GMP Multiyear Regulation Plan Analysis & Consideration of Risk

The energy transformation underway in Vermont and beyond promises a more local, dynamic, and lower-carbon electric grid. Changing the status quo brings with it challenges. GMP needs to provide new, innovative services to customers to realize the vision of a cleaner, home- and community-based grid while it manages its increasingly complex infrastructure at a time when sales are lower than they were 15 years ago.

GMP's focus is to continue to deliver on the promises of this energy transformation in a way that is cost-effective for customers and maintains our high level of reliability and customer satisfaction.

GMP's work to meet this dynamic future aligns completely with the interests of our customers. If our customers do not receive the energy system they want and need at a price they can afford, GMP has not succeeded; similarly, if GMP's operations or finances were to falter, customers would suffer. That is how GMP approached the design of its regulation plan – as a balanced proposal to help GMP and our customers navigate the upcoming years of energy system disruption together. GMP does not view regulation through a traditional lens; every single proposal made is about how to achieve a positive outcome for customers in the most cost effective, financially responsible way.

As we indicated in both our 2019 Rate Filing and this MYRP, a significant risk facing both GMP and our customers during this time of energy transformation is the impact of flat or declining retail loads stemming from accelerating adoption of self-generation and efficiency measures. These transformative forces provide a number of important environmental and societal benefits, as well as financial benefits for those customers who are able to take advantage of these new opportunities. However, they risk leaving a majority of our customers with increasing costs for maintaining the traditional grid system, at a time when its operation and management is also more complex. This is a collective, system-wide risk which we share with our customers, and the solutions we are advancing through this plan are designed to offer a balanced approach to meeting this challenge together. These challenges are not unique to Vermont, but we are pursuing an approach in this plan that we believe is unique – focusing strongly on innovative solutions, such as shared storage devices, that encourage an active partnership between GMP and our customers to shave costs and generate revenue from new programs that benefit all customers, not just those who have the resources to pursue innovation on their own.

The individual components of the plan work together to achieve that critical balance. Below is GMP-MGP-1 updated to include an analysis of this issue:

Category	Element	Summary	Analysis & Discussion of Risk
Infrastructure Costs	Capital Expenditures	Detailed project by project based on known and measurable standard for RY19 in rate case; then for Plan period FY20-22, fixed amount, category by category (i.e., Gen, T&D, IT, fleet, facilities, new initiatives), with limited exceptions. Locked in ~$85 million/year spending for each year of regulation plan, with limited exceptions, and total Closed to Plant during Plan term of $256.5.	By fixing capital spending below GMP's recent level and keeping its trajectory flat for the Plan term, we are establishing greater cost predictability. This is positive from a rate standpoint, and is also beneficial to GMP from a capital planning point of view, and to the state from a regulatory oversight point of view. Setting the investment level correctly is important to maintain a highly reliable, customer-responsive system that also supports innovation. Unexpected or emergent issues could present risks related to expenditures above our proposed spending level – to both the customer and the company. The plan contains provisions to deal with these risks including the opportunity for petitions for spending outside the proposed cap and plan exit. It also has mechanisms, including the ESAM, to ensure that any potential savings resulting from an under-expenditure of capital during the term of the Plan flows back in part to customers. We think this is highly unlikely due to the capital constrained nature of the Plan, but it is an important check and is beneficial to customers. The plan is designed to transparently set an appropriate overall level of capital expenditures (and related Closed to Plant additions) for its entire term, to provide GMP appropriate management flexibility. In traditional regulation where no routine or annual rate cases are required, such as can now be seen with municipal utilities in Vermont, three or more years between rate review is not unusual. Regulatory tools exist to ensure spending in the interim period has met requirements for just and reasonable rates. The company is responding to concerns that the annual capital spending review in its prior regulation plan was both too detailed and too opaque to generate confidence in the process. GMP believes that an overall three-year capital spending cap, bookended by full cost of service reviews, best addresses this concern while appropriately balancing risks related to this area of costs.
	Depreciation	1) Set up front, based upon forecasted cost by rate year through 2022 due to set capital spend by year. 2)Adjusted for adoption of new depreciation study to be applied starting FY2021. Locked in $/year, adjusted only for depreciation study in FY21 and FY22.	See above.
	Property Taxes	Set based upon forecasted cost by rate year through 2022, based upon set capital spend by year and inflation expectations. Locked in $/year.	See above.

Power Supply, Transmission, Revenue	Energy, Capacity, RECs, Ancillary Services, Transmission Generation O&M Costs & Revenue	Forecasted annually through FY2022, as filed no later than 3 months prior to start of rate year (i.e., no later than July 1 for Oct. 1 start). Adjustors used to true up power costs and retail revenue. See below.	This category represents approximately 60% of GMP's total COS. Annual forecast refreshes, done closer in time to the start of the rate year than might otherwise occur, ensure rates set over the three-year period do not deviate too much from GMP's actual power costs; the process will follow well-established forecasting shared with DPS and customers, enhanced by the lessons of hourly dispatch modeling GMP is completing for the 2020 period. As discussed below, incorporating a power supply adjustor with retail revenue decoupling helps to balance and share the risks associated with this component of GMP's costs, and the transition from the volume adjustor to a cost variance measurement places a greater spotlight on GMP's obligation to control costs.
Financing Costs	Debt	Detailed known and measurable costs for RY19. Forecasted annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year.	GMP is not proposing a significant change in this component compared to the current traditional rate approach in our 2019 case. The flat ~50/50 D-E ratio will be maintained for the term of the Plan and will ensure predictability for customers and consistency for our credit rating agencies. The 50/50 spilt is an appropriate balance between overall equity and borrowing, which contributes to help maintain GMP's financial strength and credit rating. Such consistency helps lower borrowing costs, which in turn helps customers. GMP will continue to file Section 108 petitions as required and will update its debt forecasts annually during the term to ensure rates are calibrated to reflect actual costs.
	Equity	Set number based on witness testimony/evidence from 2019 rate case, adjusted by indexing annually 2020-22 and modest performance-based ROE adjustments, if achieved. Proposed 50/50 debt/equity ratio for life of plan, +/-1%.	GMP's proposal will be based upon GMP's current ROE proposal, which remains the lowest of any vertically-integrated utility in the country, despite GMP's high performance. The Plan starts from this low level, which is beneficial for customers. The indexing methodology proposed is less volatile than relying solely upon the 10-year treasury bond yield, creating greater stability for both customers and GMP. The proposed modest performance-based ROE adjustments establish this plan as a true Performance Based Regulation Plan and are designed to ensure continued excellent customer results even during a period of constrained capital spending.

Other Costs	O&M	O&M Platform adjusted for inflation through 2022, period of merger platform. Off platform O&M items subject to reforecast yearly for inflation and payroll changes, as filed no later than 3 months prior to start of rate year.	No change is proposed in this component during the term of the Plan. The platform for O&M spending is in place through the end of the Plan, as previously ordered by the Commission in the merger proceeding.
	Taxes: Federal, State, & Other non-Prop Taxes	Detailed known and measurable costs for RY19. Forecasted annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year.	Annual forecast refresh of these items ensures rates set over the three-year period do not deviate too much from GMP's actual tax liability for the term. We believe this forecast approach provides a mechanism to mitigate risks given the potential for changes in this category, which are difficult to predict, as indicated in the recent change in corporate tax law.
	Equity in Affiliates	Detailed known and measurable costs for RY19. Investments and earnings forecasted annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year. Any investments in new affiliates subject to PUC approval.	Annual forecast refresh ensures rates set over the three-year period do not deviate too much from the performance of GMP's actual equity investments. The plan also requires that GMP seeks PUC approval of any new investments, which is beneficial for rate stability and transparency.
	Other Items	Detailed known and measurable costs for RY19. Forecasted or calculated annually for each rate year 2020-22, as filed no later than 3 months prior to start of rate year.	Annual forecast refresh ensures rates set over the three-year period do not deviate too much from GMP's actual expense, which is beneficial for rate stability and transparency.

Refresh & Adjustors	Revenue & Power Supply Adjustor (PSA)	Plan proposes a new retail revenue adjustor for decoupling and an improved power supply adjustor that better aligns GMP incentives to control power costs with customer incentives to reduce energy spending. Quarterly true-up proposed.	Retail revenue decoupling, built into GMP's Power Supply Adjustor ("PSA") design, is consistent with the DPS commentary in the "future of regulation" proceeding; as has been noted, it ensures GMP has no incentive to increase sales. The plan also enhances the transparency and frequency of this adjustor, compared to the current design. The new PSA design, particularly the transition from the volume adjustor to a cost variance measurement, is an improvement for customers and the company because it makes more transparent the accuracy of GMP cost forecasting and places greater emphasis on GMP's obligation to control costs. GMP continues to share risk associated with it executing in this area through a $150K Component B deadband + 10% sharing of cost variance. Component B costs are considered to be more within GMP's control, though experience shows this is true only to a limited extent. The levels of Component B deadband and overall cost variance sharing are appropriate for the more rigorous PSA methodology. Even at this lower deadband level than the current plan, the proposed design would have produced a similar net result over the most recent five-year period, for comparison.
	Exogenous (including Storm) Adjustor	Plan proposes new ongoing $8M/yr collection of exogenous costs booked to regulatory account to cover accumulated costs in current regulation plan and allow greater certainty and reduced volatility from Major Storm recovery during time of increasing severity and frequency of storms due to climate change. Same thresholds/storm deductible.	The proposed approach updates how exogenous costs will be recovered in a manner that results in more predictability for customers. GMP will continue to carry the costs of all currently-outstanding exogenous storm adjustors (presently more than $12M), until these are paid down by the new Plan. Customer collections for these and future exogenous storms will be set at a level amount for the plan period (absent extraordinary storms or significant over-collection, as described by Mr. Ryan). The proposal will enhance both the predictability and transparency of the plan for customers and the company (because individual collection periods will not have to be separately defined, even though GMP will continue to file for approval to confirm all exogenous costs). In addition, while $8M in costs in any year is equivalent to about 1.2% in additional rates, that amount is already less than the total outstanding Major Storm expenses, without counting any future storms that may meet the definition of an exogenous event. The 2023 rate case, at the end of the O&M platform and with the experience of this three-year set collection, will allow for appropriate readjustment of both ongoing storm costs and treatment of exogenous collections/returns.
	Earnings Adjustor Sharing Mechanism (ESAM)	Plan proposes a new, modest ESAM with 50+/- dead band and symmetrical sharing 50/50 of over -or under-earning outside dead band through next 50 +/- bps, with 100% customer return/collection beyond sharing band. Other provisions of Plan will limit need for ESAM, but it is a backstop.	GMP believes a symmetrical ESAM with a modest deadband is an appropriate balance in a plan that overall decreases the likelihood of significant ESAM adjustments (due to revenue decoupling) and enhances GMP's focus in other respects (PSA method and capital spending lock, for example).

Category	Element	Summary	Analysis
Other	Innovative Pilot	Plan continues strong current program.	As described in Ms. Powell's testimony at Q 19-23, the many risks and changes in the electric industry require the company to think outside the box and offer customers innovations to drive down costs, lower carbon, and continue reliability. The limited nature of the Innovative Pilots (18 months, with specific upfront documentation and ongoing reporting requirements) provides GMP the important flexibility to try programs that it expects will generate overall customer benefit on a much more real-time schedule than could be achieved through traditional regulation. It is a key element of this plan.
	Innovation & Performance Metrics	Plan incorporates Service Quality and Reliability Plan, proposes small ROE adjustments for superior performance on customer service stretch goals, and includes Innovation metrics for measurement.	The SQRP were set at the time of the merger to ensure the newly-combined company performed well for customers; that set of service quality requirements were contemplated to continue until the merger savings/O&M platform ended in 2022. The plan continues these measures. In addition to these state requirements, GMP proposes stretch service quality metrics to encourage and reward even greater customers results. These measures, as they may be adjusted and improved in this proceeding, are essential to create a Performance-Based Regulation Plan, and the commitment to track innovation measures over the course of the Plan aligns with the energy goals shared by the state, customers and GMP.
	Cloud capital expenses New Initiatives cap ex	GMP suggests cloud-based projects should be treated as capital cost, not expense, per evolving business model as recommended by NARUC. Plan also proposes greater spending flexibility for new initiatives that are positive for customers.	GMP included this proposal as the trend in other states warrants consideration, as described by Mr. Otley. The effect during this plan period is minor, but it is a more contemporary way to look at IT infrastructure, and does not discourage consideration of new approaches to IT investments that would be beneficial for customers.
	Opener for Unforeseen Strategic Cap Ex	Plan proposes provision to allow request recovery of unforeseen but important capital projects for customers (i.e., strategic hydro acquisition).	This important provision ensures the plan will not force GMP to forgo strategic investments that may arise that could benefit customers and state energy policy, but were not foreseen at the time of plan adoption.
	Ability to seek rate case—exit clause	Plan allows GMP or Department to suspend plan and go to traditional case if costs become materially disconnected from what is in rates.	This provision protects customers, the company and the state from any material unintended consequence from the plan that renders rates unjust and unreasonable during the term.