



MEMORANDUM

TO: Vermont Public Service Board
FROM: Mary Powell, CEO of Green Mountain Power
RE: Green Mountain Power 2017 Traditional Rate Filing
DATE: April 14, 2017

Green Mountain Power is a customer-obsessed company, focused every day on delivering clean, cost-effective, and reliable power to our customers. We are also leading the transition to a home, business, and community based energy system that provides power in a more efficient and low-cost way, leveraging all the latest technologies and innovations available to benefit customers. This transition is essential to provide a strong economic future for customers that is low cost and avoids uncontrollable cost pressures.

Under current rates, GMP customers are paying less than they were three years ago, with several bill decreases. We measure our success in many ways, but what customers say matters most. In a recent survey of customers required by the Vermont Public Service Board, customers gave GMP a 94% satisfaction rate – a record high and unparalleled outcome. We were also honored to be ranked number one among mid-sized utilities in the East in J.D. Power’s most recent customer satisfaction survey.

But the energy landscape is changing dramatically. GMP is experiencing flat or even declining sales, while at the same time costs to connect to the regional grid are rising at historic levels. This is not sustainable for customers. Green Mountain Power has embraced an innovative approach for helping customers make the transition to a home, business, and community based energy system in a cost-effective way, while still fulfilling our responsibility for the traditional grid for decades to come.

No example of the changing energy landscape is more poignant than the filing we make today. The filing is made up of uncontrollable cost pressures from transmission, regional capacity, and net metering costs. Transmission expense is driving 3% of the cost, 2% of the increase is from the ISO New England regional capacity market, and approximately 1% of increased costs are due to net metering.

As you may recall, GMP advocated for a new net metering policy that more closely tracked incentives against the declining cost of solar and the true value to the grid. We believed

these changes would continue to support a healthy net metering program that is one of the more generous in the country. We remain concerned that not enough steps were taken to calibrate this program and to mitigate what is now another 1% increase hitting customers in this filing.

What we are doing, and you will see throughout this filing, is taking proactive steps to deliver value to customers through innovations and to create a new and valuable relationship with customers that allows us to earn our way to new regulated value streams and help Vermont avoid the spiraling cost increases as less traditional revenues move across the system to support it.

Our customer obsession drives everything we do. This is why our team met daily to find ways to drive down costs for customers. We took exhaustive measures to reduce our rate need. We are proud that we are exceeding promised merger savings through operational efficiencies for customers by \$18.2 million, about a 3% reduction in retail rates. This higher return means GMP will have further demonstrated the incredible value of the merger by returning \$67.1 million in additional merger savings to customers by the end of 2018. And GMP anticipates a total of \$180 million in merger savings to customers over ten years, versus the promised \$144 million.

We have voluntarily cut our equity component of our capital structure to further reduce rate pressure for customers. And, value is being immediately delivered to customers from investments in solar and storage assets that are producing output for GMP customers.

As a result of this cost-cutting work, we are able to request an all-in rate increase of 4.98%, for rates starting January 1, 2018. While GMP is always focused on avoiding any rate increase, we are pleased that even with this rate request, GMP still expects to have the second lowest overall rates in New England. Even with this rate request, GMP rates are 8% lower than GMP rates in 1986 after adjusting for inflation.

Transformation is critical for customers and to providing the most efficient service. We are earning our way into a new value proposition with customers that will be lower cost for them, and make them more comfortable. From heat pumps to innovations like battery storage and shared access to devices, to cost-effective solar projects, GMP is creating new value and revenue that directly benefit customers and continue to support the grid.

It is time to think innovatively about how we continue to drive down these costs. Staying the course, or starving traditional capital investments, would be irresponsible for the customers we serve who rely on the grid, and will for decades to come, as we move from having it as the primary delivery system to a back-up system.

Thank you for your careful consideration of the efforts we are making every day to improve value to Vermonters. We look forward to your feedback and suggestions to ensure we continue to satisfy our customers, and deliver power in a cost-effective, reliable, and innovative way.