

the Department of Public Service ("DPS") testimony, we further enhanced this benefit through the Community Energy & Efficiency Fund ("CEED Fund"), which will provide independent additional benefits in excess of the "windfall" obligation to CVPS customers.

5. What is the legal basis for these obligations essentially being assumed by GMP rather than being deducted from the proceeds of the acquisition going to CVPS shareholders (who benefitted from the "windfall")? Did Section 6.3(c) of the CVPS acquisition agreement (relating to any reduction in merger consideration) require the assumption of this obligation by Gaz Métro or is there another basis in agreement or law for this?

RESPONSE: The legal basis for the windfall obligations being assumed by GMP is the Board's Order in Docket No. 7213, where the same assumption occurred under the GMP-Gaz Métro merger agreement, which also provided that the windfall amount shall not be deducted from proceeds to shareholders. Gaz Métro assumed the obligation under Section 5.5(d) of the CVPS-Gaz Métro Agreement and Plan of Merger.

6. The Board expects to have a number of questions about the proposed CEED Fund, particularly relating to efficient and effective oversight, leveraging investment returns to CVPS ratepayers, the proposed use of the fund for residential thermal efficiency benefits, and the relative merits of returning the "windfall" to CVPS residential ratepayers in a more direct manner.

RESPONSE: Petitioners will address the Board's questions at technical hearings.

7. In their filings with the Board, the Petitioners project \$226 million of savings over ten years as a consequence of the merger of CVPS and GMP. The Petitioners propose that \$82 million of those estimated savings (that would otherwise flow through to ratepayers) should be provided to Gaz Métro in the first six years after the merger under a proposed shared savings plan to provide "incentives to induce investors to pursue large mergers that produce significant customer benefits" (Powell pf. at 10). To the extent ten-year savings exceed \$226 million and actual savings during the first six years after the merger exceed the estimates set forth in Petitioners' filings is the Board correct that the benefits to Gaz Métro would exceed \$82 million? Is the Board also correct that there is no cap on the potential recovery of Gaz Métro under the savings sharing plan?

RESPONSE: It is correct that if GMP's savings estimates are exceeded during the first six years, both Gaz Métro and customers of GMP/CVPS will see additional benefits. There is no cap on customer savings opportunities beginning in year 7. Gaz Métro's savings benefits, on the other hand, are limited to savings achieved during the first six years, and by the requirement to address any deficiency if GMP achieves less than the guaranteed \$144 million in customer savings. In addition, we expect savings achieved to be permanent, so the higher the ultimate level of savings achieved in the first 6 years, the more benefits to customers, both during the first 6 years and then permanently.

8. The shared savings plan includes a commitment by the Petitioners to deliver at least \$144 million in rate benefits to customers. The Board notes that this amount is identical to their estimate of the customers' share of the ten-year savings in the Petitioners' filings, which the Petitioners state they are "highly confident" of meeting or even potentially exceeding. (Powell pf. at 13). Given the uncertainties of estimating future savings from the merger over six-year and ten-year periods, there might have been a wide variation in the Petitioners' projections of estimated savings over such periods. To the extent such projections exist, it would be helpful if the Petitioners could provide the Board with the range of reasonable estimates of the savings expected to be realized from the merger over those time periods, including a best case and worst case scenario.

RESPONSE: As explained in Brian Otley's testimony to the Board on March 23, 2012, at the time of the Gaz Métro offer for CVPS, GMP had completed a "top down" estimate of potential savings, based on information made available in due diligence, GMP's own experience and the experience of GMP's management team. Based on this estimate, GMP and Gaz Métro made its public proposal including as aggressive a level of savings as possible so as to present the strongest case possible that the GMP/Gaz Métro offer would be found by the CVPS Board of Directors to be a "superior proposal" to the Fortis deal. GMP and Gaz Métro had an incredibly strong incentive to present as aggressive a savings estimate as possible to "win" the opportunity to combine the two companies for the benefit of customers and Vermont. GMP accordingly built its savings model around an aggressive, but achievable savings plan, with the belief that we would have the opportunity to meet or exceed it, but with the clear understanding that Gaz Métro and GMP took all the risk of falling short. We did not develop a range of other outcomes. Our estimate showed that approximately \$110 million of the \$226 million of savings relates to labor and associated benefit/other costs, dependent upon when employees elect to leave GMP or retire, without layoffs (outside of certain executive positions) and without forced relocations. Given that almost half the benefits relate to a category of savings that GMP will not control, we are confident our guarantee presents a compelling value opportunity for customers. The "worst" case for customers would be no merger. If the merger is completed, the "worst case" for customers is the \$144 million guaranteed savings. The "worst case" for GMP/Gaz Métro is that we achieve significantly less than the estimated savings, leaving us responsible to make good on the guarantee. The "best case" for customers and GMP/Gaz Métro is that savings exceed the estimate, and both customers and investors enjoy the benefits.

9. (a) Although the Board understands the general principle behind declines in Gaz Métro's sharing percentages over time, how were the applicable percentages for the sharing of savings in each year during the initial six-year term determined?

(b) Does the drop in Gaz Métro's proposed sharing percentage from 67% in year 6 to 0% in year 7 potentially create some undesirable incentives towards the end of the shared savings period

RESPONSE:

(a) The applicable percentages were designed to achieve several objectives: (1) to provide the incentive to GMP to achieve savings as quickly as possible, consistent with the commitment to no layoffs, etc.; (2) to put on Gaz Métro/GMP the risk of achieving savings in the early years, when savings will be most difficult to achieve; and (3) to make the savings plan work to achieve both \$144 million (nominal) in savings for customers within 10 years and to achieve the share of savings for Gaz Métro on a net present value ("NPV") basis of \$61 million. On an NPV basis, this plan gives Gaz Métro a 43% share of the savings and customers 57% over 10 years. Gaz Métro's 43% share of sharing relates to operations and maintenance ("O&M") cost savings only. Customers will receive 100% of the savings associated with other benefits of the merger, in all other areas that are not administrative and general ("A&G") O&M (see A.OMYA:PET.1-48), in addition to: these savings continue to grow into the future, with projected cumulative savings of \$500 million after 20 years; the value of the significant portion of VELCO stock transferred and its \$1 million annual dividend as well as the value of three seats on the VELCO board to represent the public interest; at least \$21 million in benefits to CVPS customers in energy efficiency and community energy, which will directly benefit CVPS customers; improved customer service & reliability from merging adjoining service territories; merger savings achieved in the Vermont Way without layoffs at either GMP or CVPS; and additional commitments to Rutland, including support for job creation, downtown development, a Solar City program and renewable energy.

Moreover, we expect the O&M savings to be permanent and customers will receive 100% of those savings forever. Gaz Métro's share has been determined to effectively allow Gaz Métro to achieve approximately the utility rate of return on equity on Gaz Métro's equity investment in this acquisition.

(b) The Company remains on the hook for the \$144 million of benefits and there is no way that amounts of that magnitude can be achieved anywhere near the six year window. The plan provides a strong incentive to achieve savings as quickly as possible, which benefits both the Company and customers, and is consistent with GMP's firm commitments to employees and the Rutland community.

10. (a) It is not clear in the testimony or exhibits filed to date how much of the projected savings (if any) would be realized from the large number of expected retirements (either from the lower cost of replacement workers or the non-replacement of retiring employees) without merging the two companies. Please clarify for the record. (b) Please provide more detail for the record about the expected elimination of job positions upon expected retirements or after normal job turnover and attrition, including the average and median age of current employees overall and in relevant job categories (to the extent readily available), the timing of expected retirements and the number of job positions in each job category to be eliminated.

RESPONSE:

(a) Mr. Griffin clarified this point on the record during his testimony on March 23, 2012. The projected savings are net of expected retirements (either from the lower cost of replacement workers or the non-replacement of retiring employees), based on historical cost patterns that take such replacements into account. As Mr. Griffin indicated, our proposal to use an inflation rate well below the historical inflation rate for the O&M category for the combined company essentially accounts for all non-integration benefits in setting the revenue requirement (base rates). As a result, we do not expect any material amount of the projected savings to be based on employee replacements at lower costs.

(b) For CVPS, the average age of the current workforce is 47 and the median age is 48. For GMP, the average age of the current workforce is 47 and the median age is 48.

11. (a) Based on current forecasts, how many total employees does the combined company anticipate it will have in five years?

(b) In ten years?

(c) What is the net loss of job positions that the Petitioners expect to result directly from the merger over a ten-year period?

(d) Please identify (with as much detail and specificity as is reasonably possible) the number of job position losses that are likely to occur in various geographic areas of the state as well as identifying the categories of jobs that will be affected in various areas of the state.

(e) If easily calculable, what is the approximate average annual total compensation associated with the job positions that are expected to be eliminated as a result of the merger with and without the proposed loss of executive positions?

RESPONSE:

(a)-(c) Please see **Attachment 11(a)**.

(d) It is impossible to estimate either the geographic location or categories of jobs that will be affected in specific areas of the state. We will determine as we integrate how to achieve the most efficient and appropriate locations for employees, subject to two firm commitments:

(1) no layoffs or forced relocations; and (2) our commitment to Rutland to maintain proportional levels of the Company's employee base in the Rutland area.

(e) We do not have an estimate of the average annual total compensation associated with the job positions expected to be eliminated. Our estimates were made from the average compensation across both companies. The CVPS average compensation currently is \$71,428 (excluding officers). The GMP average compensation currently is \$77,383 (excluding officers).

12. What is the Petitioners' current estimate of the number of job positions likely to be eliminated as a result of "smart meter" initiatives over the next ten years?

RESPONSE: CVPS and GMP have both submitted plans to the Board related to their smart meter projects. In those plans, CVPS estimates that its meter reading workforce will be reduced from 47 FTEs to 18 FTEs as a result of the smart meter initiative. GMP estimates that its meter reading workforce will be reduced from 18 FTEs to 6 FTEs as a result of the smart meter initiative. It is important to note that both companies will also be creating a number of new positions to operate, maintain, and maximize the value from the metering function as it will exist with smart metering technology. For example, the CVPS smart meter business case includes adding rate design and marketing expertise to its staff. As both companies are currently gaining competence with the new metering technology, the number of new positions and the specific roles and responsibilities within those positions continue to evolve and are not yet determined.

13. Exhibit 2 to Ms. Bugbee's prefiled testimony set forth the projected savings in various cost categories over a ten-year period. (a) Please update this exhibit to the extent there have been any changes in the Petitioners' assessment of these projected savings or the identification of new projected savings since September 2, 2011. (b) In addition, please also present the cost savings in terms of a percentage of each company's current costs for each of the identified cost categories.

RESPONSE:

(a) There have been no changes in Petitioners' assessment of the projected savings since September 2, 2011. As explained by Mr. Otley at the March 22, 2012 technical hearings, Petitioners are in the second phase of the integration process, which involves development of a formal integration program structure. Through this process, Petitioners have identified at least 60% of the target savings over the 10 year period, and the teams continue to refine and focus with the goal of identifying and structuring the organization to have the opportunity to achieve 100%. Even with a plan to achieve 100% of the projected savings in hand, the Company will remain subject to substantial execution risk as currently unforeseen impediments may prevent us from realizing estimated savings in full.

(b) Please see **Attachment 13(b)**.

14. In their prefiled testimony, the Petitioners note that the merger is likely to have some favorable effect on the costs of power supply contracts, which savings would presumably not be part of the shared savings plan and would flow through to ratepayers. Have the Petitioners been able to quantify any of the savings (for example, the costs associated with collateral posting requirements)? If so, please advise.

RESPONSE: GMP expects that it will obtain some costs savings in power supply contracts and transactions as a result of the merger. Examples of potential savings are:

- More favorable pricing (or other terms) in purchased power/sale agreements (e.g., energy, capacity, RECs), due to the combined company's larger scale and negotiating leverage;
- Long-term synergies in staffing, some of which are classified as power costs;
- Reduction in some Transmission By Others expenses (to the extent that there is diversity between the monthly peak demands of CVPS and GMP);
- Savings from coordinated planning of the combined company's power supply portfolio (e.g., avoiding instances in which GMP and CVPS might, as stand-alone companies, have been conducting "opposing" purchase and sale transactions at the same time, with each company incurring transaction costs or a bid/ask spread); and
- Avoidance of some ISO-NE fees that are assessed on a per-participant basis.

GMP did not include any power cost savings in its estimates of integration-related savings and has not developed an estimate of these savings. Although these savings are conceptually sound, the magnitudes are difficult to quantify (e.g., they will depend on factors like the future negotiating behavior of market participants or the future coincidence of CVPS and GMP peak demands). Also, such savings are expected to be limited relative to the companies' total power supply costs, because the largest components of the companies' power supply costs (purchases and sales of energy and capacity in the ISO-New England market) are based on MWh consumption and coincident peak demands and are therefore not expected to change as a result of the merger. Nevertheless, the actual savings amounts that ultimately materialize can be expected to benefit customers by lowering the power cost portion of the combined company's revenue requirements. Please see A.OMYA:PET.1-8.

15. Please provide a breakdown showing specifically, to the extent possible, the impact of the \$144 million in estimated ratepayer savings on various residential, commercial and industrial rate classes of CVPS and GMP as compared with the current rates for such customer-classes.

RESPONSE: The reduction in rate needs associated only with the O&M savings, and allocated to CVPS/GMP using 2010 FERC Form 1 relative weights of revenue are:

GMP .12% in year one ramping up to 5.82% in year 10.

CVPS .12% in year one ramping up to 5.82% in year 10.

Allocating savings over jurisdictional revenues produces the same rate impact for all customer classes.

16. Assuming the \$144 million in customer savings are realized in accordance with the estimates provided by the Petitioners in their prefiled testimony and exhibits, what, would be the approximate net present value of the total merger savings over a ten-year period that would be realized by a CVPS and a GMP residential customer with an average monthly electric usage of 600 kwh per month?

RESPONSE: The NPV of an individual residential customer's savings based on revenue per kwh sold for CVPS and GMP residential customers based on 2010 FERC Form 1 data results in the following estimated NPV to a customer using 7,200 kwh per year or 600 kwh per month.

GMP Estimated NPV:	\$175.02
CVPS Estimated NPV:	\$167.89

17. In their rebuttal testimony, both Ms. Powell (at 7) and Mr. Griffin (at 7) state that if, at the end of the ten-year period, ratepayers have not received \$144 million of rate benefits from the merger, GMP will make up any difference "by means of a plan approved by the Board." Please provide more details about the proposed parameters for this plan, such as a proposed date certain by which the entire \$144 million commitment would be satisfied.

RESPONSE: We expect to achieve \$144 million. If we fall short, we believe any plan for how to return the balance to customers should be prepared based on the circumstances at the time, including the amount (if any) that is to be returned. We propose that such a plan should be submitted within approximately 6 months of the expiration of the 10 years for the parties to comment on and the Board to approve.

18. Wouldn't the effect of the shared savings plan, as Mr. Wilson suggests in his testimony for the Department (Wilson pf. at 8 & 25), be to allow Gaz Métro to recover in rates (through an entitlement to some of the savings that would otherwise flow through to customers in rates) a portion of the large acquisition premium Gaz Métro will have to pay in ultimately winning its bid for CVPS?

RESPONSE: No, we are not seeking to recover the acquisition premium in rates. Through our savings sharing proposal, we are seeking to align customer and shareholder interests. Sharing a portion of O&M savings (and giving customers 100% of all other savings) is an opportunity for the investor to recover a portion of its acquisition costs, but only to the extent that savings that would not have been available to customers but for the transaction are achieved.

19. What is the total amount of outlays that Gaz Métro and NNEEC will have to make in order to complete the acquisition of CVPS common stock, including the total purchase price for the shares, the \$19.5 million Gaz Métro paid last September to reimburse CVPS for the termination fee paid to Fortis, the \$20.9 million related to the Docket 6120/6460 obligation of CVPS, transaction costs, and any other outlays related to the acquisition? Please provide a breakdown of such outlays by category.

RESPONSE: The total amount of outlays that Gaz Métro and NNEEC will have to make in order to complete the acquisition of CVPS common stock are as follows:

\$480 million for CVPS equity

\$8.4 million preferred shares redemption
\$5 million executive severance
\$10 million transaction fees
\$21 million break-up fee and related merger agreement costs

These numbers are estimated and subject to change, although not materially.

20. The apparent assumption by GMP of CVPS's obligations to ratepayers under Docket 6120/6460, without any offset against merger savings, may be seen as increasing the total consideration being paid by Gaz Métro for CVPS as well as Gaz Métro's acquisition premium and/or as decreasing the amount of such acquisition premium that would be indirectly recoverable in rates. Assuming that Docket 6120/6460 obligations should not be offset by merger savings, do the Petitioners believe there is any basis for Gaz Métro to recover any portion of the acquisition premium related to Docket 6120/6460 obligations as part of the shared savings plan? If so included, wouldn't the CVPS ratepayers who funded the "windfall" to CVPS shareholders essentially be repaying part of the obligations themselves?

RESPONSE: GMP believes that the merger benefits, including customer savings, constitute compliance with the Docket 6120/6460 obligations. The CEED Fund also provides the full amount of windfall benefits and does not involve recovery of any portion of the acquisition premium. The CEED Fund is closely modeled on the plan approved in the Gaz Métro acquisition of GMP (Docket No. 7213).

21. Is the shared savings plan or some similar arrangement an essential condition of the acquisition and merger for Gaz Métro such that it would abandon the acquisition if the Board rejects the shared savings plan in its entirety as part of an Order otherwise approving the acquisitions and mergers?

RESPONSE: Yes. The shared savings plan is customer-friendly and should be approved, for the reasons described below.

First, it is important to recognize that without this proposal – and this proposal alone – merger savings would not be available to customers. In GMP's view, the Fortis offer was a straight acquisition that would not have generated customer savings anywhere approaching the level of the GMP-CVPS merger proposal. In fact, the unique combination of GMP and CVPS – as two smaller utilities with adjoining service territories – is the only proposal that could achieve this level of meaningful and ongoing savings for customers while maintaining company leadership and direction in Vermont.

GMP believes that share price was only one of four elements to a successful acquisition. GMP knew that a successful deal must also 1) deliver extraordinary value to customers through the merger; 2) respect employees; and 3) strengthen the communities we serve.

To develop the winning proposal, GMP and Gaz Métro worked hard to provide the best value for customers, employees, communities and shareholders. Make no mistake: our offer to CVPS was a reach that included numerous downside risks for the investors – namely, the \$144 million of guaranteed customer savings. We felt comfortable with this type of shared savings model because of the precedent in other merger transactions. Since we announced the original deal and submitted the pre-filed testimony, we have been asked to improve the deal for customers, communities, and regulators. We have sought to meet these challenges with creativity, innovation, and, most importantly, additional benefits for customers, *e.g.*, CEED Fund; Rutland MOU; VEC MOU.

To date, we have stretched very far to craft an improved proposal that is an extraordinary value for customers while providing a required return for the investor. The components of the shared savings model, the VELCO stock transfer, the CEED Fund, the numerous rate mechanisms and ring-fencing provisions all fit together to strike the right balance of risk and return. It is difficult to evaluate how changing any one component could throw off this balance.

Gaz Métro, through its long history with Vermont Gas Systems, Inc. (“VGS”) and GMP, has been a major investor in the Vermont economy.

- o With the Kingdom Community Wind project, it is investing more than \$150 million to build local-generated, renewable power.
- o With Smart Grid, it is making an investment in the future of power distribution to benefit our customers.
- o On the VGS side, Gaz Métro is contemplating a significant expansion of their transmission pipeline south from Chittenden County.
- o On top of these investments, Gaz Métro is proposing the \$523 million (inclusive of transaction & other costs) acquisition of CVPS and its merger with GMP.
- o Gaz Métro has proposed the acquisition and merger at the recommendation of GMP's local management and with the support of CVPS' local management.

Gaz Métro's commitment to Vermont is strong and getting stronger – and we hope to continue a strong partnership with the State in order to keep these investments flowing. This extraordinary level of customer value is only possible through the unique combination of GMP and CVPS – and would not occur without this merger.

22. If the answer to the last question is yes, is there a break-point of shared savings for Gaz Métro, that is a minimum amount of shared savings that Gaz Métro believes it must recover in order to go through with this acquisition? Without needing to be specific about what that break-point might be, is that break-point arguably higher as a result of Gaz Métro's reimbursement of the termination fee paid to Fortis and the apparent assumption by Gaz Métro

of the obligation of CVPS set out in the Board's Order in Docket 6120/6460 to reimburse ratepayers for the "windfall" benefits CVPS shareholders earlier received?

RESPONSE: Gaz Métro's shared savings proposal, which was intentionally designed to maximize benefits to customers, is structured to provide Gaz Métro the minimum amount of shared savings necessary to allow Gaz Métro the opportunity to earn a fair, utility rate of return on its equity investment in the merger. The financial viability of this merger of course takes into consideration all costs of the transaction, including the price paid to CVPS shareholders, the transaction costs, the executive severance costs, the "break-up" fee, and all of the commitments that GMP and Gaz Métro have made to customers and communities as part of the merger proposal.

23. Would Gaz Métro regard the Board's approval of the acquisitions and mergers without the approval of any shared savings plan or similar arrangement as the imposition of a term or condition that would reasonably be expected to have a material adverse effect on NNEEC for purposes of Section 6.1(c) of its acquisition agreement with CVPS?

RESPONSE: See Responses to Questions 9, 21. At the appropriate time, Gaz Métro will review all merger closing conditions, including regulatory approvals, pursuant to Section 6.1(c) of the Agreement and Plan of Merger. If the Board were to disapprove the proposed (or a similar) saving sharing plan, it may give rise to a dispute on whether the action would constitute a material adverse effect for purposes of Section 6.1(c). Such a difference of opinion could result in litigation and a delay or in the extreme case termination of the agreement and elimination of benefits for all stakeholders from the transaction.

24. On May 16, 2011, at the time Gaz Métro made an offer of \$34 per share for CVPS (prior to CVPS entering into the Fortis agreement on May 27), did Gaz Métro have an expectation that, if its bid was accepted by CVPS, it would subsequently be granted an incentive by Vermont regulators for pursuing such a bid and would likely be able to recover a portion of the significant acquisition premium it would pay through some form of shared savings with ratepayers? If so, what was the basis for this expectation at the time?

RESPONSE: Yes. GMP was confident that the Board would recognize the unique and historic benefits that combining GMP and CVPS would bring to customers and the State of Vermont and would accordingly follow the precedent of other jurisdictions in approving a plan that would reasonably share a portion of the savings that could be achieved through this unique combination. As explained in the prefiled testimony of Mary Powell and Lawrence Reilly, GMP has committed not to pursue a more customary Wall Street-style merger, in which increased returns for shareholders are obtained through layoffs and accelerated consolidation of facilities and systems, at the expense of higher risk of customer service impacts. It is also important to remember that in non-utility mergers, shareholders would expect 100% of synergy savings.

25. See CVPS Proxy Statement at 27-28 with respect to this question and some of the following questions. In the period between May 16 and May 27, 2011 or earlier, did Gaz Métro, GMP, or their representatives have significant substantive discussions with CVPS about the apparent perception of CVPS's management and board of directors that "Gaz Métro's offer was likely to involve significantly more challenges to receive regulatory approval" and that "the transaction with Gaz Métro would potentially be subject to and could require new or different standards for regulatory review" and about how these perceived obstacles might be overcome.

RESPONSE: Yes. We were, however, in a tightly managed auction process, and thus GMP and Gaz Métro were accordingly reluctant to provide the full extent of their proposal without being in an exclusive negotiation with CVPS.

26. From the perspective of Gaz Métro and GMP, what were the specific concerns of CVPS with respect to regulatory challenges and Gaz Métro's position on regulatory approvals (in the mark-up of the acquisition agreement presented to CVPS) that caused CVPS not to accept Gaz Métro's \$34 per share offer of May 16 even though, at the time, it was about 12% higher than any other bidder's "firm and final" offer.

RESPONSE: Gaz Métro's conclusion as to why it was not chosen to pursue final exclusive negotiations with CVPS was that Gaz Métro's proposed language in the Section 6.1(c) was more stringent than what Fortis agreed upon.

27. In his testimony for the Department, Mr. Wilson (pf. at 29 et seq.) references the "benefits exception" as a rare deviation (adopted by regulatory authorities in some other jurisdictions) from the normal regulatory practice of not allowing a company that acquires a utility from recovering in rates any portion of an acquisition premium it paid to acquire the utility. Mr. Wilson also suggests that given the competition with Fortis to acquire CVPS, the possibly unique benefits to ratepayers of this particular acquisition and consolidation of utilities to ratepayers (who would not otherwise have obtained such benefits), and the express \$144 million monetary commitment made to ratepayers, the Petitioners might be able to meet the heavy burden of proof required to justify recovery by Gaz Métro of a portion of its acquisition premium under the "benefits exception," assuming the Board is willing to adopt that exception as applicable in Vermont. Even if the Board were to consider Mr. Wilson's suggestion, the Petitioners will need to provide additional testimony and argument on this issue to meet the burden of proof as to (i) why the benefits exception should apply given all the circumstances of this acquisition, (ii) why, specifically, a return to Gaz Métro of \$82 million or more (from savings that would otherwise flow to ratepayers after the merger) would be an appropriate return to Gaz Métro in this instance if anticipated merger savings are realized, and (iii) why the Board, which has not previously approved any similar arrangement, should deviate from its precedent and approve such an arrangement in this proceeding, considering, among other things, the effect such precedent might have on future rate-making proceedings involving any utility and on future proposed utility acquisitions and consolidations.

In particular, Petitioners should explain, with reference to the \$226 million of estimated merger savings, specifically why \$82 million is the appropriate amount to be returned to Gaz Métro either as "an incentive to induce investors to pursue large mergers that produce significant customer benefits" or as an appropriate recovery under the "benefits exception" of an acquisition premium for a transaction that is expected to produce significant benefits for ratepayers.

RESPONSE: For the reasons described in Mr. Hevert's testimony and as will be addressed in post-hearing briefs, GMP disagrees with Mr. Wilson's analysis, and believes that GMP's proposal is consistent with precedent, including Vermont precedent. See also Response to Questions 9, 21.

28. Mr. Otlely should provide a substantial update as to the progress of the second phase of the organizational integration process he described in his original prefiled testimony in September (pf. at 8).

RESPONSE: Mr. Otlely addressed this question at technical hearings on March 23, 2012.

29. In his testimony for the Department, Mr. Wilson states that the acquisition of CVPS by Gaz Métro "will reduce or eliminate the potential for independent 'intermodal' gas/electric competition for major business and residential energy needs in a significant portion of the state." Please be prepared to address this at the technical hearings.

RESPONSE: VGS and GMP are independently managed and accountable to separate Boards of Directors. Where there is a competitive opportunity, we would expect both companies to pursue it. Additionally the areas of gas and electric competition are limited and the determination of the successful fuel is often dictated by the infrastructure investment requirement and the willingness of the customer to make long-term investments. As it relates to transportation, infrastructure requirements favor electric over gas for general applications and the infrastructure requirements often identify the more competitive fuel when there are opportunities for competition. It is also noteworthy that natural gas is not available in most of the CVPS territory and where natural gas is located in GMP's territory, Mr. Wilson provided no evidence that ownership of GMP and VGS has limited competition in existing overlapping territories.

30. The Board is also likely to have questions at the technical hearings about VELCO governance and VLITE issues, the effects of the proposed transactions on other Vermont utilities, the rate and service integration process, the alternative regulation plans, the timing of a full cost-of-service review for the combined company, the effect on competition in the state, "ring fencing" proposals as well as additional questions about merger savings and the measurement metrics and mechanics of the shared savings proposal.

RESPONSE: Petitioners have responded to the questions on these issues at technical hearings.

RESPONSES OF CVPS:

31. What was the market capitalization of CVPS immediately prior to public announcement of the agreement with Fortis? How does that market capitalization compare to the adjusted rate base and net book value of CVPS?

RESPONSE:

Market Capitalization as of May 27, 2011

Closing Stock Price	\$24.32
Shares Outstanding	13,409,045
	\$326,107,974

Market Capitalization as of May 31, 2011

Closing Stock Price	\$34.30
Shares Outstanding	13,420,458
	\$460,321,709

Market Capitalization Increase = \$134,213,735

Rate Base: 13 month average rate base in our 2011 compliance filing (approved by PSB April 2011): \$454 million (this is the rate base that was reflected in 2011 rates)

Actual 13-month average rate base in ESAM filing (calculated based on actual 2011 results)
\$460.6 million

Net book value as of May 31, 2011: \$277.4 million

32. Either prior or subsequent to the execution of the acquisition agreement with Fortis on May 27, 2011, did CVPS or its advisors do any analysis of the potential savings to CVPS ratepayers from the Fortis transaction? If so, please share the conclusions of that analysis with the Board?

RESPONSE: Yes, CVPS did a preliminary analysis of synergy savings available to customers from the Fortis transaction. Those savings were estimated to be in the range of \$2.5 to \$3.0 million per year and primarily were the result of no longer being a publicly traded company with a large volume of shareholders.

Major sources of synergy savings with Fortis included the elimination of NYSE filing fees; the elimination of SEC filings, which would produce savings in outside legal and audit fees; and the elimination of the Investor Relations and shareholder services functions.

33. If no such analysis was performed, please provide a rough estimate of what you believe the savings from the Fortis acquisition (for example, savings related to the financial strength of Fortis, lower financing and power purchase agreement costs, the absence of

RESPONSE: See response to Question 32 above. We did not develop a detailed estimate that considered reductions in financing or purchased power costs or benefits from the sharing of best practices among Fortis affiliates.

34. Do you believe there were any significant potential savings that would have resulted from the Fortis transaction that are not likely to be realized in the CVPS/GMP merger? Do you believe that the CVPS/GMP merger on the terms proposed by the Petitioners presents much more significant opportunities for savings and other benefits to ratepayers than the Fortis transaction would have?

RESPONSE: No, I do not believe that there are significant potential savings from the Fortis transaction that are not likely to be achieved with the CVPS/GMP merger. Second question: yes, given the terms of the agreed transaction with Gaz Métro, largely because the CVPS/GMP merger involves two contiguous operating companies, it therefore presents greater opportunities for consolidation and cost savings.

35. The testimony of Mr. Wilson for the Department references the "benefits exception" as a rare deviation from the normal regulatory practice of not allowing acquirers of regulated utilities to obtain recovery of an acquisition premium through rates. Does the difference in potential ratepayer savings to be realized under the CVPS/GMP merger proposal as compared with the potential ratepayer savings if the Fortis transaction had been closed provide a justification for the Board to invoke the "benefits exception" in this particular instance? If so, please explain.

RESPONSE: I am not familiar with the "benefits exception" referenced by Dr. Wilson, but based on a review of his testimony, I agree that it could be a factor considered by the Board in this case. The Petitioners' request for a share of the savings generated has been approved in other states and seems more modest a request than application of the "benefits exception" to allow full recovery of the acquisition premium.

36. In CVPS's negotiations and discussions with Fortis, did Fortis make any proposals with respect to the possibility of it recovering indirectly in rates a portion of the 44% acquisition premium (relative to prior market capitalization) that Fortis agreed to pay to CVPS shareholders by means of any form of savings sharing plan, rate base adjustment or other arrangement? Did Fortis maintain that some form of savings sharing was necessary to provide

an appropriate incentive for it to pursue a merger of this magnitude given the potentially significant benefits to ratepayers from an acquisition by Fortis?

RESPONSE: To the best of my recollection there was never a discussion of Fortis recovering directly or indirectly any portion of the acquisition premium it had agreed to pay, and there was no such requirement in the CVPS agreement with Fortis.

37. In your opinion, would the ratepayer savings that would have been realized from the Fortis transaction exceed \$20.9 million over a ten-year period? In your negotiations and discussions with Fortis, did Fortis take the position that any ratepayer savings resulting from the acquisition should be offset against the \$20.9 million obligation to ratepayers under the Board's Order in Docket 6120/6460?

RESPONSE: Yes, estimated savings from the Fortis transaction would have been on the order of \$25 to \$30 million over ten years based on the analysis described above. Fortis did not suggest that the \$20.9 million obligation to customers should be offset against projected savings, and there was no such requirement in the CVPS agreement with Fortis. Fortis did, however, discuss potentially utilizing an investment approach similar to that approved in the case of the acquisition of GMP and currently proposed by the Petitioners' in this docket, although the deal with Fortis was not contingent on such a proposal being accepted.

38. CVPS's filings with the SEC indicate that Fortis agreed (in the Fortis acquisition agreement) to provide \$21 million for the benefit of CVPS customers. Was this agreement related to satisfying the obligation of CVPS to reimburse ratepayers for the "windfall" benefits previously received by CVPS shareholders as provided for in the Board's Order in Docket 6120/6460?

RESPONSE: Yes.

39. When did Gaz Métro first discuss with CVPS the possibility of some form of savings sharing with ratepayers? Did any such discussions occur prior to May 27, 2011?

RESPONSE: To the best of my knowledge, the possibility of some form of savings sharing with customers was first raised in Gaz Métro's unsolicited offer of November 15, 2010, which we referenced in our Proxy Statement (**Attachment 39.1** (Proxy Statement); **Attachment 39.2** (Supplement to Proxy Statement)).

40. In the discussion of the background for the merger in the CVPS proxy statement filed with the SEC,³ CVPS mentions its concern with respect to Gaz Métro's \$34 per share offer of May 16, 2011, about "a provision that significantly weakened Gaz Métro's obligations in connection with regulatory approvals." (Proxy Statement at 27) What was nature of that provision? Did such provision differ significantly from the "material adverse effect" provision

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<http://www.sec.gov/Archives/edgar/data/18808/000121465911002911/s817110defm14a.htm>

related to regulatory approval conditions contained in Section 6.1(c) of the current Gaz Métro acquisition agreement? In the view of CVPS's management, would the failure of the Board to approve the proposed savings sharing plan constitute the imposition of a term or condition that would reasonably be expected to have a material adverse effect on NNEEC for purposes of Section 6.1(c)?

RESPONSE: The provision referenced on Page 27 of the CVPS Proxy statement related to proposed changes to the regulatory actions covenant (Section 5.5(a)) and the related closing condition (in section 6.1(c)) that would have given Gaz Métro the ability not to close the transaction if regulatory approvals imposed conditions that would reasonably be expected to materially impair any of their "expected benefits" of the transaction (which "expected" benefits were not specified).

Regarding the saving sharing mechanism proposed in this docket, it is important to note that the proposal seems reasonable and appropriate under the circumstances presented. Further, to the extent that the mechanism was viewed as precedential, it may well encourage further consolidation of the fragmented electric distribution business in Vermont. Having said that, if the Board were to disapprove the proposed (or a similar) saving sharing plan, it may give rise to a dispute on whether the action would constitute a material adverse effect for purposes of 6.1(c) of the merger agreement. Such a difference of opinion could result in litigation and a delay or in the extreme case termination of the agreement and elimination of benefits for all stakeholders from the transaction.

41. As detailed in the CVPS Proxy Statement, Gaz Métro, in response to a request by CVPS for "firm and final offers," made an offer of \$34 a share and Fortis made an offer of \$30.27 per share on May 16, 2011. Did CVPS's management have any significant substantive discussions with Gaz Métro, GMP or their representatives about potential regulatory challenges involved in the Gaz Métro offer and how these might be overcome before the board of directors concluded on May 21 that it could not declare a winner of the bidding process, even though the Gaz Métro offer was about 12% higher than any other bid?

RESPONSE: Yes. I discussed this issue and others with Sophie Brochu at Gaz Métro on or about May 17, 2011. It was also discussed during a conference call among principals and advisors for CVPS and Gaz Métro on or about May 18, 2011

42. Reference is made to the CVPS Proxy Statement at 27 regarding the determination of the CVPS Board of Directors at meeting on May 21, 2011:
Although Gaz Métro's offer price meaningfully exceeded the offers of Fortis and Company B, the board was concerned that **Gaz Métro's offer was likely to involve significantly more challenges to receive regulatory approval** and, related thereto, Gaz Métro's mark-up of the merger agreement significantly weakened the steps required by Gaz Métro to obtain regulatory approval and allowed Gaz Métro to terminate the agreement without penalty if conditions imposed in regulatory approvals

had a material adverse effect on Gaz Métro's (unspecified) expected benefits from the transaction. [emphasis added].

Please explain why CVPS's management and board of directors believed at that time that Gaz Métro's offer "was likely to involve significantly more challenges to receive regulatory approval."

RESPONSE: The Gaz Métro proposal was essentially conditioned upon a regulatory approval that provided Gaz Métro shareholders with unspecified "expected benefits" of the transaction. Although Gaz Métro had the highest bid price, in an evaluation of likelihood of closing, it was the judgment of the CV Board, its management and its advisors that this contract markup presented significant risks that were not present in either of the other two proposed contracts. It was for this reason that at the conclusion of the May 21, 2011 meeting the CVPS Board of Directors directed management and its advisors to seek to improve the contract terms of the Gaz Métro proposal and the price terms of the other two proposals.

43. Please also explain why CVPS's management and board of directors believed the relevant regulatory challenges and Gaz Métro's position on regulatory approvals (in the mark-up of merger agreement presented to CVPS) were of such significance that it caused CVPS not to accept Gaz Métro's \$34 per share offer of May 16, even though it was about 12% higher than any other bidder's "firm and final" offer at the time.

RESPONSE: As explained in the response to question 42 above, at its meeting on May 21, 2011, the CVPS Board of Directors determined that it was not prepared to accept any of the bids received on May 16 and directed management and its advisors to continue negotiations with all three bidders. In addition, price cannot be and was not examined in a vacuum. The certainty or likelihood of a proposed transaction actually closing, including receiving regulatory approvals, was a significant consideration in deciding whether the proposal was, on balance, in the best interests of CVPS, its shareholders and its other constituencies.

44. Reference is made to the CVPS Proxy Statement at 28 regarding the consideration of competing bids at a telephonic meeting of the CVPS Board of Directors on May 25, 2011:

[W]hile Vermont regulatory approval of a transaction with Fortis would require a determination by the Vermont regulators that certain previously announced standards would be satisfied by a transaction with Fortis, the board noted that **a transaction with Gaz Métro would potentially be subject to and could require new or different standards for regulatory review.** [emphasis added]

Please explain why CVPS's management and board of directors believed at that time that a transaction with Gaz Métro "would potentially be subject to and could require new or different standards for regulatory review."

RESPONSE: The Fortis proposal was essentially the same transaction that the Board had approved in 2007 with respect to Gaz Métro's acquisition of GMP. By the time of the

CVPS Board of Directors meeting on May 25, 2011, the Fortis proposal was superior in terms of both price and contract terms. The contract term proposed by Gaz Métro still included a provision that in the Board's view provided an unacceptable risk that the transaction would not close if the regulatory approvals did not allow shareholder benefits that were acceptable to Gaz Métro.

45. At the time of the May 21 and May 25 board meetings, did CVPS's management or board of directors take into account the potential ratepayer savings that would result from an acquisition by Gaz Métro and a merger between CVPS with GMP, and the effect that might have on the receptivity of regulators to the proposed Gaz Métro transaction?

RESPONSE: A wide variety of potential benefits and risks associated with the Fortis Proposal and the Gaz Métro proposals were considered by the CVPS Board of Directors. Although the Gaz Métro proposal had the potential to create more synergy savings, the specifics of how Gaz Métro intended to share those savings between customers and shareholders were unknown and Gaz Métro did not specify any amounts in the mark-up of the merger agreement it presented to CVPS. Accordingly, it was not possible to assign a high degree of certainty to the likelihood that the Board would approve any shared savings proposed by Gaz Métro and that the transaction would ultimately be approved. Moreover, Gaz Métro's mark-up, which it declined to modify at the times mentioned, contained certain "outs" if it was not unilaterally satisfied with the "expected benefits" provided to its shareholders by a Public Service Board order. In the judgment of CVPS, this created unacceptable deal completion risks, including but not limited to providing an element of unilateral optionality for Gaz Métro in proceeding with the proposed transaction.

46. At any time during the period from May 16 to May 27, 2011 or earlier, did executive officers or directors of CVPS have any significant substantive discussions with Gaz Métro and GMP about CVPS's concerns that the "Gaz Métro's offer was likely to involve significantly more challenges to receive regulatory approval" and that "the transaction with Gaz Métro would potentially be subject to and could require new or different standards for regulatory review" and how these concerns might be overcome. See CVPS Proxy Statement at 27-28 (**Attachment 39.1** (Proxy Statement); **Attachment 39.2** (Supplement to Proxy Statement)).

RESPONSE: Yes, see the response to question 41 above. In addition, these issues were discussed at a face to face meeting on May 23, 2011, in New York City.

Dated this 26th day of March 2012.

On behalf of Petitioners, CENTRAL VERMONT
PUBLIC SERVICE CORPORATION, NORTHERN
NEW ENGLAND ENERGY CORPORATION, for itself
and as agent for Gaz Métro Limited Partnership's parents,
GAZ MÉTRO LIMITED PARTNERSHIP, GAZ MÉTRO
INC., DANAUS VERMONT CORP., GREEN
MOUNTAIN POWER CORPORATION and VERMONT
LOW INCOME TRUST FOR ELECTRICITY, INC.

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