testimony, Mr. Ryan notes that the revised GMP proposal creates greater risk for the company, provides rate certainty, and encourages cost containment. Do you agree?

A27. Yes. But there is shared risk on both sides. Ratepayers are also subject to risks that categories of costs that are largely outside of GMP's control, or even those that are in GMP's control, swing down to reduce the pressure on rates. Admittedly, these risks are relatively modest given the structure of the Plan and the inclusion of the ESAM. Perhaps the greater concern is that GMP will be less motivated to drive down costs given that mechanisms in place to flow 100% of the cost savings from O&M to ratepayers. That, however, will be an issue that needs to be addressed in a future plan.

Q28. On page 13 of his rebuttal testimony, Mr. Ryan refers to a regulatory asset and liability account that is used for smoothing. How does this work?

A28. GMP proposes a mechanism that the Department supports for smoothing out potential impending rate increases over the term of the Plan. The Department, and I would expect GMP as well, would like to use the inherent flexibility in a three-year rate term to ideally smooth known rate pressures for ratepayer benefit. As of now, GMP is only proposing a mechanism that it could apply once there is agreement on the forecasted costs and rate trajectory. This application would need to follow the forecasting exercise that would take place beginning June 1 so there would a clear understanding of the actual values that are expected to materialize.

Q29. On page 25, Mr. Ryan now proposes a framework for recovery of the $24 million in past storm recovery costs. How do you respond?

A29. The Department recognizes the need to allow GMP to recover qualifying past storm recovery costs. The Department supports a separate line-item treatment of these costs to reinforce a sense of connection between this cost category and public awareness. The Department also supports a cost-recovery mechanism in the form of a line-item tracker. Thus, the Department supports this recovery framework.

Q30. On page 26 and 27 of his rebuttal testimony, Mr. Ryan refers to a line item recovery framework for the Emerald Ash Borer (EAB) infestation?

A30. This addition was made late in the process and is inadequately supported by the record. Specifically, GMP has not provided detailed cost-support to justify the adjustor amount that GMP proposes to include within the Plan. While the Department does not dispute that the EAB infestation will need to be actively managed, the Department does not support the addition of another separate cost line item as part of the Plan at this time absent more substantive cost justification from GMP. The Department, therefore, recommends that the Commission treat the proposed EAB adjustor in a similar manner as the CRC. In other words, allow for an EAB adjustor during the Plan, but not allow it into rates until GMP presents a detailed EAB plan with sufficient cost-support to justify the proposed adjustor amount.[1]

[1] GMP provided the Department with additional cost-support for the EAB adjuster shortly before the deadline for this testimony. The Department has not had time to fully review that information, but may be prepared to modify this recommendation after such review is completed.

Q31. On pages 27 through 30 of his rebuttal testimony, Mr. Ryan explains why GMP opposes the asymmetric earning bands around the ESAM. How do you respond?

A31. The Department fundamentally disagrees. There is nothing that is symmetric in the relationship between customer ability to manage GMP's costs and profits, and that of GMP management. GMP has a history that demonstrates that it has exceptional stability in earnings relative to its peers. The Department's proposal is about the proper assignment of risk and reward, which is a statutory mandate set out in 30 V.S.A. § 218d(7). Symmetry in these earning bands ignores a fundamental reality the imbalance of control. The Department's proposal is a modest step in the direction of helping to align the exposure of GMP to cost variability with its financial exposure and ability to manage, control, and find pathways to innovate for further gain. Ratepayers enjoy no such opportunity.

Q32. On page 30 of his rebuttal testimony, Mr. Ryan discusses the timeline for reviewing GMP's base rate filing for FY20. How do you respond?

A32. GMP agrees that the review should start on June 1 and proceed through July 31. This schedule will allow enough time for the Department to review the base rate filing. However, if there is a significant disagreement between the Department and GMP on some portions of the filing, this timeline may potentially not allow adequate time for the Commission to resolve such a dispute in advance of October 1, 2019. The Department, therefore recommends that if a dispute remains unresolved by the Commission as of October 1, 2019, then GMP be allowed to implement rates as proposed in its base rate filing on bills rendered after October 1, 2019, but issue customer refunds for any revenues collected in excess of the base rate amounts ultimately determined by the Commission to be just and reasonable. The Department, however, is open to alternate approaches for scheduling that ensure that the Commission has adequate time to review any filings from parties and ensure that GMP is able to implement necessary rate adjustments by October 1, 2020.

Q33. On page 30 of his rebuttal testimony, Mr. Coyne suggests that the Department's proposed adjuster to the ROE creates unnecessary risk. How do you respond?

A33. GMP relied on a 10-Year Treasury Bond adjustment mechanism for roughly a decade. I note that during that period GMP enjoyed some of the most stable earnings of any of its peer group.

However, the Department is not fundamentally opposed to an index like that proposed by Mr. Coyne, so long as the information is not subject to inappropriate curating, the information is readily updated and accessible by any member of the public, and subscription fees are not needed to access the information. The Department also is not opposed to a floor assuming that there are reasonable triggers that are identified.

Q34. On page 33 of his rebuttal testimony, Mr. Coyne indicates the following…, "reason for adopting a formula that is not based exclusively on the 10-Year Treasury note is addressed above in my preceding discussion, and I believe there are several reasonable approaches for ensuring public accessibility to the relevant underlying data. Ontario publishes its annual ROE adjustment calculation online, including tabulating the source data it used for the calculation. I see no reason why the same couldn't be done here, either through the PUC website or in GMP's submission." How do you respond?

A34. I am seeking a source of information for the spreads that is independent of a utility compliance submission. I am concerned about how information from private sources might be managed or curated with resulting unintended consequences. If the actual source data can be made publically available in that it can be accessed by ratepayers and regulators alike, then I do not have a concern with GMP's approach. However, I do not understand Mr. Coyne's testimony to make that accessibility guarantee. Therefore, the Department maintains its recommendation which ties ROE to the 10-Year Treasury Bond. I also prefer measures that somehow bound the variability of the 10-year treasury. The Department is, however, open to guardrails on the application 10-year treasury notes that might serve to achieve a similar end to that with which Mr. Coyne has identified.

Q35. How do you respond to the concern raised by Mr. Coyne on page 35 that the ESAM earning bands undermine incentives?

A35. This is about symmetry and fairness to ratepayers. I have already addressed this earlier in response to Mr. Ryan's testimony, but the Department maintains its recommendation for an asymmetric ESAM to ensure that benefits and risks of the Plan are reasonably balanced between GMP and its ratepayers.

Q36. The Department and the Commission are interested in investigating opportunities for pursuits of strategic investments related to distribution system planning and grid modernization. How does that link to the Plan?

A36. GMP should be able to implement any related requirements that result without further process. To the extent that implementation requirements bear on investment or new costs, the Plan can be modified with agreement of the parties. But any such modification will need a full accounting of costs and benefits before adjusting rates and the Plan. One potential concern that the Department might have is with the double treatment of new costs. Ideally, distribution resource planning investments would serve to lower future costs.

Q37. Does that conclude your testimony?

A37. Yes.