STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7585

Petition of Green Mountain Power Corporation for approval of an alternative regulation plan (Plan II)	))	Hearing at Montpelier, Vermont March 9, 2010

Order entered: 4/16/2010

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David C. Coen, Board Member
John D. Burke, Board Member

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I. INTRODUCTION

In this Order, the Vermont Public Service Board ("Board") approves an alternative regulation plan for Green Mountain Power Corporation ("GMP" or "the Company") pursuant to 30 V.S.A. § 281d. In so doing, we find that continued alternative regulation is in the best interests of GMP and its ratepayers. Having carefully reviewed GMP's performance to date under alternative regulation, we are persuaded that this approach to regulation has fostered the Company's success in strengthening its financial profile. This has proved beneficial to both GMP's ratepayers and shareholders. We expect that our decision today to authorize a successor alternative regulation plan for the Company will produce equally desirable results.

GMP's currently-effective alternative regulation plan (the "Current Plan") will expire on September 30, 2010.[1] The alternative regulation plan proposed by GMP for approval in this docket (the "Proposed Plan") is intended to succeed the Current Plan.[2] The modified version of the Proposed Plan that we approve today (the "Modified Plan") will take effect at the end of the Current Plan and will govern the Company for the next three years.

The Modified Plan substantially reflects the alternative regulation proposal agreed to by all of the parties in the case, except that (1) we have changed some of the administrative procedures; and (2) we have altered GMP's proposed incentive adjustment mechanism for determining the Company's return on equity ("ROE") under the Modified Plan.

As in the case of the Current Plan, the Modified Plan will permit annual rate adjustments to reflect changes in operating costs. The Modified Plan further adopts GMP's proposal for limiting non-power cost increases by using a capping mechanism that will be adjusted for inflation and a productivity factor.

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1. The Current Plan was approved on December 22, 2006. *See* Docket 7175/7176, *Tariff Filing of Green Mountain Power Corp.*, Order of 12/22/06. That plan was originally due to expire on December 31, 2009, but was later extended until September 30, 2010. *See* Docket 7438, *Petition of Green Mountain Power Corporation for Approval of Revisions to its Alternative Regulation Plan*, Order of 6/16/08.

2. We recognize that GMP has characterized its filing as a petition for "continuation of alternative regulation" and, accordingly, has filed a revised version of its current alternative regulation plan marked to reflect the changes the Company has proposed for adoption in this docket. Griffin pf. at 2; compare exh. GMP-RJG-1 (Rev.) and exh. GMP-RJG-2(Rev.). However, because GMP's current alternative regulation plan has already once been extended, and because the proposed changes are substantial in nature, we have reviewed GMP's filing as a petition for a new, successor alternative regulation plan.

In addition, as in the case of the Current Plan, the Modified Plan provides for regular (quarterly) rate adjustments to flow through to ratepayers increases or decreases in power costs (which make up the majority of GMP's total costs). Recognizing that the effect of the quarterly power cost adjustments is to shift risk associated with varying power costs to ratepayers, the Modified Plan carries over the ROE adjustment mechanism from the Current Plan, thus continuing to afford GMP a lower ROE than might otherwise have been granted to the Company in a traditional ratemaking proceeding. However, in recognition of GMP's demonstrated commitment to pursuing efficiency gains that benefit both its ratepayers and its shareholders, we have accepted the Company's proposal to introduce an additional adjustment factor into the ROE calculation formula, subject to the modification we explain in this Order. This new adjustment factor will provide further incentive for GMP to closely manage its controllable costs. Accordingly, the ROE Performance Adjustment is intended to offer GMP an opportunity to earn its way to a higher ROE by exceeding the standard of excellence the Company has reached to date, when benchmarked against comparable utilities.

Through this framework, and other provisions, the Modified Plan will enable GMP to continue to have a reasonable opportunity to recover its operating costs and earn a fair return on equity.

II. Procedural History

On December 10, 2009, GMP filed a Petition pursuant to 30 V.S.A. § 218d for approval of the Proposed Plan, as well as a Memorandum of Understanding dated December 10, 2009 ("MOU") between GMP and the Vermont Department of Public Service ("Department").

On January 21, 2010, the Board convened a prehearing conference and workshop to review GMP's filing.

On January 25, 2010, GMP filed changes to the Proposed Plan.

On February 1, 2010, International Business Machines Corporation ("IBM") filed a motion seeking leave to intervene on a permissive basis.

On February 17, 2010, GMP filed a motion seeking approval of a Protective Agreement for the treatment of certain allegedly confidential information during the course of discovery in this docket.

On February 19, 2010, the Board granted intervention on a permissive basis to IBM.

On February 22, 2010, the Board held a public hearing using the Vermont Interactive Television network. No members of the public expressed any comments.

.On February 25, 2010, the Board issued a procedural Order approving and implementing the terms of GMP's proposed Protective Agreement for discovery purposes.

On March 4, 2010, GMP filed further revisions to the Proposed Plan and a Supplemental Memorandum of Understanding ("Supplemental MOU") executed by GMP, the Department and IBM.

On March 9, 2010, the Board convened a technical hearing to consider the Proposed Plan, the MOU and the Supplemental MOU.

On March 12, 2010, in response to comments raised by the Board at the technical hearing and to revise an incorrect date,[3] GMP filed further revisions to the Proposed Plan.[4]

On April 1, 2010, the Board issued a memorandum in which it requested additional information from the Company and the Department concerning several issues that were explored during the technical hearing.

On April 6, 2010, GMP and the Department separately filed responses to the Board's memorandum of April 1, 2010.[5]

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3. *Letter from Peter H. Zamore, Esq., on behalf of GMP, to Susan Hudson, Clerk of the Board,* dated March 12, 2010. GMP has moved the admission of this letter into evidence as Exhibit Joint-4. *Id.* In that letter, GMP also moved the admission into evidence of Exhibit Joint-5, which consists of another revised version of the Proposed Plan. Absent objection, we hereby admit these documents into evidence as Exhibit Joint-4 and Exhibit Joint-5, respectively. Any party wishing to object shall do so in writing within 10 days of the issuance of this Order.

4. Hereinafter, all references in this Order to the "Proposed Plan" should be read to refer to a single alternative regulation plan proposed for approval by GMP that incorporates all of the revisions GMP has made to its alternative regulation proposal to accommodate the terms of the MOU, the Supplemental MOU and the Company's responses to the Board's memorandum of April 1, 2010.

5. We hereby admit into evidence GMP's response as Exhibit Board-2 and the Department's response as Exhibit Board-3. Any party wishing to object shall do so in writing within 10 days of the issuance of this Order.

III. THE ALTERNATIVE REGULATION PLAN

A. Findings

(1) The Proposed Plan

1. GMP and the Department (through the MOU) have proposed an alternative regulation plan that would take effect October 1, 2010, and terminate on September 30, 2013, unless further extended. Exh. GMP-RJG-1(Rev.) at 1.

2. The Proposed Plan establishes a framework for regular rate adjustments for the 2010-2013 period, based on prescribed methodologies. Any changes to GMP's rates during this period would be based on filings demonstrating whether there is a need for (1) a base-rate adjustment (annual filing); (2) a power-cost adjustment (quarterly filing); and (3) an earnings-reconciliation adjustment (annual filing). Griffin pf. at 3-10; exh. GMP-RJG-1 (Rev.) at 1-8.

3. The Proposed Plan would allow GMP to seek temporary rate increases pursuant to 30 V.S.A.§ 226(a), and the Company may file modified tariffs or tariffs for new services or adjustments on a revenue-neutral basis subject to Board approval pursuant to 30 V.S.A. §§ 225, 226 and 227. Exh. GMP-RJG-1 (Rev.) at 1-2; Griffin pf. at 11.

The Annual Base Rate Adjustment

4. Under the Proposed Plan, the annual base rate adjustment would be subject to suspension, with a deadline for a Board decision to be issued within four months after the date the proposed annual base rate adjustment is scheduled to take effect. The other adjustments would not be subject to suspension, although the Board could initiate a rate investigation under 30 V.S.A. § 227(b) at any time, on its own motion or upon request, and the retroactive effect of the Board's order would be consistent with that section. Exh. GMP-RJG-1 (Rev.) at 4-5, 8, 10.

5. Under the Proposed Plan, GMP will use a test year ending March 31. Griffin pf. at 8.

6. Use of a March 31 test year will provide additional time for the Department to review the annual base-rate adjustment using relatively current test-year information. Becker pf. at 6.

7. Under the Proposed Plan, on August 1, 2010, 2011 and 2012, GMP would file a cost of service supporting a base-rate change to be effective on October 1. The annual filing would be identical to a traditional rate filing, except for the following differences. First, loads and revenues would be based on a forecast for the year the rates would be in effect. Second, increases in non-power costs would be capped by a percentage tied to the rate of inflation and

further adjusted, as warranted, by a benchmarked productivity factor. Third, the authorized ROE would be adjusted to reflect 50% of the difference between the average ten-year Treasury note yield to maturity (a) as of the last twenty trading days ending two weeks before the annual filing, and (b) as of the twenty-trading-day period used for the last adjustment to the return-on-equity component, and further subject to an additional benchmarked performance adjustment. Exh. GMP-RJG-1 (Rev.) at 1-2 and Attachment 5.

8. The Proposed Plan allows the non-power-cost cap on the proposed base-rate adjustment to be exceeded to reflect Exogenous Changes, which are defined as cost or revenue changes in excess of $600,000 that relate to certain specified events that are outside the Company's control. These events include changes to statutes, regulations, or accounting rules, loss of load, or certain major unplanned events. Exh. GMP-RJG-1 (Rev.) at 3-4.

9. Under the Proposed Plan, GMP will submit its annual base-rate adjustment filing to the Department at least 60 days before filing it with the Board in order to provide the Department with additional time to review the base-rate filing and to submit its report to the Board. Griffin pf. at 11-12.

10. Pursuant to the MOU, the Department would retain, at the Company's expense and subject to the Company's reasonable consent, an independent consultant to review the annual base-rate adjustment and file a report (the "Third-Party Report") with the Department and Board at the time the adjustment is filed. Exh. Joint-1 at 2.

<u>The Power Adjustor</u>

11. Under the Proposed Plan, GMP would adjust its rates quarterly based upon the difference between actual power costs and projected costs included in GMP's rates through the Power Adjustor. The Power Adjustor amount would reflect the difference between actual power costs and power costs included in rates during the "Measurement Quarter" (described in the finding that follows). Exh. GMP-RJG-1 (Rev.) at 6-8.

12. Under the Proposed Plan, the Power Adjustor would be filed within 45 days after the end of each calendar quarter ("Measurement Quarter") and would be effective for the calendar quarter beginning after the filing (*i.e.,* beginning three months after the Measurement Quarter ends) ("Collection Quarter"). Exh. GMP-RJG-1 (Rev.) at 6.

13. GMP agrees to file its proposed Power Adjustor within 30 days after the end of each Measurement Quarter. Tr. 3/9/10 at 19 (Griffin).

14. The purpose of filing each proposed Power Adjustor within 30 days after the close of the quarter is to better ensure that customers receive notice of the proposed adjustment prior to taking service subject to a changed rate. Tr. 3/9/10 at 9.

15. Under the proposed Power Adjustor, power costs related to capacity, transmission and ancillary service charges, which are largely outside the control of the Company, would be passed through completely. Exh. GMP-RJG-1 (Rev.) at 6-7 and Attachment 3.

16. For most of GMP's power costs (including energy charges, market purchase, and fuel costs), the Power Adjustor would only reflect changes in costs (less revenue changes associated with changes in sales volumes) that are greater than the "Power Efficiency Band" of $300,000, with only 90% of the remaining difference reflected in the quarterly rate adjustment. Exh. GMP-RJG-1 (Rev.) at 6-7, Attachment 3 and Attachment 4.

17. Under the proposed Power Adjustor, the variance between actual and collected power costs (subject to these limitations) would be divided by projected sales in the Collection Quarter, yielding a positive or negative Power Adjustor rate component for that quarter. The quarterly adjustor would be subject to a quarterly cap of $10/MWh and any difference between the Power Adjustor amount and revenues resulting from the cap would be deferred and recognized in the next quarter. Exh. GMP-RJG-1 (Rev.) at 7-8.

18. The proposed Power Adjustor would overcollect or undercollect the target amount if the Company's actual sales volumes differ from the projected volumes. Under the Proposed Plan, GMP would track these differences and refund or recover them once per year in the annual rate adjustment or Earnings Sharing Adjustor (which is described in findings 40 through 44, below). Exh. GMP-RJG-1 (Rev.) at 8.

<u>The Non-Power-Cost Adjustment Cap</u>

19. Under the Proposed Plan, GMP's annual adjustment to its base rates would be limited to an amount equal to the non-power costs included in its previous base-rate adjustment plus

(1) inflation[6] less a 1% productivity factor, subject to an "incentive adjustment" reflecting the Company's operating efficiency relative to an efficiency "benchmark" set by reference to a peer group of utilities, and (2) return, taxes and depreciation on incremental plant investment, efficiency spending and preliminary survey costs. Griffin pf. at 3-6; exh. GMP-RJG-1 (Rev.) at 3 and Attachment 5; GMP-RJG-5.

20. The proposed "incentive adjustment" would measure GMP's efficiency relative to a "benchmark" peer group of utilities consisting of twenty electric companies chosen by GMP and the Department for their relative comparability to GMP in terms of size and climatological or geographic operating conditions. Griffin pf. at 5-7; tr. 3/9/10 at 99 (Griffin).

21. The use of the proposed benchmark-based incentive adjustment is intended to provide GMP with additional incentives to control its costs and to recognize the Company's comparative performance relative to a benchmark peer group. Becker pf. at 4.

22. The size of the proposed incentive adjustment would depend on GMP's benchmark ranking, which would reflect how well the Company manages its operations compared to its benchmark peers. This benchmark ranking would be determined at the time of GMP's annual base rate filing. Griffin pf. at 5-6 and Attachment 5; exh. GMP-RJG-5; tr. 3/9/10 at 29 (Griffin).

23. All of the benchmark peer utilities report expense information on the Federal Energy Regulatory Commission ("FERC") Form 1 using the FERC uniform system of accounts. Griffin pf. at 6-7.

24. The first incentive adjustment would be made for the initial year of the Proposed Plan, which would take effect on October 1, 2010. On that date, GMP's benchmark ranking would be determined using the most recently available FERC Form 1 data for the benchmark peer group. Tr. 2/9/10 at 29 (Griffin).

25. The following per-customer cost indicators reported in FERC Form 1 filings would be used as a proxy for measuring operational efficiency within the benchmark peer group: administrative and general expense; customer-related expense (e.g., customer accounts expenses,

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6. The Proposed Plan defines "inflation" as Consumer Price Index-Northeast ("CPI-NE"). Exh. GMP-RJG-1 (Rev.) at 3.

customer service expenses, sales expenses), and transmission (excluding transmission by others) and distribution costs. Griffin pf. at 5-6; exh. GMP-RJG-5.

26. These cost indicators represent expenses that company management largely are able to control. Griffin pf. at 5-6.

27. As of December 10, 2009, the date GMP filed the Proposed Plan for review and approval by the Board, GMP ranks fifth out of twenty among the benchmark peer utilities. Exh. GMP-RJG-1 (rev.) at Attachment 5.

28. For purposes of determining GMP's incentive adjustment, GMP's benchmark ranking would be set by ranking the peer-group utilities from one to twenty based on their comparative efficiency as determined using their most recently reported FERC Form 1 cost data. Using these rankings, the twenty companies would be divided into five quintiles, with the top four companies assigned to the first quintile, and the bottom four companies assigned to the final, fifth quintile. Exh. GMP-RJG-1 (rev.) at Attachment 5; exh. GMP-RJG-5.

29. Under the Proposed Plan's methodology, the size of the incentive adjustment would vary depending on a utility's rank within the benchmark peer group and the quintile corresponding to that rank. The following table illustrates the scale of the incentive adjustment ranking system:

Peer Group Ranking		**Incentive Adjustment**
1st Quintile	(top four utilities)	1.00%
2nd Quintile		0.75%
3rd Quintile		0.50%
4th Quintile		0.25%
5th Quintile	(bottom four utilities)	0%

Exh. GMP-RJG-1(Rev.) at Attachment 5.

30. At the time GMP filed its petition in this docket, the most recently available FERC Form 1 data placed GMP at the top of the second quintile, with a ranking of 5th out of the 20 peer utilities. Exh. GMP-RJG-5.

31. Assuming GMP's rank remains the same as it was when the petition was filed in December of 2009, GMP would qualify for an incentive adjustment of 0.75%. Applying this

incentive adjustment, the formula for calculating the incremental increase for GMP's non-power-cost cap for rate year 2011, if warranted, would be CPI-0.25%. Exh. GMP-RJG-5.

32. To the extent that a benchmark peer utility's reported costs prove to be incorrect, GMP agrees that an analysis should be undertaken to determine whether the incorrect information affects the results contained in any of GMP's base-rate filings. Tr. 3/9/10 at 99 (Griffin).

The ROE Adjustment Mechanism

33. Under the Proposed Plan, the ROE would be set by adjusting the ROE existing at the time of the annual base-rate filing by a percentage amount equal to 50% of the difference between the average ten-year Treasury note yield to maturity (a) as of the last twenty trading days ending two weeks prior to the filing, and (b) as of the twenty-trading-day period used for the last adjustment to GMP's return on equity. Thereafter, the ROE would receive an additional "ROE Performance Adjustment" of up to 50 basis points (upward or downward), depending on GMP's benchmarked efficiency. Griffin pf. at 7; exh. GMP-RJG-1 (Rev.) at 3 and Attachment 5; Finding 7, above.

34. Under the Proposed Plan, the ROE Performance Adjustment would be determined using the same benchmark peer group ranking system employed in adjusting GMP's non-power-cost cap, but with a different corresponding adjustment scale, set forth in the following table:

Peer Group Ranking		**ROE Performance Adjustment**
1st Quintile	(top four utilities)	0.50%
2nd Quintile		0.25%
3rd Quintile		0%
4th Quintile		-0.25%
5th Quintile	(bottom four utilities)	-0.50%

Griffin pf. at 7; exh. GMP-RJG-1 (Rev.) at 3 and Attachment 5; finding 7, above.

35. GMP's existing ROE under the Current Plan is 9.69%. Griffin pf. at 7.

36. Under the Proposed Plan, effective October 1, 2010 (the first day of the new plan), due to GMP's present position in the second quintile relative to the other benchmark peer utilities, the Company's ROE would increase by 25 basis points to 9.94% (9.69% + 0.25% = 9.94%). Tr. 3/9/10 at 29 and 35 (Griffin); exh. GMP-RJG-5.

37. GMP's potential ROE of 9.94% is within the range of ROEs for the benchmark peer utilities. The average ROE of the benchmark peer utilities is 9.9%. Tr. 3/9/10 at 36 (Becker).

38. The potential ROE Performance Adjustment will provide an incentive for GMP to manage its controllable costs. Griffin pf. at 7; tr. 3/9/10 at 45 (Griffin).

39. The benchmark peer utilities are investor-owned entities whose managers owe a duty to shareholders to try to improve their company's performance. Tr. 3/9/10 at 37 (Becker).

The Earnings Sharing Adjustor

40. The proposed Earnings Sharing Adjustor would be effective for rates on a bills-rendered basis beginning in January of 2012. No later than 45 days prior to implementation of each Earnings Sharing Adjustor, the Company would file with the Board and the Department its Actual Earnings for the preceding base-rate period, the proposed Earnings Sharing Adjustor calculation, the proposed Earnings Sharing Adjustor and supporting information. The adjustor would reflect the difference between the achieved ROE for the preceding calendar year, calculated on a regulatory basis, and the ROE approved in this case (including the adjustment, if any, associated with Treasury note yields discussed in Finding 33, above). Exh. GMP-RJG-1 (Rev.) at 4-5.

41. Under the proposed Earnings Sharing Adjustor, rates would be adjusted to reflect the difference between actual and target earnings. However, variations within a range of 75 basis points above and below the authorized return would not be subject to reconciliation. In addition, under the proposal, there would be a 50/50 sharing of earnings shortfalls between 75 and 125 basis points below the target return ("Earnings Sharing Band"). Exh. GMP-RJG-1 (Rev.) at 5.

42. Under the Earnings Sharing Adjustor, the revenue impact of the variance between target and actual earnings (subject to the Earnings Sharing Band) would be divided by projected sales for the ensuing collection period, yielding a refund or surcharge to be paid to or assessed from customers over that period. Exh. GMP-RJG-1 (Rev.) at 5 and Attachment 2.

43. Under the Proposed Plan, the base rate and earnings sharing adjustments would be reflected as a uniform percentage change to customers' bills and the Power Adjustor would be reflected as a kWh charge. The adjustments would apply to all rate classes except those not typically subject to general rate increases (*e.g.*, special contracts), and the Power Adjustor would

apply only to those rate elements that are subject to a charge that varies on a kWh basis. All three adjustments would be implemented on a bills-rendered basis. Exh. GMP-RJG-1 (Rev.) at 2–8.

44. The Proposed Plan provides that the Department and GMP may agree to a longer recovery period for a specific Exogenous Change (only those uncontrollable costs or revenues in excess of $600,000), based on the amount of the costs involved, the potential customer impact or other reasons. Griffin pf. at 8-9.

Other Proposed Plan Provisions

45. The Proposed Plan specifies that the Company would contribute 10% of the Earnings Sharing Band in excess of the Board-approved rate of return on equity to its Power Partners Program. GMP would also match customer contributions to the Company's WARMTH Support Program; the amount contributed by the Company would not be included in rates. *Id*. at 9.

46. GMP also proposes to continue its efforts to promote Vermont-based renewable energy, including its Voluntary Renewable Support Rider, and the 2004 and 2005 Renewables Support Plans. *Id*.

47. Under the Proposed Plan, the Company will continue to pursue its Automated Meter Reading ("AMR") project and will work with the Department to explore additional innovative service choices. In the event the AMR project is completed prior to the expiration of the Proposed Plan, GMP will implement rate changes under the Plan as soon as practical on a service-rendered basis. Exh. GMP-RJG-1 (Rev.) at 9-10; Griffin pf. at 12.

48. The Company's existing Service Quality & Reliability Plan ("SQRP"), as it may be amended from time to time, is incorporated by reference into the Proposed Plan. Unlike GMP's current alternative regulation plan, under the Proposed Plan the SQRP will not be an integrated component of the plan, but instead will be treated as a stand-alone document that may be amended on its own without requiring an amendment to GMP's alternative regulation plan. Griffin pf. at 11; exh. GMP-RJG-1 (Rev.) at 9.

49. On June 30 of 2011, 2012 and 2013, GMP proposes to file a report evaluating the effectiveness of the Plan. The criteria used to evaluate the Proposed Plan will be the same as the

criteria jointly adopted and used by GMP and the DPS to evaluate the Current Plan. Exh. GMP-RJG-1 (Rev.) at 9; exh. Joint-1 at 3; exh. GMP-RJG-3.

(2) Other MOU Conditions

50. The Department agrees that the Board should approve GMP's petition to implement the Proposed Plan, subject to the conditions stated in the MOU. Exh. Joint-1 at 2.

51. The MOU provides that under the Proposed Plan, with each base-rate adjustment, Power Adjustor and Earnings Sharing adjustor filing, GMP will continue to concurrently file the same documentation the company has been providing in making such filings under the Current Plan. Exh. Joint-1 at 2.

52. Pursuant to the MOU, the Department would retain an independent consultant to review the annual base-rate adjustment and file a report with the Department and the Board at the time the adjustment is filed. Exh. Joint-1 at 2.

(3) The Supplemental MOU Conditions

53. IBM agrees that the Board should approve GMP's petition to implement the Proposed Plan, subject to the conditions stated in the Supplemental MOU and its attachments. Exh. Joint-2, Attachment I and Attachment II.

54. The Supplemental MOU provides that in the event GMP seeks to extend the operation of the Proposed Plan beyond 2013, GMP will notify IBM no less than 4 weeks in advance of its intent to seek such an extension, and GMP shall provide IBM with an opportunity to review and discuss the proposed plan extension. Exh. Joint-2 at Attachment I.

55. The Supplemental MOU provides that GMP will aggregate the Power Adjustor adjustments into a single annual bill adjustment for the Commercial and Industrial transmission class ("C&I Transmission Class") for which GMP would either charge or credit interest (depending on whether a payable or a receivable balance has accrued) at a rate equal to GMP's cost of debt. Exh. Joint-2 at Attachment II; Griffin pf. at 2-3; Becker pf. at 7-8.

56. The purpose of the payment arrangement for the C&I Transmission Class is to reduce the volatility of charges paid by the class of GMP customers. Specifically, it will permit IBM to better plan for the fiscal impact of these charges. Griffin supp. pf. at 2-4; tr. 3/9/10 at 49-50 (Griffin); tr. 3/9/10 at 53 (Becker).

57. The impact of electric bill volatility is especially signficant to IBM in light of the magnitude of its electricity purchases. The special C&I Transmission Class billing arrangement, including the provision for charging interest, is designed to assure that the delayed recognition of C&I Transmission Class Power Adjustor billings does not affect other rate classes. The impacts will be excluded from rates, including any working capital impact. Griffin supp. pf. at 2-4; tr. 3/9/10 at 49-50 (Griffin); tr. 3/9/10 at 53 (Becker).

B. Discussion

Subject to the modifications we discuss below, we have concluded that the terms of the Proposed Plan will satisfy the requirements for approval of an alternative regulation plan under 30 V.S.A. § 218d.

(1) The ROE Adjustment Mechanism

In this docket, GMP has proposed a new method for adjusting its ROE for the term of its next alternative regulation plan. The new method would build on the formula presently in place under the Current Plan, under which GMP's ROE is adjusted annually with reference to the fluctuating yield of the ten-year Treasury note. GMP's new method introduces a second annual adjustment, the ROE Performance Adjustment. As the name indicates, this adjustment would be available to GMP as an incentive to excel in its performance by realizing operational efficiencies over the course of each rate year under alternative regulation. For purposes of determining the ROE Performance Adjustment factor to be applied at the start of each rate year under the Proposed Plan, the Company's efficiency would be assessed and ranked against a benchmark peer group of utilities based on information derived from the FERC Form 1 reports of these companies.

Significantly, if we were to adopt GMP's proposed ROE Performance Adjustment mechanism without any change, GMP's present benchmark ranking (5th out of 20 utilities) would translate to a 0.25% increase to GMP's allowed ROE (currently 9.69%) on day one of its new alternative regulation plan, thus raising its ROE to 9.94%. GMP justifies this outcome by pointing out that it falls within the range of allowed ROEs for its benchmark peer utilities, whose average ROE is 9.9%. GMP further notes that its data shows that ROEs of electric utilities

across the country are in the range of 10.25% to 10.75%.[7] In the end, the ROE Performance Adjustment mechanism was agreed to by GMP and the Department in order to save the expense of litigating this issue and to afford GMP the opportunity of "earning its way to an average return on equity."[8]

As an initial matter, we observe that alternative regulation by definition entails experimentation in devising methods for setting just and reasonable rates.[9] We therefore conclude that it is appropriate to allow GMP an opportunity to explore the use of the ROE Performance Adjustment mechanism. While the ROE Performance Adjustment proposed by GMP is an innovative ratemaking device, we think this is a conservative experiment because this method appears to be conceptually similar to the familiar analytical models employed in traditional ratemaking for setting an ROE.[10] For instance, the discounted cash flow ("DCF") model is a comparative analysis that relies on the selection of a proxy group as a signficant input. However, in authorizing such experimentation, it is equally appropriate that we give due consideration to protecting the interests of ratepayers, who will be asked to pay rates that have not been subject to a traditional, regulatory cost-of-service review since the Current Plan went into effect in February of 2007.[11]

While we find there is merit in providing GMP with an opportunity during its next term of alternative regulation to augment its ROE, we are not persuaded that there is good cause for GMP to receive an immediate ROE increase of 25 basis points on the day after its Current Plan expires. Our alternative regulation statute requires the Board to find that the Proposed Plan will

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7. Tr. 3/9/10 at 33 (Griffin).

8. *Id.*

9. 30 V.S.A. § 218d(d).

10. *See,* e.g., Docket 7175/7176, Order of 12/22/06 at 13 (noting the use of various analytical approaches — DCF, risk premium, and the capital assets pricing model — for setting GMP's ROE).

11. Docket 7175/7176, Order of 12/22/06 at 19. We further note that if GMP remains under alternative regulation through 2013 as contemplated by the Proposed Plan, then it is possible that a total of seven years will have passed before GMP's rates are tested again in the context of a traditional rate case. This interval could extend even longer, if GMP seeks any extensions of the Modified Plan we approve today.

"establish a reasonably balanced system of risks and rewards . . . ."[12] In this case, the 0.25% ROE increase would follow so closely upon the end of the Current Plan that it appears more linked to GMP's past performance, and less linked to GMP's future performance under the Proposed Plan. Such a link does not comport with our view that the Current Plan and the Proposed Plan are separate from each other, with each plan containing its own "reasonably balanced system of risks and rewards."

Thus, for the foregoing reasons, we approve the use of the ROE Performance Adjustment mechanism, except that we have determined GMP will not receive an immediate 0.25% increase to its ROE on the start date of the Modified Plan. Rather, we will delay implementation of the ROE Performance Adjustment mechanism until October 1, 2011, the start date of the second rate year under the plan. We emphasize that we regard this modified application of the ROE Performance Adjustment mechanism as a means to address a methodological concern. This modification should not be construed as passing judgment in any way upon GMP's performance.

Meanwhile, for the rate year that begins on October 1, 2010, we conclude that it is just and reasonable to carry over GMP's existing ROE of 9.69%, subject to the average ten-year Treasury note yield adjustment.[13] Our conclusion is consistent with the fact that going forward under alternative regulation, GMP will continue to have the earnings protection of the Power Adjustor and the annual base-rate-adjustment mechanisms, both of which operate to substantially reduce GMP's earnings risk.[14]

(2) The Third Party Report Filing Deadline

The Proposed Plan contains a mechanism for filing the annual base-rate adjustment and review of that filing. This process is essentially the same as under the Current Plan. Generally, the Company must file its base-rate adjustment by August 1 of the relevant year (for effect on October 1 of that year). The Board may suspend and investigate the filing, but must rule on the proposed rate adjustment within four months of the date the filing otherwise would have been

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12. 30 V.S.A. § 218d(a)(7).

13. *See* Finding 33, above.

14. Docket 7175/7176, Order of 12/22/06 at 14.

effective, which then means that the Board must issue its ruling by February 1 of the following year. The MOU between GMP and the Department further defines the process for review of the base-rate filing. Under that MOU, the Department will retain (as it has under the Current Plan) an independent third party to review each filing and to file the Third-Party Report "with the Board and Department at the time the base-rate filing is submitted to the Board."[15]

At the technical hearing, the Board expressed its concern that the deadline for submission of the Third-Party Report had not been adhered to in the past. Under the Current Plan, the third party's analysis has been due to be submitted concurrently with the base-rate filing, but generally has been submitted after that date. In particular, in 2009, the report was not filed until only a few days before the date on which the Board would have needed to suspend the base-rate filing if it had determined that an investigation was warranted.

We understand the Department's difficulty in complying with the deadline in the MOU. As the Department explained, there is a tension between the Department's submission of the Third-Party Report and its contemporaneous efforts to negotiate changes to the base-rate filing.[16] These are valid considerations and the Board wants to continue to encourage the Department and GMP to work collaboratively on the base-rate filing and the resolution of any issues identified by the Department or the third-party consultant. Nonetheless, a substantial delay in filing the Third-Party Report places the Board in a difficult position. Under Vermont law and the Proposed Plan, the Board still must make an independent assessment of whether to allow a proposed base-rate adjustment to take effect without investigation or to open a proceeding. Yet, the base-rate filings contain less information at the outset than would a normal rate adjustment if GMP were not operating under the alternative regulation plan. This reduced information is appropriate in the context of the alternative regulation plan and the efforts to streamline parts of the review process. However, the reduced information makes the Board more dependent upon the analysis of the third party to highlight issues and explain in detail the basis for each base-rate adjustment. Delay in submission of the Third-Party Report thus deprives the Board at a critical moment of

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15. *See* Finding 10, above.

16. Tr. 3/9/10 at 22 (Becker).

essential information for a meaningful assessment of the reasonableness of a rate adjustment. And, when the report is substantially delayed, it hampers the Board's ability to inquire into issues the Department may identify.

At the technical hearing, the Department explored the possible remedy of filing a letter whenever it anticipates filing the Third-Party Report after the deadline. The letter would explain the reason for the delay and the likely date that the report would be filed.[17] Upon further consideration, we have concluded that this remedy does not go far enough as it would still permit a substantially late filing of the Third-Party Report after the deadline. As we explained, the report is essential to our review of the base-rate filing under GMP's alternative regulation. For this reason, we want to stress the importance of, and our reliance upon, the filing of the Third-Party Report by the deadline specified in the MOU. We recognize that there may be limited circumstances under which a delay may be reasonable. In these instances, the Department must request an extension whenever it anticipates not filing the Third-Party Report in time to meet the deadline in the MOU. Such an extension request should contain the same basic information as would the letter proposed by the Department at the technical hearing.[18] To the extent the proposed extension would result in a substantial shortening of the time available to the Board for review of the Third-Party Report and base-rate adjustment, the Department should work with GMP to propose mechanisms that ensure the Board nonetheless will have an appropriate amount of time to fulfill its responsibilities.[19]

(3) The 30-day Power Adjustor Filing Deadline

At the technical hearing, GMP represented — subject to check and further notice to the Board — that it would be able to file its Power Adjustor within 30 days after the end of each Measurement Quarter instead of requiring the 45 days contemplated under the Proposed Plan. Following the technical hearing, GMP confirmed via letter that it would adopt the 30-day filing

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17. Tr. 3/9/10 at 22–23 (Hofmann).

18. *Id.*

19. For example, the parties could agree to shorten the period for suspension, delay the effective date of the rate changes, or provide additional material that would enable review in a short time period.

requirement for the Power Adjustor.[20] Therefore, we will modify the Proposed Plan to incorporate this change.

(4) Notice to Customers of the Modified Plan

Neither the Proposed Plan nor the MOU addresses the mechanics of providing notice to GMP customers of the implementation of a successor alternative regulation plan to the Current Plan that will expire on September 30, 2010. Such notice to customers is desirable, and therefore we will require GMP to describe the Modified Plan in writing to its customers at least one month prior to the first rate adjustment under the Modfied Plan. GMP shall work with the Department in the development of customer communications and materials to be provided to customers.

(5) Compliance Filing of an Integrated Version of the Modified Plan

As noted at the outset of this Order, GMP originally conceived of this docket as a proceeding to review its proposed continuation under alternative regulation subject to certain modifications to its Current Plan, as reflected in its Proposed Plan. However, we have deemed it appropriate to conduct this proceeding as a review of GMP's proposed successor plan to the Current Plan. During the course of this docket, GMP has entered numerous versions of the Proposed Plan as exhibits into the evidentiary record. Furthermore, there are two settlement memoranda that variously supplement the Proposed Plan. Finally, our Order today specifies several additional modifications to the Proposed Plan.

In order to facilitate clarity of understanding and the efficient administration and review of GMP's Proposed Plan as approved in our Order today, we direct GMP to make a compliance filing within 30 days of the date of this Order. This compliance filing shall consist of a single statement of the Proposed Plan that integrates the terms of the MOU, the Supplemental MOU and shall incorporate all of the modifications we have set forth in this Order as conditions to our approval of the Proposed Plan.

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20. Exh. Joint-4.

IV. STATUTORY FINDINGS

A. Applicable Law

Alternative regulation for electric and gas utilities is authorized by Section 218d of Title 30. That section also delineates a series of findings that the Board must make before it can approve an alternative regulation plan. Specifically, Section 218d(a) requires that the Board find that an alternative regulation plan will:

> (1) establish a system of regulation in which such companies have clear incentives to provide least-cost energy service to their customers;
>
> (2) provide just and reasonable rates for service to all classes of customers;
>
> (3) deliver safe and reliable service;
>
> (4) offer incentives for innovations and improved performance that advance state energy policy such as increasing reliance on Vermont-based renewable energy and decreasing the extent to which the financial success of distribution utilities between rate cases is linked to increased sales to end use customers and may be threatened by decreases in those sales;
>
> (5) promote improved quality of service, reliability, and service choices;
>
> (6) encourage innovation in the provision of service;
>
> (7) establish a reasonably balanced system of risks and rewards that encourages the company to operate as efficiently as possible using sound management practices; and
>
> (8) provide a reasonable opportunity, under sound and economical management, to earn a fair rate of return, provided such opportunity must be consistent with flexible design of alternative regulation and with the inclusion of effective financial incentives in such alternatives.

Under subsection (m), in the case of an investor-owned utility such as GMP, we must also find that the plan will:

> (1) not have an adverse impact on the electric company's eligibility for rate-regulated accounting in accordance with generally accepted accounting standards if applicable; and
>
> (2) reasonably preserve the availability of equity and debt capital resources to the company on favorable terms and conditions.

In addition, subsection 218d(b) requires that "if savings result from alternative regulation, the savings shall be shared with ratepayers as determined by the board." Finally, Section 218d(h)

permits the Board to establish, by rule or order, standards by which to assess the effectiveness of alternative regulation plans.

B. Findings

(1) Incentives for Innovations and Improved Performance (§ 218d(a)(1))

58. The Modified Plan establishes a system of regulation in which the Company has clear incentives to provide least-cost energy service to its customers. The Modified Plan provides for (1) regular and timely adjustments to reflect costs that the Company would incur to hedge against costs it cannot control; (2) the Earnings Sharing and Power Efficiency Bands create incentives to reduce costs by permitting the Company to retain the associated benefits; and (3) the Modified Plan does not displace the Company's Integrated Resource Planning obligations. Griffin pf. at 13; findings 1 through 57, above.

(2) Just and Reasonable Rates (§ 218d(a)(2))

59. The Modified Plan provides just and reasonable rates for service to all classes of customers because adjustments will be implemented for all rate classes that are subject to general rate changes, because the Power Adjustor will be implemented on a basis that reflects most of its costs (energy), and because the remaining adjustments will be implemented on a uniform percentage basis, consistent with traditional rate changes. Griffin pf. at 13; findings 1 through 57, above.

(3) Safe and Reliable Service (§ 218d (a)(3))

60. The Modified Plan results in the delivery of safe and reliable service through incorporation of the Company's SQRP. Griffin pf. at 13; finding 48, above.

(4) Incentives to Provide Least-cost Energy Services (§ 218d(a)(1))

61. The Modified Plan provides incentives for innovations and improved performance that advance state energy policy such as increasing reliance on Vermont-based renewable energy and decreasing the linkage between sales and earnings. The Modified Plan allows the Company to pursue innovations and policy initiatives without undue financial risk or the need for a traditional rate filing. Griffin pf. at 13-14; findings 1 through 57, above.

(5) Improved Quality of Service, Reliability, and Service Choices (§ 218d(a)(5))

62. The Modified Plan promotes improved quality of service and reliability service through the continued application of the Company's SQRP, and by providing the Company with financial incentives (i.e., lower financial risk) to pursue innovative service practices and offerings that reduce costs. Griffin pf. at 14; exh. GMP-RJG-1 at 9; finding 48, above.

63. The Modified Plan promotes improved service choices through (1) the continued pursuit of Company's AMR project, (2) the obligation to collaborate in good faith with the Department to explore additional innovative service choices, (3) the low-income Power Partners program, and (4) encouraging further innovation through the reduction in financial risk. Griffin pf. at 14; exh. GMP-RJG-1 at 9; findings 45 through 47, above.

64. The Modified Plan promotes service choices by providing GMP with financial incentives to develop service choices that reduce costs. This effect is achieved through the Power Efficiency Band and Earnings Sharing Band. In addition, the reduction of financial risk may provide incentives to expand service choices. Griffin pf. at 14; exh. GMP-RJG-1 at 4-7; findings 16 and 40 through 44, above.

65. The Modified Plan requires the Company to contribute 10 % of Earnings Sharing Band earnings in excess of the Board-approved rate of return on equity to GMP's Power Partners program. In addition, the Modified Plan provides for GMP to match contributions by its customers to the Company's Warmth Program. The amount of the Company's match will not be included in rates. Exh. GMP-RJG-1 at 9; finding 45, above.

(6) Encourage Innovation in the Provision of Service (§ 218d(a)(6)

66. The Modified Plan encourages innovative provision of service by creating incentives to reduce costs, such as through innovative and efficient approaches in the way GMP operates. Griffin pf. at 14; findings 19 through 21, 33 through 39 and 47, above.

(7) Reasonably Balanced System of Risks and Rewards (§ 218d(a)(7))

67. The Modified Plan establishes a reasonably balanced system of risks and rewards that encourages the Company to operate as efficiently as possible using sound management practices, by reducing the Company's cost of capital, by flowing these benefits through to customers, and by creating cost control incentives. Griffin pf. at 14; findings 19 through 44, above.

Discussion

For the reasons discussed earlier in this Order, we have decided to authorize the use of a modified version of the "ROE Performance Adjustment" mechanism that GMP proposes to use in conjunction with determining its ROE under alternative regulation.[21] We are confident that this modification to the Proposed Plan will result in a reasonably balanced system of risks and rewards for GMP going forward under alternative regulation.

(8) Reasonable Opportunity to Earn a Fair Rate of Return (§ 218d(a)(8))

68. The Modified Plan provides a reasonable opportunity to earn a fair rate of return by providing for periodic rate adjustments to reflect differences between target and actual costs, subject to the Power Efficiency and Earnings Sharing Bands. Griffin pf. at 14; exh. GMP-RJG-1 at 4-8.

69. The Modified Plan provides a reasonable opportunity to earn a fair rate of return by further providing for annual adjustments to GMP's ROE that are tied to changes in the 10-year Treasury note and the Company's efficiency ranking as determined using the "ROE Performance Adjustment" mechanism. Exh. GMP-RJG-1 (Rev.) at 3; findings 33 through 39, above.

(9) Impact on Accounting (§ 218d(m)(1))

70. The Modified Plan will not have an adverse impact on the Company's eligibility for rate-regulated accounting in accordance with generally accepted accounting standards, because the Company will continue to have an opportunity to recover its costs and because rates will continue to be based on costs. Griffin pf. at 14.

(10) Preserve the Availability of Equity and Debt Capital Resources (§ 218d(m)(2))

71. The Modified Plan reasonably preserves the availability of equity and debt capital resources to the Company on favorable terms and conditions, because Wall Street analysts and rating agencies strongly favor power adjustment clauses that permit rates to reflect costs on a regular basis, and because the Company's risks are reduced. Griffin pf. at 14.

(11) Reasonable Sharing of Savings with Ratepayers (§ 218d(b))

72. The Modified Plan provides that any savings resulting from the Modified Plan will be shared with ratepayers through the combination of the three adjustments and the bands included

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21. *See infra* pp. 14-17.

in the Earnings Sharing and Power Adjustors. Griffin pf. at 15; findings 11 through 18, and findings 40 through 44, above.

C. Discussion

Alternative regulation, while authorized by statute, is an option, not a requirement. As we observed in connection with adopting GMP's first alternative regulation plan, any meaningful analysis of alternative regulation must consider the opportunity costs of continuing under traditional regulation.[22] This means we should expect that both the Company and its customers will benefit from alternative regulation.

GMP maintains that it should continue to be subject to alternative regulation. The Company and the Department agree that the customer benefits contemplated by adoption of the Current Plan have been realized.[23] These benefits are: (1) reduced costs, due to incentives for increased operating efficiencies and due to reduced uncertainty as to cost recovery, thus resulting in lower financial risk; (2) more accurate price signals resulting from a reduction in the lag between cost and price changes; (3) promotion of energy efficiency by eliminating the linkage between increased sales and increased profits; (4) promotion of renewable energy sources, service choices and reliability; and (5) more efficient review of the Company's rate filings.[24] Furthermore, the credit-rating agencies have responded favorably to the implementation of GMP's first alternative regulation plan, which has helped assure the Company's continued access to capital at lower rates that reflect its improved credit rating, thus reducing the cost of capital that is passed on to ratepayers in rates.[25]

While we are satisfied that the Current Plan has struck an appropriate balance between ensuring just and reasonable rates for GMP's ratepayers while affording the Company a reasonable opportunity to recover its costs, we conclude that the Modified Plan we have

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22. Docket 7175/7176, Order of 12/22/06 at 27-29.

23. Griffin pf. at 3; tr. 3/9/10 at 100 (Becker).

24. Exh. GMP-RJG-3.

25. Griffin pf. at 3.

approved today contains changes in rate-setting methodology and reporting that reflect the accruing experience of alternative regulation for electric utilities in Vermont. For instance, the Current Plan uses a fixed dollar amount to cap GMP's annual non-power-cost adjustment to base rates. By instead adopting the inflation-based formula in the Modified Plan, it now is more likely that the Company's rates under alternative regulation will accurately reflect the impacts of inflation over time, especially in light of the difficulty of predicting the relative cost of generation and transmission project costs in volatile financial environments.[26]

Similarly, as another sign of our evolving experience in crafting functional mechanisms for administering alternative regulation plans, we welcome the additional notice of quarterly rate changes that ratepayers will be afforded under the Modified Plan. We commend GMP for its ability to incorporate this change into the Modified Plan.[27]

Furthermore, we are pleased that GMP has agreed to afford the Department more time to complete its review of the annual base-rate-adjustment filing before it is submitted to the Board.[28] We also commend GMP for agreeing to continue to cooperate with and fund the Department's retention of an independent consultant with accounting and ratemaking expertise to review GMP's annual base-rate filing.[29] We emphasize the importance of these terms in the Modified Plan, as we have relied upon the fact of this third-party consultant review in reaching our independent judgment that it is appropriate to approve a new, successor alternative regulation plan for GMP without first requiring a more traditional ratemaking review of GMP's base rates. We note, however, that our decision to proceed without benefit of a traditional cost-of-service filing in this docket should be recognized as an exception, and not the rule in the Board's approach to reviewing and approving alternative regulation plans pursuant to 30 V.S.A.

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26. Griffin pf. at 4.

27. *See* Finding 13, above.

28. *See* Finding 9, above.

29. *See* Finding 10, above.

§ 218d.[30]

Because of the significance we attach to the on-going monitoring of GMP's rates by the Department and its third-party consultant, we look forward to timely receipt of the Third-Party Report under the Modified Plan. Our experience under the Current Plan has shown that the Board's independent review of GMP's annual base-rate filing is more difficult to complete when this report is not timely filed. We anticipate that the review process for annual base-rate filings will improve based on the requirement we have instituted for seeking an extension should the Third-Party Report not be completed in time to be filed concurrently with GMP's annual base-rate filing.[31]

Finally, we have approved GMP's request to test a new incentive mechanism for earning a positive adjustment to its allowed ROE during the term of the Modified Plan. The version of this mechanism that we have approved largely contains the features proposed by GMP in the Proposed Plan. The decision not to allow GMP an immediate 25-basis-point adjustment to its ROE on the start date of the Modified Plan simply reflects our judgment that such an ROE performance adjustment should be earned for a performance that is rendered during the operation of the Modified Plan, and not at its inception. This is an appropriate means of ensuring that ratepayers do not experience any undue prejudice as a result of our decision to accept a settlement between GMP and the Department that effectively carries over the Company's base rates from the Current Plan. This decision concerning the proposed 25-basis-point ROE adjustment is not a reflection of the Board's view of the Company's performance. In fact, the Board has been pleased with the Company's performance and believes that the Modified Plan will provide a sound foundation for GMP's performance to continue.

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30. It has generally been the practice of the Board to require a traditional cost-of-service filing for setting base rates at the outset of an alternative regulation plan. *See, e.g.*, Docket 7336, *Petition of Central Vermont Public Service Corporation for approval of an Alternative Regulation Plan pursuant to 30 V.S.A. §218d*, Order of 9/30/08 at 28, n. 20; Docket 7175/7176, Order of 12/22/06 at 9; Docket 7109, *Petition of Vermont Gas Systems, Inc. for approval of an alternative regulation plan*, Order of 9/21/06 at 2.

31. *See infra* pp. 17-19.

V. CONCLUSION

For the reasons set out above, we have concluded that the Proposed Plan — as modified by this Order — is reasonable and should be approved. Over its term, the Modified Plan has the promise of sustaining GMP's financial status, while simultaneously benefitting ratepayers.

Our review of the alternative regulation plan in this proceeding has been limited to the unique circumstances of GMP, and should not be interpreted more broadly as endorsing a similar alternative regulation plan for any other Vermont utility. Whether a similar plan would be appropriate for another utility is a determination that must be made based on the facts relevant to that particular utility. For this reason, and as the MOU provides, today's Order should not be construed as having any precedential effect, except as necessary to ensure GMP's performance under the MOU, the Supplemental MOU, or to enforce an order of the Board resulting from either of those documents.

VI. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Memorandum of Understanding ("MOU") between Green Mountain Power Corporation ("GMP" or the "Company") and the Vermont Department of Public Service ("Department") is approved, subject to the modifications set forth in this Order.

2. The Supplemental Memorandum of Understanding between GMP, the Department and International Business Machines Corporation is approved, subject to the modifications set forth in this Order.

3. The Proposed Plan is approved, as modified by this Order, to take effect on October 1, 2010 (the "Modified Plan").

4. The term of the Modified Plan shall expire on September 30, 2013, unless further extended by the Board. At its option, GMP may petition the Board for a three-year extension, subject to review by the Department and approval of the Board.

5. Under the MOU, the Department shall retain, at the Company's expense and subject to the Company's reasonable consent, an independent third party with accounting and rate-making expertise ("Third Party") to review each base-rate filing under the Plan for (1) accuracy, (2) completeness, (3) compliance with traditional rate-making and existing Board Orders regarding cost-of-service filings including the calculation of regulated earnings and (4) consistency with the Company's actual costs and the Plan. The Third Party shall file a report (the "Third-Party Report") with the Board and Department at the time the base-rate filing is submitted to the Board. If the Department anticipates that this filing deadline will not be met because it has become impracticable, the Department shall file a letter explaining the reasons for the delay and the likely date that the Third-Party Report will be filed.

6. Under the MOU, with each base-rate adjustment, Power Adjustor and Earnings Sharing adjustor filing, GMP shall continue to concurrently file the same documentation the Company has been providing in making such filings under the Current Plan.

7. Not later than June 30 of 2011, 2012 and 2013, GMP shall file a report evaluating the effectiveness of the Plan. The criteria used to evaluate the Proposed Plan shall be the same as the criteria jointly adopted and used by GMP and the DPS to evaluate the Current Plan.

8. GMP shall describe the Modified Plan in writing to its customers at least one month prior to the first rate adjustment under the Modfied Plan. GMP shall work with the Department in the development of customer communications and materials to be provided to customers.

9. In order to facilitate clarity of understanding and the efficient administration and review of GMP's Proposed Plan as approved in our Order today, we direct GMP to file for the Board's review and approval, a compliance filing within 30 days of the date of this Order. This compliance filing shall consist of a single statement of the Proposed Plan that integrates the terms of the MOU and the Supplemental MOU, and incorporates all of the modifications we have set forth in this Order.

Dated at Montpelier, Vermont, this 16th day of April, 2010.

s/James Volz	)	
	)	PUBLIC SERVICE
	)	
s/David C. Coen	)	BOARD
	)	
	)	OF VERMONT
s/John D. Burke	)	

OFFICE OF THE CLERK

FILED: April 16, 2010

ATTEST: s/Judith C. Whitney
Deputy Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.