Witness OCS – 5R

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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** **Phase II Rebuttal Testimony of** **Ron Nelson** **On behalf of the** **Office of Consumer Services**

October 16, 2020

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Ron Nelson. I am a Director with Strategen Consulting. My business address is Suite 400, 2150 Allston Way, Berkeley, California 94704.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of the Utah Office of Consumer Services ("OCS").

Q. ARE YOU THE SAME RON NELSON WHO FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I filed Phase II direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to several intervenors' testimony on Rocky Mountain Power's ("RMP's") cost of service, revenue apportionment, and rate design.

Q. DOES NOT RESPONDING TO AN INTERVENOR'S ARGUMENT INDICATE AGREEMENT?

A. No. I respond to a narrow scope of issues in my rebuttal and my not commenting on an issue should not be interpreted as agreement.

Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

A. My rebuttal testimony is organized into the following sections:

I. Introduction
II. ECOSS: production & transmission subfunctionalization and unbundling
III. ECOSS: production & transmission classification
IV. ECOSS: distribution system classification
V. Marginal Cost of Service Study ("MCOSS")
VI. Revenue apportionment
VII. Rate design

Q. WHAT ARE THE HIGH-LEVEL TAKEAWAYS FROM YOUR REBUTTAL TESTIMONY?

A. Intervenor's approval of RMP's subfunctionalization and unbundling approaches appear to be based on false assumptions related to RMP's methods. The intervenors falsely assumed that RMP followed common or accepted practices when subfunctionalizing cost and unbundling rates. However, RMP did not follow common or accepted practices, which resulted in intervenor's, normally safe, assumptions leading to inaccurate conclusions.

Adopting RMP's subfunctionalization and unbundling proposals would be a precedent setting decision that would move Utah away from using a cost study to inform rate designs and toward a ratemaking approach employed by only one utility in the United States: RMP.[1] Specifically, RMP's unbundled rate design proposals rely on subfunctionalized cost components that are derived from a subjective division of costs into fixed and variable, which are not directly tied to any concept within the embedded or marginal cost study. Intervenors failed to provide any analysis on the mechanics of RMP subfunctionalization and how it influenced unbundled rates. Instead, intervenors assumed that these approaches were similar to other utilities – but they are not. The impact of these changes are significant and there is insufficient stakeholder analysis for the PSC to approve RMP's subfunctionalization and unbundling proposals.

Finally, intervenors' combined recommendations on the ECOSS and rate design could result in significant negative impacts to the residential class. Specifically, DPU Witness Bruce Chapman's recommendation to explore ECOSS approaches that classify larger portions of the distribution system as customer related could lead to unreasonably high customer charges and shift revenue apportionment into the residential class.

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[1] OCS 8.7

II. ECOSS: P&T SUBFUNCTIONALIZATION AND UNBUNDLING

Q. PLEASE SUMMARIZE THE INTERVENOR TESTIMONY YOU WILL RESPOND TO IN THIS SECTION.

A. DPU Witness Chapman supports RMP's proposal to subfunctionalize production and transmission costs while Walmart Witness Steve Chriss supports RMP's proposal to unbundle rates. I am concerned with each of these positions, particularly the way that the witnesses do not acknowledge the flawed mechanics of RMP's proposals. It appears that these subject matter experts assumed that RMP's P&T subfunctionalization and unbundling would have predictable and accepted impacts on RMP's cost study and rate design. This was a rational assumption; however, the impacts of RMP's opaque proposals do not match the witnesses' assumptions. Instead, the impacts of RMP's proposals are unreasonable and unsupported. Because of their assumptions about RMP's methodology, Witnesses Chapman and Chriss do not provide a wholistic analysis on the reasonableness of either proposal. I address both witnesses in this section because RMP's unprecedented P&T subfunctionalization and rate unbundling proposals are directly related.

Q. WHY DOES WITNESS CHAPMAN SUPPORT RMP'S P&T SUBFUNCTIONALIZATION?

A. Witness Chapman finds that RMP's proposal to subfunctionalize P&T costs into "fixed" and "variable" categories "helps clarify how costs are likely best classified." However, the Witness's next sentence laments that "the issue of how to classify many fixed costs remains unresolved." [2]

Q. HOW DO YOU RESPOND TO WITNESS CHAPMAN?

A. Witness Chapman says that the subfunctionalization clarifies classification, but RMP's P&T subfunctionalization step does not actually change its classification or allocation outcomes – or its ECOSS – at all. It is very reasonable for Witness Chapman to make this assumption, as any subfunctionalization step *should* improve the granularity for which costs are classified and/or allocated. Unlike any other subfunctionlization step within the model, however, RMP's P&T subfunctionalization does not change the classification or allocation of costs. Witness Chapman's false assumption on RMP's P&T subfunctionalization underscores the misleading nature of RMP's proposal.

Q. ARE RMP'S SUBFUNCTIONALIZED CATEGORIES CLARIFYING?

A. No. Even if RMP's subfunctionalization proposal impacted its classification or allocation – which it does not - the subjective categories "fixed" and "variable" are outdated and inappropriate. They lack analytical definition

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[2] Chapman Direct at 11.

and therefore I agree with Witness Chapman's determination that their classification application remains unresolved. My direct testimony covers RMP's subjective exercise of dividing fixed and variable costs at length.

Q. WHY DOES WITNESS CHRISS SUPPORT RMP'S UNBUNDLING PROPOSAL?

A. Walmart's Witness Chriss supports RMP's unbundling proposal because "unbundling tariff rates by function allows customers to determine the costs of each…function" for comparison across utilities and jurisdictions.[3] Walmart's Witness Chriss believes that unbundling can ensure appropriate and transparent rates for cost collection.

Q. HOW DO YOU RESPOND TO WITNESS CHRISS?

A. I agree with Witness Chriss that transparent, cost-based rates benefit consumers, but unfortunately, RMP's unbundling proposal does not allow for useful comparison of functional costs nor does it enhance rate transparency. At a superficial level, I can understand why Witness Chriss would support unbundling rates in general. Unbundling costs and translating them to rates can be beneficial for customers—if the analytical approach is logical and transparent. However, RMP informs its rate components using an opaque and subjective differentiation between fixed

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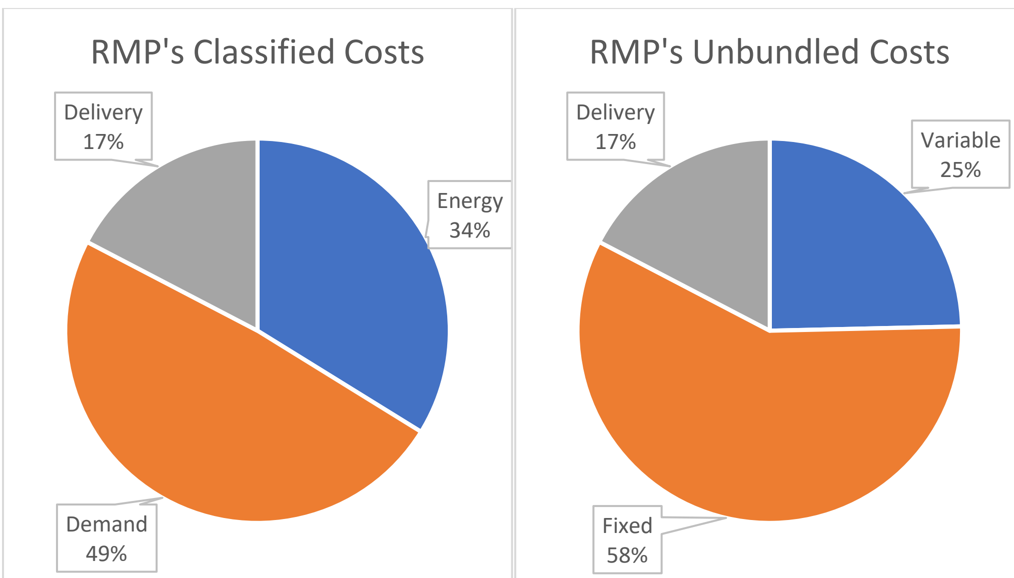
[3] Chriss Direct at 7-8.

and variable costs. RMP does not analytically define “fixed” or “variable” and the categories do not align with the demand and energy categories that have traditionally classified costs into groups to inform different rate components. By using a set of cost categories that deviates from the ECOSS results in order to design rates, RMP moves away from cost-of-service based rates – the opposite of what Walmart appears to be supporting. Figure 1 below shows the difference between the results of RMP’s ECOSS classification method and its unbundling proposal.

Figure 1: Classified vs Unbundled Schedule 6 P&T Costs[4]



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[4] Workpaper OCS 5.2D.

Figure 1 demonstrates that the cost components in RMP's ECOSS are not directly related to the variable and fixed cost components used for rate design. The fact that Walmart does not acknowledge these underlying mechanics of RMP's unbundling proposal nor its origins in the new, subjective P&T subfunctionalization, suggests the misleading nature of RMP's proposal.

Q. WHAT ARE YOUR CONCLUSIONS ABOUT RMP'S P&T SUBFUNCTIONALIZATION AND UNBUNDLING?

A. Witnesses Chapman and Chriss fail to analyze the way that RMP's subfunctionalized fixed and variable costs flow through to its proposed unbundled rate design proposals. Because the Witnesses omitted such an analysis, it is unclear whether either Witness fully appreciates the implications of RMPs proposals. The fact that the Witnesses did not identify this connection clearly demonstrates that the subfunctionalization and unbundling proposals are anything but transparent or logical.

RMP's unprecedented proposal removes a link between its cost study and its rate designs and is not well understood by stakeholders. The significance of the change cannot be overstated and the analysis in the record is insufficient for the PSC to approve it.

III. ECOSS P&T CLASSIFICATION

Q. PLEASE SUMMARIZE THE INTERVENOR TESTIMONY YOU WILL RESPOND TO REGARDING P&T CLASSIFICATION.

A. The DPU's Witness Chapman recommends that the Commission address the classification of production and transmission within the 2023 Protocol. Witness Chapman also suggests that RMP's P&T "classification methods should eventually be supported by a defensible methodology"[5] and provides an overview of a few classification approaches, including one that uses a marginal cost-based allocator.

Q. HOW DO YOU RESPOND TO WITNESS CHAPMAN?

A. My rebuttal is concerned with P&T classification methods, as OCS Director Michele Beck is concurrently testifying on the issue of when and why P&T classification should be addressed (i.e., in this case or in the 2023 Protocol).

I agree with Witness Chapman that RMP's production and transmission classification should be modified. However, unless the PSC is moving toward a marginal cost regulatory framework, it is not clear to me why RMP would utilize a marginal cost method for classifying P&T within an ECOSS, as Witness Chapman has proposed. Witness Chapman does not explain why integrating a marginal cost approach into an

[5] Chapman Direct at 9.

embedded cost study would be appropriate. When asked to name other jurisdictions that had used the same type of marginal cost allocator, the DPU named jurisdictions that also use marginal cost studies for ratemaking purposes, unlike RMP.[6] These examples do not help indicate why that method should be integrated in an embedded cost study or whether it is even feasible.

IV. ECOSS: DISTRIBUTION CLASSIFICATION

Q. PLEASE SUMMARIZE THE INTERVENOR TESTIMONY YOU WILL RESPOND TO REGARDING DISTRIBUTION CLASSIFICATION.

A. The DPU's Witness Chapman took issue with RMP's distribution cost classification, specifically: RMP's categorization of certain distribution system infrastructure (poles, underground conduits, conductors, and transformers) as entirely demand-related. Witness Chapman asserts that RMP's methodology "is different from common industry practices" and that the "standard approach" would instead classify portions of this distribution infrastructure as both customer-related and demand-related.[7]

Witness Chapman suggests that RMP defend its current approach or consider alternatives, specifically the minimum size method or the minimum-intercept method.

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[6] OCS 2.1 to DPU.
[7] Chapman Direct at 12.

Q. HOW DO YOU RESPOND TO WITNESS CHAPMAN?

A. RMP did in fact choose an industry-accepted distribution classification methodology. It is called the basic customer method. I recommend that RMP continue to use the basic customer method. It is more appropriate than the alternatives named by Witness Chapman and it also aligns with the DPU's guiding principles related to rate design.

Q. CAN YOU DESCRIBE THE BASIC CUSTOMER METHOD?

A. According to the basic customer method, only costs that can be traced to a specific customer should be assigned as customer costs, because those are the only costs that vary based on the number of customers in a class. Under this theory, the costs of the shared distribution system – FERC accounts 364-368 – cannot be attributed directly to a customer, because adding one customer to the system would not increase the cost of the system. Instead, the basic customer method recognizes that the shared distribution system is built to serve peak demands, and so its costs should be classified as demand.

Q. WHY IS IT APPROPRIATE TO CLASSIFY SHARED DISTRIBUTION SYSTEM COSTS AS 100 PERCENT DEMAND?

A. As one cost of service analyst has put it: "The theoretical basis for [the basic customer] approach is that the distribution system is sized to a certain capacity, that capacity is available to the total population of customers served by a system, and any capacity used by one customer is generally not available to another."[8] That is, from an engineering perspective, the distribution system is designed to meet the localized peak demand of a group of customers, and from an economic perspective, demand reflects how the system is utilized by customers. Therefore, shared distribution costs are more properly classified as 100 percent demand related and not customer related.

Q. DO REGULATORY COMMISSIONS IN THE UNITED STATES USE THE BASIC CUSTOMER APPROACH?

A. Yes. In 2000, the Regulatory Assistance Project ("RAP") estimated that approximately 30 electric utilities use methods that do not classify any portion of the shared distribution system as a customer cost – just like RMP in this case.[9] I have also testified in a proceeding where a natural gas utility claimed that 19 states utilize the basic customer or peak-and-average approach (an energy-related approach).[10] This demonstrates that

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[8] Jim Lazar, *Cost Elements and Study Organization For Embedded Cost of Service Analysis: Applicable to the Tucson Electric Power Company* 19 (1992).

[9] *See* Fredrick Weston, The Regulatory Assistance Project, *Charging for Distribution Utility Services: Issues in Rate Design* at 29 (2000).

[10] *In the Matter of the Application of CenterPoint Energy Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G-008/GR-15-424, Rebuttal Testimony of Russell A. Feingold, at Schedule 3 (Dec. 18, 2015). Due to the time intensive nature associated with a review of these estimates, I have not verified either of these estimates by assessing each Commission's order on the subject. I believe that it is reasonable to rely on CenterPoint Energy's survey as demonstrative that a minimum of 19

many Commissions use these methods to classify and allocate both electric and natural gas distribution systems throughout the country.

Q. IS THE BASIC CUSTOMER APPROACH COMMONLY USED AND SUPPORTED BY RELIABLE REFERENCES?

A. Yes. The same source that Witness Chapman used to suggest the minimum size and minimum intercept methods, the NARUC Electric manual, mentions the basic customer approach.[11] While the NARUC Manual's discussion of the basic customer approach resides within the marginal cost section of the manual, a similar approach is applied to embedded ECOSSs throughout the country, as I demonstrate below. In addition, Dr. James Bonbright discusses the basic customer approach in *Principles of Public Utility Rates*, as does the Regulatory Assistance Project in its 2020 *Electric cost allocation for a new era: A manual*.

Q. HAVE STATE COMMISSIONS EXPLICITLY DISCUSSED THE BASIC CUSTOMER APPROACH?

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regulatory commissions use the basic customer or peak-and-average approaches, given that it was provided by a utility in opposition to those methods.

[11] *See* National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual* (1992); see also National Association of Regulatory Utility Commissioners, *Gas Distribution Rate Design Manual* (1989). The NARUC Electric Manual methods discusses a method similar to the basic customer in the marginal cost section on pages 136–146. The NARUC Gas Manual discusses the basic customer approach on page 23.

A. Yes. Many states have previously discussed the merits of the basic customer method in orders.

Q. PLEASE SUMMARIZE PREVIOUS ORDERS THAT YOU ARE AWARE OF THAT DISCUSS THE MERITS OF THE BASIC CUSTOMER APPROACH.

A. The Illinois Commission has rejected the minimum distribution system and zero-intercept approaches and adopted a method similar to the basic customer approach:

> As it has in the past, see, e.g. Dockets 05-0597, 99-0121 and 00-0802, the Commission rejects the minimum distribution or zero-intercept approach for purposes of allocating distribution costs between the customer and demand functions in this case. In our view, the coincident peak method is consistent with the fact that distribution systems are designed primarily to serve electric demand.
>
> The Commission believes that attempts to separate the costs of connecting customers to the electric distribution system from the costs of serving their demand remain problematic. We reject the use of the MDS in this proceeding, and find that ComEd's ECOSS was correct in not reflecting the MDS concept. Accordingly, the Commission rejects the use of IIEC's COSS because it relies on the use of MDS.[12]

The Washington Utilities and Transportation Commission has also addressed the use of the basic customer approach in detail multiple times, as indicated by the following:

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[12] Final Order, *Commonwealth Edison Company Proposed General Increase in Electric Rates (Tariffs filed October 17, 2007)*, at 208 (Sep. 10, 2008), Docket No. 07-0566 (Illinois Commerce Commission).

> The company proposed to classify distribution costs using the Basic Customer method, which treats substations, poles, towers, fixtures, conduit, and transformers as demand-related. Service drops and meters are classified as customer related. The company put forward this method in lieu of the Minimum System approach it prefers, primarily in the interest of promoting consensus, and because it is compatible with the use of a decoupling mechanism.
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> Commission Staff and Public Counsel strongly supported the use of the Basic Customer method as an appropriate allocation. Public Counsel recommended that the Commission also consider approving a method similar to that applied in Cause No. U-86-100, whereby distribution costs were considered to have energy-, demand- and customer-related aspects.
>
> …
>
> The Commission finds that the Basic Customer method represents a reasonable approach. This method should be used to analyze distribution costs, regardless of the presence or absence of a decoupling mechanism.
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> We agree with Commission Staff that proponents of the Minimum System approach have once again failed to answer criticisms that have led us to reject this approach in the past. We direct the parties not to propose the Minimum System approach in the future unless technological changes in the utility industry emerge, justifying revised proposals.[13]

Iowa uses an approach similar to the basic customer approach. Iowa law states that "[c]ustomer cost component estimates or allocations shall include only costs of the distribution system from and including transformers, meters and associated customer service expenses."[14]

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[13] Ninth Supplemental Order on Rate Design Issues, *Petition of Puget Sound Power & Light Company for an Order Regarding the Accounting Treatment of Residential Exchange Benefits*, (Aug. 16, 1993) Docket No. UE-920433 (Washington Utilities and Transportation Commission) (1993 WL 13812140), at 5–6.

[14] Iowa Admin. Code 199-20.10(2)(e).

Connecticut enacted a similar law related to the fixed charge. Specifically, the law states that a public utility's fixed charge shall "recover only the fixed costs and operation and maintenance expenses directly related to metering, billing, service connections and the provision of customer service."[15] This law speaks directly to the how the fixed charge is set, as opposed to how the ECOSS classifies distribution system costs, but demonstrates that the basic customer approach has direct implications for rate design.

The California PUC also uses a form of the basic customer approach and has stated:

> We prefer the approach of identifying specific equipment as access related and assigning the investment costs directly to the appropriate customer class. While there is not a clear line of distinction between demand and customer related equipment, we believe the [Transformers, Services, and Meters] method provides us with the best approximation. Accordingly, we will treat the remaining common distribution costs as demand-related.[16]

The Idaho Commission moved from the minimum system approach to the basic customer approach in 1998 because it found that the basic customer approach was a superior methodology.[17]

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[15] *See* https://law.justia.com/codes/connecticut/2015/title-16/chapter-283/section-16-243bb/

[16] Interim Opinion, *Re San Diego Gas and Electric Company*, (Dec. 19, 1988), Decision 88-12-085 (California Public Utilities Commission), (1988 WL 1663871), at 15.

[17] Order No. 28097, *In the Matter of the Application of the Washington Water Power Company (Now Avista Corporation dba Avista Utilities—Washington Water Power Division) For an Order Approving Increased Rates and Charges for Electric Service in the State of Idaho*, at 24–27 (July 29, 1999), Case No. WWP-E-98-11 (Idaho Public Utilities Commission).

Rhode Island does not require the minimum system approach and has not since at least 1984, according to the following:

> Both the Navy and TEC-RI requested that the Commission require a Minimum System Study prior to the next case to allocate costs to demand and customer components. The Division recommended that the Commission reject this request. The Commission is satisfied by Dr. Swan's reasoning that it deny the request for a minimum system study and as such, rejects the request. This is consistent with the Commission's previous ruling in In Re: Narragansett Electric Co., Docket No. 1606/1692, Order No. 11227 (issued April 30, 1984) at p.7.[18]

Maryland PUC assessed the minimum system approach and instead uses a method similar to the basic customer approach for both electric and natural gas utilities as indicated by the following:

> As noted above, MEG proposed that a portion of distribution lines, for both gas and electric, should be partially allocated to customer-related costs…. MEG advocated partial allocation to customer-related costs under a minimum cost of service methodology, whereby any such service requires at least a hypothetical minimum size line or pipe to provide service, which hypothetical minimum size service should be classified as a customer-related cost.
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> …We find no grounds to re-allocate lines as customer-related under a minimum cost of service methodology as advocated by MEG. This proposal has not been accepted in the past by the Commission, and we are not inclined to do so now.[19]

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[18] Decision and Order, *In Re: The Application of the Narragansett Electric Company d/b/a National Grid for Approval of a Change in Electic[sic] Base Distribution* Rates, at 142 (April 29, 2010), Docket No. 4065 (State of Rhode Island and Providence Plantations Public Utilities Commission).

[19] Order No. 83907, *In the Matter of the Application of Baltimore Gas and Electric Company for Revisions in its Electric and Gas Base* Rates, at 81–82 (March 9, 2011) Case No. 9230 (Public Service Commission of Maryland) (internal citations omitted).

The Arkansas Public Service Commission has also ruled against the minimum system approach and for the basic customer approach on numerous occasions as indicated by the following:

> The Commission agrees with EAI, Staff and AG that accounts 364-368 should be allocated to the customer classes using a 100% demand methodology and find that AEEC and HHEG do not provide sufficient evidence to warrant a determination that these accounts reflect a customer component necessary for allocation purposes.[20]

The Texas Public Utilities Commission has stated that "[s]pecifically, the customer charge shall be comprised of costs that vary by customer such as metering, billing and customer service."[21] It has also found that "[i]t is appropriate to use a 100% demand allocator for distribution accounts 364 through 368," which is again consistent with RMP's own basic customer approach.[22]

Additionally, both the Minnesota and Wisconsin Commissions have used the basic customer approach to inform their decisions. Recently, Xcel Energy's subsidiary, Northern States Power Wisconsin ("NSP-W"), was ordered to file an ECOSS that utilized the basic customer approach,

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[20] Order, *In the Matter of the Application of Entergy Arkansas, Inc., for Approval of Changes in Rates for Retail Electric Service*, at 124–26 (Dec. 30, 2013) Docket No. 13-028-U (Arkansas Public Service Commission).

[21] Order No. 40, *Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344*, at 6 (Nov. 22, 2000) Docket No. 22344 (Public Utility Commission of Texas).

[22] Order, *Application of AEP Texas Central Company for Authority to Change* Rates, at 17 (Dec. 13, 2007) Docket No. 33309 (Public Utility Commission of Texas).

which the Wisconsin Public Commission ("WPS") used to set rates.[23] Specifically, NSP-W was required by WPS staff to produce a new ECOSS using a 100 percent demand classification for the distribution system. WPS then continued its long-standing practice of setting rates using a range of COSS models that included the 100% demand classification.

As for Minnesota, the Commission has considered COSSs that classify the distribution as 100 percent demand-related as well as ones that classify a portion as energy-related for natural gas and electric utilities. In one case, the Minnesota Commission found that:

> The OAG showed that there are several methods, including the minimum system, basic customer, and peak-and-average methods, for classifying and allocating distribution system costs. The Commission finds merit in each theory.
> . . .
> The Commission is persuaded, on valid theoretical grounds, that the minimum system studies over-allocate distribution costs to the customer component. Other class-cost-of-service studies suggest that the over-allocation to the customer component may be significant.[24]

In another case, the Minnesota Commission stated:

> the Commission also concurs with the OAG on the merits of considering more than one cost study (including the basic customer COSS).
>
> The Electric Manual indicates that no single cost study method can be judged superior to all others in all contexts,

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[23] Application of Northern States Power Company-Wisconsin for Authority to Adjust Electric and Natural Gas Rates, Docket No. 4220-UR-121, FINAL DECISION at 39 (Wis. Pub. Svc. Comm'n Dec. 23, 2015).

[24] *In the Matter of the Application of CenterPoint Energy Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G-008/GR-15-424, Findings of Fact, Conclusions of Law, and Order 53 (June 3, 2016).

> and the choice among methods is fraught with disputes over assumptions, applications, and data.[25]

Q. WHY IS THIS INFORMATION IMPORTANT FOR THE COMMISSION TO CONSIDER?

A. I have provided information from twelve commissions related to both vertically integrated and restructured electric utilities that support my recommendation that RMP continue to utilize the basic customer ECOSS. I have not, however, conducted an exhaustive survey of all states nor do I constantly monitor each state for updates.

I believe that these twelve jurisdictions are sufficient to demonstrate the point that I wish to make: other regulatory commissions have recognized the reasonableness of the basic customer approach, meaning that it is certainly a standard distribution classification approach, unlike Witness Chapman's claim.

Q. DOES WITNESS CHAPMAN EXPLAIN THE IMPLICATIONS TO RATE DESIGN OF ALTERNATE DISTRIBUTION CLASSIFICATION?

A. No, Witness Chapmen does not explain the implications to rate design of using the minimum size or minimum intercept classification approaches.

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[25] *See* Findings of Fact, Conclusions, and Order, *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rate for Electric Service in Minnesota*, 62. Docket No. 15-1033 (May 1, 2017).

These approaches will lead to a higher, over-estimated classification of customer-related costs, which will disproportionately harm the residential class because it has a higher number of customers.

Q. HOW WILL THE MINIMUM SYSTEM OR MINIMUM SIZE METHODS OVER-ESTIMATE CUSTOMER-RELATED COSTS?

A. The minimum size and minimum intercept methods both serve to estimate a utility's theoretical "minimum distribution system," which is a hypothetical distribution system that has little or no capacity. Because this minimum system has no capacity, it would presumably include only the costs needed to connect each customer. The customer cost varies generally with the number of customers under the minimum system approach.

To create this imaginary minimum distribution system, analysts must make numerous subjective assumptions that oversimplify system engineering and assign costs based on questionable cost causative principles. This is different than the basic customer approach, which relies more heavily on actual system data.

Q. WHAT SOURCE DOES DPU CITE FOR THE MINIMUM SYSTEM APPROACHES?

A. Witness Chapman cites the NARUC Manual for these approaches. While the NARUC Manual remains a relevant reference on cost allocation, it does not set out "contemporary industry practice," as both Witnesses

Robert Davis and Chapman state.[26] The near-30-year-old manual must be tempered with other references and recognition of the changing power system.[27] For example, the NARUC Manual cannot anticipate "the changes in RMP's generation mix (exiting from coal and the increasing use of renewables)" that Witness Chapman references when justifying the need for a new P&T classification approach.[28]

Q. IS WITNESS CHAPMAN'S RECOMMENDATION CONSISTENT WITH THE DPU'S GUIDING PRINCIPLES?

A. No. The DPU's Witness Davis presents a set of principles that guide the Division's cost of service and rate design objectives. One of the seven principles, titled Customer Charges, closely aligns with RMP's treatment of distribution system costs:

> Costs that generally increase with the number of customers, but not caused individually by each customer, should be excluded from the customer charge and included within the commodity portion of rates.[29]

As the Commissions and experts that I quoted above have indicated, it is widely agreed that meter and service costs are caused by each individual customer; the shared distribution system is not. RMP's

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[26] Witness Chapman at 3-4; Witnedd Davis at 6.
[27] For a discussion of how the power system is changing cost allocation, *See* Lazar, J., Chernick, P., Marcus, W., and LeBel, M. (Ed.). (2020, January). *Electric cost allocation for a new era: A manual,* at 18. Montpelier, VT: Regulatory Assistance Project. (hereinafter "RAP Manual")
[28] Witness Chapman at 7.
[29] Davis Direct at 5.

cost analysts have recognized this with their distribution classification methodology. The DPU, however, has proposed methods that classify all shared distribution infrastructure as partly customer-related which would then, in turn, likely be collected through a fixed charge – directly contradicting the Department's guiding principle on the matter.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS ABOUT DISTRIBUTION CLASSIFICATION.

A. I disagree with the DPU's Witness Chapman and find that RMP's distribution classification methodology is methodologically sound and accepted by the industry. The minimum system approaches suggested by Witness Chapman are inappropriate and shift costs onto the residential class. I recommend that RMP maintain its current basic customer approach, by continuing to classify distribution accounts 364-368 as 100 percent demand related.

V. MARGINAL COST OF SERVICE STUDY ("MCOSS")

Q. PLEASE SUMMARIZE THE INTERVENOR TESTIMONY YOU WILL RESPOND TO IN THIS SECTION.

A. The DPU's Witness Robert Camfield found RMP's marginal cost study to be "constructed with substantial care and diligence."[30] Witness Camfield recommended that larger portions of the distribution system be considered customer related through an alternative method, such as the minimum distribution study.

Q. HOW DO YOU RESPOND TO WITNESS CAMFIELD?

A. RMP's MCOSS already classifies substantial and inappropriate portions of its distribution system as customer related. For example, RMP classifies poles as customer related.[31] This is neither reasonable nor common practice. While I did not comprehensively analyze the MCOSS, this approach is inconsistent with Witness Camfield's claim that RMP's proposed MCOSS is in line with longstanding principles and methods.[32]

VI. REVENUE APPORTIONMENT

Q. PLEASE SUMMARIZE THE INTERVENOR TESTIMONY YOU WILL RESPOND TO IN THIS SECTION.

A. Intervenors such as Walmart and Kroger argue that some customer classes often subsidize other classes. Specifically, Walmart voices

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[30] Camfield Direct at 4.

[31] Meredith Direct at 70.

[32] Camfield Direct at 17. While Witness Camfield's comments are framed as general, classifying the distribution system out of step with industry practices is a significant deviation.

concern over subsidies paid by Schedules 6, 8, 23, and 15.[33] Kroger Witness Richard Baudino recommends that the Commission "decisively move to address the long-standing problem of subsidies being paid by Schedule 6 customers"[34] and claims there is "persistent and growing" dollar value of subsidies that have "burdened" Schedule 6 customers. Witness Baudino compares the rate of return index, or the rate of return for each customer class, divided by Utah Jurisdiction's normalized rate of return, to show that Schedules 6, 8, and 23 provide subsidies to other classes.

Neither Witness Baudino nor Chriss proposes to change RMP's proposed revenue allocation unless the Commission authorizes reductions in the Company's overall revenue increase. In such case, Kroger proposes that Schedule 6 receive a percentage increase that is only half the magnitude of the approved overall allowed increase[35], while Walmart proposes that 50% of any reduction in revenue requirement be allocated to Schedules 6, 8, 23, and 15, and the remainder be allocated equally among all classes.[36]

Q. HOW DO YOU RESPOND TO WITNESSES CHRISS AND BAUDINO?

[33] Chriss Direct at 2.
[34] Baudino Direct at 5.
[35] Baudino Direct at 11-12.
[36] Chriss Direct at 2.

A. First, I would note that any quantified under- or over-performance by a particular customer class is based on the results of RMP's Embedded Cost of Service Study, the subjectivity of which I detailed in my direct testimony. An investor-owned utility like RMP may often introduce bias in its ECOSS decision-making. Thus, the filed rate of return index, or relative ROR, only reflects one approach to cost of service, when there are numerous approaches. I filed and quantified the result of alternate approaches in my direct testimony.

Second, an historic perspective is informative when comparing relative rate of return among customer classes. For example, comparing the rate of return index over recent years in Table 1 below shows the residential deficiency to be very small.

Table 1: Historic Class Rate of Return Index[37]

		2013	2014	2015	2016	2017	2018	2019	Projected 2021	Average 2013-2019
1	**Residential**	0.90	1.01	0.90	0.95	0.98	1.01	0.88	0.83	0.95
6	**GS - Large**	1.24	1.12	1.20	1.15	1.11	1.08	1.21	1.21	1.16
8	**GS - Over 1 MW**	1.04	1.03	1.11	1.02	1.02	1.00	1.10	1.15	1.05
7, 11, 12	**Street & Area Lighting**	2.06	2.17	1.78	1.77	1.78	1.67	2.52	2.18	1.96
9	**GS - High Voltage**	0.78	0.74	0.83	0.79	0.79	0.70	0.76	0.92	0.77
10	**Irrigation**	0.87	0.97	0.89	0.98	0.90	0.77	0.94	0.99	0.90
15	**Traffic Signals**	1.29	1.38	1.40	1.37	1.39	1.38	1.35	1.29	1.37
15	**Outdoor Lighting**	2.86	3.31	2.23	1.78	2.32	3.32	2.95	2.76	2.68
23	**GS - Small**	1.15	1.12	1.17	1.13	1.13	1.37	1.33	1.27	1.20
SPC	**Customer 1**	0.60	0.45	0.48	0.63	0.66	0.45	0.51	0.71	0.54
SPC	**Customer 2**	0.74	0.73	0.94	1.08	0.92	0.88	0.90	1.13	0.88

The residential class has seen an unexplained decrease in RoR since 2018, while Schedule 9's RoR index is projected to increase by approximately 20% within one year. Witness Baudino's near-singular focus on Schedule 6 ignores the fact that Schedule 23, among others, is outperforming Schedule 6 in the test year and has been doing so on average for the last 6 years. This historical data helps contextualize the test year forecast and indicates that class disparities have varied from year to year.

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[37] *In the Matter of In the Matter of the Miscellaneous Correspondence and Reports Regarding Electric Utility Services*; 2014, Docket No. 14-999-01, Exh. A & B (July 28, 2014); *In the Matter of PacifiCorp's Financial Reports – Results of Operations*, Docket No.15-035-51, Exh. A (June 15, 2015); *In the Matter of PacifiCorp's Financial Reports 2016,* Docket No. 16-035-15, Exh. A & B (June 15, 2016); *Rocky Mountain Power's Annual Cost of Service Study – 2016*, Docket No. 17-035-43, Exh. A & B (June 15, 2017); *Rocky Mountain Power's Annual Cost of Service Study – 2017*, Docket No. 18-035-25, Exh 1 & 2 (June 15, 2018); *Rocky Mountain Power's Annual Cost of Service Study – 2018*, Docket 19-035-27, Exh. 1 & 2 (June 14, 2019); *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, Exh. 1 & 2 to Robert Meredith's testimony (January 17, 2020).

Third, I believe that any approved revenue requirement reduction should be accounted for using a more holistic approach than supporting one class without specifically considering the others.

V.II RATE DESIGN

Q. PLEASE SUMMARIZE THE INTERVENOR TESTIMONY YOU WILL RESPOND TO IN THIS SECTION.

A. Several intervenors commented on RMP's rate design. I will respond to testimony from Western Resource Advocates ("WRAs") Witness Douglas Howe and the DPU's Witness Camfield on residential rate design and the Schedule 35 interruptible pilot.

Q. HOW DOES WITNESS HOWE RESPOND TO RMP'S RATES?

A. WRA supports RMP's proposal to phase out the third residential Inclining Block Rate ("IBR") tier. However, Witness Howe recommends that the Commission also direct RMP to fully phase out IBR and propose a default TOU rate for the next rate case, if RMP has the metering and billing infrastructure by then.[38]

Q. HOW DO YOU RESPOND TO WITNESS HOWE?

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[38] Howe Direct at 3.

A. I appreciate Witness Howe's focus on TOU rates and implementing technologies with system and customer benefits. I support TOU rates generally. Therefore, the question is not if, but when to implement TOU rates. Based on RMP's proposed AMI Project, it is not the appropriate time to implement TOU rates or roll out AMI. In fact, RMP has indicated that it needs a significant amount of time to put together a coherent strategy for AMI and TOU rates. Without such a strategy, implementation would be premature and would likely lead to increased cost and underutilized utility assets. Thus, I reiterate my direct testimony position that RMP's AMI Project should be rejected by the Commission and that future TOU rate implementation be part of a comprehensive advanced rate design roadmap, alongside several other improvements that must accompany new metering.

Q. HOW DOES WITNESS CAMFIELD RESPOND TO RMP'S RATE PROPOSALS?

A. The DPU suggests that RMP's residential IBR and customer charge changes will cause major windfalls and losses on customers;[39] however, Witness Camfield does not provide details about what type of customers will be harmed, nor does Witness Camfield make recommendations to address the claimed impact.

[39] Camfield Direct at 32.

Witness Camfield also responds to RMP's Schedule 35 interruptible load pilot, suggesting a "menu of service" approach in which pilot participants would have a variety of curtailment options to diversify the participation options and the gird impacts.

Q. HOW DO YOU RESPOND TO WITNESS CAMFIELD?

A. I agree with the DPU's observation and provided analysis on the extent to which there will be winners and losers from RMP's proposed residential IBR tier compression. However, I was surprised that Witness Camfield did not recommend any solution to the identified problem. Additionally, I am concerned that some of the DPU's other cost of service recommendations will exacerbate the problems identified by Witness Camfield. For example, using a minimum system or zero intercept study to classify more of the distribution system as customer related could presumably be used to justify increased customer charges—further increasing the rate impacts for low consuming residential customers.

Regarding the Schedule 35 pilot, I agree in theory that a suite-of-services approach could be beneficial. However, as I discussed at length in my direct testimony, the current proposal lacks a suitable pilot framework. If RMP is going to include more options, they need to concurrently improve the pilot structure.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.