**Exhibit No. \_\_\_T (TMV-1T)**

**Docket UE-152253**

**Witness: Tiffany M. Van Meter**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **PACIFIC POWER & LIGHT COMPANY,**  **Respondent.** | **DOCKET UE-152253** |

**TESTIMONY OF**

**Tiffany M. Van Meter**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Adjustment 4.9 – Memberships and Subscriptions***

***Cost of Service and Rate Design***

***Low Income Bill Assistance***

**March 17, 2016**

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**I. INTRODUCTION**

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

A. My name is Tiffany M. Van Meter and my business address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington, 98504. My email address is tvanmete@utc.wa.gov.

**Q. Where are you employed and in what capacity?**

A. I am employed at the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst. I review and analyze filings by the investor-owned electric and gas utilities under the jurisdiction of the Commission and present recommendations of the Commission Staff (Staff) to the Commission. For example, I recently presented Staff recommendations to the Commission at open meetings in Dockets UE-151773 for Pacific Power and Light Company (“Pacific Power” or “Company”) and UE-151747 for Puget Sound Energy. I also reviewed and analyzed Avista Corporation’s Residential and Farm Energy Rate Adjustment in Docket UE-151760.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since October 2014.

**Q. Please describe your educational and professional background.**

A. I graduated from Saint Martin’s University in 1999 with a Bachelor of Arts in Business Administration with concentrations in management and marketing. I worked for the Washington Department of Health and Social Services from February 2001 to July 2014 as a Cost Reimbursement Analyst. As a Cost Reimbursement Analyst I audited yearly cost reports of Medicaid-certified long term care facilities. I analyzed the revenues and expenses that facilities claimed for Medicaid reimbursement to calculate their Medicaid reimbursement daily rate.

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

A. No.

**Q. What is the purpose of your testimony?**

A. My testimony has three components. First, I address the Company’s Adjustment 4.9, Operations and Maintenance – Membership and Subscriptions. Second, I discuss the Company’s cost of service and rate design for this filing. Last I review the Company’s Low Income Bill Assistance (LIBA) program. The results of my analysis on Adjustment 4.9 are incorporated into Staff’s revenue requirement model presented in Staff witness Mr. Jason Ball’s Exhibit No. JLB-2.

**Q. Please summarize Staff’s recommendations on the three issues you discuss in your testimony.**

A. With respect to Adjustment 4.9, Staff recommends removing $23,025 of expenses that should not be included in this filing. Regarding cost of service and rate design, Staff is not disputing the Company’s proposal to leave them as is, but Staff recommends that interested parties engage in a collaborative to reach a resolution on these issues in time to be implemented in the second rate year. Finally, with respect to LIBA, Staff supports the Company’s proposal to continue its current five-year LIBA plan and the planned increases to the average LIBA participant benefit for both effective dates of the rate plan.

**II. Adjustment 4.9, Operations and Maintenance – Memberships and Subscriptions**

**Q. Please describe Adjustment 4.9, Operations and Maintenance – Memberships and Subscriptions.**

A. The Company proposes removing $9,036 from its operating revenue for expenses related to membership fees and subscriptions. This adjustment is the result of a collaborative effort that was encouraged by the Commission in Order 06 in Docket UE-100749[[1]](#footnote-2) to refine the allocation of certain system wide costs. The collaborative concluded that, to the extent possible, membership expenses should be situs assigned to specific states instead of system allocated. This adjustment assigns the costs attributable to a specific jurisdiction by situs allocation factors for all system-allocated membership and subscription expenses incurred during the test period.

**Q. Does Staff agree with this adjustment?**

A. Staff agrees in principle with how the adjustment was done, however the Company erred in assigning several expenses to Washington customers that should have been assigned to another state or not included in regulated operations. These expenses are:

1. Utah Taxpayers Association in the amount of $18,700 – According to the Company, “The Utah Taxpayers Association strives to prevent ill-conceived or unnecessary tax proposals and encourage tax relief. The amount represents the Company’s annual membership in the organization.”[[2]](#footnote-3)
2. Wyoming Taxpayers Association in the amount of $11,199 – According to the Company, “The Wyoming Taxpayers Association promotes efficient and effective government through independent and unbiased analysis of public expenditures and taxation policies, coupled with wide dissemination of these analyses. The amount represents the Company’s annual membership in the organization.”[[3]](#footnote-4)
3. Yakima County Development Association in the amount of $7,500 – According to the Company, “The $7,500 amount represents the September 2014 payment to Yakima County Development Association for a pledge to New Vision 7.”[[4]](#footnote-5)
4. Yakima County Development Association in the amount of $4,500 – According to the Company, “The $4,500 amount represents a Challenge Grant given to the Yakima County Development Association for website upgrades and GIS map plug in. This will help them to be more effective in their efforts to attract new business into the Yakima Valley.”[[5]](#footnote-6)

**Q. Please discuss your analysis of these expenses.**

A. Expenses associated with tax advocacy in Utah and Wyoming should be situs assigned to their respective state jurisdictions, in keeping with the collaborative approving a cost allocation methodology for system wide expenses.

The expenses associated with the Yakima Valley Development Association are explained by Pacific Power & Light Company in response to Staff Data Request 151. In its response, the Company states that the purpose of these memberships is to strengthen relationships. Strengthening relationships is not part of the core business of providing electric service and, therefore, Staff believes these expenses should be removed from Adjustment 4.9.[[6]](#footnote-7)

**Q. What is the effect of your adjustment?**

A. My adjustment increases net operating income by $14,966 for a reduction in revenue requirement of $14,966.

**III. Cost of Service and Rate Design**

**Q. Did the Company provide a cost of service study in this case?**

A. No, the Company did not provide a cost of service study (COS study) in this filing. Company witness Ms. Joelle Steward explains as follows:

Given the expedited and limited nature of the filing, the Company is not proposing a new cost of service study for this proceeding. The cost of service study was litigated in the 2014 Rate Case. While the Commission retained the previously accepted methodologies for that case, it ordered the Company to return to the peak credit approach or provide more justification for an alternative approach in its next case. The Company intends to present this information in its next general rate case. For this filing, the outcome of the 2014 Rate Case along with the limited issues in this case, supports an equal percentage rate spread. The presentation of a new cost of service study here would undermine the purpose of an ERF, which is designed to avoid annual litigation of all issues in a full general rate case.[[7]](#footnote-8)

**Q. Did the Company propose any changes to rate design in this case?**

A. No. The Company did not propose any rate design changes in this filing. Instead, the Company proposed to allocate the revenue increase through a uniform rate increase of 2.99 percent to each rate schedule on both May 1, 2016, and May 1, 2017.

**Q. Does Staff agree in principle with how the Company allocated the rate increase?**

A. No, Staff does not agree that it is appropriate to apply across-the-board rate increases to the different rate classes. We continue to be concerned with parity and did not have an opportunity to audit parity ratios as the Company did not file a COS study in this case. That said, we believe the best approach to solving COS and rate spread issues is through a collaborative process over the next several months, rather than attempting to make significant changes within the accelerated timeline of this case. Therefore we are not contesting the Company’s proposed rate spread for the present case.

**Q. Why is a COS study important?**

A. Once the total revenue requirement for the utility is determined it is then necessary to allocate the revenues to each schedule, or customer class. A COS study is the tool used to determine the Company’s cost to serve each class of customers based on the recommended revenue requirement level. To arrive at a fair and reasonable result, the utility’s expenses and rate base must be assigned or allocated to each schedule. A fair result would show that each schedule produces a similar return on its assigned rate base. This avoids one class subsidizing the others. The results of the COS study are used to determine how to allocate the revenues across the schedules. This is also known as “rate spread.” There is often controversy about both the process of cost allocation and of rate spread. That is why it is important to engage the various advocates in discussions to iron out differences where possible.

**Q. Why is the COS study important when implementing decoupling?**

A. Absent decoupling, the Company receives a large component of its revenue on a per kWh basis. Due to the high variability in actual kWh sales, the revenue the Company receives from a particular class in any given year may be higher or lower than its actual cost of service. However, decoupling is designed to stabilize revenue for the Company to a per customer basis and eliminate the variation in revenue due to kWh sales. Because some classes, or customer schedules, typically claim that they do not need to be “decoupled” because they pay all their fixed costs through monthly basic charges or demand rates, it is imperative to assure that the costs to serve each schedule are fairly assigned and allocated. Otherwise any inequity among schedules is “baked in,” and the decoupling true-ups will assure that inequity is maintained.

**Q. What does Staff propose with regard to cost of service and rate design?**

A. Staff recommends convening a collaborative with interested parties to review the Company’s cost of service including, but not limited to:

1. Analyzing the Company’s current parity ratios;

2. Evaluating the effects of a third block in residential rates; and

3. Formulating a revenue allocation, or rate spread, to assure fair cost recovery for non-decoupled customers.

This Collaborative would be similar to the collaborative and subsequent settlement adopted by the Commission in Order 11 of Docket UE-130617 for Puget Sound Energy.[[8]](#footnote-9) Under this approach, Staff would agree with the Company’s proposal for rates to go into effect with across the board percentage increases. It would be Staff’s intent to conclude the collaborative before the start of the second year of the rate plan so that the results of the collaborative could be incorporated into the rates of the second rate year. Staff’s recommended revenue requirement as presented by Mr. Ball results in a small increase for the second part of the rate plan in the amount of $693,555.

**Q. Did Staff do an analysis to implement a third block to residential rates without increasing the basic charge?**

A. Staff did not have the ability to do an analysis of implementing a third block to residential rates within the expedited time frame for this case.[[9]](#footnote-10) Further, the Company did not provide any such analysis.

Staff supports adding a third block to residential rates because it sends a price signal that promotes conservation. An analysis of the customer bill impact of a third residential rate block on low income customers and Company revenue volatility, at the Company’s current basic charge will promote a greater understanding for all. This is one of the primary drivers behinds Staff’s recommended COS collaborative. Staff also recognizes there is controversy and welcomes the presentation of all opinions in avenue that allows sufficient time for analysis and productive discussion.

**IV. Low Income Bill Assistance**

**Q. How is the Company’s LIBA program set up?**

A. The LIBA plan is currently in its fourth year of a five-year plan that was agreed to by parties in the settlement stipulation approved by the Commission in Order 07 in Docket UE-111190.[[10]](#footnote-11) The major provisions of the five-year LIBA plan are that the number of participants increases, agency funding increases, and benefits to each participant increase at two times the percentage of any general rate increase.

**Q. What are the proposed increases the Company is making to the LIBA program?**

A. The Company proposes to apply a percentage increase for both 2016 and 2017 to Schedule 17 credits that is two times the average residential customer increase proposed in this filing. This results in a 5.98 percent increase each year to the average LIBA participant benefit using the Company’s revenue requirement. This percentage increase may change depending on the Commission’s determination of final revenues and rates.

**Q. Are the proposed increases to the Company’s LIBA program consistent with the five-year plan approved in Docket UE-111190?**

A. Yes. The proposed increases are consistent with the five-year plan approved by the Commission in Docket UE-111190. The Company is not proposing a Schedule 91 surcharge increase in this filing. Following a final order the Company proposes to again file changes to Schedule 91 as part of the compliance filing to recover the increase in the participant benefits and make any other necessary changes.[[11]](#footnote-12)

**Q. Does the Company have a plan in place to address the ending of the five-year LIBA plan in April of 2017?**

A. Yes. The Company proposes an increase to Schedule 17 benefits for the second-year rates that they propose to be effective May 1, 2017, identical to the way it will apply the increase to the rates they propose to be effective May 1, 2016, which is the start of the last year of the five year plan.[[12]](#footnote-13) The Company also plans to convene a stakeholder group to discuss any additional program changes to be effective beginning with the 2017–2018 winter heating season. Through informal communication with the Company, Staff understands that the group initially met Thursday, February 25, 2016. The group consisted of the Company, three community agencies the Company works with in their territory, and the Energy Project. The Company plans to include Commission staff in future meetings that discuss any changes to the LIBA plan.

**Q. Does Staff support the proposed increases to the LIBA program?**

A. In principle, yes. Staff agrees that the increases are appropriate and consistent with the five-year plan approved in Docket UE-111190. However, Staff’s recommended revenue requirement results in a small increase in the second part of the rate plan only in the amount of $693,555. Staff’s recommendation is to keep the LIBA funding at the current level for the first year of the rate plan and increase LIBA funding by .386% for the 2017 rate year.

Additionally, as discussed in my earlier testimony, Staff would like to work on a collaborative with interested parties to achieve greater parity of the customer class schedules for the second set of rates that will be effective on or around July 1, 2017. This may call for a change in the Schedule 17 benefit increase that the Company is proposing for 2017 increase. The possible change will be dependent on the percentage increase to the residential rates decided and agreed upon by the parties participating in the collaborative.

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

A. Yes.

1. *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, [Docket UE-100749](http://www.utc.wa.gov/docs/Pages/DocketLookup.aspx?FilingID=100749), Order 06, 86-87, ¶ 253 (March 25, 2011). [↑](#footnote-ref-2)
2. Pacific Power response to Staff Data Request 88. [↑](#footnote-ref-3)
3. *Id.* [↑](#footnote-ref-4)
4. Pacific Power response to Staff Data Request 89. [↑](#footnote-ref-5)
5. *Id.* [↑](#footnote-ref-6)
6. My Exhibit No. TVM-2, Staff Adjustment 4.9, reflects removal of expenses associated with tax advocacy in Utah and Wyoming and with the Yakima Valley Development Association. [↑](#footnote-ref-7)
7. Steward, Exh. No. JRS-1T 8:2–9:12. [↑](#footnote-ref-8)
8. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, [Docket UE-130617](http://www.utc.wa.gov/docs/Pages/DocketLookup.aspx?FilingID=130617), Order 11 (August 7, 2015). [↑](#footnote-ref-9)
9. *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co*., [Docket UE-140762](http://www.utc.wa.gov/docs/Pages/DocketLookup.aspx?FilingID=140762), Order 08, 92, ¶ 219 (March 25, 2015). Here, the Commission stated, “While we hope to see in the Company’s next case a proposal from Pacific Power, Staff, or other parties for a third block rate that is not tied to a higher basic charge for residential customers, we remain concerned about the impact of adding a third block on low-income customers.” [↑](#footnote-ref-10)
10. *Wash. Utils. & Transp. Comm’n* *v. Pacific Power & Light Co.*, [Docket UE-111190](http://www.utc.wa.gov/docs/Pages/DocketLookup.aspx?FilingID=111190), Order 07, 8, ¶ 17 (March 30, 2012). [↑](#footnote-ref-11)
11. Steward, Exh. No. JRS-1T 9:5-14. [↑](#footnote-ref-12)
12. As discussed in the direct testimony of Mr. Ball, the Company proposed a May 1 effective date but the Commission’s procedural schedule anticipates a July 1 effective date. [↑](#footnote-ref-13)