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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>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</b>	<b>Docket No. 09-035-23</b>
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**PREFILED SURREBUTTAL TESTIMONY OF NEAL TOWNSEND**

**[RATE DESIGN]**

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The UAE Intervention Group (UAE) hereby submits the Prefiled Surrebuttal Testimony of Neal Townsend on rate design issues.

DATED this 7th day of April, 2010.

/s/ \_\_\_\_\_  
Gary A. Dodge,  
Attorneys for UAE

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email

this 7<sup>th</sup> day of April, 2010, on the following:

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**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF UTAH**

**Surrebuttal Testimony of Neal Townsend**

**On behalf of**

**UAE**

**[Rate Design]**

**April 7, 2010**

**SURREBUTTAL TESTIMONY OF NEAL TOWNSEND**

**Introduction**

**Q. Please state your name and business address.**

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

**Q. By whom are you employed and in what capacity?**

A. I am a Senior Consultant in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

**Q. Have you previously filed testimony in this proceeding on behalf of UAE?**

A. Yes, I filed both direct and rebuttal testimony in the rate design phase of this docket.

**Q. Given that non-residential rate design issues have been resolved by stipulation, why is UAE filing surrebuttal testimony on residential rate design issues?**

A. Although UAE members may not be directly affected by the various residential rate design and decoupling proposals being advanced in this proceeding, they believe that sound ratemaking principles should be utilized in Utah and they are concerned about the practical precedential effect of the Commission's resolution of disputes that have arisen in this phase of this docket.

1 **Overview and Conclusions**

2 **Q. To whose rebuttal testimony will you respond?**

3 A. I am responding to the rebuttal testimony on inverted tail block rates and  
4 decoupling filed by witnesses for the Division of Public Utilities (Division), the  
5 Office of Consumer Services (OCS), Rocky Mountain Power (RMP), Southwest  
6 Energy Efficiency Project/Utah Clean Energy (SWEEP/UCE), Western Resource  
7 Advocates (WRA) and Salt Lake Community Action Program (SL Cap).

8 **Q. What are your primary conclusions and recommendations?**

9 A. My primary conclusions and recommendations are (i) that any perceived  
10 benefits of using an inverted block rate structure or assigning a disproportionate  
11 increase to tail block rates for residential customers do not apply to commercial or  
12 industrial customers; (ii) the Division's proposed revenue decoupling proposal for  
13 residential fixed distribution costs have not been adequately supported on this  
14 record; and (iii) revenue decoupling for commercial/industrial rate classes would  
15 be inappropriate.

16  
17 **Inverted Block Rates**

18 **Q. Have you reviewed the rebuttal testimony filed in this docket in support of a  
19 disproportionate increase to residential tail block rates?**

20 A. Yes. Several proposals have been made or supported in this docket to  
21 increase residential tail block rates. Some proposals (like those advocated by  
22 DPU, WRA and SWEEP/UCE) propose rather extreme changes in the existing  
23 tail-block structure or rates. Others (like those advanced by RMP and OCS)

1 propose more moderate changes to the existing tail block structure and rates.

2 While UAE members are not directly affected by increased residential tail block  
3 rates, they may be impacted by the Commission's reasons for increasing the same.

4 **Q. What are the primary reasons advanced by proponents for increasing tail**  
5 **block rates disproportionately?**

6 A. Increased tail block rates have been suggested primarily as a means of  
7 sending proper price signals and encouraging energy efficiency. Whether or not  
8 these arguments are valid with respect to residential rate design, they are not valid  
9 with respect to commercial or industrial customers.

10 **Q. Why are inverted block rates inappropriate and unnecessary for commercial**  
11 **and industrial classes?**

12 A. Commercial and industrial customers typically operate in fiercely  
13 competitive business environments that provide strong financial incentives to  
14 utilize energy efficiently. To simply increase tail block rates without regard to a  
15 customer's previous efficiency efforts or sound cost-causation principles would  
16 result in unreasonable and unfair cost shifts among business customers. Such a  
17 blunt instrument is inappropriate and unnecessary in the context of  
18 commercial/industrial rates.

19 As I explained in my rebuttal testimony, unlike residential customers,  
20 differences in energy usage levels among commercial and industrial customers  
21 cannot reasonably be assumed to result from individual consumption choices or  
22 preferences. Rather, energy usage variations stem largely from different business  
23 requirements. Unless the number of commercial and industrial rate classes are

1 increased dramatically so that each class includes only largely homogenous  
2 customer types, it would be unreasonable and inequitable to shift rates among  
3 customers based solely on higher usage levels.

4

5 **Decoupling**

6 **Q. How did you respond to the Division's revenue decoupling proposal for**  
7 **residential fixed distribution costs?**

8 A. Because UAE's members do not take service on residential schedules and  
9 would not be directly affected by the Division's partial decoupling proposal, I did  
10 not take a specific position on the Division's proposal in my rebuttal testimony.  
11 However, I explained that UAE is conceptually opposed to revenue decoupling as  
12 an unwarranted application of single-issue ratemaking and a reduction in utility  
13 risk without a corresponding reduction in authorized return on equity (ROE).

14 **Q. What is your response to the rebuttal testimony filed by other parties in this**  
15 **docket in response to the Division's decoupling proposal?**

16 A. I agree generally with several valid concerns raised by the Office and SL  
17 CAP about the Division's decoupling proposal. For example, I agree that the  
18 schedule in this case and the timing of the Division's proposal have resulted in an  
19 inadequate opportunity for interested parties to evaluate the Division's specific  
20 decoupling proposal or to consider alternative decoupling or other rate design  
21 proposals that may better address the "problems" perceived by the Division. The  
22 schedule may also have precluded active participation by others who may be  
23 interested in decoupling. More importantly, the schedule and timing effectively

1 eliminate the opportunity for the parties to address or the Commission to evaluate  
2 the risk-reducing implications of the Division's decoupling proposal on the  
3 utility's ROE.

4 The decoupling proponents in this docket tend to minimize or disregard  
5 the legitimate concern that a reduction in the utility's risk should be accompanied  
6 by a reduction in ratepayer cost in the form of ROE. A utility's ROE is intended  
7 to compensate for risk and a reduction in risk warrants a reduction in ROE.  
8 Indeed, this Commission expressly held that the Questar Gas Company (QGC)  
9 decoupling mechanism reduced QGC's risk, and it specifically considered that  
10 reduced risk in setting QGC's authorized ROE. (Report and Order on Revenue  
11 Requirement Docket 07-057-13, at 14-15, June 27, 2008). Given the schedule in  
12 this case and the timing of the decoupling proposal, the parties cannot effectively  
13 introduce evidence on the impact of the Division's decoupling proposal on RMP's  
14 ROE and the Commission cannot effectively consider that issue. In my view, that  
15 flaw alone should be fatal to adoption of the Division's proposal in this docket.

16 I also agree with the Office and SL CAP that the record in this case does  
17 not adequately support the need for this or any other particular "fix" to the  
18 "problems" suggested by the Division. For example, I believe that insufficient  
19 evidence exists on the record to demonstrate that RMP lacks a reasonable  
20 opportunity to recover its fixed distribution costs, that RMP needs further  
21 incentives to pursue demand side management and energy efficiency programs, or  
22 that the Division's proposed decoupling mechanism would effectively resolve  
23 those problems in any event.

1 **Q. Do you have any other comments about the rebuttal testimony to the**  
2 **Division's decoupling proposal in this docket?**

3 A. Yes. Certain decoupling proponents (WRA and SWEEP/UCE) support  
4 more complete revenue decoupling mechanisms and/or extending decoupling to  
5 other customer classes. I strongly disagree. As explained in my rebuttal  
6 testimony, decoupling based on deviations in average usage per customer makes  
7 little sense when applied to customer groups that are not relatively homogenous in  
8 character. Moreover, industrial and commercial rate schedules employ cost-based  
9 customer and demand charges that offer effective rate design tools, making  
10 revenue decoupling unnecessary. Thus, whether or not decoupling is adopted for  
11 residential customers, I strong oppose revenue decoupling for  
12 industrial/commercial rate classes.

13 **Q. What is your recommendation to the Commission on the Division's**  
14 **decoupling proposal?**

15 A. I recommend that the Commission not adopt the proposal in this docket.  
16 If the Commission is convinced that some type of revenue decoupling or other  
17 rate design changes should be considered further, I suggest that the Commission  
18 direct the parties to undertake a thorough evaluation of the perceived need for any  
19 such changes, the effectiveness of any specific proposals in dealing with any  
20 demonstrated needs, and any related issues and implications.

21 **Q. Does this conclude your surrebuttal testimony?**

22 A. Yes, it does.