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 15, 2022

SUMMARY OF TESTIMONY

As VGS's lead witness in this case, Ms. McNeil provides a brief description of the overall rate request and what it means for VGS customers followed by a summary of the testimony offered by other VGS witnesses. Thereafter, Ms. McNeil describes major factors driving VGS's approach to this case, including (1) the impact of upward cost pressures, (2) the key strategies proposed in this case to mitigate rate pressure and manage costs, and (3) why VGS believes this COS proposal supports a smooth rate path in the coming years.

**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, procurement, 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, 20-0431-TF, and 21-0898-TF.

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

A4. As the lead witness involved in preparing the rate request in this case, my testimony begins with a brief description of the overall rate request and what it means for our customers in the coming year. Next, I provide a general description of the major factors we considered in preparing the proposed Cost of Service ("COS"), followed by a summary of the testimony that is being offered by other VGS witnesses. Thereafter, I dig into more detail about the major factors driving this case, including (1) increased costs, (2) the key management decisions we have made in this case and going forward to mitigate rate pressure and manage costs, and (3) why we believe this COS proposal supports a smooth rate path in the coming years. Finally, I explain how this filing complies with the requirements from last year's rate case.

Q5. Please provide a brief description of the overall rate request in this case and what it means for VGS customers.

A5. We are requesting a 6.18% change to non-gas rates for the 2023 Rate Year (commencing October 1, 2022, for bills rendered November 1, 2022), which will result in a 3.7% overall change in rates when combined with an approximate -0.3% change in the natural gas charge. This rate change is supported by returning $3.5 million of the System Expansion and Reliability

Fund ("SERF") to customers. For a typical residential customer, this request would result in an average monthly increase of about $4.57 per month. We are particularly sensitive to the cost impact on our customers associated with any rate increase and have therefore sought to mitigate any increase as much as possible, which I discuss in more detail below. Our prices have remained very competitive even as we face upward rate pressure—rates have declined overall over the last 10+ years. With today's proposed rate change, our customers would be paying on average $103 *less* per year than they did in November 2011 (in nominal dollars).

Q6. What were the major factors VGS considered in preparing the COS in this case?

A6. As in prior cases, our rate request generally aims to balance our interest in stable and affordable rates with the need to meet increased cost pressures while prioritizing safe and reliable service. This case reflects the expenses and investments required to meet those commitments. Additionally, as we balance those interests, we must continue to pursue advancements under our Climate Action Plan to meet our customers' demands for more renewable energy alternatives, answer the State's call for action on climate change, and forward the Climate Action and Innovation provisions in our Alternative Regulation Plan ("ARP").

Similar to last year, we approached this case mindful of the reality that we are still in the midst of an unprecedented global pandemic that has stressed our economy and created challenges for many of our customers. Our team is proud that as the Covid-19 pandemic unfolded in 2020, we revised our initial rate request for FY2021 and maintained a 0% non-gas rate change—even as we continued to face upward cost pressures of our own. We are also proud of our efforts in last year's rate case, in which we were able to maintain a very modest 1.95%

non-gas rate increase for FY2022. We believe the proposed change this year is also a modest one, but the slightly higher non-gas rate change reflects our assessment of several factors.

First, we evaluated areas where we see increasing costs. For example, we recognize that the labor market is shifting across the country and here in Vermont. This is a welcome development for many Vermonters who are seeing an opportunity for increased wages in a more competitive employment environment. Our own workforce exists in this competitive environment, too, and we recognize that we need to remain competitive on wages and benefits to ensure we have a strong workforce going forward and are equipped to attract and retain top talent. Additionally, while we aim to keep our rates as competitive as possible, we are also facing necessary transmission and distribution integrity management costs. The importance of this safety and reliability work takes top priority—even when it results in upward rate pressure. I discuss these and other upward cost pressures in more detail below.

Another major factor that drives this proposed COS, however, is cost management. VGS's leadership is committed to managing costs to keep rates low where possible, and this case reflects that commitment. In preparation of the FY2023 COS, our leadership team has been laser-focused on cost mitigation strategies to minimize the cost of service for customers. We found significant opportunities to reduce the COS impact and have incorporated them herein. We have kept headcount steady and not added any new positions, deferred the rate impact of major capital investments, proposed a modest formulaic adjustment to the Company's Return on Equity ("ROE"), and other measures I discuss in more detail below.

Finally, the third prong of our approach to this rate case is rate stability over time. We have successfully kept rates low over the last several years and we continue to be confident in a competitive and affordable rate path going forward—even if it means some additional rate increases in future years. Our aim in this case was to look ahead to the Rate Year, and the year beyond, to inform our decisions about how to manage the SERF for the benefit of our customers, including maintaining the smoothest possible rate path as we wind down the SERF entirely. I discuss this assessment in further detail below.

Q7. Please introduce the other VGS witnesses and summarize the issues they address in their testimony.

A7. Our rate request is supported by three other VGS witnesses:

Matthew Mitchell: As he did in last year's rate case, Mr. Mitchell provides a narrative roadmap of the COS, explains the key inputs and assumptions used in the COS, and supports the many schedules included as a part of our COS Exhibit VGS-MM-1. Mr. Mitchell's knowledge about the Company's COS is extensive, and he is expected to provide further detail and testimony as this case unfolds over the next several months.

John St. Hilaire: As head of the operations team at VGS, Mr. St. Hilaire describes the operating expenses that are necessary to maintain transmission and distribution integrity management during the Rate Year as well as the key capital investments the Company is adding in this case. To help facilitate review of the COS, Mr. St. Hilaire also provides an index of capital expenditures for the remainder of FY2022 as well as FY2023. Consistent with past practice, he also sponsors detailed specification sheets for all FY2023 investments greater than $100,000. Additional supporting documentation will also be provided to the Department of Public Service ("Department") concurrent with our Petition in this case.

Todd Lawliss: As in prior years, Mr. Lawliss covers the natural gas cost component of the COS. Although gas costs are not changing as part of this case (they are governed by the Purchased Gas Adjustment clause of our ARP), Mr. Lawliss's gas forecast supports the rate request here in two ways. First, his forecast aids in the development of the billing determinants and forecasted gas costs used in this COS. Second, the projected gas costs help to put our non-gas rate change into context with overall rates, which are expected to change 3.7% overall.

Q8. Please provide more detail about the major factors driving VGS's rate change, beginning with the upward cost pressures you mention above.

A8. As we prepared this COS, we acknowledged several areas where we are experiencing upward cost pressure. These are discussed by Mr. Mitchell in his testimony, but I can provide some additional context about the primary drivers. One major area where we see cost pressure is in the labor expense. Like many other Vermont companies, VGS is managing a workforce in an increasingly competitive labor market. This means that to provide safe, reliable, affordable service and to forward our climate goals, we need to focus on efforts to attract new employees and retain existing employees. In many ways, this is a welcome trend for many Vermonters who are realizing a wider variety of employment opportunities in the market, more advantageous benefits, and higher wages. At the same time, the statewide workforce challenges and inflationary labor cost pressures are a growing risk for VGS, as competing employers seek to attract employees away from VGS and as we attempt to hire for positions that have remained empty for months.

For our COS in this case, this means increased labor expenses of an additional $1.4 million when compared to the Test Year. This increase has several components. First, we are investing in our employees. Like others across the labor market, our employees are earning higher wages as a result of wage increases that are being implemented from the end of 2021 through the end of the 2023 Rate Year. This accounts for approximately $770,000 of the change in labor expense. Second, as is typical in our rate cases, we normalized adjustments for new positions that were included in our last case for the FY2022 Rate Year but were not in place for the full Test Year for this case. This increase was offset by positions that were partially in the Test Year, but will not be replaced in the Rate Year. This accounts for approximately $200,000 of the labor adjustment. Third, we made an adjustment to reflect the normalization of four vacancies in our Field Service team that we have been actively recruiting for and hope to fill prior to the beginning of the Rate Year. These existing positions support emergency response to potential natural gas leaks, repair and maintenance of heating and hot water appliances, and the Company's rental and sales program of water heaters and conversion burners. Our technicians also support our meter compliance programs and are foundational to the Company's efforts to offer new products and services in furtherance of our Climate Action Plan. Most recently, we announced a pilot of sales, installation, and service of heat pump water heaters. Our Field Service team is critical to further expansion of these types of in-home decarbonization products and services. This adjustment reflects approximately $300,000 of the overall labor adjustment. Finally, we included a market adjustment in order to bring the current pay for certain classes of employees in line with what similarly situated wages are in the marketplace. This change was based on our review of comparable wages and a determination that we are currently below market for these positions.

Other major cost pressures in this case include adjustments we had to make to our transmission and distribution integrity management expenses for periodic inspection and maintenance, as discussed in detail by Mr. St. Hilaire.

We have maintained our commitment to Climate Action and Innovation even though it comes with modest increased pressure on overall costs. We did this for several reasons. First, we are committed to being part of Vermont's solution to climate change. Our leadership team feels that we must continue to lean into these efforts, even in the face of upward cost pressures, because of our commitment to make real transformation and advance our Climate Action Plan. Second, while we see a modest increase in our forecasted gas costs as we increase the amount of Renewable Natural Gas ("RNG") in our overall supply, the non-gas impact is currently limited to the Climate Action and Innovation Budget established under our Alternative Regulation Plan. This includes $500,000 of innovation expense and $1.5M of innovation capital in the 2023 rate year. Finally, both including RNG in our overall supply in increased amounts and investing in climate action and innovation projects, programs, and services are tenets of the Alternative Regulation Plan approved by the Commission in August 2021. We continue to support mandates that encourage VGS to pursue innovations that further the State's energy goals, even where compliance costs such as those associated with the Clean Heat Standard proposal currently in discussion in the Legislature are likely to create increased rate pressure for customers.

Q9. VGS's cost mitigation strategies are also a major factor driving the proposed COS. Please provide more detail about how VGS pursued strategies to minimize cost pressures for the COS in this case.

A9. As we prepared this proposed COS, we took a hard look at all the areas that could potentially provide an opportunity to lower costs, and we have reduced cost pressures that feed into the COS. The following provides additional detail about some of areas where we have achieved significant reductions.

First, as we prepared the COS, we considered what ROE we would request. As in last year's rate case, we determined what a proposed ROE would look like under the indexing method we have used in prior cases (that was originally part of a prior Alternative Regulation Plan). Under that method, we index the Company's ROE to 50% of the change in the 10-Year U.S. Treasury Note rate. This year, that methodology results in a proposed ROE of 8.92%, a very modest 0.12% increase from our current ROE of 8.8%. We also consulted with ROE experts and learned that based on methodologies similar to what the Commission has relied upon in the past, VGS's ROE in this case should be in excess of 10%. Taking into consideration rate impact for customers, we have chosen to utilize the formulaic indexing method and propose a ROE of 8.92%. This represents a reduction to the overall COS in this case of over $2 million. We recognize that this is below market, and may add increased rate pressure to future years as we address the need to get our ROE closer to levels that are expected by investors. But our leadership team—backed by our investor—supports this approach and we believe this is a reasonable strategy to manage upward rate pressure at this time.

Second, Mr. St. Hilaire's testimony provides additional detail about the status of the Customer Information System ("CIS") project and the basis for deferring the in-service date for that investment. Given uncertainty around the go-live date of the system, it makes sense to sideline the investment from the COS in this case; however, we are requesting that VGS be authorized to record a regulatory asset for the carrying costs of the asset when the project goes live during the Rate Year. This amount (up to one year of carrying costs) would then be included in a future rate filing and amortized over a specified period of time. This strategy reduces our rate base by $5.2M and our overall costs in this case by $1M.

Third, we are maintaining cost savings in this case consistent with VGS's prior commitments and strategies recommended by the Department in prior cases. For example, we have excluded budgeted contingencies for projects that are going into service, which reduces depreciation and related expenses. We have also excluded expenses associated with the pending investigation in Case Nos. 17-3550-INV and 18-0395-PET. And we have excluded 50% of the cost of our Supplemental Executive Retirement Plan, 100% of the long-term incentive plan, 50% of the short-term incentive plan, and 100% of Donation and Lobbying costs consistent with prior cases.

Finally, we are managing insurance costs in this COS by limiting the insurance premium increase this year to 10% over actual 2022 invoices. This is a conservative estimate of FY2023 insurance costs because the 2022 invoices included credits that are not known and measurable for FY2023 and may not be repeated in the Rate Year. We have also been exploring other ways to mitigate risk relating to insurance cost, such as whether we could obtain insurance through a captive insurance vehicle through our parent organization. We will only move forward with that approach after further analysis, and only if that analysis shows that such an approach would be more appropriate for our customers.

Q10. The third major factor you discuss above relates to rate stability. Can you provide additional detail about how this case promotes rate stability?

A10. As we approached this rate case filing, we wanted to make sure that we were doing everything we could to smooth the rate impact on customers of the next few years as SERF is fully returned to customers. For context, the SERF was approved by the Commission in 2011 to mitigate future rate increases associated with system expansion. With the support of the Department and the Commission, we believe use of the SERF has successfully achieved this goal, and it is set to be fully returned to customers in FY2024.

In general terms, returning $1 million in SERF to customers in a rate year enables the Company to avoid a roughly 2% change in non-gas rates. For example, if we reduced our SERF utilization in this case by $1 million (from $3.5 million to $2.5 million), non-gas rates would increase from the 6.18% we have requested to 7.97%. We prepared this COS with a 6.18% non-gas rate increase because it strikes the right balance between mitigating rate pressure in this case and ensuring that our approach does not push rate pressure forward too much and create rate volatility in 2024 and beyond.

Our 6.18% non-gas rate increase and overall increase of 3.7% in this case involves returning $3.5 million of SERF to customers now, leaving just under $700,000 to mitigate rate impacts in FY2024. If all else remains equal, this means we would expect to file a non-gas rate increase in FY2024 of approximately 5.0% relating to the decrease in SERF withdrawals from

FY2023 to FY2024. We also expect additional upward rate pressure from inflation and additional capital investments in FY2024, however, we believe that balancing SERF utilization over FY2023 and FY2024 to achieve an approximate 5-6% non-gas rate change in each year provides a good starting point for our 2024 Rate Case, as it helps reduce impacts in this case while promoting rate stability for our customers. Additionally, utilizing the remaining SERF in 2024 of approximately $700,000 will limit the SERF impact on non-gas rates in 2025 to approximately 1.3%.

Q11. Does this filing address any outstanding requirements from last year's rate case?

A11. Yes, this COS addresses several items the Commission identified in last year's rate case.

First, the Commission ordered that VGS review transmission maintenance expense and compare actual costs to our prior rate case filings for at least a three-year period. We reviewed transmission integrity expenses over the last five years and compared our actual spend to account 8630 with what was included in prior rate cases. Mr. St. Hilaire discusses the results of that analysis in his testimony.

Second, an error was identified in the last cost of service relating to the Depreciation Study effective for 2021-2025. Last year, VGS and the Department agreed upon depreciation rates for the accounts that needed correction for purposes of the cost of service, but we also committed to engaging our depreciation expert to update the study for use in FY2022 and upcoming rate cases. We have updated our depreciation study, which is discussed in more detail in Mr. Mitchell's testimony and is attached to his testimony as Exhibit MM-4.

Third, last year's rate case required VGS to file notice with the Commission when we complete enhancements to our fire department training presentation, which is expected to cost $15,000. VGS continues its efforts to determine the most effective form of online fire department training materials and is exploring several avenues. VGS will file notice with the Commission when this effort is completed.

Q12. Does this conclude your testimony?

A12. Yes.