Witness OCS – D8 COS/RD

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	
Rocky Mountain Power for Authority	**)**	**Docket No. 10-035-124**
to Increase its Retail Electric Utility	**)**	**Direct COS/RD**
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**

June 2, 2011

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. My business address is 160 E. 300 S. Rm. 201, Salt Lake City, Utah.

Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.

A. I have a B.A. degree with honors in economics and history from Western Michigan University. I also have an M.A degree in economics from the same university. I completed course work towards a Ph.D. in economics at the University of Utah. In 1987, I joined the Utah Public Service Commission (Commission) Staff and in 1990 was hired by the Office of Consumer Services (Office). In my time with the Office, I have worked in various capacities and have been a manager since 2003.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE THIS COMMISSION IN PRIOR CASES INVOLVING ROCKY MOUNTAIN POWER OR OTHER UTILITIES?

A. Yes. Since 1991 I have testified numerous times in major cases involving Rocky Mountain Power (the Company or RMP) and other utilities providing service in Utah. These cases include general rate cases, merger and acquisition dockets, excess net power costs, avoided cost rates, pass-through proceedings, major plant addition cases and the sale of Qwest's Dex (Yellow Pages) asset. I filed testimony supporting the Office's cost-of-service, rate spread and rate design recommendations in the last three RMP general rate cases (GRCs).[1]

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

A. My testimony does the following:

- Presents the Office's cost-of-service recommendations;
- Presents the Office's rate spread proposal;

[1]Docket Nos. 07-035-93, 08-035-38 and 09-035-23.

- Responds to the Company's rate spread proposal;
- Presents the Office's rate design proposals;
- Responds to the Company's rate design proposals;
- Responds to the Company's proposal to move trailer park and mobile home park owners taking service under Schedule 25 to other rate schedules.

Q. ARE THE OFFICE'S RECOMMENDATIONS SUPPORTED BY A CONSULTANT RETAINED BY THE OFFICE TO ANALYZE THE COMPANY'S COS STUDY?

A. Yes. Mr. Paul Chernick, a principal with Resource Insights, Inc., is filing expert testimony that addresses issues relating to RMP's COS Study. Mr. Chernick also discusses the Company's Utah Marginal Cost Study and the use of that study for ratemaking purposes.

II. SUMMARY OF RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S COS RECOMMENDATIONS.

A. The Commission should order the Company to implement the changes to the Company's COS Study recommended by Mr. Chernick in his testimony. Mr. Chernick proposes that the following changes be made to the Company's COS Study:

- Eliminate the calibration of sampled class loads to jurisdictional loads;
- Modify RMP's load research methods to reduce inconsistencies between the Company's approach to forecasting jurisdictional and class energy and peak loads. Specifically, RMP should:
  - Base the jurisdictional and retail class energy and peak forecasts on weather-normalized load data;
  - Provide information on the loads included in the jurisdictional allocation model (JAM) that are omitted from the class loads on the COS model;
  - Estimate the losses for Utah in the JAM that may be due to wholesale transactions and interstate transfers;

- Recognize the sharing of service drops by residential and commercial customers and correct the resulting error in the allocation of service drop costs among affected customer classes;
- Classify a greater percentage of generation plant as energy-related;
- Classify a greater percentage of firm non-seasonal purchases as energy-related;
- Classify costs relating to environmental control technologies as 100% energy;
- Allocate demand-related generation plant based on an un-weighted 12-CP factor;
- Not rely on the current irrigator load data for cost allocation purposes.

Q. PLEASE SUMMARIZE THE OFFICE'S RATE SPREAD RECOMMENDATON.

A. The Commission should order a rate spread that brings the retail customer classes and certain special contract customers closer to paying rates that recover their allocated cost of service. The Office has developed a fair and reasonable rate spread proposal to accomplish that objective. At a hypothetical rate increase of $100 million, the Office's proposal is:

- Residential Schedules 1, 2, and 3, General Service Schedule 8 should receive an increase no higher than the jurisdictional average rate increase;
- Irrigation Schedule 10 should receive the jurisdictional average rate increase;
- Commercial Schedules 6 and 23 should receive increases one and a half percentage points below the jurisdictional average rate increase;
- Large Industrial Schedule 9 should receive an increase two percentage points above the jurisdictional average rate increase;
- Special Contracts 3 and 4 should receive rate increases consistent with their individual contract terms.[2]

[2]Rate changes for Special Contracts 3 and 4 are tied to rate changes for Schedules 9 and 31.

- Lighting Schedules 7, 11, 12, and 15 (MOL)[3] should receive no rate increase.

At rate increases higher or lower than $100 million, the percentages would need to be adjusted to reflect the same relative differences, which would be reflected through a change in percentage point differences.

Q. PLEASE SUMMARIZE THE OFFICE'S RATE DESIGN RECOMMENDATONS.

A. The Office's rate design recommendations are set forth below.

- Schedules 1, 2 and 3 (Residential):
  The Office recommends that the majority of the residential class revenue increase be placed on the summer and non-summer[4] energy rate components and relatively less of the increase be applied to raising the monthly customer charge. The main elements of our proposal include:
  - An increase in the monthly residential customer charge from $3.75 to $4.00;
  - An increase in the monthly customer charge for three-phase residential customers to $10.67, which is consistent with the percentage increase for single-phase customers;
  - No changes to the current summer and winter energy rate structure;
  - A balanced allocation (approximately 50-50) of the revenue increase dedicated to the energy component of rates in the summer and non-summer periods;
  - Applying the summer revenue increase to the first, second and third block energy rates such that stronger price signals are placed on the second and third block rates.
- Schedule 25 (Mobile Homes Parks):
  The Office supports the Company's proposal to move the remaining customers on Schedule 25 to the commercial schedule (either 6 or 23) that best fits their individual circumstances.

[3]MOL = Metered Outdoor Lighting.
[4]Summer months include May through September. Non-summer months include October through April.

- Schedules 10 and 23 (Irrigation and Small Commercial):
  The Office recommends no changes to the Company's rate design proposals for these two rate schedules.

III. RATE SPREAD

Office's Rate Spread Proposal

Q. PLEASE PROVIDE THE OFFICE'S RECOMMENDED RATE SPREAD FOR THIS GRC?

A. The Office's rate spread proposal for retail customer classes and special contracts, based on a hypothetical rate increase of $100 million, is as follows:

- Residential Schedules 1, 2, and 3, and General Service Schedule 8 should receive an increase no higher than the jurisdictional average rate increase;
- Irrigation Schedule 10 should receive the jurisdictional average rate increase;
- Commercial Schedules 6 and 23 should receive increases one and a half percent below the jurisdictional average rate increase;
- Large Industrial Schedule 9 should receive an increase two percent above the jurisdictional average rate increase;
- Special Contracts 3 and 4 should receive rate increases consistent with their individual contract terms;[5] and
- Lighting Schedules 7, 11, 12, and 15 (MOL)[6] should receive no rate increase.

At rate increases higher or lower than $100 million, the percentages would need to be adjusted to reflect the same relative differences, which would be reflected through a change in percentage point differences.

[5]Rate changes for Contracts 3 and 4 are tied to increases in Schedules 9 and 31.
[6]MOL = Metered Outdoor Lighting.

Q: DO YOU HAVE AN EXHIBIT THAT SHOWS THE EFFECTS OF THE OFFICE'S SPREAD PROPOSAL ON THE MAJOR RATE SCHEDULES?

A: The Office's rate spread proposal is set forth in Exhibit OCS 8.1, which assumes a hypothetical revenue requirement increase of $100 million (i.e., jurisdictional average increase = 6.13%) for illustrative purposes. Table 1 below shows the Office's rate spread for the major rate schedules at a revenue requirement increase of $100 million.

Table 1

Retail Classes	Schedules	Rate Spread % @ $100 Million
Residential	1, 2, 3	6.13%
Small Commercial	23	4.63%
Large Commercial	6	4.63%
Gen. Serv. (> 1 MW)	8	6.13%
Large Industrial	9	8.13%
Irrigation	10	6.13%

Q. PLEASE EXPLAIN THE BASIS FOR THE OFFICE'S RATE SPREAD RECOMMENDATION.

A. The Office considered three primary factors in developing the Office's rate spread recommendation. First, the Office examined the rate of return performance for each class as presented by the Company in this case.[7] Second, the Office examined the returns for individual rate schedules over the last four

[7]Paice Direct Exhibit CCP-1, pages 1 and 2, provides a summary of Class COS results on a revenue neutral basis and per the Company's requested revenue requirement increase for this GRC. Exhibit CCP-1 includes a "class rate of return index" which shows whether classes are producing either a revenue shortfall or excess compared to the calculated cost for each class.

rate cases to determine which classes consistently produced sufficient revenue to cover calculated costs. The Office presented similar information in the last GRC, which the Commission relied on to guide its rate spread decision.[8] Third, the Office took into consideration the critique of the Company's COS Study by its expert, Mr. Chernick. In his testimony, Mr. Chernick raises concerns relating to the Company's calibration adjustment for the sampled rate classes, the allocation of service drops, and irrigation load data.

Q. PLEASE DISCUSS THE OFFICE'S EVALUATION OF CLASS RETURNS IN THE CURRENT AND IN RECENT GRCS.

A. The Company's COS results show that the commercial schedules have the strongest returns, the residential schedules and General Service Schedule 8 produced satisfactory returns and the large industrial and irrigation classes have produced relatively poor returns. Since the underlying irrigator class sampling data is unreliable, the Office focused its analysis on the other major classes. As shown in Table 2 below, this pattern of class returns has prevailed for the past four GRCs with the residential and commercial schedules consistently showing satisfactory to very good returns in the majority of these proceedings. Conversely, the large industrial schedule has failed to generate sufficient revenue to cover costs in the current GRC and in each of the previous four GRCs.

[8] Utah Commission Order, Docket 09-035-23, page 148.

Table 2[9]

Rate Schedule	2006	2007	2008	2009	2010
Sch. 1	1.00	1.05	1.23	1.16	0.95
Sch. 23	1.18	0.84	1.15	1.01	1.21
Sch. 6	1.31	1.23	0.90	1.03	1.23
Sch. 8	1.00	1.01	0.97	0.94	0.97
Sch. 9	0.62	0.77	0.68	0.69	0.71

Q. PLEASE EXPLAIN WHY THE INFORMATION PRESENTED IN TABLE 2 IS RELEVANT TO THE COMMISSION'S DETERMINATION OF RATE SPREAD IN THIS GRC.

A. This information aids the Commission in understanding which classes have historically been strong performers (e.g., residential and commercial) versus classes (e.g., large industrial) that have shown a chronic inability to return adequate revenues to cover costs. The Commission can use this information to develop a rate spread that will directionally move classes closer to paying rates that cover costs.

Q. WHAT IS THE OFFICE'S POSITION REGARDING THE COMPANY'S CALIBRATION ADJUSTMENT?

A. In his testimony, Mr. Chernick provides a detailed list of reasons why the Company's proposed calibration adjustment is inappropriate and unnecessary. By contrast, the Company failed to provide any supporting evidence that clearly demonstrates that a calibration adjustment is warranted. Instead, the Company mechanically applies its calibration adjustment without first identifying that an actual and material problem exists. The Company has not met its evidentiary burden to show that a calibration adjustment is necessary and appropriate.

[9]The class returns were taken from the summary table of Class COS results prepared by the Company's COS witness (Paice) for each GRC.

Therefore, the Commission should reject the Company's proposed calibration adjustment.

Q. WHAT IS THE PRACTICAL EFFECT OF CALIBRATION ON CLASS PEAK LOADS IN THIS GRC?

A. According to Table 1 (pg. 7) in Mr. Chernick's Direct Testimony, calibration appears to have slightly increased the relative annual average peak load of Schedules 1 and 23, slightly reduced the relative annual average peak load of Schedule 6 and has no impact on Schedule 10. Thus, the impacts on relative peak loads among the classes subjected to calibration appear to be minimal.

Q. IF CALIBRATION WERE ELIMINATED, WHAT WOULD BE THE IMPACT ON THE RETURNS OF THE CLASSES THAT WERE SUBJECTED TO CALIBRATION?

A. The Office recently received the Company's response to an outstanding data request, which asked the Company to calculate the effects on class returns from eliminating calibration.[10] The Office has not had time consider the information provided in the Company's response. We intend to comment further in rebuttal testimony based on our review of this information.

Q. WHAT IS THE OFFICE'S POSITION REGARDING THE COMPANY'S ALLOCATION OF SERVICE DROPS?

A. As discussed in Mr. Chernick's testimony, the Company allocation of service drop costs is incorrect because it assumes that a service line is dedicated to each customer in multi-family complexes and office buildings.[11] In reality, service drops are shared among occupants in multi-family complexes and some office buildings. Based on 2000 census data, Mr. Chernick estimates that about 29% of RMP's residential customers live in multi-family complexes. In this GRC the

[10]The response to OCS DR Set 30 was due May 31, 2011. The response was provided at June 1, 2011 at 5 pm.

[11]The Company admits that its present assumption of a single service drop for each multi-family dwelling is incorrect (see RMP response to OCS 7.6).

Commission should take steps to correct this error by directing the Company to make a compliance filing based on the use of either 1) more recent (2010) census data or 2) actual customer information for residential and commercial classes in order to more accurately allocate service drop costs among customer classes.

Q. IF THE ALLOCATION OF SERVICE DROP COSTS AMONG AFFECTED CUSTOMER CLASSES WAS CORRECTED, WHAT WOULD BE THE IMPACT ON INDIVIDUAL CLASS RETURNS?

A. While there are shared services for the commercial schedules (professional buildings, strip malls, etc.) that would have to be taken into consideration when making a correction, the Office expects that the returns for the residential class will improve and the returns for the commercial classes will be lower. This represents another reason why the residential class should receive a rate increase no higher than the jurisdictional average in this GRC.

Q. SHOULD THE COMMISSION BE MINDFUL OF LOAD SAMPLING CONCERNS IN DECIDING WHAT RATE INCREASE TO GIVE TO IRRIGATORS?

A. Yes. While Table 2 indicates that Schedule 10 has produced relatively low returns in recent COS studies, this chiefly stems from difficulties encountered in obtaining reliable load data for the irrigation class. As set forth in the Division's Working Group I-II Report in 09-035-23, most parties concur that securing accurate load data for the irrigation class is problematic and no clear solution was proposed.[12] Potential alternatives range from continuing to improve the load sample (Company), develop a 5-10 year moving average of actual irrigation loads on a trial basis to augment forecasted irrigator loads (Office and Division), or acknowledge that the problem lacks a clear remedy and therefore apply the jurisdictional average rate change to this class (Office). As discussed in Mr. Chernick's direct testimony, the Office continues to have concerns with the accuracy of the irrigator load data in the Company's current COS study. These

[12]Working Group I-II, DPU Report; "Variability of Irrigation Class Loads," pgs. 11-12, Docket 09-035-23.

concerns once again make it unsuitable for use in this GRC. Consequently, the Office recommends the irrigation class receive the jurisdictional average rate increase in this GRC.

Response to the Company's Rate Spread Proposal

Q. DOES THE OFFICE HAVE ANY MAJOR CONCERNS WITH THE COMPANY'S RATE SPREAD PROPOSAL?

A. For the most part, the spread proposals of the Office and Company are similar and directionally consistent. However, the Company proposes to increase irrigator rates by four percent above the jurisdictional average and two percent above the recommended increase for the large industrial class. The Company makes this recommendation despite 1) the large industrial and irrigation classes producing nearly the same return in its COS Study[13] and 2) an impressive 67% increase in the irrigation class's return in this GRC compared to recent rate cases[14] and 3) lack of accurate and reliable irrigator load data.

Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING THE COMPANY'S PROPOSED INCREASE FOR THE IRRIGATION CLASS?

A. The Company's proposed increase is unsupported and should be rejected by the Commission. Until such time as reliable irrigator load data can be developed and used in the Company's COS Study, the irrigation class should receive the jurisdictional average increase and that is precisely the Office's recommended level of increase for this GRC. If the Commission is inclined to give irrigators an increase higher than the jurisdictional average, the increase should be no higher than the increase ordered for the large industrial class.

[13]The return for the large industrial class is .71 and the return for the irrigation class is .72.

[14] The return for the irrigation class in this GRC is .72, which is a significant improvement over the return of .43 in the last GRC.

Q. ARE THERE OTHER DIFFERENCES BETWEEN THE TWO RATE SPREAD PROPOSALS THAT SHOULD BE NOTED?

A. Yes. Residential Schedule 1 and General Service Schedule 8 have returns very close to COS in the current GRC (.95 and .97, respectively) and have provided strong returns in recent GRCs. Despite the consistently strong performance of these two classes in the current and past GRCs, the Company proposes giving a rate increase to Schedules 1 and 8 that is 0.5% above the jurisdictional average rate change. The Office submits that a rate increase no higher than the jurisdictional average better reflects the performance of these two classes and that is what we recommend for this GRC.

IV. RATE DESIGN

Rate Design Concept

Q. PLEASE EXPLAIN THE CONCEPT OF RATE DESIGN.

A. After determining how the change in revenue requirement will be spread among rate classes, the Commission needs to consider how each class's change in revenue will be collected through the rate elements (customer charge, energy charges, etc.). Decisions need to be made on what portion of the revenue should be collected through the fixed customer charge (where revenue varies with number of customers), energy charges (where revenue varies with electricity usage) and demand charges (where revenue reflects measured peak demand). The overall goal of rate design is to develop a rate structure that is cost based, fair, stable, sends proper price signals and generates sufficient revenue to cover a class's estimated cost of service. However, a fundamental premise is that rates should reflect cost causation. In the current GRC, key drivers underlying the Company rate request appear to be rising energy costs and the need to add new resources to meet load growth.

Q. CAN A MARGINAL COST STUDY BE USED BY PARTIES AS A GUIDE TO INFORM RATE DESIGN PROPOSALS?

A. If the marginal cost study is found to be reasonable, then the results can be used for rate design purposes.

Utah Marginal Cost Study

Q. IN DOCKET 09-035-23, THE COMPANY WAS DIRECTED BY THE COMMISSION TO PREPARE AND FILE A UTAH MARGINAL COST STUDY IN ITS NEXT GRC. HAS THE COMPANY COMPLIED WITH THE COMMISSION'S ORDER?

A. The Company has filed a Utah Marginal Cost (MC) Study as part of its case. It relies on results from that study to support specific rate design proposals.

Q. HAS THE OFFICE EXAMINED THE MC STUDY?

A. On behalf of the Office, Mr. Chernick has analyzed the MC Study.

Q. BASED ON HIS ANALYSIS OF THE MC STUDY, DID MR.CHERNICK REACH ANY CONCLUSIONS?

A. Yes. Mr. Chernick concluded that the study 1) appears to understate costs associated with load growth by excluding $2.2 billion of incremental transmission investment and 2) excludes distribution investment by classifying it as commitment- or customer-related.

Q. IN THE OFFICE'S VIEW, CAN THE RESULTS FROM THE STUDY BE USED FOR RATE DESIGN PURPOSES?

A. In its current MC Study, the Company estimates that the long run (10-year) marginal cost for demand and energy for the residential class is 13.5 cents/kWh.[15] We have relied on that information in developing our residential rate design proposal. However, the Office believes that this 13.5 cents/kWh estimate may be understated because the Company has excluded approximately

[15] Paice Exhibit (CCP-5), page 2 of 63.

$2.2 billion in incremental transmission costs from its MC Study. While a portion of this transmission investment may be targeted to meet growth in wholesale loads, the Company has not explained in detail why it excluded this incremental investment from its marginal cost study.[16]

Office's Residential Rate Design Proposal

Q. PLEASE DESCRIBE THE OFFICE'S RESIDENTIAL RATE DESIGN PROPOSAL.

A. The Office recommends that most of the residential class revenue increase be placed on the summer and winter energy rate components and relatively less of the revenue increase be applied to increasing the monthly customer charge. Our proposal includes the following elements:

- Increase the monthly residential customer charge from $3.75 to $4.00;
- No changes to the summer and winter energy rate structure;
- The increase in class revenue allocated to the energy component of rates should be equally divided (approximately 50-50) between the summer and non-summer periods;
- The revenue increase in the summer period should be applied to the first, second and third block energy rates such that stronger price signals are placed on the second and third block rates;

My Exhibit OCS 8.2, page 1 of 3 sets forth the Office's residential rate design proposal. This rate design assumes a hypothetical total revenue requirement increase of $100 million.[17] Table 3 below summarizes the Office's proposed changes to the Schedule 1 rate charges:

[16] See the Company's response to OCS DR 7.25(d).

[17]The rate design is based on the allocated revenue increase to the residential class that aligns with the Office's spread proposal, as applied to a hypothetical revenue requirement increase of $100 million.

Table 3

	Current	Proposed	% Revenue Change Collected
Customer Charge	$3.75	$4.00	3.5%
Summer 1st block:	7.5292	8.0939	12.4%
Summer 2nd block:	9.2749	10.2256	17.2%
Summer 3rd block:	11.5361	13.3600	18.1%
Winter single block:	7.8009	8.5810	48.9%

Note: Energy Rates = Cents/kWh
Summer 1st Block = (0-400 kWh)
Summer 2nd Block = (401-1000 kWh)
Summer 3rd Block = (> 1000 kWh)

Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE BILL IMPACTS OF THE OFFICE'S RATE DESIGN PROPOSAL ON RESIDENTIAL CUSTOMERS?

A. Yes. My Exhibit 8.2, pg 3 of 3 indicates the summer, winter and weighted annual bill impact across customer usage ranging from 100 – 5,000 kWh per month. Table 4 below presents three levels of monthly summer usage, ranging from low (500 kWh) to medium (841 kWh = summer average) to high (1500 kWh) to very high (2000 kWh), and the associated bill impacts. As Table 4 below shows, the impact on residential customers' bills is proportionately greater as usage moves from low to very high in the summer period.

Table 4

Summer Bill Impacts

Usage (kWh)	Bill Impact (%)
500 kWh	4.10%
841 kWh*	4.90%
1500 kWh	7.50%
2000 kWh	8.50%

*Average Summer Usage = 841 kWh

**Residential Class Average Increase = 6.13%, $100 M total revenue requirement increase per Office's rate spread proposal.

Table 5 below illustrates the weighted annual bill impacts resulting from the Office's rate design proposal.[18] As Table 5 shows, the bill impacts are less pronounced between low and high use customers' annual bills due to the moderating effect of the single (flat) winter energy rate.

Table 5

Annual Bill Impacts

Usage (kWh)	Bill Impact (%)
500 kWh	5.03%
792 kWh*	5.33%
1500 kWh	6.45%
2000 kWh	6.87%

*Average Annual Usage = 792 kWh

**Residential Class Average Increase = 6.13% per Office's rate spread proposal at $100 revenue requirement increase.

Q. PLEASE EXPLAIN THE BASIS FOR THE OFFICE'S RESIDENTIAL RATE DESIGN PROPOSAL.

A. First, the Office believes the residential customer charge should be increased in this case to reflect cost-of-service. My Exhibit OCS 8.3 shows a monthly customer charge of $3.99, as calculated using the Commission's approved method.[19] The Commission and parties have relied on this method for the past decade for purposes of comparing customer charge proposals to cost-of-service. Thus, the Commission should continue to set the customer charge using its

[18]The weighted bill impacts assume the same average level of energy use in each month.

[19]The Office's calculation is consistent with the Company's customer charge calculation (per the PSC's method) in response to OCS 29.1. The $0.03 difference appears to result from rounding of certain numbers in the formula.

approved method for calculating cost-of-service, which is approximately $4.00 per month.

Second, increases in energy costs and the need to add new resources to meet load growth represent key drivers in this GRC.[20] This led the Office to focus on the energy component of rates in order to send appropriate price signals to customers that demand- and energy-related costs in the summer and non-summer periods are increasing. This is underscored by the Company's current MC Study, which indicates that for the residential class, the long run marginal cost for demand and energy is at least 13.5 cents/kWh.[21]

Q. PLEASE EXPLAIN HOW THE OFFICE APPLIED THE REMAINING RESIDENTIAL CLASS REVENUE INCREASE TO THE NON-SUMMER AND SUMMER ENERGY BLOCKS.

A. In recent GRCs, the Commission adopted parts of proposals by various parties, including the Office, to apply a significant portion of the residential class revenue increase on the summer second and third (tailblock) energy rates to send stronger price signals to high use customers. In this proceeding, the Office proposes to apply more of the revenue increase to the non-summer energy rate than in recent cases. Specifically, we recommend a more balanced split of revenue between the summer and non-summer energy rates to recognize the fact that winter usage does impact the need for capacity and energy on the system. Our proposal raises the flat winter energy rate by about the same percent increase recommended for the second block summer energy rate. With regard to the summer energy rates, the Office recommends that proportionately more revenue be applied to the second and third blocks than the first block energy rate because there is more summer usage in those blocks and usage in the summer months is typically more costly to serve. Unlike recent cases where the Office (and other parties) recommended and the Commission made minimal

[20]A number of Company witnesses (Walje, McDougal, Duvall, and Crane) testify that rising energy costs are a primary factor underlying RMP's rate request.
[21]Based on the critique of certain aspects of the Company's MC Study contained in the testimony of Mr. Chernick, the long run MC could be higher than 13.5 cents/kWh.

changes to the summer first block energy rate, we are recommending that the first summer energy block rate be increased due to the relatively small increase in the customer charge in this proceeding.[22]

Response to RMP's Residential Rate Design Proposal

Q. IS THE COMPANY'S RESIDENTIAL RATE DESIGN SIMILAR TO WHAT IT PROPOSED IN THE LAST CASE?

A. Yes, it is nearly identical to its rate spread proposal in the 2009 GRC. This proposal was rejected by the Commission. Instead, the Commission relied on elements of the rate design proposals of the Office and SLCAP to develop a more appropriate rate design. Specifically, the Commission ordered a modest increase ($0.75) to the customer charge to bring it close to cost of service and applied the remaining class revenue increase to the summer second and third block energy rates.

Q. WHAT RATIONALE DOES THE COMPANY OFFER IN SUPPORT OF ITS RESIDENTIAL RATE DESIGN PROPOSAL?

A. As in the last GRC, revenue stability is a principal motivation underlying the Company's proposal. In fact, Company witness Griffith offers <u>exactly</u> the same rationale in this case.[23]

Q. DID THE COMPANY PROVIDE ANY EVIDENCE DEMONSTRATING VOLATILITY IN RESIDENTIAL REVENUE?

A. No.

Q. HAVE THE COMPANY'S PAST COS STUDY RESULTS INDICATED SUBSTANTIAL VOLATILITY IN THE RETURNS FOR THE RESIDENTIAL CLASS?

[22]In the last GRC, the Commission did not apply any of the class revenue increase to the summer first block energy rate.

[23]See Docket 09-035-23; Griffith Direct, pg. 5, lines 103-108 and Docket 10-035-124; Griffith Direct, pg. 6, lines 111-116.

A. No. As I discussed in the rate spread section of this testimony (see Table 2), the residential class has consistently been a strong performer in RMP's COS studies over the last five GRCs and returned sufficient revenue to cover costs.

Q. WHAT IS THE OFFICE'S RESPONSE TO THE COMPANY'S RATE DESIGN PROPOSAL?

A. The Office has a number of concerns pertaining to the Company's rate design proposal. First, the Company's proposal involves a sharp departure from customer-related costs that have historically been included in the Commission's method for calculating the customer charge. In addition to the costs of customer billing, meter reading, meters and service drops, the Company proposes to include all "retail" and a portion of "transformer" costs in its proposed $10.00 customer charge. Second, while the Company acknowledges that the customer charge for residential customers in multi-family dwellings should be lower because of shared service drops at those buildings, it has made no attempt to develop a more precise customer charge for this segment of the residential class.

Third, the Company fails to present the full bill impact of its proposal on the low, medium and high use segments of the residential class. Exhibit (WRG-6), pg 1 of 6, only shows the impact of the Company's proposed changes to energy charges on residential customers' bills. It does not indicate the <u>combined effect</u> of the Company's rate design proposal, which involves a substantial $6.25 increase in the customer charge along with proportionately smaller increases to the energy rates. Since the Company's rate design proposal places relatively more of the class revenue increase on the fixed customer charge, this results in relatively greater bill impacts on the low and medium use segments of the residential class.

Q. HAVE YOU PREPARED AN EXHIBIT TO SHOW THE TOTAL IMPACT ON CUSTOMERS' BILLS RESULTING FROM THE COMPANY'S RATE DESIGN PROPOSAL?

A. Yes. My Exhibit OCS 8.4, pgs 1-2, illustrates the impact of the Company's proposal on residential customers' bills in the summer and non-summer periods. This exhibit clearly shows that bill impacts during both the summer and non-summer periods are much greater for low use versus high use customers. Table 6 below presents three levels of monthly summer usage, ranging from low (500 kWh) to medium (841 kWh = summer average) to high (1500 kWh) and the disparate bill impacts resulting from the Company's proposal.

Table 6

Summer Bill Impacts – RMP's Rate Design Proposal

Usage (kWh)	Bill Impact (%)
500 kWh	19.05%
841 kWh*	13.55%
1500 kWh	9.86%
2000 kWh	8.78%

*Avg. summer usage = 841 kWh.

**Residential Class average increase under Company's rate spread proposal is 14.6%, at the Company's rate request of $232.6 million.

As is abundantly clear under the Company's rate design proposal, bill impacts would be significantly greater for low use customers than high use customers at a time when RMP is faced with rising energy costs and a need to add new resources to meet load growth.

Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING RMP'S RESIDENTIAL RATE DESIGN PROPOSAL?

A. The Office recommends the Commission reject the Company's rate design proposal for the following reasons:

- The proposal fails to follow cost causation in that the Company's recommended increase in the customer charge is excessive and the increases to the energy charges are disproportionately low. According to the Commission's customer charge formula, the customer charge should not exceed $4.00. In addition, residential customers living in multi-family complexes are currently paying a customer charge that is excessive because they are allocated the full cost of a service drop rather than a shared cost.
- The proposal raises intra-class equity concerns because of the substantially greater bill impacts on low use customers compared to high use customers.
- The proposed $6.25 increase in the customer charge is inconsistent with the ratemaking principle of gradualism; a principle the Commission has relied on in recent GRCs when deciding how much to raise the customer charge. In reviewing the last four GRCs, the most the Commission raised the customer charge in any single case was by $1.00.
- The proposal emphasizes rate stability over conservation because it recovers more of the revenue increase through the fixed customer charge and sends a relatively weak price signal to high use customers to curb their consumption of electricity.
- The proposal fails to comport with the Company's current planning and operating environment that includes rising energy costs and a need to add new resources to meet load growth.

Three-Phase Residential Customers

Q. PLEASE DESCRIBE THE ISSUE RELATING TO THREE-PHASE RESIDENTIAL CUSTOMERS.

A. The Company proposes to double the customer charge from $10.00 to $20.00 for a small minority (12,100) of residential customers that receive three-phase service. In his testimony, Mr. Griffith discusses higher costs relating to larger transformers and more conductor wires to provide three-phase service to customers. However, he provides no exhibit or detailed cost calculations supporting the Company's proposed customer charge increase.

Q. DID THE COMPANY SUBSEQUENTLY PROVIDE SUPPORT FOR ITS PROPOSAL TO DOUBLE THE CUSTOMER CHARGE FOR THREE-PHASE SERVICE?

A. In response to DPU 10.11, the Company provided an explanation based on specific pages in Mr. Paice's Exhibit CCP-5. The Company calculates the incremental costs for three-phase service to be $22 per month. However, two critical assumptions underlie the Company's proposed increase: 1) a portion of transformer costs should be included in setting the residential customer charge; and 2) only one three-phase customer is served from a single three-phase transformer.

Q. WHAT IS THE OFFICE'S RECOMMENDATION?

A. The Office opposes the Company's proposal to double the customer charge from $10.00 to $20.00 for three-phase customers for the following reasons: 1) costs related to transformers should not be included in the customer charge under the Commission's formula; 2) there may be situations where two or more three-phase customers are served from a single transformer; 3) the Company's proposal to double the customer charge in a single case is excessive and inconsistent with the concept of gradualism. The Office recommends that the three-phase customer charge should be increased by approximately the same

percentage increase as ordered for the single-phase customer charge. The customer charge for three-phase service should be set at $10.67 per month.

Rate Schedule 25

Q. PLEASE DESCRIBE THE ISSUE RELATING TO SCHEDULE 25.

A. Twelve mobile home and trailer park owners currently take service under Schedule 25, which has been closed to new service for a number of years. New trailer park owners take service under other general service schedules. In the Non-Residential Rate Design Stipulation approved by the Commission in the last GRC, the parties agreed to examine the possibility of moving these twelve remaining Schedule 25 customers to an appropriate general service schedule.

Q. WHAT IS THE COMPANY'S PROPOSAL FOR RATE SCHEDULE 25?

A. The Company proposes to close Schedule 25 and move affected customers to either Schedule 6 or Schedule 23. Exhibit (WRG-3), pg. 1 of 1 shows that moving these customers to either Schedule 6 or Schedule 23 results in individual customer savings ranging between 5%-16%. This Exhibit also shows that the impact on other rate classes is negligible ($43,389).

Q. DOES THE OFFICE SUPPORT THE COMPANY'S PROPOSAL?

A. Yes. Moving the twelve remaining customers on Schedule 25 to the appropriate general service rate schedule will allow Schedule 25 to be closed, lower bills for the twelve affected customers and minimally impact other rate classes. We recommend that Company representatives work with these twelve trailer park owners to move them to the rate schedule that best fits their individual circumstances.

Rate Schedules 10 and 23

Q. WHAT IS THE OFFICE'S POSITION REGARDING THE COMPANY'S RATE DESIGN PROPOSALS FOR SCHEDULES 10 AND 23?

A. Based on our review of the Company's rate design proposals for these two rate schedules, the Office recommends no changes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON COS, RATE SPREAD AND RATE DESIGN ISSUES?

A. Yes.