

## **Exhibit 2**

This document contains the standards agreed upon by the Vermont Department of Public Service (“Department”) and Green Mountain Power (“GMP”) (collectively, “Parties”) as to what documentation shall be required from GMP in a traditional rate case to show that a proposed capital project is known and measurable (meaning that it is reasonably likely to occur in the rate year and that its costs are adequately supported).

The Parties agree that under existing Public Utility Commission (“PUC”) precedent, a cost benefit analysis is required for “major projects” and a financial analysis is required for “non-major” projects. The intent of this document is to clarify the Parties’ understanding of what constitutes “major projects” and what constitutes “non-major projects,” and to further define what should be contained in a financial analysis and a cost benefit analysis for applicable projects.

### **I. Major v. Non-Major Projects**

Projects above \$2,000,000 shall be considered “major projects.” Projects below \$2,000,000 shall be considered “non-major projects.”

### **II. Financial Analysis**

Every capital project (major or non-major) proposed as part of GMP’s rate case filing shall contain, at a minimum the, following project-specific financial information, which shall constitute a “financial analysis” as that term is used in prior Public Utility Commission orders:

- A narrative summary of the project describing in layman’s terms what the nature of the project is, why it is needed at this time and how it will impact GMP operational performance;
- Identification of the sponsoring business unit within GMP for the project;
- An assignment of the primary reason the project is being proposed, which would include customer service, reliability, safety, operational efficiency, state energy policy and/or innovation. Multiple reasons may be indicated but a clear primary reason will be identified;
- An indication of whether the project is part of a broader capital program or not;
- An indication of whether the project is an extension of an existing capital asset or platform that has been approved in a prior capital review and been subject to a prior cost-benefit analysis;
- A narrative description of any alternative projects considered but not recommended including an indication of cost ranges where possible;
- A project metrics summary (or Work Order) including total budget amount, forecasted timeline including project start and end dates (to the month), a brief description of the technical scope of the project and the Oracle project #;

- A project cost summary providing an itemization of the cost elements of the project, including supporting documentation (vendor quotes, resource estimates based on similar projects, etc.);
- A narrative description of the qualitative and/or quantitative benefits that should be created by the project with an indication of whether the benefits are budgetable “hard savings” or non-budgetable “soft savings.”
- A description of the expected depreciable life of the project and/or the expected depreciable life of any individual assets included as part of the project.

### **III. Cost-Benefit Analysis for Major Projects**

There is a presumption that all “major projects,” as defined in Section I above, that are proposed as part of GMP’s rate case filling shall contain a cost-benefit analysis described below, subject to the exceptions mentioned in this Section.

What constitutes a complete “cost-benefit analysis” will vary depending on the type and complexity of the project or program and should be subject to appropriate levels of discretion from GMP management. The definition of cost-benefit analysis provided below is therefore not intended to be all inclusive for all types of capital projects. In determining whether a cost-benefit analysis is complete, it should be understood that the primary purpose of a cost-benefit analysis is to measure the financial impacts of proceeding with a capital project or program from the ratepayers’ perspective.

- The following are the attributes of a complete cost-benefit analysis:
  - A numerical analysis that lays out the costs and benefits of a project.
  - The presumed standard method of calculating the cost and benefits to ratepayers will be the Present Value of Revenue Requirements (“PVRR”).
  - A quantitative comparison of costs and benefits where:
    - Costs include upfront and recurring capital and O&M and the annual carrying costs, which include depreciation, retirement, taxes, and return on rate base over the entire life cycle of the project.
    - Benefits can include a wide variety of items ranging from efficiency savings to avoided cost, but they must be quantifiable.
  - The resulting stream of costs and benefits are then discounted to the present value using the cost of capital.
  - GMP’s authorized return normally serves as a proxy for the cost of capital.
  - PVRR may not be required if the undiscounted cash flows are sufficient to determine the preferred alternative from the ratepayer perspective.
  - Should the quantifiable cost exceed the benefits, a qualitative justification must be provided to establish the need to proceed with the project.

- Exemptions to the Cost-Benefit Analysis Requirement for Major Projects:
  - For projects that otherwise meet the threshold definitional criteria for a “major project” in Section I above, GMP shall not be obligated to provide a Cost-Benefit Analysis where the project:
    - Is designated to address an immediate safety hazard;
    - Is an in-kind replacement of equipment that is damaged or no longer functionally useful for its intended purpose;
    - Is intended to address a regulatory requirement or is a reliability project and viable alternatives are not reasonably available for the project.

#### **IV. Decision-Making Documentation Available at the Time of Filing**

GMP will maintain documentation on decisions that affect ratepayers to allow for regulators to subsequently review those decisions.

The documentation available should be contemporaneous documentation of what was known about the project at the time of approval, who approved the project, and when.

This includes documentation required under Sections II & III above, which demonstrates that alternatives to the proposed projects were appropriately developed and considered, and that the appropriate financial analysis of the costs and benefits was conducted.

GMP can satisfy this obligation by: (1) preserving copies of project-specific documentation required under Sections II & III above in the form that they were reviewed by GMP personnel when the project was approved, and (2) identifying all GMP personnel that were involved in the project-approval process.