[Service date: February 11, 2011]

BEFORE THE
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant vs PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY Respondent.	Docket No. UE-100749 POST HEARING BRIEF OF WALMART STORES, INC. AND SAM'S WEST, INC.

1 Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively "Walmart") submits the following post-hearing brief addressing rate spread and rate design issues.

2 The Walmart entities are commercial customers of PacifiCorp with facilities located in PacifiCorp's Yakima and Walla service territories. They take service under three PacifiCorp rate schedules: the primary schedule is Schedule 36, but Walmart entities also take service under Schedule 24 and have one facility that takes service under Schedule 48.[1] As commercial customers, the Walmart entities have a direct interest in the rates the Company charges.

3 Walmart has participated in this proceeding through counsel and by sponsoring the expert testimony of Steve W. Chriss. It has limited its participation to addressing issues of rate spread and rate design only. Walmart takes no position on the revenue requirement

[1] Cross-exam of Steve W. Chriss, Tr. At 688, lns. 4-9.

ATER WYNNE LLP
601 UNION ST., STE. 1501
SEATTLE, WA 98101-2341
(206) 623-4711

issues in this case.

I. ARGUMENT

A. Principles of Socially Optimal Ratemaking Dictate that the Top Priority for Efficient Pricing is to Base Prices on Costs

4 As a general matter, a sound and desirable rate structure must satisfy three primary criteria. These are:

1. **Effectiveness** in yielding total revenue requirements under the fair return standard;
2. **Fairness** in the apportionment of total costs of service among different consumers; and
3. **Efficiency** in discouraging wasteful use of services while promoting all justified types and amounts of use, in view of the relationships between costs incurred and benefits received.[2]

5 Subsidiary, or secondary, to these criteria are the following additional attributes of a socially optimal rate design:

4. **Practicality** in terms of simplicity, certainty , understandability, public acceptability, freedom from controversy as to interpretation, and feasibility of application;
5. **Stability and Predictability**
   (a) of revenues from year to year, with a minimum of unexpected changes seriously adverse to the utility; and
   (b) of the rates themselves, with a minimum of unexpected changes seriously adverse to ratepayers and with a sense of historical continuity; and
6. **Avoidance** of undue discrimination in rate relationships, so as to be, if possible, compensatory (i.e., subsidy-free with no intercustomer burdens).[3]

6 A principal conclusion that can be drawn from the application of the foregoing rate

---

[2] See Charles F. Phillips, Jr., The Regulation of Public Utilities (Arlington, Virginia: Public Utilities Reports, Inc., 1984), at 381 (citing James C. Bonbright, Principles of Public UtilityRates (New York: Columbia University Press, 1961), at 292).

[3] *Id.*, at 380-81; see also James C. Bonbright, Albert L. Danielsen and David R. Kamerschen, Principles of Public Utility Rates (Arlington, Virginia: Public Utilities Reports, Inc., 2d ed.131988), at 383-84.

ATER WYNNE LLP
601 UNION ST., STE. 1501
SEATTLE, WA 98101-2341
(206) 623-4711

design criteria is that efficient, fair and adequate pricing requires that prices in general be based upon costs.[4] Stated differently, "socially optimal ratemaking dictates that differences in rates generally should be based on differences in costs (i.e., cost of service) rather than on differences in demand ,.(i.e., value of service)."[5]

7 It is with these fundamental principles in mind that the Commission should decide the rate design issues raised in this proceeding.

B. Walmart's Recommendation Is that the Commission Should Approve the Movement of Rates Closer to the Cost of Service for Each Rate Class

8 As a general matter Walmart recommends that rates be set based on the utility's cost of service. This produces equitable rates that reflect cost causation, send proper price signals, and minimize price distortions.[6] In its direct case PacifiCorp stated that its objective was to put forth a rate spread proposal that is "guided by the results of the cost of service study" while "minimizing rate impacts on customers." Walmart agrees with that objective.

1. The Results of the Company's Cost of Service Study Indicate There Are Rate Schedules with Rates Greater Than the Costs of Providing Service.

9 Here the results of the Company's cost of service study[7] indicate that there are rate schedules with rates that are greater than the costs incurred to provide service to the

---

[4] *Id.* ,at 473.
[5] *Id.*
[6] Responsive Testimony of Steve W. Chriss, Ex. SWC-1T, at p. 4, lns. 8-12.
[7] The cost of service model presented by the Company has been accepted by the Staff. Testimony of Thomas E. Schooley, ex. TES-1T, at p. 29, lns. 11-14. Walmart also accepts that cost of service study. Responsive Testimony of Steve W. Chriss, Ex. SWC-1T, at p. 4, lns. 13-17; cross-exam of Steve W. Chriss, Tr. Vol. VII, at p. 690, lns. 17-22. Note that ICNU proposed a change in the hours used to allocate peak demand to the various customer classes. See Testimony of Donald W. Schoenbeck, Ex. DSW-1T, at p. 3, lns. 16-18. That change would have the effect of shifting costs from industrial customers to residential customers. As a result the parity ratio for the residential class would move farther below 1.0, closer to 1.0 for the industrial schedules, and farther above 1.0 for the commercial schedules. Staff witness Schooley testified that ICNU's hour proposal is not reasonable and the Company's cost study is representative of the industrial and residential use of the system under peak conditions. Cross-Answering Testimomy of Thomas E. Schooley, Ex. TES-4T, at p. 10, lns. 5-8. To be conservative Walmart also accepts the Company's cost study on this point.

customers taking service under those schedules. In fact, the results indicate that Small General Service (Rate Schedule 24), Large General Service <1,000kW (Rate Schedule 36), Agricultural Pumping Service (Rate Schedule 40), and Street Lighting (Rate Schedules 15, 52, 54, and 57) have current return on rate base greater than the current jurisdictional average, and the customers taking service under those schedules are paying more in rates than the costs incurred to provide service to them. Exhibit CCP-7, page 1, which is based on changes in the results of operations presented in PacifiCorp's rebuttal case, shows the following returns on rate base for the various rate schedules:

Schedule 16	Residential	3.51%
Schedule 24	Small General Service	6.96%
Schedule 36	Large General Service <1,000 kW	5.34%
Schedule 48T	Large General Service >1,000 kW	3.47%
Schedule 48T	Dedicated Facilities	3.06%
Schedule 40	Agricultural Pumping Service	5.42%
Schedules 15, 52, 54, 57	Street Lighting	10.93%
	Total	4.46%

10 This analysis is confirmed by the Staff's analysis. As Staff witness Thomas E. Schooley states, "[i]deally, each schedule would produce a return equal to the average, and be at parity with others. That would mean each schedule is producing revenue sufficient to cover its allocated share operating costs plus an equal return on its allocated share of the rate base."[8] According to Mr. Schooley, at the current revenue level the following rate increases/decreases would be required to bring each schedule to a rate of return equal to all the others:[9]

---

[8] Testimony of Thomas E. Schooley, Ex. TES-1T, at p. 32, lns. 13-16.

[9] *Id.*, at p. 32, lns. 4-10, Table 1.

Schedule 16	2.66%
Schedule 24	-6.83%
Schedule 36	-2.32%
Schedule 48T	3.07%
Schedule 48T	4.31%
Schedule 40	-2.95%
Schedules 15, 52, 54, 57	-16.34%

11 Mr. Schooley also compared parity between the rate schedules; *i.e.,* he compared the total cost of service divided by the revenues and calculated the following ratios for the various rate schedules:[10]

Schedule 16	0.974
Schedule 24	1.073
Schedule 36	1.024
Schedule 48T	0.970
Schedule 48T	0.959
Schedule 40	1.030
Schedules 15, 52, 54, 57	1.195

12 In his opinion there is no substantive difference between the equal return comparisons and the revenue to cost ratio comparisons. They both show that the Residential Schedule and the industrial schedules are under-earning their cost of service and therefore merit a higher than average increase. On the other hand, the Small General Service Schedule, and the Large General Service Schedule <1,000 kilowatts, and the Agricultural Pumping Schedule are over-earning their cost of service. These schedules merit lower than average increases. Lastly, the Street Lighting Schedules are over-earning substantially in excess of their cost of service and would normally merit a rate decrease. However, given that there is an increase for all other schedules, a much less than average increase to the

[10] *Id.*, at p. 33, lns. 3-9, Table 2.

ATER WYNNE LLP
601 UNION ST., STE. 1501
SEATTLE, WA 98101-2341
(206) 623-4711

Street Lighting Schedules is reasonable.[11]

2. Both PacifiCorp and the Staff Recommend Rate Spread Proposals That Would Move Rates Closer to Costs.

13 Based on these equal return comparisons and the revenue to cost ratio comparisons, both the Commission Staff and PacifiCorp recommend rate spread proposals that would move rates closer to costs for the various rate schedules.

14 Specifically, the Commission Staff proposed a revenue allocation (rate spread) that is based on "cost causation: customers should be charged for service based on the costs they impose on the total system."[12] Based on the Staff's recommended 10.58 percent overall revenue increase, Mr. Schooley recommended a 12.06 percent increase for Schedules 16, 48T (Large General Service => 1,000 kW), and 48T (Dedicated Facilities). He recommended a one percent increase for the street lighting schedules, and charging the balance of the revenue increase (8.73 percent) to the commercial and irrigation schedules.[13] He did not propose rate increases that would bring the schedules to full parity with each other because of the size of the overall revenue increase. Instead, his proposal would move each schedule closer to parity with reasonable rate increases that would not put an undue strain on a particular class.[14]

15 In its rebuttal case PacifiCorp proposed a revised rate spread based on its rebuttal revenue requirement of $48.5 million, the cost of service results, and the proposals of other parties, that would also move rates closer to costs.[15] That revised rate spread proposal is intended to be consistent with the rate spread methodology recommended by Mr. Schooley and respond to the issues raised by Mr. Chriss on behalf of Walmart.[16] As

---

[11] *Id.*, at p. 34, lns. 1-11.
[12] Testimony of Thomas E. Schooley, Ex. TES-1T, at p. 27, lns.21-22.
[13] *Id.*, at p. 34, lns. 13-23; Ex. TES-3, Col. L.
[14] *Id.*, at p. 35, lns. 3-11, 20-22.
[15] Rebuttal Testimony of William R. Griffith, Exh. WRG-7T, at p. 2, ln. 5 though p.3, ln 5.
[16] *Id.*, at p. 2, lns. 8-13.

stated by Mr. Griffith in his rebuttal testimony, "[t]his revised proposal better reflects cost of service results and applies smaller increases to those rate schedule classes—Schedule 24, Schedule 36, Schedule 40, and the lighting schedules—that are currently paying more than the cost to serve them. The other major rate schedule classes would receive a uniform percentage increase."[17]

16 From Walmart's perspective, both rate spread recommendations made by PacifiCorp and the Staff are reasonable in light of their respective overall revenue increase proposals and are consistent with Walmart's basic rate spread recommendation.[18] Depending on what it determines to be the appropriate revenue requirement for the Company, the Commission should adopt a rate spread that is consistent with these recommendations.

17 Walmart does not support the equal percentage across-the-board increase proposals of Public Counsel and ICNU, because such proposals represent a step backward by moving rates farther from cost of service and "making the revenue responsibility greater for customers who are already paying more than their revenue responsibility."[19]

3. The Commission Should Adopt a Rate Design That Reflects The Costs of Service.

18 Consistent with its overall recommendation, Walmart urges the Commission to adopt a rate design that reflects the costs of service.

19 Walmart was particularly concerned about the Company's original proposed rate design for Rate Schedule 36. The Company originally proposed larger increases for energy charges than for demand, load size, and basic charges.[20] That rate design proposal did not reflect the cost of service for that rate schedule. It would result in a shift in demand cost responsibility from lower load factor customers to higher load factor customers, meaning

[17] *Id.*, at p. 2, lns. 14-18.
[18] Cross-exam of Steve W. Chriss, Tr. Vol VII, at p. 691, ln. 24 through p. 692, ln.1.
[19] *Id.*, at p. 686, lns. 2-8; Testimony of Steve W. Chriss, Ex. SWC-1T, at p. 6, lns. 3-11.
[20] Direct Testimony of William R. Griffith, Ex. WRG-1T, at p. 5, lns. 7-11.

ATER WYNNE LLP
601 UNION ST., STE. 1501
SEATTLE, WA 98101-2341
(206) 623-4711

that higher load factor customers would be forced to overpay for the demand-related costs incurred by the Company to serve them.[21]

20 In addition, the Company's original proposal to collect demand-related costs through energy charges also carried the potential for the Company to experience increased revenue instability, especially as customers become more energy efficient.[22]

21 Thus, in order to move towards equitable rates that reflect cost causation principles, send proper price signals, and minimize price distortions within rate classes, Walmart witness Steve Chriss recommended that the Commission increase the percentage of total revenue requirement collected through the demand charges closer to the percentage indicated by the cost of service.[23]

22 In its rebuttal case PacifiCorp revised its rate design proposal for Schedules 24, 36, and 48T in response to the testimonies of Mr. Chriss and ICNU witness Donald Schoenbeck. The Company now proposes to increase all billing elements by a uniform percentage for those schedules to "more closely follow cost of service and . . . minimize bill impacts on all customers, including seasonal customers, in Washington."[24] Again, this revised rate design proposal is consistent with Walmart's basic recommendation to the Commission; accordingly, Walmart supports it.

23 PacifiCorp, the Staff, and other parties also made rate design proposals for other rate schedules. Walmart did not make a specific rate design proposal for those rate schedules and takes no position on the proposals of the other parties for rate schedules other than 24, 36, and 48T.

[21] Responsive Testimony of Steve W. Chriss, Ex. SWC-1T, at p. 7, ln. 9 through p. 10, ln. 2.
[22] *Id.*, at p. 10, lns. 3-10.
[23] *Id.*, at. p. 10, lns. 13-17.
[24] Rebuttal Testimony of William R. Griffith, Ex. WRG-7T, at p. 5, lns. 15-22.

ATER WYNNE LLP
601 UNION ST., STE. 1501
SEATTLE, WA 98101-2341
(206) 623-4711

II. CONCLUSION

24 Based on the foregoing, Walmart respectfully recommends that the Commission adopt a rate spread and rate design that moves rates closer to the costs of providing service as discussed above.

RESPECTFULLY SUBMITTED this 11th day of February, 2011.

ATER WYNNE LLP

By________________________________

Arthur A. Butler, WSBA # 4678
601 Union Street, Suite 1501
Seattle, WA 98101-3981
Phone: 206.623.4711
Fax: 206.623.8406
aab@aterwynne.com

Attorneys for Wal-mart Stores, Inc. and Sam's West, Inc

CERTIFICATE OF SERVICE

I hereby certify that I have this 11th day of February 2011, served the true and correct original, along with the correct number of copies, of the foregoing document upon the WUTC, via the method(s) noted below, properly addressed as follows:

David S. Danner Secretary and Executive Director Washington Utilities and Transportation Commission 1300 S Evergreen Park Drive SW PO Box 47250 Olympia, WA 98504-7250	___ Hand Delivered ___ U.S. Mail (first-class, postage prepaid) _x_ Overnight Mail (UPS) ___ Facsimile (360) 586-8203 _x_ Email (records@wutc.wa.gov)

I hereby certify that I have this 11th day of February, 2011, served a true and correct copy of the foregoing document upon parties of record, via the method(s) noted below, properly addressed as follows:

On Behalf Of Public Counsel:

Simon J. ffitch Attorney General of Washington Public Counsel Section Suite 2000 800 Fifth Avenue Seattle WA 98104-3188 *Confidentiality Status: Confidential*	___ Hand Delivered _x_ U.S. Mail (first-class, postage prepaid) ___ Overnight Mail (UPS) ___ Facsimile (206) 389-2079 _x_ Email (simonf@atg.wa.gov)

On Behalf Of ICNU:

Donald W. Schoenbeck Regulatory & Cogeneration Services, Inc. 900 Washington Street, Suite 780 Vancouver Wa 98660-3455 *Confidentiality Status: Confidential*	___ Hand Delivered _x_ U.S. Mail (first-class, postage prepaid) ___ Overnight Mail (UPS) ___ Facsimile (360) 737-7628 _x_ Email (dws@r-c-s-inc.com)

On Behalf Of Pacific Power:

Katherine A. McDowell McDowell, Rackner & Gibson PC Suite 400 419 SW 11th Avenue Portland OR 97205 *Confidentiality Status:*	___ Hand Delivered _x_ U.S. Mail (first-class, postage prepaid) ___ Overnight Mail (UPS) ___ Facsimile (503) 595-3928 _x_ Email (katherine@mcd-law.com)

On Behalf Of ICNU:

Irioin Sanger
Davison Van Cleve PC
Suite 400
333 SW Taylor
Portland OR 97204

Confidentiality Status: Confidential

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile (503) 241-8160
_x_ Email (ias@dvclaw.com)

On Behalf Of Public Counsel:

Sarah Shifley
Attorney General of Washington
Suite 2000
800 Fifth Avenue
Seattle WA 98104-3188

Confidentiality Status: Confidential

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile (206) 464-6451
_x_ Email (sarah.shifley@atg.wa.gov)

On Behalf Of Commission Staff:

Donald Trotter
Attorney General of Washington
1400 S Evergreen Park Drive SW
PO Box 40128
Olympia WA 98504-7250

Confidentiality Status: Confidential

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile
_x_ Email (dtrotter@wutc.wa.gov)

On Behalf Of Pacific Power:

Cathie Allen
PacifiCorp Energy
Suite 2000
825 NE Multnomah
Portland OR 97232

Confidentiality Status:

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile (503) 813-6060
_x_ Email (cathie.allen@pacificorp.com)

On Behalf Of Pacific Power:

Michelle Mishoe
PacifiCorp Energy
Suite 1800
825 NE Multnomah
Portland OR 97232

Confidentiality Status:

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile (503) 813-7252
_x_ Email (michelle.mishoe@pacificorp.com)

ATER WYNNE LLP
601 UNION ST., STE. 1501
SEATTLE, WA 98101-2341
(206) 623-4711

On Behalf Of ICNU:

Melinda J. Davidson
Davidson Van Cleve, PC
Suite 400
333 SW Taylor
Portland OR 97204

Confidentiality Status: Confidential

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile
_x_ Email (mjd@dvclaw.com)

On Behalf Of ICNU:

Randall J. Falkenberg
RFI Consulting, Inc.
PMB 362
8343 Roswell Road
Sandy Springs GA 30350

Confidentiality Status: Confidential

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile (770) 671-1046
_x_ Email (consultrfi@aol.com)

On Behalf Of The Energy Project:

Brad M. Purdy
2019 N 17th Street
Boise ID 83702

Confidentiality Status:

____ Hand Delivered
_x_ U.S. Mail (first-class, postage prepaid)
____ Overnight Mail (UPS)
____ Facsimile (208) 384-8511
_x_ Email (bmpurdy@hotmail.com)

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

DATED this 11th day of February, 2011, at Seattle, Washington.

S. Carpenter