Witness CCS – 7D COS

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 Service Regulations, Consisting of a General Rate Increase of Approximately $161.2 Million Per Year, and for Approval of a New Large Load Surcharge	))))))))	Docket No. 07-035-93 Pre-filed Direct Cost-of-Service Testimony of Daniel E. Gimble For the Committee of Consumer Services

July 21, 2008

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

A. My name is Daniel E. Gimble. I am a special projects manager with the Committee of Consumer Services. My business address is 160 E. 300 S. Rm. 201, Salt Lake City, Utah.

Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.

A. I have a B.A. degree with honors in economics and history from Western Michigan University. I also have an M.A degree in economics from the same university. I completed course work towards a Ph.D. in economics at the University of Utah. In 1987, I joined the Utah Public Service Commission (Commission) Staff and in 1990 was hired by the Committee of Consumer Services (Committee). In my time with the Committee, I have worked in various capacities and have been a manager since 2003.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE THIS COMMISSION IN PRIOR CASES INVOLVING ROCKY MOUNTAIN POWER (RMP OR COMPANY) OR OTHER UTILITIES?

A. Yes. I have testified numerous times in major cases involving RMP and other utilities doing business in Utah. These cases include general rate cases, merger and acquisition dockets, excess net power costs, avoided cost rates, gas pass-through proceedings, and the sale of Qwest's Dex (Yellow Pages) asset.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony provides the Committee's recommendations on class rate spread and residential rate design in this proceeding. In particular, I address the Company's proposals relating to rate spread for Schedules 1 (Residential), 2 (Residential TOD), 3 (Residential Low Income Lifeline Program), 25 (Mobile Home Parks), 10 (Irrigation) and 23 (Small Commercial) and rate design changes that impact Schedules 1, 3, and 25. I also address the Company's Schedule 500 proposal.

Q. ARE YOUR RECOMMENDATIONS SUPPORTED BY AN OUTSIDE EXPERT RETAINED BY THE COMMITTEE TO PERFORM A TECHNICAL ASSESSMENT OF THE COMPANY'S COST-OF-SERVICE (COS) STUDY AND RATE SPREAD AND RATE DESIGN PROPOSALS?

A. Yes. Mr. Paul Chernick, a consultant with Resource Insights, Inc., has filed testimony addressing specific areas of RMP's COS study, RMP's new load study for the irrigation class and the accuracy of the load data associated with the study, and certain aspects of RMP's proposed changes to the residential rate design. His testimony also discusses marginal cost information used in developing the Committee's proposed summer residential energy rates.

II. SUMMARY OF TESTIMONY

Q. PLEASE SUMMARIZE THE COMMITTEE'S TESTIMONY AND PRIMARY RECOMMENDATIONS IN THE COS PORTION OF THIS PROCEEDING.

A. *RMP Cost-of-Service Study*

The Committee finds the Company's COS study to be flawed in certain areas. Therefore, the COS results should not be relied on for purposes of allocating costs among the various tariffed rate schedules. The Committee's specific concerns with the COS Study are addressed in Mr. Chernick's testimony.

Rate Spread

Since the Committee takes the view that the COS results should not be used as a guide for rate spread decisions, we recommend the revenue requirement increase authorized by the Commission be spread among the tariffed rate classes on an equal percentage basis. Under the Committee's primary rate spread proposal, all classes would receive a rate increase equal to the jurisdictional average rate change. If the Commission is inclined to rely on the COS results for its rate spread decisions in this case, the Committee provides an alternative rate spread proposal for consideration. The Committee's rate spread proposals are discussed in greater detail later in my testimony.

Residential Rate Design

Regarding residential rate design, the Committee recommends the Commission reject RMP's residential rate design proposal. The Company's proposal, which includes a doubling of the monthly customer charge from $2 to $4 and the introduction of a monthly $6 "Customer Load Charge" (CLC) based on summer usage, amounts to regressive rate design from the standpoint of cost causation, fairness and energy conservation. The Committee offers for consideration a rate design proposal that attempts to balance key ratemaking principles, while sending stronger price signals to encourage energy conservation. The Committee's proposal keeps the customer charge at $2/month, retains the current energy blocking in the summer peak period and progressively spreads the class revenue across the three summer energy blocks using available marginal cost information. The Committee's rate design proposals are discussed in more detail later in my testimony.

III. COST-OF-SERVICE STUDY

Q. PLEASE IDENTIFY THE COMMITTEE WITNESS THAT ADDRESSES THE REASONABLENESS OF THE COMPANY'S COS STUDY AND ITS RESULTS.

A. The Committee retained the expert services of Paul Chernick, a principal with Resource Insight, Inc., to analyze RMP's COS Study and make recommendations on the Study and associated results.

Q. PLEASE LIST THE MAIN AREAS OF CONCERN IDENTIFIED AND DISCUSSED IN MR. CHERNICK'S TESTIMONY.

A. Mr. Chernick raises concerns with the COS Study in the following areas:
(1) Classification of generation, transmission and distribution plant;
(2) Allocation of firm non-seasonal purchase costs among customer classes;
(3) Allocation of off-system firm sales revenue among customer classes;
(4) Allocation of Distribution plant;
(5) Shared Services (allocation of residential service drops);
(6) Reliability (accuracy) of the new irrigator load data used in the COS Study.

Q. WHAT IS THE COMMITTEE'S POSITION ON RMP'S COS STUDY?

A. Based on concerns discussed in Mr. Chernick's testimony, the Committee's position is the COS Study is flawed and the results from the Study should not be relied on by the Commission to guide its rate spread decisions in this case.

IV. RATEMAKING PRINCIPLES

Q. WHAT RATEMAKING PRINCIPLES DOES THE COMMITTEE BELIEVE SHOULD GUIDE THE COMMISSION'S DECISIONS IN THE AREA OF RATE SPREAD AND RATE DESIGN?

A. As a general rule rates for individual classes should reflect the following ratemaking principles or criteria:

Cost Causation

Rates for individual classes should reflect cost-of-service to send appropriate price signals to customers regarding their use of electricity.

Fairness

Rate increases to classes, or segments within a class, should be fair such that subsidies are either minimized or eliminated over time. Under- or over-collection of revenue from individual classes may occur in the short run, but the long-term goal is to have class revenues reflect cost-of-service.

Gradualism

The need to moderate substantial, one-time rate impacts on a single customer class, or segment of customers within a class, is typically recognized by rate analysts. This principal is referred to as gradualism and has been employed by this Commission in past rate cases to mitigate or limit one-time rate impacts.

Energy Conservation

Energy conservation is an increasingly important rate design goal to encourage customers to use energy wisely.

Revenue Collection

The rates determined by the Commission should provide the utility an opportunity to collect the overall revenue requirement authorized by the Commission.

Q: HAS THIS COMMISSION RELIED ON THE ABOVE RATEMAKING PRINCIPLES IN MAKING RATE SPREAD AND RATE DESIGN DECISIONS IN RECENT CASES?

A: Yes. Later in my testimony I will refer more extensively to some of these decisions.

Q: HAVE UTAH PARTIES AND THE COMMISSION RELIED ON OTHER CRITERIA TO INFORM EITHER RECOMMENDATIONS OR DECISIONS, PARTICULARLY IN THE AREA OF RATE SPREAD?

Yes. Criteria such as "percentage bands" around the jurisdictional average return have been used by Utah parties and the Commission in past cases as a guide for determining whether an individual class' return warranted receiving the jurisdictional average rate change or something less or more depending on a class' return in relationship to the band. Subjectivity enters the picture in deciding the range of the percentage bands and how much of an increase or decrease an individual class should receive, if its return is either above or below (i.e., lies outside) the band. This is one example of why rate analysts often comment that rate spread and rate design proposals reflect a blend of "art and science."

Q. DID RMP USE A PERCENTAGE BAND AS A GUIDE IN MAKING ITS RATE SPREAD RECOMMENDATIONS IN THIS CASE?

A. Yes. According to RMP witness William Griffith's direct testimony, at page 2, lines 30-34, the Company is using a four percentage points band above/below its overall proposed rate change to determine whether a class has a satisfactory return and should receive a rate increase close to the jurisdictional average increase.

V. RATE SPREAD

Q. PLEASE SUMMARIZE RMP'S RATE SPREAD PROPOSAL AS REPRESENTED IN THE SUPPLEMENTAL DIRECT TESTIMONY OF MR. GRIFFITH.

A. In his supplemental direct testimony, Mr. Griffith indicates the average jurisdictional increase for tariffed customers (excluding special contract customers) is 7.5%. Based on updated 2008 test year COS results, Mr. Griffith observes the returns for most of the major customer classes are within four percentage points of the overall requested rate change of 7.22%[1] and he recommends these classes (Rate Schedules 1, 8, 9, and 23) receive a uniform percentage increase of 7.8%. He recommends the rate increase for Schedule 6 be limited to 6.5% because its return falls outside the four percentage point band. His recommendation for Schedule 10 is an increase of 15.0%, which is double the jurisdictional average rate increase.

Q. SINCE THE COMPANY'S REVENUE REQUIREMENT REQUEST HAS BEEN LOWERED FROM ABOUT $99 MILLION TO $74.5 MILLION, HAS THE COMPANY UPDATED ITS RATE SPREAD NUMBERS TO MATCH ITS REQUESTED JURISDICTIONAL AVERAGE RATE INCREASE OF 5.6%?

A. Not at this time. However, for purposes of comparison I have modified or "fitted" the Company's spread proposal to its current revenue requirement request which amounts to a 5.6% average rate increase.

[1] Mr. Griffith's proposed band is 4% above and below 7.22%; thus the band ranges from 3.22% on the low side to 11.22% on the high side. Under his rate spread proposal, classes who fall within this range would receive an increase of 7.8% (slightly above the jurisdictional average change).

Q. WHAT ARE THE COMMITTEE'S RATE SPREAD PROPOSALS IN THIS CASE AND HOW DO THEY COMPARE WITH THE COMPANY'S PROPOSAL?

A. Using the Company's current rate request and extrapolating its earlier rate spread proposal to an average increase of 5.6%, the Committee's spread proposals for the major customer classes compares as follows:

Table 1

Rate Schedule	CCS (A)	CCS (B)	RMP	ROR[2]
Residential 1[3]	5.6%	5.6%	5.8%	1.05
Sm Comm 23	5.6%	5.6%	5.8%	.84
Lg Comm 6	5.6%	5.1%	4.8%	1.23
TOD Ind. 8	5.6%	5.6%	5.8%	1.01
Lg Indust. 9	5.6%	6.6%	5.8%	.77
Irrigation 10	5.6%	5.6-8.0%[4]	11.2%	.12

Since parties are filing COS testimony prior to the issuance of the Commission's order in the revenue requirement phase of the case, the Committee's alternative rate spread proposal (Proposal B) may require slight modifications once the actual revenue increase is available.

Q. WHAT IS THE COMMITTEE'S PRIMARY RATE SPREAD RECOMMENDATION AND THE BASIS FOR THAT RECOMMENDATION?

[2] RMP Exhibit (CCP-1S), Page 2 of 2, Column E shows rate of return index for all rate schedules. A rate of return of 1.00 indicates that a class is generating revenues that essentially match costs. A return below 1.00 indicates a class is failing to produce adequate revenues to match costs and a return above 1.00 indicates a class is generating revenues above costs. Comparing the returns of the major classes, Schedule 6 has a relatively strong return and Schedule 9 has a relatively weak return.

[3] The Committee's spread recommendations for Residential Sch. 1 are also applicable to Rate Schs. 2 (Residential TOD), 3 (Residential LILP) and 25 (Mobile Home Parks).

[4] Under the Committee's rate spread proposal, the recommended increase to the irrigation class would be capped at 8.0%, but the Commission could order an increase between the jurisdictional average of 5.6% and 8.0%.

A. Proposal A represents the Committee's primary rate spread recommendation. Under Proposal A, the major rate classes receive an equal percentage rate increase at the 5.6% jurisdictional average rate change. The basis for the Committee's recommendation stems from Mr. Chernick's technical assessment of the COS Study and his overall conclusion that significant problems exist with RMP's COS study and the results should not be relied on to support rate spread decisions in this case.

Q. IF THE COMMISSION IS INCLINED TO GIVE SOME WEIGHT TO THE COS STUDY RESULTS TO GUIDE ITS RATE SPREAD DECISIONS, DOES THE COMMITTEE HAVE AN ALTERNATIVE RATE SPREAD PROPOSAL?

A. Yes. As shown above in Table 1, Proposal B represents the Committee's alternative rate spread recommendation.

Q. PLEASE EXPLAIN THE MAIN DIFFERENCES BETWEEN THE COMMITTEE'S ALTERNATIVE RATE SPREAD PROPOSAL B AND RMP'S PROPOSAL.

A. The primary difference is the Committee's Proposal B follows the Company's COS results more closely: Schedules 1, 8 and 23 all receive the jurisdictional average rate increase; and Schedule 9 receives an increase somewhat above that recommended by the Company (6.6% versus 5.8%). We agree with the Company that Schedule 6 should receive an increase less than the jurisdictional average increase and recommend a 5.1% increase for this class. A second difference is the Committee recommends a more moderate rate increase for the irrigation class between 5.6% and 8.0% (capped at 8.0%), compared to RMP's higher 11.2% recommendation.

Q. WHAT EVIDENCE EXISTS SUPPORTING A RELATIVELY HIGHER RATE INCREASE FOR SCHEDULE 9?

A. The Company's COS results[5] show that Schedule 9's return is essentially at the edge of the four percentage point band used by Mr. Griffith to justify giving Schedule 9 the same increase as Schedules 1, 8 and 23. Further, Company witness Paice's Exhibit RMP (CCP-1S), pg. 2 of 2 shows that Schedule 9's rate of return is 0.77 (see Column E, Line 5), *which is the lowest return among the major rate classes.*

On a revenue neutral basis, Mr. Paice's Exhibit RMP (CCP-1S) pg. 1 of 2 shows that Schedule 9 requires a 4.35% (revenue neutral) rate increase to bring the class in line with COS. Moreover, this result is consistent with the Company's COS results in RMP's last Utah rate case, which indicated that Schedule 9 needed a 5.21% (revenue neutral) increase.[6] For the last two rate cases Schedule 9 has underperformed compared to other major rate schedules; therefore, an increase higher than the jurisdictional average is warranted in this case.

Q. WHAT EVIDENCE EXISTS SUPPORTING A RELATIVELY LOWER RATE INCREASE FOR SCHEDULE 6?

A. The Company's COS results[7] indicate a return for Schedule 6 falling outside of the four percentage band used by Mr. Griffith on the low end. This is the second case in a row where Schedule 6 has been a strong performer with a rate of return in this case at 1.23%. In the last rate case Schedule 6 received a 9.3% increase, which was approximately 1% below the jurisdictional average rate change.

[5] RMP Witness C. Craig Paice's Exhibit RMP (CCP-1S), Page 2 of 2.
[6] RMP (Utah Power) Witness Karl D. Anderberg's Exhibit UP&L (KDA-1), Page 1 of 2, Docket No. 06-035-21.
[7] Refer to footnote 5 for source.

Q. IN FOLLOWING ITS STATUTORY MANDATE, WHAT RATE SCHEDULES DOES THE COMMITTEE REPRESENT IN RMP RATE PROCEEDINGS BEFORE THE COMMISSION?

A. The rate schedules applicable to residential, irrigation and small commercial customers. The residential schedules are Schedules 1 (Residential), 2 (Residential TOD), 3 (Low Income Lifeline Program) and Schedule 25 (Mobile Home Parks). Schedule 10 pertains to irrigation customers and Schedule 23 pertains to small commercial customers.

Rate Schedules 1, 2, 3, and 25 (Residential Class)

Q. WHAT IS THE COMPANY'S RECOMMENDATION FOR THE RESIDENTIAL RATE SCHEDULES 1, 2, 3 AND 25?

A. The Company groups these schedules with other rate schedules (8, 9, and 23) showing a rate of return within its 4% "reasonableness" band and recommends these schedules receive an equal percentage increase of 5.8%, which is slightly higher than the jurisdictional average increase of 5.6%.

Q. WHAT IS THE COMMITTEE'S RECOMMENDATION FOR THESE RESIDENTIAL RATE SCHEDULES?

A. We recommend Rate Schedules 1, 2, 3 and 25 all receive the jurisdictional average increase of 5.6%.

Q. WHAT IS THE BASIS FOR THE COMMITTEE'S RECOMMENDATION?

A. The returns for the residential and mobile home parks schedules are very solid at 1.05% and 1.15%, respectively. I would further note that the residential schedules have consistently produced strong returns since the 2003 rate case. For example, the Company's COS study results show returns for Residential Schedule 1 over the past four cases at: 1.11 in 2003; 1.17 in 2004; 1.00 in 2006 and 1.05 in 2008. Thus, we believe it is

appropriate that Rate Schedules 1, 2, 3 and 25 receive the jurisdictional average increase, along with Rate Schedules 8 and 23.

Rate Schedule 10 (Irrigation Class)

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE COMPANY'S RECOMMENDATION FOR RATE SCHEDULE 10 (IRRIGATION CLASS).

A. In his supplemental direct testimony, Mr. Griffith states the COS results for the irrigator class indicate a revenue shortfall in excess of 30%. Consistent with his December 2007 direct testimony, Mr. Griffith continues to recommend that Rate Schedule 10 receive an increase capped at double the jurisdictional average increase (11.2% at a jurisdictional average increase of 5.6%). He further states that the COS results for the irrigation class are based on recent data from a new irrigation load research study—load data that is employed for the first time in this case.[8] Finally, Mr. Griffith maintains that [RMP's proposal] "makes good progress toward cost of service while mitigating rate impacts on irrigation customers."[9]

Q. DO YOU HAVE ANY CONCERNS RELATING TO RMP'S PROPOSAL THAT THE IRRIGATION CLASS RECEIVE A RATE INCREASE THAT IS TWO TIMES THE JURISDICTIONAL AVERAGE INCREASE?

A. I have a number of concerns. First, there is an over-arching issue as to the reliability of the data related to the new irrigator load sample. As discussed in Mr. Chernick's testimony, there are sizeable differences between the estimated and actual monthly usage for irrigators ranging from 7% (July) to 75% (September). It appears the actual annual usage of irrigation customers may be overstated (on average) by about 24%. Moreover, the Company has put no testimony on the record describing

[8] Griffith Direct, Page 4.
[9] Ibid, lines 93-94.

how the new load sample was designed, the data collection procedures used, and how the load data was applied in the current COS study.[10]

Second, as recognized in the Load Research Working Group Report to The Utah PSC, submitted July 1, 2002, the irrigation class is difficult to sample for two reasons: it is a highly diversified class requiring more load research meters to increase the accuracy of the sample; and customers' watering requirements (i.e., electricity usage) vary due to crop rotations, weather and economics. At this time RMP has collected only two years of load data on the irrigation class. Given the diversity of this class, two years may be too short a time period to accurately capture irrigator usage patterns.

Third, in connection with the 2002 Load Research Report, RMP, the Division and the Committee agreed that until a new load research study could be performed for the irrigation class, irrigators would simply get the jurisdictional average rate change. This agreement has governed the spread of rate increases to the irrigation class over the past three RMP rate cases, was not opposed by any party, and has been accepted by the Commission in approving stipulations on rate spread in the last three RMP rate cases. At the time, the Committee's view was this agreement would remain in place until a well-supported irrigator load research study was undertaken by the Company. This study appears to fall short of the criteria envisioned.

In summary, the Committee's assessment of RMP's new irrigation load research study brings into question the accuracy and, therefore, reliability of the current irrigator load data used in the COS Study. Furthermore, the Company's recommendation that irrigation rates be doubled in one case is at odds with the ratemaking principle of gradualism and sound public policy.

[10] Information regarding the irrigator load study was obtained through formal discovery with follow-up teleconferences to discuss the information provided with Company representatives.

Q. PLEASE EXPLAIN WHY THE COMMITTEE BELIEVES THE COMPANY'S RECOMMENDATION IS CONTRARY TO THE PRINCIPLE OF GRADUALISM.

A. The principal of Gradualism suggests that rate shocks to customer classes, or segments within a particular customer class, should be avoided whenever possible. While the long-term objective is to align the revenues generated from an individual class to COS, sharp rate changes affecting a single class over a short time period have generally been viewed as unfair. This Commission has recognized a need to moderate, limit or phase-in rate changes to minimize the effects on customers and utilities, consistent with the goal of promoting good public policy.

For example, the Commission has recently approved rates for large special contract customers that are indexed to tariffed rate changes, but on a delayed or gradual basis. This affords those firms a time cushion to adjust business plans to higher electricity bills. In 1997, the Commission ordered Utah Power's revenue requirement be calculated on a rolled-in basis, but that this significant change be phased-in over a four-year period to lessen the impact on the utility. Finally, in its order in the last RMP rate case addressing various residential rate design proposals, the Commission elected to not adopt the Company's and Division's proposal to increase the residential customer charge to COS (approximately $3.75/month) and limited the increase to $2.00/month on the basis that:

> "other public policy objectives such as gradualism, rate stability, energy price signals or conservation of resources...must be considered when designing rates that serve the public interest." [Commission Order, Docket No. 06-035-21, pgs. 30-31]

Q. IF THE COMMISSION ELECTS TO USE THE COS STUDY RESULTS AS A GUIDE FOR ITS DECISIONS INVOLVING RATE SPREAD, WHAT IS THE COMMITTEE'S RECOMMENDATION FOR THE IRRIGATION CLASS?

A. While the Company's COS study shows that Schedule 10 is underperforming and requires a steep rate increase to bring the class to COS, the Committee's analysis of RMP's load research study raises concerns regarding the reliability of the irrigator load data and shows RMP's proposed increase is unsupported.[11] Furthermore, there is a unique history associated with the irrigation class that dictates a more gradual and balanced pricing approach should be applied in this case and possibly future cases. Thus, the Committee recommends the irrigation class receive a rate increase between 5.6% and 8.0%, which is considerably less than the Company's proposal for this class.

Q. WHAT IS THE COMMITTEE'S RECOMMENDATION REGARDING THE IRRIGATOR LOAD RESEARCH STUDY?

A. We recommend the Commission require the Company to respond to concerns raised by Mr. Chernick in his testimony relating to the accuracy of RMP's usage estimates for the irrigation class. Corrections or adjustments to the irrigator load data appear warranted before that data is used by the Company in future COS studies to support either rate spread or rate design proposals for the irrigation class.

Rate Schedule 23 (Small Commercial Class)

Q. DO YOU HAVE ANY PRELIMINARY REMARKS RELATING TO SCHEDULE 23?

A. Yes. For the first time since 2003 the Company's COS study indicates that Schedule 23 is underperforming. The COS study results show a rate of return of 0.84%. By contrast, the Company's COS study results for the previous three rate cases show that this class needed a decrease (at times a substantial decrease) on a revenue neutral basis.

[11] In his testimony, Mr. Chernick also demonstrates the irrigation class is not receiving its appropriate share of wholesale firm sales revenue. Correcting this under-allocation of wholesale firm sales revenue dramatically improves Schedule 10's return.

In the two rate cases prior to the last rate case (Docket No. 06-035-21), the Commission approved rate spread stipulations where Schedule 23 received rate increases that were approximately *half (50%)* the jurisdictional average increase. In Docket No. 06-035-21, Schedule 23 received a rate increase of 9.3%, which again was less than the jurisdictional average increase of 10.2%.

Q. WHAT DID THE COMPANY'S ROR INDEX SHOW FOR SCHEDULE 23 OVER THE LAST FOUR RATE CASES?

A. According to the Company's COS results filed in each of those rate cases, the returns for Schedule 23 were as follows: 1.28 in 2003; 1.09 in 2004; 1.18 in 2006 and .84 in 2008. With the exception of the current case, all of the prior returns demonstrate Schedule 23 has consistently been a strong performer.

Q. IN ITS TESTIMONY, DID THE COMPANY MAKE ANY ATTEMPT TO EXPLAIN WHY THE COS RESULT FOR SCHEDULE 23 IN THIS CASE DEVIATES SO MARKEDLY FROM THE LAST THREE COS STUDIES?

A. No.

Q. DID THE COMMITTEE SUBMIT DISCOVERY TO THE COMPANY IN AN ATTEMPT TO UNCOVER FACTORS THAT MAY BE INFLUENCING THE RETURN FOR SCHEDULE 23 IN THIS CASE?

A. Yes. Given the return for Schedule 23 had significantly declined in the current COS study, the Company was asked in CCS DR 26.1 if it had performed an analysis of the return for Schedule 23 and, if so, to provide that analysis and a full explanation.

Q. WHAT WAS RMP'S RESPONSE TO CCS 26.1?

A. To summarize, the Company stated that numerous data inputs (forecasted revenues, peak loads, energy, customer numbers, etc.) vary by test period

and "given the variability of these inputs and the potential for fluctuations in cost of service results between test periods, PacifiCorp does not prepare detailed analyses regarding individual rate schedule rates of return from year to year."

Q. WHAT IS THE COMPANY'S RECOMMENDATION FOR SCHEDULE 23 IN THIS CASE?

A. The Company groups Schedule 23 with certain other classes (Schedules 1, 8, 9, 23 comprise the group) that have a return within the Company's 4% band and recommends these classes receive an equal percentage increase of 5.8%. An increase of 5.8% is slightly above the jurisdictional average increase of 5.6%.

Q. WHAT IS THE COMMITTEE'S RECOMMENDATION REGARDING RATE SCHEDULE 23?

A. In recent rate cases Schedule 23 has been a strong performer and the decline in return in this case may be temporary. Thus, the Committee recommends Schedule 23 receive an increase of 5.6%, which is the jurisdictional average rate change.

VI. RESIDENTIAL RATE DESIGN

Q. PLEASE BRIEFLY EXPLAIN HOW THE CONCEPT OF RATE DESIGN FITS INTO THE PROCESS OF ESTABLISHING NEW RATES.

A. Once the Commission determines how the change in revenue requirement will be spread among the various customer classes (rate schedules), it needs to consider how the revenue allocated to a particular class will be collected through various rate elements—customer charge, energy charge, demand charge, etc. For the Utah residential class, this has basically involved decisions on how much revenue should be collected through a customer charge where revenue only varies with changes in the number of customers and an energy charge (or blocks of energy rates)

where revenue varies with electricity usage. The primary objective of rate design is to develop a rate structure (customer charge, energy rate blocking, etc.) that will generate sufficient revenues from a class to cover its cost of service.

Q. HAS ENERGY CONSERVATION BEEN AN IMPORTANT CONSIDERATION IN RECENT YEARS IN THE AREA OF RATE DESIGN?

A. Yes. Energy conservation has increasingly been an important factor in designing rates because proper price signals can be used to encourage customers to reduce or shift their pattern of energy use. The existing three-tiered, inverted energy rate structure for the Utah residential class is an example of sending price signals to residential users that higher usage in the summer peak period is relatively expensive to serve. Two objectives are accomplished through an inverted rate design: (1) electricity in the summer peak period is priced closer to marginal costs; and (2) heavy users of electricity are encouraged to curb their electricity use.

Docket No. 03-2035-02 (PacifiCorp 2003 Rate Case)

Q. WHEN WAS THE THREE-TIERED ENERGY RATE STRUCTURE FOR THE SUMMER PEAK MONTHS FIRST PROPOSED IN UTAH?

A. It was initially proposed by the Company in 2003 in Docket No. 03-2035-02, and presented to the Commission for consideration as part of an overall COS settlement in that proceeding. The Commission approved the settlement and the new rate design became effective in early 2004.

However, I believe it is important to note that discussions pertaining to an inverted residential rate structure also occurred in the Utah Energy Forum, which pre-dated the rate case filing. Those discussions involved various stakeholders and focused on formulating a comprehensive strategy to manage the rapidly growing Utah summer peak load. This

strategy included rate design changes such as seasonally differentiated pricing and inverted rate structures, and DSM programs such as Cool Keeper.[12]

Q. DID YOU TESTIFY ON BEHALF OF THE COMMITTEE IN SUPPORT OF THE PROPOSED COS SETTLEMENT IN THAT RATE CASE, WHICH INCLUDED A NEW, INVERTED ENERGY RATE STRUCTURE FOR THE RESIDENTIAL CLASS?

A. Yes I did.

Q. WHAT WERE THE COMMITTEE'S RESIDENTIAL RATE DESIGN OBJECTIVES IN THAT CASE?

A. By 2003 it was apparent that Utah was experiencing rapid peak demand growth during the summer months. A significant driver underlying peak demand growth was the increased penetration of central air conditioning in residential homes and commercial businesses. The Committee viewed rate design as fundamentally important to an overall conservation strategy to motivate customers to reduce energy use, and by doing so, lower their monthly electricity bills. Thus, the Committee supported rate design changes that included inverted energy rates for the summer peak period for the Residential Schedules 1 and 3, setting the residential summer tailblock rate closer to marginal costs, and a summer-winter rate differential for Schedule 23 (Small Commercial).

[12] In her testimony supporting the COS Stipulation in Docket No. 03-2035-02, Ms. Judith Johnson, the Division's Energy Section Manager, describes the Utah Energy Forum in terms of its purpose, participants and accomplishments. Pages 15 and 16 of the hearing transcript are the portions of her testimony relating to the Utah Energy Forum.

Docket No. 06-035-21 (RMP 2006 Rate Case)

Q. WERE THERE SIGNIFICANT DIFFERENCES IN PARTIES' RESIDENTIAL RATE DESIGN PROPOSALS THAT WERE LITIGATED BEFORE THE COMMISSION IN THE LAST RATE CASE?

A. Yes. The Company, Division, Committee and AARP recommended alternative residential rate design proposals for the Commission to consider in the last rate case.[13] Key areas of disagreement among the parties included the level of the monthly customer charge, the energy (kWh) blocking structure of the summer rate design and the specific energy rates applicable to the three summer blocks and single winter block.

The Company, supported by the Division in its responsive testimony, fashioned a rate design proposal that 1) increased the residential customer charge from $0.98/month to $3.40/month[14], 2) retained the inverted summer energy blocking structure at existing levels, and 3) applied the remaining revenue increase uniformly to the three summer energy block rates and the single winter energy rate.

The Committee and AARP developed somewhat disparate rate design proposals, but advanced similar pricing (efficiency) and fairness (intra-class equity) objectives of placing less of the class revenue increase on the fixed customer charge and progressively more of the increase on the summer energy blocks.[15] In particular, the Committee proposed changes to the summer energy blocking structure and placed significantly more class revenues in the second and third summer energy blocks. Both the Committee and AARP expressed concerns that stronger price signals were needed to promote energy conservation and tailblock rates should appropriately reflect marginal costs.

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[14] The single difference between the RMP and DPU residential rate design proposals was the DPU recommendation to increase the monthly customer charge to $3.75.

[15] The Utah Ratepayers Alliance also filed testimony supporting the objectives of limiting the increases to the customer charge and collecting more of the class revenue via the energy rates to both mitigate rate impacts on small users within the residential class and to promote energy conservation.

Q. HOW DID THE COMMISSION RESOLVE DIFFERENCES AMONG THE PARTIES IN THE LAST CASE?

A. In its Order at pages 30-32, the Commission noted that various public policy objectives, such as cost causation, gradualism, rate and revenue stability, energy price signals, and resource conservation, require consideration in making good rate design decisions. In promoting the public interest, the Commission indicated it "struck a balance" among these various rate design objectives and accordingly limited the increase in the customer charge to $2.00/month, left the minimum bill at current levels, retained the current inverted block energy rate structure and applied a uniform 8.6917 percentage increase to each energy rate.

The Commission also stated:

"While we continue to rely on embedded cost-of-service analysis for determining class revenues, we concur with the Company, Committee and AARP that marginal cost information can and should be used to guide rate design." [Order, Page 31]

Q. IN DEVELOPING ITS RESIDENTIAL RATE DESIGN RECOMMENDATIONS IN THE CURRENT RATE CASE, DID THE COMMITTEE TAKE INTO CONSIDERATION THE IMPORT OF THE COMMISSION'S DISCUSSION AND FINDINGS IN THE LAST CASE?

A. Yes. The Commission sent a clear signal in the last rate case that while it strives to set rates that are cost based, other policy objectives such as gradualism, rate stability and energy conservation need to be weighed and factored into pricing decisions. Further, the Commission appropriately recognized that sending proper price signals and fostering intra-class equity is a dynamic rather than a static process; a process requiring a long run view of rate design objectives. The Committee shares this perspective that a long run view is required in effectuating sound rate design policies.

RMP's Residential Rate Design Proposal

Q. PLEASE SUMMARIZE THE MAJOR ELEMENTS OF RMP'S RESIDENTIAL RATE DESIGN PROPOSAL IN THIS CASE.

A. The Company's proposal is described in Company witness Griffith's direct testimony (pages 9-11) and includes the following key elements:
(1) An increase in the monthly customer charge from $2.00 to $4.00.
(2) The implementation of a customer load charge (CLC) of $6/month to be in effect for 12 continuous months for residential customers whose usage exceeded 1,000 kWh in at least two summer months. The CLC would be assessed on bills when final rates become effective in this docket, based on kWh usage during summer (May-September) 2008.
(3) A change to the current summer energy blocking to a two-part rate with a greater differential between the summer and winter rates. A monthly usage level of 1,000 kWh is the break point separating the two summer rates, with usage priced higher in the second block. The Company proposes to retain the flat (single) winter energy rate and price it according to the level set in the last rate case.

Q. WHAT REASONS DOES THE COMPANY PROVIDE UNDERPINNING ITS PROPOSED CHANGES TO THE RESIDENTIAL RATE DESIGN?

A. According to Mr. Griffith, the combination of a doubling of the customer charge, the advent of the CLC, and a two-part summer energy rate would lessen the Company's risk for recovery of fixed costs through the energy charge and provides clearer and more persistent price signals to residential customers with higher than average (average = 853 kWh/month) summer usage.

Mr. Griffith also discussed the results of a residential telephone survey conducted in September 2007 leading RMP to conclude "that the present three-block summer residential inverted rate structure is not

understood by customers and as a result is not significantly impacting consumption decisions."[16]

Q. DID THE COMPANY ATTEMPT TO SHOW THE POTENTIAL IMPACTS ON CUSTOMERS' BILLS STEMMING FROM ITS RESIDENTIAL RATE DESIGN PROPOSAL?

A. In his supplemental testimony Mr. Griffith provided Exhibit RMP (WRG-3S) showing monthly residential billing comparisons based on summer and winter usage levels. In the summer it appears that larger users (summer usage > 1,000 kWh in the May-Sept. period) would incur bill increases that were roughly *three times higher* than customers at the summer average (853 kWh/month) usage level. For example, a customer using 1200 kWh would see a bill increase of 8.6% compared to a 2.7% increase for a customer at the summer average usage level.

In the winter this relationship generally holds, which should be expected, because once "triggered" the $6/month CLC remains on a customer's bill for the subsequent 12 months. For example, a customer using 1200 kWh in winter months would see a bill increase of 8.6% compared to a 3.5% increase for a customer at the winter average (710 kWh/month) usage level.

However, *rate impact comparisons of large users to the class average are very misleading absent a careful examination of all segments (low, medium and high usage levels) within the residential class.* As discussed below, RMP's residential rate design proposal portends greater bill impacts for small users compared to medium and large users within the class.

[16] Griffith Direct, pages 8-9, lines 185-187.

Q. WHAT IS THE COMMITTEE'S RESPONSE TO RMP'S RESIDENTIAL RATE DESIGN PROPOSAL?

A. The Committee opposes the Company's rate design proposal for a number of reasons as set forth below:

(1) The doubling of the customer charge from $2.00 to $4.00/month results in significant percentage increases on small customers' bills during the summer peak months. For example, residential customers with relatively low summer usage –below 501 kWh/month-- comprise about 34% of bills.[17] Under RMP's proposal, rate increases for customers consuming 300, 400 and 500 kWh per month would be 14.5%, 12.8% and 8.9%, respectively. By contrast, a customer at the average summer use level of 853 kWh would see a bill increase of only 2.7% and a customer using 2,000 kWh would see an increase of only 8.6%.

According to RMP's rate spread proposal (at the $99 million revenue increase figure), the recommended residential class average increase is 7.8%. Comparing impacts on small, medium and large use customers clearly shows the Company's rate design proposal generates a very regressive outcome: a small customer consuming 400 kWh month would see an increase of 12.8% in summer months; a medium-sized customer whose kWh usage is at the summer average (853 kWh) would see a very small increase only 2.7% in summer months; and a large customer at 2,000/kWh would see an increase of 8.6%, which is slightly above the class average.[18]

(2) Using a load charge (the CLC) to send a price signal to large residential users to conserve energy is fundamentally at odds with sound rate design policy. The Company has provided no evidence that the CLC

[17] RMP Response to CCS DR 26.6.

[18] Monthly residential bill impacts are shown on Exhibit RMP (WRG-3S), pg. 1 of 6. The Exhibit shows the very uneven nature of RMP's rate design proposal as you move from low to medium to high use customers. For instance, customers whose usage is 1,000 kWh (RMP's proposed "breakpoint" between its two summer energy rate blocks) would see unreasonably small bill increases of 1.5% during summer months. However, a monthly increase of only 100 kWh (1,000 to 1,100 kWh) would result in a steep bill increase from 1.5% to 8.7%.

a) is cost based and fair, b) will have the intended effect of reducing peak usage, c) will enable customers to better understand and accept the purpose of such a charge versus the existing three-tiered, inverted energy rate structure. In addition, the Company proposes the CLC be applied on bills later in 2008 based on monthly kWh usage retroactive to May 2008. This fails to provide adequate notice to customers that a new fixed load charge will be applied based on past (2008) summer energy usage. In his testimony, Mr. Chernick provides a more detailed critique of the Company's proposed CLC.

(3) The Company proposes a greater winter-summer differential relating to the energy rate blocks. However, the Company furnished no marginal cost information in testimony supporting its recommended energy rates. This is somewhat surprising because the Commission in its last rate case order expressly stated that marginal cost information "can and should be used to guide rate design." The Committee strongly urges the Commission to require RMP to prepare and file a marginal cost study in its next rate case to support its rate design proposals.

Q. WHAT IS THE COMMITTEE'S RECOMMENDATION REGARDING RMP'S RESIDENTIAL RATE DESIGN PROPOSAL?

A. The Committee recommends the Commission reject the Company's regressive rate design proposal. The Company's proposal, in effect, punishes low use customers for their conservation efforts and does little to motivate larger energy users to cut peak usage due to relatively minimal or moderate bill impacts. The end result is an "intra-class rate spread" that strays from cost causation, is patently unfair and may be ineffective in promoting energy conservation.

The Committee's Residential Rate Design Proposal

Q. DOES THE COMMITTEE HAVE AN ALTERNATIVE RATE DESIGN PROPOSAL FOR THE COMMISSION TO CONSIDER?

A. Yes. The Committee has developed a more balanced residential rate design proposal that better reflects the principles of cost causation, fairness and energy conservation. The proposal has the following five elements:

(1) Leave the residential customer charge at $2.00/month and increase the minimum bill to $4.00;

(2) Retain the existing summer inverted energy rate structure consisting of three separate tiers;

(3) Retain the existing kWh limits for the three tiers;

(4) Keep the winter energy rate at a single (flat) block and increase the winter energy rate by the same amount as the increase in the summer first block energy rate; and

(5) Spread the 5.6% class revenue increase progressively over the three summer energy blocks based on available marginal cost information.

By retaining the three summer energy blocks, the Commission would acknowledge the importance of allowing for flexibility in the design of rates based on marginal costs, especially in a period of rising energy costs. It permits a pricing strategy of giving higher increases to large users of electricity and moderate increases to medium use customers, while avoiding disruptive impacts on small residential users.

Q. HAVE YOU PREPARED AN EXHIBIT SHOWING THE RATE CHARGES ASSOCIATED WITH THE COMMITTEE'S RATE DESIGN PROPOSAL?

A. Yes. My Exhibit CCS (DEG-7.1D) sets forth the various rate charges attendant to the Committee's recommended residential rate design. As shown in the exhibit, the customer charge remains at $2.00/month and the

Committee proposes the following increases in the summer and winter energy rates in Table 2 below:

Table 2

Note: Energy Rates = Cents/kWh

	Current	Proposed
Summer 1st block (0-400 kWh):	7.5389	7.9008
Summer 2nd block (401-1,000 kWh):	8.5562	9.1124
Summer 3rd block (usage> 1,000 kWh):	10.0779	11.0806
Winter single block (all usage):	7.5389	7.9008

Q. WHAT SOURCE OF INFORMATION DID THE COMMITTEE RELY ON AS A GUIDE IN DETERMINING ITS PROPOSED ENERGY RATES FOR THE THREE SUMMER TIERS?

A. Since RMP filed no marginal cost information in support of its residential rate design proposal, the Committee asked Mr. Chernick to prepare, and include in his testimony, an analysis of marginal costs for purposes of this case. In his testimony, he provides an estimate of marginal costs ranging between 11-12 cent/kWh for generation, with an additional 1-2 cents to reflect transmission and distribution components. For purposes of this case, the Committee considered only the generation component. Accordingly, the Committee proposes to increase the tailblock rate to 11.0806 cents/kWh, which is at the lower end of the marginal generation cost range estimated by Mr. Chernick. I would further note that the Committee's proposed tailblock rate is only slightly higher than the second block rate of 10.9096 cents/kWh proposed by the Company in Mr. Griffith's Supplemental Direct Testimony (pg. 3, line 64.).[19]

[19] Mr. Griffith's residential second block energy rate proposal was associated with a higher overall rate request at the time his testimony was filed back in March 2008.

Q. HAVE YOU PREPARED AN EXHIBIT SHOWING HOW THE COMMITTEE'S RATE DESIGN PROPOSAL IMPACTS RESIDENTIAL CUSTOMERS' SUMMER AND WINTER MONTHLY BILLS?

A. Yes. I prepared Exhibit CCS (DEG-7.2D) showing the bill impacts of the Committee's proposal on summer and winter bills based on kWh usage. The exhibit shows that bill impacts are progressively greater at higher summer usage levels. For example, residential customers using 500, 1000 and 1500 kWh per month would see respective bill increases of 4.8%; 5.7% and 7.3%.[20]

Q. DO YOU PLAN TO UPDATE THESE EXHIBITS IN YOUR REBUTTAL TESTIMONY?

A. Yes. These exhibits were based on RMP's requested revenue increase of $74.5 (5.6% average increase). Thus, they will need to be updated once the Commission's revenue requirement order is issued.[21]

Q. GIVEN THE COMPANY HAS CALCULATED A COS RATE FOR THE CUSTOMER CHARGE AT APPROXIMATELY $4.17/MONTH, PLEASE DISCUSS WHY THE COMMITTEE IS NOT RECOMMENDING ANY INCREASE TO THE CUSTOMER CHARGE?

A. The Committee recommends leaving the customer charge at $2.00/month in this case for three reasons. First, the Commission increased the customer charge in the last rate case by $1.02/month, but decided to proportionately spread the remaining revenue across the summer and winter energy blocks. This case provides the Commission occasion to continue with its "balanced approach" in recognizing that rate design is a "dynamic" process and progressively increase the summer energy blocks and retain the current customer charge level. By following this measured

[20] A residential customer whose kWh usage is at the summer average of 858 kWh/month would see a bill increase at the class average increase of 5.6% (consistent with the Committee's rate spread proposal).

[21] Included in this update will be an increase in the minimum bill from $3.67 to $4.00.

approach, the Commission would appropriately balance cost causation, fairness and energy conservation objectives in this case.

Second, the residential class revenue increase will likely be considerably less in this rate case than the last case where the total revenue requirement increase (spread to all classes) was $115 million. Thus, it is more sensible in this case to apply the increase to the energy blocks (to better reflect rising energy costs) rather than further increasing the customer charge.

Third, as discussed in more detail in Mr. Chernick's testimony, the Company's proposed increase in the customer charge to $4.00/month will overcharge residential customers living in multi-family dwellings for customer-related services. This occurs because customers living in such residences share service drops, which comprise about 40% of customer charge costs. Removing the service drop costs for this segment of the residential class would lower the customer charge to approximately $2.40/month.

Q. HOW DO YOU RECONCILE YOUR POSITION TO ESSENTIALLY RETAIN THE PRESENT RESIDENTIAL RATE STRUCTURE WITH MR. GRIFFITH'S CLAIM THAT CUSTOMERS DON'T UNDERSTAND THE INVERTED SUMMER ENERGY RATE STRUCTURE AND CONSEQUENTLY HAVEN'T RESPONDED AS EXPECTED?

A. I think there are various reasons why customers may have been slow in responding to the higher energy price signals in the summer peak period. I believe that one of the key reasons stems from a lack of communication with residential customers to educate them as to what the Company, Commission and other parties seek to achieve through an inverted block rate structure. While the Company has launched an advertising campaign to educate the Utah public about the energy savings benefits of its demand-side management (DSM) programs, there hasn't been a

comparable and consistent level of effort to inform residential customers about the energy pricing objectives initiated a few years ago.

Thus, customers are aware through the media of the big push to get utilities to invest in DSM and renewable resources as part of the burgeoning "green energy" movement. However, those same customers appear to be less aware of a rate structure that has been in place since early 2004 designed to reduce energy consumption in the summer peak period.

Q. DO YOU HAVE ANY EVIDENCE SUPPORTING YOUR STATEMENT THAT CUSTOMERS MAY NOT HAVE THE SAME LEVEL OF AWARENESS OF POLICY INITIATIVES TO ENCOURAGE ENERGY CONSERVATION VIA PRICE SIGNALS COMPARED TO DSM PROGRAMS?

A. Yes. Exhibit RMP (WRG-4), pages 1-10, attached to Mr. Griffith's direct testimony, is the final results of a residential telephone survey conducted by Dan Jones and Associates on behalf of the Company in September 2007. The survey encompasses various topics including the summer inverted rate structure and DSM programs such as Cool Keeper, Home Energy Analysis, and so forth. According to the survey results, 50% of customers were at least "somewhat aware" of the summer inverted rate structure, but 75% were unaware that the rates charged depended on the electricity used (Pages 5-6, WRG-4). By contrast, 94% of the respondents indicated it was either "very important" or "somewhat important" that RMP offer energy efficiency programs to help conserve energy and 69% were aware that RMP offered such programs to residential customers. According to the survey, 40% of respondents had chosen to participate in energy efficiency programs (Page 8, WRG-4).

Q. WHAT DO YOU CONCLUDE BASED ON THESE SURVEY RESULTS?

A. That RMP's Utah residential customers have a better grasp of the conservation objectives associated with DSM programs compared to pricing initiatives implemented through rate design.

Q. DO THE SURVEY RESULTS SUGGEST RESIDENTIAL CUSTOMERS ARE GETTING MORE SOPHISTICATED IN THEIR USE OF ELECTRICITY AND MORE IMPORTANTLY THEIR DESIRE OR ABILITY TO EMBRACE ENERGY CONSERVATION?

A. The survey results show a large majority of customers (94% as referenced above) believe the Company should be engaged in energy efficiency programs and that 77% of respondents have taken actions in their homes to save electricity (Page 8, WRG-4). These actions include: changed light bulbs to CFLs (20%); lowered thermostat (17%); purchased energy efficient appliances (11%); installed new windows/doors (9%); and used air conditioning less frequently (9%). Thus, residential customers are becoming more knowledgeable about ways to practice conservation and are responding to energy efficiency initiatives as evidenced by the above actions.

Q. SHOULD THE COMMISSION BE ENCOURAGED BY THE SURVEY RESULTS?

A. I think so. Residential customers appear to want RMP to be in the business of not just generating and delivering electricity to their homes, but also investing in energy efficiency resources. If residential customers consistently receive the message that an inverted rate structure is part of a comprehensive energy strategy, they may be more willing to cut back on usage during peak load periods and consider investing in additional measures to save electricity. Integrating rate design into energy conservation requires a long run view to achieve meaningful results, which I believe the Commission recognized in its Order in the last rate case.

913

914 VII. SCHEDULE 25 RATE DESIGN

915 Q. PLEASE SUMMARIZE THE SERVICE PROVIDED UNDER SCHEDULE
916 25 (MOBILE HOME PARKS).

917 A. Schedule 25 is a frozen schedule involving rates charged to approximately
918 11 trailer park owners or operators.[22] If a trailer park owner receives a
919 single point of delivery, Schedule 25 requires the owner to sub-meter
920 tenants for electric service under the applicable residential rate schedule.
921 Schedule 25 includes a customer charge, demand charge and energy
922 charge. The test year revenues proposed to be collected under this
923 schedule are approximately $0.75 million.

924

925 Q. WHAT IS THE COMPANY'S RATE DESIGN PROPOSAL FOR
926 SCHEDULE 25?

927 A. The Company proposes to double the monthly customer charge from $10
928 to $20 and spread the remaining class revenue proportionately on the
929 demand and energy charges.

930

931 Q. DID THE COMPANY FILE ANY EVIDENCE SUPPORTING ITS
932 PROPOSED DOUBLING OF THE MONTHLY CUSTOMER CHARGE
933 FROM $10 TO $20?

934 A. I am unaware of any analysis or evidence filed by the Company
935 supporting its proposed increase in the customer charge.

936

937 Q. WHAT IS THE COMMITTEE'S RATE DESIGN RECOMMENDATION
938 FOR RATE SCHEDULE 25?

939 A. The Committee opposes the Company's unsupported proposal to double
940 the monthly customer charge and we recommend the revenue increase to

[22] Based on information provided in an informal discussion with the Company, Schedule 25 has been closed for at least a decade and the same 11 trailer parks still take service under this tariff. New Mobile Home Parks are served under Schedule 23 (trailer park office) and Schedules 1-3 (trailer park residents).

the class be proportionately spread across the demand and energy rate components. If RMP wishes to propose an increase in the Schedule 25 customer charge in its next case, it should include an analytical basis for the increase in its filing.

VIII. SCHEDULE 500

Q. PLEASE BRIEFLY DESCRIBE RMP'S PROPOSAL RELATING TO A NEW, LARGE INDUSTRIAL SCHEDULE TERMED "SCHEDULE 500."

A. Based on a recent canvass of existing and potential Utah industrial customers, the Company expects to add about 264 MW of industrial load by 2012. According to the Company the marginal costs of serving this additional industrial load exceeds embedded costs (per Schedule 9) and will result in upward rate pressure on all tariffed customers unless these loads are priced closer to marginal costs. The Company's Schedule 500 proposal has two main elements: (1) opening a new docket to further investigate alternatives to embedded cost pricing and the possible extension of the concept to other classes; (2) adding a 25% (1 average cent/kWh) surcharge to all new loads 10MW or higher, with the surcharge increasing to 30% (1.2 average cents/kWh) in August 2009. Continuance of any Schedule 500 surcharge ordered in this case would depend on the outcome of the investigative docket.

Q. DID THE COMPANY FILE A SIMILAR MARGINAL COST PROPOSAL APPLICABLE TO LARGE INDUSTRIAL LOADS IN ITS RECENT WYOMING RATE CASE?

A. Yes. The Committee understands that issues relating to the proposal are presently being examined in a task force setting.

Q. WHAT IS THE COMMITTEE'S RECOMMENDATION RELATING TO SCHEDULE 500?

A. While marginal cost information has appropriately been used by parties and the Commission in the area of rate design, the Commission has relied on embedded cost analysis to determine class cost-of-service and the spread of revenue changes among the various rate classes. Any movement away from an embedded cost framework is likely to be controversial and should be thoroughly explored in a task force before any major policy decision is made by the Commission.

IX. SUMMARY OF RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE COMMITTEE'S RECOMMENDATIONS IN THE COS PHASE OF THIS RATE CASE.

A. The Committee's recommendations are grouped into the following categories: Policy; COS Study; Rate Spread and Rate Design.

Policy

(1) The Commission should require the Company to prepare and file a marginal cost study in support of its rate design proposals as part of its next rate case filing.

(2) When the Company has used the results from a new load research study (as it did for the irrigation class in this particular case) in a COS study, the Commission should require the Company to prepare and file testimony explaining the new load research study, the results from the load sample and how the results were applied in the COS study. We further recommend the Commission require the Company to respond to concerns raised by Mr. Chernick in his testimony relating to the accuracy of RMP's usage estimates for the irrigation class and make the necessary corrections or adjustments to those estimates before that data is used by the Company in future COS studies to support either rate spread or rate design proposals for the irrigation class.

COS Study

(3) Based on concerns raised in Mr. Chernick's testimony, the Committee concludes that the COS Study is flawed. Thus, we recommend that the Commission (a) not rely on the COS results to guide its rate spread decisions in this case and (b) establish an appropriate forum (e.g., COS task force) to further investigate the concerns with the COS Study discussed in Mr. Chernick's testimony.

Rate Spread

(4) Since we recommend the Commission not use the COS study results to inform its rate spread decisions, the Committee's primary rate spread recommendation (Proposal A in Table 1) is that the major rate classes receive an equal percentage rate increase at the jurisdictional average rate change.

(5) If the Commission elects to give some weight to the COS results in making its rate spread decisions, then the Committee's alternative rate spread recommendation (Proposal B in Table 1) at the requested $74.5 million total revenue requirement figure is: Schedules 1, 8 and 23 receive a rate increase at the jurisdictional average rate increase of 5.6%; Schedule 6 receive a rate increase of 5.1%; Schedule 9 receive a rate increase of 6.6%; Schedule 10 receive a rate increase between 5.6% and 8.0%.[23]

Residential Rate Design (Schedules 1 and 3)

(6) The Committee recommends the Commission reject RMP's residential rate design proposal and instead adopt the Committee's proposed rate design, which includes the following elements:

(a) Leave the residential customer charge at $2.00/month and increase the minimum bill to $4.00.

[23] These rate spread recommendations under Proposal B will be updated in my rebuttal testimony based on the Commission's order in the revenue requirement phase of this proceeding.

(b) Retain the existing summer inverted energy rate structure comprised of three separate blocks and also keep the kWh limits for the three blocks;

(c) Keep the winter energy rate at a single (flat) block and increase the winter energy rate by the same amount as the increase in the summer first block energy rate; and

(d) Spread the class revenue increase progressively over the three summer energy blocks based on available marginal cost information.

Schedule 25 Rate Design (Mobile Home Parks)

(7) The Committee recommendations are twofold:

(a) Keep the level of the customer charge at $10.00/month; and

(b) Spread the class revenue proportionately over the energy and demand charges.

Schedule 500

(8) The Committee recommends RMP's proposal be analyzed in a task force before any major policy decisions are made by the Commission in this area.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THE COS PHASE OF THE CASE?

A. Yes it does.