

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

April 7, 2010

1 Introduction

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

3 A. My name is Michele Beck. I am the Director of the Office of Consumer Services.
4 My business address is 160 East 300 South, Salt Lake City, Utah.

5

6 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

7 A. Yes. I filed rebuttal rate design testimony.

8

9 Q. WHAT IS THE PURPOSE OF YOUR SUR-REBUTTAL RATE DESIGN
10 TESTIMONY?

11 A. I respond to UCE-SWEEP, WRA, and the Company with respect to their support
12 of the Division's residential decoupling program contained within each of their
13 respective rebuttal testimonies. Dan Gimble responds to the other residential
14 rate design issues in his sur-rebuttal testimony.

15

16 Response to UCE-SWEEP and WRA

17 Q. UCE-SWEEP SUGGESTS THAT ONE OF THE BENEFITS OF DECOUPLING
18 IS THAT IT AVOIDS INEQUITABLE INCREASES IN FIXED CHARGES.
19 [CAVANAGH REBUTTAL, LINES 36 – 37] DO YOU AGREE?

20 A. No. Decoupling is not tied to any rate design structure, but rather is a standalone
21 design element. It is incorrect to assume that absent decoupling, the Company's
22 rate design would certainly move toward inequitable increases in fixed charges.
23 Based on the methodology for calculating fixed charges that has been historically
24 used in this jurisdiction, the current cost of service associated with the customer
25 charge is only \$3.83. Further, the Company's response to the Division's
26 decoupling proposal makes it clear that they intend to pursue inequitable
27 increases in fixed charges even if the Division's decoupling proposal is in place.

28

29 Q. UCE-SWEEP SUGGESTS THAT DECOUPLING INCREASES REWARDS FOR
30 SAVING ENERGY. [CAVANAGH REBUTTAL, LINE 37] DO YOU AGREE?

31 A. No. This assertion could only be true if energy savings under decoupling is
32 compared to energy savings in the presence of a much larger fixed charge. My
33 earlier response indicates why such an assumption would be unfounded. Absent
34 this comparison to a larger fixed charge, decoupling actually has a much greater
35 chance of lowering rewards for saving energy, as overall costs per kWh will rise
36 when fewer kWh are consumed.

37

38 Q. UCE-SWEEP SUGGESTS THAT DECOUPLING REDUCES BARRIERS TO
39 ENERGY EFFICIENCY PROGRESS ON THE RMP SYSTEM. [CAVANAGH
40 REBUTTAL, LINES 37 – 38] DO YOU AGREE?

41 A. Not necessarily. In fact, it is not entirely clear how strongly UCE-SWEEP
42 believes this statement. Later in Mr. Cavanagh's testimony he extols the
43 Company's strong record of DSM programs and energy savings. He simply
44 indicates a concern that such efforts could "fade over time." [Cavanagh Rebuttal,
45 lines 177 – 186] Given the Company's high level of current DSM efforts, it is not
46 at all clear that reducing barriers to energy efficiency progress is necessary. As I
47 indicated in my rebuttal testimony, any significant increase from current levels
48 would likely be met with some level of resistance. This argument appears to be
49 another case of proposing a remedy without yet identifying a problem.

50

51 Q. WHAT IS YOUR RESPONSE TO UCE-SWEEP'S ASSERTION THAT
52 DECOUPLING HAS SEVERAL CUSTOMER BENEFITS?

53 A. My response is that UCE, SWEEP, and NRDC (the affiliation of their witness, Mr.
54 Cavanagh, who made the assertion) are primarily advocates of energy efficiency,
55 not consumers. As these organizations are well aware, utility consumer
56 advocates overwhelmingly oppose decoupling. As an example of this opposition,
57 I have attached a 2007 resolution of the National Association of State Utility
58 Consumer Advocates opposing decoupling.¹

¹ While the resolution urges Commissions to use other methods of promoting conservation prior to pursuing conservation, it also suggests that if Commissions choose to pursue decoupling the mechanism should be designed to: prevent over-earning, include significant downward adjustment to ROE, ensure incremental conservation efforts, and require demonstration that lower usage is due to conservation. The Office is not specifically recommending

59 Q. WHAT IS YOUR RESPONSE TO THE SPECIFIC BENEFITS OF DECOUPLING
60 CITED BY UCE-SWEEP?

61 A. The benefits cited by UCE-SWEEP have not been demonstrated and all depend
62 upon other conditions also being in existence. I have already addressed their
63 assertion of decoupling being a better alternative to raising fixed costs, a
64 condition that has not been shown to necessarily exist. UCE-SWEEP also touts
65 price signals to customers as a benefit. Such potential benefit depends upon the
66 accompanying appropriate rate design. UCE-SWEEP suggests that it just
67 requires the presence of inverted rates, which are currently in place for
68 residential customers. However, the Office's view is that additional studies (most
69 importantly the marginal cost study for which we have advocated in recent cases)
70 would be necessary to set more accurate price signals. Further, it is not at all
71 clear that residential customers find price signals to be a benefit. The final benefit
72 to customers touted by UCE-SWEEP is "sustained utility engagement in all
73 aspects of cost-effective energy efficiency." This outcome has not been
74 demonstrated as being a certain, or even likely, consequence of the
75 implementation of decoupling.

76
77 Q. UCE-SWEEP ASSERTS THAT A DECOUPLING PROPOSAL ONLY
78 TARGETED TO RESIDENTIAL CUSTOMERS WOULD NOT BE INEQUITABLE.
79 [CAVANAGH REBUTTAL, 115 – 123] DO YOU AGREE?

80 A. Absolutely not. UCE-SWEEP's witness does not appear to be aware of the
81 ongoing under-earnings concerns associated with this Company, or current rate
82 class performance, when he states that "I see nothing inequitable in ensuring that
83 the residential class pays no less *and no more* than the RMP fixed costs
84 assigned to it by the Utah Commission." [Cavanagh Rebuttal, lines 119 – 120]
85 Given that the Commission has not determined the cause of the Company's
86 under-earnings and given that some rate classes have not been assigned costs

these design elements in this proceeding because this proposal has been made too late for proper consideration of all relevant issues, in particular any adjustment to the ROE.

87 that reflect their true cost of service, it would clearly be inequitable to ensure that
88 the residential class always pays its assigned share of fixed costs.

89

90 Q. BOTH UCE-SWEEP AND WRA INDICATE THAT ONE OF THE BENEFITS OF
91 THE DIVISION'S DECOUPLING PROPOSAL IS THAT IT BUILDS ON THE
92 EXISTING QUESTAR PROGRAM. [CAVANAGH REBUTTAL, LINES 38 – 40,
93 CURL REBUTTAL LINES 53 - 55] DO YOU AGREE?

94 A. No. This assertion ignores the many and significant differences between these
95 two companies. These include, but are not limited to:

- 96 • Questar had a very different pre-decoupling history with respect to its
97 support for demand-side management programs.
- 98 • Questar did not have a history of under-earning.
- 99 • Questar did not face large generation resource shortages in the near
100 future.
- 101 • Application of decoupling to a single customer class of Questar
102 encompasses the vast majority of all customers, as opposed to the much
103 more limited application in the case of a single customer class of Rocky
104 Mountain Power.
- 105 • There may be significant differences in the comparison of marginal costs
106 and marginal revenues of the two companies that have not been explored.

107

108 Q. DOES THE QUESTAR EXPERIENCE PROVIDE ANY USEFUL LESSONS
109 THAT THE OTHER PARTIES HAVE NOT MENTIONED?

110 A. Yes. It demonstrates that decoupling may not result in the desired outcomes
111 that have been stated by UCE-SWEEP, WRA, as well as the Division. While
112 decoupling may have changed Questar's overall view toward demand-side
113 management programs², it does not appear to have had a measurable impact on
114 consumption as shown in Exhibit 1 attached to my testimony. I believe that the
115 lesson to be learned from the Questar experience is that the Commission should

² The Office does not intend this as a criticism of Questar's DSM. To the contrary, the Office believes that Questar has been very successful in its DSM efforts.

116 be absolutely clear about desired outcomes from any rate design that includes
117 decoupling and be clear about measuring whether such outcomes are achieved.
118 The Office is not proposing specific methods by which this could be achieved in
119 the current proceeding, because our fundamental view remains that it would be
120 inappropriate to consider *any* of these ideas associated with decoupling within
121 the current proceeding, given that the proposal was proposed too late for proper
122 consideration of *all* of the issues.

123

124 Q. DID EITHER UCE-SWEEP OR WRA PERFORM ANY ANALYSIS OR
125 TECHNICAL EVALUATION TO SUPPORT THEIR ASSERTIONS OF BENEFITS
126 THAT YOU'VE REFERENCED IN THIS SECTION?

127 A. No. Based on the responses to discovery sent by the Office to UCE-SWEEP and
128 WRA, it appears they relied on the Division's testimony and general articles in
129 support of decoupling. I have attached these responses as Exhibits 2 and 3 to
130 this testimony.

131

132 *Response to the Company*

133 Q. THE COMPANY OBJECTS TO THE OFFICE'S ASSERTION THAT THE
134 COMPANY HAS NOT PROVIDED EVIDENCE DEMONSTRATING REVENUE
135 VOLATILITY IN THIS CASE. [GRIFFITH REBUTTAL, PAGE 11, LINES 14 -22]
136 WHAT IS YOUR RESPONSE?

137 A. My response is that the Company's two sentence response does not constitute
138 evidence. The Company asserted that it had both under-recovered and over-
139 recovered residential revenues in certain summer periods. It has not explained
140 upon what basis under- or over-recovery for a summer is determined. It has not
141 provided context such as under- or over-recovery for other periods within the
142 year or in comparison to other rates classes. It has certainly not demonstrated
143 the cause of any under- or over-recovery. The Office asked for the underlying
144 calculations supporting these statements, as well as much more data that would
145 provide better context for evaluation, and the Company only provided residential
146 data for the the test periods associated with the last four rate cases. Such limited

147 data does not demonstrate overall revenue volatility for the class nor does it
148 support why new revenue assurances should apply only to the residential class.

149

150 Q. WHAT DO THE DATA PROVIDED BY THE COMPANY IN DISCOVERY
151 SHOW?

152 A. The data provided are not sufficient to draw any particular conclusions. Since
153 the Company did not provide comparable data for other classes, it is particularly
154 difficult to determine whether the variability is due to factors that would impact all
155 customer classes. For example, the under-recovery in 2008 and 2009 could be
156 due to economic downturn and may have been even more severe in other
157 customer classes. This would suggest that the Company is seeking a
158 mechanism to protect itself against harm just when all other sectors of the
159 economy and individuals are experiencing difficulties. On the other hand, some
160 of the variances between forecast and actual could be due to poor forecasting.
161 The Office notes that the Company recently revamped its load forecasting with
162 the assistance of an outside consultant. The old forecasting methodology was
163 likely used to produce at least three, if not all four, of the forecasts presented.
164 Finally, the variability could be primarily due to weather. If this is the case, it may
165 be preferable to consider some form of a symmetrical weather adjustment that
166 would equally protect both the company and customers.

167

168 Q. DO YOU HAVE ANY CONCERNS ABOUT THE REACTION OF THE
169 COMPANY TO THE DIVISION'S DECOUPLING PROPOSAL?

170 A. Yes. It is troubling that the Company characterizes the comprehensive review at
171 the end of the first year as "perhaps overstated." [Griffith Rebuttal, Page 8 Line
172 23 – Page 9 Line 1] At the same time, the Company is (not surprisingly)
173 supportive of the Division's proposed requirement for the Company to provide a
174 recommendation regarding the continuation of the program at the end of the first
175 year. If the Commission approves a pilot program, any review of its continuation
176 should be comprehensive and should encourage input and recommendation from
177 all interested parties.

178

179 *Response to Other Issues Learned Through Discovery*

180 Q. WHAT IS YOUR REACTION TO THE DIVISION'S RESPONSE TO DISCOVERY
181 SENT BY UCE-SWEEP³ ASKING ABOUT THE DIVISION'S DISCUSSIONS
182 AND MEETINGS WITH OTHER PARTIES PRIOR TO FILING ITS
183 DECOUPLING PROPOSAL?

184 A. First, I have a different recollection regarding the meeting described between Phil
185 Powlick and myself. I recall the meeting as being much too brief to have
186 included any sort of substantive discussion regarding the pros and cons of
187 decoupling. Rather, I believe we simply acknowledged the previously stated
188 views that we both hold. Further, I must confess that I did not leave the meeting
189 with the clear understanding that the Division would be proposing decoupling *in*
190 *this case*. Rather, I thought that the Division may be requesting or launching
191 some kind of task force to pursue the issue outside of the case. However, the
192 most troubling information within that response was the degree to which the
193 Division conferred with the Company prior to its filing.

194

195 Q. WHAT IS TROUBLING ABOUT THE DIVISION HAVING DISCUSSIONS WITH
196 THE COMPANY REGARDING ITS DECOUPLING PROPOSAL?

197 A. These discussions between the Division and the Company are one more
198 example of how the process followed in this case cannot reliably result in the
199 public interest being carried out. Clearly, the Division's discussions with the
200 Company were much more substantive than those held with other parties.
201 Further, there was no interactive discussion between all parties allowing for a full
202 examination of the pros and cons of decoupling in this specific circumstance, a
203 situation which I have earlier shown to be significantly different than that
204 associated with the other decoupling program in place in Utah. Finally, the

³ This discovery response is attached as Exhibit 4.

205 discussions between the Division and the Company raise concerns about the
206 proper relationship between regulators and a regulated utility. This is not a case
207 of any two parties in a case conferring on issues. The Division plays a role akin
208 to Commission staff in other jurisdictions and is often referred to by the
209 Commission as its “investigative arm.” Given this role and the stage of the
210 proceeding, the Division should not have engaged the regulated utility in a
211 discussion that included:

212 1/13/10 – Meeting between DPU (Artie Powell, Phil Powlick,
213 Abdnasir Abdulle, Marlin Barrow) and RMP/Pacificorp (Jeff
214 Larsen, Dave Taylor, Bill Griffith by phone). Explanation of
215 Questar decoupling mechanism. Discussion of mechanism
216 details. Discussion of rate design implications. General
217 agreement on concepts to be pursued. DPU to continue
218 working on details. [Exhibit OCS 8.4SR Beck]

219
220 Followed by, one month later:

221
222 2/16 – Phone conference between DPU (Artie Powell, Phil Powlick,
223 Abdinasir Abdulle) and RMP (Bill Griffith, Dave Taylor, James Zhang).
224 Walked through DPU prepared spreadsheet showing an example of how
225 to apply the Questar decoupling mechanism to RMP.

226
227 Significant changes in ratemaking policies, such as decoupling, and the public
228 interest require a deliberate, transparent and inclusive public process. If for no
229 other reason, this history requires the Commission to reject the Division’s
230 proposal within this case.

231

232 Summary and Conclusions

233 Q. PLEASE SUMMARIZE THE OFFICE’S POSITION REGARDING THE
234 DIVISION’S DECOUPLING PROPOSAL.

235 A. The Office has identified four reasons, each of which by itself is a reason why the
236 Commission should reject the Division’s proposal:

237 1. The manner in which the proposal was developed and the timing in which it
238 was presented within this case does not allow for a full presentation and

- 239 evaluation of associated issues. For example, the timing has precluded
240 the possibility of an ROE adjustment.
- 241 2. The proposal is inequitable and discriminatory by being applied only to one
242 class of customers.
- 243 3. The proposal constitutes a remedy to a problem, before determining a
244 cause. Given the unique history of earnings problems with this Company
245 and unresolved questions about appropriate multi-jurisdiction and class
246 allocation of costs, these issues should be fully analyzed and resolved
247 before moving forward with any kind of decoupling.
- 248 4. The burden of proof has not been met by the moving parties. Neither the
249 Division, nor any of the parties who support the Division's proposal have
250 presented substantial evidence that decoupling will result in the stated and
251 intended outcomes, upon which the Commission can base a decision. For
252 example, the Company still supports a residential rate design proposal
253 that places all of the class revenue increase on the fixed customer charge.
254 Also, if the intended outcome is increased conservation then the design
255 proposal should be tied to achievement of new, incremental conservation.

256

257 In addition to these clear reasons to reject the Division's decoupling proposal, the
258 Office also raised concerns that the proposal could result in intra-class inequities
259 for low use and low income customers. We recommend that such a potentially
260 serious result needs to be explored prior to implementation of decoupling, rather
261 than monitored during a pilot. The Commission should have relatively strong
262 assurance that inequities will not result prior to authorizing any rate design for
263 any length of time.

264

265 Q. WHAT IS THE OFFICE'S RECOMMENDATION?

266 A. The Commission should reject the Division's proposal. If the Commission is
267 interested in pursuing decoupling for Rocky Mountain Power, then it could launch
268 a separate proceeding to address the full scope of issues raised by the Office. In
269 particular, the issue of the Company's earnings should be resolved prior to the

270 consideration of any decoupling proposal. Also, the Commission should direct
271 the Division, and other parties, that decoupling must be introduced early enough
272 in any rate proceeding to allow for full consideration of all related issues,
273 including potential adjustments to the Company's ROE.

274

275 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

276 A. Yes it does.

277

278