

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

PREFILED TESTIMONY

OF

Emily Stebbins-Wheelock and James L. Gibbons

June 16, 2021

The witnesses' testimony provides an overview of BED's current revenue requirement filing.

1 **Emily Stebbins-Wheelock and James L. Gibbons**

2 **Q. 01. Ms. Stebbins-Wheelock, please state your name and business address.**

3 A.01. My name is Emily Stebbins-Wheelock. My business address is 585 Pine Street,
4 Burlington, Vermont.

5 **Q.02. By whom are you employed, and in what capacity?**

6 A. 02. I am currently employed by the Burlington Electric Department (“BED”) as Manager of
7 Strategy and Innovation. I have been a full-time employee of BED since September 2019.

8 **Q. 03. What are your current responsibilities as Manager of Strategy & Innovation at**
9 **BED?**

10 A. 03. I am a member of the executive management team at BED, reporting to the General
11 Manager. I lead BED’s Center for Innovation, which includes BED’s Finance &
12 Accounting (including Billing & Analytics), Policy & Planning, Information Services,
13 and Sustainability & Workforce Planning teams, each under the leadership of a Director.
14 For the periods of November 27, 2019 to May 27, 2020 and January 30, 2021 to present I
15 have been the acting supervisor of the Finance & Accounting team due to a vacancy in
16 the Director of Finance position.

17 **Q. 04. By whom were you employed prior to BED?**

18 A. 04. I was employed by the University of Vermont (“UVM”) from 2004 to 2019 in the roles
19 of Strategic Planner/Analyst, Senior Project Manager, and ultimately the Director of
20 Operational Excellence for the Division of Finance. During my time at UVM, I
21 developed an enterprise risk management program, managed the implementations of a
22 new budget model and a new budgeting and financial reporting system, and was
23 responsible for improving the effectiveness and efficiency of financial operations.

24 **Q. 05. Briefly describe your educational background.**

25 A. 05. I received a Bachelor of Arts degree in English & American Literature & Language from
26 Harvard College in 1997 and a Master of Science degree in Community Development &

1 Applied Economics from the University of Vermont in 2009. I am also a certified Project
2 Management Professional and Associate in Risk Management with the Enterprise Risk
3 Management designation.

4 **Q. 06. Have you had any training around electric utility rates?**

5 A. 06. I have had no formal training in electric utility rates. My responsibilities at BED,
6 however, include managing the Policy & Planning and Finance teams, which are
7 responsible, respectively, for preparing the power supply component of any rate filings,
8 coordinating rate design activities, and making (or coordinating with external counsel to
9 make) BED's regulatory filings; and preparing cost of service studies and associated
10 financial analysis.

11 **Q. 07. Have you testified or worked on previous revenue requirement filings?**

12 A. 07. No.

13 **Q. 08. Mr. Gibbons, please state your name and business address.**

14 A.08. My name is James L. Gibbons. My business address is 585 Pine Street, Burlington,
15 Vermont.

16 **Q.09. By whom are you employed, and in what capacity?**

17 A. 09. I am currently employed by BED as Director of Policy and Planning. I have been a full-
18 time employee of BED since September 2008. Under contract with the Vermont Public
19 Power Supply Authority ("VPPSA"), I also presently serve as a Strategic Advisor to
20 VPPSA.

21 **Q. 10. What are your current responsibilities as Director of Policy and Planning at BED?**

22 A. 10. I am a member of the leadership team at BED, reporting to the Manager of Strategy and
23 Innovation. My team's responsibilities include management of the power supply,
24 transmission, planning, and oversight of BED's regulatory activities. This includes the
25 responsibility for preparing the power supply component of any rate filings, conducting

1 rate design activities, and making, or coordinating with external counsel to make, BED's
2 regulatory filings such as the instant example.

3 **Q. 11. By whom were you employed prior to BED?**

4 A. 11. I was employed by VPPSA from 1990 to 2008 in the capacity of Load Forecaster, Senior
5 Analyst, and ultimately the Manager of Power Supply. During my time as an analyst, I
6 was responsible for the rate filings, cost of service studies, and special contracts of the
7 Authority's members.

8 **Q. 12. Briefly describe your educational background.**

9 A. 12. I received a Bachelor of Science Degree in Business Administration with a concentration
10 in Professional Accounting from the University of Vermont in 1988. I have also attended
11 numerous utility-specific education courses covering accounting, rate design, and
12 management during my employment.

13 **Q. 13. Have you had any training around electric utility rates?**

14 A. 13. Yes. During my time as a senior analyst at VPPSA, I was responsible preparing and
15 presenting the rate filings, cost of service studies, rate designs, and special contracts of
16 the Authority's members. In addition, during that time I performed similar services for
17 other utilities in New England under contract to VPPSA. I have attended numerous
18 national and regional accounting and ratemaking seminars/trainings sponsored by various
19 organizations.

20 **Q. 14. Have you testified or worked on previous revenue requirement filings?**

21 A. 14. Yes, many.

22 **Q. 15. What is the purpose of this testimony?**

23 A. 15. This testimony is intended to provide an overview of the process leading up to this rate
24 filing, the internal approval process, the customer communications activities that have
25 occurred to date, the general structure of the filing and to explain, at a high level, the

1 reason for the difference between the requested increase of 7.5% and the supporting
2 calculations, which indicate that at a 2.0 Times Interest Earned Ratio (“TIER”), an
3 increase of 13.65% could be supported.

4 **Q. 16. What process or factors led to BED’s decision to make the present filing?**

5 A. 16. Several factors led to BED’s decision to file for this rate increase, including (1) historical
6 results for Fiscal Year (“FY”) 2020; (2) projected results for FY 2021; (3) the FY 2022
7 budget process; and (4) impacts of the COVID-19 pandemic on items 1–3. Factors we
8 reviewed included Net Income (or Loss) reported; debt coverage requirements (adjusted
9 and unadjusted), and short-term debt and days’ cash-on-hand balances.

10 **Q. 17. What is the amount of the request being made with this filing?**

11 A. 17. BED is requesting an across-the-board increase in retail rates for electric service of 7.5%.

12 **Q. 18. Is 7.5% the amount that BED would be justified in requesting under traditional**
13 **Vermont municipal utility ratemaking processes?**

14 A. 18. No. Based on a traditional methodology of reviewing known and measurable (“K&M”)
15 changes between the Test Year (“TY”) of the 12 months ending February 29, 2020 and
16 Rate Year or Adjusted Test Year (“RY” or “ATY”) of the 12 months ending July 31,
17 2022, and using a 2.0 TIER as recommended by the Department of Public Service, BED
18 believes it could support an increase of 13.65%. BED also notes that previous rate
19 adjustment requests by BED were based on a debt-service model rather than the more
20 typical depreciation and interest expense model. BED has changed this filing to conform
21 with the depreciation and interest expense model used by the other Vermont municipal
22 utilities. BED is not requesting the full 13.65% that would be justified by a 2.0 TIER.
23 Accordingly, BED has not determined if, in a future filing where the full calculated
24 revenue requirement was being requested, BED would use a 2.0 Tier, or propose some
25 other TIER value.

1 **Q. 19. Your answer leads to a couple of additional foundational questions. First, the**
2 **selection of a TY different than the most recent audited year, and more than a year**
3 **old, is unusual: can you explain your reasoning behind this?**

4 A. 19. BED selected a TY ending February 29, 2020 to allow for a TY that was essentially
5 “free” of COVID-19 pandemic impacts, and by doing so, to minimize the K&M changes
6 that a TY with significant COVID-19 impacts would require both to expenses and,
7 perhaps more concerning, to revenues. Expenses and revenues for the period beginning
8 with the March 2020 Stay Home/Stay Safe orders from Vermont’s Governor and
9 continuing up to very recently are anything but normal, and the long-term impacts of the
10 pandemic are unknown.

11 **Q. 20. Does that mean that the last six months of the test year you are using are**
12 **“unaudited”?**

13 A. 20. Yes.

14 **Q. 21. Can you give a brief overview of the financial impacts BED has seen from the 2020**
15 **pandemic?**

16 A. 21. Since the March 2020 Stay Home/Stay Safe orders from the Governor, BED has seen
17 sales to customers reduced by over \$2 million from budgeted projections. This has
18 reduced cash on hand and net income over the latter portion of FY20 and the entirety of
19 FY21 to date. The pandemic has also disrupted capital projects and supply chains,
20 resulting in approximately \$1.5 million of reduced customer capital contributions and
21 uncapitalized labor costs that reduced and will reduce net income in FY20 and FY21.
22 Finally, many of our residential and commercial customers have experienced significant
23 challenges in paying their utility bills, which has impacted cash balances. Despite
24 assisting our customers in accessing over \$345,000 in Vermont COVID-19 Arrearage
25 Assistance Program funds in 2020, BED had \$1.4 million in past due arrearages as of
26 May 31, 2021. While investor-owned utilities and cooperative utilities were eligible for
27 certain pandemic relief programs, such as the federal Paycheck Protection Program, BED
28 as a municipal utility was not. We successfully applied to receive reimbursement of

1 certain expenses related to COVID-19 from the Federal Emergency Management Agency
2 and the Local Government Expense Reimbursement Grant program, but this aid was not
3 at a scale near the total financial effects on BED from the pandemic.

4 **Q. 22. Other than the pandemic, are there other major drivers behind the current rate**
5 **increase request?**

6 A. 22. Yes. While the negative financial effects of the COVID-19 pandemic have influenced the
7 timing and amount of the rate increase request, BED had been monitoring the need for a
8 rate increase prior to the pandemic. BED last increased rates in 2009 and has not yet seen
9 significant load growth from its strategic electrification initiatives, while we are
10 experiencing increased costs in several areas, including transmission, depreciation, and
11 inflationary and contractual increases in operating and maintenance expenses. At the
12 same time, BED has continued to make capital investments to renew and replace its plant
13 throughout the period since its last approved rate adjustment. As a result, a rate increase
14 is required for BED to generate sufficient net income to maintain/improve credit rating
15 and other financial indicators, including revenue bond debt service coverage ratio,
16 adjusted debt service coverage ratio, and days' cash-on-hand balances.

17 **Q. 23. Were steps taken as part of the FY 2021 and FY 2022 budgeting process to cut costs?**

18 A. 23. Yes. At the beginning of the pandemic, in March 2020, BED instituted more stringent
19 controls (approvals) to manage all expenditure requests with Manager and General
20 Manager oversight, and asked all managers and directors to identify (i) any remaining
21 FY20 operating and capital expenditures that could be either canceled or deferred to
22 FY21 and (ii) any FY21 budget items that could be deferred to FY22.

23 In developing its FY21 budget, BED reduced non-essential expenses as much as possible,
24 and made the budgeted Cost-of-Living Adjustment for non-represented employees
25 earning more than \$100,000 per year contingent upon the receipt of federal COVID-19
26 relief funds. Throughout FY21, BED maintained additional spending controls and
27 implemented a monthly forecasting process that combined FY21 budget-to-actual results
28 to-date with regularly updated estimates of revenues and expenses. As a result of the

1 forecast, BED implemented additional budget recissions in December 2020, identifying
2 any capital or operating expenses that could be either eliminated or postponed to FY22.

3 In developing its FY22 budget, BED again reduced expenses within its discretion,
4 including deferring certain capital projects, delaying the planned filling of certain vacant
5 positions, and reducing other operating expenses.

6 **Q. 24. Please explain some of the cost containment efforts made by BED management over**
7 **the years.**

8 A. 24. Certain expenses, including most power supply contracts, regional transmission costs,
9 and contractual wage and salary increases, are not reduceable or negotiable in a given
10 fiscal year. In addition to the actions described above during the FY21 and FY22 budget
11 processes, however, BED has made a sustained effort to limit the growth of
12 “controllable” expenditures (operational expense less Energy Efficiency Utility,
13 transmission, Renewable Portfolio Standard Tier 3, and Administrative & General capital
14 overhead expenses). For example, BED has reduced staffing from 137 FTE at the time of
15 its last rate filing to 118 FTE currently; capital projects have been and continue to be
16 analyzed for need, cost, and timing; and a monthly budget vs. actual results report is
17 prepared and presented to senior management and the Board of Electric Commissioners.
18 In addition, BED negotiated an extension of the Sheffield Wind contract in 2019 that
19 resulted in a better price and reduced power supply costs. Credit ratings improvements by
20 the City of Burlington and BED have saved ratepayers \$7 million (net present value as of
21 2019 City fiscal health report) through lower interest rates. As a result of these and other
22 actions, BED’s controllable expenditures have risen only 3.55% on average since FY16,
23 compared to an average 5.84% annual increase for the period between FY07 and FY16.

24 **Q. 25. The second foundational question is, why is there a difference between the increase**
25 **in revenue requirement shown by the supporting calculations showing a needed**
26 **increase of 13.65% and the increase of 7.5% being requested with this filing?**

27 A. 25. As noted previously, the long-term impacts on BED’s revenues of the COVID-19
28 pandemic are uncertain, as is the recovery profile of the Burlington economy.

1 Additionally, BED is very concerned about the effect on our customers of a rate increase
2 of the fully calculated amount, 13.65%, during current economic conditions. BED
3 therefore has elected to request an increase of 7.5% versus 13.65% in recognition of the
4 challenges its customers are facing. Future adjustments to rates may be required, either
5 via the traditional regulatory process as in this case or using the alternate adjustment
6 mechanism allowed by the recently enacted Vermont Act 13 of the 2021 Legislative
7 Session.

8 **Q. 26. Will a rate adjustment of less than 13.65% create any financial difficulties for BED?**

9 A. 26. A rate increase of less than the revenue requirement based on a TIER of 2.0, without
10 other measures, will not jeopardize BED's ability to meet the debt service coverage ratio
11 stipulated in its revenue bond covenant. It will, however, reduce BED's cash balance and
12 yield an adjusted debt service coverage ratio that, while improved over our projected
13 FY21 results, is not projected to reach our target metric for an "A" bond rating (BED's
14 current Moody's rating is A3). To maintain the 90 days' cash on hand necessary for an
15 "A" bond rating, BED plans to seek approval from the BEC, Board of Finance, City
16 Council, and Burlington voters in the fall of 2021 to issue a revenue bond to fund future
17 strategic electrification and other investments necessary to support the City's Net Zero
18 2030 goal. We believe that the planned revenue bond (which does not currently make the
19 known and measurable test), combined with existing cash reserves, willingness to
20 consider future rate increases, and the resolution of pandemic-related uncertainties over
21 the next 12 months will further improve financial metrics and provide greater certainty
22 about the need for additional future rate adjustments.

23 **Q. 27. What local approvals must BED obtain before making a rate filing with the**
24 **Vermont Public Utilities Commission?**

25 A. 27. First, BED must obtain approvals from the Burlington Board of Electric Commissioners
26 ("BEC"), a five-member citizen board appointed by the Burlington City Council. In
27 addition, BED must obtain the approval of the Burlington Finance Board, which includes
28 members of the City Council as well as the Mayor and the City's Chief Administrative

1 Officer. Finally, BED must obtain the approval of the City Council, which is composed
2 of twelve (12) elected residents of the City of Burlington. Each of the meetings of these
3 local bodies is public and includes a public forum for members of the community to
4 comment on agenda items. This local approval process effectively adds three levels of
5 oversight to the rate filing before BED may seek approval of a rate increase from the
6 Public Utility Commission (“PUC”).

7 **Q. 28. What was the result of the local approval process as it relates to BED’s present rate**
8 **request?**

9 A. 28. The BEC supported the proposed increase unanimously following lengthy discussions
10 about BED’s rate need and budget at multiple public meetings over the last several
11 months. The Board of Finance advanced the requested increase to the full City Council
12 for approval, where the vote was 10:1 in favor of requesting a 7.5% overall increase in
13 retail rates for electric service. The Councilor voting against the increase expressed
14 concern about the effect on customers of an increase in electric rates at this point in the
15 COVID-19 pandemic.

16 **Q. 29. Considering the potential impact on customers during a pandemic, does BED**
17 **propose any internal assistance for customers in dealing with this increase?**

18 A. 29. Yes. BED is planning to offset the impact of the rate increase/surcharge on qualified
19 customers through the end of FY22 (June 30, 2022) using COVID-19 assistance funds
20 made available through the City for this purpose. Relatedly, BED intends to participate in
21 the PUC discussions (Docket 20-0203-INV) regarding the potential for long-term rates in
22 support of income-qualified customers.

23 **Q. 30. Has BED taken any actions to communicate the proposed rate adjustment to its**
24 **customers to date?**

25 A. 30. Yes. BED first began discussions regarding the potential need for a rate adjustment in
26 FY21 or FY22 at the BEC meetings in 2020. BED also indicated informally to some
27 customers that an adjustment might be needed in that period in response to customer

1 questions. Determining a final amount for the requested rate increase was difficult due to
2 uncertain relief fund availability and evaluating scenarios of potential recovery rates from
3 the COVID pandemic. Multiple special meetings of the BEC were needed to arrive at a
4 final proposed filing request given these uncertainties. BED issued a press release on
5 May 18, 2021 (attached as Exhibit ESW-JLG-1) and this press release occurred before
6 the BEC (May 19, 2021), Board of Finance (May 24, 2021), and City Council meetings
7 (May 24, 2021) at which final authorization to make the filing was received.
8 Subsequently, additional communications have occurred through the North Avenue
9 News, the BED website, and BED social media channels. Finally, BED's July bills will
10 include both a bill message and an insert communicating about our proposed rate case.

11 **Q. 31. Does this conclude your testimony?**

12 A. 31. Yes, this concludes our introductory testimony.

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