

STATE OF VERMONT
PUBLIC SERVICE BOARD

Amended Joint Petition of Central Vermont)	
Public Service Corporation, Danaus Vermont)	
Corp., Gaz Métro Limited Partnership, Gaz)	
Métro inc., Northern New England Energy)	
Corporation for itself and as agent for Gaz Métro)	
Limited Partnership's parents, Green Mountain)	
Power Corporation and Vermont Low Income)	
Trust for Electricity, Inc. for approval of: (1) the)	Docket No. 7770
merger of Danaus into and with Central)	
Vermont, (2) the acquisition by Northern New)	
England of the common stock of Central)	
Vermont, (3) the amendment to Central)	
Vermont's Articles of Association, (4) the)	
merger of Central Vermont into and with Green)	
Mountain, and (5) the acquisition by VLITE of a)	
controlling interest in Vermont Electric Power)	
Company, Inc.)	

**MEMORANDUM OF UNDERSTANDING
BETWEEN THE PETITIONERS¹
AND THE VERMONT DEPARTMENT OF PUBLIC SERVICE**

This Memorandum of Understanding (the "MOU") dated as of March 26, 2012 sets forth agreements reached between the Vermont Department of Public Service (the "DPS" or the "Department") and "Petitioners" (and with the DPS together, the "Parties") in connection in the above-captioned Vermont Public Service Board ("Board") docket.

¹ Central Vermont Public Service Corporation ("CVPS"), Danaus Vermont Corp., Gaz Métro Limited Partnership ("Gaz Métro"), Gaz Métro inc., Northern New England Energy Corporation for itself and as agent for Gaz Métro's parents, Green Mountain Power Corporation ("GMP") and Vermont Low Income Trust for Electricity, Inc. ("VLITE").

Background

1. On September 2, 2011, Petitioners filed a Joint Petition, together with testimony and exhibits, seeking Board approval of the acquisition of CVPS by Gaz Métro and the merger of CVPS and GMP into one company (“Merger”).²

2. The Department served multiple rounds of discovery on Petitioners and participated in a workshop intended to provide additional information concerning the proposed Merger.

3. On January 10 and 20, 2012, the Department filed direct testimony and exhibits concerning the proposed Merger and thereafter responded to discovery. On February 15, the Petitioners filed rebuttal testimony and thereafter responded to discovery. The Department filed surrebuttal testimony on March 8, 2012.

4. The Department and Petitioners have also engaged in discussions to address the Department’s concerns with respect to the proposed Merger, including meetings with stakeholders regarding Petitioners’ proposed Community Energy Efficiency Development Fund (“CEED Fund”).

5. Based on the above, the Parties have reached agreement regarding:

- a. Future Vermont Electric Power Company, Inc. (“VELCO”) ownership and governance;
- b. The sharing of Merger-related savings between customers and the post-Merger GMP;

² For purposes of this MOU, references to GMP shall include the surviving entity of the merger between GMP and CVPS.

- c. The satisfaction of the obligations imposed by the Board's Order dated June 26, 2001, in Docket Nos. 6460/6120, which created a "windfall sharing mechanism" to be triggered in the event CVPS entered into certain, enumerated future transactions;
- d. So-called "ring-fencing" requirements concerning cost allocation and affiliate transaction conditions for GMP;
- e. The schedule of rate filings and amendments to the GMP and CVPS Alternative Regulation Plans necessary to implement the proposed Merger and Merger-related savings; and
- f. Certain miscellaneous obligations.

6. As a result of the forgoing, the Parties agree that, with all of the agreements and conditions approved as set forth herein, the proposed Merger will promote the general good. The Parties agree that the Board should approve the proposed Merger in accordance with the Amended Petition, as modified in accordance with the terms in this MOU.

VELCO Ownership and Governance

7. In order to address concerns regarding majority control of the governance of VELCO, prior to the closing of the acquisition of CVPS, CVPS shall transfer to VLITE no less than 38% of the total of VELCO Class B voting common stock and no less than 31.7% of the total of VELCO Class C non-voting common stock.

8. Petitioners shall perform all actions necessary to effectuate the election of the initial members of the VLITE Board of Directors as directed by the DPS before the closing of any acquisition approved in this docket. DPS shall select initial VLITE directors from

representatives of state government agencies, energy policy interest groups, consumer and low income advocates, and public power utilities.

9. VLITE shall thereafter participate as a shareholder in VELCO for all purposes and shall be entitled to designate members of the VELCO Board of Directors as set forth in Paragraph 11 below, in accordance with technical, governance, public interest and other criteria designed to select representatives well qualified to exercise fiduciary duties as VELCO board members to further VELCO's mission. The VLITE Board of Directors may also establish criteria for voting of its VELCO shares. The VLITE Board of Directors shall have the authority to invest its VELCO dividends in any manner consistent with State policy on energy issues as set forth in the Comprehensive Energy Plan or as otherwise subsequently designated.

10. Petitioners shall make best efforts to obtain a waiver from the other owners of VELCO of any Right of First Refusal provisions regarding the transfer of VELCO stock contained in any VELCO governance documents.

11. Immediately after the closing of the acquisition of CVPS, GMP, CVPS and VLITE shall enter into a VELCO Voting Agreement substantially in the form appended as Attachment I to this MOU providing that each of them shall, with respect to approval of members of the VELCO Board of Directors, vote all of their VELCO shares as follows:

- a. To continue the number of VELCO directors at 13;
- b. Vote for the following VELCO directors: four directors as designated by GMP, and three directors as designated by VLITE;
- c. Support the nomination, subject to independence criteria, of two independent directors by those owners of VELCO that are municipal electric distribution utilities or member cooperative electric distribution utilities, including those

electric distribution utilities that do not otherwise maintain seats on the VELCO Board of Directors. Such director nominees shall be approved by a majority vote of the shareholders of VELCO; and

- d. To continue the other director designations presently in existence as follows: one director designated by VPPSA, one director designated by VEC, one director designated by BED, and a director seat for the president/CEO of VELCO, provided that the president/CEO not be permitted to serve as Chairman of the Board, cannot serve as a voting member of the executive committee (however denominated), the audit committee (however denominated), or the executive management compensation committee (however denominated).

12. GMP shall agree to support amendments to bylaws and any other governing documents to effectuate formalization of the process for nomination and election of VELCO directors, including criteria and standards for independent directors and to provide that VELCO shall be managed as a public utility consistent with the public good of the State of Vermont. Additionally, GMP shall advocate for all VELCO shareholders to enter into a Voting Agreement substantially similar to the Voting Agreement entered into by the Parties to this MOU and attached to this MOU as Attachment I. Additionally, GMP shall advocate for VELCO to allow all Vermont distribution utilities with ownership interest in Vermont Transco LLC to participate fully as members of the VELCO Operating Committee.

13. Immediately after the closing of the acquisition of CVPS, Petitioners shall take all actions necessary to assure that none of them individually or collectively can unilaterally remove VELCO as the managing member of Vermont Transco LLC or to eliminate or amend Section 9.3

of the Vermont Transco LLC Operating Agreement, including, without limitation amendment of the Vermont Transco LLC Operating Agreement in a form acceptable to DPS.

14. Petitioners affirm their Merger testimony in this docket that Petitioners do not intend or desire to obtain a majority position in VELCO governance now or in the future. Petitioners and the DPS will jointly request that the Board include as a condition of approval of the Merger that neither GMP nor CVPS shall increase its ownership share of VELCO in any amount or take any steps that would result in a dilution of the percentage ownership of VELCO by VLITE without Board approval.

Guaranteed Shared Savings

15. As a part of its overall commitment to guarantee total merger savings to ratepayers in the nominal amount of no less than \$144 million over the course of the first ten (10) years post-closing, GMP shall provide fixed annual guaranteed savings (“Guaranteed Merger Savings”) in years 1-3 and percentage-based shared savings (“Shared Savings”) in years 4-8 to all customers, for the following years in the following amounts:

Year 1: (beginning October 1, 2012): \$2,500,000

Year 2: \$5,000,000

Year 3: \$8,000,000

Years 4-8: 50% of savings

Years 9 and 10: 100% of savings

16. No later than July 1, 2012, GMP will file with the Board and the parties in this proceeding a format for reporting Merger-related savings and a procedure for review and verification, which may be commented upon by any party in this proceeding.

17. GMP shall guarantee savings in rates of at least \$144 million (nominal) beginning October 1, 2012 and ending ten years thereafter. The mechanism for implementing customer savings in rates is set forth in Paragraphs 23-30 below. If the total savings reflected in rates during the ten-year period after Merger closing are less than \$144 million, GMP guarantees that it shall provide to customers the difference by means of a plan (“Savings Guarantee Plan”) approved by the Board. The Savings Guarantee Plan shall be filed with the Board no later than December 31, 2022. The Board shall allow Parties from this proceeding to comment on the Savings Guarantee Plan.

Windfall Sharing Mechanism

18. The proposed revised CEED, attached hereto as Attachment II (“Revised CEED Fund”), satisfies the windfall sharing mechanism requirement and should be approved by the Board. The Parties agree that weatherization improvements (“Weatherization”) are qualifying energy efficiency projects as defined in the Revised CEED Fund.

19. GMP will partner with community action agencies to invest \$6 million in Vermont’s Weatherization Program before December 1, 2012, and at least an additional \$4 million in Vermont’s Weatherization Program before December 1, 2013. GMP will also invest at least \$2 million in thermal efficiency improvements before December 1, 2013 for customers who do not qualify for Vermont’s Weatherization Program.

20. For the purposes of preceding paragraph, the Weatherization and thermal efficiency improvements delivered by December 1, 2013, shall be deemed to have a customer benefit of 1.2 times the amount of the investment, and this benefit shall be counted toward the “Required Benefit” as defined in the Revised CEED Fund.

Reliability Improvement

21. Petitioners shall amend GMP's Service Quality and Reliability Plan ("SQRP") to improve the reliability standard for customer outage duration by at least 10%. Nothing herein shall restrict the DPS from seeking other amendments to GMP's SQRP after the Merger is completed in the normal course of its regulatory oversight.

Financial Integrity Measures

22. In addition to compliance with all aspects of Vermont law that govern it, GMP shall implement the following cost allocation and affiliate transaction conditions, which shall remain in effect unless and until modified by the Board:

- a. Separate Corporate Entities. GMP shall remain structurally separate and be operated as a stand-alone company. If GMP seeks to change from operating in this manner, GMP and/or NNEEC shall seek prior approval from the Board.
- b. Separate books and records. GMP shall continue to exist as a separate corporation and shall maintain a complete set of financial books, records and reports separate from NNEEC, Vermont Gas Systems, Inc., or Gaz Métro. If GMP seeks to change from operating in this manner, GMP and/or NNEEC shall seek prior approval from the Board.
- c. No commingling of funds. GMP shall maintain separate bank accounts from its affiliates and shall not commingle GMP funds with funds of affiliates.
- d. Transactions with Affiliates.
 - i. Notice. GMP shall provide notice of, and shall file copies upon request, all contracts with affiliates of \$100,000 or more.
 - ii. Arms-Length Transactions. GMP transactions of \$100,000 or more with affiliates shall be effected through arms-length contracts that can

be competitively compared and evaluated (see also Cost-based accounting below).

iii. Cost-based accounting. GMP shall record transactions with affiliates based on the actual cost of the product or service (i.e., net book value and/or reflecting labor rates with appropriate allocations of overhead and benefit costs) underlying such transaction, except that transactions for which there is a readily-available market price shall be recorded at fair market value or actual cost, whichever is more beneficial for GMP's ratepayers.

iv. Documentation. GMP transactions with affiliates shall be documented by invoice or other documentation describing the service or product underlying the transaction and including support for the amount of payment. GMP shall report these affiliate transactions on an annual basis in a report to the Department and the Board.

e. Distributions and Transfers Among Affiliates.

i. Board of Director Approval. Distributions or transfers of assets and liabilities in excess of \$100,000, from GMP to NNEEC or other affiliates must be approved in a documented vote by GMP's Board of Directors.

ii. Statutory and Corporate Authority. Distributions and transfers of assets and liabilities from GMP to NNEEC or other affiliates shall comply with Vermont law and with GMP's Articles of Incorporation and Bylaws.

iii. Notice to Board and DPS. GMP shall provide 30 days' advance notice to the Board and the DPS if (1) any planned transaction or distribution would result in the equity portion of the capital structure of GMP varying by more than three percentage points from the structure approved in GMP's latest rate proceeding; or (2) GMP's unused, short-term borrowing capacity falls below \$25 million; or (3) GMP makes distributions to NNEEC or other affiliates after GMP has been placed on CreditWatch with negative implications if GMP's credit

rating is below BBB (S&P) or Baa1 (Moody's). If advance notice is not reasonably possible, GMP will give such notice as soon as practicable.

- f. No Cross-Subsidization. GMP shall conduct its business affairs in a manner that prevents subsidization of affiliates by GMP.
- g. GMP shall not make any distribution to its parent or to any affiliates that would cause GMP's equity capital to fall below 45 percent of GMP's total capitalization without first obtaining Board approval, except to the extent that the Board imputes a lower equity percentage for ratemaking purposes. The Board may re-examine this minimum common equity percentage as financial conditions change, and may determine that it be adjusted.
- h. GMP shall provide the Board and the DPS access to all written information provided by Gaz Metro, NNEEC, or NNEEC subsidiaries to bondholders or credit rating analysts which pertains to GMP. Such information includes, but is not limited to, reports provided to, and presentations made to bondholders and credit rating analysts. Nothing in this condition shall be deemed to be a waiver of GMP's right to seek protection of the information.
- i. Unless such a disclosure is determined by a governmental authority to be unlawful, GMP shall notify the Board and DPS of:
 - i. Its intention to transfer an amount that is more than 10 percent of GMP's total stockholder equity to its parent or affiliates (or any combination thereof) over a 12-month period, at least 60 days before such a transfer begins;
 - ii. Its intention to declare a special cash dividend from GMP, at least 30 days before declaring each such dividend;
 - iii. All regular common stock cash dividends from GMP within 10 days after declaring each such dividend; and
 - iv. Its intention to make a loan to an affiliate 30 days before making such a loan.
- j. GMP shall notify the Board and the Department prior to any transfer, sale, lease, encumbrance or other disposition of GMP's utility property that is not

otherwise subject to Board approval and that (1) has a net book value in excess of \$5,000,000 which is included in Vermont rate base, and (2) has costs recovered through rates regulated by the Board.

- k. The proceeds of any new financing that is secured by GMP assets which either (1) are included in Vermont rate base, or (2) have costs recovered through rates regulated by the Board, must be used for utility purposes.
- l. Nothing herein shall be deemed to restrict DPS or the Board, consistent with their existing regulatory authority, to seek or initiate an investigation if deemed appropriate on any of the cost allocation or affiliate transaction provisions contained in, or filings required by, this section.

Alternative Regulation Plan and Merger Savings Calculation

23. **Timing and changes.** With respect to the Merger, GMP, CVPS and the DPS will file a request for Board approval of the following changes to the CVPS Alternative Regulation Plan (“CVPS Plan”) and GMP Alternative Regulation Plan (“GMP Plan”) no later than April 15, 2012 (“Filing Date”), and request that the Board’s approval be issued no later than July 15, 2012, in order to facilitate the August 1, 2012 filing of the next GMP base rate adjustment applicable to the entire service territory served by GMP post-Merger. The changes requested to the GMP Plan will include (1) extension of the term for one year until September 30, 2014, (2) inclusion of customers in the CVPS service territory, and (3) inclusion of any changes necessary as of the Filing Date to conform to the provisions of this MOU, or other changes as appropriate for a plan applicable to both GMP and CVPS that may be agreed upon by GMP and the DPS. The changes requested to the CVPS Plan will include (1) termination of the CVPS Plan as of September 30, 2012, except for residual adjustments under the Earnings Sharing Adjustment Mechanism (“ESAM”) and power adjustor provided for in the existing CVPS Plan, (2) termination of the

currently-effective base rate adjustment as of September 30, 2012, and (3) any adjustments necessary to align the timing and duration of the ESAM adjustments under the CVPS Plan.

24. Power Adjustor and ESAM. The power adjustors and ESAM adjustments under the GMP and CVPS Plans applicable to the period prior to October 1, 2012 will be separately calculated and charged or credited to customers in each legacy service territory. The power adjustors and ESAM adjustments under the GMP Plan applicable to the entire service territory served by GMP post-Merger for the period beginning October 1, 2012 will be calculated and charged or credited to all customers.

25. Base Rate Adjustments. For both GMP and CVPS, GMP will file a base rate adjustment on August 1, 2012, to be effective on October 1, 2012. The percentage change in rates resulting from the base rate adjustment will be applied to all GMP and CVPS tariffs, except that the percentage change applicable to the GMP C&I Transmission Class will be modified to reflect the provisions of the GMP Plan applicable to rate adjustments for that rate class. The October 1, 2012 base rate adjustment will be based on a calendar 2011 test year, adjusted to the base rate year beginning October 1, 2012 based on traditional ratemaking principles as modified by the GMP Plan,³ except that no adjustments due to the Merger of CVPS and GMP will be made to the accounts included in Synergy Savings described in Attachment III (“Base O & M Costs”). Base O & M Costs shall not include savings and costs related to Smart Grid and Advanced Meter Infrastructure, Kingdom Community Wind, cost reductions associated with the

³ The Parties recognize that these traditional ratemaking principles as modified by the GMP Plan include adjustments to account for exogenous events and other non-recurring or unusual events that occurred in the test year; in the case of the 2011 test year, for example, the costs associated with Tropical Storm Irene shall not be included, among others, in the base year used to determine merger-savings. The Parties’ intent is to create an adjusted base year to compare merger- savings going forward, that reflects a representative test year without extraordinary events or expenses contained within it.

MOU in Docket 7496, and the CVPS acquisition of OMYA, which shall be reflected in rates consistent with traditional ratemaking principles. The Base O&M Costs included in the October 1, 2012 base rate adjustment will be subject to change, in each future base rate adjustment in which Merger savings are shared with customers, to reflect the change in the Consumer Price Index for All Urban Consumers (CPI-U) Northeast Region, any Exogenous Costs and the impact of the Non-Power Cost Cap as defined in the GMP Plan, and any further changes agreed upon by GMP and the Department and approved by the Board. The above calculations shall also be made for purposes of documenting compliance with this MOU, including the \$144 million guaranteed savings amount.

26. As part of the October 1, 2012 base rate adjustment, any party in this proceeding may comment on the Base O&M Costs, including a request for a Board investigation under the GMP Plan. GMP will file an annual report of Merger-related savings for ten years and thereafter as directed by the Board.

27. Amounts of Shared Savings. In Years 1-3, Guaranteed Merger Savings shall be reflected in base rates as a credit to the GMP base rate cost of service.

In Years 4-8, Shared Savings shall flow to customers on a percentage basis and be reflected in rates as follows:

- a. GMP's base rate cost of service will be credited using the following estimates ("Savings Estimates"):
 - i. Year 4: Estimated at \$10,500,000
 - ii. Year 5: Estimated at \$12,000,000
 - iii. Year 6: Estimated at \$13,000,000
 - iv. Year 7: Estimated at \$14,000,000
 - v. Year 8: Estimated at \$14,500,000

b. The annual savings (“Annual Savings”) is the difference between Base O & M Costs included in the base adjustment (as set forth in Paragraph 25 above) and the actual O&M costs during the same period (“Actual O&M Costs”). Actual O & M Costs shall exclude the same categories of costs excluded from Base O & M Costs as indicated in Paragraph 25. 50% of the annual savings will be shared with customers in Years 4-8 (“Adjusted Annual Savings”). Any variance between the Savings Estimates and the Adjusted Annual Savings will be reflected as a billing adjustment when the next ESAM is implemented.

28. Beginning in Year 9, 100% of all Merger related savings will flow to customers, and O&M Costs included in base rate adjustments shall be based on actual costs, traditional ratemaking principles and the terms of any alternative regulation plan then in effect.

29. Immediate Savings. Any net Merger-related savings occurring between closing of the acquisition and October 1, 2012 are included as part of the Year 1 Guaranteed Merger Savings.

Tariff and Rate Integration

30. Tariffs. GMP and CVPS residential tariffs shall be integrated on October 1, 2013 and all other GMP and CVPS tariffs shall be integrated after the Board approves a new fully allocated rate design for all customer classes, pursuant to the schedule referenced in this MOU.

31. Cost of Service. Cost of service review shall be as provided under the GMP Plan for rates to be effective prior to October 1, 2014, and there shall be a traditional cost of service review proceeding (which shall not affect the Base O&M Costs as defined in Paragraph 25 of this MOU) for rates effective on or after October 1, 2014.

32. GMP shall file a request for a revised rate design no later than October 15, 2014, and GMP and the DPS shall use all reasonable efforts to assure that the proceeding is completed within nine months.

Other Terms and Conditions

33. The Parties agree that the Board should issue an order approving the Amended Petition as modified by this MOU in time to permit closing of the acquisition by June 30, 2012.

34. GMP has agreed to abide by the terms of the MOU between GMP and the City of Rutland and has sought Board approval of that MOU as a condition of this proceeding. DPS does not object to the Rutland MOU and has based its agreement herein regarding the amount and timing of Merger savings sharing in part upon the terms of the Rutland MOU. Approval of the Rutland MOU shall not require the DPS to take or refrain from taking any position regarding rate recovery for investments or expenditure made pursuant to that MOU dated January 19, 2012.

35. Nothing in this MOU is intended to have any effect on the settlement approved between the DPS and OMYA in Docket 7660.

Miscellaneous

36. This MOU provides a final, integrated, and comprehensive resolution of all issues between the Parties in Docket No. 7770 with respect to all agreements set forth herein. The parties have made specific compromises to reach this MOU. In the event that the Board fails to approve this MOU substantially in its entirety or acts to overrule or disapprove any material portion hereof, each such party agrees that their agreement set forth herein may terminate, if such party so determines in its sole discretion, and each shall have the same rights as each would have had absent this MOU.

37. The Parties will cooperate in further Board proceedings and sponsor testimony necessary to support this MOU to the extent deemed necessary. The Department will support issuance of the orders and findings of the Board specified herein subject to the Department's obligations under Title 30 of the Vermont Statutes Annotated. Nothing in this MOU abrogates the Department's ability use its existing regulatory authority to initiate or seek an investigation of a utility company or its actions under Title 30 of the Vermont Statutes Annotated.

38. This MOU is governed by Vermont law and any disputes under this MOU shall be decided by the Board.

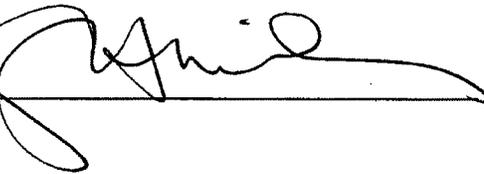
DATED this 26 day of March 2012.

PETITIONERS CENTRAL VERMONT PUBLIC SERVICE CORPORATION, NORTHERN NEW ENGLAND ENERGY CORPORATION, for itself and as agent for Gaz Métro Limited Partnership's parents, GAZ MÉTRO LIMITED PARTNERSHIP, GAZ MÉTRO INC., DANAUS VERMONT CORP., GREEN MOUNTAIN POWER CORPORATION and VERMONT LOW INCOME TRUST FOR ELECTRICITY, INC.

By: _____

DATED this 26th day of March 2012.

VERMONT DEPARTMENT OF PUBLIC SERVICE

By: _____