Martinez Direct OCS – 3D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Investigation of the Cost and Benefits of PacifiCorp's Net Metering Program	**)** **)** **)** **)** **)** **)** **)**	**Docket No. 14-035-114** **Compliance Filing** **Direct Testimony of** **Danny A.C. Martinez** **For the Office of** **Consumer Services**

June 8, 2017

I. INTRODUCTION

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

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

Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.

A. I have B.S. and M.S. degrees in economics from the University of Utah. I also have a M.P.A. degree from the University of Utah. My private and public sector work experience spans over 25 years including ten years in financial services and ten years teaching economics. In 2010, I was hired by the Office of Consumer Services. At the Office, I have worked primarily in the areas of cost of service ("COS"), rate design, Energy Balancing Account ("EBA") and demand side management ("DSM"). I filed testimony on cost of service and rate design issues in the last Questar Gas general rate case (Docket No. 13-057-05). I also filed direct testimony on rate design issues in Rocky Mountain Power's past two general rate cases (Dockets Nos. 11-035-200 and 13-035-184). Lastly, I have attended various training opportunities, including an intensive course on cost of service and rate design issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will present the Office's analysis and position on Rocky Mountain Power Company's ("RMP or "Company") proposed net metering rate design, in particular the customer charge and the Company's proposed net metering application fee.

II. CUSTOMER CHARGE

Q. WHAT IS THE OFFICE'S POSITION REGARDING RESIDENTIAL CUSTOMER CHARGES?

A. In previous general rate cases, the Office advocated that the customer charge should only include customer-related cost elements that do not vary by customer size. The Office continues to advocate that same position. The Office generally recommends that the customer charge be set at even $0.25 increments, depending on the final cost assigned to residential net metering customers. The Office also recommends that the residential net metering customer charge for three-phase service be increased to maintain the current relationship in which the residential customer charge for three-phase service is twice the amount charged for single-phase service.

Q. IS THE OFFICE ADVOCATING FOR THE SAME CUSTOMER CHARGE FOR RESIDENTIAL NET METERING CUSTOMERS AS NON NET METERING RESIDENTIAL CUSTOMERS?

A. No. The Office is advocating the same customer charge principles that it has advocated in previous general rate case proceedings. However, in evaluating residential net metering and its impacts on customer related costs, the Office recognizes that there may be additional incremental costs within customer charge components associated with net metering customers that are not the same as residential customers without net metering. As such, the Office could support a higher customer charge for residential net metering customers so long as the cost components are higher compared to cost components for residential customers who are not net metering.

Q. BASED ON YOUR ANALYSIS, DO YOU AGREE WITH THE COMPANY'S RESIDENTIAL NET METERING CUSTOMER CHARGE?

A. No. The Company's proposed $15.00 customer charge is excessive and includes costs not previously prescribed or approved by the Commission to be included in a residential customer charge.

Q. HOW DID YOU EVALUATE THE COMPANY'S RESIDENTIAL NET METERING CUSTOMER CHARGE PROPOSAL?

A. I used the same analytical method as in past general rate cases in evaluating the Company's residential net metering customer charge. I evaluated this information in the context of the Office's position that customer charges should include customer-related expenses assigned or allocated to serving a specific customer and do not vary with the level of energy consumption (i.e. size) of Utah residential customers. I began with the Commission's customer charge calculation method ("Commission Method") as the basis for calculating the residential net metering customer charge with some modifications consistent with the Commission Method. I added some FERC accounts directly related to meter and service drops along with customer accounts currently not included in the Commission Method.[1]

Q. PLEASE DESCRIBE THE COMMISSION'S METHOD.

A. In 1985, the Commission approved a customer charge method for Utah Power[2] similar to those approved for the natural gas utility:

> "The approved customer-related costs used to calculate the customer charge are the costs of net plant for service lines and meters, i.e., depreciation expense, income tax and return, and the expenses for meter reading and billing, less associated billing revenue. These test year net costs, divided by the average annual number of customers in the test year, then divided again by 12 months, yields the fixed monthly customer charge." (Commission Order – Docket No. 09-035-23, p. 27)

In developing its method, the Commission identified specific FERC accounts and subaccounts which contain costs of net plant for service

[1] See Direct Testimony of Danny A.C. Martinez in Docket No. 13-035-184 at lines 170 – 276 for the description of the additional accounts and justification for inclusion to the Commission Method.
[2] Rocky Mountain Power was previously Utah Power until PacifiCorp was acquired by Mid-American Energy Company in 2006.

drops and meters, meter reading expenses, and customer billing expenses.

Q. WHAT COST COMPONENTS ARE CURRENTLY INCLUDED IN THE COMMISSION'S METHOD?

A. The Commission's Method includes the following components:

- Customer Billing & Accounting Expense (acct. 903.2)
- Meter Reading (acct. 902.1)
- Meters - Depreciation Expense
- Meter Plant (acct. 370)
- Meters - Accumulated Depreciation
- Service Drop - Depreciation Expense
- Service Drop Plant (acct. 369)
- Service Drop - Accumulated Depreciation

Q. WHAT WERE THE ADDITIONAL COST ACCOUNTS THE OFFICE RECOMMENDED TO BE INCLUDED IN THE CUSTOMER CHARGE CONSISTENT WITH THE COMMISSION'S METHODOLOGY IN THE LAST GENERAL RATE CASE?

A. There are three FERC accounts and other FERC 903 subaccounts that should be considered for inclusion in the customer charge. These accounts are customer-related and do not vary by size of the residential customer. Specifically, I recommend that the following additional accounts be included in the customer charge:

- Meter Expense - Account 536
- Meter Maintenance - Account 597
- Customer Supervision - Account 901
- Customer Records, Customer Systems - Account 903.1
- Customer Records, Collections - Account 903.3
- Customer Accounting, Customer Requests - Account 903.5

- Customer Contact Expenses in Customer Accounting Common - Account 903.6

Q. HOW DID YOU DERIVE THIS CUSTOMER CHARGE?

A. I adopted Company witness Robert Meredith's workpaper titled, "A COS UT Dec 2015 NEM Breakout.xlsx." ("NEM Breakout") This workpaper illustrates the difference in costs between the actual cost of service ("ACOS") and the counterfactual cost of service ("CFCOS"). From this information, I applied the principles previously cited to calculate the customer charge for residential net meter customers. Using the "Unit Costs – earned" tab in the NEM Breakout, I derived an estimate for the customer charge using the Commission Method with the modifications I cited previously. I initially included the Distribution-Service, Distribution-Meter, and Retail-Total per customer line items. I took these cost component amounts and divided them by the number of residential net metering customers to derive a per customer cost component for each respective line item. Last of all, I took the per customer cost component values and divided them by 12 to calculate monthly cost components.

Q. DID YOU MAKE ANY ADJUSTMENTS AFTER YOU CALCULATED THE MONTHLY COST COMPONENTS?

A. Yes. From this initial calculation, I made adjustments to remove the following:

- FERC subaccount 903.0
- Directly assigned retail costs accounted for in the Company's proposed application fee
- Transformers
- The Miscellaneous line item which was included in the Company's proposal.

Q. HOW DID YOU CALCULATE THE VALUE OF THE 903 SUBACCOUNTS TO ADJUST THE CUSTOMER CHARGE?

A. I used percentage calculations of account 903 subaccounts from information in the last general rate case, Docket No. 13-035-184. This calculation is found in my workpapers under tab "COS 903 Subaccount Detail." From those percentage calculations, I applied this to the 903 account value of $119,179 which were not directly assigned to derive an estimate for the subaccount values. I removed the 903.0 subaccount value since it includes labor and expenses for billing, accounting, and collections for transmission service under Pacificorp's OATT. Since this expense is associated with customers other than Utah's residential customers, this account should not be included in the Utah residential net metering customer charge. This adjustment decreases the 903 account by $2,738 which results in a $0.05 decrease to the monthly customer charge. The calculation is shown in my workpapers in the Customer Charge Calculation tab.

Q. WHY DIDN'T YOU APPLY THE 903 PERCENTAGE CALCULATION TO THE DIRECTLY ASSIGNED PORTION OF ACCOUNT 903?

A. In reviewing the Retail tab in the NEM Breakout, I noticed that the 903 account was split between directly assigned costs and allocated costs. As stated previously, I applied the 903 subaccount percentages to the allocated costs. I researched into the directly assigned costs and found that it was linked to the "Cust Gen Assign" tab. The information is shown below:

Description	FERC Account	Residential NEM Sch. 1-135
Estimated Incremental Cost of Engineering	580	$225,698
Estimated Incremental Cost of Administration	903	$198,752
Application Fee Revenue	903	($138)
Estimated Incremental Cost of Customer Service Cost	903	$75,247
Total Incremental Cost of Administration & Customer Service	903	$273,861

I compared this information with the Company's Exhibit JRS-8 which was the spreadsheet used to outline the Company's application fee proposal. Since the Company intends to collect administrative costs in the application fee, I removed $198,752 from the customer charge calculation

to avoid double counting revenues. I also removed the application fee revenue of $138 from the customer charge calculation. The Office supports collecting these directly assigned costs in the application fee since they are dedicated to the residential net metering customer's installation and interconnection to the Company's system. Lastly, I reviewed and compared the incremental customer service cost from the direct assigned information above to Exhibit JRS-8. From the data in Exhibit JRS-8, the Company intends to collect $17,797 in the application fee. As such, I reduced the direct assigned customer service costs by $17,797 from $75,247 to $54,450 in the customer charge calculation.

Q. DO YOU HAVE CONCERNS ABOUT INCLUDING THE REMAINING DIRECTLY ASSIGNED 903 ACCOUNT OF $54,450 IN THE CUSTOMER CHARGE?

A. No. After reviewing the Company's Exhibits JRS-8 and RMM-6, the remaining $54,450 direct assignment to account 903 represent phone calls and ongoing support to residential net metering customers. These costs would be applicable to serving residential net metering customers and are appropriate for inclusion in the customer charge.

Q. WHY SHOULD TRANSFORMERS BE EXCLUDED FROM THE CUSTOMER CHARGE?

A. The Company's proposal to include transformer costs is inappropriate for the residential net metering customer charge. The Commission Method does not include transformers since they are not directly related to costs of net plant for service lines or meters, customer billing, and meter reading.

Furthermore, Company witness Joelle Steward identified an important and distinguishing feature of customer charges. Ms. Steward states that the Company does not dedicate one transformer per customer, like meters and

service lines that are included in the customer charge.[3] Customer charges are designed to collect customer costs that serve a specific, unique customer, not shared by multiple customers at the same time. Costs shared by multiple customers should be collected outside the customer charge. Therefore the Office's position is that no transformer costs should be included in the customer charge.

Q. WHY SHOULD MISCELLANEOUS FUNCTIONS BE EXCLUDED FROM THE CUSTOMER CHARGE?

A. Functionalized miscellaneous costs are not directly associated with customer billing, meter reading, and net plant (service lines and meters) and thus do not belong in the customer charge. The Company did not provide any evidence or analysis justifying miscellaneous costs to be included in the residential net metering customer charge.

Q. BASED ON YOUR ANALYSIS, WHAT DO YOU RECOMMEND THE CUSTOMER CHARGE TO BE?

A. My analysis produces a residential net metering customer charge of $8.48. Rounding this value to the nearest $0.25 would produce a value of $8.50 for the customer charge. The Office proposes that the customer charge should be $8.50. The three-phase customer charge should be double the single-phase customer charge or $17.00.

III. APPLICATION FEES

Q. WHAT IS THE COMPANY PROPOSING FOR THE RESIDENTIAL NET METERING APPLICATION FEE?

A. Company witness Steward shows the Company's proposal for increasing application fees for residential net metering in Table 7 of her direct testimony at line 654 in this Docket as follows:

[3] See Direct Testimony of Joelle Steward at lines 488 – 492.

Net Metering Application Fees		
	Current	**Proposed**
Level 1	0	$60
Level 2	$50	$75
per kW	$1.00	$1.50
Level 3	$100	$150
per kW	$2.00	$3.00

In order to implement the Company's proposed application fee structure, the Company is seeking a waiver to R746-312-13. In its review the Office identified two issues, the proposed application fee rates and the Company's waiver request.

Application Fee Rates

Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION FEE STRUCTURE.

A. The Company's application fee structure is designed with a base fee and a per KW fee as defined in R746-312-13. Currently, the Level 1 application fee has a $0 base fee and a $0 per KW fee; the Level 2 application fee has a $50 base fee and a $1.00 per KW fee; the Level 3 application fee has a $100 base fee and a $2.00 per KW fee. Level 1 is up to 25 kW and Levels 2 and 3 are 25 kW up to 2 MW.

Q. PLEASE SUMMARIZE THE OFFICE'S POSITION REGARDING THE COMPANY'S APPLICATION FEE RATES.

A. The Office supports the Company's proposal to increase the Level 1 base fee application fee from $0 to $60 with no increase in the per kW fee. This increase effectively recovers costs from residential customers for interconnecting with the Company's system. Level 2 and Level 3 rates should remain the same at this time until the Company thoroughly reviews costs and provides a clear justification to support any fee changes.

Q. AFTER REVIEWING THE COMPANY'S PROPOSAL, DO YOU BELIEVE THAT THE COMPANY'S APPLICATION FEE PROPOSAL FOR INCREASING THE LEVEL 1 APPLICATION FEE IS REASONABLE FOR RESIDENTIAL NET METERING CUSTOMERS?

A. Yes. Based on a review of residential net metering application data in the Company's Exhibit JRS-8, all but two applications were Level 1 applications. Currently, the Company is receiving no revenue to recover the costs for processing Level 1 applications resulting in a revenue shortfall of $442,109. The Company's estimated cost per Level 1 applications of $59.90 supports the Company's proposed $60 application fee as reasonable.

Q. IS THERE AN ADVERSE EFFECT ON OTHER CUSTOMERS IF LEVEL 1 NET METERING CUSTOMERS PAY NOTHING FOR AN APPLICATION FEE?

A. Initially No. The Company will bear the responsibility for any revenue shortfall until the next rate proceeding. However, a $0 Level 1 application fee sends the wrong price signal to customers who wish to implement net metering. Processing Level 1 applications costs approximately $60 per customer. Currently no revenue is collected from residential net metering customers for Level 1 applications. Other residential customers should be protected from having to pay for this shortfall in any future general rate case proceeding. The Office does not support an intraclass subsidy in favor of residential net metering customers. Customers wishing to implement net metering should pay the costs of their interconnection implementation.

Q. DO YOU AGREE WITH RMP THAT APPLICATION AND INTERCONNECTION COSTS SHOULD BE KEPT SEPARATE FROM THE CUSTOMER CHARGE?

A. Yes. The application fee should include only costs associated with implementing a customer's interconnection and not collected in the customer charge. Each residential net metering customer should pay for the costs of installation and interconnection directly through the application fee. Costs associated with the one-time application and interconnection process should be collected in the

same manner, not incorporated in general rates (via customer charges or any other rate mechanism.) Keeping the application fee costs out of the customer charge prevents an inappropriate assignment of costs.

Q. WHY DOES THE OFFICE OPPOSE THE MODIFICATION OF LEVEL 2 AND LEVEL 3 APPLICATIONS AT THIS TIME?

A. The justification for increasing Level 2 and Level 3 application fees was not supported with cost analysis. Company witness Steward stated,

> "To gradually move towards better recovery of all net metering application fees, the Company proposes a uniform 50 percent increase to Level 2 and Level 3 application fees. For Level 2, the Company proposes a $25 increase to the charge per application and a 50 cent increase to the per kW charge. For Level 3, the Company proposes a $50 increase to the charge per application and a one dollar increase to the per kW charge. ***Increasing the application fees will reduce the costs needed in rates for other customers and retain the proportional relationship between the fees by level, without creating a barrier for participation.*** Based on the 2015 costs, these increases are still conservative and will encourage the Company to find efficiencies in the administrative process." (Joelle Steward Direct Testimony, lines 696 – 705, Emphasis added.)

Total Level 2 and 3 applications across all customer classes represented 1.4% of total applications. A 50% increase in fees is not justified with such a small percentage of customers affected for the purpose of retaining proportional relationships between fee levels. The Company did not justify what proportional relationships it is trying to maintain between fee levels, why is this proportionality is important to maintain, or whether the costs associated with different interconnection levels warrant such proportionality. The Office recommends that Level 2 and Level 3 application fees should stay the same until the next rate case where the Company can make a more cost justified proposal.

The Company's R746-312-13 Waiver Request

Q. PLEASE DESCRIBE THE WAIVER THE COMPANY SEEKS.

A. On page 6 of its application, the Company stated the following as justification for the waiver:

> "Ms. Steward's testimony also supports the Company's proposed changes to the application fees for the net metering program, including adding a fee for Level 1 applications, which will require a waiver of rule R746-312-13. Ms. Steward's testimony explains that the Company's proposed changes to the fees are based on an assessment of the actual costs incurred to process applications and that recovery of the costs to process them, particularly for Level 1, has not kept pace with the growth in applications."

In essence, the Company is seeking the waiver to increase fees for Levels 1 – 3 interconnection reviews from the specific fees defined and established in R746-312-13 for interconnection fees and charges. The Company justifies this request by Rule 746-312-3(2) which provides: "For good cause shown, the commission may waiver or modify any provision of this electrical interconnection rule."

Q. DOES THE OFFICE SUPPORT THE COMPANY'S REQUEST FOR A WAIVER TO CHARGE AND IMPLEMENT THE APPLICATION FEE FOR LEVEL 1 INTERCONNECTION REVIEWS?

A. The Office recognizes that in order to collect the Level 1 application fee, a waiver or modification to R746-312-13 is required. While the Commission has the authority to waive its rules, to modify a rule conceivably could require the Commission to engage in a formal rulemaking process. As such, the Office supports the Company's proposed waiver of R746-312-13(a) and recommends that the Commission:

1. Grant a waiver of R746-312-13(a).
2. Order the implementation of a $60 application fee for Level 1 applications.

3. Consider whether a formal rulemaking proceeding should be initiated to review R746-312-13 on a longer term basis.

IV. CONCLUSION

Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS RELATED TO THE COMPANY'S RESIDENTIAL NET METERING CUSTOMER CHARGE PROPOSAL.

A. My testimony proposes two recommendations for the Commission on behalf of the Office. First, the Office recommends that the Commission reject the Company's residential net metering customer charge recommendation and adopt the Office's recommendation for a single-phase, residential net metering customer charge of $8.50. The three-phase customer charge should be set at $17.00. This recommendation should be implemented as part of a general rate case proceeding.

Q. PLEASE SUMMARIZE THE OFFICE'S POSITION REGARDING THE COMPANY'S REQUEST FOR A WAIVER TO CHARGE AND IMPLEMENT THE APPLICATION FEE FOR INTERCONNECTION REVIEWS?

A. The Office supports the Company's proposed waiver of R746-312-13(a) and recommends that the Commission:

1. Grant a waiver of R746-312-13(a).
2. Order the implementation of a $60 application fee for Level 1 applications.
3. Consider whether a formal rulemaking proceeding should be initiated to review R746-312-13 on a longer term basis.

The Office recommends that Level 2 and Level 3 application fees remain the same.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.