STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Petition of GLOBALFOUNDRIES U.S. 2 LLC for a Certificate of Public Good, pursuant to 30 V.S.A. § 231 to operate a Self-Managed Utility	)))	Case No. 21-1107-PET
Petition of Green Mountain Power Corporation for approval to modify service territory pursuant to 30 V.S.A. § 249	)))	Case No. 21-____-PET

PREFILED DIRECT TESTIMONY OF SCOTT R. ANDERSON ON BEHALF OF GREEN MOUNTAIN POWER

March 17, 2021

Summary of Testimony

Mr. Anderson presents Green Mountain Power Corporation's ("GMP") analysis of GLOBALFOUNDRIES U.S. 2 LLC's ("GF") proposed Self-Managed Utility ("SMU").

Exhibit List

Exhibit GMP-SRA-1	Resume
Exhibit GMP-SRA-2	Financial Analysis of SMU and Alternatives

PREFILED DIRECT TESTIMONY
OF SCOTT R. ANDERSON
ON BEHALF OF
GREEN MOUNTAIN POWER

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

A1. My name is Scott R. Anderson. I am Manager of Rates at Green Mountain Power ("GMP"), with a physical address at 2152 Post Road, Rutland, Vermont 05701.

Q2. Please summarize your educational background and work experience.

A2. A description of my education and background, as well as a list of proceedings in which I have submitted testimony, is attached as ***Exh. GMP-SRA-1***.

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

A3. Yes. The cases in which I have provided testimony before the Commission are included in ***Exh. GMP-SRA-1***.

Q4. What is the purpose of your testimony today?

A4. The purpose of my testimony is to introduce and describe the financial analysis GMP conducted to evaluate GLOBALFOUNDRIES U.S. 2 LLC's ("GF's") proposal to operate a Self-Managed Utility to serve the electric needs of its manufacturing facility located in the Village of Essex Junction and Town of Essex, Vermont. As discussed further in Mr. Castonguay's testimony, this analysis informed GMP's negotiations with GF leading to its decision to support GF's proposal, and GMP used this analysis framework to help

develop the specific terms and conditions we viewed as critical to mitigating the SMU's potential impact on our customers. These conditions, including most significantly a multi-year transition fee to be paid by GF as part of the transaction, have been included in the Letter of Intent ("LOI") between GMP and GF and the Memorandum of Understanding ("Transmission MOU") between GMP, GF, and Vermont Electric Power Company, Inc. ("VELCO") related to the SMU, and are described in more detail by Mr. Castonguay in his testimony. My testimony is focused on just the financial analysis itself that helped inform GMP's decision making with respect to GF's proposal.

Q5. Can you please describe the financial analysis GMP conducted to evaluate the SMU proposal?

A5. Yes. In order to evaluate GF's proposal, we modeled three scenarios for the future relationship between GMP and GF, with the goal of understanding an illustrative range of potential impacts on customers assuming the loss of GF and how best to mitigate risks within the proposed SMU structure. Many permutations of scenarios were possible where the timing and magnitude of a GF departure, retail revenue from GF, and avoidable costs could all vary. The simplified scenarios we describe here are the ones we focused on: (1) GF remains a GMP customer for the foreseeable future, but with a level of rate accommodations equal to the current Term Contract (as approved in Case No. 18-3160-PET); (2) GF ceases operations at its Vermont facility after the end of the Term Contract and leaves Vermont; and (3) the Commission approves the proposed SMU transaction, as conditioned in the Transmission MOU. In each of these scenarios we considered the overall impact on retail revenues, avoidable power costs (including energy

and capacity obligations), and transmission costs, and the resulting potential rate impact on other customers, taking into account the negotiated transition fee under the SMU in the third scenario. Each scenario was modeled over ten years to view the potential long-term impacts of each approach; however the impacts during the proposed four-year transition period illuminate the benefits of the transition fee. The results of this analysis and my supporting calculations are provided in ***Exh. GMP-SRA-2***, and I summarize them further below.

Q6. Can you describe the first scenario where GF remains a GMP customer at Term Contract rates for the foreseeable future?

A6. The first scenario forms the baseline for our rate impact analysis of the other two scenarios. Here we have assumed that GF continues to pay the same rates as the current Term Contract and the rate levels for other customers have already been adjusted to incorporate the rate accommodations.

Q7. What risk does GMP see under the first scenario, if GF continues as a GMP customer but seeks and is able to obtain ongoing rate accommodations?

A7. This scenario presents a range of risks for GMP customers by continuing the existing piecemeal process which has failed to achieve a lasting solution, thereby perpetuating the significant uncertainty associated with the future of the GF facility in Vermont, as well as uncertainty for our other customers. For many of the last 15 years, GF and IBM before it has operated under some form of term contract or rate freeze, which has changed at various points over time as GF's supply needs and cost concerns have also been

changing. Given this, it is difficult for GMP planners to model what GF's tariff rates and supply costs may be over a long period of time. These short-range rate accomodations, which also rely on serial regulatory approval, impact GMP's ability to forecast what GF's share of GMP costs would be for any period beyond 2023, after the current Term Contract ends, and make it challenging to determine the specific cost impacts for other customers associated with this alternative.

However, given that GF, like IBM before it, has been granted rate accommodations in light of its unique position and important economic contributions to the state, it is only reasonable to assume that rate accommodations would continue in the future. Therefore, for purposes of modeling a likely future scenario for comparison, we assumed that GF would continue to seek and receive cost adjustments similar in level to what it currently receives under the Term Contract beyond the contract's end date of September 30, 2022. While it would certainly be a benefit to the state for GF to remain and even grow its presence here, GMP customers would experience an increased mid- to long-term cost risk if GF continued to received similar levels of rate accommodation, and GMP would remain obligated to plan for, manage, and purchase power to cover GF's uncertain future load. Given the term contract framework and rate freeze history, this scenario would mainly add continued pressure on costs for other customers as power supply costs and transmission costs grow but are not passed on to GF. This framework would also continue the uncertainty associated with a potential GF departure, all while increasing the complexity and risk of GMP's power supply obligations, as discussed further by Mr. Castonguay.

Q8. Under the second scenario, can you describe the impacts that would occur if GF were to remain a GMP customer until the end of the current term contract, but then cease operations and leave the state?

A8. In GMP's view, this is the worst-case scenario, and presents a major risk, not only to GMP's customers but to the State of Vermont as a whole. GF's departure would have significant cost implications for our customers, as well as everyone else across the state, as this outcome would have direct and indirect state-wide economic impacts. This is the scenario we most want to avoid and the outcome term contracts have sought to prevent through prior short-term rate accommodations, although this approach has not provided a lasting solution. It is also the scenario against which all other impacts must be measured, given the likelihood that this outcome would occur absent a broader resolution of the cost challenges GF faces as a competitor in the global market, and its viable US-based production alternatives, as outlined by Mr. Rieder on behalf of GF.

From GMP's perspective, GF comprises approximately 10% of GMP's retail sales in volume. A shift of a significant portion or the totality of GF's production, and therefore its electric load, out of Vermont would leave GMP with an oversupply of power it would need to offload in at least the short term, and more importantly, an immediate reduction in retail revenues that would continue. Both of these would raise costs for all other customers. As GMP enters into long-term power supply contracts to the benefit of its entire customer base, a reduction in its load would require GMP to sell excess power on the spot market, possibly at a loss. Some obligations, such as excess capacity, may not be able to be sold cost-effectively in the short term resulting in greater costs for

customers in the initial year after departure. This loss, along with the drop in expected GF revenue, would be borne by other GMP customers and could be substantial—on the order of $8.2M for the first year of GF's departure. As shown in ***Exh. GMP-SRA-2*****,** the overall expected rate impact the first year of departure would be just over 1.3% if power and transmission costs are avoided as modeled. A number of assumptions could impact the exact rate impacts under this (and other scenarios), but regardless, the scale of impact for GMP customers is materially greater than the SMU scenario. Therefore there is value in mitigating against this possible outcome for customers.[1] It is important to note that these rate impact results only address GMP's direct loss of GF sales. Loss of electric sales from other customers due to reduced economic activity associated with the loss of GF as a business entity would also adversely impact this analysis.

In addition, as Mr. Castonguay notes, this scenario would also lead to an increase in costs for customers at other Vermont distribution utilities. The unplanned loss of GF's load from the Vermont system would decrease GMP's overall percentage of load on the VELCO system, thereby increasing the other utilities' pro-rata share of the 1991 Vermont Transmission Agreement ("VTA"). And these increased costs would be coupled with the lost economic activity and benefits GF presently provides to the State and its residents, described further in Mr. Rieder's and Mr. Woolf's testimony.

[1] For example, if we assume that avoided capacity costs will lag and are therefore unavoidable in the first year, then the first year lost net revenue shifted to non-GF retail customers rises from $8.2M to $11.5M. This would increase the first year rate impact from 1.32% to 1.85%. Modeling higher rates paid by GF after the expiration of the Term Contract would also indicate higher rate impacts for customers, but the same mitigating benefit of the SMU and transition fee would exist.

Q9. Can you summarize the results of your analysis of the third scenario—the SMU approach—as reflected in the MOU between GMP, GF, and VELCO?

A9. The third scenario represents our modeling of the proposed SMU transaction, based on the terms negotiated in the Transmission MOU, including the four-year transition period, the transition fee paid by GF during that term, and the anticipated transition PPA ("Transitional PPA"). In contrast to the other scenarios, this scenario offers the most certainty for GMP customers on the future relationship with GF, and from a cost perspective, significantly mitigates the rate impact risk associated with a departure of GF from retail electricity service with GMP. As shown in the attached analysis, the negotiated transition fee of $15.6M is paid out over the four-year transition and substantially offsets the anticipated GMP lost net revenue, once reduced retail revenues and reductions in avoidable power and transmission costs due to no longer serving GF are taken into account. During the transition period, the declining transition fee revenue limits the annual impact at 0.37% in FY2026, roughly equivalent to FY2027 and declining again thereafter. The transition fee both mitigates and smooths the customer rate impact of transitioning GF to being a self-managed utility.

The negotiated structure of the transition fee is also favorable from a GMP customer standpoint. By having 70% of the transition fee paid after two years, it increases the value compared to a straight-line approach, and lowers the transaction risk from a credit standpoint. Finally, the annual amounts will be paid through monthly installments, allowing for a smooth integration within GMP financials. In his testimony, Mr. Castonguay explains further the factors that went into negotiating the final terms of

the LOI with GF—including the transition fee—and describes the overall benefits for GMP's customers associated with this approach compared to the other alternatives.[2]

Q10. Does this conclude your testimony?

A10. Yes, it does.

[2] A final financial consideration regarding the transaction involves the commitment from GMP to fund shortfalls resulting from the make-whole provision included in the GF-GMP-VELCO Transmission MOU and described in Mr. Castonguay's testimony. Under the base case scenario and different set of assumptions, GMP sees a very low probability that a meaningful contribution would be required over the forecasted period.