Major Drivers Narrative

As of June 1, 2016, GMP proposes a 3.53% increase to its 2017 rates, effective October 1, 2016.

$ in 000's	Revenue Deficiency	Rate Impact
FY 2017 Change in Base Rates	$ 14,217	2.57%
FY 2017 Power Supply Adjustor	$ 5,342	0.96%
	$ 19,559	3.53%

A summary of the major drivers of this change follows.

This June 1 rate filing includes all rate adjustments to take place once per year on October 1. This includes quarterly power adjustor results from April 1, 2015 to March 31, 2016 and rate year '17 base rate changes.

A. FY 17 Change in Base Rates.

The filing reflects a 2.57% base rate increase, reflecting the following drivers:

- $15 M in operational savings as a result of the GMP-CVPS merger, reflecting a .3% decrease. The $15 M exceeds prior projections for merger savings for rate year 2017 by $3 M. The filing also returns $1.5 M (regulatory liability amortization) of projected additional synergy savings from FY 2016 (meaning more merger savings than were projected in '16 rates). All in, GMP will have returned more than $45 million in merger savings to customers, more than projected.

  - Lower sales, as forecasted by an independent third party Itron, due to a significant increase in solar net metering. GMP anticipates about 60 MW of solar net metering to be installed in the 2016 calendar year, per the company's application queue. Additionally, the sales forecast assumes an additional 30 MW of solar net metering installations in GMP service territory during the 2017 calendar year (as reflected in GMP's recent comments in the net metering 2.0 rulemaking).

  - Higher power costs resulting from greater excess power associated with solar net metering, greater capacity costs (reflecting a few months of the jump in capacity costs seen in FCA 8), and lower renewable energy credit (REC) sales due to lower market prices. Lower costs resulting from the expiration of certain contracts and lower retail sales. The net impact is an approximate 1.8% increase.

- The all-in impact of net metering in this filing, inclusive of sales, power supply costs, and power adjustor impact is around 2%.

- Itron's sales forecast also reflects greater efficiency measures and lower economic growth. The net decrease in retail sales results in an approximate 1.4% increase.

- Higher transmission costs driven mostly by higher ISO New England Regional Network Service (RNS) rates, resulting in a 0.7% increase.

- An upward adjustment to Base O&M costs by .6% (~$724k) reflecting the CPI-NE index as of March 31, 2016, resulting in less then a 0.1% increase.

- An assumed capital structure of 50.8% equity and 49.2% debt.

- $39 M investment in Transco, per the latest VELCO forecast.

- Higher depreciation on infrastructure and property taxes which results in a 1.4% increase.

- Contains a total of $141.3 M of capital spending placed in service between October 1, 2016 and the end of September, 2017 (12-month period.)

- A $23 M investment for the purchase of small hydroelectric facilities.

- Investments to offer innovative services to customers. These offerings are core to GMP's strategy to replace lost revenue from net metering (which increases cost for customers) while at the same time advancing Vermont energy policy through smart strategic electrification. The filing also projects $1.3 M in revenue associated with these products and services as a direct offset to the cost of service. All sales and leases are designed to ensure participating customers cover their full costs, while also delivering a margin back to non-participating customers (used 100% to lower rates) over the life of lease or sale.

- 5 solar projects going online in calendar year 2016. These projects can be used to satisfy GMP's Tier 2 obligations under the Renewable Energy Standard (RES) and will provide a long term, cost-effective source of energy for customers. To maximize the benefit of the investment tax credit for customers, the projects are being constructed under a joint venture with a tax-equity partner for the first 5 years. This is necessary due to IRS rules which require a regulated utility to recognize the ITC over the book life of the plant as opposed to a tax equity partner who can recognize the ITC tax benefit in the year the plant is placed in service. GMP will own 60% of the project up front with the tax equity partner owning 40%. GMP takes the full output of the projects during this time under a PPA that reflects the levelized cost of the projects for customers. Then after 5 years the joint venture ends and GMP has the ability to buy out the tax equity partner's small remaining share of the project at fair market value. This joint venture structure is industry standard and, as GMP understands it, is used by nearly all solar developers in Vermont.

Due to the fact that the projects are held in a joint venture for the first 5 years, they initially are accounted for as "investments in affiliates." In this regard, they are comparable to GMP's investments in Transco. GMP's tax equity provider – provides approximately $1 billion in tax equity investments in solar projects per year. GMP's tax equity partner is the largest tax equity provider for solar projects in the country.

Also notably, there will be no net costs to customers as a result of the JV solar projects in their first 5 years. This is because the equity in earnings and so-called "developer fee" that GMP will earn back from the projects will exceed their costs and will be directly passed on 100% to customers.

By way of example, and as reflected in this filing, in '17, will pay $4.1 M for the output of these plants in FY 2017 and will earn a regulated return on a 13-month average of $50.0 M in rate base. More than offsetting this impact for customers, $13.9 M of equity in earnings and $3.25 M of solar development fee will flow 100% to customers as a reduction in the cost of service. An additional approximate $5.1 M of economic benefits associated with the JV solar projects will be returned to customers in 2018; in the meantime, those benefits exist as an offset to rate base.

- Recovery of $0.15 M for cost incurred during the recently concluded rate design process and $0.07 M for preliminary survey costs for JV solar sites on which the company did not go forward.

- Return of $1.2 M for retroactive production tax credits associated with hydroelectric dam improvements, resulting in a 0.1% decrease.

- The company does not currently foresee any large plant removals in the near future and is returning $3.5 M of Plant Removal costs. The company also intends to return an additional $3.5 M in its next base rate filing. This will be evaluated as part of the next depreciation study. In this rate filing, it amounts to about 0.5% decrease.

- $3.7 M recovery in FY 2017 that reflects second year of a two-year collection for an exogenous change adjustment largely associated with $15.2 M of Major Storm

Adjustment incurred between October 1, 2014 through March 31, 2015, partially offset by $7.9 M of Vermont Yankee Revenue Sharing proceeds.

- Reflects utilization of a lead-lag study to determine the cash working capital requirement, rather than the traditional 1/8 methodology.

- Recovery of $0.8 M associated with the FY 2015 Earnings Sharing Adjustment Mechanism (ESAM) filing.

B. FY 17 Power Supply Adjustor includes recovery of a $5.3 M undercollection for the period April 1, 2015 to March 31, 2016. This recovery is not part of the base rate adjustment but rather is a per kwh charge applied to all customer's bills except for the Transmission Class customer.