

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application for)	Docket No. 06-035-21
Approval of its Proposed Electric Rate)	Utah Division of Public Utilities
Schedules & Electric Service Regulations)	Exhibit 4.0

**Prefiled Testimony of
Abdinasir M. Abdulle, Ph.D.**

RATE DESIGN FOR SCHEDULE 1

For the Division of Public Utilities

September 27, 2006

Q1: Please state your name, business address, and employer for the record.

A1: My name is Dr. Abdinasir M. Abdulle; my business address is 160 East 300 South, Salt Lake City, Utah 84114; I am employed by the Utah Division of Public Utilities (“Division”).

Q2: On whose behalf are you testifying in these proceedings?

A2: I am testifying on behalf of the Division.

Q3: What is the purpose of your testimony in these proceedings?

A3: The purpose of my testimony is to present the Division’s recommendations in relation to the customer charge, minimum bill, and blocking structure for Schedule 1.

Q4. What are the Division’s recommendation in relation to Schedule 1 Rate Design?

A4. The Division recommends an increase in the monthly residential customer charge from 98 cents to \$3.73, elimination of minimum bill, and to keep the blocking structure unchanged.

Q5. What are the Division’s Rate Design objectives?

A5. Based on the state code, the Division’s rate design objectives are for the rates to be stable, simple, understandable and acceptable to the public, economically efficient, to promote fair apportionment of costs among individual customers within each customer class with no undue discrimination.

Q6. What are the Division’s guiding principles to achieve these objectives?

A6. To balance these objectives, Lowell Alt, a former Division employee, developed, and the Division supported, some guiding principles. Those guiding principles, with some modifications necessitated by the changes in operating conditions, are as follows¹:

¹ Docket No. 97-035-01, Direct Testimony of Lowell E. Alt, Jr. pages 24-25.

- 1) *Simple* – Simple rates are likely to be accepted by customers. Tariff descriptions should be clear, unambiguous and understandable by the public.
- 2) *Correct price signal* – if rates are correctly based on costs, customers can make the right decision about energy use including energy conservation decisions. A complicated rate that is not understood cannot be a good price signal. Some customer classes are better able to understand complicated rates than others.
- 3) *Multi-part rates* – three part rates with customer, energy, and demand components will more fairly apportion the costs among individual customers than one or two part rates. However, a demand component for residential class is normally not recommended since the added cost of demand meters usually outweighs the benefit of better cost apportionment.
- 4) *Gradualism* – to promote rate stability and to minimize impacts on individual customers, rate changes should be done gradually.
- 5) *Marginal and embedded costs* – regulated rates must recover the embedded revenue requirement of a rate schedule. Marginal and average unit embedded costs should be reviewed and taken into account when setting prices.
- 6) *Customer charges* – costs that generally increase with the number of customers, but are not caused by each customer should be excluded from the customer charge and instead be included within the commodity portion of rates. This customer charge position was stated by the PSC in its Order in Mountain Fuel Case No. 82-057-15.

Q7. What are the Division’s justifications for the increase in the monthly residential customer charge?

A7. The Division justifies its proposed increase in the monthly residential customer charge on the basis of costs and fairness.

Q8. What is the cost justification for the increase in the monthly residential customer charge?

A8. Exhibit DPU 4.1, shows the Division's calculated monthly residential customer charge. This calculation is based of the Division's guiding principles stated earlier and the Commission's accepted methodology for calculating customer charge. The Division's calculations included only those items that the Commission has previously recognized as appropriate to be included in a customer charge.

Q9. What specifically has the Commission recognized as belonging in the customer charge?

A9. In its Rate Design and Spread Issues Report and Order in Case No. 84-035-01, dated on July 1, 1985, the Commission stated the following:

5. The Commission has previously made the finding (Mountain Fuel Supply Company Case No. 82-057-15) that a customer charge results in the payment by each customer of those costs that he imposed upon the system, which are independent of actual energy consumption during a given month. A customer of UP&L, who uses no electricity in a given month, must nonetheless have his meter read, be issued a billing statement and have his meter maintained in good operating conditions. Those activities represent costs to UP&L. We find that a customer charge, as opposed to a minimum billing, allows such costs to be recovered reasonably and properly.

One needs to recognize that the list in the above Commission statement is not comprehensive and the Commission did not intend to make it comprehensive. Rather, the Commission's intent was to include all individual-customer-related costs into the customer charge. For example, the above Commission statement does not include the meter, service drop, and their respective depreciations which

all rightfully are costs that the customer imposes on the system regardless of his/her energy consumption.

Q10. Why do you think that the Division's proposed increase in the monthly residential customer charge is fair and compatible with energy conservation?

A10. Fairness dictates that each customer pays his/her way. By allowing some of the customer costs to be recovered in the energy charge, large customers will have to bear more of the increase in the revenue requirement. This was expected to induce them into conserving energy, particularly during the summer when it is most costly. This was the appropriate policy when a declining block rate was used. However, that policy is no longer in place. The current inverted block residential rate structure is enough to send proper price signals to the large customers, so they no longer have to additionally subsidize small customers through the small customer charge. For small customers to pay their way and to send them a price signal, it is important to have them pay residential customer charge equal to the costs each of them is imposing on the system as was recognized by the Commission.

Q11. Does the Division's proposed increase in the monthly customer charge violate the principle of gradualism?

A11. No. A residential customer charge of \$1 was first imposed in Case No. 84-035-01. In Case No. 90-035-06, all parties to the case except the Committee recommended increasing the residential monthly customer charge from \$1.00 to \$2.00 or more. The Committee recommended that the residential customer charge remain unchanged at \$1.00. The Commission ordered in that Case that the residential monthly customer charge should remain unchanged at \$1.00. In Docket No. 97-035-01, the Company proposed a residential customer charge of \$2.50 and the Division supported it whereas the Committee recommended an elimination of customer charge. In that Docket the Commission rejected any

increase in or elimination of the residential customer charge. Instead, because of a general rate decrease, the customer charge went down to 98 cents.

In all rate cases after that, the Company and the Division proposed an increase in the residential customer charge, but, largely to bring the Committee on board with stipulation, it was never increased and still remains at 98 cents.

The Division believes that, after 22 years of 98 cents customer charge, a cost based residential customer charge is long overdue. Compared to Questar's customer charge (\$5.00 per month or \$60 per year), the \$33 annual increase, resulting from increasing residential customer charge from 98 cents to \$3.73, appears modest. On the other hand, with the proposed elimination of the minimum bill (discussed below), some of the smallest customers would actually receive a bill decrease and all residential customers would receive an offset to the higher customer charge in the form of a lower-than-otherwise energy charge.

Q12. How does the proposed residential customer charge compare to the neighboring municipalities and other PacifiCorp territories?

A12. PacifiCorp's residential customers in other states are paying much higher customer charges than Utahns are – averaging almost twice as much as proposed here. (See attached Exhibit DPU 4.2). Similarly, the neighboring municipalities that have portions it served by PacifiCorp are paying, on average, much higher customer charge than is proposed here. (See attached Exhibit DPU 4.3).

Q13. Customer acceptance is another regulatory objective. Do you anticipate PacifiCorp customers having difficulties understanding and accepting the customer charge?

A13. No. By properly explaining that the customer charge is an attempt for the Company to cover the costs of service drop, meters, meter-reading, and billing,

regardless of the level of a consumer's usage, the customers will understand what they are paying for and will accept it. Questar customers, most of whom are also PacifiCorp customers, have long accepted a much higher customer charge than what is proposed here. In fact, the Division frequently receives questions from Questar customers who are also PacifiCorp customers asking about why they are paying higher customer charges for gas than they are paying for electricity.

Q14. PacifiCorp's current tariff contains a \$3.67 minimum bill, which is imposed on customers whose usage in a given month is less than 39 kWhs.² The Company is now recommending that the minimum bill be eliminated all together. What is the Division's recommendation on this?

A14. The Division supports the Company's proposed elimination of the minimum bill. Some background information may be useful to illuminate why the Division supports the proposed elimination of the minimum bill.

Some believe that a minimum bill based on customer costs is an adequate substitute for a customer charge. Such a minimum bill is a good approximation of customer costs for those customers with no energy consumption. After customers reach the threshold of energy consumption where the minimum bill is no longer applicable, the only customer costs they are paying for are the current 98 cent customer charge. To assure that these customers, for which minimum bill is not applicable, pay for their recognized customer costs they must be charged with a cost based customer charge.

A "rate simplicity" argument can also be made for eliminating the minimum bill element of the Tariff. Rather than calculating his prospective bill by first applying the 98 cent customer charge and energy rate time his usage, and adding

² $(\$3.67 - \$0.98) / \$0.06936/\text{kWh} = 38.78 \text{ kWh}$, where \$0.06936 is the current initial-block energy charge per kWh.

the two figures and then taking the larger of that sum and the minimum bill, the whole matter of a minimum bill can be ignored completely.

Therefore, the Division recommends that the Commission increase the residential customer charge from 98 cents to \$3.75 and eliminate the minimum bill.

Q15. Besides better tracking of customer cost-causation, what other advantage, if any, comes from increasing the customer charge?

A15. Increasing the customer charge helps stabilize the Company's revenues. The more that the Company's fixed costs are covered by fixed charges, the less its profits are affected by changes in consumption due to variable weather patterns.

Q16. What is the Division's position regarding the blocking structure?

A16. The Division supports the Company's proposed blocking structure. Currently, energy consumption during the five month summer season (May – September) is divided into three blocks; the initial block, which covers the first 400 kWhs, the intermediate block, which covers the next 600 kWhs and the tail block which covers all kWhs above 1000kWhs. Any attempt to increase the cut off point of the initial block (to more than 400 kWhs) will result in a more than proportionate increase in energy charges to those customers whose consumption rate falls into the intermediate or tail blocks. The Division sees this as being unfair to these customers in that they will be subsidizing those customers with low energy usage.

Q17. Does this conclude your direct testimony?

A17. Yes, it does.