

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

UTAH PUBLIC
SERVICE COMMISSION

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**In the Matter of the Application of
Rocky Mountain Power for Approval
of its Proposed Energy Cost
Adjustment Mechanism**

RECEIVED

Docket No. 09-035-15

PHASE I DIRECT TESTIMONY

AND EXHIBITS

OF

STEVE W. CHRISS

ON BEHALF OF

WAL-MART STORES, INC. AND SAM'S WEST INC.

November 16, 2009

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **OCCUPATION.**

3 A. My name is Steve W. Chriss. My business address is 2001 SE 10th St.,
4 Bentonville, AR 72716-0550. I am Manager, State Rate Proceedings, for
5 Wal-Mart Stores, Inc.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CAUSE?**

7 A. I am testifying on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc.
8 (collectively "Wal-Mart").

9 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

10 A. In 2001, I completed a Masters of Science in Agricultural Economics at
11 Louisiana State University. From 2001 to 2003, I was an Analyst and later
12 a Senior Analyst at the Houston office of Econ One Research, Inc., a Los
13 Angeles-based consulting firm. My duties included research and analysis
14 on domestic and international energy and regulatory issues. From 2003
15 to 2007, I was an Economist and later a Senior Utility Analyst at the Public
16 Utility Commission of Oregon in Salem, Oregon. My duties included
17 appearing as a witness for PUC Staff in electric, natural gas, and
18 telecommunications dockets. I joined the energy department at Wal-Mart
19 in July 2007. My Witness Qualifications Statement is found on Exhibit
20 SWC-1.

1 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
2 **PUBLIC SERVICE COMMISSION OF UTAH ("PSC" OR**
3 **"COMMISSION")?**

4 A. Yes. I submitted testimony in Dockets 07-035-93 and 09-035-23.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER**
6 **STATE REGULATORY COMMISSIONS?**

7 A. Yes. I have submitted testimony before utility regulatory commissions in
8 Arkansas, Colorado, Indiana, Louisiana, Nevada, New Mexico, Oklahoma,
9 Oregon, and South Carolina on dockets regarding cost of service and rate
10 spread, qualifying facility rates, telecommunications deregulation,
11 resource certification, energy efficiency/demand side management, fuel
12 cost adjustment mechanisms, and the collection of cash earnings on
13 construction work in progress.

14 **Q. HAVE YOU PREPARED EXHIBITS?**

15 A. Yes. I have prepared Exhibit SWC-1, consisting of four pages, Exhibit
16 SWC-2, consisting of seven pages, and Exhibit SWC-3, consisting of two
17 pages.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. The purpose of my testimony is to address the issues related to Rocky
20 Mountain Power's ("RMP") application for an Energy Cost Adjustment
21 Mechanism ("ECAM") and the Commission's June 18, 2009 Order in this
22 docket. I will respond to the testimonies of RMP witnesses Gregory N.

1 Duvall, William R. Griffith , Karl A. McDermott, and Bruce N. Williams.

2 The fact that an issue is not addressed should not be construed as an
3 endorsement of RMP's position or the position of any other party.

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE**
5 **COMMISSION.**

6 A. My recommendations are as follows:

7 The ECAM as proposed is not in the public interest and should be
8 rejected by the Commission. On balance, the potential costs to
9 ratepayers outweigh the potential benefits. The proposal as written, which
10 allows RMP to continue to collect net power costs ("NPC") in base rates
11 as well as to annually true-up collection through a fuel clause, if adopted,
12 would not result in a just and reasonable rate because there is no
13 proposal to adjust the Company's rate of return to reflect the reduced
14 NPC risk. In addition, the proposed ECAM denies customers the
15 transparency in rates that is a major benefit of transitioning to a fuel
16 clause.

17 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMMISSION'S JUNE 18,**
18 **2009, ORDER IN THIS DOCKET?**

19 A. My understanding of the Commission's June 18, 2009, order in this docket
20 is that the Commission has set up a phased approach for the examination
21 of RMP's ECAM application. In the instant phase, Phase I, the
22 Commission has requested that parties address threshold and policy

1 issues regarding the need for an ECAM and identify appropriate
2 regulatory treatment for recovery of NPC that appropriately balances
3 standard regulatory objectives.

4 **Q. COULD YOU PLEASE LIST SOME STANDARD REGULATORY**
5 **OBJECTIVES AS THEY RELATE TO RMP'S ECAM PROPOSAL?**

6 A. Certainly. For instance, the most basic standard regulatory objective I can
7 identify is to provide for just, reasonable, and adequate rates and charges.
8 A second objective is to make the regulatory process as simple and
9 understandable as possible so that it is acceptable to the public, feasible,
10 expeditious, efficient to apply, and designed to minimize controversies
11 over interpretation and application. A third objective is to protect against
12 wasteful use of public utility services. Each of these objectives are
13 articulated in Section 54-4a-6 of the Utah Code.

14 **Q. GENERALLY, WHAT IS WAL-MART'S POSITION ON SETTING RATES**
15 **BASED ON THE UTILITY'S COST OF SERVICE?**

16 A. Wal-Mart advocates that rates be set based on the utility's cost of service.
17 This produces equitable rates that reflect cost causation, send proper
18 price signals, and minimize price distortions.

19 **Q. DOES THIS POSITION INCLUDE THE SETTING OF FUEL OR NPC**
20 **RATES?**

21 A. Yes. Setting NPC rates based on the utility's cost of service, ensuring that
22 the collection timing better reflects when the utility incurs the cost, is

1 critical for two reasons. First, NPC rates represent a large portion of the
2 total bill received by customers and second, more transparent fuel rates
3 can drive more informed consumption management decisions by
4 customers that can benefit the individual customer and the utility system
5 as a whole.

6
7 ***The ECAM Proposal***

8 **Q. WHAT IS YOUR UNDERSTANDING OF RMP'S JUSTIFICATION FOR**
9 **THEIR ECAM PROPOSAL?**

10 A. My understanding of RMP's justification for the ECAM proposal is broadly:

- 11 1) NPC represents a large portion of the Company's total revenue
12 requirement and those costs are subject to a high degree of volatility and
13 unpredictability and are largely outside the Company's control. See Direct
14 Testimony of Gregory N. Duvall, page 2, lines 37 through 39.
- 15 2) In general rate cases, the Company uses static test period data to set
16 NPC. The data is limited in that it does not accurately reflect the volatility
17 in NPC currently experienced by the Company. *Id.*, page 4, lines 72
18 through 74.
- 19 3) Because of the factors listed in 1) and 2), the Company is "at risk" for
20 recovering the NPC portion of its costs of serving customers which can
21 result in volatility in earnings and cash flow. See Supplemental Direct
22 Testimony of Bruce N. Williams, page 5, lines 100 through 103.

1 4) If NPC are not accurately reflected in rates, customers do not see the true
2 cost of serving them in rates. See Direct Testimony of Karl A. McDermott,
3 page 18, lines 382 through 383, and Supplemental Direct Testimony of
4 Gregory N. Duvall, page 3, line 72 through page 4, line 75.

5 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSAL**
6 **FOR HOW THE ECAM WOULD WORK?**

7 A. My understanding of how the ECAM would work under the Company's
8 proposal is that the Company will first set base NPC to be embedded in
9 rates in a general rate case. After the rates from that general rate case go
10 into effect, the company, on a monthly basis, will compare the actual
11 system NPC to the base NPC embedded in rates and defer the
12 differences in a balancing account, which would accrue interest at RMP's
13 most recently approved Utah jurisdictional rate of return on rate base.
14 The ECAM rate will then be calculated after 12 months and the
15 accumulated deferrals will be collected from or credited to customers.
16 See Direct Testimony of Gregory N. Duvall, page 2, lines 30 through 35
17 and page 8, lines 178 through 181. The proposed ECAM mechanism
18 would recover from customers only the actual NPC and symmetrically
19 treat over- and under-recovery; that is, if the Company under-recovers its
20 NPC, it will collect those dollars from customers, and if it over-recovers its
21 NPC, it will credit those dollars back to customers. *Id.*, page 4, line 89
22 through page 5, line 104. The Company proposes to begin tracking the

1 monthly deferrals following the outcome of Docket 09-035-23. See Direct
2 Testimony of William R. Griffith, page 2, lines 39 through 40.

3 ***Risk Treatment***

4 **Q. DOES THE STRUCTURE OF THE ECAM ADDRESS THE FIRST THREE**
5 **JUSTIFICATIONS FOR THE MECHANISM LISTED ABOVE?**

6 A. Yes. The mechanism removes the Company's risk for recovering the
7 NPC portion of its costs of serving customers, because it accounts for the
8 factors – the large portion of the Company's revenue requirement
9 represented by NPC, the volatility and unpredictability of those costs, and
10 the limitations of static base rate treatment -- that create the risk.

11 Additionally, as stated by Mr. Williams, "having the right type of fuel and
12 purchased power adjustment mechanism would go a long way in
13 controlling the risk of volatility in net power costs, earnings and resulting
14 cash flow." See Supplemental Direct Testimony of Bruce N. Williams,
15 page 5, lines 100 through 103.

16 **Q. DOES THE REMOVAL OF THE COMPANY'S RISK FOR RECOVERING**
17 **ACTUAL NPC POTENTIALLY HARM CUSTOMERS?**

18 A. Yes. RMP's rate of return, as currently approved by the Commission,
19 reflects the Company's current operational circumstances, which include
20 the risk that the Company will not fully collect its actual NPC. If RMP's
21 rate of return is not adjusted to reflect the reduction in NPC risk,

1 customers would be harmed because they would be compensating the
2 Company for risk it no longer faces.

3 **Q. DOES THE PROPOSED SYMMETRICAL TREATMENT OF OVER- AND**
4 **UNDER-RECOVERY BY THE MECHANISM PROVIDE SOME NPC RISK**
5 **REDUCTION BENEFIT TO CUSTOMERS?**

6 A. In theory, yes, because if customers as a whole overpay, they as a whole
7 have certainty in recovery of those amounts. However, the value of this
8 benefit is uncertain, as from 1990 through 2008, RMP has only over-
9 recovered NPC three times, and has not over-recovered NPC since 1997.
10 See Supplemental Direct Testimony of Gregory N. Duvall, line 83 (Table
11 1).

12 **Q. COULD THE BASE NPC POTENTIALLY INFLUENCE THE POTENTIAL**
13 **RECOVERY OUTCOMES AND BY EXTENSION THE VALUE OF THE**
14 **SYMMETRICAL TREATMENT OF OVER- AND UNDER-RECOVERY?**

15 A. Yes. For example, if base NPC is set too low, total NPC will likely be
16 under-recovered in more years than over-recovered and the value of
17 symmetrical treatment would be low. If they are set too high, the opposite
18 would be true. As I discuss below, in the Company's proposal, this issue
19 is exacerbated because it appears that base NPC would only be adjusted
20 when RMP files a general rate case and the probability that those costs
21 would reflect actual costs in a subsequent year or years is uncertain.

1 **Pricing**

2 **Q. DOES DR. MCDERMOTT'S TESTIMONY INCLUDE A DISCUSSION ON**
3 **THE BENEFIT WHEN THE PRICE OF ELECTRICITY REFLECTS THE**
4 **COST OF PRODUCTION?**

5 A. Yes. Dr. McDermott states that the price of electricity reflecting the cost of
6 production is a benefit of the Company's ECAM proposal and "promotes
7 the right amount of consumption on the part of consumers." See
8 Supplemental Direct Testimony of Karl A. McDermott, page 14, line 304,
9 through page 16, line 346.

10 **Q. DO YOU AGREE WITH DR. MCDERMOTT'S STATEMENT THAT**
11 **CONSUMERS AND SOCIETY BENEFIT WHEN THE PRICE OF**
12 **ELECTRICITY REFLECTS THE COST OF PRODUCTION? ID, PAGE**
13 **15, LINES 328 THROUGH 332.**

14 A. Yes. As I stated above, more transparent NPC rates can drive more
15 informed consumption management decisions by customers that can
16 benefit the individual customer and the utility system as a whole.

17 **Q. WILL THE ECAM PROPOSAL, IF IMPLEMENTED AS PROPOSED,**
18 **RESULT IN THE IMPROVED TRANSPARENCY OF NPC RATES?**

19 A. No.

20 **Q. PLEASE EXPLAIN.**

21 A. The proposed ECAM, at its core, is only a mechanism for the correction of
22 past revenue collections, and does not serve as a forward-looking

1 mechanism to promote price responsive demand and efficient use of
2 RMP's system. There are three issues with the implementation of the
3 ECAM that affect its ability to produce NPC rates that are more reflective
4 of RMP's current operations and that are more transparent than the
5 current NPC rates:

- 6 1) The ECAM proposal does not appear to incorporate any NPC updates
7 that would allow it to better reflect realities in the market and in RMP's
8 own system and minimize the deferral amounts charged to or collected
9 from customers;
- 10 2) The collection of the deferral amounts built into ECAM rates will
11 significantly lag actual market and system conditions, so the resulting
12 price signals will be stale; and
- 13 3) The ECAM rates can provide inaccurate and potentially counter-intuitive
14 price signals through the impact of their inclusion in the level of the future
15 NPC rates charged to customers and can potentially promote inefficient
16 and wasteful use of public utility services.

17 **Q. WHY IS IT IMPORTANT TO INCORPORATE NPC UPDATES INTO THE**
18 **ECAM?**

19 **A.** Incorporating NPC updates into the ECAM would allow RMP to potentially
20 better match the Company's expenses and rates charged to customers
21 and attempt to minimize the deferred amounts charged to customers. It is
22 important that the price signals that come from NPC rates reflect true fuel

1 and purchased power costs as they are being incurred by RMP and not
2 be driven by large deferral levels.

3 **Q. HAS RMP PROVIDED ESTIMATES OF PAST ECAM RATES HAD THE**
4 **MECHANISM BEEN IN PLACE?**

5 A. Yes. RMP, in a data request response, included ECAM rate estimates
6 from February 2003 through December 2008. See Exhibit SWC-2.

7 **Q. ARE YOU CONCERNED THAT THE ESTIMATED ECAM RATES DRIVE**
8 **THE NPC RATES CHARGED TO CUSTOMERS?**

9 A. Yes. The estimated ECAM rates, on average, comprise 18 percent of the
10 annual base NPC charged to customers, with a range from 8.1 percent to
11 35.8 percent of the base NPC. See Exhibit SWC-3, page 1, column (5)
12 and page 2. When the estimated total billed NPC rate, which I calculate
13 as the sum of the base NPC rate and the ECAM rate, is compared to the
14 actual NPC rate, the difference can be significant. While three of the six
15 sample years are within 10 percent of the actual NPC rate, for the other
16 three years the total billed NPC rate differs from the actual NPC rate
17 between 17 and 24 percent. *Id.*, column (11).

18 **Q. IS THERE A YEAR IN THE ANALYSIS WHICH ILLUSTRATES YOUR**
19 **CONCERN THAT THE COMPANY'S PROPOSAL COULD RESULT IN**
20 **THE INEFFICIENT AND WASTEFUL USE OF SYSTEM RESOURCES?**

21 A. Yes. In the second year of the analysis, February 2004, through January
22 2005, the calculated total billed NPC rate for the year is almost 24 percent

1 lower than the actual NPC rate. It should be noted that this differential is
2 driven by the level of the base NPC and not the ECAM rate. It is also not
3 clear the extent to which this price distortion would cause customers to
4 use more energy than would be efficient. However, it is important to
5 recognize that any approved mechanism should minimize the chance of a
6 similar result. *Id.*, column (11).

7 **Q. COULD THAT RESULT ALSO POTENTIALLY OCCUR AS A RESULT**
8 **OF A NEGATIVE ECAM RATE?**

9 A. Yes. For example, if RMP were to experience a period of over-collection
10 of NPC revenues followed by a rapid rise in fuel and purchased power
11 costs, the Company could ostensibly have a negative ECAM in place
12 during a time in which the price signal to customers could result in over-
13 consumption of energy at a time when conservation should be a priority.

14 **Q. DO YOU BELIEVE THAT THE ECAM PROPOSAL PROVIDES AN**
15 **IMPROVEMENT IN PRICE TRANSPARENCY AND ACCURACY AND**
16 **ALLOWS CUSTOMERS TO SEE THE TRUE COST OF SERVICE IN**
17 **THEIR RATES?**

18 A. No. As a result, I do not believe that the proposal contains sufficient
19 pricing benefits to customers.

1 **Conclusion**

2 **Q. IN CONCLUSION, DOES THE ECAM PROPOSAL, ON BALANCE,**
3 **PROVIDE COMPARABLE BENEFITS TO THE COMPANY AND TO**
4 **CUSTOMERS AND RESULT IN JUST AND REASONABLE RATES?**

5 A. No. On balance, the potential costs to ratepayers outweigh the potential
6 benefits. The proposal as written, which allows RMP to continue to collect
7 NPC in base rates as well as to annually true-up collection through a fuel
8 clause, if adopted, would not result in a just and reasonable rate because
9 there is no proposal to adjust the Company's rate of return to reflect the
10 reduced NPC risk. In addition, the proposed ECAM denies customers the
11 transparency in rates that is a major benefit of transitioning to a fuel
12 clause.

13 **Q. IS THE ECAM, AS PROPOSED, IN THE PUBLIC INTEREST?**

14 A. No. As proposed, the ECAM is not in the public interest and should be
15 rejected by the Commission.

16 **Q. DO YOU RECOMMEND ANY AREAS OF EXAMINATION THAT COULD**
17 **RESULT IN AN ECAM THAT IS IN THE PUBLIC INTEREST?**

18 A. Yes. The Commission should examine, both in its consideration of
19 whether the ECAM is in the public interest and the ECAM's
20 implementation if there is a Phase II in this docket:

- 1 1) The extent to which the Company's approved rate of return can and
2 should reflect the reduction in NPC risk and how this should benefit
3 customers; and
- 4 2) An ECAM design that demonstrably improves the transparency of NPC
5 rates, which would send price signals to customers to drive more informed
6 consumption management decisions by customers that can benefit the
7 individual customer and the utility system as a whole.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.