

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of	)	Docket No. 13-035-184
Rocky Mountain Power for Authority	)	Direct Residential Rate Design
to Increase its Retail Electric Utility	)	Testimony of
Service Rates in Utah and for	)	Danny A.C. Martinez
Approval of Its Proposed Electric	)	For the Office of
Service Schedules and Electric	)	Consumer Services
Service Regulations	)	

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May 22, 2014

1 I. INTRODUCTION

2

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

5 A. My name is Danny A.C. Martinez. I am a utility analyst for the Office of  
6 Consumer Services (Office). My business address is 160 E. 300 S., Salt Lake  
7 City, Utah 84111.

8

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

10 A. I have B.S. and M.S. degrees in economics from the University of Utah. I also  
11 have an MPA degree from the University of Utah. My private and public sector  
12 work experience spans over 20 years including ten years in financial services  
13 and ten years teaching economics. In 2010, I was hired by the Office of  
14 Consumer Services (“Office”). At the Office, I have worked primarily in the areas  
15 of cost of service (COS) and demand side management (DSM). I filed testimony  
16 on cost of service and rate design issues in the last Questar Gas general rate  
17 case (13-057-05). I filed testimony on customer charge issues in Rocky  
18 Mountain Power’s last general rate case (Docket 11-035-200). I also have  
19 attended various training opportunities, including a week long intensive training  
20 specializing on cost of service and rate design.

21

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

23 A. The purpose of my testimony is to present the Office’s residential class rate  
24 design recommendation in this proceeding. I also critique the Company’s  
25 residential rate design proposal, which includes significant increases in the level  
26 of the customer charge and the minimum bill.

27

28 **Q. ARE THE RESIDENTIAL RATE DESIGN RECOMMENDATIONS IN YOUR**  
29 **TESTIMONY INFORMED BY THE OFFICE’S RATE SPREAD**  
30 **RECOMMENDATIONS?**

31 A. Yes. As discussed in the direct testimony of Mr. Gimble, the Office rate spread  
32 recommendations for the residential schedules differ from the Company’s

33 proposal. The residential rate design recommendations set forth in my direct  
34 testimony are based on the Office's spread proposals at different revenue  
35 requirement levels.

36

37 **II. SUMMARY OF RECOMMENDATIONS**

38

39 **Q. PLEASE SUMMARIZE THE OFFICE'S RESIDENTIAL RATE DESIGN**  
40 **RECOMMENDATIONS.**

41 A. The Office offers three residential rate design recommendations based on three  
42 revenue requirement scenarios. The first rate design scenario uses the Office's  
43 proposed revenue requirement of a decrease of \$4.6 Million. The second rate  
44 design scenario is based on a revenue requirement increase between \$0 and  
45 \$30.958 million. In this scenario, the Office proposes that all of the residential  
46 class rate increase be reflected in the Office's proposed customer charge up to  
47 \$6.00. The third scenario is based on a revenue requirement increase greater  
48 than \$30.958 million. Under this scenario all residential rate design elements  
49 (customer charge, energy rates, etc.) are increased beginning with an increase in  
50 the customer charge to \$6.00. In all scenarios involving an increase in revenue  
51 requirement, the Office proposes a \$10.00 minimum bill for single-phase  
52 customers and a \$20.00 minimum bill for three-phase customers. For illustrative  
53 purposes, the Office shows its residential rate design proposal at revenue  
54 requirement increases of \$11 million, \$31 million, \$51 million and \$71.304 million.

55

56 **Q. PLEASE DESCRIBE THE OFFICE'S RATE DESIGN AT ITS PROPOSED**  
57 **REVENUE REQUIREMENT DECREASE OF \$4.6 MILLION?**

58 A. Since the Office proposes that any ordered revenue decrease be allocated  
59 entirely to the commercial and lighting schedules, we recommend no changes to  
60 the existing residential rate design. In the event that the Office's recommended  
61 \$4.6 million decrease in revenue is not accepted by the Commission, the Office  
62 proposes four additional scenarios for the Commission to consider.

63 **Q. PLEASE DESCRIBE THE OFFICE'S RESIDENTIAL RATE DESIGN AT A**  
64 **REVENUE REQUIREMENT INCREASE BETWEEN \$0 AND \$30.958 MILLION.**

65 A. At a revenue requirement increase between \$0 and \$30.958 million, the Office  
66 proposes to put all the rate increase for the residential class into the customer  
67 charge and leave energy rates the same. At \$30.958 million, a \$6.00 customer  
68 charge would absorb all of the revenue increase allocated to the residential  
69 schedules. Any rate increase resulting from a revenue requirement below  
70 \$30.958 million would reduce the customer charge from \$6.00 to no less than  
71 \$5.00. The Office recommends that the calculated customer charge be rounded  
72 to the nearest \$0.25 increment consistent with customer charge increases in past  
73 rate cases. A slight adjustment to energy rates may be necessary due to  
74 rounding the customer charge to the nearest \$0.25  
75

76 **Q. PLEASE DESCRIBE THE OFFICE'S RESIDENTIAL RATE DESIGN**  
77 **PROPOSAL FOR REVENUE REQUIREMENTS GREATER THAN \$30.958**  
78 **MILLION.**

79 A. At a revenue requirement increase greater than \$30.958 million, the Office  
80 recommends the following rate design for the residential schedules:

- 81 • Increase the monthly single-phase customer charge from \$5.00 to  
82 \$6.00;
- 83 • Increase the monthly three-phase customer charge from \$10.00 to  
84 \$12.00;
- 85 • Increase the residential minimum bill from \$7.00 to \$10.00;
- 86 • Increase the residential minimum bill from \$14.00 to \$20.00 for three-  
87 phase customers;
- 88 • Leave the summer and non-summer first block rates at approximately  
89 the same level;
- 90 • Any increases to the energy rates should first be applied to the non-  
91 summer second block energy rate up to 5% to bring it in line with the  
92 summer second block energy rate. Any remaining revenue should be

93 applied on an equal percentage basis to the second and third non-  
94 summer and summer energy block rates.

95

96 **Q. PLEASE DESCRIBE THE OFFICE'S RATE DESIGN FOR SCHEDULES 10**  
97 **AND 23 (IRRIGATION AND SMALL COMMERCIAL).**

98 A. The Office recommends no changes to the Company's rate design proposals for  
99 Schedules 10 and 23. The Office proposes that any rate increases (or  
100 decreases) assigned to these classes be applied on an equal percentage basis  
101 to the different rate elements.

102

103 **Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED.**

104 A. First, I will present the Office's recommendations for residential rate design,  
105 specifically addressing:

- 106 • Customer Charge;
- 107 • Energy Rates;
- 108 • Residential Rate Design at Different Revenue Requirement Scenarios;
- 109 and
- 110 • Minimum Bill.

111 Next, I will present the Office's critique of the Company's residential rate design  
112 proposal.

113

114 III. RESIDENTIAL RATE DESIGN

115

116 A. *Customer Charge*

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

119 A. The Office advocates that the customer charge should only include customer-  
120 related costs elements that do not vary by customer size. In this general rate  
121 case, the Office recommends increasing the customer charge from \$5.00 up to  
122 \$6.00 depending on the revenue requirement approved by the Commission.  
123 The Office generally recommends that the customer charge be set at even \$0.25

124 increments within that range, depending on the final revenue increase assigned  
125 to the residential class. The Office also recommends that the customer charge  
126 for three-phase service be increased to maintain the current relationship in which  
127 the customer charge for three-phase service is twice the amount charged for  
128 single phase service.

129

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

132 A. I began with the Commission's Method as the basis for calculating the residential  
133 customer charge. I also reviewed past Commission Orders addressing the  
134 residential customer charge, the Company's customer charge proposal in this  
135 general rate case and the responses to discovery requests submitted to the  
136 Company by the Office. I evaluated this information in the context of the Office's  
137 position that the customer charge should include customer-related expenses that  
138 do not vary with the level of energy consumption (i.e. size) of Utah residential  
139 customers. The Commission's Method provides a framework to apply these  
140 principles.

141

142 **Q. PLEASE DESCRIBE THE COMMISSION'S METHOD.**

143 A. In 1985, the Commission approved a customer charge method for Utah Power<sup>1</sup>  
144 similar to those approved for the natural gas utility:

145 "The approved customer-related costs used to calculate the  
146 customer charge are the costs of net plant for service lines  
147 and meters, i.e., depreciation expense, income tax and  
148 return, and the expenses for meter reading and billing, less  
149 associated billing revenue. These test year net costs,  
150 divided by the average annual number of customers in the  
151 test year, then divided again by 12 months, yields the fixed

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<sup>1</sup> Rocky Mountain Power was previously Utah Power until PacifiCorp was acquired by Mid-American Energy Company in 2006.

152 monthly customer charge.” (Commission Order – Docket  
153 09-035-23, p. 27)

154 In developing its method, the Commission identified specific FERC accounts and  
155 subaccounts which contain costs of net plant for service drops and meters, meter  
156 reading expenses, and customer billing expenses.

157

158 **Q. WHAT COST COMPONENTS ARE CURRENTLY INCLUDED IN THE**  
159 **COMMISSION’S METHOD?**

160 A. The Commission’s Method includes the following components:

- 161 1. Customer Billing & Accounting Expense (acct. 903.2) <sup>161</sup>
- 162 2. Meter Reading (acct. 902.1)
- 163 3. Meters - Depreciation Expense
- 164 4. Meter Plant (acct. 370)
- 165 5. Meters - Accumulated Depreciation
- 166 6. Service Drop - Depreciation Expense
- 167 7. Service Drop Plant (acct. 369)
- 168 8. Service Drop - Accumulated Depreciation

169

170 **Q. ARE THERE ADDITIONAL COST ACCOUNTS THAT SHOULD BE INCLUDED**  
171 **IN THE CUSTOMER CHARGE TO BE CONSISTENT WITH THE**  
172 **COMMISSION’S METHODOLOGY?**

173 A. Yes. There are three FERC accounts and other FERC 903 subaccounts that  
174 should be considered for inclusion in the customer charge. These accounts are  
175 customer-related and do not vary by size of the residential customer.

176 Specifically, I recommend that the following additional accounts be included in  
177 the customer charge:

- 178 • Meter Expense - Account 536
- 179 • Meter Maintenance - Account 597
- 180 • Customer Supervision - Account 901
- 181 • Customer Records, Customer Systems - Account 903.1
- 182 • Customer Records, Collections - Account 903.3

- 183                   • Customer Accounting, Customer Requests - Account 903.5  
184                   • Customer Contact Expenses in Customer Accounting Common - Account  
185                   903.6  
186

187 **Q. PLEASE EXPLAIN WHY YOU RECOMMEND THE INCLUSION OF METER**  
188 **EXPENSE AND METER MAINTENANCE.**

189 A. Since operations and maintenance expenses related to customer meters are an  
190 essential aspect of customer billing, FERC accounts 586 and 597 should be  
191 included in computing the customer charge. Account 586 – Meter Expense  
192 includes the cost of labor, materials used and expenses incurred in the operation  
193 of customer meters and associated equipment. Account 597 – Meter  
194 Maintenance includes the cost of labor, materials used and expenses incurred in  
195 the maintenance of meters and meter testing equipment, the book cost of which  
196 is included in Account 370, Meters, and Account 395, Laboratory Equipment,  
197 respectively. These costs are customer-related and do not vary by customer  
198 size.  
199

200 **Q. WHY DID THE OFFICE INCLUDE ACCOUNT 901 IN ITS CUSTOMER**  
201 **CHARGE PROPOSAL?**

202 A. The FERC Uniform System of Accounts describes Account 901 as “Direct  
203 supervision of a specific activity shall be charged to account 902, Meter Reading  
204 Expenses, or account 903, Customer Records and Collection Expenses, as  
205 appropriate.”<sup>2</sup> Supervision costs associated with net plant of service drops and  
206 meters, meter reading and customer billing are included in this account. These  
207 costs are customer-related costs and do not vary with customer size.  
208

209 **Q. WHY DID THE OFFICE EXCLUDE SUBACCOUNT 903.0?**

210 A. Subaccount 903.0 includes labor and expenses for billing, account and  
211 collections for transmission service under Pacificorp’s OATT. Since this expense

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<sup>2</sup> See FERC Uniform System of Accounts, Account 901; <http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=a1c36a909490a7f1508137221b50c2c6&rgn=div5&view=text&node=18:1.0.1.3.34&idno=18>



212 is associated with customers other than Utah's residential customers, this  
213 account should not be included in the Utah residential customer charge.

214

215 **Q. WHY DID THE OFFICE INCLUDE SUBACCOUNT 903.1 IN ITS CUSTOMER**  
216 **CHARGE PROPOSAL?**

217 A. Subaccount 903.1 includes costs for customer systems information technology  
218 work. These costs support digital customer records and billing maintenance.  
219 These are customer-related costs and do not vary with residential customer size.

220

221 **Q. WHY DID THE OFFICE INCLUDE SUBACCOUNT 903.3 IN ITS CUSTOMER**  
222 **CHARGE PROPOSAL?**

223 A. Subaccount 903.3 includes costs associated with collections for delinquent  
224 accounts.<sup>3</sup> While not all customers require collections, all customers benefit from  
225 collections to the extent that lower levels of customer bad debt writeoffs reduce  
226 overall customer billing costs. These expenses relate to customer billing and do  
227 not vary with customer size.

228

229 **Q. WHY DID THE OFFICE INCLUDE SUBACCOUNT 903.5 IN ITS CUSTOMER**  
230 **CHARGE PROPOSAL?**

231 A. Subaccount 903.5 includes costs associated with customer requests. These  
232 costs may include additional meter reading to resolve customer complaints or  
233 concerns. While not every customer may not need to use this service, the  
234 service is available to all customers regardless of customer size. Therefore, the  
235 Office supports inclusion of this subaccount in the customer charge.

236

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<sup>3</sup> Office witness Donna Ramas removed \$449,965 from the 903.3 account to reflect Electric Service Regulation No. 3, which requires that individual customers are responsible for certain costs associated with their unpaid accounts. The Company indicated in OCS Data Request 4.12 that not removing these expenses was an oversight and an adjustment will be included in the Company's rebuttal testimony. This adjustment decreases the per customer amount from \$0.85 to \$0.80 resulting in a decrease of the calculated customer charge from \$6.05 to \$6.00. I chose to leave the amount at the \$0.85 level pending the Company's rebuttal testimony, further it has no impact on the Office's customer charge proposal of \$6.00 in this rate case.

237 **Q. DOES THE OFFICE SUPPORT INCLUDING SUBACCOUNT 903.6 IN ITS**  
238 **CUSTOMER CHARGE PROPOSAL?**

239 A. The Office supports including only costs associated with the Company's  
240 customer contact center, but not other costs identified within this subaccount.

241

242 **Q. PLEASE EXPLAIN WHY COSTS OTHER THAN THE CUSTOMER CONTACT**  
243 **CENTER SHOULD BE EXCLUDED FROM THE CUSTOMER CHARGE.**

244 A. In analyzing Subaccount 903.6, the Office issued data request OCS 5.16, which  
245 requested transactional data for the 903.6 subaccount.<sup>4</sup> The Office reviewed the  
246 transactional data and found specific transactions for cost centers that were  
247 unrelated to the customer service center. These other cost centers included the  
248 following:

- 249 • Customer and Regulatory Liaison
- 250 • Business Support
- 251 • Business Integration
- 252 • Customer Generation
- 253 • Telephony

254 These cost centers do not directly serve Utah's residential customers nor support  
255 residential meter reading, customer billing, or net plant for meters and service  
256 drops for Utah residential customers. These cost centers serve other Company  
257 customers or other Company business functions that are not related to Utah  
258 residential customers. Thus, these expenses should not be included in the  
259 residential customer charge.

260

261 **Q. WHAT IS THE IMPACT OF ONLY INCLUDING CUSTOMER CONTACT**  
262 **CENTER EXPENSES IN ACCOUNT 903.6 ON THE OFFICE'S CUSTOMER**  
263 **CHARGE PROPOSAL?**

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<sup>4</sup> OCS Data Request 5.16 is not included as an exhibit in my testimony. The response is a large Excel spreadsheet. I included the response with my work papers.

264 A. The 903.6 subaccount customer charge component decreases from \$0.89 to  
265 \$0.76.<sup>5</sup>

266 **Q. HOW MUCH DOES THE CUSTOMER CHARGE INCREASE BY INCLUDING**  
267 **THE COSTS RELATING TO METER EXPENSE (ACCOUNT 586), METER**  
268 **MAINTENANCE (ACCOUNT 597), SUPERVISION (ACCOUNT 901) AND THE**  
269 **REMAINING 903 SUBACCOUNTS AS PROPOSED BY THE OFFICE?**

270 A. Including these accounts along with the previously approved accounts, results in  
271 a residential customer charge of \$6.05 as shown in Table 1 below.

272 **Table 1 - Customer Charge Method Comparison**

	Description	1985 Method	2014 OCS Method
1)	Customer Billing & Accounting Expense (acct. 903.2)	\$0.49	\$0.49
2)	Meter Reading (acct. 902.1)	\$0.48	\$0.48
3)	All Other Retail Function		
4)	Supervision (acct.901)		\$0.11
5)	CUST RCRD/COLL EXP (acct. 903.0)		
6)	CUST RCRD/CUST SYS (acct. 903.1)		\$0.15
7)	CUST ACCTG/BILL (acct. 903.3)		\$0.85
8)	CUST ACCTG/REQ (acct. 903.5)		\$0.00
9)	CUST ACCTG/COMMON (CUSTOMER CONTACT CENTER ONLY) (acct. 903.6)		\$0.76
10)	Meters - Depreciation Expense	\$0.20	\$0.20
11)	Meter Expense (acct. 586)		\$0.16
12)	Meter Maintenance (acct. 597)		\$0.28
13)	Meter Plant (acct. 370)	\$0.64	\$0.64
14)	Meters - Accumulated Depreciation	-\$0.22	-\$0.22
15)	Service Drop - Depreciation Expense	\$0.45	\$0.45
16)	Service Drop Plant (acct. 369)	\$2.36	\$2.36
17)	Service Drop - Accumulated Depreciation	-\$0.65	-\$0.65
18)	Total Customer Charge	\$3.73	\$6.05

273

<sup>5</sup>In OCS data request 5.8, 1<sup>st</sup> revised, the Company's original amount for this component was \$0.89. Filtering the 903.6 subaccount for only customer contact center expenses decreases the 903.6 subaccount value from \$7,398,012 to \$6,724,846. This decrease reduces this rate component from \$0.89 to \$0.76 as shown in Table 1. Please refer to my work paper entitled "Customer Charge Analysis 13-035-184 June 2015 updated" for the complete analysis.

274 **Q. WHY DOES THE OFFICE PROPOSE THE CUSTOMER CHARGE TO BE SET**  
275 **AT \$6.00?**

276 A. The calculated amount of \$6.05 is rounded to the nearest \$0.25 to \$6.00.

277

278

279

280 *B. Energy Rates*

281 **Q. WHAT FACTORS OR PRINCIPLES WERE CONSIDERED BY THE OFFICE IN**  
282 **DEVELOPING ITS ENERGY RATE PROPOSAL?**

283 A. The Office considered a number of additional factors in developing its proposal in  
284 this general rate case. First, the Office believes it is important to recognize that  
285 the first summer and non-summer energy blocks relate to essential usage of  
286 electricity by residential customers and these rates need to be kept at an  
287 affordable level.

288

289 Second, the class revenue increase allocated to the energy component of rates  
290 was divided between the summer and non-summer periods in a way that  
291 appropriately recognizes there is less forecasted usage in the summer months  
292 (five) versus non-summer months (seven), but that usage in the summer period  
293 is normally more costly to serve.

294

295 Third, the Office evaluates bill impacts related to the customer's total bill which  
296 includes changes to the customer charge and energy rates. In summary, the  
297 Office's rate design proposal balances a number of key ratemaking principles  
298 and achieves an overall outcome that is fair and reasonable for residential  
299 customers as demonstrated in the following scenarios.

300

301 **Q. HOW DID THE OFFICE APPROACH ITS RESIDENTIAL ENERGY RATE**  
302 **RECOMMENDATIONS?**

303 A. The Office reviewed multiple potential revenue requirement outcomes and  
304 evaluated the revenue requirement impact of its customer charge

305 recommendation. Based on this review, the Office established general principles  
306 for designing residential energy rates at different revenue requirement scenarios.  
307

308 **Q. PLEASE SUMMARIZE THE OFFICE'S RESIDENTIAL ENERGY RATE**  
309 **RECOMMENDATION AT THE OFFICE'S RECOMMENDED REVENUE**  
310 **REQUIREMENT.**

311 A. Since the Office's revenue requirement position is a \$4.6 million decrease, the  
312 Office recommends that the residential rate design remain unchanged and the  
313 rate decrease be applied to over-performing classes, as discussed in Mr.  
314 Gimble's rate spread testimony.

315  
316 **Q. PLEASE SUMMARIZE THE OFFICE'S RESIDENTIAL ENERGY RATE**  
317 **RECOMMENDATIONS IF THE REVENUE REQUIREMENT IS INCREASED BY**  
318 **\$30.958 MILLION OR LESS.**

319 A. Under this scenario, the Office recommends that energy rates remain unchanged  
320 and the customer charge increase from \$5.00 up to \$6.00, depending on the  
321 revenue requirement increase ordered by the Commission. The Office  
322 performed an analysis identifying the revenue requirement where the entire  
323 residential rate increase would be reflected in the customer charge. Based on  
324 the Office's rate spread and maintaining current energy rates, the revenue  
325 requirement where the full class rate increase is reflected in the customer charge  
326 is approximately \$30.958 million. Thus, the Office conceptually supports putting  
327 the full portion of the revenue requirement allocated to the residential class into  
328 the customer charge in this scenario.

329  
330 **Q. UNDER THIS SCENARIO, WOULD IT BE NECESSARY TO ADJUST ENERGY**  
331 **RATES?**

332 A. Yes. Some slight adjustments to the energy rates may be necessary to balance  
333 rounding the customer charge to the nearest \$0.25.  
334

335 **Q. WHAT PRINCIPLES DOES THE OFFICE SUPPORT IN ADJUSTING ENERGY**  
336 **RATES IF THE REVENUE REQUIREMENT INCREASE IS GREATER THAN**  
337 **\$30.958 MILLION?**

338 A. The Office supports two principles in adjusting energy rates at revenue  
339 requirement increases above approximately \$31 million. First, as the customer  
340 charge changes, there is a need for rate stability especially among low usage  
341 customers. The first energy block rates often reflect essential energy usage for  
342 most residential customers. The second principle is cost causation during the  
343 non-summer months. In the last general rate case, a second energy block was  
344 added to the non-summer months. As Office witness Chernick indicated in his  
345 testimony, the Company's stress factor analysis shows loads in all months  
346 contribute to the expectation of unserved energy. (See Office Witness  
347 Chernick's Direct Testimony at lines 163 - 171) The second non-summer block  
348 should be adjusted in a gradual fashion to reflect the costs caused during non-  
349 summer months. From these two principles, the Office supports adjusting the  
350 second non-summer block up to 5% and then adjusting other blocks as  
351 necessary to balance changes in the customer charge.

352  
353 **Q. PLEASE DESCRIBE THE OFFICE'S RESIDENTIAL ENERGY RATE**  
354 **RECOMMENDATIONS IF THE REVENUE REQUIREMENT INCREASE IS**  
355 **GREATER THAN \$30.958 MILLION.**

356 A. Under this scenario, the Office recommends a \$6.00 customer charge and the  
357 remaining increase put into energy rates. Increases to the energy rates should  
358 first be applied to the non-summer second block energy rate up to 5% to bring  
359 that rate more in line with the summer second block energy rate. Any remaining  
360 revenue should be applied on an equal percentage basis to the remaining energy  
361 block rates. This energy rate proposal is designed to mitigate the impact caused  
362 by the increased customer charge for low use residential customers.

363  
364 C. *Residential Rate Design Proposals at Different Revenue Requirement Scenarios*

365 **Q. HAVE YOU PREPARED EXAMPLES TO ILLUSTRATE THE PRINCIPLES**  
366 **DESCRIBED IN THE PREVIOUS SECTION?**

367 A. Yes. Consistent with the scenarios presented in Mr. Gimble's direct testimony, I  
368 have provided the specific residential rate design recommendations at four  
369 revenue requirement scenarios: at an increase of \$11 Million, \$31 Million, \$51  
370 Million, and \$71.304 Million. I have not provided the calculations at the Office's  
371 recommended revenue requirement of a \$4.6 decrease because at that level the  
372 Office recommends no change to the residential rate design.

373  
374 In each of the examples, I describe the recommendation for customer charge for  
375 single-phase service, and implement a rate double that recommendation for the  
376 customer charge for three-phase service. Also, I implement the same minimum  
377 bill of \$10.00 for a single-phase service and \$20 for three-phase service for all  
378 scenarios. Lastly, I include the Company's net metering facilities charge which  
379 varies depending on the customer charge. At the Office's recommended \$6.00  
380 customer charge, the proposed net metering facilities charge is \$4.82 which will  
381 be shown in all the examples except the \$11 million revenue requirement  
382 example. In that example, the customer charge is \$5.25 which increases the  
383 proposed net metering facilities charge to \$5.02. The Office's net metering  
384 facilities charge position is addressed in Mr. Gimble's testimony and is included  
385 in these examples for illustration purposes only.

386  
387 *Example #1 – Revenue Requirement of \$11 Million*

388 **Q. PLEASE DESCRIBE THE OFFICE'S RESIDENTIAL RATE DESIGN FOR A**  
389 **REVENUE REQUIREMENT OF \$11 MILLION.**

390 A. At this revenue requirement, the Office proposes putting the entire amount of  
391 revenue requirement allocated to the residential class into an increase in the  
392 customer charge. The customer charge would be approximately \$5.17 given the  
393 Office's rate spread. The Office proposes rounding \$5.17 to the nearest \$0.25  
394 increment, which results in the need to adjust the energy rates as an offset to the  
395 customer charge increase. At a \$5.25 customer charge, the proposed net

396 metering facilities charge increases slightly to \$5.02. The Office proposes  
 397 decreasing the first summer and non-summer energy block rate slightly from  
 398 8.8854 cents/kWh to 8.8499 cents/kWh. The Office proposes keeping other  
 399 energy block rates at current levels. Exhibit 7.1, page 1 provides a spreadsheet  
 400 deriving the Office’s rate design proposal at an \$11 million revenue requirement.  
 401 Table 2 below summarizes the Office’s proposed changes to the Schedule 1 rate  
 402 charges:

404 **Table 2 - OCS Rate Design Comparison with an \$11M Revenue Requirement**

	Current	Proposed	Rate Change %	% Revenue Collected
Customer Charge - 1 Phase	\$5.00	\$5.25	5.00%	140.23%
Customer Charge - 3 Phase	\$10.00	\$10.50	5.00%	0.46%
Net Metering Facilities Charge	N/A	\$5.02	N/A	8.07%
First 400 kWh (May-Sept)	8.8854 ¢	8.8499 ¢	-0.40%	-30.02%
Next 600 kWh (May-Sept)	11.5785 ¢	11.5785 ¢	0.00%	0.0%
All add'l kWh (May-Sept)	14.4864 ¢	14.4900 ¢	0.02%	0.21%
All kWh (Oct-Apr)				
<i>First 400 kWh (Oct-Apr)</i>	8.8854 ¢	8.8499 ¢	-0.40%	-38.10%
<i>All add'l kWh (Oct-Apr)</i>	9.9269 ¢	9.9269 ¢	0.00%	0.0%
Minimum 1 Phase	\$7.00	\$10.00	42.86%	19.10%
Minimum 3 Phase	\$14.00	\$20.00	42.86%	0.06%

405  
 406 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE BILL IMPACTS OF**  
 407 **THE OFFICE’S RATE DESIGN PROPOSAL UNDER THE OFFICE’S \$11 M**  
 408 **REVENUE REQUIREMENT SCENARIO?**

409 A. Yes. Exhibit 7.1, page 2 shows bill impacts in 100 kWh usage increments. Table  
 410 3 below summarizes four levels of usage, ranging from low (400 kWh) to medium  
 411 (698 kWh = annual average) to high (1500 and 2000 kWh).

413 **Table 3 - Annual Bill Impacts at an \$11M Revenue Requirement**

Usage (kWh)	Bill Impact (%)
400 kWh	0.20%



698 kWh*	0.10%
1500 kWh	0.10%
2000 kWh	0.04%

\*Average Annual Usage = 698 kWh

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The Office’s proposal is designed to mitigate the rate impact on lower use customers by offsetting the increase to the customer charge with slightly lowered first and second tier summer rates. Nonetheless, lower usage customers will see a higher bill increase compared to higher usage customers. In this case, the \$0.25 increase to the customer charge is warranted on a cost causation basis and is not a dramatic increase. Therefore, the Office believes that the result is just and reasonable.

*Example #2– Revenue Requirement \$31 Million*

**Q. PLEASE DESCRIBE THE OFFICE’S RESIDENTIAL RATE DESIGN FOR A REVENUE REQUIREMENT OF \$31 MILLION.**

A. In this example, the revenue requirement is approximately at the level where the class rate increase is reflected almost entirely by increasing the customer charge from \$5.00 to \$6.00. Regarding energy rates, the Office proposes that the first summer and non-summer energy block rates decrease slightly from 8.8854 cents/kWh to 8.8703 cents/kWh. The Office also proposes that the third summer block also decreases slightly from 14.4864 cents/kWh to 14.4800 cents/kWh. The Office proposes that other energy block rates remain at current levels. Exhibit 7.2, page 1 provides a spreadsheet deriving the Office’s rate design proposal at a \$31 million revenue requirement. Table 4 below summarizes the Office’s proposed changes to the Schedule 1 rate charges:

**Table 4 - OCS Rate Design Comparison with a \$31M Revenue Requirement**

	Current	Proposed	Rate Change %	% Revenue Collected
Customer Charge - 1 Phase	\$5.00	\$6.00	20.00%	99.87%
Customer Charge - 3 Phase	\$10.00	\$12.00	20.00%	0.33%

Net Metering Facilities Charge	N/A	\$4.82	N/A	1.38%
First 400 kWh (May-Sept)	8.8854 ¢	8.8703 ¢	-0.17%	-2.27%
Next 600 kWh (May-Sept)	11.5785 ¢	11.5785 ¢	0.00%	0.0%
All add'l kWh (May-Sept)	14.4864 ¢	14.4900 ¢	0.02%	0.17%
All kWh (Oct-Apr)				
<i>First 400 kWh (Oct-Apr)</i>	8.8854 ¢	8.8703 ¢	-0.17%	-2.89%
<i>All add'l kWh (Oct-Apr)</i>	9.9269 ¢	9.9269 ¢	0.00%	0.0%
Minimum 1 Phase	\$7.00	\$10.00	42.86%	3.40%
Minimum 3 Phase	\$14.00	\$20.00	42.86%	0.01%

439

440

441 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE BILL IMPACTS OF**  
 442 **THE OFFICE'S RATE DESIGN PROPOSAL UNDER THE OFFICE'S \$31 M**  
 443 **REVENUE REQUIREMENT SCENARIO?**

444 A. Yes. Exhibit 7.2 page 2 shows bill impacts in 100 kWh usage increments. Table  
 445 5 summarizes four levels of energy usage, ranging from low (400 kWh) to  
 446 medium (698 kWh = annual average) to high (1500 and 2000 kWh).

447

448

**Table 5 - Annual Bill Impacts at a \$31M Revenue Requirement**

Usage (kWh)	Bill Impact (%)
400 kWh	2.10%
698 kWh*	1.16%
1500 kWh	0.56%
2000 kWh	0.36%

449

\*Average Annual Usage = 698 kWh

450

451 Low usage customers will see a higher bill increase compared to high usage  
 452 customers because the vast majority of the class revenue increase is reflected in  
 453 a higher customer charge while energy rates remain at approximately current  
 454 levels. In this case, the \$1.00 increase to the customer charge is warranted on a  
 455 cost causation basis and is a reasonable increase for a single case. Therefore,  
 456 the Office believes that the result is just and reasonable.

457

458 *Example #3– Revenue Requirement \$51 Million*

459 **Q. PLEASE DESCRIBE THE OFFICE’S RESIDENTIAL RATE DESIGN FOR A**  
460 **REVENUE REQUIREMENT OF \$51 MILLION.**

461 A. In this example, the Office uses a \$51 million revenue requirement to illustrate a  
462 scenario greater than \$30.958 million. Using a revenue requirement of \$51  
463 Million, the Office again recommends increasing the customer charge from \$5.00  
464 to \$6.00. At this revenue requirement, the Office proposes to increase the  
465 second block of the non-summer energy rate by 3.87% percent. The Office  
466 proposes no changes to the other energy rates as shown in the table below.  
467 Exhibit 7.3, page 1 provides a spreadsheet deriving the Office’s rate design  
468 proposal at a \$51 million revenue requirement. Table 6 below summarizes the  
469 Office’s proposed changes to the Schedule 1 rate charges:

470 **Table 6 - OCS Rate Design Comparison with a \$51M Revenue Requirement**  
471

	Current	Proposed	Rate Change %	% Revenue Collected
Customer Charge - 1 Phase	\$5.00	\$6.00	20.00%	54.82%
Customer Charge - 3 Phase	\$10.00	\$12.00	20.00%	0.18%
Net Metering Facilities Charge	NA	\$4.82	0.00%	0.76%
First 400 kWh (May-Sept)	8.8854 ¢	8.8854 ¢	0.00%	0.00%
Next 600 kWh (May-Sept)	11.5785 ¢	11.5785 ¢	0.00%	0.00%
All add'l kWh (May-Sept)	14.4864 ¢	14.4900 ¢	0.02%	0.13%
All kWh (Oct-Apr)				
<i>First 400 kWh (Oct-Apr)</i>	8.8854 ¢	8.8854 ¢	0.00%	0.00%
<i>All add'l kWh (Oct-Apr)</i>	9.9269 ¢	10.3111 ¢	3.87%	42.25%
Minimum 1 Phase	\$7.00	\$10.00	42.86%	1.87%
Minimum 3 Phase	\$14.00	\$20.00	42.86%	0.01%

472

473 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE BILL IMPACTS OF**  
474 **THE OFFICE’S RATE DESIGN PROPOSAL ON RESIDENTIAL CUSTOMERS?**

475 A. Yes. Exhibit 7.3 page 2 shows bill impacts in 100 kWh usage increments. Table  
476 7 below summarizes four levels of usage, ranging from low (400 kWh) to medium  
477 (698 kWh = annual average) to high (1500 and 2000 kWh).

478

479 **Table 7 - Annual Bill Impacts, OCS Proposed at \$51M Revenue Requirement**

Usage (kWh)	Bill Impact (%)
400 kWh	2.30%
698 kWh*	2.19%
1500 kWh	2.19%
2000 kWh	2.21%

\*Average Annual Usage = 698 kWh

480  
481  
482 At this level of revenue requirement increase, the Office was able to balance the  
483 bill impacts of its proposal such that the impacts are close to the same  
484 percentage across a wide range of usage levels.

485  
486 *Example #4– Revenue Requirement \$71.304 Million*

487 **Q. PLEASE DESCRIBE THE OFFICE’S RESIDENTIAL RATE DESIGN FOR A**  
488 **REVENUE REQUIREMENT OF \$71 MILLION.**

489 A. In this example, the Office uses a \$71.304 million revenue requirement, which is  
490 the Company’s current recommended revenue requirement in this case. The  
491 Office again recommends increasing the customer charge from \$5.00 to \$6.00.  
492 At this revenue requirement, the Office proposes to increase the second block of  
493 the non-summer energy rate by 5% percent. The Office also proposes to  
494 increase the other energy rate blocks by approximately 1.21%. Exhibit 7.4, page  
495 1 provides a spreadsheet deriving the Office’s rate design proposal at a \$71.304  
496 million revenue requirement. Table 8 below summarizes the Office’s proposed  
497 changes to the Schedule 1 rate charges:

498 **Table 8 - OCS Rate Design Comparison with a \$71.304 M Revenue Requirement**

	Current	Proposed	Rate Change %	% Revenue Collected
Customer Charge - 1 Phase	\$5.00	\$6.00	20.00%	37.60%
Customer Charge - 3 Phase	\$10.00	\$12.00	20.00%	0.12%
Net Metering Facilities Charge	NA	\$4.82	N/A	0.52%
First 400 kWh (May-Sept)	8.8854 ¢	8.9929 ¢	1.21%	6.09%

Next 600 kWh (May-Sept)	11.5785 ¢	11.7186 ¢	1.21%	6.44%
All add'l kWh (May-Sept)	14.4864 ¢	14.6600 ¢	1.20%	2.77%
All kWh (Oct-Apr)				
<i>First 400 kWh (Oct-Apr)</i>	8.8854 ¢	8.9929 ¢	1.21%	7.73%
<i>All add'l kWh (Oct-Apr)</i>	9.9269 ¢	10.4232 ¢	5.00%	37.43%
Minimum 1 Phase	\$7.00	\$10.00	42.86%	1.28%
Minimum 3 Phase	\$14.00	\$20.00	42.86%	0.00%

500

501 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE BILL IMPACTS OF**  
502 **THE OFFICE'S RATE DESIGN PROPOSAL ON RESIDENTIAL CUSTOMERS?**

503 A. Yes. Exhibit 7.4 page 2 shows bill impacts in 100 kWh usage increments. Table  
504 9 below summarizes four levels of usage, ranging from low (400 kWh) to medium  
505 (698 kWh = annual average) to high (1500 and 2000 kWh).

506

507 **Table 9 - Annual Bill Impacts, OCS Proposed at \$51M Revenue Requirement**

Usage (kWh)	Bill Impact (%)
400 kWh	3.30%
698 kWh*	3.33%
1500 kWh	3.33%
2000 kWh	3.31%

508

\*Average Annual Usage = 698 kWh

509

510 At this level of revenue requirement increase, the Office was able to balance the  
511 bill impacts of its proposal such that the impacts are close to the same  
512 percentage across a wide range of usage levels.

513

514 *D. Minimum Bill*

515 **Q. WHAT IS THE PURPOSE OF THE MINIMUM BILL?**

516 A. The minimum bill ensures that low use customers pay for a portion of the fixed  
517 costs associated with the electric system. While the customer charge is  
518 designed to recover specific customer related expenses that don't vary by  
519 customer size or usage, other fixed costs are also incurred even to serve the  
520 very low usage residential customers. The minimum bill provides a rate

521 mechanism to collect additional fixed costs in addition to the customer charge  
522 that would not be otherwise collected based on low energy usage.

523

524 **Q. WHAT IS THE OFFICE'S PROPOSAL FOR THE MINIMUM BILL?**

525 A. The Office proposes increasing the minimum bill from \$7.00 to \$10.00 for single  
526 phase customers and \$20.00 for three-phase customers.

527

528 **Q. PLEASE EXPLAIN THE OFFICE'S GENERAL POSITION ON THE MINIMUM**  
529 **BILL.**

530 A. The Office acknowledges that while the minimum bill is not a widely used rate  
531 design element, it is a potentially useful one to collect an appropriate portion of  
532 fixed costs from customers with very low energy usage. Until a more specific  
533 method is developed for determining what level of fixed costs is appropriate to  
534 include in a minimum bill, the Office proposes raising the minimum bill to  
535 continue moving in the direction agreed to in the last general rate case. In that  
536 proceeding, the Commission approved a settlement that increased the minimum  
537 bill for the first time in many years. Although parties to the settlement may have  
538 reached their positions on the minimum bill differently, the Office's view is that  
539 the minimum bill was increased in part due the fact that parties did not agree on  
540 what cost components should be included in the residential customer charge  
541 formula and in part to mitigate concerns that the Company was not collecting  
542 sufficient revenue from customers with very low energy usage to cover system  
543 costs.

544

545 **Q. WHAT SPECIFIC DIRECTION HAS THE COMMISSION PROVIDED ON THE**  
546 **MINIMUM BILL IN RECENT RATE CASES?**

547 A. In Docket 09-035-23, the Commission directed the Company and the Division of  
548 Public Utilities ("DPU") to provide "an examination of changes to the minimum  
549 bill." However, the Office has not seen any study examining the minimum bill by

550 the Company or Division or any proposals by any party for a cost-based method  
551 by which a minimum bill amount could be determined.<sup>6</sup>

552 **Q. WHAT ANALYSIS DID THE OFFICE PERFORM TO DERIVE ITS MINIMUM**  
553 **BILL PROPOSAL?**

554 A. The Office analyzed the following:

- 555 • Minimum bill data from other regulated states for comparison purposes;
- 556 • Residential bill distribution data to investigate a logical break point by  
557 kWh; and
- 558 • Various cost components that could be used in determining a minimum  
559 bill.

560 The Office's goal was to derive a principle based minimum bill based either  
561 on kWh usage or cost components.

562

563 **Q. WHAT DID THE OFFICE FIND IN ITS COMPARISON OF MINIMUM BILLS**  
564 **WITH OTHER STATES?**

565 A. Out of the 28 regulated states evaluated, only Utah and Hawaii had minimum bill  
566 rate components.

567

568 **Q. WHAT DID THE OFFICE'S EVALUATION OF BILL DISTRIBUTION SHOW?**

569 A. The Office reviewed residential bill distribution information in 20 kWh intervals up  
570 to 400 kWh to see if there was a clear break point in kWh usage to set the  
571 minimum bill. The distribution is shown in Figure 1 below.

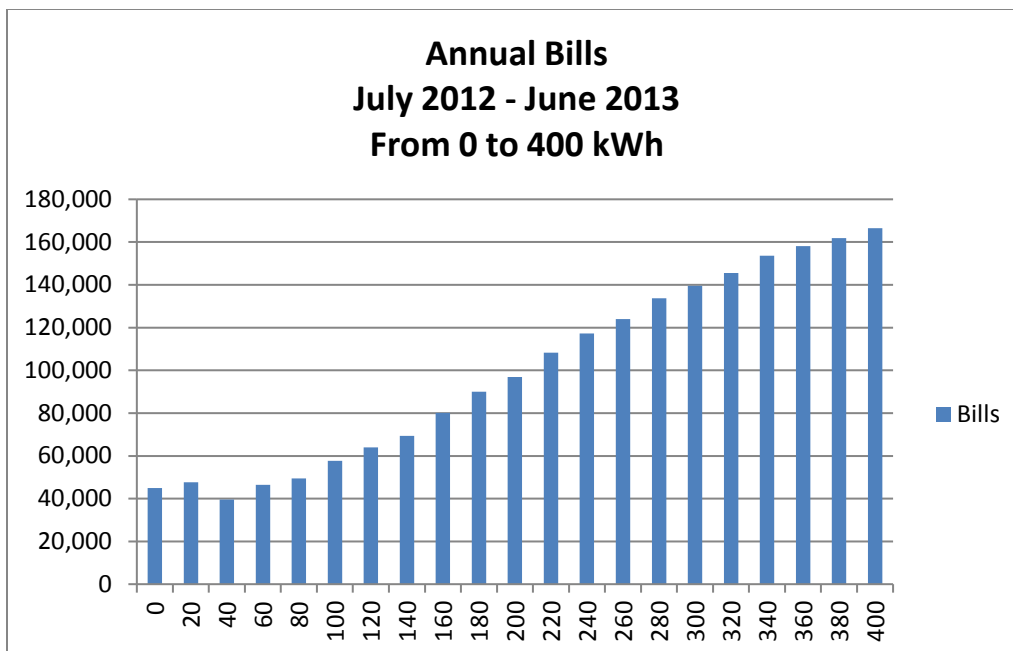
572

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<sup>6</sup> The Office asked the Company the following in OCS Data Request 5.17:

“In the Utah Commission Order in Docket 09-035-23, the Commission directed the Company and the DPU to provide ‘an examination of changes to the minimum bill.’ Please provide all analyses, studies, reports, communications, and any other documents related to this directive from the Commission. Please provide this information electronically in an Excel spreadsheet with formulas intact.”

The Company responded as follows, “The Company is not aware of any analysis performed by the DPU. Please see the direct testimony of William R. Griffith in docket 10-035-124, available on the Commission web site, for the Company's examination of changes to the minimum bill.” Mr. Griffith's testimony in docket 10-035-124 opposed the minimum bill. (See Griffith Direct Testimony, docket 10-035-124 at lines 117 – 124.



573  
574 **Figure 1 - Utah Annual Bills**

575

576 In reviewing the bill distribution, there was a decrease in bills at 40 kWh.  
577 However, from 40 kWh, there is a steady increase in bill distribution without a  
578 clear kWh break point to base the minimum bill. There was no clear indicator to  
579 set a minimum bill based on kWh usage.

580

581 **Q. WHAT COST COMPONENTS DID THE OFFICE EVALUATE THAT MIGHT BE**  
582 **APPROPRIATE FOR A MINIMUM BILL?**

583 A. First, the Office took into account its proposal for a customer charge. In this  
584 case, the Office is proposing a customer charge between \$5.00 and \$6.00.  
585 Second, the Office reviewed additional cost elements that might be appropriate  
586 to collect in a minimum bill. In particular, the Office reviewed information  
587 provided in the Company's response to OCS 5.8, 1<sup>st</sup> revised and Company  
588 Exhibit JRS-8. Based on this review, the Office evaluated adding specific



589 customer-related costs and service drop distribution costs not included in the  
590 customer charge to derive the Office's minimum bill proposal.<sup>7</sup>

591

592 **Q. GIVEN THE ABOVE ANALYSIS, WHAT IS THE OFFICE'S MINIMUM BILL**  
593 **PROPOSAL?**

594 A. The Office proposes that the minimum bill should consist of the customer-related  
595 and distribution costs associated with meters and service drops. Until specific  
596 criteria or a specific set of facilities are identified from which to derive a minimum  
597 bill, the Office proposes increasing the minimum bill from \$7.00 to \$10.00 for  
598 single phase customers and from \$14.00 to \$20.00 for three-phase customers.  
599 The Office notes that its proposal to increase the minimum bill by \$3.00 per  
600 month is more moderate than the Company's proposal to increase the minimum  
601 bill by \$8.00 in a single rate case.

602

603 IV. RESPONSE TO RMP'S RESIDENTIAL RATE DESIGN PROPOSAL

604 **Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING RMP'S**  
605 **RESIDENTIAL RATE DESIGN PROPOSAL?**

606 A. The Commission should reject the Company's rate design proposal for the  
607 following reasons:

- 608 • The proposal fails to support with evidence the Company's recommended  
609 changes to the Commission's customer charge method.
- 610 • The proposal raises intra-class equity concerns because of the  
611 substantially greater bill impacts on low use customers compared to high  
612 use customers.
- 613 • The proposal emphasizes revenue assurance over other ratemaking  
614 principles such as gradualism, cost causation, and energy conservation  
615 because it recovers significantly more of the class revenue increase  
616 through the fixed customer charge.

---

<sup>7</sup> Including these elements increased the minimum bill by a total of \$1.02 consisting of \$0.63 from the remaining customer accounts not included in the customer charge and \$0.39 from other distribution – service drops not included in the customer charge.

617

618 **Q. WHAT EVIDENCE DOES THE COMPANY PROVIDE IN SUPPORT OF ITS**  
619 **RESIDENTIAL RATE DESIGN PROPOSAL?**

620 A. The Company provides little in the way of evidence or rationale in support of its  
621 residential rate design proposal. Company witness Steward fails to justify the  
622 Company's proposal to modify the Commission's customer charge formula which  
623 increases the customer charge by \$3.00 and the minimum bill by \$8.00 in a  
624 single rate case proceeding. Regarding the Company's proposed energy  
625 charges, it appears these charges were simply derived from the revenue amount  
626 remaining after increasing the customer charge from \$5.00 to \$8.00.

627

628 **Q. WHAT DOES THE COMPANY PROPOSE TO BE INCLUDED IN THE**  
629 **RESIDENTIAL CUSTOMER CHARGE?**

630 A. The Company did not specify what individual cost components should be  
631 included in its proposed \$8.00 residential customer charge.

632

633 **Q. DOES THE OFFICE AGREE WITH THE COMPANY'S CUSTOMER CHARGE**  
634 **PROPOSAL?**

635 A. No. The Company's proposal does not recognize the Commission's Method nor  
636 does the Company provide any evidence to support any changes to the  
637 Commission's Method. The Company's \$8 proposal appears to be designed to  
638 put more fixed costs related to retail and distribution accounts into a fixed  
639 monthly charge (i.e. the customer charge.)

640

641 **Q. DID THE COMPANY PROVIDE EVIDENCE FOR INCLUDING ANY SPECIFIC**  
642 **RETAIL ACCOUNTS?"**

643 A. No. The Company's proposal is a general statement about the amount of the  
644 customer charge. In analyzing the Company's proposal, the Office sought to  
645 better understand the Company's customer charge proposal. In OCS Data  
646 Request 5.12, the Office asked the Company the following:

647 RMP proposed to recover the following specific expenditures through the  
648 residential customer charge in the last GRC [general rate case]. Does  
649 RMP continue to propose to recover these specific expenditures via the  
650 residential customer charge in the current GRC? If yes, please explain  
651 the purpose of each of the following expenditures and why they should be  
652 included as part of the residential customer charge.

- 653
- 654 (a) the customer and regulatory liaison group (included in Account 903.6);
  - 655 (b) the business services group (included in Account 903.6);
  - 656 (c) joint use bad debt expense (included in Account 904.2);
  - 657 (d) customer guarantee program (included in Account 905.0);
  - 658 (e) the Utah Solar Incentive Program (included in Account 908.1);
  - 659 (f) customer and community managers (included in Account 908.6);
  - 660 (g) customer and community communications group (included in Account  
661 909.0);
  - 662 (h) Outside facilitator for joint planning effort with cities and counties to set  
663 facility siting criteria (included in Account 910.0);
  - 664 (i) Bad debt expense (Account 904.0).
- 665

666 **Q. WHAT WAS THE COMPANY'S RESPONSE TO OCS DATA REQUEST 5.12?**

667 A. The Company responded, "No. Please refer the response to OCS 5.8.<sup>8</sup> The  
668 Company's proposed customer charge is based on making reasonable  
669 movement to reflect cost of service, which supports a customer charge of  
670 approximately \$25.00 per month. *Subaccounts are not included in the cost of*  
671 *service study, and, except for Account 903.2, RMP does not refer to subaccounts*  
672 *in its justification for its \$8 customer charge proposal in this GRC."* (Italics  
673 added)

674

675 **Q. WHAT IS THE OFFICE'S PERSPECTIVE ON THIS RESPONSE?**

676 A. The Company's DR response acknowledges the Company's intent to force all  
677 customer-related and distribution costs into a very high customer charge. The  
678 Company's claim that a \$25 customer charge represents cost of service for the  
679 residential class defies logic since residential customers have greatly varying  
680 levels of energy consumption. As discussed earlier in my testimony, the  
681 Commission should continue to approve a residential customer charge that only  
682 recovers customer costs that don't vary by customer usage. The Office

---

<sup>8</sup> I have provided OCS 5.8 in my work papers.

683 recommends that the Commission reject the continued attempts by the Company  
684 to include all distribution and retail costs into the customer charge.

685 **Q. DOES THE COMPANY'S RATE DESIGN REDUCE INTRA-CLASS SUBSIDIES**  
686 **AS THE COMPANY CLAIMS (SEE COMPANY WITNESS STEWARD DIRECT,**  
687 **LINES 291 – 293)?**

688 A. No. The Company has provided no evidence demonstrating that its rate design  
689 proposal minimizes intra-class subsidies.

690

691 **Q. HAVE YOU PREPARED AN EXHIBIT TO SHOW THE IMPACT ON**  
692 **CUSTOMERS' BILLS RESULTING FROM THE COMPANY'S RATE DESIGN**  
693 **PROPOSAL?**

694 A. Yes. Exhibit OCS 7.5, page 1, illustrates the impact of the Company's proposal  
695 on residential customers' bills for annual, summer and non-summer time periods.  
696 Exhibit OCS 7.5 page 2 was used to construct Table 10 below and clearly shows  
697 that the annual bill impacts resulting from the Company's proposal are very  
698 uneven. For example, a customer using 400 kWh would receive a relatively high  
699 annual bill increase of 7.40% whereas a customer using 2,000 kWh would  
700 receive an annual bill increase of only 1.92%.

701

702

**Table 10 - Annual Bill Impacts at RMP's Rate Design Proposal**

Usage (kWh)	Bill Impact (%)
400 kWh	7.40%
698 kWh*	4.42%
1500 kWh	2.38%
2000 kWh	1.92%

703 \*Average Annual Usage = 698 kWh.

704

705 Therefore, annual bill impacts are significantly greater for low use customers than  
706 high use customers under the Company's rate design proposal.

707

708

709

710

711 VI. SUMMARY712 **Q. PLEASE SUMMARIZE THE OFFICE'S RATE DESIGN RECOMMENDATION**

713 A. The Office's rate design proposal includes only those cost elements appropriate  
714 for a residential customer charge. This results in a proposed customer charge of  
715 \$6.05. The Office recommends that the calculated customer charge be rounded  
716 to the nearest \$0.25 increment consistent with previous customer charge  
717 increases which produces a customer charge of \$6.00. Regarding energy rates,  
718 the Office proposes to increase the second non-summer energy block to bring it  
719 closer to the second summer energy block and to balance bill impacts across  
720 usage levels.

721

722 In addition, the Office's rate design proposal is based on the level of revenue  
723 requirement change ordered by the Commission in this proceeding. At a  
724 revenue requirement increase between \$0 and \$30.958 million, the Office  
725 proposes to put all the rate increase for the residential class into the customer  
726 charge up to \$6.00 and leave energy rates approximately the same.

727

728 At a revenue requirement increase greater than \$30.958 million, the Office  
729 recommends the following rate design for the residential schedules:

- 730 • Increase the monthly single-phase customer charge from \$5.00 to  
731 \$6.00;
- 732 • Increase the monthly three-phase customer charge from \$10.00 to  
733 \$12.00;
- 734 • Increase the residential minimum bill from \$7.00 to \$10.00;
- 735 • Increase the residential minimum bill from \$14.00 to \$20.00 for three-  
736 phase customers;
- 737 • Leave the summer and non-summer first block rates at approximately  
738 the same level;

- 739
- Increases to the energy rates should first be applied to the non-
- 740 summer second block energy rate up to 5% to bring it in line with the
- 741 summer second block energy rate. Any remaining revenue should be
- 742 applied on an equal percentage basis to the second and third non-
- 743 summer and summer energy block rates.

744 Lastly, the Commission should reject the Company's residential rate design

745 proposal. The Company provides little in the way of evidence or rationale in

746 support of its residential rate design proposal or rate elements such as the

747 customer charge and the minimum bill. In particular, the Office opposes the

748 Company's position to include all distribution and retail costs in the customer

749 charge which adversely impacts residential customers with lower energy usage.

750 The Commission should continue to use a principled customer charge based on

751 customer-related costs that do not vary with customer size.

752

753 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

754 A. Yes.