

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) DOCKET NO. 07-035-93
Service Regulations, Consisting of a General Rate)
Increase of Approximately \$161.2 Million Per Year,)
and for Approval of a New Large Load Surcharge)

**SURREBUTTAL TESTIMONY OF CHARLES E.
JOHNSON**

on behalf of

**AARP, Salt Lake Community Action Program and
Crossroads Urban Center**

September 24, 2008

1 **Q. Please state your name and business address.**

2 A. My name is Charles E. Johnson. My business address is 1086 - 7B Pleasant Blvd.,
3 Toronto, M4T 1K2, Canada.

4
5 **Q. Are you the same Charles E. Johnson who previously testified in this proceeding?**

6 A. Yes, I am.

7
8 **Q. What is the purpose of your surrebuttal testimony?**

9 A. I will address the Division of Public Utilities witness Dr. Abdinasir Abdulle's Residential
10 customer charge proposal offered in his rebuttal testimony and the Rocky Mountain
11 Power Residential rate design testimony proposal that has been offered in the rebuttal
12 testimony of William R. Griffith.

13
14 **Q. What does Dr. Abdulle propose for the Residential customer charge in his rebuttal
15 testimony?**

16 A. Dr. Abdulle now proposes to increase the Residential customer charge from \$2.00 to
17 \$2.75. His original proposal was to double the Residential customer charge to \$4.00, as
18 was requested by Rocky Mountain Power

19
20 **Q. What reason does Dr. Abdulle give for changing his proposal?**

21 A. Dr. Abdulle's reason for proposing a smaller increase is because the revenue recovered
22 from doubling the Residential customer charge would exceed the increase in revenue
23 from the Residential class. That would necessitate reducing the energy charges.

24
25 The reason given by Dr. Abdulle for choosing the amount of \$2.75 has no sound basis,
26 however. Based on the percentage of the requested increase in customer charge granted
27 in the last RMP rate case, he applies that same percentage to the increase requested in this
28 case.

1
2 **Q. On what basis did the Commission make its decision to double the Residential**
3 **customer charge in the last RMP rate case?**

4 A. In the last RMP rate case, Utah PSC Docket No. 06-035-21, the Commission noted that
5 no party contested the Company's calculation of the Residential customer cost and stated:
6 "Rather, parties oppose the Company's or Division's customer charge in order to
7 further other public policy objectives such as gradualism, rate stability, energy
8 price signals or conservation of resources. We concur these other objectives must
9 be considered when designing rates that serve the public interest." [Order page
10 30]

11
12 In ordering the increase in the Residential customer charge to \$2.00, the Commission
13 noted that it was balancing multiple objectives and not just examining embedded cost
14 allocation.

15 "While we continue to rely on embedded cost-of-service analysis for determining
16 class revenues, we concur with the Company, Committee and AARP that
17 marginal cost information can and should be used to guide rate design. ... We
18 agree with AARP that achieving intra-class equity and proper price signals
19 includes more than collecting revenues based on a "snap shot" embedded cost-of-
20 service study but also recognizes the dynamic process that starts once rates are
21 set." [Order, page 31]

22 and

23 "In striking a balance among the multiple public policy objectives in rate design,
24 we find a \$2.00 monthly customer charge, ... serves the public interest." [Order
25 page 31]

26
27 The Commission's decision in increasing the Residential customer charge was much
28 more complex than just applying a percentage, as Dr. Abdulle has done. In now

1 recognizing that fuel prices and other costs are increasing more rapidly today than when
2 this Order was issued, the Commission should make the public policy issue of
3 conservation an even more important consideration. Increasing the Residential customer
4 charge as proposed by the Division diminishes the Commission's ability to further the
5 public policy issue of conservation.
6

7 **Q. Is there any other reason for opposing the increase in the Residential customer**
8 **charge that arises from reviewing Dr. Abdulle's testimony?**

9 A. Yes. Dr. Abdulle claims that the Company has asked for an increase of \$9.82 in the
10 Residential customer charge in its Wyoming jurisdiction and plans to ask for another
11 \$6.00 in its next rate case.
12

13 These proposals suggest even more strongly that RMP is attempting to guarantee its
14 revenue stream from Residential customers rather than pricing electricity at its cost and
15 encouraging conservation and efficiency in its use. Recovering revenue through fixed
16 charges (such as the CLC and the customer charge) provides greater stability in revenues
17 for the Company at the cost of sending price signals to customers that energy
18 conservation is important. As I stated in my direct testimony, this goes against the
19 changing world view (and the view of the Division of Public Utilities) that efficiency and
20 conservation are increasingly important..
21

22 Also, the proposal to increase customer charges has a disproportionate impact on low-use
23 customers because the customer charge makes up a larger fraction of their bill than for
24 high-use customers. Higher customer charges make it more difficult to provide a block
25 of affordable energy for essential use. An initial block of affordable energy is, to some
26 extent, based on costs, because the higher demands placed on the distribution system by
27 high-use customers requires much more investment in the distribution system for
28 neighborhoods of high-use customers. More transformer capacity and other equipment

1 must be provided to these high-use customers.
2

3 **Q. What is your recommendation?**

4 A. I recommend that the Residential customer charge be retained at the current \$2.00 level.
5

6 **Q. What has Mr. Griffith proposed for Residential rate design in his rebuttal
7 testimony?**

8 A. Mr. Griffith has proposed to withdraw the Company's originally-proposed Residential
9 rate design; the main features of which were to double the Residential customer charge
10 and to impose what was characterized as a Customer Load Charge (CLC). In his rebuttal
11 testimony, Mr. Griffith proposes instead to continue the 2.72% surcharge that was
12 initiated after the Revenue Requirements phase of this docket.
13

14 **Q. By how much does the Residential customer charge increase under Mr. Griffith's
15 current proposal?**

16
17 A. The Residential customer charge is increased by 2.72 % under the current Tariff Rate
18 Rider and that would continue under Mr. Griffith's proposal. For the Residential
19 customer charge of \$2.00, this Rider adds to \$0.05 to the customer's bill.
20

21 **Q. Is the Company's proposal acceptable as an alternative to your proposal to leave the
22 Residential customer charge unchanged at \$2.00 per month?**

23 A. No. Rocky Mountain Power has already filed (as Utah PSC Docket No. 08-035-38)
24 another general rate case containing the same Residential rate design proposals as were
25 contained in Mr. Griffith's original proposal in this proceeding. Even if the Commission
26 approves Mr. Griffiths revised proposal in this case, the issues of doubling the
27 Residential customer charge and imposing the CLC would be litigated again in that
28 docket.

1
2 As a consequence of the Commission bifurcating this docket and approving a rate
3 increase before the rate design issues were litigated, the increase has already been
4 imposed by a 2.72% increase in customer bills. This does create a problem in addressing
5 rate design now for this docket. That is especially true for the Residential rate design. In
6 fact, Mr. Griffith's reason for withdrawing the CLC and increased Residential customer
7 charge is that the original proposal "cannot be implemented without creating unintended
8 consequences that will not send proper price signals to customers."
9

10 **Q. What are the "unintended consequences" to which Mr. Griffith refers?**

11 A. Mr. Griffith notes that imposition of the CLC alone would produce more additional
12 revenue than the revenue increase allowed by the Commission and that it would then be
13 necessary to reduce Residential energy charges. He concludes that reducing energy
14 charges is an inappropriate price signal during a period of rising costs. This is exactly the
15 same as one of the arguments I relied on in examining RMP's originally-proposed
16 reduction of energy blocks from three to two. As I pointed out in my direct testimony,
17 the price of the block of energy from 400 kWh to 1000 kWh would decrease by 5.6%
18 because of the elimination of the second Residential energy block, as was originally
19 proposed by Rocky Mountain Power.
20

21 The "unintended consequences" to which Mr. Griffith refers were evident in the original
22 Residential rate design offered by RMP. Even had RMP retained three energy blocks, the
23 Commission would likely have faced the problem of having to reduce the price of
24 Residential energy if it had approved the CLC and the increased Residential customer
25 charge.
26

27 **Q. Why would approval of the CLC and an increased Residential customer charge**
28 **likely result in a reduction of the price of energy?**

1 A. The Company's original proposal was to increase the Residential revenue requirement by
2 about \$41 million, of which the CLC and increased customer charge would produce \$34
3 million. That is 83% of the requested revenue. Unless the Commission were to have
4 allowed a sufficient increase to produce 83% of the requested Residential revenue, no
5 increase would be possible for the Residential charges; and if less than 83% of the
6 request were allowed, some Residential energy charge would have had to be reduced. In
7 my experience, it is not common for a utility to be awarded as much as 83% of its
8 requested revenue. Because it is unlikely that the PSC would have granted that large a
9 revenue increase, it is likely that implementing the CLC and raising the customer charge
10 would have necessitated a reduction to Residential energy charges.

11
12 **Q. What is your proposal for Residential rate design?**

13 A. First, I ask that the PSC make it clear in this docket that it rejects the CLC and that it
14 discourage RMP from proposing it in another docket. Second, I recommend that the
15 minimum bill be increased to \$6.00. Third, I recommend that the remaining increase in
16 revenue for the Residential class be imposed on the energy charges, with a greater
17 increase for the second block and the largest increase for the tail block. For my original
18 proposal, I used a second block equal to 1.2 times the first block and a third block 1.5
19 times the first block. Using these ratios, the resulting energy prices are slightly higher
20 than previously for the initial block, about half a cent higher for the second block, and
21 about 1.2 cents higher for the tail block. These numbers are shown in Surrebuttal
22 Exhibit__(CEJ-1)

23 **Q. Why do you ask that the PSC reject the CLC when it has been removed from**
24 **consideration in this docket?**

25 A. RMP's proposal to increase the Residential customer charge and impose the CLC has
26 been filed and withdrawn in this docket and has been filed in Utah PSC Docket No 08-
27 035-38. AARP, Salt Lake Community Action Program, and Crossroads Urban Center
28 have expended considerable resources in participating in this proceeding and opposing

1 these proposals. These parties may not be able to participate as actively in Docket No.
2 08-035-38, because of constraints on their resources

3
4 These proposals are part of this docket and the CLC was opposed by all intervenors who
5 addressed it in their direct testimony. All of these intervenors recommended its rejection
6 and they have given a large number of sound reasons for their recommendations. RMP's
7 reasons for proposing it were weak, as explained in my direct testimony as well as in
8 testimony of other intervenors. Nevertheless, I will reiterate the principal objection to
9 this rate design proposal.

10
11 **Q. What is the principal objection to the CLC?**

12 A. The CLC will have little effect on usage, because most customers cannot or will not
13 respond significantly to this kind of price signal. Customers using much less than 1000
14 kWh will not be charged more for their usage, so there is no price increase to which they
15 could respond. In fact, their costs will probably be lower (and their usage higher) than if
16 the energy charges were increased rather than imposing the CLC.

17
18 Customers using much more than 1000 kWh cannot reduce their usage to below 1000
19 kWh, so will pay the \$6.00 CLC every month. The CLC is a price signal to which they
20 cannot respond. For these customers, the price signal of relevance is the price of the tail
21 energy block. Even if they reduce their kWh usage, their bill is only reduced by the price
22 of the tail energy block, currently at just over 10 cents. This is about 0.1% of the
23 monthly bill for a customer using 1000 kWh. For a 2000 kWh customer, it is 0.05% of
24 the monthly bill. For these customers, the price signal is a relatively insignificant \$0.10
25 per kWh and not the \$6.00 CLC. Consequently, their response to the price signal will be
26 a tepid one and not a substantial reduction in usage.

27
28 It is possible that some small number of customers with usage around 1000 may be much

1 more careful of usage if the CLC is imposed, but they cannot easily monitor their usage
2 levels to avoid exceeding the 1000 limit. Combined with the possibility of estimated
3 bills, missed meter reads and other problems associated with the 1000 kWh per billing
4 period (which may vary significantly in number of days), little response can be expected.
5 For them, the CLC as a price signal is almost irrelevant.
6

7 **Q. Doesn't RMP's change in its proposal make it unfair for the Commission to issue an**
8 **Order containing a statement that rejects the CLC and discourages its**
9 **reintroduction because RMP hasn't had an opportunity to respond to the**
10 **intervenors' objections?**

11 A. No. It was RMP's decision to change its proposal rather than respond to intervenor
12 testimony on the Company's proposals. Moreover, it is the Company's responsibility to
13 present its case for its proposals in its filing. If the case has not been made there and the
14 Company intends to make its case in subsequent testimony, that is not fair to intervenors.
15 RMP has had an opportunity to make its case for the CLC and intervenors have
16 responded overwhelmingly that the case has not been made. Merely filing essentially the
17 same testimony in Docket 08-035-38 is insufficient. Absent some compelling evidence
18 that was not presented in this docket, the Commission should advise RMP that it will not
19 consider implementing the CLC.
20

21 **Q. What additional evidence for the CLC would be compelling?**

22 A. One piece of compelling evidence would be a proof that the CLC is an effective price
23 signal by a demonstration that it has been effective in some other jurisdiction. Even an
24 academic study that demonstrates its effectiveness would be helpful. In testimony, we
25 have only RMP's assertions that it would be effective and its claims that customers aren't
26 responsive to the current Residential rate structure. As several parties suggest, education
27 is the cure for this non-responsiveness. Several of us have recommended additional
28 Residential consumer education on the three-tier rate charges.

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Q. The Division of Public Utilities agrees with the Company that the minimum bill should be discontinued. What is your response?

A. I would urge the Commission to reject the Division of Public Utilities' opposition to use of the minimum bill based on its claim that it is simpler to impose a higher customer charge than a minimum bill. The use of a minimum bill to recover the costs associated with meter reading, billing, etc., allows the energy charge to be higher, which promotes energy efficiency and conservation, the goals on which the Division has come to place greater emphasis. As pointed out in Division witness Abdulle's testimony, the PSC's pronouncement on the minimum bill issue was in a 1985 Order. While no era is free of problems of cost change, increasing fuel prices were not the major issue at that time. Gas prices were relatively low and the oil shocks of the 1970's had passed, leading to relatively stable fuel costs. Today we are in a world where reductions in energy usage are much more important and the Commission should use every reasonable means at its disposal to promote conservation.

One of those reasonable means of promoting conservation is by increasing energy charges and not customer charges. A minimum bill approach avoids the problem of customers with almost no use not covering their costs and also allows energy prices to be higher than does an increased customer charge. I ask that the Commission consider this approach.

Q. What is the impact of increasing the minimum bill and leaving the Residential customer charge at \$2.00?

A. If the Residential customer charge were to remain at \$2.00 and the minimum bill increased to \$6.00, I estimate the increase in the energy charges would be 2.75%, about the same as the 2.72% increase implemented from the revenue requirements phase of this docket.

1

2 **Q. Does this conclude your surrebuttal testimony?**

3 A. Yes.

PROPOSED SLCAP/AARP SCHEDULE 1 TARIFF

Customer Charge \$2.00 per month

Energy Charges

Summer

First 400 kWh 7.5472¢ per kWh

Next 600 kWh 9.0566¢ per kWh

Remaining kWh 11.3208¢ per kWh

Winter kWh 7.5472¢ per kWh

Minimum Bill \$6.00 per month