



# GMP 2019 RATE CASE WORKSHOP

## PUC CASE NO. 18-0974-TF

July 13, 2018

GMP Presentation

## TOPICS

- ▶ Overview of 2019 Rate Case
- ▶ Timing of 2019 Rate Case & other related filings
- ▶ Updates: 2018 Rate Case order implementation
- ▶ Summary of 2019 rate drivers
- ▶ Notable Rate Case Topics

# Overview

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## GMP OVERVIEW

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### Customers

Customer satisfaction 95.6%.

2018 *Fast Company*: GMP #1 for Most Innovative Energy Company in the World.

GMP exceeded 2017 carbon reduction goals, and set to exceed 2018 targets.

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Vermonters using less energy than 2003

### Grid

GMP customer net metering includes 10,000 residential customers and 2,700 businesses, with a primary source now coming from either self-generation or other providers.

This requires a reliable grid as more kilowatt-hours of electricity are flowing across an ever more distributed and complex grid system.

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### Transformation

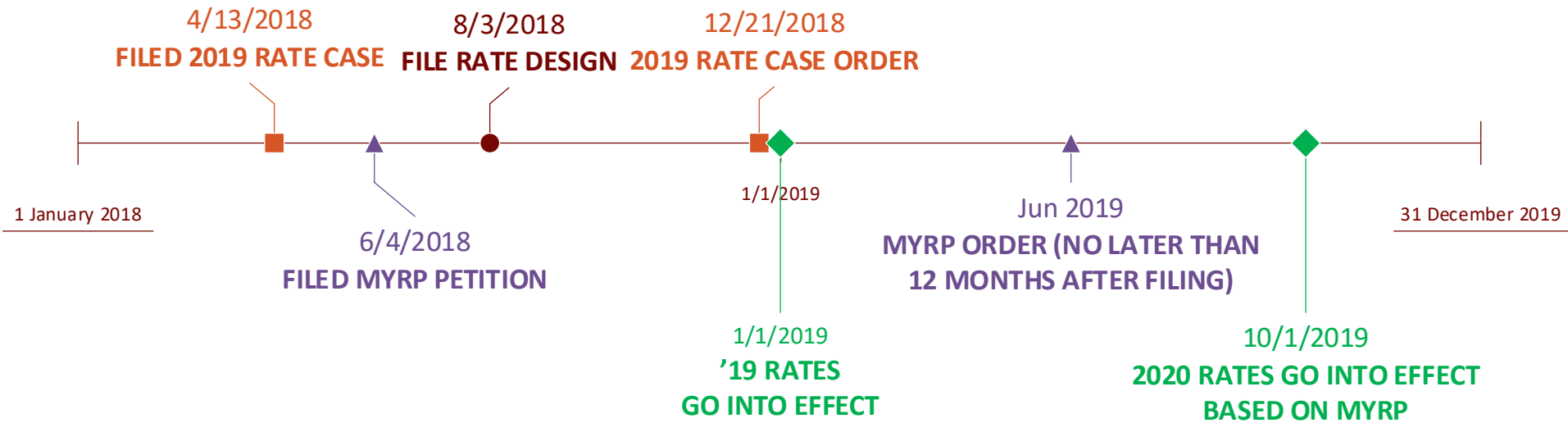
GMP is embracing innovation to mitigate cost pressures. The grid has lower energy sales to support itself, GMP continues to partner with our customers to provide new energy tools and resources that can help balance load and drive down future grid costs.

GMP has reduced controllable costs and has delivered more merger savings than promised. (On ten-year commitment to deliver customers \$144 million in operational cost reductions, we are on a path to produce about \$180 million in savings.)

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## 2018-2019



### **GMP'S IMPLEMENTATION OF 2018 RATE ORDER**

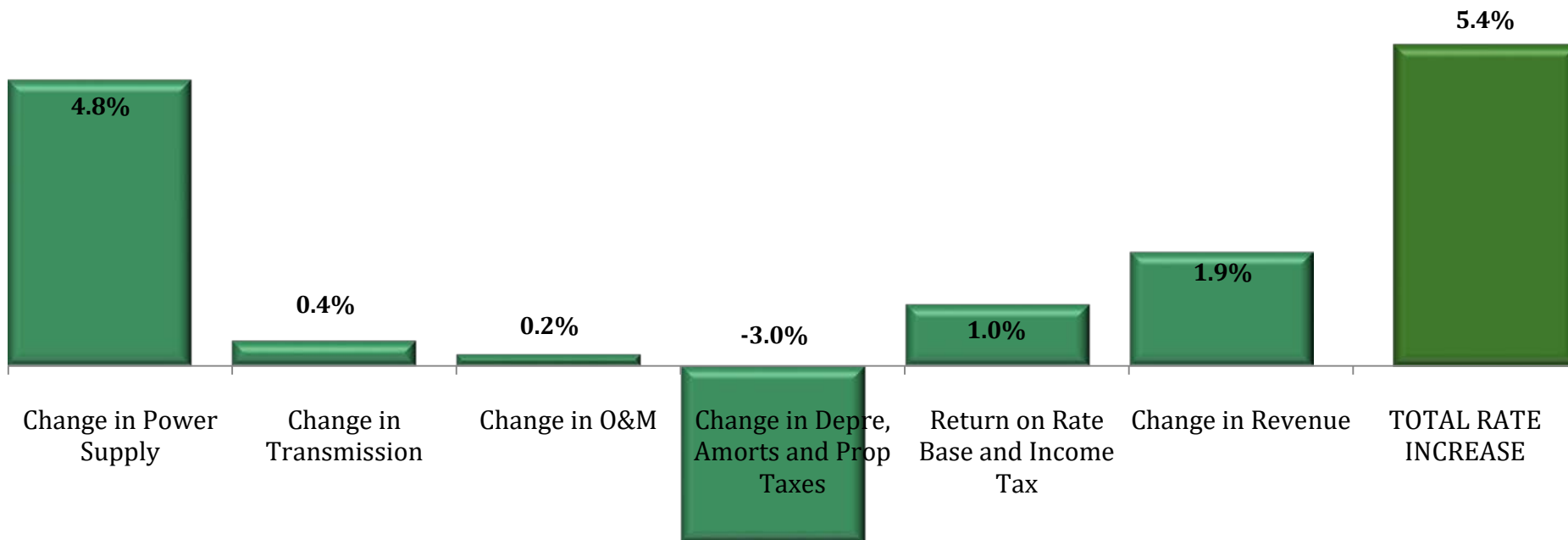
- ▶ 2018 MOU and PUC Order Required:
  - ▶ Updated and revised capital documentation process;
  - ▶ 9.1% ROE for 2018 and DPS/GMP Agreement to cap ROE at 9.3% in 2019;
- ▶ 2019 Rate Case filing complies with all of these
- ▶ 2019 Rate Filing includes continued strong merger savings for customers, key infrastructure and innovation investments, and continued strong focus on customer performance and value

## SUMMARY

- ▶ Base rate of 5.4% (see next slide for breakdown) -
- ▶ Proposed \$27.4 M credit of tax benefit eligible for immediate return during rate period =
- ▶ **Net impact to customers of -0.5% bill decrease during rate period**

## RATE DRIVERS

2019 Cost of Service - Year over Year Base Rate Drivers at 5.45% Rate Increase<sup>1</sup>



1) Does not include offsetting ADIT credit during rate period; annualized for year-over-year comparison.

Change in Transmission includes Transmission by Others Expense netted with Other Operating Revenue.

Return on Rate Base/ Income tax is netted with Affiliates Equity-in-Earnings

# MAJOR POWER COST DRIVERS

- ▶ Decline in net REC revenues (~\$7.5 million)
  - ▶ Regional REC market prices have softened
  - ▶ Also, a refinement of accounting for REC expenses
- ▶ Growth in net metering (~\$5 million)
  - ▶ Existing queue of applications (as of Q1 2018) plus assumed growth pace of about 25 MW/year
  - ▶ Effective cost of additional net metering >> near-term value of NM power
- ▶ Other increases come from higher net cost energy market purchases (~\$6.4 million), and numerous smaller changes



## NOTABLE RATE CASE TOPICS

- ▶ 9-month rate period – align with end of 2019 Fiscal Year
- ▶ Returning available Accumulated Deferred Income Taxes (ADIT) as significant customer credit
- ▶ Hold capital spending to lower level than prior years while meeting customer and reliability needs with climate change and storms
- ▶ Continuing innovative services that provide meaningful customer benefit
- ▶ Including in Rate Base Costs and Benefits of 3 JV Solar/Battery Projects, with Day 1 Gain and Developer Fee
- ▶ Using forecast & including growth

## TAX REFORM BENEFITS

- ▶ Federal corporate income tax rate lowered to 21%, reducing overall income tax expense collected from customers now and going forward.
- ▶ GMP can now return income taxes previously collected from customers at the higher rate -- accumulated deferred income taxes or ADIT -- that will no longer have to be paid to tax authorities because of the decrease in the federal corporate income tax rate.
- ▶ IRS rules restrict the timing of return of certain ADIT liabilities within a “protected plant” category, including Transco.
- ▶ There is no IRS requirement on the timing of the return of all other “unprotected plant” excess ADIT liabilities, or on the plant related tax assets.
- ▶ GMP maximized customer credit in 2019 and is committed to returning these funds to customers as quickly as possible.

## TOTAL CUSTOMER CREDIT \$27.4 M

\$000s	Reg (Liability) / Asset	Years	Annual Amortization	2019 Grossed Up Amortization Returned in Base Rates	2019 Bill Credit (Grossed up Benefit)
Protected Plant	(93,506)	33	(2,834)	(2,125)	---
Non-Protected Plant <sup>1</sup>	6,586	33	200	150	---
Non-Protected Plant	(21,081)	1	0		(21,081)
Transco <sup>2</sup>	(64,509)	TBD	Will Vary		(1,107)
Regulated "Other"	(5,219)	1	0		(5,219)
	<b>\$(177,728)</b>				<b>\$(27,407)</b>

<sup>1</sup> Reflects Excess Deferred Tax Regulatory Assets for CIAC, gain/loss on disposition of assets, IRC Section 263A capitalized interest and cost of plant removal

<sup>2</sup> Reflects 2018 and 2019 credit provided by Transco

(Source – Exhibit GMP-ER-16 (with additional breakdown on Non Protected Plant bucket added 7-10-2018))

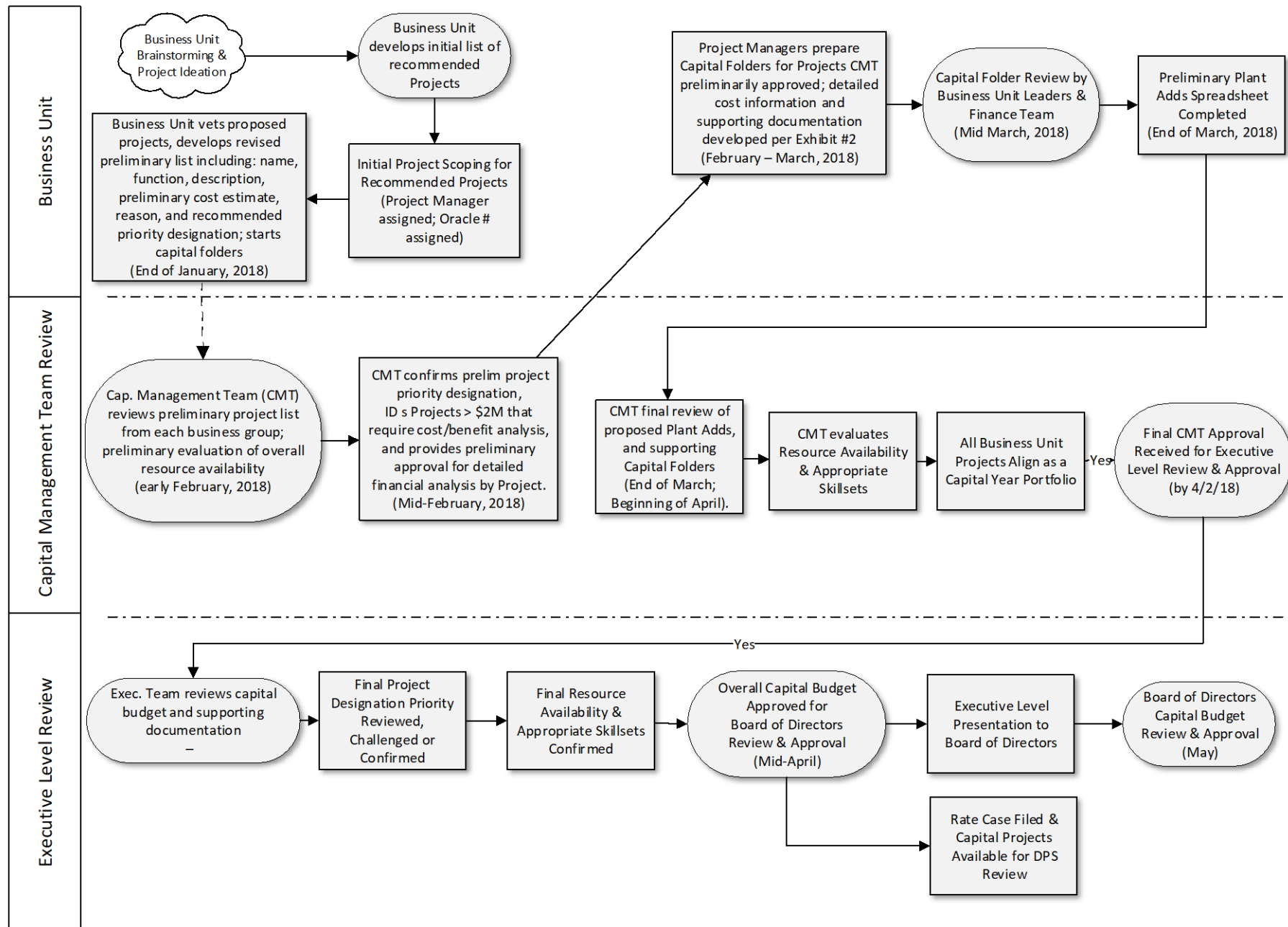
# INVESTMENT FOR CUSTOMER VALUE & RELIABILITY

- ▶ Capital Spending Level lowered for 2019 Rate Period
  - ▶ 9-month plant addition is \$52.4M
- ▶ Striking the critical balance between reliability/operational needs/innovation with overall costs in order to serve our customers
  - ▶ Continued investment required to deliver strong service quality while transforming energy delivery at the same time
- ▶ 2019 investment level should strike that balance, but...
  - ▶ ... concerned that spending below that balance will impact reliability commitments and need to innovate

## 2019 CAPITAL SPENDING BY DEPARTMENT

Department	Rate Period (01.01.2019 – 09.30.2019) (\$000s)
Transmission & Distribution	\$33,612
Generation	\$6,025
Information Technology	\$4,549
Facilities	---
Transportation	\$2,214
New Initiatives	\$6,087
<b>Total Capital Additions</b>	<b>\$52,488</b>
Retirements	(\$15,602)
<b>Net Plant Additions</b>	<b>\$36,886</b>

(Source – Brian Otley Prefiled Testimony, p. 10)



## INNOVATIVE SERVICES

- These programs are critical: with the peak shifting to later in the day, and solar “peak effectiveness” declining significantly, storage and distributed resources are key to controlling peak costs.
- Battery storage and Shared Access devices all executed well during the recent heat wave in early July cutting approximately 5MWs off the peak hour.
- Although still early stage in pilot programs, innovation programs are already modestly reducing rate need in 2019. *See Exhibit-GMP-JC-3* (note that this estimate does not include Tier III value delivered from heat pumps, heat pump water heaters, EV’s and batteries).
- Current Pilot Program Offerings that knock down the peak and provide value to all GMP customers include:
  - Tesla Powerwall Home Battery
  - Residential Level 2 Home Charging
  - Heat Pump with Sensibo Device
  - Water heater access program

# JV SOLAR/BATTERY PROJECTS

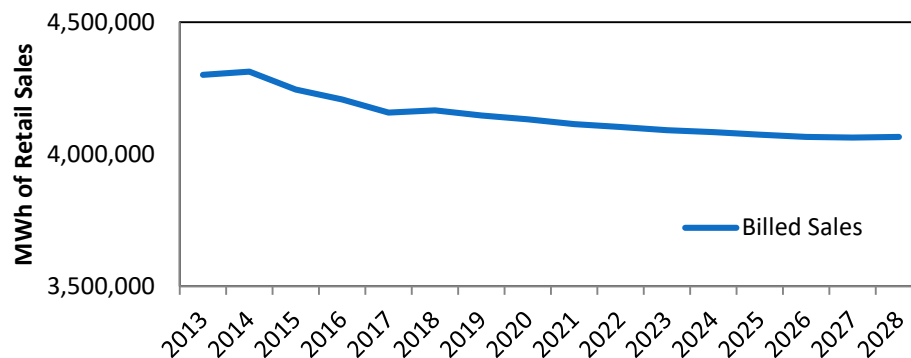
- ▶ Provide positive opportunities for innovation and customer savings, particularly as peak shifts.
- ▶ Return of Developer Fee (\$2.6M) and Day One Gain (\$9.4M) benefits accelerated and fully returned to customers in the 2019 rate period.
- ▶ **The Net Present Value (NPV) of GMP's proposal is positive for customers:**
  - ▶ \$410,000 better than the NPV of returning these benefits over 25 years
  - ▶ \$286,000 better than returning these benefits over 15 years.



## UTILIZING FORECASTED LOAD & INCLUDING GROWTH CAPITAL PROJECTS

- Historically, sales forecasts and growth-related projects were excluded from cost of service review, but delay in recovery of spending was offset by corresponding growth in retail sales. That relationship no longer exists →

Customer Class Billed Sales Forecast



(Source: Table 1, Exh. GMP-ER-14)

- In this environment, it makes sense to use forecasts and include growth. This is particularly true if paired with multiyear performance regulation. The policy is important but the net rate period effect is low (0.3%) →

%Rate Increase per 2019 Base Rate Filing	5.45%
% Rate Increase w/o forecast & excluding growth	<b>5.75%</b>

(Source: Ryan Testimony, P. 18 Q.16)



**QUESTIONS**