Witness OCS – 5R RD

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	
Rocky Mountain Power for Authority	**)**	**Docket No. 09-035-23**
to Increase its Retail Electric Utility	**)**	**Rebuttal Rate Design**
Service Rates in Utah and for	**)**	**Testimony of**
Approval of Its Proposed Electric	**)**	**Daniel E. Gimble**
Service Schedules and Electric	**)**	**For the Office of**
Service Regulations	**)**	**Consumer Services**

March 23, 2010

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

A. My name is Daniel E. Gimble. I am a Special Projects Manager with the Office of Consumer Services (Office or OCS). My business address is 160 E. 300 S., Salt Lake City, Utah.

Q. DID YOU FILE DIRECT RATE DESIGN TESTIMONY EARLIER IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL RATE DESIGN TESTIMONY?

A. My testimony responds to rate design proposals submitted by the Southwest Energy Efficiency Project-Utah Clean Energy (SWEEP), Western Resource Advocates (WRA) and the Division of Public Utilities (Division) for Residential Schedules 1 and 3. I also respond to the Division's rate design proposals for Schedules 10 and 23. The Office responds to the Division's revenue decoupling proposal separately in the testimony of Michele Beck.

II. OFFICE RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS RELATING TO RATE DESIGN AT THE REBUTTAL STAGE OF THIS PROCEEDING.

A. The Office continues to support the balanced residential rate design proposal filed in my direct testimony; a proposal which is consistent with the Commission's decisions in Dockets 06-035-21 and 08-035-38. The Office's proposal:

- Retains the current inverted, three-block summer energy rate structure, with a single (flat) energy rate in the non-summer period[1];
- Applies half of the ordered $12.18 million in class revenue increase to the customer charge, bringing the charge to $3.75 per month;
- Applies the other half of the increase in class revenue evenly between the second summer energy block, the third summer energy block, and the

[1] Summer Period: May – Sept.; Non-Summer Period: Oct. – Apr.

winter energy rate, resulting in a 2.2% increase to the second block, a 2.82% increase to the third block and a 0.75 % increase to the winter rate.

The Office recommends the Commission reject the residential rate design proposals submitted by SWEEP, WRA and the Division for the following reasons. First, these proposals lack necessary cost and price elasticity information to support recommended changes to energy rates and rate structures. Second, only one of the three parties, SWEEP, proposes an increase in the residential customer charge and that change is small ($0.25/month). Past Commission decisions have involved more significant increases ($1/month) to the customer charge to move it closer to cost-of-service. Third, the "rachet effect" associated with WRA's proposed surcharge raises concerns relating to intra-class equity.

The Office acknowledges that these proposals include elements worthy of additional study for potential inclusion in future cases. For example, SWEEP's proposal for a two-block energy rate structure in the non-summer period has merit and should be studied to ensure the block rates are cost based. Additionally, the Office could potentially support future rate design proposals that have a greater impact on large residential users in summer months, if such proposals are based on reliable cost information. The Office has consistently recommended the Commission direct the Company to prepare a Utah Marginal Cost Study to facilitate such analysis and now also suggests that elasticity studies could provide important information as well.

III. RESIDENTIAL RATE DESIGN PROPOSALS

SWEEP-UCE

Q. PLEASE SUMMARIZE SWEEP-UCE'S RESIDENTIAL RATE DESIGN PROPOSAL.

A. SWEEP proposes a residential rate design that encompasses the following elements:

- Increases the residential customer charge from $3.00/month to $3.25/month;

- Modifies the current three-block, summer inverted energy rate structure by adding a 4th block for usage exceeding 2,000 kWh/month.
- Places the bulk of the residential class revenue increase on the third and fourth summer energy rate blocks.
- Implements a new two-block non-summer energy rate structure.

According to Dr. Collins, the primary objective underlying SWEEP's rate design proposal is to recognize the relatively large growth in summer usage in the fourth block and price electricity in a way to trigger a demand response from high use residential customers.[2] In addition, SWEEP proposes a two-block non-summer energy rate structure with a small price differential to reflect growing usage during the non-summer months.[3]

Q. DID SWEEP PROVIDE A COMPARISON OF EXISTING AND ITS PROPOSED SUMMER ENERGY RATES?

A. Yes. My Table 1 below provides a side-by-side comparison of the current and SWEEP's proposed summer/non-summer blocks and associated energy rates.[4] As Table 1 shows, SWEEP's proposal results in a steeply inverted summer energy rate structure with the fourth block energy rate being approximately double the first block energy rate. Table 1 also compares the existing flat non-summer rate with SWEEP's proposed two-block energy rate structure.

Table 1

Note: Energy Rates = Cents/kWh

	Current	Proposed
Customer Charge	$3.00	$3.25
Summer 1st block (0-400 kWh):	7.5292	7.5292
Summer 2nd block (401-1,000 kWh):	8.9416	8.9416

[2] Collins Direct, pg. 3, lines 7-11 and 22-23 continuing to pg. 4, line 1.
[3] Collins Direct, pg. 11, lines 3-11.
[4] The summer and energy blocks and rates were taken from Dr. Collins' Tables 1, 2 and 4 on Page 10 of his Direct Testimony.

Summer 3rd block (> 1,000 – 2,000 kWh):	11.1216	12.4215
Summer 4th block (> 2,000 kWh):	NA	14.9058
Non-Summer 1st block (0-700 kWh):	7.8009	7.6
Non-Summer 2nd block (701 and above):	NA	8.4

Q. WHAT ANALYSIS DID SWEEP INCLUDE TO SUPPORT ITS RESIDENTIAL RATE DESIGN PROPOSAL?

A. Dr. Collins prepared a usage-billing analysis, which indicates 29 percent of customers use 55 percent of total electricity in summer months. While Dr. Collins did not conduct any price elasticity analysis or include any elasticity studies in support of SWEEP's residential rate design proposal, he did indicate models are available to determine an elasticity adjustment in the calculation of residential rates to reflect an expected demand response to higher third and fourth tier price signals.[5]

WRA

Q. PLEASE SUMMARIZE WRA'S RESIDENTIAL RATE DESIGN PROPOSAL.

A. WRA proposes collecting the total residential class revenue increase via a monthly High Usage Surcharge (surcharge) that would be applied to bills of customers using greater than1,000 kWh/month. If usage dipped below 1,000 kWh in the next month, the surcharge would be removed from a customer's bill. WRA proposes an initial surcharge level of $2.50/month for customers using 1,001-1,500 kWh/month; with stepwise surcharge levels in $10 increments assessed on customer bills as monthly usage increases. WRA's goal is to provide residential customers a "noticeable incentive to reduce usage to a lower level" in non-summer as well as summer months.[6]

[5] The model referenced by Dr. Collins in his testimony was developed by Dr. Ahmad Faruqui in a recent PSCo proceeding in Colorado, Docket 09-AL-299 (Collins Direct, pg. 15, lines 17-23).
[6] Curl Direct, Pg. 4, lines 71-76.

Q. WHAT ANALYSIS DID WRA PROVIDE IN SUPPORT OF ITS SURCHARGE PROPOSAL?

A. In his Exhibit JEC-1 (Pg. 1), WRA's witness Mr. Curl illustrates how the combined surcharge levels, customer levels and kWh usage would cumulatively sum to the class revenue increase ordered by the Commission. His Exhibit JEC-2 (Pg. 1) compares bill impacts resulting from WRA's and RMP's rate design proposals.

Division

Q. PLEASE SUMMARIZE THE DIVISION'S RESIDENTIAL RATE DESIGN PROPOSAL.

A. The Division proposes the Commission adopt a pilot residential decoupling tariff patterned after the decoupling mechanism developed and implemented for Questar Gas, in support of its primary residential rate design proposal. If the Commission does not adopt the Division's decoupling proposal, then the Division offers an alternative residential rate design proposal.

The Division's primary rate design proposal (w/decoupling) is to leave the customer charge at $3.00/month, eliminate the minimum bill, maintain the current three-block summer rate structure and increase the first and second block energy rates by 1.0% and the third block energy rate by 11.4%, and increase the non-summer flat rate by 1.0%. The Division's alternative proposal (w/o decoupling) is to increase the customer charge to $3.25, eliminate the minimum bill, increase the summer first and second block energy rates by 1.0% and the summer third block energy rate by 8.5% and increase the non-summer flat rate by 1.0%.[7]

Q. DID THE DIVISION PRESENT ANALYSIS IN SUPPORT OF EITHER ITS PRIMARY OR ALTERNATIVE RATE DESIGN PROPOSALS?

A. The Division presented a monthly billing comparison associated with its primary and alternative rate design proposals in Dr. Abdulle's Exhibits 15.6 Phase II and 15.8 Phase II, respectively. These two exhibits illustrate how the Division's rate

[7] Powell Direct, Pg. 2, lines 33-40. Abdulle Direct, Pg. 16, lines 307-315.

design proposals impact the summer and non-summer bills of residential customers as usage increases from 100 to 2,000 kWh per month.

IV. OFFICE RESPONSE TO RESIDENTIAL RATE DESIGN PROPOSALS

Q. DOES THE OFFICE HAVE CONCERNS WITH THE RESIDENTIAL RATE DESIGN PROPOSALS SUBMITTED BY SWEEP, WRA AND THE DIVISION?

A. The Office has a number of concerns with the residential rate design proposals filed by SWEEP, WRA and the Division. These concerns include:

- Lack of cost support;
- Lack of price elasticity evidence;
- Inadequacies of the residential usage data;
- Lack of significant increase in the customer charge;
- Equity considerations.

Q. DID THE DIVISION, SWEEP, OR WRA PROVIDE ANY COST ANALYSIS IN SUPPORT OF THEIR RATE DESIGN PROPOSALS?

A. None of the parties included any cost analysis in support of their recommended summer and non-summer energy rate structures (SWEEP, Division) or surcharges (WRA). Thus, all three proposals share a common deficiency: they lack a necessary evidentiary basis showing the proposed rate structures or surcharges are cost based.

In Docket 06-035-21, the Commission plainly stated that marginal cost information "can and should be used" in designing rates to ensure there is a reasonable cost basis supporting a proposed rate structure. Unfortunately, the Company filed no marginal cost study in this case; a deficiency which the Office recommends be remedied by November 1, 2010.[8] However, the Office believes that it is incumbent on a party proposing a significant change in rates or rate structures to support those proposals with cost analysis or cost information from reliable sources. Such cost analysis is conspicuously absent in all three proposals.

[8] Gimble Direct RD, pg. 9, lines 257-260.

In the last rate case the Commission adopted a stipulation that increased the summer tailblock rate by 7.2%.[9] Further increases to the tailblock rate or changes in the overall rate structure to encourage conservation may be justified by reliable cost information. However, before acting on proposals that significantly increase the existing tailblock rate by 11.4% (Division), implement a new tailblock rate that is 100% higher than the first block rate (SWEEP), or implement relatively high surcharges tied to kWh usage (WRA), the Commission should first order the Company to timely prepare and file a Utah Marginal Cost Study so that it has more complete information to make fact-based findings and conclusions.

Q. DID THE DIVISION, SWEEP, OR WRA PROVIDE ANY EVIDENCE THAT THEIR RATE DESIGN PROPOSALS WOULD LIKELY RESULT IN REDUCED USAGE BY RESIDENTIAL CUSTOMERS?

A. None of the parties provided the Commission with any direct evidence relating to price elasticity impacts on residential customer demand (revenue) resulting from their respective rate design proposals. This is especially surprising given the decoupling aspect to the Division's rate design proposal and the high summer tailblock and surcharge levels associated with the SWEEP and WRA proposals. The Commission would certainly want to examine information relating to expected price elasticity impacts as it weighs the pros and cons of rate design proposals filed by parties.

Q. WHAT CONCERNS DOES THE OFFICE HAVE REGARDING THE USE OF RESIDENTIAL USAGE DATA?

A. The residential usage data relied on by SWEEP to demonstrate the high growth in summer usage in its proposed third and fourth energy rate blocks reflects actual usage data rather than weather normalized data. Additionally, SWEEP relied on data from only one year, 2008, to correlate the percentage of bills with

[9] Docket 08-035-38, Stipulation in Cost of Service, Rate Spread and Rate Design – Phase II, Sch. 1 – Residential Service Charges, pg. 5.

the percentage of kWh usage in its proposed four tiers.[10] Temperature variations (weather) invariably impact actual usage and the growth percentages shown in Dr. Collin's Table 5 (Direct, Pg. 12) would be different if weather normalized usage data was available and used in a time series analysis.

Q. DID THE DIVISION, SWEEP, OR WRA CONTINUE TO PURSUE COST-BASED INCREASES TO THE RESIDENTIAL CUSTOMER CHARGE?

A. Only one of the three parties, SWEEP, proposes to increase the residential customer charge as part of its primary rate design proposal. SWEEP proposes a small $0.25 increase in the customer charge; WRA and the Division (primary proposal) recommend leaving it at $3.00 month. In particular, the Division's unbalanced rate design proposal in this case to leave the customer charge unchanged and place the majority of the class revenue increase on the summer tailblock energy rate represents a sharp departure from its position in recent rate cases to either directly increase the customer charge to cost-of-service (per the Commission's method) or make steady progress towards that objective. Dr. Powell acknowledges that departure in his Direct Testimony and explains the Division's policy objective for this case is to place conservation ahead of achieving a cost-based customer charge.[11]

The Office believes the Division's alternative proposal (w/o decoupling), which includes a $3.25 customer charge and 8.5% increase to the summer third block energy rate, represents a more balanced rate design proposal. The Division could actually propose a higher customer charge and still significantly increase the third block rate, thereby accomplishing their stated dual objectives of moving the customer charge to cost-of-service and sending a stronger price signal to high use customers through a higher summer tailblock energy rate.

[10] Collins Direct, pg. 11, lines 13-14.
[11] Powell Direct, Pgs 8-11, lines 160-209.

Q. DO ANY OF THE RESIDENTIAL RATE DESIGN PROPOSALS RAISE CONCERNS REGARGING INTRA-CLASS EQUITY?

A. Yes. WRA's surcharge proposal raises equity considerations that are unaddressed in Mr. Curl's direct testimony. For example, the surcharge ratchets up from $2.50 to $10.00 on residential customers' bills as usage increases from 1500 to 1501 kWh/month. A customer using 1500 kWh/month would see a 1.7% increase on their bill while a customer using 1501 kWh/month would see about a 6.7% increase on their bill.[12] Given a class average increase of 2.2%, customers with virtually identical usage profiles would incur very disparate impacts on their monthly bills. While WRA's proposal may motivate customers that have usage reasonably close to the 1501 kWh "trigger point" to make efforts to conserve energy to avoid a $10 surcharge, there is a fundamental issue of fairness that requires consideration.

Q. DOES THE OFFICE AGREE WITH THE DIVISION'S PROPOSAL TO ELIMINATE THE MINIMUM BILL?

A. The Division, like the Company, proposes to eliminate the monthly minimum bill for single phase residential customers.[13] There has been no evidence presented by any party in this case supporting a price differential between the minimum bill and customer charge.[14] Since the current minimum bill of $3.78 for single phase customers is very close to the Office's proposed $3.75 customer charge, the Office recommends the minimum bill for single phase customers be eliminated as it is redundant and no longer needed.

If the Commission orders a residential rate design that sets the customer charge at less than $3.75, then the minimum bill for single phase customers should be maintained at the current level of 3.78.

[12] Calculation based on information in WRA Exhibit JEC-2, Pg. 1.
[13] Elimination of the minimum bill for single phase residential customers is recommended in the Division's primary and alternative rate design proposals.
[14] In Mr. Griffith's Direct and Updated Exhibits RMP (WRG-5), pg. 1 of 13 and RMP (WRG-4U), pg. 1 of 11, the minimum bill for single phase customers is simply set equal to the Company's proposed customer charge.

Q. DOES THE OFFICE BELIEVE THAT CERTAIN ELEMENTS OF RESIDENTIAL RATE DESIGN PROPOSALS SUBMITTED BY OTHER PARTIES HAVE MERIT AND WARRANT ADDITIONAL ANALYSIS?

A. Yes. For example, SWEEP proposes to implement a two-block non-summer energy rate structure. In my Direct Testimony, I suggested that such a rate structure merits consideration. However, more detailed cost information would be required to support this rate design change. In addition, the Office could possibly support proposals that include changes to the current summer energy rate structure to motivate residential customers with high summer usage to conserve energy. However, additional cost studies and supporting data would be needed before such proposals are pursued. In this proceeding, simple assertions about potential problems (revenue volatility) have been raised and a remedy (decoupling) proposed before any actual problems have been established or fully understood. The Commission should follow an analytical, fact-based approach to ensure that changes made in the area of residential rate design are in the public interest.

V. <u>RATE DESIGN PROPOSALS FOR SCHEDULES 10 AND 23</u>

Q. WHAT WAS THE OFFICE'S POSITION ON RATE DESIGN PROPOSALS FOR SCHEDULES 10 AND 23 IN DIRECT TESTIMONY?

A. The Office agreed with the Company's rate design proposals for these rate schedules and did not advance an alternative proposal for either schedule in direct testimony.

Q. IN LIGHT OF THE RATE DESIGN PROPOSALS FILED BY THE DIVISION FOR THESE TWO SCHEDULES, DOES THE OFFICE STILL SUPPORT THE COMPANY'S RATE DESIGN PROPOSALS FOR SCHEDULES 10 AND 23?

A. Yes. The Office notes there may be an error relating to the Division's proposed rate design for Schedule 10. The Division's proposal results in a 4.2% rate increase across most usage levels; the Company's proposal results in a 3.4% - 3.5% increase across most usage levels. The Commission ordered rate spread

for Schedule 10 was 3.52%.[15] Thus, the Company's rate design proposal for Schedule 10 more accurately reflects the Commission's order and should be adopted by the Commission.

The Division's and the Company's proposed rate designs for Schedule 23 appear to be similar. Therefore, the Office recommends the Commission adopt the Company's rate design proposal for Schedule 23.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THE RATE DESIGN PHASE OF THIS CASE?

A. Yes it does.

[15] Griffith Update Testimony (March 2010), Exhibit RMP (WRG-3U), Schedule 10 Monthly Billing Comparison.