**Exhibit No. \_\_\_ (TES-4T)**

**Docket UE-100749**

**Witness: Thomas E. Schooley**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY,**  **Respondent.** | **DOCKET UE-100749** |

**CROSS-ANSWERING TESTIMONY OF**

**Thomas E. Schooley**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Revenue Requirements, Cost-of-Service, Revenue Allocation,***

***Rate Design, and Low Income Programs***

**November 5, 2010**

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### I. INTRODUCTION AND SCOPE OF TESTIMONY

### Q. Please state your name and business address.

A. My name is Thomas E. Schooley. My business address is The Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is tschoole@utc.wa.gov.

# Q. Are you the same Thomas E. Schooley who submitted testimony on behalf of Staff on October 5, 2010, in this docket?

A. Yes.

**Q. What is the scope of your cross-answering testimony?**

A. Staff responds to Public Counsel and ICNU witness Mr. Meyer’s proposal that “PacifiCorp be required to perform a lead-lag study before the next rate case” and his Residential Revenues adjustment, which purports to “normalize” test year residential class revenues by adding $2.24 million to test year revenues.

Staff also responds to ICNU witness Mr. Schoenbeck’s proposal for allocating demand-related costs, and his claim regarding rate spread, that class rates of return are in need of no further adjustment when they are between 90% and 110% of parity.

On the issue of the basic customer charge, Staff challenges the assertion of The Energy Project’s witness Mr. Eberdt that the customer’s incentive to conserve will be impeded by increasing the flat rate monthly basic charge, with less of an increase going to the per kilowatt-hour charges. I also show why Mr. Eberdt is wrong to rely on a 1990 Commission order to support his position.

On low income assistance issues, Staff responds to three proposals of The Energy Project: 1) To increase low-income bill assistance (LIBA) funds greater than PacifiCorp and Staff propose; 2) To retain annual certification of LIBA participants because certification every other year, as proposed by PacifiCorp, will “endanger the ability of the agencies to provide service”; and 3) To provide greater funding of energy efficiency programs for low-income households. I explain why each of these proposals is inadequate.

**II. REVENUE rEQUIREMENTS**

**A. Working Capital Methods**

## Q. What is the working capital proposal of Public Counsel and ICNU?

## A. Public Counsel and ICNU propose no working capital allowance for PacifiCorp on the grounds that the Company’s 45-day method does not adequately determine working capital needs. They also recommend “that PacifiCorp be required to file a lead-lag study before the next rate case”.[[1]](#footnote-1)

# Q. What is Staff’s response to these proposals?

# A. Staff, Public Counsel and ICNU agree there is no need for a working capital adjustment in the revenue requirements. However, the reason Public Counsel and ICNU provide is very different than Staff’s, and it does not go far enough.

# Q. Please explain.

A. Public Counsel’s and ICNU’s witness Mr. Meyer states that a lead-lag study produces a more accurate result than the 45-day working capital method.[[2]](#footnote-2) While Staff can agree the results from a lead-lag study may be more precise than results from the 45-day method, neither of these methods measures the amount of working capital supplied by investors. In other words, both methods share the same flaw: they assume that because the method derives a dollar amount, that amount must be provided by investors.

This may not be critical for a private business, but regulated utilities are permitted to earn a rate of return only on funds supplied by investors. Therefore, the Commission should use a method for measuring working capital that demonstrates, not assumes, the amount derived is supplied by investors.

# Q. Does Staff agree with Public Counsel and ICNU that the Commission should require PacifiCorp to perform a lead-lag study before the next rate case?

A. No. Staff is concerned this could be perceived as Commission advance acceptance of a lead-lag study. In any event, PacifiCorp should retain the right to decide the method it wishes to file in support of a working capital adjustment, if any.

# B. Residential Revenues Adjustment

# Q. What is Public Counsel’s and ICNU’s position on residential revenues?

A. Public Counsel and ICNU claim residential revenues are understated by $2.24 million. Mr. Meyer takes the average of the past five years of actual use per residential customer and multiplies by the number of PacifiCorp’s residential customers and the residential margin energy rate, to produce $2.24 million in additional test year revenues.[[3]](#footnote-3)

# Q. What are the principal deficiencies in Public Counsel’s and ICNU’s adjustment?

# A. The principal deficiencies[[4]](#footnote-4) are that Public Counsel and ICNU should have used temperature normalized usage, not use actual usage, and they fail to account for factors that offset the additional revenue they seek to impute to PacifiCorp.

# Q. Please explain why Public Counsel and ICNU should have used temperature normalized usage rather than actual usage.

A. The primary influence on residential customer usage is temperature. This can easily be seen by comparing actual and temperature normalized usage for two recent periods.

For example, for the test year in this case, the 12 months ending December 2009, actual residential customer consumption was 1,674,853,410 kilowatt-hours (kWh)[[5]](#footnote-5). In PacifiCorp’s last general rate case, Docket UE-090205, the actual residential customer consumption was 1,642,846,995 kWh, for the 12 months ending June 2008[[6]](#footnote-6). These data show that residential customers increased their actual usage by over 32 million kWh between the 12 months ending June 2008, and the 12 months ending December 2009, about a two percent increase.

However, on a temperature normalized basis, there was virtually no change in usage: 1,585 million kWh (12 months ending 2009) versus 1,582 million kWh (12 months ending June 2008).

Moreover, when the increase in customers from June 2008 to December 2009 is taken into consideration, the normalized usage per residential customer actually declines slightly over the two periods.[[7]](#footnote-7)

In other words, all of the increase in actual usage over these two recent periods can be explained by temperature differences alone. Public Counsel and ICNU ignore this fact.

# Q. Do Public Counsel and ICNU support the matching principle?

A. Yes. See Mr. Meyer’s testimony at page 21.

**Q. Do Public Counsel and ICNU violate that principle in their Residential Revenues adjustment?**

A. Yes. In their Residential Revenues adjustment, Public Counsel and ICNU recognize additional revenues only. They completely ignore the additional power costs and other costs PacifiCorp would incur to generate the kWh sold to obtain those additional revenues. Moreover, increasing kWh sales in Washington has other corollary effects on inter-jurisdictional allocation factors and the production factor. Public Counsel and ICNU recognize none of these offsetting effects, either.

**Q. How should the Commission address Public Counsel’s and ICNU’s Residential Rate Revenues adjustment?**

A. The Commission should reject Public Counsel’s and ICNU’s adjustment, for the reasons I have stated.

**III. COST-OF-SERVICE AND REVENUE ALLOCATION**

**A. Cost of Service Study**

**Q. What exception does ICNU take with PacifiCorp’s cost of service study?**

A. ICNU disagrees with PacifiCorp’s use of the top 100 winter hours and top 100 summer hours of electricity consumption to allocate demand-related costs. According to ICNU witness Mr. Schoenbeck, this is too many hours, and he suggests PacifiCorp use far fewer hours, namely, only those hours within 95 percent of the system peak hour. According to Mr. Schoenbeck, this amounts to 71 hours.[[8]](#footnote-8)

**Q. What is ICNU’s theory for using only 71 hours to allocate peak demand to the customer classes?**

A. ICNU’s theory is that the peak demand drives the Company’s need for facilities to meet that peak demand. Therefore, the customers demanding electricity in the peak hours should pay for their demands[[9]](#footnote-9).

# Q. Is Mr. Schoenbeck’s theory valid?

A. Staff can agree with the general theory that the cost of meeting peak demand should be shared by those imposing the load at peak times. However, peak demand occurring over only 71 hours, or 0.8 percent, of the year is a very narrow period of time, and it is not representative of peak cost causation on the system. Demand costs should be allocated to those who use the system during times of sustained high demand, not just the absolute peak times.

The Company used 200 hours in its study, which is about 2.25 percent of all the hours in a year. This is much fairer period of time over which to judge the customers’ electric demand. The use of 200 peak hours was expressly accepted by the Commission in *UTC v. Puget Sound Energy, Inc,* Dockets UE-920433/UE-920499/UE-921262, 9th Supplemental Order, page 11 (August 17, 1993).

**Q. What effect does ICNU’s proposed 71 hours have on the allocation of demand costs?**

A. Restricting demand allocations to only 71 hours during the very highest consumption days will drive costs to the residential class, all else equal. This is because, more so than other classes, the residential class consumes more energy on the coldest days of the year than on average. PacifiCorp’s use of more hours to determine peak allocations shares more demand-related costs with the industrial schedules. Commercial schedules are less affected by the choice of hours.

Moreover, eventually, this shifting of costs manifests itself in the parity ratios for each customer schedule, thereby affecting the potential for higher rate increases to the residential class, all else equal. These effects are shown in my table 1 below:

 Table 1

# Q. Please explain your Table 1.

# A. Table 1 is based on PacifiCorp witness Mr. Paice’s Exhibit No. \_\_\_ (CCP-2). The only variable is the input for “System Peak Method”; all other components of rates are held constant. This input selects the West control area peak hours and each rate schedule’s kilowatt-hour use in those hours.

# For example, by choosing the input “100 Summer/100 Winter”, the model selects the highest 100 summer hours and the 100 highest winter hours, determines the total use by rate schedule in those hours, and the percentage by rate schedule. This percentage is then applied to the demand expense to arrive at the demand cost per rate schedule. The other scenarios are accomplished by choosing “Coincident Peaks” and selecting the months to test. My table shows the results.

# Q. Please explain the meaning of the data shown in your exhibit.

# A. For each scenario, the revenues per schedule stay constant, but the total costs change, and the revenue-to-cost ratio (parity ratio) reflects this change. As the number of peak hours is restricted to the winter months, the costs shift to residential customers from industrial customers. This is shown by the parity ratio moving farther below 1.0 for residential Schedule 16, and closer to 1.0 for the industrial Schedules 48T. Costs also move away from the commercial schedules, causing that class’s parity ratio to increase.

Specifically, the evidence shows that as greater emphasis is placed on winter peak consumption, the residential class moves further from parity, from 0.974 to 0.921. Conversely, the industrial schedules move closer to parity, from 0.959 to 0.984. The commercial schedules also move farther from parity from 1.073 to 1.111. Note that Schedule 48T - Dedicated Facilities (ICNU’s member) remains below parity, even under the extremely favorable condition of two peak hours in January and December.

# Q. What is your conclusion on the cost of service study?

# A. I conclude that PacifiCorp’s use of 100 winter hours plus 100 summer hours to measure peak use is reasonable, and ICNU’s 71 hour proposal is not reasonable. The Company’s cost study is representative of the industrial and residential use of the system under peak conditions.

**B. Revenue Allocation**

# Q. Please explain ICNU’s position on the issue of revenue allocation.

# A. ICNU supports the Company’s proposal that the Commission should increase all rate schedules on an equal percentage basis, except for lighting. ICNU’s witness Mr. Schoenbeck supports ICNU’s position with an assertion that a range of parity ratios as great as 90 percent to 110 percent is acceptable[[10]](#footnote-10).

**Q. What support does ICNU offer for its assertion that a 90 percent to 100 percent parity ratio range is acceptable?**

A. Mr. Schoenbeck states: “For example, in the past, Public Counsel has advocated that major customer classes within a parity ratio range of 90% to 110% should receive the overall average system increase.”[[11]](#footnote-11)

**Q. Is that support sufficient?**

A. No.

# Q. Have PacifiCorp’s rate schedules moved closer to parity over the past several rate cases?

# A. No. My Table 2 below presents a review of PacifiCorp’s last five general rate filings. As the table shows, industrial customers on Schedule 48T have been persistently below parity.[[12]](#footnote-12) Commercial customers remain at parity ratios greater than 1.0, indicating they pay more than their fair share of the total cost of service.

Table 2[[13]](#footnote-13)



# Q. Is it reasonable for the Commission to require further movement toward parity?

# A. Yes. Staff recognizes the cost of service study includes various choices of input assumptions, and a consequent variety of possible outcomes. Staff also recognizes that cost of service is not the only consideration in determining an appropriate rate spread. However, a range of ten percent above or below parity allows for certain customers to either persistently benefit or suffer without meaningful movement towards a fair sharing of the system costs.

# Moreover, 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 would be lost.

# 

# Q. What does Staff recommend?

# A. Staff recommends the Commission move PacifiCorp rate schedules toward parity, i.e., 1.0. Based on Staff’s recommended 10.97 percent overall revenue increase, the Commission should increase rates to the residential and industrial schedules by a greater than average 12.5 percent, and give commercial schedules a less than average increase of just over nine percent. For the lighting schedules, the Commission should impose only a slight increase. Commission acceptance of this rate structuring will move classes towards a fairer sharing of system costs.

# Q. Does Staff’s proposed revenue allocation move the rate schedules closer to parity?

# A. Yes. My Exhibit No. \_\_\_ (TES-3) shows this movement in Column P. If the Commission accepts Staff’s proposal, the rate schedules will be in a range of 1.05 to .97, with the exception of the lighting schedules, which move to a parity ratio of 1.09. Overall, each rate schedule moves about one-half of the way towards parity. Staff’s proposed revenue allocations reach a fair and reasonable result.

**IV. RATE DESIGN**

# Q. Please summarize The Energy Project’s position on rate design.

A. The Energy Project recommends there be no increase to the current $6.00 residential basic charge. The Energy Project’s witness Mr. Eberdt presents some general theories on price incentives and conservation as the rationale to retain the current basic charge. He considers an increase to the basic charge and a decrease to the volumetric charge “renders the whole point of conservation meaningless.” He also cites a Commission decision in Docket UG-901459, a 1990 Washington Water Power Company gas case, as Commission support for his position.[[14]](#footnote-14)

# Q. Does The Energy Project provide any empirical support for its claims about price incentives and conservation?

A. No.

**Q. Does the empirical evidence support The Energy Project’s claim that an increase to the basic charge and a decrease to the volumetric charge “renders the whole point of conservation meaningless”?**

A. No. For example, PacifiCorp proposes a basic charge of $9.00; up from the current charge of $6.00. With a $9.00 basic charge, the rate for the second block (the tail block) would be 9.735 cents per kilowatt-hour (kWh). By contrast, if the Commission maintained the basic charge at $6.00, the tail block rate would increase to 10.006 cents; a difference in tail block rates of only 0.271 cents per kWh.

# Q. What is the comparison of the tail block rates with Staff’s proposed revenue increase and basic charge?

A. Staff proposes a basic charge of $7.50; up from PacifiCorp’s current charge of $6.00. Coupled with Staff’s proposed level of revenues for the residential class, the rate for the second block (the tail block) would be 9.150 cents per kilowatt-hour (kWh). By contrast, if the Commission maintained the basic charge at $6.00, the tail block rate would increase to 9.285 cents; a difference in tail block rates of only 0.135 cents per kWh.

# Q. What is Staff’s conclusion on the impact of increasing the residential basic charge?

A. There is no appreciable difference in conservation incentive between these two tail block rates. In other words, and contrary to The Energy Project’s assertions, “the whole point of conservation” is certainly not “rendered meaningless” by increasing the basic charge as proposed by either PacifiCorp or Staff. A rate level exceeding nine cents per kWh surely provides an ample incentive to conserve.

**Q. What language in the Commission’s decision in Docket UG-901459 does The Energy Project rely on for its position on the basic charge?**

A. Apparently, the language Mr. Eberdt relies on from that decision is this: “The Commission is concerned that insufficient information was provided regarding the proper level of the basic charge or minimum bill for each of the rate schedules. The Commission agrees that disproportionate increases to customer charges discourage conservation. In future proceedings, parties should show their calculation of the proper level for these charges and explain the theoretical basis of the calculation.”[[15]](#footnote-15)

# 

**Q. Should this Commission directive apply to this case?**

A. Yes. The Commission’s directive to provide support for proposals is just as apt today as it was in 1992.

**Q. Does Staff’s proposed $7.50 basic charge adhere to that Commission directive?**

A. Yes. I explained the theoretical basis for Staff’s proposed basic charge in my direct testimony, and what the Company’s cost of service study showed. For the precise calculation of the basic charge at Staff’s recommended revenue increase, see Exhibit No. \_\_\_ (TES-5), which is an excerpt from the Company’s cost of service study at Staff’s recommended revenue increase. That exhibit shows the components of residential rates in the column “Residential Schedule 16”. The total customer charge of $9.68 is in that column on page 3, at line 143.[[16]](#footnote-16)

In sum, the evidence demonstrates Staff’s proposed basic charge of $7.50 is reasonable, well-supported and fully compliant with the Commission’s directive in Docket UG-901459.

**V. LOW INCOME BILL ASSISTANCE AND LOW INCOME WEATHERIZATION**

**Q. What concerns of The Energy Project does Staff address?**

A. Staff addresses The Energy Project’s concerns about the Company’s proposals to recertify Low Income Bill Assistance (LIBA) participants biannually, its request for higher administrative funding, and its proposal to increase funding for low-income weatherization programs.

**A. Low Income Bill Assistance**

**Q. What is The Energy Project’s reaction to the Company’s proposed biannual recertification of LIBA participants?**

A. The Energy Project claims PacifiCorp’s plan would cause great fluctuation in low-income agency work load from year to year. The Energy Project’s witness Mr. Eberdt has a valid concern that the work flow would be a two year cycle of boom and bust[[17]](#footnote-17).

**Q. What is Staff’s response?**

A. Staff recognizes the potential for disruptive work flow and offers a compromise. During the year 2011, the agencies could recertify one-half of the participants for two years, and one-half for one year. This would spread the work load over the two year cycle and avoid the problems Mr. Eberdt identifies. The dollars raised by the Schedule 91 surcharge could be more efficiently deployed to the benefit of the qualifying customers.

**Q. What is The Energy Project’s claim for additional administrative reimbursement?**

A. Mr. Eberdt claims PacifiCorp is not sufficiently compensating the low-income agencies for their administrative burdens. His Exhibit No. \_\_\_ (CME-4) shows a figure of $73.14 per certified customer as necessary to recover administrative expenses.

**Q. What is Staff’s response?**

A. Staff is not opposed to the principle that PacifiCorp should fairly compensate low income agencies for this work. However, Mr. Eberdt’s exhibit is insufficient to justify a change in the current level. For example, his exhibit contains information for one month, for one agency. The other two agencies and the other eleven months are notably absent. A thorough review of the low-income agency expenses and operations is needed in order to judge a realistic reimbursement rate. Therefore, the Commission should maintain the current rate of $48 per certified customer.

**B. Low Income Weatherization**

# Q. What is The Energy Project’s proposal for the low-income weatherization assistance programs (LIWA)?

A. The Energy Project proposes an increase in LIWA funds of $500,000. Mr. Eberdt claims this amount is necessary to replace funding from the American Recovery and Reinvestment Act (ARRA) and other sources. Mr. Eberdt states that “failure to fill the void of funding created by the expiration of AARA (sic) constitutes a lost opportunity cost of considerable proportion.” Exhibit No. \_\_\_ (CME-1T) at 15:17-18.

**Q. How are funds collected for LIWA programs?**

A. PacifiCorp collects money for LIWA from its customers, through the System Benefit Charge in Tariff Sheet 191. In addition, various federal and state funding sources contribute to programs for insulating low-income housing, of which LIWA is one resource.

# Q. What is Staff’s response to The Energy Project’s proposal to increase LIWA funding from PacifiCorp ratepayers by $500,000?

A. The Commission should not accept the proposal. First, Tariff Sheet 191 does not appear to be before the Commission in this docket; it was not among the tariffs filed by PacifiCorp and suspended by the Commission.

In any event, the Commission should address low-income weatherization program funding in the context of a comprehensive review of the programs covered by the system benefit charge. That review has not taken place in this docket.

Finally, The Energy Project’s point about the lapse of ARRA funding is insufficient justification for increasing the System Benefits Charge. It was well understood that ARRA funds were temporary. There was never a legitimate expectation that ratepayers would be required to maintain that level of funding once it expired.

In short, if ARRA funds are to be replaced at ratepayers expense, that should be done only after a comprehensive Commission review of the entire system benefit charge and the programs it funds.

1. **Does this conclude your testimony?**

A. Yes.

1. Exhibit No. \_\_\_ (GRM-1CT) at page 8:5-7. [↑](#footnote-ref-1)
2. Exhibit No. \_\_\_ (GRM-1CT) at page 4:20. [↑](#footnote-ref-2)
3. Exhibit No. \_\_\_ (GRM-1CT) at pages 15-16. [↑](#footnote-ref-3)
4. Another problem is that the five-year sample Public Counsel and IC NU used may be too short to appropriately capture a usage trend. [↑](#footnote-ref-4)
5. Exhibit No. \_\_\_ (RBD-3) at Tab 3, page 3.1.2. The temperature normalization adjustment for all classes was 105.8 million kWh. [↑](#footnote-ref-5)
6. Docket UE-090205, Exhibit No. \_\_\_ (RBD-3) at Tab 3, page 3.1.2. The temperature normalization adjustment for all classes was 75.2 million kWh. [↑](#footnote-ref-6)
7. The comparable data from Docket UE-090205 and Docket UE-100749 shown above include residential area lights. Excluding this small load and those few customers from both sets of data shows annual normalized residential usage per customer in the period ending June 2008 at 15,427 kWh per customer; and in the period ending December 2009 at 15,293 kWh per customer. Source of these data is the cost-of-service work papers of PacifiCorp witness Craig Paice for both dockets. [↑](#footnote-ref-7)
8. Exhibit No. \_\_\_ (DWS-1T) at page 3:16-18. [↑](#footnote-ref-8)
9. Exhibit No. \_\_\_ (DWS-1T) at page 3:10-11. [↑](#footnote-ref-9)
10. Exhibit No. \_\_\_ (DWS-1T) at page 6:7-20. [↑](#footnote-ref-10)
11. Exhibit No. \_\_\_ (DWS-1T) at page 6:12-14. [↑](#footnote-ref-11)
12. The Commission approved a settlement in Docket UE-090205 that split Schedule 48T into two groups. There is one customer on the dedicated facilities schedule. [↑](#footnote-ref-12)
13. Calculations of the revenue to expense ratio, or parity ratio, are based on PacifiCorp’s filed case in each of the following sources: \*1 UE-050684, work papers of William Griffith; \*2 UE-061546, Exhibit No. \_\_\_ (WRG-4); \*3 UE-080220 work papers of Mark Tucker; \*4 UE-090205 work papers of Craig Paice; \*5 UE-100749 work papers of Craig Paice. [↑](#footnote-ref-13)
14. Exhibit No. \_\_\_ (CME-1T) at page 14:2-6. [↑](#footnote-ref-14)
15. *UTC v. Washington Water Power Co.,* Docket UG-901459, Third Supplemental Order at 17 (March 9, 1992). [↑](#footnote-ref-15)
16. The customer charge is derived from column “Residential Schedule 16” line 124, Customer –Total Revenue Requirement, divided by line 137, Average Customers, divided by 12. (i.e. $12,025,371÷103,542÷12 = $9.68). [↑](#footnote-ref-16)
17. Exhibit No. \_\_\_ (CME-1T) at page 11:12-16. [↑](#footnote-ref-17)