Q. If the first block is set at 600 kWh, based on the allocation of low-cost power, what should be the differential in rates between the first and second blocks?

A. The Company proposed increasing the first block by 10 percent, prior to applying the rate increase. The reason, Mr. Heidell stated, was to more equitably recover non-variable distribution costs while moderating bill impacts to small consumers. Since I propose to retain the current block of 600 kWh, I prepared an analysis to identify what the appropriate differential is, based on the variable costs of low-cost power in the first block and remaining variable power costs in the second block. This analysis is presented in Exhibit No. __ (JRS-5). Specifically, using the cost of service studies in this case, I allocated the transmission and distribution costs, as well as the fixed production costs, across all kilowatt-hours to derive a base rate. I developed a rate for the first block by adding the variable costs for the low-cost resources and I developed a rate for the second block by adding the variable costs for the remaining resources. The difference between these rates is about ~~17~~ 16 percent. Therefore, this is the differential between the block rates that I could support for residential rate design. However, I have concerns with the application of that differential to current rates at Staff's proposed revenue requirement deficiency.

Q. Please explain your concern.

A. With Staff's proposed revenue requirement deficiency, the allocation to the residential class is $12.5 million If we increase the first block rate to achieve a ~~17~~ 16 percent differential, then the first block's revenue increases by approximately ~~$16~~ $21 million, which exceeds the revenue deficiency and results in a decrease of about ~~1.7~~ 1.8 percent in the tail block rate. A decrease in the tail block results in a bill decrease for the higher energy using customers, which, I believe, sends a confusing signal for conservation. Therefore, I propose that the first block only be increased to the point where it can recover the revenue deficiency without resulting in a decrease to the tail block. At Staff's proposed revenue increase, I achieved a rate differential of about 18.7 percent, with no decrease to the current tail block rate, by increasing the first block by 5.5 percent, prior to applying the rate increase. Exhibit No. __ (JRS-6) shows my proposed residential rates.

Q. What is your recommendation regarding the Company's proposal for three annual rate adjustments for residential customers?

A. I recommend that the Commission reject the Company's proposal for three annual rate adjustments. The Company proposes these annual adjustments based on its forecast of declining consumption per customer. The only evidence