

**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)
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. 7770

REBUTTAL TESTIMONY OF

BRIAN OTLEY

ON BEHALF OF THE PETITIONERS

February 15, 2012

Summary of Testimony

Mr. Otley supports the VEC-GMP MOU, GMP's agreements with Hyde Park and VPPSA, and VEC and BED's proposed changes to the Highgate JOA. Mr. Otley also responds to DPS witness John Wilson's testimony regarding merger-related savings estimates, and to WEC witness Avram Patt's request regarding merger of the Combined Company's subtransmission tariffs.

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

2 **A. Yes.**

3

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

5 **A. The purpose of my testimony is to support the memorandum of understanding**
6 **(“MOU”)** between Vermont Electric Cooperative, Inc. (“VEC”) and Green Mountain Power
7 **Corporation (“GMP”), as well as GMP’s agreements with the Village of Hyde Park Electric**
8 **Department (“Hyde Park”) and Vermont Public Power Supply Authority (“VPPSA”), as**
9 **referenced in the direct testimony of VEC witness Jeffery Wright and VPPSA witness David**
10 **Mullett, respectively. I also support VEC and Burlington Electric Department’s (“BED”)**
11 **proposed changes to the Highgate Joint Ownership Agreement (“Highgate JOA”). I address**
12 **concerns raised by Department of Public Service (“DPS”) witness John Wilson regarding**
13 **merger-induced cost saving estimates. Finally, I respond to Washington Electric Cooperative**
14 **(“WEC”) witness Avram Patt’s request regarding merger of the Combined Company’s**
15 **subtransmission tariffs.**

16

17 **3. Q. Do Petitioners support the MOU between VEC and GMP attached as Exhibit**
18 **VEC-JMW-1 to the direct testimony of Jeffery Wright?**

19 **A. Yes.**

1 **4. Q. Do Petitioners support the agreement between Hyde Park and GMP**
2 **referenced on page 5 of the direct testimony of David Mullett?**

3 **A. Yes.**

4
5 **5. Q. Do Petitioners support the description of the arrangements between VPPSA**
6 **members and GMP and CVPS referenced on pages 5-6 of the direct testimony of David**
7 **Mullett?**

8 **A. Yes. Other than the agreements described in this testimony, GMP has no**
9 **intention of changing the current arrangements between CVPS and/or GMP and VPPSA**
10 **members.**

11
12 **6. Q. Do you agree with the proposed changes to the Highgate JOA described on**
13 **page 6 of Mr. Mullett's testimony and on page 5 of BED witness Kenneth Nolan's**
14 **testimony?**

15 **A. Yes. GMP will work with the Highgate joint owners to amend the Highgate JOA**
16 **as recommended by Mr. Mullett and Mr. Nolan.**

1 **7. Q. On pages 10-11 of his direct testimony, Dr. Wilson contends that a**
2 **substantial part of the Combined Company’s estimated post-merger information**
3 **technology (“IT”) cost savings would occur independent of the merger, and in less than ten**
4 **years. Is he correct?**

5 **A. Dr. Wilson claims that CVPS’ IT costs are high relative to benchmarks based on**
6 **the KPMG findings referenced in his testimony. For this reason, he claims that the IT-related**
7 **cost savings projected by GMP can be achieved independent of the merger. His conclusion,**
8 **however, is incorrect.**

9
10 The KPMG review involved a general, high level comparison of IT-related information provided
11 by CVPS with KPMG’s experience with other utilities. KPMG’s findings were limited to a
12 review of certain information provided by CVPS during the due diligence process performed by
13 Gaz Métro, and did not involve interviews of CVPS IT personnel or inspections of CVPS IT
14 infrastructure. In addition, KPMG’s high level analysis appears to involve “apples-to-oranges”
15 comparisons. For example, CVPS’s IT budgets include the costs for their field
16 telecommunications functions (such as radio, microwave and fiber optic communications
17 facilities), whereas other utilities typically include these types of field communications costs
18 within a field operations cost center rather than an IT cost center.

19
20 A more detailed and hands-on evaluation of CVPS’s overall staffing and cost levels was
21 performed in 2008 by Huron Associates (“Huron”) in connection with the Docket 7496
22 investigation into CVPS costs. Based in part on the Huron review, CVPS and the DPS reached a

1 settlement that was approved by the Vermont Public Service Board (“Board”) and that outlined
2 certain modifications to CVPS’s staffing and cost levels over a multi-year period. One of
3 Huron’s recommendations reflected in the settlement is that CVPS’s IT department reduce its
4 headcount over a three-year period in order to meet approved levels. Because the IT staffing
5 reductions are not attributable to the merger, they will not be counted as merger savings. I
6 believe that the CVPS IT cost levels, based on the detailed, hands-on nature of the Huron
7 findings and Board approval of the settlement, represent a much more reliable basis for
8 establishing CVPS IT costs in the absence of a merger than the KPMG findings.

9
10 In addition to his reliance exclusively on the KPMG findings, Dr. Wilson’s claim that our
11 projected IT cost savings could be achieved in the absence of a merger is also incorrect because
12 it does not take into account the realities of the IT function. In developing our estimates of
13 potential ten-year savings resulting from merging the companies, we confirmed that the majority
14 of the savings will come as a result of the “Noah’s Ark” nature of the Combined Company’s IT
15 function immediately after closing. For instance, there will be two help desks, two financial
16 accounting systems, two customer information systems, and two outage management systems.
17 The vast majority of savings in the IT function result from combining these IT processes and
18 systems into a single set of operations and infrastructure that will serve the Combined
19 Company’s customers in a more cost effective and streamlined manner. This can only occur in
20 the context of a merger, which permits the combination of two independent IT systems into a
21 single infrastructure.

1 In addition to the cost benefits of a combined IT system, we also believe that the implementation
2 of system improvements will occur faster as a result of the merger. For example, GMP
3 implemented a new telephony platform in 2011 to manage all voice transaction in the call center
4 and company. CVPS had future plans to upgrade its telephony platform, as well. Through the
5 merger, we will consolidate voice operations on the GMP platform and connect all company
6 locations. We will accomplish the migration to a single telephony platform faster and for less
7 cost than CVPS could have done on a standalone basis.

8

9 Another example of faster savings as a result of the merger relates to server virtualization.
10 Server virtualization allows organizations to operate on a smaller number of more efficiently
11 utilized servers. GMP began migrating to a virtualized infrastructure several years ago, and
12 CVPS is early in its migration to a virtualized infrastructure currently. Through the merger, we
13 will leverage GMP's existing virtual environment to achieve a fully virtualized infrastructure
14 supporting the Combined Company operations. We will be able to deliver this result faster and
15 for less cost than CVPS could have done on a standalone basis.

16

17 There are many additional examples of similar savings that GMP will deliver as a result of the
18 merger. These savings represent the vast majority of savings estimated for the IT function.

1 **8. Q. On page 10 of his testimony, Dr. Wilson also claims that near-term savings**
2 **benefits, most of which will accrue to GMP, are likely to be more reliable than estimates for**
3 **more distant years, when customers are allocated most of their benefits. Please respond.**

4 **A.** As with any forecasting or estimating, the projections in the early periods are
5 likely to be more accurate than those in the later periods. It is important to keep in mind,
6 however, that under the model of savings sharing proposed by the Petitioners, the Combined
7 Company will assume the most risk for delivering the guaranteed savings, especially in the early
8 years. Since the savings to be delivered to customers are guaranteed, and there is a finite time
9 frame in the early years for the Combined Company to share in those savings over the ten year
10 period, any shortfall in actual savings will be borne by the Combined Company. We have high
11 confidence in the level of savings we have identified. We have less confidence in the specific
12 time frames that we will be able to institute the organizational and operational changes required
13 to realize those savings given the restriction we imposed on ourselves with regards to layoffs and
14 relocation. Therefore, by limiting the Combined Company's savings sharing period to the early
15 years we are assuming the risk for delivering savings as a result of our operational execution. It
16 is also important to note that the savings are cumulative. A dollar saved in the early years is
17 therefore a dollar saved for the future.

1 **9. Q. Please respond to Mr. Patt’s request, at pages 20-21 of his direct testimony,**
2 **that the Board condition approval of the merger upon measures that hold WEC harmless**
3 **from any rate increase resulting from merger of the Combined Company’s**
4 **subtransmission tariffs.**

5 A. Over the past three years, GMP has made significant investments in its
6 transmission system to improve reliability including substation re-builds at our Essex Gorge and
7 Lime Kiln facilities as well as substation technological upgrades implemented as part of the
8 eEnergy VT Smart Grid grant from the Department of Energy. As a result of our recent,
9 increased investment in our transmission system, it would be appropriate to adjust GMP’s
10 subtransmission rates to recover these increased costs. Such a rate increase would occur
11 regardless of the proposed merger.

12
13 Mr. Patt proposes in his testimony that rate mitigation should be accomplished by allowing
14 customers that have been served on GMP’s transmission rate prior to the merger, such as WEC,
15 to pay rates that GMP would have charged as a standalone company, absent the merger. This
16 issue is currently being litigated by WEC in our request for Federal Energy Regulatory
17 Commission (“FERC”) approval of the merger. It does not make sense to have two possibly
18 conflicting regulatory conditions concerning this issue.

19
20 Through collaborating with WEC and Mr. Patt, we hope to develop a plan for managing any
21 transmission rate increases as a result of blending the transmission rates of GMP and CVPS that

1 both parties support. This will be accomplished at the FERC, which has exclusive jurisdiction
2 over GMP's, CVPS's and the Combined Company's transmission rates.

3

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

5 **A. Yes.**