

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter Of The Application Of)	
PacifiCorp For Approval of Its Proposed)	Docket No. 04-035-42
Electric Rate Schedules and Electric)	Cost Allocation/Rate Design
Service Regulation)	

DIRECT TESTIMONY OF RONALD J. BINZ

ON BEHALF OF AARP

COST ALLOCATION AND RATE DESIGN TESTIMONY

Filed: January 7, 2005

DIRECT TESTIMONY OF RONALD J. BINZ
CONCERNING COST ALLOCATION AND RATE DESIGN

1 **Q. What is your name and address?**

2 A. My name is Ronald J. Binz. My business address is 333 Eudora Street, Denver,
3 Colorado 80220-5721.

4 **Q. On whose behalf are you testifying in this case?**

5 A. I am testifying on behalf of AARP, a nonprofit, nonpartisan membership
6 organization for people aged fifty and over. AARP provides information and resources;
7 advocates on legislative, consumer, and legal issues; assists members to serve their
8 communities; and offers a wide range of products and services to its members. Nationally,
9 AARP has over thirty-five million members, including 187,000 members in Utah.

10 **Q. Did you file testimony previously in this docket?**

11 A. Yes. I filed Direct Testimony on the revenue requirements issues in this case on
12 December 4, 2004. My qualifications and experience in utility ratemaking are described in
13 that testimony.

14 **Q. What is the purpose of your testimony?**

15 A. PacifiCorp is proposing to increase its Utah base electric rates by \$111 million, an
16 overall increase of almost 10% over current revenues in Utah. The average residential
17 customer (using 773 kwh/mo) would see an increase of about \$66 per year under the
18 Company's proposal. In prior testimony I addressed the revenue requirements and made
19 recommendations to the Commission on a number of revenue and expense issues.

1 I was also asked by AARP to review the Company's proposals for cost allocation
2 and rate design and to make recommendations to the Commission. This testimony responds
3 to the testimony of PacifiCorp witnesses Taylor and Griffith.

4 **Q. How is your testimony organized?**

A. First, I present an introduction to the testimony and a summary of my findings and
recommendations for the Commission. Second, I summarize the Company's cost allocation
and rate design proposal. Third, I describe several modifications to PacifiCorp's filed case
that the Commission should consider.

I. INTRODUCTION AND SUMMARY OF TESTIMONY

5 **Q. Mr. Binz, why is this case important to AARP members in Utah?**

6 A. PacifiCorp is proposing a significant increase in its electric rates in Utah. The
7 Company's request for higher rates is based on claimed increases in investment and
8 expenses by the Company. But as it turns out, a big part of the increase to residential
9 consumers is due to choices that the Company has made in its cost allocation proposal.

10 AARP members are certainly willing to pay rates that cover their costs; but like all
11 consumers, they are not willing to pay more than is needed to compensate PacifiCorp for its
12 prudent costs and to maintain reliable electric service over the long term. Further, AARP
13 members do not want to pay more than their fair share of the Company's prudent costs.
14 Whatever increase is granted to PacifiCorp, the Company's costs should be spread equitably
15 among the customer classes.

1 **Q. Please summarize your conclusions and recommendations to the Commission.**

2 A After reviewing the Company's testimony and exhibits, together with substantial
3 amounts of information produced in discovery, I have developed the following findings
4 and recommendations for the Commission:

- 5 ▪ The Company proposes to increase rates for most rate classes by an equal
6 percentage. This approach ignores differences in cost of service between
7 rate classes, to the detriment of residential customers.
- 8 ○ While it may be acceptable in some cases to apply an equal
9 percentage increase, there is no compelling reason to maintain the
10 imbalance between the major rate classes in this case.
- 11 ○ An equal percentage increase is especially inappropriate in light of
12 the stipulated settlement in the previous docket.
- 13 ▪ The Commission should use the following approach in allocating costs in
14 this docket:
- 15 ○ To the extent feasible, rate classes should be brought to a unitary rate
16 of return;
- 17 ○ The maximum percentage increase for any rate class should be
18 limited to a reasonable multiple of the average percentage increase;
- 19 ○ If the Company is granted an overall increase, any rate class for
20 which the cost of service study indicates a reduction should receive a
21 zero increase.

II. The PacifiCorp Proposal

22 **Q What is PacifiCorp proposing in this case?**

23 A The Company is requesting an increase in overall Utah annual revenues of
24 \$111 million based on its projection of revenues, expenses, investment and capital costs for
25 the 12-month test period ending March 31, 2006. The Commission has received a

1 significant amount of testimony on the revenue requirement and will decide that issue
2 separately from the cost allocation and rate design matters.

3 In this portion of the case, PacifiCorp witness Dave Taylor presents the results of a
4 fully distributed cost of service study that allocates the Company's revised revenue
5 requirement – current revenues plus the proposed \$111 million increase. In order to make
6 meaningful comparisons with PacifiCorp's cost of service analysis, I will examine the
7 proposed cost allocation and rate design under the assumption that the entire \$111 million
8 increase is approved. Obviously, AARP does not think that PacifiCorp has justified the
9 increase and has argued in testimony in the revenue requirement phase of the case that the
10 Commission should award a much lower increase, if any at all.

11 Mr. Taylor's cost allocation study allocates total Utah revenues, expenses and capital
12 investment among the customer classes (Residential, Commercial, Irrigation, etc.) using a
13 method known as the "twelve month coincident peak" ("12-CP") methodology. With minor
14 changes, this is the same methodology that has been adopted by this Commission in prior
15 PacifiCorp cases. PacifiCorp also uses the 12-CP method to allocate costs among the
16 PacifiCorp jurisdictions.

17 Generally speaking, the 12-CP method allocates investment, expenses and revenue
18 based on a variety of factors that describe and distinguish the various customer classes
19 (amount of energy used, class peak demand, number of customers, voltage level, etc.). The
20 method gets its name from the fact that the main allocator (used to allocate most generation
21 and transmission plant) is derived by measuring each customer group's contribution to each
22 of the twelve monthly system peaks in the test period.

1 **Q What are the results of Mr. Taylor’s cost allocation?**

2 A Mr. Taylor first examines how each rate class is contributing to the *current* revenues
 3 of the Company. He concludes that, under current rates, the various rate classes produce
 4 different *relative* contributions to the system costs. Thus, even though the Company claims
 5 that rates are deficient by \$111 million annually, it turns out that some rate classes are more
 6 responsible for the shortfall than others. Here is an excerpt of the summary table contained
 7 in Mr. Taylor’s Exhibit DLT-6:

A	B	C	D	F	L	M
Schedule No.	Description	Annual Revenue	Return on Rate Base	Total Cost of Service	Increase (Decrease) to = ROR	Percentage Change from Current Revenues
1	Residential	440,028,733	7.61%	424,014,140	(16,014,593)	-3.64%
6	General Service - Large	321,430,640	5.86%	325,454,017	4,023,377	1.25%
8	General Service - Over 1 MW	90,729,497	6.19%	90,968,788	239,291	0.26%
7,11,12,13	Street & Area Lighting	10,847,300	2.21%	11,910,987	1,063,687	9.81%
9	General Service - High Voltage	136,758,294	5.68%	138,709,648	1,951,354	1.43%
10	Irrigation	9,352,282	2.72%	10,393,336	1,041,054	11.13%
12	Traffic Signals	739,505	7.01%	726,682	(12,823)	-1.73%
12	Outdoor Lighting	725,216	59.01%	329,777	(395,439)	-54.53%
21	Electric Furnace	241,825	10.20%	220,244	(21,581)	-8.92%
23	General Service - Small	80,869,735	6.96%	79,311,029	(1,558,706)	-1.93%
25	Mobile Home Parks	658,771	7.11%	642,666	(16,105)	-2.44%
SpC	Customer A	7,755,432	3.55%	8,270,945	515,513	6.65%
SpC	Customer B	13,349,697	-7.21%	18,562,094	5,212,397	39.05%
SpC	Customer C	17,601,092	-1.58%	21,573,667	3,972,575	22.57%
	Total Utah Jurisdiction	1,131,088,019	6.29%	1,131,088,019	-	0.00%

Table 1 -- Excerpt from Exhibit DLT-6, Page 1

8 **Q What does this table show?**

9 A The table shows (in Column D) that the some rate classes, notably the residential
 10 class, are contributing more than their share of the Company’s current revenues.
 11 Recognizing that the Company claims its current earnings are deficient by \$111 million
 12 annually, the study shows (Column M) that residential rates should be *lowered* by 3.64%

1 (and others raised) in order to put residential customers on an equal footing with the other
 2 customer classes with respect to the contribution to current earnings.

3 **Q What is the next step in the analysis?**

4 A Mr. Taylor then calculates the level of additional revenues required from each class
 5 to meet the Company’s claimed increased revenue requirement. This part of the analysis
 6 produces a similar result to the table above, showing the size of the increase necessary to
 7 bring each rate class up to the same (i.e., unitary) rate of return. Here is the conclusion of
 8 that analysis, also excerpted from Exhibit DLT-6:

A	B	C	D	F	L	M
Schedule No.	Description	Annual Revenue	Return on Rate Base	Total Cost of Service	Increase (Decrease) to = ROR	Percentage Change from Current Revenues
1	Residential	440,028,733	7.61%	467,092,152	27,063,419	6.15%
6	General Service - Large	321,430,640	5.86%	358,854,402	37,423,762	11.64%
8	General Service - Over 1 MW	90,729,497	6.19%	99,835,754	9,106,257	10.04%
7,11,12,13	Street & Area Lighting	10,847,300	2.21%	12,841,080	1,993,780	18.38%
9	General Service - High Voltage	136,758,294	5.68%	150,141,625	13,383,331	9.79%
10	Irrigation	9,352,282	2.72%	11,433,628	2,081,346	22.25%
12	Traffic Signals	739,505	7.01%	790,460	50,955	6.89%
12	Outdoor Lighting	725,216	59.01%	356,508	(368,708)	-50.84%
21	Electric Furnace	241,825	10.20%	239,908	(1,917)	-0.79%
23	General Service - Small	80,869,735	6.96%	87,559,769	6,690,034	8.27%
25	Mobile Home Parks	658,771	7.11%	712,210	53,439	8.11%
SpC	Customer A	7,755,432	3.55%	8,941,119	1,185,687	15.29%
SpC	Customer B	13,349,697	-7.21%	19,938,304	6,588,607	49.35%
SpC	Customer C	17,601,092	-1.58%	23,373,585	5,772,493	32.80%
	Total Utah Jurisdiction	1,131,088,019	6.29%	1,242,110,503	111,022,484	9.82%

Table 2 -- Excerpt from Exhibit DLT-6, Page 2

9 **Q Please discuss the results shown in this table.**

10 A Mr. Taylor’s study shows that, if the Commission grants the entire \$111 million
 11 requested, then residential customers’ rates should be raised by less than the average
 12 increase of 9.82%. For example, the indicated residential increase (6.15%) is only about
 13 half the indicated increase for Schedule 6, the “General Service – Large” customer class

1 (11.64%). The study also shows that, even with a \$111 million overall increase, two rate
2 classes, Schedule 12 (Outdoor Lighting) and Schedule 21 (Electric Furnace) should receive
3 a rate decrease.

4 **Q How are these results used to calculate the rates paid by customers?**

5 A After determining how costs should be allocated to the various customer classes, a
6 utility then typically designs rate structures for each customer class. The rate design is
7 based on each class's usage characteristics and recovers the revenue responsibility for the
8 class. If all rate classes are actually assigned the increase or decrease indicated by the cost
9 of service study, then each class earns the utility's target rate of return after the increase. In
10 this case, the rate classes are said to have been moved to a *unitary* rate of return.

11 The Company's recommendation for changes to the revenue requirements of each
12 class is contained in the testimony of company witness William Griffith.

13 **Q What does Mr. Griffith recommend?**

14 A Despite the results of Mr. Taylor's study, Mr. Griffith recommends that the rate
15 classes (with two exceptions) receive an equal percentage rate increase. This
16 recommendation covers all the major customer classes. The exceptions are the relatively
17 smaller customer classes of Street Lighting and Outside Lighting. Thus, for example, Mr.
18 Griffith recommends that the Residential class (Schedule 1) and the commercial classes
19 (Schedule 6 and 9) each receive an increase of 10.11%, even though Mr. Taylor's cost study
20 showed that Schedule 6 should receive an increase that is almost double the increase due the
21 residential class.

1 The logic behind this recommendation appears to be that a uniform percentage rate
2 increase results in new rates that are “close enough” to the cost of service results. Mr.
3 Griffith states that a uniform percentage increase produces revenue levels within 5% of each
4 class’s indicated cost of service.

5 **Q What are your concerns about this recommendation?**

6 A First of all, I do not quarrel with Mr. Griffith’s arithmetic. The rates he designed
7 will apparently recover the Company’s increased revenue requirement. Unfortunately, the
8 rates he recommends also produce revenues that are 3.7% higher than the cost of service for
9 residential customers and 1.4% below the cost of service for Schedule 6. My quarrel is
10 with Mr. Griffith’s and PacifiCorp’s decision to endorse this inequity. Simply put, *there is*
11 *no reason not to implement Mr. Taylor’s findings and change rates for each class to*
12 *produce a near-unitary rate of return, at least for the major rate classes.*

13 Here is a graph comparing the cost of service results of Mr. Taylor with Mr.
14 Griffith’s recommendations for the largest customer groups. (To make the two analyses
15 comparable, I have spread the revenue requirement for the Special Contract Customers to all
16 other classes in the Taylor study.)

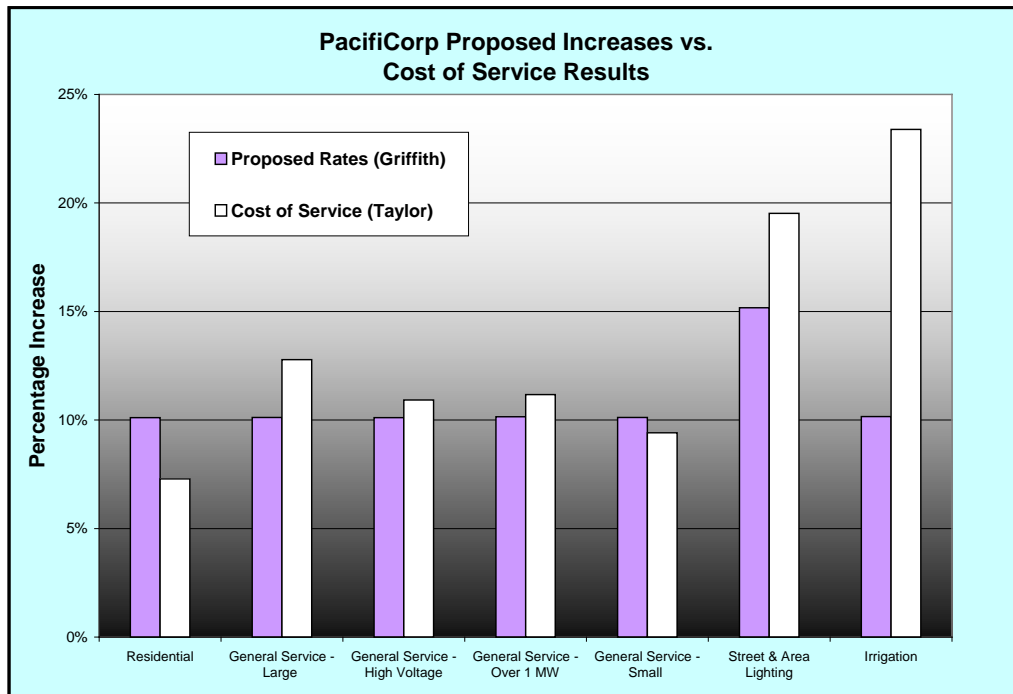


Figure 1 -- PacifiCorp Proposed Increases vs. Taylor Cost Study Results

1 Q What is the effect on residential rates of PacifiCorp’s decision to spread the
 2 increase on a uniform percentage basis to the major rate classes?

3 A The result is that residential rates would be about \$11.8 million higher than they
 4 would be if the classes were brought close to a unitary return. In other words, \$11.8 million
 5 of the \$44.6 million increase being sought by PacifiCorp for residential customers – more
 6 than one-fourth of the increase – is due to this decision on cost allocation. By spreading the
 7 increase on an equal percentage basis, the Company’s rate design preserves the inequity that
 8 existed prior to this case being filed, to the continued detriment of residential customers.

9 Q Can Mr. Griffith’s approximation be justified by the fact the results of a cost of
 10 service study are subject to some uncertainty?

1 A No. The Commission should always view a cost of service study for what it is – a
2 convention about which there can be debate. But once a cost of service methodology is
3 adopted, there is little merit to ignoring its results when setting rates. Whatever errors occur
4 in measuring or estimating data used in the study, the neutral assumption is that such errors
5 are distributed about the mean of zero. It does not improve the accuracy or acceptability of
6 a cost study to “round off” the results as has been done in this case.

7 **Q Should this Commission always strictly apply the results of a cost study?**

8 A. Not necessarily. There are occasions when a Commission might reasonably depart
9 from strict application of the results of a cost of service study. Regulators have long
10 recognized the merits of gradualism and avoiding rate shock in setting rates. If, for
11 example, a cost study indicates a very large increase in prices for a particular class of
12 customers, it might be reasonable to mitigate the increase in the first year, phasing it in over
13 a number of years. This would mean that rates would not reflect a unitary rate of return
14 until the phase-in is complete. Similarly, if the Commission decides to change from one
15 cost allocation method to another, it might be reasonable to implement new rates over a
16 transition period. This is exactly what is happening with the stipulation on the new MSP
17 jurisdictional allocation.

18 **Q Are there any other considerations that the Commission should make in**
19 **deciding this issue?**

20 A Yes. The Commission will recall that the last PacifiCorp general rate case was
21 settled by the parties in a stipulation that was approved by the Commission following a
22 hearing. In that case, a \$65 million rate increase was spread on a uniform percentage basis

1 across the major rate classes. However, the parties agreed to this particular cost allocation
2 with the understanding that, in PacifiCorp's next general rate case, cost allocation and rate
3 design issues would be fully explored. Here is language from the stipulation approved by
4 the Commission:

5 6. Rate Spread. The Parties could not agree on a cost of service
6 approach or study, and the Parties acknowledge generally that the rate
7 increases agreed to herein may not fully reflect cost of service. The
8 Parties have agreed to spread the rate increase on an even percentage
9 basis to most classes, with certain exceptions described in this
10 paragraph, and subject to an agreement that in PacifiCorp's next Utah
11 general rate case, PacifiCorp and other interested parties will undertake
12 a thorough review of cost of service, rate spread and rate design
13 issues.¹ (Emphasis supplied)

14 In the settlement of the prior case, AARP reluctantly agreed to an equal percentage
15 increase to all classes, even though the cost of service study indicated that the residential
16 class should receive a below-average rate increase at that time. Mr. Taylor's new cost
17 study shows the same result again. AARP believes that it would be inconsistent with that
18 stipulation and unfair to residential customers to perpetuate the inequity in rates that existed
19 at the end of the last case by once again spreading the increase in rates by an equal
20 percentage across the major customer classes.

21 **Q What is your recommendation to the Commission?**

22 A The rationales for rate mitigation discussed above do not appear to apply in this
23 case, at least not for the major rate classes. The indicated rate increases for Schedules
24 1, 6, 8, 9 and 23 in Mr. Taylor's cost study (assuming the entire \$111 million increase
25 is granted) range from 6.15% to 11.64%, with an average increase of 9.82%. None of

¹Utah Public Service Commission, *Report and Order*, Docket No. 03-035-02, Appendix II, para. 6., issued January 30, 2004.

1 these increases is significantly larger or smaller than the average increase.² (Indicated
2 rate changes for the much-smaller rate classes of Street Lighting, Irrigation and
3 Outdoor Lighting are somewhat larger in magnitude.)

4 I recommend that the Commission reject the “equal percentage increase”
5 recommendation of PacifiCorp and instead approve rates that are more closely based
6 on the cost of service study conducted by Mr. Taylor. To accomplish this, I
7 recommend that the following three rules be applied:

- 8 ○ To the extent feasible, rate classes should be brought to a unitary rate
9 of return;
- 10 ○ Increases for each rate class should be limited to a reasonable
11 multiple of the average increase (e.g., 1.5 times the average);
- 12 ○ If the Company is granted an overall increase, any rate class for
13 which the cost of service study indicates a reduction should receive a
14 zero increase.

15 If the overall increase is small, it might not be possible to satisfy these three
16 conditions easily. In this circumstance, the second condition should be relaxed somewhat.

17 **Q Can you illustrate how these principles apply to cost allocation in this case?**

18 A Yes. Exhibit RJB-1 is a 1-page exhibit that calculates a revenue requirement
19 for each rate class based on Mr. Taylor’s cost of service study and employing these
20 three principles. This illustration assumes that the Commission approves the full
21 increase of \$111 million. Later in my testimony, I will illustrate how these principles
22 would apply if the Commission grants a smaller increase in rates.

² Mr. Taylor’s calculation of the average increase assumes an increase to the Special Contract customers. Removing those customers from the calculation and spreading the associated revenue shortfall over the remaining customers results in an average increase of 10.16% to the remaining customer classes.

1 As shown in Exhibit RJB-1, I recommend that the five largest rate classes
 2 (Residential, General Service-Small, General Service – Large, General Service – High
 3 Voltage and General Service – Over 1 MW) and three of the smaller rate classes
 4 (Traffic Signals, Mobile Home Parks and Electric Furnace) be brought to a uniform
 5 rate of return. Table 3 summarizes the increases for these seven rate classes:

Schedule	Description	Annual Revenue	Total Cost of Service	Percentage Increase	Increase	New Annual Revenue	Percent of Cost of Service
1	Residential	440,028,733	467,092,152	7.44%	32,745,113	472,773,846	101.2%
6	General Service - Large	321,430,640	358,854,402	13.00%	41,788,856	363,219,496	101.2%
8	General Service - Over 1 MW	90,729,497	99,835,754	11.38%	10,320,656	101,050,153	101.2%
9	General Service - High Voltage	136,758,294	150,141,625	11.12%	15,209,649	151,967,943	101.2%
12	Traffic Signals	739,505	790,460	8.19%	60,570	800,075	101.2%
21	Electric Furnace	241,825	239,908	0.41%	1,001	242,826	101.2%
23	General Service - Small	80,869,735	87,559,769	9.59%	7,755,108	88,624,843	101.2%
25	Mobile Home Parks	658,771	712,210	9.43%	62,102	720,873	101.2%

Table 3 -- AARP Recommended Cost Allocation; Excerpt from Exhibit RJB-1

6 I recommend that four classes receive no increase: Outdoor Lighting and the
 7 three Special Contract industrial customers. The cost of service study indicates a rate
 8 reduction for Outdoor Lights; the industrial Special Contract customers are not subject
 9 to increases in this case. The following table summarizes the allocation for these four
 10 rate classes:

Schedule	Description	Annual Revenue	Total Cost of Service	Percentage Increase	Increase	New Annual Revenue	Percent of Cost of Service
12	Outdoor Lighting	725,216	356,508	0.00%	-	725,216	203.4%
SpC	Customer B	13,349,697	19,938,304	0.00%	-	13,349,697	67.0%
SpC	Customer C	17,601,092	23,373,585	0.00%	-	17,601,092	75.3%
SpC	Customer A	7,755,432	8,941,119	0.00%	-	7,755,432	86.7%

Table 4-- AARP Recommended Cost Allocation; Excerpt from Exhibit RJB-1

11 Finally, I recommend the increases for the last two rate classes, Street and Area
 12 Lighting and Irrigation be limited to 15.25%, even though Mr. Taylor’s cost of service

1 study indicates that full cost of service would require a larger increase. The figure of
 2 15.25% is 1½ times the average overall increase of 10.16%. The following table
 3 summarizes the allocation for these two rate classes:

Schedule	Description	Annual Revenue	Total Cost of Service	Percentage Increase	Increase	New Annual Revenue	Percent of Cost of Service
10	Irrigation	9,352,282	11,433,628	15.25%	1,425,756	10,778,038	94.3%
7,11,12,13	Street & Area Lighting	10,847,300	12,841,080	15.25%	1,653,672	12,500,972	97.4%

Table 5 -- AARP Recommended Cost Allocation; Excerpt from Exhibit RJB-1

4 **Q How does your recommended allocation compare with the results of Mr.**
 5 **Taylor’s cost of service study and with Mr. Griffith’s recommended allocations?**

6 The following chart shows the class cost allocation I recommend for the largest rate
 7 classes, compared to the results of Mr. Taylor’s cost study and the Company’s proposed
 8 allocation recommended in Mr. Griffith’s testimony:

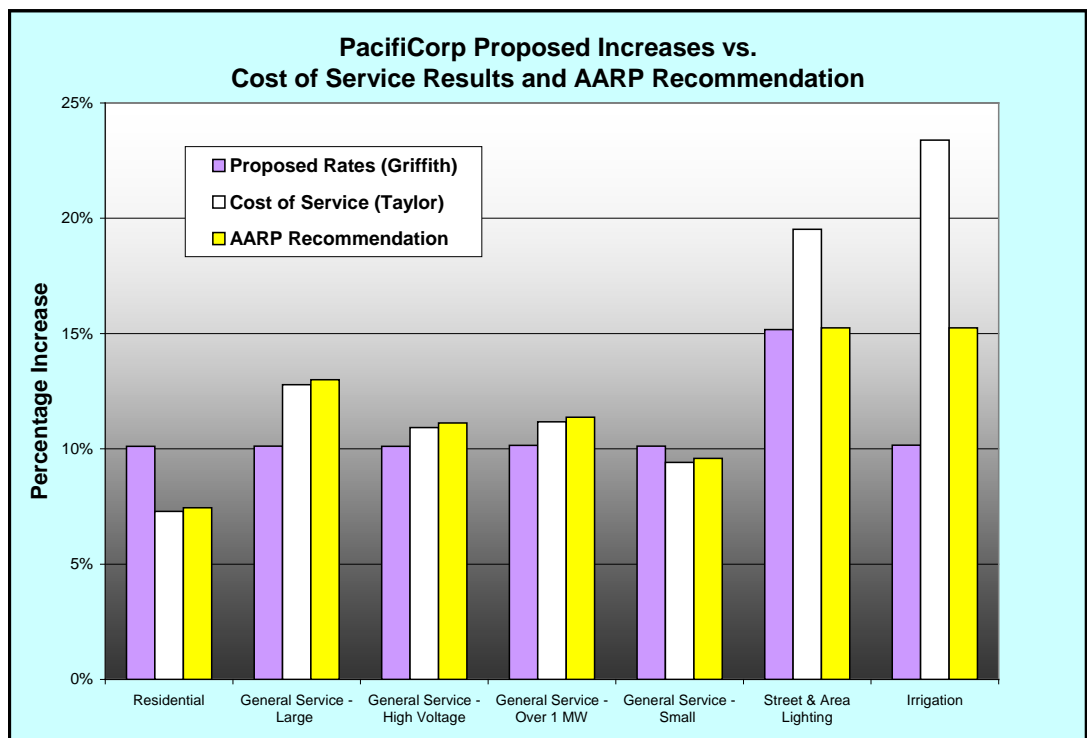


Figure 2 -- PacifiCorp Proposed Increase vs. Cost Study vs. AARP Recommendation

1 As can be seen, my recommendation is very similar to the results of Mr. Taylor's
2 cost study with the exception of the Irrigation and the Street & Area Lighting Classes. In
3 those cases, I limited the increase to 1½ times the overall average percentage increase.

4 **Q Have you designed rates within each class to collect the class revenue**
5 **requirement?**

6 A I have made the calculation for Schedule 1, Residential Service, attached as Exhibit
7 RJB-2. Calculations for the other customer classes are straightforward in line with the
8 exhibits of Mr. Griffith.

9 **Q Please describe the residential rates contained in Exhibit RJB-2.**

10 A In calculating the rate elements for the Residential Schedule 1, I accepted the
11 Company's recommended customer charge of \$2.00 per month. I also maintained the
12 Summer/Winter rate differential that exists in current rates. However, because AARP
13 recommends a smaller increase to the residential class, the prices per kilowatt-hour are less
14 than those proposed by PacifiCorp.

15 The following table compares the rates I recommend for Schedule 1 residential
16 customers with the rates by Mr. Griffith in his testimony. (Similar comparisons can be
17 made for the Optional Time of Day and Mobile Home Parks classes.)

**Comparison of Existing and Proposed Residential Rates
PacifiCorp Proposal vs. AARP Proposal
Based on PacifiCorp Filed Case**

	Existing	PacifiCorp	AARP
Monthly Customer Charge	\$ 0.98	\$ 2.00	\$ 2.00
Energy Charges (Cents per kWh)			
First 400 kWh (May-Sept)	6.6630	7.2270	7.0453
Next 600 kWh (May-Sept)	7.6000	8.2430	8.0360
All Additional kWh (May-Sept)	9.0000	9.7580	9.5163
All kWh (Oct-April)	6.6630	7.2270	7.0453

Table 6 -- Comparison of Residential Rates: PacifiCorp Filed vs. AARP Recommended

1 **Q What is the effect on residential monthly bills?**

2 A By spreading PacifiCorp's costs among all customer classes equitably, residential
3 monthly bills will be lower under the AARP proposal compared to the rates proposed by
4 PacifiCorp. Exhibit RJB-3 shows total monthly residential bills under three scenarios:
5 i) existing rates; ii) a \$111 million overall increase with PacifiCorp's proposed cost
6 allocation and rate design; and iii) a \$111 million overall increase with AARP's
7 recommended cost allocation and rate design. Recall that the PacifiCorp filed case would
8 raise the annual electric bill of an average Utah residential customer by about \$66. The
9 AARP cost allocation proposal trims about \$17 off that increase. (Of course, the \$111
10 million increase is assumed only to make comparison of the two methods possible. AARP
11 believes that the Company has not justified the claimed revenue shortfall.)

12 **Q What if the Commission awards no increase or a smaller increase than the**
13 **Company seeks?**

1 A In that circumstance, I would still recommend that rates be set in accordance with
 2 the principles I listed earlier. As an example, assume that the Commission grants an
 3 increase of \$35 million. In that case, I recommend that the rate spread be similar to the
 4 table in Exhibit RJB-3. Here is a summary of those results:

Schedule	Description	Annual Revenue	Total Cost of Service	Percentage Increase	Increase	New Annual Revenue	Percent of Cost of Service
1	Residential	440,028,733	437,594,546	0.53%	2,347,081	442,375,814	101.1%
6	General Service - Large	321,430,640	335,983,537	5.67%	18,223,938	339,654,578	101.1%
8	General Service - Over 1 MW	90,729,497	93,764,112	4.47%	4,059,105	94,788,602	101.1%
7,11,12,13	Street & Area Lighting	10,847,300	12,204,200	6.41%	695,097	11,542,397	94.6%
9	General Service - High Voltage	136,758,294	142,313,596	5.20%	7,110,256	143,868,550	101.1%
10	Irrigation	9,352,282	10,721,290	6.41%	599,296	9,951,578	92.8%
12	Traffic Signals	739,505	746,788	2.09%	15,443	754,948	101.1%
12	Outdoor Lighting	725,216	338,204	0.00%	-	725,216	214.4%
21	Electric Furnace	241,825	226,443	0.00%	-	241,825	106.8%
23	General Service - Small	80,869,735	81,911,456	2.39%	1,936,706	82,806,441	101.1%
25	Mobile Home Parks	658,771	664,590	1.99%	13,080	671,851	101.1%
SpC	Customer A	7,755,432	8,482,218	0.00%	-	7,755,432	91.4%
SpC	Customer B	13,349,697	18,995,946	0.00%	-	13,349,697	70.3%
SpC	Customer C	17,601,092	22,141,094	0.00%	-	17,601,092	79.5%
	Total Utah Jurisdiction	1,131,088,019	1,166,088,019	3.09%	35,000,000	1,166,088,019	100.0%
	Total w/o Special Contracts	1,092,381,798	1,127,381,798	3.20%	35,000,000	1,127,381,798	100.0%

Table 7 -- AARP Illustrative Rate Spread for \$35 Million Increase

5 Notice that, in this example, the increase for the residential class is 0.57% while the
 6 increase for the Commercial customer classes ranges from 2.39% to 5.67%. Importantly,
 7 while the classes receive different levels of increase, each of the major classes recovers the
 8 same percentage of its class cost of service – 101.1%. In this example, the largest increases
 9 is limited to two times the average increase of 3.20%.

10 **Q Mr. Binz, would you summarize your testimony?**

11 A PacifiCorp has proposed to spread its rate increase across all customer classes as a
 12 uniform percentage increase. While this proposal may have some initial surface appeal,
 13 upon examination we see that it is unfair. Some classes, including the residential class, are

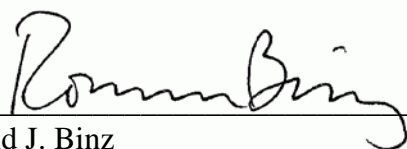
1 contributing more their share to PacifiCorp's revenues today. There is no compelling
2 reason to continue that inequity. I respectfully suggest that the Commission adopt a cost
3 allocation that moves all customer classes toward a unitary rate of return as illustrated in
4 my testimony.

5 **Q Does this conclude your testimony?**

6 **A Yes.**

The foregoing *Direct Testimony of Ronald J. Binz on Behalf of AARP* was prepared by Ronald J. Binz and is respectfully submitted to the Utah Public Service Commission on this 7th day of January, 2005.

(signed)

A handwritten signature in black ink that reads "Ronald J. Binz". The signature is written in a cursive style with a large initial "R".

Ronald J. Binz
333 Eudora Street
Denver, Colorado 80220-5721
303-393-1556

AARP Recommended Cost Allocation
(Based on PacifiCorp Filed Case)

A	B	C	D	E	F	G	H
Schedule	Description	Annual Revenue	Total Cost of Service	Percentage Increase	Increase	New Annual Revenue	Percent of Cost of Service
1	Residential	440,028,733	467,092,152	7.44%	32,745,113	472,773,846	101.2%
6	General Service - Large	321,430,640	358,854,402	13.00%	41,788,856	363,219,496	101.2%
8	General Service - Over 1 MW	90,729,497	99,835,754	11.38%	10,320,656	101,050,153	101.2%
7,11,12,13	Street & Area Lighting	10,847,300	12,841,080	15.25%	1,653,672	12,500,972	97.4%
9	General Service - High Voltage	136,758,294	150,141,625	11.12%	15,209,649	151,967,943	101.2%
10	Irrigation	9,352,282	11,433,628	15.25%	1,425,756	10,778,038	94.3%
12	Traffic Signals	739,505	790,460	8.19%	60,570	800,075	101.2%
12	Outdoor Lighting	725,216	356,508	0.00%	-	725,216	203.4%
21	Electric Furnace	241,825	239,908	0.41%	1,001	242,826	101.2%
23	General Service - Small	80,869,735	87,559,769	9.59%	7,755,108	88,624,843	101.2%
25	Mobile Home Parks	658,771	712,210	9.43%	62,102	720,873	101.2%
SpC	Customer A	7,755,432	8,941,119	0.00%	-	7,755,432	86.7%
SpC	Customer B	13,349,697	19,938,304	0.00%	-	13,349,697	67.0%
SpC	Customer C	17,601,092	23,373,585	0.00%	-	17,601,092	75.3%
	Total Utah Jurisdiction	1,131,088,019	1,242,110,503	9.82%	111,022,485	1,242,110,504	100.00%
	Total w/o Special Contracts	1,092,381,798	1,203,404,282	10.16%	111,022,485	1,203,404,283	100.00%

**AARP Proposed Residential Rate Design
Based on PacifiCorp's Filed Case**

	<u>Forecasted Units 4/05 to 3/06</u>	<u>Present Price Eff. 4/1/04</u>	<u>Present Price</u>	<u>Forecasted Revenue 4/05 to 3/06</u>	<u>PacifiCorp Proposed Price</u>	<u>PacifiCorp Proposed Price</u>	<u>PacifiCorp Proposed Revenue</u>	<u>AARP Proposed Price</u>	<u>AARP Proposed Revenue</u>
Schedule No. 1									
Residential Service									
08RES0001, 08NETMT135									
Customer Charge	7,538,992	\$0.98		\$7,388,212	\$2.00		\$15,077,984	\$2.00	\$15,077,984
First 400 kWh (May-Sept)	1,198,978,347		6.6630	\$79,887,927		7.2270	\$86,650,165	7.0453	\$84,471,621
Next 600 kWh (May-Sept)	976,804,141		7.6000	\$74,237,115		8.2430	\$80,517,965	8.0360	\$78,495,981
All Additional kWh (May-Sept)	553,080,545		9.0000	\$49,777,249		9.7580	\$53,969,600	9.5163	\$52,632,804
All kWh (Oct-April)	3,272,735,765		6.6630	\$218,062,384		7.2270	\$236,520,614	7.0453	\$230,574,053
Temp. Normalized kWh-(May-Sep)			9.0000	\$0			\$0		\$0
Temp. Normalized-All kWh (Oct-Apr)			6.6630	\$0			\$0		\$0
Minimum 1 Phase	193,546	\$3.54		\$685,151	\$3.90		\$754,828	\$3.90	\$754,828
Minimum 3 Phase	927	\$10.62		\$9,849	\$11.70		\$10,851	\$11.70	\$10,851
Minimum Seasonal	0	\$46.00		\$0	\$46.00		\$0	\$46.00	\$0
KWH in Minimum	2,384,773		0.0000	\$0		0.0000	\$0		\$0
Unbilled	0			\$0			\$0		\$0
Total	6,003,983,571			\$430,047,887			\$473,502,007		\$462,018,122
Surcharge Adjustment			0.00%	\$0		0.00%	\$0		\$0
DSM Adjustment			3.04%	\$12,827,726		3.04%	\$13,912,814	3.04%	\$13,563,704

Schedule No. 3
Residential Service
08RES0003

Customer Charge	219,145	\$0.98		\$214,762	\$2.00		\$438,291	\$2.00	\$438,291
First 400 kWh (May-Sept)	32,447,437		6.6630	\$2,161,973		7.2270	\$2,344,976	7.0453	\$2,286,019
Next 600 kWh (May-Sept)	19,317,254		7.6000	\$1,468,111		8.2430	\$1,592,321	8.0360	\$1,552,334
All Additional kWh (May-Sept)	4,636,115		9.0000	\$417,250		9.7580	\$452,392	9.5163	\$441,187
All kWh (Oct-March)	85,646,249		6.6630	\$5,706,610		7.2270	\$6,189,654	7.0453	\$6,034,035
Minimum 1 Phase	1,405	\$3.54		\$4,973	\$3.90		\$5,479	\$3.90	\$5,479
Minimum 3 Phase	16	\$10.62		\$169	\$11.70		\$186	\$11.70	\$186
Minimum Seasonal	0	\$46.00		\$0	\$46.00		\$0	\$46.00	\$0
KWH in Minimum	19,730		0.0000	\$0		0.0000	\$0		\$0
Unbilled	0			\$0			\$0		\$0
Total	142,066,785			\$9,973,848			\$11,023,299		\$10,757,531
Surcharge Adjustment			0.00%	\$0		0.00%	\$0		\$0
DSM Adjustment			3.04%	\$296,520		3.04%	\$321,612	3.04%	\$313,533

**AARP Proposed Residential Rate Design
Based on PacifiCorp's Filed Case**

	<u>Forecasted Units 4/05 to 3/06</u>	<u>Present Price Eff. 4/1/04</u>	<u>Present Price</u>	<u>Forecasted Revenue 4/05 to 3/06</u>	<u>PacifiCorp Proposed Price</u>	<u>PacifiCorp Proposed Price</u>	<u>PacifiCorp Proposed Revenue</u>	<u>AARP Proposed Price</u>	<u>AARP Proposed Revenue</u>
Schedule No. 2									
Optional Time-of-Day									
08RES0002									
Customer Charge	120	\$0.98		\$118	\$2.00		\$240	\$2.00	\$240
On-Peak kWh (May - September)	10,049		4.3762	\$440		4.3762	\$440	4.3762	\$440
Off-Peak kWh (May - September)	31,380		(1.4014)	(\$440)		(1.4014)	(\$440)	(1.4014)	(\$440)
On-Peak kWh (October-April)	0		0.0000	\$0		0.0000	\$0	0.0000	\$0
Off-Peak kWh (October - April)	57,952		0.0000	\$0		0.0000	\$0	0.0000	\$0
First 400 kWh (May-Sept)	23,620		6.6630	\$1,574		7.2270	\$1,707	7.0453	\$1,664
Next 600 kWh (May-Sept)	11,566		7.6000	\$879		8.2430	\$953	8.0360	\$929
All Additional kWh (May-Sept)	6,243		9.0000	\$562		9.7580	\$609	9.5163	\$594
All kWh (Oct-April)	57,952		6.6630	\$3,861		7.2270	\$4,188	7.0453	\$4,083
Minimum 1 Phase	1	\$3.54		\$4	\$3.54		\$4	\$3.54	\$4
Minimum 3 Phase	0	\$10.62		\$0	\$10.62		\$0	\$10.62	\$0
Minimum Seasonal	0	\$46.00		\$0	\$46.00		\$0	\$46.00	\$0
KWH in Minimum	0		0.0000	\$0		0.0000	\$0	\$0.00	\$0
Unbilled	0			\$0			\$0		\$0
Total	99,380			\$6,998			\$7,701		\$7,515
Surcharge Adjustment			0.00%	\$0		0.00%	\$0	0.00%	\$0
DSM Adjustment			3.04%	\$209		3.04%	\$227	3.04%	\$221

**SCHEDULE NO. 25
Mobile Home and House Trailer Park Service**

08MHTP0025									
Customer Charge	132	\$8.76		\$1,156	\$9.00		\$1,188	\$9.00	\$1,188
All Kw	26,775	\$4.57		\$122,361	\$5.03		\$134,677	5.001	\$133,895
Voltage Discount All Kw	14,840	(\$0.41)		(\$6,085)	(\$0.45)		(\$6,678)	(\$0.43)	(\$6,381)
All kWh	11,449,152		4.7282	\$541,339		5.2075	\$596,215	5.1723	\$592,184
Minimum Per Home	0	\$4.14		\$0	\$4.14		\$0	\$4.14	\$0
Unbilled	0			\$0			\$0	\$0	\$0
Total	11,449,152			\$658,771			\$725,402		\$720,887
Surcharge Adjustment			0.00%	\$0		0.00%	\$0	0.00%	\$0
DSM Adjustment			3.01%	\$19,794		3.01%	\$21,799	\$0	\$21,663

**Comparison of Residential Monthly Bills
Present Rates vs. PacifiCorp Proposed Rates vs. AARP Proposed Rates
(Based on PacifiCorp filed revenue requirement)**

Monthly Usage (kWH)	Summer Monthly Billing ¹			Winter Monthly Billing ¹		
	Present Schedule 1	Proposed Schedule 1	AARP Proposed Schedule 1	Present Schedule 1	Proposed Schedule 1	AARP Proposed Schedule 1
0	\$3.66	\$4.02	\$4.02	\$3.66	\$4.02	\$4.02
100	\$7.97	\$9.57	\$9.38	\$7.97	\$9.57	\$9.38
200	\$14.83	\$17.01	\$16.64	\$14.83	\$17.01	\$16.64
300	\$21.70	\$24.46	\$23.90	\$21.70	\$24.46	\$23.90
400	\$28.56	\$31.91	\$31.16	\$28.56	\$31.91	\$31.16
500	\$36.39	\$40.40	\$39.44	\$35.43	\$39.35	\$38.42
600	\$44.22	\$48.89	\$47.72	\$42.29	\$46.80	\$45.68
700	\$52.06	\$57.39	\$56.00	\$49.16	\$54.25	\$52.94
800	\$59.89	\$65.88	\$64.28	\$56.02	\$61.69	\$60.20
900	\$67.72	\$74.37	\$72.56	\$62.89	\$69.14	\$67.46
1,000	\$75.55	\$82.87	\$80.84	\$69.76	\$76.59	\$74.71
1,100	\$84.82	\$92.92	\$90.65	\$76.62	\$84.03	\$81.97
1,200	\$94.10	\$102.98	\$100.45	\$83.49	\$91.48	\$89.23
1,300	\$103.37	\$113.03	\$110.26	\$90.35	\$98.93	\$96.49
1,400	\$112.64	\$123.09	\$120.06	\$97.22	\$106.37	\$103.75
1,500	\$121.92	\$133.14	\$129.87	\$104.08	\$113.82	\$111.01
2,000	\$168.28	\$183.41	\$178.90	\$138.41	\$151.05	\$147.31
3,000	\$261.02	\$283.96	\$276.95	\$207.07	\$225.52	\$219.90
4,000	\$353.76	\$384.51	\$375.01	\$275.72	\$299.99	\$292.50
5,000	\$446.49	\$485.05	\$473.06	\$344.38	\$374.46	\$365.09

¹ Includes HELP charge and applicable surcharge

AARP Recommended Cost Allocation

(Illustrating Spread of \$35 Million Increase)

A	B	C	D	E	F	G	H
Schedule	Description	Annual Revenue	Total Cost of Service	Percentage Increase	Increase	New Annual Revenue	Percent of Cost of Service
1	Residential	440,028,733	437,594,546	0.53%	2,347,081	442,375,814	101.1%
6	General Service - Large	321,430,640	335,983,537	5.67%	18,223,938	339,654,578	101.1%
8	General Service - Over 1 MW	90,729,497	93,764,112	4.47%	4,059,105	94,788,602	101.1%
7,11,12,13	Street & Area Lighting	10,847,300	12,204,200	6.41%	695,097	11,542,397	94.6%
9	General Service - High Voltage	136,758,294	142,313,596	5.20%	7,110,256	143,868,550	101.1%
10	Irrigation	9,352,282	10,721,290	6.41%	599,296	9,951,578	92.8%
12	Traffic Signals	739,505	746,788	2.09%	15,443	754,948	101.1%
12	Outdoor Lighting	725,216	338,204	0.00%	-	725,216	214.4%
21	Electric Furnace	241,825	226,443	0.00%	-	241,825	106.8%
23	General Service - Small	80,869,735	81,911,456	2.39%	1,936,706	82,806,441	101.1%
25	Mobile Home Parks	658,771	664,590	1.99%	13,080	671,851	101.1%
SpC	Customer A	7,755,432	8,482,218	0.00%	-	7,755,432	91.4%
SpC	Customer B	13,349,697	18,995,946	0.00%	-	13,349,697	70.3%
SpC	Customer C	17,601,092	22,141,094	0.00%	-	17,601,092	79.5%
	Total Utah Jurisdiction	1,131,088,019	1,166,088,019	3.09%	35,000,000	1,166,088,019	100.0%
	Total w/o Special Contracts	1,092,381,798	1,127,381,798	3.20%	35,000,000	1,127,381,798	100.0%