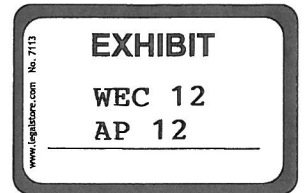


UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION



Central Vermont Public Service)
Corporation, Gaz Métro Limited)
Partnership, Northern New England Energy)
Corporation, Green Mountain Power)
Corporation)

Docket No. EC11-117-000

TESTIMONY

OF

RICHARD LA CAPRA

REGARDING THE PROPOSED MERGER OF GREEN MOUNTAIN POWER CO.
and CENTRAL VERMONT PUBLIC SERVICE CO.

ON BEHALF OF THE

WASHINGTON ELECTRIC COOPERATIVE, INC

November 8, 2011

TESTIMONY OF RICHARD LA CAPRA

Q. MR. LA CAPRA, PLEASE IDENTIFY YOURSELF FOR THE RECORD AND SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

A. My name is Richard La Capra and my business address is 5 Carmine Street, New York, New York. I have worked as a consultant and advisor in the energy industry for over thirty years with a primary focus in the areas of power supply, valuation, pricing and financial analysis. In the course of my work I have testified in 28 State jurisdictions, the Federal Energy Regulatory Commission ("FERC") and various court state and federal courts. My experience and qualifications are shown in detail in Exhibit WEC-2.

Q. WHO ARE YOU TESTIFYING FOR IN THIS PROCEEDING?

A. I have been engaged to analyze the effects of the proposed merger of Green Mountain Power Co ("GMP") and Central Vermont Public Service Co. on the transmission expenses of Washington Electric Cooperative ("WEC")

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked to evaluate the impact of the merger-related consolidation of ownership, operation and rate base of the lower voltage, primarily 34.5 kV transmission facilities owned by GMP and CVPS "into a single corporate entity" as proposed by GMP and CVPS in their merger application in this proceeding. The Section 203 Application filed in this proceeding describes this aspect of the proposed merger at page 33, in the following terms:

The Step 2 Transaction will consolidate ownership and operation of the transmission facilities of Central Vermont and Green Mountain into a single corporate entity. For that reason, Central Vermont and Green Mountain intend to propose a single rate schedule under which transmission service is offered over their combined transmission systems at non-pancaked rates, to become effective concurrently with the closing of the Step 2 Transaction. This single rate

schedule will be submitted to the Commission as a compliance filing to the order approving the Transaction and also pursuant to the provisions of FPA Section 205.

Q. PLEASE EXPLAIN WEC'S CONCERN WITH THE PROPOSED MERGER.

- A. The high voltage (115 kV and above) transmission system in Vermont is owned by Vermont Electric Power Company ("VELCO") and operated by VELCO's affiliate Vermont Transmission Company ("VTransco") (other than to the extent that VELCO has transferred operational control of those high voltage facilities to ISO New England, Inc. ("ISO-NE")). CVPS and GMP own and operate lower voltage, primarily 34.5 kV facilities, which are called "subtransmission" in Vermont. Rates, terms and conditions of service for the use of the CVPS and GMP transmission facilities are specified in open access transmission tariffs for those utilities, which tariffs now appear as Schedule 21-CV and Schedule 21-GMP to the ISO-NE Transmission, Markets and Services Tariff (the "ISO Tariff").

WEC currently takes network integration service from GMP under Schedule 21-GMP to the ISO Tariff. WEC takes no transmission service from CVPS, as it does not and cannot use CVPS lower voltage transmission facilities to deliver power to its loads.

WEC is concerned that the "consolidation" of ownership, operation and apparently rate base proposed by CVPS and GMP in connection with their proposed merger will substantially increase WEC's costs for network integration service over the lower voltage, primarily 34.5 kV facilities. This is because CVPS has a relatively larger rate base in these kinds of facilities than does GMP. All other things being equal, the disparity in the amount of lower voltage transmission plant in service between the two merging entities would cause transmission customers of the smaller utility to pay higher rates after consolidation.

Q. WHAT HAVE YOU DONE TO EVALUATE WEC'S CONCERN?

A. Specifically, I have analyzed the monthly transmission expenses for WEC the 12 month historical test period September 2010 through August 2011. The analysis consists of a computation of the monthly transmission charges from GMP, - essentially the actual billings from GMP. Alternatively the same period was analyzed presuming GMP and CVPS were merged into a single entity. I then prepared a comparison of the two sets of monthly bills as well as the annual totals.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. The consummation of the "Step 2 Transaction" portion of the GMP-CVPS merger will have a dramatically negative impact on GMP transmission dependent customers. Specifically, for the identical transmission service, WEC's transmission expense will increase almost 70% and cost the customers of WEC an additional \$128,000 in transmission costs.

Q. PLEASE DESCRIBE HOW YOU HAVE ARRIVED AT THIS CONCLUSION.

A. I have prepared Exhibit WEC-3 which shows development of the comparative billing calculation. WEC currently receives transmission service from GMP under their Schedule 21. Essentially, WEC is billed their pro-rata share of GMP transmission revenue requirement based on WEC's contribution to GMP's total network load. During the historical period analyzed, September 2010 through August 2011, WEC represented, on average, 3.172% of GMP's network load. During this period the annual GMP transmission revenue requirement was \$4,995,900. Thus the annual billing form GMP to WEC for transmission service would be \$158,703. Additionally, GMP's transmission charges include \$0.20/coincident kW for ancillary services, adding another \$25,355 to the annual billing, thus bringing WEC's the total transmission expense to \$184,058 or \$1.45/kW. The actual monthly billing parameters and billed expense is shown in WEC-3.

Q. HOW DID YOU DETERMINE WEC'S TRANSMISSION EXPENSE IF THE PROPOSED MERGER WERE CONSUMMATED?

A. Essentially, the same basic tariff form would apply, i.e., WEC's load ratio share of the merged entity's network peak times the merged entity's annual transmission revenue requirement plus some charges for ancillary services.

Q. PLEASE EXPLAIN THE SPECIFIC CALCULATION.

A. The WEC average network for the 12-month period remains 10,564.5 kW but WEC's pro-rata share is of the combined companies' coincident peak, i.e., the GMP average peak of 324,053.3 kW and the CVPS average peak of 495,434.3 kW¹. Similarly, the transmission revenue requirement of the combined companies would be the sum of the transmission revenue requirements of each of the individual companies or \$22,876,100 (the GMP transmission revenue requirement of \$4,995,900 plus CVPS' of \$17,880,200). Thus, using WEC's proportion of the combined companies' load, 1.2895%, times the combined companies' revenue requirement (\$22,876,100), yields a WEC transmission expense of \$295,008. Additionally, there would be ancillary charges of \$17,570 using the current CVPS rate which is similar to, but slightly lower than, the current GMP rate. The total WEC transmission expense would then total \$312,578. Again, the actual monthly billing parameters and billed expense is shown in WEC-3.

In summary, the effect of the merger on WEC's annual transmission expense is:

| | | |
|--------------------------------------|------------|-----------|
| Pre-Merger WEC Transmission Expense | \$184,058 | \$1.48/kW |
| Post-Merger WEC Transmission Expense | \$ 312,578 | \$2.47/kW |

¹ The CVPS coincident peak is taken as the 12 month peak and ratchets the value for the power year. The GMP uses its monthly coincident peak. The calculation takes the ratcheted CVPS peak and the monthly GMP as the combined companies' peak. If the combined companies' peak was fully ratcheted, the calculated WEC transmission increase would likely be even higher.

Increase - \$ \$128,520
Increase - % 69.83%

Q. IS THERE A COST OF SERVICE OR OTHER COST ALLOCATION BASIS FOR THIS INCREASE IN WEC'S TRANSMISSION EXPENSE?

A. No, it would be quite difficult to describe the effect on WEC's transmission costs as anything other than an unintended consequence of the merger. WEC has not taken a position on the merger overall, but the effects of the "Step 2 Transaction" of the merger on its costs, certainly would not meet a hold harmless test. The CVPS facilities which wind up in the WEC post-merger transmission costs provide no useful service to WEC customers and any payment made by them toward should be considered a direct subsidy from WEC customers to other customers of the merged company -- specifically those tied to the previous CVPS transmission.

Including any CVPS transmission revenue requirement in WEC's transmission rate would violate a fundamental tenet of ratemaking in that a customer receives an allocation of otherwise indivisible costs, but there must be a clearly apparent used and useful service being provided by the joint facility. In this case, there is no used and useful service provided to WEC by the CVPS facilities.

Q. WHAT REMEDY DO YOU PROPOSE TO REMOVE THE INEQUITY TO WEC CUSTOMERS?

A. I believe it is essential to consider the merger in the public interest that such inequities as this are corrected. The regulatory standard of review has expressly addressed a hold harmless criterion (18 C.F.R. § 2.26(d)). Essentially, WEC should not experience any increase in its transmission cost over and about what it would have experienced had it stayed a customer of a standalone GMP. In the case of WEC there can be different ways which can, mechanically, restore the basic equity of the transmission charges. Among these are:

1) To base the transmission rate to WEC on the facilities (and subsequent additions) actually serving WEC. Since there is a discrete set of known cost facilities, geographically distinct, a rate can be based roughly the same as it now is computed, or

2) To retain the current transmission rate which would increase/decrease by the percentage change in the total percentage change in the combined companies' transmission revenue requirement.

In any event, whatever methodology is selected, the overriding result should be that WEC transmission charges do not exceed the charges they would have experienced under their current configuration with GMP and they are not charged for any facility not in used and useful service to them.

Q. PLEASE SUMMARIZE YOUR CONCLUSION.

A. WEC should not be required to subsidize other transmission customers for the sake of the GMP-CVPS merger. WEC would propose that a condition of approval of the proposed merger be that its transmission expense be equitable and based on the cost of service of the facilities that provide it used and useful service.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes it does.

EXHIBIT WEC-2

QUALIFICATIONS OF RICHARD LA CAPRA

RICHARD LA CAPRA

Richard La Capra is an experienced advisor in a wide range of and regulatory issues.

Mr. La Capra is the founder of La Capra Associates, established in 1980 with a goal of providing state-of-the art, innovative technical analysis to regulated industries. He has over thirty years of experience in consulting in the planning, valuation and pricing of services for regulated industries. His experience encompasses financial management, rate of return, competitive procurement and auction strategies, valuation and pricing. Mr. La Capra has negotiated comprehensive restructuring settlements and provided expert consulting services in establishing plant valuation in regulated industries, and new venture feasibility. He has been involved in major bidding and procurement activities in both energy and transportation. His primary interests have been in the energy-related, financial and taxi industries. He is a recognized expert witness in each of these fields. Mr. La Capra is a sought-after teacher and lecturer for industry, trade and research organizations.

ACCOMPLISHMENTS

Mr. La Capra has provided expert testimony in 26 states, federal jurisdictions, legislatures and courts in the areas of transitioning to hybrid (competitive-regulated) markets, regulated pricing, valuation of regulated assets, municipal finance and auction and bid processes.

Some of his major assignments have included:

Assisting the financial reorganization of cooperative utilities, including reconfiguring their power supply assets and contracts, and restructuring \$100 million in debt;

Valuating regulatory assets for purchasers, sellers, and taxing entities;

Designing the auction process for distributing taxi medallions in the City of Boston;

Designing and managing the auction process for the sale of the assets of small utilities;

Providing advice on codes of conduct for regulated entities in wholesale markets and transportations;

Providing advisory services to in the areas of pricing and demand for regulated taxi services;

Directing feasibility studies assessing the needs for specialty cab services such as wheelchair assessable vehicles and the economics of hybrid and CNG vehicles versus conventional cab vehicles.

Devising and presenting professional development programs for the Electric Council of New England, the Center for Professional Advancement, the New England Rate Forum, the Electric Power Research Institute, the American Gas Association, the University of Michigan and the University of Missouri;

EMPLOYMENT

Richard La Capra Consulting

La Capra Associates
Principal in Charge

Charles T. Main, Inc.
Manager - Rates, Financial Services and
Utility Management Consulting Groups

American Electric Power Service Corporation
Rate and Customer Research Supervisor

Pennsylvania-New Jersey-Maryland Power Pool
Planning Engineer

EDUCATION

Certificate in Advanced Finance, New York University

M.B.A., Fairleigh Dickinson University
Economics & Finance

B.S., Stevens Institute of Technology
Electrical and Mechanical Engineering

EXHIBIT WEC-3

COMPARISON OF WASHINGTON ELECTRIC COOPERATIVE'S
ANNUAL TRANSMISSION EXPENSE PRE- AND POST-MERGER

EXHIBIT WEC-3

COMPARISON OF WEC TRANSMISSION EXPENSE PRE and POST CVPS-GMP MERGER
12 Months Ending August 2011

| | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Apr-11 | May-11 | Jun-11 | Jul-11 | Aug-11 | 12 Month |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Transmission Expense - Current GMP | | | | | | | | | | | | | |
| GMP Transmission Revenue Requirement | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$416,325 | \$4,995,900 |
| WEC 12-mo Rolling Av - GMP Nlnwk Load | 0.03072 | 0.03127 | 0.03141 | 0.03146 | 0.03142 | 0.03151 | 0.03176 | 0.03200 | 0.03236 | 0.03233 | 0.03236 | 0.03260 | |
| WEC Transmission Charges | \$12,790 | \$13,018 | \$13,077 | \$13,098 | \$13,081 | \$13,118 | \$13,222 | \$13,322 | \$13,472 | \$13,460 | \$13,472 | \$13,572 | \$158,703 |
| WEC Network Load kW | 9,098 | 10,634 | 12,215 | 13,433 | 12,404 | 12,530 | 12,595 | 7,619 | 8,374 | 8,481 | 10,307 | 8,884 | 126,774 |
| Ancillary Rate | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 |
| Ancillary Charges | \$1,820 | \$2,167 | \$2,443 | \$2,687 | \$2,481 | \$2,506 | \$2,519 | \$1,524 | \$1,675 | \$1,696 | \$2,061 | \$1,777 | \$25,355 |
| Total Charges - \$ | \$14,609 | \$15,185 | \$15,520 | \$15,784 | \$15,562 | \$15,624 | \$15,741 | \$14,846 | \$15,147 | \$15,156 | \$15,534 | \$15,349 | \$184,058 |
| Total Charges - \$/kW | \$1.61 | \$1.40 | \$1.27 | \$1.18 | \$1.25 | \$1.25 | \$1.25 | \$1.95 | \$1.81 | \$1.79 | \$1.51 | \$1.73 | \$1.45 |
| Pro-Forma CVPS-GMP Merged Rate | | | | | | | | | | | | | |
| CVPS Transmission Revenue Requirement | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$1,490,017 | \$17,880,200 |
| CVPS-GMP Transmission Rev Requirement | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$1,906,342 | \$22,876,100 |
| CVPS kW Peak - 12 mo Ratchet | 509,224 | 500,345 | 483,393 | 483,393 | 500,345 | 500,345 | 500,345 | 500,345 | 500,345 | 500,345 | 483,393 | 483,393 | 5,945,211 |
| GMPkW Peak - Monthly | 362,660 | 287,170 | 313,170 | 347,270 | 337,930 | 324,250 | 305,360 | 275,940 | 301,430 | 330,410 | 368,560 | 334,470 | 3,888,640 |
| Combined CVPS-GMP Peak | 871,884 | 787,515 | 796,563 | 830,663 | 838,275 | 824,595 | 805,705 | 776,285 | 801,775 | 830,755 | 851,973 | 817,863 | 9,833,851 |
| WEC Network Load kW | 9,098 | 10,634 | 12,215 | 13,433 | 12,404 | 12,530 | 12,595 | 7,619 | 8,374 | 8,481 | 10,307 | 8,884 | 126,774 |
| WEC Network Load Proportion | 0.01043 | 0.01376 | 0.01533 | 0.01617 | 0.01480 | 0.01520 | 0.01563 | 0.00981 | 0.01044 | 0.01021 | 0.01210 | 0.01086 | 0.01290 |
| WEC Transmission Charges | \$19,892 | \$26,226 | \$29,233 | \$30,828 | \$28,208 | \$28,968 | \$29,800 | \$18,710 | \$19,910 | \$19,461 | \$23,063 | \$20,708 | \$295,008 |
| Regulatory Expense (\$/kWh) | 0.0001079 | 0.0001079 | 0.0001079 | 0.0001079 | 0.0001079 | 0.0001079 | 0.0001079 | 0.0001079 | 0.0001297 | 0.0001297 | 0.0001297 | 0.0001297 | |
| Load Dispatch Expense (\$/kWh) | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | 0.0001112 | |
| WEC kWh Load | 5,991,129 | 6,375,566 | 6,511,083 | 7,634,577 | 7,452,506 | 6,388,995 | 6,505,525 | 5,712,242 | 5,887,587 | 5,927,804 | 6,875,817 | 6,430,357 | 77,693,187 |
| Ancillary Charges | \$1,313 | \$1,397 | \$1,427 | \$1,673 | \$1,633 | \$1,400 | \$1,425 | \$1,252 | \$1,418 | \$1,428 | \$1,656 | \$1,549 | \$17,570 |
| Total Charges - \$ | \$21,205 | \$27,623 | \$30,660 | \$32,501 | \$29,841 | \$30,367 | \$31,226 | \$19,962 | \$21,329 | \$20,889 | \$24,719 | \$22,257 | \$312,578 |
| Total Charges - \$/kW | \$2.33 | \$2.55 | \$2.51 | \$2.42 | \$2.41 | \$2.42 | \$2.48 | \$2.62 | \$2.55 | \$2.46 | \$2.40 | \$2.51 | \$2.47 |
| Current WEC Transmission Charges | \$14,609 | \$15,185 | \$15,520 | \$15,784 | \$15,562 | \$15,624 | \$15,741 | \$14,846 | \$15,147 | \$15,156 | \$15,534 | \$15,349 | \$184,058 |
| Post-Merger Transmission Charges | \$21,205 | \$27,623 | \$30,660 | \$32,501 | \$29,841 | \$30,367 | \$31,226 | \$19,962 | \$21,329 | \$20,889 | \$24,719 | \$22,257 | \$312,578 |
| Difference - \$ | \$6,596 | \$12,438 | \$15,140 | \$16,717 | \$14,279 | \$14,743 | \$15,484 | \$5,116 | \$6,182 | \$5,733 | \$9,185 | \$6,908 | \$128,520 |
| Difference - % | 45.15% | 81.91% | 97.55% | 105.91% | 91.76% | 94.36% | 96.37% | 34.46% | 40.81% | 37.83% | 59.13% | 45.00% | 69.83% |