

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

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June 8, 2017

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 a M.P.A. degree from the University of Utah. My private and public sector  
12 work experience spans over 25 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. At the Office, I have worked primarily in the areas of cost of  
15 service (“COS”), rate design, Energy Balancing Account (“EBA”) and demand  
16 side management (“DSM”). I filed testimony on cost of service and rate design  
17 issues in the last Questar Gas general rate case (Docket No. 13-057-05). I also  
18 filed direct testimony on rate design issues in Rocky Mountain Power’s past two  
19 general rate cases (Dockets Nos. 11-035-200 and 13-035-184). Lastly, I have  
20 attended various training opportunities, including an intensive course on cost of  
21 service and rate design issues.

22  
23 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

24 A. I will present the Office’s analysis and position on Rocky Mountain Power  
25 Company’s (“RMP or “Company”) proposed net metering rate design, in  
26 particular the customer charge and the Company’s proposed net metering  
27 application fee.

28  
29 **II. CUSTOMER CHARGE**

30

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

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

42

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

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

55

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

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

61

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

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

75  
76 **Q. PLEASE DESCRIBE THE COMMISSION'S METHOD.**

77 A. In 1985, the Commission approved a customer charge method for Utah Power<sup>2</sup>  
78 similar to those approved for the natural gas utility:

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

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

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<sup>1</sup> 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.

<sup>2</sup> Rocky Mountain Power was previously Utah Power until PacifiCorp was acquired by Mid-American Energy Company in 2006.

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

92

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

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

- 96 • Customer Billing & Accounting Expense (acct. 903.2)
- 97 • Meter Reading (acct. 902.1)
- 98 • Meters - Depreciation Expense
- 99 • Meter Plant (acct. 370)
- 100 • Meters - Accumulated Depreciation
- 101 • Service Drop - Depreciation Expense
- 102 • Service Drop Plant (acct. 369)
- 103 • Service Drop - Accumulated Depreciation

104

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

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

112 Specifically, I recommend that the following additional accounts be included in  
113 the customer charge:

- 114 • Meter Expense - Account 536
- 115 • Meter Maintenance - Account 597
- 116 • Customer Supervision - Account 901
- 117 • Customer Records, Customer Systems - Account 903.1
- 118 • Customer Records, Collections - Account 903.3
- 119 • Customer Accounting, Customer Requests - Account 903.5

- 120                   • Customer Contact Expenses in Customer Accounting Common - Account  
121                   903.6

122

123 **Q. HOW DID YOU DERIVE THIS CUSTOMER CHARGE?**

124 A. I adopted Company witness Robert Meredith's workpaper titled, "A COS UT Dec  
125 2015 NEM Breakout.xlsx." ("NEM Breakout") This workpaper illustrates the  
126 difference in costs between the actual cost of service ("ACOS") and the  
127 counterfactual cost of service ("CFCOS"). From this information, I applied the  
128 principles previously cited to calculate the customer charge for residential net  
129 meter customers. Using the "Unit Costs – earned" tab in the NEM Breakout, I  
130 derived an estimate for the customer charge using the Commission Method with  
131 the modifications I cited previously. I initially included the Distribution-Service,  
132 Distribution-Meter, and Retail-Total per customer line items. I took these cost  
133 component amounts and divided them by the number of residential net metering  
134 customers to derive a per customer cost component for each respective line  
135 item. Last of all, I took the per customer cost component values and divided  
136 them by 12 to calculate monthly cost components.

137

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

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

- 141                   • FERC subaccount 903.0
- 142                   • Directly assigned retail costs accounted for in the  
143                   Company's proposed application fee
- 144                   • Transformers
- 145                   • The Miscellaneous line item which was included in the  
146                   Company's proposal

147

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

150 A. I used percentage calculations of account 903 subaccounts from information in  
 151 the last general rate case, Docket No. 13-035-184. This calculation is found in  
 152 my workpapers under tab "COS 903 Subaccount Detail." From those percentage  
 153 calculations, I applied this to the 903 account value of \$119,179 which were not  
 154 directly assigned to derive an estimate for the subaccount values. I removed the  
 155 903.0 subaccount value since it includes labor and expenses for billing,  
 156 accounting, and collections for transmission service under Pacificorp's OATT.  
 157 Since this expense is associated with customers other than Utah's residential  
 158 customers, this account should not be included in the Utah residential net  
 159 metering customer charge. This adjustment decreases the 903 account by  
 160 \$2,738 which results in a \$0.05 decrease to the monthly customer charge. The  
 161 calculation is shown in my workpapers in the Customer Charge Calculation tab.

162

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

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

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

170

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

175 to avoid double counting revenues. I also removed the application fee  
176 revenue of \$138 from the customer charge calculation. The Office  
177 supports collecting these directly assigned costs in the application fee  
178 since they are dedicated to the residential net metering customer's  
179 installation and interconnection to the Company's system. Lastly, I  
180 reviewed and compared the incremental customer service cost from the  
181 direct assigned information above to Exhibit JRS-8. From the data in  
182 Exhibit JRS-8, the Company intends to collect \$17,797 in the application  
183 fee. As such, I reduced the direct assigned customer service costs by  
184 \$17,797 from \$75,247 to \$57,450 in the customer charge calculation.

185

186 **Q. DO YOU HAVE CONCERNS ABOUT INCLUDING THE**  
187 **REMAINING DIRECTLY ASSIGNED 903 ACCOUNT OF \$57,450**  
188 **IN THE CUSTOMER CHARGE?**

189 A. No. After reviewing the Company's Exhibits JRS-8 and RMM-6, the  
190 remaining \$57,450 direct assignment to account 903 represent phone calls  
191 and ongoing support to residential net metering customers. These costs  
192 would be applicable to serving residential net metering customers and are  
193 appropriate for inclusion in the customer charge.

194

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

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

201

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



205 service lines that are included in the customer charge.<sup>3</sup> Customer charges are  
206 designed to collect customer costs that serve a specific, unique customer, not  
207 shared by multiple customers at the same time. Costs shared by multiple  
208 customers should be collected outside the customer charge. Therefore the  
209 Office's position is that no transformer costs should be included in the customer  
210 charge.

211

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

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

219

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

222 A. My analysis produces a residential net metering customer charge of \$8.48.  
223 Rounding this value to the nearest \$0.25 would produce a value of \$8.50 for the  
224 customer charge. The Office proposes that the customer charge should be  
225 \$8.50. The three-phase customer charge should be double the single-phase  
226 customer charge or \$17.00.

227

228 **III. APPLICATION FEES**

229

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

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

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<sup>3</sup> See Direct Testimony of Joelle Steward at lines 488 – 492.

235

<b>Net Metering Application Fees</b>		
	<b>Current</b>	<b>Proposed</b>
Level 1	0	\$60
Level 2	\$50	\$75
per kW	\$1.00	\$1.50
Level 3	\$100	\$150
per kW	\$2.00	\$3.00

236

237

238

239

240

241

#### 242 ***Application Fee Rates***

243

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

244

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.

250

251

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

252

253

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.

259

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

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

270  
271 **Q. IS THERE AN ADVERSE EFFECT ON OTHER CUSTOMERS IF LEVEL 1 NET**  
272 **METERING CUSTOMERS PAY NOTHING FOR AN APPLICATION FEE?**

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

283  
284 **Q. DO YOU AGREE WITH RMP THAT APPLICATION AND INTERCONNECTION**  
285 **COSTS SHOULD BE KEPT SEPARATE FROM THE CUSTOMER CHARGE?**

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

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

294

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

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

299 “To gradually move towards better recovery of all net metering  
300 application fees, the Company proposes a uniform 50 percent  
301 increase to Level 2 and Level 3 application fees. For Level 2, the  
302 Company proposes a \$25 increase to the charge per application  
303 and a 50 cent increase to the per kW charge. For Level 3, the  
304 Company proposes a \$50 increase to the charge per application  
305 and a one dollar increase to the per kW charge. **Increasing the**  
306 **application fees will reduce the costs needed in rates for other**  
307 **customers and retain the proportional relationship between**  
308 **the fees by level, without creating a barrier for participation.**

309 Based on the 2015 costs, these increases are still conservative and  
310 will encourage the Company to find efficiencies in the  
311 administrative process.” (Joelle Steward Direct Testimony, lines  
312 696 – 705, Emphasis added.)

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

322 ***The Company's R746-312-13 Waiver Request***

323 **Q. PLEASE DESCRIBE THE WAIVER THE COMPANY SEEKS.**

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

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

334 In essence, the Company is seeking the waiver to increase fees for Levels 1 – 3  
335 interconnection reviews from the specific fees defined and established in R746-  
336 312-13 for interconnection fees and charges. The Company justifies this request  
337 by Rule 746-312-3(2) which provides: "For good cause shown, the commission  
338 may waiver or modify any provision of this electrical interconnection rule."  
339

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

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

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

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

354

355 **IV. CONCLUSION**

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

359 A. My testimony proposes two recommendations for the Commission on behalf of  
360 the Office. First, the Office recommends that the Commission reject the  
361 Company's residential net metering customer charge recommendation and adopt  
362 the Office's recommendation for a single-phase, residential net metering  
363 customer charge of \$8.50. The three-phase customer charge should be set at  
364 \$17.00. This recommendation should be implemented as part of a general rate  
365 case proceeding.

366

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

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

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

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

379

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

381 A. Yes it does.