

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

February 15, 2012

Summary of Testimony

Mr. Griffin responds to various criticisms concerning the rate-related aspects of GMP and CVPS's proposal. These include (1) calculation and sharing of integration-related savings, (2) integration of the alternative regulation plans, rate filings, and tariffs of GMP and CVPS, and (3) satisfaction of the "windfall sharing obligation."

**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.** Among other things, I respond to various criticisms concerning the rate-related
6 aspects of the proposal identified in my direct testimony. These include (1) calculation and
7 sharing of integration-related savings, (2) integration of the Central Vermont Public Service
8 Corporation (“CVPS”) and Green Mountain Power Corporation (“GMP” or the “Company”)
9 Alternative Regulation Plans (“Plans”), rate filings and tariffs of GMP and CVPS, and (3) return
10 of value to CVPS customers in excess of the windfall sharing obligation through the new
11 Community Energy and Efficiency Development Fund (“CEED Fund”).

12

13 **Savings Sharing Calculation**

14 **3. Q. Please summarize GMP’s proposal for measuring merger-related savings.**

15 **A.** As a preliminary matter, it may be helpful to summarize GMP’s proposal for
16 measuring merger-related savings, as described in my direct testimony. As I indicated, we
17 propose that the merger-related savings be calculated each year by comparing actual (post-
18 merger) costs reflected in certain Operations and Maintenance (“O&M”) accounts, listed in **Exh.**

1 **Pet.-RJG-3**, with the corresponding costs incurred prior to the merger and escalated by an
2 appropriate inflation factor. The difference, reflecting the merger-related savings, will be
3 calculated annually and shared between GMP and customers for the first six years. Thereafter all
4 of the savings will be reflected in rates and flowed to customers. Over a ten-year period, \$144
5 million of expected O&M savings accrue to the benefit of customers. This equates to a net
6 present value (“NPV”) of approximately \$81.2 million or 57% of the expected O&M savings to
7 customers and approximately \$61.8 million (NPV) or 43% to the benefit of GMP. A summary
8 description of the methodology for calculating the shared savings is set forth in **Exh. Pet.-RJG-**
9 **4**.

10
11 **4. Q. On pages 22-23 of their direct testimony, Mr. Bradford and Mr. Silkman**
12 **claim that merger benefits must be flowed through immediately by means of a reduction in**
13 **revenue requirements. Do you agree?**

14 **A.** I do not agree. They do not identify any basis for this requirement, other than a
15 claim that it is typical to do so. Mr. Hevert, however, demonstrates that other Public Utility
16 Commission decisions have approved plans similar to GMP’s proposal to share savings over a
17 multi-year period. Mr. Bradford and Mr. Silkman also do not take into account the \$144 million
18 savings guarantee or the fact that, under our proposal, there will be no layoffs (except for a few
19 executives) or mandatory relocations of employees.

1 **5. Q. Dr. Wilson (11-12) claims that GMP ignores savings that would occur in the**
2 **absence of the merger, by failing to adjust its O&M costs in rates to reflect the non-power**
3 **cost cap and associated productivity adjustment contained in GMP's Plan. Do you agree?**

4 **A.** No, I do not agree. Historically O&M costs have risen above the level of inflation
5 for CVPS as a standalone company, and this has also been true if we aggregate historical costs
6 for both CVPS and GMP. The rational assumption is that these long-term trends would remain
7 the same and no witness has demonstrated why this historical trend would not continue absent
8 the merger.

9
10 In addition, GMP will continue to apply the non-power cost cap (based on inflation less
11 productivity) to base rate adjustments that have applied previously under each company's
12 alternative regulation plan. As a result, the post-merger base rate adjustments, including the
13 O&M component reflecting pre-merger costs, will continue to be subject to the cap. To the
14 extent that the total non-power supply costs exceed the cap, the revenue requirement for the base
15 rate adjustment will be reduced accordingly.

16
17 **6. Q. On pages 6-8 of his direct testimony, Mr. Goulding proposes a number of**
18 **conditions that should be met before the merger is approved. What is your response?**

19 **A.** Mr. Goulding claims that the following specific changes to regulation must occur
20 before "the merger can be deemed to promote the general good":

- 21 • There must be a cost of service filing and a revised Alternative Regulation Plan, and
22 the CVPS rates must be frozen until these occur;
23 • The allowed return on equity must be decreased;
24 • There must be a minimum productivity factor;

- 1 • The Combined Company must be benchmarked against all US utilities and the
2 Service Quality and Reliability Plan must include standards to assure that the
3 Combined Company places in the top quintile; and
- 4 • The Combined Company must competitively procure all future generation required to
5 meet its needs.
6

7 As an initial matter, Mr. Goulding does not explain why the \$144 million in guaranteed savings
8 does not achieve the goal of promoting the general good. I address elsewhere in this rebuttal
9 testimony Mr. Goulding's claims concerning a cost of service filing. Mr. Hevert addresses Mr.
10 Goulding's claim that a lower allowed return on equity is appropriate.

11
12 I disagree with Mr. Goulding's claim that benchmark companies included in the alternative
13 regulation plan's productivity adjustment should be revised to reflect GMP's increased size.

14 First, this is the type of issue that is more appropriately addressed in connection with addressing
15 other required revisions to the alternative regulation plan, rather than in this proceeding.

16
17 Second, while the combination of GMP and CVPS creates a larger utility, we will remain smaller
18 (in terms of customers served) than a number of benchmarked companies in our plan including
19 United Illuminating, CH Energy Group and Rochester Gas and Electric. The benchmarked
20 group was chosen based upon factors involving similar climates (operating in relatively cold
21 weather), size and customer density. Comparisons to all utilities, including much larger utilities
22 or those operating in warmer climates, would therefore be inconsistent with the criteria used to
23 select the benchmarked companies.

1 Third, GMP has adopted a no-layoff approach and therefore will not be able to achieve
2 efficiencies to the same degree as other benchmarked companies. A minimum productivity
3 factor would therefore be inequitable to GMP relative to other benchmarked companies, given
4 our commitment and the significance of labor and benefit costs as a proportion of benchmarked
5 O&M spending.

6
7 Many of the same above arguments apply to Mr. Goulding's claim that Service Quality and
8 Reliability Plans should carry increased penalties. The \$144 million guaranteed benefit has not
9 been accounted for in Mr. Goulding's calculus; the companies already have penalties in place
10 regarding service quality and customer surveys, and other metrics do not suggest that there is a
11 problem that needs to be addressed that requires more punishing service metric penalties than
12 exist currently. Again, this matter is probably better left for a future proceeding, if at all.

13 For all of these reasons, there is no basis for requiring a change to the benchmarked group or
14 related changes to the GMP Alternative Regulation Plan ("GMP Plan") in this proceeding.

15
16 I disagree with Mr. Goulding's proposed requirement that the Combined Company must procure
17 all future generation required to meet its needs through a competitive process. His suggestion
18 (page 4) that such a requirement is needed to avoid an increase in "monopsony buying power" is
19 inconsistent with the facts. We procure power in the New England market, and GMP's needs
20 represent a miniscule portion of the New England load. The acquisition does not meaningfully
21 affect generator access to either GMP or other potential purchasers of power.

1 I also disagree with Mr. Goulding's claim (page 8) that a competitive process would benefit
2 customers by assuring that developers bear generation cost, construction and operational risk,
3 and that it would result in lower costs relative to GMP-owned plants. Mr. Goulding presents no
4 facts to support his view, and the extensive regulatory oversight over GMP's power procurement
5 demonstrates that his claims are not credible. GMP is subject to a variety of regulatory
6 requirements regarding its power supply procurement process including least cost planning, an
7 integrated resource plan (long term planning) with annual updates, individual regulatory filings
8 regarding procurement of material power supply contracts, and Public Service Board ("Board")
9 approval to construct in-state generation. There are also a variety of legislative requirements that
10 GMP must comply with that affect the power supply portfolio. The regulatory proceedings are
11 open to the public, and generators, customers, and other affected entities can seek intervenor
12 status. These processes are more than sufficient to protect the public, to support the acquisition
13 of competitively priced power supply resources, and to meet renewable generation goals or
14 standards.

15
16 Precluding GMP from constructing renewable or other generation or from negotiating bilateral
17 arrangements would not result in lower costs for customers and would not help attain other goals
18 for the power supply portfolio. While competitive solicitations have their place in every
19 portfolio, an exclusive reliance on any one avenue of procurement will by definition reduce both
20 the flexibility and opportunities available to customers. For example, GMP constructed hydro
21 facilities that are now our lowest cost resources; customer costs for these renewable resources
22 declined significantly once the investments were paid for.

1 **7. Q. Mr. Gorman claims, on page 11 of his direct testimony, that the \$144 million**
2 **guarantee represents only a best efforts promise rather than a guarantee. Do you agree?**

3 **A. No. In the event of a shortfall at the end of the ten-year period, GMP will return**
4 **the deficiency by means of a plan approved by the Board. The amount of total savings – \$144**
5 **million – is guaranteed.**

6
7 **Rate Implementation**

8 **8. Q. On pages 4-5 of his direct testimony, Mr. Foley suggests that the first**
9 **consolidated base rate adjustment should be effective October 1, 2012, rather than January**
10 **1, 2013 as described in your direct testimony. What is your response?**

11 **A. The Company does not oppose Mr. Foley’s alternative proposal that the first**
12 **consolidated base rate adjustments be effective October 1, 2012, rather than January 1, 2013 as**
13 **described in my direct testimony, and agrees that this can be a simpler and more efficient**
14 **solution. This assumes that we are able to close on the acquisition by June 30, 2012. The**
15 **advantages as discussed in Mr. Foley’s testimony include avoiding the extension of GMP’s rate**
16 **year by three months through the end of 2012, and maintaining GMP’s September 30th fiscal**
17 **year end. We would utilize a test year ended December 31, 2011. See Exh. Pet.-RJG-5, which**
18 **presents a revised timeline for the rate implementation based on Mr. Foley’s recommendation.**
19 **This proposal will require changes to the GMP Plan and the CVPS Alternative Regulation Plan**
20 **(“CVPS Plan”) that must be approved prior to the filing of the consolidated base rate adjustment**
21 **on August 1, 2012. As a result, GMP and CVPS intend to file a request for the changes this**
22 **Spring, to be effective contingent on Board approval of the acquisition and merger.**

1 **9. Q. On pages 8, 3, and 6 of their respective direct testimonies, witnesses**
2 **Rosenberg, Driscoll, and Goulding claim that there should be no rate changes until a full**
3 **rate investigation has been completed. Please respond.**

4 **A.** I disagree with witnesses Rosenberg, Driscoll, and Goulding, who propose an
5 arbitrary suspension of rate changes until a cost of service review. The GMP and CVPS Plans
6 have provided both the Department of Public Service (“Department”) and the Board ample
7 opportunity annually to review each company’s cost of service. The GMP and CVPS Plans have
8 produced just and reasonable rates for customers. The proposed suspension of alternative
9 regulation as proposed by witnesses Rosenberg, Driscoll, and Goulding would derail a
10 ratemaking process that provides benefits to customers.

11
12 The Company agrees with Mr. Foley’s proposal that the GMP Plan should be extended through
13 September 30, 2014. As Mr. Foley indicates, this would allow for a full cost of service review
14 for the rate year beginning on October 1, 2014, if deemed necessary.

1 **10. Q. Dr. Rosenberg also expresses concern on page 7 of his direct testimony that**
2 **IBM may have a limited opportunity to participate in a rate design proceeding. Mr. Allard**
3 **states on page 7 of his direct testimony that it is uncertain whether OMYA's agreement**
4 **with CVPS to remain on Rate 5 for six years will be honored, whereas Dr. Rosenberg**
5 **claims (at page 6 of his direct testimony) that IBM should be able to choose which specific**
6 **transmission service tariff it will be served under. Please respond.**

7 **A.** Based on our clarifications at the workshop, and feedback we have received,
8 including comments at the workshop, we propose to limit the October 1, 2013 integration to
9 residential rates, which involve only customer and undifferentiated energy charges, which are
10 similar for both companies. Issues relating to other tariffs are more complex. For this reason,
11 we intend to propose integration for the other customer classes in a rate design proceeding that
12 we presently expect to file in mid to late 2014, and would likely not conclude until 2016. This
13 would allow the rate design to benefit from information available as the result of the
14 implementation of Smart Grid. IBM and any other affected customer would have the ability to
15 seek intervention in the rate design proceeding and thereby participate fully, and we agree that
16 they should have the opportunity to participate in such proceeding. Non-residential rates would
17 be integrated after the rate design proceeding has been completed and a final order is issued by
18 the Board.

19
20 IBM and all other GMP customers currently have the ability to be served by any GMP tariff for
21 which they are eligible. IBM should not be permitted to be served under a CVPS tariff until the
22 integration and rate design process is complete. The current tariffs for each company may

1 change as a result of the rate design and tariff integration process, and permitting IBM to be
2 served under a CVPS tariff before the rate design process is complete would introduce
3 unnecessary complexity.

4
5 In response to OMYA's concern, GMP does not intend to terminate or otherwise affect the
6 OMYA-CVPS agreement.

7

8 **Windfall Sharing Obligation**

9 **11. Q. Please address the claims of witnesses Wilson and Bradford/Silkman that the**
10 **windfall sharing obligation should be satisfied immediately after the acquisition closing by**
11 **means of a payment by CVPS to its customers.**

12 A. GMP does not agree with their position. The Board in Docket 7213 approved a
13 plan to address the windfall sharing requirements that did not require an immediate payment by
14 GMP to its customers, and none of the witnesses have identified any reason why the Board's
15 conclusions in that case are not applicable here.

16
17 In response to Department witness Hopkins' testimony, GMP is proposing to return an additional
18 \$20.9 million in customer value through the CEED Fund. This fund is very similar to the plan
19 approved by the Board in Docket 7213, with changes to address the goals identified in Dr.
20 Hopkins' testimony. The proposed CEED Fund is attached as **Exh. Pet.-RJG-6**.

1 **12. Q. Please describe the proposed CEED Fund.**

2 **A.** As discussed in the testimony of Mr. Plunkett, the proposed CEED Fund is
3 expected to deliver value to CVPS customers in excess of the amount of the windfall sharing
4 obligation. In particular, CVPS customers will receive value, net³ of CEED Fund costs, in an
5 amount equal to or greater than the amount established in Docket No. 6460/6120 (\$20.9 million
6 as of December 31, 2011, as indicated in **Exh. Pet-RJG-7**) and will be increased until
7 investment is completed in projects that are expected to contribute to the required amount of net
8 benefits (on an NPV basis).

9
10 The CEED Fund will contain other provisions presently incorporated in the GMP Efficiency
11 Fund, which was approved by the Board in Docket 7213, including a “but for” test for selecting
12 projects, minimum investment requirement, recovery of investments in rates, measurement and
13 reporting, and a seven-year deadline for achieving the required level of benefits. The “but for”
14 test requires a demonstration that each project would not be undertaken in the absence of the
15 CEED Fund investment. As it relates to efficiency projects, for instance, the “but for” test
16 precludes any project that is being funded through Energy Efficiency utilities or required to be
17 undertaken by GMP under applicable statutes or regulations. As indicated by Mr. Plunkett,
18 GMP has a high level of confidence that the required level of net benefits to CVPS customers
19 will be achieved. The seven-year period reflects a reasonable balance between the need for
20 customers to receive the required benefits as soon as practicable and a reasonable timeframe to
21 accommodate selection of projects that will generate the necessary net benefits and selection of
22 delivery mechanisms to efficiently deliver increased benefits in new areas.

1 As with GMP's current Efficiency Fund, GMP intends to contract with Vermont Energy
2 Investment Corporation ("VEIC") for delivery of approved efficiency project services and for
3 screening and performance monitoring on a basis that is consistent with the Board-approved
4 methods for Efficiency Vermont contract administration. The Company may use other third
5 parties such as Neighborworks to coordinate delivery of efficiency fund benefits in some or all of
6 CVPS's territory. GMP intends to identify candidates for renewable investments through
7 discussions with stakeholders including the Department, the Clean Energy Development Fund,
8 and Renewable Energy Vermont.

9
10 Similar to the GMP Efficiency Fund, the Board must approve the methodology for determining
11 the amount of projected net benefits and GMP will provide annual reports documenting the
12 actual net benefits delivered to customers, based on the Board-approved methodology. The
13 CEED Fund requires that project investments be made in the former CVPS territory, thereby
14 assuring that the benefits will be received by former CVPS customers. The Board will have the
15 opportunity to ensure that requisite benefits flow to former CVPS customers as a part of the
16 process of reviewing and approving annual fund investment plans.

17
18 The consequences of failure to achieve the required benefits or investments are also similar to
19 the GMP Efficiency Fund. If GMP fails to invest the required amount by the end of the seven-
20 year period, it will refund any investment shortfall to customers on a uniform basis in the form of
21 a bill refund as directed by the Board. If the Company fails to demonstrate that fund investments
22 will provide the required amount of net benefits, on a net present value basis, by the end of the

1 seven-year period, within 90 days the Company must submit a plan for Board approval
2 specifying how the remaining net benefits will be delivered.

3

4 **13. Q. Please describe how the CEED Fund addresses the Department's goals.**

5 **A.** Dr. Hopkins identifies four goals:

6 i. The CEED Fund will generate benefits in rough proportion to rate classes,

7 in order to provide customers benefits in an equitable fashion;

8 ii. The CEED Fund may be used to leverage other investment, thereby

9 creating greater benefit for customers;

10 iii. The CEED Fund will provide both economic and environmental benefits

11 to CVPS customers; and

12 iv. The CEED Fund will leverage existing organizations and entities to

13 deliver benefits and services to customers.

14 The CEED Fund is designed to achieve each of these goals.

15

16 *The Fund will generate benefits in rough proportion to rate classes to provide customer benefits*

17 *in an equitable fashion. (Principle 1).*

18

19 GMP will fund investments in rough proportion to rate classes as a means of providing customer

20 benefits across all customer classes. While some projects may offer benefits that are superior to

21 certain customer classes, the Company will seek to optimize benefits across all customer classes.

1 Therefore, GMP will select those opportunities that provide the greatest value to each customer
2 class within a particular investment type (e.g., efficiency).

3
4 *The Fund may be used to leverage other investments, thereby creating greater benefits for*
5 *customers. (Principle 2).*

6
7 The CEED Fund provides that GMP “will explore innovative methods of financing to be used in
8 conjunction with these investments as a mean of leveraging value for customers.” These may
9 include loans or loss reserve funds intended to leverage value for customers. GMP believes that
10 a number of programs could be designed to utilize these financing mechanisms in conjunction
11 with efficiency or renewable projects, and that utilization of these financing mechanisms has the
12 potential to significantly increase benefits to customers.

13
14 *The Fund will provide both economic and environmental benefits to CVPS customers. (Principle*
15 *3).*

16
17 The CEED Fund provides that projects may include new and existing energy efficiency projects,
18 renewable/clean energy programs, other demand resources, and new and emerging technologies.

19 The CEED Fund therefore provides ample flexibility to achieve economic and environmental
20 benefits. In addition, all proposed projects will be subject to a stakeholder review process and
21 Board approval, so benefits must be part of the calculus.

1 *The Fund will leverage existing organizations and entities to deliver benefits and service to*
2 *customers. (Principle 4).*

3
4 The CEED Fund document identifies a number of organizations such as VEIC, Neighborworks,
5 and the Clean Energy Development fund as possible delivery organizations. In addition, the
6 stakeholder process should result in the exploration of additional existing organizations to deliver
7 services.

8
9 Dr. Hopkins also recommends that potential efficiency investments include thermal benefit
10 projects. GMP supports doing so under either of the following two circumstances:

- 11 i. A thermal benefit project would likely result in an increase in net benefits
12 to customers; or
13 ii. A thermal benefit project would improve the proportionate distribution of
14 benefits among customer classes.

15
16 This flexibility will help in achieving the goal that benefits be provided in rough proportion to
17 rate classes, since residential efficiency projects historically have not had net benefits equivalent
18 to commercial projects due to scale limitations.

19

20 **14. Q. Does this conclude your testimony?**

21 **A. Yes.**