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March 27, 2012

Mrs. Susan M. Hudson, Clerk
Chittenden Bank Building
Vermont Public Service Board
112 State Street - Drawer 20
Montpelier, VT 05620-2701

Re: Docket No. 7770

Dear Mrs. Hudson:

Enclosed are the Department's Responses to the Board's Advance Questions dated March 19, 2012.

Relevant information pertaining to items 24-26:

24. On May 16, 2011, at the time Gaz Metro made an offer of $34 per share for CVPS (prior to CVPS entering into the Fortis agreement on May 27), did Gaz Metro have an expectation that, if its bid was accepted by CVPS, it would subsequently be granted an incentive by Vermont regulators for pursuing such a bid and would likely be able to recover a portion of the significant acquisition premium it would pay through some form of shared savings with ratepayers? If so, what was the basis for this expectation at the time?

Answer: The Department does not have any information within the time frame asked. GMP executives subsequently indicated to the Department that it would be stretching to make an acquisition that would provide a high level of benefit to Vermont ratepayers through merger savings that would not otherwise be achieved through the other acquisition deal presented (Fortis), and would propose to share in those savings as a means to achieve the deal.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

25. See CVPS Proxy Statement at 27-28 with respect to this question and some of the following questions. In the period between May 16 and May 27, 2011 or earlier, did Gaz Metro, GMP or their representatives have significant substantive

> discussions with CVPS about the apparent perception of CVPS's management and board of directors that "Gaz Metro's offer was likely to involve significantly more challenges to receive regulatory approval" and that "the transaction with Gaz Metro would potentially be subject to and could require new or different standards for regulatory review" and about how these perceived obstacles might *be overcome.*

Answer: No information within the time frame asked. The Department was informed of the Fortis acquisition for the first time during Memorial Day weekend. Subsequent to hearing of the Fortis acquisition offer, the Department learned from CVPS representatives (Brian Keefe, Larry Reilly) that CVPS believed the Fortis deal would be viewed substantially similarly to the Gaz Metro acquisition of GMP and would be structured in the same manner by CVPS/Fortis. In this regard, the Department notes that the original press release indicates customer savings in the amount of $21M, "in a manner to be determined through the regulatory process." In subsequent discussions with CVPS and Fortis the Department learned that Fortis anticipated providing that $21M in value to CVPS ratepayers through fund investments. No other defined or quantified benefits to Vermont ratepayers were delineated apart from savings associated with no longer operating as a public company and expected savings in the future resulting from a more financially robust owner.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

> 26. From the perspective of Gaz Metro and OMP, what were the specific concerns of CVPS with respect to regulatory challenges and Gaz Metro's position on regulatory approvals (in the mark-up of the acquisition agreement presented to CVPS) that caused CVPS not to accept Gaz Metro's $34 per share offer of May 16 even though, at the time, it was about 12% higher than any other bidder's "firm and final" offer.

Answer: The Department does not possess any relevant information.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

> 27. In his testimony for the Department, Mr. Wilson (p1 at 29 et seq.) references the "benefits exception" as a rare deviation (adopted by regulatory authorities in some other jurisdictions) from the normal regulatory practice of not allowing a company that acquires a utility from recovering in rates any portion of an acquisition premium it paid to acquire the utility. Mr. Wilson also suggests that

given the competition with Fortis to acquire CVPS, the possibly unique benefits to ratepayers of this particular acquisition and consolidation of utilities to ratepayers (who would not otherwise have obtained such benefits), and the express $144 million monetary commitment made to ratepayers, the Petitioners might be able to meet the heavy burden of proof required to justify recovery by Gaz Metro of a portion of its acquisition premium under the "benefits exception," assuming the Board is willing to adopt that exception as applicable in Vermont.

Answer: Dr. Wilson provided a narrative response to this question from Board Staff at today's hearing.

Person Responsible for Response: John Beling
Title: Director for Public Advocacy
Date: March 27, 2012

29. In his testimony for the Department, Mr. Wilson states that the acquisition of CVPS by Gaz Metro "will reduce or eliminate the potential for independent 'intermodal' gas/electric competition for major business and residential energy needs in a significant portion of the state." Please be prepared to address this at the technical hearings.

Answer: Dr. Wilson provided a narrative response to this question from Board Staff at today's hearing.

Person Responsible for Response: John Beling
Title: Director for Public Advocacy
Date: March 27, 2012

Relevant information pertaining to items 40-46:

40. In the discussion of the background for the merger in the CVPS proxy statement filed with the SEC, CVPS mentions its concern with respect to Gaz Metro's $34 per share offer of May 16, 2011, about "a provision that significantly weakened Gaz Metro's obligations in connection with regulatory approvals." (Proxy Statement at 27) What was nature of that provision? Did such provision differ significantly from the "material adverse effect" provision related to regulatory approval conditions contained in Section 6.1 (c) of the current Gaz Metro acquisition agreement? In the view of CVPS's management, would the failure of the Board to approve the proposed savings sharing plan constitute the imposition of a term or condition that would reasonably be expected to have a material adverse effect on NNEEC for purposes of Section 6.1(c)?

Answer: The Department does not possess any relevant information.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

41. As detailed in the CVPS Proxy Statement, Gaz Metro, in response to a request by CVPS for "firm and final offers," made an offer of $34 a share and Fortis made an offer of $30.27 per share on May 16, 2011. Did CVPS's management have any significant substantive discussions with Gaz Metro, OMP or their representatives about potential regulatory challenges involved in the Gaz Metro offer and how these might be overcome before the board of directors concluded on May21 that it could not declare a winner of the bidding process, even though the Gaz Metro offer was about 12% higher than any other bid?

Answer: The Department does not possess any relevant information.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

42. Reference is made to the CVPS Proxy Statement at 27 regarding the determination of the CVPS Board of Directors at meeting on May 21, 2011: Although Gaz Metro's offer price meaningfully exceeded the offers of Fortis and Company B, the board was concerned that Gaz Metro's offer was likely to involve significantly more challenges to receive regulatory approval and, related thereto, Gaz Metro's mark-up of the merger agreement significantly weakened the steps required by Gaz Metro to obtain regulatory approval and allowed Gaz Metro to terminate the agreement without penalty if conditions imposed in regulatory approvals had a material adverse effect on Gaz Metro's (unspecified) expected benefits from the transaction. [emphasis added]. Please explain why CVPS's management and board of directors believed at that time that Gaz Metro's offer "was likely to involve significantly more challenges to receive regulatory approval."

Answer: The Department cannot comment on the CVPS board decision at the time referenced in the question but, as explained in answer 25 above, CVPS and Fortis did convey to the Department, subsequent to announcing the acquisition deal, that they believed the Fortis deal fit substantially the Gaz Metro acquisition of GMP and therefore would have a smooth regulatory approval path, despite the difference in bid process.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

43. Please also explain why CVPS's management and board of directors believed the relevant regulatory challenges and Gaz Metro's position on regulatory approvals (in the mark-up of merger agreement presented to CVPS) were of such significance that it caused CVPS not to accept Gaz Metro's $34 per share offer of May 16, even though it was about 12% higher than any other bidder's "firm and final" offer at the time.

Answer: The Department does not possess any relevant information.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

44. Reference is made to the CVPS Proxy Statement at 28 regarding the consideration of competing bids at a telephonic meeting of the CVPS Board of Directors on May 25, 2011:

[W]hile Vermont regulatory approval of a transaction with Fortis would require a determination by the Vermont regulators that certain previously announced standards would be satisfied by a transaction with Fortis, the board noted that a transaction with Gaz Metro would potentially be subject to and could require new or different standards for regulatory review. [emphasis added]

Please explain why CVPS's management and board of directors believed at that time that a transaction with Gaz Metro "would potentially be subject to and could require new or different standards for regulatory review."

Answer: While the Department cannot comment upon the specific time frame or state of mind of the CVPS Board, the Department did learn from CVPS and Fortis after acceptance of the Fortis bid that the CVPS Board judged the Fortis acquisition substantially similar to the Gaz Metro acquisition of GMP and viewed that positively when weighing its decision. The Department also incorporates its response to 27iii above; the lack of similar precedents in Vermont and the unique situation presented by the merger of Vermont's two largest investor-owned utilities likely will present a need for new or different standards for regulatory review; the merger provides an opportunity, if it is approved and if proper conditions are put in place to assure savings can be achieved, to bring significant benefit to Vermont ratepayers that would not be available in a typical third-party acquisition such as that presented by the Fortis deal or by the prior Gaz Metro acquisition of GMP..

Person Responsible for Response: Elizabeth Miller

Title: Commissioner
Date: March 27, 2012

45. At the time of the May 21 and May25 board meetings, did CVPS's management or board of directors take into account the potential ratepayer savings that would result from an acquisition by Gaz Metro and a merger between CVPS with GMP, and the effect that might have on the receptivity of regulators to the proposed Gaz Metro transaction?

Answer: The Department does not possess any relevant information.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

46. At any time during the period from May 16 to May 27, 2011 or earlier, did executive officers or directors of CVPS have any significant substantive discussions with Gaz Metro and GMP about CVPS's concerns that the "Gaz Metro's offer was likely to involve significantly more challenges to receive regulatory approval" and that "the transaction with Gaz Metro would potentially be subject to and could require new or different standards for regulatory review" and how these concerns might be overcome. See CVPS Proxy Statement at 27-28.

Answer: The Department does not possess any relevant information.

Person Responsible for Response: Elizabeth Miller
Title: Commissioner
Date: March 27, 2012

47. At several places in his prefiled direct and surrebuttal testimony, Mr. Wilson references discovery responses that are not included in his testimony, To the extent such discovery responses inform or are relevant to Mr. Wilson's testimony, the Department should seek to admit them into evidence.

Answer: Such documents were admitted into evidence at today's hearing.

Person Responsible for Response: John Beling
Title: Director for Public Advocacy
Date: March 27, 2012

49. With respect to the Board's consideration of whether the "benefits exception" should apply in this case to allow partial recovery of the acquisition premium from merger savings, does Mr. Wilson believe that expectation of the acquirer at

the time it makes an offer for a regulated utility as to the possible partial recovery of the acquisition premium could be a relevant factor in determining whether the "benefits exception" should apply. Namely, should the absence of any such expectation, or if there is such a expectation, the reasonableness of such expectation, at the time of the bid have any relevancy in determining whether the "benefits exception" should apply?

Answer: Dr. Wilson provided a narrative response to this question from Board Staff at today's hearing.

Person Responsible for Response: John Beling
Title: Director for Public Advocacy
Date: March 27, 2012

50. Does the Department intend to make specific recommendations to the Board concerning the proposed shared savings plan and the terms thereof?

Answer: The Department's specific recommendations concerning the shared savings paln is embodied in the Memorandum of Understanding filed with the Board today.

Person Responsible for Response: John Beling
Title: Director for Public Advocacy
Date: March 27, 2012

Thank you for the opportunity to provide these responses.

Sincerely,

John Beling
Director for Public Advocacy

Enclosure

cc: Docket 7770 Service List