

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
Complainant,)
v.)
PACIFICORP D/B/A PACIFIC)
POWER & LIGHT COMPANY,)
Respondent.)
_____)

Docket No. UE-130043

CROSS ANSWERING TESTIMONY OF MICHAEL C. DEEN

ON BEHALF OF

BOISE WHITE PAPER, LLC

August 2, 2013

1 **INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Michael C. Deen, and my business address is 900 Washington Street, Suite
4 780, Vancouver, Washington 98660. I am employed by Regulatory and Cogeneration
5 Services, Inc. (“RCS”), a utility rate and consulting firm.

6 **Q. ARE YOU THE SAME MICHAEL DEEN THAT PREVIOUSLY TESTIFIED IN**
7 **THIS PROCEEDING?**

8 **A.** Yes. I previously provided testimony on behalf of Boise White Paper, LLC (“Boise”) in
9 this proceeding regarding revenue requirement issues, PacifiCorp’s proposed Power Cost
10 Adjustment Mechanism, and its proposed rate spread.

11 **Q. WHAT TOPICS WILL THIS TESTIMONY ADDRESS?**

12 **A.** The purpose of this testimony is to address rate spread and certain cost of service analysis
13 proposals presented by the WUTC Staff in Exhibit No. ____ (CTM-IT).

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS TESTIMONY.**

15 **A.** The Commission should not follow Staff’s recommended rate spread, but rather should
16 adopt the proposal advanced by Boise in my previous direct testimony, as it more fully
17 conforms to the Commission’s established rate spread principles. In addition, the
18 Commission should not adopt Staff’s three recommended changes to the Company’s cost
19 of service study for the Company’s next case. First, Staff recommends the Company be
20 required to use a demand value derived from the highest 100 winter and highest 100
21 summer demand hours (“200 CP”) to calculate generation and transmission energy and
22 demand cost classification in the peak credit method, rather than basing demand on its
23 highest hourly demand figure. Second, Staff recommends allocating non-dispatchable

1 generation costs based on the facility's actual contribution to peak capacity, rather than
2 using a company-wide average allocation factor for these facilities. Third, Staff
3 recommends directly assigning the costs of corporate account managers to Schedule 48T
4 customers. Each of these proposed changes is inappropriate. A prudent course would be
5 for the Commission to order a collaborative workshop process for parties to more fully
6 consider the implications of the concerns and proposals raised by Staff.

7 **RATE SPREAD**

8 **Q. PLEASE SUMMARIZE STAFF'S PROPOSED RATE SPREAD.**

9 **A.** In general terms, Staff is proposing above-average increases for Schedules 16-18
10 (Residential) and 48T (both Large General Service and Dedicated Facilities) and below-
11 average or no increases for all other classes.

12 **Q. WHY IS STAFF'S PROPOSED RATE SPREAD INAPPROPRIATE?**

13 **A.** As Staff recognizes, the Commission has endorsed a number of principles that should
14 guide rate spread decisions. One goal is to bring rate classes into a reasonable "parity;"
15 that is to say, a cost of service study should indicate that each rate class largely pays for
16 the cost of serving it. Generally, a parity ratio should be between 90 and 110%.
17 However, in addition to the results of a cost of service study, rate spread decisions should
18 reflect a number of other concerns, including fairness, perceptions of equity, economic
19 conditions in the service territory, gradualism, and rate stability. While Staff mentions
20 these latter concerns in testimony, the practical result of its rate spread recommendation
21 ignores them and appears to be largely driven by a desire to reach a high level of parity
22 very abruptly. The result is that Staff recommends that Residential rate classes and
23 Schedule 48T would receive rate increases of 5.54% and 6.75%, respectively, while other

1 customers would receive a rate increase of less than half of this amount, or no increase at
2 all. Assigning rate increases to some customers that are double those received by other
3 classes, and exempting some classes from rate increases altogether is unfair, and it in no
4 way could be described as maintaining a “perception of equity.” Further, a larger than
5 average rate increase is, by definition, not gradual, nor does it promote rate stability.
6 Given that the economy in the Company’s Washington service territory continues to
7 struggle, abrupt rate increases such as would result from Staff’s rate spread proposal
8 could have dire effects on households and businesses operating on very thin margins.
9 Imposing such a dramatic increase on Schedule 48T is not only inequitable but not well
10 supported.

11 **Q. WHY DO YOU BELIEVE STAFF’S RATE SPREAD PROPOSAL IS**
12 **UNSUPPORTED?**

13 **A.** In Exhibit No. ___(CTM-1T) at 13, Staff shows Schedule 48T, Large General Service, to
14 be at .985 and Schedule 48T, Dedicated Facilities, to be at 0.936 for parity ratios. By
15 Staff’s own testimony, determining what amount of the average increase is assigned to
16 each class is a matter of “informed judgment.”^{1/} For many years this Commission has
17 adopted an equal percentage increase for all rate classes within 10% of parity because it
18 is supported by both the numbers and concepts of fairness, equity, economic conditions,
19 gradualism and rate stability.

^{1/} Exhibit No. ___(CTM-1T) at 23, lines 12-13.

1 **Q. WHAT WOULD BE THE PRACTICAL EFFECT OF ADOPTING MR.**
2 **MICKELSON’S PROPOSAL?**

3 **A.** Mr. Mickelson claims that his proposal results in “small and discrete increments to
4 reduce these imbalances.”^{2/} The proposed numbers, however, are anything but gradual.
5 Mr. Mickelson shows that Large General Service less than 1,000 kW (Schedule 36)
6 would see a 2.4% rate increase while Large General Service greater than 1,000 kW
7 (Schedule 48) would see a 6.4% rate increase.^{3/} The math is obvious, and the impacts
8 from Staff’s proposal would be punitive to Schedule 48.

9 **Q. DID BOISE DEVELOP A RATE SPREAD PROPOSAL EARLIER IN THIS**
10 **PROCEEDING?**

11 **A.** Yes. Based on the Company’s cost of service study, I recommended that Schedule 40
12 (Agricultural Pumping Service) and street lighting schedules receive below-average
13 increases, and all other classes receive an equal percentage increase. The basis for this
14 recommendation is that only these two classes are significantly outside of parity (greater
15 than 10 percent). It is, therefore, appropriate to assign them smaller rate increases than
16 other parties receive. This will address the issue of parity by significantly improving the
17 parity ratios for these outliers and maintaining other classes within a reasonable range.

18 **Q. PLEASE EXPLAIN HOW BOISE’S RATE SPREAD RECOMMENDATION**
19 **MORE GLOBALLY CONFORMS WITH COMMISSION GUIDANCE.**

20 **A.** Boise’s recommendations better conform with other important rate spread principles,
21 particularly fairness, perceptions of equity, and consideration of the economic conditions
22 in the Company’s service territory. Under Staff’s proposal, I believe that both residential
23 and large customers would bear an unfair level of the proposed rate increase during a

^{2/} Exhibit No. ____ (CTM-1T) at 27, lines 12-14.

^{3/} Exhibit No. ____ (CTM-1T) at 25, lines 14-17.

1 time of continuing economic difficulties. Further, Boise's rate spread is still very much
2 cost based, including lower than average increases for those classes furthest from full cost
3 of service rates and equal percentage for classes within a reasonable range of parity.

4 **COST OF SERVICE STUDY**

5 **Q. HAS STAFF RAISED ANY ISSUES WITH THE COMPANY'S COST OF**
6 **SERVICE STUDY?**

7 **A.** Although Staff asserts that the Company's procedures are adequate in this case, Staff has
8 identified three areas for "improvement" in the Company's cost of service analysis for
9 future proceedings. These three issues are: 1) a change to PacifiCorp's proposed peak
10 credit implementation; 2) the allocation of non-dispatchable resources using the peak
11 credit method; and 3) the assignment of corporate account managers directly for Schedule
12 48 customers.

13 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED IMPLEMENTATION OF**
14 **THE PEAK CREDIT METHOD IN THIS PROCEEDING.**

15 **A.** First, the Company determines its costs of service that are attributable to the generation
16 and transmission business functions. Next, it classifies these costs between those caused
17 by meeting peak demand and those caused by meeting energy needs. This step of
18 classifying production costs between demand and energy is necessary because utility
19 production plant typically serves the dual purposes of meeting system peak and serving
20 energy needs throughout the year.

21 The peak credit method is the process by which the Company determines what
22 portion of generation and transmission function costs are classified to meeting peak
23 demand on the system (i.e., demand-related) and what portion are classified to meeting
24 system energy needs (i.e., energy-related). In this case, PacifiCorp has used the WCA

1 “System Diversified Load Factor” as the peak credit factor. In other words, PacifiCorp
2 calculated the ratio of the average energy use in the WCA over the test year to the WCA
3 peak load during that time period.

4 **Q. WHAT CHANGE IS STAFF PROPOSING TO THIS APPROACH?**

5 **A.** Rather than using the actual peak load in the system load factor calculation, Staff is
6 proposing to use an average of the highest 100 winter and 100 summer hours (“200 CP”).
7 Staff argues that this approach is “consistent” with the allocation process for interstate
8 cost allocation and is also appropriate because it uses a larger data set that may be less
9 prone to variation through time.

10 **Q. DO YOU AGREE WITH STAFF’S RECOMMENDATION?**

11 **A.** No. Staff’s recommendation appears to confuse the issues of the classification versus
12 allocation of production costs and would undermine the basis of the Company’s
13 calculation to determine the relationship between peak and average loads on the WCA
14 system. The fact that the Company happens to allocate demand-related costs between
15 classes on the basis of the top 100 winter and summer hours is not related to determining
16 the relationship between demand and energy-related costs for the Company’s generation
17 and transmission costs. Further, the basis for using more data than a single system peak
18 is for the allocation of demand-related costs between classes, in which the use of a single
19 hour might be prone to anomalies. Again, this is distinct from the classification of
20 production costs between energy and demand. The Company’s actual peak is not an
21 anomaly; rather, it literally represents the demand figure that the Company must plan and
22 expend resources to meet. Therefore, it is the most accurate and appropriate measure for

1 peak demand. Using a 200 CP figure will distort the relationship between the company's
2 demand and energy needs.

3 **Q. WHAT IS STAFF'S PROPOSAL REGARDING THE ALLOCATION OF NON-**
4 **DISPATCHABLE RESOURCES?**

5 **A.** Staff is concerned that the use of the Company's current allocation factors for non-
6 dispatchable resources, which use the peak credit method, may not appropriately account
7 for the lower capacity contributions of these resources. Staff states that "If non-
8 dispatchable generation resources have a reduced capacity to meet peak, the capacity
9 component of the weighting should reflect this reduction."^{4/} Staff proposes development
10 of a new allocation factor that would reduce the portion of non-dispatchable resource
11 costs that are classified as demand-related.

12 **Q. DO YOU AGREE WITH STAFF'S PROPOSAL?**

13 **A.** No. The peak credit method is a global method for classifying the costs of production on
14 the system between demand and energy. The peak credit classification for the system
15 will not necessarily be perfect for any individual generating resource or for transmission
16 assets, but rather produces an overall classification that is appropriate. In this case,
17 PacifiCorp has calculated a 38% classification to demand on a system wide basis,
18 representing its generation fleet as a whole. Cherry-picking individual resource types for
19 a different treatment would necessitate a re-evaluation of the entire method.

20 For example, I agree in general that a wind plant contributes less to peak demand
21 than a simple cycle combustion turbine ("SCCT"). However, it is inappropriate to single
22 out the wind resource for different treatment. Although the 38% classification to demand

^{4/} Exhibit No. ____ (CTM-IT), page 21, lines 1-2.

1 in the Company's filing may be too high for a wind plant, it would likely be drastically
2 too low for the SCCT. The important issue is whether the peak credit calculation
3 provides a value that is reasonable overall.

4 **Q. WHAT IS THE EFFECT OF BOTH STAFF'S PROPOSED CHANGE TO THE**
5 **PEAK CREDIT CALCULATION AND THE ALLOCATION FACTOR FOR**
6 **NON-DISPATCHABLE RESOURCES?**

7 **A.** It is my understanding that both of these proposals would tend to lower the classification
8 of production costs to demand. This in turn will tend to increase costs ultimately
9 allocated to higher load factor customers.

10 **Q. HAS STAFF PRESENTED EVIDENCE THAT THIS WOULD BE**
11 **APPROPRIATE?**

12 **A.** No. Staff has not presented any evidence that the overall classification of production
13 costs to demand is too high in the Company's cost of service. In fact, Staff asserts that,
14 "[o]verall the Company's electric cost of service study presents fairly the costs imposed
15 on the system by the customers served on each rate schedule."^{5/}

16 **Q. WHAT IS STAFF'S PROPOSAL REGARDING THE COST TREATMENT OF**
17 **CORPORATE ACCOUNT MANAGERS?**

18 **A.** Staff is proposing to directly assign the costs of corporate account managers to Schedule
19 48T. The basis for this recommendation is that only large customers benefit from these
20 employees.

21 **Q. DO YOU AGREE WITH STAFF'S ASSESSMENT?**

22 **A.** No. Before any direct assignment of corporate account managers to 48T customers
23 would be appropriate, it would have to be determined that large customers were not being
24 assigned any costs related to customer service from which they did not receive benefits.

^{5/} Exhibit No. ____ (CTM-1T), page 12, lines 15-16.

1 It would be unfair for 48T customers to pay for general customer services used only by
2 other classes, and then also pay for directly assigned corporate account managers. Staff's
3 recommendation is unsupported by any evidence that 48T customers would not be paying
4 twice for customer service costs.

5 **Q. DO YOU SEE OTHER PROBLEMS WITH STAFF'S ACCOUNT MANAGER**
6 **PROPOSAL?**

7 **A.** Yes, Staff is on a slippery slope regarding direct assignment of costs. There are many
8 costs that are paid by Schedule 48 that may not relate to costs they impose on the system.
9 If Staff wants to go down the path of direct assignment of costs to Schedule 48T, then all
10 costs should be evaluated.

11 **Q. WHAT IS YOUR OVERALL RECOMMENDATION REGARDING STAFF'S**
12 **RECOMMENDED CHANGES TO THE COMPANY'S COST OF SERVICE**
13 **ANALYSIS?**

14 **A.** I oppose Staff's recommendation that the Company should be ordered to present a cost of
15 service study in its next case that incorporates Staff's proposals. Staff's proposed 200 CP
16 classification methodology confuses classification and allocation principles. Its proposal
17 to segregate non-dispatchable wind generation for a unique allocation factor and its
18 proposal to directly assign customer service costs do not include evidence or analysis of
19 offsetting factors. None of these three proposals is ready for implementation; rather, each
20 would require substantial further analysis to determine their appropriateness and
21 implications both in principle and in practice. Rather than implement Staff's
22 recommendations, I would recommend the Commission establish a workshop process
23 ahead of PacifiCorp's next Washington filing for parties to work collaboratively on issues
24 relating to the Company's cost of service study.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.