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**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. 11-035-200
Rate Design

PREFILED DIRECT TESTIMONY OF NANCY L. KELLY

ON BEHALF OF

WESTERN RESOURCE ADVOCATES

June 22, 2012

1 **Q: Please state your name, employer, position and business address.**

2 A: My name is Nancy L. Kelly. I am employed by Western Resource Advocates (WRA) in
3 its Energy Program as a Senior Policy Advisor. My business address is 9463 N. Swallow
4 Rd., Pocatello, ID 83201.

5 **Q: Please describe WRA.**

6 A: WRA is a non-profit policy and law organization whose mission is to protect and restore
7 the natural environment of the Interior West. WRA's Energy Program works to reduce
8 the environmental impact of electricity production in the Interior West and advance the
9 region's transition to renewable energy, energy efficiency, and other clean-energy
10 technologies.

11 **Q: Please describe your current work duties, work experience, and educational
12 background.**

13 A: I provide policy analysis and regulatory support to WRA in electricity-related matters. I
14 have participated in regulatory dockets in Colorado, Nevada, New Mexico, and Utah. I
15 worked with the Utah Office of Consumer Services for more than ten years before joining
16 WRA in 2008. I began my professional career as an academic. I spent three years as a
17 faculty member in the economics department and close to five years as the economist in
18 the Center for Business Research and Services at Idaho State University. I received a
19 B.S. in economics from Idaho State University in 1983. I completed my fieldwork toward
20 a PhD in economics from the University of Utah in 1991. My professional qualifications
21 are shown in Attachment A.

22 **Q: On whose behalf are you testifying?**

23 A: I'm testifying on behalf of WRA.

24 **Q: What is the purpose of your testimony?**

25 A: My testimony presents WRA's rate design proposal in this case.

26 **Q: Please summarize your rate design proposal.**

27 A: WRA proposes the creation of a High-Use Surcharge to be applied to residential
28 customers using more than 1000 kWh monthly. The surcharge would appear as a line
29 item on customers' bills to draw attention to their energy use and stimulate conservation
30 and energy efficiency.

31 **Q: Please explain the purpose of creating a High-Use Surcharge.**

32 A: The purpose of a High-Use Surcharge is to promote conservation and energy efficiency
33 by recovering the Company's revenue requirements through a semi-fixed cost recovery
34 mechanism that balances utility and customer incentives and disincentives to conserve
35 and engage in energy efficiency.

36 Rate designs with a large fixed component, such as the Company is promoting in this
37 case, discourage customers from conserving since there is little the customer can do to
38 avoid these costs. On the other hand, rate designs with a large variable component that
39 include a portion of fixed costs in the variable rate can discourage a utility from pursuing
40 programs that will reduce its sales and impact its profitability.

41 The High-Use Surcharge I propose balances these objectives. Allowing the Company to
42 recover a greater portion of its costs through a semi-fixed rate, as this proposal does, may

43 remove some of the financial disincentive for the Company to deploy higher levels of
44 energy efficiency. At the same time, a high-use surcharge creates a noticeable financial
45 price signal and incentive to encourage more energy conservation and efficiency,
46 particularly at higher use levels and even during the winter months.

47 **Q: Is promoting conservation and energy efficiency a public policy goal for the Public**
48 **Service Commission of Utah (Commission)?**

49 A: Yes. In its June 2, 2010 Order on Rate Design, the Commission identified rate structures
50 that encourage “the efficient use of energy and the conservation of scarce energy
51 resources” as a “critical priority” to be pursued by the Commission in fulfillment of its
52 regulatory responsibilities and in accordance with executive and legislative directives.¹

53 **Q: Please describe the High-Use Surcharge you propose.**

54 A: The High-Use Surcharge would be a semi-fixed amount charged each month for use over
55 1000 kWh per month. The size of the surcharge would increase as monthly use increases
56 in steps of 500 kWh between 1000 and 2000 kWh, and of 1000 kWh thereafter. The
57 High-Use Surcharge would be applied during any month of the year in which a
58 customer’s use was greater than 1000 kWh.

59 Providing information to customers is an essential component of the High-Use Surcharge.
60 In addition to identifying a customer as high-use and providing a financial motivator to
61 reduce use, providing customers with information regarding the structure of the High-Use
62 Surcharge, ways to lower energy use in both the short and long run, and information
63 regarding the Company’s energy efficiency programs would be important information to

¹ Public Service Commission, *Report and Order on Rate Design*, Docket No. 09-035-23, June 2, 2010, p. 17.

64 include with bills sent to high-use customers—increasing the impact of the overt price
65 signal.

66 **Q: What size surcharges are you proposing?**

67 A: The size of the monthly surcharge is dependent on the size of the residential revenue
68 increase granted by the Commission in this case.

69 **Q: Are you proposing any other changes to current rates or the current customer**
70 **charge?**

71 A: No. Our proposal focuses strictly on the method of collecting the residential revenue
72 increase, once it is determined by the Commission.

73 **Q: Have you prepared an exhibit demonstrating the calculation of the surcharge?**

74 A: Yes. Exhibit WRA (NLK-1) provides this demonstration assuming three different
75 example revenue determinations available to be applied to a High-Use Surcharge: \$20
76 million, \$30 million, and \$40 million. These examples represent a range of possible
77 outcomes.²

78 As can be seen in Exhibit 1, as currently calculated, a \$20 million increase would result
79 in an \$11 step per 1000 kWh; a \$30 million increase would result in a \$17 step per 1000
80 kWh, and a \$40 million increase would result in a \$22 step per 1000 kWh. In the case of
81 the \$20 million increase, the monthly customer surcharge begins at \$6 for use between
82 1000 kWh and 1500 kWh and increases to \$55 for use levels exceeding 5000 kWh per

² The Company has requested a 10.5% increase for Residential customers and a significant increase to the customer charge from \$4.00 to \$10.00. If the Commission grants the Company one-half of its proposed revenue increase, this would require about \$33 million be collected through the proposed High Usage Surcharge.

83 month. At \$40 million, the monthly surcharge increases from \$11 for the 1000-1500 kWh
84 level, to \$111 for usage exceeding 5000 kWh.

85 **Q: What information did you use for the calculation underlying the development of this**
86 **example spreadsheet?**

87 A: The calculation was developed based on the available billing data at the level of
88 granularity provided by PacifiCorp in its work papers and in response to OCS Data
89 Request 3.37.

90 **Q: Please explain why you believe this surcharge proposal will have a greater effect on**
91 **conservation and energy efficiency than by applying the same revenue increase to a**
92 **customer charge and kWh charge for all customers.**

93 A: I believe the most significant advantage of a High-Use Surcharge is its visibility to the
94 customer and the conservation and energy efficiency information that I propose
95 accompany it. A high-use surcharge sends a signal to customers that they are imposing
96 greater costs on the system by their higher use. That sends a conservation and efficiency
97 message that a higher customer charge and variable rate increase, as the Company
98 proposes, would not.

99 **Q: Is this type of messaging to customers effective?**

100 A: Yes. Industry experience indicates that when customers are identified as having high
101 usage, it can trigger an efficiency response. The mechanism I propose couples that
102 identification with an adverse financial impact.

103

104 **Q: Are you aware of potential concerns with the use of a High-Use Surcharge?**

105 A: Even though the overall rate impact of WRA’s proposal increases as usage increases,
106 within each 1000 kWh range there is a declining percentage rate impact on customers,
107 with those using lesser amounts within the range receiving a larger percentage increase
108 than those using greater energy within the range.

109 **Q: Do you consider this rate impact a drawback to WRA’s proposal?**

110 A: No. While I recognize the differing impact on customers, I consider the effect to be a
111 motivator and a benefit of the WRA design. Those customers who are best able to
112 benefit from reduced consumption in the near term—those close to a lower step—are
113 most incented to do so. And customers closest to the higher step are also incented not to
114 increase their usage. At the same time, all customers who receive a high-use surcharge
115 are made aware of its impact, are incented to conserve, and are provided information to
116 achieve the goals of reducing use in the near-term and making smarter consumption
117 choices through time, thereby potentially reducing demand over what it otherwise might
118 be.

119 I would also point out that this type of rate impact results from the semi-fixed nature of
120 the surcharge and is inherent in any fixed charge. The declining-with-usage rate impact
121 is much more dramatic with the Company’s proposed customer charge, and falls most
122 heavily on low energy users. The declining rate impact of WRA’s proposal is relatively
123 mild and falls only within high-use groups.

124

125 **Q: Are you aware of other potential benefits from the semi-fixed structure of the**
126 **surcharge?**

127 A: Yes. The High-Use Surcharge is semi-fixed, meaning that it may be difficult for some
128 customers to avoid the surcharge, at least in the near-term. Allowing the Company to
129 recover a greater portion of its costs through a semi-fixed rate, as this proposal does, may
130 help reduce the Company's financial disincentive to aggressively pursue energy
131 efficiency.

132 **Q: Does this conclude your testimony?**

133 A: Yes.