

**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

DAWN D. BUGBEE

ON BEHALF OF THE PETITIONERS

February 15, 2012

Summary of Testimony

Ms. Bugbee responds to IBM witness Michael Gorman's testimony concerning savings sharing. She also responds to Mr. Gorman's and DPS witness John Wilson's proposals regarding financial integrity measures and capital structure used to set rates.

**REBUTTAL TESTIMONY OF
DAWN D. BUGBEE
ON BEHALF OF THE PETITIONERS**

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. I address concerns raised by International Business Machines Corporation's**
6 **("IBM") witness Michael Gorman regarding Petitioners' savings sharing proposal. I also**
7 **respond to Mr. Gorman's and the Department of Public Service ("Department") witness John**
8 **Wilson's proposals regarding financial integrity measures and capital structure used to set rates.**

9

10 **3. Q. Please respond to Mr. Gorman's contention on page 8 of his direct testimony**
11 **that Petitioners inappropriately seek to recover all merger-related consolidation and**
12 **integration costs in rates, while keeping as much as 90% of the associated benefits.**

13 **A. Mr. Gorman is incorrect. Although the rate treatment for various cost categories**
14 **related to the merger will vary, the Combined Company will treat merger-related cost increases**
15 **and decreases within each category in a symmetrical manner.**

16

17 **There are three categories of merger-related costs, for purposes of rate treatment. The first**
18 **category includes transaction, regulatory, and related costs to achieve the acquisition and merger.**
19 **This category includes, for instance, transaction costs, bank fees, payments to outside experts**

1 and lawyers, the break-up fee payable to Fortis, and executive change in control payments. None
2 of these one-time costs will be included in the cost of service and therefore none of these costs
3 will be paid by customers.

4
5 The second category of costs consists of the integration-related Operations and Maintenance
6 (“O&M”) accounts identified in Mr. Griffin’s testimony. The Combined Company does not seek
7 to recover integration-related O&M costs in its base rates. Instead, these costs will be netted
8 against integration-related savings. The net savings will be shared with customers in accordance
9 with the Combined Company’s savings sharing plan.

10
11 The third category consists of all other Combined Company costs, including return on rate base,
12 power costs, and non-O&M expenses, some of which will be reduced as a result of the
13 integration. There will be no change in the rate treatment of these costs. They will continue to
14 be included in each base rate adjustment, power adjustment, and earnings sharing adjustment,
15 consistent with the terms of our Alternative Regulation Plan.

16
17 Although the impacts of the merger are thus divided into separate categories for ratemaking
18 purposes, within each category there is symmetrical treatment between the savings benefits and
19 the costs to achieve those benefits. For these reasons, Mr. Gorman’s claim, that the Combined
20 Company is charging customers for 100% of the merger costs while retaining some of the
21 merger benefits, is simply inaccurate.

1 **4. Q. Beginning at page 47 of his direct testimony, Dr. Wilson proposes several**
2 **additional financial integrity measures that the Public Service Board (“Board”) should**
3 **consider in conjunction with merger approval in this case. Please comment on these**
4 **conditions.**

5 **A.** Although I will address each condition separately, there are a few changes that are
6 common to most conditions. In addition, there are several grammatical or otherwise non-
7 substantive changes. The specific changes I propose are included in **Exh. Pet.-DDB-4.**

8
9 Condition 1. The Combined Company does not oppose this condition.

10
11 Condition 2. This condition should be limited to the Combined Company. I believe it is
12 burdensome and of limited benefit to require Northern New England Energy Corporation
13 (“NNEEC”) and Gaz Métro Limited Partnership to make available to the Department and Board
14 all information provided to their debt and equity investors and to their rating analysts. In
15 addition, the condition should exclude common stock-related information, since all of the
16 Combined Company stock is held by NNEEC.

17
18 Condition 3. The Combined Company does not oppose this condition.

19
20 Condition 4. This condition requires Board approval for the Combined Company to transfer,
21 sell, lease, encumber, or otherwise dispose of more than \$1 million of the Combined Company’s
22 utility assets. I understand that 30 V.S.A. § 109 already requires Board approval for the sale or

1 lease of more than 10% of the Combined Company's utility property. I also understand that
2 Section 108 requires Board approval of new indebtedness (other than short term debt not causing
3 total short term debt to exceed 20% of the Combined Company's total assets). The proposed
4 condition would therefore, among other things, reduce the threshold for Board approval of asset
5 transfers from 10% of utility assets to approximately 0.1%, based on the estimated \$975 million
6 current net book value of the Combined Company's utility assets. Dr. Wilson does not identify
7 any reason for such a substantial revision to this requirement. The Combined Company would
8 not oppose, however, a requirement that it notify the Board and Department before it transfers,
9 sells, leases, or encumbers more than \$10 million of its utility assets, to the extent the action does
10 not otherwise require Board approval under Sections 108 or 109. Although \$10 million is
11 substantially less than the amount that would trigger the need for approval under Sections 108 or
12 109 in most circumstances, I believe that notification at this level does not impose an
13 unreasonable burden.

14
15 Condition 5. The Combined Company does not oppose Condition 5(a). Condition 5(b), which
16 requires that secured debt be transferred where the secured assets are transferred, is unworkable
17 because most of the Combined Company's debt is secured by a blanket first mortgage lien on all
18 utility property. The condition would also impose costs on the Combined Company because the
19 mortgage indenture does not permit a commensurate retirement of debt, when secured property is
20 transferred, absent payment of a significant penalty.

1 Condition 5(c) requires that if assets financed by unsecured debt are transferred, a proportionate
2 share of the debt must also be transferred. This provision is also unworkable because the
3 Combined Company's unsecured debt is used for short-term financing and cash flow purposes,
4 and therefore it is not possible to tie specific unsecured debt to specific property.

5

6 **5. Q. What is your response to Mr. Gorman's recommendation, on pages 18-19 of**
7 **his direct testimony, that the Board condition approval of the merger on Petitioners'**
8 **agreement that the Combined Company will not write loans to any affiliated company that**
9 **is not also rate regulated under U.S. or Canadian jurisdiction?**

10 **A.** The Combined Company does not oppose this proposal.

11

12 **6. Q. On page 16 of his direct testimony, Mr. Gorman recommends that the**
13 **Combined Company "further guarantee that a goodwill asset will not be recorded on the**
14 **balance sheet of GMP, and if it is, any common equity supporting that goodwill asset will**
15 **not be included in the capital structure used to set rates." What is your response?**

16 **A.** The Combined Company does not oppose this proposal.

17

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

19 **A.** Yes.