

Before the Public Service of Utah

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<b>In the Matter of the Investigation of</b>	(	
<b>the Costs and Benefits of</b>	(	Docket No. 14-035-114
<b>PacifiCorp's Net Metering Program</b>	(	DPU Exhibit 2.0 SUR

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Surrebuttal Testimony

Of

Artie Powell, PhD

Division of Public Utilities

September 29, 2015

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Artie Powell  
Docket No. 14-035-114  
Surrebuttal Testimony

**Q: PLEASE STATE YOUR NAME, JOB TITLE, AND ADDRESS FOR THE RECORD.**

A: My name is Artie Powell; I am the manager of the energy section for the Utah Division of Public Utilities (“Division” or “DPU”). My business address is 160 E. 300 S., Salt Lake City, Utah.

**Q: ARE YOU TESTIFYING ON BEHALF OF THE DIVISION?**

A: Yes I am.

**Q: WOULD YOU PLEASE SUMMARIZE YOUR EXPERIENCE AND EDUCATION?**

A: I hold a doctorate degree in economics from Texas A&M University. Prior to joining the Division, I taught courses in economics, regression analysis, and statistics both for undergraduate and graduate students. I joined the Division in 1996 and have since attended several professional courses or conferences dealing with a variety of regulatory issues including, the NARUC Annual Regulatory Studies Program (1995) and IPU Advanced Regulatory Studies Program (2005). Since joining the Division, I have testified or presented information on a variety of topics including, electric industry restructuring, incentive-based regulation, revenue decoupling, energy conservation, evaluation of alternative generation projects, cost of capital, and cost of service issues.

**Q: WOULD YOU SUMMARIZE THE PURPOSE OF YOUR TESTIMONY?**

A: I am responding to the rebuttal testimony of the Joint Parties. Specifically, I respond to the mischaracterization of the Division’s proposal as “collapsing the two sections” of the statute. I also reiterate the Division’s proposal to use a cost of service framework for the cost benefit analysis and discuss how the

26 Company's proposal to use avoided cost modeling to compensate net metering  
27 customers for their excess generation is consistent with the Division's proposal.

28 **Q: DOES THE DIVISION SUGGEST IGNORING, COLLAPSING, OR OTHERWISE NOT**  
29 **SATISFYING UTAH CODE SECTION 54-15-105.1?**

30 A: No. According to Joint Parties witness Ms. Morgan, "Witnesses Davis and  
31 Steward argue that, because one of the choices under Utah Code Ann. § 54-15-  
32 105.1 (2) is changes to 'ratemaking structure, including new or existing tariffs,'  
33 and because a COSS is a consideration in ratemaking, the Commission should just  
34 collapse the steps and use a COSS as the framework." (Lines 134-137)

35 Nowhere in its proposal has the Division even vaguely intimated that the  
36 Commission should collapse the two directives in the statute. Nor has the  
37 Division discussed a particular rate design outcome. However, the Division has  
38 indicated that the two sections of the statute are related and that to adopt an  
39 analytical framework that does not lend itself to designing and setting  
40 reasonable rates will be of little use in the second step. Interestingly, Ms.  
41 Morgan provides an analogy that supports the Division's point. Ms. Morgan is  
42 correct in her observation on the IRP as a planning tool and its use in informing  
43 prudence reviews, "but no one would suggest that the inputs and methodologies  
44 (sic) used should be the same as those used for rate cases." (Lines 95-100) The  
45 methods and outcomes of the IRP have little to do with the overall prosecution  
46 of a rate case. Similarly, the proposed framework of the Joint Parties will have  
47 little value in determining reasonable rates. The Division's proposal, on the  
48 other hand, as well as those of the Office and the Company, lends itself to just  
49 such an exercise. This is a feature, not a flaw.

50 **Q: WHY IS IT IN THE PUBLIC INTEREST TO ADOPT A FRAMEWORK THAT IS USEFUL**  
51 **IN BOTH PHASES OF SECTION 54-15-105.1?**

52 A: The framework proposed by the Division allows the Commission to meet its  
53 obligations under the statute in a cost effective manner without reinventing the  
54 wheel. Let me explain.

55 At a high level, a rate case is a multi-step process that begins with (1)  
56 determining the Company's Utah jurisdictional revenue requirement including an  
57 allowed rate of return; (2) apportioning costs to various functions; (3) allocating  
58 costs to rate classes; (4) analyzing the return performance of each class; (5)  
59 determining an appropriate rate spread among classes; and (6) designing  
60 reasonable rates. The Division's proposal builds on this familiar process.

61 The Division proposes that the Commission adopt the cost of service  
62 framework as outlined here to meet its obligation under the statute.  
63 Specifically, the Division proposes that the Commission use two separate runs of  
64 the cost of service study to determine the net benefits of net metering. The first  
65 run, the base run, would treat net metering customers as full service customers.  
66 This first run or study will establish a base jurisdictional revenue requirement  
67 and a rate spread to each class. The second run treats net-metering customers  
68 as such, or as partial requirements customers, reflecting their net load  
69 reductions and usage patterns. Similar to two avoided cost runs, the difference  
70 between the two studies will reveal the cost and benefits of net metering. For  
71 example, if net-metering customers reduce Utah's overall energy usage or  
72 contributions to system peak loads, then the jurisdictional revenue requirement  
73 under the second study should be less than that of the first study. However, as  
74 penetration of net metering increases, or as net-metering customers are treated  
75 as partial requirements customers, the Company may be required to add  
76 distribution resources to maintain reliability. A comparison of the two runs  
77 would reveal the additional distribution costs. Of course the opposite could be

78 true: additional net metering may postpone or avoid additional distribution costs  
79 that would be shown through a comparison of the two studies.

80 These benefits or costs would, as long as allocations in the class cost of  
81 service model are set correctly, flow through to the various rate classes. For  
82 example, if as a result of residential net metering there is a reduction in the  
83 jurisdictional revenue requirement, then that same benefit would flow through  
84 to the residential class. If residential net-metering customers were in their own  
85 class, then those benefits would flow through to that class. If, however, the  
86 reduction were due to net-metering customers across several classes, then the  
87 benefits would flow proportional to each class's contribution to the reduction.  
88 Thus, we can see the simplicity and beauty of the cost of service framework. The  
89 framework is sufficiently flexible to capture both future changes in circumstance  
90 and diversity of net metering customers. Additionally, the framework is  
91 generally well understood.

92 **Q: IS THE DIVISION REALLY PROPOSING TO ESTABLISH RATES, DETERMINE RATE**  
93 **CLASSES, AND PREDETERMINE THE OUTCOME OF THE PHASE 1 PROCESS THE**  
94 **COMMISSION HAS UNDERTAKEN?**

95 A: No. Speaking of a cost of service framework, Ms. Morgan states, "This  
96 effectively collapses the two requirements of Utah Code Ann. § 54-15-105.1 and  
97 would not appear to enable the Commission to consider whether a credit or  
98 surcharge may be an appropriate response to the costs and benefits that it  
99 determines exist with customer-sided generation, nor would it enable any  
100 assessment of credits, surcharges or ratemaking structure for non-residential net  
101 metered accounts under the net metering program. Importantly, as described  
102 above, using the COSS methodology misses the impact of distributed solar on

103 the long-term revenue requirement necessary to serve ratepayers.” (Lines 196-  
104 203)

105 As I have already demonstrated, contrary to Ms. Morgan’s claims, the  
106 cost of service approach addresses many of these issues and does so using tools  
107 that are generally well known. The Division has not proposed a particular rate  
108 design and, therefore are not collapsing the two sections of the statute; and a  
109 cost of service framework directly lends itself to the consideration of surcharges  
110 and credits both for residential and non-residential classes.

111 It is true that the cost of service does not address “the impact of  
112 distributed solar on the long-term revenue requirement necessary to serve  
113 ratepayers.” However, the Division’s cost of service framework is not meant to  
114 look at these issues. The Division has consistently maintained that there are two  
115 separate but related issues: cost recovery and compensation. The Joint Parties  
116 conflate these issues.

117 Again referring to Ms. Morgan’s analogy, the long-term analysis of the  
118 IRP has little to do with the rate case beyond a prudence review. The present  
119 value revenue requirement of a preferred portfolio from the IRP does not inform  
120 the jurisdictional revenue requirement or the class rate spread. The long-term  
121 analysis proposed by the Joint Parties will not inform rate spread or design. The  
122 Division’s cost of service proposal will, on the other hand, inform rates. The Joint  
123 Parties’ long term analysis is better suited in determining an appropriate level of  
124 compensation for the excess generation. However, the Division believes that the  
125 Joint Parties proposal in this regard is fundamentally flawed. Division witness  
126 Mr. Davis discusses these issues in in more detail in his rebuttal and surrebuttal  
127 testimony.

128                   As an alternative compensation mechanism, the Company's witness Mr.  
129                   Clements proposes to use existing avoided cost methods, Schedules 37 and 38,  
130                   to analyze the long-term benefits and costs of net metering. The Company's  
131                   proposal would treat the energy contributions from net metering in a similar  
132                   way to other generation resources and would disconnect net metering  
133                   compensation from retail rates. The Division supports the Company's proposal.

134   **Q:    WHY ARE THE JOINT PARTIES' PROPOSALS NOT IN THE PUBLIC INTEREST?**

135   A:    Because the net metering statute does not contemplate ending the net metering  
136           program or altering its operative terms, the cost benefit analysis mandated by  
137           Section 54-15-105.1(1) seems to be designed to lead to the setting of rates  
138           designed to capture the benefit and costs equitably. Determining a set of  
139           hypothetical costs and benefits using a highly speculative model accounting for  
140           decades of supposed value without regard for how those results might be  
141           employed in establishing rates is unwise. The later fitting of that set of  
142           hypothetical costs and benefits into the hard facts and more contemporaneous  
143           assumptions of a rate case will result in incorrect rates, charges, and fees. It may  
144           distort customer choices. It is not in the public interest to use, and the statute  
145           doesn't require, a cost benefit analysis unmoored from the proven tools the  
146           Commission has to determine the causation, assignment, and effect of actual  
147           costs and benefits.

148   **Q:    DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

149   A:    Yes it does.