Q.GMP.1-9. On page 20 of Mr. Allen's Direct Testimony he discusses continuing to embed the O&M Platform savings into base rates. With respect to this issue:

a. **Please explain how the O&M Platform would be embedded into base rates under the Department's proposal? Would this be based on GMP's forecasted merger savings at the outset of the Plan? Would that number be adjusted for reforecasting (not formula adjustment) during the Plan?**

PSD Response: The O&M Platform contains costs and expected savings levels that can be built into the plan in a way that informs the productivity offset that is established and applied. The levels of adjustments should be sufficiently well vetted by the time of the onset of the plan that they can be built into the expected levels of depreciation at the plan's onset.

b. **Is the Department proposing to eliminate the annual merger savings report and/or the merger savings adjustment/true-up? Please explain why or why not.**

PSD Response: The principle that the Department advances is one of building on the assurances that have already been secured for ratepayers as a result of Docket 7770. As such, the Department sees no reason to diminish the reports and activities that are relevant to those assurances. The Department does not propose to eliminate the annual merger savings report. The principle should extend to other elements of the commitments associated with the merger. How such reports are framed may, however, may need to change to reflect these broadened productivity or efficiencies that result from both the merger and the multi-year rate plan.

c. **Is it the Department's position that merger savings associated with the O&M Platform that are embedded into base rates would be subject to the proposed inflation and productivity formula on an annual basis?**

PSD Response: The O&M platform is an embedded component of the base rates under the Department's proposal. The O&M platform would be an embedded component of the cost of service. Expectations for savings relative to that platform would be reflected in the productivity offset that is a part of the Department's proposal for the multi-year rate plan.

d. **If merger savings are subject to this formula adjustment, please describe how GMP should calculate the total O&M savings related to the merger on an annual basis and at the end of the 10-year merger savings period.**

PSD Response: GMP has made assurances relative to the O&M platform that must be met. This sets a floor on savings relative to the O&M platform. It seems unlikely that GMP will be able to readily distinguish savings attributable to the merger from savings relative to the multi-year rate plan. That Department is not seeking such as distinction. As a practical matter, I believe that the merger platform savings represent both savings from the merger and savings that would naturally and historically have existed for GMP over time as the multi-factor productivity analysis for GMP and for most utilities in the sector have yielded. These historical patterns represent the floor of expectations that we believe should apply over the course of the plan.

e. **If merger savings are embedded into base rates but are not subject to the inflation minus productivity formula, please explain how the Department's formula would be applied on an annual basis to exclude merger savings.**

PSD Response: The Department's proposal does not attempt to exclude the merger savings. Rather the Department's proposal is to embed the savings in the broader formulaic adjustment to base rates. The merger savings merely inform that productivity adjustments that should be wired into the plan for the year-to-year inflation minus productivity adjustments. In effect, the merger savings are a hard-wired component of the base rate formula under the multi-year rate plan.

f. **Please explain how the Department's proposal for incorporating merger savings would work under the following scenarios:**

   i. **Actual merger savings achieved in FY20 are $5M greater than the forecasted merger savings amount included in base rates. Would 50% of these additional savings be returned to customers, and if so, how? Would GMP receive 50% of total merger savings actually achieved for FY20, and if so, how?**

PSD Response: Yes. This is a complication that I believe exists for the first year of the plan. Some accommodation would need to be made. I would like to see a work-around crafted at the front end of the plan. In perhaps the most straightforward accommodation, the "savings", actually the difference between the O&M platform and the actual expenses that materialize in the O&M platform, would simply be split 50/50. The 50% share to GMP would likely need to ride outside of the base rate adjustments and the ESAM. In effect, 50% of the additional savings would simply be recognized as an expense for purposes of the base O&M adjustors. In this instance, a $2.5 million regulatory asset would be created and treated as an expense that would flow through as a separate item in 1 or more future years.

   ii. **Actual merger savings achieved in FY20 are $5M less than the forecasted merger savings amount included in base rates. Would 50% of these reduced savings be collected from customers, and if so, how? Would GMP receive 50% of total merger savings actually achieved in FY20, and if so, how?**

PSD Response: Assuming that there was a bona-fide conflict between the formulation of the merger and the base-rate adjustments, then the prior formulation would supersede unless the parties to the agreement in Docket 7770 agree otherwise. It potentially acts as a constraint on the application of adjustment to the overarching base rate. Some of the expected ratepayer benefits that are expected can surface through the productivity offset, they can be built into the base rate, or they can be recaptured as a an offset to the regulatory asset account just mentioned.

iii. Actual merger savings achieved in FY21 or FY22 are $5M greater than the forecasted merger savings amount included in base rates. Would 100% of these additional savings be returned to customers, and if so, how?

PSD Response: See prior response.

iv. Actual merger savings achieved in FY21 or FY22 are $5M less than the forecasted merger savings amount included in base rates. Would 100% of these reduced savings be collected from customers, and if so, how?

PSD Response: See prior response.

Person Responsible: J. Riley Allen
Title: Deputy Commissioner, Department of Public Service
Date: January 11, 2019