STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7176

Petition of Green Mountain Power for	)
Approval of an alternative regulation plan	)

PREFILED TESTIMONY OF
WILLIAM STEINHURST
ON BEHALF OF
AARP

Q.1. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is William Steinhurst, and I am a Senior Consultant with Synapse Energy Economics (Synapse). My business address is 45 State Street, #394, Montpelier, Vermont 05602.

Q.2. ON WHOSE BEHALF DID YOU PREPARE THIS PREFILED TESTIMONY?

A: I prepared this testimony on behalf of AARP.

Q.3. PLEASE SUMMARIZE YOUR QUALIFICATIONS?

A: I have twenty-five years' experience in utility regulation and energy policy, including work on renewable portfolio standards and portfolio management practices for default service providers and regulated utilities, green marketing, distributed resource issues, economic impact studies, and rate design. Prior to joining Synapse, I served as Planning Econometrician and Director for Regulated Utility Planning at the Vermont Department of Public Service, the State's Public Advocate and energy policy agency. I have written or co-authored numerous papers and reports on utility regulation, energy policy, statistics, and modeling and provided consulting services to the Illinois Energy Office, the Massachusetts Executive Office of Energy Resources, the Natural Resources Defense Council, the Regulatory Assistance Project, the Delaware Public Service Commission, the Nova Scotia Utility and Review Board, the Connecticut Office of Consumer Counsel, the Maine Office of the Public Advocate, AARP, the

Conservation Law Foundation, the Vermont Auditor of Accounts, the James River Corporation, and the Newfoundland Department of Natural Resources.

I have testified as an expert witness in approximately 30 cases on topics including utility rates and ratemaking policy, prudence reviews, integrated resource planning, demand side management policy and program design, utility financings, regulatory enforcement, green marketing, power purchases, statistical analysis, and decision analysis. I have been a frequent witness in legislative hearings and represented the State of Vermont in numerous collaboratives addressing energy efficiency, resource planning and distributed resources.

I was the lead author or co-author of Vermont's long-term energy plans for 1983, 1988, and 1991, as well as the 1998 report *Fueling Vermont's Future: Comprehensive Energy Plan and Greenhouse Gas Action Plan*, as well as Synapse's study *Portfolio Management: How to Procure Electricity Resources to Provide Reliable, Low-Cost, and Efficient Electricity Services to All Retail Customers*.

I hold a B.A. in Physics from Wesleyan University, and an M.S. in Statistics and Ph.D. in Mechanical Engineering from the University of Vermont.

Q.4. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony for AARP will address the manner in which the alternative regulation plan ("Plan") proposed by Green Mountain Power ("GMP" or "the company") could be improved to address the statutory criteria for approval of such plans as set out in 30 V.S.A. § 218d, in particular with respect to low-income consumers. I also address briefly how the regulatory review process set out in the proposed plan should be clarified and improved.

Q.5. PLEASE SET FORTH THE STATUTORY STANDARD.

A. The statute, 30 V.S.A. § 218d(a)(4), has several criteria. The alternative regulation plan must:

> (1) establish a system of regulation in which such companies have clear incentives to provide least-cost energy service to their customers;
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> (2) provide just and reasonable rates for service to all classes of customers;
>
> (3) deliver safe and reliable service;
>
> <u>(4) offer incentives for innovations and improved performance that advance state energy policy</u> such as increasing reliance on Vermont-based renewable energy and decreasing the extent to which the financial success of distribution utilities between rate cases is linked to increased sales to end use customers and may be threatened by decreases in those sales;
>
> (5) promote improved quality of service, reliability, and service choices;
>
> (6) encourage innovation in the provision of service;
>
> (7) establish a reasonably balanced system of risks and rewards that encourages the company to operate as efficiently as possible using sound management practices; and
>
> (8) provide a reasonable opportunity, under sound and economical management, to earn a fair rate of return, provided such opportunity must be consistent with flexible design of alternative regulation and with the inclusion of effective financial incentives in such alternatives.

I have underlined a portion of subsection (4), which refers to state energy policy. That policy, set forth in § 202a of the same Title, states:

> It is the general policy of the state of Vermont:
>
> (1) To assure, to the greatest extent practicable, that Vermont can meet its energy service needs in a manner that is adequate, reliable, secure and sustainable; <u>that assures affordability</u> and encourages the state's

> economic vitality, the efficient use of energy resources and cost effective demand side management; and that is environmentally sound.
>
> (2) To identify and evaluate on an ongoing basis, resources that will meet Vermont's energy service needs in accordance with the principles of least cost integrated planning; including efficiency, conservation and load management alternatives, wise use of renewable resources and environmentally sound energy supply.

I have underlined the phrase "that assures affordability" because that is an issue that this plan raises.

Q.6. PLEASE SET FORTH HOW THE PROPOSED PLAN MAY AFFECT LOW-INCOME CUSTOMERS, UNDER THESE CRITERIA.

A. The proposed plan may increase risk for customers, including low income customers, for the following reasons:

1. The proposed Plan relieves GMP of substantial financial risks with regard to certain costs and flows them through, in whole or in part, to customers. This is the self-evident, stated purpose of the proposed Plan. See, e.g., sections II.B and II.C.

2. The Base Rate Adjustments (II.A.) depart from traditional ratemaking in a manner that shifts risk from the Company to consumers. Specifically, it (1) flows certain cost changes through to rate payers every year, rather than in filed tariff changes, potentially making electric rates more volatile, (2) creates a streamlined and very frequent process for flow-through, as compared to a full rate case, with increased risk that costs that intervenors or the Department could have objected to successfully will not be addressed, and (3) certain substantial events listed under Exogenous Changes (if over a certain dollar amount in one year), as well as 50% of interest rate fluctuations are now flowed through to ratepayers each quarter. All of these have the

potential to increase the volatility of retail rates and shift risk from the Company to ratepayers.

3. The Earnings Sharing Adjustor contains a dead band of plus or minus 75 b.p. Untoward events or management errors that lead to reduced earnings beyond that are shared 50/50 with rate payers up to a certain limit (125 b.p.) and are then flowed through entirely to ratepayers. (II.B.1) Over-earnings of more than 75 b.p. are flowed entirely to ratepayers.

4. The Power Adjustor flows through to rate payers each quarter certain cost increases. Many of these cost components are potentially substantial, including several in Component A, which is flowed through in its entirety. In recent times, we have seen the power market and fuel markets become not only more expensive, but quite volatile. This imposes on ratepayers a risk that under traditional ratemaking is the Company's until it chooses to file a prospective rate case.

Component A of the Power Adjuster provides for a complete flow through of certain costs and so reduces or eliminates the Company's incentive to control such costs or to use its influence, vote, and ability to appeal or file suits or actions before FERC to contain such costs. It is not plausible to assume that that Company has no control over actions by VELCO or the costs and capacity of owned generation. It is unreasonable to simply assume that the full range of capacity costs, ancillary costs, or transmission by others is completely beyond the Company's influence or control. For example, load control and energy efficiency decisions, as well as choices about distribution efficiency and distributed generation—clearly affect such costs. Many other utility decisions—from choices about market purchase strategies to resource planning choices—can impact these supposedly Committed Costs. For those reasons, the proposed Plan creates a new risk for ratepayers by reducing or eliminating any incentive that the Company has to mitigate or eliminate such costs.

5. Ratepayers are burdened with the payment of retroactive cost overruns in many areas, a risk they do not bear under traditional ratemaking, except in unusual circumstances.
6. None of the adjustments in the Earnings Adjustor and Power Adjustor are subject to suspension. This creates a greater risk that inappropriate charges will be collected before they are caught.

The increased risk to consumers is relevant under approval criteria contained in subdivisions (4) and (5) of 30 V.S.A. § 218(d), because volatility in costs paid by low-income or fixed-income consumers can lead to inability to pay bills and eventually disconnection.

Many of these low-income customers are over age 65. According to Census data, approximately 8.5% or 6,588 individuals of those who are age 65 and older subsist on income at or below the poverty level, but many more thousands have income between 101% and 150% of poverty. Among those elders aged 75 and older who require help in daily living activities, 43% have very low incomes (less than 30% of the state's median income). Volatility in electric bills may severely impact these populations.

Q.7. PLEASE SET FORTH WHAT AARP PROPOSES TO BALANCE THE INCREASED RISK TO LOW-INCOME CONSUMERS.

A. AARP proposes that this concern be addressed by creation of a collaborative process to analyze and address it. Such a collaborative process should be conducted as an alternative, structured settlement process among certain Parties to this proceeding, with recourse to a final decision by the Board if the Parties to the Collaborative are unable to reach agreement on how to meet the needs of the Collaborative. This Collaborative should be modeled upon those employed in Dockets 5270-GMP-1, 5270-CVPS-1, and 5980, for example.

The goals of the Collaborative should be to develop mutually agreeable methods to monitor and mitigate the risks and burdens on the Company's low income and at-risk ratepayers, including the risks and burdens that would be added by the proposed Plan to those already existing. In order to accomplish those goals, the collaborative would be charged with meeting at least the following objectives and would be authorized to address additional, related objectives as the Parties saw fit:

1. provide ongoing, publicly reported quantification of the level of financial stress on the Company's ratepayers and its low income and other at-risk ratepayers in particular, including but not limited to monthly data, collected regularly and published promptly, on disconnections, reconnections, arrearages, and the like;
2. provide the Company's low income and other at-risk ratepayers with appropriate relief in order to advance the State's energy policy goal of affordability;
3. provide the Company with incentives to reduce the risks to and burdens on low income and at-risk ratepayers; and
4. develop reasonable and confidential methods to identify the Company's low income and at-risk ratepayers for the above purposes, including but not limited to (a) confidential transfers of information between utility companies an agencies

that deliver benefit programs, and (b) means for self-certification by ratepayers of eligibility for participation in one or more means-tested benefits program.

Q.8. WHO SHOULD BE A PARTY TO THE COLLABORATIVE?

A. GMP, AARP, and the Department should be required Parties to the Collaborative. The Vermont Low Income Advocacy Council should be invited to participate. In order to facilitate the objective of developing reasonable and confidential methods to identify the Company's low income and at-risk ratepayers, it may be useful or necessary to invite certain agencies that provide benefits to low income and at-risk ratepayers to participate as Parties to the Collaborative, as informants or otherwise, depending on their needs and interests.

Q.9. IS IT REASONABLE TO EXPECT THE COLLABORATIVE TO SUCCEED IN DEVELOPING THE NECESSARY INFORMATION EXCHANGES OR OTHER METHODS FOR IDENTIFYING AFFECTED RATEPAYERS?

A. Yes, it is. The methods adopted in other states, such as Ohio, Massachusetts and Pennsylvania, could be used as models.

Q.10. ARE THERE TARGET DATES THAT SHOULD BE SET FOR THE COLLABORATIVE TO ACHIEVE ITS GOALS?

A. Yes, there are. At a minimum, given the implementation dates sought for the proposed Plan, the goals should be accomplished no later than November 1 of this year so that the risks and burdens created for low income and at-risk ratepayers would be mitigated simultaneously with Plan implementation.

Q.11. WHY IS PROMPT, REGULAR PUBLICATION OF MONTHLY DATA ON DISCONNECTIONS, RECONNECTIONS, ARREARAGES AND THE LIKE NECESSARY?

A. There are several reasons. First, it is often too late to act on problems when annual data is published long after the end of the winter season or a price run up. The proposed Plan provides for frequent updates of retail rates; frequent updates of data on stresses caused by retail rates is therefore necessary and appropriate. Second, the data necessary to implement some existing mitigation mechanisms, such as certain LIHEAP emergency funds, is not now published in time to be of use. Third, such data would be necessary in order to create and implement incentives for the Company to reduce risks and burdens on low income and at-risk ratepayers.

Q.12. WHAT KINDS OF RELIEF SHOULD BE PROVIDED TO THE COMPANY'S LOW INCOME AND AT-RISK RATEPAYERS IN ORDER TO ADVANCE THE STATE ENERGY POLICY GOAL OF AFFORDABILITY?

A. That should be a matter for the collaborative, and I would not want to limit the range of options that could be considered. However, I can describe one example of appropriate relief that should be considered. That would be to eliminate residential security deposit requirements, at least for low income and at-risk ratepayers. Requiring deposits from such ratepayers merely adds to unmanageable low-income energy burdens. Rather than ensuring regular payments going forward or covering utility credit and collection costs, the disruption caused by a security deposit added onto a chronically strained cash flow situation results in deprivation of necessities and a worsening of the general financial security of the household.

Q.9. HOW SHOULD THE COMPANY BE PROVIDED WITH INCENTIVES TO REDUCE THE RISKS TO AND BURDENS ON LOW INCOME AND AT-RISK RATEPAYERS?

A. Again, that should be a matter for the collaborative, and I would not want to limit the range of options that could be considered. However, I can describe one example of an incentive that should be considered. As was initially done in the development of the Company's first SQRP, the collaborative could agree to an initial collection period for certain data, such as disconnection, reconnection and arrearage data for six months beginning November 1, 2006. That data could then be used by a reconvened collaborative process to develop an additional incentive and disincentive mechanism for incorporation into GMP’s SQRP.

Q.10 PLEASE SET FORTH WHAT AARP PROPOSES TO ADDRESS REGULATORY REVIEW UNDER THE PLAN.

A. AARP has engaged in fruitful discussions with GMP about how the process of regulatory review will occur under the plan, and believes GMP has been responsive to its concerns. However, as of this writing, some issues remain that deserve modification or clarification.

The first concern is that the plan imposes a four-month deadline for decision by the Board upon suspension of a base rate under part II.A. This may be too short to allow meaningful review, even when taking into consideration that the filing must be made by November 1. In order to address this problem, AARP proposes two changes. The first change is that any person or entity that has intervened in the last GMP rate case, or in any GMP rate case in the prior three years, must be served with the rate filing on November 1st, at the same time as the Board received a copy. This will allow for more time for such parties to analyze the filing and effectively seek and/or participate in hearings that may occur prior to April 30th. This will impose minimal burden on GMP.

Second, the April 30th date should be moved to May 30th. Four months does not appear to be a long enough period of time to engage in discovery, hold hearings, submit briefs and then obtain a ruling under 227(a). Moving the date back one month will still result in a decision during the company's second quarter.

A second area of concern is the last sentence of part II.A. It should be amended to make clear what we believe to be the company's intent, that the April 30th (or May 30th) deadline only applies to 227(a), and not to investigations under 227(b). It is certainly possible that under the proposed Plan, the Department, AARP or others may ask the Board to open an investigation under 227(b), and the seven-month rule should continue to apply.

Q.11 DOES THAT COMPLETE YOUR TESTIMONY?

A. Yes, at this time.