STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 18-1633-PET

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| Petition of Green Mountain Power Corporation for approval of a multi-year regulation plan pursuant to 30 V.S.A § 209, 218, and 218d | |

**DEPARTMENT OF PUBLIC SERVICE'S RESPONSE TO THE PUBLIC UTILITY COMMISSION'S INFORMATION REQUESTS**

On March 14, 2019, the Public Utility Commission (Commission") issued a memorandum including a series of information requests to the Department of Public Service (Department) and the Green Mountain Power Corporation (GMP). The Department hereby responds to the questions directed at the Department. Each request from the Commission is reproduced in bold text below followed by the Department's response.

Responses to Commission Questions

**(1): Mr. Allen has testified that GMP's proposed capital spending cap is "reasonable." Please explain the basis for the Department's opinion.**

Department Response: Mr. Allen's conclusion that the spending cap that GMP included with its proposed multi-year rate plan is reasonable is based on a detailed review of historical data, comparisons to peer utilities, the Department's review and analysis of materials that GMP provided in testimony and discovery responses in this matter, and direct communications with representatives from GMP.

As the Commission is well aware, in several recent cases involving GMP, the Department raised concerns with the increasing trajectory of GMP's capital expenditures and associated growth in rate base since 2012. The capital spending cap proposed by GMP in this case seeks to address the Department's concerns by proposing a capital investment level that is substantially below the levels that raised concerns for the Department over the past several years. This cap, if implemented, should lead to more disciplined development of capital budgets and spending on discretionary investments and ultimately benefit ratepayers by easing pressure on rate base growth.

In conducting its analytical review of the reasonableness of the proposed cap amount, the Department relied on a variety of reference points. First, the Department analyzed capital investment levels (by GMP and Central Vermont Public Service (CVPS)) from both before and after the merger, investment levels of sister utilities in Vermont, a comparison of GMP's investment levels to information reported for Edison Electric Institute system, and investment levels proposed by GMP in comparison to a large group of peer systems based on publically accessible data. Individually, these comparisons could lead to different conclusions, but together, and with some allowance for context, they lend support for the conclusion that the GMP proposal is reasonable, consistent with levels of spending from comparable peer utilities, and adequate for GMP to meet the needs of its ratepayers. Although GMP's proposed capital investment cap would result in generally higher capital spending in comparison to some other Vermont utilities, it is on the low end when compared to GMP's investor-owned peer utilities (based on the publicly accessible data that the Department reviewed).

Importantly, GMP's testimony and discovery responses detail to the Department's satisfaction how the proposed budget was developed through a bottom up process. That being said, although the proposal includes a set cap, GMP will still be expected to develop and maintain appropriate documentation to demonstrate the need for individual capital projects, demonstrate appropriate least-cost planning principles, and satisfy the Commission's known and measurable standard. The cap will not result in a relaxation of GMP's existing documentation or other regulatory obligations. GMP will still need to fully justify its capital investments, which will remain subject to regulatory scrutiny in the Commission's next comprehensive cost-of-service review at the end of the proposed multi-year plan.

While the Department remains concerned about how rate base investments will affect retail rates in future years, the Department recognizes the need for GMP to continue to invest in its network to maintain acceptable levels of service. Based on its review of GMP's and CVPS's historical spending levels and the comparison to peer utilities, the Department finds that the proposed cap should allow sufficient capital expenditures for GMP to continue to improve the reliability of service consistent with its existing regulatory obligations and metrics. Moreover, the proposed multi-year plan includes several "off-ramps" that allow for more room for needed investments if either (1) a special opportunity presents itself and Commission approval is given, or (2) it can be folded into a separate exception category as part of the Climate Resiliency Plan. Therefore, to the extent the proposed cap creates a risk of potential under-investment, that risk is mitigated.

Finally, GMP's proposed cap sets capital expenditure limitations during the three-year period of the proposed multi-year plan; it is not an implicit endorsement of the actual investments that GMP will complete during the plan. Traditional regulatory standards, such as prudency and used and useful analyses, will still govern GMP's spending. Additionally, if actual experience demonstrates that the cap turns out to be either excessive or insufficient, the proposed multi-year plan allows for GMP or the Department to request the Commission terminate or modify the multi-year plan (the Commission likewise would have authority to reopen the plan on its own accord).

**Person Responsible:** J. Riley Allen
**Title:** Deputy Commissioner, Department of Public Service
**Date:** March 28, 2019

**(2): Please explain whether the Department has had or will have an opportunity to review the capital investments described in Exhibit BO-1 before these investments are recovered in base rates. Please explain whether the Multi-Year Regulation Plan provides a sufficient opportunity for the Department to review GMP's new capital investments.**

Department Response: The Department has reviewed the capital investments described in Exhibit BO-1. However, at this point in the proceeding, the Department's review has been focused primarily on the structure of the proposed multi-year rate plan, how it will function mechanically, the reasonableness of the proposed capital spending cap, its likely effect on GMP's rates over the term of the plan, and whether the plan will result in just and reasonable rates consistent with the requirements of 30 V.S.A. § 218d.

The Department has not focused on the merits of individual capital investments proposed by GMP because, with respect to capital investments, the proposed multi-year plan does not contemplate the type of "mini-rate" case for annual base rate reviews that was a component of GMP's former alternative regulation plans. While the Department will track and review GMP's capital spending over the term of the plan, subject to a few minor exceptions, a comprehensive review of GMP's capital spending and disallowance recommendations from the Department (if any) will be presented in GMP's next full cost-of-service review. The annual base-rate review under the proposed plan will not entail an expedited review of GMP's capital spending. Instead, regulatory review of and potential challenges to individual capital investments will be deferred until the traditional rate case that will bookend the multi-year plan. This approach, which will subject GMP's capital expenditures made during the term of an alternative regulation plan to the rigors of a full traditional rate case, ensures a much greater degree of transparency, more detailed regulatory review, and better opportunity for meaningful participation from intervenors than the annual base rate reviews conducted under GMP's prior alternative regulations plans.

**Person Responsible:** J. Riley Allen and Daniel C. Burke, Esq.
**Title:** Deputy Commissioner and Special Counsel, respectively, Department of Public Service
**Date:** March 28, 2019

Dated at Montpelier, Vermont, this 28th day of March, 2019

Vermont Department of Public Service

By: *_/s/ Daniel C. Burke_*

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