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)

SUPPLEMENTAL JOINT PREFILED TESTIMONY OF EDMUND F. RYAN & BRIAN OTLEY RESPONDING TO PUC INFORMATION REQUESTS ON BEHALF OF GREEN MOUNTAIN POWER

March 28, 2019

Summary of Testimony

Mr. Ryan and Mr. Otley respond to the information requests from the Public Utility Commission dated March 14, 2019.

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Introduction

Q1. Please state your names and occupations.

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

My name is Brian Otley, and I am a Senior Vice President and the Chief Operating Officer for Green Mountain Power ("GMP" or the "Company").

Q2. Have you previously submitted testimony in this proceeding?

A2. Yes, we both provided prefiled direct testimony in this proceeding dated June 4, 2018, and prefiled rebuttal testimony on February 4, 2019. Mr. Ryan also provided supplemental testimony October 9, 2018.

Q3. What is the purpose of your testimony today?

A3. The purpose of our joint testimony is to respond to information requests from the Public Utility Commission ("PUC" or the "Commission") dated March 14, 2019. For the ease of the Commission's review, we have consolidated GMP's response to each of the Commission's questions in this testimony. Each request is set out separately below, followed by our response. Mr. Ryan is responsible for the response to Information Requests #1, 2, and 4–15. Mr. Otley is responsible for the response to Information Request #3.

PUC Information Request 1

In its direct case, GMP stated that the cost of service calculated in Case No. 18-0974-TF would serve as the base year for annual forecasted adjustments to GMP's base rates starting in fiscal year 2020. In its rebuttal case, GMP has proposed that certain components of base rates would be set using a three-year forecast and fixed for the term of the plan. How will this change in methodology affect base rates? Please identify which methodology would result in higher base rates in fiscal year 2020 and explain why. If GMP is unable to calculate base rates for fiscal year 2020 under either methodology, please explain why.

Answer to Info Request 1: GMP's revised proposal for the MYRP, as described in GMP's rebuttal testimony (the "Revised Plan"), affects base rates in two significant ways. First, based on current projections, the Revised Plan is projected to result in lower rates for FY2020 compared to the original MYRP proposal described in our direct case, due to the addition of the rate smoothing adjustor, which is used to develop a uniform projected rate change percentage over the term of the Plan. Second, based upon feedback from the Department of Public Service (the "Department" or "DPS"), the Revised Plan locks non-power costs for future periods—FY21 and FY22—such that GMP assumes significantly greater risk for any increases to these costs during the term of the Plan.

With respect to FY20, the overall process for initially determining rates under the Original Plan and the Revised Plan is essentially the same—GMP will develop a forecast for costs in FY20 based on known and measurable changes or inflation-based adjustments from either the 2019 rate period or the actual costs, or revenues for the 12-month period ending December 2018, whichever is most relevant to a particular cost of service adjustment. Under the original plan, this forecast would be proposed for approval for FY20 rates without further adjustments. However, under the Revised Plan, GMP will also develop a forecast for FY21 & FY22 costs, and lock the majority of non-power costs

(except income taxes, return on rate base due to change in allowed ROE, and revenue-based fees) based on this three-year forecast. Then, under the Revised Plan, GMP will layer-in a rate-smoothing adjustor to establish a projected smooth rate for all three years. This smoothing adjustment will result in lower overall costs in FY20 based on current projections. Because non-power costs are locked, any changes in rates in FY21 and FY22 above the projected smoothed rate will be driven only by the variable components of the Plan, such as power costs, which will be refreshed annually and subject to the Power Supply Adjustor. This smoothing component of the Revised Plan is described further in my rebuttal testimony on page 12.

The benefits attributable to these components of the Revised Plan include:

- A more transparent and stable rate path for our customers over the three-year term due to GMP accepting greater risk should annual non-power costs increase more than projected in our initial forecast.
- Lower fiscal year 2020 base rate increase for customers due to smoothing the drop-off of one-time benefits included in GMP's 2019 non-power costs over the term of the Plan, rather than recognizing the total difference in 2020 as would occur in a traditional rate case.

PUC Information Request #2:

In Case No. 17-3142-PET, the Commission stated that 'If utilities, regulators, and alternative regulation plans are to be trusted and accepted by ratepayers, then the transparency of and opportunity for meaningful participation in crafting and implementing such plans must be at least comparable to the degree of accessibility and transparency in traditional regulation.' Please explain how regulators and members of the public will be able to review GMP's three-year forecast that is used to set base rates. Please explain how the base-rate setting process described in GMP's rebuttal case will offer a level of accessibility and transparency that is comparable to a traditional rate case.

Answer to Info Request 2: The proposed Plan calls for a level of review comparable to that provided by traditional regulation, and provides greater certainty on costs over the three-year period compared to traditional rate review. It may be important to first note the limitations of transparency in traditional rate regulation. Rate cases are not required to be filed annually and do not involve regular supplemental information regarding utility performance apart from review of capital spending choices and related review of rate base that only occurs when traditional cases are filed.

While there are differences between traditional rate regulation and a multi-year regulation plan, on balance the level of up-front transparency, annual updates and customer communications, and locked costs provide greater overall benefit to customers while maintaining transparency and accessibility. First, the Revised Plan is bookended by traditional cost of service review, meaning both at the beginning and at the end of the Plan. This allows for a thorough review of all costs before the start of the Plan to establish a foundation for costs during the Plan period, and then provides an opportunity for a retrospective review of capital expenditures that occurred during the Plan period, as needed to ensure that those expenditures met all regulatory standards. There will be no

uncertainty about when that review can occur, unlike traditional ratemaking, because as a part of the Plan, GMP will commit to filing a rate case at the end of the third year.

Second, GMP will create and provide a detailed three-year forecast for FY20 through FY22 at the outset of the Plan, subject to review and comment by DPS and other parties. The FY20 rate change will receive final Commission approval before it is implemented. This three-year forecast of costs, instead of a single year, provides a greater level of transparency into GMP's plans and operations than in traditional rate cases.

Third, the Plan locks a significant portion of costs during the three-year period based on these forecasts. These locked costs include a cap on all capital expenditures, subject only to limited exceptions requiring transparent PUC approval, and on all non-power costs (except for a few categories—those associated with income taxes, return on rate base due to change in allowed ROE, and fees based on income). This approach provides significantly greater certainty for customers and transparency up front to the Commission and the public compared to traditional rate regulation.

Finally, to the extent that rates change during the term of the Plan, it will only be in accordance with the specific adjustors under the Plan, which are designed to address variable components of GMP's costs, such as power costs. The changes associated with these adjustors will also be transparent, as GMP is required to file information related to each adjustor on a quarterly or annual basis and to put these adjustors on the bill as separate line items.

Together these mechanisms ensure a level of review that is comparable to traditional rate cases, while giving customers greater certainty on overall costs during the term of the Plan. Meaningful participation in the formal process required for traditional rate cases can present challenges for public participation, apart from the opportunities to provide public comment. GMP has committed to helping remedy this in the MYRP by not only utilizing its usual communications to customers to publicize annual filings under the Plan, but also by hosting at least two open houses for customers, as previously described in response to the Commission's workshop questions.

PUC Information Request #3

The Multi-Year Regulation Plan provides for a fixed amount of capital investment in the amount of $256.5 million over the term of the plan. The Commission wants to understand the basis for the proposed amount of capital investment and how the proposed capital investments would be reviewed by regulators.

(a) Please explain whether project folders and financial analyses for each of the capital investments described in Exhibit BO-1 have been provided to the Department of Public Service. If not, does the Multi-Year Regulation Plan provide an opportunity for the review of capital investments before they are included in base rates? Please explain how this process would be as transparent as a traditional rate case.

(b) Exhibit BO-1 describes a number of capital investments. How did GMP prioritize these investments? Please identify the capital investments that GMP considered including in its capital budget but has decided to defer until after the term of the Multi-Year Regulation Plan. For each investment that would be deferred, please explain why.

(c) How will GMP and regulators be able to assess whether GMP has successfully managed its capital spending after the projects are completed? For example, Exhibit GMP-BO-1 states that in FY 2020, 'GMP will do smaller electronics upgrade projects at certain substations to bring the communications, controls, and security capabilities in these facilities to an acceptable level. These projects are estimated to be between $50,000 and $100,000 each and are necessary for continued reliable and secure operations.' How will regulators assess whether

this task was completed in a cost-effective manner?

(d) Will the cost of upgrades to GMP's distribution system necessary to interconnect new generation, such as upgrades needed to address transmission ground-fault overvoltage that are described in GMP's tariff filing in Case No. 19-0441-TF, be included in the $256.5 million figure proposed by GMP?

Answer to Info Request 3: As explained in Mr. Otley's initial testimony, the overall capital spending plan of approximately $85 million per year (for a total of $256.5 million closed to plant over three years) was developed based on a range of factors balancing GMP's obligation to deliver safe, reliable service to customers, the pressing need to continue our innovative efforts to transform our energy system and reduce costs for customers in the long term, and the goal of keeping overall costs for customers as low as possible. This level of capital spending is based on, and set approximately flat with, the level of spending approved in GMP's most recent rate case (Case No. 18-0974-INV), which was authorized after a thorough review of GMP's choices of individual capital projects. It is also a significant reduction over prior years, in response to DPS input seeking lower overall cap spending trajectory.

While we have some concerns—and are particularly concerned that it does not account for the more rapid deployment of improvements required to help harden the system against climate change—we understand the desire, within a regulation plan period, to set a base of capital spending in ways that dampen rate impact and lessen the need for detailed, annual case review that would otherwise reduce both the efficiency and overall transparency of the Plan (due to the complexity of these annual reviews, as illustrated by past regulation plans). Capped spending, with limited exceptions that will

themselves require approval, provides greater certainty and transparency over the limited three-year period. The subparts of this question area addressed below:

(a) *Review of Capital Documentation*

With respect to subpart (a), we are in the process of finalizing the FY2020 approved capital project list for each capital department by April 1, 2019 and capital folders for FY2020 projects will be completed shortly thereafter. The Plan provides opportunity for review of overall capital expenditures both before and after the implementation of the Plan. **Exhibit GMP-BO-1**, which was prepared approximately a year ago, provided detail regarding GMP's forecasted capital spending based on the projects that were known at that time as well as a description of the types of projects GMP anticipates pursuing over the course of the Plan.

As indicated in **Exhibit GMP-BO-1**, each department in GMP has a different planning horizon. Generation and certain elements of Transmission & Distribution ("T&D") (such as substations and transmission lines) maintain three- to five-year capital planning documents due to the longer planning cycles for those types of capital projects. Other departments, such as Information Technology, operate on shorter planning and implementation schedules because of the rapidly changing nature of those areas and the types of projects they implement. In these departments, specific projects will not be confirmed until closer to the start of the next budget period. Therefore, there is greater certainty on specific projects for the first year of the Plan than for the later years. We are presently finalizing the capital plan for FY20, with specific projects identified in each

department. Individual projects for FY21 and FY22 will be defined and approved along a similar budgeting timeline in advance of the start of the next fiscal year.

It is important to emphasize that the PUC's approval of the proposed Plan does not formally pre-approve specific projects, but rather sets a cap on the overall plant additions that can occur during the Plan period. Within this established cap on overall capital spending, GMP has committed to following its existing internal process for reviewing and approving capital projects each year during the Plan, including the documentation standards agreed to between DPS and GMP as part of the 2018 rate case (Docket 17-3112-TF). Capital folders for the FY2020 projects will be complete before we file our forecast of costs for the three-year MYRP period on June 1. We expect to follow a similar schedule for each year of the Plan.

However, GMP has committed to filing a traditional rate case at the end of the Multi-Year Plan Period, which will provide an opportunity to review all of GMP's individual capital investments in detail over the duration of the Plan, just as it would in any rate case, including the one that just occurred for this year. These bookended rate cases ensure that the capital spending over the course of the Plan meets the known and measurable and prudency standards for utility projects.

While this process does not include regulatory review of each individual capital investment before it is included in rate base during the term of the Plan, it does provide similar protections by capping the total spending, and providing bookended traditional rate cases for review of individual projects, as needed. The overall level of capital expenditures is set, subject to only narrow exceptions, and in the event that any

investments are found to not meet regulatory standards at the end of the Plan, the rate base treatment could be adjusted at that point. Thus, all capital investments made during the Plan will be subject to review in a traditional rate case within at most three years. This timing is more certain than traditional ratemaking, where a utility might not come in for a traditional rate case for many years, during which capital investments are not reviewed. This spending cap, together with bookended rate cases before and after the Plan and the annual filings during the Plan, will ensure that GMP's capital spending is appropriate and justified.

As noted in Mr. Otley's initial testimony, GMP strongly believes that this process is a better alternative to the annual "mini-rate case" approach used in prior regulation plans, and it responds to the recommendations made by the Department and others as part of the PUC's Regulation Plan of the Future proceeding (Case No. 17-3142-PET). The proposed approach provides customers certainty on the overall costs associated with capital investments during the Plan period, provides flexibility for implementation during the Plan, and provides appropriate regulatory guardrails to ensure that the investments serve our customers' best interests. As described further on pages 18–23 of Mr. Otley's direct testimony, these guardrails include both the proposed Earnings Sharing Mechanism ("ESAM"), which will require annual reporting on capital investments and will serve as a backstop for any significant variation in overall spending, as well as the proposed annual performance metrics, which will provide transparent information on GMP's performance during the term of the Plan.

(b) *Prioritization of Capital Investments*

With respect to project prioritization during the MYRP period, GMP will utilize the same essential process we have used over the past several years to identify, vet, document, prioritize, and approve capital projects, within the constraints established by the overall capital investment commitment in the Plan. This capital planning process involves consideration of the broader strategic alignment of potential projects, and a detailed evaluation of which projects in each year will best serve our customers.

The process starts with each of our individual departments, and the specific projects that are pursued by each department are guided by that department's general capital planning philosophy, which were provided in **Exhibit GMP-BO-2.** These projects are ranked in categories based on whether the department views the projects as "must do", "should do", or "would like to do". After each department finalizes its proposed projects, these proposals are reviewed by GMP's Capital Management Team ("CMT"), which challenges the assessment of priority and need, then approves a final capital budget based on this review and assessment. The CMT then uses that approved budget to manage the total capital spending over the course of the fiscal year. This capital planning and approval process is summarized in the flow chart provided in attached **Exhibit GMP-BO-8**. This process will continue during the MYRP, with the added layer that GMP will manage its budgets to the overall capital investment commitment (no more than $256.5 million closed to plant during the term of the Plan). In the event that GMP's annual planning process identifies a truly exceptional cost or opportunity that we believe should be addressed during the MYRP term but cannot be

addressed within the limits established, the Plan provides a mechanism for GMP to petition the PUC for approval of these unexpected costs.

With respect to the individual projects identified in **Exhibit GMP-BO-1**, as noted above, those projects represented the specific projects that were known at the time and a description of the types of projects, by department, which GMP anticipated pursuing each year based on each department's capital planning priorities. The listing was not intended to be an exclusive or comprehensive list of all projects that would be completed during the Plan, but informed our thinking on the reasonableness of the overall cap on spending during the Plan. As described above, some departments have specific long-term capital plans (Generation and elements of T&D), and we are able to generally identify likely priority projects in those departments in advance, although the specific timing of a project may change, and other priorities may develop over the course of the Plan in each department. That is why continuing our usual annual capital planning process, within the established limits of the Plan, is so important. Once approved, the FY2020 capital project list will represent our prioritization of the projects that we will complete in FY2020 within the overall capital threshold established by the Plan. Specific projects for FY21 and FY22 will be developed on a similar timetable each fiscal year.

At this time there are no specific projects which we have concluded must be deferred until after the term of the MYRP, although departments with long-term planning horizons have projects currently slated for periods beyond the MYRP. For example, our generation team has a capital plan for each individual generating facility, with known or anticipated work scheduled out through FY2030. Annual prioritization or changed

circumstances might result in moving some of these projects forward, or delaying other projects, and in a less capital constrained situation, or more of it might be completed earlier. We plan to continue assessing these priorities each year consistent with our standard capital prioritization process, informed by the best available information at that time. That said, we do remain concerned with the overall capital levels, particularly as we look at the continued and increasing impacts of climate change on our system and the resulting cost for customers. For that reason, we have requested the opportunity to present a specific Climate Resiliency Plan ("CRP") to the Commission during the term of the Plan.

(c) *Financial Performance of Capital Investments*

Subpart (c) of this request asks about assessing the overall financial performance of the projects that will be developed under the Plan. This review will happen in several ways. First, as mentioned above, GMP will continue with its regular comprehensive capital planning process—this will result in an annual capital budget, broken down by department, for anticipated spending (within the $85 million cap), as well as the supporting documentation for each individual project, consistent with the previously agreed-upon documentation standards (see **Exhibit GMP-BO-3**, which contains Exhibit 2 to the MOU from Case No. 17-3112-INV). These folders would be available for review in the next rate case filing. In addition, as part of the ESAM process, GMP will be providing a status of capital projects compared to the annual budgets developed at the beginning of the fiscal year to track variations of total expenditures and amounts closed to plant, and resulting cost of service impacts that would be subject to the ESAM. Thus,

on an annual basis there will be documentation on the overall capital performance under the Plan. Third, the performance metrics themselves are designed—in this Plan and in performance regulation plans generally—to provide a measurement of company success in managing its work within the confines that have been set by the Plan. Finally, GMP and the Department agree that the MYRP should be followed by a traditional rate case. As with any traditional case, the Department and the Commission will have the opportunity to evaluate the projects that have been included in rate base to ensure that they comply with appropriate regulatory standards. If any concerns arise over specific projects, either as a part of the ESAM reports, or this bookended traditional case, the Department has the ability to raise and address those concerns with the Commission, and of course the Commission retains its own independent authority to do the same.

(d) *Interconnection Upgrade Expenses*

Subpart (d) of the request asks about interconnection upgrade expenses, and whether those costs are included in the proposed annual $85 million of capital expenses. Interconnection upgrade expenses are born by the parties seeking interconnection under Vermont's "cost-causer pays" approach. GMP may initially invest capital to conduct the work, but this capital is paid for by third-party interconnectors either through deposits collected before the work is conducted and/or through reimbursements after a true-up of actual costs after the work is conducted, consistent with PUC interconnection rules. GMP is looking at alternative approaches to address some of these costs. For example, because of the high expense of some transmission ground fault over voltage ("TGFOV") upgrades, GMP's tariff filing in Case No. 19-0441-TF proposes to charge a per AC

kilowatt fee for interconnecting distributed generation projects in certain affected circuit areas in order to avoid placing the entire burden for these large upgrades on a single project, which would likely be cost-prohibitive to the project. Charging a fee for all projects on these affected circuits would keep the interconnection expenses within the group that causes the need for the identified TGFOV upgrades while easing the cost burden on each individual project. GMP would front the costs, but the projects would pay through the fee. Thus, while GMP has proposed allotting the cost for TGFOV upgrades in certain circuit areas among multiple interconnecting projects, these costs will nonetheless still be borne by interconnectors and not by ratepayers as part of the capital spending included in the Plan.

PUC Information Request #4

What protections does the Multi-Year Regulation Plan have for ratepayers in the event that capital spending is less than forecasted and therefore less than the amount included in rates?

Answer to Info Request 4: As noted above, the proposed ESAM mechanism protects ratepayers in the event that actual capital expenditures during the Plan period are below forecasted amounts. During the term of the Multi-Year Regulation Plan, GMP will perform an annual ESAM calculation based on the actual rate period results, as described further in Mr. Ryan's direct testimony on pages 14–18. To the extent actual rate period plant additions are below the forecasted amounts and their derivative effects results in the actual rate period ROE being above the ESAM deadband ROE, these additional earnings will be shared/returned to customers. Thus, any significant variances in capital

expenditures that result in reduced plant additions below the forecasted amounts and leads to a change in earnings outside the ESAM dead band will be returned to customers.

PUC Information Request #5 states

Please identify each provision of the Multi-Year Regulation Plan that allocates risk between GMP's shareholders and GMP's customers. For each provision:

(a) Describe the risk and the factors creating the risk.
(b) Describe how the risk can affect GMP's shareholders.
(c) Describe how the risk can affect GMP's customers.

Answer to Info Request 5: Please see **Exhibit GMP-ER-5** which is a revised version of the risk discussion provided to the Commission following a similar question during the workshop in this proceeding. The document has been updated to reflect the changes to the Plan proposed in GMP's rebuttal testimony. For ease of review, we have also updated the document to summarize the parties' position on each component of the proposed Plan, so that the Commission can see the areas of agreement and remaining areas of disagreement.

PUC Information Request #6

In Case 18-3160-PET, the Commission approved a special contract for GlobalFoundries. One of the terms of that special contract was that GlobalFoundries would be exempt from any adjustors approved in the multi-year rate plan case, with one exception for major storm expenditures that are reasonably related to transmission infrastructure repairs.

(a) How does that special contract affect the calculation of each proposed adjustor?

(b) How does that special contract affect the calculation of the Earnings Sharing Adjustment Mechanism?

Answer to Info Request 6: As with prior regulation plans, which also exempted GlobalFoundries U.S. 2 LLC ("GF") from adjustors, the special contract with GF will not affect the calculation of the total amount to be collected from/returned to customers under each proposed multi-year regulation plan adjustor, including the Earnings Sharing Adjustment Mechanism. Under the Plan design, GMP will use the expected annual loads and revenue for GF usage as part of its annual power supply and revenue forecast, which will be refreshed annually through the annual base rate filing under the Plan. Any year-to-year variance will flow through the Power Supply Adjustor ("PSA"), in the same manner as under prior plans, with GF exempted from any returns or collections under the PSA.[1] As noted in the question, the one difference in GF's exogenous change adjustment exclusion compared to prior plans is that in the event of storms that affect the transmission system, GF would proportionally share in the reasonably related infrastructure repairs under the proposed Plan. GMP will track these storm-related

[1] It should also be noted that unlike prior agreements with GF, the special contract approved in Case 18-3160-PET includes a firm base load commitment from GF so that there is less chance that forecasted GF power costs and revenue will become disconnected from actual costs and revenue.

transmission repair costs separately, and in the event of transmission impacts and costs, will apportion the appropriate share of these costs to GF through the exogenous change adjustor.

PUC Information Request #7

The Commission is interested in the relationship between the Earnings Sharing Adjustor Mechanism and the other adjustors provided for in the plan. Some of the other adjustors have deadbands and/or deductibles. If all other items matched forecasted costs, are those deadbands and deductibles of sufficient magnitude that some combination of them could result in GMP's earnings being above or below the deadband for the Earnings Sharing Adjustment Mechanism?

Answer to Info Request 7: If all other cost items match forecasted costs, the ESAM deadband should be of sufficient size so at a minimum GMP absorbs or retains the costs and benefits allocated to GMP within a fiscal year under the various MYRP adjustment mechanisms. As outlined in **Exhibit GMP-ER-6**, filed with this testimony, our analysis of returns under the PSA shows that it is very unlikely that any collections or returns under the adjustors would exceed GMP's proposed +/- 50-basis-point ESAM dead band, with the exception of an unprecedented dramatic change in actual power costs compared to forecasts, if costs otherwise reasonably matched forecasts. This is consistent with Mr. Ryan's conclusion in his direct testimony in GMP's initial filing, at 14, that the ESAM likely will play a less significant role in annual collections or returns compared to prior plans, given the design of this plan, and the proposal to decouple revenue.

That said, the ESAM continues to serve as an important backstop for customers and GMP if there are favorable or unfavorable events which significantly impact GMP's fiscal year operating results. And the importance of this backstop is only increased under

the current design, given the locked capital and non-power cost components of the Plan. This presents significantly greater risk to GMP compared to prior plans, which included an annual update on all costs, including capital and O&M costs. There is the potential under this Plan not only for divergence between the actual amounts and the amounts reflected in the cost of service in a given year, but also the risk that this divergence builds over the life of the Plan without annual adjustment through refreshed costs, resulting in larger variances between actual costs and the approved cost of service. Given these risks, and the potential impact on GMP's credit rating that could arise from GMP assuming significantly greater risk without appropriate regulatory backstops, we believe it is important that the ESAM be implemented consistent with GMP's proposal, rather than with the Department's asymmetrical ESAM proposal

PUC Information Request #8

Please explain the circumstances under which GMP might not collect its authorized revenue despite the Revenue Adjustor.

Answer to Info Request 8: As discussed below, there are at least two ways in which GMP may not collect its authorized revenue under the Revised MYRP. The proposed retail revenue adjustor is a new provision, which did not exist under prior plans. While it allows for a true up of retail revenues, the adjustment does not apply to all revenue sources, and when considered with the other provisions of the Plan, the Plan increases GMP's risk compared to prior plans. Under the Revised Plan GMP will lock a substantial portion of its non-power costs, including all capital expenditures, based on a three-year forecast, and will absorb all changes between actual costs and this three-year

forecast, subject only to the protection provided by the ESAM. In addition, GMP redesigned the Power Supply Adjustor in a manner that increases GMP's risk for covering the change in the actual cost of power compared to prior plans, particularly if the efficiency bands are not set symmetrically at $150,000, as described in Mr. Smith's direct testimony in GMP's initial filing at page 21.[2] As a result, GMP's risk on the power supply cost side are greater than under prior plans, and described below, it is also less likely to fully recover forecasted revenue (particularly if the Department's asymmetrical and higher efficiency bands are chosen).

The risks on the revenue side are twofold. First, although GMP will true up on a quarterly basis actual retail sales revenue with the base rate revenue forecast, there are several categories of revenue other than retail sales revenue which will not be trued up. Other Operating Revenue, which has a total value of approximately $21M per year, will not be adjusted against the benchmark amounts filed at the beginning of the three-year MYRP, so any variances in this category of revenue will be absorbed by GMP. Transmission, pole attachment rental income, and Energy Innovations Center ("EIC") program revenues are the major components of Other Operating Revenue, as well as Mutual Aid to assist nearby utilities with storm-related restoration. Thus, market conditions, storm activity levels, and demand for GMP's innovative products are among the factors that could cause GMP to not collect the amount of Other Operating Revenue forecasted for three years at the beginning of the MYRP.

[2] *See also*, Smith Rebuttal Testimony at 12–15.

The second source of revenue variation stems from the PSA. Some sources of revenue, such as REC sales or spot market power sales, flow through the PSA, which requires GMP to absorb some of the variation in these revenue sources (10% plus the efficiency band). Because these sources of revenue will be subject to the efficiency bands in the PSA, any variations in actual revenue from these sources that fall within these bands will be covered by GMP and not trued up 100% against the initial forecasts.

These two types of revenue variation will not be covered by other adjustors in the Plan, except to the extent that they result in impacts outside the dead band in the ESAM. And as noted above, GMP will still experience financial risk on the cost side. Retail sales and power supply costs are inherently related, and variances in the former can adversely affect the latter in a way that requires GMP to absorb portions of these cost differences. For example, a more extreme summer or winter can easily drive up retail sales across not only Vermont but New England, thereby increasing spot market prices such that they are higher than GMP's forecast. If GMP has to make spot market purchases to satisfy the greater demand, and the subsequent total expenses associated with the higher retail sales result in Component B costs per MWh that are greater than the benchmark, then GMP will experience negative consequences via the proposed cost variance mechanism in the Power Supply Adjustor, which as noted above, is a new feature in this Regulation Plan not present in our current PSA. Conversely, a more moderate summer or winter across the region can result in lower spot market prices as the ISO-NE hourly settlement mechanism solves for the correct supply and demand balance. In conditions of lower retail sales, GMP might have excess power that would then be sold on the spot market at

prices that could, like the instance of the more extreme winter and summer scenario, adversely affect the cost variance mechanism of the PSA. Because of the efficiency bands in the PSA, GMP will not recover the portion of these cost variances that fall within the bands.[3] Thus, despite the true up to collect authorized retail revenue, GMP may still experience adverse financial impacts on the cost side due to variances in retail sales. As explained in Mr. Smith's rebuttal testimony on pages 12–15, the Department's proposal for asymmetrical efficiency bands in the PSA would expose GMP to a systematic under-collection of Component B costs due to factors that are largely outside of its control.

PUC Information Request #9

Assuming that GMP collects its authorized revenue, what variables will affect whether GMP earns its authorized rate of return?

Answer to Info Request 9: As noted above, there is no guarantee under the Plan that GMP will collect all of its authorized revenue under the Plan, and certain Plan components increase the general risk GMP assumes during the term of the Plan. But even assuming that all of GMP's authorized revenue is collected, there are still several major variables that could impact the ability to earn the authorized return. It is not possible to anticipate every possible variable, but there are several variables that present potential risks, in a few major categories. These include:

[3] There are also instances under which changes in GMP's retail sales versus forecast will not be correlated with power supply costs. For example, changes in retail sales in shoulder months of spring and fall, or slight changes in the winter and summer, are less likely to result in price fluctuations.

- Variations in the fixed costs components of the cost of service. This includes Non-base O&M costs, property taxes, other operating revenue, any Component B items removed from treatment under the PSA, depreciation and amortization, business development, equity in earnings, cost of debt, and most rate base components, which are all fixed at the start of the MYRP for all three years. The longer the period of time the forecast fixes cost of service components, the greater the likelihood of an actual to forecast variance. This could include a wide range of issues. For example, property taxes could increase at a higher pace than forecast. As noted in response to PUC Info Request 8, above, Other Operating Revenue depends on the level of economic activity in Vermont, market demand for GMP's innovative products, and the support required by neighboring utilities for storm restoration. Economic activity and the need for the company's resources will affect the business development results. Unforeseen maintenance or other operational expenses may cause the costs for company-owned production O&M and other Component B items removed from the PSA to vary against forecast.[4] Capital projects may either be delayed or placed into service sooner than expected, and old equipment may be retired early, thereby affecting depreciation. Equity in earnings can vary with the financial performance of the JV Solar and Solar/Battery entities. Equity in earnings also fluctuate with the operational performance of

[4] GMP notes that the Department's proposal to remove these costs from the PSA does not specifically identify how these costs will be treated under the proposed MYRP. As described in Mr. Smith's rebuttal testimony, the Department's proposal presents some significant administrative and substantive concerns which weigh in favor of keeping these costs in the PSA. However, if the Commission accepts the Department's proposal to remove these items from the PSA the costs associated with these items should still be reforecast annually as part of the power cost refresh along with other power costs, rather than forecast and locked for three years.

GMP's JV Solar and Solar/Battery Storage units. Debt costs associated with both short-term balances and issuances of new bonds may change over the three-year MYRP period. Additionally, balances in rate base items may change due to GMP's financial performance. GMP's upfront locking-in cost of service forecasts for the life of the Plan has thus increased the company's risk associated with earning its authorized rate of return when compared with both GMP's 2018 and 2019 rate cases and annual base rate filings under prior regulation plans.

- Variations in power costs. As noted above, the new PSA allows for greater decoupling of costs and revenues, but would ultimately assign greater risk to GMP under the new cost variance mechanism in the PSA if the efficiency bands were not narrowed to $150,000 as proposed by GMP. Based on historical experience, Component B costs may vary significantly from the benchmark due to a variety of factors, including market prices and demand. GMP is proposing a new cost variance mechanism as part of the PSA for the MYRP, and GMP will keep or absorb the amount of the efficiency bands plus 10% thereafter.
- Variation in income taxes expenses. As 2018 has shown, even the income tax expense that GMP recognizes may change between the filing date and the rate year. While the amount of income tax expense that GMP anticipates will be re-forecasted every year, there is still the very real possibility that changes may occur, such as the amount of production tax credits that are earned, that affect GMP's earnings while not being large enough to trigger an Exogenous Event.

The MYRP does contain the Earnings Sharing Adjustment Mechanism, which acts as a backstop for GMP's financial performance. While the items noted in the paragraphs above can either adversely or positively affect GMP's results, the ESAM dampens the range of financial outcomes, thereby offering GMP and its customers greater stability.

PUC Information Request #10

Which of the variables that will affect GMP's ability to earn its authorized rate of return are within GMP's control?

Answer to Info Request 10: As noted above, it is impossible to identify every variable which could affect GMP's ability to earn its authorized return. It is also difficult to categorize any individual variable as completely within or entirely outside GMP's control. However, generally speaking, over the short term, GMP has limited ability to directly control many of the variables that affect GMP's ability to earn its authorized rate of return noted above in response to PUC Info Request #9:

- With respect to the areas of fixed non-power costs, GMP has limited control over non-base O&M costs, property taxes, other operating revenue, any items removed from Component B in the PSA, depreciation and amortization, business development, equity in earnings, cost of debt, and most rate base components. Some contracts are fixed and thus will not change during the life of the Plan. Property taxes, while they can be contested, are largely outside GMP's control. Other operating revenue and business development, as discussed earlier and despite internal efforts, still fundamentally depend on factors like market demand and

required support for storm restoration. Weather and unforeseen maintenance and operational expenses for Component B items cannot be controlled by GMP, although the company might have some influence on when to spend money for repairs. A large majority of the depreciation cost is already fixed and will not change. GMP can control to some extent the amount and periods over which amortizations will occur, but not after these values are fixed in the three-year forecast that will be filed under the Plan on June 1, 2019. GMP can choose to lock in some of its debt costs with a long-term issuance, but the company cannot control the offered interest rates. GMP may also prioritize capital projects and work to ensure that they go into service on time; however, unforeseen delays outside our control still occur.

- With respect to power supply items, GMP has minimal control over a range of these costs over short periods, such as a single quarter or year, during the MYRP period, particularly with respect to some existing long-term power sources. Actual output from intermittent power sources in GMP's portfolio is outside GMP's control, although decisions about the extent of these resources within the portfolio are within GMP's long-term control. Retail sales are driven by economic and weather conditions, and any open positions are satisfied by spot market purchases. GMP does have some ability to influence the performance of its generation facilities and how quickly they are fixed if they encounter difficulties, but even a well-managed plant can sometimes experience equipment outages and require expenditures that differ from benchmark levels. GMP can also pre-pay for fuel for its peakers, and

while this is a choice over which GMP has control, the impact of that choice will depend on factors outside of GMP's control, based on actual fluctuations in fuel prices. Finally, GMP does have peak management programs in place to help address costs associated with peak, although they mostly affect Component A items which are considered largely outside of GMP's control.

PUC Information Request #11

Which of these variables are already accounted for in other adjustment mechanisms, such as the Power Supply Adjustor, Merger Savings Adjustor, Revenue Adjustor, Emerald Ash Borer Adjustor, and the Exogenous Change Adjustor? Please identify with specificity each variable that is not accounted for in any mechanism in the Multi-Year Regulation Plan." How do you respond?

Answer to Info Request 11: Many of the variables discussed in response to PUC Info Request #10 above are addressed by adjustors, and the adjustors are designed to pass through or collect variances which limits some, but not all, of the financial risk associated with these variances, as described below:

- Non-power costs and revenues, including non-platform O&M, and non-retail revenue forecasts are locked, and are not subject to an individual adjustor. GMP assumes the burden for cost variances in these categories of expenses and revenue, except to the extent that they are ultimately captured by the ESAM.
- Similarly, the overall capital closed to plant during the term of the Plan is also locked, and absent PUC approval under one of the exceptions, GMP assumes the risk for variances in capital needs during the term of the Plan to the extent the variation is inside the deadband in the ESAM. The agreement to lock capital, and other non-power costs, for the three-year term of the Plan creates significantly

greater risk compared to prior plans, which included an annual update on all costs, including capital and O&M costs. As a result, the potential for significant divergence from the amounts included in the cost of service was lower. GMP assumes all of the risk for this variance in these areas to the extent they fall within the range of the ESAM deadbands.

- Variances in retail sales are addressed by the Revenue Adjustor, but as noted above in response to PUC Info Request #10, not all revenue variances will be trued up, and GMP remains incentivized through the PSA mechanism to forecast both revenue and costs accurately, and to meet those forecasts.
- Variances in power supply costs, including transmission by others and owned O&M, are addressed by the Power Supply Adjustor, but the Component B adjustor includes efficiency bands, which create financial risk for GMP and encourage efficient power supply management and operations.
- Storm costs are a variable largely outside of GMP's control, which are covered by the exogenous change adjustor. However, this adjustor also contains an annual $1.2M deductible which is absorbed by GMP.
- Variances in Platform O&M costs are addressed by the Merger Savings Adjustor, with savings shared between GMP and customers 50/50 in FY20 and all savings returned to customers in FY21 and FY22.
- The ESAM itself operates as an overarching mechanism to incentivize efficient operation of the company and encourage cost reductions across the board. GMP absorbs all variance within the deadbands, and variances within the sharing bands

are shared with customers. The ESAM also acts as a backstop against significant variances in the overall cost of service, protecting both the customer and GMP against dramatic variances from the benchmark.

PUC Information Request #12

Does the Earnings Sharing Adjustor Mechanism create a risk of double recovery of variables that are already accounted for in another mechanism? Why or why not?

Answer to Info Request 12: No, there is no risk for double recovery as long as the accounting entries associated with the various adjustment mechanisms (Retail Revenue, Power Supply, Exogenous Change, Merger Savings, Emerald Ash Borer, and Rate Smoothing Adjustments) are recorded before the Earnings Sharing Adjustment Mechanism calculation is performed. That is how GMP has always handled the ESAM, and GMP's performance in this regard will be monitored yearly through ESAM report filings.

PUC Information Request #13

The Earning Sharing Adjustment Mechanism contains a dead band and shared band which will allow GMP to earn more than its authorized return on equity under certain circumstances. Why should GMP be allowed to earn more than its authorized return on equity?

Answer to Info Request 13: The earnings sharing approach was designed to fulfill the statutory requirements of the Vermont regulation plan statute that include, among other things, that regulation plans establish a system of regulation in which companies have clear incentives to provide least-cost energy service to customers (30 V.S.A. § 218d(d)(1)), offer incentives for innovations and improved performance that advance

state energy policy, (30 V.S.A. § 218d(a)(4)), and establish a reasonably balanced system of risks and rewards that encourage the company to operate as efficiently as possible using sound management practices (30 V.S.A. § 218d(a)(7)). Prior Commission orders on regulation plans have recognized that providing an opportunity for GMP to share in overall operational savings that reduce costs for customers promotes the overall goals of regulation plans, and fulfills these statutory requirements. GMP's proposal in this case adopts an earning sharing system similar, though smaller in magnitude, to those in prior plans, which limits overall risk, and encourages cost savings that can benefit both customers and GMP. While some components of the Plan, including the new retail revenue adjustment, will make any annual collection or return to customers less likely than in prior plans, the increased risk associated with GMP's proposal to lock non-power costs based on a three-year forecast makes the overarching backstop function of the ESAM even more important than under prior plans, as the potential for a disconnect between actual and forecast costs over the three-year period is greater.

PUC Information Request #14

If GMP's proposal to collect all the costs of a major storm in one quarter had been in effect over the last five years, what would the range of quarterly bill impacts have been for an average customer?

Answer to Info Request 14: The analysis in **Exhibit GMP-ER-7** provides a summary of major storm costs over the past five years, and a breakdown of how these costs would have been collected under GMP's quarterly collection proposal for the MYRP. To prepare this analysis we looked at the invoices for major storm costs that were received in

each quarter, and then consistent with the MYRP proposal, applied the annual $1.2 million deductible, and then assumed that the invoiced costs above the deductible would be collected in the second quarter after the invoices were received. As would be expected, this analysis shows that changes associated with major storm events are variable depending on the timing and severity of each storm, and the timing of receipts for invoices for costs associated with each storm. There are several quarters with no collections, and then in the quarters that collections do occur, the amounts range from tens of thousands of dollars at the low end to $9 million at the high end (which would have been associated with the significant, heavy wet snow event that occurred in November of 2018).

While preparing this analysis we also realized we needed to clarify the language in the Revised Plan describing how these collections will occur. In particular, to implement the quarterly collection methodology, we are proposing to collect the actual invoiced costs for major storms that are received in each quarter (above the annual deductible). With each storm there is always some delay before actual invoices are received for the restoration work. For example, if a storm occurs early in the first quarter, we may receive some, but not all of the invoices for recovery work for that storm by the end of the first quarter. The intent of the quarterly collection method is to include all invoices received in Q1 in the adjustor that starts in Q3, rather than provide an estimate of all costs associated with the storm in Q1, and then need to true up those estimates to final invoices later. Alternatively, we could wait for all invoices to be received for a storm and then include the final invoiced amount in the adjustor two

quarters after that date, but that approach will lead to greater stacked costs for customers and more disconnection in time between the storm and recovery of associated costs, which undermines the purpose of a quarterly collector. The intent of the Plan is to roll actual invoiced costs through the adjustor as soon as feasible, which will provide some smoothing of costs as invoices for one storm may be spread over two or more quarters, while facilitating a closer connection between the storm and the start of collection for associated costs. It will also make review of the proposed adjustor simpler administratively as all costs will be directly supported by invoices when the adjustor is filed. Even where major storms result in significant one-time costs, the collection of those costs will be accomplished in a shorter time frame than prior plans, over just a one or two quarters, unless otherwise ordered by the Commission, and then would be completed, avoiding the type of stacked costs that have occurred in the past.

These proposed clarifications are outlined in **Exhibit GMP-ER-1 (Rev.2)**, which is a redline version of the Revised Plan (Exhibit GMP-ER-1(Rev.). The redlines address the process for collection the Exogenous Major Storm Adjustor, described above, as well as the collection method, which would be based on a percentage surcharge on total revenue, and a similar edit on the collection method for the proposed EAB adjustor, which is also proposed as a percentage surcharge on total revenue. GMP has discussed these clarifications with the Department and understands that they concur with the clarifications.

PUC Information Request #15:

Now that GMP is proposing to collect $8 million per year over the life of the plan to recover major storm expenses from periods before the plan, are those costs going to be recovered in base rates rather than in the major storm adjustor line item on the bill? Why or why not?" Please respond.

Answer to Info Request 15: GMP has proposed that the $8M/year collection for prior storm costs be collected as a line item, rather than recovered in base rates, because we believe it is important for transparency purposes that customers understand the source of these additional costs. This line item would be separate from the quarterly major storm adjustor for new major storms that occur during the term of the Plan, described above.

Q4. Does that conclude your testimony today?

A4. Yes, it does.