BEFORE THE UTAH PUBLIC SERVICE COMMISSION

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	))))))	DPU EXHIBIT 11.0 SR PHASE II DOCKET NO. 09-035-23 PHASE II: RATE DESIGN

Pre-filed Surrebuttal Rate Design Testimony

Of

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On Behalf of

Utah Division of Public Utilities

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Artie Powell, PhD

Direct Rate Design Testimony

Division of Public Utilities

Docket No. 09-035-23

Introduction

Q: Please state your name, business address, and employment position for the record.

A: My name is William "Artie" Powell; my business address is Heber Wells Building, 160 East 300 South, Salt Lake City, Utah; I am employed by the Utah Division of Public Utilities ("Division" or "DPU"); my current position is manager of the energy section.

Q: Are you the same Dr. Powell that filed direct and surrebuttal testimony in Phase I of this proceeding and direct testimony in Phase II of this proceeding?

A: Yes, I am. In Phase I, I filed direct testimony on behalf of the Division on October 8, 2009 and surrebuttal testimony on November 30, 2009. I also filed direct testimony in this phase of the case on rate design issues for the Division on February 22, 2010.

Q: What is the purpose of your rate design testimony?

A: I respond to rebuttal testimony of various witnesses including, Ms. Elizabeth Wolf on behalf Salt Lake Community Action Program; Ms. Michelle Beck for the Office of Consumer Services; Mr. Neil Townsend for the Utah Association of Energy Users; and Mr. William Griffith for PacifiCorp.

Q: In her testimony, Ms. Elizabeth Wolf articulates several concerns with the Division's proposed decoupling for the residential class. Are you familiar with these concerns?

A: Yes. The Division's proposed decoupling mechanism is similar to the decoupling mechanism in place for Questar Gas. However, Ms. Wolf points out that, at the time Questar Gas's decoupling mechanism, the Conservation Enabling Tariff or CET, was implemented, the circumstances for Questar Gas were different from the current circumstances for the Company. Particularly, at the time of implementing the CET, Questar was not promoting or sponsoring any energy efficiency programs and natural gas usage had been declining for several decades. The Company, on the other hand, is currently promoting a robust set of energy efficiency or demand side management ("DSM") programs while usage per customer continues to increase.

Q: Was the Division aware of these differences when it proposed the decoupling mechanism for the Company?

A: Yes. In fact, the Division addressed these differences extensively in its direct testimony. However, the Division also explained that its reasons for proposing decoupling for the Company in this case were different from the reasons for supporting decoupling for Questar Gas.

The Commission approval of the CET was in Docket No. 05-057-T01. With individual usage declining in the natural gas industry, gas utilities faced a

considerable financial disincentive to promote energy efficiency. The primary reason the Division supported decoupling for Questar Gas's distribution non-gas costs ("DNG"), was to remove that disincentive. However, in the present case, the primary reason the Division is proposing decoupling for the Company is to reduce or remove the disincentive that the Company may have in supporting or promoting rate designs that will encourage conservation. Therefore, Ms. Wolf's concerns regarding the different circumstances of the two utilities are not relevant.

Q: If usage per customer is increasing, does the Company have a disincentive to promote DSM?

A: Yes. While the disincentive for the Company may be weaker compared to Questar Gas, the Company still has a financial disincentive to promote DSM. Implementing decoupling for the Company, therefore, would have a secondary benefit of removing or mitigating any disincentive the Company may have. A third benefit is that decoupling removes or mitigates the incentive that the Company may have in promoting sales. By removing the disincentive to DSM and the incentive to promote sales, decoupling helps align better the interests of the Company and its customers.

Q: What other concerns did Ms. Wolf mention in her rebuttal testimony?

A: Other concerns addressed by Ms. Wolf include, (1) that the Division's proposed decoupling mechanism will shift risk from the Company to ratepayers; (2) that

parties have a limited amount of time to consider the decoupling mechanism; and (3) that there are multiple issues before the Commission dealing with the Company's cost recovery. Additionally, Ms. Wolf argues that decoupling will shift costs from large to low usage customers, especially low-income customers.

Q: Do you believe any of these concerns have merit?

A: No. I will address the first three concerns raised by Ms. Wolf and Dr. Abdinasir Abdulle will address the last concern.

Q: Do you believe that the decoupling mechanism as proposed by the Division will shift risk from the Company to ratepayers?

A: No. I addressed this argument, which is similar to arguments raised by the Office of Consumer Services' witness Ms. Michelle Beck, in my direct testimony at lines 417 to 428. In particular, I cited an independent report indicating that the decoupling experience in California indicated that risk shifting was either small or non-existent. This conclusion is consistent with the findings by Mr. Daniel Hansen, a consultant hired by the Division to review Questar Gas's CET in Docket 05-057-T01.

After reviewing decoupling mechanisms in general, and the CET in particular, Mr. Hansen concluded that,

> The CET contains the fundamental design elements that are preferred based on the evaluation of decoupling

> design alternatives contained in Section 3 [Evaluation of Design Alternatives]. Specifically, it combines [revenue per customer decoupling] (which reduces concerns regarding incentives to promote economic growth and provide quality customer service) and a separate weather adjustment mechanism (which reduces weather risk for both the utility and its customers). The analysis contained in Section 5.2 [Analysis of Risk Shifting under Questar Gas's CET Mechanism] shows that the ***shifting of economic and commodity price risks is not expected to be a problem in this situation***.[1]

Mr. Hansen went on to say that,

> The primary concern regarding decoupling is that it shifts risk from the utility to its customers. However, the recommended decoupling mechanism actually reduces customers' (and the utility's) weather risk. In addition, while decoupling does shift risks due to economic conditions and commodity prices to consumers in theory, the magnitude of the risk shift in practice is unclear. Utility-specific estimates of this risk should be conducted to assess whether it is worthwhile to mitigate this risk (or compensate customers through a reduction in the utility's allowed rate of return). ***An analysis of this kind conducted***

[1] Daniel G. Hansen, "A Review of Natural gas Decoupling Mechanisms and Alternative Methods for Addressing Utility Disincentives to Promote Conservation," Christensen Associates Energy Consulting, LLC, May 2007, p. 19; Docket No. 05-057-T01, DPU Exhibit 6.1 (DGH-A.1), May 2007. (Emphasis added).

for Questar Gas did not discover the potential for a shifting of economic or commodity price risks due to the Conservation Enabling Tariff.[2]

Therefore, based on the information provided in this docket as well as the previous Questar Gas docket, and given that the design proposal for the Company's decoupling is similar to that of the CET, I conclude that the risk of risk shifting is very slight or nonexistent.

Q: Ms. Wolf specifically mentions that risk shifting may result from "Company mismanagement" and removal of "regulatory lag." Do you have any comments on this part of her argument?

A: I fail to see how someone could seriously make this argument, which I addressed in my direct testimony at lines 388 to 393. The Division's proposal is for a **revenue** decoupling mechanism, a mechanism that decouples revenues from sales. The mechanism does not decouple costs from sales. Therefore, the Company has the same incentive with or without the decoupling mechanism to control its costs. Since decoupling does not affect the Company's incentive to control its costs, regulatory lag still provides an incentive for the Company to act efficiently between rate cases.

[2] Hansen, p. 25. (Emphasis added).

Q: Ms. Wolf also argues that risk will shift from the Company to ratepayers for other reasons, for example, variations in weather or economic conditions. Do you have any comments on this part of her argument?

A: Since I have demonstrated that the Division's proposal will not shift risk, I will not belabor this point much further. However, I do have some general observations about weather adjustments and economic impacts. First, Questar Gas has a weather adjustment mechanism that is separate from the CET that has not been an issue in recent rate cases. It is inconsistent to treat the Company differently by claiming that compensating it for weather variation is an unacceptable shifting of risk. Again, the Division's proposed decoupling is symmetrical: if usage varies for weather or other reasons, the decoupling ensures that the Company will only collect the Commission allowed per customer revenue.

Second, although in general regulation is a substitute for competition,[3] there is at least one important difference between a regulated utility and an unregulated competitive firm: relative to the utility, the unregulated firm has the ability to change its prices (up or down) quickly in response to changing economic circumstances. Decoupling provides a similar opportunity in that the utility would be able to recover its Commission allowed fixed costs—and only its allowed fixed costs— as economic circumstances change.

[3] See, for example, James C. Bonbright, "Competitive Price as a Norm for Rate Regulation," in Principles of Public Utility Rates, Columbia University Press, New York, New York, 1961, pp. 93-108.

Q: Do you have any final remarks about risk shifting under the Division's proposed decoupling mechanism?

A: Yes. Questar Gas's costs are roughly split 70%/30% between its commodity costs, which pass through the 191 Account, and its distribution non-gas ("DNG") costs. As of December 2009, the CET, which applies only to the DNG costs for the GS class, covers approximately 27% of Questar Gas's total revenue. In contrast, the Division's proposed decoupling mechanism for the Company covers approximately 30% of the Company's residential revenue, which equals approximately 39% of the Company's total tariff revenue. Thus, the decoupling mechanism would cover or decouple only about 11.7% (=0.39*0.30) of the Company's revenue. On a percentage basis, therefore, the impact of risk shifting, even if it existed, is much less for the Company than it is for Questar.

Additionally, the decoupling mechanism proposed by the Division is symmetrical. That is, if usage were greater than the forecast then, without decoupling, the Company would over-collect from ratepayers. Similarly, if usage were less than forecast, the Company would under-collect from ratepayers. With decoupling, however, the Company collects only that revenue allowed by the Commission. Thus, in this regard, instead of shifting risk when usage differs from forecast, decoupling will reduce the risk for both ratepayers and the Company.

Q: Ms. Wolf argues that is would have been more appropriate to consider the Division's proposed decoupling mechanism early in this proceeding when other factors could have been considered. Do you agree with this criticism?

A: Again, this argument closely parallels the arguments of Ms. Beck on behalf of the Office.

Nevertheless, for several reasons, I do not believe that this is a valid criticism. First, the argument presumes that the Division knew before the rate case began, that it would propose decoupling for the Company's residential ratepayers, when in fact, the Division only made that decision well after the rate case began. Furthermore, the Division informed parties in the case as soon as practical after deciding to pursue a decoupling proposal in this case. Second, the Division views decoupling as a rate design issue. Since the case was bifurcated by Commission order, this is the proper time to consider rate design issues. Third, the implementation of Questar Gas's CET took place through a tariff docket, Docket No. 05-057-T01, more than a year before a rate case, with the explicit understanding that parties could propose adjustments to the CET at anytime during the pilot. The Division's proposal in this case contains the same provisions: parties have the right to review the decoupling mechanism and can propose changes that they believe are appropriate. Fourth, it is common for parties to propose issues in a rate case well after intervention deadlines have passed without informing others of their intent prior to the beginning of a case.

Furthermore, parties that have not intervened at this point will have an opportunity to offer sworn or unsworn testimony at a public witness hearing, which parties will have little if any opportunity to rebut.

Q: Ms. Wolf and Ms. Beck argue that the Division's proposal cannot be examined adequately in the remaining time for this case. Do you agree?

A: No. However, Ms. Wolf is correct in observing that, "the Questar case was accomplished over a substantial period of time."[4] Indeed, the Questar case, including the investigation leading to the joint application between Questar Gas and the Division, took over two years. What Ms. Wolf fails to point out, however, is that many of the arguments she and Ms. Beck jointly raise in this case were investigated and debated by the parties, and decided by the Commission in the Questar proceedings.

Q: Do you believe that many of the issues raised by Ms. Wolf and Ms. Beck were resolved in the Questar case?

A: Yes. In this regard, it is interesting to note the parallels between Questar Gas's and the Company's current circumstances if the Commission adopts the Division's decoupling proposal. Both utilities would have robust DSM programs with similar decoupling mechanisms in place.

[4] "Rebuttal Testimony of Elizabeth A. Wolf," March 23, 2010, Docket No. 09-035-23, lines 178-179, p. 8.

Q: Do you agree with Ms. Beck's observation that "it certainly appears that expanding the [Company's] DSM programs significantly beyond the current levels of expenditure would be met with resistance"[5]?

A: Yes I do. I also agree with Ms. Beck's observation that, "PacifiCorp currently faces substantial resource deficits, future fuel price risk as new natural gas plants are acquired, and potential carbon legislation."[6] However, I believe Ms. Beck draws from these facts the erroneous conclusion that it is unnecessary to ensure that the Company continues to pursue DSM programs. In fact, the two forces underlying these statements, third party opposition to expanding DSM expenditures and the risk of the Company's current and future resource mix, are in some sense in opposition. On the one hand, strenuous opposition to expanding DSM expenditures may dampen the Company's enthusiasm for DSM. On the other hand, the Company's portfolio risk may encourage the Company to pursue expansion of its DSM programs. While encouraging DSM expansion was not the Division's primary purpose in pursuing decoupling in this case, decoupling will help mitigate any reluctance the Company may have in pursuing cost effective DSM in the future.

Again, the Division's goal is to promote both conservation and efficiency. In this case, however, the primary motivation in proposing decoupling is to

[5] "Rebuttal Rate Design Testimony of Michele Beck for the Office of Consumer Services," ("Ms. Beck Rebuttal"), March 23, 2010, Docket No. 09-035-23, lines255-257, p. 9.

[6] Ms. Beck Rebuttal, lines 259-261, p. 9.

emphasize conservation. While DSM programs can encourage customers to change out their lights for more efficient bulbs, DSM programs are not good at simply getting people to turn off the lights.[7] Proper price signals are needed to accomplish conservation and the Division's decoupling proposal will allow flexibility in designing such rates.

Q: Ms. Wolf and Ms. Beck argue that it is inappropriate to consider the Division's proposal at this time since the revenue requirement portion of the case has concluded. In particular, the argue that other factors such as a reduction in the Company's risk profile and a commensurate reduction in the Company's return cannot be taken into account. Do you believe this argument is valid?

A: No. First, as I previously explained, the return for Questar Gas was set more than 18 months after the initial implementation of the CET pilot. Second, although parties argued in the Questar Gas proceeding that the Company's return should be adjusted downward, parties were unable to quantify what that reduction might be. Third, in Questar Gas's case, the percent of revenues covered by the CET are much larger than for the Company. The CET covers approximately 27% of Questar Gas's revenue, while the decoupling mechanism proposed by the Division will cover approximately 12% of the Company's revenue.

[7] Supposedly, education can, over time, encourage people to change their behavior and conserve energy consumption in addition to curtailing their consumption through direct DSM applications.

Q: Do you agree with Ms. Wolf that further, "study is necessary to determine whether such a program would be warranted in the future"?[8]

A: No. The Division does not believe that further study is necessary at this time. As I previously explained, the issues raised by Ms. Wolf were investigated thoroughly during the Questar Gas proceeding and the CET is working according to expectation. Furthermore, similar to when implementing the CET, the Division is proposing a 3-year pilot program with a comprehensive review at the end of the first year. Parties can propose adjustments at the review or, for that matter, at any time during the pilot.

Q: Ms. Wolf also argues that there are too many moving parts. In particular, the Commission is currently considering an Energy Cost Adjustment Mechanism or ECAM. Do you believe that this is a valid argument?

A: No. First, this phase of the rate case will be concluded prior to the conclusion of the ECAM docket. Additionally, the Division's support for and proposal of a decoupling mechanism would likely not be affected by the outcome of the ECAM case. Indeed, whether the Company has decoupling or not is more likely to affect the type of ECAM mechanism the Division would support. Thus, the Division believes the timing is appropriate and that any future ECAM decision can take into account the decisions from this phase of the rate case. Second, the two, decoupling and an ECAM, are conceptually different. Decoupling addresses the

[8] Ms. Wolf, lines 52-53, p. 3.

problem of recovering fixed costs through volumetric rates whereas, an ECAM addresses the problem of covering volatile net power costs given a fixed revenue requirement.

Q: Ms. Wolf objects to implementing a "decoupling mechanism primarily to secure stable revenues for the Company."[9] Is securing revenues for the Company one of the reasons for the Division's proposing decoupling for the Company?

A: Yes. In fact, proponents of decoupling often characterize decoupling as a revenue stabilization mechanism. However, this is not the only or full reason that the Division is proposing decoupling in this case. Our primary purpose is to provide sufficient flexibility in designing rates that will promote conservation, namely, increasing the tail block rate relative to the first and second block rates. If the primary purpose were to stabilize the Company's revenues, the Division would not have proposed an alternative rate design in the case where the Commission rejects our decoupling proposal. Our alternative proposal, similar to Ms. Wolf's, increases the customer charge slightly along with each block rate.

Additionally, Ms. Wolf's objection seems to imply that the only way to incent customers to conserve or use energy more efficiently is through DSM programs. This is not true. There is a strong link between prices and behavior as economic theory and reality show. These concepts are the basis for the Division's decoupling and rate proposals: decoupling will mitigate the Company's concerns

[9] Ms. Wolf, lines 223-224, p. 10

over increasing the tail block rate and the incentive the Company may have to promote sales, while the higher tail block rate, through the customer's elasticity of demand, will promote conservation and efficiency.

Q: Ms. Beck argues that elasticity studies should be conducted to determine whether there is a strong link between prices and conservation. Do you agree?

A: While it is true that a specific study for Rocky Mountain Power would be interesting from an academic point of view, I do not believe that it would be that useful or provide information that is not already readily available from other studies, which generally indicate that the demand for electricity is relatively inelastic.

Q: Can you define what you mean by inelastic?

A: Elasticity measures the response in the quantity demanded given a change in the price. Technically, the coefficient of elasticity is defined as the ratio between the percentage change in the quantity demanded and the percentage in price:

$$\xi_d = \frac{\%\Delta Q_d}{\%\Delta P_q} \quad (1)$$

While there is an inverse relationship between the quantity demanded (Q_d) and price (P_q), we can ignore the negative sign. Thus, if the elasticity coefficient, ξ_d, is between zero and one, demand is said to be inelastic—the demand response is

less than the change in the price; if the coefficient is greater than one demand is elastic and the demand response will greater than the change in the price.

Studies have shown that the demand for electricity is relatively inelastic. That is, the coefficient of elasticity is less than one. For example, a study produced by the RAND Corporation reports elasticities between 0.211 in the short-run and 0.267 in the long-run.[10] Given these small elasticities, relatively large changes in the price will be necessary to evoke a demand response.

For example, the Office proposes increasing the tail block rate by approximately 2.8% (from $0.1112 to $0.1144), whereas, the Division is proposing increasing the tail block rate by approximately 10.9% (from $0.1112 to $0.1234). As can be seen in Table 1, using the Office's price change generally evokes a demand response in both the short- and long-runs of less than one percent. The Division's proposed price change evokes a demand response between 2.3% and 2.9% in the short- and long-runs respectively.

Therefore, in order to evoke a significant demand response it is necessary to move or increase rates substantially. The Division's decoupling proposal will allow the necessary flexibility to design rates that should evoke a substantial demand response while mitigating the concerns of the Company to collect its fixed

[10] Mark A. Bernstein and James Griffin, "Regional Differences in the Price-Elasticity of Demand for Energy," RAND Corporation, Santa Monica, California, 2005.

costs. Thus, both the Company and its ratepayers benefit from the Division's proposal.

Table 1: Residential Price Elasticity of Demand for Electricity

	95% Confidence Interval		
	Lower Bound	**Midpoint**	**Upper Bound**
Short-Run Elasticity	-0.285	-0.211	-0.136
Demand Response			
@ 2.8% Price Change	-0.80%	-0.59%	-0.38%
@ 11% Price Change	-3.11%	-2.30%	-1.48%
Long-Run Elasticity	-0.362	-0.267	-0.172
Demand Response			
@ 2.8% Price Change	-1.01%	-0.75%	-0.48%
@ 11% Price Change	-3.95%	-2.91%	-1.87%

Q: Ms. Beck argues that neither the Company nor the Division have shown a link between conservation and the Company's earnings. Given the Division's rate design proposals for the residential class in this case, do you believe that a demand response in the range of 3% could affect the Company's earnings?

A: Yes. As was established during the revenue phase of this case, the Company has consistently under earned relative to its allowed rate of return. A three percent demand response to higher tail block rates may erode, in my opinion, further the Company's ability to earn its allowed return. Both economic and financial theory support this conclusion—a decrease in sales, *ceteris paribus*, will decrease the

Company's revenue and, thus, decrease its profitability. However, the intention of the Division's proposal is not to resolve the entirety of the Company's earnings problem, but rather to balance the concerns of the Company over increasing the tail block rate with the need for efficiency and conservation.

Additionally, keep in mind that the RAND long-run elasticity estimate is relatively conservative. Other studies have found much larger estimates. A larger long-run elasticity would evoke an even larger demand response than the 3% indicated by the RAND study. Therefore, it is imperative that, if the Commission adopts a rate design that promotes conservation and efficiency through higher tail block rates, it also adopt mechanisms to stabilize the Company's revenue. Again, the Division's decoupling and rate design proposal achieves this end by balancing the concerns of the Company while promoting conservation.

Q: Would the Division support decoupling absent a significant increase in the tail block rate that it has proposed?

A: No. For the reasons discussed herein and in the Division's direct testimony, the Division only supports decoupling at this time if tail block rates are designed to encourage conservation.

Q: One of the Office's witnesses, Ms. Beck, argues that it is inappropriate to target only the residential class. Do you agree with her argument?

A: No. The Division believes that it is appropriate and logical to limit decoupling to the residential class. First, other schedules have alternative mechanisms to collect fixed costs. For example, Schedules 6, 8, and 9 include demand and other charges. Second, the residential schedule is the only inverted block rate. Adoption of the inverted block rate was, as I understand it, primarily to promote conservation. In this case, the Division's focus was on encouraging conservation and, thus, logically, focused on the residential class. Third, the Company has vigorously resisted increases to the tail block rate. The Division's decoupling proposal balances the concerns of the Company in recovering its fixed costs through these volumetric rates with the need to conserve. Given these reasons and circumstances, while it may be true that other electric decoupling mechanisms target a broader class of customers than just the residential classes, the Division sees no need at this time to broaden the scope of its proposal in this case. However, as discussed herein, the Division is proposing decoupling as a pilot program and parties can make their own recommendations.

Q: Ms. Beck also argues that the Division's proposal does not consider the full scope of alternatives to the decoupling proposal. Do you believe this is an accurate or appropriate statement?

A: No. As discussed herein, the Questar Gas CET proceedings took over two years to complete. Consideration and evaluation of several alternatives was conducted in that particular proceeding before the Division decided to support the CET

proposal. The Division concluded then, and still believes, that decoupling best balances the concerns of the utility and its ratepayers. In the case of Questar, the CET has performed as expected. Since the Division's decoupling proposal in this case is similar to the CET, the Division sees no need to reinvent the wheel. In addition, it is curious that the Office seems to ask that we present alternatives to our own proposal, in essence requiring us to bargain against ourselves. Other parties are free to – and should – offer viable alternatives. However, the Office has not offered an alternative other than the status quo.

Q: Ms. Beck argues that potential benefits arising from a reduction in overall consumption due to a decoupling mechanism would be difficult to measure and, therefore, the Commission should not move forward with decoupling at this time. Do you believe that this is a valid argument?

A: No. It is true that separating the effects of conservation due to decoupling from other effects (such as weather, economic trends, changing appliance and building standards, consumer appliance purchases, etc.) that would influence consumption would be difficult. However, as in the Questar Gas case, this is not a valid reason for the lack of action when there is a strong probabilistic or logical link between incentives and behavior. Economic theory supports a strong link between price incentives and consumption.

Q: Ms. Beck argues that the Commission should consider decoupling only after resolving certain cost of service issues. For example, load forecasts and research. Do you agree with this argument?

A: No. First, I believe this is a disingenuous argument. On the one hand, the Office claims that cost of service results demonstrate that the residential class has met its return index and, therefore, there is no need for decoupling. On the other hand, the Office wants to argue that the cost of service results are unreliable and, therefore, decoupling should be rejected. Second, if the load forecasting and research data are unreliable, then truing up to actual loads, which decoupling does, will mitigate the effects of that data on both the Company and residential ratepayers. Indeed, if parties are concerned about the load forecasts and research, then a movement to full decoupling would be a stronger mitigation than the partial decoupling proposed by the Division. Thus, the Division believes that it is appropriate for and timely for the Commission to consider decoupling as part of this rate case. In other words, if the Company's load forecasting is flawed and it collects an inappropriate amount, decoupling would correct that (at least for the portion of rates allocated to fixed distribution costs) by resetting the volumetric rates so as to only collected allowed revenues. The Office's contention of flawed forecasting therefore actually supports the Division's decoupling proposal.

Q: Ms. Beck argues that by implementing decoupling the balance of a low-cost first block would be jeopardized. Do you agree with this argument?

A: This argument fails to recognize that there are three parts to the Division's rate design proposal: the customer charge, the block rate, and decoupling. While the

Division is proposing raising the first block rate slightly, our proposal balances the decoupling by leaving the customer charge at its current level. The Office, on the other hand, has recommended moving the customer charge close to its full cost of service level. Such a dramatic increase in the customer charge in this case is not justified. First, the Office's proposal violates the principle of gradualism. Second, the revenue requirement award in this case does not allow for such a dramatic increase while balancing the need to promote conservation. The Division's alternative rate design proposal offers a much more conservative increase in the customer charge that allows room to increase modestly the three block rates.

While the Division supports moving the customer charge to its full cost of service level, even with decoupling, over time, given the circumstances of this case, either of the Division's rat designs better balances the interests of customers and the Company.

Q: Do you believe that the Division's decoupling mechanism is fair to the residential class?

A: Yes. The Division's proposal ensures that the Company will collect nor more or less than the Commission allowed per customer revenue and does not shift or impose any additional revenue upon the class.

Q: Ms. Beck argues that the Division's decoupling proposal violates rate making principles, particularly, simplicity. Would you comment on this assertion?

A: Certainly. What Ms. Beck's assertion fails to recognize is that rate-making principles are not always in harmony. For example, cost causation, which is arguably the overriding principle, conflicts with the principle of gradualism. The art of rate-making is to balance the conflicting principles given the objectives of the rate-making process. In this case, the Division's proposal aligns the interests of the customers with the Company and, thus, balances the concerns of both groups.

Furthermore, I disagree with Ms. Beck's assertion that somehow our proposed decoupling mechanism is not understandable to the average customer. It is certainly no harder to understand than the concept of a fixed charge or an inverted block rate. Therefore, in my opinion, this argument is nothing more than a "red herring."

Q: Are there any other comments regarding Ms. Beck's rebuttal testimony you would make?

A: Ms. Beck argues that decoupling creates a benefit for the Company without any reciprocal benefit ti the customer. This is simply not true. First, as discussed herein, the Division's decoupling proposal is paired with two other rate design elements, namely, leaving the customer charge at its current level and increasing the tail block relative to the first two blocks. Again, this rate design better balances of all concerned. Second, Ms. Beck and, to a certain extent, Ms. Wolf ignore the fact that unlike Questar Gas, the Company's rates are not weather

normalized. Thus, the Company will under or over collect its allowed revenue. By adjusting the Company's revenue by decoupling, therefore, has the reciprocal benefit of reducing risk due to weather variation.

Q: Mr. Neil Townsend, on behalf of UAE, expresses the opinion that decoupling constitutes unwarranted single-item ratemaking. Do you agree with this assessment?

A: No, I do not agree with Mr. Townsend's assessment. As proposed by the Division, decoupling neither increases nor decreases the Company's authorized revenue. Rather, decoupling is simply an alternative mechanism to collect that revenue. Nevertheless, decoupling is certainly authorized by state statute, UCA §54-4-4.1 (2) (c), and is thus exempt from any prohibition of single-item ratemaking.

Q: Mr. Townsend also requests that the Commission enter a ruling that expressly limits the use of decoupling to the residential class. Does the Division support this request?

A: While the Division is not recommending, or have any intent at this time to pursue, decoupling for the large commercial or industrial classes, it would be premature for the Commission to make a determination that decoupling should never apply to these classes. For example, part of Mr. Townsend's reasoning hinges on the fact that the residential class is more homogenous than the industrial classes and, therefore, decoupling is not appropriate for the industrial classes. Whether this is a valid argument is debatable, however, assuming it is true then by corollary if the

industrial classes were broken up into more homogenous classes, decoupling would be an appropriate alternative. Since the Commission cannot say that the industrial classes will remain as currently constituted, there is no basis for making a declarative statement as Mr. Townsend requests.

Q: The Company's witness, Mr. William Griffith, argues that even if the Commission adopts the Division's decoupling proposal that the customer charge should be moved closer to the full that the customer charge should be moved closer to his proposal of $4.45 per month. Do you agree with Mr. Griffith?

A: No. As Mr. Griffith points out, given the revenue requirement award in this case, it is difficult to design rates that achieve multiple objectives, namely, cost recovery for the Company and encouraging conservation and efficiency. Not surprisingly, Mr. Griffith proposes a rate design that emphasizes exclusively cost recovery for the Company. On the other hand, the Division's rate designs, with and without decoupling, are an attempt to balance the interest of the Company with that of its residential customers. In particular, the Division proposed a decoupling mechanism that should make the Company indifferent between collecting its fixed costs through a higher customer charge or through volumetric rates and decoupling.

Furthermore, according to the Division's calculations, the customer charge proposed by the Company is not consistent with the Commission's approved method for calculating the customer charge.

Q: While the Company is in general agreeable to the decoupling concept proposed by the Division, it objects to certain features. In particular, Mr. Griffith objects to the semiannual true-ups and monthly reporting. Would you please comment on Mr. Griffith's objections?

A: In regards to the semiannual true-ups, Mr. Griffith proposes that annual true-ups be done on May 1 when rates change from the flat winter rate to the inverted summer rates. Mr. Griffith's proposal does have merit. Unlike Questar Gas, the Company does have different summer and winter rate structures that cause rates to change automatically twice per year. However, although Questar has the same rate structure for winter and summer, Questar Gas's rates also change, generally speaking, twice per year due to its 191 pass-through account filings and has not caused any problems or confusion.

Although the Division prefers semiannual true-ups, if the Commission adopts annual true-ups as proposed by the Company occurring on May 1, the Division recommends that the Company file a report with the Commission indicating what the rate changes would be as if they had also changed with the start of winter rates on October 1. A review of the the rate impact can then be part of the first year comprehensive review.

The Division also still supports its recommendation that the Company report monthly on the progress of the decoupling mechanism. The information that the Division is requesting is limited and does not impose a burden on the

Company. We note that Questar Gas provides this information on monthly basis in its Greyback reports.

Q: The Division recommended that a comprehensive review take place at the end of the first year of the pilot. Mr. Griffith states that the use of term "comprehensive review" maybe over stated. Do you have any comments?

A: I do not believe the term is overstated. The Division is recommending that a one-year review take place much as was done in the CET case with Questar Gas. In that case, at the end of the first year of the pilot program, Questar Gas filed an application reviewing the history of the CET and requested that the CET pilot continue for the next two years. Parties responded to the Application and the Commission conducted an appropriate proceeding. The Division recommendation for the Company's decoupling pilot envisions that the Company would make a similar filing. The filing would review the history of the first year, contain any recommended changes to the pilot that the Company deems appropriate, and request that the pilot continue, be discontinued, or continued with modifications as the Company so fit. Other parties would then have an opportunity to respond and the Commission would make a determination whether the pilot should continue or not. Except for the Company's recommendations for changes and continuation, most of this information would likely be contained in any of the Company's filings at the time of a true-up. Therefore, the Division still supports the one-year comprehensive review.

Q: Mr. Griffith questions the need for a second year forecast. Would you please comment?

A: Mr. Griffith's opposition maybe due to a misunderstanding as to what the Division's recommendation entails. The Division's recommendation was referring to a forecast of the Company's loads that it would use to determine the amortization rate for the next twelve months at the time of the true-up filing for the first year of the program. Since the Company must do this forecast anyway when it files a true-up, the Division's recommendation is superfluous.

Q: Mr. Griffith argues that neither of the Division's rate design proposals are reasonable. Would you please comment?

A: Since Mr. Griffith indicates that the Company is agreeable, in general, with the Division's decoupling proposal, the emphasis of Mr. Griffith's objections appears to focus on the Division's recommended customer charge and tail block rates. As discussed herein, the Division believes its rate design proposals, both with and without decoupling, balances the interests of the Company and its customers.

The decoupling and rate design proposal by the division would leave the customer charge at its current level while increasing each block rate with the largest increasing going to the tail-block rate. This design should make the Company indifferent to a rate design that would collect all of the increase through the customer charge. Additionally, this rate design, as discussed herein, is fair to the residential customers and mitigates the impact of rate changes on low-usage

or low-income customers. The Division's alternative rate design proposal without decoupling, again balances several rate making objectives and principles. In particular, the Division's alternative rate design proposal respects the concept of gradualism by increasing slightly the customer charge while promoting conservation and efficiency by increasing the tail block rates within the constraint of the revenue requirement award in this case. Therefore, although the Division prefers its rate design with decoupling, either of the Division's proposals are reasonable.

Q: Does that conclude your surrebuttal testimony?

A: Yes it does.