Witness CCS - 9

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application	:	Docket No. 01-035-01
of PacifiCorp for Approval of its	:	PREFILED DIRECT TESTIMONY OF
Proposed Electric Rate Schedules	:	GEORGE J. STERZINGER
and Electric Service Regulations	:	FOR THE COMMITTEE OF
	:	CONSUMER SERVICES

June 15, 2001

NON-CONFIDENTIAL

I. SUMMARY AND RECOMMENDATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is George J. Sterzinger. My address is 1400 16th Street, N.W., Suite 715, Washington, D.C. 20036.

Q. PLEASE PROVIDE YOUR QUALIFICATIONS AND PROFESSIONAL RESUME.

A. My qualifications and professional resume are attached as Appendix A to this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony covers three primary areas. First, I review PacifiCorp's (the Company) cost-of-service study and the inter-class revenue allocation supported by that study. Second, I recommend a series of corrections to the cost-of -service study and based on those recommended changes, I propose modifications to the inter-class revenue allocation and residential and small commercial rate designs. Third, I address the Company's proposed treatment of Special Contracts.

Q. WOULD YOU SUMMARIZE YOUR RECOMMENDATIONS WITH RESPECT TO THE COST-OF-SERVICE STUDY AND INTER-CLASS REVENUE ALLOCATION?

A. After reviewing the cost-of-service study, I determined that several changes would improve the study. First, I reviewed the process by which the Company unbundles the allocated cost of service into generation, transmission, distribution and other levels of service. Based on that review, I suggest that the unbundled cost-of-service study results be presented in terms of a unit cost per level of functional activity. The Company already makes those calculations; therefore, this change would not impose any additional burden. I recommend that the Public Service Commission (Commission) require the Company to present for each of the major functional levels an analysis of the cost of service at that functional level by relevant billing unit. These costs should also be tracked over time in order to judge how the relative costs of providing service are changing. I have prepared CCS Exhibit 9.1, which traces the changes in those functional levels of cost over the past three cost-of-service studies.

The second major area of concern is the Revenue Credit Method employed by the Company in the cost-of-service study. The Company enters into Sales for Resale agreements as part of its wholesale business. Tariffed customers are responsible for the fixed capacity costs of providing that service and are credited all revenue from those sales as an offset to those costs. My recommendation is that the Commission order the Company to change the classification of the revenue from Sales for Resale to be consistent with the classification that is used in the inter-jurisdictional allocation. This change modifies the method in which the revenue credits are allocated to the customer classes. In addition, I recommend that none of the revenue credits be assigned to the Utah Special Contract customers that are treated as "situs." In my opinion the Special Contracts, by their nature, do not pay the fully allocated cost of service and are therefore not entitled to receive any of the revenue credit from either wholesale or other Special Contracts. The revenue credited to these Special Contracts by the Company should be allocated among the tariffed customer classes who are responsible for fixed capacity costs.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS WITH RESPECT TO INTER-CLASS REVENUE ALLOCATION AND RATE DESIGN FOR RESIDENTIAL SCHEDULE 1 AND SMALL COMMERCIAL SCHEDULE 23.

A. The Committee of Consumer Services (Committee) has presented an analysis of net power costs for this proceeding that results in a substantially lower net power cost figure than that supported by the Company. It is approximately a 20% reduction. Based on that analysis of power costs, I recommend that all classes receive an across the board, equal percent decrease (or increase) of revenues with the exception of the small commercial Schedule 23 Class. Schedule 23 is showing a rate of return well in excess of the jurisdictional average return and as a result should receive a larger decrease (or smaller increase).

As a fallback position, I also develop a recommendation assuming that a significant share of the Company's position on net power costs is adopted by the Commission. The Company alleges that net power costs are the major driver in increasing the cost of service to retail customers in Utah. My analysis of the changes in unbundled costs over the last three cost-of-service studies filed by the Company shows the unbundled generation costs have increased by 19%. Based on that analysis, my recommendation is that the Commission consider allocating revenues among classes using both the earned rate of return on rate base and the increase per kWh of any proposed revenue allocation. For this case, given the performance of most of the customer classes, that would mean the Commission would use a combination of an equal percent of revenue and an equal per kWh increase to allocate a revenue increase among classes. Based on my experience in other Western states, most notably California, I believe a sound basis can be developed for allocating revenue increases that are related largely or solely to increases in power costs on a per kWh basis to the individual customer classes. An allocation of revenue among classes on an equal percent basis will produce very unequal allocations on a per kWh basis because the revenue includes distribution level costs.

After making the modifications to the cost-of-service study suggested in the earlier section, I found that the residential class rate of return improved and that the rate of return for the Schedule 23 was improved as well. Schedule 23 is earning a return on rate base well in excess of the bandwidth of reasonable rates of return. Increasing the revenues of the Schedule 1and Schedule 23 on an equal percent basis will mean that they are allocated a much greater share of the costs on a per kWh basis. The Company as a whole is seeking an increase of .91 cents per kWh. The equal percent of revenue will increase the costs of the Schedule 1and Schedule 23 by 1.13 and 1.126 cents per kWh, respectively. If power costs are driving up revenues it is unreasonable to collect a much greater share on a per kWh basis simply because a class is served at the distribution level, particularly if the class is also earning a return above the jurisdictional average. Based on the per kWh analysis and after taking into account the changes brought about after reallocating the revenue credits among tariffed classes, my recommendation is that the residential and small commercial classes be allocated a revenue increase equal to a 50/50 weighting of an equal percent of revenues and equal per kWh allocation. Other classes' revenue responsibility would be determined after this allocation and would be assigned an equal percent increase based on the revenue to be collected.

Q. WOULD YOU SUMMARIZE YOUR RECOMMENDATIONS WITH RESPECT TO SPECIAL CONTRACTS?

A. My first recommendation is that the Special Contracts be assigned none of the revenue credit from Sales for Resale or the interstate allocation of revenue from other Special Contracts. Making that change to the allocated cost-of-service study will dramatically worsen the observed performance of the Special Contracts that are treated “situs” in Utah. Beyond those specific changes, I recommend that the Commission adopt a series of policies having to do with the status of Special Contracts, the renegotiation of any Special Contract that lapses, and the eventual migration of Special Contract customers over to tariffed rates.

II. ALLOCATED COST-OF-SERVICE STUDY AND INTER-CLASS REVENUE ALLOCATION

Q. WOULD YOU FIRST DESCRIBE YOUR UNDERSTANDING OF HOW THE ALLOCATED COST-OF-SERVICE STUDY IS DEVELOPED BY THE COMPANY FOR THE UTAH JURISDICTION?

A. First, the total cost-of-service is either allocated or directly assigned to the various jurisdictions. Once the Utah jurisdictional cost of service is determined, the Company functionalizes those costs into generation, transmission, distribution, retail service and miscellaneous functional levels. This functionalization serves two purposes. First, it provides a clear basis for consistently allocating costs to customer classes on the basis of various allocation factors related to the usage of the customers. Second, the functionalization provides a breakdown of the total costs into the relevant categories of service so that the Commission can more precisely determine, for example, the current costs of service at the generation level.

Q. IN YOUR OPINION, DOES THE COMPANY’S COST-OF-SERVICE

RESULTS, AS PRESENTED, PROVIDE THIS SECOND TYPE OF INFORMATION IN A WAY THAT IS EASILY ACCESSIBLE?

A. In my opinion the Company’s study does not. The major result produced by functional level in the Company’s cost-of-service study is the development of a revenue requirement by the various levels of functional service. I believe it is more useful to determine the cost of service at that level by simply dividing the revenue requirement by the relevant billing units and presenting that information. For example, for the generation level, a more useful result than the one presented by the Company would be to show by class what the relevant cost of providing generation was by the relevant billing units, which would be billed kWhs. The unit cost per kWh for generation provides a useful unbundled cost estimate and it provides a good basis for assessing how costs are changing over time.

Q. REGARDING YOUR PROPOSAL TO PROVIDE INFORMATION AT THE FUNCTIONAL COST PER BILLING UNIT, DOES IT HAVE ADVANTAGES FOR THE COMMISSION?

A. It does. Specifically, having that information available by functional level will allow the Commission to examine how costs are changing for PacifiCorp in the Utah jurisdiction over time.

Q. HAVE YOU MADE THAT DETERMINATION FOR THIS PROCEEDING?

A. In CCS Exhibit 9.1, I illustrate for the Company as a whole the change in generation, transmission, distribution, etc., over the period of the last three allocated cost-of-service studies. It is my understanding that these three studies cover the entire period of time for which the Company has produced an unbundled study.

Q. PLEASE SUMMARIZE THE RESULTS OF THIS ANALYSIS.

A. CCS Exhibit 9.1 shows the change from the 1998 cost-of-service study through the 2000 study for the total company revenue requirement and for all the major functional levels including generation, transmission, distribution, retail and miscellaneous. This analysis of costs assumes that the Company's estimate of net power costs is correct. The analysis shows that for the period 1998 to 2000, the total revenue requirement of the Company increased from .049¢ per kWh to .051¢ for an increase of roughly 4.1%. During that same period, generation costs increased from 2.6¢ per kWh to 3.1¢ or 19% overall, while transmission costs decreased from .8¢ per kWh to .4¢ per kWh and distribution costs stayed the same at 1.3¢ per kWh. Retail and miscellaneous were essentially unchanged as well. In other words, for the period in question, the unbundled generation costs increased 2½ times as much as the total revenue requirement of the Company.

Q. DO YOU BASE ANY SPECIFIC RECOMMENDATION AT THIS TIME ON THAT ANALYSIS?

A. At the present time, I am aware of the fact that the level of net power costs represented by PacifiCorp in the revenue requirement part of this case is being seriously challenged by various parties. As a result, the unbundled costs of generation have to be taken as only the Company's initial estimates and do not represent the final costs that will be allowed by the Commission. However, I recommend that the Commission at least consider the effects of adopting either a per kWh allocation or a 50/50 allocation of any allowed revenue increase.

Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THOSE INCREASES?

A. Yes, in CCS Exhibit 9.2. In that exhibit, I use the analysis that was provided by William Griffith. I have added one inter-class revenue allocation based on an equal per kWh increase to all classes. In addition, that exhibit shows an allocation using a 50% weighting for the two methods. In other words, it assigns 50% of the increase to each class on an equal percent basis and 50% on an equal kWh basis.

Q. **WHY SHOULD THE COMMISSION CONSIDER AN ALLOCATION THAT ASSIGNS THE PROPOSED REVENUE INCREASE TO THE CUSTOMER CLASSES ON AN EQUAL PER KWH BASIS?**

A. The analysis that I have presented offers two justifications for an equal per kWh basis of any revenue increase allowed. First, if the net power cost analysis offered by PacifiCorp is accepted, it is important to allocate that substantial increase on the basis of cost causation. An equal percent of revenue allocation will give more of the increase in net power costs to classes such as the residential and small commercial because they are on the distribution system. If the cost increase is totally driven by production level costs, there seems no basis for allocating a much greater per kWh increase to classes simply because they are taking service at the distribution level. In addition, for classes like Schedule 23, which are actually paying revenues that provide a return substantially above the jurisdictional average rate of return, using an equal percent method will allocate more revenues to that class because they are overpaying at this time.

Q. WHAT, SPECIFICALLY, ARE THE RESIDENTIAL AND SMALL COMMERCIAL CLASSES PAYING IN THE COMPANY'S REQUESTED INCREASE IN TERMS OF A CENT PER KWH INCREASE?

A. In CCS Exhibit 9.2, it shows that the overall jurisdictional increase per kWh is .913¢ per kWh. The increase for Schedule 1is 1.13¢ per kWh and the increase for Schedule 23 is 1.1258¢ per kWh.

Q. HAVE YOU PREPARED AN EXHIBIT WHICH ILLUSTRATES ALTERNATIVE INTER-CLASS REVENUE ALLOCATIONS?

A. Yes, I have. In CCS Exhibit 9.2, I have prepared an inter-class revenue allocation based on an equal percent change, an equal per kWh charge and a third alternative based on a 50/50 allocation. In the 50/50 allocation, each class receives a revenue increase that is weighted 50% for the equal percent change and 50% for an equal per kWh charge.

Q. **AT THIS TIME, ARE YOU RECOMMENDING THAT THE COMMISSION ADOPT EITHER OF THE TWO ALTERNATIVE METHODS FOR INTER CLASS REVENUE ALLOCATION THAT YOU HAVE SHOWN IN CCS EXHIBIT 9.2?**

A. The inter-class revenue responsibility depends upon the determination of the appropriate level of net power costs for the test year. If the Commission largely adopts the Committee's net power cost position, then my recommendation is that the Commission assign any decrease on an equal percent basis among all classes except for Schedule 23. If the Commission, however, adopts the Company's position that net power costs are increasing dramatically, I recommend that that Commission use the equal per kWh allocation in combination with the equal percent of revenue to set the revenue responsibility for the Schedule 1 and 23.

In subsequent portions of this testimony, I show that the treatment of the revenue credit from Sales for Resale and Special Contracts is inappropriate and once corrected substantially improves the performance of both the residential and small commercial classes. Since both classes are then paying revenues in excess of a jurisdictional average return on rate base and are paying a per kWh increase well above the average increase for the jurisdiction as a whole, I recommend that the Commission use the 50/50 allocation to determine an allocation of revenue responsibility for the residential and small commercial classes. The details of that proposal are provided in a subsequent portion of my testimony.

Q. **TURNING TO THE REVENUES FROM THE SALES FOR RESALE AND THE SPECIAL CONTRACT SALES, WOULD YOU EXPLAIN HOW THOSE TWO TYPES OF REVENUE ARE HANDLED IN THE COMPANY COST-OF-SERVICE STUDY?**

A. First, it is important to recognize that while the Sales for Resale and the Special Contract sales are different, they bear striking similarities. Using the Revenue Credit method, the Company takes the revenue from the Sales for Resale and assigns them to the classes that are carrying the fixed capacity costs associated with those sales. As has been discussed in testimony offered in this case by the other Committee witnesses, PacifiCorp now makes a substantial number of wholesale sales. As a general principle, the costs related to making these sales are assigned to the regulated retail customers of the Company. All revenues from those sales are then assigned back or credited to the retail customers to offset those costs. There is substantial argument about whether certain wholesale contracts should be afforded Revenue Credit treatment. My testimony does not deal with that issue. My testimony looks at how the revenues that are currently credited back to the Utah retail customers are treated.

Q. WOULD YOU EXPLAIN HOW THE COMPANY TREATS THESE REVENUES IN ITS COST-OF-SERVICE STUDY?

A. First, the Company must assign the total amount of wholesale revenues to the individual state jurisdictions. That is done in Company Exhibit DLT-3. That particular exhibit shows $862,000,000 in total revenue from the wholesale sales. Of particular importance, the exhibit also shows that the Company classifies the Sales for Resale into three categories. Those categories are allocated on S, SG, and SE factors. The SG factor is used to allocate approximately 98% of the total wholesale revenues to the Utah jurisdiction. However, the Company uses a very different classification and allocation method to assign the total revenue credit among the classes of service in the Utah jurisdiction. That classification and allocation is shown on Company Exhibit DLT-3, Tab 4.1, Page 3 of 18. In that exhibit, the Company breaks up the total revenue credit into a demand (SG) and energy (SE) portion. In that classification and allocation, the Company substantially increases the amount of the revenue that is credited back on an energy basis. In this case, the energy classification increases from approximately 2% in the inter-jurisdictional allocation to roughly 13% in the Utah inter-class allocation.

Q. DO YOU AGREE WITH THIS INCREASED ASSIGNMENT ON THE BASIS OF AN ENERGY FACTOR?

A. I do not. In general, I believe that the rationale for the Revenue Credit, to the extent that it is justified, depends critically on crediting back revenues to offset the cost of the capacity that provides service on the wholesale level. In my opinion, the system generation allocator, the F10 factor, is the most appropriate allocator to credit back revenue since it is the allocator that is used to assign the responsibility for generation costs in the first place. In addition, I see no reason for altering the classification of the revenue credit from the inter-jurisdictional to the inter-class study.

Q. **BASED ON THAT ANALYSIS, WHAT IS YOUR RECOMMENDATION?**

A. I recommend that the total revenues credited back to the customer classes be classified into a system generation and a system energy portion that reflects the allocation used in the inter-jurisdictional cost-of-service study. This will result in more of the costs being allocated on an F10 basis and will credit revenues to classes on the same basis the classes are assigned responsibility for the cost of capacity. Thus, the revenue credit will track cost responsibility.

Q. DOES THAT ADDRESS ALL OF YOUR CONCERNS WITH RESPECT TO THE REVENUE CREDIT?

A. It does not. Company Exhibit DLT-3, Tab 4.1, also shows that the revenue from the wholesale sales is allocated to Special Contract Customers. In particular, these customers are allocated a total of over $11 million of revenue credit back from the wholesale sales.

Q. **DO YOU AGREE WITH THIS ALLOCATION?**

A. I do not. In an earlier part of the testimony I stated that the Special Contracts were similar to the wholesale sales. That similarity has to do with the fact that neither of these groups are assigned or allocated capacity costs of generation. For Special Contracts, the Company enters into negotiations with the individual customers to set a rate that is supposedly above incremental costs but does not reflect a full allocation or assignment of fixed capacity costs. Since the Special Contracts are not assigned capacity costs related to making the Sales for Resale and do not pay a fully-allocated share of capacity costs, they should receive none of the revenue associated with wholesale sales. The $11 million that is allocated to Special Contracts under the Company's methodology should be reallocated to the other customer classes that do pay a fixed share of capacity costs.

Q. ARE THERE ANY OTHER CONCERNS THAT YOU HAVE REGARDING THE TREATMENT OF REVENUE IN THE COMPANY'S COST-OF-SERVICE STUDY?

A. The final concern that I have pertains to the assignment back to the Utah jurisdiction of the Special Contract revenue that is allocated on an inter-jurisdictional basis.

Q. PLEASE EXPLAIN WHAT PORTION OF SPECIAL CONTRACTS IS ALLOCATED ON AN INTER-JURISDICTIONAL BASIS.

A. Although the Commission has never given final approval to the treatment, the Company began in 1997 to vary the treatment of Special Contracts. Prior to 1997, it is my understanding that all Special Contracts were treated "situs." Basically, that meant that all of the costs related to providing the generation service and all of the revenues from the Special Contracts were contained within the particular jurisdiction in which the sale occurred. Beginning in 1997, the Company changed the way it treated Special Contracts. Special Contracts entered into (or amended) after 1997 have their load removed from the total PacifiCorp system. This meant that the inter-jurisdictional cost responsibility of all of the jurisdictions which comprise the PacifiCorp system were increased by virtue of the fact that they were paying a larger share of a total system demand that had been reduced by the removal of the Special Contract loads. In this way, the costs of generation related to these Special Contracts were spread among the various jurisdictions of the PacifiCorp system. The revenue from these Special Contracts was similarly spread among the jurisdictions. My remaining concern with respect to the development of revenue and revenue credits for the tariff customer classes has to do with how this inter-jurisdictional revenue is first allocated to Utah and then assigned among the customer classes in Utah.

Q. HOW IS THE REVENUE TREATED IN THE COMPANY'S COST-OF-

SERVICE STUDY AT THE PRESENT TIME?

A. (BEGIN CONFIDENTIAL)

(END CONFIDENTIAL)

Company Exhibit DLT-3, Tab 2, Page 1 of 37, shows an increase in the Utah jurisdictional revenue for commercial and industrial sales of roughly $48.2 million. That revenue is allocated back to the system on an SE and SG factor. In the inter-class study, on DLT-3, Tab 4.1, the same commercial and industrial sales are shown increasing for an interruptible demand and an interruptible energy category of the same $48.2 million. In other words, it is my understanding that this figure represents first the total revenue from Special Contract sales allocated to Utah from among the jurisdictions and then among the customer classes in Utah.

Q. **DO YOU AGREE WITH THE TREATMENT OF THE REVENUE IN THE COMPANY'S COST-OF-SERVICE STUDY?**

A. I do not. First, I take exception with the classification into system energy and system generation that is shown in both the inter-jurisdictional and the inter-class cost-of-service study. Revenue credits should follow and offset the costs not paid for by the Special Contract customers. In my opinion, neither the interruptible nor the firm Special Contract customers pay full capacity costs. Therefore, the revenue from these contracts should offset the costs that are assigned to the customer classes that do incur the capacity costs. To correct that problem, both the classification in the inter-jurisdictional and in the inter-class allocation should be changed to treat all revenues related to Special Contracts on a system generation basis.

Q. IS THIS POSITION CONSISTENT WITH YOUR EARLIER POSITION WITH RESPECT TO THE REVENUE CREDIT FROM WHOLESALE SALES?

A. It is not. In the treatment of wholesale sales revenue, I accepted the Company's classification into system generation and energy. In part, that was because the system energy classification was a very minor part of the overall portion of the revenue classification. Based on my understanding of the Special Contracts, the revenue related to the contracts should be consistently classified on a system generation basis. So in this case, I do not accept the inter-jurisdictional classification and allocation. For purposes of this case, my recommendation is that the treatment in the inter-class study be done on a 100% system generation basis.

Q. DOES THIS COMPLETE YOUR CONCERNS WITH THE ALLOCATION OF THESE REVENUES AMONG CLASSES?

A. It does not. Again, similar to the treatment of the wholesale revenue credit, Company Exhibit DLT-3, Tab 4.1, indicates that some of the revenue from the "system" Special Contracts is allocated back to the situs industrial contracts. Situs Special Contracts should not be credited with revenue from the post-1997 contracts. The reasoning here is exactly the same as the reasoning in the revenue credit for wholesale sales. The Utah situs Special Contracts do not pay a full share of the fixed costs related to generation capacity. Consequently, they should not be credited any of the revenue from the Special Contracts that are treated on a system basis. That revenue, which in this case is approximately $700,000, should be reallocated among the customer classes that are responsible for all of the fixed costs of capacity.

Q. **HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES AND SHOWS THE EFFECTS OF THESE CHANGES?**

A. Yes. The impacts of my proposed changes are shown in CCS Exhibit 9.3. The exhibit breaks the treatment into two sections. The first part of the exhibit considers the appropriate allocation of the inter-jurisdictional revenue from Special Contract sales. This exhibit shows, first of all, the reallocation of those revenues on a system generation or F10 factor basis. After reallocating revenues, the revenue that would have gone to the Special Contracts is zeroed out and reallocated on a proportional basis among tariffed customer classes. The sum total of the revenue allocation to the various tariff classes is then shown on the final line. Essentially the same treatment is given to the allocation of the revenue credit for the wholesale sales. Finally, CCS Exhibit 9.3 shows the net change among the tariffed customer classes that results from all of the above changes. For example, the reallocation of revenue credits results in an increase in revenue to the residential class of $5.5 million and to the small commercial class of approximately $2.1 million.

Q. HAVE YOU CALCULATED HOW THAT REVENUE REALLOCATION WILL AFFECT THE RELATIVE RATE OF RETURN ON RATE BASE FOR THE RETAILCUSTOMER CLASSES?

A. I have made an initial calculation of the effect of this reallocation based upon the summary cost-of-service sheets that was presented in Company Exhibit DLT-1. A complete recalculation would require rerunning the cost of service study, which I have not done. My initial recalculations are shown in my attached CCS Exhibit 9.4. That exhibit shows the present annual revenue and the calculated rate of return on rate base, rate of return index and PacifiCorp's cost-of-service figures from DLT-1. Those three columns are then used to derive the PacifiCorp increase or decrease to equal rate of return. That proposed increase or decrease is then compared to the revenue credit adjustment found in CCS Exhibit 9.3. The revenue credit adjustments are both positive and negative depending upon the particular class. A positive revenue credit adjustment will lead to that particular class having more net income and therefore having a lower need for a revenue increase in order to earn an equal rate of return on rate base. After making all of the adjustments reflected in CCS Exhibit 9.3, I found that Schedule 1 and

Schedule 23 both are earning a rate of return in excess of the jurisdictional average. In other words, each of these classes would require a net decrease in rates to earn an equal rate of return at the 5.055% calculated rate of return on rate base in the initial PacifiCorp study.

Q. WHAT PARTICULAR RECOMMENDATIONS DOES CCS EXHIBIT 9.4 LEAD YOU TO MAKE WITH RESPECT TO THE REVENUE ALLOCATION AMONG THE CLASSES?

A. If the Committee net power costs are accepted, then all classes should receive an equal percent decrease with the exception of Schedule 23, which should receive a 25% larger decrease than average. If the PacifiCorp net power costs are accepted, then CCS Exhibit 9.4 has to be combined with the earlier analysis presented in CCS Exhibit 9.2. Based on the combined analysis in those two exhibits, I find it reasonable, that both Schedule 1l and Schedule 23 receive an increase in their revenues based on the 50/50 allocation method. It is important to note that for these two classes, even though they are earning a rate of return in excess of the jurisdictional average, CCS Exhibit 9.2 shows that the 50/50 allocation assigns them substantially more on a per kWh basis than other classes such as Schedule 6 which also shows earnings in excess of equalized rate of return. By comparison, Schedule 6 is paying substantially less per kWh than the residential and small commercial classes under the 50/50 allocation method. For this reason, I believe it would be appropriate to allocate an equal percent of revenue increase (decrease) to Schedule 6.

IV. RATE DESIGN

Q. TURNING FROM COST-OF-SERVICE AND INTER-CLASS REVENUE ALLOCATION TO RATE DESIGN, HAVE YOUR REVIEWED THE COMPANY'S PROPOSALS FOR AN INVERTED RATE STRUCTURE FOR THE RESIDENTIAL CLASS?

A. Yes, I have.

Q. **DO YOU AGREE WITH THOSE PROPOSALS?**

A. In a broad sense, I do. The Company's proposal for an inverted rate structure is appropriate at this time. I would add that the Commission should adopt an inverted rate structure for the residential class irrespective of the change in revenue requirement ordered in this case. Pending the receipt of bill frequency data, the 400 kWh block seems to be appropriate. I may have further remarks depending on what the information shows. As a general principle, however, a residential inverted rate should set the breakpoint (i.e. or the point at which the price per kWh increases) somewhere above the minimum block usage. An inverted rate should have a lower rate for base use with one or more escalating kWh charges for the typical customer as they move from base use into heating and air conditioning usage levels.

Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS REGARDING RATE DESIGN AT THIS TIME?

A. Yes. I do. The extreme price increases that have plagued the Western area for the past year have prompted many states, among them Utah, to introduce short-term, aggressive programs to induce customers to reduce usage. Until the extreme prices are removed from the Western market, I would urge that the Commission consider on an ongoing basis a variety of programs that will effectively and fairly lead to reduction in usage. In general, I would recommend that the Commission establish a working group to consider ways to tie present usage to past historical usage, to set targets for conservation that are achievable and beneficial to all customers, that minimize free rider problems, and to address any possible revenue impacts of the conservation programs well before the introduction of the programs themselves. Finally, I believe it is appropriate for the Commission to consider a variety of conservation targets the programs can reasonably be expected to achieve. In that way, the Commission can have an arsenal of policies ready to apply should a crisis situation arise. Waiting until the crisis, and responding with limited information to proposals that may not be beneficial, can produce more problems than they solve.

IV. <u>SPECIAL CONTRACTS</u>.

Q. **WOULD YOU SUMMARIZE THE RECOMMENDATIONS YOU HAVE MADE SO FAR WITH RESPECT TO SPECIAL CONTRACTS IN THIS CASE?**

A. My review of the cost-of-service study has found that under PacifiCorp's proposed treatment the Special Contracts are currently allocated a portion of the revenue credit from wholesale sales as well as the inter-jurisdictional revenue from Special Contracts. In my opinion, based on the nature of the Special Contracts and especially on the fact that the contracts do not make a payment towards the fixed cost of generation equipment, these customers are not entitled to receive any of the revenue credit allocation.

Q. **IN YOUR OPINION, DO THE SPECIAL CONTRACTS THAT THE COMPANY HAS ENTERED INTO AT THIS TIME PROVIDE A BENEFIT TO THE UTAH TARIFFED CUSTOMERS?**

A. In my opinion, they most definitely do not. Special contracts fall into two categories. First, a relatively small portion of the total Utah Special Contractsare treated as situs as discussed earlier. For these contracts, it is clear that once the revenue credits given to them by PacifiCorp are removed, the sales do not cover the costs of providing them service. The second and much larger class of Special Contracts is one that is treated on a system-wide basis. (BEGIN CONFIDENTIAL)

(END CONFIDENTIAL)

Q. **DOES THIS COMPLETE YOUR TESTIMONY?**

A. Yes, it does.