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

RESPONSIVE TESTIMONY

AND EXHIBITS OF

STEVE W. CHRISS

On Behalf of

WAL-MART STORES, INC. AND SAM'S WEST, INC.

October 5, 2010

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

A. My name is Steve W. Chriss. My business address is 2001 SE 10th St., Bentonville, AR 72716-0550. I am Manager, State Rate Proceedings, for Wal-Mart Stores, Inc.

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

A. I am testifying on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively "Walmart").

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. In 2001, I completed a Masters of Science in Agricultural Economics at Louisiana State University. From 2001 to 2003, I was an Analyst and later a Senior Analyst at the Houston office of Econ One Research, Inc., a Los Angeles-based consulting firm. My duties included research and analysis on domestic and international energy and regulatory issues. From 2003 to 2007, I was an Economist and later a Senior Utility Analyst at the Public Utility Commission of Oregon in Salem, Oregon. My duties included appearing as a witness for PUC Staff in electric, natural gas, and telecommunications dockets. I joined the energy department at Walmart in July 2007. My Witness Qualifications Statement is found on Exhibit SWC-2T.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION ("UTC" OR "COMMISSION")?

A. No.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes. I have submitted testimony before utility regulatory commissions in Arkansas, Colorado, Connecticut, Delaware, Indiana, Kentucky, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, Oregon, South Carolina, Texas, Utah, and Virginia in dockets regarding cost of service and rate design, qualifying facility rates, telecommunications deregulation, resource certification, energy efficiency/demand side management, fuel cost adjustment mechanisms, decoupling, and the collection of cash earnings on construction work in progress.

Q. HAVE YOU PREPARED EXHIBITS?

A. Yes. I have prepared Exhibit SWC-2T, consisting of five pages, Exhibit SWC-3T, consisting of two pages, and Exhibit SWC-4T, consisting of two pages.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address issues related to revenue allocation and rate design in Pacific Power's ("PacifiCorp" or "the Company") application in this docket. Specifically, I respond to the testimonies of William R. Griffith and C. Craig Paice. The fact that an issue is not addressed directly should not be construed as an endorsement of Pacific Power's position or the position of any other party.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. My recommendations are as follows:

1) Walmart does not take a position on the Company's proposed cost of service model at this time, and to the extent that alternative cost of service models or modifications to the Company's model are proposed by other parties, Walmart reserves the right to address any such changes in rebuttal testimony.
2) At the Company's proposed revenue requirement, for the purposes of this docket, the Commission should approve a slight modification to the Company's proposed revenue allocation;
3) If the Commission determines that the appropriate level of revenue requirement is lower than the level proposed by the Company, the Commission should determine the extent to which rates can be moved closer to the cost of service for each rate class; and

4) For Rate Schedule 36, the Commission should increase the percentage of total revenue requirement collected through the demand charges closer to the percentage indicated by the cost of service. For the purposes of this docket, the Commission should approve demand charges for Rate Schedule 36 that represent a movement of 25 percent towards cost of service.

Cost of Service and Revenue Allocation

Q. GENERALLY, WHAT IS WAL-MART'S POSITION ON SETTING RATES BASED ON THE UTILITY'S COST OF SERVICE?

A. Walmart advocates 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.

Q. DOES WALMART TAKE A POSITION ON THE COMPANY'S PROPOSED COST OF SERVICE MODEL AT THIS TIME?

A. No. However, to the extent that alternative cost of service models or modifications to the Company's model are proposed by other parties, Walmart reserves the right to address any such changes in rebuttal testimony.

Q. WHAT IS THE COMPANY'S STATED OBJECTIVE FOR ITS RATE SPREAD PROPOSAL?

A. PacifiCorp's objective for its rate spread proposal is to put forth a rate spread that is "guided by the results of the cost of service study" while "minimizing rate impacts on customers." *See* Direct Testimony of William R. Griffith, page 2, line 4 to line 6.

Q. DO THE COMPANY'S COST OF SERVICE RESULTS INDICATE THAT THERE ARE RATE SCHEDULES WITH RATES THAT ARE GREATER THAN THE COSTS INCURRED TO PROVIDE SERVICE TO THE CUSTOMERS TAKING SERVICE UNDER THOSE SCHEDULES?

A. Yes. The Company's cost of service model results indicate that Small General Service (Rate Schedule 24), Large General Service < 1,000 kW (Rate Schedule 36), Agricultural Pumping Service (Rate Schedule 40), and Street Lighting (Rate Schedules 15, 52, 54, and 57) have current returns 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. *See* Exhibit CPP-2, page 1.

Q. HAS THE COMPANY PRESENTED PROPOSED CUSTOMER CLASS REVENUE INCREASES BASED ON ITS COST OF SERVICE MODEL?

A. Yes. Those proposed customer class revenue increases are put forth in Mr. Paice's Exhibit CPP-2. The proposed jurisdictional increase is 20.94 percent and the revenue increases for the various rate classes, at the Company's proposed revenue requirement, per the cost of service model, range from 1.42 percent to 24.53 percent. *Id.*, page 2.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S REVENUE ALLOCATION PROPOSAL?

A. The Company has proposed, for all rates except for Partial Requirements Service => 1,000 kW (Rate Schedule 47) and the lighting schedules, a 21 percent increase, slightly above the jurisdictional average. For Rate Schedule 47 and the lighting rates, the Company has proposed 18.6 percent and 5 percent increases, respectively. *See* Exhibit WRG-3, page 1.

Q. DOES THE COMPANY'S PROPOSED REVENUE ALLOCATION REFLECT THE COMPANY'S RATEMAKING OBJECTIVE?

A. No, because the Company's proposal would only move one customer class towards cost of service and move other rate schedules further away from their respective costs of service. Additionally, by assigning increases to Rate Schedules 24, 36, and 40 that are above the jurisdictional average, it appears that some of the revenue responsibility removed from the lighting rates to move that class closer to cost of service has been allocated to 24, 36, and 40. This is not an appropriate allocation of revenue responsibility, as the revenue responsibility for Rate Schedules 24, 36, and 40 already exceeds their respective costs of service, and the Commission should not approve an allocation in this docket that moves those rates further from cost of service.

Q. FOR THE PURPOSES OF THIS DOCKET, WHAT IS YOUR RECOMMENDATION TO THE COMMISSION AT THE COMPANY'S PROPOSED LEVEL OF REVENUE REQUIREMENT?

A. Given the level of the Company's proposed revenue requirement increase and the associated increase to customer bills during the current economic downturn, for the purposes of this docket, I recommend a slight modification to the Company's proposed revenue allocation at the Company's proposed revenue requirement:

1) Implement the lighting rate and Rate Schedule 47 increases as proposed;
2) For Rate Schedules 24, 36, and 40, which include rates in excess of the costs incurred to provide service, set the increase at the jurisdictional average; and
3) Allocate the difference to the rate schedules that include rates that are less than the costs incurred to provide service.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IF IT DETERMINES THAT A LOWER LEVEL OF REVENUE REQUIREMENT IS APPROPRIATE?

A. If the Commission determines that the appropriate level of revenue requirement is lower than the level proposed by the Company, the Commission should determine the extent to which rates can be moved closer to the cost of service for each rate class.

Rate Design

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S RATE DESIGN PROPOSAL FOR RATE SCHEDULE 36 IN THIS DOCKET?

A. The Company has proposed larger increases for energy charges than for demand, load size, and basic charges. *See* Direct Testimony of William R. Griffith, page 5, lines 7 to 11. At the proposed revenue requirement, the proposed increases are 24.9 percent for the energy revenue requirement, 15.5 percent for the demand revenue requirement, 7.1 percent for the customer revenue requirement, and 8.2 percent for the load size revenue requirement. *See* Exhibit SWC-3T, page 1.

Q. DO YOU HAVE CONCERNS ABOUT THE COMPANY'S PROPOSED RATE DESIGN FOR RATE SCHEDULE 36?

A. Yes. I have two concerns with the Rate Schedule 36 rate design as proposed:

1) The proposed Rate Schedule 36 rate design does not reflect the cost of service for that rate schedule.
2) The shift of demand costs from per kW demand charges to per kWh energy charges results in a shift in demand cost responsibility from lower load factor customers to higher load factor customers. This results in misallocation of cost responsibility as higher load factor customers overpay for the demand-related costs incurred by the Company to serve them.

Q. PLEASE EXPLAIN.

A. As proposed, Rate Schedule 36 would be structured such that about 16.7 percent of revenues are collected through the demand charges and about 72.6 percent of revenues are collected through energy charges. *See* Exhibit SWC-3T, page 2, column (4). Based on the Company's cost of service study, for Rate Schedule 36, energy costs make up only 59.3 percent of revenues, while demand costs make up 29.3 percent. *See* Exhibit SWC-3T, page 2, column (2). As a result, some demand-related costs are being collected in per kWh energy charges.

Q. WHY IS THIS SHIFT A CONCERN FOR HIGH LOAD FACTOR CUSTOMERS?

A. The shift of demand costs from per kW demand charges to per kWh energy charges results in a shift in demand cost responsibility from lower load factor customers to higher load factor customers. This results in misallocation of cost responsibility as higher load factor customers overpay for the demand-related costs incurred by the Company to serve them.

Q. CAN YOU PROVIDE A GENERAL ILLUSTRATION OF THIS SHIFT IN DEMAND COST RESPONSIBILITY?

A. Yes. Assume the following:

a) A utility has only two customers (Customer 1 and Customer 2), with individual monthly peak demands of 20 kW for a total monthly system load of 40 kW.

b) The annual cost to the utility to build and maintain the 40 kW infrastructure is $2,000, and the entire cost will be collected each year, so each customer has caused the utility to incur $1,000 of demand-related costs.

c) Customer 1 has a monthly demand of 20 kW and a load factor of 0.6 and thus consumes 105,120 kWh/year (20 kW * 0.6 * 8760).

d) Customer 2 has a monthly demand of 20 kW and load factor of 0.3 and thus consumes 52,560 kWh/year (20kW * 0.3 * 8760).

Q. IF THE DEMAND-RELATED COSTS WERE CHARGED ON A PER KW BASIS, WHAT WOULD THE PER KW CHARGE BE?

A. The charge would be $4.17 per kW, calculated by $2,000 / 40 kW / 12 months. Each customer would then pay $1,000 for the demand-related cost they impose on the system, calculated by 20 kW * $4.17/kW * 12.

Q. IF THE DEMAND-RELATED COSTS WERE CHARGED ON A PER KWH BASIS, WHAT WOULD THE PER KWH CHARGE BE?

A. If the utility were to charge the demand-related costs on a per kWh basis, the energy charge would be 1.27 cents/kWh (or $0.0127/kWh), calculated by $2,000 / 157,680 kWh, using total company sales (i.e., the sum of the two customers' annual kWh usage) as the denominator.

Q. WHAT WOULD EACH CUSTOMER PAY UNDER THE PER KWH CHARGE?

A. Customer 1, who caused the utility to incur $1,000 in demand-related costs, with a load factor of 0.6 and an annual usage of 105,120 kWh, would pay $1,333 ($0.0127/kWh * 105,120 kWh). Customer 2, who also caused the utility to incur $1,000 in demand-related costs, with a load factor of 0.3 and an annual usage of 52,560 kWh, would pay $667 ($0.0127/kWh * 52,560).

Q. IS THIS AN EQUITABLE RESULT?

A. No. Even though each customer caused the utility to incur $1,000 in fixed costs, the utility will be over-recovering from one customer and under-recovering from the other. Under the per kWh scenario, the utility would over-recover from Customer 1, the higher load factor customer, by $333 (i.e. $1,333 in revenues minus $1,000 in costs), and under-recover from Customer 2, the lower load factor customer, by $333 (i.e. $667 in revenues minus $1,000 in costs).

Q. ARE YOU CONCERNED THAT THERE IS POTENTIAL FOR THE COMPANY TO EXPERIENCE INCREASED REVENUE INSTABILITY AS A RESULT OF THE PROPOSED QP RATE?

A. Yes. A benefit of collecting demand-related costs through demand charges is that those revenues are in theory more stable than revenues collected through energy charges. The Company seems to have overlooked the potential risk of increased revenue instability, especially as customers become more energy efficient, that could result from collecting more demand-related costs through an energy charge.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?

A. In order to move towards equitable rates that reflect cost causation principles, send proper price signals, and minimize price distortions within rate classes, the Commission should increase the percentage of total revenue requirement collected through the demand charges closer to the percentage as indicated by the cost of service. For the purposes of this docket, the Commission should approve demand charges for Rate Schedule 36 that represent a movement of 25 percent towards cost of service for the collection of demand revenues. That is, the movement should represent 25 percent of the difference between the proposed rate design percentage of 16.7 percent and proposed cost of service percentage of 29.3 percent. As a result, the approved demand charges should collect approximately 20 percent of the total revenue requirement.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.