

To: Senate Finance Committee

From: Commissioner Christopher Recchia, Department of Public Service

Date: February 26, 2016

Re: Green Mountain Power Corporation – Merger Savings

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The Committee has inquired into the status of savings resulting from the merger between Green Mountain Power Corporation (GMP) and Central Vermont Public Service Corporation (CVPS) (Merger Savings). Below is a summary of the initially planned, current and projected Merger Savings, apportioned between ratepayers (RP) and shareholders (SH).

By way of background, the Board approved the merger in Docket No. 7770 in an order dated June 15, 2012. As part of its approval, it approved a 10-year Shared Savings Plan. The **purpose** of the Shared Savings Plan is to (1) compensate GMP for the above-book-value price GMP paid to acquire CVPS, and (2) deliver savings to ratepayers resulting from the reduced O&M costs achieved through synergies in operating the Combined Company. The **method** by which this is accomplished is that over a 10-year post-merger period, GMP's rates include what are referred to as Base or Platform O&M costs. These costs reflect the O&M costs of the standalone companies at the time of merger, added together, and adjusted for inflation each year. The difference between the Platform O&M costs and Actual O&M costs (i.e., the reduced costs attributable to running the Combined Company) is split between GMP shareholders and ratepayers per a schedule set forth in the Merger Order (Table 1). In this way, GMP's shareholders and ratepayers share in Merger Savings.

**Table 1 – Shared Savings Schedule<sup>1</sup>**

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
<b>Year<sup>2</sup></b>	<b>Projected Total Savings<sup>3</sup></b>	<b>Actual Total Savings</b>	<b>RP Projected Share<sup>4</sup></b>	<b>RP Actual Share</b>	<b>SH Projected Share<sup>5</sup></b>	<b>SH Actual Share</b>
1	\$6.5		\$2.5	\$2.5	\$4	<i>Balance</i>
2	\$13.7		\$5.0	\$5.0	\$8.7	<i>Balance</i>
3	\$17.3		\$8.0	\$8.0	\$9.3	<i>Balance</i>
4	\$21.1		\$10.5	<i>50% Actual</i>	\$10.5	<i>50% Actual</i>
5	\$24.0		\$12.0	<i>50% Actual</i>	\$12.0	<i>50% Actual</i>
6	\$26.0		\$13.0	<i>50% Actual</i>	\$13.0	<i>50% Actual</i>
7	\$27.9		\$14.0	<i>50% Actual</i>	\$14.0	<i>50% Actual</i>
8	\$29.0		\$14.5	<i>50% Actual</i>	\$14.5	<i>50% Actual</i>
9	\$29.9		\$29.9	<i>100% Actual</i>	0	<i>0% Actual</i>
10	\$31.0		\$31.0	<i>100% Actual</i>	0	<i>0% Actual</i>

<sup>1</sup> Numbers in \$ millions, here and throughout.

<sup>2</sup> Year 1 in this Plan is the fiscal year ending 9/30/13.

<sup>3</sup> Docket No. 7770, Exhibit Pet.-DDB-2; Merger Order, Docket No. 7770, Order of 6/15/12, at 51.

<sup>4</sup> Docket No. 7770, Final Order at 52-54 (reflecting amount credited to ratepayers at the start of each rate year).

<sup>5</sup> Projected Total Savings minus Ratepayer Projected Share of those savings (Column A – C).

Currently, we have completed the first 3 years of this post-merger Shared Savings Plan. In these years, the Shared Savings Plan guaranteed a set dollar amount of savings to ratepayers, with the balance going to GMP's shareholders. For consistency, the numbers below reflect actual savings *as-filed-by-GMP*, i.e., prior to Department review.<sup>6</sup>

**Table 2 – Actual 3-Year Shared Savings**

	A	B	C	D	E	F
Year <sup>7</sup>	Projected Total Savings	Actual Total Savings <sup>8</sup>	RP Projected Share	RP Actual Share	SH Projected Share	SH Actual Share <sup>9</sup>
1	\$6.5	\$12.698	\$2.5	\$2.5	\$4	\$10.198
2	\$13.7	\$22.273	\$5.0	\$5.0	\$8.7	\$17.273
3	\$17.3	\$27.815	\$8.0	\$8.0	\$9.3	\$19.815
Total	\$37.5	\$62.786	\$15.5	\$15.5	\$22	\$47.286

In the current rate year (ending 9/30/16), the Company has increased its projected total savings from \$21.1 million to \$26.6 million. Half of that amount is reflected as an offset to rates in place now. Table 3 fills out the chart to include projections based on the current year, with a revised four-year total, with the caveat that year 4 is the first year of 50/50 sharing of total savings so both the ratepayer and shareholder portions of savings will change once final numbers are in next fall.

**Table 3 – Projected Shared Savings in Year 4**

	A	B	C	D	E	F
Year <sup>10</sup>	Projected Total Savings	Actual Total Savings <sup>11</sup>	RP Projected Share	RP Actual Share	SH Projected Share	SH Actual Share <sup>12</sup>
4	\$21.1	\$26.6	\$10.5	\$13.3	\$10.5	\$13.3
Total	\$58.6	\$89.386	\$26	\$28.8	\$32.5	\$60.586

As a final note, in the merger, GMP projected a total level of 10-year savings at \$226.4 million. GMP shareholders would retain \$82.6 million and GMP guaranteed ratepayers \$144 million. If GMP fails to deliver \$144 million in savings to ratepayers over 10 years, it will have to make that up.

<sup>6</sup> The Department is still reviewing GMP's Year 3 actual O&M savings and are in the middle of discovery.

<sup>7</sup> Year 1 is the fiscal year ending 9/30/13; Year 2 is fiscal year ending 9/30/14; and Year 3 is fiscal year ending 9/30/15.

<sup>8</sup> Docket No. 8389, Narrative Explanation for 9/30/13 and 9/30/14; 9/30/15 is from Company ESAM filed November 20, 2015.

<sup>9</sup> Actual Total Savings minus Ratepayer Actual Share of those savings (Column B – D).

<sup>10</sup> Year 4 is the fiscal year ending 9/30/16.

<sup>11</sup> Company 7/31/15 Base Rate Filing.

<sup>12</sup> Actual Total Savings minus Ratepayer Actual Share of those savings (Column B – D).