STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. _____

Tariff filing of Green Mountain Power requesting an)
increase in its base rates starting January 1, 2019, to be)
fully offset by bill credits through September 30, 2019)

PREFILED TESTIMONY OF MICHELE C. NELSON ON BEHALF OF GREEN MOUNTAIN POWER

April 13, 2018

Summary of Testimony

Ms. Nelson sponsors VT Transco costs that are used by Mr. Smith in his calculation of the purchased transmission cost of service. In summary, VT Transco's revenue requirement is projected to increase by $20.34 million between GMP's test year and rate year, and of this $20.34 million increase, $14.6 million will be paid by Vermont distribution utilities under the 1991 Vermont Transmission Agreement. Although VT Transco costs are increasing under the '91 VTA, its earnings to the Vermont owners are likewise forecasted to increase by approximately $4.16 million over the same time period, and VT Transco continues actively to identify alternative revenue streams to mitigate future cost shifts to the '91 VTA.

Exhibit List

Exhibit GMP-MCN-1	Summary of Revenues and Costs
Exhibit GMP-MCN-2	Summary of Projected Cash Flows and Capitalization
Exhibit GMP-MCN-3	Summary of Project Plant
Exhibit GMP-MCN-4	Summary of Schedule 9 (RNS) Revenue

PREFILED TESTIMONY OF
MICHELE C. NELSON
ON BEHALF OF GREEN MOUNTAIN POWER

Q1. Please state your name, address and occupation.

A1. My name is Michele C. Nelson, and my business address is 366 Pinnacle Ridge Road, Rutland, Vermont 05701. I am employed by Vermont Electric Power Company, Inc., ("VELCO") where I am Chief Financial Officer and Treasurer ("CFO"). VELCO is the manager of Vermont Transco LLC ("VT Transco").

Q2. Please describe your educational and business background.

A2. I am the Chief Financial Officer and Treasurer of VELCO, and I have served in these roles since February 5, 2015. Previously, I served as Vice President of Finance and Treasurer at VELCO during the period between 2012 and 2015 and Manager of Accounting, Forecasting and Assistant Treasurer and Treasurer during the period between 1995 and 2012. I earned a Bachelor of Science degree in Business Administration from the University of Vermont.

Q3. Please describe your responsibilities at VELCO.

A3. In my capacity as CFO I am directly responsible for VELCO's and VT Transco's finances, financial reporting, general accounting, taxes, and forecasting.

Q4. Have you previously testified before the Public Utility Commission ("Commission")?

A4. Yes. I have provided both equity and debt financing testimony in connection with VT Transco and in GMP's 2017 rate filing (Case No. 17-3112-INV). In addition, since April 2017, I have also provided testimony in connection with: VT Transco's acquisition of an ownership interest in the Highgate Transmission Facility (Case No. I7-2758-PET); VT Transco's issuance of equity units and amendments to the operating agreement (Case No. 17-3570-PET); and an accounting order relating to the equity interest previously held by VT Transco in Utopus Insights, Inc. (Case No. 17-5013-ACCT).

Q5. What is the purpose of your testimony in this case?

A5. I support the projected VT Transco costs and revenues for the rate year 2019 (January–September 2019). I understand that Mr. Smith relies on these projections in developing Green Mountain Power's ("GMP") power supply costs.

Q6. Can you summarize your testimony?

A6. Yes, in summary, VT Transco's revenue requirement is projected to increase by $20.34 million between GMP's test year and rate year, and of this $20.34 million increase, $14.6 million will be paid by Vermont distribution utilities under the 1991 Vermont Transmission Agreement ("'91 VTA"). Although VT Transco costs are increasing under the '91 VTA, its earnings to the Vermont owners are likewise forecasted to increase by approximately $4.16 million over the same time period.

Q7. Please describe how VT Transco recovers its costs.

A7. VT Transco operates under a series of contracts that are structured to provide it with payments to recover 100% of its operating expenses, taxes, and financing costs, as well as a return on equity. The majority of VT Transco costs are recovered through two tariffs: (1) the New England-ISO Open Access Transmission Tariff ("NE-ISO OATT") and (2) the '91 VTA.[1] Most of VT Transco's costs are recovered through the first agreement, the NE-ISO OATT.

Under that agreement, VT Transco's Annual Transmission Revenue Requirement ("ATRR") is comprised of three components relating to the costs of Pooled Transmission Facilities ("PTF"). PTFs are the transmission facilities (rated 69 kV or above) that move power on the New England Transmission System. PTFs are owned by the transmission owners in New England, like VT Transco, operated by ISO-NE and used by load-serving entities that are charged for that use through the Regional Network Service ("RNS") billings. VT Transco's share of these RNS revenues generally represents approximately 80-84% of its total revenue requirement.[2]

The remaining VT Transco costs are recovered from the Vermont distribution utilities through the '91 VTA. Essentially, the '91 VTA is a top-off mechanism, meaning that VT Transco must first collect the portion of its revenue requirement that is covered by the NE-ISO OATT and, only after doing so, will the '91 VTA provide the balance.

[1] VT Transco also recovers a small portion of its revenue requirement through the Local OATT and other contracts for rents of electric property. Because the NE-ISO OATT and the '91 VTA are the primary vehicles through which VT Transco recovers its costs, for the purpose of simplifying my testimony, I focus on those tariffs.
[2] As discussed in response to Q8, the RNS revenues will only represent approximately 77% of VT Transco's total revenue requirement in the 2019 transmission year, with Vermont distribution utilities picking up 23% under the '91 VTA.

Every month, that VTA balance changes based on revenue from RNS payments received under the NE-ISO OATT. Because VT Transco's monthly NE-ISO OATT revenues vary with, among other things, the coincident peak volatility, so too do VT Transco's revenues under the '91 VTA, making the monthly "top-off" balance likewise vary each month.

Q8. Do you have exhibits that detail VT Transco's revenues and expenses?

A8. Yes, the following exhibits contain detailed information on VT Transco's revenues and operating expenses, projected cash flows and capitalization, and capital expenditures:

- VT Transco 9-month test year and projected rate year annual revenues and costs are identified in **Exhibit GMP-MCN-1**. This exhibit identifies VT Transco's revenue requirements and the associated revenues by source, including the NE-ISO OATT and the '91 VTA.
- VELCO's projected cash flows ("sources and uses of cash" including capitalization) and expected calendar year 2017-2018 capitalization are summarized on **Exhibit GMP-MCN-2**. The cash flows reflect cash provided by operations, capital expenditures, projected debt requirements, and estimated annual equity infusions. The equity infusions of $85.66 million at the end of calendar year 2017 have been set at a level necessary to maintain a 41% / 59% debt-to-equity ratio. The return on equity and applicable income taxes for these equity infusions accounts for the change in the VT Transco earnings before tax between the test year and rate year that is identified in **Exhibit GMP-MCN-1**.

- VT Transco's capital expenses are described in **Exhibit GMP-MCN-3**. This exhibit identifies VT Transco's 2017 and projected 2018 capital expenditures, highlighting major construction projects and summarizing the impact on capital expenditures, additions to plant in service, and gross plant by categories. This exhibit supports the construction expenditure values reflected in **Exhibit GMP-MCN-2**. I should note that although **Exhibit GMP-MCN-3** reflects VELCO's current capital forecast, VELCO reviews and updates its projected capital expenses quarterly.
- VT Transco's calculation of its projected ATRR and the ensuing revenue stream is set out in **Exhibit GMP-MCN-4.**

Q9. Please describe the changes in budgeted VT Transco costs and revenues between the test year 2017 (January–September 2017) and rate year 2019 (January–September 2019) and the major reasons for the increases.

A9. **Exhibit GMP-MCN-1** shows that VT Transco's revenue requirement is projected to increase by $20.34 million between GMP's test year and rate year, and of this $20.34 million increase, $14.6 million will be paid by Vermont distribution utilities under the '91 VTA.

There are two components to the increased revenue requirement, operating costs and earnings before tax. VT Transco's operating costs are projected to increase approximately $18.23 million between the test year and rate year. Approximately $8.23 million of this increase relates to property taxes and depreciation from major construction projects placed in service in 2017 and 2018 as shown on **Exhibit GMP-MCN-2**. These

projects include fiber optic and radio expansion, structure replacement program, Connecticut River Valley project, Essex FACTS device upgrade, replacement of the PV20 cable, the Pinnacle Ridge Data Center and the Vermont Weather Analytic Center. VT Transco is also forecasting an increase of $5.75 million in maintenance and administrative expenses as shown on lines 8–9 of **Exhibit GMP-MCN-1**. As I explained in my testimony in GMP's rate case last year, in previous years, VT Transco had been able to allocate a portion of these maintenance and administrative expenses to capital projects, reducing our operating expenses. However, much of that capital expansion was complete in 2017 so those administrative expenses are transferring back to operating expense in 2018 and 2019. The remaining $4.25 million of operating cost increase relates to interest expense from debt (interest expense, interest income and AFUDC) to fund the projects listed above.

The second component of the increased revenue requirement—earnings before tax—is projected to increase approximately $2.12 million under the regulated tariffs. As shown in **Exhibit GMP-MCN-2**, VT Transco increased its amount of equity in 2017 by $85.66 million to fund the capital projects mentioned above. There are two components to this increased equity, return on the $85.66 million equity and related income taxes, as shown on **Exhibit GMP-MCN-1**. The return on equity increased by $7.57 million, but was offset by a reduction in income taxes of $5.45 million to reflect the change in the federal income tax rate from 35% in the test year to 21% for the rate year. VT Transco is also projecting additional earnings of $2.04 million, however these earnings are from nonutility operations and do not impact VT Transco's revenue requirement under the NE-ISO OATT or '91 VTA. The Utopus transaction is an example of VT Transco's

continued efforts to identify alternative revenue streams to mitigate future cost shifts to the ’91 VTA.

About 29% of the $20.34 million increase in revenue requirement from the test year to the rate year is offset by approximately $5.8 million in higher RNS reimbursements under the NE-ISO OATT (shown on **Exhibit GMP-MCN-1**), leaving the remaining increase of approximately $14.6 million to be paid under the ’91 VTA (highlighted on **Exhibit GMP-MCN-1**). In 2017, the NE-ISO OATT covered approximately 84% of VT Transco’s revenue requirement. In 2019, only 77% will be covered due to the fact that there is a large true-up from calendar year 2017 as shown in **Exhibits GMP-MCN-1** and **GMP-MCN-4**.

In 2017, VT Transco had many PTF additions, including the Connecticut River Valley project, Essex FACTS device upgrade and the replacement of the PV20 cable shown on **Exhibit GMP-MCN-3**. While VT Transco received the revenue related to these projects starting in July of 2017, there were no actual costs associated with these projects in 2017 since they went into service at the end of that year, which resulted in an increase in VT Transco’s RNS revenues and therefore a decrease in the ’91 VTA charges to Vermont ratepayers in 2017. The reverse will occur during the July 2018–June 2019 transmission rate year as the costs associated with those projects are included, with a corresponding decrease to RNS revenues under the NE-ISO OATT and an increase to ’91 VTA charges.

Q10. Please describe the change in revenues associated with the NE-ISO OATT in more detail.

A10. As explained in response to question 7 and shown on **Exhibit GMP-MCN-4**, beginning in July of each year, NE-ISO OATT RNS billings recover the costs of historic investments, as well as the cost of projected capital additions for PTF that will be placed in service during that calendar year. For example, the test-year payments (i.e., January–September 2017) were based on calendar year 2015 and 2016 costs, plus a forecast of costs related to 2017 PTF capital additions. Because the annual RNS revenue requirement (or ATRR) is based in part on projections, it is subject to a true-up (with interest) to actual costs over a twelve-month period beginning June 1 (with a one-month billing lag) of the following year. VT Transco's calculation of its projected ATRR and the rate year revenue stream is set out in **Exhibit GMP-MCN-4**. It should be noted that the year-to-year RNS net revenue requirement and, therefore revenues, depends on a number of factors, including the trajectory of capital spending, the relative magnitude of capital expenditure to existing plant in a given year (PTF %), and the accuracy of projected plant addition current-year costs that are pro-formed into rates.

Q11. Can you please summarize any other financial benefits to Vermont customers from GMP being a part of VT Transco's ownership structure?

A11. One particular benefit from that ownership structure comes from VT Transco's ability to manage its capital structure with more agility because of GMP. As the Commission is aware (*see, e.g.*, Docket No. 17-3570), VT Transco's operating agreement sets forth how VT Transco raises equity. In summary, VT Transco offers equity to all of its owners

based on their transmission cost share. Where any particular owner is, for whatever reason, unable to take its share, that share is re-offered to the remaining owners proportionally. That situation can result for a variety of reasons where, for instance, timing may be inconvenient for financial or governance reasons. In the past, GMP has always been able to take its share of the equity and more when needed. Doing so enables VT Transco to manage its capital structure with agility as regulatory policy and market conditions may change over time. Optimizing that capital structure also enables VT Transco to get the best balance of weighted average cost of capital, which benefits all Vermont customers, and return on equity, which benefits all Vermont customers as well. GMP has played an important role helping VT Transco to deliver value sustainably to Vermont customers.

Q12. Does that conclude your testimony at this time?

A12. Yes, it does.