

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky
Mountain Power for Authority to Increase its
Retail Electric Service Rates in Utah and For
Approval of its Proposed Electric Service
Schedules and Electric Service Regulations

)
) **Docket No. 11-035-200**
)
)
) **Direct Testimony**
) **Danny A.C. Martinez**
) **On behalf of the**
) **Office of Consumer Services**
)

June 22, 2012

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Dan Martinez. I am a utility analyst for the Office of Consumer
3 Services (Office). My business address is 160 E. 300 S., Salt Lake City,
4 Utah 84111.

5

6 **Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.**

7 A. I have a B.S. degree in economics from University of Utah. I also have an
8 M.S. degree in economics and an MPA degree from the University of
9 Utah. My private and public sector work experience spans over 20 years
10 including ten years in financial services and ten years teaching
11 economics. In 2010, I was hired by the Office of Consumer Services
12 (Office). In my time with the Office, I have worked primarily in the areas of
13 Cost of Service and DSM. I have attended various training opportunities,
14 including a week long intensive workshop specializing on cost of service
15 and rate design sponsored by EUCI.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. The purpose of my testimony is to present the Office's recommendation
19 on the appropriate residential customer charge in this proceeding. I also
20 critique the Company's proposal to significantly increase the residential
21 customer charge from \$4.00 to \$10.00, which represents a 150% increase
22 in this specific component of the overall residential rate design.

23

24

25 **RECOMMENDATION**

26 **Q. WHAT IS THE OFFICE'S POSITION REGARDING THE RESIDENTIAL**
27 **CUSTOMER CHARGE IN THIS PROCEEDING?**

28 A. The Commission's approved customer charge methodology
29 (Commission's Methodology) should be modified to include additional cost
30 components. Inclusion of these additional cost components results in a
31 residential customer charge of \$4.79 for single phase service. In this
32 general rate case (GRC), we recommend the level of the customer charge
33 be set at \$4.75. The Office also recommends that the customer charge
34 for three-phase service be increased from \$8.00 to \$9.50 to maintain the
35 current relationship in which the customer charge for three-phase service
36 is twice the amount charged for single phase service.

37

38 ***OFFICE CUSTOMER CHARGE PROPOSAL***

39 **Q. PLEASE DESCRIBE THE OFFICE'S CUSTOMER CHARGE**
40 **PROPOSAL.**

41 A. The Office proposes that the Commission's Methodology be modified to
42 include three additional cost components. These three components are
43 meter expense (Account 536), meter maintenance (Account 597), and
44 service drop-distribution. The addition of these three components
45 maintains consistent treatment of net plant for meters and service lines
46 and meter reading expenses, in accordance with the Commission's
47 Methodology. Inclusion of these three components in the Commission's

48 Methodology increases the calculated customer charge to \$4.79. In this
49 GRC, the Office proposes that the customer charge be increased to \$4.75.

50

51 **Q. WHAT INFORMATION DID YOU RELY ON IN DEVELOPING THE**
52 **OFFICE'S CUSTOMER CHARGE PROPOSAL?**

53 A. I primarily relied on the Commission's Methodology as the basis for
54 calculating the residential customer charge. I also reviewed past
55 Commission Orders addressing the residential customer charge, the
56 Company's customer charge proposal in this GRC and the responses to
57 discovery requests submitted to the Company by the Office.

58

59 **Q. PLEASE DESCRIBE THE COMMISSION'S METHODOLOGY.**

60 A. In 1985, the Commission approved a customer charge methodology for
61 Utah Power¹ similar to those approved for the natural gas utility:

62 "The approved customer-related costs used to
63 calculate the customer charge are the costs of net
64 plant for service lines and meters, i.e., depreciation
65 expense, income tax and return, and the expenses for
66 meter reading and billing, less associated billing
67 revenue. These test year net costs, divided by the
68 average annual number of customers in the test year,

¹ Rocky Mountain Power was referred to as Utah Power until PacifiCorp was acquired by Mid-American Energy Company in 2006.

69 then divided again by 12 months, yields the fixed
70 monthly customer charge.” (Commission Order –
71 Docket 09-035-23, p. 27)

72 In developing its methodology, the Commission identified specific FERC
73 account and subaccounts which contain costs of net plant for service lines
74 and meters, meter reading expenses, and customer billing expenses

75

76 **Q. WHAT COST COMPONENTS ARE INCLUDED IN THE COMMISSION’S**
77 **METHODOLOGY?**

78 A. The Commission’s Methodology includes the following components:

- 79
1. Customer Billing & Accounting Expense (acct. 903.2)
 - 80 2. Meter Reading (acct. 902.1)
 3. Meters - Depreciation Expense
 - 81 4. Meter Plant (acct. 370)
 5. Meters - Accumulated Depreciation
 - 82 6. Service Drop - Depreciation Expense
 7. Service Drop Plant (acct. 369)
 - 83 8. Service Drop - Accumulated Depreciation

84

85 **Q. ARE THERE COST ACCOUNTS THAT SHOULD BE CONSIDERED IN**
86 **THE CUSTOMER CHARGE THAT ARE NOT CURRENTLY INCLUDED**
87 **IN THE COMMISSION’S METHODOLOGY?**

88 A. Yes. There are two accounts that should be considered for inclusion in the
89 Commission’s Methodology to maintain consistency with the customer
90 charge definition in the 1985 Order. Account 586 – Meter Expense
91 includes the cost of labor, materials used and expenses incurred in the

92 operation of customer meters and associated equipment. Account 597 –
 93 Meter Maintenance includes the cost of labor, materials used and
 94 expenses incurred in the maintenance of meters and meter testing
 95 equipment, the book cost of which is included in Account 370, Meters, and
 96 Account 395, Laboratory Equipment, respectively. Adding these two cost
 97 components increases the customer charge from \$3.85 to \$4.25.

98

99 **Q. IS THERE ANOTHER COST COMPONENT THAT SHOULD BE**
 100 **INCLUDED IN THE COMMISSION'S METHODOLOGY?**

101 Yes. The 1985 Order included service lines in net plant in the customer
 102 charge calculation. The All Other Distribution – Service Drop component
 103 represents the residual of costs associated with service drops as follows:

104

	Total Revenue Requirement
1) Revenue Requirement - Service Drop	\$22,277,537
Less:	
2) Service Drop - Depreciation Expense	\$3,438,480
3) Return on Net Plant Service Drop	<u>\$14,223,627</u>
4) All Other Distribution - Service Drop	<u><u>\$4,615,430</u></u>

105

106 Including these costs related to service lines in the customer charge is
 107 consistent with the intent of the Commission's 1985 Order.

108

109 **Q. HOW MUCH DOES THE CUSTOMER CHARGE INCREASE BY**
 110 **INCLUDING THE COSTS RELATING TO METER EXPENSE**

111 **(ACCOUNT 586), METER MAINTENANCE (ACCOUNT 597), AND ALL**
 112 **OTHER DISTRIBUTION – SERVICE DROP?**

113 A. The customer charge will increase by \$0.93 by adding these three cost
 114 elements. This raises the customer charge from \$3.85 to \$4.79 as shown
 115 in column 2 of Table 1 below.

116 **Table 1 - Comparison of Commission and OCS Methodologies**

		1	2
	Description	Commission Approved Methodology	OCS 2012 Methodology
1)	Customer Billing & Accounting Expense (acct. 903.2)	\$0.62	\$0.62
2)	Meter Reading (acct. 902.1)	\$0.52	\$0.52
3)	Meters - Depreciation Expense	\$0.21	\$0.21
4)	Meter Expense (acct. 586)		\$0.17
5)	Meter Maintenance (acct. 597)		\$0.23
6)	Meter Plant (acct. 370)	\$0.70	\$0.70
7)	Meters - Accumulated Depreciation	-\$0.25	-\$0.25
8)	Service Drop - Depreciation Expense	\$0.40	\$0.40
9)	Service Drop Plant (acct. 369)	\$2.25	\$2.25
10)	Service Drop - Accumulated Depreciation	-\$0.61	-\$0.61
11)	All Other Distribution - Service Drop		\$0.53
12)	Total Customer Charge Based on Methodology Comparison	\$3.85	\$4.79

117
 118 **Q. IF THE OFFICE’S PROPOSAL INCLUDES THESE COST**
 119 **COMPONENTS, WHY DOES THE OFFICE PROPOSE THE CUSTOMER**
 120 **CHARGE TO BE SET AT \$4.75?**

121 A. The Commission has relied on its Methodology as a guide for setting the
 122 customer charge level in recent GRCs. The actual level of the customer
 123 charge ordered by the Commission has been slightly different than the
 124 number calculated according to the Commission’s customer charge

125 formula. In the last GRC, the calculated customer charge was \$3.85 but
126 the Commission set the customer charge at \$4.00. In Docket 09-035-23,
127 the calculated customer charge was \$3.83, but the Commission set the
128 customer charge at \$3.75. Given that the Commission has found it
129 reasonable to round to the nearest \$0.25 increment in recent GRCs, the
130 Office proposes that the customer charge be increased to \$4.75, which is
131 the closest \$0.25 increment to the calculated level of \$4.79 under the
132 Office's proposal.

133

134 **Q. HOW DOES THE OFFICE'S PROPOSAL FOR THE CUSTOMER**
135 **CHARGE IMPACT CUSTOMERS WITH VARIOUS ENERGY USAGE**
136 **LEVELS?**

137 A. The combination of changes to the customer charge and summer and
138 non-summer energy rates will determine the overall impact of the increase
139 in the customer charge at different energy usage levels. OCS witness
140 Gimble addresses the bill impacts resulting from the Office's rate design
141 proposal in his testimony.

142

143 **CRITIQUE OF THE COMPANY'S PROPOSAL**

144 **Q. WHAT IS THE COMPANY'S CUSTOMER CHARGE PROPOSAL FOR**
145 **THIS PROCEEDING?**

146 A. The Company presented three different methodologies for computing the
147 customer charge as shown in Table 2 (below). The Company's "Fixed

148 Costs Methodology” is presented in Column 1. The Commission’s
 149 currently approved methodology is presented in Column 2. The
 150 Company’s recommended customer charge for this case (identified as
 151 “RMP 2012 Methodology”) is presented in Column 3.

152 **Table 2 - Residential Single Phase Customer Charge Calculation Methodologies**

Description	Fixed Costs Methodology (1)	Commission Approved Methodology (2)	RMP 2012 Methodology (3)
1) Customer Billing & Accounting Expense (acct. 903.2)	\$0.62	\$0.62	\$0.62
2) Meter Reading (acct. 902.1)	\$0.52	\$0.52	\$0.52
3) All Other Retail Function	\$3.52		\$3.52
4) Meters - Depreciation Expense	\$0.21	\$0.21	\$0.21
5) Meter Expense (acct. 586)	\$0.17		\$0.17
6) Meter Maintenance (acct. 597)	\$0.23		\$0.23
7) Meter Plant (acct. 370)	\$0.70	\$0.70	\$0.70
8) Meters - Accumulated Depreciation	-\$0.25	-\$0.25	-\$0.25
9) Service Drop - Depreciation Expense	\$0.40	\$0.40	\$0.40
10) Service Drop Plant (acct. 369)	\$2.25	\$2.25	\$2.25
11) Service Drop - Accumulated Depreciation	-\$0.61	-\$0.61	-\$0.61
12) Transformers - Customer Related	\$3.28		\$3.28
13) All Other Distribution - Service Drop	\$0.53		\$0.53
14) All Other Distribution –Transformer	\$0.65		
16) All Other Distribution - Poles and Conductors	\$11.94		
17) All Other Distribution – Substation	\$4.10		
18) Miscellaneous Function	\$0.36		
19) Total Customer Charge Per Month	\$28.63	\$3.85	\$11.60

153

154 **Q. REGARDING THE RMP 2012 METHODOLOGY, DOES THE COMPANY**
 155 **RECOMMEND THAT THE CUSTOMER CHARGE BE SET AT \$11.60?**

156 A. No. The Company recommends that the customer charge be increased
 157 from the current level of \$4.00 to \$10.00 in this GRC. This represents a
 158 150% increase in this rate element.

159

160 **Q. WHAT ARE THE THE FUNDAMENTAL DIFFERENCES BETWEEN**
161 **THE COMMISSION'S METHODOLOGY AND THE RMP 2012**
162 **METHODOLOGY?**

163 A. The RMP 2012 Methodology includes a number of additional cost
164 components. These specific cost components are the retail accounts,
165 meter expense and maintenance, other distribution costs and customer-
166 related transformer costs.

167

168 **Q. WHAT IS THE OFFICE'S RESPONSE TO THE COMPANY'S**
169 **CUSTOMER CHARGE RECOMMENDATION?**

170 A. The RMP 2012 Methodology should be rejected. Cost components
171 included in the RMP 2012 Methodology are not consistent with the
172 Commission's Methodology. These costs do not correspond directly to
173 expenses related to net plant for meters and service lines, customer billing
174 and meter reading. Also, the Company has not provided the necessary
175 evidence to support the substantial modifications it proposes to the
176 Commission's Methodology. The Company provides no justification
177 whatsoever for expanding the scope of the Commission's Methodology to
178 include additional cost components..

179

180 **Q. PLEASE PROVIDE EXAMPLES OF COSTS INCLUDED IN THE**
181 **COMPANY'S PROPOSAL THAT ARE INAPPROPRIATE FOR**
182 **INCLUSION IN THE CUSTOMER CHARGE.**

183 A. The Company includes “Transformers – Customer Related” and “All Other
184 Retail Function” that together comprise 88% of the cost difference
185 between the Company’s customer charge RMP 2012 Methodology, which
186 results in a customer charge of \$11.60, and the Commission’s
187 Methodology, which results in a customer charge of \$3.85. These costs
188 should not be included in the customer charge and have not been justified
189 by the Company for inclusion.

190

191 **Q. WHY SHOULD TRANSFORMERS BE EXCLUDED?**

192 A. The Company’s proposal to include the customer-related portion of
193 Transformer Costs is inappropriate for a customer charge. The
194 Commission’s Methodology does not include transformers since they are
195 not directly related to costs of net plant for service lines or meters,
196 customer billing, and meter reading. Office witness Chernick explains in
197 his direct testimony (Chernick Direct, pg 42 - 45, lines 851 – 916.) the
198 following:

- 199 • The zero-intercept methodology is unreliable for calculating
200 customer related transformer costs.
- 201 • The Company inaccurately interpreted the regression results from
202 the zero-intercept regression analysis.
- 203 • The Company’s regression analysis had additional specific
204 problems.

205

206 **Q. WHY SHOULD “ALL OTHER RETAIL FUNCTIONS” BE EXCLUDED?**

207 A. The Commission has identified specific accounts and subaccounts
208 associated with customer billing, meter reading, and net plant - service
209 lines and meters to be included in the customer charge. Other retail
210 accounts should be scrutinized at the subaccount level to make a factual
211 determination as to whether any of those costs should also be included in
212 the customer charge. The Company did not provide any such evidence or
213 analysis justifying including these subaccounts. The Office’s evaluation
214 identified many types of costs within the “All Other Retail Functions” that
215 are clearly inappropriate to be included in a customer charge.

216

217 **Q. PLEASE GIVE AN EXAMPLE OF COSTS THAT WERE INCLUDED**
218 **THAT SHOULD NOT BE BILLED IN THE CUSTOMER CHARGE?**

219 A. In OCS DR 15.3 the Office requested specific information about expenses
220 included in subaccount 903.6 - Cust. Acctg./Common. The Company
221 responded with a spreadsheet containing all transactions included in
222 903.6. Some of the detail included:

- 223 • Airfare for the Idaho GRC and the Walje Customer Support Offsite
224 meeting,
- 225 • Expenses such as meals & entertainment, lodging, cellular telephone
226 expense, pagers, vehicle rental, and ground transportation,
- 227 • Certain registration fees, dues & licenses,
- 228 • Freight and hauling services i.e. Fed Ex/UPS services,

- 229 • Certain books and subscriptions, and
- 230 • Services such as Janitorial, moving/relocation services and waste
- 231 disposal.

232 The Company has not provided evidence that these transactions are

233 directly related to costs of net plant for service lines and meters, meter

234 reading, or customer billing or are otherwise appropriate to be billed on an

235 equal charge per customer (i.e. monthly customer charge) basis.

236

237 **Q. DID THE COMPANY JUSTIFY INCLUDING ANY OF “ALL OTHER**

238 **RETAIL FUNCTIONS?”**

239 A. No. In OCS Data Request 3.54, the Office asked the Company the

240 following,

241 Please explain the purpose of each of the following expenditures and

242 why RMP believes it is appropriate to recover them through the

243 customer charge:

- 244 a. the customer and regulatory liaison group (included in Account 903.6),
- 245 b. the business services group (included in Account 903.6),
- 246 c. joint use bad debt expense (included in Account 904.2),
- 247 d. customer guarantee program (included in Account 905.0),
- 248 e. the Utah Solar Incentive Program (included in Account 908.1),
- 249 f. customer and community managers (included in Account 908.6),
- 250 g. customer and community communications group (included in Account
- 251 909.0).
- 252 h. outside facilitator for joint planning effort with cities and counties to set
- 253 facility siting criteria (included in Account 910.0)
- 254 i. bad debt expense (Account 904.0).
- 255

256 **Q. WHAT WAS THE COMPANY'S RESPONSE?**

257 A. The Company responded, "Please refer to lines 170 through 188 of Mr.
258 Griffith's direct testimony for the rationale for including all retail function
259 revenue requirement in the [RMP] 2012 Methodology." This referenced
260 testimony only mentions the functionalization of the retail accounts within
261 the Cost of Service study and the assertion that these costs are fixed. In
262 his direct testimony, Mr. Griffith did not provide any analysis or factual
263 evidence that demonstrates why retail accounts should be included within
264 the customer charge. As a consequence, there was no underlying
265 information in the Company's direct testimony for the Office – or the
266 Commission – to evaluate in connection with these retail accounts.

267

268 **Q. PLEASE SUMMARIZE YOUR CRITIQUE OF THE COMPANY'S**
269 **METHODOLOGY FOR CALCULATING THE RESIDENTIAL**
270 **CUSTOMER CHARGE.**

271 A. The RMP 2012 Methodology contains many cost components that are
272 inappropriate to be included in a customer charge. The Company made
273 no attempt to provide evidence to change the Commission's Methodology
274 or to include transformers or any other retail accounts. Hence, the RMP
275 2012 Methodology should be rejected. Table 3 below summarizes the
276 methodologies reviewed in my testimony.

277

278

279 **Table 3 - Summary of Customer Charge Methodologies**

	Description	Commission Approved Methodology	OCS 2012 Methodology	RMP 2012 Methodology
1)	Customer Billing & Accounting Expense (acct. 903.2)	\$0.62	\$0.62	\$0.62
2)	Meter Reading (acct. 902.1)	\$0.52	\$0.52	\$0.52
3)	All Other Retail Function			\$3.52
4)	Meters - Depreciation Expense	\$0.21	\$0.21	\$0.21
5)	Meter Expense (acct. 586)		\$0.17	\$0.17
6)	Meter Maintenance (acct. 597)		\$0.23	\$0.23
7)	Meter Plant (acct. 370)	\$0.70	\$0.70	\$0.70
8)	Meters - Accumulated Depreciation	-\$0.25	-\$0.25	-\$0.25
9)	Service Drop - Depreciation Expense	\$0.40	\$0.40	\$0.40
10)	Service Drop Plant (acct. 369)	\$2.25	\$2.25	\$2.25
11)	Service Drop - Accumulated Depreciation	-\$0.61	-\$0.61	-\$0.61
12)	Transformers - Customer Related			\$3.28
13)	All Other Distribution - Service Drop		\$0.53	\$0.53
14)	Total Customer Charge	\$3.85	\$4.79	\$11.60

280

281 **CONCLUSION**

282 **Q. WHAT IS THE OFFICE’S RECOMMENDATION?**

283 A. The Office recommends that the Commission continue to use its current
 284 customer charge Methodology with three modifications. The Office
 285 recommends that the Commission’s Methodology include meter expense
 286 (Account 586), meter maintenance (Account 597), and service drop -
 287 distribution to realize a consistent treatment of net plant for meters and
 288 service lines. Based on these modifications to the Commission’s
 289 Methodology, the calculated customer charge is \$4.79 for single phase
 290 service. In this GRC, The Office recommends the customer charge level
 291 be set at \$4.75. The Office also recommends that the customer charge

292 for three-phase service be increased from \$8.00 to \$9.50 to maintain the
293 current relationship in which the customer charge for three-phase service
294 is twice the amount charged for single phase service

295 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

296 **A. Yes.**