

1 **BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**
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5 In the Matter of the Application for) Docket No. 06-035-21
6 Approval of its Proposed Electric Rate) Utah Division of Public Utilities
7 Schedules & Electric Service Regulations) Exhibit 4R
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14 **Rebuttal Testimony of**
15 **Abdinasir M. Abdulle, Ph.D.**
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19 **RATE DESIGN FOR SCHEDULE 1**
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23 **For the Division of Public Utilities**
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27
28 **October 16, 2006**
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1 **Q1. Are you the Dr. Abdinasir Abdulle that previously filed direct testimony in**
2 **this case?**

3 A1. Yes I am.

4 **Q2. What is the purpose of your testimony?**

5 A2. The purpose of rebuttal testimony is to respond to the testimony of the CCS
6 witness, Anthony Yankel, AARP witness, Ronald Binz, SLCAP's witness, Betsy
7 Wolf, and to the Company witness, Bill Griffith. I will also propose a rate design
8 for Schedule 1.

9

10 **Preserving the 98-cent residential customer charge.**

11

12 **Q3. Mr. Yankel (witness for the Committee of Consumer Services or CCS) and**
13 **Ms. Wolf (witness for Salt Lake Community Action Program or SLCAP)**
14 **testified in favor of preserving the 98-cent customer charge. What were their**
15 **arguments?**

16 A3. I believe their arguments can be summarized by five basic arguments.

- 17 1. Collecting most of the revenue requirement, including fixed costs, through
18 energy charges or rates and less of it through customer charge will
19 encourage conservation.
- 20 2. Customers do not understand or like customer charges.
- 21 3. Customer Charges create a disincentive on the part of the Company to
22 minimize resource and delivery costs.
- 23 4. Customer charges affect small users more than large users.
- 24 5. The enormous percent increase in customer charges violates the principle
25 of gradualism.

26 **Q4. What is the Division's response to the conservation argument?**

27 A4. Mr. Yankel and Ms. Wolf argue that one of the main reasons for maintaining an
28 artificially low customer charge is to send a "correct" price signal to customers to
29 encourage conservation. This argument, however, is flawed in at least three
30 respects.

31

1 First, it violates the principle of consumer sovereignty, the principle that “the
2 allocation of the community’s scarce resources is made to depend on consumer
3 choices and preferences rather on governmentally determined decisions as to
4 relative needs.”¹ Artificially inflating energy prices or rates by forcing fixed costs
5 into a variable charge is not the appropriate mechanism to encourage
6 conservation. The principle of consumer sovereignty would suggest that a better
7 approach to conservation would be to (1) design a rate that sends a pure signal
8 (i.e., a cost based rate) to the ratepayer as to the cost of consumption, (2) design
9 and offer cost effective conservation programs to the ratepayer, and (3) let the
10 ratepayer decide what level of conservation is optimal. In other words, optimal
11 consumption of energy is best achieved by constructing cost-based rates and
12 letting the consumer decide “whatever types of service, in whatever amounts, they
13 wish to take.”²

14
15 Second, collecting fixed costs through variable energy rates to promote
16 conservation ignores the welfare implicates of such a governmentally determined
17 decision. Artificially inflating the energy rate is in many respects similar to a tax.
18 As is well known in economic literature, a tax imposes a welfare loss on society –
19 the allocation of scarce resources would be more optimal and, therefore society
20 would be better off, in the absence of the tax.

21
22 Third, the benefits described by Mr. Yankel and Ms. Wolf due to forced
23 conservation are likely to be insignificant. As Mr. Yankel points out, the current
24 inverted rate structure was implemented in response to the relatively large peak
25 growth in Utah. The high third-block rate, I believe, swamps any inducement to
26 conservation from an artificially low customer charge.

27

¹ James C. Bonbright, *Principles of Public Utility Rates*, (New York, New York: Columbia University Press, 1961), p. 29.

² Bondbright, p. 295.

1 When weighed against the principle of consumer sovereignty and given the likely
2 insignificant benefits arising from forced conservation, maintaining the current
3 customer charge would seem unjustified.

4 **Q5. What is the Division’s response to the argument regarding customers’ dislike
5 and lack of understanding of the customer charge?**

6 A5. Guidelines set out in the Utah state statute specifically cites understandability as
7 one of the objectives for the Division to consider in making recommendations to
8 the Commission.³ However, I find it incredible that one would argue that the
9 average customer does not understand the concept behind fixed charges given
10 their prevalence in today’s economy. Telephone, natural gas, cable, and (some)
11 credit card companies charge or access fixed fees; even some grocery stores such
12 as, COSTCO and Sam’s Club, charge annual fixed fees. While the list could
13 easily be expanded, the point is fixed fees or charges are much more prevalent, I
14 believe, in today’s economy than they were say 10 years ago or even six years ago
15 when the Commission’s order in Docket No. 99-035-10 was issued.

16

17 Furthermore, I find Mr. Yankel’s implied argument behind the “illustrative
18 reference”, “I do not have to pay a Customer [sic] charge for walking into a
19 grocery store, why should I pay one to the utility,”⁴ to be at best misleading.

20 **Q6. Why do you say that this reference is misleading?**

21 A6. I believe that there are at least three reasons why the implied argument is
22 misleading. First, as I pointed out above, some grocery stores actually do charge
23 annual fixed fees for shopping at their stores. Second, firms in unregulated
24 markets have behavioral options available to them that the regulated utility does
25 not in responding to prices that fall short of recovering its total costs. Third, there
26 are legitimate economic reasons for firms to charge fixed fees for various services
27 or commodities. Let me explain these last two points in more detail.

28

³ U.C.A. § 54-4a-6.3.

⁴ “Pre-filed Direct Testimony of Anthony J. Yankel for the Committee of Consumer Services,” Docket No. 06-035-21, September 27, 2006, p. 17, lines 321-323.

1 Generally speaking, whether a firm, such as a grocery store, has some flexibility
2 in setting prices or is a price taker, the firm has behavioral options to insure that
3 the price received covers both its fixed and variable costs. If the price does not
4 cover both, it has options to limit its exposure to loss. For example, in a
5 competitive market where firms are price takers, the firm will attempt to produce
6 an output level where its marginal cost of production is equal to the price. This is
7 known as the profit maximization rule. If the price changes or does not cover all
8 of the fixed and variable costs of the firm, then the firm has the option to adjust its
9 output; if the price does not recover the firms fixed costs, the firm may even
10 choose to exit the market entirely.⁵ Because of its obligation to serve, a regulated
11 utility does not have the option of adjusting its output in this manner. Therefore,
12 everything else being equal, a regulated utility will have a more difficult time in
13 mitigating its exposure to loss than will an unregulated firm when economic or
14 other conditions change. A fixed charge, that recovers the utilities fixed costs, is
15 one way, in a manner of speaking, to level the playing field.

16
17 Even in the absence of regulation, there are at least three legitimate reasons for a
18 firm to use fixed charges. First, a firm may find the fixed costs associated with
19 providing a service are relatively easy to identify or isolate, but are not applicable
20 to all of its customers. In this case, the firm may choose to charge a fixed fee only
21 to those customers using the service. For example, many stores charge a flat fee
22 for processing returned checks. This practice is similar to the concept of cost
23 causation in regulation – only those fixed costs that are relatively easy to identify
24 and assign should be included in the fixed charge – and is consistent with the
25 Commission’s guidelines set forth in Docket No. 84-035-01, which were the basis
26 of the Division’s proposed customer charge.

27
28 Second, a firm may have a difficult time in controlling the intensity with which its
29 service or product is utilized. For example, a credit card company cannot control

⁵ See, for example, James M. Henderson and Richard E. Quandt, “Microeconomic Theory: A Mathematical Approach,” 3rd Edition, (New York, New York: MacGraw-Hill Book Company, 1980), pp. 64-104.

1 how much a customer uses its card and may choose to use a fixed charge or
2 annual fee to recover (some of) its fixed costs. In a similar fashion, the utility
3 cannot control perfectly the demand for its services. Fixed fees can limit or
4 mitigate the utilities exposure to fluctuations in usage.

5 **Q7. Would you comment on the argument that customer charges create a**
6 **disincentive on the part of the Company to minimize resource and delivery**
7 **costs?**

8 A7. No. The Company is required to provide adequate and efficient services in a least
9 cost manner. In return the Company is allowed an opportunity to collect all
10 prudently incurred costs plus a fair rate of return on capital. The Company has no
11 incentive to incur any costs that are not prudent because those costs are likely to
12 be disallowed.

13

14 Ms. Wolf did not provide any explanation to her assertion that customer charges
15 create disincentive on the part of the Company to minimize costs, nor did she
16 provide any explanation as to how collecting most of the revenue requirement
17 through energy charge would give the incentive to minimize costs. To just make
18 the unsubstantiated claim that the Company will have the incentive not to
19 minimize resource and delivery cost if it charges cost based customer charge is
20 nonsensical. Whether to build a new resource and the choice of the kind of
21 resource to build are determined in the IRP process which uses an optimization
22 model designed to minimize costs after a number of factors, including but limited
23 to load resource balance, transmission constraints, are considered. It has nothing
24 to do with whether the revenue requirement is collected mainly in the form of
25 customer charge or in the form of energy charge.

26 **Q8. Does the percent increase in customer charges violate the principle of**
27 **gradualism?**

28 A8. Before I address the Issue of gradualism, let me address the percent increase
29 discussed by Ms. Wolf. On page 3 of her testimony, lines 5 through 9, Ms. Wolf
30 describes the Company's requested increase in the customer charge from \$0.98 to
31 \$3.40 as being "nearly 350%." The 350% cited by Ms. Wolf is simply the ratio of

1 the Company's proposed customer charge to the current customer charge ($3.50 =$
2 $3.40/0.98$). If you increase the current customer charge by 350%, you would get a
3 customer charge of \$4.41 ($=0.98*(1 + 3.5)$). Actually, the Company's proposed
4 increase is approximately a 247% [$\cong 100*((3.40/.98) - 1)$] increase.⁶ I believe
5 Ms. Wolf inadvertently neglected to subtract one from the ratio of the two
6 customer charges.

7
8 Because Ms. Wolf thinks that the percent increase in customer charge violates the
9 principle of gradualism, Ms. Wolf recommends that the customer charge remain
10 the same or, in keeping with the principle of gradualism, that the customer charge
11 be increased to no more than \$1.50 or \$1.75. This is not truly in the spirit of
12 gradualism.

13
14 Before I elaborate on why, let me remind you that the 247% increase is relative to
15 the Company's proposed \$3.40 customer charge. The Division's testimony
16 demonstrates that a cost based customer charge would be \$3.75 – the Company
17 having failed to gross up for taxes. An increase from \$0.98 to \$3.75 is
18 approximately a 283% increase.

19
20 At first this increase seems to be quite large and would appear to violate the
21 principle of gradualism. However, when put in the proper perspective, this
22 increase appears relative modest. First, gradualism is not the only ratemaking
23 principle nor is it necessarily the most important. For example, there are the
24 principles of cost causation and consumer sovereignty, both of which justify
25 increasing the customer charge to \$3.75 in this case as explained in my direct
26 testimony. Furthermore, maintaining the customer charge at \$0.98 for nearly 20
27 years, despite clear evidence supporting substantially higher amounts, is itself a
28 violation of gradualism that creates unintended consequences. To maintain the

⁶ The percentage change in a variable is equal to the ratio between the difference in the value of the variable to the original value: $(3.40 - 0.98)/0.98 = (3.40/0.98) - 1$. Multiplying by 100 yields the percentage change.

1 customer charge at its current level (or decrease it as the Committee’s witness
2 suggests is an acceptable alternative) would only exacerbate these problems.

3
4 NARUC, for example, identifies intergenerational considerations as valid rate
5 making principles.⁷ As Mr. Yankell points out in his direct testimony, rate
6 structures or designs change in response to changing economic circumstances. As
7 the disparity between the current rate and a true cost of service rate increases, as is
8 likely as time progresses, the greater the cost of making a correction in the future
9 will be. In other words, maintaining the customer charge at its current level will
10 make it more costly for a future generation to make the needed correction. The
11 unnecessary additional cost imposed on future generations of maintaining or
12 decreasing the customer charge today may make it more difficult or impossible
13 for that future generation to respond with the proper rate structures for the future
14 economic circumstances because of the possible rate shock that may accompany
15 any changes in the customer charges.

16
17 The second reason the requested increase does not violate gradualism is because
18 the increase in absolute value is not that large – the percent increase appears large
19 because the base is so small. The percentage increase is calculated or derived
20 from the ratio of the two customer charges ($3.75/0.98 = 3.83$). In reality, the
21 increase is only \$2.75 per month. Focusing on the percentage increase without
22 understanding the underlying raw data distorts the true picture.

23
24 Third, even if we focus strictly on the percentage increase, it is apparent that the
25 requested increase would have been much smaller if the customer charge had
26 been increased as needed in the past. For example, even if the customer charge
27 had kept pace with inflation, the customer charge would currently be

⁷ See, “Public Interest Goals,” NARUC Online Glossary,
<http://www.naruc.org/displaycommon.cfm?an=1&subarticlenbr=275#P>.

1 approximately \$2.00.⁸ Increasing the customer charge from \$2.00 to \$3.75 would
2 be an increase of \$1.75 or approximately an 88% increase. If the customer charge
3 had been set at cost based rates in past rate cases, the increase would be even
4 smaller: approximately \$0.75 or a 25% increase, which is even a smaller percent
5 increase than the increase Ms. Wolf indicates would be acceptable.

6
7 Again, for the reasons I have stated, I do not believe that increasing the customer
8 charge to a cost based rate is a violation of the principle of gradualism in this
9 case. Indeed, I believe once put into its historical and numerical perspective,
10 maintaining the customer charge at its current level or decreasing it would violate
11 the principle of gradualism – gradualism does seem to imply that eventually you
12 would move toward or reach a cost based rate. Additionally, maintaining the
13 current customer charge violates other important rate making principles such as
14 intergenerational equity, inter- and intra-class equity, cost causation, and
15 consumer sovereignty.

16 **Q9. Ms. Wolf indicates that if the Commission were to raise the customer charge**
17 **in this case, raising it to \$1.50 would be in keeping with the principle of**
18 **gradualism. Would you agree with this assertion?**

19 A9. No. Raising the customer charge from \$0.98 to \$1.50, as Ms. Wolf suggests, is
20 approximately a 53% $[(1.50/0.98) - 1 = 0.53]$ increase. If the customer charge
21 were increased by a similar percentage in each rate case going forward, it would
22 take over five $(283/53 = 5.3)$ rate cases to achieve a cost based rate assuming the
23 discrepancy remains constant. Assuming a rate case every two years, it would
24 take almost 12 years to achieve a cost based rate. If the discrepancy between the
25 current customer charge and a cost-based charge widens in the future, as it most
26 likely will, it could take even longer. This snail's pace would not, in my opinion,
27 be in keeping with the principle of gradualism and does nothing to address the
28 other rate making principles mentioned above.

29

⁸ Inflation since 1985, when the customer charge was implemented, has averaged about 3% per year according to the CPI. The current customer charge of 98-cents is equivalent to approximately 52-cents in 1985 dollars.

1 **Keeping the minimum charge**

2
3 **Q10. Mr. Yankel (Committee of Consumer Services or CCS) and Ms. Wolf (Salt**
4 **Lake Community Action Program or SLCAP) testified in favor of keeping**
5 **both the customer charge and the minimum charge. Does the Division**
6 **concur with that?**

7 A10. No. If we use a cost based customer charge calculated based on the methodology
8 recognized by the Division, then minimum charge will not serve any purpose and
9 should be eliminated.

10
11 Minimum charges are calculated based on the same Commission recognized
12 methodology used to calculate the customer charge. Hence, the minimum charge
13 is cost based. However, the minimum charge is paid by customers whose energy
14 usage is below some threshold. These customers are paying less than their fair
15 share by not paying fully for the small amount of energy they are using. The rest
16 of the customers, including small usage customers, are paying for the costs the
17 minimum charge customer did not pay for.

18
19 The customers who qualify for the minimum charge are often well to do
20 customers with vacation homes. It is not fair to expect low income customers
21 with low energy usage pay for people with second homes. This will amount to
22 intra-class subsidization.

23
24 **Increasing the tail block rate in such a way that it recovers a larger portion of the**
25 **fixed costs.**

26
27 **Q11. Mr. Yankel and Ms. Wolf both proposed to shift a portion of the customer**
28 **charge to the tail block rate to send a stronger message or price signal to high**
29 **energy usage customers. What is the Division's opinion in relation to this**
30 **shift of costs?**

1 A11. Both Mr. Yankel and Ms. Wolf justified their proposed shift of a portion of the
2 customer cost on the tail block on the basis of sending stronger signal to the large
3 usage customers who they believe are the chief contributors of the summer peak.
4 The fact that large users contribute more to the summer coincident peak does not
5 in any way or form justify the proposed increase in the tail block rate. Rather, it
6 justifies the inverted tail block rates that are currently in place. However, To
7 prove that the large usage customers contribute most the cost than do the small
8 usage customers, Mr. Yankel, using Rocky Mountain Power's 2004 load research
9 data, analyzed the relationship between residential monthly usage and residential
10 contribution to system demand.

11 **Q12. Does the Division agree with Mr. Yankel's analysis?**

12 A12. Generally yes. However, based on the data response provided by CCS, the June
13 coincident peak load factor for the 0-600 kWh range should be 188% instead of
14 the 121% that is reported on page 5 of Mr. Yankel's direct testimony. Mr. Yankel
15 inadvertently calculated the coincident load factor for the 401-600kWh range
16 (121%) and used it for the 0-600 kWh range. The Division needs to further
17 investigate the appropriateness of the Mr. Yankel's analysis.

18 **Q13. Based on his load research data analysis, Mr. Yankel concluded that the
19 more energy customers use the more they contribute to coincident peak
20 summer demand. Hence, the tail block rate must be increased. Do you agree
21 with that conclusion?**

22 A13. No. Even if we accept Mr. Yankel's analysis, still it does justify increasing the
23 tail block rate. All it shows is that larger users contribute more to the summer
24 coincident peak which supports the existence or use of the inverted block design,
25 but does not inform us as to what that rate should be, and it certainly does not
26 support artificially increasing the rates for the tail block by pushing fixed costs
27 into the variable energy rate..

28 **Q14. Mr. Yankel reviewed the historical rate designs for residential customers in
29 Utah. Would you comment on this review?**

30 A14. Yes. I think Mr. Yankel provides an excellent and accurate historical review of
31 the residential rate design. His review clearly shows that the Commission

1 adequately dealt with the problem of an increasing summer peak. On page 12 of
2 his direct testimony Mr. Yankel stated:

3

4 The second major change in the residential energy rate
5 structure came in November 2001 when the Commission
6 adopted an inverted energy block rate structure during the
7 summer months for the residential class. The purpose of
8 this rate design was to reflect the increases in coincident peak
9 demand that was being placed upon the system because of the
10 rapid growth in air-conditioning load.

11

12 The adoption of the inverted block rate for residential customers recognizes the
13 rapid growth in air conditioning load and sends appropriate price signals to the
14 large energy usage customers. Therefore, there is no need to artificially increase
15 the tail block rate by shifting some of the customer charges to the tail block rate.

16

17 **Other Issues**

18 **Q15. On page 3 of her testimony, lines 12 through 15, Ms. Wolf claims that raising**
19 **the customer charge to a cost based level “demonstrates poor ratemaking**
20 **policy.” Would you agree with this statement?**

21 A15. No. I fail to comprehend why setting a customer charge at a level consistent with
22 accepted rate making objectives such as cost causation, consumer sovereignty,
23 and intergenerational equity constitutes “poor ratemaking policy.” On the
24 contrary, keeping a customer charge that is absurdly low forcing future
25 generations to bear the burden of correcting an ever growing disparity is poor
26 policy. Furthermore, keeping the customer charge artificially low will, in my
27 opinion, create more uncertainty about future prices – the longer the customer
28 charge is held below its cost basis, the more customers will expect the customer
29 charge to change.

1 **Q16. On page 3, lines 18 through 23, and page 4, lines 1 through 3, Ms. Wolf**
2 **claims that a higher customer charge virtually guarantees a larger portion of**
3 **the Company's revenues. Do you agree with this statement?**

4 A16. No. While it may be true that a larger portion of what is actually collected will
5 come through the fixed charge, if done correctly the shift should be revenue
6 neutral to the Company – while the customer charge will be higher, energy rates
7 will be lower than they other wise would be. However, nothing is guaranteed.
8 There will be variations from either normal or forecasted conditions, for example
9 in weather or customer growth, which may affect what the Company actually
10 collects from customers.

11
12 Additionally, a higher customer charge does not significantly affect the incentive
13 of the Company to control its costs. Since the higher customer charge does not
14 affect the cost of the Company, the Company must control its costs in order to
15 achieve its allowed rate of return. Regulatory lag also means that the Company
16 can benefit to the extent it can effectively and efficiently control its costs between
17 rate cases.

18 **Q17. On pages 6 and 7 of her testimony, MS. Wolf argues that a higher customer**
19 **charge tends to be regressive at lower consumption levels. Would agree with**
20 **this argument?**

21 A17. If I understand what Ms. Wolf is saying, then yes I would agree. I believe all she
22 is saying is that the ratio of the increase to the usage level will be greater for low
23 usage customers than it is for high usage customers. For example, if the increase
24 as proposed by the Division (\$2.75) is granted by the Commission, then dividing
25 the increase by 400 kWh will greater than if it were divided by 800 kWh.

26
27 However, I would stress that the regressive nature is entirely due to the fact that
28 the customer charge has been artificially held below its cost basis for twenty
29 years. In deed, effectively the customer charge has been virtually constant for 20

1 years. As a result, the current customer charge, accounting for inflation, is equal
2 to approximately \$0.52 in 1985 dollars.⁹

3
4 Ms. Wolf’s arguments, in my opinion, are not effective arguments against raising
5 the customer charge. They may, however, be arguments for considering more
6 efficient and effective ways of mitigating the impact on low-income customers.

7
8 **Q18. On pages 6 and 7 of her testimony, Ms. Wolf raises concerns that if the**
9 **customer charge is increased to the proposed level, low-income customers**
10 **may in fact subsidize high use customers. Do you have any comments on this**
11 **argument?**

12 A18. Actually, I liked her phrasing: “Perhaps more significantly, low income customer,
13 most of whom do not live in new, **sprawling** suburban developments with
14 **massive** appliance-filled homes”¹⁰ However, this is a good example of
15 argument by “ad populum” – appealing to the emotions of the crowd¹¹ – and does
16 not really add anything of substance to the issue. Again, I would suggest that the
17 argument is not so much an effective argument against raising the customer
18 charge to its cost base level as it is an argument for redefining the way in which
19 the customer charge is calculated. For example, Ms. Wolf may want to challenge
20 the guidelines for costs to be included in a customer charge provided by the
21 Commission. The Division’s proposal is based on these guidelines.

22
23

24 **Rate Design**

25 **Q19. What rate design proposals have been proposed in this rate case?**

26 A19. There are three rate design proposals in this rate case by the Company, CCS, and
27 AARP, respectively. These rate proposals are explained in the direct testimonies

⁹ According to the CPI, inflation since 1985 has averaged approximately 3%. The CPI in 1985 was 107.6 and 201.25 in 2006. Given the current customer charge of 0.98, $0.52 = 0.98 * (107.6 / 201.25)$.

¹⁰ “Direct testimony of Elizabeth A. Wolf,” p. 7, lines 6 through 7, emphasis added.

¹¹ See, for example, REFERENCE.

1 of the Company's witness, William Griffith, CCS's witness, Anthony Yankel, and
2 AARP's witness Ronald Binz.

3 **Q20. What rate implications do these proposed rate designs have on the residential**
4 **customers?**

5 A20. The rate designs proposed by CCS and AARP suffer in their consideration of cost
6 causation, inappropriate way of sending price signals to the customers across the
7 different use levels. CCS's design also suffers in that it reduces rates for the
8 usage levels between 401-600 kWh. The rate design the Company proposed does
9 not adequately set the rates for the three energy blocks in the summer.

10 **Q21. Would you care elaborating how the CCS and AARP proposals suffer from**
11 **lack of adequate consideration of the principle of cost causation?**

12 A21. Yes. CCS proposes, among other things, to keep the customer charge at its
13 current level, 98 cents and to increase the minimum charge from \$3.67 to \$4.05.
14 Costs are classified into customer, energy, and demand costs. Demand costs are
15 not separately priced for residential customers. The customer costs are those
16 costs that a customer directly imposes on the system. There is a clear
17 methodology that the commission recognized, to calculate the customer charge.
18 Using this methodology, the Division calculated the appropriate customer charge
19 to be \$3.75. This is the customer charge that should be collected from all
20 residential customers. If this cost based customer charge is implemented, then
21 there will be no need to keep the minimum charge and it should be eliminated.

22
23 AARP proposes to increase the customer charge and the minimum charge to \$2.5
24 and \$3.40, respectively. Though this proposal is a move towards cost based
25 customer charge, it falls short of assessing the full cost based customer charge and
26 therefore shares the same deficiencies as CCS's proposal.

27
28 **Q22. Please elaborate the difference in the way CCS and AARP are proposing to**
29 **send a stronger price signal to the customers in the tail block?**

30 A22. CCS and AARP proposed that the difference between the customer charge
31 calculated using the Commission recognized methodology and the one they are

1 proposing be recovered through energy charge from the customers in the tail
2 block. Recovering customer costs through the energy charge forces large usage
3 customers to subsidize the customer costs of the small usage customers and the
4 Division does not think this is appropriate. The inverted block rate design is a
5 sufficient and appropriate mechanism to send the appropriate price signal to the
6 large usage customers.

7 **Q23. What is the rate implication of the change in the initial block range from 0-
8 400 kWh to 0-600 kWh proposed by CCS?**

9 A23. The proposed change in the initial block from 0-400 kWh to 0-600 kWh would
10 result in the reduction of rates for the usage level from 401-600 kWh; further
11 burdening the customers in the other use levels.

12 **Q24. Would you please elaborate?**

13 A24. Yes. Using the current rates, the 299 kWh that is proposed to be moved from the
14 intermediate block to the initial block was paying 7.872 cents per kWh and was
15 generating \$15.74 in revenue. After it is moved to the initial block, it will pay
16 6.936 cents and will generate \$13.8 in revenue. To recover the revenue lost,
17 \$1.94, by making this move, the rates for the intermediate and tail blocks will
18 have to be increased. This amounts to an added burden to these customers.

19 **Q25. Please comment on the Company's proposed rate design.**

20 A25. The Company proposed to increase the customer charge to \$3.40, eliminate the
21 minimum charge, and to increase the rates for each block by uniform cents.

22
23 The Company correctly used the methodology recognized by the Commission to
24 calculate its proposed customer charge, \$3.40. However, the Company
25 inadvertently forgot to gross up for income tax. The Division pointed out during
26 the discovery phase of the case and the Company recognized this. As a result, the
27 Division calculated the correct cost based customer charge to be \$3.75. On the
28 other hand, the Company correctly proposed the elimination of the minimum
29 charge.

30

1 The Division generally concurs with the Company’s proposal. However, the
 2 DPU recommended rates of the three summer and the winter rate blocks are based
 3 on the correct customer charge \$3.75.

4 **Q26. Would you like to propose a rate design?**

5 A26. Yes. The Division proposes the Commission to increase the customer charge
 6 from its current level of 98 cents to a cost based level of \$3.75, eliminate the
 7 minimum charge and increase the energy block rates in a manner that customers
 8 across the different usage levels receive the appropriate price signals. These
 9 changes will allow recovery of the allowed residential revenue requirement. The
 10 following Table summarizes the Division’s recommendations.

11
 12 **SCHEDULE 1 RATE DESIGN PROPOSAL**
 13 **UTAH Division of Public Utilities**

14 **Exhibit DPU 4R**
Docket No. 06-035-21
Dr. Abdinasir Abdulle

	Company Forecast Units Oct 06 – Sep 07	Company Proposed Price	Company Proposed Price	DPU Proposed Price	Revenue Given DPU Prices
Customer Charge	7,659,292	\$3.40	\$26,041,593	\$3.75	\$28,722,345
Summer 1 st 400 kWh	1,228,143,851	\$0.0739	\$90,759,831	\$0.0739	\$90,759,831
Summer nex 600 kWh	965,234,855	\$0.0832	\$80,307,540	\$0.0832	\$80,307,540
Summer additional kWh	541,307,573	\$0.0972	\$52,615,096	\$0.0972	\$52,615,096
Winter kWh	3,200,412,191	\$0.0739	\$236,510,461	\$0.0731	\$233,950,131
Total kWh’s/\$	5,935,098,470		\$486,234,520		\$486,950,131

16
 17
 18 Note that the Division’s recommendation differs from that of the Company in that the
 19 additional 35 cents that will be collected as customer charge and taken away from
 20 the winter rate. This makes the Division’s proposed winter rate less that that of
 21 the Company but still represents an increase.

22
 23 **Q27. Please describe how the bill impact of the Division’s proposal compare to the**
 24 **bill impact of the other parties proposals.**

1 A27. The Division does not believe in justifying the appropriateness of a rate design
2 solely on the bases of the resulting bill impact. Rather, the Division believes to
3 choose among those rate objectives and principles the one design that results in
4 the most reasonable bill impact.

5

6 Having said that, the Division believes that the rate design proposed by CCS fails
7 to qualify among those rate designs to choose from in that it failed to consider the
8 principles of cost causation and simplicity and will result in intra-class
9 subsidization and rate shock to the future generation.

10

11 AARP's proposal has the same problems as that of CCS but much less severe and
12 results in near uniform bill impact across the different usage levels. The
13 Company's and the Division's proposals are based on sound principles and have
14 similar bill impacts during the summer.

15

16 The DPU's recommendation preserves the summer price signal reflected in the
17 Company proposal, while reducing the winter energy rate to compensate for our
18 suggested higher customer charge. The lower winter rate reflects the lower
19 average winter costs and also incorporates some consideration for all electric
20 customers who used to benefit in their heating bills from a rate schedule separate
21 from Schedule 1.

22 **Q28. What is your final recommendation?**

23 A28. The Division recommends the Commission to increase the customer charge from
24 its current level of 98 cents to a cost based level of \$3.75, eliminate the minimum
25 charge and increase the energy block rates in a manner that customers across the
26 different usage levels receive the appropriate price signals.

27

28 If the Commission decides not to raise the customer charge up to its cost based
29 value, the Division thinks that AARP's proposal is the second best starting point
30 provided that a commitment is made that the customer charge will go up to its
31 cost based value by next rate case.

1

2 **Q29. Does this conclude your testimony?**

3 A29. Yes.