

**-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-**

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**IN THE MATTER OF THE APPLICATION OF  
ROCKY MOUNTAIN POWER FOR AUTHORITY  
TO INCREASE ITS RETAIL ELECTRIC UTILITY  
SERVICE RATES IN UTAH AND FOR APPROVAL  
OF ITS PROPOSED ELECTRIC SERVICE  
SCHEDULES AND ELECTRIC SERVICE  
REGULATIONS**

**DOCKET No. 20-035-04  
Exhibit No. DPU 10.0 DIR**

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FOR THE DIVISION OF PUBLIC UTILITIES  
DEPARTMENT OF COMMERCE  
STATE OF UTAH

Direct Testimony of

ROBERT A. DAVIS

September 15, 2020

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1 **INTRODUCTION**

2 **Q: Please state your name and occupation.**

3 A: My name is Robert A. Davis. I serve in the capacity of Utility Technical Consultant at the  
4 Utah Department of Commerce-Division of Public Utilities (“Division”).

5 **Q: What is your business address?**

6 A: My business address is 160 East 300 South, Heber Wells Building-4<sup>th</sup> Floor, Salt Lake  
7 City, Utah, 84111.

8 **Q: On whose behalf are you testifying?**

9 A: The Division.

10 **Q: Please describe your educational and professional experience.**

11 A: I earned a Master’s Degree in Business Administration with Master’s Certificates in  
12 Finance and Economics from Westminster College in May of 2005. I have attended the  
13 NARUC Rate School, MSU/IPU Advanced Regulatory Studies Program, and  
14 Depreciation Fundamentals by the Society of Depreciation Professionals. I have attended  
15 several regulatory seminars and conferences. I have been employed by the Division since  
16 May of 2012.

17 **Q: Please describe your current position responsibilities.**

18 A: My responsibilities include financial, economic, and accounting analysis of regulated  
19 utility matters with an emphasis towards distributed generation and storage.

20 **Q: Have you previously testified before this commission?**

21 A: Yes. I have testified numerous times before the Public Service Commission of Utah  
22 (“Commission”).

23 **Q: Are you the same Robert A Davis who filed testimony in Phase I of this proceeding?**

24 A: Yes. I filed direct testimony on behalf of the Division in Phase I for Rocky Mountain  
25 Power’s proposed Solar Subscriber Program.

26 **Q: Will you briefly review the background and factual framework surrounding this**  
27 **docket?**<sup>1</sup>

28 A. Yes. On May 8, 2020, Rocky Mountain Power (“RMP”) filed an application requesting  
29 an increase to its Utah retail rates by \$95.8 million.<sup>2</sup> The primary cost drivers of the  
30 requested rate increase are the additions of major new capital investments and changes in  
31 depreciation rates. The Company proposes to phase in the increase through the use of the  
32 federal Tax Cut and Jobs Act (“TCJA”) deferred tax savings credit, resulting in a  
33 proposed increase of \$51.5 million in 2021, \$73.6 million in 2022, and the full \$95.8  
34 million in 2023. The Company anticipates approximately \$4.9 billion in new capital  
35 projects, on a total-company basis, will be in service by December 31, 2021.

36 Also, the rate case incorporates the depreciation rates stipulated to in Docket No. 18-035-  
37 36. Other components of the case include a decrease to Net Power Costs in the amount of  
38 \$70 million on a total company basis and rate mitigation efforts decreasing the

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<sup>1</sup> See Division witness Brenda Salter, Direct Testimony, DPU Exhibit 3.0, September 2, 2020, lines 21-39.

<sup>2</sup> Docket No. 20-035-04, Application for General Rate Increase (Application) at page 6.

39 undepreciated plant balance of certain coal-fired generation units, along with other  
40 proposed modifications or additions.

41 The Company is asking for an increase in the authorized return on equity from the current  
42 9.80 percent to 10.20 percent. The Company's proposed rate increase is based on the  
43 twelve months ending December 31, 2019, and a forecasted test period ending December  
44 31, 2021.

45 If approved, the Company requests the changes to the rate schedules become effective  
46 January 1, 2021. The Division has previously filed direct testimony for the Forecasted  
47 Test Period, Cost of Capital, and Revenue Requirement in this docket. This filing  
48 represents the Division's conclusions and opinions for Phase II, Cost of Service and Rate  
49 Design, in this docket.

50 **PURPOSE OF TESTIMONY**

51 **Q: What is the purpose of your testimony?**

52 A: My testimony summarizes the Legislative principles of cost of service ("COS") and rate  
53 design objectives of the Division and introduces the Division's witnesses in the Cost of  
54 Service, Phase II, of this docket.

55 **Q: Please summarize the work and investigation that has been performed in this**  
56 **docket.**

57 A: The Division has reviewed the testimony of RMP's witnesses along with the attachments  
58 and exhibits. The Division has submitted numerous data requests, reviewed answers to its

59 data requests and those of other parties, and participated in meetings with RMP  
60 representatives to obtain additional information and clarification on multiple topics.

61 **LEGISLATIVE PRICIPLES AND RATE DESIGN OBJECTIVES**

62 **Q: Please summarize the legislative principles that guide the Division’s cost of service**  
63 **and rate design objectives.**

64 A: Based on statutes enacted by the Utah Legislature, the Division’s cost of service and rate  
65 design objectives are for rates to be stable, simple, understandable, and acceptable to the  
66 public; to be economically efficient; to promote fair apportionment of costs among  
67 individual customers within each customer class with no undue discrimination; and to  
68 protect against wasteful use of utility services.<sup>3</sup>

69 Consistent with these statutorily defined objectives, the Division has developed and  
70 refined a set of guiding principles<sup>4</sup> over the years. These principles are:

- 71 1. Cost Causation-Rates and charges should reflect cost causation. Customers  
72 who cause costs should pay for those costs.
- 73 2. Simplicity-Rates should be as simple as possible in design and easy to  
74 understand and administer. Customers are more likely to accept and  
75 understand relatively simple rates. Tariff descriptions should be clear,  
76 unambiguous, and understandable by the public.
- 77 3. Correct Price Signals-Rates based on costs can incent customers to make  
78 appropriate decisions about energy use including energy conservation. While  
79 some customer classes are better able to understand complicated rates than  
80 others, a complicated rate that is not understood may not provide clear or  
81 correct price signals.

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<sup>3</sup> See Division witness, Dr. William “Artie” Powell, Docket No. 13-035-184, May 1, 2014, lines 21-26. See also, Utah Code Annotated § 54-4a-6.

<sup>4</sup> Id., lines 29-56.

- 82 4. Rate Structures-In the past, three part rates with customer, energy, and  
83 demand components have generally been used to apportion the costs among  
84 individual customers in a manner closely matching cost drivers. Customers,  
85 however, are increasingly adopting devices and technologies such as  
86 distributed generation, storage, and electric vehicle charging to name a few.  
87 This change in customer behavior results in difficulty matching cost and cost  
88 causation with simple rates that are not flexible enough to capture the  
89 increased variation in use profiles. Unbundling of rates and other alternative  
90 rate structures (such as time of use rates) may be appropriate and necessary  
91 for fair cost recovery.
- 92 5. Gradualism-Rate shocks sometimes occur to bring customer classes to cost of  
93 service. Gradualism is a mechanism that allows gradual changes in those rates  
94 to help promote rate stability and to minimize impacts on individual  
95 customers.
- 96 6. Marginal and Embedded Costs-Regulated rates must be designed to recover  
97 the embedded revenue requirement of a rate schedule. Marginal and average  
98 unit embedded costs should be reviewed and taken into account when setting  
99 prices.
- 100 7. Customer Charges-Costs that generally increase with the number of  
101 customers, but not caused individually by each customer, should be excluded  
102 from the customer charge and included within the commodity portion of  
103 rates.<sup>5</sup>

104 The Division and its consultant Christensen Associates Energy Consulting (“CAEC”)  
105 relied on these principles to formulate their cost of service and rate design proposals in  
106 this case.

## 107 DIVISION WITNESSES

108 **Q: Would you identify the Division’s witnesses?**

109 **A:** Yes. The Division’s witnesses for the COS phase of this docket include:

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<sup>5</sup> See Commission Order in Docket No. 82-057-15.

- 110 • Mr. Robert A. Davis, a Utility Technical Consultant for the Division. Mr. Davis is the  
111 policy witness for the Division in the COS phase of the docket. Mr. Davis filed  
112 testimony on RMP’s proposed Solar Subscriber Program in the Phase I, Revenue  
113 Requirement portion of this docket.
- 114 • Mr. Bruce Chapman serves as Vice President for CAEC and is testifying on behalf of  
115 the Division addressing RMP’s COS Study under three main headings: issues  
116 associated with Production and Transmission; issues associated with Distribution; and  
117 other Cost of Service issues.
- 118 • Mr. Robert Camfield is the Senior Regulatory Consultant for CAEC and is testifying  
119 on behalf of the Division addressing these areas: expected price inflation across the  
120 U.S. economy; marginal electricity costs and application for determination of tariff  
121 and rate design and Rocky Mountain Power’s marginal cost study; and Rocky  
122 Mountain Power’s proposed tariff and rate changes as advanced for consideration by  
123 its witness Meredith.

## 124 SUMMARY

125 **Q: Would you summarize the Division’s conclusions in the COS Phase II of this**  
126 **docket?**

127 A: RMP’s COS study undertakes the allocation of jurisdiction costs to Utah customers using  
128 costing methods which are largely in keeping with contemporary industry practice as set  
129 out in the Electric Utility Cost Allocation Manual of the National Association of  
130 Regulatory Utility Commissioners (“NARUC”), the leading recognized source of COS  
131 methodology in North America, for the exception of the 75/25 allocation approved by the  
132 Commission’s approval of the 2020 Multi-State Protocol.<sup>6</sup> RMP undertakes the main

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<sup>6</sup> See Commission Order, Docket 19-035-42, April 15, 2020.  
<https://pscdocs.utah.gov/electric/19docs/1903542/3131231903542oa2020p4-15-2020.pdf>.

133 steps of functionalizing, classifying, and allocating costs using methods that are well  
134 known and generally accepted.<sup>7</sup>

135 The testimony provided by RMP documents and defends the utility's methodology and  
136 explains the few proposed changes. The testimony also sets forth the utility's general  
137 statement of methodology.<sup>8</sup>

138 Consistent with the Utah Legislature statutorily defined objectives, the Division has  
139 developed and followed a set of guiding principles over the years. The Division and its  
140 consultant CAEC relied on these principles to formulate its cost of service and rate design  
141 conclusions and proposals in this case.

142 **Q: Does this conclude your testimony?**

143 A: Yes.

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<sup>7</sup> Division witness, Bruce R. Chapman, CAEC, Direct Testimony, Exhibit No. DPU 11.0, September 15, 2020, lines 58-65.

<sup>8</sup> Id., lines 68-70.