STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. _________

Petition of Vermont Gas Systems, Inc. for a change in rates and for use of the System Expansion and Reliability Fund in connection therewith	

DIRECT TESTIMONY OF MATTHEW MITCHELL ON BEHALF OF VERMONT GAS SYSTEMS, INC.

February 16, 2021

SUMMARY OF TESTIMONY

Mr. Mitchell's testimony supports most aspects of the Company's Cost of Service and describes many aspects in detail. Additionally, Mr. Mitchell sponsors several key exhibits listed below.

EXHIBITS

Exhibit VGS-MM-1	Cost of Service
Exhibit VGS-MM-2	Determination of Firm Non-Gas Rate Change
Exhibit VGS-MM-3	Index to the Cost of Service

**DIRECT TESTIMONY OF
MATTHEW MITCHELL
ON BEHALF OF VERMONT GAS SYSTEMS, INC.**

Q1. Please state your name, occupation, and business affiliation.

A1. My name is Matthew Mitchell. I am a Senior Accountant at Vermont Gas Systems, Inc. ("VGS" or the "Company").

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

A2. I hold a Bachelor of Science in Business Management from the University of Arizona.

I joined VGS in July 2018 as a Senior Accountant. My primary responsibilities include forecasting, budgeting, and managing fixed assets.

Prior to joining the VGS team, I worked at Keurig Green Mountain for three years as a Senior Tax Accountant. Prior to that I spent eight years working at JMM & Associates, where I provided bookkeeping and tax preparation services to various companies and individuals.

Q3. Have you previously testified before the Vermont Public Utility Commission ("Commission")?

A3. No.

Q4. What is the purpose of your testimony?

A4. My testimony explains the process used to calculate the Company's rates, explains the basis for relevant adjustments to the Company's Cost of Service ("COS"), and, along with the testimony of other VGS witnesses, supports the Company's rate filing, which proposes a 1.95%

non-gas rate change. When combined with an approximate 4.1% forecasted increase in the natural gas charge and a return of $4.44 million to customers from the System Expansion and Reliability Fund ("SERF"), the overall rate change is expected to be 2.6%. The COS is provided as **Exhibit VGS-MM-1**. A summary of the resulting rate change is provided as **Exhibit VGS-MM-2**.

Q5. Please describe the Company's approach to developing this COS.

A5. The Commission has reviewed a fully litigated VGS rate case every year for the last five years. This COS is based on the Commission's guidance from these past cases, our work with the Department of Public Service ("Department") reviewing prior COS filings, and the framework of our proposed Alternative Regulation Plan ("ARP"). Our overall objective regarding the COS remains unchanged: to implement and support our Climate Action Plan while maintaining stable and affordable rates and continuing to strengthen our foundational and unwavering commitment to safe, reliable service.

Q6. Please describe the Company's rates and explain the process for calculating appropriate changes to those rates.

A6. First, a recap of the composition of the Company's rate structure might be helpful background for any stakeholder unfamiliar with it. Firm rates are comprised of several components: the daily access, natural gas, and distribution charges, plus a charge to support the Low Income Assistance Program ("LIAP") and an Energy Efficiency Charge ("EEC") to support the Company's work and responsibilities as an Energy Efficiency Utility ("EEU"). Neither the

LIAP nor the EEC are addressed in this COS. The LIAP is reviewed annually in a separate filing and the EEC is established through a separate Commission proceeding.

There is also a class of customers that are served under Commission-approved "interruptible" tariffs rather than our firm rate tariffs. Unlike our firm customers who receive natural gas service 365 days a year, 24 hours a day, regardless of how cold it is, interruptible customers agree to switch to an alternate fuel on two hours' notice from the Company. This allows VGS to optimize its supply portfolio and transmission system for the benefit of firm customers. In exchange, interruptible customers pay a tariff rate that is at a discount to firm service. All of the revenues from the interruptible class of customers are credited to the firm natural gas charge and help VGS maintain competitive and affordable rates.

Daily Access and Distribution Charges

From late 2006 through September 2016, the daily access and distribution charges (collectively referred to as "base rates" or "non-gas rates") were changed annually pursuant to the base rate provisions of prior alternative regulation plans. Since 2016, these rates have been established through traditional COS review in rate cases. Together they cover all "non-gas" costs. The daily access charge is assessed on each meter on a per-day basis regardless of how much natural gas is used by the customer. In contrast, the distribution charge is based upon the amount of natural gas utilized by the customer (measured, like the natural gas charge, on a hundred cubic feet or "Ccf" basis).

Natural Gas Charge

The natural gas charge pays for gas costs on a dollar-for-dollar basis. This means that customers pay only the actual costs we incur to purchase and transport the gas to the Vermont border. These costs are then reduced for firm customers based on revenue from our interruptible customers. We are able to make timely adjustments to the natural gas charge, either up or down, on a quarterly basis due to the Purchased Gas Adjustment ("PGA") mechanism, which is a rate setting mechanism initially approved by the Commission in Docket No. 7109. While there have been some modifications since the initial approval, the PGA structure has been in place in largely the same form since October 2006. Most recently, the Commission extended the PGA through September 30, 2021, in Case No. 19-3529-PET. VGS has proposed maintaining that mechanism in the ARP proposal now pending before the Commission in Case No. 19-3529-PET. VGS anticipates that gas costs included in this COS will be addressed through approval of the PGAs. Therefore, the bulk of our COS testimony is focused on non-gas costs.

Q7. What rate changes are you seeking in this filing?

A7. In this case, which is the launching point for our three-year ARP, VGS seeks a non-gas (daily access and distribution charge) rate change of 1.95%. See Exhibit VGS-MM-2. Although this case only governs the non-gas component of VGS's rates, when combined with the anticipated increase in natural gas costs of approximately 4.1%, the resulting overall rate change is expected to be a 2.6% increase. Actual changes to the natural gas charge will be made pursuant to the PGA.[1]

Q8. Please describe how the non-gas rate change is determined.

A8. Non-gas rates are determined by calculating the total non-gas revenue required to meet the COS. These costs include operating and non-operating costs, with adjustments for SERF withdrawals (described below) and other income. Accordingly, the central part of establishing non-gas rates is determining the appropriate cost of providing service during the Rate Year, which in this case is the 12-month period starting October 1, 2021. The COS for the Rate Year is determined by evaluating the actual costs incurred by the Company in the Test Year, which in this proceeding is the twelve-month period ending December 31, 2020. Some Test Year costs are then adjusted based on changes that are expected in the Rate Year where those changes are known and measurable with reasonable accuracy. This rate filing is therefore based on the Company's actual costs in the Test Year, with some adjustments that I describe in more detail below. See Exhibit VGS-MM-1.

Q9. Please describe the components of the COS.

A9. The overall COS is best considered from two perspectives: operating costs and non-operating costs. Operating costs are the expenses the Company incurs during the Rate Year to operate a safe, reliable system for customers. These are grouped into categories such as

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[1] A portion of the increase in natural gas charges will be realized by customers in advance of the Rate Year through the quarterly purchased gas adjustment filings made through September 30, 2021.

"Transmission," "Distribution," and "Sales." Non-operating costs refer to the costs associated with the Company's rate base. This includes depreciation, property taxes, and recovery of capital costs. These costs are generally associated with the Company's investment in the pipeline network needed to provide natural gas service to customers, and other capital investments necessary to support operations, such as computer systems and vehicles. A narrative summary of these costs and adjustments is provided throughout my testimony. I also elaborate on the testimony of Mr. St. Hilaire (capital investments) and Ms. McNeil (Return on Equity). **Exhibit VGS-MM-3** provides an index to the COS schedules and a description of what each schedule covers.

Q10. Please describe the general categories included in the Test Year and Rate Year COS and explain any major adjustments.

A10. The COS presents VGS's operating expenses in Federal Energy Regulatory Commission account number format for both the Test Year and the Rate Year, with adjustments between the two clearly identified. The process for adjustments is described below.

Consistent with the approach taken in the last several rate cases, each general operating expense category is broken out by labor and non-labor expenses. For labor, also referred to as payroll expense, each general operating category is adjusted for the Rate Year to reflect union and non-union wage increases for 2021 and 2022, including the impact on payroll of newly unionized functions, and to account for:

- New employees that were added during the Test Year that will be in place for the whole Rate Year;

- Employees that had left during the Test Year and will not be replaced in the Rate Year; and
- Positions that have been or will be added after the Test Year, but before the Rate Year.

Consistent with the Commission's findings in prior rate proceedings, the COS reflects the removal of 100% of the executive long-term compensation plan ("LTIP") and 50% of the short-term compensation plan ("STIP"). The adjustment to labor-related accounts is shown on **Schedule 17** to Exhibit VGS-MM-1.

Next, each general operating expense category is evaluated for non-labor-related expenses. I discuss each category below, identify the schedule in the COS where the adjustments can be found, and provide a brief explanation of the rationale for proposed adjustments.

Schedule 3 to Exhibit VGS-MM-1 shows that transmission-related expenses in the Rate Year will increase from the Test Year to account for non-labor-related expenses of approximately $175,000. This increase is driven by several key safety initiatives that result in adjustments in two transmission-related areas and associated accounts, (1) Measurement & Regulation Station expenses and (2) Transmission Mains – Maintenance:

- First, Account 8570 (Measurement & Regulation Station expense) is adjusted by $53,900. This change reflects investment of $35,300 in proactive testing and monitoring of Renewable Natural Gas ("RNG") gas quality from the Vanguard RNG facility scheduled to come online in 2021, which is critical to maintaining distribution system integrity. It also reflects the cost associated with telecommunications expenses of $18,600 associated with our investment in security cameras and remote monitoring devices at some of our gate stations.

- Second, Account 8630 (Transmission Mains - Maintenance) was adjusted by approximately $121,000 to reflect costs related to the northern transmission close interval survey. This survey is discussed in more detail in the testimony of Mr. St. Hilaire.

Schedule 4 to Exhibit VGS-MM-1 shows that distribution-related expenses in the Rate Year will increase from the Test Year to account for non-labor-related expenses of approximately $215,000. This increase is driven by adjustments in two distribution-related areas and associated accounts, (1) Distribution Mains – Maintenance and (2) Distribution Equipment expenses:

- First, Account 8870 (Distribution Mains – Maintenance) was adjusted by $146,000 to reflect normalizing for 3-year averages as well as planned cross-bore work. The Rate Year reflects a continuation of the Company's legacy cross-bore program at similar spending levels to Rate Year 2021. Due to timing of cross-bore spending during the Test Year (some work was delayed due to the Covid-19 pandemic), this expense was adjusted by $64,000 to reflect expected cross-bore spending, which aligns with our experience in a normal rate year. An additional adjustment of $82,000 is included and relates to normalizing for non-cross-bore-related work 3-year averages. Similar to cross-bore spending, the Test Year was abnormally low due to the Covid-19 pandemic.
- Second, Account 8940 (Distribution Equipment) was adjusted by $68,845 and is related to normalizing for 3-year averages, consistent with approach taken in Case No. 20-0431-TF.

Schedule 5 to Exhibit VGS-MM-1 shows Customer Account expenses. "Customer Accounts" reflects costs associated with the full cycle of customer billing from meter reading through collections. The only non-labor adjustment to the Customer Account expenses is a reduction of approximately $89,968 to Bad Debt Reserve (Account 9040). The Company adjusts the Bad Debt Reserve to reflect the three-year average of write-offs as applied to the projected Rate Year revenues.

It should be noted that the Company utilized years 2017, 2018, and 2019 to calculate the 3-year average as 2020 was an outlier due to the Covid-19 pandemic. For most of 2020, the Company, along with other utilities in Vermont, suspended service shut-offs. The impact of the pandemic on bad debt is still unknown and, as such, the Company has not forecasted an increase in bad debt for purposes of this COS.

Schedule 6 of Exhibit VGS-MM-1 is the Sales expense category and reflects expenses associated with sales and marketing, including customer communications. This expense category also reflects some non-capital expenses related to the Company's innovation and Climate Action Plan work. In addition, the sales category includes the revenues and expenses generated by the Field Services department from service contracts, emergency repair work (referenced as "Jobbing Sales"), and installation work. These revenues serve to reduce the COS to the benefit of customers. Non-labor sales expense reflects the following adjustments:

- Account 9135 has been increased by $165,000 to support innovative initiatives. In the ARP currently under review in Case No. 19-3529-PET, VGS proposed investments in climate action and innovation of $2 million annually over the term of the ARP, including no more than $500,000 on average annually in operating and maintenance costs. In this case, we have balanced the need to advance clean energy initiatives with affordability during the first year of the ARP, particularly as our customers are still dealing with the pandemic. Accordingly, we have limited the innovation budget to $200,000. This budget is provided to support our work and planning on Climate Action Plan initiatives like RNG digester feasibility studies, hydrogen/power-to-gas Department of Energy grant applications, and District Energy System engineering/design studies.

- Account 9138 was adjusted by $23,909 to reflect increased spending on fire department training ($15,000) and scratch-n-sniff bill inserts to promote customer awareness of natural gas safety ($8,909).
- Accounts 9152, 9153, 9158, 9165, and 9168 are all associated with the non-labor costs of VGS's service contracts, installation work, emergency repair work on customer's appliances, and work performed on rental equipment. Primarily, these costs are for parts necessary for this work. These costs have been increased by 2% per year to reflect expected increases. Please note that these increases are offset by increased revenues associated with these activities as described below.

Schedule 6b to Exhibit VGS-MM-1 provides the offsetting revenues from the Field Services department. These revenues have been increased by 7% to reflect new billing rates. With this adjustment, the revenues generated decrease the COS by approximately $2.3 million.

Q11. Schedule 7 to Exhibit VGS-MM-1 details Administrative and General Expenses. Please describe the proposed changes to this schedule.

A11. One adjustment to **Schedule 7** relates to payroll and benefits. I explain how the benefits percentage is applied in this COS later in my testimony. Other adjustments to **Schedule 7** include the following:

Office Expenses (Account 9210): The increase in this account is related to employee training. The Test Year was abnormally low due to the Covid-19 pandemic. Further, VGS is committed to investing in our employees to ensure they have the skills necessary to deliver exemplary customer service and operate a modern utility. The Rate Year continues this investment through additional training expenses of $20,773.

Computer Expenses (Account 9212): Expenses in this account primarily relate to support contracts for computer hardware and software. The adjustment of $49,950 is an annual expense related to contracts expected to be in place during the Rate Year.

Admin Costs Capitalized (Account 9220): An adjustment was made to this account in the amount of $743,039, reducing the COS. First, this adjustment reflects normalizing for a 3-year average as the Test Year was artificially low due to timing of capital spend, and, if left unadjusted would overstate expenses. Second, an adjustment was made related to the hiring of a new position (discussed in Mr. St. Hilaire's testimony) that would be 100% capitalized. It should be noted that this new position has a limited cost impact to this COS because while labor costs increased, administrative overhead also increased, offsetting the increased labor.

Outside Services-Legal and Other (Accounts 9230 and 9231): Consistent with the Commission's guidance in Case No. 19-0513-TF, the Company has adjusted outside services-legal and other based on multi-year averages. As in Case No. 19-0513-TF, this means basing legal costs on a three-year average and setting outside services other to reflect a five-year average. In both cases, in accordance with its Memorandum of Understanding with the Department in Case No. 18-0409-TF, the Company has removed the costs related to investigations in Case Nos. 17-3550-INV and 17-4630-INV when calculating the averages. In determining the three-year average for outside services-legal, the Company also adjusted the account to remove a significant non-recurring expense in 2018 and also removed expenses related to lobbying. For this COS, the averages result in an increase to the COS related to outside services-other expenses, and a decrease to the COS related to outside services-legal, for a total increase of approximately $118,500.

Insurance Premiums (Accounts 9240 and 9250): Insurance premiums for the Rate Year are based on the Company's fiscal year 2021 premiums, with an adjustment to reflect an expected increase in premiums in fiscal year 2022. As anticipated, and as experienced in 2021, there is a general hardening of the insurance market and a pronounced rate adjustment for all risk categories of on average 15% in 2022. Property insurance premiums are expected to increase by 10% in 2022. Further, because many of the premiums are paid in Canadian dollars, the adjustment reflects the current $US to $Canadian exchange rate.

DSM Amortization and Expenses (Account 9280): To help maintain affordable rates, the Company proposed, and the Commission approved, in Docket No. 8710 extending the amortization period for all remaining energy efficiency balances from 3 years to 10 years. This extended amortization is reflected in this COS. The COS reflects a reduction of $34,243 in amortization expense as some older efficiency investments will be fully amortized during the Rate Year.

Miscellaneous General Expense (Account 9301): This account includes the charitable donations the Company makes and, therefore, it has been adjusted to remove it from the Rate Year consistent with past practice.

Directors' Fees (Account 9302): The downward adjustment to the Directors' Fees is to reflect the overlapping of Board of Directors' members related to turnover.

Memberships (Account 93021000): This account has been adjusted consistent with the Department's recommendation in previous rate cases to remove the portion of American Gas Association dues related to lobbying.

Vehicles (Account 9330): The increase to Vehicles is related to normalizing to a 3-year average as the Test Year expenses were abnormally low due to reduced travel related to the Covid-19 pandemic.

Q12. Employee Benefits are also shown on Schedule 7 to Exhibit VGS-MM-1. Please describe how employee benefits are included in the COS.

A12. Employee benefits include federal and state payroll taxes; costs associated with providing employees insurance (workers compensation and medical); employee retirement plan expenses; and employee benefits regarding wellness, safety, and tuition reimbursement. Employee benefits are expressed as a percent of total payroll for the Rate Year. Employee benefits' percentage in this COS is 38.03% of payroll.

The employee benefit adjustment also reflects the Company's past practice of excluding 50% of the cost of the Supplemental Executive Retirement Plan ("SERP") in its calculation. Finally, the employee benefit calculation is further adjusted to reflect costs associated with non-productive time, such as holiday, sick and vacation pay, and transportation on direct capitalized labor. While these are not directly employee benefit related, they reflect reductions to the Company's operating expenses related to capitalization. As those reductions are reflected as a reduction in employee benefits in the Company's Test Year expenses, it is necessary to make a similar adjustment to the Rate Year expense. This adjustment can be seen on **Schedules 7 and 17a.** In spite of increasing payroll, overall employee benefits are decreasing by $146,000, primarily related to declining pension expense.

Q13. Turning now to non-operating expenses, please describe how those expenses are established in the COS.

A13. Non-operating costs include things like depreciation, property taxes, and recovery of carrying costs. They all arise from rate base. The methodology for determining rate base in this COS is essentially unchanged from previous rate proceedings. The COS rate base reflects the 13-month average from September 2021 to September 2022, and the balance sheet accounts included fundamentally mirror the accounts previously included in rates. The starting point for the rate base calculation is the per book account values as of December 31, 2020. These values are then adjusted for changes from January 2021 to September 2022. The total Rate Year rate base is $262.4 million. Significant adjustments to rate base are shown in **Schedule 12** to Exhibit VGS-MM-1 and described below:

Plant-in-Service: The COS reflects an increase of approximately $16.1 million, which is described in more detail in Mr. St. Hilaire's testimony. Highlights of these investments include improvements to and modernization of the Company's gate stations and distribution network. Also included are investments in distribution mains, meters and services related to growth within VGS's existing service territory, and other investments needed to provide safe and reliable service to customers. Additionally, consistent with VGS's proposal in Case No. 19-3529-PET, $1.5 million is included to reflect capital investment in innovation and our Climate Action Plan. This is described in the testimony of Ms. McNeil.

Construction Work in Progress ("CWIP"): CWIP has been adjusted to calculate the 13 months of plant additions from September 2021 through September 2022, which results in $1,160,000 of CWIP in the Rate Year. Calculating CWIP on plant additions ensures that only projects that will be in service during the Rate Year are reflected in CWIP, which is consistent with the Commission's guidance in Case No. 19-0513-TF.

Inventories and Prepaid Expenses: Except for gas in storage, the adjustments to these accounts reflect the 13-month average of the Test Year. Gas in storage is adjusted to reflect the average of the Rate Year and captures changes in the value of VGS's gas in storage inventory.

Deferred Charges and Liabilities: These balances reflect the 13-month average balance during the Rate Year for unamortized DSM balances, deferred gas costs, and pension settlement deferrals, which are treated consistent with the Commission's approval of rates in prior cases. Consistent with past practice, the balance of the unamortized Barge Canal expense is excluded from the rate base calculation. Similarly, consistent with the Memorandum of Understanding in Docket No. 8710 and Case No. 17-1238-INV, the unamortized balance of the Regulatory Asset associated with Segment 1 of the 12-inch transmission line and development costs related to the so-called Phase 2 are also excluded from rate base. The Company has included in rate base 50% of assets and liabilities associated with providing a SERP benefit to certain employees.

Working Capital: Working capital has been determined using the same methodology and average day lead/lag as has been reflected in VGS's past rate filings, applied to Rate Year revenues and expenses.

Rate Base Deductions: The deductions to rate base include accumulated depreciation, asset retirement obligation, accumulated cost of removal, deferred income taxes, and the regulatory liability associated with deferred taxes, each of which has been adjusted to reflect the 13-month average during the Rate Year. In aggregate, these rate base deductions reduce rate base by $27.6 million.

The detailed rate base is shown on **Schedule 12** to Exhibit VGS-MM-1. The rate base amount directly affects the return on rate base (referred to as "cost to finance rate base" in the COS), depreciation, and property taxes as discussed below.

Q14. The COS reflects a weighted cost of capital of 6.5% applied to the rate base described above. How was the weighted cost of capital determined?

A14. The weighted cost of capital is comprised of an equity ratio of 50% at a return on equity ("ROE") of 8.8%. The remaining capital structure is comprised of long-term debt ("LTD") and short-term debt ("STD"). VGS currently has $118 million of LTD, at interest rates ranging from 3.32% to 7.62%. The weighted cost of capital reflects the actual interest rates for each outstanding LTD issuance. One million dollars of the LTD tranche at 7.62% interest rate will mature and be repaid in June 2021, with another one million being repaid in June 2022. The LTD capital structure for the Rate Year reflects these maturities. The remaining capitalization is assumed to be comprised of STD at the ratio approved by the Commission in Case No. 19-0513-TF. VGS currently has one short-term credit facility that is indexed to the 30-day LIBOR. The interest rate for the STD is based on forecasted LIBOR and the Company's current STD rate to arrive at a total short-term debt interest rate of 0.83%.

Q15. How did the Company calculate the 8.8% ROE?

A15. The basis for the ROE is discussed in more detail by Ms. McNeil. In summary, the ROE was set based on the indexing method proposed in VGS's ARP. The baseline is the ROE approved in our last rate case, which was set based on the same methodology. In that case, Case No. 20-0431-TF, the Commission approved an ROE of 8.65%, which is adjusted for this case by one-half the change in the composite 10-Year Treasury Note Rate. In this case, as in the last rate case, we utilized the three-month period ending January 2021 because June 1, 2021 to September 1, 2021 rate information that would be used under the ARP adjustment mechanism is not yet available. The resulting ROE is 8.8% because the composite 10-Year Treasury Note rate was 0.67 (June 1, 2020 to September 1, 2020) and the average rate for the most recent three-month period was 0.97, an increase of 0.30. Adjusting the current 8.65% ROE by half the increase results in a ROE of 8.8%.

Q16. Please describe the changes in depreciation expense.

A16. Depreciation expenses are reflected on **Schedule 8** to Exhibit VGS-MM-1. They are calculated based on applying the current depreciation rates to the Rate Year plant-in-service. The depreciation rates utilized are unchanged from the rates used in the COS approved in Case No. 20-0431-TF. As noted in Case No. 20-0431-TF, the Company conducted a depreciation study in 2019 and the new depreciation rates were implemented in October 2020. Both the old and new depreciation rates are shown on **Schedule 8a** to Exhibit VGS-MM-1. As further noted in Case No. 20-0431-TF, the depreciation study included a methodology change for treatment of general plant which resulted in a $41,313 downward adjustment to depreciation expense, and that adjustment is reflected in the Rate Year.

Q17. Please describe the amortization of certain regulatory assets and liabilities on Schedule 8.

A17. **Schedule 8** includes the following amortizations:

Debt Expense: Debt expense amortization is simply the amortization of costs incurred related to the issuance of long-term debt that will amortize over the life of the loan.

Segment 1: Pursuant to the Memorandum of Understanding between VGS and the Department approved by the Commission in Docket No. 8710, VGS amortizes over 10 years, without carrying costs, its regulatory asset related to Segment 1 of its 12" transmission line that was put in service in advance of the remainder of the 12" line.

Phase 2: Pursuant to the Memorandum of Understanding between VGS and the Department, approved by the Commission in Case No. 17-1238-INV, VGS amortizes over 10 years, without carrying costs, $1,046,218 of development costs associated with Phase 2, the so-called Addison-Extension. The amortization on **Schedule 8** reflects the treatment established in that case.

Pension Amortization: VGS has begun amortizing, over 10 years, $741,327 of costs related to pension-settlement accounting consistent with the methodology previously used by the Department and the Company in a Memorandum of Understanding approved by the Commission in Case No. 18-0409-TF. The COS also reflects the amortization of a pension settlement of $603,931 that was incurred in FY2019 and included in the last rate case, and a new pension settlement of $956,332 that was incurred in FY2020.

By way of background, and as described in Case No. 18-0409-TF, pension settlement accounting occurs when the cash payment of lump sums to plan participants are greater than the sum of the plan's service cost and interest cost in a given year. This is known as the "trigger" and it resets at the start of every fiscal year. Pension settlement accounting accelerates future recognition of pension expense that otherwise would have remained in pension regulatory asset for future rate recovery. In fiscal year 2020, VGS "triggered" pension settlement accounting which resulted in additional pension expense of $956,332. As this amount would otherwise be collected in future COS filings, VGS recorded a regulatory asset of $956,332 and VGS proposes to amortize the new pension-settlement regulatory asset over 7 years consistent with how the expense otherwise would have been collected from customers. The amortization on **Schedule 8** reflects this agreement applied to both pension settlement accounts.

Barge Canal: The Barge Canal amortization expense relates to VGS's share of the cleanup of the Pine Street Barge Canal Superfund site located in Burlington, Vermont. The amortization reflects VGS's actual expenses through December 31, 2020. This amortization has been treated in past proceedings as a regulatory asset, recoverable through rates without carrying costs. Beginning with the FY2017 COS, to maintain affordable rates, the Company proposed, and the Commission approved, an extended amortization period from 10 years to 20 years of Barge Canal expenses. The Company has continued this practice into this COS. There is a $31,234 downward adjustment included in the Rate Year related to Barge Canal amortization in order to return to customers monies related to the inadvertent over-amortization in Case No. 20-0431-TF.

Q18. The COS reflects an increase in property taxes of approximately $485,000. Please describe how this adjustment was determined.

A18. By way of background, VGS is assessed property taxes beginning July of each year based on the plant-in-service as of December 31 of the prior year. Accordingly, the property taxes in the Test Year reflect 6 months of taxes (January to June 2020) based on plant-in-service as of December 31, 2018 and 6 months of taxes (July to December 2020) based on plant-in-service as of December 31, 2019.

Due to the timing of the assessment relative to the calculation and payment of property taxes, the Company must make an adjustment to the COS to properly reflect property taxes that will be payable in the Rate Year. Because of the timing of tax assessment relative to tax payment, the Rate Year property taxes will reflect nine months (October 2021 to June 2022) based on plant-in-service as of December 31, 2020 and 3 months (July to September 2022) based on plant-in-service as of December 31, 2021. To determine the appropriate property taxes during this period, the Company first reviewed the most recent property tax bills received, which represent property taxes that will be paid from July 2020 to June 2021 and are based on plant-in-service as of December 31, 2019. Then using the tax rates from those bills and adjusted for historical trend increase in property tax rates, the Company adjusted those property taxes for the increase in plant-in-service from December 31, 2019, to December 31, 2020, to determine the property taxes that will be incurred on this incremental plant beginning in July 2021. The final adjustment to property taxes reflects the impact of plant-in-service as of December 31, 2021. That plant will be taxable beginning July 2022. The Rate Year COS includes 3 months of these taxes. The property tax calculation is shown on **Schedule 9a** to Exhibit VGS-MM-1**.**

Q19. Are there any other adjustments to the COS?

A19. Yes. There are four other adjustments that should be mentioned. First, the COS includes adjustments to reflect expected increases to the collections from the gross receipts taxes used to fund the Commission and the Department (0.525%) and low-income weatherization (0.75%). These adjustments are straight adjustments based on the overall COS and can be seen on **Schedule 9**.

Next, the Rate Year includes an adjustment of $31,000 related to interest on customer deposits and, per prior agreement with the Department, interest on the deferred tax asset associated with SERF. The applicable interest rate is the current Commission-approved interest rate for customer deposits of 1.25%. These adjustments are shown on **Schedule 18**.

Third, the Test Year includes $647,402 related to weather normalization that has been removed from the COS as shown on **Schedule 1**. The weather normalization expense is recovered in gas costs through the quarterly purchased gas adjustment filings.

Finally, the COS reflects two adjustments to Schedule 15. An adjustment was made to interest income, which represents SERF interest income offset by SERF interest expense. As the SERF balance continues to decline, interest expense declines with it and, as such, this COS reflects an adjustment related to the declining interest expense of SERF. Additionally, an $84,780 adjustment was made related to Account 40510000. This adjustment removes all fines and penalties from the COS, including the penalty imposed in Case No. 17-4630-INV relating to the Commission's blasting investigation.

This covers the COS adjustments that are reflected in more detail on Exhibit VGS-MM-1 and in the testimony of other VGS witnesses.

Q20. Having now explained notable adjustments to the COS provided as Exhibit VGS-MM-1, please explain how this rate request relates to VGS's proposed ARP pending in Case No. 19-3529-PET.

A20. Should the Commission approve the proposed ARP, the COS approved by the Commission in this proceeding would be the basis for rates set during the first year of the ARP and would be used to calculate earning sharing under the ARP following the first year. Under the ARP as proposed, the earning sharing report would be filed in November 2022. Further, this COS would also be the starting point for determining the base rate changes for Fiscal Years 2023 and 2024.

In particular, the proposed ARP contemplates pre-established rate adjustments during the three-year term of the Plan, with limited exceptions, and guarantees return of all remaining SERF balances to customers by the end of FY2024. With this COS, and further review of capital expenditures over the course of the ARP as proposed, VGS forecasts the following three-year rate path:

Fiscal Year	**Proposed Base Rate Change**
2022	1.95%
2023	4.95%
2024	4.95%

The base rate changes in 2023 and 2024 are primarily driven by declining utilization of SERF as the remaining balance is fully returned to customers. After 2024, SERF will no longer be a component of the Company's COS. Notably, the above base rate changes also govern only the non-gas component of rates. Under the ARP, the PGA would continue to require changes to the natural gas charge. Those changes, combined with the above non-gas rate changes, would comprise the overall rate changes experienced by customers.

As explained in more detail by Ms. McNeil, these fixed rate changes secure stable and affordable rates for VGS customers over the term of the ARP, guarantee that all remaining SERF balances will be returned to customers by 2024, and incentivize the Company to pursue and adhere to the commitments identified in this case in a cost effective and efficient manner.

Q21. Does this conclude your testimony?

A21. Yes.