Witness OCS – 5D COS/RD

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	
Rocky Mountain Power for Authority	**)**	**Docket No. 11-035-200**
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 22, 2012

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, power cost proceedings, avoided cost cases, EBA 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 four 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, 09-035-23 and 10-035-124.

- Responds to the Company's rate spread proposal;
- Presents the Office's rate design proposals;
- Responds to the Company's rate design proposals;

Q. ARE THE OFFICE'S RECOMMENDATIONS IN YOUR TESTIMONY SUPPORTED BY OTHER OFFICE WITNESSES?

A. Yes. Mr. Paul Chernick, a principal with Resource Insights, Inc., is filing expert testimony that raises concerns with certain aspects of the Company's COS Study and recommends a number of improvements to that Study. In addition, he discusses the Utah Marginal Cost Study filed by the Company in the last GRC and the use of that study for ratemaking purposes. Mr. Danny Martinez, a utility analyst with the Office, is filing testimony on the Office's residential customer charge proposal in this proceeding.

II. SUMMARY OF RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S COS RECOMMENDATIONS.

A. The Commission should adopt the improvements to the Company's COS Study recommended by Mr. Chernick in his testimony. Those proposed improvements are as follows:

- 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; and
  - Estimate the losses for Utah in the JAM that may be due to wholesale transactions and interstate transfers of power;
- Recognize the sharing of service drops by residential customers in multi-family buildings and correct the resulting error in the allocation of service drop costs among affected customer classes;

- Recognize that the current irrigator load data is inaccurate and unsuitable for use in the Company's COS Study;
- Classify 80% of steam generation plant and associated expenses as energy-related;
- Classify 94% of wind plant and associated expenses as energy-related;
- Classify at least 25% of other plant (SCCT, CCCT, and Hydro) and associated expenses as energy-related; and
- Classify at least 50% of firm non-seasonal purchases as energy-related.

The Office also supports the Company's change to allocate demand-related generation plant according to an un-weighted 12-CP factor.

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

A. The Commission should order a rate spread that brings the retail customer classes and a special contract customer closer to paying rates that recover their estimated cost of service. The Office has developed a fair and reasonable rate spread proposal to accomplish that objective. At a hypothetical rate increase of $80 million, the Office's proposal is:

- Residential Schedules 1, 2, 3, and General Service Schedule 8 should receive a rate 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 a rate increase one percentage point below the jurisdictional average rate increase;
- Large Industrial Schedule 9 should receive a rate increase two percentage points above the jurisdictional average rate increase;
- Special Contract 3 should receive a rate increase consistent with its individual contract terms; and

- Lighting Schedules 7, 11, 12, and 15 (MOL)[2] should receive no rate increase.

At a revenue requirement increase higher or lower than $80 million, the percentages recommended by the Office 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[3] energy rate components and relatively less of the increase be applied to raising the monthly customer charge. The main elements of our proposal are as follows:
  - Increase the monthly single-phase customer charge from $4.00 to $4.75;
  - Increase the monthly three-phase customer charge from $8.00 to $9.50;
  - Increase the residential minimum bill from $7.00 to $10.00;
  - Leave the summer energy rate structure unchanged but modify the single (flat) non-summer energy rate structure into two energy rate blocks;
  - Set the summer and non-summer first block rates at the same level;
- Schedules 10 and 23 (Irrigation and Small Commercial):
  The Office recommends no changes to the Company's rate design proposals for Schedules 10 and 23.

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

III. RATE SPREAD

Office's Rate Spread Proposal

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

A. Since a Commission Order on revenue requirement will not be available prior to the filing of rate spread proposals in this GRC, the Office's spread proposal is based on a hypothetical revenue requirement increase of $80 million. An $80 million rate increase is approximately half of the Company's updated rate request of $164.8 million and is slightly higher than the Office's recommended increase of $73.4 million. At an increase of $80 million, the Office's rate spread proposal is as follows:

- Residential Schedules 1, 2, and 3, and General Service Schedule 8 should receive a rate 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 a rate increase one percentage point below the jurisdictional average rate increase;
- Large Industrial Schedule 9 should receive a rate increase two percentage points above the jurisdictional average rate increase;
- Special Contract 3 should receive a rate increase consistent with its individual contract term;[4] and
- Lighting Schedules 7, 11, 12, and 15 (MOL)[5] should receive no rate increase.

At a revenue requirement change higher or lower than $80 million, the Office's spread proposal would need to be adjusted to reflect the same relative

differences, which would be reflected through a change in percentage point differences.

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

A. The Office's rate spread proposal is set forth in my Direct Exhibit OCS 5.1, page 1 of 2. Table 1 (below) depicts the Office's rate spread for the major rate schedules at a revenue requirement increase of $80 million, which represents a jurisdictional average increase of 4.70%.[6] For comparison purposes, Table 1 also shows the Company's current rate spread proposal at the hypothetical $80 million and maintains the same percentage point relationships as discussed in Company witness Griffith's direct testimony.[7]

Table 1

Retail Classes	Schedules	OCS Rate Spread @ $80 Million RR Increase	RMP Rate Spread @ $80 Million RR Increase
Residential	1, 2, 3	4.70%	5.13%
Small Commercial	23	3.70%	3.13%
Large Commercial	6	3.70%	3.13%
Gen. Serv. (> 1 MW)	8	4.70%	4.13%
Large Industrial	9	6.70%	7.13%
Irrigation	10	4.70%	8.13%

[6]The calculated jurisdictional average increase of 4.70% assumes no rate increase for the lighting schedules.

[7]The spreadsheet for the Company's spread proposal at a revenue requirement increase of $80 million is included in my Direct Exhibit OCS 5.1, page 2 of 2.

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

A. Three main factors were considered in developing the Office's rate spread proposal. First, the Office examined the rate of return performance for each class as presented by the Company in this GRC.[8] Second, the Office reviewed the returns for individual rate schedules over the last six rate cases to determine which classes consistently produced sufficient revenue to cover calculated costs. The Office presented similar information in recent GRCs, which the Commission relied on to guide its decision the last time rate spread was contested.[9] Third, the Office took into consideration the improvements to the Company's COS Study recommended by its expert, Mr. Chernick.

Evaluation of Class Returns

Q. PLEASE DISCUSS THE OFFICE'S EVALUATION OF CLASS RETURNS.

A. In the current GRC, the Company's COS results indicate that the commercial schedules have the strongest returns, the residential schedules and General Service Schedule 8 produce satisfactory returns and the large industrial and irrigation schedules have relatively poor returns. As shown in Table 2 below, this pattern of class returns has existed over the past six GRCs.

[8]Paice Direct Exhibit CCP-1 includes a "class rate of return index," which shows the calculated revenue shortfall or excess compared to the estimated cost for each class. Page 1 of Exhibit CCP-1 shows Class COS results on a revenue neutral basis. Page 2 of the same exhibit shows Class COS results according to the Company's requested revenue requirement increase for this GRC.

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

Table 2[10]

Rate Schedule	2006	2007	2008	2009	2010	2011
Sch. 1	1.00	1.05	1.23	1.16	0.95	0.93
Sch. 23	1.18	0.84	1.15	1.01	1.21	1.24
Sch. 6	1.31	1.23	0.90	1.03	1.23	1.18
Sch. 8	1.00	1.01	0.97	0.94	0.97	1.06
Sch. 9	0.62	0.77	0.68	0.69	0.71	0.77
Sch. 10	0.29	0.17	0.32	0.43	0.72	0.79

In reviewing the class return information in Table 2, it is important for the Commission to recognize that the residential and commercial schedules have consistently had satisfactory to very strong returns in the majority of these proceedings. Thus, these classes have consistently produced the revenue necessary to cover the estimated cost-of-service. By contrast, the large industrial schedule has failed to generate adequate returns in each of the past six GRCs with the resulting rates producing a large and persistent revenue shortfall.

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

A. While class returns in the current GRC are certainly an important piece of information, it represents a snapshot and should not be the only evidence applied in developing a fair and reasonable rate spread proposal. The six-year history of class returns in Table 2 helps the Commission better understand which classes have consistently produced strong returns (e.g., residential and commercial) versus classes (e.g., large industrial) that have underperformed and continue to

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

pay rates that fail to cover costs. Thus, the Commission can use this information as a guide to develop a rate spread that directionally moves classes towards paying rates that cover estimated costs.

Q. SHOULD THE COMMISSION BE ESPECIALLY CONCERNED ABOUT THE RETURNS SHOWN IN TABLE 2 FOR SCHEDULE 9?

A. Yes. The rates charged to Schedule 9 (large Industrial) have failed to generate sufficient revenue to cover costs in each of the past six GRCs. The revenue shortfall for Schedule 9 in this GRC is substantial. In the Company's current COS Study the calculated revenue shortfall for Schedule 9 is $10.4 million on a revenue neutral basis and $32.5 million at the Company's rate request. Therefore, the Commission should recognize there is an immediate need to address the chronic revenue deficiency of Schedule 9 and set rates that move this class closer to generating the revenues necessary to cover costs. Absent a significant rate increase for Schedule 9, this class will continue to be unfairly subsidized by the other retail rate classes.

Q. IF THE COMMISSION ADOPTS THE OFFICE'S RATE SPREAD RECOMMENDATION FOR SCHEDULE 9, WILL THAT MOVE SCHEDULE 9 ALL THE WAY TO COST-OF-SERVICE?

A. No. However, it would be a positive step towards establishing rates for Schedule 9 that more appropriately align revenues from the industrial class with cost-of-service.

Q. PLEASE DISCUSS WHY THE COMMISSION SHOULD BE CIRCUMSPECT IN CONSIDERING THE COMPANY'S REPORTED RETURN FOR SCHEDULE 10 (IRRIGATION CLASS.)

A. The use of inaccurate load data by the Company in its COS study serves to significantly understate returns for the irrigation class. Concerns about the inaccuracy of the irrigation load data have been brought to the Commission's

attention in several recent GRCs[11] and continue to be an issue in this proceeding as well (see Chernick Direct, pages 16-19). Accurate load data is the foundation of a good COS Study and such data is not currently available in the case of the irrigation class.

Q. WHAT IS THE OFFICE'S POSITION REGARDING THE ACCURACY OF THE IRRIGATION LOAD DATA USED BY THE COMPANY IN ITS COS STUDY?

A. The combination of a number of factors (e.g., weather variability, economic conditions, crop rotations, etc.) has made it difficult for the Company to obtain accurate load data for the irrigation class. As discussed in the Division's Working Group I-II Report in 09-035-23, most parties agree that the quality of the load data for the irrigation class is problematic and no clear solution was proposed at the time.[12] The Office continues to have concerns with the accuracy of the irrigator load data. These concerns once again make this load data unsuitable to use in the Company's COS Study. This is the primary reason why the Office recommends the irrigation class receive the jurisdictional average rate increase in this GRC.

Q. IS THERE AN ALTERNATIVE TO LOAD SAMPLING FOR ESTIMATING IRRIGATION LOADS IN FUTURE COS STUDIES?

A. While the past is not always a reliable predictor of future conditions, using actual, weather normalized irrigation load data may be better way to estimate irrigation loads for COS purposes. This approach involves using the historical monthly peaks and annual energy usage over a number of years (e.g., 5-15 years) to determine a normalized irrigation load shape. The feasibility of this approach would need to be discussed with the Company, Division, and Utah Farm Bureau Federation to determine available data and how various factors (weather, crops rotations, technology, economics, irrigator load control program, etc.) have affected irrigation usage patterns over time. Given that the problems

[11]Concerns with the reliability of the irrigator load data was also addressed in the Division's Working Group I-II Report (Docket 09-035-23) and in the responses by parties to that Report.
[12]Working Group I-II, DPU Report; "Variability of Irrigation Class Loads," pgs. 11-12, Docket 09-035-23.

with Company's irrigator load data lack a clear remedy, this approach to estimating test year irrigation loads may be worth exploring.

Critique of Company's COS Study

Q. WHAT ADDITIONAL INFORMATION DID THE OFFICE CONSIDER IN DEVELOPING ITS RATE SPREAD PROPOSAL?

A. The Office considered the specific improvements recommended by Mr. Chernick to the Company's COS Study and the resulting impacts on class returns. In his critique of the COS Study, Mr. Chernick recommends the following improvements to the Study:

- Eliminate the calibration of sampled class loads to jurisdictional loads;
- Weather normalize both class and jurisdictional loads to improve comparability;
- Correct the error in the over-allocation of service drop costs to the residential class;
- Recognize that the current irrigator load data is inaccurate and unsuitable for use in the Company's COS Study;
- Classify 80% of steam generation plant and associated expenses as energy-related;
- Classify 94% of wind plant and associated expenses as energy-related;
- Classify at least 25% of other plant (SCCT, CCCT, and Hydro) and associated expenses as energy-related; and
- Classify at least 50% of firm non-seasonal purchases as energy-related.

The impacts on the major rate schedules from Mr. Chernick's proposed improvements to the Company's COS Study are shown in Table 9 (page 40) of his direct testimony. When combined together, these proposed improvements increase the Company's reported return for Schedule 1from .93 to 1.03, slightly increase the returns for Schedules 6 and 23 and lower the returns for the remaining rate schedules.

Response to the Company's Rate Spread Proposal

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

A. The Office opposes several aspects of the Company's rate spread proposal. Most notably, the Company does not justify its use of an adjusted midpoint level and fails to support its large rate increase for Schedule 10. As discussed in Mr. Griffith's direct testimony, the Company adjusted the Utah Jurisdictional average return upwards by 0.43% to achieve a "midpoint" level.[13] This higher midpoint level serves as the reference or anchor point for the Company's spread proposal. The Company also proposes to increase irrigator rates by three percentage points above its calculated midpoint and one percentage point above the recommended increase for the large industrial class. The Company makes this recommendation despite 1) the irrigation class producing a higher return of .79 than the industrial class' return of .77 in its current COS Study, 2) a dramatic improvement in the irrigation class's return from .43 to .79 over the past three GRCs, and 3) lack of accurate irrigator load data.

Q. WHAT IS THE OFFICE'S SPECIFIC RESPONSE TO THE 0.43% UPWARD ADJUSTMENT MADE BY THE COMPANY TO ACHIEVE A MIDPOINT LEVEL FOR ITS RATE SPREAD PROPOSAL?

A. The 0.43% upward adjustment is arbitrary and completely unnecessary for purposes of developing a reasonable rate spread proposal. The appropriate starting point for evaluating class returns and developing a rate spread proposal is the jurisdictional average increase. This is precisely the approach the Office followed in developing its rate spread proposal, albeit at a lower $80 million hypothetical revenue requirement level.

[13]Griffith Direct, pg. 3 lines 59-60.

Q. WHAT IS THE OFFICE'S SPECIFIC RESPONSE TO THE COMPANY'S PROPOSED INCREASE FOR THE IRRIGATION CLASS?

A. The Company's proposed increase for Schedule 10 is unsupported and it does not consider relevant information, including the improvement in irrigation class returns over the last three GRCs, the fact that the .79 return for Schedule 10 is slightly higher than the .77 return for Schedule 9 in the current GRC and most importantly the inaccuracy of the irrigation load data. Regarding the improved performance of the irrigation class in recent GRCs, this improvement in estimated returns has occurred over a period where the irrigation class received the jurisdictional average increase. By contrast, Schedule 9's relatively low return has shown little improvement in recent GRCs, despite receiving increases above the jurisdictional average. (See Gimble Direct, Table 2, page 8) In addition, the Company ignores its own evidence that irrigation loads are not driving the need for new investment. The Company's irrigation load forecast in this GRC is only 1.6% higher than the base period, which is much lower than the 4.2%-4.3% forecasted increase in loads for the commercial and large industrial classes.[14] For the reasons discussed above, the Company's proposed increase for the irrigation class should be rejected by the Commission.

Q. WHAT IS THE OFFICE'S RECOMMENDATION FOR THE IRRIGATION CLASS?

A. Until accurate irrigator load data can be developed for use in the Company's COS Study, the irrigation class should receive the jurisdictional average increase. If the Commission is inclined to give irrigators an increase higher than the jurisdictional average, the increase should be capped at the increase ordered for Schedule 9.

[14]Eelkema Direct, pg. 12, Table 3.

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

A. Yes. In recent GRCs, Residential Schedule 1 and General Service Schedule 8 have consistently produced returns close to unity (1.00, revenues = costs). Consequently, they have been treated the same in those GRCs, with both rate schedules receiving the jurisdictional average rate change. In the current GRC, the Company proposes giving Schedule 8 a rate increase set at one percentage point below its recommended midpoint increase for Schedule 1. Conversely, the Office proposes that the same level of rate increase continue to be applied to both Schedules 1 and 8 and that this rate increase should be no higher than the jurisdictional average increase.

Q. WHAT IS THE OFFICE'S RESPONSE TO THE COMPANY'S RATE PROPOSALS FOR SCHEDULES 1 AND 8?

A. The Company's evaluation does not use an appropriate time horizon and overstates the differences in these classes' performance. In comparing the returns for these two schedules over the past four rates cases, the Office notes that:

- This is the only GRC out of the past four where Schedule 8 has a return (1.06) that exceeds COS unity (1.00). In the other cases, the returns for Schedule 8 were slightly below unity.
- In the past four GRCs, the return for Schedule 1 has either exceeded or been close to unity.

In addition, the improvements to the Company's COS Study proposed by Office witness Chernick in his direct testimony increase the return for Schedule 1 and decrease the return for Schedule 8. Therefore, it is appropriate that Schedules 1 and 8 continue to receive the same level of rate increase in this proceeding.

IV. RATE DESIGN

Rate Design Concept

Q. PLEASE EXPLAIN THE CONCEPT OF RATE DESIGN.

A. In the rate design step, the Commission considers how the change in revenue for each customer class 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, energy charges and demand charges. The goal of rate design is to develop a rate structure that is cost based, fair, stable, and sends proper price signals to customers. However, a fundamental premise is that rates should reflect cost causation.

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 THE LAST GRC, THE COMPANY PREPARED AND FILED A NEW UTAH MARGINAL COST STUDY (STUDY). DOES THE COMPANY CONTINUE TO RELY ON THE RESULTS OF THAT STUDY TO SUPPORT ITS RATE DESIGN PROPOSALS?

A. The Company relies on portions of that Study to support specific rate design proposals in the current GRC.

Q. HAS THE OFFICE EXAMINED THE STUDY?

A. Mr. Chernick, the Office's COS expert, analyzed the Study in the last GRC (10-035-124) and provided his assessment at that time. In his testimony in this GRC, he provides further comments on the Study.

Q. BASED ON HIS ANALYSIS OF THE STUDY, WHAT ARE MR. CHERNICK'S PRIMARY CONCLUSIONS?

A. First, the Study likely understates the cost of load growth. Consequently, the Company's estimate of the long run marginal cost for demand and energy should be viewed as a reasonable *minimum* level for the tailblock rate for the residential class. Second, the Company's estimate of marginal customer costs is not valid and should not be used in determining the level of the residential customer charge.

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

A. Yes. In the Study, the Company estimated the long run (10-year) marginal cost for demand and energy for the residential class at 13.5 cents/kWh.[15] As discussed later in my testimony, the Office has given some weight to that information in developing our residential rate design proposal.

Office's Residential Rate Design Proposal

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

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

- Increase the monthly single-phase customer charge from $4.00 to $4.75;
- Increase the monthly three-phase customer charge from $8.00 to $9.50;
- Increase the residential minimum bill from $7.00 to $10.00;
- Leave the summer energy rate structure unchanged but modify the single (flat) non-summer energy rate structure into two energy blocks;
- Set the summer and non-summer first block energy rates at the same level;

[15] Paice Exhibit (CCP-5), page 2 of 63, Docket 10-035-124.

My Direct Exhibit OCS 8.2, page 1 of 3 sets forth the Office's residential rate design proposal in a spreadsheet format. As a starting point, the Office's proposed residential rate design relies on our recommended rate spread for the residential class at a total revenue requirement increase of $80 million. Table 3 below summarizes the Office's proposed changes to the Schedule 1 rate charges:

Table 3

	Current	Proposed	% Rate Change	% Revenue Inc. Collected
Customer Charge:	$4.00	$4.75	18.8%	10.4%
Minimum Bill:	$7.00	$10.00	42.9%	0.7%
Summer 1st block:	8.4004	8.8204	5.0%	9.0%
Summer 2nd block:	10.3481	11.3312	9.5%	17.5%
Summer 3rd block:	12.8709	14.3200	11.3%	14.5%
Winter 1st block:	8.7035	8.8206	1.3%	3.3%
Winter 2nd block:	8.7035	10.1396	16.5%	44.5%

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

Under the Office's residential rate design proposal, 10.4% of the revenue increase would be collected through the customer charge, 0.7% would be collected through the minimum bill, 41.0% of the increase would be collected through the summer energy block rates and 47.8% of revenue increase would be collected through the non-summer energy block rates. The highest energy rate in the Office's proposal is the summer tailblock rate at 14.3 cents/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 Direct Exhibit 5.2, page 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 a range of monthly summer usage and the associated bill impacts. As Table 4 shows, the impact on residential customers' bills is proportionately greater as usage increases from low to very high in the summer period.

Table 4

Summer Bill Impacts

Usage (kWh)	Bill Impact (%)
500 kWh	3.70%
833 kWh*	4.50%
1500 kWh	5.80%
2000 kWh	6.30%

*Average Summer Usage = 833 kWh

Table 5 below illustrates the weighted annual bill impacts resulting from the Office's rate design proposal.[16] As Table 5 shows, the annual bill impacts are more pronounced across the usage spectrum, which primarily results from the recommended implementation of a two-part winter rate structure and the linking of the summer and winter first block energy rates. However, it is important to note that the "typical" residential customer with annual usage at 767 kWh per month would see an annual bill impact of 4.50%, which is near the class average increase of 4.70%.[17]

[16]The weighted bill impacts assume the same average level of energy use in each month.
[17]A 4.70% increase is the residential class average increase per the Office's rate spread proposal.

Table 5

Annual Bill Impacts

Usage (kWh)	Bill Impact (%)
500 kWh	2.83%
767 kWh*	4.50%
1500 kWh	7.61%
2000 kWh	8.28%

*Average Annual Usage = 767 kWh

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

A. Beginning in the 2006 GRC (Docket 06-035-21), the Commission has consistently taken a balanced approach to residential rate design. It has gradually increased the residential customer charge to cost-of-service according to its approved method, but has limited increases to the customer charge in any single case to $1.00. In addition, the Commission has applied revenue allocated to the summer and non-summer energy charges relatively evenly, but in certain cases placed more of the increase on the summer second and third energy block rates to send stronger price signals that higher summer usage is more costly to serve.

The Office's proposal continues this balanced approach to designing residential rates. However, we believe it is necessary at this time to modify the non-summer energy rate structure so that rates established in this proceeding for residential customers continue to be just and reasonable. In addition, we believe it is important that the Commission recognize that from a cost causation standpoint, increases in capital investment, operations and maintenance expense and net power costs are significant drivers of the Company's overall

rate request in this GRC.[18] As a result, the Office focused on the energy component of rates in order to send appropriate price signals to residential customers that energy- and demand-related costs are expected to increase in the test year.

Q. WHAT ADDITIONAL FACTORS OR PRINCIPLES WERE CONSIDERED BY THE OFFICE IN DEVELOPING ITS RATE DESIGN PROPOSAL?

A. The Office considered a number of additional factors in developing its proposal in this GRC. First, the Office believes it is important to recognize that the first summer and non-summer energy blocks relate to essential usage of electricity by residential customers and these rates need to be kept at an affordable level. Consequently, we set the summer and non-summer first block energy rates at the same level and propose that increases for the first block be lower than the increases for the other energy blocks. This design step results in proportionately more of the class revenue increase being collected in the summer and non-summer months through the second and third block (summer only) energy rates. Second, the class revenue increase allocated to the energy component of rates was divided between the summer and non-summer periods in way that appropriately recognizes there is less forecasted usage in the summer months (five) versus non-summer months (seven), but that usage in the summer period is normally more costly to serve. Third, the bill impacts are such that the typical residential customer will see annual bill impacts of 4.50%, which is close to the class average increase of 4.70% according to the Office's rate spread proposal (see Table 1). At the same time, customers with higher usage will receive stronger price signals to conserve energy in both the summer and non-summer periods. Fourth, the Office continues to recommend setting the summer tailblock rate at a level supported by marginal cost analysis. In summary, the Office's rate design proposal balances a number of key ratemaking principles and achieves an overall outcome that is fair and reasonable for residential customers.

[18]According to Company witness Walje's direct testimony, pages 3-4, lines 62-78, increases in capital investment, operations and maintenance expense and net power costs comprise $83 million of the total requested revenue requirement increase in this GRC.

Q. DOES THE OFFICE HAVE SIGNIFICANT CONCERNS ABOUT INCREASING THE SUMMER THIRD BLOCK (TAILBLOCK) ENERGY RATE TO ABOUT 14.3 CENTS/KWH?

A. The Office believes the 14.3 cents/kWh tailblock rate reasonably approximates the long run (10-year) marginal cost for demand and energy for the residential class, which was estimated by the Company at 13.5 cents/kWh in the Utah Marginal Cost Study filed last year.[19] That Marginal Cost Study is now 18 months old and has not been updated. Since the Marginal Cost Study was filed, PacifiCorp has submitted both its 2011 IRP and more recently the 2011 IRP Update with the Commission.[20] In particular, the significant revisions to loads and resources in the 2011 IRP Update increase the Company's resource deficit position after 2015. These IRP revisions would likely raise the long run marginal costs for demand and energy if the Utah Marginal Cost Study was updated.

Q. WHAT IS THE OFFICE'S PROPOSAL FOR THE MINIMUM BILL?

A. The Office proposes increasing the minimum bill from $7.00 to $10.00.

Q. PLEASE EXPLAIN THE REASONS FOR THE PROPOSED INCREASE IN THE MINIMUM BILL TO $10.00.

A. The Office proposes raising the minimum bill to continue moving in the direction achieved in the last GRC. In that proceeding, the Commission approved a settlement that increased the minimum bill for the first time in many years. Although parties to the settlement may have reached their positions on the minimum bill differently, the Office's view is that the minimum bill was increased in part due the fact that parties did not agree on what cost components should be included in the residential customer charge formula and in part to mitigate concerns that the Company was not collecting sufficient revenue from very low use customers to cover system costs. Increasing the minimum bill from $7.00 to

[19] Paice Exhibit (CCP-5), Docket 10-035-124.
[20] The Utah Marginal Cost Study was filed in January 2011; PacifiCorp's 2011 IRP was filed in March 2011 and PacifiCorp's 2011 IRP Update was filed in March 2012.

$10.00 should provide an opportunity for the Company to recover costs associated with customer-related service and a portion of distribution investment from these very low use customers.

Response to RMP's Residential Rate Design Proposal

Q. IS THE COMPANY'S RESIDENTIAL RATE DESIGN PROPOSAL IN THIS GRC SIMILAR TO ITS PROPOSAL IN THE LAST GRC?

A. Yes, the Company's residential rate design proposal in this case is almost identical to its proposal in the last case. In the last GRC (10-035-124), the Company proposed increasing the residential customer charge from $3.75 to $10.00 and collecting the balance of the class revenue through the energy rates. In the current GRC, the Company proposes once again to increase the residential customer charge from $4.00 to $10.00 and collect the balance of the class revenue via the energy rates. The Company refers to the current residential rate design proposal as the "2012 Methodology" and characterizes it as a "reasonable bridge" to a straight-fixed variable (SFV) rate design. Under its preferred SFV method, the Company would include all costs relating to customer (including retail), distribution and miscellaneous service accounts in the customer charge.[21] Thus, the Company's rate design proposal in this case is nearly the same as in the last GRC and its long-term pricing objective (i.e., SFV rate design) remains unchanged as well.

Q. WHAT EVIDENCE DOES THE COMPANY PROVIDE IN SUPPORT OF ITS RESIDENTIAL RATE DESIGN PROPOSAL?

A. The Company provides little in the way of evidence or rationale in support of its residential rate design proposal. As explained in Office Witness Martinez's testimony, Mr. Griffith fails to justify the Company's proposal to modify the Commission's existing customer charge formula by including a number of new

[21]Company witness Griffith's Exhibit WRG-2, pg 1 compares three customer charge methods: 1) the Commission's present methodology labeled as "1985 Methodology;" 2) the Company's proposed "2012 Methodology; and 3) the "Fixed Cost Methodology," which reflects the Company's preferred SFV method. The monthly customer charge under the Fixed Cost Methodology totals $28.63.

accounts, which substantially increases the customer charge by $6.00 in a single proceeding. Regarding the Company's proposed energy charges, it appears these charges were simply derived from the revenue amount remaining after increasing the customer charge from $4.00 to $10.00.[22]

Q. WHAT APPEARS TO BE THE PRIMARY MOTIVE UNDERLYING THE COMPANY'S RESIDENTIAL RATE DESIGN PROPOSAL?

A. Revenue assurance or stability has been discussed by the Company in recent GRCs as a principal driver underlying the Company's residential rate design proposals.[23] Again in this proceeding, revenue assurance appears to be a primary motivation and the Company's current proposal is portrayed as a "bridge" to its ultimate objective, which is a SFV rate design.

Q. DID THE COMPANY PROVIDE ANY EVIDENCE THAT DEMONSTRATES VOLATILITY IN RESIDENTIAL CLASS REVENUE?

A. No.

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

A. No. As shown earlier in Table 2 of my direct testimony, the residential class has consistently been a solid performer in RMP's COS studies over the last six 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 relating to the Company's rate design proposal. Those concerns are as follows:

[22]Griffith Direct, Pg. 5, lines 98 – 101.
[23]Docket 09-035-23, Griffith Direct, pg 5, lines 103-108 and Docket 10-035-124, Griffith Direct, pg. 6, lines 111- 116.

- The Company's customer charge proposal is a sharp departure from the Commission's present customer charge method. The Company fails to provide any evidence or rationale justifying why the Commission's current customer charge method should be modified to include certain new cost elements, including the retail accounts (900 accounts). This concern is discussed in greater detail in Office witness Martinez's direct testimony.
- The Company fails to demonstrate how its overall rate design proposal is consistent with key ratemaking criteria such as cost causation, fairness, gradualism and efficiency. These criteria are normally relied on by analysts in designing rates. For example, Mr. Griffith does not describe what criteria he relied on for his proposed summer and winter energy charges or whether raising the customer charge by $6.00 in one proceeding may have disparate impacts on the low, medium and high use segments of the residential class.
- The Company has made no attempt to analyze whether the customer charge for residential customers living in multi-family complexes should be lower because service drops are shared by two or more customers in those buildings. The current reality is that residential customers with shared services pay a customer charge which exceeds cost-of-service.
- The Company's residential bill impact analysis is very misleading because it only indicates the impact of the Company's proposed changes to the energy charges on residential customers' monthly bills.[24] An accurate bill analysis should show the *combined impact* of the Company's proposal, which includes a significant $6.00 increase to the customer charge and the relatively smaller increases to the summer and winter energy rates on customers' monthly bills. By placing proportionately more of the total increase in class revenue on the fixed customer charge component of customers' bills, the Company's proposal results in significantly higher bill impacts for the lower use segment (100 – 400 kWh) of the residential class.

[24]Exhibit RMP____(WRG-4), pg. 1 of 6.

- The Company's proposal represents a very unbalanced, punitive rate design that results in extremely high bill impacts for essential energy users in the first block of the rate structure and has lower bill impacts on discretionary energy users in the higher blocks of the rate structure. In its testimony, the Company makes no attempt to explain the equity ramifications or energy conservation implications associated with its current proposal, which would be even more severe under its ultimate rate design objective of SFV.

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

A. Yes. My Exhibit OCS 8.3, pages 1-3, illustrates the impact of the Company's proposal on residential customers' bills for annual, summer and non-summer time periods. Information from page 1 of Exhibit OCS 8.3 was used to construct Table 6 below, which presents four levels of usage, ranging from low (400 kWh) to medium (767 kWh = annual average) to high (1500 and 2000 kWh). Table 6 clearly shows that the annual bill impacts resulting from the Company's proposal are very uneven. For example, a customer using 400 kWh would receive an annual bill increase of 18.01% compared to the Company class average increase of 10.5%. By contrast, a customer using 2,000 kWh would receive an annual bill increase of only 5.81%.

Table 6

Annual Bill Impacts – RMP's Rate Design Proposal

Usage (kWh)	Bill Impact (%)
400 kWh	18.01%
767 kWh*	10.89%
1500 kWh	6.87%
2000 kWh	5.81%

*Average Annual Usage = 767 kWh.

**Residential Class average increase under Company's rate spread proposal is 10.5%, at the Company's rate request of $172.2 million.

Therefore, annual bill impacts are significantly greater for low use customers than high use customers under the Company's rate design proposal.

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

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

- The proposal fails to support with evidence the Company's recommended changes to the Commission's customer charge method.
- The proposal raises intra-class equity concerns because of the substantially greater bill impacts on low use customers compared to high use customers.
- The proposal fails to address residential customers living in multi-family complexes. These customers are already paying a customer charge that is excessive because they are allocated the full cost of a service drop rather than a shared cost. The Company's ignores this issue entirely and offers no credible solution to a recurring problem within the residential rate structure.
- The proposal emphasizes revenue assurance over other ratemaking principles such as cost causation and energy conservation because it recovers significantly more of the class revenue increase through the fixed customer charge and sends a weak price signal to high use customers to reduce electricity usage. The Company's proposed $6.00 increase in the customer charge in a single case is also inconsistent with the principle of gradualism; a principle the Commission has embraced in recent GRCs when deciding how much to raise the customer charge. Since the

inception of the customer charge back in 1985, the most the Commission has raised the customer charge in any single case was by $1.00.

- The proposal does not reflect the Company's current planning and operating environment where capital investment, operations and maintenance costs and net power costs continue to drive cost increases to customers. These cost increases relate to load changes and are more properly recovered through energy rates than the customer charge.

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?

A. Yes.