

**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
ROBERT J. GRIFFIN
ON BEHALF OF THE PETITIONERS**

September 2, 2011

Summary of Testimony

Mr. Griffin addresses the savings sharing proposal, and describes the proposed rate plan associated with the merger of Green Mountain Power Corporation and Central Vermont Public Service Corporation into a single company, including the proposed process for integrating the Alternative Regulation Plans and each company's tariffs.

**PREFILED TESTIMONY OF
ROBERT J. GRIFFIN
ON BEHALF OF THE PETITIONERS**

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

2 **A.** My name is Robert J. Griffin, and I am the Vice President of Power Supply and
3 Risk Management for Green Mountain Power Corporation (“Green Mountain Power” or
4 “GMP”), 163 Acorn Lane, Colchester, Vermont.

5

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

7 **A.** I graduated from the University of Vermont in 1979 with a B.S. in Business
8 Administration. I obtained a Masters in Business Administration from the same institute in
9 1993. I have been employed at Green Mountain Power since 1982. I have held a number of
10 senior financial positions including Treasurer, Controller, and Chief Financial Officer and I held
11 a CPA license while in these roles.

12

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

15 **A.** Yes. I have provided testimony before the Board in Docket Nos. 5983, 6867,
16 7043, 7175/7176, 7339, 7412 and 7585.

17

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

19 **A.** The purpose of my testimony is to describe the savings sharing proposal, the
20 proposed rate plan associated with the merger of Green Mountain Power and Central Vermont

1 Public Service Corporation (“Central Vermont” or “CVPS”) into a single company (“Combined
2 Company”), including the proposed process for changing each company’s Alternative Regulation
3 Plan (“Plan”), and integrating the Plans and each company’s tariffs.

4

5 **5. Q. Please describe how shared savings associated with the acquisition and**
6 **merger will be reflected in rates.**

7 **A.** As described in Ms. Bugbee’s testimony, the savings sharing plan will flow
8 through to customers an increasing portion of the cost savings associated with the acquisition and
9 merger during the first six years beginning January 1, 2013. Rates will be adjusted in the same
10 manner as they are adjusted today under the GMP Plan, including application of traditional
11 ratemaking principles, except for the following O&M adjustment: The O&M component of base
12 rate adjustments for the six-year savings sharing period will be calculated to approximate the
13 O&M costs that would have been incurred if there had been no acquisition and merger. This
14 O&M component will be based on a test period ending June 30, 2012 adjusted for inflation,
15 rather than on actual Combined Company O&M costs. After the end of the savings sharing
16 period, the O&M adjustment will no longer be included, i.e., base rates will reflect only actual
17 Combined Company O&M costs.

18 More specifically, the cost of service for the January 1, 2013 base rate adjustment will be
19 based on a nine month test period from the test year ending June 30, 2012, because the January
20 1, 2013 rates will be in effect for nine months. The O&M component for this nine month 2013
21 rate year will continue to reflect traditional Vermont ratemaking principles, but will not include

1 any rate adjustments reflecting the O&M savings associated with the acquisition and merger.

2 The customers' share of savings will be flowed through to customers as a reduction in rates.

3 For the October 1, 2013 base rate adjustment, the O&M component of the cost of service
4 will be calculated in the same manner as for the January 1, 2013 base rate adjustment, but will
5 include a twelve month test period ending June 30, 2012 (because the ensuing rates will be in
6 effect for a year), and will include an adjustment to O&M costs included in the previous rates
7 equal to the change in the Consumer Price Index – New England (“CPI-NE”) for the twelve
8 months ending June 30, 2013.

9 For the remainder of the savings sharing period, the O&M component of the cost of
10 service will be equal to the previous year's O&M component adjusted by an additional year of
11 the inflation adjustment. In order to capture the last three months of the six-year period, the
12 October 1, 2018 base rates would be adjusted for those remaining three months.

13 There will also be a change in the manner in which the earnings sharing adjustor is
14 calculated for the savings sharing period. It will reflect the O&M costs included in the
15 corresponding base rate adjustment, rather than actual O&M costs. Accordingly, the difference
16 between the O&M costs included in the base rates and actual O&M costs will not be subject to
17 true-up of the earnings sharing band, subject to adjustment to flow through the appropriate
18 portion of cost savings to customers.

19

20 **6. Q. Why did you use the CPI-NE for the Savings Sharing Adjustment?**

21 **A.** The inflation index is representative of economic changes and conditions directly
22 affecting New England.

1 **7. Q. Please provide an example of the changes to cost of service under the**
 2 **proposal.**

3 **A.** The following reflects a hypothetical example for illustrative purposes:

4 **O&M Portion of Cost of Service**

Base Rate Adjustment Effective Date	O&M Test Period Amount (6/30/2012) Adjusted Annually	Inflation Index (%)	Inflation Adjusted	# of Mths	Adjusted O&M Test Period Amount	Actual O&M Costs	Achieved Savings	Customers Sharing Component	Retained Savings
1/1/2013 Pro-rated*	\$120,000	102.5%	\$123,000	9 mth	\$92,250	\$ 87,406	\$4,844	\$484	\$ 4,360
10/1/2013	\$123,000	102.5%	\$126,075	12 mth	\$126,075	\$114,201	\$ 11,874	\$1,187	\$10,687
10/1/2014	\$126,075	102.5%	\$129,227	12 mth	\$129,227	\$112,797	\$16,430	\$ 2,944	\$13,486
10/1/2015	\$129,227	102.5%	\$132,458	12 mth	\$132,458	\$112,310	\$20,148	\$4,030	\$16,118
10/1/2016	\$132,458	102.5%	\$135,769	12 mth	\$135,769	\$112,527	\$23,242	\$6,985	\$16,257
10/1/2017	\$135,769	102.5%	\$139,163	12 mth	\$139,163	\$113,653	\$25,510	\$8,418	\$17,092
10/1/2018 Pro-rated**	\$139,163	102.5%	\$142,642	3 mth	\$ 35,661	\$29,155	\$6,506	\$2,147	\$ 4,359
Total							\$108,554	\$26,195	\$ 82,359

5
 6 * The first year retained savings is equal to 75% of the annual amount, because the base rate
 7 adjustment is in effect for only nine months.

8
 9 ** In order to capture the remaining three months of the five-year period, the October 1, 2018
 10 Adjusted O&M Test Period Amount reflects 25% of the Savings Sharing Adjustment.

11
 12 **8. Q. Please describe how savings will be calculated for purposes of the savings**
 13 **commitment component of the proposal.**

14 **A.** The Combined Company savings for the ten-year period for purposes of
 15 demonstrating customer savings of at least \$144 million will be based on the difference between
 16 (1) O&M costs calculated as above but for the entire ten-year period ending December 31, 2022,

1 and (2) actual O&M costs for the same period. If the calculations do not demonstrate savings of
2 at least \$144 million after ten years, we will propose for review and approval a plan for returning
3 the necessary value to customers.

4

5 **9. Q. Please summarize the proposed rate integration plan.**

6 **A.** As with other electric utility mergers in Vermont, we believe it is consistent with
7 sound public policy to consolidate the current Green Mountain Power and Central Vermont rates
8 into a single set of Combined Company rates after an appropriate transition period. The length
9 of the transition period typically reflects the extent to which the rate levels of the two companies
10 vary. In this case, the transition into consolidated rates is complex because the two companies
11 have separate and slightly different Alternative Regulation Plans and different rate years, and
12 because the integration must accommodate financial, customer service, regulatory and other
13 requirements. The following discussion describes our plan for achieving a consolidated set of
14 rates.

15 In general terms, and as described further below, our goal is to integrate the rate portions
16 of the tariffs of the two companies effective October 1, 2013, following the end of Green
17 Mountain Power's 2013 fiscal year. We expect this to be approximately one year after the Green
18 Mountain Power-Central Vermont merger transaction is complete. We then expect to integrate
19 all other terms of the tariffs within one year after the rate integration. Between the closing on the
20 acquisition of CVPS and rate integration, we propose to separate the Combined Company's
21 customers into two categories that match their "legacy" service provider. Thus, customers in the
22 current Green Mountain Power service area will be served on the then current Green Mountain

1 Power tariff rates and customers in the current Central Vermont service area will be served on
2 tariff rates identical to Central Vermont's then current tariffs.

3 I describe below the proposed rate integration plan first, as it relates to integrating the two
4 companies' Plans, and second, as it relates to their tariffs.

5

6 **10. Q. What is the plan for integrating the two companies' Alternative Regulation**
7 **Plans?**

8 **A.** Although the Plans are relatively similar, there are several differences that make
9 the process of integrating the two companies' Plans somewhat complex. Due to different fiscal
10 years, the Green Mountain Power base rate adjustments are filed August 1 for effect October 1,
11 whereas the corresponding dates under the Central Vermont Plan are November 1 and January 1.

12 We propose modifications to each company's Plan to achieve the following two-step
13 integration of the Plans. First, Green Mountain Power proposes that the term of its base rate
14 filing effective October 1, 2011 be extended for three months (15 months total), so that it ends
15 when Central Vermont's base rate period ends. The associated earnings sharing adjustment
16 would apply to the resulting, fifteen-month period. We would also create a regulatory asset
17 consisting of the return on rate base for capital investments to be made by Green Mountain
18 Power during the three-month extension period. We would submit the capital investments to the
19 Department of Public Service ("Department") for this period on July 1, 2012, as we do for our
20 other base rate filing capital investments. During the period prior to December 31, 2012, the
21 other features of each Company's Plan, such as the power and earnings sharing adjustors, would
22 not be affected, other than as described above.

1 Second, we propose that the Central Vermont Plan be terminated as of December 31,
2 2012, and that rates charged to Central Vermont territory customers thereafter be adjusted
3 (increased or decreased) by the same percentage as those under the Green Mountain Power Plan.
4 We also propose that the base rate adjustment for all of the Combined Company's customers
5 beginning January 1, 2013, be in effect for nine-months until September 30, 2013, so that the
6 termination date will coincide with the Combined Company's fiscal year, and with the
7 termination date of the current Green Mountain Power Plan. A timeline portraying the transition
8 steps relating to integration of the Plans and of the tariffs is contained in **Exh. Pet.-RJG-1**.

9 The proposed Combined Company Plan (to become effective October 1, 2013) will be
10 filed for Board review and approval after the Board's final order in this case.

11

12 **11. Q. Please describe the plan for integrating tariffs.**

13 **A.** The process of integrating the tariffs of the companies will take place in stages to
14 provide for an orderly transition. The average rate levels for a majority of each company's rate
15 classes are relatively close, and consequently there is no need for a long period to phase in the
16 majority of rate differences (See **Exh. Pet.-RJG-2**). We propose a two step transition plan, first
17 addressing cost of service and then addressing integration of tariffs.

18 First, we propose to consolidate the two companies' cost of service by December 31,
19 2012. Since we have different financial reporting tools (Green Mountain Power is currently on
20 Oracle and Central Vermont is on SAP), each company will separately prepare its base rate cost
21 of service for the January 1, 2013 base rates, by comparing its rate year revenue requirements for
22 the nine months ended September 30, 2013, against the appropriate test year period ending June

1 30, 2012. The separate cost of service calculations will be consolidated into one combined cost
2 of service, after elimination of any intercompany charges. To implement this consolidation, the
3 rates in the Green Mountain Power and Central Vermont service territories to be effective
4 January 1, 2013 will be adjusted by a uniform percentage for all customers, based on the
5 percentage change in revenue requirements under the consolidated cost of service. The rates for
6 customers in each service territory will be based on the consolidated revenue requirement
7 beginning October 1, 2013 and thereafter.

8 Second, we propose to integrate the companies' tariff rates into a single set of tariffs in
9 two phases. First, we propose to integrate rates as of October 1, 2013. It is likely that the rates
10 for a few rate classes or a subset of customers within a rate class may include a more extended
11 transition period, due to the differences in rate structure (including various tariff riders) that,
12 when changed, would cause a large bill increase. A few years ago, Green Mountain Power
13 implemented a similar transition mechanism for its Rate 63 Time of Use Rate, which included a
14 three-year phase-in to smooth the bill impacts. Second, we propose to integrate other tariff terms
15 and conditions by October 1, 2014. We expect that it will take longer to integrate and implement
16 all of the non-price terms and conditions due to differences in terms such as line extensions,
17 deposit and disconnect provisions, and eligibility terms that will require decision making,
18 reprogramming of information systems and retraining of field staff in order to implement the
19 changes. Our goal will be to integrate tariff terms and conditions on October 1, 2014, while
20 remaining on-track with respect to the new offerings the companies plan in conjunction with our
21 smart grid efforts.

1 We intend to file a more detailed plan for integrated tariff rates, terms and conditions as a
2 compliance filing for review and approval after the Board's final order is issued in this case.

3

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

5 **A. Yes.**