

**STATE OF VERMONT  
PUBLIC UTILITY COMMISSION**

Case No. 18-2850-TF

Tariff filing of Green Mountain Power Corporation )  
re: proposed rate design changes to take effect )  
April 1, 2019 )

**GREEN MOUNTAIN POWER’S INITIAL BRIEF**

**I. Introduction**

Green Mountain Power (“GMP”) has submitted a proposed rate design that is fair, adequate, and efficient. It is informed by an Embedded Cost of Service (“ECOS”) study that would support reallocation of less than 4% of GMP’s total cost of service. GMP has provided sufficient evidence to show that this rate design will result in just and reasonable rates for GMP customers, and therefore requests that the Commission approve the rate design as proposed. This brief is supported by the attached Proposed Findings and Order.

**II. Argument**

**A. GMP’s Petition As Filed Should be Approved by the Commission Because it Supports Fair and Reasonable Reallocation of Rates Among GMP Customer Classes**

GMP has proposed a fair and reasonable rate reallocation that is revenue-neutral and will promote rate stability for GMP customers. The proposed reallocations are across-the-board rate changes by class, with no adjustments to individual unit prices within rate classes. These allocations result in fair, efficient, and adequate rates that will recover the overall marginal cost-of-service for each class based on a fair allocation of the costs each class incurs, with minimal additional bill impacts to customers. The proposed design is also consistent with GMP’s commitments toward innovative rate structures in the MOU to GMP’s prior rate design case, Docket 8525, as evidenced by GMP’s critical peak pricing rates, load management riders, and

other innovative pilots. In addition, this rate design, together with GMP's existing regulation plan, provides room for GMP to continue developing additional pilots and other smart and dynamic rate offerings to further provide opportunities and benefits to customers interested in participating in real-time load management.

At the same time, GMP's proposal is purposefully limited in scope in order to minimize disruptions to customer classes that are still experiencing phase-in of rates from the merger between GMP and Central Vermont Public Service Corporation ("CVPS"). These include small and large businesses in GMP's service territory. Rate stability was therefore a foremost consideration for GMP in designing this proposal, and these recommendations were developed with the primary goal of limiting additional impacts to all customers.<sup>1</sup> Importantly, this rate design will result in a decrease to GMP's largest customer class, Residential Rate 1.<sup>2</sup>

The rate design will also provide important incentives for GMP's largest customer, and Vermont's largest manufacturer and private employer, to continue its manufacturing operations in Vermont to the benefit of all GMP customers and in keeping with state energy policy as outlined in 30 V.S.A. § 218e. The proposed 2.73% downward adjustment for Transmission Class Rate 70, of which GlobalFoundries is the only customer, will help ensure GlobalFoundries' ability to remain competitive in the global semiconductor market and continue its significant contributions to infrastructure costs and the state and local economies. This allocation includes a contribution to fixed costs in excess of GMP's marginal cost to serve GlobalFoundries, which would fall on other customers if GlobalFoundries were to move its operation out of Vermont. GMP's proposed allocations are thus designed to minimize bill

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1 Anderson pf. at 4.

2 Anderson pf. at 22; Exh. GMP-SRA-4.

impacts where possible and to promote fair and stable rates across all classes. GMP is confident that these proposed rate design changes meet the principles of rate design applied by the Commission, and will result in just and reasonable rates for all customers.

In addition, GMP's filing is supported by a fully-allocated cost of service study, with which GMP's proposed reallocations are reasonably consistent, and has been thoroughly reviewed by the Department. After reviewing both the ECOS study and GMP's proposal, the Department found no errors or issues with the changes GMP has proposed.<sup>3</sup> Based on this review, the Department's witness has concluded that GMP's proposal is reasonable and will provide for rates that are just, reasonable, adequate, efficient, and fair, and should therefore be approved by the Commission.<sup>4</sup>

GMP's proposed rate design changes are thus well-supported, justified by the evidence submitted in the filing, and meet the Commission's criteria for rate design approval.<sup>5</sup> As a result, the Commission should approve GMP's rate design petition as filed, to take effect in January 2019.<sup>6</sup>

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3 Foley pf. at 2.

4 Allen pf. at 6-7.

5 In conducting its review of whether a rate design will result in just and reasonable rates under 30 V.S.A. § 218(a), the Commission has traditionally utilized the criteria of adequacy, efficiency, and fairness drawn from the work of James Bonbright in *Principles of Public Utility Rates* (1961). See, e.g., *In re City of Burlington Elec. Light Dept.*, Case No. 4966, Final Order (Sept. 17, 1985).

6 While GMP's initial petition requested an effective date of April 1, 2019, upon request the Commission has implemented a schedule for this proceeding such that the rate design changes could take effect in conjunction with the change to GMP's base rates that will result from the Commission's final decision in the current rate case proceeding (Case No. 18-0974-TF) and the effective date of the Term Contract filed between GMP and GlobalFoundries (Case No. 18-3160-PET) on January 1, 2019. As GMP noted in the rate case proceeding, due to weekend days and holidays, GMP's last billing cycle of 2018 will end on January 2, 2019. Therefore, GMP's first billing cycle of 2019 will begin on January 3, 2019, and approved changes to both GMP's base rates and rate design will take place on this date.

B. *The Limited Ancillary Issues that Remain Disputed Between the Parties Do Not Affect Commission Approval of the Rate Design.*

Although the Department supports the Commission's approval of GMP's Petition as filed, there are two ancillary issues on which GMP and the Department disagree: 1) the role of a marginal cost study as added support for a future rate design filing, and 2) whether GMP has fully satisfied the conditions regarding smart data and dynamic rates set forth in subsections 2(b) and 2(c) of the MOU in Docket 8525. A marginal cost study, in addition to the ECOS study GMP submitted, was neither a requirement of the Docket 8525 MOU nor necessary for the class-wide reallocation GMP has proposed in this Petition. As to smart meter data and dynamic rates, GMP's Petition and supporting testimony lays out in detail the several rates and riders currently offered to customers that meet the terms of the Docket 8525 MOU,<sup>7</sup> and the Petition supports the continued use of innovative rate structures. In addition, there is no requirement in that MOU to create new offerings beyond what GMP has developed prior to this rate design proposal. However, as discussed further below, neither of these two disputed issues affects the Commission's ability to grant GMP's Petition as proposed. Instead, the Commission may issue the Order with conditions acceptable to both parties that address the use of a marginal cost study and next steps on innovative rate designs. We address each issue in turn below.

1) *A Marginal Cost Study was Neither Required Nor Appropriate in this Matter.*

In developing its proposal, GMP considered the results of the ECOS study conducted by GMP's expert, David Heintz. The study suggested that only 3.9% of GMP's rates should be reallocated, and GMP's recommended reallocations are reasonably aligned with the results of the

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<sup>7</sup> Anderson pf. at 12-17; Exh. GMP-SRA-2.

study. Where GMP has departed from the study's recommendations, GMP has provided sufficient evidence and support that its proposal will result in more fair and stable rates. And in testimony, the Department has agreed with GMP that maintaining rate stability is an important consideration in any rate design proposal, and that GMP's proposed rate design avoids immediate, significant cost shifts for each customer class.<sup>8</sup>

Nonetheless, the Department has suggested that in addition to the embedded cost study, GMP should have included a marginal cost of service study as added support for its recommended changes.<sup>9</sup> Although the Department's view is that this information would be useful for crafting appropriate price signals, it does not view a marginal cost study as a necessity in this proceeding.<sup>10</sup>

A marginal cost study serves two primary purposes with respect to rate design. First, it provides a check to ensure that prices are set to at least cover marginal costs for each class, and second, it helps to confirm that if there are differences in the margins that are established between classes of customers or individual customers, there are good reasons for these differences.<sup>11</sup>

GMP agrees with the Department that a formal marginal cost study was not required for this proceeding for several reasons. First, the scope of the proposed rate design is limited; GMP has proposed only class reallocations of less than 4% of total revenue, and no changes to the unit prices within individual classes.<sup>12</sup> Second, GMP has considered marginal costs in its proposal, based on its general knowledge of the major components of marginal cost, and its specific

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8 Allen pf. at 6.

9 See Foley pf. at 4-6; Allen pf. at 8.

10 Allen pf. at 8.

11 See Foley pf. at 5; Tr. 11/27/18 at 8-9 (Anderson).

12 Anderson pf. at 9; Tr. 11/27/18 at 18 (Anderson).

marginal cost analysis with respect to Rate Classes 70 and 3.<sup>13</sup> Given the limited scope of the rate design, GMP is confident that a formal marginal cost study was not necessary to ensure that the class allocations cover each class's marginal cost of service in this circumstance.<sup>14</sup>

While GMP and the Department agree there was no need for a formal marginal cost study in this rate design proposal, the Department seeks a formal marginal cost study in support of GMP's next comprehensive rate design. GMP accepts this recommendation.<sup>15</sup> As a result, GMP proposes to include this requirement as a condition in the Commission's final order to this proceeding.

2) *GMP's Proposed Rate Design Meets the Requirements of the Docket 8525 MOU*

The second point of disagreement between GMP and the Department is whether GMP has fully satisfied the requirements of subsection (2) of the MOU to Docket 8525.<sup>16</sup> GMP firmly believes that it has met this provision of the MOU through its continued support of smart and dynamic rate offerings, which include load management pilots, critical peak pricing rates, and other C&I load management riders, along with its innovative pilot offerings. GMP does not read the MOU to require that the rate structures described in subsections (2)(b) and (c) must be newly proposed in this filing, but rather that GMP's filing supports these types of rate structures, which

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13 Tr. 11/27/18 at 8-11 (Anderson).

14 Tr. 11/27/18 at 18-19 (Anderson).

15 Foley pf. at 5; Allen pf. at 8; Tr. 11/27/18 at 19 (Anderson).

16 Subsection 2 of the MOU states:

*The proposed rate design shall be guided and informed by a new rate class cost of service study and shall reflect:*

- a. The cost of service underlying rates then in effect;*
- b. Rate structures designed to leverage the benefits of smart meters in a manner consistent with the then-existing Comprehensive Energy Plan; and*
- c. Rate structures designed to provide opportunities and incentives for customers to participate in real-time grid conditions through intelligent control and choreography of customer devices.*

it does.<sup>17</sup> In addition, GMP has been an active participant to discussions held by the Department with the distributed utilities and other stakeholders, and is interested in continuing these discussions to explore ways in which GMP can expand its current innovative approaches to rate design. Furthermore, GMP plans to continue developing and offering innovative pilots as these pilots come to fruition, which may then become tariffed.<sup>18</sup> Thus, GMP does not agree with the Department's view on the requirements of the Docket 8525 MOU with respect to innovative rate structures, and believes it has fully satisfied the requirements of this agreement in the proposed rate design.

Regardless, the parties agree that it is not necessary for the Commission to resolve this issue in order to issue a decision in this proceeding. Instead, a condition could be added to the Order that would satisfy both parties. The parties agree that discussions underway between the Department, distribution utilities, and other interested participants on the expanded use of rates designed to encourage load control, the utilization of smart meter data, and other innovations should be allowed to continue prior to any further comprehensive rate design proceedings. The parties propose that the Commission include a condition in this final order requiring the parties to report by the end of 2019, jointly if they agree or separately if they do not, on the status of the Department's process, proposed next steps, and timing regarding additional innovative tariff offerings and other dynamic rate services by GMP.

This approach will allow sufficient time for the ongoing Department policy discussions regarding dynamic rates to conclude, and for the Department to potentially release any formal

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<sup>17</sup> See, e.g., Anderson pf. at 12-16; Exh. GMP-SRA-2 (Listing GMP's demand response riders: Curtailable Load Rider, Critical Peak Rider, and Pilot Load Response Rider).

<sup>18</sup> Tr. 11/27/18 at 31-32 (Anderson).

position paper or other findings. This approach also provides enough time for further discussion between the parties as to what the appropriate next steps are on these topics, and potential timing of these steps. In the meantime, GMP will be able to continue proposing innovative pilots under its regulation plan, as well as tariffs or riders offering dynamic or innovative rate structures, as these offerings are developed and ready for implementation.

### **III. Conclusion**

As the record in this case indicates, GMP's proposed class allocation and related changes proposed in this rate design Petition are adequate, fair, and efficient, and will support rate stability for GMP's customers. This rate design will result in just and reasonable rates for all GMP customers. For the above-stated reasons, GMP respectfully submits that the Commission should approve its proposed rate design as set forth in the Petition and accompanying testimony of Scott Anderson, subject to the conditions outlined above, and to take effect starting on January 3, 2019.

Dated at Burlington, Vermont, this 4<sup>th</sup> day of December, 2018.

BY:



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