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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 SURREBUTTAL TESTIMONY OF

BRIAN E. WINN

ON BEHALF OF THE

VERMONT DEPARTMENT OF PUBLIC SERVICE

October 8, 2018

Summary: Mr. Winn responds to the rebuttal testimony of Brian Otley, Edmund Ryan, and Josh Castonguay. His rebuttal testimony addresses rate drivers, Green Mountain Power's ("GMP") innovative services, and discusses a Memorandum of Understanding between the Department of Public Service (the "Department") and GMP regarding financial and performance assurances for GMP's Joint Venture solar/storage projects. Mr. Winn also provides an overview of the Department's revised recommendation to reduce Green Mountain Power's requested revenue requirement by approximately $2.045 million. The Department now recommends that the Commission approve a base rate increase of 4.96%

Mr. Winn Sponsors the Following Exhibits:

Exhibit PSD-BEW-4:	Memorandum of Understanding between the Department and GMP regarding Joint-Venture solar/storage projects

Surrebuttal Testimony
Of
Brian E. Winn

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

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

Q2. Are you the same Brian W. Winn that filed direct testimony in this case on August 10, 2018?

A2. Yes.

Q3. What is the purpose of your testimony?

A3. In my testimony, I provide an overview of the Department's revised recommendation to reduce the Green Mountain Power Corporation's ("GMP") requested revenue requirement by approximately $2.045 million. My testimony responds to the prefiled rebuttal testimony of Edmund Ryan and Brian Otley regarding GMP's rate drivers. I also address portions Josh Castonguay's rebuttal testimony that discuss GMP's innovative services. Finally, I introduce and discuss a Memorandum of Understanding ("MOU") between the Department and GMP that establishes financial assurance requirements for the GMP joint-venture (JV) solar/storage projects that are included in this rate case.

Q4. Can you briefly describe how GMP modified its rate request in its rebuttal testimony?

A4. Yes. Through its rebuttal testimony, GMP reduced its requested rate base increase to 5.43 percent. When accounting for the onetime bill credit associated with returning excess Accumulated Deferred Income Taxes ("ADIT") as a result of the recent federal tax legislation, GMP now proposes a net rate decrease of 0.9 percent for a nine-month period starting January 1, 2019. GMP's revised rate request accounts for the rate-lock component of the proposed special contract with GlobalFoundries (which is currently under review by the Commission in Case 18-3160). However, GMP's proposed cost-of-~~ervice~~service excludes the impact of the GlobalFoundries sales because GMP believes it is appropriate to wait for a final Commission decision its rate design proposal in Case 18-2850, which GMP initially requested to take effect on April 1, 2019. If the special contract with GlobalFoundires is approved by the Commission in its entirely, the total request from GMP would be 5.61% increase and the net result would be a 0.72 reduction.

Q5. What is the Department's recommendation regarding GMP's requested rate increase?

A5. GMP filed a revised cost-of-service ("COS") model that reflects a $23.531 million revenue deficiency, which as noted above, accounts for a portion of the special contract with GlobalFoundries. Based on the rate adjustment recommendations that it has made in this case, the Department concludes that the Commission should approve a COS that reflects a deficiency of $21.486 million. Therefore, the Company's request of 5.43

1 percent is reduced to 4.96% percent. It is important to note that the Department's
2 recommended COS includes GlobalFoundries rate-lock from the special contract. The
3 Department supports Commission approval of that contract and will outline the basis of
4 its support in a recommendation that the Department will file in Case 18-3160. The table
5 below summarizes the Department's proposed adjustments to GMP's recommended
6 COS:

Summary of DPS Adjustments to GMP Cost-of-service

	$1,000	% Inc
Revenue Deficiency per GMP COS	$23,531	5.43%
DPS Adjustments to COS		
Depreciation & Amortization	($1,135)	
Taxes - Federal, State & Gross Receipts	($293)	
Return on Utility Rate Base	($1,158)	
Other Operating Revenue	$541	
Total DPS Adjustments	($2,045)	
DPS COS Deficiency	$21,486	4.96%

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8 Mr. Jacob Thomas of GDS Associates has prepared a revised COS model to summarize
9 the final rate impact of the Department's recommendations, which is attached to Mr.
10 Thomas's surrebuttal testimony as Exhibit PSD-JMT-3. Mr. Thomas prepared his COS
11 model by working from the native Microsoft Excel file for Mr. Ryan's Exhibit GMP-ER-
12 1 (rev), which GMP provided to the Department during discovery. As discussed in his
13 rebuttal testimony, Mr. Thomas made a series of adjustments to rate base and capital

spending in GMP's model to account for the Department's recommendations. He also completed various flow-through adjustments to the COS model based feedback that the Department received from GMP in discovery responses.

Q6. Have the Department and GMP reached agreement on any adjustments proposed in the Department's direct testimony?

A6. Yes. GMP has adopted the Department's recommendation that $397,682 be removed from Transmission costs to reflect actual Regional Network Service ("RNS") charges, the adjustment to the short term-debt rate component of the cost-of-capital, and agreed with a portion of the Department's proposed capital spending reductions. While GMP does not agree with the Department's recommendations on the Tesla Powerwall program, it did make a slight adjustment to the capital spending for this project due to revised scheduling for the build-out of the Powerwall project. GMP also proposes to adjust its accounting for RECs held for sale in a manner that is acceptable to the Department. Finally, GMP has agreed to a financial assurance mechanism for the performance of the JV Storage/Solar projects, which I discuss at the end of this testimony.

Q7. Please briefly summarize the Department's proposed adjustments to GMP's COS?

A7. The Department continues to recommend that the Commission remove the Tesla Powerwalls, Heat Pump Water Heaters, certain T&D projects and a portion of blanket projects from rate base in the case, for a total rate base reduction of $22.041 million. I will provide additional details on these items later in my testimony.

Rate Driver Analysis

Q8. With respect to your rate driver analysis, did GMP directly challenge your recommended approach to comparing rate drivers over a more expanded time period than a more limited period between this case and last year's rate case?

A8. No. When I presented the rate driver analysis in my direct testimony, I focused on a broader time period as an attempt to mitigate the effect of short-term anomalies that may have been present in or between the COS approved in Case 17-3112 and GMP's proposed nine-month COS in this case and because a longer time frame will reveal trends that the short-term anomalies may mask. I do not understand GMP's rebuttal testimony to be critical of my decision to focus on a broader time period.

Q9. How do you respond to Mr. Brian Otley's specific criticism of your analysis of the main cost drivers of GMP rate increases?

A9. Mr. Otley testifies that GMP strongly disagrees the conclusion that GMP rate base growth is a key driver of cost growth from 2013 to 2018. He proceeds to provide a narrative description of all the benefits of GMP's capital spending. My concern with Mr. Otley's rebuttal testimony is it consists of general statements~~ and cursory analysis.~~. Mr. Otley did not provide a numerical analysis to support his claim that GMP's capital spending is not a key driver of costs. In fact, Mr. Otley claims that some GMP investments reduce costs to rate payers, but produces no data to back up his claims. In response to a discovery

request to produce any analysis he conducted to support his claims, he provided additional narrative and a one-page graphic with no supporting data.

I believe that Mr. Otley's rebuttal testimony reflects a misunderstanding of the points that I intended to convey in my direct testimony on the rate driver analysis. I did not directly challenge the rate payer value or necessity of GMP's capital spending in this analysis, rather I intended to demonstrate that GMP's rate base has been growing on a steady upward trajectory. My rate driver analysis is intended to be a clinical, objective review of the relevant numbers, which show that GMP's rate base has grown and that this growth is putting upward pressure on GMP's rates. In other words, it is intended to be a quantitative, not qualitative, analysis.

Q10. Does the Department still believe the analysis of the rate trends for the period 2013 through 2018 presented in you direct testimony is ~~an accurate representation of the key cost drivers contributing to rate increases.~~accurate?

A10. Yes. The Department continues to believe the analysis of the rate trends for the period 2013 through 2018 presented in my direct testimony, and repeated in the chart below, is an accurate representation of the key cost drivers contributing to rate increases.

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

	2013 Test Year Actual	2018 Settlement	Dollar Change
Purchased Power and Production	$322,603	$289,154	($33,449)
Net Transmission	$31,676	$28,878	($2,798)
O&M Platform, Other O&M and Savings	$117,541	$104,571	($12,970)
Rate Base Related Costs			

Depreciation & Amortization & Other	$45,611	$53,270	$7,659
Taxes - Federal, State & Municipal	$46,809	$67,487	$20,678
Return on Utility Rate Base	$66,673	$98,535	$31,862
Less Affiliate & Other Operating Revenue	($33,282)	($21,583)	$11,699
Gross Revenue & Fuel Gross Receipts Taxes	$6,094	$6,266	$172
Cost to Ultimate Consumers	$603,724	$626,578	$22,854

Over the period, Purchased Power Costs declined by $33.4 million and O&M has declined by almost $13 million. Net Transmission costs, defined as transmission O&M net of equity in earnings from subsidiaries have remained relatively stable with a $2.8 million decline. However, these cost reductions have been more than offset by a $60.2 million increase in rate base (capital and investment) related costs. I have reproduced this chart in this surrebuttal testimony to make a clear comparison with the analysis that I complete below.

Q11. Have you completed additional analysis to address the concerns raised by Mr. Edmund Ryan in his rebuttal testimony?

A11. Yes. In his rebuttal testimony, Mr. Ryan disagrees with the manner in which I treated transmission costs and describes two methods that he believes would be an acceptable approach to the treatment of transmission costs. Specifically, on pages 13 and 14 of his rebuttal testimony he states:

> GMP believes that the appropriate rate drivers grouping for Transco/VELCO investments involves either: 1) separating the actual transmission operating expenses paid to ISO-NE and Transco/VELCO from the cost and returns created from GMP's ownership investments in Transco/VELCO (which is the way GMP looks at it as reflected in the

chart that GMP showed in the rate case workshop); or 2) combining all three together in a single analysis.

I agree with Mr. Ryan's logic, but I do not agree that GMP presented the transmission costs consistent with the first method described by Mr. Ryan.

Q12. Can you explain your disagreement with Mr. Ryan regarding the method GMP uses to group transmission costs in its analysis of the key factors driving rate increases?

A12. Yes. The table below shows the separate cost components that make up the Net Transmission (including rate base costs) line used in the Department's analysis and a calculation of the rate base related costs of the investments in VELCO/Transco:

Net Transmission (Including Rate Base Costs)
In $1,000s

	2013 Test Year Actual	2018 Settlement	Dollar Change
Operating Expenses	$72,575	$112,799	$40,224
Equity in Earnings of Transmission Affiliates	($40,899)	($83,921)	($43,022)
Taxes and Return on Transmission Estimate	$26,946	$42,938	$15,991
Total	**$58,622**	**$71,816**	**$13,194**

Note that for the 2013 test period, the Equity in Earnings and Taxes and Return numbers combine data from the test year which ends on March 31, 2013 and data from the fiscal year ending September 30, 2013. During discovery, the Department requested data consistent with the 2013 test year, but GMP provided data for the 2013 fiscal year instead. GMP informed the Department it was able to produce responsive data for the 2013 fiscal year, but generating data for 2013 test year would have required considerable time and resources. While the 2013 test year data would have resulted in a more precise

analysis, using the 2013 fiscal year data provided by GMP does not materially affect my analysis.

Mr. Ryan states that GMP combines equity in earnings from Transmission with the taxes and return components. However, GMP does not show the resulting numbers separately. Rather, GMP combines Equity in Earnings from all sources with the total return on rate base. In my opinion, this approach has the effect of masking the contribution of GMP's non-transmission rate base investments to the overall increase in costs. Furthermore, presenting the analysis in terms of weighted percentages makes it difficult to determine the nominal dollar contribution to increasing rates. Finally, when VELCO presents the cost of transmission, it is careful to show the O&M costs and the dividends (which show up as equity in earnings from subsidiaries on GMP statements) together. This is the approach that I used in my direct testimony.

Q13. Please describe the results of the analysis showing each of the transmission cost components combined; the second method suggested by Mr. Ryan.

A13. For this analysis, I used the information provided by GMP to separate the investment in the transmission subsidiaries (VELCO/Transco) from the rest of GMP's rate base costs and repeated the analysis shown in my direct testimony. The advantage of this analysis is that it more accurately reflects the total cost of transmission paid by GMP ratepayers. The results of this analysis are presented in the table below.

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

	2013 Test Year Actual	2018 Settlement	Dollar Change
Purchased Power and Production	$322,603	$289,154	($33,449)
Net Transmission (Including Rate Base Costs)	$58,622	$71,816	$13,194
O&M Platform, Other O&M and Savings	$117,541	$104,571	($12,970)
Rate Base Related Costs (Excluding Transmission)			
Depreciation & Amortization & Other	$45,611	$53,270	$7,659
Taxes - Federal, State & Municipal	$38,818	$40,181	$1,363
Return on Utility Rate Base	$47,717	$68,686	$20,969
Less Affiliate & Other Operating Revenue	($33,282)	($21,583)	$11,699
Gross Revenue & Fuel Gross Receipts Taxes	$6,094	$6,266	$172
Cost to Ultimate Consumers	$603,724	$626,578	$8,637

The analysis shows again that over the period, Purchased Power Costs declined by $33.4 million and O&M has declined by almost $13 million. Net Transmission costs, defined as transmission O&M, plus Return on Rate base and Income taxes related to GMP's investment in VELCO and Transco, net of equity in earnings from subsidiaries, increased by 13.2 million. However, GMP's rate base related costs, even excluding transmission, amount to a $30 million increase. While a lower figure than I presented in my direct testimony, it is still the single largest cost driver of rate increases over the period.

Q14. How do you respond to Mr. Otley's claims, on pages 2 and 3 of his rebuttal testimony, that you implied GMP's capital spending was increasing?

A14. I think that this portion of Mr. Otley's testimony also reflects a misunderstanding of my direct testimony. My testimony regarding GMP's level of capital spending was made within the context of my discussion of rate drivers. I directly stated that rate base is increasing, and I referred to the level of capital spending and investments projected by GMP to a rating agency. Even at the $85 million level of capital spending proposed by GMP, rate base will continue to increase unless depreciation rates are adjusted upward. Furthermore, GMP continues to make investments in subsidiaries (which are capitalized and included in rate base), but are not subject to $85 million limit discussed by Mr. Otley. Those investments will also increase rate base. This will put upward pressure on rates.

Q15. In response to Question 6 on page 4 of his rebuttal testimony, Mr. Otley states that you criticized GMPs long-term incentive program? Did you intend to criticize GMP's long-term incentive plan?

A15. No, Mr. Otley mischaracterizes this portion of my testimony. I simply cited the Long-term incentive plan targets as an indication that rate base is likely to continue to increase. To be clear I have no issue with the structure of GMP's long-term incentive plan. The GMP plan is substantially similar to the long-term incentive plans of many investor owned utilities. Long-term incentive plans are adopted to align management's incentive with the goals of investors to increase the value of the firm. For most investor owned utilities long-term incentives are tied to stock price and/or dividend growth. Generally stock prices and/or dividend increase when earnings increase. Since GMP is not publicly traded, the plant values included in their long-term incentive plan are a logical

replacement for the stock price. As the level of assets increase the rate base will generally increase. Increasing rate base will result in increasing earnings and an increase in the value of the firm.

Q16. Please summarize your conclusions on the rate driver analysis.

A16. There is absolutely no doubt that from 2013 to 2018 the growth in GMP rate base (even excluding costs associated with the investments in transmission subsidiaries) is the primary driver rate increases. I do not believe that it is appropriate to isolate one component of transmission costs while ~~burying~~combining the offsetting equity in earnings from affiliates in a different category of costs. Again, this analysis confirms that the Department's focus on GMP's capital costs and investments in subsidiaries is warranted.

Proposed Capital Spending & Investments

~~Q18.~~Q17. Do you support the proposed adjustment to Transmission, Distribution and General Plant rate base discussed in the testimony of Kevin Mara of GDS Associates?

A17. Yes. In his surrebuttal testimony, Mr. Mara states that he revises his overall capital reduction recommendations to include in rates GMP's project for the Direct Transfer Trip protection to the Ottauquechee Hydro facility. Otherwise, Mr. Mara maintains the capital spending recommendations that he presented in his direct testimony that have not already

been adopted by GMP. I support Mr. Mara's recommendations, which are reflected in the Department's COS filed as Exhibit PSD-JMT-3.

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~~Q19.~~Q18. **Has GMP's rebuttal testimony altered the Department's recommendation that the Heat-Pump Water Heater (HPWH) products be excluded from rate base?**

A18. No. The Department's analysis of the information provided in Josh Castonguay's Exhiblt GMP-JC-3(rev) shows that the project does produce a nominal ratepayer benefit. However, that benefit is highly dependent on the assumption of incremental energy use for HPWHs. In GMP's discovery response DPS3.Q14.d, Mr. Castonguay and Craig Ferreira of GMP indicated that GMP does not have information on what types of water heaters the new Heat-Pump Water heaters replaces (i.e. whether the replaced heaters use fossil fuels or electricity). If the new HPWHs replace electric water heaters, usage may actually go down, not up, thereby eliminating any benefits and potentially resulting in a slight cost in terms of lost margin from sales. Additionally, GMP has not implemented the technology required to control these devices for the benefit of all rate payers. These devices are readily available consumer products. For this project, the concerns about a regulated monopoly competing in an unregulated business should outweigh the minor benefits. Allowing rate base treatment for commercially available, behind-the-meter consumer products ~~soley~~solely because they may provide incremental benefits would establish a misaligned, open-ended regulatory policy. ~~If that were the case, there would be no logic for excluding toasters from~~Without appropriate limitations, any number of generic, commercially available electronic devices could be placed into rate base.

Until GMP has implemented the ability to control these devices for the benefit of all ratepayers and can confirm the stated benefits, the Department recommends excluding them from rate base to remedy the competitive advantage created by GMP's monopoly position and the regulated rate of return on the investment.

~~Q20.~~Q19. Have ~~Brian~~Mr. Otley or ~~Josh~~Mr. Castonguay's rebuttal testimonies changed the Department's recommendation that the Tesla Powerwall products be excluded from rate base?

A19. No. The Department still has concerns not just about the scale of the pilot project, but also about whether the project will yield any benefits to non-participating ratepayers. As discussed in more detail below, after conducting a thorough analysis of the spreadsheet used to develop Exhibit GMP-JC-3 (Rev.), the Department has concluded that non-participating rate payers will provide a significant subsidy to Powerwall program participants. GMP's own net-present-value ("NPV") analysis shows that non-participating customers will not see a positive NPV until year ten. One of the Department's criteria for ~~including~~evaluating commercially available consumer products in rate base ~~is~~has been that no such subsidy occur. This factor alone should warrant keeping the Tesla Powerwall project out of rate base in this case. However, in his surrebuttal testimony on behalf of the Department, Christopher C. Dawson of GDS Associates explains how GMP's projections likely overstate the benefits of the program

and concludes that "the Powerwall program cannot be deemed necessary or cost effective."

~~Q21.~~Q20. First can you please provide additional details on the Department's analysis showing that non-participating rate payers will provide a significant subsidy to Powerwall program participants.

A20. The Department sorted the information provided in Exhibit GMP-JC-3 (Rev.) by product line. The results for the Tesla Powerwall project are shown in the table below.

Tesla Powerwall Pilot Cost(Benefit) Analysis - 2019 Rates

Monthly Revenue	($173,070)
Sales	($219,000)
Power Supply Savings	($682,353)
Depreciation Expense	$972,404
Return on Rate Base	$764,003
Subtotal Ratepayers Cost(Benefit)	**$661,984**
Innovative Program O&M*	$175,757
Total Ratepayers Cost(Benefit)	**$837,741**

*Allocated based on the capitalized A&G from GMP in discovery response DPS3.Q10.c.

The table above demonstrates that, even before including Innovative Program O&M and assuming the Power Supply Savings projected by GMP, current ratepayers are subsidizing customers participating in the Powerwall innovative pilot by at least $661,984 during the rate year. GMP did not provide the Department a requested allocation of Innovative Program O&M. In the absence of this data, the Department

allocated this cost based on the Powerwall program's share of Capitalized ~~A&G.~~Administrative and General expense ("A&G"). Assuming this allocation of Innovative program O&M, the amount of the subsidy increases to over $800,000 during the rate year. The Department's analysis also excludes Capitalized A&G, which as I discuss below, it is not a benefit to ratepayers.

~~Q22.~~Q21. **Please explain why capitalizing A&G does not provide a saving or benefit to ratepayers.**

A21. Simply put, capitalizing A&G means that the ratepayers will pay A&G over time instead of in the year the cost is incurred. For example, if GMP capitalizes a dollar of A&G ratepayers will pay a dollar less in O&M in that year. However, GMP will add that dollar to rate base and customers will pay that back that dollar in depreciation over time. Because GMP adds capitalized A&G to rate base, customers will also pay return and taxes on the undepreciated amount of A&G. On an NPV basis, the amount ratepayers pay for capitalizing a dollar of A&G is approximately equal to expensing a dollar of A&G. There are no savings to rate payers over time. Any change in rates is temporary. The Department is concerned that GMP has included the impact of capitalized A&G as a savings and represented that GMP investors will share that benefit through the "O&M Platform" that was approved by the Commission in its final order in Docket 7770.[1] If that contention is true, during the period of 50/50 sharing under the O&M Platform,

[1] I discuss the O&M Platform in more detail on pages 6–7 of my direct testimony.

ratepayers are paying approximately $1.50 for every $1.00 of capitalized A&G on present value basis. While the Department is not making a specific rate adjustment recommendation regarding capitalized A&G in this case, it is an issue ~~of concern~~ that the Department will continue to ~~monitor and potentially raise in future rate proceedings~~review.

RECs Held for Sale

~~Q23.~~Q22. In his direct testimony, Mr. McNamara recommended that REC inventory be removed from Rate Base. Has GMP accepted that recommendation?

A22. Yes. GMP generally supports the ratemaking proposal to move away from an inventory approach to REC accounting where there is no contractually assigned price. For RECs currently in inventory. GMP has agreed to earn a return on this inventory balance based on their short-term debt bank loan interest rate. GMP also proposes to work with the Department to develop a plan to transition away from the current REC inventory approach, and the disposition of RECs currently in inventory, as part of its Multi-Year Rate Plan.

Capital Structure and Cost of Capital

~~Q24.~~Q23. Does GMP agree with Mr. Baudino's recommendation to lower GMP's cost of debt?

A23. Yes. In its revised COS, GMP updated interest rates to reflect the actual interest rates on the September and December 2018 long-term debt issuances a 4.50% interest rate on the remaining 2 other projected long-term debt issuances.

Storage/Solar JV Projects

~~Q25.~~Q24. **Have the Department and GMP agreed on an appropriate financial assurance for the three Joint-Venture solar/storage projects included in this rate case?**

A24. Yes. In its direct testimony, the Department identified a series of concerns regarding the underlying assumptions included in GMP's financial analyses for the three JV projects included in this rate case. The Department recommended that the Commission allow these projects into rates only if GMP provides a financial assurance to protect rate payers from potential downside risk associated with these projects. Both GMP and the Department also presented testimony on this issue in Case 17-5003-PET, which involves the Section 248 review of the proposed Milton JV project. On September 25, 2018, GMP and the Department filed an MOU in Case 17-5003-PET which establishes financial and performance assurance mechanisms that will apply to all three JV projects included in this case. I have attached a copy of this MOU as Exhibit PSD-BEW-4. The Department is satisfied that the financial and performance assurance mechanisms in the MOU sufficiently addresses the concerns raised by the Department regarding JV projects. The

Department therefore now recommends that they be included in rate base so long as the Commission adopts the financial and performance assurance mechanisms included in the MOU.

~~Q26.~~Q25. Will the risk sharing mechanism provided for in the MOU adopted in Docket 17-5003-PET provide the financial assurance sought by the Department?

A25. Yes. The MOU provides a mechanism to track the projects' performance with respect to the realized value associated with the Regional Network Service, Forward Capacity Market and Regulation Service from these projects. Annually, GMP will prepare a 10-year NPV forecast, updated for the actual values received to date. In years five and ten, these values will be compared to the original NPV estimate, and if the difference is greater than a 15 percent dead band, a rate adjustment will be calculated. The rate adjustment calculation will segregate the volume risk from price risk. GMP will assume different portions of each risk. The MOU also requires GMP to adopt a more comprehensive process to identify the system need, consider all viable alternatives, and conduct competitive procurement for contractors and components. The Department's position is that this MOU provides adequate financial assurance for rate payers.

~~Q27.~~Q26. Does the Department still have reservations about the way GMP is accounting for the year-one Hypothetical Liquidation at Book Value ("HLBV") and developer fee?

A26. Yes. In his direct testimony, Terry Myers of GDS Associates, Inc. raises a concern regarding how GMP is treating the HLBV and the up-front developer fee when its JV projects are put in service and other concerns regarding potential IRS treatment of GMP's proposed accounting for these projects. I also discussed these points in my direct testimony. On page 9 of his rebuttal testimony, Mr. Kirk Shields acknowledged that "whether the IRS will impose a recapture of the [investment tax credit]" is a financial risks that is "GMP's, meaning that if [it] occurs GMP will bear the costs without the potential of recovery or relief from customers."

The concerns identified by Mr. Myers are abstract and if they do occur, they will affect a future rate proceeding. However, the Department raised these issues to the Commission to ensure that if the risks identified by Mr. Myers materialize, then it is the Department's expectation that GMP, not its ratepayers, will be responsible for assuming the financial responsibility from those risks. Based on Mr. Shields's testimony, it appears that GMP agrees with that position.

~~Q28.~~Q27. Does this conclude your testimony?

A27. Yes.