

**STATE OF VERMONT
PUBLIC SERVICE BOARD**

Amended Joint Petition of Central Vermont)	
Public Service Corporation, Danaus Vermont)	
Corp., Gaz Métro Limited Partnership, Gaz)	
Métro inc., Northern New England Energy)	
Corporation for itself and as agent for Gaz Métro)	
Limited Partnership's parents, Green Mountain)	
Power Corporation and Vermont Low Income)	
Trust for Electricity, Inc. for approval of: (1) the)	Docket No. 7770
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.)	

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

February 15, 2012

Summary of Testimony

Ms. Powell and Mr. Reilly provide an update on merger activity since the initial filing. Ms. Powell also explains why shared savings benefits customers and is backed up by the guarantee of \$144 million over the first ten years. Ms. Powell explains that the Combined Company is adding approximately \$40 million in additional value through the CEED Fund. Ms. Powell affirms the Combined Company's willingness to give up majority control at the VELCO Board. Finally, Ms. Powell and Mr. Reilly explain why a June 30, 2012 closing of the acquisition of CVPS is in the best interest of customers, and Ms. Powell identifies proposed conditions needed to achieve an orderly closing.

**REBUTTAL TESTIMONY OF
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ON BEHALF OF THE PETITIONERS**

1 **1. Q. Did you previously file testimony in this proceeding?**

2 **A. Yes.**

3

4 **2. Q. Please provide a summary of your rebuttal testimony?**

5 **A. (Powell)** First, I provide an update to our direct testimony concerning activities
6 relating to the proposed merger of Green Mountain Power Corporation (“GMP”) and Central
7 Vermont Public Service Corporation (“CVPS”) into a new stronger combined company (the
8 “Combined Company”) for the State of Vermont. This merger represents an unprecedented
9 opportunity to save real money in the form of a guaranteed \$144 million in customer savings in
10 the first ten years following the merger – with more beyond that.

11

12 Second, I respond to other witnesses’ testimony regarding the savings sharing plan. I explain
13 that the plan provides a meaningful incentive for Gaz Métro Limited Partnership (“Gaz Métro”),
14 which has a long and proven commitment to Vermont, to make the investment necessary to
15 create this unique opportunity to achieve customer savings through a Vermont-style combination
16 of the two great companies. In this regard, I also confirm that the \$144 million in merger savings
17 is real and achievable, and will be accomplished.

1 Third, in response to claims by others, I confirm that the so-called windfall sharing obligation
2 will be satisfied. I describe the additional \$20.9 million Community Energy and Efficiency
3 Development Fund (“CEED Fund” or “Fund”), which is modeled after the Vermont Public
4 Service Board’s (“Board”) approved GMP Efficiency Fund in Docket No. 7213. Like the
5 previous Efficiency Plan, the CEED Fund will invest in efficiency measures, community-based
6 renewable energy, and other improvements that will leverage value and benefit for customers.

7

8 Fourth, I respond to other witnesses’ testimony by explaining that, under our plan, the Combined
9 Company will not control Vermont Electric Power Company, Inc. (“VELCO”). In addition, our
10 plan to transfer VELCO shares to the Vermont Low Income Trust for Electricity, Inc.
11 (“VLITE”), combined with a \$100,000 per year contribution from the Combined Company, will
12 provide \$1 million per year to support low-income and elderly Vermont customers.

13

14 Fifth, Mr. Reilly and I will explain why it is important to both companies to close on the
15 acquisition of CVPS by June 30, 2012. To achieve this result, I will also identify the specific
16 conditions that should be imposed to prevent unilateral control of VELCO and provide for low
17 income funding, and propose that further details can be addressed in a subsequent proceeding.

1 Update of Merger Activities

2 3. Q. Please provide an update of Petitioners' work on the proposed merger since
3 you filed your direct testimony.

4 A. (Powell) Much has happened since we filed our direct testimony on September 2,
5 2011. At that time, Vermont was reeling from the devastation caused by Tropical Storm Irene on
6 August 28, 2011. Out of the tragedy of Irene came an unprecedented level of cooperation, both
7 between GMP and CVPS, and between the two companies and the State of Vermont. We were
8 proud to have nearly all of the customers who lost power during the storm back on within a
9 week. This experience serving Vermonters in a time of extraordinary need forged a deeper
10 relationship with our customers, and also between the employees of our two companies.

11

12 Since September 2, I have met with CVPS employees at their work sites all across Vermont,
13 including visits to meet with employees from all of CVPS's 10 district offices, and participated
14 in CVPS's "Values Meetings" last fall. I was impressed that the values of both GMP and CVPS
15 were so closely aligned, especially in delivering high quality customer service and response.

16

17 I have also conducted extensive outreach within CVPS's service territory, meeting with
18 customers, community members, and other stakeholders to discuss the proposed merger and
19 answer questions. I have been pleased to receive strong support for the opportunities that the
20 merger presents, in particular for the proposed customer savings and improved storm response.

1 I've been extremely pleased to get to know the leaders of Rutland community. I have met with
2 Rutland Mayor, Christopher Louras on numerous occasions and reiterated the Combined
3 Company's commitment to maintain and build on CVPS's prominent role in the Rutland area.
4 This includes commitments to: maintain the same proportional level of employees in Rutland as
5 existed previously; site the Combined Company's Headquarters for Operations and a new
6 Energy Innovation Center in Rutland City or Rutland Town; locate a Combined Company
7 facility in downtown Rutland; and ensure that the Combined Company will continue to play an
8 active and permanent role in the community, as well as support Rutland's efforts to recruit new
9 business activity. These commitments, as well as the City's support for the merger, are included
10 in the Memorandum of Understanding ("MOU") attached as Exhibit 1 to Mayor Louras'
11 testimony filed on January 20, 2012. The MOU represents a true partnership with the City and
12 we look forward to exploring a range of new opportunities in Rutland. We are also very pleased
13 that Rutland recognizes the tremendous value of the merger for Vermonters, with at least \$144
14 million in customer savings over the first ten years and more beyond that.
15
16 Finally, we have made good progress in securing the necessary governmental and shareholder
17 approvals, in addition to Board approval:

1

Federal Energy Regulatory Commission	Pending
Federal Trade Commission (Hart-Scott-Rodino)	Waiver granted September 26, 2011
Federal Communications Commission	Pending
Nuclear Regulatory Commission	Pending
Committee on Foreign Investments	Approved November 22, 2011
New York Public Service Commission	Waiver granted November 22, 2011
New Hampshire Public Utilities Commission	Pending
Maine Public Utilities Commission	Approved November 22, 2011
CVPS Shareholder Approval	Approved September 29, 2011

2

3 **Savings Sharing Plan**

4 **4. Q. Dr. Wilson (at page 34 of his direct testimony) claims that the proposed**
5 **savings sharing plan is “very heavily weighted toward the Company’s benefit and against**
6 **the ratepayer share” and there should be “a more ratepayer-friendly split.” What is your**
7 **response?**

8 **A. (Powell)** I disagree. The savings sharing plan is balanced to reflect our
9 commitment to deliver value to our customers as well as the appropriate level of incentive for the
10 investment necessary to achieve these savings. Gaz Métro, rather than customers, is responsible
11 for the acquisition premium, merger transaction costs, bank fees, payments to outside experts and

1 lawyers, the break-up fee payable to Fortis, and executive change in control payments. The
2 Combined Company is responsible for guaranteeing the \$144 million in savings to customers.
3 Even if no savings are achieved through the actual integration, the Combined Company is on the
4 hook to customers at the end of the ten-year period. The Combined Company bears nearly all of
5 the risks associated with our commitment to no mandatory layoffs or relocations, which
6 precludes a significant amount of near-term savings. This commitment means that the savings
7 will occur more slowly than they otherwise would in a typical Wall Street-style merger where
8 companies have strong incentives to realize quick cost-cutting to increase return for investors.

9
10 Under our shared savings plan, 57% of savings go to customers and 43% go to the Combined
11 Company on a present value basis over the first ten years. After year six and beyond, 100% of
12 savings go to customers. Under these circumstances, I feel strongly that the sharing plan we
13 have proposed is appropriate and should be approved.

14
15 For the same reasons, the Board should reject claims by other witnesses that no part of costs of
16 the proposed solar city project and low income support program should be included in rates.
17 These programs are consistent with policies of the Legislature and this Board, and it would be
18 illogical to fund investments of this nature with no return.

1 **5. Q. On page 3 of his direct testimony, Mr. Gorman disputes the “Petitioners’**
2 **claim that customers will receive at least \$144 million of merger savings over the first 10**
3 **years.” Do you agree?**

4 **A. (Powell)** No. The Combined Company guarantees these savings to customers. I
5 remain extremely confident that we will be able to achieve these savings for our customers
6 through a plan to find efficiencies, reduce duplicative services, and eliminate redundancies that
7 exist between two fully-regulated monopoly companies with adjoining service territories. As
8 savings accrue, we have outlined a responsible plan to share these savings with customers.
9 However, if the total savings reflected in rates during the ten years after the merger closing are
10 less than \$144 million, the Combined Company guarantees that it shall provide to customers the
11 difference by means of a plan approved by the Board.

12
13 **CEED Fund**

14 **6. Q. Please outline the Petitioners’ new proposal for the Community Energy and**
15 **Efficiency Development Fund.**

16 **A. (Powell)** While we remain confident that our initial proposal satisfies the so-
17 called “windfall sharing” obligation set forth in Docket Nos. 6460/6120, we have proposed a
18 new CEED Fund to return an additional \$20.9 million in value to CVPS customers. This \$20.9
19 million is in addition to the \$144 million in savings that we have guaranteed to all customers
20 over the first ten years. As explained in more detail in Mr. Griffin’s testimony, this CEED Fund
21 is modeled after the GMP Efficiency Fund approved by the Board in Docket No. 7213. As Mr.
22 Griffin also explains, the CEED Fund also addresses the principles for a fund identified by the

1 Department of Public Service (“Department”). Like the GMP Efficiency Fund, the CEED Fund
2 will invest in efficiency measures, community-based renewable energy, and other improvements
3 that will create additional value and benefit for CVPS customers.

4

5 The GMP Efficiency Fund has been highly beneficial for GMP customers, returning net benefits
6 of approximately \$13 million since 2008. The new CEED Fund is designed to deliver value to
7 CVPS customers in excess of the amount of the windfall sharing obligation. The Fund will
8 allow for new types of investments, and for innovative methods of financing for customers.

9

10 Detailed information on the value provided by the CEED Fund is included in testimony offered
11 by Mr. John J. Plunkett. In summary, Mr. Plunkett indicates that there is ample potential for the
12 CEED Fund to provide benefits for CVPS customers that will more than satisfy the so-called
13 windfall sharing obligation. The value to CVPS customers is estimated at approximately \$40
14 million and could be leveraged into many millions more in benefit through innovative financing
15 approaches.

16

17 This approach represents a greater value to CVPS customers over the long-term than the one-
18 time payment approach, which has been advocated by at least one intervenor.

1 **VELCO and VLITE**

2 7. Q. How have the parties in this Docket responded to your proposal to transfer
3 VELCO stock to VLITE and to limit the Combined Company's ability to control VELCO
4 and Vermont Transco LLC ("Transco")?

5 A. (Powell) All of the parties appear to agree in principle with our position that the
6 Combined Company should not have the power to unilaterally control VELCO. They also do
7 not appear to challenge the fact that transferring VELCO shares, and thereby precluding the
8 Combined Company from electing a majority of directors, is an appropriate mechanism to
9 address VELCO control and governance. Instead, the parties either disagree on the details, such
10 as how the remaining VELCO directors should be elected, or propose more radical measures to
11 achieve these goals.

12
13 For more than fifty years, VELCO has been a critical infrastructure asset for Vermont utilities
14 and has provided tremendous value to customers in the form of more affordable electricity rates
15 and highly reliable service. VELCO is a well-run private company and its future governance
16 should be structured to maintain its significant value to the State. In our Joint Petition, we
17 proposed that the Combined Company not hold a majority of VELCO shares because we accept
18 that no single entity should control this important asset. We proposed and we favor a
19 governance system for VELCO that assures that the Combined Company will not have the
20 unilateral ability to control VELCO, but does not marginalize the utility owners who provide the
21 funding for – and bear the risk of – the enterprise.

1 In recent legislative activity outside of this docket, one intervenor has publicly argued that a
2 condition of the merger should be to compel the Combined Company to sell 51% of total
3 Transco assets to a single entity – state government – which would effectively allow the State of
4 Vermont to control both VELCO and Transco and redirect benefits away from customers. I will
5 leave the numerous legal and financial reasons against this proposal to others. I want to state
6 emphatically that the Transco assets are not for sale. The Transco assets are a critical component
7 of how the Combined Company intends to manage risk in order to provide value and benefit for
8 our customers. The forced sale of Transco assets would represent a radical departure from the
9 underlying value equation to our customers and economics of this acquisition to our investor.

10

11 We remain open to how to best address governance issues affecting the VELCO board. We ask
12 the Board to reject proposals that are unnecessarily complex, or open VELCO to the distraction
13 of political discord. These types of changes will only serve to make this already complex system
14 more opaque to our customers. The public interest is served best by simplicity and transparency.
15 Plus, as Mr. Dutton and Ms. Brownell articulated so well in their testimony on behalf of
16 VELCO, the layers of public oversight already in place for transmission projects provide a strong
17 safeguard and powerful recourse against any actions that are outside the public interest.

18

19 Our original proposal to willingly give up majority ownership of VELCO shares is a fair and
20 equitable solution to the shared goals of ensuring no single entity can unilaterally control
21 VELCO. Further, the dividends from the transfer of VELCO shares to VLITE are an important
22 part of our commitment to supporting low-income Vermonters.

1 **8. Q. On a somewhat related issue, do you support Mr. Gorman's**
2 **recommendation, on pages 18-19 of his direct testimony, that at least two members of**
3 **Northern New England Energy Corporation's and/or GMP's Board of Directors be**
4 **"independent" of Gaz Métro?**

5 **A. (Powell)** GMP has a long history of having independent directors on its board. I
6 do not agree with Mr. Gorman's recommendation, which is an inappropriate intrusion into
7 Northern New England Energy Corporation's ("NNEEC") and GMP's governance.

8

9 **Importance of June 30, 2012 Closing**

10 **9. Q. Why is it important to close the acquisition of CVPS by June 30, 2012?**

11 **A. (Powell)** There are two reasons why it is good for customers that we close the
12 acquisition by June 30, 2012. First, the sooner we close, the sooner we can start delivering value
13 to our customers. We are eager to begin realizing efficiency savings for our customers and that
14 cannot occur until we start the actual integration of services.

15

16 Second, as described in rebuttal testimony by Ms. Bugbee and Mr. Griffin, we have agreed with
17 the Department's proposal to implement the savings sharing plan and consolidated rate
18 requirements at the start of the next fiscal year on October 1, 2012, which will be helpful in
19 customer communications and sharing of merger savings. This rate implementation requires that
20 the merger of the companies occur by that date. There are many steps that are required
21 immediately after the acquisition closing to allow for the first rate year of the Combined
22 Company to begin October 1. This will aid the smooth combination of GMP's and CVPS's

1 Alternative Regulation Plans, an orderly rate integration process for future fiscal years, and the
2 implementation of a long-term financing plan for the Combined Company. If we are out-of-sync
3 with the start of a new fiscal year on October 1, the complexity of regulatory filings would
4 increase, which benefits none of the parties involved.

5

6 **A. (Reilly)** In addition to Ms. Powell's reasons, I offer three additional reasons why
7 it is good for customers to close the acquisition by June 30, 2012: First, closing the transaction
8 by June 30, 2012 will help ensure that CVPS does not have to pay a common stock dividend in
9 August. At present, I expect CVPS would conditionally declare the dividend in July, set a record
10 date of August 1, 2012, and payment date of August 15, 2012. If the transaction is closed by
11 June 30, 2012, the amount of the August 15 dividend will not be paid to existing CVPS
12 shareholders and will instead be an asset of the acquired company (i.e., CVPS), available to
13 offset borrowings or otherwise benefit customers.

14

15 Second, if we close by June 30, 2012, CVPS will save costs of preparing a second quarter Form
16 10-Q filing with the Securities and Exchange Commission. The costs of preparing these filings
17 are significant. Avoiding them will directly benefit customers, based on the savings sharing plan
18 described by Mr. Griffin.

19

20 Third, the sooner we are able to close, the more we can shorten the time of uncertainty for
21 employees, and minimize the risk that valuable employees might seek other employment. In any
22 merger of this size, and despite our commitment that there will be no layoffs or mandatory

1 relocations, a level of uncertainty exists among employees of both companies. While Ms.
2 Powell and I will continue to meet with employees to allay concerns, as we have done over the
3 last six months, the most effective way to curtail uncertainty is to begin the actual integration of
4 the two companies.

5

6 **10. Q. What is necessary to facilitate a June 30 closing?**

7 **A. (Powell)** First, it is important that we receive a Board order as early in June as
8 possible, in order to complete the efforts needed to close the acquisition by June 30, 2012.

9 Second, it is just as important that CVPS and GMP have the unilateral ability to comply with any
10 conditions contained in the Board's order. For instance, if there were a condition requiring the
11 agreement of a third party, it would be uncertain whether and when the acquisition closing could
12 occur. The potential that a condition may be problematic is real because many of the other
13 parties' VELCO-related proposals, such as the proposal for "general good directors," are
14 complex, and may require legislative or other actions. For example, I am informed that the
15 proposal to create a State Transmission Nominations Board to select "general good directors"
16 would likely require legislative authorization. As an additional example, a requirement that the
17 VELCO shares be transferred to an entity other than VLITE will result in the entity's acquisition
18 of a 10% ownership interest in VELCO and the requirement for Board approval under Section
19 107.

20

21 In order to avoid these problems with VELCO-related conditions, the Board should impose
22 conditions necessary to assure that the Combined Company will (1) not have the unilateral

1 ability to control VELCO, through the transfer of shares to VLITE as proposed in our Joint
2 Petition, and (2) not have the unilateral ability to remove VELCO as manager of Transco. It is
3 not necessary, on the other hand, for the Board in this proceeding to nail down every detail
4 related to these conditions, such as control of individual VELCO director seats or how VLITE
5 should be governed.

6

7 For these reasons, the conditions should be based on the following principles:

- 8 1. CVPS shall transfer to VLITE approximately 33% of the Class B voting common stock,
9 and approximately 31.7% of the Class C non-voting common stock in VELCO, as
10 proposed by the Petitioners. The Combined Company shall take all actions necessary to
11 assure that VLITE is owned, managed and operated in a manner consistent with any
12 requirements that may be imposed in a future Board proceeding; and
- 13
14 2. CVPS and GMP shall take all actions necessary to amend the Transco Operating
15 Agreement to ensure that the Combined Company cannot unilaterally change VELCO's
16 status as operator of the transmission system or as the manager of Transco.

17

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

19 **A. Yes.**