STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 18-____-___

Petition of Town of Stowe Electric Department)
Pursuant to 30 V.S.A. §§ 225 and 227(a) for a 7.9%)
Rate Increase to Take Effect on a Service-Rendered)
Basis August 15, 2018)

PREFILED TESTIMONY OF ELLEN BURT
ON BEHALF OF
THE TOWN OF STOWE ELECTRIC DEPARTMENT

Summary of Testimony

Ms. Burt testifies on behalf of the Town of Stowe Electric Department ("SED") in support of SED's application for approval, pursuant to 30 V.S.A. § 225 and 227(a), to adjust its rates and adopt revised rate schedules.

Ms. Burt introduces the other SED witnesses, explains at a high level what led to the need for the proposed rate change, and describes SED's rate trajectory over the past decade. She concludes with her opinion that SED's request for a 7.9% rate increase is supported by SED's cost of service, is in the interest of SED's ratepayers and the State of Vermont, and that the resulting rates are just and reasonable.

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THE TOWN OF STOWE ELECTRIC DEPARTMENT

Q1. WHAT IS YOUR NAME, POSITION, AND BUSINESS ADDRESS?

A1. My name is Ellen Burt. I am the General Manager of the Town of Stowe Electric Department ("SED"). My business address is 56 Old Farm Road, Stowe, VT 05672.

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND MANAGERIAL HISTORY WITH SED.

A2. I hold a bachelor's degree (BA) in Business Management and an associates' degree (AA) in Accounting from the University of Wyoming.

I began my tenure at SED in October 1995 as Controller, served as Assistant Manager from January 2000 to March 2004, and have served as General Manager since that time.

Q3. HAVE YOU EVER TESTIFIED BEFORE THE VERMONT PUBLIC UTILITY COMMISSION?

A3. Yes, I have testified before the Public Utility Commission ("PUC" or "Commission") on a number of occasions during my tenure at SED, including with respect to SED's finances and operations, Docket 8463 (SED 2015 Rate Design), Docket 8074 (2013 Rate Investigation), Dockets 8386 and 8466 (§248(k) and (j) approvals for transformer replacements at the Houston Substation), Docket 7579 (Investigation into use of Bond Proceeds), and Docket 7458 (§108 approval to issue $18.7 million of indebtedness and $7.1 million in general obligation bonds). I have also testified on matters pertaining to the state's electric industry more broadly, including Dockets 7770 (Merger of Green Mountain Power Corporation and Central Vermont Public Service Corporation) and Docket 7535 (AARP request for low-income electric rates).

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A4. First, I will introduce SED's other witnesses and their roles in supporting SED's requested rate increase.

Second, I will discuss what factors led to SED's requested rate increase, including a rate decrease in 2013/2014, certain extraordinary expenditures in the proposed calendar year 2017 Test Year ("TY"), and SED's capital plans which have increased capital spending and necessitated recent additional borrowing.

Third, I will discuss how SED's retail rate trajectory since 2010 compares reasonably favorably with other Vermont electric utilities and with inflation as measured by the Consumer Price Index ("CPI").

Lastly, I conclude that SED's requested rate increase serves the interest of SED's ratepayers and the public and that, following implementation, the rates will be, overall, just and reasonable.

Q5. PLEASE INTRODUCE SED'S WITNESSES FOR THIS PROCEEDING.

A5. In addition to my own testimony providing a high-level introduction to the reasons and justifications for the requested rate change, SED is sponsoring three sets of testimony in support of this filing:

First, Timothy Hebert of Energy New England, LLC, SED's power supply manager and consultant, will discuss the four-year outlook for SED's power supply and transmission expenditures which, totaling approximately $9.2 million, comprise almost three-quarters of SED's projected Rate Year cost of service and revenue requirement.

Second, SED's Controller, Denise Sullivan, will discuss TY 2017 operating results, SED's cash position coming out of the TY and into the Rate Year in 2018 ("RY", also referred to as the "Adjusted TY"), and major non-power supply and transmission cost drivers. Importantly, besides SED's need to replenish its cash position and cover a SED Board of Commissioners-approved labor agreement and salary increases, going forward into the Rate Year, SED will be affected by various non-recurring expenditures and income items. Chief among these items are both income and expenditures associated with the so-called Lamoille County Project ("LCP"). As Ms. Sullivan explains, roughly $2.3 million of Vermont Transco dividend income and close to $1.1 million in LCP interest expense both cease after 2018, but SED has another year of annual LCP Specific Facilities payments totaling $1.1 million that continue into 2019.

Finally, Stan Faryniarz and Matthew Loiacono of Daymark Energy Advisors (the "Daymark Panel"), SED's rate consultants, will support the cost of service and revenue requirement schedules, features of the TY, normalization of Rate Year expenditures and income, SED's TIER request, and other ratemaking considerations and decisions underlying SED's request. The Daymark Panel will also provide and defend SED's filed amended tariffs.

Q6. WHAT IS SED'S PROJECTED RATE YEAR COST OF SERVICE/REVENUE REQUIREMENT AND WHAT IS THE AMOUNT OF ITS REQUESTED RATE INCREASE?

A6. As demonstrated by Exhibit SED–Daymark–4, SED's projected RY cost to serve and revenue requirement is $14,155,762. Based on normalization of Rate Year retail rate revenue,[1] which considers known and measurable adjustments to TY revenues and customer accounts, the level of SED's requested rate increase is 7.9%.

Q7. PLEASE DISCUSS STOWE'S RATE HISTORY OVER THE PAST DECADE.

A7. SED has not filed for a rate increase since 2010. SED's rates held steady through mid-2013 when the then Public Service Board ("PSB," now the "PUC") reviewed them in Docket 8074. On March 21, 2014 the PSB approved a Memorandum of Understanding ("MOU") between SED and the Vermont Department of Public Service ("DPS") in which Stowe agreed to implement a

[1] Rate Year revenue has been adjusted upwards from the test year by about $37,000 due to adjustments associated with residential and one commercial customer account additions. This adjustment will be explained more fully in the testimony of Ms. Sullivan.

3.5% across-the-board rate reduction effective on a service rendered basis July 8, 2013. Pursuant to the Docket 8074 Order and MOU, SED implemented the rate decrease and issued a refund to customers in May of 2014.

In 2015, SED completed a rate redesign and prepared a smart-meter-data driven Allocated Cost of Service Study. The rate resign was approved by the PSB on September 30, 2015 in Docket 8643 and was implemented on a service rendered basis October 1, 2015. While there were class consolidations and the structure of rates were altered, that rate redesign was prepared using the cost of service approved in Docket 8074 (i.e. it was "revenue neutral"). SED's rates have held steady at the Docket 8074 reduced cost of service since that time.

Q8. PLEASE SUMMARIZE THE FACTORS THAT LED SED TO SEEK RATE RELIEF AT THIS TIME.

A8. There are a number of factors that, combined, lead SED to conclude that it is need of a rate increase at this time. I describe these factors at a high level below and additional detail will be provided in the testimony of Timothy Hebert, Denise Sullivan, and the Daymark Panel, and can also be found in SED's 2017 audited financial statements appended to Ms. Sullivan's testimony as Exhibit SED–DS–2.

A. During calendar year 2017, retail sales decreased 4.3% across all customer classes, with the largest decreases seen among SED's commercial customers and for Stowe Mountain Resort snowmaking. Retail rate revenue is not expected to increase more than 0.32% in the Rate Year based on known and measurable adjustments to residential and one commercial customer account.

B. As noted above, and as discussed more thoroughly in the testimony of Denise Sullivan, the staggered timing of the LCP Settlement dividend income in 2018, with associated Specific Facilities expenses not terminating until 2019, will create a significant short-term increase to SED's transmission expense in 2019. This issue is likely the single-greatest contributor to SED's need for a rate increase at this time and for the cash shortage projected in the first two years of the rate normalization period.

C. SED has faced increasing transmission costs for both in-state transmission provided by the Vermont Electric Power Company ("VELCO") and Regional Network Service provided by ISO-NE. These costs are discussed in detail in the testimony of Timothy Hebert.

D. During 2017, SED acquired $1.45 million in new capital assets, the largest item being the acquisition of an additional 4.09% ownership interest in the Highgate Converter, representing an investment of over $900,000. The remaining capital expenditures related to normal equipment replacement, namely transformers and meters, the purchase of a new bucket truck, and site development work in process for SED's planned new office building and garage.

E. SED took on additional new debt in 2017 and will again in 2018. SED was approved in Docket 8868 to borrow up to $825,000 in 2017 and $400,000 in 2018 to purchase Membership Units in Vermont Transco, LLC. SED was also approved in Case No. 18-0123-PET to borrow up to $500,000 in 2018 for two capital projects, including replacement of the tie point between Circuits 6 & 7, rebuilding of the 34.5 kV distribution line behind the Stowe Mountain Resort Cross Country Ski Center, and replacement of aged metering pots at the Lodge Substation.

F. SED's 2017 total operating expenses, excluding purchased power, transmission costs, and depreciation expense, increased by almost $270,000, or approximately 18%, over 2016. The major drivers for this increase were professional fees, IT costs, and salary and fringe benefit costs.

G. As described more particularly in the testimony of Denise Sullivan, labor, salaries, and benefits costs are slated to increase by up to 4% in 2018, with additional increases thereafter.

H. There were some extraordinary and, hopefully, non-recurring expenditures in 2017 as well. Like other municipalities and utilities in Vermont, SED's system saw significant damage from the late October 2017 "nor'easter" wind and rain storm. One Hundred and Fifteen mile-per-hour winds and flooding caused substantial damage to power lines and other municipal infrastructure in Stowe and in many other places. Earlier this year, the event was declared a "major disaster" under the Robert T. Stafford Disaster Relief and Emergency Assistance Act— that declaration authorizes Public Assistance and Hazard Mitigation relief to the affected areas. SED tallied approximately $350,000 in damages from this one storm event and has applied for relief from the Federal Emergency Management Agency ("FEMA"). Though not yet known or measurable, SED anticipates receiving approximately $200,000 in subsequent relief.

I. The above-referenced storm expenses, together with other less significant items, led Stowe to experience lower cash flows than needed and which are authorized under Stowe's last PUC-approved times interest earned ratio ("TIER") of 1.25.

Q9. PLEASE DESCRIBE SED'S RATE TRAJECTORY SINCE 2010 COMPARED TO OTHER VERMONT ELECTRIC DISTRIBUTION UTILITIES.

A9. Since 2010, SED’s rates have tracked reasonably favorably compared to other Vermont electric utilities and with inflation as measured by the Consumer Price Index (“CPI”).

As explained further in the testimony of the Daymark Panel, through 2016 (the latest available data on average rates compiled by the DPS from electric utility Annual Reports), SED’s average residential rate has, following the 2013 rate decrease, tracked towards the statewide average. At the end of 2016, the average residential rate for SED (based on revenue/kWh sales) was 17.33 c/kWh, while the statewide average (dominated by GMP’s average rate) was 17.23 c/kWh. Figures 1, 2, and 3 contained in the testimony of the Daymark Panel contain comparisons of SED’s average residential, commercial, and system wide rates relative to the statewide average.

Q10. SINCE 2010, HOW HAVE SED’S AVERAGE RATES COMPARED TO OVERALL INFLATION?

A10. Since 2010, also as described further in the testimony of the Daymark Panel, SED’s average residential and systemwide rate increases have tracked far lower than CPI, even after factoring in the 7.9% rate increase requested in this filing. Figures 4 and 5 contained in the testimony of the Daymark Panel compare the compound (annual) average growth rate ("CAGR") of SED's Residential and System Average rates to that of the CPI index.

Q11. IF THE 2013 RATE REDUCTION APPROVED BY THE PUC HAD NOT BEEN IMPLEMENTED, WHAT WOULD STOWE'S REQUESTED RATE INCREASE BE IN THIS CASE?

A11. In this filing, SED requests a rate increase in of 7.9% as already stated. If the Docket 8074 rate decrease had not been implemented, the request for an increase in rates would be commensurately smaller, something in the order of 4.4%, all things being equal.[2] This is not to say the rate decrease should not have been implemented in 2014, only that the increase now being requested would have been commensurately smaller had it not.

Q12. ARE THE RATES PROPOSED BY SED IN THIS PROCEEDING CONSISTENT WITH PUC RATEMAKING PRECEDENT?

A12. In my opinion, and in the opinion of SED's other witnesses comprising the Daymark Panel, yes, they are. Specifically, as described in the testimony of the

[2] The rate increase requested herein is 7.9%; subtracting the 3.5% reduction implemented in 2014 would result in a request in this case of 4.4%.

Daymark Panel, this filing is built upon the same model used to implement the rate decrease approved in Docket 8074.

Q13. WILL THE REQUESTED RATE INCREASE PROVIDE STOWE SUFFICIENT REVENUE, INCLUDING THROUGH TIER, TO SERVE CUSTOMERS WITHOUT NEGATIVELY IMPACTING SERVICE OR RELIABILITY?

A13. In my opinion, yes, the requested rate increase will provide SED with sufficient revenue to allow it to continue serving customers without negatively impacting service and reliability. Particularly in 2019 and 2020, however, SED will need to continue being particularly prudent and responsible, as it has in the past, and will need to maintain tight financial controls until expenses decline, revenues increase, and SED's cash position is restored.

As the cash flow analysis attached to the testimony of Denise Sullivan (Exhibit SED–DS–3) shows, net change to cash flow is negative in 2018 and 2019, running deficits, after adjustments, of $1.135 million in 2018 and $361,528 in 2019 respectively, before both income and net change to cash flow turn upwards significantly in 2020 and beyond. The three-year net change of cash flow is calculated to be ($188,107). Ordinarily we would expect the rate change to achieve a positive or neutral average impact on cash flow, but for the reasons discussed below, in this case, SED is satisfied that it can weather this trend over the slightly longer term.

The requested 7.9% rate increase attempts to strike an appropriate balance given SED's significant short-term expense increases followed a fairly sharp decline in expenses in subsequent years. SED needs to ensure it has the ability in 2018 and 2019 to cover its expenses, while not increasing rates so much that an additional rate adjustment is needed too soon. So, in order to limit the rate impact on customers in the short term and provide rate stability in the medium term, SED has accepted less than favorable income and cash flow levels for 2018 and 2019 with the expectation that the its position will be corrected in 2020 and beyond and increase the longevity of this rate change.

Q14. ARE THERE OTHER CIRCUMSTANCES OR CONDITIONS RELATING TO SED'S OPERATIONS AND FINANCIAL CONDITION THAT ARE RELEVANT TO YOUR DETERMINATION THAT THE RATE INCREASE REQUESTED IS SUFFICIENT?

A14. Yes; there are a couple of factors impacting SED's operations and financial position in the next couple of years that are not known and measurable and so are excluded from the rate case assumptions, but which will allow SED to operate from a somewhat better position that the cash flow analysis might otherwise indicate. Anticipated FEMA reimbursement for the 2017 storm expenses as well as application of escrowed Transco dividend funds have been included as adjustments to SED's cashflow in Exhibit SED–DS–3. Additionally, two issues relating to SED's ownership interest in the Highgate Converter will also have an impact on SED's operations and cashflow.

First, SED anticipates some level of recovery of its charges associated with the Highgate Converter through RNS rates. Due to SED having just increased its ownership share in the facility during 2017 and only recently registered to be a Participating Transmission Owner at the ISO-NE rate setting group in order to have SED's Highgate expenses included in rate setting, both the amount and the timing of such recovery is uncertain, but those amounts will serve to alleviate SED's tight cash position described above.

Second, SED is engaged in discussions to sell its interest in the Highgate Converter to a merchant transmission company during 2018. The details of the proposed sale have not been solidified, but, as described in the testimony of the Daymark Panel and Denise Sullivan, SED has made adjustments in establishing its Rate Year cost of service anticipating a reduction of associated expenses following the sale. Proceeds from the proposed sale will be placed into a restricted construction fund for SED's long-planned office and garage project. Therefore, while the sale proceeds will not have a direct impact on SED's revenue requirement in the immediate term, it will serve to reduce expenses and benefit ratepayers once those facilities are completed by eliminating rent expense of approximately $60,000 per year and will also provide other ancillary operational benefits to the utility. The office and garage project, to be located on the "Moscow Mill" property purchased by SED in 2016, will allow SED to consolidate its office and operations staff in one collocated facility and SED also plans to restore to service the small grandfathered run-of-river hydroelectric generating facility located on the property.

Q15. COULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A15. Yes. As discussed in my testimony and in the testimony of SED's other witnesses, SED has not increased its rates for almost a decade. In fact, the most recent rate adjustment was a 3.5% rate reduction and accompanying customer refund implemented in 2013. Since that time, SED has maintained competitive rates while also pursuing numerous initiatives to further the interests of its ratepayers and the public, including: the deployment of Advanced Metering Infrastructure ("AMI" or "Smart Meters") throughout its service territory, completion of a rate redesign based on an Allocated Cost of Service Study employing Smart Meter data resulting in the consolidation of rate classes and elimination of SED's residential demand rate, conversion to LED streetlights, permitting and construction of the utility-owned behind-the-meter 1 MW

Nebraska Valley Solar Farm, and the installation of 10 publicly available electric vehicle charging stations.

A reasonably modest 7.9% increase to SED's revenue requirement and rates is now required to ensure SED can continue to provide safe, reliable, and cost-effective service to its ratepayers. SED has concluded that, provided it operates in a prudent and responsible manner as it has in the past, and employs appropriate financial controls, the requested rate increase will be sufficient for SED to meets its financial obligations in 2018 and 2019 despite annual net decreases to cash flow until conditions improve in 2020 and beyond. Because the rate adjustment requested in this filing is both intended and necessary to meet these objectives, I conclude that they are just and reasonable and serve the public interest.

Q14. DOES THIS CONCLUDE YOUR TESTIMONY?

A14. At this time, yes, it does.