

**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
PIERRE DESPARS
ON BEHALF OF THE PETITIONERS**

September 2, 2011

Summary of Testimony

Mr. Despars describes Gaz Métro Limited Partnership and its subsidiary Northern New England Energy Corporation. Mr. Despars also explains the reasons for the proposed acquisition of Central Vermont Public Service Corporation. Finally, Mr. Despars describes Gaz Métro's management philosophy and how Gaz Métro intends to oversee the merged company.

**PREFILED TESTIMONY OF
PIERRE DESPARS
ON BEHALF OF THE PETITIONERS**

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

2 **A.** My name is Pierre Despars. I am the Executive Vice President, Corporate Affairs
3 and Chief Financial Officer of Gaz Métro Limited Partnership (“Gaz Métro”), which is a
4 Montreal-based energy company and supplier of gas service in Québec.

5

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

7 **A.** **Exh. Pet.-PD-1** is a copy of my curriculum vitae.

8

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

11 **A.** Yes, I have testified in Docket No. 7213, concerning Gaz Métro’s acquisition of
12 Green Mountain Power Corporation (“Green Mountain Power” or “GMP”), as well as in Dockets
13 Nos. 7630 and 7734, concerning ownership changes of Gaz Métro affiliates.

14

15 **4. Q. What is the purpose of your testimony?**

16 **A.** I describe Gaz Métro and its subsidiary Northern New England Energy
17 Corporation (“NNEEC”). I also describe the reasons for the proposed acquisition of Central
18 Vermont Public Service Corporation (“Central Vermont” or “CVPS”) through an NNEEC

1 subsidiary. Finally, I describe Gaz Métro's management philosophy and how Gaz Métro intends
2 to oversee the merged Central Vermont/Green Mountain Power ("Combined Company").
3

4 **5. Q. Please describe Gaz Métro.**

5 **A.** Gaz Métro began operations in 1957, and at that time was concentrated
6 principally in the gas-distribution area. Today the company serves most of the urban and
7 suburban areas of Québec, as well as some significant industrial customers in rural areas. Gaz
8 Métro serves close to 180,000 customers, with a total throughput of 191.9 billion cubic feet. For
9 fiscal year 2010, its revenues were approximately \$2,020 billion (Canadian) and its total assets,
10 including its investments through NNEEC in Vermont and other unregulated subsidiaries, were
11 approximately \$3,667 billion (Canadian). Our load is approximately 12% residential and 88%
12 industrial and commercial.

13 Gaz Métro has introduced numerous innovative services that have allowed Gaz Métro to
14 grow in Québec, including the global plan for energy efficiency and an innovative service for
15 vehicles powered by liquid natural gas.

16 Gaz Métro is strong financially, as evidenced by annual cash flows from operations
17 generated by the company over the past five years averaging \$270 million (Canadian) after
18 capital investments for maintenance, which allowed the company to invest over \$200 million
19 (Canadian) in development projects over the same period. Our First Mortgage Bonds are rated A
20 by Standard & Poor's and DBRS Limited. The company's financial strength provides ample
21 ability to support the capital needs for the development of NNEEC's subsidiaries, including

1 Green Mountain Power (both before and after the merger) and Vermont Gas Systems, Inc.

2 (“Vermont Gas”).

3

4 **6. Q. Please describe NNEEC.**

5 **A.** NNEEC is a holding company formed to own Gaz Métro’s energy-company
6 investments (through operating-company subsidiaries) in the United States. NNEEC is the direct
7 owner of Green Mountain Power and Vermont Gas. In addition, NNEEC has incorporated
8 Danaus Corporation, the “merger subsidiary” which will merge into Central Vermont when the
9 acquisition of Central Vermont is completed.

10 In addition to Vermont Gas and Green Mountain Power, NNEEC owns a 38.29%
11 partnership interest in Portland Natural Gas Transmission System (“PNGTS”) through another
12 wholly-owned subsidiary, Northern New England Investment Company, Inc. (also a Vermont
13 corporation). PNGTS is a Maine partnership that owns and operates an interstate pipeline that
14 runs between a Canadian pipeline (owned and operated by Trans Québec & Maritimes Pipeline
15 Inc.) at a point on the U.S.-Canada border near Canaan, Vermont, and the Maritimes and
16 Northeast Pipeline, at Westbrook, Maine. The pipeline then continues (in a section that is jointly
17 owned by PNGTS and Maritimes and Northeast) to the Tennessee Gas Pipeline System near
18 Boston.

19 NNEEC has five directors: Sophie Brochu, CEO of Gaz Métro; Robert Tessier, former
20 CEO of Gaz Métro and current Chairman of the Board of Caisse de dépôt et placement du
21 Québec; William Gilbert; Nordahl Brue; and myself. William Gilbert serves as President of
22 NNEEC. Donald Gilbert, CEO of Vermont Gas Systems is Vice President and Secretary, Mary

1 Powell serves as Vice President and Tim Keefe, CFO of Vermont Gas, serves as Treasurer of
2 NNEEC.

3

4 **7. Q. Describe Gaz Métro’s vision for NNEEC.**

5 **A.** Gaz Métro is pursuing an integrated approach to delivering energy services. We
6 believe that there are excellent investment opportunities in Vermont and the region as a whole
7 that will benefit stakeholders (including customers) of the companies in which Gaz Métro
8 invests.

9 We have had a long and successful experience in Vermont with Vermont Gas and, more
10 recently, Green Mountain Power. Facilitated by a supportive environment, we have consciously
11 chosen to take a long-term perspective. Since acquiring Green Mountain Power in 2007, we
12 have invested \$46 million in the company. Separate and apart from the Central Vermont
13 acquisition, we have committed to invest \$75 million in Green Mountain Power to allow its
14 management to pursue investments in renewable energy generation, smart grid implementation
15 and transmission investments through Vermont Electric Power Company, Inc. (“VELCO”) and
16 Vermont Transco, LLC (“Transco”). At Vermont Gas, we are supportive of the management’s
17 plan to expand its gas distribution system south from Chittenden County.

18 Over the years, Vermont Gas and Green Mountain Power have paid dividends to NNEEC
19 that served principally to pay interest and return principal on NNEEC’s acquisition debt. Certain
20 arrangements exist, as well, governing the payment of Green Mountain Power and Vermont Gas
21 income taxes, the returns for which are consolidated with NNEEC and its other subsidiaries, and
22 to cover a portion of NNEEC’s administrative costs. As a result, Green Mountain Power and

1 Vermont Gas have paid dividends that are lower (as a percentage of earnings) than typically paid
 2 by other public utilities to their shareholders. That has been done principally because NNEEC
 3 and its sole shareholder, Gaz Métro, view Green Mountain Power and Vermont Gas as having
 4 important growth opportunities to expand and improve services to their customers. NNEEC has
 5 accordingly retained earnings in Green Mountain Power and Vermont Gas to help finance their
 6 capital needs.

7 We view NNEEC's acquisition of Central Vermont as another opportunity to make an
 8 excellent, long-term investment in Vermont. The proposed acquisition and merger create
 9 significant opportunities for natural consolidation of the Green Mountain Power and Central
 10 Vermont businesses, and to achieve unique cost savings for the customers of each company, as
 11 described by Ms. Powell and others.

12

13 **8. Q. How will Central Vermont benefit from the financial strength of Gaz Métro?**

14 **A.** NNEEC and Gaz Métro understand that, like Green Mountain Power, Central
 15 Vermont is a regulated company and that its owners have the obligation, when necessary, to
 16 invest capital sufficient to ensure that the company provides adequate service. Equally
 17 important, both Green Mountain Power and Central Vermont are currently engaged in important
 18 investment initiatives to benefit their customers and to advance Vermont energy policy,
 19 including investments in renewable generation, smart grid technology, transmission investments
 20 and, in Central Vermont's case, acquisition of neighboring utility assets. NNEEC and Gaz
 21 Métro have supported these investments at Green Mountain Power, and we look forward to
 22 continuing this support of the Combined Company.

1 Central Vermont will also benefit, as has Green Mountain Power, from having a strong
2 equity owner and source of liquidity for financing the equity portion of investments and
3 maintaining a strong financial position and strong financial ratios. In the wholesale power
4 markets, companies with strong credit are able to negotiate more favorable terms relating to
5 collateral or other credit support as security for non-performance, because the threshold for
6 posting such security is higher for a company with strong credit. Gaz Métro (through NNEEC)
7 will bring to Central Vermont the availability of capital and strong credit that Green Mountain
8 Power has experienced since the closing of its acquisition in 2007.

9

10 **9. Q. How will Gaz Métro, through NNEEC, manage the Combined Company?**

11 **A.** Gaz Métro will use the same management philosophy for the Combined Company
12 that we have employed for the last 27 years in our other Vermont investments – Vermont Gas
13 and Green Mountain Power. We do not see the Combined Company as a “division” of Gaz
14 Métro; it will be a Vermont-managed, stand-alone utility just as Green Mountain Power and
15 Vermont Gas are currently managed. We have strong management teams at both companies, in
16 whom we have high confidence. We are highly confident that the local management team of the
17 Combined Company, led by Mary Powell, will manage the Combined Company in the same
18 manner that Green Mountain Power and Vermont Gas have historically been managed –
19 implementing an effective, open and transparent approach to regulators and to Vermont state and
20 local government that will serve the Combined Company’s customers and investors well. As the
21 investor, Gaz Métro hopes to earn stable, reasonable returns over time and to identify

1 opportunities to grow our investments in the Combined Company. Gaz Métro strongly supports
2 the management plans described by Ms. Powell and the integration plan described by Mr. Otley.

3 Both Vermont Gas and Green Mountain Power have strong, talented boards of directors,
4 which include members with extensive Vermont and industry experience. For example, of the
5 nine Green Mountain Power directors, a majority are not affiliated with Gaz Métro, and several
6 have long-standing Vermont-based business and public service experience. We intend to follow
7 the same approach with the Combined Company.

8 In summary, we intend to apply the same governance and management philosophy to the
9 Combined Company that we have successfully used at Green Mountain Power and Vermont Gas.
10 Neither Gaz Métro nor NNEEC will manage the Combined Company, and any other changes in
11 the Combined Company will be directed by its management and its Board of Directors.

12 I have read the testimony of Ms. Powell and others on behalf of the Petitioners. The
13 testimony reflects Gaz Métro's intentions, including the plans for the Combined Company's
14 management and the expectations about how the Combined Company will be managed and
15 operated.

16 I am also aware that the Board has plenary jurisdiction over Green Mountain Power and
17 Central Vermont, as well as over Vermont Gas, and that it exercises its jurisdiction to promote
18 the public good of the state. From our experience as the equity investor in Green Mountain
19 Power and Vermont Gas (through NNEEC), Gaz Métro understands fully that the public in
20 Vermont expects public utilities to provide quality service at competitive rates and to do so
21 consistently with the state's values.

1 I also recognize and understand the basis for the proposed ownership and governance
2 changes relating to VELCO and Transco. In that connection, Gaz Métro has committed to the
3 transfer of a portion of its VELCO voting stock to the Vermont Low Income Trust for
4 Electricity, Inc., a non-profit corporation, sufficient to ensure that the Combined Company will
5 have a minority interest in VELCO.

6 Finally, I support Ms. Powell's testimony concerning the proposed benefits for the
7 Rutland area, including the proposed operational and energy innovation headquarters, solar city
8 and other proposals, as well as the commitment to achieve savings through consolidation without
9 layoffs other than a few members of senior management.

10

11 **10. Q. How will the Board of Directors of the Combined Company be organized?**

12 **A.** We want to have independent directors who, in particular, understand Vermont.
13 Having directors on our boards who understand the jurisdictions in which a company's services
14 are provided is the best means to achieve stable returns in our experience. Accordingly, we
15 intend to appoint a board of directors using the same principles we have used in appointing the
16 board of directors of Green Mountain Power and Vermont Gas.

17

18 **11. Q. Do you wish to add anything else?**

19 **A.** We have benefited from over twenty-seven years of supportive regulation in
20 Vermont, through our investment in Vermont Gas and Green Mountain Power. We are
21 privileged to be investors in strong Vermont institutions providing important public services to

1 Vermont's residents. We are very pleased to have the opportunity to expand Gaz Métro's
2 investment in the state and continue a long and successful relationship.

3

4 **12. Q. Does this conclude your testimony?**

5 **A. Yes.**