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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	**Docket No. 11-035-200**

PREFILED DIRECT TESTIMONY OF NEAL TOWNSEND

[COST OF SERVICE / RATE SPREAD / RATE DESIGN]

The UAE Intervention Group (UAE) hereby submits the Prefiled Direct Testimony of Neal Townsend on cost of service, rate spread and rate design issues.

DATED this 22nd day of June, 2012.

/s/_____________________________
Gary A. Dodge,
Attorney for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 22nd day of June, 2012, on the following:

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Neal Townsend

on behalf of

UAE

Docket No. 11-035-200

[Cost of Service / Rate Spread / Rate Design]

June 22, 2012

DIRECT TESTIMONY OF NEAL TOWNSEND

INTRODUCTION

Q. Please state your name and business address.

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Director for Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users Intervention Group ("UAE").

Q. Please describe your professional experience and qualifications.

A. I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil and natural gas industries.

Q. Have you previously testified before this Commission?

A. Yes. Since 1997, I have testified in eight dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified previously before any other state utility regulatory commissions?

A. Yes. I have testified in utility regulatory proceedings before the Arkansas Public Service Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the Public Utility Commission of Oregon, the Public Utility Commission of Texas, the Utah Public Service Commission, the Virginia Corporation Commission, and the Public Service Commission of West Virginia. A more detailed description of my qualifications is contained in Attachment A, attached to this testimony.

OVERVIEW AND CONCLUSIONS

Q. What is the purpose of your testimony in this proceeding?

A. My testimony addresses the following cost-of-service, spread, and rate design issues:

(1) RMP's cost-of-service study.

(2) The appropriate spread of the revenue requirement increase that will be determined in this case.

(3) RMP's proposed Schedule 8 and 9 rate design.

(4) Schedule 8 Tariff language.

Q. Please summarize your conclusions and recommendations.

A. (1) The seasonality of Utah loads is not adequately addressed or reflected in RMP's cost of service study. Among other things, monthly peak load weightings should be retained to partially address this seasonality.

(2) RMP's cost-of-service study inappropriately assigns a significant portion of the revenue credits associated with Schedule 21, Schedule 31, and Special Contract 3 to the distribution, retail, and miscellaneous functions. At a minimum, I recommend that the revenues associated with Special Contract 3 be applied as a credit against only production and transmission costs.

(3) I present a modified rate spread proposal which takes account of my recommended changes to RMP's cost-of-serve study. My rate spread retains the basic structure of RMP witness William R. Griffith's proposal and is reasonable in that it recognizes the direction of change indicated by the cost-of-service study, while, like Mr. Griffith's proposal, not adhering rigidly to class revenue deficiencies indicated by any given cost-of-service study.

(4) The Commission should not adhere strictly to class revenue deficiencies indicated by any given cost-of-service study for a number of reasons, including the fact that cost of service analysis is more art than science, that the cost of service methodologies typically used in Utah do not adequately recognize the cost-causative nature of Utah's seasonal loads, and the fact that other ratemaking principles, including the principle of gradualism, should be employed to mitigate the severe impacts of the recent major recession on Utah businesses.

(5) I recommend the Commission adopt the approach recommended by Mr. Griffith for the design of Schedule 8 and 9 rates.

(6) I recommend that the Commission modify the Schedule 8 tariff language to provide that a customer will be moved onto Schedule 8 only if its peak load is at or exceeds 1,000 kW in at least half of the months in a rolling 12-month period, and that a Schedule 8 customer be allowed to move back to Schedule 6 if its peak load falls below 1,000 kW more than half of the months in a subsequent 12-month period.

COST OF SERVICE

Q. Have you reviewed the class cost-of-service (COS) study presented by RMP witness C. Craig Paice?

A. Yes, the results of Mr. Paice's study are shown in RMP Exhibit ___ (CCP-1).

Q. Do you have any comments on the Company's COS study?

A. Yes. I disagree with Mr. Paice's elimination of the weightings previously applied to the monthly class peak loads used to allocate generation and transmission fixed costs. These weightings were introduced in the 2006 general rate case in an effort to begin to address the significant seasonal nature of Utah’s peak loads, particularly its summer peaks. While I recognize some may argue that the use of these weights perpetuates a minor inconsistency between the derivation of the factors used in the inter-jurisdictional cost allocation model and the class COS model, I nevertheless believe the weighting is appropriate in light of Utah's increasing summer peaks.

Q. How are these monthly peak weightings derived?

A. The monthly peak weights that have been used since 2006 are derived by comparing each of the monthly *system* peak loads during the test period to the maximum *system* peak load for the test period. For example, the monthly system peak load in the first month of the test period, June 2012, is forecasted to be 8,444 MW; the maximum system peak load during the test period is 9,235 MW which is forecasted in July 2012. Thus, the June 2012 weighting is 91.44% (8,444 MW ÷ 9.235 MW). During the test period the monthly weightings ranged from 81.83% to 100%.

Q. Do these weights dramatically alter the COS results?

A. No. I present the results of the COS using the weighted monthly peaks in UAE Exhibit COS 2.1 (TNT-1). In Table TNT-1, below, I compare the class increases required to achieve the requested rate of return using the monthly peak weighted results to the class increase required to achieve the requested rate of return under RMP's COS results.[1] As these results show, the use of these weights has only a very modest impact on the COS results. I believe the monthly weightings should be retained because they begin to address the significant impacts of seasonal peak loads in Utah.

[1] See RMP witness C. Craig Paice Exhibit ___ (CCP-1).

Table TNT-1

Comparison of RMP COS Revenue Change and Revenue Change with Weighted Monthly Peak Loads

		RMP COS Results (CCP-1)		COS Results using Monthly System Peak Weights	
Schedule No.	Description	Increase (Decrease) to = ROR	Percent Change	Increase (Decrease) to = ROR	Percent Change
1	Residential	$79,988,260	12.31%	$81,469,045	12.53%
6	General Service - Large	$29,411,385	6.19%	$28,986,258	6.10%
8	General Service - Over 1 MW	$12,036,471	8.50%	$11,832,608	8.36%
7,11,12	Street & Area Lighting	($346,450)	-2.86%	($350,452)	-2.89%
9	General Service - High Voltage	$32,529,400	14.19%	$31,943,488	13.93%
10	Irrigation	$2,172,274	16.49%	$2,244,673	17.04%
15	Traffic Signals	$47,246	8.08%	$46,630	7.97%
15	Outdoor Lighting	($150,539)	-13.15%	($151,268)	-13.22%
23	General Service - Small	$6,509,155	5.01%	$6,561,870	5.05%
SpC	Customer 1	$5,232,863	21.60%	$5,151,093	21.26%
SpC	Customer 2	$4,837,276	17.95%	$4,533,392	16.82%
	Total Utah Jurisdiction	$172,267,339	10.11%	$172,267,339	10.11%

Q. Are there other ways in which the seasonality of Utah's loads could be addressed in a COS study?

A. Yes. There are many alternatives that could better reflect the cost-causative nature of Utah's seasonal peak loads. For example, the monthly peak weightings could be derived using Utah monthly peak loads instead of the system peak loads. Alternatively, other cost-of-service approaches could be used to allocate the fixed generation and transmission costs in a manner that better reflects cost causation.

Q. What is your recommendation to the Commission on this issue?

A. At a minimum, I believe the monthly peak load weightings that have been used in Utah since 2006 should be retained.

Q. Do you have any other observations related to RMP's COS study?

A. Yes. RMP's COS study includes $64 million dollars that are treated as revenue credits to offset the costs of providing electric service to customers. The revenues are related to Schedule 21 (Electric Furnace Service), Schedule 31 (Partial Requirements Service), and Special Contract 3. The vast majority of this $64 million is for electric service provided to Special Contract 3.

Q. How has RMP treated these revenue credits in its COS study?

A. RMP has imputed a portion of these revenue across all five functions (production, transmission, distribution, retail, and miscellaneous) in its COS study. For example, approximately $10 million of the $64 million is credited against the distribution function costs.

Q. Do you agree with RMP's proposed revenue credit treatment?

A. No. As I noted above, the vast majority of these revenues are related to Special Contract 3. In my opinion, these revenues should only be applied against the production and transmission functions. Like Schedule 9 industrial customers, Special Contract 3 takes service at transmission voltage. Distribution facilities are not used to serve this customer. Therefore, it is not appropriate to credit any of this revenue against distribution-related costs. For the same reason, it may also be appropriate to credit most of the other revenue credits (Schedules 21 and 31) to the production and transmission functions.

Q. Have you assessed the impact of assigning these revenue credits solely to the production and transmission functions?

A. Yes. As a sensitivity analysis, I credited the entire $64 million to the production and transmission functions. I present the results of the COS with these revenues assigned solely to the production and transmission functions in UAE Exhibit COS 2.2 (TNT-2). In Table TNT-2, I compare the class increases required to achieve the requested rate of return with these revenues credited against production and transmission costs to the class increase required to achieve the requested rate of return under RMP's COS results. As these results show, the treatment of these revenue credits also has a relatively modest impact on the COS results.

Table TNT-2

Comparison of RMP COS Revenue Change and Revenue Change with Revenue Credits Assigned to Production and Transmission Functions

		RMP COS Results (CCP-1)		COS Results with Revenue Credit Assigned to P&T	
Schedule No.	Description	Increase (Decrease) to = ROR	Percent Change	Increase (Decrease) to = ROR	Percent Change
1	Residential	$79,988,260	12.31%	$81,978,708	12.61%
6	General Service - Large	$29,411,385	6.19%	$28,835,818	6.07%
8	General Service - Over 1 MW	$12,036,471	8.50%	$11,810,685	8.34%
7,11,12	Street & Area Lighting	($346,450)	-2.86%	($222,169)	-1.83%
9	General Service - High Voltage	$32,529,400	14.19%	$31,310,000	13.65%
10	Irrigation	$2,172,274	16.49%	$2,189,975	16.62%
15	Traffic Signals	$47,246	8.08%	$51,548	8.81%
15	Outdoor Lighting	($150,539)	-13.15%	($151,376)	-13.22%
23	General Service - Small	$6,509,155	5.01%	$6,641,061	5.11%
SpC	Customer 1	$5,232,863	21.60%	$5,103,978	21.07%
SpC	Customer 2	$4,837,276	17.95%	$4,719,111	17.51%
	Total Utah Jurisdiction	$172,267,339	10.11%	$172,267,339	10.11%

Q. What is your recommendation to the Commission on the proper treatment of the revenue credits in the COS study?

A. At a minimum, I recommend that the revenues associated with Special Contract 3 be applied as a credit against production and transmission costs.

Q. Have you performed a sensitivity analysis that combines the impact of using the monthly system peak weights with the change in the treatment of these revenue credits?

A. Yes. I present the combined effect of these changes on the COS results in UAE Exhibit COS 2.3 (TNT-3). In Table TNT-3, I compare the class increases required to achieve the requested rate of return with the combined impact of these changes to RMP's COS results. As these results show, in combination these changes have only a modest impact on the COS results.

Table TNT-3

Comparison of RMP COS Revenue Change and Revenue Change with Combined Effect of Weighted Monthly Peak Loads and the Revenue Credits Assigned to Production and Transmission Functions

		RMP COS Results (CCP-1)		COS Results using Mo. Pk Wgts & Rev. Cr. to P&T	
Schedule No.	Description	Increase (Decrease) to = ROR	Percent Change	Increase (Decrease) to = ROR	Percent Change
1	Residential	$79,988,260	12.31%	$83,443,765	12.84%
6	General Service - Large	$29,411,385	6.19%	$28,417,033	5.98%
8	General Service - Over 1 MW	$12,036,471	8.50%	$11,609,385	8.20%
7,11,12	Street & Area Lighting	($346,450)	-2.86%	($226,030)	-1.86%
9	General Service - High Voltage	$32,529,400	14.19%	$30,728,729	13.40%
10	Irrigation	$2,172,274	16.49%	$2,261,566	17.17%
15	Traffic Signals	$47,246	8.08%	$50,943	8.71%
15	Outdoor Lighting	($150,539)	-13.15%	($152,090)	-13.29%
23	General Service - Small	$6,509,155	5.01%	$6,693,687	5.15%
SpC	Customer 1	$5,232,863	21.60%	$5,022,831	20.73%
SpC	Customer 2	$4,837,276	17.95%	$4,417,520	16.39%
	Total Utah Jurisdiction	$172,267,339	10.11%	$172,267,339	10.11%

Q. Do you have any other recommendations related to the COS study at this time?

A. No, although I believe that additional steps could be appropriate to better reflect cost causation, particularly as it relates to Utah's summer peaks.

RATE SPREAD

Q. What revenue increase is RMP recommending for the Utah jurisdiction?

A. PacifiCorp has requested a $172,267,339, or 9.7% overall, Utah revenue increase.

Q. Have you reviewed the rate spread proposal presented by RMP witness William R. Griffith?

A. Yes, I have. As shown on RMP Exhibit ___ (WRG-1), if Special Contract 1, Special Contract 2, and Annual Guarantee Adjustment (AGA) revenues are excluded, this $172,267,339 represents a 10% overall Utah revenue increase. Mr. Griffith is proposing a rate spread in which customers served on Schedules 6 and 23 would receive an 8.54 percent increase, approximately equal to 1.5 percent below the system average increase excluding the revenue for the two special contracts and the AGA (which I will refer to as the "Modified System Average" hereafter). Customers served on Schedule 8 and Schedule 15T would receive a 9.54 percent increase, approximately equal to 0.5 percent below the Modified System Average. Residential customers on Schedules 1, 2, and 3 would receive a 10.54 percent increase, approximately equal to 0.5 percent above the Modified

System Average increase. Customers served on Schedule 9, Schedule 21, and Schedule 31, plus the Special Contract 3 customer would receive a 12.54 percent increase, approximately equal to 2.5 percent above the Modified System Average increase. Irrigation customers served on Schedule 10 would receive a 13.54 percent increase, approximately equal to 3.5 percent above the Modified System Average increase. Finally, the remaining lighting customers would receive a 0 percent increase.

Q. What is your assessment of Mr. Griffith's proposal?

A. Given the COS results that RMP has presented in this case, Mr. Griffith's spread is not unreasonable. However, based on the COS modifications I performed, I recommend several adjustments to Mr. Griffith's spread proposal. With these adjustments, I believe my proposed spread is more reasonable at RMP's requested revenue requirement. The proposal recognizes the direction of change indicated by my adjustments discussed above to RMP's cost-of-service study. Under this recommended spread, classes earning returns below the system average receive percentage rate increases that are above the average, and vice versa, while classes earning close to the average retail return receive an increase approximately equal to the system average increase. At the same time, this spread proposal does not rigidly adhere to the class revenue deficiencies indicated by RMP's cost-of-service study. I believe this is a reasonable approach.

Q. Can you describe the adjustments that you recommend?

A. In its revenue requirement testimony, UAE recommended an adjustment to recognize the incremental revenue that will be recovered from Special Contract customers 1 and 2. I believe these additional revenues should be considered in determining rate spread.[2]

Based on the results of the COS sensitivity studies discussed above, I recommend that the residential schedules (Schs. 1, 2, & 3) and Schedule 9 should receive the same percentage increase because the cost of service results for these two major classes are reasonably similar. This recommendation will result in a change in the rate-spread midpoint from 10.54% to 10.81%. However, for the remaining rate schedules, I recommend maintaining the relationship Mr. Griffith proposed for each schedule relative to the rate spread midpoint. I note that since I am recommending a different percentage change for Schedule 9 that the incremental revenues from the special contracts tied to the Schedule 9 will change as well. I have attempted to estimate this impact and have incorporated its effects into my recommended rate spread.

I present UAE's recommended rate spread at RMP's requested revenue requirement in UAE Exhibit COS 2.4 (TNT-4), which reflects these proposed changes.

Q. Is it reasonable to not adhere strictly to the class revenue deficiencies indicated by RMP's cost-of-service study?

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[2] The amount of incremental revenues that will be recovered from the Special Contracts is governed by the terms of each contract. The amount of incremental revenue for each contract is dependent on the outcome of this general rate case.

A. Yes. Any approach to cost-of-service analysis is as much art as science, and will provide only general guidance for rate spread determinations. Moreover, as a general matter, cost-of-service studies should yield under proper circumstances to other ratemaking principles, such as the principle of gradualism, which takes into consideration the impact of rate increases on various customer groups. In this proceeding, the principle of gradualism is particularly important for customers taking service under Schedule 9, in light of the failure of RMP's COS methodology to account for the significant impacts of Utah's summer peaks as well as the economically tenuous circumstances faced by American industry as businesses try to recover from the recent recession. RMP's requested annual rate case increases, which are projected to continue for the foreseeable future, have generally been in the double digit percentage range for Utah's industrial customers for several years, and are difficult for Utah businesses to absorb.

Q. What is your recommendation if the actual revenue increase granted by the Commission is lower than that requested by RMP?

A. If the revenue requirement approved by the Commission is less than that requested by RMP, I recommend that the rate spread proposed in UAE Exhibit COS 2.4 (TNT-4) be used as the starting point for spreading the approved revenue change. Specifically, the revenue apportionment produced by my suggested rate spread should be used as the basis for spreading any smaller revenue change.

Q. Please explain your recommendation further.

A. When I refer to the "revenue apportionment" produced by the initial proposed rate spread I am referring to each class's percentage share of total revenue requirement that results from that spread. For example, as shown in UAE Exhibit COS 2.5 (TNT-5), column (f), Residential customers would pay 38% of the total revenue requirement, excluding Special Contracts 1 and 2, AGA, and Street lighting revenues. If the Commission were to determine that this proposed rate spread is reasonable, then by extension, the corresponding revenue apportionment is reasonable as well and it should be used to spread the ultimate revenue requirement increase.

My recommendation is to apply the percentage revenue apportionment that results from my initial recommended rate spread to the final revenue requirement approved by the Commission. The advantage of this approach is that it balances the application of gradualism with movement toward cost-of-service. If there is agreement (or a determination) that a given revenue apportionment reasonably accomplishes this balance, then this balance should be retained for a range of different revenue requirements. My recommendation accomplishes this objective.

Q. Do you have an example of how this approach would work?

A. Yes. An example is presented in UAE Exhibit COS 2.5 (TNT-5) using a hypothetical revenue increase of $86.1 million.

SCHEDULE 8 AND 9 RATE DESIGN

Q. Have you reviewed RMP's proposed rate design for Schedules 8 and 9?

A. Yes, the proposed rate designs are presented in RMP Exhibit ___ (WRG-3). According to the testimony of RMP witness William R. Griffith, the Company proposes to uniformly increase the facility, demand and energy charges to reflect the proposed revenue requirement change. In addition, the Company proposes to increase the monthly customer charge associated with each schedule.[3]

Q. What is your recommendation to the Commission on the Company's approach to designing the rates for Schedule 8 and 9?

A. I agree with the approach recommended by Mr. Griffith for the design of Schedule 8 and 9 rates and I recommend that the Commission adopt it.

SCHEDULE 8 TARIFF LANGUAGE

Q. What tariff schedules are used to serve distribution voltage general service commercial customers?

A. General service distribution voltage commercial customers (i.e. those served at a voltage level less than 46 kilovolts [kV]) are served on either Schedule 6 or Schedule 8.

Q. What determines whether a customer is served on Schedule 6 or 8?

A. Distribution voltage general service customers are generally served on Schedule 6 as long as their peak demand is below 1,000 kilowatts (kW). A

[3] See RMP witness William R. Griffith direct testimony, p. 12.

customer whose monthly peak demand reaches 1,000 kW or greater twice in any consecutive 18-month period is automatically moved to Schedule 8. Under the Schedule 8 tariff, a customer must remain on Schedule 8 for at least 36 months (or 18 months if the customer has never before been moved to Schedule 8) even if its usage never again reaches the 1,000 kW level. Once the 36-month period (or 18-months if applicable) passes without the customer exceeding 1,000 kW even once, the customer may ask to move back to Schedule 6; the move is not automatic.

Q. Do you believe that these requirements for moving onto and off of Schedule 8 are justified or reasonable?

A. No. Schedule 8 was adopted by stipulation to create a separate schedule for "larger" commercial customers that were not transmission level (Schedule 9) customers. The 1,000 kW threshold, the number of monthly peak "incursions" above or below that level to trigger a move to Schedule 8 or the right to move back to Schedule 6, and the 36-month (or 18) measurement period, are all arbitrary, negotiated numbers or levels that lack any strong basis or justification. Having observed the impacts of Schedule 8 now for several years, I do not believe that they remain reasonable.

Q. Please explain.

A. There is no sound or compelling reason to force commercial customers onto or off of Schedule 6 or Schedule 8 based solely on infrequent load variations above or below the arbitrary 1,000 kW level. That breaking point was selected to distinguish between “smaller” and “larger” Schedule 6 customers. Rigid application of this breaking point to force customers to remain on one schedule or the other serves no reasonable or valid purpose. Rather, a customer should be and remain on Schedule 8 only if it is in fact consistently a “larger” customer with peak loads generally in excess of 1,000 kW or on Schedule 6 if it is consistently a “smaller” customer with peak loads generally below 1,000 kW.

Q. What is your recommendation?

A. I recommend that the Commission modify the Schedule 8 tariff language to provide that a customer will be moved onto Schedule 8 only if its monthly peak load is at or exceeds 1,000 kW in at least half of the months in a rolling 12-month period. Once on Schedule 8, I recommend that a customer be allowed to move back to Schedule 6 if its monthly peak load is below 1,000 kW in more than half of the months during a subsequent 12-month rolling period. I believe this is a more reasonable basis for distinguishing between smaller general service commercial customers who should be on Schedule 6 and larger general service commercial customers who should be on a separate schedule.

Q. Does this conclude your direct testimony?

A. Yes, it does.