

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7770

Joint Petition of Central Vermont Public Service Corporation, Danaus Vermont Corp., Northern New England Energy Corporation for itself and As agent for Gaz Métro Limited Partnership and Its 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.

PREFILED DIRECT TESTIMONY OF
SEAN FOLEY

ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

January 20, 2012

Summary: Mr. Foley presents the Department of Public Service's comments and recommendations regarding the Petitioners' proposals on Alternative Regulation and other financial topics.

Direct Testimony
of
Sean Foley

1 Q. Please state your name and occupation.

2 A. My name is Sean Foley, and I am a Utilities Economic and Financial
3 Analyst with the Vermont Department of Public Service (the “Department”).
4

5 Q. Please describe your educational background and experience.

6 A. I have a B.A. in Physics from Saint Michael’s College and a Masters
7 Degree from the New York University in Applied Science and Energy Science.
8 I have been with the Department for over seventeen years, in both the planning
9 and finance divisions. Prior to joining the Department, I was a Senior Associate
10 at Barakat & Chamberlin and, prior to that, I was Director of Resource Planning
11 at Burlington Electric Department.
12

13 Q. Have you ever testified before the Vermont Public Service Board before?

14 A. Yes, I have testified in Docket Nos. 5270, 5965, 5970, 6018, 6120,
15 6430, 6495, 6596, 6750, 7032, 7373, 7508, 7742, 7780 and others.
16

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to present the Department’s current
19 understanding and concerns pertaining to the existing and future Alternative

1 Regulation Plans (ARP) of Green Mountain Power (GMP) and Central
2 Vermont Public Service (CVPS) and how the merger of these companies, if
3 approved, will affect the ongoing plans and regulatory filings associated with
4 the Alterative Regulation plans.

5
6 Q. Do you have any initial comments regarding the proposed acquisition and
7 merger?

8 A. The Department generally supports the acquisition and merger, with
9 modifications and conditions as described in other DPS testimony, and agrees a
10 merger would have alternative regulation and cost of service implications. The
11 Department believes that these issues must be addressed in more detail in
12 further proceedings if the merger is approved.

13

14 Q. Has the Department any concerns about the proposed schedule of rate filings?

15 A. The Department is concerned about the schedule of rate adjustment
16 filings proposed by the petitioners and the proposed approach for handling the
17 savings sharing between the closing date of the acquisition and the date GMP
18 proposes to file a consolidated revenue requirement/cost of service.

19 The Department is not opposed to the petitioners' schedule of rate
20 adjustment filings or the handling of the savings sharing through the ARP but
21 believes there may be more efficient and simpler alternatives that should be
22 considered.

1 Regarding the petitioner's proposed schedule of filings, I'll recap here
2 what they are: first, GMP would file for approval to modify its ARP to extend
3 its current rate year base rate filing 3 months through December 2012; next it
4 would file for modifications to its ARP to allow for a nine month consolidated
5 base rate filing that would cover a rate year from January 1, 2013 through
6 September 30, 2013, with a 9 month consolidated cost of service. Thereafter,
7 GMP would file a fiscal year 12 month base rate filing covering the period from
8 October 2013 through September 2014, with a CVPS operationally integrated
9 cost of service. In summary, this represents two separate cost of service filings:
10 (1) A consolidated cost of service filing covering a 9 month period and (2)
11 another consolidated/integrated cost of service filing covering 12 months. It is
12 the Department's belief this could be simplified as described below while at the
13 same time accommodating the PSB's concern that a full cost of service/rate
14 case for the consolidated company should occur following the merger.

15 Regarding the petitioner's proposed handling of the savings through
16 GMP's ARP earnings sharing mechanism (for the period between the closing
17 date of the acquisition and its proposed October 1, 2012 filing for rates that
18 would go into effect on January 1, 2013), the Department is concerned that the
19 petitioners' proposed methodology for working this through the earnings
20 sharing mechanism is vague and may produce different results than intended.
21 Further, there may be other simpler and clearer options such as I describe
22 below.

1 It should be noted here also that GMP's ARP terminates on September
2 30, 2013, unless extended for one additional three year period. A filing would
3 be required in either case, whether to adopt a new ARP plan or to extend the
4 modified plan.

5
6 Q. Does the Department have an alternative proposal for the scheduling of rate
7 filings?

8 A. Yes. Upon merger approval, one possible alternative schedule would
9 have GMP and CVPS combine their costs of service by using a test year ending
10 March 31, 2012 for a rate year beginning October 1, 2012. If closing occurs as
11 petitioners have requested, the test year would be adjusted for known and
12 measurable changes for the annual base rate filing to be made on August 1,
13 2012 for rates to be effective on a bills rendered basis beginning October 1,
14 2012. This simplified approach follows the existing ARP, eliminates the 3
15 month ARP modification (and creation of a regulatory asset as proposed in Mr.
16 Griffin's testimony), eliminates the 9 month ARP modifications and cost of
17 service filing, and provides for earlier consolidation of the two companies into a
18 single cost of service filing. It also maintains GMP's fiscal year cost of service
19 filings and would appear to be less confusing for both CVPS and GMP
20 customers.

21 I believe that the only ARP modifications that would be needed under
22 this proposal would be relatively minor and would primarily include

1 modifications for adjusting the dead bands and the benchmarking peer group to
2 replace CVPS. Additionally, a modification to the ARP may be desirable to
3 allow for extension by one year rather than three years, through September 14,
4 2014. This would allow sufficient time for GMP to file a cost of service and
5 new proposed ARP in December 2013; while also ensuring earlier full review
6 than might occur if a three-year extension were sought. This would allow for a
7 full cost of service/rate case review for the rate year beginning on October 1,
8 2014. The resulting approved cost of service would then be used in developing
9 a full rate class cost of service study that could accommodate GMP's
10 implementation of smart grid.

11 The shared savings baseline would begin upon the closing date of the
12 acquisition that is anticipated to be around June 30, 2012 and would be included
13 as part of the adjustments to the March 31, 2012 test year, thus eliminating the
14 need to apply the shared savings through the earnings sharing mechanism.

15 The Department believes that this proposal would not and should not
16 negatively impact a decision on the merger and acquisition. The Department
17 believes that these issues could be successfully worked through upon the
18 completion of the consolidation of the two operations in 2012 or 2013,
19 depending upon scheduling. Modifications to Green Mountain Power's ARP
20 could be considered, including a full cost of service review which is typical
21 when modifying or adopting a new ARP, should the Board decide one is

1 necessary. Thereafter, the approved cost of service would become the basis for
2 new rate design and consolidation of tariffs.

3 Given the immensity of the consolidation effort that the combined
4 company will face if the merger is approved, and given the reality that ARP
5 modifications can be as time consuming or more so than fully litigated rate
6 cases, I believe it would be desirable for a new alternative regulation plan and
7 rate design¹ changes to be undertaken after a year of consolidated operations.
8 This would provide some regulatory relief when completing the consolidation
9 and would provide for a clearer, more informed, and more focused effort during
10 subsequent alternative regulation and rate design proceedings.

11 The Department is open to considering alternative proposals, and
12 intends to work with interested parties including GMP to develop a ratemaking
13 schedule and procedure that is workable and transparent, and would result in
14 just and reasonable rates for consumers of the combined company if the merger
15 is approved.

16

17 Q. Does the Department have any other recommendations for the ongoing process?

18 A. Yes. If the PSB issues an order approving the merger and consolidation
19 of the two entities, its order should preserve the agreement in the
20 CVPS/OMYA/DPS MOU that was approved in PSB Docket No. 7660 on

1 GMP's AMI plans contemplates a rate design proceeding that was expected in 2014

1 6/10/2011, as well as any other continuing obligations that should remain
2 applicable.

3

4 Q. Have you prepared an estimate of the value to Vermont ratepayers of current
5 VELCO ownership?

6 A. Yes, I've prepared an estimate of costs and benefits associated with the
7 Vermont electric utilities' investments in VELCO and Transco. Electric utility
8 customers pay for the rate base investment but also benefit from the
9 dividends/distributions payments from VELCO/Transco. These cost and benefit
10 are reflected in the utilities cost of service filing that support their rate tariffs. In
11 general, the cost to pay for the investment in VELCO is lower than the return
12 that the utilities receive on the investment; therefore utility customers benefit
13 from these investments in the form of lower rates. The cost of the investment
14 includes the cost of borrowing, the cost of equity (ROE) and the payment of
15 income taxes. I calculate that the amount of the net benefit for this investment
16 represents approximately a 3.4% reduction in the electric utilities' revenue
17 requirements for 2011 and a 5% reduction in 2012. This estimate is presented in
18 Exhibit DPS SAF-1.

19

20 Q. Does that conclude your testimony?

21 A. Yes, it does at this time.