

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 JOINT SURREBUTTAL TESTIMONY OF
MARIA FISCHER AND EDWARD MCNAMARA

ON BEHALF OF
THE VERMONT DEPARTMENT OF PUBLIC SERVICE

March 11, 2019

Summary: The purpose of Ms. Fischer and Mr. McNamara's surrebuttal testimony is to respond to the Green Mountain Power Corporation's (GMP) rebuttal testimony regarding power supply components of GMP's proposed Multi-Year Rate Plan. Ms. Fischer and Mr. McNamara modify the Department of Public Service's (Department) original recommendation to exclude several items from GMP's proposed Power Supply Adjustor because they are immaterial in scope or are within GMP's control. Ms. Fischer and Mr. McNamara also maintain the Department's recommendation that the Commission modify GMP's proposed power supply Efficiency Band to an asymmetrical range from -\$307,000 to \$150,000. Finally, Ms. Fischer and Mr. McNamara respond to the testimony filed by Renewable Energy Vermont (REV).

Joint Surrebuttal Testimony
of
Maria Fischer and Edward McNamara

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

2 A1. My name is Maria Fischer. I am a Utilities Economic Analyst at the Vermont Department
3 of Public Service (Department). My business address is 112 State Street, Montpelier,
4 Vermont.

5
6 **Q2. Have you previously submitted testimony in this proceeding?**

7 A2. Yes, I provided joint prefiled direct testimony on December 14, 2018.

8
9 **Q3. Please state your name, occupation and address.**

10 A3. My name is Edward McNamara. I am the Director of Energy Policy and Planning for the
11 Vermont Department of Public Service. My business address is 112 State Street,
12 Montpelier, Vermont.

13
14 **Q4. Have you previously submitted testimony in this proceeding?**

15 A4. Yes, I provided joint prefiled direct testimony on December 14, 2018.

1 **Q5. Please summarize the purpose of your testimony and the key power supply related**
2 **issues.**

3 A5. The purpose of this testimony is to respond to the Green Mountain Power Corporation's
4 (GMP) rebuttal testimony, follow-up on our prefiled testimony, and address Renewable
5 Energy Vermont's (REV) testimony.

6
7 The two primary topics addressed in this testimony relate to the power supply adjustor
8 (PSA) are the broad inclusion of costs in the PSA and the recommendation for an
9 asymmetrical efficiency band within GMP's proposed multi-year rate plan (Plan). The
10 Department finds some of the arguments presented by GMP in its rebuttal testimony,
11 discovery responses, and through direct conversations to be compelling. The Department,
12 however, generally maintains its positions related to the removal of items from the PSA.
13 The Department also maintains that an asymmetrical efficiency band is appropriate.

14
15 **Q6. Please summarize the primary issues addressed in this testimony.**

16 A6. Generally, the Department believes that having most of GMP's costs, in excess of 60%,
17 receive pass-through treatment is excessive. By receiving pass-through treatment on
18 these costs, GMP sheds a significant amount of risk associated with its core business and
19 reduces the need to accurately forecast and manage power costs. Therefore, the
20 Department has proposed to narrow the scope of the PSA by moving certain categories
21 from the PSA into base rates.

22

1 In order to identify which costs should be excluded from the PSA, the Department
2 developed a set of criteria for items to be included in the PSA, which were presented in
3 our prefiled testimony. To summarize, the criteria are:

- 4 1. Largely outside of the utility's control;
- 5 2. Material in their character; and,
- 6 3. Volatile to a degree that would place undue risks on the utility.

7 Based on these criteria, the Department proposed to exclude operations and maintenance
8 (O&M) costs, items that are small in nature, and those that are stable such as unit sales
9 for resales.

10
11 **Q7. Please describe the Department's position on O&M.**

12 A7. The Department's original proposal was for all O&M, both joint- and company-owned
13 generators, to be excluded from the PSA because those costs are within the utility's
14 control. After reviewing GMP's testimony and discovery responses, GMP has provided a
15 compelling argument that O&M for joint-owned facilities should remain in the PSA, but
16 the Department maintains that O&M for wholly-owned facilities should not be included
17 in the PSA.

18
19 O&M for joint-owned facilities is mostly outside GMP's control and should therefore be
20 included in the PSA. The Department acknowledges that GMP has limited control over
21 the magnitude and timing of these costs. While the Department continues to believe that

1 GMP and other owners should have a good understanding of their O&M budget, the
2 Department appreciates that with a quarterly PSA, the timing of the projects can
3 significantly impact GMP's quarterly variances. Therefore, the Department withdraws its
4 original recommendation to exclude joint-owned O&M from the PSA.

5
6 GMP also argued that O&M for company owned generators should be included in the
7 PSA because removing it would create a mismatch between the GMP's incentives and
8 the customers' outcomes with a resulting disincentive for GMP to incur costs to repairs to
9 facilities. The Department appreciates and follows this logic, but maintains that
10 excluding these costs, which are within GMP's control, provides GMP with additional
11 incentives to better forecast and manage these costs. Further, the triennial base rate
12 review should provide information as to whether GMP is systematically under-investing
13 in resources and this issue can be addressed at that time.

14
15 **Q8. Please describe the Department's current position on the removal of immaterial items**
16 **from the PSA.**

17 A8. The Department agrees with GMP's assessment that the treatment of these items with
18 respect to the PSA will not have significant implications on either GMP or its ratepayers.
19 In his rebuttal testimony, Mr. Douglas Smith contends that there is not a significant
20 benefit to excluding these items. While the Department does not disagree, it maintains
21 that narrowing the scope of the PSA is appropriate and these items should not be included
22 in the PSA.

1 **Q9. Please describe the Department’s position on the removal of unit sales for resale items**
2 **from the PSA.**

3 A9. Like the previous category, whether these costs are included in the PSA will not have
4 significant impact on the PSA. Currently this category only includes costs associated with
5 Kingdom Community Wind, which are linked to the cost of the plant and are not
6 variable. Since these costs are not variable, they should not be included in the PSA. Mr.
7 Smith expresses concerns that there is a potential for future sales that are tied to output
8 rather than a generator’s costs. Should that change materialize, then in it would be
9 appropriate for those costs should be included in a future PSA, but inclusion in the PSA
10 under this Plan is not appropriate or necessary.

11
12 In the event that circumstances change over the course of the Plan, such as a new contract
13 linked to the output of an intermittent generator, then the Department is open to
14 revaluating whether a new item should be included in the PSA. In no way does the
15 Department want to discourage GMP from taking actions that will benefit ratepayers as a
16 result of that cost’s treatment in the PSA. Given that GMP would be able to request that
17 the PUC modify treatment of a cost category based on current contracts, the Department
18 believes it is appropriate to remove unit sales for resale from the PSA and reevaluate new
19 costs and revenues if they arise.

20

1 **Q10. Please describe the Department's position on the Efficiency Band.**

2 A10. Mr. Smith claims that a larger efficiency band “would not provide GMP a reasonable
3 opportunity to recover its net power supply costs.” However, the Department's
4 perspective is that a larger efficiency band range is necessary to create an incentive for
5 GMP to forecast more accurately and manage its costs better. Mr. Smith acknowledges
6 that costs that are included in the PSA receive less scrutiny, from both GMP and the
7 Department, because they will be passed through for recovery from ratepayers. The
8 Department agrees with Mr. Smith in principle that the pass-through of power costs does
9 create regulatory efficiencies that ultimately benefit ratepayers and GMP alike. However,
10 a direct pass through coupled with a relatively narrow dead-band does not adequately
11 encourage GMP to prepare and rely on highly detailed and accurate power supply
12 forecasts. Indeed, GMP's assertion that a \$150,000 dead-band per quarter provides
13 sufficient incentive to manage costs is not compelling, given that GMP's annual power
14 costs exceed \$350 million.

15
16 GMP has more control over how to manage its power costs than ratepayers and should
17 therefore carry more of the risk, making an asymmetrical dead-band appropriate. If an
18 asymmetrical dead-band is not adopted, then the dead-band, at a minimum, should
19 maintain the current range of +/- \$307,000.

20

Q11. Please respond to GMP's assessment of its limited ability to manage short-term costs.

A11. Mr. Smith discusses GMP's limited ability to manage short-term costs, specifically with respect to weather driven variances. The Department understands and appreciates this dynamic and agrees that these variances should continue to be trued up through the PSA.

Q12. Does the Department have a response to the testimony presented by Renewable Energy Vermont (REV)?

A12. The Department does not agree with REV's assertions that net-metering is not putting upward pressure on GMP's net power costs and retail rates. While this issue has been addressed extensively in prior cases before the Commission and is not directly germane to the Commission's review of GMP's proposed Plan, the Department continues to be concerned with representations that net-metering has not had an impact on retail rates for GMP and other utilities in Vermont. While net-metering provides numerous benefits that promote various state energy policies, the Department maintains its concern that ratepayers and regulators should not be misled about the overall impact of net-metering policies. The Department has reviewed Mr. Smith's rebuttal testimony on this issue, and generally agrees with his analysis as to how net-metering has affected GMP's net power costs and retail rates.

Q13. Please summarize your findings and recommendations.

A13. The Department recognizes that the PSA is a valuable feature. It helps GMP recover its power supply costs without the need for frequent full cost of service-rate-cases. It also

1 helps provide rate stability for GMP's customers and allows GMP to maintain healthy
2 ratings from ratings agencies, which reduces borrowing costs that are ultimately passed
3 through to customers. The Department, therefore, sees real value in maintaining a
4 properly structured PSA as part of the Plan. However, the Department remains
5 concerned about the scope of the PSA, which accounts for well over half of GMP's
6 overall cost-of-service. The Department's recommended PSA modifications are designed
7 to narrow that scope (and the corresponding pass-through treatment of PSA costs) to
8 better balance risk between GMP and its ratepayers and provide more meaningful
9 incentives for GMP to seek efficiencies and develop more detailed and accurate power
10 supply forecast.

11
12 The Department, accordingly, maintains all of its original recommendations on removing
13 categories from the PSA and implementing an asymmetrical efficiency band, with the
14 exception of withdrawing our recommendation to exclude O&M from joint-owned
15 facilities from the PSA.

16
17 **Q14. Does this conclude your testimony?**

18 A14. Yes.