

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 18-0974-TF

Tariff filing of Green Mountain Power Corporation requesting a 5.45% increase in its base rates effective with bills rendered January 1, 2019, to be fully offset by bill credits through September 30, 2019

PREFILED DIRECT TESTIMONY OF

BRIAN E. WINN

ON BEHALF OF THE

VERMONT DEPARTMENT OF PUBLIC SERVICE

July 30, 2018

Summary: Mr. Winn provides an overview of the Department of Public Service's (the "Department") recommendation to reduce Green Mountain Power's requested revenue requirement by approximately \$___ million. Mr. Winn also discusses in detail the Department's recommendation regarding appropriate rate treatment for Green Mountain Power's proposed growth-related capital spending, introduces the testimony of the Department's witnesses, and briefly discusses innovative services.

Mr. Winn Sponsors the Following Exhibits:

Exhibit PSD-BEW-1: Professional Resume of Brian E. Winn

Exhibit PSD-BEW-2: GMP Standard and Poor's Presentation

Exhibit PSD-BEW-3: Near-term Rate Driver Analysis

1 **Q1. Please state your name, occupation, and business address.**

2 A1. My name is Brian E. Winn. I am the Director of Finance & Economics at the Vermont
3 Department of Public Service (the "Department" or "PSD"). My responsibilities include
4 direction of Utility Finance and Economics group activities for the Department and the
5 State of Vermont. My business address is 112 State Street, Montpelier, Vermont 05620.
6

7 **Q2. Please describe your educational background and experience.**

8 A2. I have a B.A. in Political Science from Purdue University, and a Master's of Science in
9 Management from The Georgia Institute of Technology. I have worked at the
10 Department since July, 2016. Prior to joining the Department, I was employed with
11 Edison International or Southern California Edison, its regulated utility subsidiary, for
12 over twenty years. During my tenure there I held various positions including: Director of
13 Financial Planning and Analysis; Director of Business Analytics; Director of Performance
14 Management and Measurement; Director of Nuclear Financial Management; and Director
15 of SCE Budgets and Planning. Prior to Edison, I was a Utility Finance Consultant for
16 Energy Management Associates. My professional resume is included as Exhibit PSD-
17 BEW-1.
18

19 **Q3. Have you ever testified before the Vermont Public Utility Commission (the
20 "Commission or "PUC")?**

21 A3. Yes, I have testified in Docket Nos. 8698/8710, 8827, 8871, 8881, 17-1238-INV, 17-
22 3112-PET, 17-5003-PET, 18-0409TF, and 18-0491-PET

1

2 **Q4. What is the purpose of your testimony?**

3 A4. In my testimony I discuss the organization of the Department's case; summarize the
4 Department's recommendations; discuss in detail the Department's recommended rate
5 treatment for various Green Mountain Power ("GMP") capital projects; recommend
6 improvements to GMP processes related to analysis of capital projects and power
7 procurement; discuss the Department's recommendations for power supply costs and
8 short-term incentives; and introduce the Department's witnesses.

9

10 **Q5. What has GMP requested in this proceeding?**

11 A5. GMP's rate filing with the Commission consists of a base rate increase of 5.45 percent
12 which is offset by a onetime bill credit associated with returning excess Accumulated
13 Deferred Income taxes as a result of the recent federal tax legislation. The net result is a
14 decrease of 0.5 percent for rates starting January 1, 2019.

15

16 **Q6. What is the Department's recommendation regarding the Company's requested rate
17 increase?**

18 A6. GMP filed a cost-of-service ("COS") that reflects a \$25.112 million revenue deficiency.
19 The Department's overall conclusion is that there is a deficiency of \$__ million.
20 Therefore, the Company's request of 5.45 percent is reduced to __% percent. The table
21 below summarizes the Department's proposed adjustments:

1
2 With respect to its specific recommendations, the Department proposes that the
3 Commission remove the Tesla Powerwalls, Heat Pump Water Heaters and \$__ million of
4 T&D individual and blanket projects and "hold to sell" RECs from rate base in the case,
5 for a total rate base reduction of \$__ million. Additionally, the Department is
6 recommending that \$397,682 be removed from Purchased Power Costs. I also address
7 concerns with GMP's short-term incentive payment plan ("STIP"), but I am not
8 recommending any reductions related to the STIP because, as I discuss below, those costs
9 are included within GMP's ten-year Base Operations and Management ("O&M")
10 platform that was approved by the Commission as result of the merger with Central
11 Vermont Public Service.

12
13 **Q8. Does the Department have any other recommendations for the Commission?**

14 **A8.** Yes. The Department's support for the Storage/Solar projects is contingent on GMP
15 providing ratepayers financial assurance that the projects will deliver the asserted
16 economic benefits and that GMP indemnify the ratepayers for any financial consequences
17 should the proposed ratemaking or accounting be disallowed by the IRS. The
18 Department also recommends that the Commission require GMP to: (1) consider all
19 reasonable alternatives to proposed capital projects and solicit Requests for Proposals
20 when multiple vendors are available; (2) maintain adequate contemporaneous
21 information on the capital project planning and project approval processes; (3) improve

1 its methods for prioritizing reliability projects; and (4) follow a more rigorous process for
2 procuring energy and capacity resources including soliciting RFPs.

3
4 **Background and Overview**

5 **Q9. Can you please describe the Department's investigation into the proposed change in**
6 **rates?**

7 A9. Yes. After GMP made its rate filing, the Department organized a team composed of
8 internal resources and experts from GDS Associates, Inc. and J. Kennedy and Associates.
9 The team conducted a thorough review of the petition and supporting documentation,
10 with a focus on capital spending, power supply, cost of capital, and regulatory
11 accounting. The Department issued two rounds of discovery to the Company, engaged in
12 a series of meetings and conference calls with key GMP staff to exchange information,
13 and reviewed relevant Commission precedent.

14
15 **Q10. How is the Department's testimony organized?**

16 A10. The Department is presenting testimony from eight witnesses. In my testimony I provide
17 a high-level summary of the entire case including: the Department's recommendations; a
18 discussion of capital spending; and summaries of the recommendations of the other
19 witnesses. Ed McNamara, the Director of the Department's Planning and Energy
20 Resources Division ("PERD") provides a summary of the power supply portion of the
21 case and makes recommendations regarding GMP's Regional Network Service ("RNS")
22 charge and GMP's accounting treatment of RECs within rate base. Carol Flint, the

1 Director of the Department's Consumer Affairs and Public Information ("CAPI")
2 Division, provides an assessment of GMP's customer service. The remaining witnesses
3 are outside consultants that provide more detailed testimony in the areas covered by Mr.
4 McNamara and myself. Terry Myers of GDS provides an overview of the implications of
5 recent changes to the federal tax code and GMP's proposal to return a portion of its tax
6 savings as accredit during the upcoming rate year.

7
8 **Q11. Please provide some background on the regulatory landscape that is relevant**
9 **context for this case.**

10 A11. I will describe the regulatory landscape as it pertains to the capital spending, O&M, and
11 cost of capital portions of the rate case. In his testimony, Mr. McNamara provides a
12 summary of the regulatory landscape relevant to the power supply portion of the case.
13 GMP rates are set the way that most regulated utilities in the United States are, via a
14 proceeding to determine the appropriate cost-of-service, which in broad terms include
15 O&M expenses, purchased power costs, and return on rate base.

16
17 A substantial portion of GMP's O&M revenue requirement has been pre-determined
18 under a formula outlined in a Memorandum of Understanding ("MOU") adopted by the
19 Commission in 2012 in Docket 7770, which concerned the merger of GMP and CVPS.
20 The Docket 7770 MOU defines this formula as "Base O&M costs," but it is generally
21 referred to as the "O&M Platform." The revenue requirement for this portion of GMP's
22 rates will be determined under this MOU through 2022.

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GMP has been operating under a temporary alternative regulation plan that took effect in January of 2018, which includes mechanisms for purchased power, storms, and exogenous events cost recovery; allows GMP flexibility to pilot innovative products and services; and is in effect for 2 years, through the end of 2019. Since a large portion of Purchased Power costs are long-term contracts that have been reviewed several times, and because O&M costs are largely pre-determined under the O&M Platform, the Department's review of the current case largely focuses on the impacts of capital spending and investments in subsidiaries.

GMP filed a traditional rate case (Case 17-3112-INV) in 2017 for rates in effect in 2018. During that case, the Department testified that the information available from the Company was not sufficient to allow the Department to assess the reasonableness of the proposed level of capital spending. In particular, the Department testified that the Company was unable to produce complete financial analyses and other documentation for approximately 69.7 percent of the capital projects reviewed by the Department. Having such information available for review is essential for the Department to fulfill its verification role in the rate case review process. As part of the Memorandum of Understanding ("MOU") that the Commission approved in that case, GMP agreed to maintain contemporaneous documentation of its capital spending decisions and to a set of standards describing the required analysis of capital projects. The settlement also

1 established a limit on the amount of capital allowed in rate base and provided GMP with
2 5.37% increase in authorized revenues which resulted in a 5.02% rate increase.

3
4 In June, GMP filed a proposal for a multi-year alternative regulation plan (Docket 18-
5 1633-PET) that will operate through 2022, if approved by the Commission. The plan
6 would be bookended by this pending rate case and a traditional rate case to be filed for
7 the 2023 rate year. At a high level, the plan consists of a capital spending cap, earnings
8 sharing, the O&M platform, and a purchased power adjustor. There are numerous issues
9 and details in the proposed plan that will be reviewed and potentially revised as that case
10 proceeds, and all components of the plan are ultimately subject to Commission approval.
11 However, some of the Department's recommendations in this case are predicated on the
12 existence of a multi-year rate plan.

13
14 ~~Finally, the rates that will go into effect in January, 2019 will also incorporate the costs~~
15 ~~related to GMP's former alternative regulation plan. Assuming that the Commission~~
16 ~~approves GMP's proposed rate, overall rates after all adjustments will increase by ___%~~
17 ~~on January 1, 2019.~~

18
19 **Q14: Q12. Can you provide any perspective on the main cost drivers contributing to the**
20 **need for the rate increase proposed in this case?**

21 A12. During the July 13, 2018 workshop for this case, Commission staff requested that the
22 Department address the rate drivers underlying GMP's rate request and attempt to tie any

1 recommended adjustments to those rate drivers, if possible.¹ First, I would like to provide
2 some perspective on complexities involved when trying to distill the primary reasons for
3 changes from a large list of numbers into a few key drivers. The summary cost-of-service
4 calculation is composed of over 25 cost items. Each of those items represents the
5 summation of a large subset of cost items and so on. When the overall percentage change
6 for a long list of numbers is relatively small, in a mathematical sense, there are numerous
7 ways to combine the numbers to a handful of primary drivers. The same list of numbers
8 is therefore subject to a wide range of interpretations of the primary drivers of the overall
9 change. That is true for the GMP numbers in this case.

10
11 The Department has chosen to apply the following logic when summarizing the primary
12 drivers. We have categorized cost of service by function, i.e. Power Costs, Transmission
13 Costs, O&M, and made adjustments that account for the regulatory mechanisms used to
14 recover the costs. Breaking down the costs using this logic results in these major
15 categories.

16

¹ Tr. 7/13/18 at 87 (Poppiti).

Summary of GMP Adjustments to Cost of Service - As Filed
In \$1,000s

	<u>Test Period</u>	<u>Rate Period</u>	<u>Dollar Change</u>
Purchased Power and Production	\$217,808	\$239,191	\$21,384
Net Transmission	\$19,408	\$32,196	\$12,788
O&M Platform, Other O&M and Savings	\$66,517	\$79,066	\$12,550
Capital Related Costs	\$0	\$0	\$0
Depreciation & Amortization & Other	\$43,646	\$25,616	(\$18,029)
Taxes - Federal, State & Municipal	\$51,322	\$39,093	(\$12,229)
Return on Utility Rate Base	\$70,121	\$82,618	\$12,497
Less Affiliate & Other Operating Revenue	(\$37,640)	(\$16,201)	\$21,439
Gross Revenue & Fuel Gross Receipts Taxes	\$4,565	\$4,588	\$23
Cost to Ultimate Consumers	\$435,746	\$486,168	\$50,422

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3 Most of the categories are straight forward and align well with the COS summary filed by
4 GMP. Transmission O&M is shown net of the Equity in Earnings from Affiliates from
5 VELCO to reflect the actual cost of transmission to the rate payer. I have provided a
6 more detailed description of the Cost of Service line items included in each category in
7 Exhibit DPS-BEW-3.

8
9 **Q15.Q13. Does the analysis of the changes between the test period and proposed rate**
10 **period reveal the main drivers of GMP rate increases?**

11 A13. Not in this this case. The Department recommends that the Commission take a longer
12 perspective when trying to determine the main drivers for the increase in GMP rates. In
13 this case, both the test period and the rate period numbers represent only nine month
14 periods and contain large one-time items that distort the overall trajectory of discrete

1 components of GMP's rates. For example, in the test period, the Affiliates & Other
2 Operating Revenue line contains a large one-time benefit of ~~(\$7.7 million)~~ related to a
3 Solar JV project. In the rate period, Depreciation & Amortization & Other line item there
4 are large one-time benefits associated with the Storage/Solar JV projects, totaling ~~(\$12 million)~~
5 million), which reduce that line item significantly. The rate period also contains a one-
6 time benefit of approximately \$8.3 million from the VELCO sale of Utopus. Finally,
7 there is a significant difference in the federal tax rate for the test period and the rate
8 period. All these complications reduce the value of a straight test year to rate year
9 comparison. Nevertheless, my Exhibit PSD-BEW-3 attempts to provide the rate driver
10 analysis in the format requested by Commission staff during the workshop.
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12 **Q16.Q14. What does the Department's analysis of the longer rate trends show are the**
13 **main drivers of GMP rate increases?**

14 A14. The Department performed an analysis of the rate trends for the period 2013 through
15 2018 grouping the costs in the same manner as used above. The results are presented in
16 the table below:
17

Comparison of Changes to GMP Cost of Service - 2013 Recorded to 2018 Settlement.
In \$1,000s

	<u>2013 Test Year Actual</u>	<u>2018 Settlement</u>	<u>Dollar Change</u>	<u>Percent Change*</u>
Purchased Power and Production	\$322,603	\$289,154	(\$33,449)	-10.37%
Net Transmission	\$31,676	\$28,878	(\$2,798)	-8.83%
O&M Platform, Other O&M and Savings	\$117,541	\$104,571	(\$12,970)	-11.03%
Capital Related Costs				
Depreciation & Amortization & Other	\$45,611	\$53,270	\$7,659	16.79%
Taxes - Federal, State & Municipal	\$46,809	\$67,487	\$20,678	44.18%
Return on Utility Rate Base	\$66,673	\$98,535	\$31,862	47.79%
Less Affiliate & Other Operating Revenue	(\$33,282)	(\$21,583)	\$11,699	-35.15%
Gross Revenue & Fuel Gross Receipts Taxes	<u>\$6,094</u>	<u>\$6,266</u>	<u>\$172</u>	<u>2.82%</u>
Cost to Ultimate Consumers	\$603,724	\$626,580	\$22,854	3.79%

The results are clear and easy to interpret. Over the period, Purchased Power Costs, over which GMP has some limited control, have declined by \$33.4 million. GMP has made progress in reducing O&M costs which have declined by almost \$13 million. Net Transmission costs have remained relatively stable with a \$2.8 million decline. However, these cost reductions, which total \$49.2 million, have been more than offset by a \$60.2 million increase in capital and investment related costs, over which GMP has significant control. Were it not for that increase in capital spending, GMP rates may well have been over 9% lower by 2018. Given these trends, the Department believes its recent focus on the level of GMP capital spending is well founded.

Proposed Capital Spending & Investments

Q17, Q15. Why is the level of capital spending and investments in subsidiaries so important in the GMP rate case?

1 A15. GMP has experienced significant growth in capital investment, especially during the
2 years following its merger with CVPS. Capital spending and, in GMP's case, investment
3 in subsidiaries are the primary components of rate base. GMP rate base grew by 22.7 %
4 from 2014 to 2017 and GMP projects that its rate base will grow from \$1.165 billion in
5 2014 to \$1.564 billion in 2019, which represents a 34.1% increase in less than 5 years.
6 The table below shows GMP's actual rate base from 2014 to 2017 and the projected rate
7 base for 2019.

GMP TOTAL RATEBASE INVESTMENT - 2014 to 2019 (\$1,000)

<u>2014</u> ¹	<u>2015</u> ²	<u>2016</u> ³	<u>2017</u> ⁴	<u>2019</u> ⁴
\$1,165,784	\$1,209,349	\$1,264,195	\$1,430,213	\$1,563,786

¹8389 2014.11.14 GMP ESAM Filing.pdf, pg 8, Green Mountain Power - 2014 Earnings Sharing Adjustor, filed with the PUC on November 14, 2014. 13 month average as of September 2014.

²GMP FY2015 ESAM.pdf, pg 4, Green Mountain Power - 2015 Earnings Sharing Adjustor, filed with the PUC on November 20, 2015. 13 month average as of September 2015.

³GMP FY 2016 ESAM Filing, pg 4, Green Mountain Power - 2016 Earnings Sharing Adjustor, filed with the PUC on November 29, 2016. 13 month average as of September 2016.

⁴Case No. 18-0974-TF Schedules 10 month average as of September.

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9

10 In the Company's most recent presentation to Standard & Poor's from November of
11 2017, which is attached as Exhibit PSD-BEW-2, the Company forecasted capital
12 spending and investments in subsidiaries of \$534 million from 2018 through 2021. In
13 that same presentation, GMP forecasted retail revenues to grow by 20.46% from 2017 to
14 2021. Finally, the GMP Long-Term Executive Compensation Plan (produced during

1 discovery as (Attachment GMP.DPS1.Q20.c) sets explicit targets for growth in
2 “Investments Driving Customer Value” defined in the plan documents as “total utility
3 plant, net” plus “investment in associated companies,” both of which are primary
4 components of rate base. The targets grow from \$1.73 billion for the period ending in
5 2017 to \$2.086 billion for the period ending in 2020. That amounts to 20.6% growth in
6 three years.

7
8 GMP is clearly planning to continue to significantly grow rate base. We know from the
9 analysis provided earlier in my testimony that growth in rate base is the single most
10 important driver of GMP rate increases. Therein lies the need for the Department and the
11 Commission to pay particular attention to the level of capital spending.

12
13 **Q18.Q16. How much capital spending and investment in subsidiaries has GMP
14 proposed in this case?**

15 A16. The Company has requested recovery for capital additions and investment in subsidiaries
16 of \$___ for 2018 and \$___ for 2019. The proposed capital spending and investments in
17 subsidiaries will increase the base rate revenue requirement (excluding the impact of the
18 lower tax rates and one-time credits) by approximately \$14 million from the test year
19 period.

20
21 **Q19.Q17. What is the Department’s assessment regarding the level of capital
22 investment and capital projects of the Company?**

1 A17. There does not seem to be a clear operational reason for the level of rate base growth
2 considering that customer growth is very low, load is stagnant, and sales are declining.
3 Testimony from our expert witnesses, discussed in detail later, confirms this position. In
4 fact, in this case, GMP has proposed some investments, such as the Storage/Solar JV
5 projects, that have no clearly established operational need. Instead the company has
6 sought to justify the expenditures on primarily economic grounds.

7
8 **Q20.Q18. Has the quality of GMP documentation and evaluation of capital spending in
9 this proceeding improved over what was provided in the last case?**

10 A18. In some area yes and in others no. GMP has adopted the agreed upon template for capital
11 projects and provided more detail on blanket projects over \$250,000. GMP has also
12 provided additional capital review process data in the templates, including the
13 management personal that approved projects and the dates that projects were approved.
14 This additional information in the templates is very helpful for the Department's review
15 of projects and demonstrates improvement in the project support documentation.

16
17 However, Kevin Mara of GDS Associates conducted a review of GMP's capital spending
18 proposals and identified the following weaknesses in the support documentation: cost
19 estimate errors; failure to use an industry standard method to value and prioritize
20 reliability projects; insufficient data to justify capital spending proposals; unnecessary
21 capital projects; and over use of blanket projects. Additionally, GMP did not evaluate, or
22 solicit requests for proposals for, viable alternatives to the Storage/Solar JV or Tesla

1 Powerwall projects. Mr. Mara discusses these issues in more detail in his testimony, but
2 the concerns he presents are consistent with issues that the Department has identified in
3 past cases.
4

5 **Q21.Q19. Do you support the proposed adjustment to Transmission, Distribution and**
6 **General Plant rate base discussed in the testimony of Kevin Mara of GDS**
7 **Associates?**

8 A19. Yes. I am recommending that the Commission adopt the adjustments to T&D capital
9 spending included in the testimony of Kevin J. Mara, of GDS Associates Inc., which total
10 \$7.1 million. Mr. Mara's testimony includes a detailed by project discussion of the
11 rationale for excluding this amount.

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13 **Q22.Q20. Please explain the Department's recommendation that \$25.7 million of**
14 **blanket projects be excluded from rate base.**

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15 A20. In his testimony Mr. Mara testifies that he believes that \$42.5 million of the \$49.4 million
16 of proposed blanket capital projects could be excluded from rate base under the known
17 and measurable standard. Mr. Mara also found that including the blanket projects in rates
18 also eliminates the incentive for GMP to be efficient in design and construction. Mr.
19 Mara raised additional issues with the methods of estimating each of the different
20 categories of blanket projects.
21

1 The Department has raised concerns with GMP's use of blanket projects in prior cases
2 and is also concerned by the large increase in the use of blanket projects over the past few
3 years. However, the Department does not believe it would be appropriate to completely
4 remove the blanket projects in this case. First, the Commission has traditionally allowed
5 GMP to use blankets in traditional rate cases. Second, the Department is factoring in the
6 likelihood that this case may become the basis for a multi-year rate plan. In that event, it
7 would not be appropriate to defer recovery of costs contained within the blankets until the
8 next traditional rate case.

9
10 Given that the Department remains very concerned that the blanket capital project
11 categories are being overused, we asked Mr. Mara to provide the Department with an
12 analysis of the appropriate amount to include in rates for each of the blanket project
13 categories. The Department has reviewed his analysis and recommends the Commission
14 adopt the resulting adjustments totaling \$25.7 million.

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16 **Q23.Q21. Please summarize the rationale for excluding Renewable Energy Credits**
17 **from rate base.**

18 A21. Certain renewable energy credits are created, with some regulatory lag, simply from the
19 operation of GMP generation assets or through purchased power contracts. Mr.
20 McNamara discusses the timing and procurement issues that lead to GMP carrying RECs
21 in rate base, and Mr. Myers raises an accounting concern with GMP's practice of holding

1 RECs in rate base. Based on their respective testimonies, the Department recommends
2 that \$4.08 of these credits be removed from rate base.

3
4 **Q24.Q22. Please explain the Department's recommendation that the Heat Pump Water**
5 **Heater products be excluded from rate base.**

6 A22. First it is useful to provide some background. The Department supports the Company's
7 efforts to find innovative solutions to serve its customers' needs. However anytime a
8 monopoly public utility offers commercially available competitive products and services,
9 an issue arises about the utility's impact on the competitive market. For instance, in this
10 case, GMP has included the costs associated with the heat pump water heater in rate base.

11
12 As noted in prior cases, instead of requiring GMP to conduct this type of business in an
13 unregulated subsidiary, as is commonplace across the nation, the Department has
14 developed a list of conditions that should be met before the Department will support
15 including generally available consumer products in rate base. These requirements are:
16 that the Company must have the ability to control the usage of those products for the
17 benefit of all ratepayers; benefits of the program must exceed the costs to non-
18 participating ratepayers; any bad debt expense should be borne by the program or
19 shareholders; and that GMP must open its billing system to companies offering similar
20 competing products. The Department and GMP have discussed these conditions
21 throughout the pilot review process, and it was addressed in the resolution of Docket
22 8794, in which GMP sought to tariff its heat pump and heat pump water heater pilots.

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The ability for GMP to exercise control of these products for the benefit of all ratepayers was generally not implemented for Heat Pump Water heater products offered in 2016 and part of 2017. The Company has stated that beginning in 2018, such control will be a standard component of innovative products and services included in rate base. It has become apparent since then that controls for these products are not generally available. Additionally, it is not clear that the heat pump water heaters' operating characteristics will allow them to be efficiently controlled to create benefits for non-participating customers. Until GMP has implemented the ability to control these devices for the benefit of all ratepayers, the Department recommends excluding them from rate base to remedy the competitive advantage created by the regulated rate of return on the investment. The Department has recommended that the revenues and costs associated with these devices, including depreciation, flow through other operating revenue.

Q25, Q23. Please explain the Department's recommendation that the Tesla Powerwall products be excluded from rate base.

A23. There are several significant concerns with this pilot program. The first is that the overall size of the program is \$15 million. This is a significant portion of GMP's proposed 2019 capital budget of \$85 million. While there is no dollar limit on the size of pilot programs allowed under GMP's current alternative regulation plan, a \$15 million investment in a project with speculative and unknown benefits is excessive.

1 More importantly, the documentation that GMP provided in support of the Powerwall
2 project raises concerns as to whether the project will actually yield ratepayer benefit.
3 Christopher Dawson of GDS Associates reviewed the avoided cost models used by GMP
4 to justify both the Tesla Powerwall program and the Storage/Solar JV projects and has
5 concluded that: the resulting energy prices are optimistic beyond five years; the capacity
6 prices increases included in the model lack adequate foundation; REC price assumptions
7 are unproven and unrealistic on a long-term basis; and the assumed Transmission price
8 increases appear to be unsustainable. Mr. Dawson also concluded that GMP failed to
9 perform any sensitivity analysis around the market price projections. His conclusions
10 raise doubts about the underlying analysis conducted by GMP to show that the program
11 will provide economic benefits. Furthermore, GMP did not adequately explore
12 alternatives to storage, such as demand response. Finally, GMP did not provide any
13 support indicating that it explored alternative vendors and did not solicit RFPs for this
14 program.

15
16 The significant cost of the Powerwall project coupled with the uncertainties of its
17 potential ratepayer benefits warrant a removal of this project from rate base in this case.
18 The Department does not believe that the Powerwall project should be permanently
19 disallowed, rather the Department believes that it would be appropriate to allow for GMP
20 continue the project as a pilot and include its costs in rate base only if GMP can
21 demonstrate that the project actually achieves its intended benefits and is ultimately
22 approved by the Commission as a tariffed service.

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Short-term Incentive Plan

3 **Q26. Has GMP included Short-Term Incentive Pay ("STIP") in the filing?**

4 A23. Yes. GMP includes approximately 50% of the Short-Term Incentive Plan costs in the
5 Base O&M platform calculation adopted in Docket 7770 and modified in Docket 8190.

6

7 **Q26. Do you have concerns about including GMP's STIP in rates?**

8 A23. Yes. While certain goals that are included in the plan clearly provide benefits for rate
9 payers, the actual operation of the plan over the last several years indicates the plan is
10 weighted primarily toward benefitting shareholders and, that there is no clear way to
11 assign a value to the benefits for ratepayers. As shareholders are the primary
12 beneficiaries of the plan, ratepayers should not be responsible for its costs. To be clear, I
13 do not take issue with the existence of the plan or the content of the goals. GMP's STIP is
14 consistent with plans offered by other regulated utilities.

15

16 **Q26. Can you briefly explain how the STIP works?**

17 A23. Yes. During discovery GMP provided the STIP documents for 2016, 2017 and 2018 in
18 Attachment GMP.DPS1.Q18.a.pdf. The plan consists primarily of two sets of goals. The
19 first set of goals, which per the plan documents account for 60% of the payout, are
20 derived from GMP's Service Quality & Reliability Performance, Monitoring and &
21 Reporting Plan. These goals are clearly established to benefit ratepayers and there is a
22 clearly defined scoring matrix for these goals. The second set of goals, which account for

1 40% of the payout are individual goals that, according to GMP are “developed annually
 2 by identifying the key strategic, customer-focused goals for the fiscal year and allocating
 3 relative weight to each participant based on responsibility and accountability.”
 4 (~~Discovery response GMP.DPS1.A18.~~) ~~A close examination of the metrics for these~~
 5 ~~goals reveals that they clearly provide benefit to the shareholders and, in some cases, to~~
 6 ~~rate payers and shareholders. The plan establishes stretch targets for these goals but is~~
 7 ~~not specific about how these goals are weighted against each other. Finally, the plan~~
 8 ~~requires that, before any payout is made, the company must meet 90% of its ROE target~~
 9 ~~and achieve or exceed 13 of the 16 Service Quality Metrics—the first set of goals. The~~
 10 ~~following table from the plan documents summarized the operation of the plan:~~

Short-Term Incentive Compensation Measures

Performance Measure	Threshold	Target	Stretch
Actual ROE as percentage of allowed ROE	90%		
Achieve or exceed service quality/reliability measures	Achieve or exceed 13 of 16 measures	Achieve all 16 measures	Achieve all 16 measures and exceed at least 13 of 16 measures
Individual Performance Goals – metrics determined individually	Individualized	Individualized	Individualized

11
 12
 13 **Q26. — Can you explain how the STIP plan is weighted primarily towards shareholders’
 14 benefit?**

15 ~~A23. — There are several reasons: while the first set of goals are customer focused, they have not~~
 16 ~~had impact on the payouts from the plan. The company has exceeded these goals in each~~
 17 ~~of the last few years, they have not benchmarked their performance against other utilities~~

1 and the targets have not been adjusted in several years. In short, these goals are not
2 challenging enough. The fact that the Service Quality Metrics are almost certain to be
3 met makes it unlikely that the Service Quality Metrics will impact the payout. For all
4 practical purposes, if the earnings target is made, 60% of the incentive will be paid. It is
5 clearly within management's prerogative to determine how challenging to make the
6 Service Quality targets for their executives. Ratepayers should not cover the costs of this
7 portion of the STIP plan unless the goals are likely to impact the payout.

8
9 The second set of goals, accounting for 40% of the payout, are grouped in the following
10 categories: Customer Focus; Financial Strength; Regulatory proceedings; Innovation; and
11 Deep and Positive Stakeholder Relationships. An examination of the 2018 metrics
12 included in each of these categories (Attachment GMP, DPS1, Q18.b-c 2018,) reveals that:
13 many of target metrics will increase GMP earnings; they include metrics that are
14 subjective and difficult to quantify; some are image building, lobbying and charitable
15 contributions and; there is no indication of how they are weighted relative to each other.
16 Even for categories that one would expect to provide benefits for ratepayers seem to be
17 weighted towards shareholders. Here are some examples. The Customer Focus goal
18 includes several metrics that relate to advancing the JV Microgrid Projects. As indicated
19 in later in my testimony, the benefits to shareholders are clear and the benefits to
20 ratepayers are questionable. The Innovation goal includes metrics for installing new
21 controllable devices, which again have clear benefits for shareholders (rate base earnings)
22 but the benefits for ratepayers are not clearly established, as illustrated by the

1 Department's recommendation to exclude the Tesla Powerwalls from rates. The Deep
2 and Positive Stakeholder Relationships goal has metrics that seem aimed at influencing
3 public opinion, improving GMP's image or are charitable in nature. These types of
4 expenditures would not normally be directly allowed in rates. Finally, the goals in this
5 portion of the plan overlap with the goals in GMP's Long-term Incentive Plan. Those
6 goals, which can be seen in Attachment GMP.DPS1.Q20.e.pdf, are primarily focused on
7 growing earnings and rate base. Because of the lack of clarity as to the weight given the
8 individual performance goals in this category, and that the preponderance of goals that
9 clearly benefit shareholders, it is not possible to determine that these goals clearly benefit
10 ratepayers.

11
12 Finally, under no circumstances will the plan pay out if the earnings (ROE) target is
13 missed. That is true even if the company achieves its stretch targets for the Service
14 Quality Metrics or any other goal that could benefit ratepayers.

15
16 **Q26. Have you recommended an adjustment to rates?**

17 **A23.** No. The STIP costs are included in the O&M Platform, and are accordingly fixed for
18 ratemaking purposes in this case. Therefore, it would be inappropriate to make an
19 adjustment. However, I have raised these concerns because I believe that, if GMP wishes
20 ratepayers to continue to cover a portion of the costs of the plan, it will be important for
21 GMP to revisit and revise the service quality metrics that underlie the STIP as GMP

1 ~~potentially transitions toward a multi-year alternative regulation plan and the O&M~~
2 ~~Platform sunsets.~~

4 **Power Supply**

5 **Q27, Q24. Please summarize the Department's testimony regarding GMP's Power**
6 **Supply expenses.**

7 A24. Mr. McNamara and Mr. Christopher Dawson of GDS Associates addresses power supply
8 costs on behalf of the Department in their respective testimonies. Mr. McNamara
9 recommends that the Commission reduce GMP's power supply costs by \$397,682 to
10 account for a recalculation of GMP's Regional Network Service ("RNS") rate and GMP's
11 rate base by \$4.08 million to remove a portion of GMP's RECs from rate base.

12
13 Christopher C. Dawson of GDS Associates Inc. conducted a review GMP's power supply
14 costs and the markets forecasts used in the economic analysis of the Storage/Solar JV
15 projects and Tesla Power program. He concluded: GMP's hedging program is
16 insufficiently documented and structured; the market price analysis used in Storage/Solar
17 JV projects and Tesla Powerwall may not justify their investments; and that GMP has not
18 sufficiently evaluated Demand Response as a resource.

19 20 **Capital Structure and Cost of Capital**

1 **Q28, Q25. Please summarize the Company's requested cost of capital and capital**
2 **structure.**

3 A.30 GMP requests an authorized return on equity of 9.3 percent ~~(which reflects the amount~~
4 ~~included in the settlement between the Department and VGS in last year's rate case, but~~
5 ~~was not adopted by the Commission)~~ and a capital structure consisting of 49.85 percent
6 equity and 50.15 percent debt. The weighted average cost of capital ("WACC") was
7 estimated at 5.28 percent when factored for the nine month rate period. The Department's
8 retained cost of capital witness, Rick Baudino of J. Kennedy Associates, found that
9 GMP's proposed ROE of 9.3% falls within his range of reasonable returns. Accordingly,
10 the Department is not recommended an adjustment to GMP's proposed ROE. However,
11 Mr. Baudino does recommend a slight reduction of GMP's cost of debt from 5.07 to 5.03
12 percent.

13
14 **Q29, Q26. What does the Department recommend for GMP's cost of capital?**

15 A25. —In his testimony, Richard A. Baudino of J. Kennedy and Associates, recommends a return
16 on equity of 9.1% based on analysis that shows reasonable range for the ROE of 8.7% to
17 9.35%. This recommendation is consistent with the 9.3% cost of equity that Department
18 agreed to in the settlement with GMP in the last rate case. Accordingly, the Department is
19 not recommended an adjustment to GMP's proposed ROE. Mr. Baudino agrees with
20 GMP's requested capital structure and cost of short-term debt. However, Mr. Baudino
21 recommends a slight reduction of GMP's cost of debt from 5.07 to 5.03 percent, resulting

1 in an overall recommended cost of capital for GMP of 6.97%. It is important to note that
2 Mr. Baudino's analysis was based on GMP's nine month rate year.

3
4 **The Department's Revised Cost of Service**

5 **Q30, Q27. Please summarize the Testimony of Jacob Thomas.**

6 A32. Mr. Jacob Thomas of GDS Associates has prepared a COS model to summarize the final
7 rate impact of the Department's recommendations. Mr. Thomas's COS model
8 incorporates adjustments to cost of capital, capital spending and power supply based on
9 information included in GMP's filing materials and discovery responses. Mr. Thomas's
10 model was also based off of GMP's own COS modeling, but the Department recognizes
11 that there may be minor inconsistencies in data from flow-through adjustments based on
12 the Department's recommendations. If necessary, the Department will updated and
13 resubmit its COS model if any additional flow through adjustments need to be revised.

14
15 **Return of Accumulated Deferred Income Taxes Through a Bill Credit**

16 **Q31, Q28. What does this issue pertain to?**

17 A33. The Tax reform that went into effect on January 1, 2018 lowered the corporate federal
18 income tax rate from 35% to 21%. This has resulted in two major impacts to GMP's cost
19 of service. The first is, on a going forward basis, GMP will need to collect less Federal
20 Income Tax from ratepayers. The second relates Accumulated Deferred Income Taxes
21 (ADIT) that were collected from rate-payers based on the old tax rate. The amount of
22 ADIT in excess of the new rate will be returned to ratepayers in two ways. Some portion

1 will be returned over multiples years based on the remaining life of certain assets. GMP
2 is also proposing that other portion, \$27.4 million, be returned to rate payers as a bill
3 credit to be paid over the rate year.
4

5 **Q32.Q29. Does the Department Support GMP's proposed treatment of the excess**
6 **Accumulated Deferred Income Taxes?**

7 A34. Yes. Terry Myers of GDS Associates, Inc. performed an extensive review of the
8 analysis GMP performed in this area and found no issues. In fact, he indicated that the
9 GMP analysis was one of the most well prepared that he had seen. The Department
10 supports the proposal and appreciates GMP's proactive efforts to return the excess
11 accumulated deferred income taxes to ratepayers in a timely manner through one-time
12 bill credits in the current and proposed rate periods.
13

14 **Storage/Solar JV Projects**

15 **Q33.Q30. Is the Department comfortable with the process GMP used to evaluate the**
16 **need for the Storage/Solar projects?**

17 A35. No. GMP has not asserted that there is a physical system need (safety, reliability, replace
18 aging or damaged equipment, etc.) or regulatory policy requirement for this type of
19 equipment. Although originally proposed as microgrids, GMP did not propose installing
20 the equipment needed to isolate the circuits. In fact, in response to a discovery request in
21 the Milton Microgrid proceeding, Case No. 17-5003-PET, the company stated that:

1 GMP does intend to implement islanding capabilities with the Project,
2 recognizing that the costs and benefits of those activities are separate from
3 the base use cases (primarily peak load reductions and Frequency
4 Regulation) presented in the CPG application. *GMP wishes to emphasize*
5 *that the business case for the Project is based on the positive economics*
6 *described by the cost benefits analysis.* At the time that the scope of
7 providing islanding services have been fully analyzed, the costs and
8 benefits of providing those services to customers will be separately
9 identified and evaluated before proceeding. (Emphasis added)

10 Furthermore, GMP did not provide any support indicating that other alternatives to
11 battery storage were adequately considered and GMP did not solicit RFPs from
12 competing suppliers. Therefore, from the documentation provided in support of the
13 projects, it appears least cost alternatives were not adequately explored, and the location
14 of these projects is not relevant in terms of engineering necessity or benefit.
15

16 **Q34:Q31. Does the Department believe that these projects will provide the asserted**
17 **economic benefit to ratepayers?**

18 A36. The primary justification offered by GMP for these projects is the economic benefit to
19 rate payers; however that benefit is subject to execution and market price risk. As
20 indicated earlier in my testimony, Mr. Dawson of GDS Associates has raised doubts
21 about the analysis showing that the project will provide economic benefits since the
22 market price forecasts were generally optimistic. The value of the projects is highly
23 dependent on factors such as market price, the success in timing of peaks and other
24 assumptions. The net present value ("NPV") is also impacted by the non-traditional
25 upfront ratemaking treatment of the developer fee and hypothetical book value at
26 liquidation ("HLBV"). In short, there is a significant risk that ratepayers will not receive

1 the asserted economic benefits. The degree of uncertainty around the economic benefits
2 is troubling of concern since the only purpose of the project is to provide those benefits.

3
4 **Q35.Q32. Does the Department have concerns with the way GMP is accounting for the**
5 **year one HLBV and developer fee?**

6 A37. Yes. Terry Myers of GDS Associates, Inc. raises a concern regarding how GMP is
7 treating the HLBV and the up-front developer fee when its Storage/Solar Joint-Venture
8 (“JV”) projects are put in service. GMP currently uses this fee to reduce amortization,
9 which benefits ratepayers in the first year but results in higher costs in subsequent years.

10 ~~As noted by Mr. Myers, this accounting results in intergenerational inequities. The~~
11 normal ratemaking approach is for these benefits to be amortized over the life of the projects.

12 Mr. Myers also indicates that the IRS may determine that this upfront treatment violates
13 its normalization rules. If that is the case, GMP could lose its ability to use accelerated
14 depreciation. The Department’s position is that this departure from the normal treatment
15 requires specific approval from the Commission.

16
17 **Q36.Q33. What risks do the tax equity investors face?**

18 A38. Very little. The tax equity partner contributes cash to the Project upfront and in return,
19 receives most of the tax depreciation, ITC benefits, and rights to a small amount of the
20 cash flow from the Project for the first five years.

21

1 **Q37.Q34. Do GMP investors face any risk that they will not earn their authorized**
2 **return?**

3 A39. Once the project is added to rate base, GMP will earn its authorized rate of return over
4 the life of the project. Except for variations due to changes in GMP's authorized return
5 on equity, or other highly unlikely exogenous events, there is almost no risk associated
6 with those earnings. However, ratepayers bear a risk associated with the NPV due to the
7 length of the payback time and the volatility associated with the market price risk.

8
9 **Q38.Q35. Why does the Department recommend that GMP be required to provide**
10 **financial assurance that the rate payers will receive the asserted benefits?**

11 A40. In short, it is about ensuring a balance of equities. The primary benefit for ratepayers
12 being asserted supported by GMP is economic. GMP and the project investors will earn
13 ~~handsome~~ returns with minimal risk. These returns are backstopped by rate payer money
14 and the rate payers are being asked to bear a disproportionate amount of risk as compared
15 to GMP and project investors. Again, this is not like investing in a substation,
16 transformers or poles, where ratepayers will clearly receive operational benefits from the
17 assets. This is a speculative investment where the benefits are risky and purely
18 economic. The Department recommends that the PUC require GMP to provide
19 ratepayers financial assurance for the asserted economic benefit to ratepayers of these
20 projects and, that GMP investors indemnify ratepayers from any financial consequences
21 that result from adverse IRS rulings relating to GMP's approach to the HLBV and
22 developer fees.

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2 **Q36. Does the Department recommend that these projects be removed from rate base?**

3 No. It is the Department's policy to encourage storage as a means of supporting wider
4 implementation of renewable resources and the more distributed nature of energy production
5 in general. The Department feels that the recommendation that GMP provide assurance
6 strikes the right balance between GMP's need to get experience with innovative solutions and
7 protecting ratepayers for assuming too much risk.

8
9 **Forecasted Sales and Customer Growth Costs**

10 **Q39:Q37. Does the Department have an issue with GMP using forecasted sales for the**
11 **2019 rate period?**

12 A41. Not in this case, especially if the Commission approves a multi-year rate plan for GMP.
13 Although Commission precedent is clear for traditional ratemaking, the regulatory
14 mechanics of operating under a multiyear rate plan make that precedent impractical for
15 several reasons. First, depending on the design of the multi-year plan, there will be a
16 need to create an annual sales forecast to flow through rate adjustments related to
17 purchased power estimates. To avoid unnecessary volatility, prior period actual sales will
18 need to be adjusted for known and measurable changes, such as significant known
19 changes in loads, and will need to be weather normalized. Secondly, Mr. McNamara has
20 done an extensive review of the forecasting methodology employed by GMP and has
21 determined that it is an acceptable approach in this circumstance in light of current
22 market conditions and GMP's sales trends.

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Q40:Q38. Does the Department support the inclusion of costs related to customer growth for the 2019 rate period?

A42. In this circumstance yes. Again, if a multi-year rate plan is approved, it would be impractical to apply the traditional rate making approach of excluding customer growth related costs. It would require that GMP to incur multiple years of regulatory lag related to the recovery of the growth related costs; or require an annual adjustment mechanism to true-up to the actual growth related costs incurred.

Q41:Q39. Please describe the appropriate ratemaking treatment for growth-related plant in Vermont.

A43. My understanding of the appropriate ratemaking treatment for growth-related plant comes from *Tariff filing of Green Mountain Power Corporation*, Docket No. 5428, Order of 1/4/91. In that case, GMP sought to include a number of capital additions in its rate base that the Department argued were being put into service to serve new customers, either in whole or in part. The Board set forth its rule of decision as follows:

The Board has previously held that since revenues from new customers are not included in rate year income, expenses associated with serving those customers should also be excluded. We apply that principle in this case, but we do not extend it to exclude investments that are made to maintain adequate and efficient service for test year customers and are only incidentally available to serve new customers as well. We have allowed inclusion of certain improvements which will be able to accommodate some growth-related sales, where the record demonstrates that the improvements were not undertaken in order to accommodate growth, but were or are needed to maintain adequate and efficient service for test year customers, absent any load growth.

1

2 *Id.* at 21.

3

4 **Q42, Q40. Is there any other circumstance where it is appropriate to consider growth-**
5 **related plant in establishing utility rates?**

6 A44. Yes. The rule is based on the need to match revenues and costs when setting rates, so that
7 the numerator (costs) is spread fairly across the appropriate denominator (sales). In the
8 case cited above, the Board achieved this by using test year sales and excluding growth-
9 related plant. Theoretically, you can achieve a similar matching using rate year
10 (projected) sales and including growth-related plant. This too, should achieve a matching
11 between revenues and sales. Because using projected figures has, in the past, been
12 considered less reliable than using known test-year figures, it makes sense as a general
13 matter to use the known test-year figures and exclude growth-related plant. In this case
14 the Department is satisfied that the method for forecasting sales is acceptable.

15

16 **Customer Service**

17 **Q43, Q41. Please summarize the Department's testimony regarding GMP's Customer**
18 **Service?**

19 A45. Ms. Flint, the Department's CAPI Director, presents an overview of GMP's recent
20 customer service history including service reliability as well as an opinion of the
21 Company's provision of certain un-tariffed products and services. Ms. Flint does not
22 recommend any adjustments to GMP's cost-of-service.