

**STATE OF VERMONT  
PUBLIC SERVICE BOARD**

Joint Petition of Central Vermont Public Service )  
Corporation, Danaus Vermont Corp., Northern )  
New England Energy Corporation for itself and )  
as agent for Gaz Métro Limited Partnership and )  
its parents, Green Mountain Power Corporation )  
and Vermont Low Income Trust for Electricity, )  
Inc. for approval of: (1) the merger of Danaus )  
into and with Central Vermont, (2) the )  
acquisition by Northern New England of the )  
common stock of Central Vermont, (3) the )  
amendment to Central Vermont’s Articles of )  
Association, (4) the merger of Central Vermont )  
into and with Green Mountain, and (5) the )  
acquisition by VLITE of a controlling interest in )  
Vermont Electric Power Company, Inc. )

Docket No. \_\_\_\_\_

**PREFILED TESTIMONY OF  
MARY G. POWELL AND LAWRENCE J. REILLY  
ON BEHALF OF THE PETITIONERS**

**September 2, 2011**

**Summary of Testimony**

Mr. Reilly and Ms. Powell, President and CEO of Central Vermont Public Service Corporation and Green Mountain Power Corporation, respectively, describe the proposal for Gaz Métro Limited Partnership to acquire Central Vermont and for Central Vermont to merge with Green Mountain Power. In particular, they (1) provide an overview of the current operating structure and the unique benefit of a consolidation of the Central Vermont and Green Mountain Power operations; (2) describe the benefits of the transaction to the Central Vermont and Green Mountain Power customers, and the state of Vermont; (3) provide an overview of the transaction and the principal terms of the transaction documents; (4) provide an overview of the transition team and integration plan process; and (5) demonstrate how the proposed acquisition and merger, the transfer of a portion of Central Vermont’s ownership in Vermont Electric Power Company, Inc. to Vermont Low Income Trust for Electricity, Inc., and related actions meet the relevant approval criteria, and therefore will promote the general good of the state.

They also describe the proposal to transfer stock of VELCO to VLITE, related governance arrangements concerning VELCO and Vermont Transco LLC, and how these actions will assure that VELCO will not be controlled by the combined Green Mountain Power/Central Vermont. Finally, they describe VLITE and the plan for providing an annual amount of \$1 million to be used for support of low income electric customers.

**PREFILED TESTIMONY OF  
MARY G. POWELL AND LAWRENCE J. REILLY  
ON BEHALF OF THE PETITIONERS**

1   **1.    Q.    What is your name and business affiliation?**

2           **A.    (Powell)** My name is Mary G. Powell and I am President and Chief Executive  
3 Officer of Green Mountain Power Corporation, (“Green Mountain Power,” or “GMP”), 163  
4 Acorn Lane, in Colchester, Vermont.

5

6   **2.    Q.    Please describe your business experience.**

7           **A.    (Powell)** I joined Green Mountain Power in 1998 as Vice President of Human  
8 Resources and Organizational Development, was promoted to Vice President of Administration  
9 in 1999, became Chief Operating Officer in 2001, and became President and Chief Executive  
10 Officer in 2008. Prior to joining Green Mountain Power, I served as Senior Vice President of  
11 Community Banking for KeyBank in Vermont, worked in Vermont state government for three  
12 years when I first came to the state and, before moving to Vermont, worked for The Reserve  
13 Fund in New York City as the Associate Director of Operations.

14

15   **3.    Q.    Have you previously testified before the Vermont Public Service Board**  
16 **(“Board”)?**

17           **A.    (Powell)** I have filed testimony in Dockets Nos. 7175, 7213, and 7628.

1   **4.    Q.**    What is your name and business affiliation?

2           **A.**    **(Reilly)** My name is Lawrence J. Reilly, and I am President and Chief Executive  
3 Officer of Central Vermont Public Service Corporation (“CVPS” or “Central Vermont”). My  
4 business address is 77 Grove Street, Rutland, Vermont.

5

6   **5.    Q.**    **Please describe your educational background and business experience.**

7           **A.**    **(Reilly)** In 1978, I received a Bachelor of Arts degree from the State University  
8 of New York at Albany. In 1982, I received the degree of Master in City and Regional Planning  
9 from the John F. Kennedy School of Government at Harvard University, where I specialized in  
10 Energy and Environmental Policy. Also in 1982, I received a Juris Doctor degree from Boston  
11 University School of Law.

12           In March of 2011, I joined Central Vermont as its President and Chief Executive Officer.  
13 Prior to that, I served as an independent consultant after working with National Grid USA for a  
14 26 year period, during which I held a variety of positions of increasing responsibility, ultimately  
15 holding the position of Executive Vice President, Legal and Regulatory for the company’s U.S.  
16 operations. **Exh. Pet.-Joint-1** contains a copy of my resume.

17

18   **6.    Q.**    **Have you previously testified before the Board?**

19           **A.**    **(Reilly)** No, I have not; however, I have previously testified before the New York  
20 Public Service Commission, the Massachusetts Department of Public Utilities, the Rhode Island  
21 Public Utilities Commission, the New Hampshire Public Utilities Commission, and the Federal  
22 Energy Regulatory Commission.

1   **7.    Q.    What is the purpose of your testimony?**

2           **A.**    We describe the proposal for Gaz Métro Limited Partnership (“Gaz Métro”) to  
3 acquire CVPS and for CVPS to merge into GMP. In particular, we (1) provide an overview of  
4 the current operating structure and the unique benefit of a consolidation of the CVPS and GMP  
5 operations; (2) describe the benefits of the transaction to the CVPS and GMP customers, and the  
6 state of Vermont; (3) provide an overview of the transaction and the principal terms of the  
7 transaction documents; (4) provide an overview of the transition team and integration plan  
8 process; (5) describe the proposal to transfer stock of Vermont Electric Power Company, Inc.  
9 (“VELCO”) to a public benefit, non-profit corporation called Vermont Low Income Trust for  
10 Electricity, Inc. (“VLITE”) and related governance arrangements concerning VELCO and  
11 Vermont Transco, LLC (“Transco”); and (6) demonstrate how the proposed acquisition and  
12 merger, the VELCO stock transfer, and related actions meet the relevant approval criteria, and  
13 therefore will promote the general good of the state.

14

15   **8.    Q.    Please describe the context of the proposed transaction from the CVPS**  
16 **perspective.**

17           **A.**    **(Reilly)** As I understand it, the consolidation of CVPS and GMP has been talked  
18 about from time to time for decades. Although I cannot explain why the transaction did not  
19 occur in the past, I am very pleased that market and other conditions were right so that the  
20 transaction could finally occur. The proposed transaction will provide substantial benefits for all  
21 of CVPS’s stakeholders, as described in detail below.

1 **9. Q. Please describe the current operations of Green Mountain Power and**  
2 **Central Vermont.**

3 **A. (Powell)** Green Mountain Power is a vertically-integrated electric utility serving  
4 approximately 96,000 customers with 205 employees in districts across Vermont. Green  
5 Mountain Power owns or controls approximately 125 megawatts (“MW”) of generation and  
6 purchases approximately 240 MW of generation capacity under long-term power purchase  
7 agreements. GMP owns and operates eight hydroelectric generating plants in Vermont, which  
8 supply its lowest cost energy. Additionally, Green Mountain Power has operated a 6 MW wind-  
9 powered generator in Searsburg, Vermont since 1977, and has secured permits for the Kingdom  
10 Community Wind Project, a 63 MW wind facility in Lowell, Vermont, which is scheduled to  
11 begin operation by December 2012. Green Mountain Power’s goal is to deliver customers low  
12 cost, low carbon and highly reliable electricity.

13 **A. (Reilly)** Central Vermont is the largest electric utility in Vermont, serving  
14 approximately 160,000 customers in 163 communities, with 515 employees. In addition to its  
15 Rutland headquarters, it serves customers from 11 district service centers located throughout its  
16 service territory. The service territory includes much of central and southern Vermont along  
17 with territories in northwestern and northeastern Vermont. CVPS owns in-state generation  
18 plants with a capacity of 74.6 MW, including 20 hydroelectric plants comprising 45.7 MW, two  
19 gas turbines with a combined capacity of 26.5 MW, and a diesel peaking unit with a 2.4 MW  
20 capacity (currently inactive). Central Vermont’s rates are among the lowest in the Northeast, and  
21 the emissions associated with its energy mix are among the lowest in the country.

1   **10.   Q.    Please describe the options for cost savings measures in coming years absent**  
2   **consolidation between the two utilities.**

3           **A.    (Powell)** The vast majority of our costs are wrapped up in our power supply and  
4 linked to the energy market. Future savings in power supply are difficult to predict, but there are  
5 clearly some advantages by becoming modestly larger, as this may enhance our ability to  
6 negotiate strategically for cost-effective transactions. GMP's mission for over the last three  
7 years has been to deliver a portfolio that is low cost, low carbon and incredibly reliable. GMP,  
8 like Central Vermont, has sought to secure a mix of sources of electricity for our customers to  
9 keep rates as stable as possible. GMP has successfully secured major power sources that will  
10 help stabilize rates, including our recently-filed NextEra power purchase, the 63 MW wind  
11 facility in Lowell, and a 26-year contract with Hydro-Québec. All of these sources offer low-  
12 emission, reliable power at prices that are very attractive relative to alternative sources with  
13 similar characteristics.

14           On the operational side, over the last 13 years GMP has aggressively sought to cut costs  
15 and pass savings along to customers. Starting with an effort known as *GMPWorks* in 1999, we  
16 downsized our staff from 340 to 205 employees, boosting company productivity while increasing  
17 customer satisfaction. This effort has saved GMP customers approximately \$90 million over the  
18 last eleven years.

19           Because of these efforts, GMP runs a lean operation that would be difficult to pare down  
20 further without affecting service quality. While we are always looking for new ways to trim  
21 costs, meaningful additional cost savings will be difficult to achieve as a stand-alone company.

1           **A. (Reilly)** Like GMP, Central Vermont has sought to stabilize rates through  
2 strategic purchases of low-cost power. We recently announced supply contracts at attractive  
3 prices for filling the 2012 gap in our portfolio, created by the end of the existing contract with  
4 Vermont Yankee. We also entered into several longer-term agreements to replenish our portfolio  
5 after the current Vermont Yankee and Hydro-Québec contracts end. CVPS has signed new  
6 contracts consisting primarily of renewable energy from Hydro-Québec, wind farms in Coos  
7 County, New Hampshire, and southern Vermont, and a Gilman, Vermont, hydro project. CVPS  
8 is also in the process of purchasing the Vermont Marble Power Division of Omya, including four  
9 hydroelectric facilities with a current combined capacity of 18.5 MW that CVPS plans to  
10 upgrade to an estimated 21.5 MW. After the acquisition, CVPS will own and operate the largest  
11 fleet of hydroelectric generating stations in New England.

12           From an operational perspective, while Central Vermont is always striving to trim costs  
13 for customers, there are certain core operational aspects that cannot be eliminated – whether in-  
14 house or out-sourced – such as financial operations and call centers. Like GMP, we have also  
15 reduced employee headcount significantly since the late 1990s. More recently, Central Vermont  
16 has undertaken several studies to analyze staffing levels, and worked with the Department of  
17 Public Service (“Department”) to reach a settlement on staffing levels (Docket No. 7496). Like  
18 Green Mountain Power, CVPS will experience some cost savings with the rollout of smart grid  
19 technologies. Our concern remains that, as a stand-alone company, the opportunity for  
20 additional labor savings is challenging, if we are to maintain high levels of operational  
21 excellence and customer satisfaction.

1 **11. Q. Ms. Powell, please provide a general overview of the proposed consolidation**  
2 **and the associated benefits.**

3 **A. (Powell)** We propose to combine the companies under Gaz Métro's ownership  
4 in two phases: (1) the acquisition of Central Vermont by Northern New England Energy  
5 Corporation ("NNEEC"), through the merger of Central Vermont into and with Danaus Vermont  
6 Corporation, with Central Vermont as the surviving corporation, and (2) the merger of Central  
7 Vermont into and with Green Mountain Power, with Green Mountain Power as the surviving  
8 corporation (the "Combined Company"). The Petitioners intend to close on the acquisition as  
9 soon as possible after all regulatory approvals are obtained and to close on the merger of Green  
10 Mountain Power and Central Vermont approximately three months thereafter. The operations  
11 and rate schedules of Central Vermont and Green Mountain Power will be integrated over  
12 several years following the merger. The executed Merger Agreement associated with the Gaz  
13 Métro acquisition, and a form of Merger Agreement associated with the Green Mountain Power-  
14 Central Vermont merger are attached as **Exhs. Pet.-Joint-2** and **-Joint-3** respectively.

15 This combination is a unique opportunity that will allow employees at both companies to  
16 provide quality service to our customers well into the future, while maintaining the important  
17 local bonds that set Vermont utilities apart. The CVPS and GMP teams are committed to  
18 working closely together during this transition to ensure that our customers benefit directly from  
19 this combination.

20 To achieve the maximum benefits of a combination of GMP and CVPS, we will create a  
21 transition committee staffed by members from both companies. The committee will look at the  
22 operations and business processes of each company in detail, identify best practices and craft a

1 plan to provide customers of the Combined Company with the best service possible. Through  
2 this process, a combined organizational structure will be developed, which will be staffed by the  
3 strongest team of executives and professional staff. We have been discussing the transition  
4 effort since shortly after the announcement of the acquisition and merger, and we will launch a  
5 formal integration program shortly after the CVPS shareholder vote. Mr. Otley covers this topic  
6 in more detail in his testimony.

7 We also propose that Central Vermont transfer approximately 33% of the VELCO Class  
8 B voting common stock (and all of Central Vermont's Class C non-voting common stock) to  
9 VLITE and amend the Transco Operating Agreement, to assure that a combined GMP and CVPS  
10 entity cannot unilaterally control VELCO governance or activities. We also request approval of  
11 revisions to the CVPS Articles of Association.

12 In order to integrate the rates of Green Mountain Power and Central Vermont in an  
13 efficient manner, each company's Alternative Regulation Plan must be amended. Green  
14 Mountain Power and Central Vermont intend to work with the Department in connection with  
15 compliance filings that would seek Board approval of the required Alternative Regulation Plan  
16 amendments.

17

18 **12. Q. Please provide a general overview of the associated benefits of the acquisition**  
19 **and merger.**

20 **A. (Powell)** As described in more detail below and in the testimony of the other  
21 witnesses, we believe this proposal will reduce customer costs and produce rates that will be  
22 lower than they would otherwise be, improve customer service and provide a number of other

1 significant benefits. The opportunity for this level of consolidation – and resulting benefit for  
2 customers – provides a unique opportunity for GMP and CVPS. Because they share contiguous  
3 service territories, maintain redundant infrastructure to support existing operations, and already  
4 have a solid history of collaboration and partnership on key issues (such as power supply  
5 contracts and smart grid), the Combined Company will deliver lower rates and higher quality  
6 service than if the companies continued to operate as stand-alone entities.

7 Further, by virtue of its ownership of GMP, Gaz Métro is uniquely positioned to acquire  
8 Central Vermont and combine GMP and CVPS together into one, stronger utility for the benefit  
9 of our combined customer base. With 27 years of experience in Vermont through its ownership  
10 of Vermont Gas and GMP, Gaz Métro is able to facilitate the combination in a way that would  
11 not be possible for other companies. This circumstance, coupled with Gaz Métro’s philosophy to  
12 rely on experienced local management and provide them with the capital they need to grow the  
13 business, makes Gaz Métro well-suited to facilitate creation, management and operation of the  
14 Combined Company. Mr. Despars discusses the Gaz Métro philosophy in greater depth in his  
15 testimony.

16 Like other public service enterprises, such as governments or schools, reducing  
17 redundancies can increase efficiency and lower costs. This basic principle behind utility  
18 consolidation has been supported by leaders in Vermont for decades and has been demonstrated  
19 by CVPS over the past several years through its acquisitions of other Vermont service territories.  
20 Competitive rates, together with smart investments in next-generation technology, will help  
21 attract entrepreneurs and innovative businesses to Vermont, thereby creating jobs and  
22 strengthening our economy.

1           We propose to deliver \$144 million in customer savings in the first 10 years, with even  
2 greater savings continuing into the future. We propose that savings associated with the  
3 consolidation will be shared between customers and investors over the initial six year ramp-up,  
4 after which 100% of savings will flow to customers. Shared savings of this nature reflect  
5 appropriate incentives to induce investors to pursue mergers of this magnitude, with the resulting  
6 savings and other benefits that accrue to customers. Without a sharing of the savings, there  
7 would be little reason for companies to pursue acquisitions and/or mergers that produce  
8 significant customer benefits. Furthermore, sharing between the customers and the investors  
9 creates incentives for the companies to find the best ways to deliver better service quality at the  
10 lowest cost.

11           The duration of the sharing plan is based on the complexity of the integration plan, the  
12 need to maintain service quality and the path chosen to achieve the savings. In the case of the  
13 CVPS/GMP merger, our plan is to achieve the Combined Company steady-state operational  
14 model over a six-year period. The length of the integration period is due in part to our  
15 commitment that no layoffs will occur and that the right-sizing of the organization will come  
16 through natural attrition. It is also due to the facts that the companies operate different  
17 accounting, operational and customer service information systems that will need to be run in  
18 parallel for a certain period of time to insure that customer invoicing is not affected when the  
19 consolidation of these systems occurs. These considerations support a sharing plan that will last  
20 for the first six years of the Combined Company's existence. During the first two years, 10% of  
21 consolidation savings will flow to customers, with 20% of savings flowing to customers for  
22 years three and four, and 33% of the savings in years five and six, with return of 100% of

1 savings to customers beginning in the seventh year. This model of inclining percentages puts the  
2 risk of producing early savings primarily on the Combined Company. Any savings that accrue to  
3 the investor will not affect the \$144 million of customer savings. Mr. Griffin discusses the  
4 mechanics of the shared savings proposal in detail.

5         There are number of ways in which the Combined Company will improve customer  
6 service for Vermonters. The Combined Company will have an enhanced ability to respond to  
7 storms and restore power quickly, due to the combination of contiguous service territories and  
8 closer coordination of responses through one storm center, and more flexibility with the  
9 combined field staff. By reducing travel as a result of a more contiguous territory, we can reduce  
10 response times and therefore reduce the amount of long hours of strenuous work for crews. This  
11 unified operating structure – covering a significant portion of the state’s territory – will be  
12 important to improving the response to statewide storm emergencies.

13         The Combined Company’s information technology (“IT”) platform will be strengthened,  
14 by bringing together the best systems and practices of both companies. We will be able to make  
15 available more basic services online, permitting faster and more efficient customer service, and  
16 allow customer service representatives to provide more personalized service, which will be  
17 especially important as we implement smart grid.

18         The Combined Company will have better access to capital. Access to capital is vitally  
19 important as both utilities seek to improve and protect electric reliability for our customers.  
20 Further, we will have a more integrated approach to power purchasing and generation  
21 development, which will create more purchasing power, and help achieve state and federal  
22 renewable generation goals for our customers.

1           The Combined Company will also provide a significant benefit to the state economy,  
2 through projected customer savings of as much as \$500 million over the next 20 years.

3           Finally, GMP is excited to join with CVPS in connection with community involvement  
4 and support. We recognize that this is an area where CVPS has an outstanding record, and we  
5 look to build on that good work in programs and services across the state.

6           **A. (Reilly)** The proposed transaction will provide substantial benefits for all of  
7 CVPS's stakeholders. CVPS customers will benefit from both their share of the \$144 million of  
8 efficiency gains that will flow from the consolidation of CVPS and GMP as well as from the  
9 improved access to capital that will be available as a subsidiary of Gaz Métro. Beyond that, our  
10 low-income customers will benefit from the proposal to allocate \$1 million per year for low-  
11 income rates (from a portion of VELCO's earnings, topped up as necessary by a corporate  
12 contribution). Our workforce will benefit by being part of a larger company with more  
13 opportunities for growth in the future – without the risk of lay-offs or mandatory relocation that  
14 are often associated with a corporate merger. The communities we serve will benefit from Gaz  
15 Métro's commitment to, among other things, continue CVPS's historic level of community  
16 giving and by its decision to anchor the Combined Company's *Headquarters for Operations and*  
17 *Energy Innovation* in Rutland. Finally, our investors will benefit from the price that will be paid  
18 for their shares of CVPS stock as part of the transaction.

1 **13. Q. Please describe the benefits to Central Vermont and Green Mountain Power**  
2 **customers, including the \$144 million in customer savings.**

3 **A. (Powell)** Although the merger will result in improved service and reliability, as  
4 noted above and described in more detail in Mr. Otley's testimony, the principal benefit of the  
5 consolidation is customer savings, including \$144 million in customer savings in the first decade.  
6 Although we are highly confident we can achieve and potentially exceed the \$144 million  
7 commitment, if, at the end of the ten year period, the Combined Company has not delivered on  
8 this commitment, we will propose a plan for Board review and approval to provide customers  
9 with the \$144 million commitment. Because the merger will result in permanent elimination of  
10 costs, the savings will continue to grow into the future. Looking forward 20 years – as we  
11 routinely do for power planning – the total customer savings from this consolidation grows to as  
12 much as \$500 million.

13 These savings will be achieved through more efficient distribution of resources,  
14 equipment and facilities throughout the service territory, regulatory savings and improved  
15 purchasing leverage with vendors and service providers. Labor savings will not be achieved  
16 through layoffs – other than some executive officers – but instead through natural retirements  
17 and turnover, which will allow for the smooth integration of both companies' workforces.

18 Labor savings are only a portion of the overall savings, and, in fact, GMP estimates that  
19 more than 60% of the savings will be achieved in areas other than from harnessing retirements  
20 and natural turnover. For instance, nearly 25% of the savings will occur in operations through  
21 the common-sense combination of activities and better overall coordination. Additional savings  
22 will occur through reducing redundancies in contracting and IT services. Also, significant

1 savings will be achieved by eliminating duplicative regulatory filings and by having one,  
2 streamlined executive management team. Mr. Otley provides more details concerning how the  
3 integration of the two companies will occur, and Ms. Bugbee identifies the estimated cost  
4 savings associated with the integration.

5         It is important to note that GMP has chosen not to pursue a standard Wall Street  
6 corporate merger, which would involve accelerated labor savings through layoffs, and an  
7 accelerated consolidation of facilities, systems and information technology, creating a higher risk  
8 of customer service impacts. We recognize that a Wall Street-style merger is not in the best  
9 interest of Vermont, would adversely affect current employees and the communities served by  
10 the new entity, and potentially undermine customer service. Further, a Wall Street-style merger  
11 would not foster the environment in which we seek to draw out the best of both companies  
12 through a collaborative integration. We believe we have struck the proper balance to respect the  
13 employees of both utilities and have chosen the best path to provide Vermonters and Vermont  
14 businesses with incredible value through lower operating costs, more streamlined service and a  
15 continued commitment to the communities we serve.

16         Our decision not to pursue a Wall Street-style merger will affect our performance relating  
17 to the Alternative Regulation Plans' benchmarks. As a result, we intend to seek a modification  
18 of the Plans to address this issue.

1 **14. Q. What are the benefits to Central Vermont and Green Mountain Power**  
2 **employees?**

3 **A. (Powell)** In the bigger and more dynamic Combined Company, GMP and CVPS  
4 employees will have more opportunities to advance and branch out into new areas of interest.  
5 The Combined Company's breadth of activities will allow employees to explore new ways to  
6 deliver customer benefit in an increasingly fast-paced industry.

7 As noted above, we have committed to no layoffs other than some executive officer  
8 positions due to the consolidation, and to no mandatory relocation of CVPS or GMP employees.  
9 We have committed that the current labor contracts will continue in place, and we will continue  
10 to work closely with the union on labor relations.

11

12 **15. Q. Please describe the benefits to the Rutland area.**

13 **A. (Powell)** Both GMP and CVPS agree that CVPS's historic commitment to its  
14 hometown of Rutland will remain part of the new Combined Company's corporate culture. To  
15 ensure that commitment, the Combined Company will locate its *Headquarters for Operations*  
16 *and Energy Innovation* in Rutland and pledge to build on CVPS's extensive community support  
17 efforts. The *Headquarters for Operations and Energy Innovation* will be the Combined  
18 Company's command post for utility operations. On the energy innovation side, the  
19 headquarters will house staff focused on creative generation solutions, such as distributed  
20 generation and renewable energy projects. As an example, we intend to kick-start a significant  
21 new "Solar City" program in Rutland. Building on CVPS's renewable energy success with  
22 CVPS Cow Power™ and other programs, GMP will apply its expertise in solar power to develop

1 ideas such as a commercial-size solar orchard, small-scale backyard and rooftop solar and other  
2 renewable energy technology. Our *Solar City* goal is more solar per capita in the City of Rutland  
3 than any other city in Vermont. The *Solar City* initiative is closely aligned with the Energy  
4 Innovation Headquarters; we hope to create a nexus of activities around the state’s smart grid  
5 rollout, our partnership with Sandia National Laboratories, and the work relating to micro-grids  
6 and distributed generation.

7 In addition to locating the Operations Headquarters in Rutland, the Combined Company  
8 will:

- 9 a. Commit to no layoffs other than some executive officer positions due to the  
10 consolidation, and to no mandatory relocation of CVPS or GMP employees;  
11 under the Combined Company’s plan for customer savings, natural retirements  
12 and turnovers are projected proportionally between CVPS and GMP;
- 13 b. Work with local leaders to find space in the downtown for a new facility – with a  
14 strong preference towards rehabilitating vacant downtown space – and work on a  
15 plan to repurpose existing CVPS facilities;
- 16 c. Create a \$100,000 “*Open for Business*” fund, to be administered by Rutland’s  
17 Downtown Partnership, to help continue the revitalization of downtown Rutland;  
18 and
- 19 d. Create a \$100,000 “*Green Growth*” fund, to be administered by the Rutland  
20 Economic Development Corporation (“REDC”), to support specific initiatives to  
21 advance green sector jobs and technologies.

22

23 **16. Q. Why are the CVPS Articles of Association being amended?**

24 **A. (Reilly)** Certain provisions in Central Vermont’s Articles of Association related  
25 principally to preferred stock are no longer necessary if the acquisition is closed, and, in fact, at

1 closing, the preferred stock will be redeemed. As a result, the CVPS-Gaz Métro Merger  
2 Agreement contemplates the amendment of the Articles of Association by eliminating such  
3 provisions. **Exh. Pet.-Joint-4-1, 4-2** contains copies of the existing Central Vermont Articles of  
4 Association and form of amended Articles of Association for which we seek approval.

5

6 **17. Q. Is the CVPS-Gaz Métro Merger Agreement conditioned upon receipt of**  
7 **regulatory approvals?**

8 **A. (Reilly)** Yes, it is. Either party may terminate the CVPS-Gaz Métro Merger  
9 Agreement if the acquisition is not consummated by July 11, 2012; provided that if on July 11,  
10 2012, all closing conditions, other than the receipt of all regulatory approvals, have been met,  
11 then such date will be extended to January 11, 2013.

12

13 **18. Q. If the acquisition and merger are approved and closed, will there be any**  
14 **effect on competition?**

15 **A. (Reilly)** No. The State of Vermont authorizes its electric utilities to operate at the  
16 retail level in exclusive territories, unlike other states that have implemented customer choice at  
17 the retail level. As a result, Green Mountain Power and Central Vermont do not directly  
18 compete for retail customers. With respect to wholesale competition, Green Mountain Power  
19 and Central Vermont are very small players in the regional power-supply market, and, in any  
20 event, the Federal Energy Regulatory Commission (“FERC”) is reviewing whether there is any  
21 adverse impact on wholesale competition. In addition, the VELCO transmission system is

1 subject to FERC's open-access requirements, thereby ensuring that there is fair and open  
2 competition regardless of the ownership or control of Vermont's transmission facilities.  
3

4 **19. Q. The Joint Petition seeks approval of an indirect acquisition of a controlling**  
5 **interest by NNEEC and its owners in Vermont Yankee Nuclear Power Corporation**  
6 **("VYNPC") as well as VELCO, Transco and Vermont Electric Transmission Company,**  
7 **Inc. ("VETCO"). Why is such approval necessary?**

8 **A. (Reilly)** Central Vermont and Green Mountain Power each own 10 percent or  
9 more of the voting securities of VYNPC, Transco, VELCO, and VETCO. VELCO, as the Board  
10 knows, is the managing member of Transco and therefore controls that company. For that  
11 reason, I understand the indirect acquisition by NNEEC and its owners of a controlling interest in  
12 VYNPC, VELCO, Transco and VETCO must be approved.  
13

14 **20. Q. Please explain the proposal to transfer a portion of CVPS's ownership in**  
15 **VELCO to a new entity, revise Transco ownership and create VLITE.**

16 **A.** We have proposed a unique public benefit as a component of Gaz Métro's  
17 acquisition of CVPS: the permanent transfer of approximately 33% of the VELCO Class B  
18 voting common stock and approximately 31.7% of the Class C non-voting common stock to  
19 VLITE. We also propose to revise the Transco Operating Agreement to prevent the Combined  
20 Company from using its position as majority owner to terminate VELCO's role in managing  
21 Transco. These actions will assure that the Combined Company will be a minority owner of

1 VELCO, and that the Combined Company will not have the power or authority to unilaterally  
2 control VELCO or the transmission system.

3 VLITE's ownership interest in VELCO is expected to generate an annual dividend of  
4 approximately \$900,000, which will be supplemented with an annual contribution from the  
5 Combined Company to create a funding stream of \$1 million annually to be used to support low-  
6 income Vermonters' ability to obtain electric service, in a manner consistent with the Board's  
7 order in Docket No. 7535 relating to lifeline rates.

8 These public benefits are uniquely achievable only with approval of Gaz Métro's  
9 acquisition of CVPS. They demonstrate Gaz Métro's commitment, and the commitment of the  
10 Combined Company, never to assert control over operation of Vermont's transmission system  
11 and to enable continued VELCO operation of Vermont's transmission system to provide all  
12 Vermonters with reliable electric service in the public interest.

13

14 **21. Q. Please describe VELCO's responsibility with respect to Vermont's**  
15 **transmission system.**

16 **A.** As the operator of Vermont's bulk electric transmission grid, VELCO has the  
17 responsibility to ensure transmission grid reliability. Transco owns and finances, and VELCO  
18 constructs, operates and maintains Vermont's high-voltage bulk electric (115 kV and above)  
19 transmission system. This system comprises over 700 miles of transmission, 45 substations,  
20 12,500 acres of rights-of-way, and a fiber optic network that provides the backbone for many  
21 Vermonters' high-speed data internet access.

1 Vermont's transmission system is, in turn, integrated into the New England transmission  
2 system, which is operated by ISO-New England. VELCO owns approximately 10% of Transco  
3 and is the manager of Transco. VELCO is responsible for the day-to-day operational and  
4 business management of Vermont's high-voltage transmission system. Transco has no  
5 employees or operational responsibilities.

6 VELCO's transmission system and major decisions affecting that infrastructure are  
7 subject to significant state, regional, and federal oversight. VELCO must also seek and obtain a  
8 Section 248 Certificate of Public Good from the Board before undertaking any new Vermont  
9 transmission project. Also, FERC's transmission access requirements mandate that VELCO  
10 oversee and provide access to these transmission assets in a non-discriminatory, transparent  
11 manner. As a result, VELCO owners do not have preferential access to VELCO's transmission  
12 system.

13

14 **22. Q. Please describe the current ownership and governance of VELCO.**

15 **A.** VELCO is owned by Vermont's electric distribution utilities, with each company  
16 owning a percentage share of VELCO that is roughly equivalent to its share of Vermont's  
17 electric load. Under this ownership structure, GMP currently owns approximately 29.5% of  
18 VELCO and CVPS owns approximately 48.5% of VELCO, for a combined total of  
19 approximately 78%. The City of Burlington Electric Department ("BED") owns approximately  
20 6% of VELCO, the remaining 14 Vermont municipal electric utilities, which comprise the  
21 membership of the Vermont Public Power Supply Authority ("VPPSA") and Washington

1 Electric Cooperative, Inc., together own approximately 8% and Vermont Electric Cooperative,  
2 Inc. (“VEC”) owns approximately 8%.

3 VELCO is governed by a board of directors elected annually by VELCO’s owners.  
4 Currently, the VELCO board has 13 members, whose affiliations are as follows: four directors  
5 are chosen by CVPS; two directors are chosen by GMP; one director is the Manager of BED;  
6 one director is Executive Director of VPPSA; one director is the Chief Executive Officer  
7 (“CEO”) of VEC; one director is the CEO of VELCO; and three directors are independent,  
8 unaffiliated with any of the VELCO owners. The current Chair of the VELCO board is a  
9 director of CVPS.

10 Transco is owned by Vermont’s electric distribution utilities, either directly or indirectly  
11 through VELCO (which owns approximately 10% of Transco). Transco’s ownership is not  
12 fixed. As new capital investments in Vermont’s high-voltage transmission system are made,  
13 Vermont’s electric distribution utilities are offered the opportunity to participate in new  
14 investment in Transco, and the resulting ownership of Transco reflects which Vermont utilities  
15 make the investment. Today, GMP and CVPS own, on a combined basis, approximately 72% of  
16 Transco ownership units; VELCO owns approximately 10% and the “public” distribution  
17 utilities (municipal electric departments and cooperatives) own approximately 18%.

18 As a Vermont limited liability company, Transco is managed by its Manager – VELCO –  
19 under the Vermont Transco LLC Operating Agreement. By majority vote under the Transco  
20 Operating Agreement, the owners have the ability to replace VELCO as managing member.  
21 This is the only right the owners may assert by majority vote with respect to VELCO under the  
22 Transco Operating Agreement.

1 VELCO's governance model has worked effectively for decades to operate Vermont's  
2 transmission system in an efficient, cost-effective, reliable manner, consistent with the interests  
3 of all of Vermont's distribution utilities and the state of Vermont as a whole.

4  
5 **23. Q. What are the benefits to Vermont of Gaz Métro's commitment to transfer**  
6 **VELCO stock and to be only a minority owner of VELCO?**

7 **A.** Having a strong transmission system is a key component of Vermont's energy  
8 future. Our proposal for Central Vermont to contribute VELCO voting stock to VLITE  
9 recognizes that VELCO was established to support Vermont-owned utilities and should be  
10 controlled by Vermont entities.

11  
12 **24. Q. What are the governance steps that must be achieved to effectuate the**  
13 **proposed VELCO share transfer?**

14 **A.** In order to effectuate the share transfer, Green Mountain Power and Central  
15 Vermont will request that the other VELCO owners waive their rights of first refusal under the  
16 VELCO Bylaws to purchase the transferred shares. Based on discussions with the other owners,  
17 we are optimistic that we will be able to obtain the requisite waivers.

18 Assuming the share transfer and the proposed acquisition and merger are approved by the  
19 Board, we will also pursue other governance-related changes concerning VELCO and Transco.  
20 Before addressing these arrangements, it is helpful to provide some context concerning VELCO  
21 directors and governance of Transco. VELCO directors serve until a successor is elected by  
22 majority vote of the VELCO owners. By informal custom, the owners have agreed that the

1 VELCO Board should consist of the representatives of owners described above. The owners are  
2 discussing a written agreement to confirm the current practice. In connection with the proposed  
3 share transfer and merger, we are proposing to reduce the number of directors from thirteen to  
4 eleven and to revise the owner representation as follows:

	<u>Current</u>	<u>Revised</u>
5		
6		
7	VPPSA	1
8	VEC	1
9	BED	1
10	GMP	0
11	CVPS	0
12	Combined Company	4
13	Independent Members	3
14	VELCO CEO	<u>1</u>
15		
16	Total	13
17		11

18 As a result of this proposal, the Combined Company would only be able to elect four out  
19 of eleven directors. In order to further assure that the Combined Company does not control  
20 Transco, the Transco Operating Agreement would be amended to eliminate the ability of a  
21 majority owner to unilaterally change the Transco managing member.

22

23 **25. Q. How will these actions assure that VELCO will not be controlled by the**  
24 **Combined Company?**

25 **A.** As a result of the stock transfer and governance changes, the Combined Company  
26 cannot, directly or indirectly, control the management of VELCO, because it cannot elect a  
27 majority of the VELCO board of directors. It also could not, directly or indirectly, control the  
28 management of Transco, because it would not be the managing member and could not

1 unilaterally choose who the managing member would be. We believe that these arrangements,  
2 together with the significant regulatory oversight over VELCO, provide adequate assurance that  
3 the Combined Company would not control VELCO.

4

5 **26. Q. How would these actions assure that ownership in Transco cannot be used to**  
6 **affect VELCO or the operation of the Vermont transmission system?**

7 **A.** As I explain above, we propose to amend Transco's Operating Agreement to  
8 assure that the Combined Company cannot take any unilateral action that would change  
9 VELCO's status as the operator of the transmission system or as the Manager of Transco. This  
10 would effectively allow VELCO, the other Vermont electric distribution utilities and the State of  
11 Vermont to look to the Combined Company to continue to make investments in the transmission  
12 system through Transco, while ensuring that VELCO would continue to manage the system and  
13 its assets under the new VELCO ownership and governance structure proposed here.

14

15 **27. Q. Please describe VLITE.**

16 **A.** VLITE has been incorporated in Vermont as a public benefit, non-profit  
17 corporation. It will have three directors that will be elected by VPPSA, VEC and BED  
18 respectively. VLITE will have two principal responsibilities. First, VLITE will hold  
19 approximately 33% of Class B Common voting shares in VELCO, approximately 31.7% of  
20 Class C Common non-voting shares in VELCO, and, through its ownership interest, participate  
21 in the governance of VELCO. Second, VLITE will disburse the income resulting from the  
22 VELCO dividend to fund a low-income assistance program that is under consideration in Docket

1 No. 7535. In addition to the annual dividend derived from VELCO stock, the Combined  
2 Company will make any supplemental contribution to VLITE to assure that the total amount is at  
3 least \$1 million annually. Vermont utilities have long recognized the importance of supporting  
4 struggling Vermonters with their electric bills through assistance programs such as Shareheat  
5 (CVPS) and WARMTH (GMP). The Docket No. 7535 proceeding involves the development of  
6 a more comprehensive low income affordability program and rate designs reflecting certain  
7 design principles and components. As we develop this program, the annual VLITE contribution  
8 will be an important element of the final design and will be designated for low income customers  
9 regardless of service territory, i.e., not only Combined Company customers.

10

11 **28. Q. Please address the criteria applied by the Board in reviewing proposed utility**  
12 **mergers.**

13 **A. (Powell)** In reviewing proposed utility mergers, the Board has applied the  
14 following criteria:

- 15 a. Technical Competence;
- 16 b. Fairness as a Partner and Financial Soundness;
- 17 c. Creation of Efficiencies and Effect on Competition;
- 18 d. Suitability of Buyer and Compatibility of Service Territories;
- 19 e. Soundness of Price and Terms of Purchase; Value to Buyer and Ratepayers;
- 20 f. Impact on Customers of Selling Utility;
- 21 g. Effect on Employees; and
- 22 h. Consistency with 2005 Vermont Electric Plan.

1 As the following summary and the more detailed analysis above and in others' testimony  
2 demonstrate, the acquisition and the merger meet each of these criteria and therefore  
3 promote the public good.

4 Technical Competence. The Combined Company will have a strong management  
5 team and workforce, and Gaz Métro's long track record of Vermont utility ownership  
6 demonstrates that the Combined Company will be technically competent.

7 Fairness as a Partner and Financial Soundness. Through the Combined Company,  
8 GMP and CVPS will continue their strong relationships with state government, other  
9 utilities and with the communities they serve. The Combined Company will have greater  
10 access to capital and liquidity and will be more efficient, and therefore will be financially  
11 sound.

12 Creation of Efficiencies and Effect on Competition. As Mr. Otley and Ms. Bugbee  
13 demonstrate, the Combined Company will deliver significant amounts of cost savings  
14 through the efficiencies gained through integration of operations. As a result of the  
15 exclusive retail franchise territories, there will be no adverse effect on competition.

16 Suitability of Buyer and Compatibility of Service Territories. Gaz Métro is a  
17 suitable buyer of CVPS based on its financial strength and its long relationship with  
18 Vermont utilities. The GMP and CVPS service territories are adjacent to each other, and  
19 therefore the acquisition and merger represent a natural fit of their operations.

20 Soundness of Price and Terms of Purchase; Value to Buyer and Ratepayers; Impact  
21 on Customers of Selling Utility. The proposed acquisition and merger will provide  
22 significant benefits to GMP and CVPS customers through substantial savings, provided by

1 a stronger electricity supplier. The savings sharing plan provides a fair mechanism to  
2 allocate the benefits and assure that rates will be lower than they would have been without  
3 the merger. The proposal provides significant other benefits, including the preservation of  
4 Vermont control over VELCO, the increased benefits for the Rutland region and the \$1  
5 million annual contribution to assist low-income electric customers statewide.

6 Effect on Employees. There are significant employee benefits under the proposal,  
7 including no layoffs (except for some executive officers), no mandatory relocation of  
8 employees of either company, and the opportunity to work for a larger, stronger company.

9 Consistency with 2005 Vermont Electric Plan. Although the 2005 Vermont  
10 Electric Plan recommends further study of the issue of utility consolidation, the proposed  
11 merger will further state objectives by creating cost-saving opportunities and improved  
12 service. See **Exh. Pet.-Joint-5**.

13

14 **29. Q. Does this conclude your testimony?**

15 **A. (Powell and Reilly) Yes.**