

[Service date: February 18, 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

CROSS-ANSWERING 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 cross-answering brief addressing the arguments of Public Counsel and the Industrial Customers of Northwest Utilities ("ICNU") regarding rate spread.

ARGUMENT

- I. The Proposals Of Staff, PacifiCorp, And Walmart To Move Rates Closer To Cost Of Service And Parity Are Consistent With The Cost Of Service Study Presented In This Case, Principles Of Equity And Fairness, And Concerns About Rate Stability And Overall Economic Circumstances In The Region.**
- 2 Public Counsel and ICNU argue that the Commission should increase all rate schedules on an equal percentage basis, except for lighting, and reject the proposals of Staff, PacifiCorp, and Walmart to move the various rate schedules closer to cost of service and parity. In support of that position Public Counsel argues that "the Commission does not

rely solely on cost of service studies in determining rate spread, frequently citing such other factors as: “perceptions of equity and fairness, and rate stability over time, as well as overall economic circumstances within the region.”¹ However, they do not explain why rates that are based on cost are not fair or equitable.

- 3 The true standard of equity and fairness is the generally accepted principle against economic discrimination in rates. To be fair and equitable, differences in the burden of meeting total revenue requirements should reflect differences in the costs of providing service. Only then can it be said that the burden of meeting total revenue requirements is distributed fairly and without arbitrariness, capriciousness, and inequities among the beneficiaries of the service and undue discrimination is avoided. Equal percentage rate increases despite lack of cost uniformity in the supply of different types of service would impose unfair and discriminatory burdens on the consumers of the less costly services.
- 4 Contrary to Public Counsel’s suggestion, the Staff, PacifiCorp, and Walmart did take into account concerns about rate stability and the economic circumstances in PacifiCorp’s service territory by only recommending moving rates *in the direction of cost*. None of them recommend moving rates all the way to parity in this case. Indeed, Mr. Schooley’s proposal would still leave the residential class, Schedule 16, at a parity ratio of 0.99. That is because a Commission ordered change to PacifiCorp’s cost study resulted in the residential schedule falling farther below parity than it had been in the past.² Under the Staff proposal the other rate schedules will also be left short of parity. Specifically, Schedule 24 would be at 1.05; Schedule 36 would be at 1.01; 48T would be at 0.98; Schedule 48T Dedicated would be at 0.97; Schedule 40 would be at 1.01; and Schedules 15 and the 50s would be at 1.09.³ Under the Staff’s rate spread proposal, “each rate

¹ Public Counsel’s Post-Hearing Brief, at p. 40, ¶75.

² Cross-Answering Testimony of Thomas E. Schooley, Ex. TES-4T, at p. 12, lns. 10-12; Tr. Vol. VII, at p. 777, lns. 3-6.

³ Ex. TES-3, at p. 1, Col. P.

schedule moves about one-half of the way towards parity. Staff's proposed revenue allocations reach a fair and reasonable result."⁴

II. PacifiCorp's Cost of Service Study Provides A Sound Basis For Setting Rates In This Case.

- 5 Public Counsel and ICNU also argue that in a previous rate case, U-84-65, the Commission rejected Pacific Power's proposal to move rates closer to parity, instead ordering an equal percentage increase to all customer classes, noting that cost of service studies are susceptible to many "underlying judgment calls so incapable of precise determination" that therefore the company's single study could not be relied upon as representing "unity" or warranting any change in rate spread.⁵
- 6 What they fail to point out is the fact that there were three separate cost studies presented in that case. The Commission was simply expressing an inability to sort out the various differences in the various presentations. Here, the Company's cost study, which was changed as directed by the Commission from the version used in the last rate case, has been accepted by the Staff and Walmart, and Public Counsel has not challenged it in any respect.
- 7 ICNU's witness Donald Schoenbeck did propose a change to the cost study. Specifically, he proposed a change to the number of hours used to allocate peak demand to the various customer classes.⁶ If accepted, that proposal would push the residential Schedule 16 farther below parity, from 0.974 to 0.921. Conversely, the industrial schedules move closer to parity, from 0.959 to 0.984, and the commercial schedules move farther from parity, from 1.073 to 1.111.⁷ Staff witness Thomas Schooley testified that Mr.

⁴ Cross-Answering Testimony of Thomas E. Schooley, Ex. TES-4T, at p. 13, lns. 6-7.

⁵ Public Counsel's Post-Hearing Brief, at pp. 39-40, ¶74.

⁶ Testimony of Donald W. Schoenbeck, Ex. DSW-1T, at p. 3, lns. 16-18.

⁷ Cross-Answering Testimony of Thomas E. Schooley, Ex. TES-4T, at p.9, lns. 18-21.

Schoenbeck's proposed change is not reasonable and should be rejected.⁸ In short, there simply is no valid reason to ignore the results of PacifiCorp's cost study in setting rates in this case.

8 Further, as stated in the Staff's Initial Brief, "while Staff is unaware of any Commission mandate to use multiple cost-of-service studies, the Commission needs to base its decisions on the record before it. . ."⁹ Staff carefully analyzed the large amount of evidence in this case, and performed its own test of the sensitivity of allocating demand by varying the peak hours in response to ICNU's testimony.¹⁰ The results show that the Staff's rate spread proposal is reasonable and will result in a fairer sharing of system costs among the rate schedules.¹¹

III. The Commission Should Reject An Equal Percentage Rate Spread Increase Because It Would Negate Improvements In The Way Generation Cost Is Allocated Between Demand And Energy In The PacifiCorp Cost Study, Move Rate Schedules Farther From Parity, And Result In More Inequity And Unfairness Among The Schedules.

9 The Commission should reject an equal percentage rate spread increase. As the Staff's Initial Brief points out,

Staff's proposed revenue allocation gives effect to the revision in the peak credit method. This revision all by itself justifies the above average increase to the Residential schedule and mitigates the potential for even greater increases to the Industrial schedules. By contrast, ICNU's equal percentage proposal not only fails to reflect the impact of this change in allocation, but it also fails to address the notable and chronic under-recovery of costs by Schedule 48T customers.¹²

Moreover, as Mr. Schooley testified, "starting with the present rate case, the Company's cost of service study improves the way generation cost is allocated between demand and energy. If an equal percentage rate spread is once again imposed, that improvement

⁸ *Id.*, at p. 10, lns. 5-8.

⁹ Staff's Initial Brief, at p. 55, ¶217.

¹⁰ Schooley, Exhibit No. TES-4T at 8:22, Table 1.

¹¹ See Staff's Initial Brief, at p. 55, ¶¶ 217-218; Schooley, Exhibit No. TES-4T at 8:27 to 10:8.

¹² *Id.*, at p. 55, ¶216 (footnotes omitted).

would be lost.”¹³ Imposition of an equal percentage rate spread would also result in the various rate schedules moving farther from parity, resulting in even more inequity and unfairness among the schedules.

CONCLUSION

10 In sum, the rate structuring proposed by the Staff, PacifiCorp, and Walmart will move classes towards a fairer sharing of system costs and more transparent rates. Walmart respectfully urges the Commission to accept it. The specific amounts of the increases to be imposed, of course, will depend on what the Commission determines is the appropriate revenue requirement of the Company.

RESPECTFULLY SUBMITTED this 18th day of February, 2011.

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¹³ *Id.*, at p. 12, lns. 9-12.

CERTIFICATE OF SERVICE

I hereby certify that I have this 18th 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:

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

DATED this 18th day of February, 2011, at Seattle, Washington.


