STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Petition of Green Mountain Power Corporation for approval of its new Multi-Year Regulation Plan pursuant to 30 V.S.A. Sections 209, 218, and 218d	)))	Case No. 21-____-PET

PREFILED DIRECT TESTIMONY OF DOUGLAS C. SMITH ON BEHALF OF GREEN MOUNTAIN POWER

September 1, 2021

Summary of Testimony

Mr. Smith describes how Power Supply and Retail Revenue are proposed to be treated in GMP's new multi-year regulation plan, and reviews the performance of these items in GMP's current plan.

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I. Introduction

Q1. Please state your name and occupation.

A1. My name is Douglas C. Smith. I am Chief Power Supply Executive for Green Mountain Power ("GMP").

Q2. Please summarize your educational background and pertinent professional experience.

A2. I have worked for over 30 years in the electric industry, focusing on topics that include electric system and portfolio planning, wholesale and retail power transactions, and market price forecasting. I hold a Bachelor of Science degree in Mechanical Engineering from Brown University.

I began my career as an analyst at the Vermont Department of Public Service and was subsequently promoted to the position of Electrical Planning Engineer. From 1991 to 2007, I worked at La Capra Associates ("La Capra"), a consulting firm[1] that specializes in planning and regulatory issues in the electric industry. I ultimately became La Capra's Technical Director. While at La Capra, I advised several Vermont utilities regarding their power transactions, risk management strategies, and Integrated Resource Plans. On behalf of state agencies and large electricity customers, while at La Capra I

[1] La Capra is now known as Daymark Energy Advisors.

reviewed the procurement strategies of numerous large utilities in the eastern, central, and western U.S. I also led the firm's forecasting of New England wholesale electricity market prices and assisted in the siting applications of several proposed electric generating plants.

I joined GMP in 2007 as the Manager of Energy Resource Planning and Rates. I was subsequently promoted to Director, Power Supply, and I assumed my current position in 2018. In this capacity, I have a primary role in the development of GMP's power supply strategy for customers. The power supply team conducts the bidding of GMP's load and generation sources into the ISO-New England, Inc. ("ISO-NE") energy and capacity markets, sells Renewable Energy Certificates ("RECs") produced by GMP's resources, and leads the evaluation of potential power supply resources and the implementation of power purchase transactions. I also helped develop GMP's 2018 Integrated Resource Plan ("IRP") and am working with a team to formulate our next IRP due in December.

Q3. Have you previously testified before the Public Utility Commission ("Commission" or "PUC")?

A3. Yes, I have testified before the Public Utility Commission on numerous occasions, on topics that include resource planning, proposed power purchase contracts, including most recently in GMP's proposed power purchase agreement with Great River Hydro in Case No. 21-1016-PET, and generation projects, electric utility revenue requirements, and the development of Standard Offer rates and PURPA avoided cost rates. Most relevant to this proceeding, I provided testimony in the proceeding for GMP's existing Multi-Year

Regulation Plan, Case No. 18-1633-PET ("Current Plan"), and GMP's 2019 traditional cost-of-service rate case, Case No. 18-0974-TF.

Q4. What is the purpose of your testimony in this case?

A4. My testimony describes how the proposed Multi-Year Regulation Plan that is the subject of this Petition ("New Plan") accounts for power supply costs, including how variations in both demand (retail revenue) and supply (power cost) are handled and allocated. In the New Plan, GMP proposes to retain the existing power supply and retail revenue forecasting methodology and adjustors from the Current Plan. These components have thus far proved over the term of the existing plan—and throughout the pandemic—to support rate stability for customers through smoothing mechanisms and by allocating appropriate risk to GMP.

I begin by summarizing some of the key drivers affecting GMP's power supply over the term of the New Plan, including larger market forces and trends and considerations presented by sourcing a carbon-free and increasingly renewable energy supply. I then review the mechanisms we plan to carry forward and how they have performed thus far in the Current Plan, concluding by explaining why they continue to be appropriate.

Q5. Please summarize the primary findings of your testimony.

A5. The power cost and revenue decoupling components of GMP's Current Plan, along with their adjustors, have served customers and GMP well over the past several years, providing overall rate stability despite widely fluctuating inputs. In response to the

COVID-19 pandemic, we worked quickly to modify several components in the Current Plan with the support of the Department of Public Service ("Department") and approval of the Commission, and those modifications worked well. We therefore intend to continue these Plan components for handling power costs and retail revenue, now stress tested by the pandemic.

As we learned throughout the term of the Current Plan, this framework provides a favorable balance of risk for our customers, with the greater risk upon GMP to accurately forecast prices and manage variances. During this period of volatility, these components worked as designed, stabilizing rates for customers with GMP absorbing variances. The modifications approved in 2020 further stabilized the impact of variances on rates by smoothing multiple adjustors (both between adjustor categories and over time) to limit the frequency and magnitude of quarterly swings. Going forward, the New Plan should continue to offer these strengths, while also retaining the complete revenue decoupling that continues to support GMP projects that benefit customers, the climate, and the company's long-term stability.

As such, we propose that the power supply and retail revenue components should carry forward into this New Plan.

II. Power Supply and Revenue Trends

Q6. Can you provide an overview of the challenges and opportunities that have developed since GMP's Current Plan was approved?

A6. Entering into this New Plan, the magnitude of GMP's energy needs and the net power supply costs to serve them will continue to face a degree of uncertainty based in part on

regional and national market forces—some associated with the effects of the coronavirus pandemic on patterns of energy demand and supply. These uncertainties are front-of-mind in our power supply strategy to implement transactions designed to stabilize net power costs.

In addition, GMP is continuing to advance clean energy, as outlined during the Current Plan, to achieve a 100% renewable power supply by 2030. Substantial work towards this goal will happen during this Plan term, along with the complementary work to fulfill Vermont's Renewable Energy Standard ("RES") that increases over time by statute. We are approaching this work to ensure that we not just achieve this goal but maintain a renewable power supply well beyond 2030; we also expect to focus increasingly on the alignment of renewable generation and electricity consumption, to stabilize net power costs and help reduce carbon emissions.

Q7. Can you expand upon the market uncertainties you anticipate will drive power supply costs and revenue entering this New Plan period?

A7. The height of the pandemic saw significant shifts in how our customers used electricity. Most strikingly, during April to June 2020 under the "Stay Home, Stay Safe" order, monthly sales to small commercial customers were 10 to 15 percent below pre-pandemic projections. Industrial sales declined by a few percent, while weather-normalized residential sales increased between 7 and 9 percent as Vermonters shifted much of their lives to their homes. These patterns are now reversing somewhat; our most recent long-term sales forecast from Itron, Inc. ("Itron") the third-party market expert we currently utilize, indicates a gradual return to pre-pandemic patterns and levels. As we are all

feeling our way through ever-changing times brought on by the pandemic, we know that there may also be smaller but lasting changes in work, schooling, and more for some customers. During the New Plan term, electricity sales volumes and energy markets will depend to some degree on the economic and public health outcomes related to the pandemic.

There have also been significant changes affecting energy markets and GMP's net power costs, many of which are outside utility control:

- Regional Network Service ("RNS") transmission rates have increased noticeably, driven primarily by capital expenditures on regional transmission projects; lower regional monthly peaks observed during 2020 in the height of the pandemic were also a driver.
- After a pandemic-induced decline in 2020, near-term market prices for natural gas in the U.S. are now higher than they have been in several years, due to factors that include post-pandemic recovery of energy consumption; increasing volumes of liquefied natural gas exports to Asia and Europe; and restrained capital expenditures for oil and gas exploration. Due in part to these influences, forward prices for round-the-clock electric energy in New England in 2022 have recently surged to over $50/MWh, led by January–February forward prices of well over $100/MWh. The bulk of this increase is anticipated to be short-lived; recent forward electricity prices for delivery in 2023 and subsequent years were between $43 and $45/MWh.

- Factors including a recovering national economy and disruptions in worldwide supply chains have contributed to near-term inflationary pressures. The extent to which general inflation in the economy persists could noticeably affect the formula prices for energy under some of GMP's long-term supply contracts.
- Market prices for Renewable Energy Credits ("RECs") in regional renewable markets (e.g., Renewable Portfolio Supply Class 1 in other New England states) could vary significantly depending on whether and when major renewable infrastructure projects (e.g., offshore wind projects and the proposed NECEC line in Maine) achieve commercial operation.
- Deployment of net-metered solar generation in Vermont has continued steadily during the Current Plan. The total volume of distributed solar capacity in GMP's territory—including net-metering, Standard Offer, Power Purchase Agreements ("PPA"), and GMP-sponsored projects—is presently over 335 MW. As a result, GMP relies significantly more now on solar generation than just a few years ago; our load requirements on cloudy days and in the winter tend to be much higher than on sunny days.
- Drought conditions throughout most of Vermont and elsewhere in New England caused hydroelectric generation to be well below normal in Summer 2020, and again through much of this summer.
- GMP negotiated a new long-term PPA for the purchase of a significant share of output from Great River Hydro's plants along the Connecticut and

Deerfield rivers, and recently received a Certificate of Public Good for this purchase. The peaking component of this PPA will start deliveries in 2023 and ramp up to full volumes over the following five years.

Although GMP's power portfolio features a relatively stable cost structure over the long term, our experience under the Current Plan confirms that net power costs will continue to be subject to significant variances on a quarterly and annual basis, driven by factors including energy and REC markets, inflation, electricity demand, and renewable generation output. I believe that the prospect of significant and sometimes offsetting quarterly variances makes the current adjustor structure—featuring quarterly measurement of variances, and significant smoothing of resulting rate adjustments—particularly appropriate for customers.

Q8. Can you please summarize GMP's commitment to obtain a 100% carbon-free power supply by 2025 and 100% renewable energy supply by 2030?

A8. GMP's current annual power supply, as reflected in our 2020 Renewable Energy Standard filing, is 100% carbon free and approximately 68% renewable. Over the past decade GMP has worked to diversify our portfolio of renewable generation, including through ownership of generation projects, PPAs, and through the expansion of net-metered solar and Standard Offer power in the state. Although these renewable sources are subject to short-term fluctuations in output that can affect GMP's net power supply costs, they have the potential to stabilize GMP's net power costs over the long-term; they support Vermont's energy policy along with our vision and commitment to transition to a

fully renewable power supply; and some of them are among the lowest-cost sources of power.

GMP has committed to maintaining an annual carbon-free power supply through 2025 and beyond—and to a fully 100% renewable supply by 2030. We believe we must do this to help combat the effects of climate change and to give our customers a clean energy choice as they transition their transportation and heating off traditional fossil fuels. We know that these goals are also important to our customers' expectations that GMP, as a certified B Corporation, will strive to positively impact our communities and the environment. We have a core of committed resources in place to meet part of these goals, but a considerable amount remains to be procured, particularly if—as we hope and expect—cost-effective electrification initiatives increase load in the 2030s. I expect that GMP's upcoming IRP will devote significant focus to how to achieve these goals in a cost-competitive way and, even more critically, how to maintain them over time.

Q9. Can you please summarize how the Power Supply and Retail Revenue features of the New Plan support GMP's and Vermont's energy goals?

A9. As I describe below in my testimony, the New Plan continues the existing Power Supply and Retail Revenue forecasting methodology and adjustors. The effect of this framework is to decouple GMP's revenue from the volume of retail electricity sales, while sharing short-term fluctuations in actual net power costs with our customers. This continues to align GMP with customers and removes the underlying incentives often emphasized in traditional ratemaking, which in our view tend to discourage innovation and renewable adoption. Under the decoupled framework, GMP does not realize any marginal revenue

from increased power sales or more expensive supply during a Plan year, as these variances are passed through to customers. Indeed, for the portion of power supply costs for which GMP has a meaningful degree of control, the framework goes further and places a portion of the risk of price variances upon GMP. Therefore, GMP has a direct focus on accurately forecasting and updating our market views, as well as to control power costs where we have an opportunity to do so.

These factors support GMP's pursuit of our goals and Vermont's statewide energy policy twofold. First, through decoupling, GMP prioritizes these goals on behalf of customers without any direct financial interests associated with steps that increase or decrease retail sales. And second, the framework supports the development of renewable electricity sources that are expected to stabilize net power costs over the long-term but can feature somewhat higher near-term costs and tend to feature fluctuations in output that can drive quarterly fluctuations in net power costs.

Such fluctuations have the potential to be problematic under a traditional ratemaking framework without decoupling and adjustors. The New Plan's framework of tracking and reconciling short-term fluctuations—while GMP absorbs a portion of those fluctuations in the category of costs more within GMP's control (called "Component B" in our framework)—removes most of the potential disincentive that a utility could have to deploy fluctuating resources. In addition, this framework reduces the need to purchase higher-cost insurance products or engage in other hedge strategies just to limit the effects of short-term output fluctuations that can be expected to largely even out over the long term.

Q10. Why is it important to update forecasted power costs and retail sales through the Annual Base Rate Filings?

A10. The process of annually adjusting GMP's retail rates to reflect updated projections of retail sales and power supply costs remains appropriate because these annual reforecasts keep base rates up to date with actual costs; without such reforecasts meaningful changes in net power costs can credibly occur due to factors that are not foreseeable at the outset. Potential drivers of such changes include changing regional wholesale electricity market conditions or changes to market rules in the ISO-NE market; a sustained increase or decrease in electricity consumption by GMP customers; addition or retirement of generating sources in GMP's portfolio; or changes to Vermont's renewable policy frameworks (e.g., net-metering, RES, baseload renewable energy standard). Annually adjusting the retail sales and power costs will ensure that GMP's electric rates reasonably reflect expected net power supply costs and retail electricity sales for the current year, and limit reliance on adjustors to collect or return funds to customers. The annual refreshing of Component B costs to reflect current information also ensures that the Efficiency Band structure is best calibrated for GMP to manage those costs and ensure a fair balancing of the risks.

III. Structure and Performance of GMP's Power Supply and Retail Revenue Adjustor

Q11. Please explain how power supply costs and retail sales are handled under the Current Plan and how GMP plans to handle those costs in the New Plan.

A11. As noted above, I believe that it is appropriate for the New Plan to use the same general methodology for developing and reforecasting power supply costs, and for addressing variances in power costs and retail electricity revenues, as is used in our Current Plan. Specifically, at the beginning of the Current Plan, GMP filed a forecast of power supply and retail revenue over the entire term, which was incorporated into the initial projected smooth rate path at the start of the three-year plan period. For each subsequent year, power supply costs and retail sales revenue for the coming fiscal year were reforecast during GMP's Annual Base Rate filing and base rates for that fiscal year were adjusted accordingly.

We propose to continue this initial multi-year forecast and annual reforecast methodology into the New Plan. First, FY23 power supply costs will be established in the FY23 traditional rate case in a manner similar to the way FY19 power supply costs were established before the Current Plan. At the same time, GMP will be filing a forecast for annual power supply costs, retail sales, and total revenue requirements covering the remainder of the Plan period (FY24 to FY26), which will be incorporated into the Initial Rate Smoothing Mechanism used to establish base rates. In advance of each subsequent year, GMP will then prepare annual reforecasts of power supply costs and retail revenue, which will be filed with the Annual Base Rate filing.

As in the Current Plan, both power supply cost and retail revenue collected will be subject to quarterly adjustors that track variances relative to the benchmark quantities upon which current retail rates are based. As described further below, GMP will continue the modified collection/return methodology for this adjustor as approved by the Commission in Case No. 20-1401-PET, GMP's request for modification of provisions of the Current Plan. As part of this design, the net collection/return of variances in power costs, retail sales, and excess storm costs, if any, will be implemented on customers' bills when appropriate through a single line item.

Q12. Can you provide some further detail on how GMP's annual power supply and retail revenue forecasts are developed?

A12. Our power cost forecasts begin with a weather-normalized forecast of retail electricity sales volumes and associated revenue forecast from a third-party vendor (generally Itron, or a firm with similar expertise and knowledge of the relevant markets), reflecting a base case outlook. This retail revenue forecast will take into account factors that include historical data, projections about economic growth and efficiency improvements, company tariffs, impacts on retail revenue due to specific forecasts for Vermont solar net-metering and electrification, and any other known changes for the upcoming year. These forecasts are generated at the time GMP prepares our Annual Base Rate filing so we have the most current information in each filing.

Based on the expected forecast of electricity sales volumes, GMP will prepare a power supply forecast of the expected expenses required to serve that retail load. For FY23, we will develop GMP's best current estimate of net power costs based on a review

of all of the major components of those power costs—the same approach we have used to develop base rate filings under GMP's Current Plan. Most of the volumes and prices that determine GMP's projected net power supply costs for each year will reflect values from the most recent years, adjusted to reflect known or reasonably anticipated changes.

For GMP, the most prominent categories of adjustments for power costs are typically:

- Adjustment of purchased power expenses to reflect the expiration of existing PPAs or the addition of new sources (e.g., new Standard Offer projects, new PPAs negotiated by GMP).
- Adjustment of market purchases and sales to reflect changes in GMP's forecasted load requirements and the forecasted output of power sources that supply GMP, along with changes in the wholesale market price outlook for energy, capacity, fuel, or RECs.
- Adjustment of the price of existing PPAs to reflect contractually prescribed changes in pricing (including, for example, HQUS, NextEra Seabrook, Granite Reliable Wind, and VEPPI).
- For the substantial fraction of renewable power sources that depend on water, wind, or sun for their output, normalizing adjustment of energy output to reflect long-term average values (or forecasts of the average, for newer sources).

- Updating of net REC revenues to reflect anticipated volumes of renewable generation from GMP's plants and PPAs, along with forward sales of RECs that GMP made in advance for deliveries during the rate period.
- Estimated costs associated with fulfilling RES Tiers 1, 2, and 3 based on prescribed annual increases in these requirements, along with changes in the resources available to meet the requirements.
- Adjustment of expenses for regional transmission costs, reflected in our Transmission by Others account to reflect available projections from VELCO and ISO-NE, along with estimated peak loads upon which these expenses are allocated.
- Adjustments of Operation & Maintenance ("O&M") expenses for GMP's wholly-owned generating units to reflect the most recent forecasts of those expenses. O&M expenses for jointly owned plants generally are based on 5-year averages.

For FY23, all such costs will be reviewed as a part of our traditional rate case. As we currently do, we will continue to provide the forecasts of retail sales and power costs to the Department prior to the Annual Base Rate filing in each subsequent year to facilitate their review.

Q13. Please explain the major structural elements of the Power Supply and Retail Revenue Adjustor.

A13. As in the Current Plan, both the Power Supply and Retail Revenue Adjustors will track quarterly variances against the forecasted amounts established in the Annual Base Rate

filing. This structure tracks actual costs and sales regularly, fully decouples retail revenue from retail electricity sales, and maintains an incentive for GMP to manage the types of costs that are to a significant degree under our control. To accomplish the decoupling from electricity sales, the Retail Revenue Adjustor's methodology is simple: it tracks and ultimately collects or returns to customers the difference between the actual and forecasted retail electricity sales revenue over each quarter of the New Plan. Any revenue from increased sales beyond GMP's annual forecast benefit customers.

The Power Supply Adjustor has several elements. First, all power costs collected through this adjustor are separated into Components A and B. These are set forth in **Exhibit GMP-ER-RB-2**, Attachment 4. The primary distinction between these components is the relative degree of influence that GMP can exert on these costs in the short-term (e.g., during a quarter or rate year). GMP proposes to retain these categories from the Current Plan.[2] Component A is made up of costs that are largely outside GMP's control to materially influence in the short-term. Examples include Forward Capacity Market costs and Transmission by Others that tend to be subject to large, discrete changes based on factors like actual (weather-driven) peaks in Vermont and New England[3]—along with some costs (e.g., the loss component of ISO-NE energy market

[2] We have made minor technical revisions in this filing to correct typographical errors in the version of Attachment 4 that accompanies the Current Plan document. These revisions have no bearing on how the power supply adjustor is currently calculated and reflect actual, correct current categorizations. We also removed cost categories that are no longer utilized in the New Plan.

[3] GMP has developed a suite of responsive grid assets that limit peak-driven costs, and those benefits are generally reflected in GMP's forecasted and actual power costs, but actual peaks in particular months depend more strongly on other factors including weather.

purchases and sales) that cannot be directly managed. GMP's Component A costs are also affected to some extent by the timing and magnitude of expenditures at joint-owned plants (which are generally not controlled by GMP), and in some expense categories by more arcane factors like true-ups or refunds from past periods. Based on the nature of these costs and revenues, it is appropriate for Component A costs to be fully reconciled, such that all differences between actual quarterly costs and those included in the cost-of-service underlying GMP's base rates for the corresponding quarter ultimately are passed through the adjustor to customers on a dollar-for-dollar basis.

Component B is made up of costs that GMP does have some degree of control over. These costs are primarily those associated with the purchase, generation, and sale of energy (including interchange with the ISO-NE spot market), along with REC revenues and RES compliance expenses. There tend to be more ways that GMP can influence these costs (e.g., through energy bids and offers in the ISO-NE market; maintenance of GMP generating plants to cost-effectively maximize their availability and production; REC sale strategy; and efforts to achieve RES compliance at lower cost), although substantial near-term variances remain that are not within GMP's control. Based on the nature of these costs and revenues, GMP recognizes that it is appropriate to have some significant financial exposure to outcomes for Component B costs, to ensure effective management of those costs.

Therefore, while the New Plan directly passes through Component A variances, the Component B Quarterly Variance sums the dollar amount variance between actual and forecasted Component B costs with the result of an additional Component B Cost

Variance calculation. That variance calculation compares actual per-kWh costs to a benchmark derived from the forecasted retail sales volume and Component B costs, subject to an efficiency band. This Component B Efficiency Band is asymmetric in a way that favors customers, that is, GMP retains the first $150,000 of quarterly favorable variances (i.e., actual cost/kWh turns out lower than the benchmark) and absorbs the first $307,000 of quarterly unfavorable variances. A further 10% of the variance outside of the Efficiency Band is also retained or absorbed by GMP; the remainder is passed through to customers. For an example of how the Retail Revenue adjustor and the Component A and B variances are calculated, please see **Exhibit GMP-ER-RB-2**, Attachment 5.

As modified in Case No. 20-1401-PET, all of these adjustors are currently tracked as part of the "Quarterly Net Adjustment." The Quarterly Net Adjustment is a rate-smoothing mechanism that nets the quarterly retail revenue and power supply adjustor amount against any quarterly qualified major storm amounts. The total netted amount—the Quarterly Net Adjustment—is recorded as a regulatory asset or liability and is only reflected on customers' energy statements if the amount for two consecutive quarters moves in the same direction (i.e., towards a return or collection). Mr. Ryan's testimony provides further detail on the mechanics and timing of the Quarterly Net Adjustment as well as collections for major storm events.

Q14. Can you elaborate on the modifications made to the power supply and retail revenue adjustors during the term of the Current Plan?

A14. Yes. The modifications that created the Quarterly Net Adjustment were developed in response to the COVID-19 pandemic to create as much rate stability as possible during a period of significant disruption. When the Current Plan was initially developed, we thought quarterly adjustors—adjustors that collected or returned quarterly variances within a subsequent quarter—would provide increased transparency and nearer term price signals for customers compared to recovery or returns implemented and smoothed over a longer period. However, in practice, this initial mechanism proved to be challenging, particularly when the pandemic hit.

During the first quarter of the Current Plan (reported January 31 but implemented March 30), a collection from the Power Supply and Retail Revenue Adjustors overlapped with a significant Major Storm quarterly collection and would have resulted in a $5.4M collection over a quarter. Coincidentally this was the same quarter that marked the beginning of the pandemic in 2020, which disrupted the economic lives of many of our customers.

GMP first requested that the Commission defer this adjustment and offset it against an overcollection in the following quarter to maintain level rates.[4] Then, in order to provide longer-term rate stability, GMP proposed the current Quarterly Net

[4] *See* Case No. 20-0399-TF,*Tariff filling of GMP to revise the power supply, retail revenue and exogenous adjustors and adjust base rates to remove previous exogenous adjustor embedded in rates, pursuant to its Current Plan, effective with bills rendered on or after April 1, 2020.*

Adjustment methodology to smooth short-term swings in the quarterly adjustors permanently for customers.

Q15. How have these mechanisms performed over the term of the Current Plan?

A15. Figure 1 below presents the quarterly variances for Component A and Component B power costs, along with retail sales, for each of the seven quarters in which the Current Plan has operated.

The first two columns of values present the quarterly variance in Component A and B costs; a positive number indicates that actual costs exceeded forecast. The next column presents the sum of these two variances, adjusted for the portion of variance absorbed by GMP. The next column reflects the quarterly variance in retail electric sales revenues, with a positive number indicating that actual retail sales exceeded forecast. The right-hand column is the sum of these components, which when netted with the quarterly qualified major storm amount (if any), represents the Quarterly Net Adjustment that is ultimately subject to return/collection as explained in the testimony of Mr. Ryan and Mr. Bingel.

Figure 1

SUMMARY OF POWER SUPPLY AND RETAIL REVENUE VARIANCES					
Measurement Quarter	Component A Variance	Component B Variance	Net Component A & B (after efficiency band)	Retail Sales Revenue Variance	Potential PSA + RRA Collection / (Return)
FY 2020 Q1	$ 1,179,573	$ (1,635,114)	$ (180,350)	$ (891,083)	$ 710,733
FY 2020 Q2	$ (5,133,476)	$ (6,614,029)	$ (11,140,006)	$ (6,220,981)	$ (4,919,025)
FY 2020 Q3	$ 935,801	$ 274,749	$ 694,291	$ (3,111,905)	$ 3,806,196
FY 2020 Q4	$ (7,369,249)	$ (50,626)	$ (7,832,668)	$ (3,169,902)	$ (4,662,766)
FY 2021 Q1	$ 7,702,001	$ 1,678,273	$ 8,991,845	$ 3,324,460	$ 5,667,386
FY 2021 Q2	$ (3,090,601)	$ 174,553	$ (2,682,888)	$ 2,600,271	$ (5,283,160)
FY 2021 Q3	$ 1,451,795	$ 2,686,720	$ 3,668,282	$ 4,070,067	$ (401,785)
Sum	$ (4,324,155)	$ (3,485,474)	$ (8,481,495)	$ (3,399,073)	$ (5,082,422)
AVERAGE	**$ (617,736)**	**(497,925)**	**(1,211,642)**	**$ (485,582)**	**$ (726,060)**

The table shows a substantial range of quarterly variances—both positive and negative—in GMP retail sales and power costs, reflecting the changing conditions during this period. Importantly, the positive and negative quarterly variances largely offset each other, with average variances turning out to be a small fraction of total power costs and retail sales. Some highlights:

- Component B power costs were more than $6 million below the forecast for the second quarter of FY2020 (due in part to unusually mild winter weather and associated low electricity consumption), and were about $2.7 million higher than the forecast for the third quarter of FY2021. Over the seven quarters of the Current Plan, the average quarterly variance in Component B costs was about $0.5 million, or about -0.8 percent.
- Quarterly variances in Component A costs ranged from an overcollection of about $7.4 million in the fourth quarter of FY2020 to an undercollection of about $7.7

million in the following quarter. Over the seven quarters of the Current Plan the average quarterly variance in Component A costs was about -$0.6 million, or about 1.4 percent.

- Retail sales were significantly below forecast during three of the first four quarters, driven by pandemic impacts. Retail sales variances during the most recent three quarters were positive, driven in part by economic recovery and weather, along with a somewhat lower sales forecast. Over the seven-month period, the average quarterly retail sales variance was about -$0.5 million, or about -0.3 percent.

The significant but largely offsetting quarterly variances observed during the Current Plan confirm the value of these smoothing features, in which positive and negative Net Quarterly Adjustments from individual quarters can offset each other to some degree, reducing the overall number and magnitude of adjustments that customers experience.

Q16. What were the results of the Component B Efficiency Band and sharing mechanism during this period?

A16. Figure 2 below summarizes the sharing of Component B variances, based on GMP absorbing all variance in Component B cost/kWh within the Efficiency Band, and 10% of variances outside of that band. The net cost increase/(reduction) absorbed by GMP for each quarter is indicated in the right-hand column.

Figure 2

SHARING OF COMPONENT B VARIANCES				
Measurement Quarter	Component B Cost Variance (based on average cost/kWh)	Efficiency Band	10% of Variance Outside of Efficiency Band	Total Absorbed by GMP
FY 2020 Q1	$ (1,401,907)	$ (150,000)	$ (125,191)	$ (275,191)
FY 2020 Q2	$ (4,724,986)	$ (150,000)	$ (457,499)	$ (607,499)
FY 2020 Q3	$ 2,399,593	$ 307,000	$ 209,259	$ 516,259
FY 2020 Q4	$ 1,364,935	$ 307,000	$ 105,793	$ 412,793
FY 2021 Q1	$ 1,121,279	$ 307,000	$ 81,428	$ 388,428
FY 2021 Q2	$ (981,593)	$ (150,000)	$ (83,159)	$ (233,159)
FY 2021 Q3	$ 1,939,330	$ 307,000	$ 163,233	$ 470,233
Sum	$ (283,349)	$ 778,000	$ (106,135)	$ 671,865
AVERAGE	**$ (40,478)**	**111,143**	**(15,162)**	**$ 95,981**

Through the Component B Efficiency Band and sharing of variances of actual costs outside of the band, GMP absorbed as much as $0.5 million in one quarter (Q3 2020) when actual costs/kWh exceeded the benchmark by about $2.4 million. GMP retained as much as $0.6 million of cost reduction in a quarter (Q2 2020) when actual costs/kWh were about $4.7 million less than the benchmark. Over the seven quarters of the Current Plan, the increases and decreases largely offset each other, on average turning out just $40,000 lower than benchmark. GMP absorbed about $670,000 over the period, or an average of almost $100,000 per quarter, due the effects of the asymmetric Efficiency Band (i.e., absorbing more of the quarterly cost increases than the cost decreases). This result is not surprising in a period like this when the frequency and magnitude of cost increases and decreases were similar.

Q17. What is GMP's rationale for continuing the Current Plan components?

A17. The Current Plan is proven to perform for our customers and it provided stability and balanced results even during the trying times and varying market outcomes associated with the COVID-19 pandemic. There is significant value in maintaining continuity in this approach and retaining the known rate-stabilizing benefits of the Current Plan as we continue to emerge from and appreciate the economic and social impacts of the pandemic. Indeed, an overarching goal of the regulation plan framework is to continue to emphasize rate stability and the flexibility to respond to changing circumstances to best serve customers. The existing framework was a high performer in this regard, so far under the Current Plan, and has helped as we continue to innovate in response to trends in the power supply market and our evolving generation base, while seeking stability for our customers.

It is true that under the Current Plan GMP has more financial exposure to variances in Component B costs than we had previously, which has resulted in GMP absorbing a somewhat greater portion of power supply cost increases. However, we believe that the Current Plan overall features a reasonable allocation of risk, given the level of control over different aspects of our portfolio, and the broader power supply goals we are driving to obtain. Specifically, we believe the New Plan will continue to align our incentives and support our efforts toward achieving an increasingly renewable power supply while decoupling the financial benefit or risk of increasing or declining retail sales.

IV. Section 218d Criteria

Q18. In your view, does the New Plan (including the Retail Revenue and Power Supply Adjustors) meet the criteria for alternative regulatory mechanisms in 30 V.S.A. § 218d?

A18. Yes. The Commission has previously approved GMP's proposed forecasting methodology and Power Supply and Retail Revenue adjustors in Case No. 18-1633-PET, and as modified in Case No. 20-1401-PET. Since those proceedings, the performance of this framework has further bolstered my conclusion that the New Plan is consistent with the requirements of § 218d. Mr. Ryan's and Mr. Bingel's testimony addresses each of the § 218d criteria and explains how the combined function of the provisions requested meet the requirements of this section.

Q19. Does that conclude your testimony at this time?

A19. Yes, it does.