Schedule A – Narrative Summary of Fiscal Year 2022 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 2022 ("FY22") 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 is the final annual base rate adjustment filing under the Plan covering FY22 which will commence on October 1, 2021. As outlined in this filing, GMP is requesting a rate change of 4.69% based upon adjustments required under the Plan and other items detailed in the filing.

This follows a year in which GMP requested no base rate change for customers, holding things steady during the challenges of the COVID-19 pandemic. While costs are higher in FY22, GMP's overall rate changes over the three-year Plan are lower than originally approved—good news given the significant disruptions and turmoil since the outset of the pandemic. GMP developed the Plan to foster rate stability through a smoothed three-year rate forecast with many cost categories locked under a pre-determined forecast or capped. Based upon that original forecast, the Commission approved projected base rate changes of 2.72% in each of the three years of the Plan.[2] If the FY22 base rate request is approved, GMP's three-year average will be below this pre-pandemic forecast for the three-year MYRP, at 2.47%.

Nearly half of this year's adjustment is based upon increases in regional transmission costs which are themselves driven in part by lower regional load experienced during the pandemic, along with significant additional regional transmission projects. GMP forecasts and incorporates these costs in our rate requests but does not control them. The request also incorporates continued lower overall revenue projections as the economy slowly rebounds; changes in the return on equity ("ROE"), which has rebounded modestly from its low point at this time last year but remains low compared to other utilities nationwide, based upon the Plan's approved 10-year Treasury Note formula; and several other small FY22 adjustments approved at the outset of the Plan. Schedule A-1 outlines all of these year-over-year changes.

Recognizing that the pandemic and the ensuing economic recovery would create more volatile financial circumstances that could impact customers, GMP petitioned the Commission last year to modify the MYRP to provide additional rate stability in how GMP returns or collects certain rate adjusters over time.[3] As GMP enters this final year of the Plan and looks ahead at a

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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. An Amended Plan was filed September 3, 2020 in Case No. 20-1401-PET following Commission approval in that proceeding by Order dated August 27, 2020.

[2] *See* Case No. 19-1932-TF, Final Order (9/26/10).

[3] Case No. 20-1401-PET, Final Order (8/27/20).

potential new regulation plan framework, we continue to incorporate lessons regarding the importance of stability for customers. The amendments made last year to the method and collection period for revenue, power supply, and major storm adjustors have been very helpful in keeping bills stable for customers. We recognize that volatility, inflationary pressures, and regional transmission costs are likely to increase as the recovery continues. We will be examining ways to further minimize and smooth these impacts for customers in our next proposed regulation plan.

With minimizing costs as a continual focus, GMP is filing with this FY22 base rate request an accompanying Petition to Modify the MYRP to approve an additional equity investment in Vermont Transco LLC ("VT Transco") being made by all Vermont distribution utilities so that GMP can flow through the benefits in the form of earnings in affiliates to GMP's customers in future years. Along with other anticipated ADIT returns from VELCO that should help offset some transmission cost pressures, this narrow modification to the MYRP will produce benefits for customers in years to come. This request is addressed in a separate Petition, filed concurrently with this annual base rate filing.

GMP is also including in its base rate request the small amount of Climate Plan spending (0.06%) that closed in the brief window, between approval of that plan and the end of March, for Climate Plan projects to benefit customers covered in FY22 rates, along with capital investments in its New Initiatives programs. These New Initiatives include the well-subscribed Energy Storage System ("ESS") Tariff and several other Innovative Pilot programs. These programs represent a 0.09% increase in base rates in this year, but by definition are made to advance innovative technologies that, as a whole, will help to lower rates over the life of the investment for all GMP customers, while increasing system resiliency and reducing carbon emissions. Approval of this investment is also covered in GMP's separate Petition.

I. <u>Details of the FY22 Base Rate Filing</u>

The majority of GMP's non-power costs have been predetermined 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 readjustment are: 1) power supply costs; 2) retail revenue; 3) ROE; and 4) associated income taxes calculated based upon the ROE.

Here are the details of the primary components of the FY22 base rates that are subject to annual reforecast or updating, or are requested as part of GMP's separate Petition:

1. **Power Costs for FY22**: See Schedule C (Cost of Service). Following the trend that began in the winter of 2020, net purchased power and production costs in FY22 remain lower than originally forecast at the outset of the Plan, though slightly higher compared to the current year, with a change of approximately $0.7 million. Low power supply and transmission costs in FY21 both contributed significantly to GMP's ability to hold rates flat last year, and while power supply is forecast to remain low,

regional transmission for FY22 have increased significantly compared to the current year—up $13.4 million, or 2.17%.

2. **Retail Revenue for FY22**: See Schedules 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, with energy efficiency measures and distributed solar generation offsetting customer demand increases. ITRON's FY22 forecast incorporates continued COVID-19 impact as the primary new driver of change. As described in ITRON's report, the pandemic resulted in a significant increase in residential sales but a significant drop in commercial & industrial ("C&I") sales, particularly for small C&I, as work and education shifted from offices and campuses to homes. ITRON expects that these trends should resolve by the end of calendar year 2022—with the possibility of small permanent structural changes—but it is clear that the pandemic's impacts on retail sales will continue into FY22 as the economy transitions. Based on ITRON forecasts, GMP is projecting a 0.08% drop in retail revenue in FY22 compared with the amount in FY21 rates.

3. **ROE Measurement Period Update for FY22**: See Schedule E (Capital Structure). Under Section IV(D) of the MYRP, GMP's ROE 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 (8.20% for FY21) is then adjusted by 50% of the change in the average daily yield during the measurement period to establish the FY22 ROE.[4] In FY21, the ROE measurement period included historically low yields associated with the rapid economic collapse caused by the COVID-19 pandemic. The resulting 8.20% ROE in FY21 was approximately 1% below the forecasted ROE for that period, and was the lowest ROE of any electric utility in the country.[5] This year, the ROE measurement period continues to reflect the economic conditions of the pandemic. The modest increase in the average 10-year Treasury over last year's period results in a 37-basis point increase in GMP's requested ROE for FY22, or 8.57%—still lower than projected at the outset of the Plan and expected to remain among the lower, if not the lowest, ROE in the country.

4. **Climate Plan Capital Expense:** Capital spending is a locked component under the

[4] *See* Amended MYRP (9/3/2020), 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. The past two years have demonstrated both the volatility and disconnection of the present approach, with yields declining precipitously last year in part due to government intervention, while credit spreads and risk for similarly-situated utilities were increasing, not decreasing. It will be important to continue to consider this divergence in any future regulation plan.

Plan, but the Commission authorized several exceptions where GMP may recover in base rates additional capital expenses upon approval. One such exception is for capital projects authorized under GMP's Climate Plan, as approved by the Commission,[6] that invest in system resiliency in the face of climate change driven impacts to benefit customers. See Schedule I for a report of closed Climate Plan Projects GMP seeks to include in rates. Because of the long useful life of these projects, their rate impact is spread over many years. Under the Climate Plan, GMP seeks to include \$0.4 million (0.06%) in rates as the incremental impact of critical system hardening and resiliency projects.

5. **New Initiatives Capital Expense and VT Transco Investment**: In addition to these previously authorized annual updates, as noted above, GMP is also separately seeking PUC approval for additional New Initiative investments under the Plan and for a modification to the Plan to account for the VT Transco investment. The New Initiatives investment is for the well-subscribed ESS Tariff, which leverages the benefits of residential battery storage to lower rates and carbon emissions for all customers. The incremental impact of this request is \$0.5 million (0.09%) in FY22 but the investment will produce a net positive benefit for customers over the course of the life of the battery program. Schedule G provides more detail on all New Initiatives projects included in the FY22 base rate. GMP also seeks a modification to the Plan to allow an additional equity investment in its affiliate, VT Transco. The Plan currently permits *new* investments in affiliates, rather than expansion of existing investments. The return on earnings on this investment, when considered with associated lower income tax expense, incremental lower transmission expense, and other anticipated ADIT returns from VT Transco, results in an overall 0.18% decrease in base rates for customers this year. GMP's additional equity investment will further reduce costs for customers going forward.

These items represent, in aggregate, a 4.69% rate change, as detailed on Schedule A-1. 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.

II. Public Review and Approval Process

GMP will provide customer notice of the filing and proposed rates on customers' bills starting in June 2021, as soon as the notice is approved by the PUC. This filing has been posted to GMP's website; the Plan and other associated filings has been posted since its approval in 2019. In addition, consistent with the Plan, GMP will schedule another bi-annual public meeting open to all customers, to be held July 20, which will include an opportunity to answer questions related to the MYRP and proposed rate changes.

[6] Case No. 20-0276-PET, Final Order (9/24/20).

The Department received preliminary power supply and retail revenue forecasts on May 3, 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, 2021 so that GMP has sufficient time to make administrative changes necessary to implement them by October 1, 2021.

Schedule A-1 – Comparison of Fiscal Year 2021 vs. Fiscal Year 2022 Projections

Below is a summary of the drivers of the changes in Fiscal Year 2022 ("FY22") base rates compared to the existing Fiscal Year 2021 ("FY21") base rates, authorized in the FY21 Annual Base Rate Filing under the Multi-Year Regulation Plan ("MYRP") (approved by the Public Utility Commission in its Order Setting Base Rates for Fiscal Year 2021, issued August 27, 2020 in Case No. 20-1407-TF).

Summary of Changes between Approved FY21 Base Rate and Filed FY22 Base Rate			
	$ change (millions)	% change	
Power Supply / Production	0.7	0.11%	**Power Cost reforecast per MYRP**. Relatively minor year-over-year changes result from updated costs and volumes from both contracted and market-based sources necessary to meet projected retail sales demand.
Transmission	13.4	2.17%	**Transmission component of power costs reforecast per MYRP.** Changes result primarily from higher ISO-NE RNS charges and VELCO VTA expenses, offset by benefit of VT Transco ADIT, additional equity investment, and other adjustments.
O&M, Synergies	2.1	0.33%	Reflects original forecasted changes between FY21 and FY22.
Depreciation, Amortization, and Property Taxes	4.3	0.69%	Reflects original forecasted changes between FY21 and FY22.
Return on Rate Base, including taxes	4.0	0.65%	**ROE updated per MYRP formula**. Return based on increase in allowed ROE from 8.20% to 8.57% per MYRP formula, and corresponding tax impacts, plus rate base changes based upon original forecast and adjustments for additional VT Transco investment.
Transco Investment Impact in Equity-in Earnings	1.0	0.17%	**As requested in GMP's Petition to Modify the MYRP**. This increase is more than offset by related adjustments in other lines (lower income tax expense, incremental lower transmission expense) as set forth in the Petition.
Revenue	0.2	0.04%	**Updated per MYRP** by Itron, Inc., reflecting the modeled FY22 forecast of GMP's retail sales.
Rate Smoothing Adjuster	1.6	0.27%	Reflects original forecasted change between FY21 and FY22 for rate smoothing.
Other Operating Revenue	0.2	0.03%	Reflects original forecasted change between FY21 and FY22.
Gross Operating Revenue	0.6	0.09%	**Updated per MYRP to reflect results of new forecasted Cost of Service** and refinement to be consistent with actual taxes.
Climate Plan Incremental Impact	0.4	0.06%	**Updated per PUC Final Order in Case No. 20-0276-PET.**
New Initiatives Incremental Impact	0.5	0.09%	**As requested in GMP's Petition to Approve FY22 New Initiative Investments to support ESS storage tariff.**
FY22 Base Rate, if Petition to Modify Approved	**28.9**	**4.69%**	

Schedule A-2 – Summary of Supporting 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 MYRP. For ease of review, GMP is providing a complete copy of each Schedule, consistent with the FY20 Initial Annual Base Rate Filing, with FY22 adjustments noted clearly.

   - Schedule A provides an overview of the FY22 Annual Base Rate Filing and comparison of the FY22 Base Rate to the FY21 Base Rate currently in effect.
   - Schedule B provides a summary of the FY22 Base Rate, showing total adjustments from the original Projected Smoothed Base Rate for FY22.
   - Schedule C provides the detailed Cost of Service ("COS") Base Rate results for FY22, noting all adjustments from the original projections for FY22 provided at the outset of the Plan 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 refreshed from the original projection for FY22 consistent with the requirements of the MYRP are preceded by the term "Refreshed Per Plan," while tabs that reflect adjustments flowing from other requested changes in GMP's accompanying Petition to Modify the MYRP are labeled "Proposed Updated." Tabs reflecting new items for Climate Plan projects, under the procedure approved last September, and additional EIC investments requested in the Petition, are preceded by "Proposed New." Tabs that are unchanged from the original forecast are noted as "Fixed/Unchanged."
   - Schedule D provides the projected Rate Base Balances for FY22 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 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 and GMP's concurrent Petition to Modify the MYRP, the only rate base items that are refreshed or updated are Investment in Affiliates (Schedule D-3); and the Accumulated Deferred Income Taxes & Tax Reform Regulatory Liability (Schedule D-12), which reflects changes flowing from annual adjustments such as ROE, revenue, power costs, and proposed additional investments described in GMP's Petition to Modify the MYRP.
   - Schedule E provides the capital structure and weighted average cost of capital for FY22, applying the PUC-approved methodology for adjustments to return on equity during the term of the Plan.
   - Schedule F provides the updated Revenue Forecast, prepared by a third party, ITRON.

- Schedule G provides a summary GMP's proposed FY22 New Initiatives. GMP is seeking PUC approval for $10.6 million in FY22 New Initiative investments, totaling $22.5 million over the term of the Plan, $7.5M above the preset $15M three-year investment level. This additional investment is necessary to meet customer demand for the Energy Storage System ("ESS") Tariff program, approved by the Commission in May 2020. Capital folders and pilot filings for the proposed FY22 new initiatives and innovative pilots are also provided as sub-schedules (Schedules G-3 through G-11).
- Schedule H provides background information on the adjustors under the MYRP, including the Past Storm & Prior Power Fix Charge, as well as the Emerald Ash Borer ("EAB") adjustor.
- Schedule I identifies GMP's Climate Plan project(s) that have closed to plant in FY21 by March 31, 2021, and which GMP now seeks approval to include in base rates. Schedule I also identifies in-progress FY21 projects that have yet to close to plant but are expected to close by next March; under the Climate Plan, these projects shall not be included in rates during the term of the Plan, but will instead be included in GMP's traditional cost of service rate case for recovery in FY23. Schedule I also includes anticipated FY22 projects, which are presented for informational purposes only, as the preliminary filing required by the Climate Plan. As a reminder, final Climate Plan projects in any given year will vary from the preliminary list, depending on other limitations in construction or implementation time-tables during the year (e.g. timing of other permitting, approvals, etc.), but will not exceed $14 million in any fiscal year, as required under the Climate Plan.

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 FY22 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.

The proposed rates also reflect changes proposed in GMP's Petition to Modify its MYRP, filed concurrently with this Base Rate Filing. The specific impacts of the request in that Petition are separated and detailed in supporting exhibits to the Petition and the corresponding Schedules of this filing.