Schedule A – Narrative Summary of Fiscal Year 2021 Annual Base Rate Filing under Green Mountain Power's Multi-Year Regulation Plan

The following materials describe Green Mountain Power's ("GMP") Annual Base Rate Filing for Fiscal Year 2021 ("FY21") and are submitted pursuant to GMP's Multi-Year Regulation Plan ("MYRP" or "Plan").[1] The MYRP establishes the process for setting GMP's rates for the Fiscal Year periods of 2020–2022. This filing represents the second of three annual filings under the Plan and proposes the annual base rate adjustment for FY21 which, if approved by the Commission, will commence on October 1, 2020. As described below, the filing would result in no base rate change for customers and smoother collection of additional power and storm costs this coming year, if approved along with the Petition to Modify the MYRP filed simultaneously by GMP.[2]

When the Plan was approved, the parties and Commission recognized rate stability as one of its key benefits, created through a smoothed three-year rate forecast with many cost categories locked or capped. No one, however, could have predicted the context in which FY21 rates would be set: a global pandemic that has created enormous economic disruption and uncertainty for everyone. During the Stay Home, Stay Safe order, many GMP customers found themselves out of work or with reduced hours; others employed in jobs essential to the pandemic response found themselves working in new ways to try to stay safe in often-stressful situations. Many businesses had to stop or significantly curtail operations or had to adapt to the uncharted territory of large-scale Work From Home. All of us have been concerned about the health and welfare of our families and friends, and we all have experienced the unprecedented stresses and strains of social and physical isolation. While the economy is now slowly reopening and we are all adapting to a new way of life, the financial strains of the pandemic will likely be felt for many months ahead.

GMP worked quickly to try to reduce the immediate impacts of the pandemic by providing

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[1] The Plan was approved by the Public Utility Commission ("PUC" or "Commission") on May 24, 2019, after a thorough, year-long review process, which involved multiple public hearings, a technical workshop, extensive formal discovery by the Department of Public Service ("DPS" or "Department") and other intervenors, numerous experts, and an evidentiary hearing. In its order approving the MYRP, the Commission concluded that the Plan creates a fair and transparent process for setting GMP's rates for the next three years (Fiscal Years 2020–2022) and includes appropriate mechanisms to encourage further innovative efforts to meet the State's ambitious renewable energy and greenhouse gas reduction goals. Case No. 18-1633-PET, Order of 5/24/19 at 3.

[2] GMP's Petition to Modify the MYRP proposes to maintain the quarterly measurement periods for the Power Supply & Retail Revenue Adjustor and the Exogenous Major Storm Adjustor, with a revised collection and return approach for these adjustors using a common collection basis. This will allow for netting changes over two quarters before implementing any adjustments, along with a rolling twelve-month collection/return period, to provide greater rate stability for customers. GMP's Petition also requests that any nominal revenue difference after Department and Commission review, such as that shown in this Annual Base Rate Filing as ($346,000), be utilized to offset owed quarterly adjustments rather than flowing to base rates, so that customers would see no base rate change at all in FY21. This will create greater bill stability and avoid the potential confusion and complexity of creating a very small base rate adjustment at the same time quarterly collections are owed. See GMP Petition to Modify MYRP, filed June 1, 2020 (Case No. 20-1401-PET).

stability for our customers. We suspended in March normal quarterly adjustors to prevent bill impacts for customers, and we also stopped all disconnects and collections activities. We changed our operations to ensure we could still continue to respond safely and effectively during storms and are proud to have managed five separate storm events in March, April, and May 2020 for our customers. We began tracking all of the impacts of COVID-19 on our business, so that we could anticipate short-term cost implications for our customers and think through how best to manage the uncertainties looking ahead. As Vermont has now recently come out of the immediate health crisis, GMP is continuing to assess the impacts to our operations for the rest of this fiscal year and beyond, as well as the longer-term economic hardships customers may experience. The fallout from this pandemic is still unfolding, and still not completely known.

While it is very good for customers that our base rates under the Plan will not change next year, we recognize the reasons for that are largely tied to power market and economic forces. Meanwhile, these same forces likely will cause other customer impacts in the year ahead that could be significant: the immediate economic disruption caused by the shutdown dropped total retail revenue by 4.4% in March and April compared to forecasts, and while we hope and expect those trends will moderate in coming months as the economy slowly reopens, the longer-term effects are unknown at this time. Power costs, which include long-term GMP purchases and solar at fixed rates along with shorter-term market purchases, are somewhat lower than originally forecast so far this spring but will not make up the difference. GMP therefore expects significant overall quarterly adjustments in the third and likely the fourth quarters of this fiscal year. We also recognize the real uncertainty in the next year regarding power cost and sales volatility, since it is very difficult to assess how long the pandemic effects on energy usage and other items will last. That is why GMP is providing help for customers by pairing this flat base rate submission with a separately filed Petition to change the way we collect quarterly adjustments. This proposal would both smooth and stretch out these collections to help keep overall bills lower for customers even if we experience more market volatility and potentially higher collections next year.

1. Details of the FY21 base rate filing

The majority of GMP's non-power costs have been locked for the three-year term of the Plan, based on the three-year forecast provided at the outset in GMP's Initial Annual Base Rate Filing (Case No. 19-1932-TF, filed June 13, 2019). The only items in the Plan that are subject to annual reforecast or readjusted are 1) power supply costs; 2) retail revenue; 3) return on equity ("ROE"); and 4) associated income taxes calculated based upon the ROE.

The Initial Annual Base Rate Filing in June 2019 calculated a Projected Smoothed Base Rate adjustment of 2.72% for FY21, but the actual adjustment for the coming year—after refreshing the forecasts for annually-updated items—is substantially lower. Customers will see no base rate change commencing October 1, 2020, if the adjustments described in this filing and the related Petition to Modify the MYRP are approved by the Commission.[3]

A summary of the reforecasted FY21 base rates compared to the original FY21 forecast is provided in Schedule A-1.

Here are the details of the primary components of the FY21 base rates that are subject to annual reforecast or updating:

A. **Power Costs for FY21**: See Schedule C (Cost of Service). Following a period of historically low power costs during winter 2020, the outlook for FY21 power supply costs is approximately $14.7 million lower than originally forecast at the outset of the MYRP. The primary drivers of this reduction are lower net power costs (down $10.3 million from the MYRP forecast), and reduced transmission costs (down $4.4 million). While overall power costs are projected to be lower, volatility looks to be higher due to the uncertainty created by the COVID-19 pandemic. This anticipated volatility is one of the reasons GMP is proposing revisions to how adjustors will be handled under the MYRP going forward in order to provide customers greater rate stability. See GMP Petition to Modify MYRP.

B. **Retail Revenue for FY21**: See Schedule C (Cost of Service) & F (ITRON Forecast). GMP's retail revenue for FY21 is prepared by a third party, ITRON. GMP's retail sales have been flat to declining over the past several years, and the base case for this coming year is no different. ITRON's FY21 forecast was based on the most recent Moody's State Economic Forecast available at the time the forecast was prepared (January 2020), and anticipates a further reduction in power sales, below the already reduced forecast used in the initial MYRP filing. This decline in expected sales results in increased rate pressure in FY21, compared to the original MYRP forecast, even before any additional impacts associated with COVID-19 can be reasonably forecast. As described in ITRON's report, the overall impacts of COVID-19 are uncertain at this time and therefore are not included in ITRON's analysis. The economic shutdown associated with the pandemic has had varying impacts on different classes of users, with weather-normalized sales to small and large commercial and industrial customers down in April 2020 (16% and 7% respectively), while weather-normalized residential sales are up 9% over the same period. While it is clear that COVID-19 will impact sales, the extent of the impact, and the length of recovery from these impacts, remains unknown, and forecasting those impacts with any certainty at this time would be nearly impossible. We do expect that retail sales volumes are likely to be more volatile in the coming year because of COVID-19, resulting in greater volatility in quarterly adjustors under the Plan. This increased

[3] If the Petition to Modify the MYRP is not approved, a very small decrease in the overall revenue requirement would result in a base rate change of -0.06%, but the collection of future adjustors would be correspondingly larger. In any case, the other charges already authorized and collected on bills, related to ongoing return of prior storm costs and Emerald Ash Borer remediation, would continue.

volatility and uncertainty associated with FY21 retail sales supports modification of the quarterly adjustors in a manner that will allow for smoother recovery or return to customers compared to the original adjustor proposal, which was developed in a pre-COVID-19 world. See GMP Petition to Modify MYRP.

C. **ROE Measurement Period Update for FY21**: See Schedule E (Cost of Capital). Under Section IV(D) of the MYRP, GMP's return on equity is adjusted by a set formula annually. The formula measures the change in the daily average yield of the 10-year Treasury Note between February 15 and May 15, compared to the same period in the prior year. GMP's existing authorized ROE (9.06% for FY20) is then adjusted by 50% of the change in the average daily yield during the measurement period to establish the FY21 ROE.[4] This year, the ROE measurement period included historically low yields for the 10-year Treasury associated with the rapid economic collapse caused by the COVID-19 pandemic. The average daily yield during the ROE measurement period fell by 171-basis points compared to the year prior. Based on the formula, this results in an 86-basis point reduction in GMP's authorized ROE, producing an 8.20% ROE for FY21. This is approximately 1% below the forecasted FY21 ROE included in GMP's original MYRP forecast. If approved at this level, GMP will have the lowest ROE of any electric utility in the country.[5]

A summary of each of the schedules provided with this filing and an overview of the methodology for reforecasting the annual adjustments under the MYRP is attached as Schedule A-2.

2. Public Review and Approval Process

GMP will provide customer notice of the filing and proposed rates to customers on bills starting in June 2020, once the notice is approved by the PUC. This filing has been posted to GMP's website; the Plan has been posted since its approval last year. In addition, consistent with the Plan, GMP will schedule a bi-annual public meeting open to all customers, to be held in mid-July, which will include an opportunity to answer questions related to the MYRP and proposed rates. GMP is working through a process for virtual attendance, in light of the ongoing health and safety restrictions due to COVID-19.

The Department received preliminary power supply and retail revenue forecasts on May

[4] See MYRP, Attachment 3 (ROE Formula).
[5] GMP originally proposed a methodology using a mixed measurement of Treasury and corporate bonds, which would have resulted in a smoother change in ROE and more closely tracked actual capital costs for utilities similar to GMP. While GMP is not proposing any changes at this time, GMP remains concerned with the ability of a formula that is based purely on the 10-year Treasury to accurately represent the economic conditions for utilities like GMP, particularly in periods of economic distress, such as the present COVID-19 pandemic. While interest rates are declining during this period due, in part, to government intervention, credit spreads and risk for similarly situated utilities are increasing, not decreasing. It will be important to continue to monitor this divergence in the coming years.

1, as required by the Plan, and will be continuing its detailed review of this filing and the related Petition to Modify the MYRP. GMP understands that the Department will provide its comments and recommendations to the Commission within 60 days of this filing.

GMP is ready to provide any additional information that may be necessary to review this filing, and respectfully requests that the Commission approve this filing and the related Petition to Modify the MYRP no later than September 1, 2020 so that GMP has sufficient time to make administrative changes necessary to implement them by October 1, 2020.

Schedule A-1 – Comparison of Fiscal Year 2021 vs. Fiscal Year 2021 Projections

Below is a summary of the drivers of the changes in Fiscal Year 2021 ("FY21") base rates compared to the original projected smoothed forecast of FY21 rates, authorized in the Initial Annual Base Rate Filing under the Multi-Year Regulation Plan ("MYRP") (approved by the Public Utility Commission in its Order Setting Initial Base Rates issued August 29, 2019 in Case No. 19-1932-TF):

Summary of Changes between Original FY21 Forecast and Updated FY21 Base Rate (Per MYRP)			
		% change	
Original Projected Smoothed FY21 Base Rate Increase from FY20 rates (authorized by Commission 8/29/19)		**2.72%**	
Power Supply / Production		-1.52%	**Power Cost reforecast per MYRP**. Changes result from lower HQUS price, lower ISO energy costs due to lower prices, lower retail sales volume, higher REC prices, and lower standard offer volume; offset by growth in Net-Metering and higher RES cost projection.
Transmission		-0. 65%	**Transmission component of power costs reforecast per MYRP.** Changes result from lower VELCO VTA due to higher reimbursement from ISO for RNS.
Taxes – Federal & State		-0.52%	**Updated per MYRP,** based on formulaic updates to ROE and change in Production Tax Credits based on refreshed FY21 KCW generation and an increase in the production tax credit rate.
Return on Rate Base		-1.22%	**ROE updated per MYRP Formula**. Return based on decrease in allowed ROE from 9.23% to 8.20% per MYRP formula, offset slightly by small increase in rate base.
Gross Revenue & Fuel Gross Receipts Taxes		-0.04%	**Updated per MYRP**, reflecting anticipated reduced FY21 revenue.
Retail Revenue Forecast		1.18%	**Revenue reforecast per MYRP**, resulting in anticipated decrease in retail sales below original FY21 forecast.
FY21 Base Rate, As Filed		**(0.06%)**	Reflects small revenue surplus ($346,000) – See Sch. C-21
FY21 Base Rate, if Petition to Modify Approved		**0.0%**	GMP proposes to apply anticipated FY21 Base Rate revenue surplus ($346,000) to offset adjustors, resulting in no base rate change in FY21. See GMP Petition to Modify MYRP.

Schedule A-2 – Summary of Support Schedules & Methodology

1. Summary of All Supporting Materials

This filing is supported by eight schedules, which provide details on the rate request and the authorized adjustments made under the Multi-Year Regulation Plan ("MYRP" or the "Plan"). For ease of review, GMP is providing a complete copy of each Schedule, consistent with the FY20 Initial Annual Base Rate Filing, with FY21 adjustments noted clearly.

- Schedule A provides an overview of the FY21 Annual Base Rate Filing.
- Schedule B provides a summary of the FY21 Base Rate, showing total adjustments from the original Projected Smoothed Base Rate for FY21.
- Schedule C provides the detailed Cost of Service ("COS") Base Rate results for FY21 noting all adjustments from the original projections for FY21, provided in FY20. Each component of the COS is described on a separate tab in Schedule C, with a narrative explanation of what the item represents and how the adjustments were developed, along with a link to the supporting files. Tabs that are updated for FY21 are preceded by the term "Refreshed," and tabs that are were not updated are noted as "Fixed."
- Schedule D provides the projected Rate Base Balances FY21 based on GMP's agreement to lock capital that is closed to plant during the term of the Plan at approximately $85 million per year, unless other investments are approved by the Public Utility Commission ("PUC") under one of the exceptions in the Plan. Each component of Rate Base is described on a separate tab in Schedule D, with a narrative description of what the item represents and how the amount was developed, along with a link to the supporting files. Consistent with the Plan, the only rate base item that is adjusted or refreshed for FY21 is the Accumulated Deferred Income Taxes and Tax Reform Reg Liability (Schedule D-12), based upon ROE adjustments.
- Schedule E provides the capital structure and weighted average cost of capital for FY21, applying the PUC-approved methodology for adjustments to return on equity during the term of the Plan.
- Schedule F provides the updated FY21 Revenue Forecast, prepared by a third party, ITRON.
- Schedule G provides a summary of the benefits and costs associated with GMP's proposed FY21 new initiatives. GMP's proposed FY21 new initiatives budget is under the $5M annual cap and is consistent with projections from FY20. GMP is seeking PUC approval for two new innovative pilots that will be advanced within this existing budget, without additional spending requested. Capital folders for the proposed innovative pilots are also provided as sub-schedules.
- Schedule H provides background information on the adjustors under the MYRP, including collection of prior major storm costs under the Exogenous Change

Adjustment, as well as the Emerald Ash Borer ("EAB") adjustor.

- Schedule I identifies GMP's preliminary FY21 Climate Plan projects, and is provided for informational purposes only and will have no impact on FY21 rates. The PUC is presently reviewing the Climate Plan in Case No. 20-0276-PET. As proposed, any FY21 Climate Plan Projects would not be included in rates until after completion of construction and approval by Commission as part of the FY22 Annual Base Rate Filing. Final projects in any given year may vary, depending on other limitations in construction or implementation time-tables during year (timing of other permitting, approvals, etc.), but will not exceed the total in the preliminary list.

Additional supporting files referenced in each schedule have been provided electronically in native format on a thumb drive to the Department and the Commission and are available to others upon request.

2. Methodology

The rates proposed in this filing are based on the detailed methodology established during the formal proceeding to review GMP's MYRP. The Plan provides that GMP's annual base rates shall consist of (1) a locked non-power cost component, which includes infrastructure costs (capital expenditures, depreciation, and property taxes), operation and maintenance ("O&M") costs, and earnings in affiliates; (2) forecasted power supply and revenue and income tax components, which will each be refreshed annually based on updated forecasts; and (3) a return on equity component, which will be adjusted annually based on an ROE formula set in the Plan.

At the beginning of the Plan, GMP developed a Projected Smoothed Base Rate based on forecasts of each of these components. This Initial Annual Base Rate filing included a three-year forecasted cost of service for the term of the Plan, including:

(1) Non-power cost forecasts for FY20, FY21, & FY22;
(2) Power supply & revenue forecasts for FY20, FY21, & FY22;
(3) Income tax and ADIT forecasts for FY20, FY21, & FY22; plus
(4) The ROE for FY20, and an estimate of the ROE for FY21 & FY22 using the approved formula.

Non-power costs are locked for the term of the Plan, based on the original three-year forecasts provided with the Initial Annual Base Rate filing. The remaining costs are adjusted annually according to the Plan. This filing provides the required adjustments for FY21 for the following categories:

(1) Power Supply Costs;
(2) Retail Revenue;
(3) Income Tax and ADIT; and
(4) Return on Equity (ROE).

Each of these adjustments are described in more detail in the supporting Schedules.