

**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 of 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 SURREBUTTAL TESTIMONY
OF
DAVID HALLQUIST
ON BEHALF OF
VERMONT ELECTRIC COOPERATIVE, INC.**

Summary of Testimony:

Mr. Hallquist's testimony responds to the proposals of various parties to restructure the VELCO Board of Directors.

Q1. Please state your name and your position.

A1. My name is David Hallquist, and I am Chief Executive Officer of Vermont Electric Cooperative, Inc. (VEC). I assumed the responsibilities of Chief Executive Officer in October, 2005. Prior to that, I was employed by VEC from 2003 to October, 2005, as the Business Development and Information Technology Manager, and from 2000 to 2003 as the Engineering and Operations Manager.

Q2. Have you previously testified before the Vermont Public Service Board?

A2. Yes. I have testified before the Public Service Board on behalf of VEC in various VEC rate cases and in Docket No. 7270, involving FairPoint Communications' petition to acquire the Verizon assets.

Q3. What is the purpose of your testimony?

A3. My testimony will respond to the proposals of various parties to restructure the VELCO Board of Directors.

Q4. What has been your role on the VELCO Board of Directors?

A4. VEC obtained a seat on the VELCO Board when it acquired the distribution assets of Citizens Communications Company in 2004. Since I became CEO in 2005, I have actively participated as part of the VELCO Board. This has been a period of significant activity by VELCO, as it has undertaken a number of large transmission projects in order to comply with various NERC reliability requirements. My experience has been that the VELCO Board focuses on highly technical issues such as transmission reliability and infrastructure in the context of a well-defined and complex regulatory environment. The VELCO Board generally does not involve itself in political or public

policy issues, leaving the distribution utilities – and their respective governing boards -- to address policy issues as they consider appropriate. In my experience, the VELCO Board operates very effectively to meet the transmission needs of the Vermont distribution utilities.

Q5. What is VEC's view of the VELCO governance issues that have been raised in this docket?

A5. By way of background, before Green Mountain Power submitted its petition in September, 2011, it acknowledged the need to address the potential for majority ownership of VELCO stock as a result of the merger. I was informed of the proposal to reduce the VELCO board of directors from 13 to 11 (with GMP holding 4 of the board seats) and to create a new company, controlled by public power entities, to hold roughly thirty percent of the VELCO stock. That seemed sufficient to me to ensure that, post-merger, GMP would not have majority control of VELCO.

As Jeff Wright noted in the testimony he submitted in this docket, VEC's focus has been on addressing reliability issues we have experienced on the transmission line from Irasburg to Fairfax transmission line which GMP will acquire if the merger is approved. As a result of the Memorandum of Understanding with GMP, the operations staff of GMP has been working constructively with our staff to investigate various arrangements to improve the operation of that line.

As this docket progressed, VEC had the opportunity to review the pre-filed testimony of David Mullett on behalf of VPPSA, and as noted in Jeff Wright's testimony, VEC expressed support for the approach suggested by Mr. Mullett. Since then, we have

also reviewed the testimony filed by other parties addressing the VELCO governance issues, including testimony that suggested significant state involvement in the ownership and/or governance of VELCO. In light of the importance of this issue to the state and to VEC, we fully briefed our Board of Directors on the various parties' proposals. After thoughtful discussion, our Board adopted the following resolution:

It is the position of Vermont Electric Cooperative that any reconfiguration of the VELCO Board of Directors as a result of the merger should accomplish two objectives: (1) that the merged company should not have majority ownership of VELCO stock or majority representation on the VELCO Board of Directors and (2) that the merged company should not have the ability to remove VELCO as the manager of VT TRANSCO. VEC supports continuing the present practice of having the VELCO Board elect the independent VELCO Board directors. VEC does not support State ownership of VELCO/VT Transco.

VEC believes that any number of mechanisms can achieve the objectives we have identified, including several of the proposals that have been offered by the parties.

Q6. Does this conclude your testimony?

Q6. Yes, it does.