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Representing Southwest Energy Efficiency
Project (SWEEP) and Utah Clean Energy
(UCE)

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	Docket No. 09-035-23
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SURREBUTTAL TESTIMONY OF RICHARD COLLINS

**ON BEHALF OF
SOUTHWEST ENERGY EFFICIENCY PROJECT
(SWEEP) and
UTAH CLEAN ENERGY (UCE)**

SWEEP and UCE submit the Rebuttal Testimony of Richard Collins in this docket.

DATED this 7th day of April, 2010.

Howard Geller
/s/ _____
Representing SWEEP

Sarah Wright
/s/ _____
Representing UCE

1 **Q. Please state your name and occupation.**

2 A. My name is Richard S. Collins. I am an Associate Professor of Economics and Finance
3 at Westminster College located at 1840 South 1300 East, Salt Lake City, UT 84108.

4 **Q. Are you the same Dr. Richard Collins who submitted direct and rebuttal testimony**
5 **in this proceeding on behalf of Southwest Energy Efficiency Project, (SWEEP) and**
6 **Utah Clean Energy, (UCE)?**

7 **A:** Yes, I am.

8 **Q: What is the purpose of your rebuttal testimony?**

9 **A:** I provide comments and surrebuttal testimony in response to the rebuttal testimony of
10 Rocky Mountain Power, (the Company) and the Office of Consumer Services, (OCS or
11 Office). SWEEP-UCE continue to support the recommendation of the Division of
12 Public Utilities (Division) to implement a decoupling mechanism that will recover the
13 fixed costs associated with the residential distribution costs identified by the Company in
14 its direct testimony. The adoption of the decoupling mechanism should be combined with
15 SWEEP-UCE's rate design for residential customers. This will provide greater assurance
16 that the Company will recovery its fixed costs and will meet the goal to provide
17 incentives for residential customers to utilize electricity more efficiently.

18 **SUMMARY OF TESTIMONY**

19 **Q: Can you provide a summary of your rebuttal testimony?**

20 **A:** SWEEP-UCE responds to the criticism of the Company about the accuracy of our
21 calculations of billing determinants and rates for the residential class in our Direct
22 Testimony. SWEEP-UCE acknowledge that errors in calculation occurred and make

23 corrections to our testimony. In addition, we respond to a variety of issues brought up by
24 the Office in connection to the Division's proposal to decouple rate recovery from kWh
25 sales for the fixed distribution costs of residential customers.

26 **Q: Could you describe the Rebuttal Testimony of William Griffith with respect to the**
27 **Division's decoupling proposal?**

28 **A:** The Company is supportive of the Division's proposal to decouple the fixed distribution
29 costs from kWh sales. This mechanism is designed to recover of these fixed costs
30 regardless of kWh sales. The Company expresses some concern about the reconciliation
31 process that assures cost recovery. The Company wants these fixed distribution costs to
32 be based on the number of customers served and have these fixed cost adjusted in
33 between rate cases if the number of customers changes. The Company expresses concern
34 about a six month true-up schedule and states its preference for an annual true-up
35 schedule. It requests a due date for its first report's of March 1, 2011. The Company
36 also recommends that the second year forecast be optional. The Company proposes a
37 new residential rate design that applies all of the 2.20 percent residential rate increase to
38 the residential customer charge which would increase this charge by \$1.45 to \$4.45.

39 **Q: Do you care to comment on the Company's proposed revisions to the Decoupling**
40 **Mechanism?**

41 **A:** Yes. SWEEP-UCE supports the Company's request to adjust residential fixed costs in
42 between rate cases to reflect changes in the number of customers. This will assure that
43 the fixed distribution charges are collected for the residential class. It assumes that if the
44 residential class grows in size then the fixed distribution costs will also grow

45 proportionally. Thus, this recommendation is based on the assumption that the actual
46 additional distribution cost per residential customer will be the same as the amount that is
47 collected for each additional customer. It should be the Company's burden to verify this
48 assumption. SWEEP-UCE agrees with the Company that an annual true-up schedule is
49 preferable to the six month schedule as it will save administrative costs. We also agree
50 that the first report should be due on March 1, 2010, but we maintain that the second year
51 forecast should be required.

52 **Q: Do you agree with the Company's rate design proposal to collect the entire**
53 **additional revenue requirement in the customer charge which will increase the**
54 **customer charge by \$1.45?**

55 **A:** No, I do not. SWEEP-UCE strongly opposes this proposed rate design for a number of
56 reasons. First of all, by requesting a customer charge that is greater than the amount
57 calculated under the Commission's approved methodology, the Company is implicitly
58 proposing that the Commission abandon its customer charge methodology. My
59 understanding is that under the Commission's approved method, the customer charge
60 should be \$3.83 and the Company is requesting \$4.45. The Company does not provide
61 any justification to the Commission for abandoning its long established methodology.
62 The Company's request is unreasonable given the fact that the decoupling mechanism
63 assures the Company that it will collect all of its fixed distribution costs which include
64 the costs of meters, meter reading and billing. Even if the customer charge is zero, the
65 Company will recover its fixed distribution costs. The Company's proposed rate design
66 is akin to buying mortgage insurance when you have already paid off the mortgage.

67 Secondly it robs the Commission the opportunity to lower revenue requirements in the
68 long run by increasing volumetric rates. Implementing higher volumetric charges along
69 with removing the throughput incentive through a decoupling mechanism will help
70 decrease growth of demand, which will help put a downward pressure on rates, given that
71 new generation is more expensive than existing generation. Adding more generation
72 resources will put greater pressure to raise rates to cover the higher costs. We are in
73 favor of decoupling because we feel that it addresses one of the main concerns about a
74 steeply tiered rate design that the Company could potentially be at risk for not collecting
75 its fixed distribution charges. The decoupling proposal put forth by the Division
76 eliminates that concern. SWEEP-UCE support the decoupling mechanism as a means to
77 keep customer charges low while advancing a rate design that promotes energy efficiency
78 and conservation.

79 **Q: Could you describe the Rebuttal Testimony of William Griffith with respect to**
80 **SWEEP-UCE's residential rate proposal?**

81 **A:** The Company did not support SWEEP-UCE's residential rate design proposal and our
82 proposed fourth tier which would increase the summer tail-block price by 34 percent. The
83 Company contends that this would significantly increase revenue volatility and erode the
84 Company's ability to recover its fixed costs. Moreover, given the errors contained in the
85 workpapers and calculations, Witness Griffith suggests that the SWEEP-UCE proposal
86 should be dismissed.¹

87 **Q: Would you care to respond to the Company's criticism of SWEEP-UCE's proposal?**

¹ See Griffith Rebuttal Testimony page 14 lines 7-8

88 **A:** Yes, I would. The Company is correct that there was a miscalculation of billing
89 determinants and this error produced rates that could have led to an over collection of
90 revenues. The error occurred when the spreadsheet failed to include customers with
91 usage over 5000 kWh. So when calculating rates to collect the revenue requirement,
92 those rates were spread over fewer kWh resulting in higher rates than necessary. The
93 error has been corrected and our recommended rates recalculated. We intend to resubmit
94 our Direct Testimony with the corrections to the Commission and parties to the docket.
95 However, we do not feel that an error in calculation is adequate reason to reject our
96 proposal. We hope that the Company is not suggesting that any testimony or
97 recommendation that contains an error in calculation be dismissed summarily by the
98 Commission. We are confident that the Company would not want the Commission to
99 adopt such a policy universally.

100 With regards to the Company's concern about revenue volatility and its ability to recover
101 its fixed costs, it should be noted that SWEEP-UCE share that concern and suggested that
102 an elasticity adjustment in the calculation of rates could be used. We feel that the
103 Division's proposed decoupling mechanism provides better assurance that the Company
104 will collect its fixed distribution costs for residential customers than such an elasticity
105 adjustment. Thus, decoupling and the SWEEP-UCE rate proposal will meet both
106 important goals of rate design, to allow the Company the opportunity to recover its costs
107 and to send a price signal to customers to utilize their consumption of electricity
108 efficiently. The Company's proposal addresses the first goal of revenue assurance but
109 fails to address the efficiency goal.

110 **Q: OCS witness Gimble recommends that a Utah Marginal Cost Study be completed**
111 **prior to adopting changes to the overall rate structure (p. 7 of Gimble rebuttal**
112 **testimony, lines 183-186). Do you agree with this recommendation?**

113 **A:** No I do not. The Commission has approved a rate increase for the Company in Phase 1 of
114 this rate case and residential rates will be increased in some fashion. SWEEP-UCE
115 believe that this should be done in a manner that reduces growth in summer peak demand
116 and thus avoids the need for costly new electricity supply investments. Although, the
117 Company has not performed a Utah specific marginal cost study, it has performed such
118 studies for its Oregon and California jurisdictions. SWEEP-UCE believes that long term
119 generation costs are most pertinent cost in determining rate design because one goal of
120 our rate design proposal is to help avoid the necessity of building new generation. Thus,
121 the relevant marginal cost data for determining rates is the future cost of energy and
122 demand. State-specific distribution costs are irrelevant because the decoupling
123 mechanism, if adopted, will recover those costs. As shown in the Table 1 below², the
124 Oregon marginal costs for demand and energy for residential customers over the next ten
125 years is 16.727 cents per kWh. This is well below the SWEEP-UCE recommended rate
126 for its fourth tier of 14.72 cents per kWh. It should be noted that the Company's estimate
127 for California residential customers is identical to Oregon's.

2. This table came from the Company's Marginal Cost Study provide to SWEEP in its Data Request 2.1

144 negates concerns about elasticity effects in designing rates at least for the portion of rates
145 covered by the decoupling mechanism. Under this true-up mechanism, the Company will
146 collect its approved level of distribution fixed costs, no more and no less.

147 **Q: OCS witness Gimble has concerns about SWEEP-UCE using actual data for one**
148 **year rather than weather-normalized data to show the percentage of bills and**
149 **percentage of electricity use in each of the four summer tiers proposed by SWEEP-**
150 **UCE (pp.7-8 of Gimble rebuttal testimony). Do you agree with this concern?**

151 **A:** No I do not. The data shown in Table 5 in my direct testimony are striking. The point
152 that a small number of customers, i.e., very high use customers, account for a
153 disproportionate share of summer electricity use, and that a significant number of
154 customers, namely lower usage customers, account for a disproportionately small fraction
155 of total summer electricity use, is true whether or not it is a relatively hot, normal or cool
156 summer. We requested weather normalized usage by usage level and the Company was
157 unable to provide such information at that level of granularity.

158 **Q: OCS witness Beck argues against the Division's decoupling proposal in part because**
159 **she claims it is untimely and should have been proposed in the revenue requirement**
160 **and cost of service phase of the proceeding (pp. 2-3 of Beck rebuttal testimony). Do**
161 **you believe this concern has merit?**

162 **A:** No I do not. I believe that the decoupling proposal is a rate design proposal and as such
163 was appropriate to make in the rate design phase of the case, not in the revenue
164 requirement and cost of service phase.

165 **Q: OCS witness Beck argues against the Division's decoupling proposal in part because**

166 **it does not account for risk and adjust the Company’s ROE or tie cost recovery to**
167 **performance goals (pp. 3-5 of Beck rebuttal testimony). Do you believe these**
168 **concerns have merit?**

169 **A:** For this particular decoupling proposal I do not. The Division’s proposal is to only
170 decouple the Company’s recovery of approved fixed distribution costs per residential
171 customer from the level of electricity sales. It is a moderate decoupling proposal and
172 reduces the risk against the non-recovery of residential fixed distribution costs. A full
173 blown decoupling mechanism may well merit an examination of the ROE but for this
174 case I do not believe a ROE adjustment is necessary. It should be noted, that the
175 decoupling proposal protects consumers - including low-income consumers - from
176 overpaying the Company for fixed distribution costs when sales exceed the level upon
177 which rates are based, and protects the Company from under collecting its approved fixed
178 distribution costs when sales are below the level upon which rates are based. The
179 mechanism cuts both ways, something Ms. Beck fails to acknowledge.

180 The notion that a decoupling mechanism “cuts both ways” is not just a theoretical claim;
181 it is born out by real world experience. The attached article on decoupling experience
182 published in the Electricity Journal in October 2009³ is the best review of decoupling
183 experience that I know of (attached as Exhibit 1). Figure 2 (pg 86) in the paper shows
184 that decoupling mechanisms adopted for other electric utilities have resulted in refunds
185 10 times and surcharges 13 times. In addition, the Lesh study showed that the majority of

³ Pamela Lesh, Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive Review, Electricity Journal (October 2009).

186 rate adjustments due to decoupling were less than $\pm 1\%$ ⁴.

187 Regarding performance goals and incentives, SWEEP-UCE support providing investor-
188 owned utilities performance-based incentives for superior DSM program performance.
189 Such incentives are already offered to utility shareholders in numerous states.⁵ They are a
190 complement to decoupling, not a substitute for decoupling. And both removal of
191 disincentives and creating positive incentives for energy efficiency and conservation are
192 supported in the H.J.R. 9 resolution adopted by the Utah legislature in 2009⁶.

193 **Q: OCS witness Beck argues against the Division's decoupling proposal in part**
194 **because of claimed fairness concerns within the residential class, in particular**
195 **because it does not discriminate among customers that are efficient and those that**
196 **are wasteful in their use of electricity In particular, she states "These low-use**
197 **customers will now pay a decoupling surcharge to compensate the Company for a**
198 **possible lower revenue stream due to changes in behavior of larger residential**
199 **users." (p. 10 of Beck rebuttal testimony lines 280-283). She also expresses concern**
200 **about low income customers and their ability to pay for these surcharges. Do you**
201 **believe these concerns have merit?**

202 **A:** No I do not. In regards to the intra-class equity concern, the proposed true-up mechanism
203 applies the same charge per kWh for all residential customers, based on the amount of
204 money in the balancing account (positive or negative). Thus in dollar terms, higher use

4 Ibid.

5 See the 2009 RAP presentation by W. Shirley, J. Lazar and L. Schwartz, for example.

http://www.raponline.org/showpdf.asp?PDF_URL=%22docs/RAP_Lazar_Schwartz_Shirley_Idaho_Webinar_Utilit_yEEfinancialIncentives_2009_11_20.pdf%22.

6 HJR 09 S01: *Joint Resolution on Cost-effective Energy Efficiency and Utility Demand-side Management*, Utah State Legislature, 2009 General Session, available: <http://le.utah.gov/~2009/htmdoc/hbillhtm/hjr009s01.htm>.

205 customers would pay more than lower use customers when the surcharge is accessed.
206 This is a fair and appropriate way to implement such a true-up mechanism. And as noted
207 above, the mechanism can result in either a refund or a surcharge depending on whether
208 the Company has under-collected or over-collected its approved fixed distribution costs
209 per customer.

210 Furthermore, SWEEP-UCE have proposed strengthening inverted block rates in the
211 summer and initiating a two-block system in non-summer months. Adopting our rate
212 proposal would in fact enhance the affordability of electricity for low usage households.
213 But as we noted in our rebuttal testimony, our rate design proposal does add to
214 uncertainty regarding collection of the company's authorized fixed cost recovery.
215 Adopting decoupling addresses this concern and hence facilitates adoption of our rate
216 design proposal. Moreover, adopting decoupling as proposed by the Division and our rate
217 design proposal in combination will do more to enhance the affordability of electricity for
218 low usage, often lower income households, than OCS's rate design proposal along with
219 their recommended rejection of the decoupling mechanism.

220 **Q: OCS witness Beck argues against the Division's decoupling proposal in part**
221 **because it only applies to the residential customer class (p. 6 of Beck rebuttal**
222 **testimony). Do you believe this concern has merit?**

223 **A:** No I do not. The article by Pamela Lesh attached as Exhibit 1 to my testimony shows that
224 most states with decoupling have adopted a per class calculation and adjustment (see
225 Table 2, pg 70 in the Lesh article). This means that the mechanism determines the
226 difference between authorized revenue and actual revenue on a per class basis and

227 provides the resulting refund or surcharge to that class, independent of the adjustment for
228 other classes. So if the Division had proposed and the Commission adopted a decoupling
229 mechanism for all customer classes in the same manner as is done in most states, the net
230 result would be same for the residential class as is the case with the Division's residential
231 sector only proposal. In either case, the residential true-up adjustment would be based on
232 residential revenue only, comparing authorized and actual revenue per residential
233 customer, period. Having said this, SWEEP-UCE do not object to broadening the scope
234 of decoupling to include other customer classes. But not including other customer classes
235 under the pilot mechanism is not a good reason for rejecting decoupling for the
236 residential class.

237 **Q: Do you believe that the Commission must choose the rate design of a given party in**
238 **its entirety or is the Commission free to make its determination of each rate element**
239 **separately?**

240 **A:** I believe that the Commission has great latitude in approving rate design. The
241 Commission should decide each rate element based on the merits of the evidence on the
242 record. Rate design requires fluidity because if one element changes then all other
243 elements must change in order to assure the collection of the authorized revenue
244 requirement. For example, if the Commission felt that the customer charge should stay at
245 \$3.00 then the SWEEP-UCE rate proposal would have to be recalculated to assure that
246 the approved revenue requirement is collected. If the Commission chooses to implement
247 a fourth tier it could choose a rate for that tier that it feels is justified based on evidence
248 that is on the record. Or if the Commission does not feel that a fourth tier is justified but

249 feels that a stronger price signal is necessary for the tail block rate then it can set that rate
250 at a higher level and not be tied to a specific party's recommendation.

251 **Q: Is there a model or easy way for the Commission to make such adjustments?**

252 **A:** Yes, there is. SWEEP-UCE developed such a model and made it available to the OCS
253 via a data request. The model can be made available to the Commission if desired.

254 **Q: Does that complete your rebuttal testimony?**

255 **A:** Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent by United States mail, postage prepaid, or by email this 7th day of April 2010, to the following:

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