

ESAM Deadband Analysis

The following table summarizes the GMP’s ESAM proposal and the net income and pre-tax earnings impacts associated with the proposed adjustors in the MYRP that could be expected based on historic PSA analysis, and the assumption that there is no other actual to forecast variations.

			Pro-forma ESAM Calculation	
Effective Tax Rate			27.715%	
Return on Equity:			9.3%	
Common Equity % of Capital Structure:			50.0%	
Rate Base:			1,588,302,000	
Net Income at Allowed ROE			\$ 73,856,043	
GMP Proposal	ROE Range	Bands	Maximum Exposure Net Income	Maximum Exposure Pre-tax Income
50/50 Return to Customer Ceiling	10.050%	0.50%	\$ 5,956,133	\$ 8,239,790
Deadband Ceiling	9.800%	0.50%	\$ 3,970,755	\$ 5,493,194
Allowed ROE	9.300%		\$	-
Deadband Floor	8.800%	-0.50%	\$ (3,970,755)	\$ (5,493,194)
50/50 Collection From Customer Floor	8.550%	-0.50%	\$ (5,956,133)	\$ (8,239,790)

The following adjustors contained in GMP’s proposed MYRP allocate pre-tax benefits and costs to GMP:

1. Power Supply Adjustor – All the Quarterly Component B Cost Variance up to the Component B Efficiency Band of +/- \$150,000, plus 10% of any Component B Cost Variance outside the Component B Efficiency Band. Analysis of variation in the last five years indicates that the total amount absorbed by GMP under the deadband (+/- \$150,000 + 10% of Component B cost beyond the efficiency band) averaged \$700,000 pre-tax or \$500,000 on a net income basis. See Attachment A (Historic PSA analysis).

2. Exogenous Change Adjustment

- a. Exogenous Non-Storm Changes (for example, changes in tax law) – GMP could absorb up to +/- \$1.2M pre-tax if exogenous non-storm changes occur in a fiscal year and the annual \$1.2M pre-tax exogenous non-storm change threshold is not met.
- b. Exogenous Major Storm Changes – GMP absorbs the first \$1.2M (annual deductible) of major storm costs incurred in a fiscal year.

Based on historical PSA results, and assuming no other actual to forecast variations, these adjustments could equal a total of +\$1.2M and -\$3.1M of pre-tax income. The proposed GMP (pre-tax \$+/- \$5.5M) ESAM deadbands are of sufficient size so if all other items matched forecasted costs the expected benefits/costs that will flow to GMP under these adjustors will remain within the ESAM deadbands.

NET INCOME IMPACT

	MYRP		
	Old PSA	Proposed PSA	Change
FY13	\$ 971,591	\$ 15,504	(956,087)
FY14	447,957	(595,171)	(1,043,127)
FY15	(953,044)	(978,822)	(25,777)
FY16	(1,112,941)	(277,024)	835,917
FY17	(2,767,627)	(725,841)	2,041,787
FY18*	456,141	(496,772)	(952,912)
Total	(2,957,925)	(3,058,125)	(100,200)

*FY18 net income reflects new tax rates as of January 1, 2018.

PSA CHARGE OR (RETURN) TO CUSTOMERS

	MYRP		
	Old PSA	Proposed PSA	Change
FY13	\$ 6,845,298	\$ 5,238,430	(1,606,868)
FY14	(1,665,700)	(3,418,855)	(1,753,155)
FY15	8,412,201	8,368,877	(43,323)
FY16	3,051,123	4,456,025	1,404,902
FY17	6,457,686	9,889,261	3,431,574
FY18	7,432,571	5,937,560	(1,495,012)
Total	\$ 30,533,179	\$ 30,471,298	\$ (61,882)