

Exhibit No. ___ T (JT-1T)

Docket UE-130043

Witnesses: MICKELSON

STEWARD

DAESCHEL

EBERDT

DEEN

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP D/B/A PACIFIC POWER
& LIGHT COMPANY,**

Respondent.

DOCKET UE-130043

**JOINT TESTIMONY OF
CHRISTOPHER T. MICKELSON,
JOELLE R. STEWARD,
LEA DAESCHEL,
CHARLES EBERDT AND
MICHAEL C. DEEN**

*In Support of Partial Settlement Regarding Cost of Service, Rate Spread and Rate
Design*

AUGUST 21, 2013

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1 I. INTRODUCTION

2
3 A. Qualifications of Christopher T. Mickelson

4 Q. Please state your name and the party for whom you are appearing.

5 A. My name is Christopher T. Mickelson, and I am appearing on behalf of
6 Commission Staff. My qualifications are presented in Exhibit No. CTM-1T.

7
8 B. Qualifications of Joelle R. Steward

9 Q. Please state your name and the party for whom you are appearing.

10 A. My name is Joelle R. Steward, and I am appearing on behalf of PacifiCorp. My
11 qualifications are presented in Exhibit No. JRS-1T.

12
13 C. Qualifications of Lea Daeschel

14 Q. Please state your name and the party for whom you are appearing.

15 A. My name is Lea Daschael, and I am appearing on behalf of Public Counsel. My
16 qualifications are presented in Exhibit No. LD-1T.

17
18 D. Qualifications of Charles Eberdt

19 Q. Please state your name and the party for whom you are appearing.

20 A. My name is Charles Eberdt, and I am appearing on behalf of The Energy Project.
21 My qualifications are presented in Exhibit No. CME-2.

22

1 **E. Qualifications of Michael C. Deen**

2 **Q. Please state your name and the party for whom you are appearing.**

3 A. My name is Michael C. Deen, and I am appearing on behalf of Boise White Paper.
4 My qualifications are presented in Exhibit No. MCD-1CT.

5
6 **F. Purpose of Joint Testimony**

7 **Q. What is the purpose of this joint testimony?**

8 A. The purpose of this Joint Testimony is to present the common recommendation of
9 PacifiCorp, Staff, Public Counsel, The Energy Project and Boise White Paper
10 (hereinafter collectively referred to as “Parties” and individually as “Party”) on the
11 topics of cost of service, rate spread and rate design, all as contained in the Partial
12 Settlement, filed with the Commission on August 21, 2013.

13
14 **II. JOINT TESTIMONY ON COST OF SERVICE**

15
16 **Q. Please describe cost of service and the policy interests that are important for**
17 **consideration.**

18 A. A cost of service study measures whether the revenue provided by customers
19 recovers the cost to serve that class of customers. This task is accomplished by
20 apportioning the Washington per books revenue, expenses, and rate base
21 associated with providing service to defined groups of customers.

22

1 **Q. Please describe the cost of service proposal in the Partial Settlement.**

2 A. For purposes of the Parties' agreement on rate spread and rate design in this
3 proceeding, the Parties have applied PacifiCorp's class cost of service study
4 presented by PacifiCorp witness C. Craig Paice in Exhibit No. CCP-5, and
5 summarized in Exhibit No. CCP-2. The Partial Settlement expressly reserves
6 each Party's ability to litigate cost of service principles, applications and
7 consequences in any future PacifiCorp rate proceeding.

8

9 **III. JOINT TESTIMONY ON RATE SPREAD**

10

11 **Q. Please describe rate spread and the policy interests that are important for**
12 **consideration.**

13 A. Rate spread allocates the revenue requirement increase to each of PacifiCorp's
14 customer rate schedules. Rate spread should recognize that rates must be just and
15 reasonable and not cause undue discrimination.

16 To this end, revenue responsibility for any class should be informed by the
17 cost to serve the class. However, the Commission has often stated that factors in
18 addition to cost weigh in the rate spread decision, including the appearance of
19 fairness, perceptions of equity, economic conditions in the service territory,
20 gradualism, and stability.

21

1 **Q. Please describe the rate spread proposal in the Partial Settlement.**

2 A. The Parties agree that any revenue requirement increase ordered by the
3 Commission at the conclusion of this case should be applied as a uniform
4 percentage increase for all rate schedules, with the exception of the street lighting
5 rate schedules, which should receive no increase.

6

7 **Q. Why does the Partial Settlement propose no rate increase for PacifiCorp's**
8 **streetlighting schedules?**

9 A. The cost of service evidence indicates that the parity ratio of these rate schedules
10 is significantly above one and, as a result, these rate schedules are providing
11 substantially higher rates of return at current rates than the system average rate of
12 return. Therefore, assigning no increase to the street lighting rate schedules is
13 appropriate because it reflects cost of service considerations and other ratemaking
14 principles.

15

16 **IV. JOINT TESTIMONY ON RATE DESIGN**

17

18 **Q. Please describe rate design and the policy interests that are important to**
19 **consider.**

20 A. Rate design is the pricing mechanism for PacifiCorp to recover its costs. Rate
21 design is the development of the specific rates or charges in the tariff – such as
22 monthly basic charges, demand-related charges, and energy-related charges – that
23 recover the revenue requirement from customers. Specific charges are developed

1 based on total allocated revenue and test period billing determinants (*i.e.*, number
2 of customers, billed kilowatts, and billed kilowatt-hours) for each rate schedule.
3 As a result, rate design is important for the same reasons that rate spread is
4 important.

5
6 **Q. What public interest factors are involved in rate design?**

7 A. Rates should be designed to reasonably reflect costs and to provide for revenue
8 collection within customer classes that is fair and reasonable.

9
10 **Q. Were these principles applied to develop the rate design proposed by the
11 Parties?**

12 A. Yes.

13
14 **Q. What is the Parties' recommended rate design?**

15 A. The Parties agree to an equal percentage increase to all demand and energy rate
16 components within each rate schedule.

17 The Parties also agree that the monthly Basic Charge for residential
18 service under Schedules 16 and 17 should increase from \$6.00 to \$7.75.

19

20 **V. JOINT TESTIMONY ON DOCUMENTATION**
21 **REQUIREMENTS**
22

23 **Q. Please explain the Parties agreement on the additional documentation to be**
24 **filed by PacifiCorp after this case concludes.**

1 A. While the parties have accepted PacifiCorp's cost of service study for purposes of
2 the Partial Settlement, the Parties recognize there are still areas of potential
3 disagreement regarding cost of service recommendations proposed by Staff for the
4 next general rate case, as well as an alternative residential rate design that was
5 proposed by Staff in filed testimony in this proceeding.

6 Therefore, PacifiCorp agrees to provide the following additional analyses
7 and documentation:

- 8 • PacifiCorp will file a new class cost of service study in its next general rate
9 case.
- 10 • PacifiCorp will include direct testimony in its next general rate case describing
11 its review and analysis of the proposed changes to the cost of service study
12 recommended in this proceeding by Staff witness Christopher T. Mickelson,
13 as summarized in Exhibit No. CTM-1T at page 4, and whether his proposals
14 were ultimately adopted by the Company and why, or why not. Mr.
15 Mickelson's proposed changes concern:
 - 16 ○ The peak credit methodology used to weight generation- and
17 transmission-related allocation factors;
 - 18 ○ The allocation of wind plant, related expenses, and wind power
19 contracts; and
 - 20 ○ The allocation of corporate account managers.
- 21 • PacifiCorp will include direct testimony in its next general rate case that
22 analyzes the current residential tiered block rate design and possible

1 alternatives, including changes in the number of blocks, size of blocks, and
2 impacts on low-income customers.

- 3 • PacifiCorp will conduct and provide to all Parties, no later than July 31, 2014,
4 new survey results for residential end-use consumption and rate design for the
5 Company's Washington service area, as described by Company witness Joelle
6 R. Steward in Exhibit No. JRS-7T at pages 17-18.

7
8 **VI. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**
9 **PARTIAL SETTLEMENT**
10

11 **Q. Please explain why PacifiCorp supports the Partial Settlement and**
12 **recommends its approval by the Commission.**

13 A. The Partial Settlement on cost of service, rate spread, and rate design issues
14 represents a reasonable balance and resolution of the positions presented in this
15 proceeding on these items. Since no party proposed changes to the cost of service
16 study the Company filed for this case, it reflects a reasonable representation of the
17 costs to serve each rate schedule. While some Parties, including the Company,
18 proposed more refined rate spread proposals in direct testimony, the compromise
19 reflected in the Partial Settlement for an equal percentage increase to all
20 customers with the exception of lighting is reasonable for this case. The equal
21 percentage increase is reasonable because most rate schedules are within ten
22 percent of parity based on the cost of service study, with the exception of lighting,
23 and the Commission has previously accepted equal percentage increases in rate
24 spread for this reason.

1 Regarding residential rates, several parties in this proceeding supported an
2 increase in the monthly Basic Charge. The agreed-upon increase of \$1.75 per
3 month in the Partial Settlement is more reflective of the customer-related costs to
4 serve residential customers and should be approved. Additionally, as discussed in
5 Ms. Steward's rebuttal testimony, Exhibit No. __ (JRS-7T), pages 17-18, any
6 changes in the residential rate structure should be supported by relevant data.
7 Accordingly, the Company has agreed to conduct a new residential consumption
8 survey. The survey will be completed and results provided to Parties no later than
9 July 31, 2014.

10 For these reasons, the Company recommends that the Commission
11 approve the Partial Settlement.

12
13 **Q. Please explain why Staff supports the Partial Settlement and recommends its**
14 **approval by the Commission.**

15 A. Staff is pleased that the Parties were able to reach agreement on rate spread and
16 rate design. That agreement applies a uniform percentage increase to all
17 schedules with the exception of street lighting customers who receive no increase.
18 The increase to the residential monthly customer charge is a reasonable step for
19 recovering fixed costs. The equal percentage increases to all rate components for
20 both demand and energy within each schedule is also a fair resolution to recover
21 costs equitably. Taken together, the Partial Settlement represents a reasonable
22 balancing of the factors used traditionally by the Commission to set rates

1 including class fairness, perceptions of equity, gradual rate increases, and
2 economic conditions in the service territory.

3 Additionally, Staff, in its testimony, recommended that PacifiCorp
4 conduct a new cost of service study and address alternative rate designs that
5 include impacts on low-income customers. The Company agrees to do so.
6 PacifiCorp will also conduct a new survey of residential consumption, no later
7 than July 31, 2014, for the Company's Washington service area.

8 All of this information will help the Parties in the next general rate case to
9 formulate alternative rate spread and rate design proposals by providing data
10 relevant to PacifiCorp's current Washington operations. Staff is satisfied that the
11 rate spread and rate design contained in the Partial Settlement is a fair and
12 reasonable compromise while we await production of this additional information
13 and analysis.

14
15 **Q. Please explain why Public Counsel supports the Partial Settlement and**
16 **recommends its approval by the Commission.**

17 A. The parties have diverse interests, and the Partial Settlement represents a
18 reasonable compromise of those interests. The Partial Settlement provides for a
19 fair and reasonable allocation of any authorized increase resulting from this
20 general rate case. Additionally, the basic customer charge increases at a much
21 slower rate than requested by the Company, in line with the regulatory principal of
22 gradualism as well as the analyses of Commission Staff and Public Counsel.

23

1 **Q. Please explain why The Energy Project supports the Partial Settlement and**
2 **recommends its approval by the Commission.**

3 A. The Energy Project's concerns pertinent to cost of service and rate design, as
4 articulated in my previous cross-answering testimony, are limited to rate design,
5 specifically, the Company's proposal to increase the basic monthly residential
6 charge and Staff's proposal to alter the existing residential rate design. The
7 Energy Project believes that the settlement adequately addresses the Energy
8 Project's concerns and is fair, just and reasonable as well as in the interests of all
9 customers.

10 First, regarding the increase of the monthly customer charge for residential
11 services (Schedules 16, 17 and 18) from \$6.00 to \$7.75, the Energy Project
12 believes this is a reasonable compromise of addressing the Company's desire to
13 collect a greater percentage of what it considers its fixed customer costs through a
14 fixed monthly charge, while not increasing the charge so much as negate
15 appropriate residential conservation price signals if customers have less control to
16 alter their bill through reduced consumption.

17 Regarding Staff witness Christopher Mickelson's proposed residential rate
18 design changes that would increase the upper end of the first consumption tier
19 from 600 kWh to 800 kWh and would incorporate a third residential tier, the
20 Energy Project believes that this proposal, as originally proposed, would have had
21 significantly adverse and disproportionate impacts on low-income customers'
22 monthly bills. This conclusion is based on the premise that low-income
23 customers are relatively higher users, especially in winter months when they often

1 rely on an electric heat source. This unfortunate reality is based on a number of
2 factors, including the financial inability of the poor to replace high-cost electric
3 heating with a lower cost heat source such as natural gas. Furthermore, low-
4 income customers typically lack the means to install energy-saving measures in
5 their residences. Finally, low-income housing stock is often extremely energy-
6 inefficient.

7 If low-income customers are relatively higher users, then the increase of
8 the existing first tier consumption upper end from 600 kWh to 800 kWh, and the
9 inclusion of a third tier, could have a significantly disproportionate impact on the
10 monthly bills of low-income customers as the recovery of the overall residential
11 class revenue requirement would be shifted to higher users. Without more
12 statistical analysis and some attempt to identify low-income customers who do not
13 participate in LIHEAP or the Company's LIBA program, it is difficult to know
14 whether creating a third tier or raising rates more in the higher tiers unduly
15 burdens those who have the least ability to pay, to reduce their consumption, and
16 who are more likely to use electricity for heating.

17 Thus, the agreement to defer residential rate design changes as proposed
18 by Staff until the Company's next rate case and pending the collection and
19 analysis of additional information that will reveal the impact of such design
20 changes on the poor, is a reasonable settlement provision. This additional time
21 will give all interested parties, including the Energy Project, the opportunity to
22 conduct their own analyses using information that the Energy Project and the

1 Company have recently collected and analyzed, as well as additional relevant
2 information.

3 The Energy Project appreciates the willingness of Staff, the Company and
4 all parties to defer changes to the residential rate design until the Company's next
5 general rate case.

6

7 **Q. Please explain why Boise White Paper supports the Partial Settlement and**
8 **recommends its approval by the Commission.**

9 A. Boise is pleased to join the Partial Settlement and appreciates the efforts of all
10 parties in reaching an agreement. On whole, the Partial Settlement provides for a
11 fair and reasonable treatment of issues settled. Boise is satisfied that the
12 conditional application of the cost of service study in this proceeding is explicitly
13 non-precedential so as to be acceptable.

14 Boise finds that the rate spread agreement reflecting an equal percentage
15 increase is just and comports in most aspects to the rate spread advocated by
16 Boise in prefiled testimony. Moreover, the Commission has traditionally
17 supported equal percentage increases for classes within 10% of parity.

18 Finally, Boise supports the rate design settlement as producing a just and
19 reasonable result. In this proceeding, an equal percentage increase to all rate
20 components within each rate schedule fairly apportions the burdens of a rate
21 increase to all customers.

22

VII. CONCLUSION

1

2

3 **Q. Does this conclude your Joint Testimony?**

4 **A. Yes.**