

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Tariff filing of Green Mountain Power requesting a 5.45% increase in its base rates effective with bills rendered January 1, 2019, to be fully offset by bill credits through Sept. 30, 2019)
Case No. 18-0974-TF

**PREFILED REBUTTAL TESTIMONY OF
BRIAN OTLEY
ON BEHALF OF GREEN MOUNTAIN POWER**

September 12, 2018

Summary of Testimony

Mr. Otley responds to Department of Public Service witness Brian Winn regarding Green Mountain Power’s (“GMP”) overall capital spending. Mr. Otley also addresses the Public Utility Commission’s (“PUC” or “Commission”) request for information on how GMP develops spending targets for innovative projects that return a net benefit to our customers.

1 **Q1. Please state your name and position.**

2 A1. My name is Brian Otley and I am a Senior Vice President and the Chief Operating
3 Officer for Green Mountain Power (“GMP”).

4 **Q2. Have you previously submitted testimony in this proceeding?**

5 A2. Yes, I previously provided prefiled direct testimony in this proceeding dated April 13,
6 2018.

7 **Q3. What is the purpose of your testimony today?**

8 A3. I respond to issues raised by Department of Public Service (“DPS” or “Department”)
9 witness Brian Winn regarding his testimony on the general direction of GMP’s capital
10 spending. I also address the Public Utility Commission’s information request #1, related
11 to how GMP determines the appropriate level of capital spending for our innovative
12 solutions that return substantial benefits to our customers and meet the energy
13 transformation goals and carbon reductions requirements of Vermont’s Renewable
14 Energy Standard.

15 **Q4. Have you reviewed Mr. Winn’s testimony on page 11 regarding his view of the**
16 **general rate drivers for GMP over the past five years?**

17 A4. Yes, I have. As Mr. Ryan states in his rebuttal testimony, reasonable minds can differ on
18 how to group and reflect certain costs as rate drivers. Mr. Winn acknowledges this point
19 in his testimony as well on page 10. However, I factually disagree with the way Mr.
20 Winn characterizes GMP’s capital spending as a primary rate driver because it simply is
21 not what is causing the vast majority of rate pressure. I also disagree with the description

1 of our trajectory of capital spending claimed in his testimony. Mr. Ryan addresses this
2 point in more detail in his testimony.

3 **Q5. Mr. Winn also discusses GMP's level of capital spending and investment on pages**
4 **12-14 of this testimony. Do you agree with his representation of GMP's capital**
5 **spending trajectory?**

6 A5. No, I disagree with the implication in Mr. Winn's testimony that the trajectory of our
7 overall capital spending is increasing. Mr. Winn's representation of our capital
8 investments does not acknowledge the nature of prior investments and the significant
9 benefits they have provided for our customers. In the recent past, GMP has made
10 investments on behalf of our customers that increase reliability and resiliency and reduce
11 carbon at the lowest possible cost—services that our customers expect of us and that we
12 are committed to delivering. A simple numerical review of the capital numbers year over
13 year ignores the on-the-ground context important to understanding those investments. In
14 the years highlighted by Mr. Winn, GMP continued its multi-pronged capital investment
15 plan in order to accomplish the outcomes our customers deserve and that our customer
16 satisfaction results validate. Among the prongs in our plan are:

- 17 • Normal, recurring investments necessary to continue to provide a high level of
18 reliability in the face of more severe weather events with climate change and an
19 increasingly dynamic, distributed grid. This is necessary to keep our base grid
20 healthy.
- 21 • Investments necessary to continue to harden the areas of our service territory that
22 had lagged behind in prior investment cycles and where customers were

1 experiencing service quality levels inconsistent with GMP’s expectations. This
2 includes our Top 20 circuit work to harden our lowest-performing circuits.

- 3 • Investments necessary to push transformation of the traditional electric delivery
4 model and accelerate the evolution to a more distributed, de-centralized,
5 intelligent, and dynamic one. This includes our innovative programs and paired
6 solar/storage facilities.

7 My initial prefiled testimony provides a thorough discussion of GMP’s operational
8 rationale for the capital investments included in this filing, as well as GMP’s overall
9 approach to capital spending. To the extent that Mr. Winn’s testimony raises a concern
10 about the rate of capital spending in this filing as compared to previous filings, I note that
11 GMP’s overall levels of capital spending in 2018 and 2019 reflect a meaningful decrease
12 from previous years. We have collaborated with and listened to the DPS feedback on
13 capital investments and have adjusted our planning in consideration of that feedback
14 while also maintaining our focus on customer results and satisfaction. The higher levels
15 of spending that occurred in previous years were the result of a number of capital
16 intensive projects that provided important benefits for our customers, including the
17 implementation of the Smart Grid program, the construction of Kingdom Community
18 Wind, and the merger and operational integration between GMP and CVPS—all projects
19 and activities the Department itself found to be in the public good and supported as being
20 in our customers’ best interests when they were proposed.

21 As GMP looks forward, we have proposed a similarly moderate level of capital
22 spending in the Multi-Year Regulation Plan currently before the Commission in Case No.
23 18-1633-PET and would set capital spending at a particular amount for the duration of

1 that plan. As a result, I do not believe Mr. Winn's presentation of historical information
2 regarding the level of GMP's capital investment applies in our current environment. In
3 fact, as other witnesses have described, we have responded to these concerns in past years
4 by reducing spending. This is, of course, a very delicate balance, as I emphasized in my
5 direct testimony in this proceeding, and in my testimony in our Multi-Year Regulation
6 Plan proceeding. We are always focused on striking the right balance to manage capital
7 spending while ensuring that we are meeting our customers' needs.

8 **Q6. Mr. Winn criticizes the treatment of capital spending in GMP's Long Term**
9 **Incentive Compensation Plan on page 15 of his testimony. How do you respond?**

10 A6. As GMP indicated in discovery to the DPS questions, I would first note that no long term
11 compensation is included in GMP's cost of service, meaning our customers pay nothing
12 for it. Nevertheless, I disagree with Mr. Winn's implication regarding GMP's long term
13 compensation program. In fact, GMP's 2019 long term incentive plan does not contain
14 any element related to rate base. Any capital investment we propose is geared toward
15 addressing customer needs and providing customer benefits, both qualitative and
16 quantitative, as documented and detailed in the extensive financial analysis provided for
17 each capital project in this case.

1 **Q7. Regarding PUC Information Request #1, can you please refer to Exhibits GMP-BO-**
2 **1 and GMP-BO-3, and explain how GMP determines the level at which it will fund**
3 **an innovative solution, particularly when the solution appears to have substantial**
4 **net benefits?**

5 A7. GMP's innovative programs are an essential element of our balanced plan for capital
6 investments on behalf of our customers, especially as we look ahead to managing the
7 necessary disruption in our industry. The energy delivery system is going through rapid
8 change and while GMP must continue to make investments to upkeep and harden, due to
9 climate change, our core grid, we must also be looking ahead and investing in new
10 technologies and energy services models to effectively transition to a more distributed
11 energy delivery system that meets the needs and desires of our customers. These
12 investments in innovative solutions also help GMP find transformative ways to meet
13 carbon and cost reduction goals of Vermont's Tier 3 Renewable Energy Standard.

14 To address the Commission's information request directly, the level at which
15 GMP decides to fund innovative services is based on a conservative process, as reflected
16 to-date by the relatively small slice of our capital spending that they represent. In
17 deciding on the appropriate level of spending we assess and estimate what the potential
18 benefit will be from an investment in a particular technology or program. If it shows
19 promise and we offer it through an innovative pilot filing of our regulatory plan, it is
20 rolled out conservatively by limiting the number of participants allowed. To date, we
21 have not engaged in market surveys or other tools to determine the likely demand, but
22 instead have utilized the small-scale pilot approach to gauge customer interest and adjust
23 our forecasts over time. By running pilots of limited size, we are able to better

1 understand how the assumptions, forecasts, and terms of each of our programs
2 materialize in the real-world before we transition a program to a full tariff. We are also
3 able to limit the risk we undertake on behalf of our customers in these innovative
4 offerings. We believe having the flexibility to perform a limited size pilot gives us the
5 ability to innovate quickly to tweak program design elements to try to optimize the
6 benefits each program can deliver to our customers in its full implementation.

7 An important element in our innovative programs is the fact that they are driven
8 by individual customer demand. Unlike GMP's historical capital projects related to our
9 grid, where we successfully deliver a project's benefits *on behalf of* our customers, the
10 success of our innovative programs is dependent on delivering benefits *through*
11 *partnership with* our customers. These programs cannot be successful without customers
12 making individual decisions to participate in them. Therefore, the pace of customer
13 participation gates the pace of growth in any of these programs as well as the investment
14 required to meet our customers' demand for them. This dynamic of investments that
15 deliver benefits through partnership with our customers is new in the past few years for
16 GMP. It brings a new set of challenges and opportunities to doing our capital planning
17 and balancing the requirement to maintain a high quality, reliable electric grid in an era of
18 declining, utility-served load with the imperative to transition our energy delivery model
19 into one that is more open, de-centralized, distributed, and supportive of a clean energy
20 future.

21 Our goal, of course, is to create programs that generate significant customer
22 demand and therefore real benefit for all of our customers, both participating and non-
23 participating. Therefore, the ability to scale our spending in this area over time is very

1 important. In GMP's Multi-Year Regulation Plan, we have recommended how our
2 innovative programs can be managed from a capital investment standpoint differently
3 than traditional capital projects. Since the growth of our innovative programs is driven
4 by our customers' demand for them, coupled with our goal that each innovative program
5 provide benefits to the participating customer, to all other customers, and to GMP, we
6 have asked for the ability to seek approval to scale these program to the pace of customer
7 demand rather than be subject to the set investment limits we have offered to live within
8 as a part of our overall capital spending proposal. That way, we can avoid unnecessary
9 constraints that might slow customer uptake of a program and the realization of the
10 benefits associated with it. For these reasons we are seeking a different form of
11 regulatory approval on the growth of these programs in the future. This is a critical
12 element of our plan for ensuring Vermonters prosper through a remarkable energy
13 transition to distributed resources and technologies that drive out carbon, one in which we
14 believe we can create new value streams from customers to help support the entire grid
15 and keep rates amongst the lowest in New England.

16 **Q8. Does this conclude your testimony today?**

17 A8. Yes, it does.