

STATE OF VERMONT
PUBLIC SERVICE BOARD

In Re: Joint Petition of Central Vermont Public)
Service Corporation ("CVPS"), Danaus)
Vermont Corp., Northern New England Energy)
Corporation ("NNEEC") for itself and as agent)
for Gaz Metro Limited Partnership and its)
parents, Green Mountain Power Corporation)
("GMP") and Vermont Low Income Trust for)
Electricity, Inc. ("VLITE"), for approval of:)
(1) the merger of Danaus into and with CVPS;)
(2) the acquisition by NNEEC of CVPS and)
certain other Vermont companies; (3) the)
amendment to CVPS's Articles of Association;)
(4) the merger of CVPS into and with GMP;)
and (5) the acquisition by VLITE of a controlling)
interest in Vermont Electric Power Company, Inc.)

PSB Docket No. 7770

**PREFILED SURREBUTTAL TESTIMONY OF AJ GOULDING
ON BEHALF OF AMPERSAND GILMAN ENERGY LLC**

MARCH 8, 2012

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ON BEHALF OF AMPERSAND GILMAN ENERGY LLC**

1 Q. Please state your name and business address.

2 A. My name is AJ Goulding, and I am the Managing Member of the Ampersand Gilman
3 Energy LLC (“AGE”), and its affiliates, Ampersand Gilman Hydro LP (“AGH”),
4 Ampersand Gilman Biomass LLC (“AGB”), and Ampersand Gilman Site Optimization,
5 LLC (“AGSO”), referred to collectively as the “Ampersand Companies.” My business
6 address is 717 Atlantic Avenue, Suite 1A, Boston, MA 02111.

7

8 Q. Did you previously submit testimony in this proceeding?

9 A. Yes. I filed testimony on January 20, 2012.

1 Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

2 A. My Surrebuttal Testimony is submitted on behalf of the Ampersand Companies in
3 response to certain arguments contained in the Rebuttal Testimony of Robert B. Hevert.

4

5 Q. Do you agree with the analysis provided by Mr. Hevert with regards to the cost of capital
6 impacts of the merger?

7 A. No, I don't.

8

9 Q. In what ways is Mr. Hevert's analysis misdirected?

10 A. Mr. Hevert discusses the impact of the difference in size between the combined company
11 and a contrived set of proxy companies. He does not fully address the impact of the fact
12 that the combined company itself is larger than either of the two predecessor companies.

13

14 Q. Does data presented by Mr. Hevert himself support your view that establishing just and
15 reasonable rates for the combined company requires considering reducing its allowed
16 return on equity?

17 A. Yes, it does.

18

19 Q. How does this data and your own analysis support reconsideration of the Combined
20 Company's cost of capital?

21 A. First, I examine the market value for the two companies. Because CVPS is a publically
22 traded entity, I am able to obtain its market value directly; there is no need to rely on a
23 distorted proxy group which is neither representative of the Vermont utility sector as a

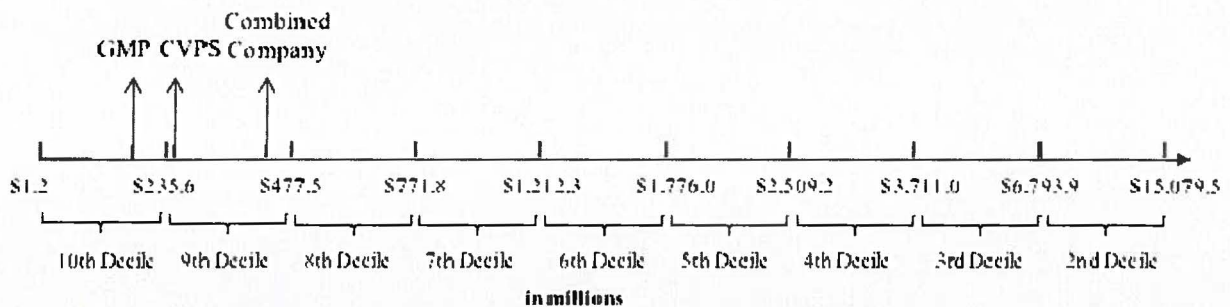
1 whole nor of the conditions facing the Combined Company. Based on data from
2 Bloomberg, CVPS's market value was \$255 million as of September 30th, 2010. I
3 choose this date for consistency with the Ibbotson SBBI 2011 Valuation Yearbook data
4 published by Morningstar and presented by Mr. Hevert in his Rebuttal Testimony.

5 Second, I develop the market value for GMP. Because GMP is not publically
6 traded, I commence by examining the proprietary capital for GMP of \$179 million as
7 stated in its FERC Form 3 filing for September 30th, 2010. On the same date and form,
8 CVPS listed \$262 million in proprietary capital. CVPS's geographical proximity with
9 GMP (which means largely similar topography, customers, and cost drivers for
10 operations, for example) and shared regulatory regime suggest that the best proxy market
11 to book ratio to determine GMP's market value is CVPS itself, rather than an arbitrary
12 proxy group of dissimilar utilities. Taking the ratio for CVPS' market value to its
13 proprietary capital, I develop a ratio of 0.97. Applying this ratio to GMP's proprietary
14 capital, I develop a market value for GMP of \$174 million.

15 Third, we can observe that while GMP's market value alone would place it in the
16 10th decile, the creation of the Combined Company causes GMP to move from the 10th
17 decile to the 9th. Therefore, using Mr. Hevert's own analysis, it would appear that the
18 premium due to small size for the GMP assets would diminish substantially. In turn,
19 while CVPS is close to the smallest company in the 9th decile while the Combined
20 Company is close to the largest company within the decile, as I discuss later, this does not
21 mean that the Combined Company and CVPS have the same size premium. A more
22 granular analysis can be done to further reflect differences in size premiums of

1 companies with different capitalization within the same decile as defined by Ibbotson.

2 The graphic below illustrates the change in the positions of the companies.



3

4 *Source: Ibbotson SBI 2011 Valuation Yearbook, page 84.*

5

6 Q. Is it possible to be more precise about the impact of the merger on the cost of equity?

7 A. Yes. Use of the Ibbotson data without interpretation falsely implies a step change as

8 companies move from one decile to another. In fact, I believe that it is more appropriate

9 to recognize that companies within each decile achieve improved access to capital as

10 their market capitalization grows, even if that growth does not result in movement from

11 one decile to another. For the sake of illustration, I have interpolated the Ibbotson data

12 point, below. While this illustrative interpolation would suggest declining marginal

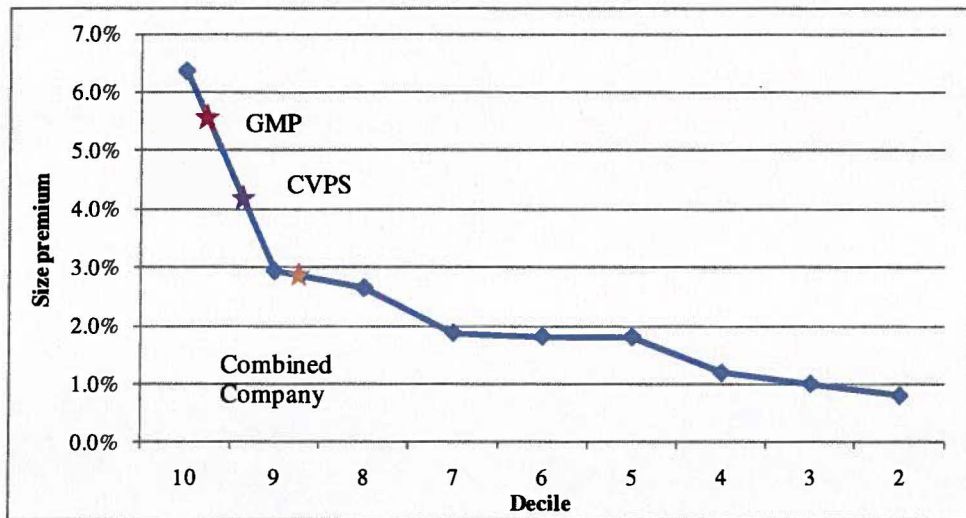
13 returns to scale with regards to increases in market capitalization, it allows us to estimate

14 the potential change in the size premium for both GMP and CVPS ratepayers. Placing

15 each of the individual companies on the curve, and comparing their position to that of the

16 Combined Company, we can see that for GMP ratepayers, the size premium would fall

17 from 5.56% to 2.85%, while for CVPS, it would fall from 4.30% to 2.85%.



Source: Ibbotson SBBI 2011 Valuation Yearbook, page 84.

Q. Is this observation consistent with real life experience?

A. Yes. As market capitalization grows, companies benefit in two ways: first, because transaction costs can be similar within a broad range of fundraising amounts, economies of scale arise as market capitalization increases, regardless of whether a particular threshold consistent with the Ibbotson data is crossed. Second, an increase in size increases the number of financial institutions for which the Combined Company's business is material, thereby broadening the pool of potential capital suppliers. Again, this increase in access to capital is not a function of crossing an Ibbotson threshold, but the ability to attract the attention of financial institutions – an ability which improves at a more granular rate than the Ibbotson thresholds suggest.

Q. Are there other logical inconsistencies with Mr. Hevert's testimony?

1 A. Yes. Mr. Hevert suggests that relying on statements by Ms. Powell and Mr. Reilly with
2 regards to greater access to capital and liquidity provides insufficient evidence that such
3 access will lead to a reduction in the return required by investors. If that is the case, then
4 it could be argued that regulators should dismiss the arguments of Powell and Reilly in
5 this regard entirely, as it suggests that Powell and Reilly themselves have not sufficiently
6 substantiated such assertions. The Combined Company cannot have it both ways – it
7 cannot claim increased access to capital markets as a benefit, and then claim that this
8 benefit has no value and thus should not result in an adjustment to the just and reasonable
9 cost of service.

10

11 Q. Does this complete your testimony?

12 A. Yes, at this time.