

RESPONSES TO INDIVIDUAL DISCOVERY REQUESTS

Q:REV:DPS-1: Mr. Winn's October 8, 2018 rebuttal testimony states the following at page 13 concerning the Department's recommendation that Green Mountain Power Corporation's ("GMP") Heat-Pump Water Heater ("HPWH") products be excluded from rate base:

These devices are readily available consumer products. For this project, the concerns about a regulated monopoly competing in an unregulated business should outweigh the minor benefits. Allowing rate base treatment for commercially available, behind-the-meter consumer products solely because they may provide incremental benefits would establish a misaligned, open-ended regulatory policy. Without appropriate limitations, and number of generic, commercially available electronic devices could be placed into rate base.

Until GMP has implemented the ability to control these devices for the benefit of all ratepayers and can confirm the stated benefits, the Department recommends excluding them from rate base to remedy the competitive advantage created by GMP's monopoly position and the regulated rate of return on the investment.

With respect to these statements, please respond to the following:

- (a) Please describe in detail what the concerns are about a regulated monopoly competing in an unregulated business.**

PSD Response: There are several advantages a regulated monopoly may have over an unregulated competitor: 1) The amount of profit utility shareholders earn is based on the authorized return and generally not subject to market forces. 2) Non-participating customers, and not utility shareholders, are at risk if the program's costs exceed revenues. This situation could occur if payment defaults or warranty costs exceed what is priced into the product. 3) The use of the monthly bill, customer service staff, marketing and other functions financed by ratepayers to collect payments for these devices. Access to this bill at no cost is an advantage over unregulated market participants. 4) Furthermore, the utility capital structure is supported by its regulated revenue. This stable source of capital may not be available to unregulated market participants.

- (b) Please explain in more detail the "misaligned, open-ended regulatory policy" that would result if GMP were given rate base treatment for commercially available, behind-the-meter consumer products.**

PSD Response: Absent applying the criteria discussed, it would be difficult to find a logical basis to prohibit any common household appliance from being included in rate base.

- (c) With respect to the previous question, admit that the concern applies not only to HPWH products but with respect to any readily available consumer products.**

PSD Response: Admit.

- (d) Describe specifically your concerns with respect to the competitive advantage created by GMP's monopoly position and the regulated return on the investment.**

PSD Response: See response to subpart (a) above.

- (e) With respect to the previous question, please**

- i. Identify over whom would GMP have a competitive advantage and why that is a concern.**

PSD Response: Suppliers of these commercially available consumer products.

- ii. Explain your concerns with allowing the regulated return on investment, including any regarding the disadvantages to competitive, unregulated suppliers of commercially available products.**

PSD Response: See response to subpart (a) above.

- iii. With respect to the previous question, explain how these disadvantages are created via allowance of a regulated rate of return on investment.**

PSD Response: See response to subpart (a) above.

- (f) If rate base treatment were allowed for these commercially available HPWH products, what rate of return would GMP earn?**

PSD Response: The authorized rate of return on equity ("ROE") that GMP has proposed, and the Department supports, in this proceeding is 9.3%. The actual rate will depend on a final order from the Commission.

- (g) What rate of return or investment will GMP earn on its investments in other commercially available products provided through an innovative pilot?**

PSD Response: Assuming rate base treatment is allowed, see response to subpart (f) above.

- (h) Please explain how a showing of benefits for all GMP customers would remedy the competitive disadvantage caused to non-regulated suppliers of these commercially available products.**

PSD Response: The Department believes that its criteria eliminate most of the advantages a regulated monopoly enjoys by exposing GMP's investors to most of the same risks facing unregulated competitors. If the criteria are met, the need to innovate in the electric utility industry, or to encourage the deployment of infrastructure such as electric vehicle chargers, on balance outweighs any remaining competitive advantage concerns.

- (i) Admit that even if GMP were able to demonstrate that these products provide benefits to all GMP customers, allowing GMP a rate of return on its investment of these commercially available products would not remove GMP's competitive advantage.**

PSD Response: Admit.

- (j) Do you have similar concerns re GMP's competitive advantage if it is allowed a rate of return on its investment in other commercially available products? Please explain your response.**

PSD Response: Yes, please refer to response to subpart (a) above.

Person Responsible for Response: Brian E. Winn
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