STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 22-0175-INV

Tariff filing of Green Mountain Power requesting a 2.34% increase in base rates effective on bills rendered on or after October 1, 2022

Case No. 21-3707-PET

Petition of Green Mountain Power Corporation for approval of a Multi-Year Rate Plan (MYRP) pursuant to 30 V.S.A. Sections 209, 218, and 218d

PREFILED DIRECT TESTIMONY OF
STEVEN D. HUNT
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

April 20, 2022

Summary: Mr. Hunt discusses in detail several proposed adjustments and recommendations regarding Green Mountain Power Corporation's ("GMP" or "Company") accounting and cost of service on behalf of the Vermont Department of Public Service ("Department" or "PSD"). Mr. Hunt also summarizes the scope of work done to identify and support the proposed adjustments.

Mr. Hunt Sponsors the Following Exhibits:

Exhibit PSD-SDH–1	Professional Resume of Steven D. Hunt
Exhibit PSD-SDH-2	Discovery Response GMP.PSD 1.Q23
Exhibit PSD-SDH-3	Discovery Response GMP.PSD 2.Q34
Exhibit PSD-SDH-4	Discovery Response GMP.PSD 2.Q1 & Supplemental Response
Exhibit PSD-SDH-5	Discovery Response GMP.PSD 2.Q10
Exhibit PSD-SDH-6	Discovery Response GMP PSD 2.Q6

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

A1. My name is Steven D. Hunt. My business address is 111 N. Orange Avenue, Suite 710, Orlando, Florida 32801. I am a Senior Project Manager of the firm GDS Associates, Inc. ("GDS").

Q2. Please outline your formal education.

A2. I earned a Bachelor of Science in Business with a major in Accounting from Virginia Polytechnic Institute and State University ("Virginia Tech") in 2001. Additionally, I earned a master's degree in Accounting and Information Systems from Virginia Tech in 2002.

Q3. Are you a Certified Public Accountant?

A3. Yes. I am a certified public accountant licensed in Washington, D.C.

Q4. Please state your professional experience.

A4. I am an accounting and rate specialist with 20 years of experience on accounting, audit, and cost of service ("COS") rate regulation matters in the electric, natural gas, and oil industries. I began working at GDS in August 2020. Prior to GDS, I worked at the Federal Energy Regulatory Commission ("FERC") from 2002-2020. I worked entirely in the Regulatory Accounting program as an Accounting Analyst, Manager, Deputy Chief Accountant, and Chief Accountant, in which I worked directly with FERC's rate and legal programs on numerous electric industry focused accounting request filings, rate filings, rulemakings, accounting guidance letter orders, and policy statements. Additionally, I was a leading author or reviewing official for most FERC accounting orders and audit reports in the electric industry for the past 15 years.

As a leader in FERC's audit program, I became directly involved in the initial risk assessment processes to determine audit focus areas, initial and supplemental discovery requests and interrogation, presenting findings of fact through draft audit reports, defending the findings of fact based on the evidentiary record and FERC precedent, and drafting final public audit reports that present the scope of audit work, audit methodologies, and findings and recommendations. Through these experiences, I frequently evaluated ratemaking concepts and precedent, electric utility operations, customer concerns, public utility needs, and financial accounting and income tax requirements to identify and resolve macro and micro regulatory issues. For 13 years, I represented FERC's accounting and audit programs externally through frequent public speaking engagements at industry conferences and meetings.

Q5. Have you testified in Vermont in the past?

A5. Yes. I submitted testimony in Case No. 21-0898-TF before the Vermont Public Utility Commission ("Commission").

Q6. Have you testified before any other regulatory commissions?

A6. Yes. I have submitted testimony before the Public Utility Commission of Texas and FERC.

Q7. What are your qualifications to provide testimony before the Commission?

A7. I have devoted a substantial amount of my career to public service at FERC as advisory staff, and I became extremely experienced presenting accounting and COS facts, rate analysis, and ratemaking recommendations in proceedings before FERC. I served as the FERC Chief Accountant and Director of the Division of Audits and Accounting in the Office of Enforcement for 32 months and, in prior roles, served as the Deputy Chief Accountant, Accounting Manager, and Senior Accountant. In these roles, I routinely provided expert explanations and recommendations on the application of FERC accounting regulations and COS ratemaking policy and regulations in various rate proceedings, accounting filings, and audit proceedings. This expert advice was provided to FERC commissioners and all levels of senior leadership through various detailed written memoranda and orally in group project meetings. These experiences supporting FERC ratemaking, accounting, and audit programs and associated career advancement demonstrate my knowledge in this specialized field. My professional resume provides further details of my experience, provided as Exhibit PSD-SDH-1.

Q8. For whom are you appearing?

A8. I am testifying on behalf of the Vermont Department of Public Service ("Department" or "PSD").

Q9. Were your testimony and exhibits prepared by you or under your direct supervision and control?

A9. Yes.

Q10. Please summarize the purpose of your testimony.

A10. I have led the review and analysis of GMP's filed COS model and the supporting documentation in Case No. 22-0175-TF. In my testimony, I show a table of each of my proposed adjustments to GMP's operating expenses and rate base. My testimony will also provide a discussion, justification, and value of certain proposed adjustments. Additionally, witnesses Mr. Jacob Thomas, Mr. Chris Dawson, and Mr. Kevin Mara of

GDS will present the remaining proposed adjustments to the COS. The PSD-adjusted results and supporting schedules are provided in the testimony of Mr. Jacob Thomas.

Q11. Please summarize the scope of work performed to identify the proposed COS adjustments.

A11. I worked as the project manager to lead the review of GMP's proposed COS included in its rate filing in Case No. 22-0175 INV alongside a diverse group of highly experienced engineers, rate design specialists, and accountants. We worked with a team to conduct the following activities:

- Performed a detailed review of all filed documents, testimonies, and schedules in GMP's COS rate filing in Case No. 22-0175-TF;
- Reviewed documents and testimonies in GMP's Multi-Year Regulation Plan ("MYRP") in Case No. 21-3707-PET;
- Held internal teleconferences with GMP staff to discuss the structure and contents of its COS rate application and discuss the provision of additional accounting information to assist in the preparation and review of the rate application and discovery;
- Substantially prepared the Department's first round of discovery ("Discovery #1") and reviewed GMP's responses;
- Substantially prepared the second round of discovery requests on GMP ("Discovery #2") and reviewed GMP's responses;

- Conducted testing of GMP's general ledger transactional data for calendar year 2020 on a sample basis and reviewed and analyzed GMP's audited financial statements in the FERC Form No. 1 for 2018;
- Reviewed certain orders applicable to prior GMP rate filings and investigations, publicly available information regarding GMP activities, the FERC Uniform System of Accounts codified in 18 C.F.R. Part 101 ("FERC accounting regulations"), and FERC orders addressing the application of the FERC accounting regulations; and
- Identified accounting and COS ratemaking issues that resulted in proposed adjustments to GMP's COS.

Q12. Please identify the adjustments and recommendations you propose regarding GMP's MYRP.

A12. I propose five (5) recommendations and eleven (11) adjustments related to GMP's COS and accounting supporting its rate case. The proposed *recommendations* provide my opinion on certain GMP items included in its COS and accounting practices. The proposed *adjustments* are items found through discovery that require further refinement to the Rate Year (or FY 2023) COS, as well as other adjustments. The following tables summarizes the proposed recommendations and adjustments.

Table 1 – Proposed Recommendations

Recommendation Number	Description
1	Proposed Regulatory Assets
2	Fixed Price Contracts
3	Removal of Vegetation Management Test Year Storm Expense

4	Energir Management Services Billing
5	Accounting for Non-Service Pension and Other Benefit Costs

Table 2 – Proposed COS Adjustments

Adjustment Number	Description
PSD3	Minor Storm Restoration Fleet Expense
PSD4	Fleet Expense Proration
PSD5	Collection Agency Fees
PSD6	IT Security Expense
PSD7	Removal of Project 171161, Brockway Mills Fiber
PSD8	Weatherization Tax Calculation
PSD9	Salaries and Wages
PSD10	Tax Reform Regulatory Asset
PSD11	Tier III Regulatory Asset
PSD12	Fixed Price Contract
PSD13	Active Medical Expense

Q13. Please summarize the recommendations you propose regarding GMP's COS and accounting.

A13. I make recommendations regarding GMP's proposed inclusion in the COS of certain regulatory assets and regulatory liabilities that have not been specifically approved for rate inclusion by the Commission. In addition, I recommend that GMP perform an evaluation of its contracts that are included in the Test Year or COS during the MYRP and demonstrate whether the adjustments are necessary to its methodology for inflation increases on multi-year contracts with fixed prices. I also make recommendations on certain items that need additional support from GMP. Finally, I make an accounting recommendation regarding GMP's adoption of new accounting standards on the capitalization of pension and other employee benefit costs.

RECOMMENDATIONS

Q14. Please explain Recommendation 1 – Regulatory Assets.

A14. In GMP's Rate Base Adjustment D9, GMP reflects the change in the 13-month average balance of unamortized regulatory assets and deferred debit balances. Through discovery, additional information was requested regarding certain regulatory assets, some of which were seeking inclusion in the COS for the first time in this rate case proceeding.[1] In response to the Department's discovery request in PSD1.Q23, GMP provided in Attachment GMP.DPS1.Q23 (Exhibit PSD-SDH-2) a description of each of the regulatory assets in rate base adjustment D9. After reviewing the descriptions for these regulatory assets, I confirmed that the following regulatory assets were not previously approved by the Commission and warranted further review:

- 18262~2018 EXCESS TAX REFORM REFUND
- 18625~TIER III BALANCE

[1] See Exhibits PSD-SDH-2 and PSD-SDH-3 (Discovery Questions PSD1.Q23 and PSD2.Q34).

Q15. Please explain the regulatory asset for "18262~2018 EXCESS TAX REFORM REFUND".

A15. For this regulatory asset, GMP explains that it is comprised of a series of impacts related to the Tax Cuts and Jobs Act ("Tax Reform") that it proposes to be amortized over 29 years.[2] GMP states the amortization period is consistent with the return of the excess ADIT Tax Reform regulatory liability and will begin October 1, 2022. These adjustments net to $3.973 million and represent three regulatory assets and liabilities for the incremental book operating revenue and expense impacts of Tax Reform until base rates were adjusted to reflect the Tax Reform.

The first item is a regulatory liability for the federal income taxes collected from customers in excess of the federal income tax statutory rates from January, 2018 through December, 2018. GMP values this at $15.8 million, less approximately $6 million previously returned to customers through a separate bill credit from February 28, 2018, to December 27, 2018, netting to $9.6 million.[3]

The second item is a $13.6 million regulatory asset for lower VT Transco equity-in-earnings federal income tax gross-up resulting from the lower federal income tax statutory rates. Specifically, following Tax Reform in 2018, GMP represents that its revenue requirement included a reduction for the equity earnings of VT Transco,

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[2] See Exhibit PSD-SDH-3 (GMP response to Discovery 2, Question 34).
[3] See Case No. 18-0216-TF, Order issued February 8, 2018.

including the income tax gross-up based on a 35% income tax rate. In informal meetings with the Department, GMP explained that this adjustment was computed by taking the difference between (1) equity earnings of VT Transco included in base rates based on an income tax gross up using a 35% income tax rate, and (2) the actual amount of equity earnings using an income tax gross up based on the current 21% income tax rate.

The last item is a $0.2 million regulatory asset for cumulative effect of a lower Contribution in Aid of Construction ("CIAC") income tax gross-up resulting from lower federal income tax statutory rates for February through December 2018. Specifically, GMP's base rates in 2018 included a reduction to the COS for CIAC revenues, including the income tax gross up based on a 35% income tax rate. In informal meetings with the Department, GMP explained that it computed this regulatory asset by taking the difference between the actual CIAC tax gross-up revenue received based on a 21% federal income tax rate to what would have been paid by contributing customers if the federal income tax rate remained at 35%.

Q16. Do you agree with the inclusion of the regulatory asset associated with Tax Reform?

A16. I generally support the inclusion of these regulatory balances in rate base and the amortization in the COS over 29 years based on the information provided. My general support is based on the responses to discovery, an evaluation of the methods used to compute the Tax Reform impacts, and informal meetings discussing the components of the net regulatory asset. However, I cannot attest that the computation of the net regulatory asset balance is accurate. GMP should provide further details on each component of the net regulatory asset to demonstrate how the balances were computed to provide assurance that the proper value is included in the COS. I believe this can be satisfied with further technical discussions and exchanges of information.

Q17. Please explain the regulatory asset for "18625~TIER III BALANCE".

A17. GMP explains that this regulatory asset reflects Tier III Compliance costs associated with meeting GMP's Tier III requirements under the Renewable Energy Standard totaling $11.6 million. Renewable Energy Standard Tier III compliance is also briefly discussed in the testimony of GMP witness Mr. Joshua Castonguay. GMP explained in informal meetings with the Department that these costs are provided in detail each year in its Renewable Energy Standards Tier III Savings Report filing to the Commission but are not presented in a manner that would properly reflect the balance it proposes to include in rate base. Nevertheless, GMP states that including this balance in rate base is appropriate because this spending has already been incurred to meet known future regulatory Tier III obligations, but not charged to power supply or otherwise included in rates. GMP states that it is treating the Tier III compliance costs similarly to a prepayment whereby the cost is included in rate base until the credits are used in future years. As such, GMP explains that there is no amortization period, and the costs will be recognized as an expense in the year in which the Tier III costs are utilized to meet its Tier III obligation.

Q18. Do you agree with the inclusion of the Tier III regulatory asset?

A18. I generally support the inclusion of the Tier III regulatory asset in rate base. My general support is based upon my understanding of the Renewable Energy Standard, established under 30 V.S.A. chapter 89, the Commission order implementing the Renewable Energy Standard in Rule 4400, the support provided by GMP in DPS2.A34 (Exhibit PSD-SDH-3), including a narrative explanation of Tier III Compliance Costs, and schedules summarizing costs accrued and actual costs incurred. However, additional information is necessary to conclude that (1) the methodology used to compute the regulatory asset is appropriate, (2) the balance included in the COS is properly computed, and (3) the costs deferred as a regulatory asset are indeed attributable to the Tier III program. Additionally, I recommend that GMP provide further details on how the regulatory asset will be reduced through future credits and whether the proposed return through rate base will be considered a cost of the Tier III program. This can be satisfied with further informal discussions and exchanges of information.

Q19. Please explain Recommendation 2 – Fixed Price Contracts.

A19. I reviewed GMP's COS and its use of inflationary adjustments based on a Consumer Price Index as also described in the testimony of Mr. Jacob Thomas ("CPI Adjustments"). In general, the COS includes proposed adjustments to certain categories of costs by a specific inflation measure on an annual basis. Consequently, discovery questions were given to GMP to evaluate whether there is a need for an adjustment to the COS for its use of CPI Adjustments where GMP had multi-year fixed price contracts. That is, it is important to ensure GMP adequately evaluated its multi-year fixed price contracts when determining the COS. For example, if GMP entered into a four-year contract for a fixed cost, it is logical that the contract would not need inflationary adjustments during the contract period because the cost is fixed. However, when the contract renews, the expected contract renewal cost should reflect the inflationary increases for the entire four-year span.

GMP generally objected to discovery in this area of questioning and did not provide the specifically requested information. However, GMP did provide the following explanation:

> GMP enters multi-year contracts with third party vendors when doing so is in GMP customers' best interests for efficiency, predictability and overall reduced costs. These contracts are often entered for a limited duration of typically two or three years. When these contracts end, they will have to be renegotiated, re-bid, or eliminated if the service is no longer needed, which may occur in instances like IT software becoming obsolete. Depending on a variety of factors, the replacement contracts may come in lower (example: services in highly competitive environments) or they may come in higher than prior contracts due to passage of time and other factors such as inflation. Additionally, these contracts are all individually negotiated, with different lengths and terms, and are not coordinated to all expire at the end of any particular year or at the end of the MYRP. Finally, GMP may enter into entirely new contracts for additional services not in the Test Year during the term of the MYRP (such as when a new IT service or operations equipment is required). Agreeing to manage these costs at the rate of inflation over the course of the New Plan provides administrative simplicity for GMP, the Department and the [Commission], recognizes the business timing realities of contract extension and negotiation, and provides appropriate performance requirements on GMP to manage these costs based upon the overall annual inflation target in the current environment.

Q20. What recommendations do you have based on GMP's position regarding fixed price contracts?

A20. I appreciate the need for administrative simplicity discussed by GMP. However, I also understand the need for GMP's rate to be just and reasonable and supported with known and measurable information. GMP explained that its contracts typically are entered into with a two-to-three-year contract duration. GMP proposes to increase the cost of contracts annually based on the CPI Adjustment under the presumption that the contracts renew annually. Based on the information provided, this implied assumption is not demonstrated to be reasonable. Therefore, I recommend that GMP determine a reasonable method to evaluate its contracting practices, quantify the scale of multi-year fixed price contracts, justify its continued use of annual CPI Adjustments against the realities of expected contract renewals, and propose any necessary adjustments. Pending the completion of this review by GMP and my assessment of GMP's findings, I recommend that the COS for RY 2024 through RY 2026 be adjusted to account for an estimated amount of expenses associated with fixed price contracts which are inappropriately adjusted for inflation. My recommended adjustment is further detailed in the Adjustments section at Question 51.

Q21. Please explain Recommendations 3 and 4 - Removal of Test Year Storm Expense and **Energir Management Services.**

A21. As a result of the Department's discovery, GMP acknowledged several errors that it believes warrants adjustments to the Rate Year revenue requirement. Based on GMP's response to Discovery Q2.1 and supplemental response (Exhibit PSD-SDH-4), GMP represents that certain corrections increase the Rate Year total revenue requirement and other corrections decrease the revenue requirement. In net, GMP's acknowledged corrections to errors reduce the total revenue by approximately $357,000. I support the adjustments for many of the identified errors since concern regarding those adjustments was raised through discovery. However, there are two corrections to errors that do not appear to be fully supported or shown to have an impact on the Rate Year revenue requirement. The corrections relate to the following items:

- COS Adj 8: Veg Management Adj – Removal of Test Year Storm Expense
- COS Adj 16: Rate Year to Test Year Adj – Correction of Energir Mgmt Services Billing

Q22. Please discuss Recommendation 3 - Removal of Test Year Storm Expense.

A22. In COS Adjustment C-8, GMP provided a Test-Year-to-Rate-Year adjustment of operating and maintenance ("O&M") Vegetation Management expense. As a result of discovery, GMP identified the need to remove a duplicate minor storm restoration activity that was included in COS Adjustment 7: O&M Minor Storm Restoration. Specifically, the initial COS Adjustment C-8 included all FY 2021 Test Year tree trimming expenses, including certain vegetation management costs reported in COS Adjustment 7 related to storm restoration. This resulted in the double counting of Test Year vegetation management expenses associated with minor storm restoration. To correct the COS, the duplicate Test Year minor storm activity amount reflected in this COS Adjustment 8 was removed. GMP represented that this resulted in a $82,000 increase in the Rate Year COS.

Q23. What recommendations do you have based on GMP's correction to COS Adjustment C-8?

A23. I agree with GMP's removal of duplicate vegetation management costs that were included in COS Adjustments C-7 and C-8. However, it is not apparent that the impact will affect the Rate Year total revenue requirement because the supporting detail for the determination of vegetation management expenses needed for the Rate Year does not appear to be derived from the Test Year actual values.[4] Accordingly, I suggest that the initial COS be unchanged with respect to this item. I recommend that GMP provide further support for the computation of vegetation management expenses included in the Rate Year to demonstrate the impact to the Rate Year revenue requirement that it suggests.

Q24. Please discuss Recommendation 4 – Energir Management Services.

A24. In COS Adjustment C-16, GMP provides a series of Test-Year-to-Rate-Year adjustments to remove one-time costs that were incurred in the Test Year, but not expected to recur in Rate Year, include costs expected to be incurred the Rate Year that were not reflected in the Test Year, and other miscellaneous COS adjustments. GMP explains that the initial adjustment did not reflect a Test Year credit of $77,386 for billing to Energir Management Services. GMP states this adjustment results in a $77,386 adjustment to the Rate Year total revenue requirement.

[4] See COS Adjustment FY23 - 26 Vegetation Mgmt_29_DEC_21.xlsx, FY23 COS Adjustment, I13.

Q25. What recommendations do you have based on GMP's correction to COS Adjustment C-16 related to the Energir Management Service costs?

A25. I am unable to accept this proposed correction because the proposed adjustment is not supported. GMP's supporting schedule for its COS Adjustment C-16 does not provide a demonstration of the initial adjustment, which makes it further challenging to assess the appropriateness of its proposed correction. Based on GMP's representations, the correction would increase the Rate Year total revenue requirement by $77,386. However, I cannot render an opinion on the appropriateness of the initial or revised adjustment without additional information describing the nature and demonstrating the computation of the adjustments. I suggest that the initial COS be unchanged with respect to this item. I recommend that GMP provide sufficient information on the proposed adjustment to show (1) the Test Year value and source, (2) rationale for adjustments to the Test Year, and (3) computation of the Rate Year value.

Q26. Please explain Recommendation 5 – Accounting for Non-Service Pension and Other Benefit Costs

A26. In response to discovery, GMP states that, effective October 1, 2018, GMP adopted Accounting Standards Update 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU-2017-07").[5] Under this new guidance, GMP explains that the only pension and retiree medical costs eligible for capitalization is the

[5] See Exhibit PSD-SDH-6 (Discovery response GMP.PSD 2.Q6).

"service cost" component, so 100 percent of all retiree medical and pension non-service costs are expensed. Prior to the adoption of ASU-2017-07, the accounting standards allowed for the capitalization of both the "service cost" and "non-service cost" for pension and other benefit costs that are associated with construction. In addition, for regulatory accounting and financial reporting purposes, the FERC Chief Accountant issued accounting guidance in FERC Docket No. AI18-1-000[6] concluding that, for regulatory accounting purposes, utilities may continue their prior capitalization practices or adopt the accounting requirements in ASU-2017-07. The FERC accounting guidance also sought to achieve consistency in the accounting methodology chosen and directed public utilities to make a filing with FERC to change the accounting policy after the effective date of ASU-2017-07. I am not aware that the Commission has a similar requirement for any changes to a public utility's accounting policy for capitalizing pension and other benefit costs. Accordingly, I recommend that GMP commit to remaining consistent with its current capitalization practice implementing ASU-2017-07 and, to the extent it intends to change this accounting method in the future, notify the Commission and disclose the accounting change in the subsequent general rate case.

ADJUSTMENTS

Q27. Please provide a summary of Adjustments PSD3 through PSD8.

A27. In response to the Department's discovery request DPS2.Q1 (Exhibit PSD-SDH-4) to identify and quantify all errors, corrections, or omissions identified to the inputs in the

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[6] See FERC Docket No. AI18-1-000, Accounting and Financial Reporting for Pensions and Post-retirement Benefits other than Pensions, issued December 27, 2017.

original filing, GMP provided Attachment GMP.DPS2.Q1 and GMP.DPS2.Q1 Supplemental to provide adjustments for FY 2023. The adjustments identified in GMPD.DPS2.Q1 were corrections that GMP discovered in responding to the Department's discovery requests including duplication of expenses in adjustments, use of prorated expenses instead of actual, and corrected test year expenses. These adjustments have an impact on the FY 2023 revenue requirement of -$517,000 and are as follows.

- Adjustment PSD3 – Minor Storm Restoration Fleet Expense: ($111,352)
- Adjustment PSD4 – Fleet Expense Proration ($12,000)
- Adjustment PSD5 – Collection Agency Fees: ($7,081)
- Adjustment PSD6 – IT Security Expense: ($94, 945)
- Adjustment PSD7 - Removal of Project 171161 Brockway Mills Fiber 2: ($60,315)
- Adjustment PSD8 - Weatherization Tax Calculation: ($230,000)

Q28. Please explain Adjustment PSD3 – Minor Storm Restoration Fleet Expense from DPS2.A1.

A28. Adjustment PSD3-Minor Storm Restoration Fleet Expense is an adjustment that removes duplicate fleet expenses from COS Adjustment 7 O&M Minor Storm Restoration that was already captured in separate adjustment COS Adjustment 15 – Fleet Expense. This duplicate expense removal resulted in a new five-year average rate year amount and a new test year amount, resulting in a $111,352 reduction in the Rate Year COS.

Q29. Do you agree with Adjustment PSD3 – Minor Storm Restoration Fleet Expense from DPS2.A1?

A29. Yes.

Q30. Please explain Adjustment PSD4 – Fleet Expense Proration.

A30. In COS Adjustment C-15, GMP provided a COS adjustment to reflect the Test Year to Rate Year COS increase in costs to operate GMP's fleet vehicles. GMP explained that the initial COS Adjustment C-15 incorrectly prorated Test Year O&M fleet to Other Power Supply, Transmission, Distribution, Customer Accounting, Customer Service & Information, Sales and Administrative & General instead of using the actual Test Year fleet cost charged to these categories. GMP explained that it discovered this error while responding to discovery and proposes to correct the error by replacing the prorated values with actuals. GMP explains that this resulted in a $12,000 reduction in the Test Year to Rate Year in COS Adjustment C-15 and Rate Year total revenue requirement.

Q31. Do you agree with Adjustment PSD4 –Fleet Expense Proration from DPS2.A1?

A31. Yes.

Q32. Please explain Adjustment PSD5 – Collection Agency Fees from DPS2.A1.

A32. Adjustment PSD5 – Collection Agency Fees is a correction to COS Adjustment 16 – O&M Test Year to Rate Year One-Time Items for expected return to normalcy in collection agency activities. The initial adjustment reflected test year expense only through July of 2021. The updated COS reflects a full year of test year expense, resulting in a decrease to the Rate Year COS of $7,081.

Q33. Do you agree with Adjustment PSD5 – Collection Agency Fees from DPS2.A1?

A33. Yes.

Q34. Please explain Adjustment PSD6 – IT Security Expense from DPS2.A1.

A34. Adjustment PSD6 – IT Security Expense is a correction to COS Adjustment 16 – O&M Test-Year-to-Rate-Year One-Time Items. The initial adjustment reflected a total incremental rate year expense of $189,900 for an IT service contract, which is an error. My review indicated that $94,945 of the services were included in the Test Year expenses as a charge from InGuardians, Inc (refer to Invoice IG92376). The adjustment results in a decrease of the Rate Year COS of $94,945.

Q35. Do you agree with Adjustment PSD6 – IT Security Expense from DPS2.A1?

A35. Yes.

Q36. Please explain Adjustment PSD7 – Removal of Project 171161, Brockway Mills Fiber from DPS2.A1.

A36. Adjustment PSD7 – Removal of Project 171161, Brockway Mills Fiber is an adjustment to remove the Brockway Mills Fiber Project from rate base. Since this project was submitted for inclusion in this case, GMP has negotiated a sale of this fiber to VELCO to become part of VELCO's southern fiber loop. The adjustment results in a Rate Year reduction to the COS of $60,315.

Q37. Do you agree with Adjustment PSD7 - Removal of Project 171161, Brockway Mills Fiber 2 from DPS2.A1?

A37. Yes

Q38. Please explain Adjustment of PSD8 – Weatherization Tax Calculation.

A38. Adjustment PSD8 – Weatherization Tax Calculation is an adjustment of weatherization tax calculation in Gross Revenue Taxes. The calculation for Gross Revenue Taxes in the initial COS used the same revenue base to calculate the Fuel (Weatherization) gross receipts tax and the Gross Receipts Operating revenue tax. The Fuel (Weatherization) tax should have been calculated on a smaller revenue base. To correct the COS, the calculation for the Fuel Weatherization gross receipts tax was updated to reflect the smaller revenue base. This resulted in a $230,000 decrease to the Rate Year COS.

Q39. Do you agree with the Adjustment PSD8 - Weatherization Tax Calculation from DPS2.A1?

A39. Yes

Q40. Please provide the background for the Adjustment PSD9 – Salaries and Wages.

A40. The basis of the salary and wages expense that GMP includes in its proposed Rate Year revenue requirement was the Test Year salaries and wages cost (capitalized and expensed) for non-production positions at the salary rates in effect as of January 11, 2021. To this amount, GMP made two adjustments shown in Schedule C5:

- An adjustment for changes due to retirements, new positions added, individual rate changes due to progressions and upgrades, vacant positions and department changes that occurred through September of 2021.
- An adjustment to the resulting amount to reflect projected compensation adjustments of 2.9% for January 2022 and 2.5% for January 2023.

GMP applied the Test Year "salaries and wages percentage" (i.e. the proportional amount of salaries and wages expensed) to the total adjusted salaries and wages cost, resulting in a salary and wages expense amount of $29.868 million, an increase of $678,159 over the expense incurred in the Test Year.[7] GMP did not provide supporting documentation of its calculation in the filing, instead relying on a $51,439,927 amount of "Total Base Payroll" for 2023 which was noted to come from Utilities International Software.

Q41. Why is salary expense important for ratemaking purposes?

A41. Salary expense is one of the larger components of GMP's total COS. For purposes of the MYRP, once the FY 2023 expense is determined, FY 2024 – FY 2026 amounts are subsequently increased annually 2.5 percent.

Q42. What support did the Department request in its review of GMP's $0.677 million adjustment to salaries and wages?

A42. The Department specifically requested information necessary to reproduce the salaries and wages known and measurable adjustments made by GMP in discovery question DPS2.Q3, Subpart j. Instead of providing the information requested, GMP repeated the description of the methodology originally provided in the direct testimony.

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[7] See FY 23 - 26 Salaries Cost of Service Adjustment.xlsx, "Rate Year Projection" worksheet.

Q43. Why did the Department request the information necessary to replicate the calculation of the adjustment?

A43. The Department is responsible for ensuring that the amounts being recovered from GMP in rates are just and reasonable and, when deviating from the amount incurred in the Test Year, that the adjustment meets the known and measurable standard. GMP bears ultimate responsibility for supporting the amounts included in its requested Rate Year COS. While the Department understands the general adjustments as described by GMP, a narrative explanation of how the amount was calculated does not allow the Department to perform a reasonable review of GMP's calculations or form a full opinion on whether GMP has met the standards for the adjusted amount to be included in the Rate Year.

Q44. Please discuss the basis of GMP's salaries and wages calculation?

A44. Before I answer this question, I want to acknowledge that the totals I provide in response to this question, Q45, and Q46 are not confidential. However, the individual figures used to procure the totals are, in fact, confidential. The Department discussed these totals with GMP to ensure discussion in this section remained confidential, and GMP confirmed that the numbers I have provided below are not confidential and thus available for use in testimony without a protective order.

GMP's salaries and wages as of January 11, 2021, provided the basis of its salary and wages calculation. At the time, the expense associated with the 501 filled positions totaled $48.79 million.[8] The salaries and wages associated GMP's 13 vacant positions totaled an additional $0.973 million.[9] Taking the total amount associated with filled and open positions and applying GMP's 64.4% O&M factor results in an O&M salaries and wages expense of $32.05 million, inclusive of production related salaries and wages.

Q45. What amount of salary and wages expense was GMP incurring as of March 21, 2022?

A45. As of March 21, 2022, GMP had 509 filled positions that totaled an annual salary amount of $49.76 million.[10] The salaries and wages associated GMP's 16 vacant positions, as of this time, were estimated to total between an additional $0.969 million and $1.26 million,[11] depending on the range of salary assigned to each position. These positions include overlapping positions that are occurring due to retirements that are due to occur before September 30, 2022.[12] Taking this amount and applying GMP's O&M factor would result in an O&M expense of between $32.67 million and $32.86 million, inclusive of production related salaries and wages.

Q46. How do these amounts compare to the total salaries and wages expenses incurred in the Test Year?

A46. Assuming the same O&M factor of 64.4%, GMP incurred a total of $32.29 million in the Test Year.[13] Of this amount, approximately $29.19 million was associated with non-

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[8] Attachment GMP.DPS2.Q3.a, Excel Column C, sum Excel Rows 6 through 505 (Confidential).
[9] Attachment GMP.DPS2.Q3.a, Excel Column C, sum Excel Rows 511 through 523 (Confidential).
[10] Attachment GMP.DPS2.Q3.f, Excel Column C, sum Excel Rows 6 through 514 (Confidential).
[11] Attachment GMP.DPS2.Q3.f, annualized amounts of values shown in Excel Column B, Excel Rows 520 through 532 (Confidential).
[12] DPS2.A3.e (Confidential).
[13] See "FY 23 - 26 Salaries Cost of Service Adjustment.xls", worksheet "FY2021 total payroll."

production roles. Assuming that the salary and wages expense associated with production roles remained steady at between the GMP's Test Year amount of $3.10 million[14] and its known and measurable amount of $3.28 million, the remaining portion of salaries and wages associated with filled and unfilled non-production roles as of March 21, 2022, would be between $29.39 million and $29.75 million, or an increase of between $0.20 million and $0.56 million over the amount incurred in the test year. After adjusting this increase for the 2.9% pay increase occurring in 2022 and 2.5% increase occurring in 2023[15], we arrive at an adjustment to Test Year amounts of between $0.22 million and $0.59 million to reflect for a fully staffed GMP during the Rate Year, resulting in a potential salaries and wages between $29.41 million and $29.78 million, averaging at $29.595 million. However, further adjustments would need to be made to that amount to reflect expected vacancy rates and remove the effect of the overlapping positions identified by GMP, both of which would reduce the adjustment amounts, as well as add positions that GMP believes will be filled by the Test Year. As a result, the $29.39 million and $29.75 million range does not produce the most ideal estimate for revenue requirement purposes but reflects the known and measurable information provided.

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[14] See "FY 23 - 26 Salaries Cost of Service Adjustment.xls", worksheet "Cost Adjustment," Excel Cell B27.

[15] See "FY 23 - 26 Salaries Cost of Service Adjustment.xls", worksheet "Rate Year Projection," Excel Cell E26.

Q47. Given the information above, is GMP's proposed $0.677 million adjustment reasonable?

A47. GMP has not provided adequate information for the Department to assess the accuracy of the adjustment or the underlying calculation. The evidence that GMP has provided does not satisfy the measurable leg of the known and measurable standard test.

Q48. Since GMP is unable to provide additional support for its adjustment, have you developed a proposed adjustment to Test Year Salaries and Wages expense?

A48. Yes. On the basis of the information GMP provided that is supportable and know and measurable, I recommend a $273,000 adjustment for the Rate Year COS. The basis of my proposed adjustment is the known annual salaries and wages expense as of March 21, 2022. As described above, a potential salaries and wages using updated information is between $29.41 million and $29.78 million and averages to $29.595 million. Taking the difference between the average salaries and wages range of $29.595 million and GMP's proposed Rate Year amount of $29.868 million, I compute a $273,000 adjustment.

If GMP were to provide further evidence in support of the proposed adjustment, either as a supplement to the interrogatory response, in a technical conference, or in rebuttal testimony, the proposed $0.677 million adjust may be shown to be reasonable. The provided information should be sufficient for the Department to verify the calculation of the $0.677 million amount as well as the constituent parts of the adjustment. As a result, I reserve the right to modify my opinion of the amount of the adjustment based on my review of the evidence provided by GMP.

Q49. Please explain adjustment PSD 10 – Tax Reform Regulatory Asset.

A49. As discussed above in Recommendation 1, I generally support the inclusion of the Tax Reform regulatory balances in rate base and the amortization in the COS over 29 years based on the information provided. However, I cannot state that the computation of the net regulatory asset balance is accurate and believe further information is warranted to demonstrate the balance is appropriate. Without sufficient support for the value of the regulatory asset, I recommend this regulatory asset be excluded from GMP's proposed COS. Accordingly, I recommend the exclusion from the COS of approximately $320,283.

Q50. Please explain adjustment PSD11 – Tier III Regulatory Asset.

A50. As discussed above in Recommendation 1, I generally support the inclusion of the Tier III regulatory asset in rate base. However, additional information is necessary to conclude that the methodology used to compute the regulatory asset is appropriate, the balance included in the COS is properly computed, and the costs deferred as a regulatory asset are indeed attributable to the Tier III program. Without sufficient support for the value of the regulatory asset, I recommend this regulatory asset be excluded from GMP's proposed COS. Accordingly, I recommend the exclusion from the COS of approximately $930,537.

Q51. Please explain adjustment PSD12 – Fixed Price Contract.

A51. As discussed above in Recommendation 2, based on the information provided, GMP's proposed application of an inflation adjustment to expenses associated with fixed price contracts has not been demonstrated to be reasonable. GMP explained that its contracts typically are entered into with a two-to-three-year contract duration. However, GMP has not demonstrated that the cost basis of the contracts (1) increases annually or (2) makes an adjustment to reflect the fact that certain contracts adjust every 2-3 years. Accordingly, I recommend an exclusion from the COS for RY 2024 of approximately $78,000 to represent an estimate of the amount of expenses that are associated with fixed price contracts and therefore do not need be adjusted for inflation. To date, GMP has failed to provide an indication of the scale of multi-year fixed price contracts that are in place. Thus, in the absence of this information, my adjustment assumes that 25% of expenses that are reported in the COS categories to which the inflation index will be applied are assumed to be a function of a fixed price contract. The adjustment further recognizes that certain costs subject to the CPI Adjustment typically have a 2–3-year fixed price while other costs adjust annually and therefore the computation assumes a 2-year average term. Therefore, when using GMP's projected CPI inflation of 2% together with these assumptions, the impacted COS category of costs are adjusted by a 1.75% factor and not the projected inflation of 2%. Similar adjustments should be made for FY 2025 and FY 2026.

Q52. For Adjustment PSD13 – Active Medical Expense, please discuss the active medical expense that the company includes in the rate year revenue requirement.

A52. GMP started with the Test Year per books expense of $6.55 million. To that amount they applied an annual escalation factor of 7.3% to arrive at the Rate Year amount of $7.54 million, resulting in an adjustment of $0.992 million to the per books amount.

Q53. How was the 7.3% escalation factor developed?

A53. The escalation factor was provided by Wills Towers Watson ("WTW") and is based on a combined trend of active medical and pharmaceutical claims for the last several years. Based on the documentation provided by GMP, the combined trend figure fluctuates by a few percent from year to year.[16]

Q54. Did the Department request additional information on historical medical expenses?

A54. Yes. In response to Discovery GMP.DPS2.Q10.d (Exhibit PSD-SDH-5), GMP provided the totals expenses for a number of A&G components, including medical expenses, for Fiscal Years 2017, 2018, 2019, 2020, 2021 and 2022 to date. I have summarized the total medical costs below:

Employee Medical		Total Cost	Year-Over-Year Increase
FY 2017	$	8,518,407	n/a
FY 2018		9,635,794	13.12%
FY 2019		9,674,254	0.40%
FY 2020		9,897,343	2.31%
FY 2021 TY		10,432,209	5.40%
Average Annualized Increase (Compound)			**5.20%**

Q55. Given the average Year-Over-Year increase of 5.20% in expense shown above, is use of the combined trend in active claims for the escalation factor reasonable?

A55. I do not believe that the number of active medical claims is an accurate indication of the overall escalation of the cost of providing health insurance to employees, which as

[16] Medical Expense 16512 Test Year 2021.xls, worksheet "WTW"

shown above has remained under the 7.3% level in fiscal years 2019, 2020, and 2021. I recommend usage of a 5.20% escalation in place of the 7.3% escalation factor proposed by GMP.

Q56. What is the effect of the change in escalation factors?

A56. Applying a 5.2% escalation factor in place of the 7.3% escalation factor used by GMP results in a rate year expense of $7,251,115, or an increase of $699,124 from the test year amount. As a result, I propose a $0.293 million adjustment as the difference between the proposed Test Year to Rate Year adjustment of $0.992 million and $0.699 computed used the 5.2% escalation factor.

Q.57. **Does this conclude your direct testimony?**

A57. Yes.