

**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) Case No. 18-0974-TF
credits through Sept. 30, 2019)

**PREFILED REBUTTAL TESTIMONY OF
JAMES M. COYNE
ON BEHALF OF GREEN MOUNTAIN POWER**

September 12, 2018

Summary of Testimony

Mr. Coyne reviews the testimony of Mr. Richard A. Baudino, who supports a 9.3 percent Return on Equity (“ROE”) for Green Mountain Power (“GMP” or the “Company”) during the rate period, as well as the Company’s proposed capital structure. Mr. Coyne notes that the Department of Public Service (“DPS” or the “Department”) and Green Mountain Power are in agreement on the recommended ROE, and he supports the Public Utility Commission (the “Commission” or “PUC”) adopting 9.3 percent as the ROE for the rate period. For the Commission’s information, Mr. Coyne also offers a short technical response to Mr. Baudino’s analysis, noting where Mr. Baudino and he differ on methodology and approach, although resolution of these issues is not necessary because of the Parties’ general agreement. Mr. Coyne also discusses the business risk implications of the recommended regulatory treatment of key innovation initiatives that were raised in the testimony of Mr. Brian Winn.

Exhibit List

GMP-JMC-13 Technical Response to Mr. Baudino

1 **Q1. Please state your name, affiliation, and business address.**

2 A1. My name is James M. Coyne, and I am employed by Concentric Energy Advisors, Inc.
3 (“Concentric”) as a Senior Vice President. My business address is 293 Boston Post Road
4 West, Suite 500, Marlborough, MA 01752.

5 **Q2. Did you also submit Direct Testimony in this proceeding?**

6 A2. Yes, I submitted Direct Testimony on behalf of Green Mountain Power in this proceeding
7 before the Vermont Public Utility Commission.

8 **Q3. What is the purpose of your Rebuttal Testimony?**

9 A3. The purpose of my Rebuttal Testimony is to respond to the Direct Testimony and Exhibits
10 of Mr. Richard A. Baudino and certain aspects of the Direct Testimony of Mr. Brian E.
11 Winn, both filed on behalf of the Vermont Department of Public Service. It is important
12 to note that both GMP and the DPS are in agreement that the proposed Return on Equity
13 (“ROE”) of 9.3 for the 2019 rate period is reasonable and appropriate. This ROE falls
14 within the range of Mr. Baudino’s analysis, and though my analysis would have supported
15 a higher ROE, I support GMP’s proposal to accept a 9.3 percent ROE as the appropriate
16 ROE in this proceeding. Because of this general agreement between the parties, my
17 rebuttal testimony is limited. I briefly note the basis for the Parties’ agreement on ROE,
18 and then provide in *Exhibit GMP-JMC-13* to this testimony a more detailed technical
19 response to Mr. Baudino’s analyses, noting where and why we differ in methodology and
20 results. Although it may not be necessary for the PUC to resolve these differences given
21 the overall general agreement on ROE between the parties, I offer the PUC my technical
22 response for its information. I also respond to Mr. Winn’s recommendations to change

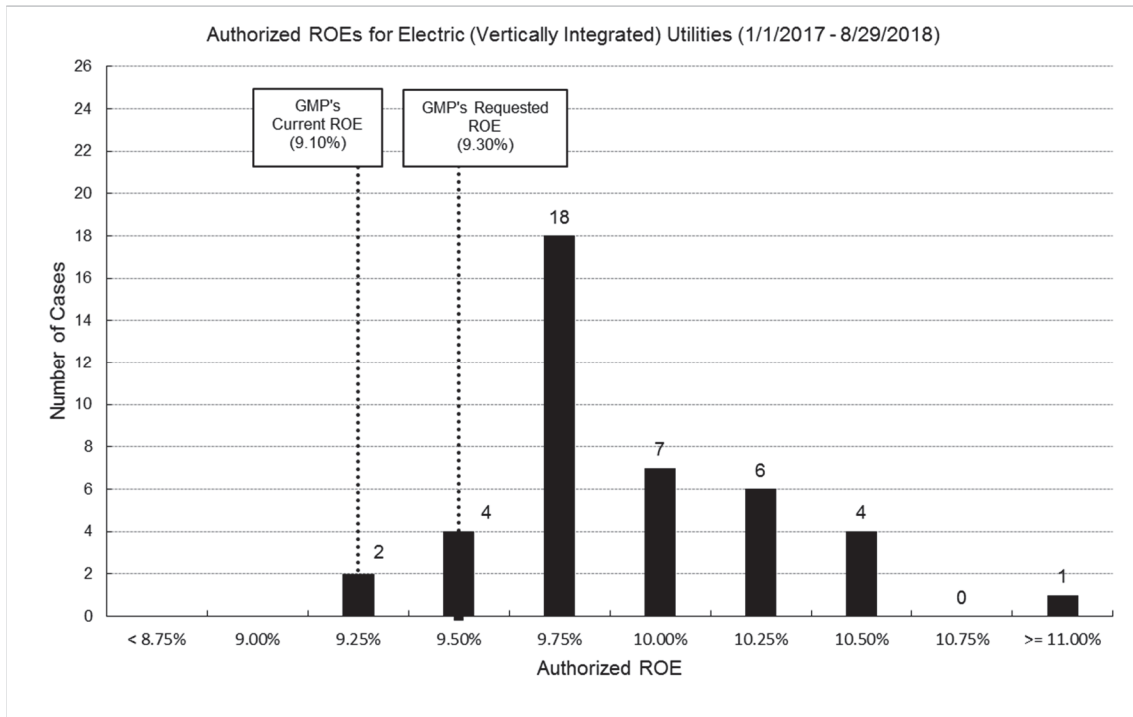
1 the Company's current regulatory treatment of utility innovation assets, which would
2 decidedly shift greater risk to GMP.

3 **Q4. In your Direct Testimony you stated that GMP's current ROE of 9.1 percent, and its**
4 **requested ROE of 9.3 are lower than most ROEs issued for vertically integrated**
5 **electric utilities. Is that still the case?**

6 A4. Yes. Both ROEs continue to be at the low end of all recently allowed ROEs for vertically
7 integrated electric utilities like GMP. GMP's current ROE of 9.1 percent remains the
8 lowest authorized return for any vertically integrated electric utility authorized in the U.S.
9 in recent history (since May 2013)¹. Updating Figure 1, from my Direct Testimony to
10 include recent rate case decisions to date, it is evident that by far the prevailing authorized
11 ROE for a vertically integrated electric utility has been between 9.5 and 9.75 percent.

¹ Data from SNL RRA database. GMP's current ROE of 9.1 percent is the second lowest ROE issued to a vertically-integrated electric utility going back as far as 1980 (as far back as SNL publishes historical regulatory data). The lowest ROE was issued to Maui Electric Company at 9.0% on 56.86% equity in Decision D-2011-092, dated May 31, 2013. There have been no lower ROE's issued since Maui Electric's ROE in 2013.

Figure 1: Recently Authorized Vertically Integrated Electric ROEs



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An ROE of 9.3 percent would still be among the lowest in the U.S, particularly in light of GMP’s small size, the expectation of higher interest rates, the increased risk from declining use in GMP’s service territory and from the passage of the Tax Cut and Jobs Act of 2017.

Q5. Although the DPS and GMP agree on the appropriate ROE for GMP, Mr. Baudino’s opinion is supported by methodologies and assumptions that differ from yours. Do you have any response to his approach?

A5. Mr. Baudino’s analyses and my own analyses are similar in many respects. We both: use the same proxy group; employ a constant growth Discounted Cash Flow (“DCF”) analysis; rely on analyst growth rates for our DCF analysis; developed a Capital Asset Pricing Model (“CAPM”) analysis; and relied on Value Line adjusted betas for our CAPM analyses. However, our methodological differences, though subtle, cause divergent analytical results. Recognizing that GMP and DPS do not have a fundamental dispute over this aspect

1 of the case, I have not prepared an extensive rebuttal to Mr. Baudino’s analysis, but I do
2 outline the general areas of disagreement in the attached *Exhibit GMP-JMC-13*. In short
3 summary, I find that Mr. Baudino and I disagree on the following points: whether current
4 market conditions have returned to normal or continue to be anomalous; whether utility
5 dividend yields are deflated; analyst growth rates; the risk-free rate in the CAPM model;
6 derivation of the market risk premium in the CAPM model; and GMP’s overall level of
7 business risk relative to the proxy group.

8 **Q6. Have you given any consideration to the impact of Mr. Winn’s recommendations for**
9 **excluding certain capital expenditures from rate base, or requiring financial**
10 **assurance for certain projects as they relate to the appropriate cost of capital in this**
11 **case?**

12 A6. Yes. Mr. Winn’s proposed recommendations will shift a great deal of financial risk to
13 GMP shareholders. The DPS has stated that it supports GMP’s innovation as long as new,
14 innovative products yield tangible and reliably quantifiable benefits for GMP’s ratepayers;
15 but adds that “the financial risk associated with those projects must be appropriately
16 balanced between ratepayers and shareholders.”² To this end, Mr. Winn proposes to
17 remove the capital costs of the Tesla Powerwall program from rate base until such time as
18 GMP can demonstrate that the project achieves its intended benefits and becomes an
19 approved tariffed service.³ He notes that the cost of the program is a significant portion of
20 GMP’s proposed 2019 capital project budget, but proposes that GMP shareholders finance
21 the work without any corresponding recovery of costs. He also proposes that GMP provide

² Id., at 4.

³ Id., at 20.

1 a financial guarantee to customers to deliver all of the estimated benefits associated with
2 GMP's Joint Venture Solar/Storage projects and indemnify ratepayers for any anticipated
3 benefits that do not fully materialize. These recommendations, which have not been
4 factored into my analysis, will essentially shift all risk associated with these capital
5 initiatives to shareholders, negatively impacting GMP's risk profile. If these
6 recommendations were accepted it would be appropriate to consider their impact on GMP's
7 risk profile when evaluating GMP's ROE for the 2019 period.

8 **Q7. Can you please summarize your conclusions and recommendations in this case?**

9 A7. For the reasons expressed above, the authorized ROE for GMP should be no lower than
10 the agreed upon 9.3 percent. The ROE results presented in my Direct Testimony, which
11 indicated a range for GMP's ROE of between 9.5 and 10.0 percent, continue to reflect a
12 reasonable range of returns for GMP. Based on GMP's proposed ROE and the DPS's
13 agreement with this proposed ROE, I recommend that the Commission adopt 9.3 as the
14 appropriate ROE for GMP for the 2019 period, assuming no changes to GMP's risk profile.

15 **Q8. Does this conclude your Rebuttal Testimony?**

16 A8. Yes, it does.