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
ANDREA MCNEIL
ON BEHALF OF VERMONT GAS SYSTEMS, INC.

February 16, 2021

SUMMARY OF TESTIMONY

Ms. McNeil provides an overview of the Company's request for a 1.95% change to non-gas rates resulting in a 2.6% overall change in rates based on forecasted gas cost, and returning $4.44 million of the System Expansion and Reliability Fund to customers. She also explains how this case builds on the Company's foundational values of safety, reliability, and affordability while continuing to deepen relationships with customers and drive Vermont forward towards achieving the State's energy goals. Further, Ms. McNeil summarizes the testimony of other witnesses and provides support for several specific components of the Cost of Service, including the Company's proposed Return on Equity. Ms. McNeil also describes how this request supports the Company's proposed Alternative Regulation Plan.

DIRECT TESTIMONY OF
ANDREA MCNEIL
ON BEHALF OF VERMONT GAS SYSTEMS, INC.

INTRODUCTION

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

A1. My name is Andrea McNeil. I am the Director of Financial and Regulatory Strategy 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 Accounting and a Bachelor of Science in Business from the State University of New York at Plattsburgh and a Master of Business Administration from Marist College. I am a Certified Public Accountant licensed in the state of Vermont.

Prior to joining the VGS team, I spent four years working at KPMG, LLP, where I provided audit and advisory services for various companies with a primary concentration in the utility industry. I also worked at Dealer.com for a short period as a Senior Accountant.

I joined VGS in February 2016, where my primary responsibilities included managing the forecasting and budget process. After a brief employment at Burlington Electric Department, where I served as the Director of Finance, I returned to VGS in my current position. My primary responsibilities include directing all aspects of the Company's finance, accounting, and billing functions.

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

A3. Yes, I provided testimony in Case Nos. 18-0409-TF, 19-0513-TF, and 20-0431-TF.

OVERVIEW OF RATE REQUEST FILING AND SUPPORTING WITNESSES

Q4. Please summarize the purpose of your testimony and describe how it is organized.

A4. The purpose of my testimony is to provide the Commission with an overview of what VGS is requesting in this rate case; summarize how the testimony of other VGS witnesses supports the rate request in this case; and describe how this Cost of Service ("COS") and related rate request support the Company's overall strategic goals on behalf of its customers, including VGS's Climate Action Plan. The Climate Action Plan targets a 30% reduction in Greenhouse Gas ("GHG") emissions by 2030 and Net Zero by 2050. VGS sets out to accomplish these climate goals through increased investments in energy efficiency, increased utilization of Renewable Natural Gas ("RNG"), and investments in innovation to reduce carbon emissions. This COS reinforces these efforts, which are also being addressed in parallel proceedings for VGS's Integrated Resource Plan ("IRP"), Case No. 21-0167-PET, and Alternative Regulation Plan ("ARP"), Case No. 19-3529-PET. I also provide support for specific components of the rate request in this case, including workforce strategies and investments that are reflected in this case, our proposed System Expansion and Reliability Fund ("SERF") utilization, how this rate request relates to our pending ARP proposal, and how the Return on Equity ("ROE") was determined for this case.

Q5. How did VGS approach this rate filing, from a strategic point of view?

A5. This rate filing balances several objectives:

- continuing to strengthen our foundational and unwavering commitment to safe, reliable service;
- maintaining stable and affordable rates; and
- responding to customer needs through our Climate Action Plan, while providing exemplary customer service.

While these objectives have been articulated in prior filings, this COS is presented against a backdrop of an unprecedented global pandemic, stressing the economy and changing everyday life in ways big and small. VGS is committed to helping Vermont and our customers through this challenge. To do so, we have strived to keep base rates as low as possible in this COS, considering the effects of the Covid-19 pandemic on our customers, but we have balanced that with the need to phase in rate increases to avoid rate shock in future years when SERF has been fully returned to customers. And notwithstanding our aggressive climate goals, which will require increased RNG in our retail supply portfolio and increased innovation-related spending, we recognize that these steps will have rate impacts, and have sought to moderate those impacts in this COS filing. All of this is explained in more detail later in my testimony.

It is also important to note that this filing serves as the launching point for the proposed three-year ARP in Case No. 19-3529-PET. Accordingly, this rate case provides a key opportunity to review, with the Commission, the way in which VGS plans to deliver safe, reliable, affordable, and increasingly green energy services to our customers over the next several years.

Q6. What is the Company requesting in this rate proceeding?

A6. We are requesting a 1.95% change to non-gas rates for the 2022 Rate Year (commencing October 1, 2021, for bills rendered November 1, 2021), which will result in a 2.6% overall change in rates when combined with an approximate 4.1% increase in the natural gas charge. We are also asking for return of $4.44 million of SERF to customers.

Q7. What does this rate change mean for customers?

A7. While any increase can be challenging—particularly now—this change represents an average monthly increase of about $2.40 per month for a residential customer. Further, it comes after generally declining overall rates over the last 10 years. In fact, with this proposed adjustment, homeowners will be paying on average $260 *less* per year than they were in November 2011 (in nominal dollars). This rate request continues our customers on a path of low, stable rates and return of SERF to customers. The non-gas rate change request represents primarily the impact of reducing SERF from the $5.58 million currently in rates to the $4.44 million reflected in this COS, all while advancing clean energy initiatives, enhancing customer experiences, and maintaining a top-notch safe, reliable gas distribution system.

Q8. Who are the other witnesses who support this rate filing?

A8. In addition to my testimony, we are also providing testimony from the following Company employees:

Matthew Mitchell – Mr. Mitchell's testimony details the overall COS proposed in this filing, including the key inputs and assumptions behind them, and supports the many

Schedules included as a part of our COS Exhibit VGS-MM-1. In addition, Mr. Mitchell's testimony presents our current forecasts, based upon information known to-date, of rate adjustments for Fiscal Years ("FY") 2023 and 2024, the second and third years of the proposed ARP. We present this information for the Commission's consideration, knowing that the ARP itself is still under review and that the forecasts themselves will be refined and changed through that process, as well as by the outcome of this rate case.

John St. Hilaire – Mr. St. Hilaire's testimony describes the capital investments included in the COS and why such investments are necessary to safely and efficiently serve customers. To facilitate the Commission's review of the filing, Mr. St. Hilaire also provides an index of capital expenditures for the remainder of FY2021 as well as FY2022. Consistent with past practice, he also sponsors detailed specification sheets for all FY2022 investments greater than $100,000. Additionally, Mr. St. Hilaire provides a current forecast of capital expenditures, expected at this time, for the remainder of the ARP, which serves as Attachment 1 to our proposed ARP.

Todd Lawliss – Mr. Lawliss's testimony covers the natural gas cost component of the COS and projected gas costs during the second and third years of the ARP. He describes the development of the billing determinants and forecasted gas costs used in these projected costs. Further, Mr. Lawliss also describes how this rate request supports our Climate Action Plan commitment to utilize more RNG.

SUMMARY OF RATE REQUEST CHANGES AND SUPPORT FOR SPECIFIC ITEMS

Q9. You mention that the proposed non-gas rate change is essentially limited to reductions in SERF utilization. Please explain this further.

A9. The SERF was approved by the Commission in 2011 to facilitate expansion into Addison County while mitigating future rate increases. With the support of the Department of Public Service ("Department") and the Commission, VGS has successfully implemented a multi-pronged, multi-year approach to SERF utilization that promotes rate stability and affordability as intended by the Commission. Our overall goal has been to return SERF to customers as quickly as possible while ensuring that customers benefit from the rate-smoothing effect of utilizing SERF in a measured and strategic manner over time.

In general terms, returning $1 million in SERF to customers in a rate year enables the Company to avoid a roughly a 2% change in non-gas rates. For example, if we reduced our SERF utilization in this case by $1 million (from $4.44 million to $3.44 million), the resulting impact to non-gas rates would increase from the 1.95% we have requested to 3.80%. Similarly, if we were to maintain SERF withdrawals at $5.58 million (the level currently in rates), there would be no change in non-gas rates in the rate year, but the difference would be pushed to future years, resulting in rate volatility in FY2023 and beyond. The purpose of SERF is to avoid that outcome. In this case, we have balanced our interest in limiting rate impacts for customers during the current economic environment while continuing to promote a smoother rate trajectory in the coming years. Accordingly, we have limited the non-gas rate impact to 1.95%, which generally reflects the rate impact associated with our long-term strategy to gradually reduce

SERF utilization in a manner that is consistent with the Commission's intent to avoid rate volatility.

Q10. Is VGS's proposal to limit non-gas rates to the impact of gradually reducing SERF consistent with a comprehensive review of VGS's COS?

A10. Yes. In this case, we have proposed a complete COS that reflects our assessment of the costs to provide service to customers in a manner that maintains our core focus on safety, enriches and deepens customer relationships, advances VGS's Climate Action Plan, and enhances the Company's resiliency through investments in our workforce. We looked hard at how we can live up to our commitments in these areas this year while also aggressively prioritizing affordability for our customers in this challenging time. We found that limiting non-gas rate impacts in the rate year in a manner that maintains our long-term strategy to gradually reduce SERF utilization strikes the right balance, resulting in only a small increase in non-gas rates. Our residential customers will experience, on average, a non-gas rate change of less than $1.35/month.

Q11. What are some of the major features of VGS's proposed COS?

A11. Mr. Mitchell provides a detailed explanation of the Test Year[1] costs, sponsors the COS model as Exhibit VGS-MM-1, and explains the basis for specific adjustments to the Test Year. The remainder of my testimony discusses how the COS for this case supports VGS's workforce investment strategy, provides an overview of some of the capital investments in addition to those

[1] The Test Year for this case is the twelve-month period ending December 31, 2020.

discussed by Mr. St. Hilaire, and explains how this rate request dovetails with VGS's pending request for Commission approval of a multi-year ARP that creates a smooth and affordable rate trajectory for our customers while promoting the innovation needed to achieve Vermont's climate goals and implement our Climate Action Plan.

Q12. How are VGS's investments in workforce reflected in the COS and what are those investments designed to accomplish?

A12. VGS is an incredible place to work for more than 130 Vermonters and I am thrilled to be back at VGS tackling some of our most exciting challenges and opportunities. Our workforce is the backbone of our business—from our professional service technicians, to our customer care representatives, to our energy efficiency and innovation teams, we are all committed to system safety and excellent customer outcomes. There has perhaps never been a more exciting time to work at VGS as we roll up our sleeves and get to work delivering on our Climate Action Plan for customers.

At the same time, we weigh each decision to bring on a new position carefully against our overall budget and labor costs to ensure that as we invest in workforce, we remain true to our commitment to affordability for our customers. Thus, with affordability at the forefront of our minds, this decision to invest in our workforce was made in conjunction with declining benefit costs. Benefits decreased from a 41.95% benefit rate in the last rate year to 38.03% in the FY2022 rate year.

To meet the challenges and opportunities presented by the demand for an innovative and transformational approach to energy services going forward, we made a series of organizational changes to align our workforce and our business model to meet customers' needs and achieve aggressive climate goals. While our focus on providing safe, reliable, and affordable thermal energy to customers has not changed, the way VGS and its workforce approaches that work will change in the coming years.

This is what some of that change looks like: we are strengthening the overall team in several important ways. First, our customers have a lot of options and their thermal energy needs change alongside evolutions in technology, changing lifestyles, and customer priorities. As we strive to provide solutions for our customers that promote the energy future our customers want, we are adding strength to customer-focused positions that will enhance VGS's ability to meet customers' needs. We will hire a construction coordinator who will assist our team in providing a more robust approach to customer and community expectations regarding construction and new customer service turn-ons. Additionally, we are creating a customer experience coordinator position to facilitate customers' interactions with the Company during the conversion to natural gas.

Second, after a year with positions in our field services area held vacant, we are returning to full staffing so that our team has both the resources to deliver exceptional customer service and the resiliency to provide professional and prompt responses to the variety of situations that arises in the field.

Our organizational priorities also reflect the commitments of our Climate Action Plan. In addition to refocusing existing positions on the goals of our Climate Action Plan, we will add a new Climate Action Plan project coordinator position that will focus on innovation and decarbonization projects to materially advance that Plan in furtherance of Vermont's energy goals.

Finally, our experience over the last year has informed our decision to build more depth and resiliency into our organization and the team that supports it over the long run. We have added a new position in the accounting department and hired regulatory counsel to strengthen our financial capacity and enhance our administration of regulated services and compliance. Overall, our workforce management strategy results in an increased investment in our workforce going forward, which is reflected in this year's COS.

Q13. Please provide an overview of the capital investments included in the COS.

A13. VGS is investing $12.4 million in the Rate Year. The bulk of this investment is discussed by Mr. St. Hilaire and is associated with the safety and reliability of VGS's infrastructure for the benefit of our customers as well as growth within VGS's existing service territory. We are also making critical investments in technology and transportation equipment to support our employees, enabling them to continue to deliver high quality customer service.

Additionally, VGS is investing capital in Vermont's effort to reduce GHG emissions and promote innovation. Consistent with our proposed ARP, which is currently being reviewed by the Department and the Commission, this rate request includes $1.5 million in capital investment to support innovations that will drive our Climate Action Plan. As detailed further in our ARP, these capital investments are coupled with our commitment to tracking success and progress under Climate Action and Innovation Metrics. Outcomes and progress will be reported regularly to the Department and Commission as we aim to strengthen a regulatory framework that will promote the advancement of thermal energy options that reduce GHG emissions. This approach will not only track our investments with our progress, but will also help inform future regulatory initiatives that, in partnership with the Department and the Commission, can further advance State energy goals.

In this case, our investment in climate action and innovation is reflected in the last month of the Rate Year. This decision was based on our priority in this case to limit rate impacts for customers during a challenging time, while also ensuring that we continue to push forward with our long-term climate commitments. This is also a reasonable approach based on the current planning stages of some of our key innovation projects, as we anticipate some additional lead time will be needed to put those plans into action. The Climate Action Plan project coordinator position discussed above will be deeply involved in these efforts.

Q14. How does this COS support the Department's and Commission's review of VGS's IRP and ARP, and the strategic goals identified in those Plans?

A14. VGS's ARP is being reviewed in Case No. 19-3529-PET and our IRP was recently filed in Case No. 21-0167-PET. Those plans set forth VGS's approach to strategic planning and climate action over the next three years and our longer-term planning horizon for the next twenty years. Our rate request in this case dovetails with our proposed three-year ARP in several ways. First, this is expected to be a fully litigated rate case which, in combination with annual COS reviews since 2016, will involve extensive review of our COS by the Department and the Commission. This COS review will set the rate adjustment that we propose in the first year of our proposed ARP. Second, this filing supports the forecasts to be included in VGS's ARP, which provide the basis for VGS's expected adjustments in the second and third year of the ARP. This is discussed in more detail in Mr. Mitchell's testimony. Finally, this COS establishes a return on equity based on the same indexing method that is proposed in the ARP, which is also the same method used by the Commission to set the ROE in last year's rate case.

Q15. Please elaborate on the how this COS supports the rate path that will be governed by VGS's ARP, if approved.

A15. This filing supports the proposed ARP in two key ways. First, as noted above, this case will provide an extensive review of VGS's COS, which will set rates for the initial year of the ARP, and will also provide an opportunity to evaluate the basis for rate changes that will occur the following two Fiscal Years of the ARP, 2023 and 2024. VGS's current forecasts for the three years proposed to be covered by the ARP are described in Mr. Mitchell's testimony and for ease of review are also provided in the table below:

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

The ARP itself is still under review, and we fully expect that the Commission's review of both this rate case and the ARP will refine and inform both our ARP proposal and these forecasts. In addition, as this last year certainly showed us—the unexpected can happen. If circumstances change significantly, the ARP we have proposed provides a degree of flexibility that will ensure that VGS continues to have rates that are just, reasonable, and sufficient to meets the Company's safety and other public service responsibilities.

Second, if the Commission approves VGS's proposed ARP, the ROE set in this case will be the basis for any adjustment under the ARP's proposed earning sharing mechanism ("ESM") in FY2022. In particular, the proposed ARP requires the Company to share with customers any over or under earnings outside of a limited range, called a "dead band." The ESM compares the Company's authorized earnings based on the Commission's approved ROE with actual earnings and requires the Company to ensure that customers share in any over- or under-earning outside the dead band. Under the proposed ARP, the ESM calculations would be filed each November. In the event an adjustment is required under the ESM, those funds would be returned to or collected from customers via a bill credit beginning the following February.

The ROE proposed in this case is 8.8% as described in Mr. Mitchell's testimony, and would serve as the basis for the authorized ROE utilized in the November 2022 earning sharing calculation. Overall, this rate case starts us on a path that we believe will support us in our efforts to deliver safe, reliable, and increasingly green energy services to our customers. The transformation we envision is bold and will take years to accomplish, but it is already underway. We are tremendously motivated to succeed for our customers. Both this rate filing, and the proposed ARP it complements, will help us do that.

Q16. How was the ROE reflected in the COS determined?

A16. The ROE of 8.8% in this case is based on the same methodology proposed in the ARP and used by the Commission in last year's rate case, Case No. 20-0431-TF. Under the ARP, VGS has proposed indexing its ROE to 50% of the change in 10-year treasuries. As detailed in Mr. Mitchell's testimony, we used this same methodology in this case, resulting in a ROE of 8.8%. Notably, this ROE is lower than recently awarded ROEs in other jurisdictions, and VGS believes a comprehensive review of current equity markets would demonstrate that a higher ROE would be needed to reflect a fair rate of return to attract capital for similarly situated utilities.[2] Notwithstanding that conclusion, VGS determined that it would use the proposed indexing method in this case for a few important reasons. It is consistent with our commitment in the ARP and the Commission's review of last year's case, and it provides a sound basis that promotes affordability for our customers, particularly as Vermonters continue to face challenging economic circumstances as a result of the current pandemic.

Q17. Does this conclude your testimony?

A17. Yes.

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[2] Several recent rate decisions from other jurisdictions show that average approved ROEs are trending closer to 9.5%. In just one example from October 2020, the Massachusetts Department of Public Utilities approved a 9.9% ROE, stating that it was "within a reasonable range of rates that will preserve NSTAR Gas's financial integrity, will allow it to attract capital on reasonable terms and for the proper discharge of its public duties, will be comparable to earnings of companies of similar risk and, therefore, is appropriate in this case." *Pet. of Nstar Gas Company,* D.P.U. 19-120, 2020 WL 6484303 (Mass. D.P.U. Oct. 30, 2020).