

Exhibit No. ___ T (CTM-9T)
Docket UE-130043
Witness: Christopher T. Mickelson

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT
COMPANY, d/b/a PACIFICORP,

Respondent.

DOCKET UE-130043

CROSS ANSWERING TESTIMONY OF

CHRISTOPHER T. MICKELSON

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

*Rule 6, Schedule 300, and Adjustment 3.8
Residential Schedules Rate Design*

August 2, 2013

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LIST OF EXHIBITS

Exhibit No. ____ (CTM-10), Electric Cost of Service

Exhibit No. ____ (CTM-11), Electric Revenue Allocation and Rate Design

1 **I. INTRODUCTION AND SCOPE OF TESTIMONY**

2

3 **Q. Are you the same Christopher T. Mickelson who submitted testimony in this**
4 **proceeding on June 21, 2013, on behalf of Staff?**

5 A. Yes.

6

7 **Q. What is the purpose of your cross-answering testimony in this proceeding?**

8 A. The purpose of my cross-answering testimony is two-fold. First, on July 29, 2013,
9 the Commission granted a motion of PacifiCorp to withdraw the Company's
10 proposed revisions to Schedule 300 and Rule 6 and terminate litigation of those
11 issues in this proceeding. My supplemental testimony describes the impact of that
12 decision on Staff's recommended increase in annual revenues for PacifiCorp. I also
13 list the exhibits and segments of my prior testimony that can be withdrawn as a result
14 of the Commission's decision.

15 Second, through informal discussions with Public Counsel witness Glenn
16 Watkins, I discovered errors in the calculation of Staff's proposed residential
17 monthly customer charge. My cross answering testimony corrects those errors and
18 describes the resulting effects on the volumetric rates Staff proposes for the
19 Residential Schedules.

20

21 **Q. Did you prepare any exhibits in support of Staff's cross-answering testimony?**

22 A. Yes. I prepared the following exhibits in support of my cross-answering testimony:

- 23 • Exhibit No. ____ (CTM-10), Electric Cost of Service; and

- 1 • Exhibit No. ____ (CTM-11), Electric Revenue Allocation and Rate Design.

2
3 **II. RULE 6, SCHEDULE 300, AND ADJUSTMENT 3.8**

4
5 **Q. Please explain why Staff's revenue requirement recommendation is impacted by**
6 **the withdrawal of the tariff revisions to Rule 6 and Schedule 300.**

7 A. Rule 6 and Schedule 300 address reconnection fees, and charges for the permanent
8 disconnection and removal of plant serving departing customers. The effect of
9 withdrawing the Company's proposed revisions to those schedules eliminates the
10 need for Adjustment 3.8, Schedule 300 Fee Charges because new revenues from the
11 proposed changes will not be generated. This, in turn, impacts Staff's overall
12 recommendation on revenue requirement for the Company.

13
14 **Q. What is the impact on Staff's recommended revenue requirement when**
15 **Adjustment 3.8 is eliminated?**

16 A. Staff's overall recommendation increases from \$14,619,641 to \$14,686,190, a
17 difference of \$66,549. Staff calculated that amount by removing Adjustment 3.8 in
18 its entirety. Another approach arriving at the same amount is to zero out the
19 adjustment.

20 Staff does not propose to re-submit its entire revenue requirement model in
21 Exhibit No. ____ (JH-2) to reflect this change. Moreover, because the increase in
22 revenue requirement is small, Staff has not rerun its cost of service study, revenue
23 allocation, and rate design, other than to reflect the corrected residential monthly

1 customer charge and volumetric rates that I discuss in the next section. Staff will
2 provide any of this additional information if so requested by the Commission.

3
4 **Q. What exhibits and segments of your original testimony are no longer necessary**
5 **after the withdrawal of the proposed changes to Rule 6 and Schedule 300?**

6 A. Staff's Exhibit Nos. ___ (CTM-2), ___ (CTM-7), and ___ (CTM-8) are no longer
7 necessary and can be withdrawn. In addition, the following segments of my June
8 21st testimony (Exhibit No. __ (CTM-1T)) can be eliminated:

- 9 • Page 3, lines 5-7.
- 10 • Page 6, lines 1-21.
- 11 • Page 7, line 19 through page 9, line 6.
- 12 • Page 42, line 8 through page 43, line 19.

13
14 **III. RESIDENTIAL SCHEDULES RATE DESIGN**

15
16 **Q. Please summarize Staff's errors to its originally proposed rate design for**
17 **residential schedules.**

18 A. With respect to calculating the monthly customer charge, Staff: (1) incorrectly
19 double counted federal income taxes; (2) did not reflect the most recent net operating
20 income and revenue sensitive conversion factors; and (3) inadvertently included
21 certain intangible and general plant, its corresponding accumulative depreciation and
22 deferred income taxes, and depreciation expenses within its calculation.

1 Correcting these errors results in an increase to the monthly customer charge
2 for Residential Schedules 16, 17 and 18 from the existing \$6.00 to \$7.91, rather than
3 \$8.64 as my initial testimony proposed. I show the cost basis for the \$7.91 monthly
4 customer charge in my revised Exhibit No. ____ (CTM-4) at page 3, line 31.

5 This lower monthly customer charge increases Staff's recommended
6 residential volumetric rates because less revenue is collected through the monthly
7 customer charge. I will provide my revised volumetric rates below.

8
9 **A. Residential Monthly Customer Charge**

10
11 **Q. Please explain the first error in the original calculation of the residential**
12 **monthly customer charge.**

13 A. The first error was to double count federal income taxes by assessing them on both
14 expenses (grossed up for revenue sensitive items) and a return on rate base that used
15 a before tax rate of return (grossed up for federal income taxes and revenue sensitive
16 items).

17 To correct this error, I removed federal income taxes from expenses and only
18 used a net of tax rate of return grossed up for federal income taxes and revenue
19 sensitive items. Use of a net of tax rate of return is appropriate when grossing up
20 federal income taxes and revenue sensitive items because it removes the tax benefit
21 of short- and long-term debt.

1 **Q. Please explain the second error in the original calculation of the residential**
2 **monthly customer charge.**

3 A. Staff utilized inaccurate net operating income and revenue sensitive conversion
4 factors. To correct that error, Staff updated net operating income and revenue
5 sensitive conversion factors consistent with Exhibit No. ___ (CTM-3), page 4.
6

7 **Q. Please explain the final error in the original calculation of the residential**
8 **monthly customer charge.**

9 A. Staff inadvertently included certain intangible and general plant, its corresponding
10 accumulative depreciation and deferred income taxes, and depreciation expenses
11 within its monthly customer charge calculation. This is inconsistent with the premise
12 that the monthly customer charge should recover only costs associated with each
13 customer. I corrected this error by removing the plant, accumulative depreciation,
14 and depreciation expenses from the monthly customer charge.
15

16 **Q. Did Staff update Table 3 from page 32 of Exhibit No. ___ T(CTM-1T), showing**
17 **the total bill impact of the \$7.91 residential monthly customer charge?**

18 A. Yes. As shown by revised Table 3, for customers with usage levels consistent with
19 low-income customers, Staff's revised rates are still between 0.5 percent and 1.1
20 percent lower with the revised monthly customer charge increase, than they would
21 have been if the same amount of revenue were collected strictly through increases to
22 volumetric charges:
23

Table 3: Crossover Chart

Usage in kWh	Total Bill per Rate Design Option		
	Basic Rate = \$6.00	Basic Rate = \$7.91	% Difference
1,000	\$80.38	\$79.97	-0.5%
1,100	\$90.08	\$89.47	-0.7%
1,200	\$99.77	\$98.97	-0.8%
1,300	\$109.46	\$108.47	-0.9%
1,400	\$119.15	\$117.97	-1.0%
1,500	\$128.84	\$127.47	-1.1%

Thus, Staff's revised monthly customer charge still sends the correct price signal because it recovers the fixed costs the Company incurs directly to serve that customer, such as the cost of the service drop and the meter.

Q. Does Staff have a breakdown of how each of the three corrections impacts Staff's original monthly customer charge?

A. Yes. That breakdown is as follows:

Description	Amount
Staff's Original Monthly Customer Charge	\$8.64
Removed Double Counting of Federal Income Taxes	-\$0.81
Update Net Operating Income & Revenue Sensitive Conversion Factors	\$0.01
Removed Inadvertently Included Plant and Expenses	\$0.07
Staff's Revised Monthly Customer Charge	\$7.91

1 **B. Residential Volumetric Rates**

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3 **Q. Please explain why Staff's volumetric rates increase for the residential**
4 **schedules as compared to your initial testimony.**

5 A. The lower residential monthly customer charge of \$7.91 will generate less revenue
6 than the \$8.64 charge proposed initially by Staff. Therefore, the residential
7 volumetric rates must be increased in order to generate the same total amount of
8 revenue Staff proposes should be collected from those schedules.

9

10 **Q. Please explain the revised residential volumetric rates proposed by Staff.**

11 A. For the reasons stated at pages 33-36 and 40, line 13 through 41, line 10 of my initial
12 testimony, Exhibit No. ___ (CTM-1T), Staff still recommends creating a third block
13 volumetric rate using the exact same cents per kWh differential between the first-
14 and second-block rates before the rate increase, and then applying a weighted
15 uniform percentage increase for all volumetric rates in all Residential Schedules
16 based on each block's kilowatt-hour units. If these resulting rates generate revenues
17 in excess of the revenue requirement for the schedules, then I reduced the third block
18 differential until the revenue requirement was achieved.

19 Thus, including the monthly customer charge, Staff recommends the
20 following rates for Residential Schedules 16, 17 and 18:

- 21
- Monthly Customer Charge \$7.91 per month
 - 22 • 1st 800 kWh 6.632¢ per kWh
 - 23 • Next 700 kWh 9.501¢ per kWh

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- All addt'l kWh 10.905¢ per kWh

Q. Are there any other considerations the Commission should bear in mind in constructing residential rate design?

A. Yes. When applying a rate increase, the Commission should construct a rate structure where all ratepayers receive a rate increase; therefore, no ratepayer pays less under the revised rate structure compared to the current rate structure regardless of shifting of blocks and rates. Using Staff's bill comparison¹ will demonstrate whether any customers under any usage result in a rate decrease.

Q. Did Staff update Table 4 on page 38 of Exhibit No. ___ T(CTM-1T) to reflect the revised residential rate design and its overall impacts?

A. Yes. Revised Table 4 below illustrates the residential customer bill effect under the current rate structure, the Company's proposed rate structure, and Staff's revised rate structure at a variety of usages using the Company's revenue requirement:

¹ Mickelson, Exhibit No. ___ (CTM-11) at 12-14, column (g).

1 Table 4: Showing the Bill Effect of Company and Staff Rate Design Proposals

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Usage in kWh	Residential Bill					
	Current	Company Proposal	% Difference	Current	Staff Proposal	% Difference
50	\$8.97	\$13.14	46.4%	\$8.97	\$11.52	28.3%
300	\$23.85	\$28.83	20.9%	\$23.85	\$29.54	23.9%
1,300	\$107.61	\$123.45	14.7%	\$107.61	\$118.99	10.6%
3,000	\$267.68	\$307.49	14.9%	\$267.68	\$317.29	18.5%
4,000	\$361.84	\$415.75	14.9%	\$361.84	\$435.25	20.3%

10

11 **Q. Did Staff also update Table 5 on page 40 of Exhibit No. ___ T(CTM-1T) to**

12 **reflect the revised residential rate design?**

13 A. Yes. Staff's analysis for the Residential Schedules, as shown in my revised Exhibit

14 No. ___ (CTM-5), page 15 and summarized in the revised Table 5 below,

15 demonstrates that the current rate design and the Company's proposed rate design

16 still result in a smaller percentage of revenue in the first block and greater percentage

17 of revenue within the third block, as compared to Staff's revised proposal.²

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² See also Exhibit No. ___ (CTM-1T) at 38:18-39:14. The Company does not have a third block; however, Staff is able to derive the revenue by applying the Company's current and proposed rates against Staff's actual units in the third block.

Table 5: Summary of Percentage of Revenues by Rate Design Structure

Rate Design Structure	Percentage of Revenues		
	Current	Company Proposal	Staff Proposal
Base Charge	5.6%	10.9%	7.0%
First Block	30.3%	28.6%	40.4%
<i>Sub-Total</i>	<i>35.9%</i>	<i>39.6%</i>	<i>47.4%</i>
Second Block	40.5%	42.5%	26.7%
Third Block	23.6%	17.9%	25.9%
<i>Sub-Total</i>	<i>64.1%</i>	<i>60.4%</i>	<i>52.6%</i>
<i>Grand Total</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>

Q. Does this conclude your cross-answering testimony?

A. Yes.