–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. UT 20-035-04** **Exhibit No. DPU 11.0 SR**

FOR THE DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

Surrebuttal Testimony of

BRUCE R. CHAPMAN

November 6, 2020

INTRODUCTION

Q. Would you please state your name and business address?

A. My name is Bruce R. Chapman. My business address is 800 University Bay Drive, Suite 400, Madison, WI 53705.

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

A. I am employed by Christensen Associates Energy Consulting, LLC (CA Energy Consulting) in the capacity of Vice President.

Q. Are you the same Bruce Chapman who provided direct and rebuttal testimony in this case?

A. Yes.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Division of Public Utilities of the Utah Department of Commerce (the Division).

Q. What is the purpose of your surrebuttal testimony?

A. My testimony provides comments in response to the rebuttal testimony of one intervenor in Rocky Mountain Power's (RMP or the Company) rate application. The intervenor provided rebuttal testimony in response to my direct testimony on the subject of the embedded cost-of-service study (ECOSS). I provide responses to the rebuttal testimony

of Mr. Ron Nelson, Director of Strategen Consulting, who appeared on behalf of the Utah Office of Consumer Services (OCS).

Q. Should we make any inferences about your views on various intervenors' direct testimony, in whole or in part, if you do not comment on them in this testimony?

A. No, lack of a comment, on a portion of testimony or an entire submission, indicates neither support nor opposition.

ISSUES ASSOCIATED WITH OFFICE OF CONSUMER SERVICES WITNESS NELSON'S REBUTTAL TESTIMONY

Q. Do you have a comment with respect to witness Nelson's views on the subfunctionalization of production and transmission costs as fixed and variable?

A. Yes. My comment is in the form of a question, seeking clarification of witness Nelson's position. At lines 95 to 96 he states that "RMP's P&T subfunctionalization does not actually change its classification and allocation outcomes – or its ECOSS – at all." However, his argument in his direct testimony (lines 483 to 485), is that a cost shift across cost causative factors takes place, shifting energy-related production and transmission costs into demand-related costs, and then shifting demand-related costs in the direction of customer-driven causation. Witness Nelson may have a valid argument about the possible problems and analytical confusion of this form of subfunctionalization, but because of the above text, I am uncertain as to his conclusion.

Q. What is your impression of the merits or demerits of such a shift, if it occurs?

A. I think that the merits or demerits depend upon one's preference as to methodology. If a methodology, such as RMP's subfunctionalization, seems to be supported by theory or practice, then the resulting cost shifts would be cost justified. Witness Nelson states that the method proposed by RMP is not supported by practice elsewhere, is not supported by established theory and provides an avenue for achieving rate design objectives while circumventing the COS (were it conducted to his satisfaction). It is my impression that RMP needs to clarify its fixed/variable classification method and connect each type of classified costs to the standard cost causation drivers of customer numbers, peak demand, and total consumption of energy.

Q. Do you have a response to witness Nelson regarding the admissibility of marginal cost for the allocation of production-related embedded costs?

A. Yes. At lines 179 to 190, witness Nelson records his skepticism regarding the use of marginal cost in this area. I offer a clarification of my previous statements. I recommend that RMP consider using marginal costs to develop a combination classification and allocation rule to be applied to production-related embedded costs. This does not imply the inclusion of marginal cost in cost of service beyond the role of developing a sharing rule for production costs. This approach avoids the need to determine how to classify production costs into demand-related and energy-related shares. Each class is responsible for the share of production costs based on its share of total load-weighted marginal costs. In light of this capability, it does not seem to me that RMP would need to move to a

marginal cost regulatory framework (as suggested by witness Nelson at line 181) to consider this classification and allocation approach to its embedded costs.

Q. Doesn't witness Nelson argue that the absence of jurisdictions utilizing this approach invalidate the application that you suggest?

A. No. I agree that the approach is not widely used. However, the approach that I propose is sound in terms of both theory and practical application. The approach avoids a classification dilemma that the NARUC COS Manual reveals has no solution that commands widespread acceptance and makes use of data that reflect the current operating conditions of the firm and the wholesale market within which it operates.

Q. Do you recommend that RMP adopt this approach?

A. I recommend that RMP consider this approach at the time that it wishes to update the current procedure or is required to review it by the Utah Commission.

Q. Do you have comments concerning witness Nelson's treatment of the classification of distribution costs?

A. Yes. Witness Nelson takes issue with my views about the admissibility of methods used presently for distribution classification, the zero-intercept and minimum system methods. The two methods that I described are well established, as documented in the NARUC Electricity Cost Allocation Manual.[1] They also appear in a more recent document cited

[1] National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual*, January 1992.

by witness Nelson in his direct testimony (footnote 8 at page 21, on an unrelated point), referencing the volume by Lawrence Vogt.[2] It is appropriate, I believe, for RMP to consider these two distribution cost classification methodologies, subject to the Commission's approval.

Q. Why do you believe that there is customer-related, and not just demand-related, cost causation associated with FERC accounts 364 to 368?

A. As noted in my colleague Robert Camfield's rebuttal testimony in this docket, the factors influencing distribution cost include peak demand and transport distance, among others. (Lines 73 to 75.) Unfortunately, transport distances associated with the locations of customer premises are typically not observable for costing purposes. Moreover, utilities would likely not use location or distance for pricing distribution services, even if transport distances were known, as the use of transport to set electricity prices would raise major concerns of equity and fairness across rates. Because of the causal relationship between investment costs and the transport services provided to customer premises, a significant share of the embedded costs of distribution wires services (conductors, poles/towers, and related equipment) is attributable to customers.

Q. Does this conclude your testimony?

A. Yes, it does.

[2] Lawrence Vogt, *Electricity Pricing: Engineering Principles and Methodologies*, CRC Press, c. 2013, p. 494*ff.*