REVISED 11/12/2014

Exhibit No. __(MEF-1T)
Dockets UE-140762, et al.
Witness: Mark E. Fulmer

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFIC POWER & LIGHT COMPANY,** **Respondent.**	**UE-140762 and UE-140617** ***(consolidated)***
In the Matter of the Petition of **PACIFIC POWER & LIGHT COMPANY,** **For an Order Approving Deferral of Costs Related to Colstrip Outage.**	**DOCKET UE-131384** ***(consolidated)***
In the Matter of the Petition of **PACIFIC POWER & LIGHT COMPANY,** **For an Order Approving Deferral of Costs Related to Declining Hydro Generation.**	**DOCKET UE-140094** ***(consolidated)***

TESTIMONY OF

Mark E. Fulmer

For

THE ALLIANCE FOR SOLAR CHOICE

November 6, 2014

gradualism, cannot be justified on cost of service grounds, and does not provide the proper price signals for conservation, energy efficiency or solar distributed generation ("DG"). Based on PacifiCorp's cost of service study, I find that the largest cost-justified residential basic service charge to be ~~$7.40~~ $9.00 per customer per month.

II. PACIFICORP'S RESIDENTIAL BASIC CHARGE PROPOSAL IS BAD POLICY

Q: What is PacifiCorp proposing for a residential basic charge?

A: PacifiCorp proposes to increase its basic charge from $7.75 per customer per month to $14.00 per customer per month.

Q: Does this proposal comport with UTC policies and general guidelines for rate changes?

A: No. For example, in past decisions the Commission has repeatedly pointed to the regulatory principal of gradualism in addressing rate changes.[1] Gradualism in this context means not changing rates or rate structures radically in one proceeding. Clearly, increasing the basic charge to $14.00, as proposed here, violates this principal.

Q: How does this proposed increase in the residential basic charge compare to increases over the past 15 years?

A: This requested increase is unprecedented on a number of fronts. First, in both absolute (+$6.25) and percentage terms (+81%), PacifiCorp residential customers in Washington have never experienced a fixed charge increase of this magnitude. Second, as the figure

[1] E.g., The Commission's Final Order in Docket UE-130043 cites the principal of gradualism 3 separate times.

drops (i.e., the line from the pole to the premises), the costs of reading meters and billing, and general customer service (i.e., call center). Poles, wires, and distribution transformers, while in general are sunk costs (once in place), they are not strictly speaking proportional to the number of customers nor fixed. Instead, they are sized to meet the peak demand on a circuit, and in the long run, represent a marginal cost, as they can change with reduced or increased demand on the circuit. As such, they are long-run marginal investments that are a function of peak demand, not the number of hookups. For non-residential customers with meters that can measure demand, these costs should be for the most part collected via demand (per-kW) or time-of-use differentiated volumetric (per-kwh) charges. charges. But, like with transmission costs and sunk generation costs, since residential meters cannot measure peak demand, as explained in more detail below, it is more appropriate to collect these costs via the energy charges rather than customer charges.

Q: What would the customer charge be if you limited it to collecting the costs associated with meters, drops, and retail services?

A: Exhibit No.__(JRS-8) shows Ms. Steward's residential customer charge calculation details, in which she specifically identifies the cost component (dollars per test year) and average cost per customer per month. She includes the costs for retail (meter reading, billing, collections and customer service), poles and conductors, meters, service lines (or service drops), and transformers. These total to $34,498,013, or $27.60 per customer-month. If one includes only the genuinely customer-related costs (retail, meters, and service lines), the total cost is only ~~$9,140,174~~ $11,402,600, or ~~$7.40~~ $9.20 per customer-month. (See

number of customers. They are not demand-related costs that vary with peak usage, nor are they energy related costs that vary with consumption."[7]

Furthermore, Mr. Mickelson noted that in a 2007 general rate case order for Puget Sound Energy, the Commission stated:

> [A]n increase in the customer charge ... will result in the Company recovering about one-fourth of its fixed costs allocated to residential customers via a fixed charge on each customer's bill. This is about eight to ten percent of an average customer's total bill, considering both fixed and variable costs. This seems to us the right balance point for the recovery of fixed costs via the customer charge.[8]

The maximum value I recommend, ~~$7.40~~ $9.00 is within this range, as it would represent approximately ~~27%~~ 33% of PacifiCorp's distribution fixed costs and ~~6%~~ 8% of the average Schedule 16 residential customer bill.

Q: Are there other industry sources that corroborate this interpretation of what is appropriate to collect in customer charges?

A: Yes. A white paper on distribution rate design prepared for National Association of Regulatory Utility Commissioners ("NARUC") by the Regulatory Assistance Project echoes many of my concerns.[9] In particular, the paper notes "there is a broad agreement in the literature that distribution investment is causally related to peak demand" and not the number of customers; and "[t]raditionally, customer costs are those that are seen to vary with the number of customers on the system: service drops (the line from the

[7] CTM-1T, p. 29.
[8] *Ibid.*, page 32. Citing to Dockets UE-060266 and UG-060267, Order 08 at ¶139 (January 5, 2007).
[9] Weston, Frederick, "Charging For Distribution Utility Services: Issues In Rate Design," the Regulatory Assistance Project. December, 2000.