

**STATE OF VERMONT
PUBLIC SERVICE BOARD**

Joint Petition of Vermont Electric Power Company, Inc.,)
(VELCO) Vermont Transco LLC, Green Mountain Power)
Corporation (GMP) and Vermont Electric Cooperative, Inc.)
(VEC) for a Certificate of Public Good pursuant to)
30 V.S.A. § 248 authorizing them to upgrade VELCO's)
Tafts Corners substation in Williston, Vermont and to)
Remove VEC's existing substation)

Docket No. 7453

SUPPLEMENTAL PREFILED TESTIMONY OF
ERNIE HIATT
ON BEHALF OF
VERMONT ELECTRIC POWER COMPANY, INC.

Summary of Testimony

Ernie Hiatt's testimony responds to questions submitted by the Public Service Board on September 12, 2008.

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Introduction

1 Q1. Please state your name and position at Vermont Electric Power Company Inc
2 (VELCO).

3 A1. My name is Ernie Hiatt and I am the General Manager of Capital Projects. My
4 resume is attached at Exh. VELCO-EH-1.

5

6

1 Q2. Please explain your experience that is relevant to cost allocation issues.

2 A2. I have spent 38 years interpreting contracts and customer service policies for
3 electric utility delivery system work. More specifically, I have spent 3 years at VELCO
4 analyzing the Northwest Reliability Project cost allocation and past cost allocations
5 among the Vermont distribution utilities and VELCO. This lead to a VELCO Board
6 directed working group which I participated in, and which concluded this October,
7 producing the VELCO and VT Transco Transmission Administration Manual and
8 reformatting an operating committee to address transmission cost allocation concerns
9 across Vermont.

10

11 Q3. What is the purpose of this testimony?

12 A3. On September 12, 2008, the Public Service Board issued questions regarding cost
13 allocation. My testimony responds to these questions. I repeat the Board's questions and
14 then provide a response.

15

16 Q4. Mr. Mallory's testimony contains a breakout into certain categories of the
17 estimated costs for the Project under review in this proceeding. The breakdown
18 specifically reflects a distinction between "Non-PTF (Specific)" costs and "Non-PTF
19 (Exclusive)" costs. Mallory pf. at 11. The construction costs assigned to these two
20 categories are detailed in the allocation agreement attached to Mr. Mallory's testimony.

1 See Exh. VELCO-Mallory-9 at 2. The allocation agreement explains that the costs for
2 the “Specific Facilities” are to be paid by Green Mountain Power (“GMP”) and Vermont
3 Electric Cooperative (“VEC”) for the first 10 years of operation pursuant to “the 1991
4 Agreement,” while the costs for the “Exclusive facilities” are to be paid by only GMP
5 and VEC, or, in some instances, only by VEC. Id. at 4.

6
7 Please explain in detail the criteria used for deciding which construction costs would be
8 designated “Non-PTF (Specific)” as opposed to “Non-PTF (Exclusive).”

9
10 A4. The 1991 Vermont Transmission Agreement (VTA) clearly defines equipment
11 that is classified as Specific Facilities when an interconnection to the transmission system
12 is requested. This is depicted in Exhibit VELCO-EH-2. In all cases the equipment
13 includes the transformer, secondary voltage transformer circuit breaker, appurtenances
14 and ancillary equipment, controls and control circuitry.

15
16 Exclusive Facilities are defined in the Substation Participation Agreement (SPA) and
17 represent equipment that is owned by a participating interconnecting utility within a
18 VELCO substation. This equipment includes feeder breakers, controls and associate
19 disconnects, as well as any other equipment or infrastructure located within the station
20 that is downstream of any feeder breakers as depicted in Exhibit VELCO-EH-2.

1 “PTF” is an ISO-New England designation, not a term defined or used in the VTA or
2 SPA. “PTF” are those transmission facilities owned by Participating Transmission
3 Owners to ISO-New England, rated at 69 kV and above, over which ISO-New England
4 exercises operating authority pursuant to the terms of ISO-New England’s Transmission
5 Operating Agreement. ISO-NE has issued a letter approving VELCO’s request to treat
6 up to \$2.25 million as PTF. Please see Exhibit VELCO-EH-3.

7
8 Q5. What discretion, if any, do the Petitioners have to categorize the costs of this
9 Project as “Non-PTF (Specific)” costs as opposed to “Non-PTF (Exclusive)” costs?

10 A5. None. VELCO categorizes the costs of this Project in accordance with the VTA
11 and SPA definitions. Exclusive equipment ownership is determined according to the
12 terms of the SPA, with such costs allocated among participating distribution utilities per a
13 cost allocation agreement.

14
15 Q6. Are there reasons why some or all of the “Non-PTF (Specific)” costs are not
16 designated as “Non-PTF (Exclusive)” costs?

17 A6. Yes. The designations are done according to the SPA and VTA as described
18 above because they are the FERC-approved tariffs for the construction and operation of
19 these facilities. Specific Facilities are owned by Vermont Transco LLC, operated by
20 VELCO and part of Transco’s FERC-jurisdictional rate base. The cost allocation for

1 Specific Facilities is specified in the VTA, to which all Vermont distribution utilities
2 agreed in 1991.

3
4 Q7. With respect to the “Specific Facilities” costs that are to be paid by GMP and
5 VEC pursuant to the 1991 Agreement for the first 10 years of operation-do the Petitioners
6 expect there will remain a balance outstanding for the costs of these facilities after the
7 first 10 years of operation?

8 A7. Yes. According to the terms of the VTA, after the 10th year, all remaining
9 carrying costs for these assets will be shared by all Vermont distribution utilities based
10 on their load ratio share until those assets are completely amortized. Typically, these
11 assets are amortized over a 38 year period.

12
13 Q8. If the answer to Question PSB-Q1-C is that other entities besides GMP and VEC
14 (i.e., Central Vermont Public Service or Burlington Electric Department) will be
15 responsible to pay the balance of the “Specific Facilities” costs after the first ten years of
16 operation, have these entities been notified of their potential obligation to pay these
17 costs? If so, who will be responsible for paying those costs, and over what term?

18 A8. Yes. All Vermont distribution utilities, including Central Vermont Public Service
19 and Burlington Electric Department, are signatories to and take transmission service
20 under the VTA. Also, the Vermont distribution utilities are notified of their potential

1 obligation to pay these costs through VELCO's forecasting model, which estimates the
2 distribution utilities future expenses in 20 year increments on a year to year basis.

3
4 Q9. Mr. Mallory testifies that the "area of need" for this project is comprised of the
5 customers served from the distribution circuits at "the Digital, Essex, and VEC Williston
6 substations." Mallory pf. at 5. Please explain why it is appropriate to allocate a portion
7 of the costs of this project to be paid by entities other than GMP and VEC.

8 A9. It is appropriate to allocate costs of this Project to entities other than GMP and
9 VEC because the FERC-approved tariff (the VTA) requires it.

10
11 Q10. If GMP and VEC were to construct substations comparable to this project outside
12 of a VELCO substation, would GMP and VEC be responsible for 100% of the costs for
13 constructing those substations? If so, is it reasonable to conclude that the costs for the
14 construction in the case of this project will be borne, in part, by other Vermont utilities
15 and their ratepayers simply because the proposed construction is sited inside a VELCO
16 substation? If not, why not?

17 A10. The costs of any substation built and connected to VELCO's 115 kV
18 transmission network would be allocated pursuant to the VTA and SPA. Given this, if
19 GMP and VEC built separate substations connected to the 115 kV transmission system,
20 the costs would be allocated similarly to the Project (i.e., Specific Facility costs

1 transitioning to Common Facility Costs after 10 years), but the Project would likely cost
2 significantly more in total than the proposed Project due to the duplication of design,
3 equipment, construction, and land costs.

4
5 If GMP and VEC built their own substations that were connected to the 34.5 kV
6 transmission network, that is not governed by either VELCO or ISO-NE Tariffs, they
7 would be responsible for 100% of the costs. This, again, would likely cost significantly
8 more than the proposed Project due to the duplication of design, equipment, construction,
9 and land costs.

10
11 Yes, it is it reasonable to conclude that the costs for the construction in the case of this
12 Project will be borne, in part, by other Vermont utilities and their ratepayers because
13 within the planning process for this Project all reasonable alternatives were studied and
14 the transmission Project as submitted represents the best and least cost solution to meet
15 the forecasted loads of the area. The tariff (VTA) fairly spreads the costs after 10 years
16 to all distribution utilities.

17
18 Further, substation specific facility costs being borne, in part, by other utilities'
19 ratepayers is, in fact, common practice for most VELCO substations. The case of the
20 proposed Tafts Corners Distribution Project is neither unique in this respect, nor because

1 it is a project that supports distribution. For example, many VELCO substations are
2 comprised mainly of subtransmission transformers and related facilities where there are
3 no distribution facilities. Also, these substations benefit distribution customers. These
4 substations contain specific facilities that according to the VTA, become common
5 facilities after ten years, and their costs shared among all Vermont utilities.

6

7 Q11. Does this conclude your testimony?

8 A11. Yes.

EXHIBIT LIST

Exhibit VELCO-EH-1	Resume
Exhibit VELCO-EH-2	Tafts Corners Substation Supply Diagram
Exhibit VELCO-EH-3	Letter from ISO-New England