

**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
DAWN D. BUGBEE
ON BEHALF OF THE PETITIONERS**

September 2, 2011

Summary of Testimony

Ms. Bugbee describes the projected ten-year cost savings arising from the proposed acquisition of Central Vermont Public Service Corporation by Gaz Métro Limited Partnership. Ms. Bugbee next explains how the combined Green Mountain Power/Central Vermont company is expected to achieve \$144 million in savings for customers at the end of ten years, and to continue to deliver customer savings into the future. Ms. Bugbee then addresses why the combined company will be financially sound and identifies proposed conditions relating to affiliate transactions.

**PREFILED TESTIMONY OF
DAWN D. BUGBEE
ON BEHALF OF THE PETITIONERS**

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

2 **A.** My name is Dawn Bugbee, and I am the Chief Financial Officer (“CFO”) for
3 Green Mountain Power Corporation, (“Green Mountain Power” or “GMP”), 163 Acorn Lane, in
4 Colchester, Vermont.

5

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

7 **A.** I have a Bachelor of Science degree from Castleton State College and currently
8 hold a Vermont CPA license. Before I became CFO at GMP, I was employed by the
9 Northwestern Medical Center in St. Albans, Vermont beginning in 1989, serving as CFO from
10 1996 to 2006. Prior to that, I was an employee for a regional accounting firm serving as a
11 manager on audit engagements.

12

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

15 **A.** Yes. I have testified in the following dockets relating to Green Mountain Power
16 financings: Docket Nos. 7184, 7185, 7341, 7501, 7573, and 7703.

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

2 **A.** The purpose of my testimony is to first describe the projected ten-year operations
3 and maintenance (“O&M”) cost savings arising from the proposed acquisition of Central
4 Vermont Public Service Corporation (“Central Vermont” or “CVPS”) by Gaz Métro Limited
5 Partnership (“Gaz Métro”) and the merger of Green Mountain Power and Central Vermont into a
6 single company (“Combined Company”), based on Mr. Otley’s description of integrated
7 operations of the two companies. I also describe how the Combined Company is expected to
8 achieve \$144 million in O&M savings for customers at the end of ten years, and to continue to
9 deliver customer savings into the future.

10 Next, I explain why the Combined Company will be financially sound. Finally, I discuss
11 the proposed mechanisms to address affiliate transactions, both between Central Vermont and
12 Green Mountain Power, for the period prior to the merger, and between the Combined Company
13 and its owners and affiliates.

14

15 **5. Q. Please summarize how the projected savings associated with the acquisition**
16 **and merger were calculated.**

17 **A.** The calculation of projected savings requires a comparison of the projected O&M
18 costs for the two companies if Central Vermont and Green Mountain Power remained separate,
19 independent companies, with the projected O&M costs of the Combined Company. The
20 differences in costs are projected over a ten year period.

1 **6. Q. How were the O&M cost savings calculated?**

2 **A.** We began with a ten year forecast of the O&M costs of Green Mountain Power
 3 and Central Vermont, based on the assumption that each company would continue to operate as a
 4 separate company (that is, without Gaz Métro’s acquisition of Central Vermont). The O&M cost
 5 forecast is based on the financial forecasts prepared by each company for the five years 2011–
 6 2015. I validated the O&M forecasts for each company by comparing them to each company’s
 7 FERC Form 1 annual filings for the years 2008-2010 and concluded that the forecasts are
 8 reasonable, based on historic trends. For the years 2016-2021, I applied an inflation factor that
 9 was developed by LaCapra Associates. This inflation factor is based on the Gross Domestic
 10 Product Implicit Price Deflator (“GDP-IPD”). The range was 1.85% for years 2016-2018 and
 11 increasing to 2.19% in 2021, which appears reasonable. Combined Company O&M costs were
 12 calculated by identifying the expected savings associated with the integration activities described
 13 by Mr. Otley, and deducting them from the separate company cost projections. **Exhs. Pet.-**
 14 **DDB-1 and 2** contain information relating to these calculations.

15 Based on this analysis, we expect that the acquisition and merger will result in the
 16 following total cumulative savings over the first ten years:

17

Category	Savings Years 1-10
Executive compensation	\$22,700,000
Natural turnover and retirements	88,200,000
SEC, regulatory, board of directors, and audit	25,700,000
Outside services, including legal fees and other various consultants	18,500,000
Operations, including service centers, customer services, distribution, and other O&M	54,300,000
Information technology	17,000,000
Total	\$226,400,000

1 **7. Q. Will the savings stop at the end of ten years?**

2 **A.** No. The savings will be permanent, and after the end of the savings sharing plan
3 described below, customers will continue to receive 100% of such savings permanently. In fact,
4 we believe that customers will enjoy the benefits of as much as \$500 million dollars of savings
5 over a twenty-year period.

6

7 **8. Q. Please describe the savings sharing plan.**

8 **A.** As described by Ms. Powell, under the plan customers will benefit from at least
9 \$144 million in savings over the first ten years compared to the costs if the acquisition and
10 merger did not occur. During the first six years, the plan will flow through to customers an
11 increasing portion of the cost savings associated with the acquisition and merger. In particular,
12 during the first two years, 10% of the savings will flow through to customers, and the portion
13 increases to 20% for years three and four and to 33% for years five and six. Beginning in the
14 seventh year, 100% of the savings will flow through to customers. Mr. Griffin details the shared
15 savings mechanism in his testimony.

16

17 **9. Q. How will the Combined Company assure that at least \$144 million in savings**
18 **are delivered to customers by the end of ten years?**

19 **A.** Based on our analysis, we are highly confident that the savings amounts described
20 above will be achieved by the end of ten years following the acquisition of Central Vermont by
21 Gaz Métro. Of course, we do not expect savings to materialize in these amounts immediately –
22 it will take a period of years for the Combined Company to achieve these levels of savings. For

1 example, we have committed to achieve these savings levels without any layoffs (with the
 2 exception of some executive officers) and with no mandatory Green Mountain Power or Central
 3 Vermont employee relocations, which means that optimizing savings will take time, as
 4 employees retire or changes occur due to normal employee turnover. Although we are highly
 5 confident we can achieve and potentially exceed the \$144 million commitment, if, at the end of
 6 the ten-year period, the Combined Company has not delivered on this commitment, we will
 7 propose a plan for Board review and approval to provide customers with the \$144 million
 8 commitment.

9

10 **10. Q. Will the Combined Company be financially sound?**

11 **A.** Yes.

12

13 **11. Q. Please explain why.**

14 **A.** Rating agencies identify concentration risk and the associated challenges in
 15 managing economic downturns affecting customers as one of the main concerns relating to
 16 electric utilities. A large portion of Green Mountain Power's retail load is comprised of one
 17 company – IBM. The merger will result in a reduced level of Combined Company customer
 18 concentration.

19 Rating agencies also are concerned with the ability of a utility to maintain a strong
 20 liquidity position and access to capital. Green Mountain Power's credit rating improved as a
 21 result of its acquisition by Gaz Métro. As explained by Mr. Despars, Gaz Métro is strong
 22 financially, and its financial strength provides ample ability to support the capital needs for the

1 development of Northern New England Energy Corporation's ("NNEEC") subsidiaries,
2 including the Combined Company. The Gaz M tro acquisition will permit Central Vermont's
3 customers to have the benefits of greater access to capital and stronger liquidity for financing the
4 equity portion of investments and maintaining a strong financial position and strong financial
5 ratios.

6 The Combined Company will be able to negotiate better contract terms from vendors and
7 in the power supply markets due to greater buying power and a stronger credit position. It will
8 also be better able to secure mutual aid during storms, because the two companies will no longer
9 be competing for the same limited resources.

10

11 **12. Q. Please describe what provisions will be made concerning cost allocation and**
12 **affiliate transactions.**

13 **A.** We propose that the Combined Company be subject to merger-related conditions
14 substantially similar to those imposed by the Board in Docket No. 7213 (relating to Gaz M tro's
15 acquisition of Green Mountain Power), which include the following:

- 16 1. The Combined Company shall continue to file its monthly financial reports
17 with the Board and the Department of Public Service ("Department").
- 18 2. The Combined Company shall provide notice, and shall file copies upon
19 request, of all contracts with affiliates other than contracts of less than
20 \$100,000 and contracts with existing affiliates. All such contracts shall be
21 based upon arms-length negotiations.
- 22 3. The Combined Company shall maintain cost and cash-flow separation
23 between it and its affiliates and to do so consistent with its cost-allocation
24 policy.

1 4. The Combined Company shall provide 30 days' advance notice to the Board
2 and Department if (1) the equity proportion of the capital structure varies by
3 more than three percent from the proportion at the time the companies were
4 combined; (2) its unused, short-term borrowing capacity falls below \$15
5 million; or (3) the Combined Company makes distributions to its parent
6 company after it has been placed on CreditWatch with negative
7 implications.

8 5. The Combined Company shall remain structurally separate and be operated
9 as a stand-alone company. If the Combined Company seeks to change from
10 operating in this manner, the Combined Company and/or its parent
11 companies shall seek prior approval from the Board.

12
13 We also propose to use a slightly modified version of the Cost Allocation Policy filed with the
14 Board in Docket No. 7213; it is attached as **Exh. Pet.-DDB-3**.

15 For the interim period between the closing of the acquisition and the closing of the
16 merger, Central Vermont will be subject to the following related conditions under Section
17 5.15(e), (h) of the Agreement and Plan of Merger (**Exh. Pet.-Joint-2**):

18 1. The Surviving Corporation will (i) maintain separate debt instruments and
19 maintain its own corporate and debt credit rating, as well as a rating for long-term
20 debt and (ii) absent approval by the VPSB, not declare or pay any dividends on its
21 capital stock if such dividends would result in a capital structure that would
22 reduce the percentage of equity below the percent reflected in the capital structure
23 in the Surviving Corporation's most recent forecasted capitalization to the VPSB.

24 2. The Surviving Corporation will: (i) not lend to, guarantee or financially support
25 Parent or its affiliates, or any Subsidiary or joint venture of the Surviving
26 Corporation, unless approved by the VPSB; (ii) maintain banking and cash
27 management arrangements separate from other affiliates; (iii) not enter into
28 transactions with affiliates on terms less favorable to the Surviving Corporation

1 than those available from third parties on an arms-length basis, unless approved
2 by the VPSB; and (iv) maintain books and records separate from other affiliates.

3

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

5 **A. Yes.**