

**STATE OF VERMONT  
PUBLIC UTILITY COMMISSION**

Petition of Vermont Gas Systems, Inc.        )  
for change in rates, and for use of the        ) Case No. \_\_\_\_\_  
System Reliability and Expansion Fund        )  
in connection therewith                        )

**PREFILED TESTIMONY OF  
EILEEN SIMOLLARDES  
ON BEHALF OF VERMONT GAS SYSTEMS, INC.**

February 15, 2018

**SUMMARY OF TESTIMONY**

Ms. Simollardes describes the major components of the cost of service filing resulting in an overall rate decrease of 3.8% and summarizes the testimony of other Company witnesses. She discusses how the cost of service filed by the Company honors the previous commitments regarding rate impacts of the Addison Natural Gas Project, and she describes the Company's cost reduction efforts and the rate-related mechanisms designed to continue competitive and affordable rates. Ms. Simollardes also discusses the Company's proposed withdrawals from the System Expansion and Reliability Fund.

Exhibit Petitioner EMS-1      Executive Summary

**PREFILED TESTIMONY OF  
EILEEN SIMOLLARDES  
ON BEHALF OF VERMONT GAS SYSTEMS, INC.**

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

2 **A1.** My name is Eileen Simollardes. I am the Vice President–Regulatory Affairs at Vermont  
3 Gas Systems, Inc. (“VGS,” “Vermont Gas” or the “Company”).

4

5 **Q2. Please describe your educational background and pertinent professional experience.**

6 **A2.** I have been Vice President–Regulatory Affairs at VGS since 2001. Prior to my current  
7 position, I held a variety of other positions at the Company beginning in 1990, including Supply  
8 and Planning Director, Key Accounts and Planning Director, Rates and Regulatory Affairs  
9 Manager, and Rates and Demand Side Management Coordinator.

10 Prior to joining VGS, from 1986 until 1990, I was a Rate Economist for Vermont Public  
11 Power Supply Authority. From 1984 until 1985, I was a Fund Performance Specialist for  
12 Fidelity Investments. From 1982 until 1984, I was a Research Associate at the Investment  
13 Company Institute.

14 I received my Bachelor’s degree in Economics from Assumption College in 1982 and my  
15 Master of Science in Administration from St. Michael’s College in 1995.

16

17 **Q3. Have you previously testified before the Vermont Public Utility Commission**  
18 **(“Commission” or “PUC”)?**

19 **A3.** Yes. I have previously provided testimony in numerous proceedings related to rates,  
20 revenue requirements, cost of service (“COS”) and other regulatory matters. Specifically, I

1 testified in Docket Nos. 6829, 6495, 6444, 6413, 6016, 7109, 7803/7843, 7712, 7970, 8710, and  
2 Case No. 17-1238-INV.

3

4 **Q4. What is the purpose of your testimony?**

5 **A4.** My testimony provides an overview of the Company's rate request which is also  
6 summarized in an Executive Summary, which I am sponsoring as **Exhibit Petitioner EMS-1**. In  
7 my testimony, I explain how this rate request represents the Company's focus on stable,  
8 affordable rates, and honors VGS's commitment to communities and customers in Addison  
9 County, while continuing the Company's commitment to a safe pipeline system, strong customer  
10 service, energy efficiency, and carbon reductions. I also introduce the other Company witnesses  
11 and provide a summary of their testimony.

12

13 **Q5. Please provide an overview of the Company's rate request.**

14 **A5.** The Company's rate filing reduces overall rates by 3.8%. This change is the result of a  
15 4% increase in the daily access and distribution charges (collectively referred to as "base rates"),  
16 use of \$8.1 million from the System Expansion and Reliability Fund ("SERF" or the "Fund"),  
17 and a decrease in the natural gas charge of 14.8%.<sup>1</sup> This filing also incorporates significant  
18 savings to customers resulting from the recent reduction in the federal income tax rate. For rates  
19 that are currently in effect, customers are receiving direct bill credits as proposed by VGS,  
20 supported by the Department of Public Service ("Department") and approved by the PUC on

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<sup>1</sup> A portion of the reduction in natural gas charges will be realized by customers in advance of the rate year through the quarterly purchase gas adjustment filings.

1 January 24, 2018. This rate filing incorporates these permanent tax cuts into rates for the 2019  
 2 rate year and beyond so that customers will continue to receive the full benefit of the tax change.

3 Putting our natural gas rates in context of the overall economy, inflation *rose* by nearly  
 4 8%<sup>2</sup> over the period from December, 2011 to December, 2017 while Vermont Gas’s rates  
 5 declined by over 16%. This proposed rate reduction will continue this trend. To put this into  
 6 perspective, after this rate reduction, natural gas customers will be paying almost 20% *less* than  
 7 they were 7 years ago. This will put real money in the pockets of Vermont homeowners that have  
 8 the opportunity to use natural gas, representing typical savings of \$270/ year compared to their  
 9 natural gas bills from 2011. Customers that have the opportunity to convert to natural gas from  
 10 fuel oil or propane can save even more. A homeowner converting to natural gas today can  
 11 expect their natural gas bill to be about \$630 lower than fuel oil and more than \$1,650 lower than  
 12 propane. Low income customers can save even more through Vermont Gas’s Low Income  
 13 Assistance Program, which provides a 20% discount for qualified residential customers.

14

15 **Q6. Please explain how this rate filing supports the Company’s obligations and**  
 16 **commitments to communities and customers.**

17 **A6.** This rate filing is part of a multi-year path that supports the Company’s efforts to bring  
 18 the economic and environmental benefits described above to more Vermonters in Addison  
 19 County. In April 2017, Vermont Gas completed its transmission line to Addison County and  
 20 started serving customers immediately. In order to maximize the opportunity for businesses and  
 21 households to convert to natural gas, Vermont Gas began building the distribution networks

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<sup>2</sup> Measured by the Consumer Pricing Index for the northeast.

1 required to serve customers in Middlebury and Vergennes, and customers have steadily been  
 2 converting from heating oil and propane, to the cleaner and more affordable natural gas option.  
 3 As of the end of January, 2018, 580 customers have signed up in Middlebury and Vergennes. We  
 4 anticipate that 838 customers in Middlebury and Vergennes will have made the change to natural  
 5 gas by the end of the rate year (September 30, 2019).

6 Customer response to natural gas service in Middlebury and Vergennes has been  
 7 exciting. Not only are these customers motivated by cost savings associated with natural gas,  
 8 they are expressing interest in Vermont Gas’ energy efficiency programs. Customers that are  
 9 converting to natural gas in these new towns, as well as those in Franklin and Chittenden  
 10 Counties are reducing their energy costs and greenhouse gas emissions (“GHG”). Emission  
 11 reductions associated with new customer conversions in 2017 totaled 3,554 tonnes per year.  
 12 When coupled with 2017’s investments in energy efficiency, the avoided GHG increases to  
 13 7,830 tonnes per year. That is the equivalent of removing over 1,600 passenger cars from  
 14 Vermont roadways.

15 Customers in other Addison County communities are also interested in natural gas  
 16 service, and Vermont Gas committed to expansions in the towns of Bristol, New Haven, East  
 17 Middlebury, and Monkton when it obtained Commission approval to expand service to Addison  
 18 County. Service will be available to about 110 customers in New Haven by summer 2018. About  
 19 180 East Middlebury residents will have access to natural gas by late 2019 and service will be  
 20 available to almost 800 Vermont homes and businesses in Bristol beginning in late 2018 with a  
 21 full build-out completed in 2019. In Monkton, the Company plans to complete construction of a  
 22 gate station and associated distribution network by the end of 2018, which will bring access to

1 service to over 100 Monkton homes and businesses, including the Monkton Central School.  
2 Vermont Gas has been talking with residents and businesses in these communities in advance of  
3 the planned distribution work and the response has been incredibly positive. Our team will be  
4 hosting an open-house for prospective customers in Bristol which will provide an opportunity for  
5 Bristol residents to learn more about the advantages of natural gas service.<sup>3</sup> Our team will  
6 provide interested customers with information on our award-winning energy efficiency  
7 programs, construction practices, and safety programs. Vermont Gas will host a similar open  
8 house in Monkton. In the meantime, the Monkton Select Board has filed a letter in Case No. 17-  
9 4909-PET reiterating their support for natural gas service in their community.

10 This rate filing includes the investments that are necessary to provide these customer  
11 opportunities.

12

13 **Q7. Please explain how this rate filing reflects the Company's efforts to deliver on other**  
14 **commitments and priorities for customers.**

15 **A7.** This filing incorporates Vermont Gas's costs and investments which reflect several  
16 priorities. First, the Company is laser focused on continuing to operate and maintain a safe  
17 pipeline system, just as it has for more than 50 years. This filing reflects some of the Company's  
18 measured and long-term investments in system safety. Second, the filing reflects Vermont Gas's  
19 dedication to service that anticipates what our customers need from their energy company. This  
20 includes an increasing expectation for more on-line and mobile options for communicating with  
21 our teams and getting help saving money through reducing energy use and GHG emissions.

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<sup>3</sup> The open-house was scheduled for February 7, 2018 but was postponed due to weather.

1 Affordability is important to our customers and vital to the Company’s overall competitive  
 2 strategy. We are committed to partnering with Vermont communities and businesses to  
 3 encourage strong economic growth through more affordable and cleaner energy options like  
 4 natural gas.

5

6 **Q8. Please describe some of the Company’s specific investments in operating a safe and**  
 7 **reliable pipeline system.**

8 **A8.** Vermont Gas enjoys an advantage over many other local distribution companies around  
 9 the country due to proactive replacement of cast iron or bare steel infrastructure. VGS’s robust  
 10 and modern system is not plagued by the challenges aging infrastructure presents for most local  
 11 distribution companies, including high maintenance costs, high leak rates, and the need for  
 12 significant replacement programs. This rate filing includes a continuation of VGS’s successful  
 13 long-term strategy for system integrity and safety.

14 For example, the Company is including in this filing on-going investments in our cross  
 15 bore program, which is an issue natural gas companies face all over the country. A cross bore is a  
 16 location in existing pipeline networks where the underground service lines have bisected or  
 17 “cross bored” with a sewer line. Vermont Gas’s cross bore program identifies and repairs such  
 18 locations, which in our case typically involve gas service lines. The Company is taking steps to  
 19 address these circumstances proactively.

20 We are also making investments to enable more efficient monitoring of the gas network  
 21 through replacement of our Supervisory Control and Data Acquisition (“SCADA”) system. As  
 22 explained in Mr. St. Hilaire’s testimony, we are also proposing to rebuild and refurbish several

1 key gate stations. These initiatives are in addition to our on-going focus on integrity  
2 management, proactive leak patrols, and emergency customer response. In fact, while Vermont  
3 Gas' distribution network has expanded from Enosburg to Middlebury, our emergency response  
4 times are 30% faster than regulatory benchmarks.

5

6 **Q9. Can you explain what the Company is doing to deliver superior customer service**  
7 **and reducing customers' energy usage and GHG emissions? How is the Company**  
8 **delivering on those promises?**

9 **A9.** The quality of our customer service is best measured by what our customers say about  
10 their natural gas service. We regularly conduct formal and informal surveys about customer  
11 experiences and how they perceive Vermont Gas. Formally, we poll our customers regularly  
12 after a specific interaction – for example after a call with our customer care center, a visit from a  
13 service technician or when a new customer converts to natural gas. We also conduct annual  
14 customer surveys about the quality of service at VGS and report those to the Commission. The  
15 results are very strong and consistent, as shown in the chart below, and are as high in 2017 as  
16 they were in 2012.



1

2 So while our 51,000 customers continue to give us solid marks on customer satisfaction, equally  
3 important is how they feel about their decision to choose natural gas. Based on our most recent  
4 survey, 94% of customers would likely choose natural gas again.

5 While we are proud of our track record, Vermont Gas also knows that customer  
6 expectations change and evolve as quickly as the energy landscape itself, and we must be  
7 prepared to respond and adapt. To this end, we recently initiated a “no-fee” credit card option for  
8 customers, which is the option many customers prefer. We are also expanding our social media  
9 outreach to provide customers with additional channels to interact with the Company, and get  
10 useful energy-saving tips and information on our Company activities. Recently, we refreshed our  
11 website to be more interactive for both current and prospective customers—including enabling  
12 energy savings calculators so families and businesses can see both financial and environmental

1 savings. We also are launching our renewable natural gas (“RNG”) program which provides  
 2 customers with the opportunity to contribute further to the State’s clean energy future.

3 In this filing, the most significant investment in customer service is a replacement of our  
 4 17-year old customer information system. This investment is important to customers for several  
 5 reasons. First, the upgraded system will significantly expand on-line and mobile transactions for  
 6 our customers. Mobile transactions are not available to customers under the existing system, and  
 7 consistent with our mission to provide customers options that are important to them, this system  
 8 will match the increasing use of mobile and online transactions. Additionally, our current vendor  
 9 has informed us our existing system will no longer be supported in the coming years so  
 10 transitioning is essential.

11 As the Commission is aware, Vermont Gas is also an energy efficiency utility (“EEU”).  
 12 While this filing does not reflect any costs related to Company’s EEU work, Vermont Gas views  
 13 that work as an integral part of its customer service mission. While there is a dedicated EEU  
 14 staff at VGS, all members of the VGS team that interact with customers, whether they are part of  
 15 the customer care team, a service technician, or a marketing representative, take that opportunity  
 16 to engage customers on how the energy efficiency programs can reduce their energy bills,  
 17 increase the comfort of their homes, and reduce their GHG emissions. We estimate that  
 18 participants in our efficiency programs are collectively saving over \$14 million per year on their  
 19 natural gas bills and avoiding over 75,000 tonnes of GHG. As we bring natural gas service to the  
 20 new communities described above, the availability of these energy efficiency services is a key  
 21 benefit.

22

1 **Q10. With all of these important initiatives and investment, please explain how the**  
 2 **Company is maintaining stable and affordable rates.**

3 **A10.** The Company’s commitment to stable and affordable rates reflects a multi-pronged  
 4 approach. Some of the key components are reflected in the Memoranda of Understanding  
 5 between the Department and the Company approved by the Commission in Dockets 7970 and  
 6 8710. Specifically, the Company put a cap on Addison Natural Gas Project costs it would  
 7 include in rates, which means that VGS investors absorbed over \$31 million invested in  
 8 expanded service to Addison County. Vermont Gas also agreed to forgo for a three-year period,  
 9 the opportunity to fully recover our cost of capital. We also have voluntarily extended  
 10 amortization periods for several regulatory assets, with the Company absorbing the carrying  
 11 costs to reduce customer costs. We have also reduced expenses by operating a leaner and  
 12 effective workforce of 126 through natural attrition, down 10% from 140 employees only 2 years  
 13 ago. At the same time, we have added important resources in areas such as information  
 14 technology to help leverage efficiencies and enhance customer service. As shown in the table  
 15 below, by focusing on the costs we can control, we have been able to decrease our operating  
 16 costs per customer.

	Proposed Cost of Service	PUC-approved Cost of Service 17-1238-INV
Operating costs	\$16,805,297	\$16,414,528
Number of Customers	52,432	50,835
Operating Costs per Customer	\$321	\$323

1 **Q11. Please explain how the Company’s proposal to use System Expansion and**  
2 **Reliability Funds (“SERF”) is consistent with VGS’s multi-year rate path, prior rate cases,**  
3 **and VGS’s overall effort to maintain stable, affordable and competitive rates?**

4 **A11.** As the Commission is aware, the SERF was established in Docket No. 7712, and it is  
5 designed to help ensure that the Company’s expansion into Addison County can be successfully  
6 executed without abrupt changes to rates. To this end, the Commission has previously authorized  
7 use of the SERF in two prior rate cases, noting most recently that use of \$10.71 million in “SERF  
8 monies as described in this proceeding will appropriately smooth the rate impacts of the ANGP  
9 consistent with our Order in the Docket No. 7712.” (Case No. 17-1238-INV Order at 6).

10 The Company has proposed utilization of SERF in the same manner here, using \$8.0  
11 million in SERF to maintain a base rate change of 4%.

12

13 **Q12. Why is using SERF to maintain a 4% base rate change appropriate?**

14 **A12.** Candidly, there is no “right” answer or “magic formula,” SERF and base rate changes  
15 are essentially interchangeable. As a general rule of thumb, every \$1 million change in SERF  
16 withdrawals changes base rates by 2%. For example, if the base rate change was set at 6%, then  
17 SERF withdrawals would be approximately \$7.1 million rather than \$8.1 million.

18 In deciding to limit the SERF withdrawal to a level that supports a base rate change of  
19 4%, we balanced several factors all focused on reducing rate impact to customers now and over  
20 time, to keep rates as low and stable as possible. Using more SERF now would mean lower rates  
21 now but higher rates later. Conversely, a smaller SERF withdrawal would mean a larger base  
22 rate increase now. Ultimately, we have proposed the \$8.1 million SERF withdrawal and

1 corresponding 4% base rate increase for two reasons. First, lower gas prices mean customers will  
 2 see a significant overall rate *decrease* through this filing. Second, the overall rate trajectory we  
 3 have estimated based upon this SERF withdrawal provides a smooth rate path for the next few  
 4 years, ultimately returning all SERF collected to customers.

5

6 **Q13. Please address the Company’s approach in this filing to cost of capital recovery.**

7 **A13.** The filing reflects recovery of our cost of capital, including the lower return on equity  
 8 (“ROE”) agreed to in the Memorandum of Understanding (“MOU”) in Docket No. 8710. Under  
 9 that MOU, the Company’s ROE was capped at a below-market rate of 8.5% through 2019.

10 Accordingly, the recovery of our cost of capital in this filing reflects this capped ROE. This  
 11 recovery of cost of capital, including the ROE cap, will begin to reverse four years of significant  
 12 under recovery, resulting in considerable financial strain, including the need to seek waivers of  
 13 debt covenants.

14

15 **Q14. Please describe how the Company is presenting additional information about this**  
 16 **rate filing through the testimony of other witnesses.**

17 **A14.** An index of testimony and exhibits accompanies this rate filing in order to help facilitate  
 18 efficient and thorough review by the Commission and Department. In addition to my testimony,  
 19 we are also providing testimony from the following Company employees:

20 **John St. Hilaire** – John’s testimony describes the capital investments included in the  
 21 COS and why such investments are necessary to safely serve customers. To facilitate the

1 Commission's review of the filing, John also provides an index of capital expenditures by FERC  
2 account number.

3 **Lauren Hammer** – Lauren's testimony describes the overall COS and key inputs, and  
4 highlights any significant adjustments included in this filing.

5 **Andrea Kean** – Andrea's testimony describes the process used to develop capital  
6 expenditures for 2019, explains the Company's overall strategy to make sure customers  
7 receive the full benefit as a result of recent reductions in the federal corporate income tax  
8 rate, including both the impact on income tax expense and deferred taxes, and describes  
9 several other specific adjustments to VGS's rate proposal; including a return to customers  
10 of over \$200,000 resulting from an adjustment to the Company's asset retirement  
11 obligation and necessary adjustments to accounting procedures associated with the  
12 Company's pension benefits plan for employees.

13 **Todd Lawliss** – Todd's testimony describes the development of the billing  
14 determinants and forecasted gas costs used in the COS.

15 Together this material provides a comprehensive explanation of why the rates  
16 proposed in this case are just and reasonable and provide customers with an affordable  
17 and competitive alternative.

18

19 **Q15. Does this conclude your testimony?**

20 **A15. Yes.**