

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
Rocky Mountain Power for Authority)	Docket No. 09-035-23
to Increase its Retail Electric Utility)	Direct Rate Design
Service Rates in Utah and for)	Testimony of
Approval of Its Proposed Electric)	Daniel E. Gimble
Service Schedules and Electric)	For the Office of
Service Regulations)	Consumer Services

February 22, 2010

1 I. INTRODUCTION

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

3 A. My name is Daniel E. Gimble. I am a special projects manager with the Office of
4 Consumer Services (Office or OCS). My business address is 160 E. 300 S., Salt
5 Lake City, Utah.

6
7 Q. DID YOU FILE TESTIMONY IN THE EARLIER PHASE OF THIS PROCEEDING
8 DEALING WITH COST-OF-SERVICE AND RATE SPREAD MATTERS?

9 A. Yes.

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11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THE RATE DESIGN
12 PHASE OF THIS PROCEEDING?

13 A. My testimony presents the Office's residential (Schedule 1) rate design proposal
14 in this case and explains the basis for its rate design recommendations. I also
15 respond to the Company's residential rate design proposal as set forth in the
16 direct testimony of Company witness Mr. William Griffith. Lastly, I discuss other
17 rate design issues relevant to this proceeding.

18

19 II. SUMMARY OF TESTIMONY

20 Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS RELATING TO
21 RESIDENTIAL RATE DESIGN.

22 A. The Office's proposal:

- 23
- 24 • Retains the current inverted, three-block summer energy rate structure,
with a single (flat) energy rate in the non-summer period¹;
 - 25 • Applies half of the ordered \$12.18 million in class revenue increase toward
26 the customer charge, bringing the charge to \$3.75 per month;
 - 27 • Applies the other half of the increase in class revenue evenly between the
28 second summer energy block, the third summer energy block, and the
29 winter energy rate, resulting in a 2.2% increase to the second block, a
30 2.82% increase to the third block and a 0.75 % increase to the winter rate.

¹ Summer period: May – Sept.; Winter Period: Oct. – Apr.

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Q. PLEASE SUMMARIZE THE OTHER RATE DESIGN ISSUES AND OFFICE RECOMMENDATIONS ADDRESSED IN YOUR TESTIMONY.

A. Regarding Schedule 25 (Mobile Home Parks), the Company and Office have both proposed that existing Schedule 25 customers should be moved to Schedule 23 or some other more appropriate rate schedule in the next rate case. For purposes of this case, the Company proposes the increase be applied equally to the Schedule 25 rate elements. The Office supports this rate design proposal.

The Office also recommends the Commission require the Company to prepare and file a Utah Marginal Cost Study. The Office recommends that this study be prepared and filed by the Company in advance of the rate case and the results presented to interested parties in a technical conference format.

III. RESIDENTIAL RATE DESIGN

Background

Q. PLEASE EXPLAIN HOW RATE DESIGN FITS INTO A UTILITY COMMISSION'S PROCESS OF ESTABLISHING NEW RATES.

A. Once a commission determines how the change in revenue requirement will be spread among rate classes, it needs to consider how each class's revenue will be collected through various rate elements (customer charge, energy charges, demand charges, etc.) Using the residential class as an example, decisions need to be made on what portion of the revenue should be collected through the fixed customer charge (where revenue varies with number of customers) and energy rate blocks (where revenue varies with electricity usage). The overall goal of rate design is to develop a rate structure that is cost based, fair, relatively stable and generates sufficient revenues to cover a class's estimated cost of service.

62 *Office's Residential Rate Design Proposal*

63 Q. PLEASE DESCRIBE THE OFFICE'S RESIDENTIAL RATE DESIGN
64 PROPOSAL?

65 A. The Office has developed a balanced residential rate design proposal that
66 reflects the principles of cost causation, fairness, rate (bill) stability and energy
67 conservation. The proposal has the following elements:

- 68 • Increase the residential customer charge from \$3.00/month to
69 \$3.75/month;
- 70 • Retain the summer inverted energy rate structure consisting of three
71 separate tiers and the existing kWh limits for each tier;
- 72 • Increase the summer second and third block rates such that a slightly
73 higher price signal is placed on the third block rate;
- 74 • Slightly increase the winter single (flat) block rate.

75

76 My Exhibit OCS 5.1 RD shows the Office's residential rate design proposal.

77 Table 1 below summarizes the Office's proposed changes to the Schedule 1 rate
78 charges:

79

80 Table 1

81 Note: Energy Rates = Cents/kWh

82	<u>Current</u>	<u>Proposed</u>
83 <u>Customer Charge</u>	<u>\$3.00</u>	<u>\$3.75</u>
84 Summer 1 st block (0-400 kWh):	7.5292	7.5292
85 Summer 2 nd block (401-1,000 kWh):	8.9416	9.1383
86 Summer 3 rd block (> 1,000 kWh):	11.1216	11.4400
87 Winter single block (all usage):	7.8009	7.8594

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89 Q. PLEASE EXPLAIN THE OFFICE'S RATIONALE FOR ITS RESIDENTIAL RATE
90 DESIGN PROPOSAL.

91 A. The Office applied half of the increase in class revenue to the customer charge
92 and the other half to specific energy rates. This balanced approach is generally

93 consistent with the Commission's decision in Docket 06-035-21 and the
94 residential rate design stipulation approved by the Commission in the last rate
95 case (08-035-38), which in many ways builds on the Commission's earlier 2006
96 decision. In both cases the customer charge was raised by approximately
97 \$1.00/month and the remaining revenue spread over specific energy rates.

98 The Office proposes increasing the customer charge from \$3.00 to \$3.75
99 because it moves the customer charge toward the cost of service (as determined
100 using the Commission's methodology) but continues to do so gradually. The
101 Office also remains concerned that multi-family dwellings not be charged a
102 customer charge that exceeds the associated costs. We are optimistic that the
103 shared services analysis ordered by the Commission earlier in this case will
104 provide the necessary data to set these rates appropriately in future cases. In
105 the meantime, the uncertainty regarding the precise costs for the customer
106 charge for multi-family dwellings is another reason to limit the increase to
107 \$3.75/month.

108 The Office spread the other half of the increase in class revenues evenly
109 (on a total dollar amount) into the second summer energy block, the third
110 summer energy block, and the winter energy rate. The Office believes it is
111 appropriate not to apply any of the increase to the first summer energy block
112 because of the impact caused on low energy users from the increase in the
113 customer charge. The customer charge impact is mitigated by maintaining a
114 lower rate for the first summer energy block. The Office also believes it is
115 appropriate to spread a portion of the class revenue increase to the second and
116 third summer energy blocks because the majority of summer usage occurs in
117 these two blocks and is important to continue to send a price signal that usage in
118 the summer period is normally more expensive to meet. The Office proposes
119 increasing the third summer block rate slightly more than the increase for the
120 second summer block rate.

121 The Office proposes raising the winter energy rate only slightly. This is to
122 recognize that winter energy usage does impact the overall system, but also
123 attempts to keep the rate close to the existing rate to balance the overall impact

124 on small energy users (similar to the reasoning for not increasing the first
125 summer block rate.) The Office also notes that it may be time to consider a two
126 block rate for the winter to continue to better accomplish these dueling
127 objectives.

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129 *RMP's Residential Rate Design Proposal*

130 Q. PLEASE SUMMARIZE RMP'S RESIDENTIAL RATE DESIGN PROPOSAL IN
131 THIS CASE.

132 A. As presented in Mr. Griffith's Direct Testimony, the Company's proposal includes
133 the following:

- 134 • An increase in the monthly customer charge from \$3.00 to \$5.70;
- 135 • Elimination of the minimum bill for single phase residential customers;
- 136 • No material changes to either the energy rate structure or energy rates.²

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138 In short, the Company's proposes to recover almost all of the residential class
139 revenue increase through raising the level of the customer charge.³

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141 Q. WHAT REASONS ARE OFFERED BY MR. GRIFFITH IN SUPPORT OF THE
142 COMPANY'S RESIDENTIAL RATE DESIGN PROPOSAL?

143 A. *Revenue stability* appears to be the chief objective underlying the Company's
144 proposal. According to Mr. Griffith,

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146 "Under the current May through September inverted rate, a large proportion of
147 the fixed costs of serving customers is being recovered through the volumetric
148 energy charge. The recovery of fixed costs is dependent on weather and
149 changes in usage. This creates revenue volatility and a strong likelihood that the

² On pg. 4, lines 83-85, Mr. Griffith parenthetically notes: (Because of rounding of rates, in order to achieve the proposed revenue requirement, a small change to the energy charge is requested.)

³Based on the Commission's rate spread decision, the Office does not anticipate the Company changing its proposal to recover the entire class revenue increase through increases to the monthly customer charge.

150 fixed costs of serving customers will be either under- or over-recovered by the
151 Company depending on weather and other variables.”⁴

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153 Q. IN HIS DIRECT TESTIMONY, DID MR. GRIFFITH PROVIDE ANY EVIDENCE
154 DEMONSTRATING REVENUE VOLATILITY ASSOCIATED WITH RATE
155 SCHEDULE 1 IN RECENT YEARS?

156 A. No.

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158 Q. HAVE THE COMPANY’S COST-OF-SERVICE STUDY RESULTS FILED IN
159 RECENT RATE CASES SHOWN SIGNIFICANT VOLATILITY IN THE EARNED
160 RETURNS FOR RATE SCHEDULE 1?

161 A. Since 2003 the Company’s COS Study results indicate that Rate Schedule 1’s
162 revenues have consistently matched or exceeded allocated costs.⁵ While the
163 earned returns for Schedule 1 have varied between 1.00 and 1.23 over the past
164 six rate cases, the earned returns for Schedules 6 and 23 have been more
165 volatile. For example, the return for Schedule 6 was 1.23 in 2007 and declined to
166 0.90 in 2008.

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168 Q. DID MR. GRIFFITH PREPARE AN EXHIBIT SHOWING THE COST BASIS FOR
169 THE COMPANY’S PROPOSAL TO INCREASE THE MONTHLY CUSTOMER
170 CHARGE FROM \$3.00 TO \$5.70?

171 A. The Company did not provide an exhibit that directly supports its proposed
172 increase in the monthly customer charge from \$3.00 to \$5.70. Instead, Mr.
173 Griffith alleges:

174

175 “The current Customer Charge fails to recover the related fixed costs of serving
176 residential customers, including the cost of meters, service drops, poles and
177 conductors, transformers and retail service. Exhibit RMP ____ (WRG-3) contains

⁴ Griffith Direct, pg. 5, lines 103-108.

⁵ Page 4 of my Pre-filed Rebuttal Testimony in the COS Phase of this case includes Table 3, which shows class earned returns for the past six rate cases. Table 3 shows that the residential class has produced revenues that either match or exceed costs in every rate case since 2003.

178 an analysis of these fixed costs of serving residential customers. It shows that a
179 fixed monthly charge in excess of \$23 is appropriate.”⁶

180

181 While it may be dressed up in “customer charge” language, Mr. Griffith is
182 essentially asking the Commission to make a major policy change and conclude
183 that (1) all customer- and distribution-related costs be recovered via a “straight-
184 fixed variable” rate design⁷ and (2) the Company’s proposal represents a first
185 step in that direction.

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187 Q. IS THE COMPANY’S CALCULATION OF THE MONTHLY RESIDENTIAL
188 CUSTOMER CHARGE CONSISTENT WITH METHOD ORDERED BY THE
189 COMMISSION IN PAST CASES?

190 A. No. In addition to customer-related items such as customer billing, meters and
191 service drops, the Company’s proposal includes distribution plant such as poles,
192 conductors and transformers. This inclusion of distribution plant items represents
193 a sharp departure from the Commission’s established method for determining the
194 proper level of the customer charge.

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196 Q. WHAT IS THE CORRECT CALCULATION OF THE CUSTOMER CHARGE
197 BASED ON THE COMMISSION’S ESTABLISHED METHOD?

198 A. In response to OCS DR 7.2, the Company calculates a monthly customer charge
199 level of \$3.92, based on the Commission’s method. A customer charge of \$3.92
200 is consistent with the \$3.85 charge recommended by the Company in the last
201 rate case.⁸

⁶ Griffith Direct, pg. 5, lines 87-91.

⁷ A straight fixed variable (SFV) rate design has been one of a number of approaches proposed by gas distribution companies to address the long-term trend of declining usage by retail customers in the gas industry. Under an SFV rate design, all distribution-related costs are assumed to be fixed and recoverable through a fixed charge on customer bills. The SFV rate design has not been widely adopted by state commissions in the gas industry because it removes the incentive to conserve energy in response to changes in the volumetric rate.

⁸ In his Exhibit RMP ____ (WRG – 2SS) in Docket No. 08-035-38, Mr. Griffith provides a customer charge calculation of \$3.82. The Company’s recommended customer charge level of \$3.85 was based on this calculation, which according to Mr. Griffith comports with “the Commission’s preferred method.” (Griffith Second Supplemental Direct, pg. 6, lines 135-136.)

202

203 Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING RMP'S
204 RESIDENTIAL RATE DESIGN PROPOSAL?

205 A. The Committee recommends the Commission reject the Company's one-sided
206 rate design proposal. The Commission's Order on the Revenue Requirement
207 and Rate Spread portion of this case increases residential rates by only 2.2%.
208 This outcome does not provide enough of an increase in class revenue to
209 support the Company's proposal. Further, the Company has not provided
210 substantial evidence to support a change in the Commission's methodology for
211 calculating the customer charge. The Company's own analysis shows that the
212 customer charge should be no higher than \$3.92.

213 The Office has proposed a residential rate design with a customer charge
214 of \$3.75. We believe this is a significant step towards achieving a cost-based
215 customer charge using the Commission's method, while recognizing the
216 imprecision of the calculation of the customer charge for shared service drops
217 and the principle of gradualism.

218

219 *Rate Schedule 25*

220 Q. WHAT IS THE COMPANY'S RATE DESIGN PROPOSAL FOR RATE
221 SCHEDULE 25?

222 A. The Company proposes to apply the revenue increase for Schedule 25 equally to
223 all rate elements.

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225 Q. DOES THE OFFICE CONCUR WITH THE COMPANY'S RATE DESIGN
226 PROPOSAL FOR RATE SCHEDULE 25?

227 A. Yes. In the COS Phase of this case, both the Office and the Company
228 recommended that Schedule 25 be closed and affected customers moved to an
229 appropriate rate schedule in the next rate case. For purposes of this case,
230 therefore, it makes sense to apply the class revenue increase equally across all
231 rate elements.

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233 Q. HAS THE COMMISSION ADDRESSED THIS PROPOSAL TO ELIMINATE
234 RATE SCHEDULE 25?

235 A. No. The Commission did not address this proposal in its Revenue Requirement
236 and Cost of Service Order dated February 18, 2009. Presumably, the
237 Commission believes this issue to be rate design related. Accordingly, we
238 request that the Office and Company testimony on the issue of Schedule 25 be
239 considered in the rate design phase. [Gimble, Direct pg. 12, lines 323 – 330 and
240 Griffith, Rebuttal pg 3, lines 66 – 78]

241

242 *Marginal Cost Study*

243 Q. DID THE COMPANY PREPARE AND FILE A MARGINAL COST STUDY IN
244 CONNECTION WITH ITS RATE DESIGN PROPOSALS IN THIS RATE CASE?

245 A. No. The Company furnished no marginal cost information in its testimony
246 supporting its recommended rate design proposals for any rate schedule. This is
247 somewhat surprising for two reasons. First, in its Order in Docket 06-035-21, this
248 Commission explicitly stated that marginal cost information “can and should be
249 used to guide rate design.” Second, the Office understands that the Company is
250 required to prepare and file marginal costs studies in support of its rate design
251 proposals in Oregon and California. Thus, it makes sense that the Company be
252 required to prepare and file a Utah Marginal Cost Study to inform rate design
253 proposals in the Company’s largest state.

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255 Q. WHAT IS THE OFFICE’S RECOMMENDATION RELATED TO A UTAH
256 MARGINAL COST STUDY?

257 A. The Office strongly urges the Commission to require RMP to prepare and file a
258 Utah Marginal Cost Study no later than November 1, 2010. We also recommend
259 the Commission require the Company to convene a technical conference by
260 November 15, 2010 to explain the Study and associated results. A marginal cost
261 study specific to Utah should provide better cost information regarding the
262 important drivers underlying utility investment (distribution, transmission,
263 generation, etc.) and operations. Accordingly, interested parties and the

264 Commission can use this information to design rate structures for each class that
265 reflects key cost drivers and thereby send appropriate price signals to customers.

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267 SUMMARY OF RECOMMENDATIONS

268 Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS IN THE RATE
269 DESIGN PHASE OF THIS PROCEEDING.

270 A. The Office recommends:

- 271 • A residential rate design that raises the customer charge from \$3.00 to
272 \$3.75; raises the second summer energy block 2.2% from 8.9416
273 cents/kWh to 9.1383 cents/kWh; raises the third summer energy block by
274 2.82% from 11.1216 cents/kWh to 11.4400 cents/kWh; and slightly raises
275 the winter energy rate from 7.8009 cents/kWh to 7.8594 cents/kWh.
- 276 • Eliminating Schedule 25 in the next rate case and applying an even
277 percentage increase within this case.
- 278 • The Company be ordered to prepare and file a Utah Marginal Cost Study
279 no later than November 1, 2010.

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281 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THE RATE DESIGN
282 PHASE OF THIS CASE?

283 A. Yes it does.