

Docket UE-991832  
Exhibit T-\_\_\_\_ (WRG-T)  
REVISED 5/9/00

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DOCKET NO. <u>UE-991832</u>		
EXHIBIT # <u>23D-T</u>		
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BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

PACIFICORP

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Revised Direct Testimony of William R. Griffith

Revenue Allocation and Price Design

Legislative Format

May 2000

1 Q. Please state your name, business address and present position with PacifiCorp (the  
2 Company).

3 A. My name is William R. Griffith. My business address is 825 N.E. Multnomah  
4 Street, Suite 800, Portland, Oregon 97232. My present position is Manager of  
5 Pricing.

6 **Qualifications**

7 Q. Please briefly describe your education and business experience.

8 A. I have a BA in Political Science and Economics from San Diego State University,  
9 and an MA in Political Science from that same institution. I have completed all  
10 coursework towards a Ph.D. in Political Science at the University of Oregon.  
11 I joined Pacific in the Pricing & Regulatory Affairs Department in December  
12 1983. In June 1989, I assumed my present responsibilities.

13 Q. Have you testified in other proceedings?

14 A. Yes. I have testified on behalf of the Company in various proceedings in the  
15 States of Washington, Oregon, Utah, Wyoming, and California.

16 **Purpose of Testimony**

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to present the Company's proposal for allocation  
19 of the proposed price change across customer classes, and to propose price design  
20 revisions for the Company's tariff schedules.

21 Q. How is the Company proposing to implement the price change?

22 A. The Company is proposing to implement the price change in two phases in order  
23 to minimize bill impacts on our customers and to achieve the gradual removal of

1 interclass subsidies. Implementing the price change in one year would produce  
2 unacceptable impacts on our customers.

3 In the first phase (Year 1) we propose an overall price change of 8.10 percent or  
4 \$14.76 million. Including the effect of the System Benefits Charge proposed by  
5 Mr. Hedman, the proposed net increase in Year 1 is 9.64 percent or \$17.4 million.

6 In Year 2 (taking effect one year after the Year 1 price change) the Company  
7 proposes an overall price change of 5.713 percent or \$11.2 million. Including the  
8 effect of the System Benefits Charge, the proposed net increase in Year 2 is 5.635  
9 percent or \$11.2 million. The total proposed increase in base prices over two  
10 years is \$25.8 million. This two-phase approach allows the Company to achieve  
11 the necessary price change and the removal of subsidies while minimizing  
12 customer impacts.

13 Q. How does the Company's proposed price increase compare with prices in effect at  
14 the time of the Company's general rate case in 1986?

15 A. Following the Year 2 price change, the Company's proposal will result in overall  
16 average base revenues per kWh that are no greater than they were at the time of  
17 the Company's last general rate case in 1986.

18 Q. Please explain the basis for this result.

19 A. Prices from the Company's last general rate case price increase became effective  
20 October 1986. Based on the historic test period and excluding the impact of  
21 Regional Exchange Benefits, overall average base revenue per kWh at that time  
22 was 5.3 cents/kWh. If the proposed Year 1 and Year 2 price increases are  
23 approved, at the end of the term, the Company's average revenue per kWh,

1 including the effect of the proposed System Benefits Charge, will be 5.3  
2 cents/kWh.

3 Q. To what do you attribute the lack of any significant change in base revenue per  
4 kWh since 1986?

5 A. The lack of significant change from 1986 is due to four subsequent price  
6 decreases, a long period of price stability (excluding effects of BPA regional  
7 exchange benefits), and kWh load growth in excess of 30 percent since 1986.

8 Q. How does the Company's proposed overall price increase compare with inflation?

9 A. While the Company's overall average base prices will be essentially unchanged  
10 from the time of the Company's last general rate case, inflation has exceeded 60  
11 percent during this period.

12 Q. What has been the result of the long period of price stability for Washington  
13 customers?

14 A. While inflation has continued, our Washington customers have benefited from  
15 stable and predictable prices for many years. The Company's two-phase proposal  
16 recognizes the long period of price stability and assures a more gradual  
17 implementation of the price change.

18 **Proposed Prices**

19 Q. Are you familiar with the Company's Washington electric tariff schedules which  
20 are proposed to be revised in this filing?

21 A. Yes. Exhibit \_\_\_(WRG-1) contains proposed pricing tariffs for Year 1 and Year  
22 2 originally submitted for approval in this filing and which were suspended by the  
23 Commission. It includes all proposed originally filed rate revisions to the

1 Company's current tariffs.

2 **Allocation of Revenues Across Customer Classes**

3 Q. How is the Company proposing to allocate the revenue increase to customer  
4 classes in this proceeding?

5 A. The Company is proposing to allocate the revenue increase with the goal of  
6 removing subsidies across customer classes while minimizing customer impacts.

7 In Year 1, the Company proposes to apply a revenue allocation where no class  
8 receives a price increase greater than 112.0 percent (or slightly over one two  
9 percent above the overall average) nor less than 4.0 percent. These minimum and  
10 maximum amounts include the impact of the proposed System Benefits Charge.

11 In Year 2, the Company proposes to remove the remaining subsidies in rates to  
12 the extent possible while proposing that no class receive less than a 2.0 percent  
13 increase. This results in price changes to major customer classes of no more than  
14 9.673 percent. This two-year proposal allows for the virtual elimination of  
15 subsidies while minimizing price volatility and rate shock.

16 Q. What is the Company's specific proposal for allocating the revenue requirement?

17 A. The Company's proposed revenue allocation in Year 1 is summarized below:  
18

	<u>Year 1</u> <u>Proposed Price Change</u>
Residential	
Schedule 16	<u>11.0%</u> <del>2.0%</del>
General Service	
Schedule 24	5.9%
Schedule 36	<u>11.0%</u> <del>9.9%</del>
Large General Service	
Schedule 48T	<u>11.0%</u> <del>9.9%</del>
Irrigation	
Schedule 40	<u>11.0%</u> <del>9.9%</del>
Lighting Schedules	4.0%

1 For Year 2, the revenue allocation is as follows:

	<u>Year 21</u> <u>Proposed Price Change</u>
Residential	
Schedule 16	<u>6.7%</u> <del>7.3%</del>
General Service	
Schedule 24	<u>3.0%</u> <del>3.3%</del>
Schedule 36	<u>4.9%</u> <del>4.5%</del>
Large General Service	
Schedule 48T	<u>7.4%</u> <del>6.5%</del>
Irrigation	
Schedule 40	<u>9.6%</u> <del>7.2%</del>
Lighting Schedules	2.0%

2

3

Both of these proposals include the impacts of the System Benefits Charge.

4 Q.

What are the current relationships of revenues to cost of service?

5 A.

According to Mr. Taylor's cost of service results, at the target rate of return, most customer classes are well below cost of service parity. The current relationships of revenues to cost of service for the major customer classes are displayed below, based on the functionalized embedded cost of service study prepared by Mr.

9

Taylor.

Residential	8486%
Schedule 24	93%
Schedule 36	887%
Schedule 40	836%
Schedule 48T	857%

1 Q. Please explain the impact of the Company's proposal on these relationships.

2 A. The Company's two year proposal moves each major customer class to  
3 approximately 100 percent of cost of service at the end of the second year. This  
4 will assure that each customer class pays its full cost of service.

5 Q. How does the Company's price increase for residential customers compare with  
6 inflation?

7 A. If approved, at the end of the two year rate change, the proposed residential price  
8 increase will result in bills for an average residential customer that are, when  
9 adjusted for inflation, approximately twenty percent lower than they were in  
10 1986. This comparison includes effects of BPA regional exchange benefits  
11 which were eliminated in 1998.

12 Q. Have you prepared an exhibit showing the estimated effects of the changes  
13 proposed in this filing?

14 A. Yes. Exhibit \_\_\_(WRG-2) prepared under my general supervision and direction,  
15 shows the estimated effect of the Company's proposed prices for Year 1 and Year  
16 2. For each year, it contains a table summarizing the effect of the proposed prices  
17 by rate schedule (Table A for Year 1 and Table C for Year 2), along with monthly

1 billing comparisons for each of the affected rate schedules showing the impact of  
2 the proposed prices at various usage levels.

3 Q. Please explain Table A in Exhibit \_\_\_\_ (WRG-2)

4 A. Table A shows, for the price change in Year 1, the Estimated Effect of Proposed  
5 Prices on Revenues from Electric Sales to Ultimate Consumers in Washington  
6 distributed by rate schedules for the historic test period. The table displays the  
7 schedule description, the present schedule and proposed schedule numbers in  
8 Columns (2) through (4). Columns (5) and (6) show the average number of  
9 customers during the test year and the megawatt-hours of energy use for the test  
10 period.

11 Revenues by tariff schedule are divided into two columns: Column (7)  
12 shows annualized revenues under present prices; Column (8) shows the estimated  
13 revenues which would have been received had the proposed prices been in effect  
14 during the entire test period. Column (9) shows System Benefits Charge revenues  
15 based on 1.5 percent of total proposed revenues (also see Table B in Exhibit \_\_\_\_  
16 (WRG-2). Column (10) shows the net impact of the proposed price change in  
17 Year 1 including the effect of the System Benefits Charge. Columns (11) and  
18 (12) show the increase by amount and percent excluding the effect of the System  
19 Benefits Charge. Columns (13) and (14) show the increase by amount and  
20 percent including the effect of the System Benefits Charge.

21 Q. Please explain Table C in Exhibit \_\_\_\_ (WRG-2).

22 A. Table C shows, for the price change in Year 2, the Estimated Effect of Proposed  
23 Prices on Revenues from Electric Sales to Ultimate Consumers in Washington



1 distributed by rate schedules for the historic test period. The table displays the  
2 schedule description, the present schedule and proposed schedule numbers in  
3 Columns (2) through (4). Columns (5) and (6) show the average number of  
4 customers during the test year and the megawatt-hours of energy use for the test  
5 period.

6 Revenues by tariff schedule are divided into present and proposed prices.  
7 Column (7) shows annualized revenues after the Year 1 price change. Column (8)  
8 shows System Benefits Charge revenues based on 1.5 percent of total revenues  
9 after the Year 1 price change. Column (9) shows the net impact of the Year 1  
10 price change in Year 1 including the effect of the System Benefits Charge.  
11 Column (10) shows the estimated revenues which would have been received had  
12 the proposed Year 2 prices been in effect during the entire test period. Column  
13 (11) shows System Benefits Charge revenues based on 1.5 percent of total Year 1  
14 revenues. It does not assume any change to the System Benefits Charge for Year  
15 2. Columns (13) and (14) show the Year 2 increase by amount and percent  
16 excluding the effect of the System Benefits Charge. Columns (15) and (16) show  
17 the Year 2 increase by amount and percent including the effect of the System  
18 Benefits Charge.

19 **Price Design**

20 Q. How does Pacific propose to implement the revenue increase to tariff schedules?

21 A. In general, the Company proposes to increase fixed charges and demand charges  
22 while minimizing impacts on energy charges and in some cases reducing them.

23 The price design proposals in this case are similar to and consistent with the

1 direction of the Company's recent price design proposals in its other jurisdictions.  
2 For most rate schedules, this includes increases to fixed charges and demand  
3 charges where appropriate, with the balance of the changes being applied to  
4 energy charges. Exhibit \_\_\_(WRG-3) contains billing determinants used in  
5 calculating proposed prices for Year 1 and Year 2.

6 Q. What price design changes does the Company propose for residential prices in  
7 this case?

8 A. For Residential Schedule 16 customers, in Year 1 the Company proposes to  
9 increase the basic charge from \$3.75 to \$5.00 per month. The cost of service  
10 results prepared by Mr. Taylor indicate a basic charge in excess of \$9.00 per  
11 month is warranted based on the monthly costs for service drop, metering and  
12 billing. The Company believes that a \$5.00 basic charge makes reasonable  
13 progress toward recovering these costs while minimizing customer impacts.

14 Q. What other price design changes does the Company propose for residential  
15 prices?

16 A. In Year 1, the Company proposes to apply the price change uniformly to the  
17 energy charges of the first and second energy blocks. In Year 2, the Company  
18 proposes to hold the basic charge at \$5.00 per month. We also propose to  
19 eliminate the current inverted block energy charge and to replace it with a simple,  
20 flat energy charge.

21 Q. Does the Company have single flat, residential energy prices in any other states in  
22 which it serves?

1 A. Yes. The Company has single block residential energy prices in Oregon, Utah,  
2 Wyoming, and Idaho.

3 Q. Why does the Company propose to eliminate the inverted residential price?

4 A. The Company proposes to eliminate the inverted price because it adds  
5 unnecessary complexity to residential prices while charging customers for  
6 incremental consumption in excess of current marginal energy costs.

7 Q. Please explain.

8 A. The current residential tailblock price in Washington is 5.46 cents/kWh. Current  
9 marginal demand and energy costs for residential customers on our system are  
10 under 5.0 cents/kWh. The Company's proposed flat energy price in Year 2  
11 exceeds marginal costs. We do not believe it is necessary to continue with the  
12 additional complexity of presenting inverted prices to our customers.

13 Q. Why did the Company propose to wait until Year 2 to eliminate the inverted  
14 residential price?

15 A. We waited until Year 2 in order to minimize impacts on small users. Given the  
16 proposed increase to the basic charge in Year 1 and its impact on small users, we  
17 proposed to minimize the impacts on these customers by waiting until Year 2 to  
18 eliminate the inverted price. At the end of this two-year period, residential prices  
19 will be simpler for customers to understand and will more closely reflect the costs  
20 to serve them.

21 Q. Please describe the price design changes the Company is proposing for General  
22 Service Schedules 24 and 36?

1 A. Schedule 24 is the standard tariff rate schedule for general service customers  
2 under 1,000 kW; Schedule 36 is an optional schedule that generally benefits  
3 higher load factor customers over 100 kW. The price design changes for these  
4 schedules are designed to retain a smooth transition from Schedule 24 to Schedule  
5 36 and to retain Schedule 36 as an optional higher load factor rate.

6 Q. Please explain the proposed changes for Schedule 24?

7 A. Schedule 24 currently has a basic charge, a load size charge with a demand  
8 ratchet beginning at 10 kW, plus a three-block energy charge with a first-block  
9 Wright block structure. In the interest of price simplicity, we propose to eliminate  
10 the Wright block and retain a three-block energy charge. To capture demand-  
11 related costs, we propose to implement a monthly demand charge for demand in  
12 excess of 15 kW. We also propose to increase the basic charge and to raise the  
13 demand ratchet threshold on the load size charge to 15 kW in order to coincide  
14 with the proposed demand charge structure. Lastly, we propose to eliminate  
15 seasonal prices in this rate schedule and in all our Washington rate schedules.  
16 The changes to Schedule 24 are consistent with changes implemented to the  
17 Company's Oregon General Service Schedule 25, and will simplify Schedule 24  
18 while continuing to reflect costs to serve customers.

19 Q. What are your proposals for Year 2 for Schedule 24?

20 A. For Year 2, the Company proposes to apply increases fairly uniformly to both the  
21 demand and energy charges in proposed Schedule 24.

22 Q. What changes does the Company propose to Large General Service – Optional –  
23 Schedule 36?

1 A. For Schedule 36, the Company proposes to implement the price change by  
2 increasing the demand charge to more closely reflect demand-related costs while  
3 minimizing customer impacts. In addition, as mentioned previously, we propose  
4 to eliminate the seasonal demand prices and have a single, year-round demand  
5 charge. The balance of the price change not recovered through the demand  
6 charge will be recovered through proposed changes to the energy charge.

7 Q. What are your proposals for Year 2 for Schedule 36?

8 A. For Year 2, the Company proposes to apply increases disproportionately to the  
9 demand charge in order to continue moving toward recovering demand-related  
10 costs in the demand charge.

11 Q. Please explain your proposed changes for Schedule 48T.

12 A. For Schedule 48T, we propose to implement the price increase by increasing the  
13 demand charge and decreasing the energy charge in order to more closely reflect  
14 cost of service results while minimizing impacts on customers. This price design  
15 change will result in correct price signals to low load factor customers while  
16 reducing the price impact on higher load factor customers. We also propose to  
17 eliminate seasonal differentiation in the demand charge.

18 Q. What are your proposals for Year 2 for Schedule 48T?

19 A. Similar to Year 1, for Year 2, the Company proposes to apply additional increases  
20 to the demand charge with a slight decrease to the energy charge.

21 Q. What changes are you proposing for agricultural pumping customers?

22 A. For Schedule 40, agricultural pumping customers, the Company proposes to  
23 increase load size charges to bring them closer to cost of service results. We also

1 propose to eliminate the off-season Wright block for purposes of price simplicity  
2 and to introduce a flat energy charge throughout the year. In Year 2, the  
3 Company proposes to apply the increase to the energy charge.

4 Q. What changes does the Company propose for Schedule 38, Space and Water  
5 Heating – Churches, and Schedule 42, Controlled Water Heating Service?

6 A. In Year 1, the Company proposes to eliminate Schedules 38 and 42 and to move  
7 these customers to the appropriate general service schedule, Schedule 24.  
8 Schedules 38 and 42 are end-use-based tariffs. These tariffs are frozen to new  
9 service and are only available to customer locations receiving service on October  
10 11, 1975. The Company believes these tariffs result in unwarranted price inequity  
11 as customers with identical load characteristics pay different prices solely due to  
12 their end-use characteristics and their date of service. The Company has  
13 eliminated end-use-based tariff schedules in other states and feels it is appropriate  
14 to do so in Washington. This proposal treats all general service customers equally  
15 and removes the subsidy currently flowing to Schedules 38 and 42.

16 Q. How can Schedule 42 – Controlled Water Heating Service, customers mitigate the  
17 price impacts from moving to Schedule 24?

18 A. Load for this end use is separately metered. In many cases, these customers will  
19 be able to combine their load with their other general service load at the same  
20 location, and this will lower their increase. The impacts on Tables A and C  
21 assume that this load continues to be separately metered.

22 Q. What changes does the Company propose for lighting schedules?

1 A. For lighting, in Year 1 and Year 2, the proposed percentage increase expressed on  
2 a cents per kilowatt-hour basis for each rate schedule was multiplied by the  
3 estimated number of kilowatt-hours associated with each type and lumen size, and  
4 the resulting dollar increase was then added to the respective present prices.

5 **Schedule 191 – System Benefits Charge**

6 Q. Please explain proposed Schedule 191.

7 A. Schedule 191 implements the System Benefits Charge proposed by Mr. Hedman  
8 as a cents/kWh surcharge to each affected rate schedule. The surcharge is  
9 designed to collect a uniform percentage of revenue, 1.5 percent, from each rate  
10 schedule as a cents/kWh adder to the energy charge. Exhibit \_\_\_\_ (WRG-2) Table  
11 B shows the impact of the System Benefits Charge by rate schedule.

12 **Other Changes**

13 Q. Are any other changes being proposed to the tariffs?

14 A. Yes. The Company is proposing to terminate Schedule 46 – On-Site Generation  
15 Displacement Service for loads of 45,000 kW or greater. Schedule 46 expired on  
16 April 1, 1997. In addition, the Company is proposing to make several  
17 housekeeping changes to various tariffs. These changes are indicated in Exhibit  
18 \_\_\_\_ (WRG-1) and have no revenue impacts.

19 Q. Does this conclude your direct testimony?

20 A. Yes.