

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 ~~\$54,450~~\$57,450 in the customer charge  
185 calculation.  
186

187 **Q. DO YOU HAVE CONCERNS ABOUT INCLUDING THE**  
188 **REMAINING DIRECTLY ASSIGNED 903 ACCOUNT OF**  
189 **~~\$54,450~~\$57,450 IN THE CUSTOMER CHARGE?**

190 A. No. After reviewing the Company's Exhibits JRS-8 and RMM-6, the  
191 remaining ~~\$54,450~~\$57,450 direct assignment to account 903 represent phone  
192 calls and ongoing support to residential net metering customers. These costs  
193 would be applicable to serving residential net metering customers and are  
194 appropriate for inclusion in the customer charge.  
195

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

198 A. The Company's proposal to include transformer costs is inappropriate for the  
199 residential net metering customer charge. The Commission Method does not  
200 include transformers since they are not directly related to costs of net plant for  
201 service lines or meters, customer billing, and meter reading.  
202

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



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

212

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

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

220

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

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

228

229 **III. APPLICATION FEES**

230

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

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

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

236

<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

237

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

242

#### 243 ***Application Fee Rates***

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

245 A. The Company's application fee structure is designed with a base fee and a per  
 246 KW fee as defined in R746-312-13. Currently, the Level 1 application fee has a  
 247 \$0 base fee and a \$0 per KW fee; the Level 2 application fee has a \$50 base fee  
 248 and a \$1.00 per KW fee; the Level 3 application fee has a \$100 base fee and a  
 249 \$2.00 per KW fee. Level 1 is up to 25 kW and Levels 2 and 3 are 25 kW up to 2  
 250 MW.

251

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

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

260

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

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

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

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

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

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

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

295

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

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

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

310 Based on the 2015 costs, these increases are still conservative and  
311 will encourage the Company to find efficiencies in the  
312 administrative process.” (Joelle Steward Direct Testimony, lines  
313 696 – 705, Emphasis added.)

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

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

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

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

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

335 In essence, the Company is seeking the waiver to increase fees for Levels 1 – 3  
336 interconnection reviews from the specific fees defined and established in R746-  
337 312-13 for interconnection fees and charges. The Company justifies this request  
338 by Rule 746-312-3(2) which provides: "For good cause shown, the commission  
339 may waiver or modify any provision of this electrical interconnection rule."  
340

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

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

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

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

355

356 **IV. CONCLUSION**

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

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

367

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

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

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

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

380

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

382 A. Yes it does.