

Exh. KMH-1T

Dockets UE-230172 and UE-210852

Witness: Kristen M. Hillstead

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP d/b/a PACIFIC POWER
AND LIGHT COMPANY,**

Respondent.

**DOCKETS UE-230172 and
UE-210852 (Consolidated)**

In the Matter of

**ALLIANCE OF WESTERN ENERGY
CONSUMERS'**

**Petition for Order Approving Deferral of
Increased Fly Ash Revenues**

TESTIMONY OF

KRISTEN M. HILLSTEAD

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Rate Design: Residential Basic Charge and Seasonal Rates

September 14, 2023

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1 I. INTRODUCTION

2

3 **Q. Please state your name and business address.**

4 A. My name is Kristen M. Hillstead, and my business address is 621 Woodland Square
5 Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box
6 47250, Olympia, Washington, 98504-7250. My business email address is
7 kristen.hillstead@utc.wa.gov.

8

9 **Q. By whom are you employed and in what capacity?**

10 A. I am employed by the Washington Utilities and Transportation Commission
11 (Commission) as a Regulatory Analyst in the Energy Regulation Section of the
12 Regulatory Services Division. I have been employed by the Commission since 1990.

13

14 **Q. Would you please state your educational and professional background?**

15 A. I received a Bachelor of Arts degree, with an emphasis in accounting, from The
16 Evergreen State College in 1994. I have worked as a Regulatory Analyst since 1999,
17 first in the Telecommunications Section and transferring to the Energy Regulation
18 Section in July of 2013.

19

20 **Q. Have you previously testified before the Commission?**

21 A. Yes. I filed testimony in the following cases: Docket UT-040788, Verizon
22 Northwest Inc.'s general rate case, Docket UT-061625, Qwest Corporation's petition
23 for an alternative form of regulation, Docket UT-090842, Verizon/Frontier transfer

1 of control, and Docket UT-100820, Qwest Communications International Inc., and
2 CenturyTel, Inc.'s joint application for approval of indirect transfer of control, and
3 Docket UG-170929, Cascade Natural Gas Corporation's (Cascade) general rate case
4 proceeding. Recently, I was the lead analyst in Northwest Natural Gas Company's
5 general rate case, UG-181053. I have written testimony in several general rate cases
6 that were ultimately sponsored by other Commission witnesses: Docket UE-140762,
7 Pacific Power & Light Company (PacifiCorp or Company), and Dockets UE-150204
8 and UG-150205 (*consolidated*), Avista Corporation. I drafted testimony in
9 PacifiCorp's 2019 general rate case, Docket UE-191024, though that case was settled
10 before testimony was filed. I wrote testimony regarding revenue requirement in
11 Cascade's 2020 general rate case, Docket UG-200568. Most recently, I testified on
12 behalf of Staff in support of the full multi-party settlement of Avista's 2022 general
13 rate case, Dockets UE- 220053, UG-220054, and UE-210854 (*consolidated*).

14 15 **II. SCOPE AND SUMMARY OF TESTIMONY**

16
17 **Q. What is the purpose and scope of your testimony?**

18 A. The purpose of my testimony is to address two issues regarding rate design:
19 PacifiCorp's request to increase the basic charge for residential customers under
20 Schedule 16, and the Company's seasonal rate proposal.

21
22 **Q. Please summarize your recommendations.**

1 A. I recommend that the Commission approve a modest increase of \$0.50 to
2 PacifiCorp's basic charge for residential customers under Schedule 16, which will be
3 explained later in Section III of my testimony. I also recommend that the
4 Commission reject the Company's proposal to eliminate its inclining block/tiered
5 rate structure in favor of seasonal rates without providing further indication of its
6 likely effect on customers and claimed benefits of such a proposed change.

7

8 **Q. Have you prepared any exhibits in support of your testimony?**

9 A. Yes. I prepared Exhibits KMH-2 through KMH-9.

- 10 • Exh. KMH-2 – is PacifiCorp's response to Staff Data Request No. 60
11 discussing the jurisdictions where PacifiCorp offers seasonal rates, and
12 the length of time seasonal rates have been offered
- 13 • Exh. KMH-3 – is PacifiCorp's response to Staff Data Request No. 65
14 regarding whether PacifiCorp has conducted any studies on how seasonal
15 rates influence customer usage
- 16 • Exh. KMH-4 – is PacifiCorp's response to Staff Data Request No. 67
17 regarding Company assumptions related to changes in load usage under
18 seasonal rates
- 19 • Exh. KMH-5 – is PacifiCorp's response to Staff Data Request No. 114
20 concerning support for the statement that tiered rates or not economically
21 justified
- 22 • Exh. KMH-6 – is PacifiCorp's response to Staff Data Request No. 115
23 concerning support for the statement that tiered rates have perverse
24 incentives
- 25 • Exh. KMH-7 – is PacifiCorp's response to Staff Data Request No. 116
26 regarding whether the Company considered offering a seasonal pricing
27 pilot program
- 28 • Exh. KMH-8 – is PacifiCorp's response to Public Counsel Data Request
29 No. 210 requesting all studies and analyses conducted by the Company
30 on seasonal pricing
- 31 • Exh. KMH-9 – is PacifiCorp's response to Public Counsel Data Request
32 No. 211 regarding the effect of the proposed seasonal pricing on low-
33 income customers

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1 **III. RATE DESIGN: BASIC CHARGE**

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Q. Please explain what a basic charge is and its purpose.

A. A basic charge is the flat fee applied to a customer’s bill each month regardless of the amount of kilowatts used. The purpose of the basic charge is to recover customer-related fixed costs associated with metering, billing, customer service, and payment processing.¹

Q. What are the cost components of PacifiCorp’s basic charge?

A. PacifiCorp has included service drops, meters, customer service, and line transformers in the calculation of the basic charge.² Based on the Company’s cost of service study, the total cost of all these components for a residential single-family dwelling is \$13.40 per month, and \$11.14 for a multi-family dwelling. After removing the cost component of line transformers, the total cost to provide service to all residential customers under Schedule 16 is \$10.10. PacifiCorp’s current basic charge of \$7.75 does not recover its customer-related fixed costs. See Table 1 below.³

¹ See WAC 480-85-060(3) (Table 2: Electric Cost of Service Approved Classification and Allocation Methodologies); see also, *Wash. Utils. & Trans. Comm’n v. Pac. Power & Light Co.*, Dockets UE-140762, UE-140617, & UE-131384, Order 08, 91, ¶ 216 (March 25, 2015) (2014 PacifiCorp GRC Order) (“The Commission is not prepared to move away from the long-accepted principle that basic charges should reflect only “direct customer costs” such as meter reading and billing.”).

² Meredith, Exh. RMM-7.

³ Cost calculation from Meredith, Exh. RMM-7.

Table 1 – Monthly Cost Components of Basic Charge

Component	Single-Family Cost	Multi-Family Cost	Staff Cost
Line Transformers	3.30	1.04	N/A
Service Drops*	3.47	3.47	3.47
Meters	0.92	0.92	0.92
Customer Service	5.71	5.71	5.71
Total	13.40	11.14	10.10

*Cost was \$3.465 staff rounded up for illustrative purposes

1 **Q. Please describe PacifiCorp’s proposal regarding its basic charge.**

2 A. As discussed in Company witness Meredith’s testimony, Exh. RMM-1T, the
3 Company is proposing to increase the basic charge for residential single-family
4 dwellings to \$10.00, a \$2.25 increase from its current \$7.75 basic charge. This
5 equates to a 29 percent increase to the basic charge for single-family dwellings.
6 However, the Company proposes to maintain a \$7.75 basic charge for multi-family
7 dwellings.

8
9 **Q. What are the currently authorized basic charges of the other electric utilities
10 regulated by the Commission?**

11 A. Staff researched the basic charges of other electric investor-owned utilities in
12 Washington and found that only Puget Sound Energy has a lower basic charge than

1 PacifiCorp, at \$7.49. Avista Corporation (Avista) currently has a basic charge of
2 \$9.00.⁴

3

4 **Q. Does Staff support PacifiCorp’s proposed basic charge increase?**

5 A. No. As stated earlier in my testimony, Staff supports a more modest increase of
6 \$0.50 a month to PacifiCorp’s basic charge for all residential customers under
7 Schedule 16, but not the Company’s proposed \$2.25 increase to only residential
8 single-family dwellings.

9

10 **Q. What is Staff’s recommendation regarding PacifiCorp’s residential basic
11 charge and why?**

12 A. Staff recommends an increase of \$0.50 to the basic charge for all residential
13 customers under Schedule 16. This increase would bring the basic charge up to
14 \$8.25. Staff acknowledges that an \$8.25 basic charge is still below the \$10.10 cost of
15 providing service; however, an incremental increase is consistent with prior
16 Commission guidance and policies regarding gradualism.

17 Large increases in the basic charge are more likely to have real impacts on
18 customers, regardless of energy usage. Staff is taking a middle approach to
19 increasing the basic charge. Increasing the basic charge helps lessen the increase in
20 energy charges PacifiCorp’s customers would pay per kilowatt hour. When fixed
21 customer-related expenses are not included in the basic charge, they will be
22 recovered through the volumetric delivery charge. Taking this more gradual

⁴ *Wash. Utils. & Trans. Comm’n v. Avista Corp.*, Dockets UE-170485, UG-170486, UE-171221, & UG-171222, Order 07/02/02, 74, Table 8 (Apr. 26, 2018) (The basic charge increased to \$9).

1 approach to increasing the basic charge will prevent rate shock to low usage
2 customers.

3 In addition, PacifiCorp has not been authorized to increase its residential
4 basic charge since its 2013 general rate case, Docket UE-130043, when the basic
5 charge increased from \$6.00 to \$7.75.⁵ Since 2013, PacifiCorp has had two
6 additional general rate cases before this Commission in which it has requested to
7 increase its basic charge.⁶ Even though PacifiCorp's basic charge increase requests
8 have not been authorized, its customer-related costs of providing service have
9 gradually increased, thus warranting a minimal increase.

10

11 **Q. Please summarize Staff's observations and recommendation regarding basic**
12 **charges.**

13 A. Basic charges are intended to recover specific customer-related fixed costs.⁷ The
14 Company's current basic charge continues to fall short of covering these costs.
15 Recent requests by PacifiCorp for increases in the basic charge have not been
16 authorized. Staff recommends increasing the basic charge by \$0.50, in an effort to
17 partially correct this deficiency while maintaining the Commission's long-standing

⁵ The \$1.75 increase was part of a partial settlement regarding cost of service, rate spread, and rate design, and approved in *Wash. Utils. & Trans. Comm'n v. PacifiCorp*, Docket UE-130043, Order 05, 95, ¶ 246 & ¶ 250 (Dec. 4, 2013).

⁶ In *Wash. Utils. & Trans. Comm'n v. Pac. Power & Light Co.*, Docket UE-140762, Steward, Exh. JRS-1T, 2:17 (May 1, 2014) the Company proposed an increase of \$6.25 for a residential basic charge of \$14; in *Wash. Utils. & Trans. Comm'n v. PacifiCorp*, Dockets UE-191024, UE-190750, UE-190929, UE-190981 & UE-180778, Exh. RMM-1T, 3:20 (Sept. 25, 2020), the Company proposed an increase of \$1.75 for a residential basic charge of \$9.50. Both of these cases were ultimately settled without increasing the basic charge.

⁷ 2014 PacifiCorp GRC Order at 91, ¶ 216 ("The Commission is not prepared to move away from the long-accepted principle that basic charges should reflect only "direct customer costs" such as meter reading and billing.").

1 policy on gradualism.⁸ It is important to keep in mind that any remaining uncollected
2 balance from costs associated with the basic charge will need to be recovered
3 through volumetric energy charges.⁹

4 5 **IV. RATE DESIGN: SEASONAL RATES**

6
7 **Q. How are PacifiCorp’s residential rates currently structured?**

8 A. The Company currently uses an inclining block or tiered rate structure for residential
9 customers.

10
11 **Q. Please explain an inclining block or tiered rate structure.**

12 A. An inclining block or tiered rate structure is one in which energy usage up to a
13 certain threshold is priced at a lower rate, and energy consumption above this
14 threshold is priced at a higher rate. PacifiCorp’s current threshold is 600 kWh.
15 Energy consumed up to the 600 kWh threshold is priced at 8.276 cents per kilowatt
16 hour, energy consumption above the 600 kWh threshold is priced 11.198 cents per
17 kilowatt hour.¹⁰

18
19 **Q. What is PacifiCorp proposing regarding seasonal rates?**

⁸ *Wash. Utils. & Trans. Comm’s v. Avista Corp.*, Dockets UE-200900, UG-200901 & UE-200894, Final Order 08/05, 116, ¶ 328 (Sept. 27, 2021). Although this paragraph speaks to gradualism in rate spread, Staff argues that the concerns the principle of gradualism addresses are equally present here.

⁹ *Wash. Utils & Trans. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-111048 & UG-111049, Order 08, 125, ¶ 352 (May 7, 2012) (“The volumetric delivery charge will be adjusted upward, if necessary, to collect the remainder of the assigned revenue for the residential class in total.”).

¹⁰ Meredith, Exh. RMM-1T at 18:4-6.

1 A. PacifiCorp is proposing to eliminate its inclining block/tiered rate structure and
2 replace it with seasonal energy charges. This proposal would be gradual and
3 completed over the course of the two-year rate plan.¹¹ Specifically, the Company is
4 proposing a combination of an inclining block/tiered rate structure with seasonal
5 rates for the first year of the multi-year rate plan (MYRP), and a seasonal rate
6 structure for all kilowatt hours beginning the second year of the MYRP.¹²

7

8 **Q. What is PacifiCorp’s argument in favor of transitioning to seasonal rates?**

9 A. Company witness Meredith asserts that tiered rate structures produce more problems
10 than they solve, that they are unfair,¹³ not economically justified,¹⁴ and create
11 perverse incentives.¹⁵ He also states that tiered rates can be a source of confusion for
12 residential customers.¹⁶

13 Company witness Meredith states that based on the Company’s proposal,
14 seasonal rates would make energy rates lower in winter months and higher in
15 summer months. A seasonal rate structure would better reflect the economics of
16 consumption and treat customers more fairly, regardless of household size or heating
17 fuel used.¹⁷ In addition, Company witness Meredith asserts that seasonal rates will
18 also send better price signals to customers.¹⁸

19

¹¹ Meredith, Exh. RMM-1T at 11:23 – 12:1.

¹² The effective date for rate year 1 is March 1, 2024, and March 1, 2025, for rate year 2. Cheung, Exh. SLC-1T at 2:9.

¹³ Meredith, Exh. RMM-1T at 19:1-13.

¹⁴ *Id.* at 21:1-9.

¹⁵ *Id.* at 21:10 – 22:8.

¹⁶ *Id.* at 18:22-23.

¹⁷ *Id.* at 24:10-12.

¹⁸ *Id.* at 25:8-15.

1 **Q. Please summarize Staff's recommendation.**

2 A. Staff recommends the Commission reject PacifiCorp's seasonal rate structure
3 proposal in its entirety.

4

5 **Q. Why does Staff recommend rejection of PacifiCorp's seasonal rate structure
6 proposal?**

7 A. Staff recommends rejecting of PacifiCorp's seasonal rate proposal because the
8 Company has not provided sufficient information to convince Staff that seasonal
9 rates would benefit Washington rate payers.

10

11 **Q. Does PacifiCorp offer seasonal rates in any of its jurisdictions?**

12 A. Yes. In response to Staff Data Request No. 60, PacifiCorp indicated that it offers
13 seasonal rates in two of its jurisdictions, Idaho and Utah.¹⁹ PacifiCorp has offered
14 seasonal rates in Idaho since 1977 and Utah since 2001.²⁰

15

16 **Q. Please describe the Company's response to discovery on the topic of seasonal
17 pricing in Washington.**

18 A. PacifiCorp's responses to Staff's data requests, and those to other intervenors,
19 suggest that the Company has not conducted the necessary evaluations or studies in
20 Washington to justify transition to seasonal rates.

21 When asked to provide any studies or analyses PacifiCorp had conducted
22 regarding seasonal pricing or impacts of seasonal rates on customers, the Company

¹⁹ PacifiCorp provides service in six jurisdictions: California, Idaho, Oregon, Utah, Washington and Wyoming.

²⁰ Hillstead, Exh. KMH-2 (Response to Staff Data Request No. 60, sub part (c)).

1 stated that it did not have specific studies or analyses beyond what was provided in
2 Company witness testimony.²¹

3 The seasonal rate proposal in Company witness Meredith's testimony appears
4 to be based primarily on estimates or assumptions. Staff does not believe it is wise to
5 rush into implementing seasonal rates without having actual customer impact or
6 usage data. A seasonal rate pricing pilot might provide relevant data on customers'
7 actual usage and bill impacts to warrant a seasonal rate pricing structure.

8

9 **Q. Has Staff provided exhibits regarding the Company's analyses of seasonal rates**
10 **and whether the seasonal rates impact customers' usage?**

11 A. Yes. Response to Staff Data Request No. 60, specifically sub parts (d) and (e);
12 response to Staff Data Request No. 65; response to Staff Data Request No. 67;
13 response to Staff Data Request No. 114; response to Staff Data Request No. 115;
14 response to Staff Data Request No. 116; response to Public Counsel Data Request
15 No. 210; and response to Public Counsel Data Request No. 211. These data request
16 responses are attached to this testimony as Exhibits KMH-2 through KMH-9.

17

18 **Q. What did Staff learn from the Company's data request responses?**

19 A. The Company failed to provide additional studies or analyses as requested, and
20 continually referred parties back to the Company's initial testimony. Staff does not
21 find the information provided to be persuasive and is not convinced that seasonal
22 rates would benefit Washington rate payers.

²¹ See Hillstead, Exhs. KMH-3, KMH-4, KMH-5, KMH-6, KMH-8 and KMH-9.

1 **Q. Did PacifiCorp recommend offering a seasonal rate pricing pilot to assess how**
2 **seasonal rates would be received by its customers or benefit Washington rate**
3 **payers?**

4 A. No, PacifiCorp did not.²²

6 **Q. What is a pricing pilot?**

7 A. A pricing pilot offers an experimental rate structure to a limited number of customers
8 over a limited period of time. Pricing pilots allow a utility to gather data on program
9 costs and benefits, customer responsiveness to price signals, administrative
10 complexity, and much more. Since pricing pilots typically rely on volunteers, they
11 offer a distinct advantage: the utility engages with the customers most willing to
12 provide feedback and tolerate program design fluctuations. This allows the utility to
13 evaluate potential benefits and to work out potential problems before deciding
14 whether to offer the tariff to the entire class or ratepayer classes.

16 **Q. Does PacifiCorp have experience in offering pricing pilots in Washington?**

17 A. Yes. The Commission approved three time-of-use pricing pilots in PacifiCorp's 2019
18 general rate case for Schedules 19, 29, and 36 which were effective May 1, 2021;²³
19 therefore, the Company does have experience in conducting pricing pilots.

20

21

²² See Hillstead, Exh. KMH-7.

²³ *Wash. Utils. & Trans. Comm'n v. PacifiCorp*, Docket UE-191024, Final Order 09/07/12, 47-48, ¶¶ 119-121 (Dec. 14, 2020).

1 **Q. Did PacifiCorp comment on why it did not propose a seasonal rate pricing pilot**
2 **in this proceeding?**

3 A. Yes. In response to Staff Data Request No. 116,²⁴ the Company stated that it did not
4 consider a pricing pilot for seasonal rates because such pricing is “justified by cost”
5 and not a new or novel rate design feature that requires testing.

6

7 **Q. Does Staff agree with PacifiCorp’s response?**

8 A. No. Pricing pilots have been instrumental in assessing the benefits of time-of-use
9 programs, and a seasonal rate pricing pilot may provide the necessary information to
10 demonstrate that seasonal rates would benefit PacifiCorp’s Washington customers.
11 Nevertheless, the Company did not propose such an offering, nor did the Company
12 provide satisfactory documentation, studies, or analyses that support transitioning
13 away from the Company’s existing inclining block/tiered rate structure in lieu of a
14 seasonal rate structure.

15

16 **Q. Please reiterate why does Staff not support the PacifiCorp’s conversion from**
17 **inclining block/tiered rate structure to seasonal rates?**

18 A. Staff is not disputing the possibility that seasonal rates *could* provide adequate price
19 signals to support the State’s decarbonization goals, and thus benefit Washington
20 ratepayers. However, the Company did not provide sufficient evidence in the record
21 (via testimony or data request responses) to support eliminating the inclining
22 block/tiered rate structure. Therefore, Staff cannot make a recommendation in

²⁴ See Hillstead, Exh. KMH-9.

1 support of PacifiCorp's seasonal rate proposal until the Company provides more
2 comprehensive data. Should the Company provide additional or supportive data or
3 propose offering a seasonal pricing pilot, Staff would be willing to entertain such a
4 proposal.

5

6 **Q. Does this conclude your testimony?**

7 A. Yes.