

**STATE OF VERMONT  
PUBLIC UTILITY COMMISSION**

Case No. 23-3501-PET

Petition of Green Mountain Power for approval of its zero outages initiative as a strategic opportunity pursuant to 30 V.S.A. § 218d and GMP's multi-year rate plan

**PREFILED DIRECT TESTIMONY OF  
STEVEN D. HUNT  
ON BEHALF OF THE  
VERMONT DEPARTMENT OF PUBLIC SERVICE**

March 15, 2024

Summary: My Testimony discusses proposed accounting and rate recommendations regarding Green Mountain Power Corporation's ("GMP" or "Company") proposed Zero Outages Initiative ("ZOI").

**Mr. Hunt Sponsors the Following Exhibits:**

**Exhibit DPS-SDH-1**

Professional Resume of Steven D. Hunt

1 **Q1. Please state your full name, address, and occupation.**

2 A1. My name is Steven D. Hunt. My business address is 111 N. Orange Avenue, Suite 710,  
3 Orlando, Florida 32801. I am a Principal of the firm GDS Associates, Inc. (“GDS”).

4 **Q2. Please outline your formal education.**

5 A2. I earned a Bachelor of Science in Business degree with a major in Accounting from  
6 Virginia Polytechnic Institute and State University (“Virginia Tech”) in 2001.  
7 Additionally, I earned a Master’s Degree in Accounting and Information Systems from  
8 Virginia Tech in 2002.

9 **Q3. Are you a Certified Public Accountant?**

10 A3. Yes. I am a certified public accountant licensed in Washington, D.C.

11 **Q4. Please state your professional experience.**

12 A4. I am an accounting and rate specialist with 22 years of experience on Cost of Service  
13 (“COS”) rate regulation matters in the natural gas, oil, and electric industries. I began  
14 working at GDS in August 2020. Prior to GDS, I worked at the Federal Energy Regulatory  
15 Commission (“FERC”) from 2002-2020. I worked entirely in the Regulatory Accounting  
16 program as an Accounting Analyst, Manager, Deputy Chief Accountant, and Chief  
17 Accountant, in which I worked directly with FERC’s rate and legal programs on numerous  
18 natural gas rate applications, accounting request filings, certificate of public convenience  
19 and necessity applications, and accounting guidance letter orders. Additionally, I was a  
20 leading author or reviewing official for most FERC accounting orders and audit reports in  
21 the natural gas industry for the past 16 years, including topics on AFUDC, income taxes,  
22 integrity management and capitalization rules.

1 As a leader in FERC's audit program, I became directly involved in the initial risk  
2 assessment processes to determine audit focus areas, initial and supplemental discovery  
3 requests and interrogation, presenting findings of fact through draft audit reports, defending  
4 the findings of fact based on the evidentiary record and FERC precedent, and drafting final  
5 public audit reports that present the scope of audit work, audit methodologies, and findings  
6 and recommendations. Through these experiences, I frequently evaluated ratemaking  
7 concepts and precedent, natural gas utility operations, customer concerns, gas utility needs,  
8 and financial accounting and income tax requirements to identify and resolve macro and  
9 micro regulatory issues. For 13 years, I represented FERC's accounting and audit  
10 programs externally through frequent public speaking engagements at industry conferences  
11 and meetings.

12 **Q5. Have you testified in Vermont in the past?**

13 A5. Yes, I testified in Case Nos. 21-0898-TF and 23-0561-TF.

14 **Q6. Have you testified before any other regulatory commissions?**

15 A6. Yes. I have submitted testimony before FERC, the Public Utility Commission of Texas,  
16 and the Maryland Public Service Commission.

17 **Q7. What are your qualifications to provide testimony before the Vermont Public Utility  
18 Commission ("Commission")?**

19 A7. I have devoted a substantial amount of my career to public service at FERC as advisory  
20 staff and became extremely experienced presenting accounting and cost-of-service facts,  
21 rate analysis, and ratemaking recommendations in proceedings before FERC. I served as  
22 the FERC Chief Accountant and Director of the Division of Audits and Accounting in the

1 Office of Enforcement for 32 months and in prior roles served as the Deputy Chief  
2 Accountant, Accounting Manager, and Senior Accountant. In these roles, I routinely  
3 provided expert explanation and recommendations on the application of FERC accounting  
4 regulations and cost-of-service ratemaking policy and regulations in various rate  
5 proceedings, accounting filings, and audit proceedings. This expert advice was provided  
6 to FERC commissioners and all levels of senior leadership through various detailed written  
7 memoranda and orally in group project meetings. These experiences supporting FERC  
8 ratemaking, accounting, and audit programs and associated career advancement  
9 demonstrate my knowledge in this specialized field. My professional resume provides  
10 further details of my experience, provided as **Exhibit DPS-SDH-1**.

11 **Q8. For whom are you appearing?**

12 A8. I am testifying on behalf of the Vermont Department of Public Service (“Department” or  
13 “DPS”).

14 **Q9. Were your testimony and exhibits prepared by you or under your direct supervision  
15 and control?**

16 A9. Yes.

17 **Q10. Please summarize the purpose of your testimony.**

18 A10. My testimony proposes accounting and rate solutions regarding the implementation of  
19 GMP’s ZOI rate proposal and supports the recommendations of the various Department  
20 witnesses. Specifically, my testimony recommends that (1) incremental non-capital  
21 internal costs be excluded from rate recovery if GMP cannot provide a measurable criteria  
22 and/or baseline to demonstrate that GMP is incurring such costs in excess of those costs

1 included in existing rates and as a result of ZOI projects; (2) GMP utilize regulatory asset  
2 and liability accounts to record Department recommended incentives and penalties based  
3 on performance-based outcomes; and (3) GMP include known and measurable cost savings  
4 as a credit to incremental ZOI project costs deferred as a regulatory asset for rate recovery.

5 **INTERNAL COSTS FOR ZOI NON-CAPITAL PROJECTS**

6 **Q11. How does GMP propose to treat internal labor costs and administrative and general**  
7 **costs associated with the ZOI projects?**

8 A11. GMP states that it will record a regulatory asset for incurred ZOI operation and  
9 maintenance (“O&M”) expenses that have not been included in the cost of service of a base  
10 rate filing.<sup>1</sup> Once the projects are completed, GMP proposes to submit them for  
11 Commission review and approval in the subsequent Annual Base Rate filing during the  
12 Multi-Year Rate Plan (“MYRP”).<sup>2</sup> GMP explains that it will include O&M resulting from  
13 ZOI investments in the regulatory asset and submit for the Department’s review and  
14 Commission approval before inclusion in rate base.<sup>3</sup> The O&M expenses from ZOI  
15 projects that GMP intends to defer as regulatory assets and recover includes labor expenses  
16 captured on FERC Accounts 580 through 598.<sup>4</sup> GMP explains that the cost of transformer  
17 removal and re-install, which cannot be capitalized as per FERC accounting rules, is an  
18 example of an O&M expense that the Company intends to defer as a regulatory asset.<sup>5</sup>

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<sup>1</sup> See Doane PFT of 10/9/23 at 5:21 – 6:2.

<sup>2</sup> Id. at 6:3-4.

<sup>3</sup> See GMP’s discovery response to Q.DPS.GMP.2-85 in this proceeding.

<sup>4</sup> See GMP’s discovery response to Q.DPS.GMP.1-137 in this proceeding.

<sup>5</sup> Id.

1 GMP also explains that it is not expecting incremental costs to hit FERC Accounts  
2 920 – 935 during Phase 1 of the ZOI.<sup>6</sup> However, GMP clarifies that if there were any  
3 incremental identifiable costs associated with a ZOI project in FERC Accounts 920 - 935,  
4 those costs would be captured as a regulatory asset during Phase 1, as GMP does not intend  
5 to use a specific administrative and general capitalization rate during Phase I.<sup>7</sup>

6 **Q12. Has GMP demonstrated that the internal labor included in ZOI O&M projects is**  
7 **incremental to the labor costs currently recovered through the MYRP?**

8 A12. No. GMP has stated that it will include incremental O&M costs resulting from ZOI  
9 investments in the regulatory asset that is included in FERC Accounts 580 - 598 and  
10 potentially FERC Accounts 920 – 935. GMP states that it will then submit the costs for  
11 DPS review and Commission approval before inclusion in base rates.<sup>8</sup> However, GMP has  
12 not provided any measurable criteria and/or a baseline for determining whether an O&M  
13 cost associated with a ZOI project can be considered an incremental O&M expense  
14 included in the regulatory asset for future rate recovery. Without any measurable criteria  
15 and/or a baseline for determining whether an O&M expense for a ZOI project is  
16 incremental, there will be no demonstration that the internal labor and administrative and  
17 general costs included in the regulatory asset of which GMP seeks rate recovery is already  
18 recovered under existing rates.

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<sup>6</sup> See GMP's discovery response to Q.DPS.GMP.1-138(c) in this proceeding.

<sup>7</sup> Id.; see also GMP's discovery response to Q.DPS.GMP.1-145 in this proceeding.

<sup>8</sup> See GMP's discovery response to Q.DPS.GMP.2-85 in this proceeding.

1 **Q13. Does an expense on a new ZOI project properly included in FERC Accounts 580 - 598**  
2 **and 920 – 935 result in the expense being an incremental cost to GMP?**

3 A13. No. Determining internal labor and administrative and general costs associated with ZOI  
4 projects to be incremental to GMP is very challenging and potentially not possible. GMP  
5 provides an example of the type of incremental internal labor O&M expense eligible for  
6 deferral and recovery to be the cost of transformer removal and re-install, which cannot be  
7 capitalized as per FERC accounting rules.<sup>9</sup> However, there is no demonstration in that  
8 example that the internal labor cost to remove and re-install a transformer is an incremental  
9 cost to GMP not captured in existing rates through labor costs of existing positions. That  
10 is, GMP has not shown how it will demonstrate that the cost of the Company’s workforce  
11 included in existing rates has increased due to the ZOI, as opposed to non-ZOI projects.  
12 The use of internal labor to perform an activity associated with ZOI projects is not a  
13 demonstration that the employee labor costs are not currently recovered in existing rates.

14 **Q14. Have you considered whether GMP has hired additional full-time equivalent**  
15 **positions to support ZOI projects to date?**

16 A14. Yes. However, GMP stated that the Company is “currently in discussions with external  
17 project management firms for project management services in support of the ZOI.  
18 Additionally, [GMP is] in the planning stages to identify any additional internal full-time  
19 resources necessary to cost effectively and efficiently oversee and manage the work,  
20 including the potential addition of an internal resource responsible for ZOI in each region

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<sup>9</sup> See GMP’s discovery response to Q.DSP.GMP.1-137 in this proceeding.



1 of the state.”<sup>10</sup> Absent GMP making prudent hiring decisions to increase the workforce  
2 specifically for ZOI projects and demonstrating that it is incurring higher labor costs due  
3 to ZOI projects, it is possible that GMP will be double-recovering its internal labor O&M  
4 expenses through existing rates and the ZOI O&M Regulatory Asset.

5 **Q15. What is your recommendation concerning the deferral and recovery of incremental**  
6 **O&M expenses?**

7 A15. I recommend the Commission deny the portion of GMP’s proposal to defer and recover  
8 internal labor O&M expenses and administrative and general expenses included in FERC  
9 Accounts 580 - 598 and 920 – 935 until GMP proposes measurable criteria and/or a  
10 baseline to demonstrate that GMP is incurring such costs in excess of those costs internal  
11 labor costs currently included in existing rates.

12 **PERFORMANCE-BASED OUTCOMES**

13 **Q16. Are you aware of the rate design proposed by Department Witnesses Mr. Jacob**  
14 **Thomas and Mr. Sean Foley for performance-based outcomes?**

15 A16. Yes. The Department proposes to implement a performance-based set of incentives and  
16 penalties based on the measurable success of GMP ZOI.

17 **Q17. What accounting treatment should GMP use to reflect the performance-based**  
18 **outcomes?**

19 A17. Performance-based outcomes resulting from the performance above the applicable  
20 standards should be recorded in a regulatory asset account and deferred to be recovered  
21 from customers in the next Annual Base Rate filing. A disallowance resulting from

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<sup>10</sup> See GMP’s discovery response to Q.DSP.GMP.1-141 in this proceeding.

1 performance below the applicable thresholds should be recorded in a regulatory liability  
2 account and deferred to be credited to customers in the next Annual Base Rate filing. The  
3 amount of the performance incentive or disallowance included in the Annual Base Rate  
4 proceeding should be limited to the Commission's determination of an appropriate  
5 amortization period during which the incentive or penalty amounts will be recovered from  
6 or credited to the GMP customers.

7 The creation and amortization of regulatory assets and regulatory liabilities through  
8 performance-based outcomes should be recorded to Account 182.3, Other Regulatory  
9 Assets, and Account 254, Other Regulatory Liabilities, as appropriate. Additionally, the  
10 charges and credits to Accounts 182.3 and 254 for the performance-based outcomes should  
11 be offset to Account 407.3, Regulatory Debits, and Account 407.4, Regulatory Credits, as  
12 appropriate.

13 **Q18. Do you recommend GMP accrue interest charges on the incentive regulatory asset**  
14 **and regulatory liabilities?**

15 A18. No. Because the regulatory assets and liabilities are created as a result of performance-  
16 based outcomes, interest charges do not appear to be necessary.

17 **ZOI CAPITAL PROJECTS**

18 **Q19. What is GMP's proposal regarding its capital projects in the ZOI?**

19 A19. GMP states that it will record to a regulatory asset account for future recovery from  
20 customers the depreciation, property taxes, and other project expenses between the time a  
21 ZOI capital project is completed and placed in service and when it is included in rate base

1 via a rate filing.<sup>11</sup> GMP also states that it will accrue the cost of capital on the regulatory  
2 assets, excluding the deferred debt and equity components of the regulatory asset.<sup>12</sup> GMP  
3 states that when it seeks rate recovery of the regulatory asset for a ZOI capital project, it  
4 will propose a depreciation schedule based on the asset's useful life. Further, at the time  
5 GMP seeks rate recovery of the regulatory asset for a ZOI capital project, GMP proposes  
6 to include O&M expenses associated with ZOI project in base rates in the year the expenses  
7 were approved by the Commission, or GMP will seek a longer amortization period of the  
8 regulatory asset when it seeks approval of the expenditures.

9 **Q20. Does GMP's proposal to recover incremental ZOI project costs include any credits**  
10 **for reductions to expenses or plant-in-service balances that are included in base rates**  
11 **and occur as a result of ZOI capital projects?**

12 A20. No. GMP states that it has determined the impact of the ZOI investments in isolation,  
13 without any benefits associated with cost reductions for customers.<sup>13</sup> Nevertheless, GMP  
14 does expect there to be significant cost savings in vegetation management, minor storm  
15 restoration, major storm restoration, pole inspection, and overtime labor.<sup>14</sup> However, GMP  
16 has not provided any proposal to factor in those cost savings to customers in this  
17 proceeding. The completion of GMP's ZOI capital projects may result in the retirement of  
18 assets currently in service and a reduction or elimination of costs currently included in base  
19 rates. However, GMP has not committed to the inclusion of cost reductions, such as  
20 depreciation and O&M costs on retired assets.

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<sup>11</sup> See Doane PFT of 10/9/23 at 5:18-21.

<sup>12</sup> Id. at 8:2-5.

<sup>13</sup> See GMP's response to Q.DPS.GMP.1-72, 2-6, and 2-7.

<sup>14</sup> Id.

1 **Q21. Can the reductions to expense or plant-in-service balances that are included in base**  
2 **rates and occur as a result of the ZOI capital projects be reasonably measured?**

3 A21. Yes. In addition to the reduced O&M expenses GMP surmises will occur, there will also  
4 be reductions in costs to GMP from plant retirements that will reduce depreciation expense  
5 and O&M expenses. I maintain these cost savings will be realized by GMP immediately  
6 or in a short-term period and should, therefore, be a measurable cost saving.

7 **Q22. Under the MYRP, will these cost savings automatically flow-through to customers**  
8 **through Annual Base Rates adjustments?**

9 A22. No. Under the MYRP, O&M costs are not subject to a true-up to actual.

10 **Q23. By not including known and measurable cost savings as a component of the ZOI**  
11 **project cost recoveries, what concerns do you have?**

12 A23. I am concerned that GMP will be establishing a revenue requirement for ZOI project costs  
13 that inequitably includes the actual cost increases associated with the projects and  
14 disregards known and measurable cost savings that are associated with the projects.

15 **Q24. What recommendations do you have regarding the treatment of known and**  
16 **measurable cost savings associated with the ZOI projects?**

17 A24. I recommend that GMP (1) identify all asset retirements and changes to O&M activities  
18 that are the result of ZOI projects; and (2) include credits to the ZOI project regulatory  
19 asset to capture known and measurable cost savings that are realized prior to the next  
20 base rate filing. In addition, the known and measurable cost savings should be included  
21 in determining the incremental O&M costs associated with a ZOI project GMP proposes  
22 to include in rates.

1 **Q25. Does that conclude your testimony?**

2 A25. Yes, it does.