STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Tariff filing of Green Mountain Power Corporation requesting a change in rates, effective October 1, 2022	)))	Case No. 21-____-TF
Petition of Green Mountain Power for approval of its new multi-year regulation plan pursuant to 30 V.S.A. §§ 209, 218, and 218d	)))	Case No. 21-3707-PET

PREFILED DIRECT & SUPPLEMENTAL TESTIMONY OF MICHELE C. NELSON ON BEHALF OF GREEN MOUNTAIN POWER

January 18, 2022

Summary of Testimony

Ms. Nelson sponsors VT Transco's costs for the FY23 Rate Year, which is used by GMP in its calculation of the FY23 cost of service. Ms. Nelson also sponsors VT Transco's three-year forecast for the FY24–FY26 period, which is used by GMP in developing the FY24–FY26 cost-of-service forecast under GMP's proposed new regulation plan, filed in Case No. 21-3707-PET ("New Plan").

Exhibit List

Exhibit GMP-MCN-1	FY21 and FY23 Revenues and Costs
Exhibit GMP-MCN-2	CY19 – CY21 Cash Flows and Capitalization
Exhibit GMP-MCN-3	CY19 – CY23 CAPEX and Plant
Exhibit GMP-MCN-4	FY21 and FY23 RNS Revenue
Exhibit GMP-MCN-5	FY24 – FY26 Three-Year Forecast of Revenues and Costs

PREFILED DIRECT & SUPPLEMENTAL TESTIMONY
OF MICHELE C. NELSON
ON BEHALF OF GREEN MOUNTAIN POWER

Q1. Please state your name, address, and occupation.

A1. My name is Michele C. Nelson, and my business address is 366 Pinnacle Ridge Road, Rutland, Vermont 05701. I am employed by Vermont Electric Power Company, Inc., ("VELCO") where I am Chief Financial Officer and Treasurer ("CFO"). VELCO is the manager of Vermont Transco LLC ("VT Transco").

Q2. Please describe your educational and business background.

A2. I am the Chief Financial Officer and Treasurer of VELCO, and I have served in these roles since February 5, 2015. Previously, I served as Vice President of Finance and Treasurer at VELCO during the period between 2012 and 2015 and Manager of Accounting, Forecasting and Assistant Treasurer and Treasurer during the period between 1995 and 2012. I earned a Bachelor of Science degree in Business Administration from the University of Vermont.

Q3. Please describe your responsibilities at VELCO.

A3. In my capacity as CFO I am directly responsible for VELCO's and VT Transco's finances, financial reporting, general accounting, taxes, and forecasting.

Q4. Have you previously testified before the Public Utility Commission ("Commission")?

A4. Yes. I provided both equity and debt financing testimony in connection with VT Transco and in GMP's 2017 rate filing (Case No. 17-3112-INV). In addition, since April

2017, I have also provided testimony in connection with: VT Transco's acquisition of ownership interest in the Highgate Transmission Facility (Case Nos. I7-2758-PET and 18-2901-PET); VT Transco's financing filings under 30 V.S.A § 108 (Case Nos. 17-0240-PET, 17-3570-PET,18-3291-PET, 19-0806-PET, and 21-3724-PET); and an accounting order relating to the equity interest previously held by VT Transco in Utopus Insights, Inc. (Case No. 17-5013-ACCT).

Q5. What is the purpose of your testimony in this case?

A5. I support the projected VT Transco costs and revenues for GMP's test year, which is fiscal year 2021 ("FY21"), or October 1, 2021–September 30, 2021 ("Test Year") and the rate year which is fiscal year 2023 ("FY23") or October 1, 2022–September 30, 2023 ("Rate Year"). I understand that Maria Fischer, GMP's power supply witness, relies on these projections in developing GMP's power supply costs for the Rate Year. In addition, I also provide VT Transco's three-year forecast, which I understand GMP relies on to develop its annual forecasts for the FY24–FY26 rate periods as part of its proposed New Plan in Case No. 21-3707-PET

Q6. Can you summarize your testimony?

A6. Yes, in summary, VT Transco's revenue requirement as shown in **Exh. GMP-MCN-1**, is projected to increase by $12.39 million between GMP's Test Year and Rate Year , and of this $10.36 million will be paid by Vermont distribution utilities under the 1991 Vermont Transmission Agreement ("91VTA"). Although VT Transco costs are increasing under

the 91VTA, its earnings to the Vermont owners are likewise forecasted to increase by approximately $4.67[1] million over the same time period.

In its three-year forecast, VT Transco's total revenue is projected to increase by approximately $5M annually for FY24–FY26. Over the same forecast period, revenue under the 91VTA is projected to decrease from $36.3M to $33.4M and earnings before taxes are projected to decrease from $96.1M to $95.8M, largely due to the increase of the return of the excess accumulated deferred income tax due to the Tax Cut and Jobs Act (**Exh. GMP-MCN-5**).

Q7. Please describe how VT Transco recovers its costs.

A7. VT Transco operates under a series of contracts that are structured to provide it with payments to recover 100% of its operating expenses, taxes, and financing costs, as well as a return on equity. The majority of VT Transco costs are recovered through two tariffs: (1) the ISO-New England, Inc. Open Access Transmission Tariff ("ISO-NE OATT") and (2) the 91VTA.[2] Most of VT Transco's costs are recovered through the ISO-NE OATT for Regional Network Service ("RNS").

Under the ISO-NE OATT, VT Transco's Annual Transmission Revenue Requirement ("ATRR") is an RNS rate year forecast subject to annual true up based on

[1] As explained in response to question 9 below, VT Transco's $1.19 million income from nonutility operations for FY21 as shown on lines 17 and 22 of **Exh. GMP-MCN-1** does not impact the revenue requirements under the ISO-NE OATT or 91VTA.

[2] VT Transco also recovers a small portion of its revenue requirement through its Schedule 21 for Local Service and other contracts for rents of electric property. Because RNS under the ISO-NE OATT and the 91VTA are the primary vehicles through which VT Transco recovers its costs, for the purpose of simplifying my testimony, I focus on those tariffs.

actual and forecasted data relating to the costs of Pooled Transmission Facilities ("PTF") (**Exh. GMP-MCN-4**). PTF are the transmission facilities (rated 115 kV[3] or above) that move power on the New England Transmission System. PTF are owned by the transmission owners in New England, like VT Transco, which are operated by ISO-NE and used by load-serving entities that are charged for that use through the RNS billings. VT Transco's share of these RNS revenues generally represents approximately 80–84% of its total revenue requirement.[4]

The remaining VT Transco costs are recovered from the Vermont distribution utilities through the 91VTA. Essentially, the 91VTA is a top-off mechanism, meaning that VT Transco must first accrue the portion of its revenue requirement that is covered by the ISO-NE OATT and, only after doing so, will the 91VTA provide the balance. Every month, the 91VTA balance changes based on accrued revenue from RNS under the ISO-NE OATT and changes in VT Transco's expenses.

[3] Transmission facilities rated 69 kV that were PTF as of December 3, 2003 continue to be classified as PTF.
[4] As discussed in response to question 8, the RNS revenues will only represent approximately 77% of VT Transco's total revenue requirement in the 2019 transmission year, with Vermont distribution utilities picking up 23% under the 91VTA.

I. FY23 Rate Period Revenues and Costs

Q8. Do you have exhibits that detail VT Transco's Test Year and Rate Year revenues and expenses?

A8. Yes, the following exhibits contain detailed information on VT Transco's revenues and operating expenses, cash flows and capitalization, and capital expenditures relevant to the FY23 rate period:

- VT Transco 12-month Test Year and projected Rate Year annual revenues and costs are summarized in **Exh. GMP-MCN-1**. This exhibit identifies VT Transco's full revenue requirement and the associated revenues by source, including RNS under the ISO-NE OATT and the 91VTA. GMP's share of the 91VTA is approximately 78%.
- VELCO's cash flows ("sources and uses of cash" including capitalization) and capitalization for calendar year 2019 ("CY19") through calendar year 2021 ("CY21") are summarized on **Exh. GMP-MCN-2**. The cash flows reflect cash provided by operations, capital expenditures, debt requirements, and annual equity infusions for the relevant calendar years that enter into the determination of VT Transco's RNS ATRR and resulting revenue under the ISO-NE OATT as shown in **Exh. GMP-MCN-4**. At year-end 2021, VT Transco received $40 million in additional equity. These funds were used to repay the debt incurred by VT Transco under its line of credit and maintain its equity component in its capital structure at approximately 60%. That

percentage remains well within the average range for utilities in New England and will produce earnings to partially offset transmission cost increases from ISO-NE and VT Transco for Vermont utilities and their retail customers. The return on equity and applicable income taxes for these equity infusions accounts for some of the change in the VT Transco earnings before tax between the Test Year and Rate Year that is identified in **Exh. GMP-MCN-1**.

- VT Transco's capital expenditures ("Capex") are reflected in **Exh. GMP-MCN-3**. This exhibit identifies VT Transco's actual and projected Capex for CY19–CY23, highlighting major construction projects and summarizing the impact on capital expenditures, additions to plant in service, and gross plant by categories. This exhibit supports the construction expenditure values reflected in **Exh. GMP-MCN-2**. VT Transco's actual and projected Capex for CY19–CY23, as summarized in **Exh. GMP-MCN-3,** enter into the determination of VT Transco's RNS ATRR and resulting Test Year and FY23 Rate Year revenue shown in **Exh. GMP-MCN-4**.
- VT Transco's RNS ATRR and the ensuing revenue stream is set out in **Exh. GMP-MCN-4.** As noted above, the calendar year amounts shown in **Exh. GMP-MCN-2** and **Exh. GMP-MCN-3** support VT Transco's RNS ATRR and resulting FY21 and FY23 RNS revenues.
- VT Transco's three-year forecast of revenues and costs for FY24–FY26 are provided in **Exh. GMP-MCN-5**

Q9. Please describe the changes in budgeted VT Transco costs and revenues between the FY21 Test Year and FY23 rate period and the major reasons for the increases.

A9. **Exh. GMP-MCN-1** shows that VT Transco's revenue requirement is projected to increase by $12.39 million between GMP's Test Year and Rate Year, of which $10.36 million will be paid by Vermont distribution utilities under the 91VTA.

There are two components to the projected increase in revenue requirement, operating costs and earnings before tax. VT Transco's operating costs are projected to increase approximately $7.72 million between the Test Year and Rate Year. This net change is made up of an approximately $9.26 million increase related to property taxes and depreciation from major construction projects placed in service in CY21 and CY22 as shown on **Exh. GMP-MCN-3**. These projects include fiber optic and radio expansion, structure replacement program, the New Haven operations facility (back up control center) and the substation conditions assessment program. VT Transco is also forecasting an increase of $1.81 million in maintenance and administrative expenses as shown on lines 7–8 of **Exh. GMP-MCN-1**. These increases are offset by a reduction of $3.33 million primarily relating to a regulatory credit in the Test Year that has been fully billed and is not an ongoing cost, resulting in the final $7.72 Test Year to Rate Year change.

The second component of the increased revenue requirement "earnings before tax" is projected to increase approximately $4.67 million under the regulated tariffs (see lines 18–21 in **Exh. GMP-MCN-1**). As shown in **Exh. GMP-MCN-2**, VT Transco increased its amount of equity in 2021 by $40 million to fund the capital projects

mentioned above. There are two components to this increased equity. The first is the return on the $40 million equity and related income taxes, as shown on lines 18 and 19 of **Exh. GMP-MCN-1**. The return on equity increased by $4.56 million and the associated income taxes increased by $2.00 million. The second component is the return of excess accumulated deferred income tax ("ADIT") as shown on line 20 of **Exh. GMP-MCN-1**. As explained in response to Question 14 below, the Rate Year reflects the implementation of the Federal Energy Regulatory Commission ("FERC") December 2021 orders approving the return of excess ADIT for both the ISO-NE OATT and the 91VTA. The excess ADIT reflects the change in the federal income tax rate from 35% to 21%. The return of excess ADIT is a reduction to earnings and VT Transco's revenue requirement. VT Transco also had additional earnings of $1.19 million in the Test Year, however these earnings are from nonutility operations and do not impact VT Transco's revenue requirements under the ISO-NE OATT or 91VTA. There are no forecasted nonutility earnings for the Rate Year.

About 17% of the $12.39 million increase in revenue requirement from the Test Year to the Rate Year is offset by approximately $2.15 million in higher RNS reimbursements under the ISO-NE OATT (shown on **Exh. GMP-MCN-1**), leaving the remaining increase of approximately $10.36 million to be paid under the 91VTA (see line 3 of **Exh. GMP-MCN-1**). In the FY21 Test Year, the ISO-NE OATT covered approximately 84% of VT Transco's revenue requirement. Approximately 3% of the 84% is due to an increase in coincident peaks in New England for the months of June and August of 2021, delivering an additional $5 million in RNS revenues over the RNS

revenue requirement under the ISO-NE OATT, as shown on line 18 of **Exh. GMP-MCN-4**. In the Rate Year, 81% of VT Transco's revenue requirement will be covered under the ISO-NE OATT. The decrease from 84% to 81% is due to two factors: 1) that VT Transco's RNS revenue requirement under the ISO-NE OATT is lowered by the return of the excess ADIT, and 2) VT Transco assumed level coincident peaks as shown in **Exh. GMP-MCN-1** and **Exh. GMP-MCN-4**, respectively.

Q10. Please describe the change in revenues associated with the ISO-NE OATT in more detail.

A10. As explained in response to question 7 and shown on **Exh. GMP-MCN-4**, ISO-NE OATT RNS billings recover the costs of historic investments, as well as the cost of projected capital additions for PTF that will be placed in service during the calendar year forecast period.[5] For the Test Year, payments were based on pro-rated actual costs for CY19 and CY20, plus a pro-rated forecast of costs related to CY20 and CY21 PTF capital additions. Because the RNS ATRR is based in part on projections, it is subject to annual true up (with interest) to actual costs over the relevant RNS Rate Year. VT Transco's calculation of its projected RNS ATRR and the Rate Year revenue stream is set out in **Exh. GMP-MCN-4**. It should be noted that the year-to-year RNS net revenue requirement and, therefore revenues, depends on a number of factors, including the

[5] RNS transitioned to a calendar year rate year beginning January 1, 2022. RNS billings continue to recover, subject to annual true up, the cost related to historic and projected PTF additions—albeit that two years of PTF additions are projected to span the gap between the availability of historic data from the most recent FERC Form No. 1 and the calendar year RNS rate year (e.g. RNS billings beginning January 1, 2022 are based on historic 2020 costs plus the cost of projected PTF additions for 2021 and 2022).

trajectory of capital spending, the relative magnitude of capital expenditure to existing plant in a given year (PTF %), and the accuracy of projected plant addition costs pro-formed into rates.

Q11. Can you please summarize any benefits GMP's participation in VT Transco's ownership structure creates for Vermont customers?

A11. Vermont customers benefit from GMP's participation in VT Transco's ownership structure in several ways. GMP's participation helps VT Transco manage its capital structure with more agility, which allows VT Transco to better respond to changes in regulatory policy and market conditions over time. As the Commission is aware, VT Transco's ownership by all Vermont Distribution Utilities means that Vermont customers benefit from the earnings created by equity investments the owners make in VT Transco. VT Transco's operating agreement sets forth how VT Transco raises equity. In summary, VT Transco offers equity to all of its owners based on their transmission cost share. Where any particular owner is, for whatever reason, unable to take its share, that share is re-offered to the remaining owners proportionally. That situation can result for a variety of reasons where, for instance, timing may be inconvenient for financial or governance reasons. GMP has always been able to take its share of the equity and more when needed. This flexibility not only allows VT Transco to respond quickly to changing circumstances, but it also enables VT Transco to maximize the financial value it delivers back to Vermont customers. By optimizing its capital structure over time, VT Transco is able to get the best balance of weighted average cost of capital, which benefits all Vermont customers. This includes GMP customers, who also benefit directly from

GMP's investments in VT Transco through a return on GMP's equity in VT Transco, as discussed in Mr. Ryan and Mr. Bingel's testimony. GMP's participation has thus played an important role helping VT Transco deliver value sustainably to Vermont customers, including GMP customers.

II. VT Transco Three Year Forecast

Q12. What additional information are you providing in support of GMP's FY24–FY26 forecasts?

A12. In addition to the Test Year and Rate Year information provided above, I have also attached VT Transco's three-year forecast as **Exh. GMP-MCN-5.** This analysis reflects actuals through September of 2021 and provides estimates for periods beyond that date. I understand that GMP's forecasts for the FY24–FY26 period rely on this information for power supply transmission costs and estimates of equity in earnings associated with GMP's investments in VT Transco.

Q13. Can you describe how VT Transco's three-year forecast is developed and how often it is updated?

A13. VT Transco's forecast is developed using a model that calculates values for plant, depreciation, debt, interest, equity, taxes, and annual revenue requirements based on actual and forecasted data inputs and assumptions. The model derives financial statements from these calculated values and is updated monthly for actual data and updated periodically as necessary for known changes in forecast data or assumptions.

Q14. What if any assumption does the three-year forecast make with respect to the timing of VT Transco's anticipated ADIT return?

A14. VT Transco's three-year forecast reflects compliance with the December 2021 FERC orders authorizing VT Transco to begin recording monthly excess ADIT amortization in December 2021 (including catch-up amounts for 2020 and 2021) and to begin returning in customers invoices for service provided in December 2021 and January 2022 under the 91VTA and ISO-NE OATT, respectively.

Q15. Does that conclude your testimony at this time?

A15. Yes, it does.