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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| **IN THE MATTER OF THE INVESTIGATION INTO THE REASONABLENESS OF THE RATES AND CHARGES OF PACIFICORP, dba UTAH POWER & LIGHT COMPANY** | ) ) ) ) ) ) ) ) ) | **Docket No. 97-035-01**<br><br>**PREFILED DIRECT TESTIMONY OF WILLIAM R. GRIFFITH** |

**JUNE 1, 1998**

Q. Please state your name.

A. William R. Griffith

Q. What is your business address and by whom are you employed?

A. My business address is 825 NE Multnomah Avenue, Portland, Oregon. I am employed by PacifiCorp (Company), the parent company of Utah Power & Light Company.

Q. What is your position with PacifiCorp, and what are your responsibilities?

A. My current position is Manager, Pricing, in the Regulation Department. I am responsible for the development of regulated retail prices in PacifiCorp's seven state service territory.

Q. What is your educational and professional background?

A. I earned a B.A. degree with High Honors and distinction in Political Science and Economics from San Diego State University in 1973 and an M.A. in Political Science in 1974 from that same institution; I was subsequently employed on the faculty for one year. I attended the University of Oregon and completed all course work towards a Ph.D. in Political Science from 1975 through 1978.

I joined the Company in the Pricing & Regulatory Affairs Department in December 1983. In June 1989, I assumed my present responsibilities.

Q. Have you appeared as a witness in previous regulatory proceedings?

A. Yes. I have testified for the Company in regulatory proceedings in Oregon, Washington, Wyoming, and California.

Q. What is the purpose of your testimony?

A. My testimony will address three primary areas.

1. A description of the Company's pricing objectives.
2. The Company's proposed rate spread in this case.
3. The Company's proposed changes in price design for the affected rate schedules.

Q. Please describe PacifiCorp's pricing objectives in this case?

A. The Company's pricing objectives are to reduce interclass subsidies while minimizing rate volatility and customer impacts in order to implement prices that recover the costs of providing service to our customers. An additional objective in this case is to simplify prices wherever possible.

The Company believes that the gradual reduction of subsidies will benefit all our customers by allocating costs more fairly across all customer groups. The customer-driven movement to competition discussed by Mr. Buckman requires that price subsidization be reduced in order to prepare customers for market competition in the future. Moving to reduce subsidies now allows a gradual transition and will reduce future price impacts. It will also enable competition to occur for all, not just some, customer classes in the future. Moreover, reducing subsidies serves to retain price sensitive customers who, as these competitive markets emerge, might otherwise leave the system to the detriment of remaining customers.

Q. Please describe Exhibit No. UP&L 9.1 (WRG-1).

A. Exhibit No. UP&L 9.1 (WRG-1) details the Company's proposed changes to class revenue requirements to be implemented in this case. On an overall basis, these revisions produce no change to the Company's jurisdictional revenue requirement in Utah.

The Company's proposal for the spread of revenue requirement includes both decreases and increases for customer classes. For rate schedules not currently closed to new service, the Company has not proposed any overall price increases in excess of four percent (or for lighting schedules, four percent expressed on an overall average cents/kWh basis). At the same time, any price increases are being used to reduce prices for Schedule 6 which, according to Mr. Taylor's cost of service study, is well above cost of service.

Q. Please describe the Company's proposal for the allocation of revenue requirement.

A. For the consolidated Schedule No. 1, Residential Service, and Schedule No. 5, Residential All Electric Service, the Company proposes an overall zero percent price change. Because the residential customer class is within five percent of full cost of service, and in the interest of maintaining stable prices, we propose no overall price change for the residential customer class. Later in my testimony I will discuss the consolidation of Schedule Nos. 1 and 5.

For Schedule No. 6, General Service - Distribution Voltage, the Company proposes a reduction of 1.0 percent. Schedule 6 is the Company's largest class on both a revenue and kWh basis. Based on the Company's cost of service study, Schedule No. 6 prices are in excess of class cost of service by seven percent. This price decrease for Schedule No. 6 will serve to reduce the price disparity between it and Schedules No. 23 and 9 in order to smooth the transitions between these rate schedules.

For Schedule No. 9, General Service - High Voltage, the Company proposes a zero percent price change. Currently, Schedule No. 9 is within less than 3.5 percent of the Company's cost of service for this class of customer.

For Schedule No. 23, General Service Small - Distribution Voltage, the Company proposes a 3.0 percent increase. Currently, Schedule No. 23 is more than 6 percent below cost of service. The increase to Schedule 23 will bring it closer to cost of service and help smooth the transition between it and Schedule 6.

The issue of transitions between Schedule No. 6 and Schedule Nos. 23 and 9 are discussed in greater detail later in my testimony.

The price changes for Schedule No. 19, Commercial/Industrial Space Heating, and for Schedule No. 21, Electric Furnace Operations, mark the beginning of a proposal to eliminate these rate schedules and to move them to their appropriate general service schedules. For Schedule 19, we propose a price increase of 9.1 percent; for Schedule 21, an increase of

0.4 percent. These schedules are closed to new service. This proposal is discussed more fully later in my testimony.

The increase for Schedule No. 30, Large Industrial Service, is a result of eliminating Schedule 30 and moving the two existing Schedule 30 customers to Schedule No. 9. The resulting price increase of 7.0 percent for Schedule 30 customers is less than one-half of the increase which could be justified if Schedule 30 were moved to full cost of service. Schedule 30 is also discussed in greater detail below.

For Schedule No. 10, Irrigation and Soil Drainage Pumping Power Service the Company proposes a 4.0 percent increase. Currently, Schedule No. 10 is about 91 percent of cost of service.

For lighting Schedule Nos. 7, 11, and 12, the Company proposes an increase of 3.9 percent. The Company's cost of service results indicate that a much larger price increase is warranted. As indicated above, the Company proposes to limit price increases to rate schedules not currently closed to new service to four percent. This will minimize price impacts while moving this class closer to cost of service.

Q. Please describe the Company's proposal for changes in the price design for Residential Schedules No. 1 and No. 5.

A. Our first proposal for the Residential customer class is the consolidation of Electric Service Schedules Nos. 1 and 5 into one schedule. (Exhibit No. UP&L 9.2 (WRG-2) presents the tariffs containing the proposed prices in this case.) We propose to transfer all Electric Service Schedule No. 5

customers to Electric Service Schedule No. 1. Using the present revenues from both schedules, sustaining an overall revenue neutral rate change, the revised energy charge for Schedule No. 1 will be reduced by 7.1 percent.

Q. What are the benefits of combining Schedules 1 and 5?

A. The main benefits of combining Schedules No. 1 and No. 5 are to simplify residential prices and to complete a process that the Commission ordered to commence in 1991.

In 1991, the Commission acknowledged the desirability of the gradual elimination of Schedule No. 5. The Commission ordered Schedule No. 5 closed to new service. It also ordered that the Company move customers from Schedule No. 5 to Schedule No. 1 when their historic billings indicated they would receive a lower bill under Schedule No. 1. As a result of this consolidation, present Schedule No. 5 customers will receive a 0.4 percent price reduction.

As a result of the Commission's order, the number of customers presently served under Schedule 5 diminished greatly over the last seven years. Since the rate schedule was frozen to new service in 1991, Schedule 5 has seen an 89 percent decrease in its customer base. Only 3,267 customers remain on Schedule 5 which represents a sparse 0.6 percent of the Company's residential customer class. We believe that the process of closing Schedule No. 5 is complete and, given the overall decrease that

Schedule No. 5 will receive, it is now appropriate to eliminate this rate schedule.

Q. Please describe your proposed changes in the customer charge for the Residential Class.

A. In order to better reflect cost of service and to eliminate subsidies flowing from larger residential users to smaller users, we propose to increase the Monthly Customer Charge to $4.00 per month. We believe that this change, combined with the seven percent reduction to the energy charge, results in a reasonable and fair pricing structure for the residential customer class.

The current Customer Charge for Residential Service is $0.98 per month. This fails to cover the related costs of serving the residential customer class, which include the cost of meters, service drops, meter reading, billing and collections. The cost of service study filed in this case by Mr. Taylor shows the fully embedded costs for all customer related components to be $9.20. Following the Utah Public Service Commission's preferred methodology for determining a customer charge, the Company's analysis indicates that $4.35 is the appropriate amount. While the Company could argue that $9.00 is a more appropriate level based on marginal cost of service, we believe that, in the interest of minimizing customer impacts, an increase to $4.00 is reasonable. The maximum increase to any Schedule 1 customer as a result of this change will be no more than $3.02 per month.