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Ms. Judith C. Whitney, Clerk
Vermont Public Utility Commission
112 State Street
Montpelier, Vermont 05620-2701

**RE: Case No. 17-3142-PET
Comments and Recommendations on Future Regulation Plans**

Dear Ms. Whitney:

Green Mountain Power (“GMP”) submits these comments on the future of regulation in Vermont. What follows is (1) a general overview; and (2) a specific articulation of regulation plan design elements we believe the Public Utility Commission should consider in its development of an order providing guidance on the filing of individual regulation plans for Commission approval pursuant to 30 V.S.A. § 218d.

I. OVERVIEW

We appreciate the Department of Public Service and Commission’s proactive approach in considering what the future of regulation should look like in Vermont. Here’s an overview of our comments and recommendations, which are intended to build on this dialogue.

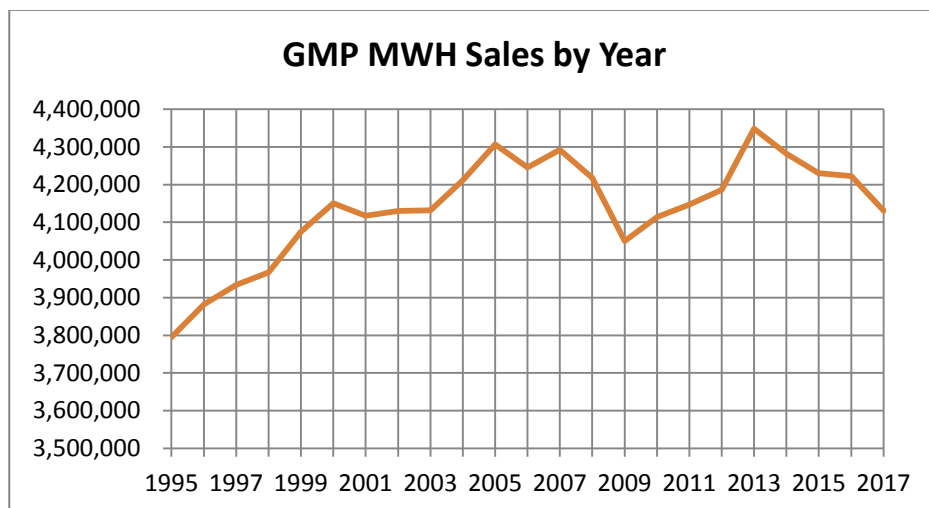
A. Where We Started

The traditional utility regulation framework was created more than fifty years ago. At that time, electric sales increased every year. The grid was designed and controlled as a top-down, centralized structure that moved power to customers over long distances from a few, mostly large generators. Renewable supply was limited to a handful of hydro resources. Wind and solar generators did not exist in any meaningful sense. Nor was there any ability to store electricity – save for a few pumped-hydro storage plants designed to back up critical functions of nuclear plants outside Vermont, as well as conventional hydro plants with limited ponding capacity.

B. *What's Changed*

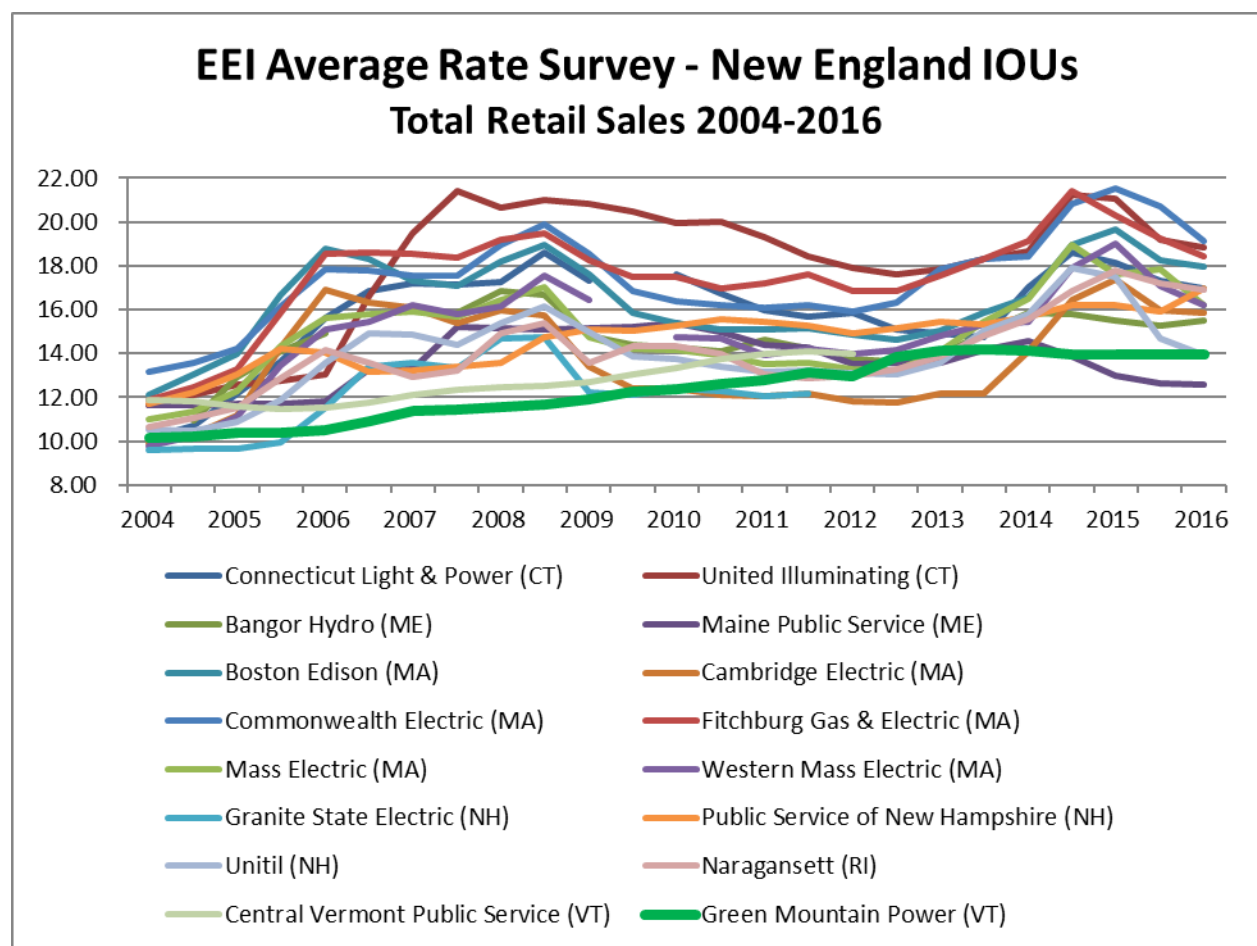
A lot has happened since then. Beginning in the late 1990s, Vermont undertook one of the most aggressive efficiency programs in the country. Then, in the mid-2000s, the State had the foresight to “decouple” revenues from sales for the largest utilities in Vermont, including GMP. This means that these Vermont utilities’ financial outcomes are not tied to the amount of electricity they sell but rather to their ability to effectively manage the business and produce strong outcomes for customers. It was during this time period that service quality plans were also implemented to measure operational performance.

During this same period, electric sales trends in Vermont, New England, and throughout much of the country began to flatten or even decline. This flattening has occurred despite year over year economic growth and “bull” market conditions over the last eight years, which historically had always resulted in significant increases in electric consumption. Flat or declining baseload electric sales result in higher costs for customers because there are fewer kilowatt hour sales over which to spread the increasing costs of the system, particularly the regional bulk transmission system costs. Declining loads in Vermont also appear to materially reduce the incremental value of baseload efficiency measures for our customers because they can no longer be said to offset the need for transmission and distribution infrastructure.

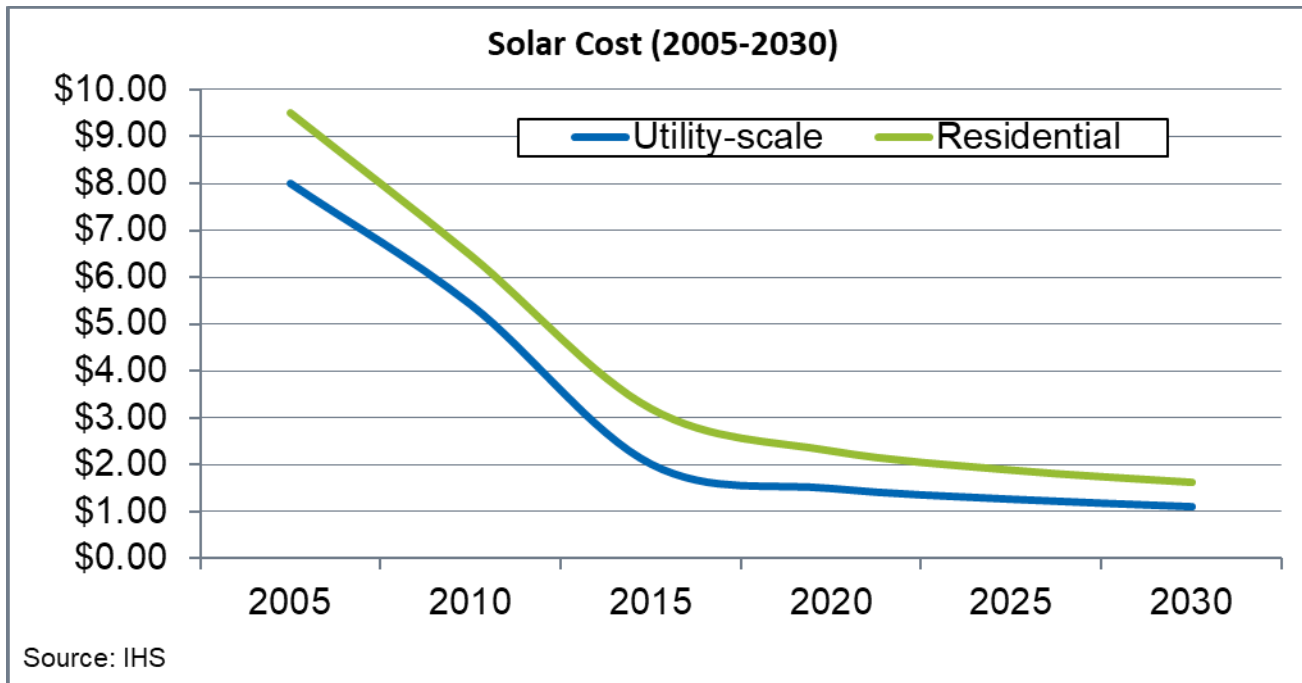


The State also considered, but ultimately rejected, the proposal to “deregulate” Vermont’s electric utilities, such that the cost of obtaining power would be separated from the cost of transmitting and distributing it on customers’ bills. This has served Vermont customers well as several utilities have continued to own generation plants as part of a long-term strategy to keep costs low and serve customers with local, renewable power. Vermont utility-owned local hydro plants produce some of the lowest cost energy supply we have in the State today. Vermont electric rates have consistently remained among the very lowest in New England (the rest of which is deregulated), even at a time when regional electric markets are at historic lows; and Vermont businesses have benefitted from the State’s policy decision to prioritize electric cost stability over time rather than being tied to the short-term swings of the regional market.

We believe that Vermont has remained competitive in the face of low energy prices largely because of the fees added by third-party energy procurement firms in deregulated states, and that this cost element was not fully contemplated during the deregulation debates. Deregulation in essence created many additional silos of delivery (transmission, distribution, retail sales, generation), all of which have margins built into them. In an age of significant disruption of the entire energy system through cost effective availability of distributed energy resources, this will make it even more challenging for deregulated states to manage a cost-effective bulk delivery system made up of so many varying parties with disparate interests and margin requirements.



There has also been a rapid increase in the deployment of renewable generation technologies like wind and solar as their costs have declined. Energy storage—which enables energy to be held and deployed at times of greatest value to our customers—has also seen remarkable advances and is today cost-effective for customers as an energy and grid resource that both decreases costs and increases reliability.



In fact, as of the date of this filing, GMP:

- now sells less electricity than it did in 2003, yet more electrons travel across its distribution system than ever before;
- has observed signs of a potential maxing out of the value of baseload efficiency measures due to the significant investment in efficiency measures over the last two decades;
- has over 8,000 small generation sources (net-metering, standard offer, larger scale solar wind and hydro) supplying energy to its system in addition to shares of larger resources like Hydro Quebec and Seabrook;
- has a power supply that is 60% renewable, 90% carbon-free;
- is actively using large, grid-scale and small, behind-the-meter battery storage (more than 105 Tesla Powerwall units alone) to reduce costs for customers and improve grid performance and reliability;
- has connected over 1,000 distributed energy resources (“DER’s”) to our shared access control platforms to further reduce costs for customers and prepare for a transformed grid;
- has the second largest net metering program per capita in the country (Hawaii has the largest); and

- is on track to have about 200 MW of installed solar (on a peak that is less than 700 MW) by the end of calendar year 2018. Of this, GMP owns on behalf of its customers about 22 MW or just over 10%.

C. What Our Customers Want

Our customers tell us that they want energy that is low cost, low carbon, and highly reliable. At the same time, our customers are partnering with us to begin transitioning from the traditional bulk grid to an energy system that is home, business, and community-based. As new technologies continue to emerge in the energy market, our customers are showing us they are interested in:

- generating their own clean power;
- storing their generated power to extend its availability while having seamless (and carbon free) access to backup energy during times when the bulk grid has service interruptions;
- remotely controlling with mobile apps the energy resources that perform heating, cooling, water heating, and transportation;
- providing shared access to their energy resources so they may be included in localized grid orchestration algorithms that deliver reliability and cost improvements; and
- having low-cost, predictable rates.

D. Long Term Economic Benefits For Evolution To A Home, Business, and Community-Based Energy System

The long term socio-economic benefits of the evolution from a bulk grid-based system to a community, home, and business-based one are also quite compelling for customers. First, there is the ever-increasing cost of regional transmission and capacity (an ISO fee to ensure there is sufficient generating capacity in New England). Transmission expense has increased more than roughly 20% in the last three years and capacity costs have more than doubled. These increases have occurred despite the fact that the amount of electricity used throughout New England is on the decline. In 2018, GMP's rates to customers will increase by 5%, reflecting the uncontrollable, regional cost increases, made up of 3% transmission expense and 2% capacity expense. Moving away from the bulk regional grid and toward localized, home, business and community-based energy delivery can significantly reduce these uncontrollable, regional expenses and help offset these types of increases to customers.

Second, as the Commission has recognized, we are seeing the impacts of climate change in Vermont. Nowhere is this more pronounced than with respect to the increasing frequency of extreme weather events that damage the distribution system, cause customer outages, and disrupt

economic activity in Vermont as well as customer comfort and security at significant cost to repair. The evolution from the bulk system to a distributed one will help offset this increased cost and disruption to customers.

E. Tying It Together

At a high level, we believe that future regulation should:

- be designed to facilitate the evolution and transformation of our Vermont electric system into one that is highly distributed and based increasingly on home, business, and community-based energy solutions and less on the regional bulk grid, while being focused on the fact that any evolution must help provide value and alleviate cost pressures on customers from the bulk system;
- facilitate an increasing supply of distributed, low-cost, renewable, carbon-free power to meet state goals;
- facilitate innovation around transformative energy programs that bring value to those customers that directly participate in the program offerings as well as all other Vermont electric customers;
- enable innovation that can deliver multi-service programming, like combining back-up generation, home heating and cooling systems, car charging, along with dynamic controls to maximize value and customer convenience that drives down costs;
- enable low, stable, and predictable costs for customers;
- should provide unique, targeted offerings for Vermont's most vulnerable, low income customers;
- encourage utilities to continue to partner with third parties in the delivery of innovative services;
- be accessible and highly transparent to all Vermonters, customers, and other stakeholders; and
- allow for flexibility in how rates are created to assure that customers, specifically commercial and industrial customers, are encouraged to use or not use energy at the best times.

In the next section, we will specifically articulate the general elements of a plan design that we believe will support these outcomes.

II. SPECIFIC PLAN DESIGN ELEMENTS

Building off the Department's comments, we respectfully recommend that the Commission consider the following regulation plan design elements as part of a proposed order providing guidance on the filing of individual regulation plans for specific Commission approval. We believe that these high-level design elements are necessary to advance Vermont's transformative energy future in a cost-effective way.

In providing these recommendations, we acknowledge that any individual regulation plan would be subject to review and approval by the Commission (with recommendations regarding the same from the Department) and that different types of regulation plans (if any) would make sense for different types of utilities.

1. We believe that rates should be low-cost, stable, and predictable.
2. We agree with the Department that multi-year plans can provide a low-cost, stable, and predictable rate path for customers.
3. We believe these multi-year rate plans should reflect realistic assumptions regarding a forward period (three to five years for example) of costs and revenues, and that all stakeholders should have an opportunity to participate in the setting of such a plan.
4. With respect to power and transmission costs (which reflect 40% and 20% (combined 60%) of GMP's total cost of service), these costs could be submitted on a forecasted basis and then "trued-up" under a power adjustor mechanism. As explained by Rick Weston of the Regulatory Assistance Project, there are various best practices throughout the country around how this true-up is best effectuated for customers. We took note of the practice of monthly true-ups employed by some utilities that Mr. Weston described as leading to more stable bills for customers.
5. We are committed to a continuation of our current decoupling plan. We believe the current decoupling mechanism effectuated through GMP's power adjustor has served customers and state energy policy well.
6. With respect to O&M costs (which reflect roughly 18% of GMP's total cost of service), we believe the current "Base O&M" model, which evenly splits with our customers the benefits of operating as cost-effectively as possible through 2021, represents exactly the right type of design from a regulation perspective.
7. With respect to capital investments, we believe there is value in setting capital budgets over a multi-year period with the opportunity for stakeholder input. We believe that it's important that such a review consider the long-term impact to GMP customers of starving or stacking the need for such investments, as well as the imperative to ensure that our investments pack multiple benefits for customers and advance the evolution to a community, home, and

business-based grid, instead of doubling down on solely traditional investments that will represent declining value for customers over time. The plan should also allow for strategic investment opportunities that can create appropriate value for customers. The process would take into account Department, Commission, and other stakeholder review and approval.

8. As to the remaining costs (including depreciation, taxes, cost of debt and equity) which total about 22% of GMP's total cost of service (net of other revenues and equity in affiliates), we believe these costs could be set for a multi-year period according to an escalation formula as is best practice in other states.
9. We believe that a traditional rate case could precede the setting of such a plan but need not always do so, especially if such a case has recently occurred. A robust and transparent stakeholder process could also suffice. That said, GMP agrees that traditional rate cases every three to five years can provide appropriate bookending to support a multi-year plan framework.
10. We believe that GMP should continue to post all materials related to setting of rates on its website and to provide notice to customers of how to participate in all proceedings.
11. We believe that plans should require utilities to innovate around broader value propositions for customers—ones that seamlessly tie together multiple services like back-up generation, home heating and cooling, and car charging among others. This can be anything from enabling innovative service offerings (like those under GMP's current regulation plan) that bring in revenue flowing 100% to customers to piloted rate designs for bundled services also designed to benefit all customers. The innovative pilot provision under GMP's current regulation plan is an effective 1.0 version of a mechanism to achieve these goals but we expect that such provisions will evolve further to enable broader innovation. Future plans should also continue to encourage utilities to partner with third parties in the delivery of these innovations. It should be noted that as we execute on various pilots and innovations, we are always available and willing to share every detail with all Vermont distributed utilities ("DUs") in the hopes to continue driving Vermont as a leader in energy transformation.
12. We believe that DUs should be both a developer of customer programs as well as an enabler of programs for third parties to provide value to all customers.
13. We believe future plans should enable unique offerings for Vermont's most vulnerable, low-income customers.
14. We think it's important to have clear metrics to measure utilities' performance on issues that matter to customers and in a manner that is understandable to them. For example:
 - a. COST:
 - i. Benchmarking O&M cost competitiveness against peers.
 - ii. Setting and measuring aggressive peak management targets.
 - iii. Setting and measuring aggressive innovation targets intended to bring in new revenues flowing 100% to customers to offset traditional sales loss.

- b. SERVICE:
 - i. Continuation of bold service quality and reliability targets.
 - ii. Continuation of aggressive outage duration and frequency targets.
 - iii. Continuation for innovation around new service offerings, grid transformation, and third-party partnerships.

 - c. CARBON:
 - i. Goals around ever evolving supply of low cost, renewable, carbon-free power.
 - ii. Goals around continuing the customer-led revolution to a community, home, and business-based distributed energy future.
 - iii. Facilitation of Vermont state energy policy around reducing fossil fuel emissions.
15. We think GMP's current regulation plan's provision for exogenous adjustments is working effectively for customers, except that given climate change and the increased frequency of major storms, we are open to considering other means of addressing such costs.

Conclusion

We appreciate the Commission's decision to issue a draft order highlighting general principles on these issues and we look forward to further engaging in dialogue with the Commission, the Department, and other interested parties regarding the proposal. We support a regulatory process and model that ensures transparency, appropriate oversight, and that facilitates innovation, in a changing landscape as we move to a more distributed renewable generation environment that lowers overall costs, reduces carbon, and increases resiliency, reliability, and energy independence.

Very truly yours,



Charlotte B. Ancel, Esq.
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