

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Case No. 22-4100-TF

Petition of Washington Electric Cooperative,
Inc. requesting an overall rate increase of
14.19% to take effect on a service-rendered
basis commencing November 1, 2022

**SUPPLEMENTAL TESTIMONY OF
SEAN FOLEY
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE**

February 17, 2023

Summary: Mr. Foley Provides responses to the Vermont Public Utility Commission's
Request for Information from The Department of Public Service.

**SUPPLEMENTAL TESTIMONY OF
SEAN FOLEY**

Q1. Please state your name and occupation.

A1. My name is Sean Foley, and I am the Chief of Finance and Economics with the Vermont Department of Public Service (“Department”).

Q2. Have you previously testified in this case?

A2. Yes.

Q3. Would the Department support reducing Washington Electric Cooperative, Inc.’s (“WEC”) TIER in the rate year to 1.75, 1.5, or 1.25 to lower the proposed rate increase to be more closely aligned with the RUS requirements?

A3. No. The Department has found that a TIER of 2.0 leads to a more financially stable utility. For example, in its last past two rate cases, Vermont Electric Cooperative, Inc. (“VEC”) has requested a target TIER of 2.0. VEC has found this level of TIER to be key to maintaining VEC’s financial health, as indicated by their credit rating, which has steadily improved over time. Specifically, VEC’s rating from Standard & Poor’s went from BBB- with a negative outlook in 2005 to an A+ rating with a stable outlook, which they achieved in February 2016 and have maintained ever since.

Other benefits that VEC has been able to achieve with a 2.0 TIER include:

- The ability to support a sustainable capital spending plan to achieve the overall goal of balancing rate impacts with the need to provide reliable electric service and minimize outages for its members.

- 1 • The ability to leverage a strong credit rating to strengthen its power supply
2 portfolio. VEC has now established credit with many large and reputable energy
3 traders, and it has a power supply portfolio that is diversified between long- and
4 short-term deals, largely protecting it from volatile markets. The market has
5 gotten increasingly complex, and it is valuable for VEC to have access to several
6 trading partners as it considers new types of power supply deals (like renewable
7 energy credits, storage, and capacity deals). This is particularly true in times, like
8 now, where the market is turbulent.
- 9 • The ability to continue to invest in VT Transco stock. This investment yields
10 generous returns that help mitigate the increases in other costs to VEC members.
11 In the past, VEC had limited ability to invest in VT Transco stock without
12 borrowing large additional amounts of debt and harming its financial rating.
- 13 • Access to favorable debt financing. VEC's financial strength has instilled the
14 confidence of its lending partners which allows VEC to leverage lower cost of
15 debt financing.

16 The Department's expectations are that WEC may be able to gain similar benefits.

17
18 **Q4. Please provide an analysis of how the Department determined that WEC's proposed**
19 **2.0 TIER results in an appropriate amount of cash-on-hand as compared to lower**
20 **TIERs. Why is WEC's proposal reasonable?**

21 A4. The Department did not perform an analysis to determine whether WEC's proposed 2.0
22 TIER resulted in more appropriate amount of cash-on-hand than compared to lower
23 TIERs. The Department's recommendation for this TIER level mainly springs from the

1 issues discussed above. The Department does caution utilities to be aware of their cash
2 reserves when they are determining when they might need a rate increase.

3 The financial health of a utility determines its flexibility to respond to
4 contingencies, resilience against potential short-term shocks, and cushion against a long-
5 term unfavorable trend. The right amount of cash reserves for an electric utility company
6 can vary based on factors such as the size of the company, its financial stability, and
7 regulatory requirements. However, in general, it is recommended for a utility company to
8 maintain an amount of three to six months' worth of operating expenses in cash reserves
9 as a buffer against unexpected events or downturns in the economy. The minimum
10 acceptable amount of cash on hand would be 30 days of unrestricted cash, and an optimal
11 amount could be considered 150 days of cash on hand, which is Moody's minimum for an
12 "Aa" rated bond.

13 It is important to note that utilities, being essential service providers, may have
14 additional requirements set by regulators, or financial entities to maintain higher levels of
15 reserves to ensure the stability and reliability of their services. This could mean having
16 additional cash reserves, access to lines of credit, or other forms of financial backup.

17 The recommendation of having up to six months' worth of operating expenses in
18 cash reserves for a utility company is a general guideline that has been developed based
19 on industry practices and financial best practices. This recommendation takes into
20 account the nature of utility companies as essential service providers, which are expected
21 to maintain a certain level of financial stability and reliability to ensure the continuity of
22 their services.

1 This guideline also takes into consideration the fact that utility companies face
2 various risks, such as changes in regulations, natural disasters, economic downturns, and
3 other unforeseen events that could impact their financial performance. Having a
4 minimum of three to six months' worth of operating expenses in cash reserves provides a
5 buffer against these risks and helps ensure that the company can continue to meet its
6 financial obligations and provide essential services to its customers even in challenging
7 times.

8 It is important to note that this guideline is not set in stone and each company
9 should assess its own specific circumstances and risk tolerance to determine the
10 appropriate amount of cash reserves that they should maintain.

11
12 **Q5. WEC has testified that it “is prudent to have at least two months of cash for**
13 **operating on hand to avoid short-term borrowing for operating costs (Porter pf. at**
14 **3).” Please explain why the Department supports the need for enough cash to cover**
15 **two months of operating expenses. Would a smaller amount of cash on hand be**
16 **appropriate?**

17 A5. Please see my response above.

18
19 **Q6. Would it be appropriate to set WEC’s TIER to an amount that would result in a**
20 **cash on-hand year-end balance amount equal to the average of the last 10 years? If**
21 **no, why not?**

22 A6. No, it would not be appropriate to set WEC’s TIERR to meet the cash-on hand year-end
23 balance amount equal to the average of the last 10 years. TIER should be set to meet the

1 utility's financial management policy. If a utility is lacking a specific financial
2 management policy, the TIER should be set to meet general financial guidelines to
3 maintain a stable financial position. This includes but is not limited to the utilities' Debt
4 to Operating Revenues, Days Cash on Hand, and Annual Debt Service Coverage.

5
6 **Q7. I recommend that the requested rate increase should be reduced to 12.83% based on**
7 **two adjustments recommended by Mr. Poor. (Foley pf. at 6). Please explain how the**
8 **Department arrived at 12.83%. Using the exhibit WEC-1 spreadsheet, when**
9 **Commission staff change the value of Cell F25 of tab S6 to \$20,000 and incorporate**
10 **the net-metering avoided costs value of \$187,104 in Cell D32 of tab S1, the resulting**
11 **rate increase is 12.7% in Cell E42 of tab S1.**

12 A7. As recommended by Department witness Walter (TJ) Poor and as stated in my testimony
13 the reductions were made to WEC's power supply portfolio (Cell E8 of tab S1) and
14 associated expenses (Cell F25 of tab S6) not REVENUE AT EXISTING RATES (Cell
15 D32 of tab S1).

16
17 **Q8. Does that conclude your testimony?**

18 A8. Yes, it does.