Re: Green Mountain Power Corporation – Merger Savings

Commissioner Recchia submitted a memo to the Senate Finance Committee with information regarding the shared Merger Savings resulting from the merger between Green Mountain Power Corporation (GMP) and Central Vermont Public Service Corporation (CVPS). I would like to offer some comments on that memo.

The memo states that "the purpose of the Shared Savings Plan is to (1) compensate GMP for the above-book-value price GMP paid to acquire CVPS"

- This is not normal utility rate making. Normal utility rate making criteria for recovery in rates is (a) least cost, (b) known and measurable and (c) used and useful. The Share Holders (Gaz Metro) should be on the hook for all costs above book value because it fails all of these rate making tests. The savings belong to the rate payers.
- This is another example of the rate payers being handed a bill by the Department for which the rate payer received no value. I challenge the Department to provide a precedent.
- This arrangement underscores the fact that decision are being made in the interest of the utility; not for the rate payer.
- To set the record straight, it was Gaz Metro that paid the above-book-value for CVPS; not GMP.

The memo further states that the purpose of the Shared Savings Plan is to "(2) deliver savings to ratepayers resulting from the reduced O&M costs achieved through synergies in operating the Combined Company".

- The delivery of savings should be happening in the rate making process; not a brokered MOU. 100 percent of all savings should be passed on to rate payers. Only actual, prudent and audited expenses should be allowed in rates, not phantom costs that don't exist.

The memo states that "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 baseline for savings is from a time period of actual, per books, 2011 calendar year, plus a few added costs, plus inflation. These costs have never been reviewed by either the Department or the Board.
- A provision of the Board Order in Docket No. 7770, (para. 107) requires a traditional cost of service review to review all costs and practices, including these 2011 costs. This has never happened because a true rate payer advocate is not following up on behalf of the rate payers.
- Not all per books (actual) O&M costs automatically flow into rates. Some examples of actual costs that do not flow into rates are lobbying expenses, executive compensation, bonuses, advertising, above market costs, etc.
- When the "Base O&M" is reviewed, and some costs are disallowed into rates, that directly translates into lower rates for GMP rate payer and lower profits for Gaz Metro.
- The difference between the "Base O&M" costs and Actual O&M costs (i.e., the reduced costs attributable to running the Combined Company) is split between GMP shareholders ("SH") and GMP ratepayers ("RP") per a schedule set forth in the Merger Order. In this way, GMP's shareholders and ratepayers share in Merger Savings.

I am repeating Table 2 from Commissioner Recchia for easy reference to illustrate how this difference is divided up:

Year	B Projected Total Savings	C Actual Total Savings	RP Projected Share	D RP Actual Share	E SH Projected Share	F SH Actual Share
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

The Committee will notice that while the RP Actual Share stayed exactly the same, the SH Actual savings more than double from $22M to $47.3M over the first 3 years. I will repeat that this is excess of the allowed Return on Equity increasing the actual ROE by this merger savings payment to the owner (Gaz Metro). A bonus, as they say, for fulfilling the governor's wishes.

There are two conclusion to draw from this outcome illustrated in the above table:

1. Gaz Metro consistently outplays the Department (VGS has similar forecasting discrepancies that only go in favor of Gaz Metro).
2. The Department is representing the utilities and not the rate payers.

Either conclusion means the Department Structure is such that the rate payer is under represented (if represented at all). The current model is broken and needs to be fixed.

The memo also states: "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".

- The math in this statement is incorrect. The shareholders retain $114M (not $82.6M) over 8 years. During the same period the rate payers received an $82M over the same period or 28% less than Gaz Metro.
- The shared savings only happens for 8 years; not 10 years. The sharing of the savings happens for the first 8 years only. 10 years is an optic used to inflate the savings to rate payers.
- In Year 4, the actual "savings" is $5.5M more than estimated. That means GMP's press release will tout that rate payers are enjoying an additional savings of $2.75M in rates. This will be true, but not said is that Gaz Metro will all receive an additional $2.75M in profits.

I understand a deal is a deal. The problem I have, as a rate payer, is:

- Who is on my side of the bargaining table?
- How did we let this happen?
- How can we prevent this from happening again?

In summary, the Vermont rate payer needs stronger representation in providing the competition for the utilities than we have in place now. We have a Department that is conflicted. The structure needs to change or history will continue to repeat itself. This model is broken.

I am happy to answer any questions the Committee may have.

Thank you for your time and service to Vermont. I, as a rate payer, appreciate what you are doing.

Sincerely,
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