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## SOAH DOCKET NO. 473-15-1556 PUC DOCKET NO. 43695

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APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES

## **BEFORE THE STATE OFFICE**

OF

# ADMINISTRATIVE HEARINGS



# **COST ALLOCATION / RATE DESIGN**

# **CROSS-REBUTTAL TESTIMONY OF**

### **BRIAN T. MURPHY**

## **RATE REGULATION DIVISION**

PUBLIC UTILITY COMMISSION OF TEXAS

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## **ATTACHMENTS:**

| <b>Attachment BTM-1</b> | Regulatory Resumé of Brian T. Murphy     |
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| Attachment BTM-2        | PAYXAG Functionalization Factors         |
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| Attachment BTM-5        | Commercial & Industrial Rates            |
| Attachment BTM-6        | Public (or Municipal Service) Rates      |

| 1  | I.  | PROFESSIONAL QUALIFICATIONS  |
|----|-----|--|
| 2  | Q.  | Please state your name and business address.   |
| 3  | A.  | Brian T. Murphy, 1701 N. Congress Avenue, Austin, TX 78711-3326.                       |
| 4  | Q.  | By whom are you employed and in what capacity?   |
| 5  | A.  | I am employed by the Public Utility Commission of Texas ("PUC" or "the                 |
| 6  |     | Commission") as a Senior Rate Analyst in the Tariff and Rate Analysis Section of       |
| 7  |     | the Rate Regulation Division.  |
| 8  | Q.  | Are you the Brian T. Murphy who submitted direct testimony in this                     |
| 9  |     | proceeding on May 22, 2015?  |
| 10 | A.  | Yes. A listing of my previously filed direct testimony can also be found in            |
| 11 |     | Attachment BTM-1.  |
| 12 |     |  |
| 13 | II. | SCOPE OF CROSS-REBUTTAL TESTIMONY  |
| 14 | Q.  | What is the purpose of your cross-rebuttal testimony in this case, SOAH                |
| 15 |     | Docket No. 473-15-1556, and PUC Docket No. 43695, Application of                       |
| 16 |     | Southwestern Public Service Company for Authority to Change Rates?                     |
| 17 | A.  | My cross-rebuttal testimony will address electronic modeling, customer                 |
| 18 |     | classification, cost allocation, class revenue distribution, and rate design issues. I |
| 19 |     | will respond to the testimony of Clarence Johnson on behalf of Alliance of Xcel        |
| 20 |     | Municipalities ("AXM"), Charles S. Griffey on behalf of Occidental Permian Ltd.        |
| 21 |     | ("Occidental"), and Jeffry Pollock on behalf of Texas Industrial Energy                |
| 22 |     | Consumers ("TIEC").  |
|    |     |  |

| 1                        | III. | SUMMARY OF RECOMMENDATIONS  |
|--------------------------|------|---|
| 2                        | Q.   | Please summarize your recommendations.  |
| 3<br>4<br>5<br>6<br>7    | A.   | <ul> <li>With respect to <i>electronic modeling</i>, I recommend that</li> <li>Mr. Pollock's electronic model be rejected as insufficient to allow SPS to seek the recovery it is entitled to seek pursuant to PURA and the Commission's PCRF, TCRF, and DCRF rules.</li> </ul>                       |
| 8<br>9<br>10<br>11<br>12 |      | <ul> <li>With respect to <i>functional cost allocation</i>, I recommend that</li> <li>Mr. Pollock's calculation of the PAYXAG functionalization factor using information which closely matches the test year information from Docket No. 42004 be rejected.</li> </ul>                                |
| 12<br>13<br>14           |      | <ul> <li>With respect to <i>class cost allocation</i>, I recommend that</li> <li>Mr. Pollock's consolidation of the secondary general service rate class,</li> </ul>  |
| 15<br>16                 |      | primary general service rate class, and large general service-transmission rate class be rejected;  |
| 17<br>18                 |      | <ul> <li>Mr. Pollock's re-naming of the Company's rate classes be rejected;</li> <li>Mr. Pollock's allocation of production capacity costs in proportion to billing demands be rejected;</li> </ul>   |
| 20<br>21                 |      | <ul> <li>Mr. Pollock's allocation of transmission capacity costs in proportion to billing demands be rejected;</li> </ul>   |
| 22<br>23                 |      | • Mr. Pollock's allocation of distribution substation costs in proportion to AED 4CP transmission demand to some rate classes be rejected;  |
| 24<br>25                 |      | <ul> <li>Mr. Pollock's allocation of distribution substation costs in proportion to<br/>billing demands for other rate classes be rejected;</li> <li>Mr. Pollock's allocation of universe distribution substation costs on the basis of</li> </ul>  |
| 26<br>27<br>28           |      | <ul> <li>Mr. Pollock's allocation of primary distribution system costs on the basis of billing demands be rejected;</li> <li>Mr. Pollock's use of two different methodologies to allocate the same costs</li> </ul>   |
| 29<br>30                 |      | <ul> <li>With Follock's use of two unreferring including less to unocate the same costs among different rate classes be rejected as a matter of policy;</li> <li>To the extent other witnesses, including Mr. Griffey, Mr. Johnson. Mr.</li> </ul>  |
| 31<br>32<br>33<br>34     |      | Pollock, Kit Pevoto on behalf of State Agencies, and William B. Marcus on behalf of Office of Public Utility Counsel ("OPUC") intended to use the term "customer class" to refer to bundles of rate classes rather than a single rate class, all those uses of the term "customer class" be rejected. |
| 35<br>36                 |      | With respect to <i>class revenue distribution</i> . I recommend that  |
| 37<br>38                 |      | • Mr. Pollock's and Mr. Johnson's bundling of rate classes for the purpose of class revenue distribution be rejected;   |
| 39<br>40                 |      | • Mr. Pollock's and Mr. Griffey's proposal to limit class revenue increases to 150% of the system average increase or decrease be rejected;   |
| 41<br>42                 |      | • Mr. Johnson's proposal to limit class revenue increases to 175% of the system average increase be rejected;   |
| 43<br>44                 |      | • Mr. Johnson's proposal to allocate revenues for each class in proportion to the midpoint between present revenues and revenues at an equalized rate of return   |

| 1        |      | be rejected; and,   |
|----------|------|---|
| 2        |      | • Mr. Pollock's proposal to prohibit movement for any class that is opposite the                                |
| 3<br>4   |      | system-wide revenue increase or decrease be rejected.   |
| 5        |      | With respect to <i>rate design</i> , I recommend that   |
| 6        |      | • In the event the Commission adopts Mr. Pollock's consolidation of the   |
| 7        |      | secondary general rate class, primary general rate class, and large general                                     |
| o<br>9   |      | Industrial class be set to the levels shown in Attachment BTM-5:  |
| 10       |      | • In the event the Commission adopts Mr. Johnson's and Mr. Pollock's  |
| 11       |      | bundling of the small municipal and school rate class, large municipal rate                                     |
| 12<br>13 |      | class, and large school rate class, rates for the bundled class be set to the levels shown in Attachment BTM_6. |
| 14       |      |   |
| 15       | ** * |   |
| 16       | IV.  | UNPRECEDENTED APPROACH TO RATEMAKING  |
| 17       | Q.   | Please briefly describe the normal ratemaking process.  |
| 18       | A.   | The ratemaking process can be simple and straightforward. A utility reviews its                                 |
| 19       |      | books and decides that its revenues under current rates are less than its costs. The                            |
| 20       |      | remedy is an application for a change in rates, which determine the revenues the                                |
| 21       |      | utility will collect at a given level of sales. The rates to be changed are found in                            |
| 22       |      | the utility's rate schedules. Customers are organized into these rate schedules                                 |
| 23       |      | based on similar electric service characteristics, and the group of customers under                             |
| 24       |      | each rate schedule is called a "rate class." In order to determine which rates need                             |
| 25       |      | to be raised or lowered, the utility needs to measure its costs to serve each rate                              |
| 26       |      | class and compare that to its collections from each rate class under current rates.                             |
| 27       |      | When collections exceed costs, that rate class's rates are lowered. When  |
| 28       |      | collections are less than costs, that rate class's rates are increased.   |
| 29       | Q.   | Please compare the above description with the Company's approach in this  |
| 30       |      | case.   |

A. In this case, the Company has proposed an approach that is consistent with the

above description. SPS measured its costs to serve each rate class largely using 1 2 the cost allocation treatments that have been consistently favored by the Commission. The Company then distributed revenue responsibilities among the 3 rate classes and adjusted rates under each rate schedule to collect each rate class's 4 assigned share of revenues. This approach promotes movement towards cost-5 6 based rates and is suitable if the Commission favors customers paying for the 7 costs they cause. Staff supports this approach because it is transparent, consistent 8 with the Commission's standard practices, and promotes cost-based rates. Cost-9 based rates are fair, they promote SPS's financial health, and they promote efficiency in the utility's provision of service and in customers' use of the utility 10 system, both of which help keep overall costs and rates down. 11

#### 12 Q. Please describe an alternative approach to ratemaking.

13 A. Another ratemaking approach is to seek treatments that would shift costs away 14 from certain customers that would not experience rate shock if they were required to pay their fair share. This approach may result in movement towards or away 15 16 from cost-based charges for a given customer, and may be suitable if the Commission favors a policy of discounted rates for certain types of customers. 17 18 Historically, the Commission has favored cost-based rates, so advocates of this 19 approach must advocate non-standard methodologies. These non-standard 20 methodologies confuse issues. In the ensuing confusion, improper ratemaking 21 treatments might evade detection. Costs and revenues can be allocated among bundles of rate classes. Costs and revenues can then be distributed among the 22 customers within each bundle using a multitude of non-standard methodologies. 23

| 1  |    | The words "rate class" are missing from this approach. In various phases, cost        |
|----|----|---|
| 2  |    | causation is disregarded. The result of this approach is rates that are not likely to |
| 3  |    | be reasonably cost-based. Staff opposes this approach because it will result in       |
| 4  |    | rates that are inequitable, de-stabilize the utility's revenues, and induce           |
| 5  |    | inefficiencies and higher overall rates for all ratepayers.                           |
| 6  | Q. | Is there a witness in this proceeding whose positions are largely consistent          |
| 7  |    | with the non-transparent cost shifting approach you just described?                   |
| 8  | A. | Yes. To an unprecedented degree in my experience, Mr. Pollock on behalf of            |
| 9  |    | TIEC is advocating positions that appear to be highly consistent with the non-        |
| 10 |    | transparent cost shifting approach. Since this is an unprecedented approach to        |
| 11 |    | ratemaking that I believe is bad policy for Texas, I have focused my cross-rebuttal   |
| 12 |    | on Mr. Pollock's testimony, which is largely supported by Occidental witness Mr.      |
| 13 |    | Griffey.  |

14

#### 15 V. ELECTRONIC MODELING

#### 16 Insufficiency of Mr. Pollock's electronic model

- 17 Q. Please describe Mr. Pollock's electronic model of SPS's jurisdictional,
   18 functional, and class costs of service.
- 19 A. The electronic model used by Mr. Pollock was built by SPS witness Richard M.
- 20 Luth for SPS's application in Docket No. 42004.<sup>1</sup>

<sup>&</sup>lt;sup>1</sup> Mr. Pollock's model contains 28 worksheets that are named with the initials "RML" which stands for Richard M. Luth. The worksheets in Mr. Pollock's model correspond to the worksheets in Mr. Luth's electronic model from Docket No. 42004. Mr. Pollock's model contains broken links to files that

| 1  | Q. | What is the significance of Mr. Pollock using Mr. Luth's electronic model?         |
|----|----|--|
| 2  | A. | It is an expression of a high degree of confidence in Mr. Luth's modeling skills   |
| 3  |    | and in Mr. Luth's ability to build a model that accurately allocates costs among   |
| 4  |    | the classes. Rather than reconstruct SPS's cost of service using only the          |
| 5  |    | numerical values in SPS's application, as Staff did, Mr. Pollock relied heavily on |
| 6  |    | Mr. Luth's work.   |
| 7  | Q. | Is Mr. Pollock's model sufficient?   |
| 8  | A. | No. Mr. Pollock's model cannot be used to establish PCRF, TCRF, and DCRF           |
| 9  |    | baseline values. This would prevent SPS from seeking the relief it is entitled to  |
| 10 |    | seek pursuant to the Commission's PCRF, TCRF, and DCRF rules. Mr. Pollock's        |
| 11 |    | model also does not allocate the Company's cost of service line by line among      |
| 12 |    | SPS's rate classes, which is required by the Commission's Electric Utility Rate    |
| 13 |    | Filing Package for Generating Utilities ("Filing Package"). <sup>2</sup>           |
| 14 | Q. | Which line items are necessary to establish the PCRF Baseline Values for           |
| 15 |    | each rate class?   |
| 16 | A. | Production capacity invested capital costs recorded in Federal Energy Regulatory   |
| 17 |    | Commission ("FERC") Uniform System of Accounts 303, 310-317, 320-326,              |
| 18 |    | 330-337, and 340-347, less accumulated depreciation and adjusted for any           |
| 19 |    | changes in production capacity-related accumulated deferred federal income taxes   |
| 20 |    | and excluding any impact associated with Financial Accounting Standards Board      |
| 21 |    | Interpretation No. 48. <sup>3</sup>  |
|    |    | -  |

were built and used by Mr. Luth to develop SPS's class cost of service study ("CCOSS") in Docket No. 42004.

 <sup>&</sup>lt;sup>2</sup> Each functional revenue requirement is allocated once in a lump sum among the classes in Mr.
 Pollock's CCOSS.
 <sup>3</sup> P.U.C. SUBST. R. 25.238(b)(3).

| 1   | Q. | Which components of the PCRF rate formula could not be established for  |
|---|----|---|
| 2   |    | each class using Mr. Pollock's CCOSS?   |
| 3   | A. | For each rate class, the following components could not be established using the  |
| 4   |    | information in Mr. Pollock's CCOSS:   |
| 5<br>6<br>7<br>8<br>9<br>10<br>11<br>12<br>13<br>14<br>15<br>16<br>17<br>18<br>19<br>20<br>21<br>22 |    | <ol> <li>APC (RC-CLASS). Purchased power capacity costs from affiliates allocated<br/>to the <i>rate class</i> and used to set base rates from the utility's last<br/>comprehensive base-rate proceeding;</li> <li>OSM (RC-CLASS). Margins from wholesale power capacity sales from<br/>affiliates allocated to the <i>rate class</i> and used to set base rates from the utility's<br/>last comprehensive base-rate proceeding;</li> <li>PCIC (RC-CLASS). Net production capacity invested capital allocated to the<br/><i>rate class</i> and used to set base rates from the utility's last comprehensive<br/>base-rate proceeding;</li> <li>PCDEP (RC-CLASS). Depreciation expense, as related to gross production<br/>capacity, allocated to the <i>rate class</i> and used to set base rates from the utility's<br/>last comprehensive base-rate proceeding;</li> <li>PCDEP (RC-CLASS). Depreciation expense, as related to gross production<br/>capacity, allocated to the <i>rate class</i> and used to set base rates from the utility's<br/>last comprehensive base-rate proceeding;</li> <li>PCFIT (RC-CLASS). Federal income tax, as related to net production<br/>capacity invested capital, allocated to the <i>rate class</i> and used to set base rates<br/>from the utility's last comprehensive base-rate proceeding; and,</li> <li>PCOT (RC-CLASS). Other taxes, as related to net production capacity<br/>invested capital, allocated to the <i>rate class</i> and used to set base rates from the<br/>utility's last comprehensive base-rate proceeding.</li> </ol> |
| 23<br>24  | Q. | Which line items are necessary to establish the TCRF Baseline Values for  |
| 25  |    | each rate class?  |
| 26  | A. | Wholesale transmission charges approved by a federal regulatory authority that  |
| 27  |    | are not being recovered through the electric utility's other retail or wholesale rates  |
| 28  |    | and that are appropriately allocated to Texas retail customers; <sup>4</sup> and, the net change  |
| 29  |    | in the electric utility's transmission investment costs including additions,  |
| 30  |    | upgrades, and retirements as booked in FERC accounts 350-359, and accumulated   |
| 31  |    | depreciation. <sup>5</sup>  |

Cross-Rebuttal Testimony of Brian T. Murphy

<sup>&</sup>lt;sup>4</sup> P.U.C. SUBST. R. 25.239(b)(1). <sup>5</sup> P.U.C. SUBST. R. 25.239(b)(2).

| 1   | Q. | Which components of the TCRF rate formula could not be established for  |
|---|----|---|
| 2   |    | each rate class using Mr. Pollock's model?  |
| 3   | A. | The following components of the TCRF rate formula could not be established for  |
| 4   |    | each rate class using Mr. Pollock's model:  |
| 5<br>6<br>7<br>8<br>9<br>10<br>11<br>12<br>13<br>14<br>15<br>16<br>17<br>18 |    | <ol> <li>ClassALLOC. The customer class allocation factor used to allocate the transmission revenue requirement in the utility's most recent base rate case;</li> <li>Revreqt. The sum of the return on Transmission Invested Costs ("TIC"), net of accumulated depreciation and associated accumulated deferred income taxes, plus investment-related expenses such as income taxes, other associated taxes, depreciation, and transmission-related miscellaneous revenue credits;</li> <li>TIC. The net change in the electric utility's transmission investment costs including additions, upgrades, and retirements as booked in FERC accounts 350-359, and accumulated depreciation; and,</li> <li>Approved transmission charges ("ATC"). Wholesale transmission charges approved by a federal regulatory authority that are not being recovered through the electric utility's other retail or wholesale rates and that are appropriately allocated to Texas retail customers.</li> </ol> |
| 19  | Q. | Which line items are necessary to establish the DCRF Baseline Values for  |
| 20  |    | each rate class?  |
| 21  | A. | The parts of the electric utility's invested capital, as described in PURA § 36.053,  |
| 22  |    | that are categorized as distribution plant, distribution-related intangible plant, and  |
| 23  |    | distribution-related communications equipment and networks properly recorded  |
| 24  |    | in FERC accounts 303, 352, 353, 360 through 374, 391 and 397. <sup>6</sup>  |
| 25  | Q. | Which components of the DCRF rate formula could not be established for  |
| 26  |    | each rate class using Mr. Pollock's CCOSS?  |
| 27  | A. | The following components of the DCRF rate formula could not be established for  |
| 28  |    | each class using Mr. Pollock's model:   |
| 29<br>30<br>31<br>32  |    | <ol> <li>DIC (RC-CLASS). Net distribution invested capital from the last<br/>comprehensive base-rate proceeding;</li> <li>DEPR (RC-CLASS). Depreciation expense, as related to Gross Distribution<br/>Invested Capital, calculated using the currently approved depreciation rates;</li> </ol>  |

<sup>6</sup> P.U.C. SUBST. R. 25.243(b)(3).

|    |             | rage 11   |
|----|-------------|---|
| 1  |             | 3. FIT (RC-CLASS). Federal income tax, as related to net distribution invested  |
| 2  |             | capital from the last comprehensive base-rate proceeding;                       |
| 3  |             | 4. OT (RC-CLASS). Other taxes, as related to net distribution invested capital  |
| 4  |             | from the last comprehensive base-rate proceeding, and not including             |
| 5  |             | municipal franchise fees;   |
| 6  |             | 5. DISTREV (RC-CLASS). Distribution revenues by rate class based on net         |
| 7  |             | distribution invested capital from the last comprehensive base-rate             |
| 8  |             | proceeding; and,  |
| 9  |             | 6. ALLOC (CLASS). Rate class allocation factor approved in the last             |
| 10 |             | comprehensive base-rate proceeding, calculated as: total net distribution plant |
| 11 |             | allocated to rate class, divided by total net distribution plant.               |
| 12 |             | -   |
| 13 | Q.          | What do you recommend?  |
|    |             |   |
| 14 | A.          | I recommend Mr. Pollock's CCOSS be rejected because it is inadequate to         |
| 15 |             | establish PCRF, TCRF, and DCRF baseline values.                                 |
| 16 | <u>Non-</u> | transparent functionality in Mr. Pollock's electronic model                     |
| 17 | Q.          | Is Mr. Pollock's electronic model fully functioning?                            |
|    |             |   |
| 18 | А.          | No. I attempted to open Mr. Pollock's model three times. Each time, Microsoft   |
| 19 |             | Excel froze and my computer crashed. I was only able to review Mr. Pollock's    |
| 20 |             | model by putting Microsoft Excel into a "disable content" mode. As a result I   |
|    |             |   |
| 21 |             | was not able to review all the functionality in Mr. Pollock's model.            |
| 22 | Lack        | of transparency in Mr. Pollock's model  |

23 Q. Is Mr. Pollock's CCOSS transparent?

A. No. Five worksheets in Mr. Pollock's model are hidden. Many lines in many
worksheets are also hidden. In the lines that are hidden and in those that are not,
costs are distributed through a complex web of links and cross references that is
difficult to audit. Mr. Pollock's model does not adhere to the standards in the
Commission-adopted models in Docket Nos. 40443 and 39896, and obfuscates
rather than shines light on the manner in which costs are allocated among the rate

classes. 1

#### Use of a proprietary electronic model 2

| 3  | Q. | Mr. Pollock <sup>7</sup> and Pioneer Natural Resources USA Inc. witness Karl J.         |
|----|----|---|
| 4  |    | Nalepa <sup>8</sup> have expressed concern about SPS's use of a proprietary third party |
| 5  |    | model to develop the CCOSS. Is this the first recent rate case in which a               |
| 6  |    | third party model was used to develop the CCOSS?  |
| 7  | A. | No. Entergy filed a third party proprietary model that is similar to the MAC            |
| 8  |    | model in its application in Docket No. 41791.   |
| 9  | Q. | Did Messrs. Pollock and Nalepa participate in Docket No. 41791?                         |
| 10 | A. | Yes. Mr. Pollock appeared on behalf of TIEC. Mr. Nalepa appeared on behalf of           |
| 11 |    | Cities served by Entergy Texas, Inc ("Entergy Cities").                                 |
| 12 | Q. | Did TIEC or Entergy Cities express any concerns about Entergy's use of a                |
| 13 |    | proprietary third party model of the CCOSS filed in Docket No. 41791?                   |
| 14 | A. | No. To my knowledge, no party expressed any concerns about it.                          |
| 15 | Q. | Did Entergy's proprietary third party model represent significant changes               |
| 16 |    | from the Commission-approved model in Docket No. 39896?                                 |
| 17 | A. | Yes. Neither Entergy's filed model nor the Commission-approved model in                 |
| 18 |    | Docket No. 39896 allocated costs line by line among Entergy's rate classes. In          |
| 19 |    | Docket No. 41791, Entergy greatly expanded its model, adding a functional cost          |
| 20 |    | of service within which each line item is allocated among the rate classes. This is     |
| 21 |    | the minimum functionality required to establish baseline values.                        |

 <sup>&</sup>lt;sup>7</sup> Direct Testimony of Jeffry Pollock on Behalf of TIEC at 8 (May 15, 2015).
 <sup>8</sup> Direct Testimony of Karl J. Nalepa on Behalf of Pioneer Natural Resources USA, Inc. at 5 (May 15, 2015).

| 1  | Q.           | Are the changes to ETI's model in Docket No. 41791 similar to SPS's   |
|--|--------------|---|
| 2  |              | proposed changes to its model in this case?   |
| 3  | A.           | They are very similar. No party expressed any concerns about it in Docket No.   |
| 4  |              | 41791, to my knowledge, and there was no mention of Entergy's use of third  |
| 5  |              | party software in the Settlement Agreement.   |
| 6  | Q.           | Why might parties express concern about the use of a third party model in   |
| 7  |              | this proceeding, where the same parties expressed no such concern in Docket   |
| 8  |              | No. 41791?  |
| 9  | A.           | It is evidence that supports the observations of OPUC witness William B. Marcus,  |
| 10   |              | who testified:  |
| 11<br>12<br>13<br>14<br>15<br>16<br>17<br>18<br>19<br>20<br>21<br>22 |              | The emphasis placed on the specific MAC cost of service model—<br>as opposed to its assumptions—in prehearing proceedings appears<br>to us largely to be a diversionthe fundamental point is that the<br>MAC model is just a standard Class Cost of Service model. It is<br>just a tool. It is one of dozens of similar models, some proprietary,<br>some not, in existence across North America.<br>Other intervenors such as those representing industrial interests,<br>are likely not happy with the <u>results</u> that SPS developed. But those<br>results that they do not like are the product of (1) changes in loads<br>used in cost allocation; (2) changes in the costs themselves; and (3)<br>the assumptions put into the MAC model, but <u>not the model itself</u> . <sup>9</sup> |
| 23   | VI.          | JURISDICTIONAL COST OF SERVICE  |
| 24   | <u>Mr. I</u> | <u>Pollock's Jurisdictional Cost of Service Study</u>   |
| 25   | Q.           | Do you have any observations regarding Mr. Pollock's recommended  |
| 26   |              | adjustments to SPS's Texas retail revenue requirement?  |
| 27   | A.           | Yes. It is important to keep in mind, when reviewing Mr. Pollock's cost   |
| 28   |              | allocation and rate design ("CA/RD") testimony, that his recommended  |
| 29   |              | adjustments to Texas retail revenue as presented in his revenue requirements  |

| 1  |             | testimony do not flow through to his functional and class cost of service studies in |
|----|-------------|--|
| 2  |             | his CA/RD testimony. Consequently, Mr. Pollock's CA/RD recommendations               |
| 3  |             | cannot be evaluated at Mr. Pollock's recommended level of Texas retail revenues.     |
| 4  |             |  |
| 5  | VII.        | FUNCTIONAL COST OF SERVICE   |
| 6  | <u>Erro</u> | r in Mr. Pollock's functional cost of service study                                  |
| 7  | Q.          | Have you detected any errors in Mr. Pollock's functional cost of service             |
| 8  |             | study?   |
| 9  | A.          | Yes. Mr. Pollock used the wrong data to calculate the PAYXAG                         |
| 10 |             | functionalization factor in his functional cost of service study. This is a serious  |
| 11 |             | error because PAYXAG is used to allocate significant components of SPS's             |
| 12 |             | Texas retail cost of service. <sup>10</sup>  |
| 13 |             | Attachment BTM-2 shows the PAYXAG functionalization factors from                     |
| 14 |             | the Test Year, the PAYXAG factors used by Mr. Pollock, and the PAYXAG                |
| 15 |             | factors from SPS's test year from Docket No. 42004. Mr. Pollock's PAYXAG             |
| 16 |             | data closely matches the test year data from Docket No. 42004.                       |
| 17 | Q.          | What is the effect of Mr. Pollock's error?   |
| 18 | A.          | About eight percent of the amounts that are functionalized using PAYXAG have         |
| 19 |             | been shifted from the production energy function onto other functions in Mr.         |
| 20 |             | Pollock's cost analysis. Amounts functionalized to production energy are             |
| 21 |             | typically allocated among the rate classes on an energy basis. Consequently, for     |

<sup>&</sup>lt;sup>9</sup> Direct Testimony of William B. Marcus on Behalf of Office of Public Utility Counsel at 7 (May

<sup>15, 2015).</sup> <sup>10</sup> For example, amounts booked to intangible plant, general plant, and administrative and general

| 1  |                 | rate classes that consume more energy (e.g., LGS-T), the class cost of service will   |
|--|-----------------|---|
| 2  |                 | be significantly under-stated in Mr. Pollock's CCOSS.   |
| 3  |                 |   |
| 4  | VIII.           | CUSTOMER CLASSIFICATION OVERVIEW  |
| 5  | Q.              | Before addressing other parties' recommendations with respect to customer   |
| 6  |                 | classification, please provide an overview regarding how the Commission has   |
| 7  |                 | classified customers for ratemaking purposes in its recent decisions.   |
| 8  | A.              | For a vertically integrated utility like SPS, the Commission's rules are not strictly   |
| 9  |                 | prescriptive regarding how customers should be organized into rate schedules.   |
| 10   |                 | However, once established, base-rate rate schedules rarely change.  |
|  |                 |   |
| 11   | Q.              | How does the Commission require that customers be organized in a base-rate  |
| 11<br>12   | Q.              | How does the Commission require that customers be organized in a base-rate proceeding?  |
| 11<br>12<br>13   | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-  |
| 11<br>12<br>13<br>14   | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-<br>rate proceeding.  |
| 11<br>12<br>13<br>14<br>15   | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-<br>rate proceeding.<br>When a utility files for authority to change rates, the rates to be changed   |
| <ol> <li>11</li> <li>12</li> <li>13</li> <li>14</li> <li>15</li> <li>16</li> </ol>                                     | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-<br>rate proceeding.<br>When a utility files for authority to change rates, the rates to be changed<br>are found in the rate schedules in the utility's Tariff. Pursuant to P.U.C. SUBST. R.  |
| <ol> <li>11</li> <li>12</li> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> </ol>                         | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-<br>rate proceeding.<br>When a utility files for authority to change rates, the rates to be changed<br>are found in the rate schedules in the utility's Tariff. Pursuant to P.U.C. SUBST. R.<br>25.5(100), a "rate class" is a group of customers that receive electric service under   |
| <ol> <li>11</li> <li>12</li> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>             | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-<br>rate proceeding.<br>When a utility files for authority to change rates, the rates to be changed<br>are found in the rate schedules in the utility's Tariff. Pursuant to P.U.C. SUBST. R.<br>25.5(100), a "rate class" is a group of customers that receive electric service under<br>the same rate schedule. The Filing Package requires that the line items in the cost  |
| <ol> <li>11</li> <li>12</li> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol> | <b>Q.</b><br>A. | How does the Commission require that customers be organized in a base-rate<br>proceeding?<br>The Commission requires that customers be organized into <i>rate classes</i> in a base-<br>rate proceeding.<br>When a utility files for authority to change rates, the rates to be changed<br>are found in the rate schedules in the utility's Tariff. Pursuant to P.U.C. SUBST. R.<br>25.5(100), a "rate class" is a group of customers that receive electric service under<br>the same rate schedule. The Filing Package requires that the line items in the cost<br>study be allocated among the <i>rate classes</i> . <sup>11</sup> This is necessary to measure the |

Cross-Rebuttal Testimony of Brian T. Murphy

<sup>&</sup>lt;sup>11</sup> Schedule P-1 of the Filing Package requires that *rate class* data be submitted; Schedule P-1.1 requires that rates of return be stated by *rate class*; Schedule P-1.5 requires that financial data be presented by *rate class*; Schedule P-2 requires an allocation of revenue adjustments among the *rate classe*; Schedule P-3 requires that rate base be allocated among the *rate classes*; Schedule P-6 requires that unit costs be stated by *rate class*; Schedule P-7 requires that allocation factors be provided that were used to allocate costs among the *rate classes*, etc.

1 The Filing Package thus contemplates that customers be consistently 2 organized into rate classes through the phases of ratemaking, beginning with the 3 rate classes for the purpose of cost allocation in the P series of schedules, and 4 culminating in the rate schedules that contain the rates to be updated in the Q 5 series of schedules.

- 6 Q. How does SPS classify its customers?
- A. Consistent with the Filing Package, SPS uses the same customer classifications
  through the phases of ratemaking that correspond with SPS's rate classes and rate
  schedules in its existing and proposed Tariff, with minor deviations.<sup>12</sup>
- 10 Table BTM-1

| SPS's proposed classes for | SPS's proposed classes    | SPS's proposed classes    |  |
|----------------------------|---------------------------|---------------------------|--|
| the purpose of cost        | for the purpose of        | for the purpose of rate   |  |
| allocation                 | revenue distribution      | design                    |  |
| Residential Service        | Residential Service       | Residential Service       |  |
| Residential Service with   | Residential Service with  | Residential Service with  |  |
| Electric Space Heating     | Electric Space Heating    | Electric Space Heating    |  |
| Small General Service      | Small General Service     | Small General Service     |  |
| Secondary General Service  | Secondary General Service | Secondary General Service |  |
| Primary General Service    | Primary General Service   | Primary General Service   |  |
| Large General Service –    | Large General Service –   | Large General Service -   |  |
| Transmission, 69-115kV     | Transmission, 69-115kV    | Transmission              |  |
| Large General Service –    | Large General Service –   |                           |  |
| Transmission, 115kV+       | Transmission, 115kV+      |                           |  |
| Small Municipal & School   | Small Municipal & School  | Small Municipal & School  |  |
| Service                    | Service                   | Service                   |  |
| Large Municipal Service    | Large Municipal Service   | Large Municipal Service   |  |
| Large School Service       | Large School Service      | Large School Servicc      |  |
| Guard & Flood Lighting     | Guard & Flood Lighting    | Guard Lighting Service    |  |
|                            |                           | Flood Light Service       |  |
| Municipal & State Street   | Municipal & State Street  | Restricted Outdoor        |  |
| Lighting                   | Lighting                  | Lighting Service          |  |
|                            |                           | Municipal & State Street  |  |
|                            |                           | Lighting Service          |  |

11

 $<sup>^{12}</sup>$  In its class cost of service study, the Company allocates costs among the LGS-T 69-115kV and 115kV+ "subclasses," but not for the secondary and primary "subclasses" under the Large School and Large Municipal rate classes. In addition, the Company has four lighting rate classes, but aggregates the four lighting rate classes into two groupings for the purpose of class cost allocation.

| 1  | Q. | Have SPS's rate classes been consistent over time?   |
|----|----|--|
| 2  | A. | Yes, remarkably so. None of SPS's rate classes has changed in each of its last                 |
| 3  |    | five settled base-rate proceedings. SPS's rate classes are:                                    |
| 4  |    | (1) Residential Service, Tariff Sheet No. IV-3;  |
| 5  |    | (2) Residential Service with Electric Space Heating, Tariff sheet No. IV-184;                  |
| 6  |    | (3) Small General Service, Tariff Sheet No. IV-172;  |
| 7  |    | (4) Secondary General Service, Tariff Sheet No. IV-18;   |
| 8  |    | (5) Primary General Service, Tariff Sheet No. IV-173;  |
| 9  |    | (6) Large General Service-Transmission, Tariff Sheet No. IV-108;                               |
| 10 |    | (7) Small Municipal and School Service, Tariff Sheet No. IV-174;                               |
| 11 |    | (8) Large Municipal Service, Tariff Sheet No. IV-175;  |
| 12 |    | (9) Large School Service, Tariff Sheet No. IV-182;   |
| 13 |    | (10) Guard Lighting Service, Tariff Sheet No. IV-65;   |
| 14 |    | (11) Municipal and State Street Lighting Service, Tariff Sheet No. IV-91;                      |
| 15 |    | (12) Flood Lighting Service, Tariff Sheet No. IV-118; and                                      |
| 16 |    | (13) Restricted Outdoor Lighting Service, Tariff Sheet No. IV-150.                             |
| 17 |    |  |
| 18 |    | Each of the above rate classes was requested by SPS and approved by the                        |
| 19 |    | Commission in Docket Nos. 32766, 35763, 38147, 40824, and 42004. SPS                           |
| 20 |    | requested the same rate classes in this proceeding.  |
| 21 | Q. | Since unbundling at the turn of the millennium, have the rate classes of all                   |
| 22 |    | Texas' regulated utilities also been remarkably consistent?                                    |
| 23 | A. | Yes. I am aware of only one change to a utility's rate classes since unbundling. <sup>13</sup> |
| 24 |    | The Commission has preferred a high degree of consistency and stability in                     |
| 25 |    | customer classification. Rate classes rarely, if ever, change. By contrast, the                |
| 26 |    | testimonies of various parties in this proceeding give the impression that customer            |
| 27 |    | classification is highly fluid.  |

<sup>&</sup>lt;sup>13</sup> The six fully litigated base-rate proceedings since unbundling are Docket Nos. 28840, 33309, 35717, 38339, 39896, and 40443. As discussed in my direct testimony, in Docket No. 35717 the Commission approved the creation of a primary substation rate class, which represented an increase in granularity and voltage differentiation in the rate classes in Oncor's Tariff.

#### SOAH Docket No. 473-15-1556 P.U.C Docket No. 43695

### 1 Q. Why do you believe consistency in customer classification is important?

A. Consistency in customer classification avoids non-transparent cost shifting that is
 not consistent with cost causation. Non-transparent cost shifting prevents the
 Commission from being able to see the level of cost shifting that is taking place,
 which prevents the Commission from being able to make informed policy
 decisions regarding how to remedy subsidies in the utility's existing rates.

In addition, class consolidations can result in rate shock, even when no
revenue increases are assigned to the classes to be consolidated. Class
consolidations, if any, should be performed thoughtfully and with great care. In
practice, a utility's rate classes rarely change in part because changes to customer
classification can have severe customer impacts.

# Q. Even though SPS's base-rate rate classes have not changed during the past ten years, do the Commission's rules require that a utility's customer classifications remain static over time?

15 A. No. Utilities may request changes to their base-rate rate classes in the course of a 16 base-rate proceeding. For example, the Commission's rate filing package requires 17 that the CCOSS be presented according to the "existing and proposed" rate 18 classes. This shows that the Commission allows for requests to change the 19 organization of customers into base-rate rate schedules, and also that the 20 Commission is interested in seeing the effects of changes in customer 21 classification relative to how customers are currently organized into rate classes.

| 1 | Q.          | Please provide a brief description of the levels of granularity in customer                      |
|---|-------------|--|
| 2 |             | classification that are relevant to the discussion of customer classification                    |
| 3 |             | issues in this case?   |
| 4 | A.          | The table below shows SPS's rate classes, but also shows how SPS's customers                     |
| 5 |             | could be organized into a higher and a lower level of granularity than rate class. <sup>14</sup> |
| 6 |             | This is useful for evaluating the proposals of other parties.                                    |
|   | <b>T</b> 11 |  |

#### 7 Table BTM-2

| "Major rate class" <sup>15</sup>               | Rate Class <sup>16</sup>   | "Subclass" <sup>17</sup>      |
|--|--|-------------------------------|
| (Less granular)                                | (Standard granularity)   | (More granular)               |
| "Residential"                                  | Residential Service (Sheet No. IV-3)                                     |                               |
|  | Residential Service with<br>Electric Space Heating (Sheet<br>No. IV-184) |                               |
| "Commercial &<br>Industrial"                   | Secondary General Service<br>(Sheet No. IV-18)                           |                               |
|  | Primary General Service (Sheet No. IV-173)                               |                               |
|  | Large General Service  | Sub-transmission voltage      |
|  | Transmission (Sheet No. IV-<br>108)                                      | Backbone transmission voltage |
| "Public Authority" (or<br>"Municipal Service") | Small Municipal & School<br>Service (Sheet No. IV-174)                   |                               |
|  | Large Municipal Service (Sheet   | Secondary voltage             |
|  | No. IV-175)  | Primary voltage               |
|  | Large School Service (Sheet  | Secondary voltage             |
|  | No. IV-182)  | Primary voltage               |

8 9

The lowest level of granularity can be referred to as "major rate class." A

10

"major rate class" does not correspond to a rate schedule, but rather represents

11

bundles of rate schedules. This term is not recognized in the Commission's

<sup>&</sup>lt;sup>14</sup> These levels of granularity above and below rate class are not required and are not formally recognized in the Commission's rules, but are not prohibited by the Commission's rules and may nonetheless be useful, depending on the Commission's decisions in this proceeding.

 <sup>&</sup>lt;sup>15</sup> Unofficial term for bundles of rate classes.
 <sup>16</sup> Pursuant to P.U.C. SUBST. R. 25.5(100), corresponds with the rate schedules in the Tariff.

<sup>&</sup>lt;sup>17</sup> Unofficial term for voltage-differentiated rates under a single rate schedule.

10

Rules. The term "major rate class" has been used among parties to SPS's recent, 1 settled base-rate proceedings to refer to bundles of rate classes for the purpose of 2 revenue distribution, in which each rate class in each bundle is assigned the same 3 percentage revenue increase. 4 In addition, the Commission found in Docket No. 40443 that for the 5 purpose of revenue distribution, a rate class that contains one or few customers 6 may be combined with another rate class solely for the purpose of revenue 7 distribution in order to mitigate unusual pricing circumstances in the Test Year. 8 The bundles of rate classes that were used in the revenue allocation phase in 9

Docket No. 40443 could be referred to as "major rate classes."

Barring the specific circumstances cited in the Commission's Order in Docket No. 40443, however, bundling rate classes for the purpose of revenue distribution is inappropriate because it results in non-transparent cost shifting among rate classes that is not necessary to mitigate rate shock and which can permanently defer movement towards cost of service, resulting in the perpetuation of inappropriate inter-class subsidies. This concept is explored further in the "class revenue distribution" section.

The most granular level of customer classification is customers that receive service at different voltage levels *within a single rate schedule*. These are subdivisions of rate classes. In Docket No. 40443, Staff referred to these subdivisions as "subclasses," but the term "subclass" is not recognized either in the Commission's rules or by SPS.<sup>18</sup> Just as in class cost allocation at the rate

<sup>&</sup>lt;sup>18</sup> See Southwestern Public Service Company's Response to Commission Staff's Fourth Request for Information at Response No. Staff 4-22 (Feb. 2, 2015); and *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 42004, Southwestern Public Service Company's Response to Commission Staff's Ninth Request for Information at Response No. Staff 9-22 (Mar. 20, 2014)

| 1 | class level, costs should be allocated to the voltage-differentiated customers |
|---|--|
| 2 | served under the same rate schedule in a manner that is consistent with cost   |
| 3 | causation.   |

- How do the above three levels of granularity correspond to Southwestern Q. 4
- 5

- Electric Power Company's ("SWEPCO's") classes in Docket No. 40443?
- 6 A. The following table shows the same levels of granularity in SWEPCO's non-
- 7 lighting classes in Docket No. 40443:

<sup>8</sup> Table BTM-3 SWEPCO's customer classifications in Docket No. 40443

| "Major rate class"  | Rate Class                        | "Subclass"              |  |
|---|-----------------------------------|-------------------------|--|
| "General Service"   | General Service (Tariff sheet No. | General service with    |  |
|   | IV-2)                             | demand                  |  |
|   | ,                                 | General service without |  |
|   |                                   | demand                  |  |
|   |                                   | General service primary |  |
| "Lighting & Power"  | Lighting & Power (Tariff sheet    | Secondary voltage       |  |
|   | No. IV-3)                         | Primary voltage         |  |
|   |                                   | Transmission voltage    |  |
| "Industrial"  | Cotton Gin (Tariff sheet No. IV-  |                         |  |
|   | 14)                               |                         |  |
|   | Metal Melting Distribution        | Secondary voltage       |  |
|   | (Tariff sheet No. IV-6)           | Primary voltage         |  |
|   | Metal Melting 69kV+ (Tariff       |                         |  |
|   | sheet No. IV-7)                   |                         |  |
|   | U.S. Steel (Tariff sheet No. IV-  |                         |  |
|   | 11)                               |                         |  |
|   | Large Lighting & Power Service    | Primary voltage         |  |
|   | (Tariff sheet No. IV-4)           | Transmission voltage    |  |
|   | Oilfield Large Industrial Power   |                         |  |
| The second se | (Tariff sheet No. IV-13)          |                         |  |
| "Municipal Pumping"   | Municipal Pumping (Tariff sheet   |                         |  |
|   | No. IV-19)                        |                         |  |
|   | Municipal Service (Tariff sheet   |                         |  |
|   | No. IV-20)                        |                         |  |

<sup>9</sup> 

<sup>: &</sup>quot;SPS does not divide its rate classes into subclasses." Under Staff's use of this term in Docket No. 40443, SPS would have six subclasses: two under the LGS-T rate schedule (for sub-transmission 69-115 kV and back-bone transmission 115 kV+), and two each under the large school and large municipal rate schedules (secondary and primary rates).

| 1  |              | As can be seen, SWEPCO's customers tend to be more voltage-                               |
|----|--------------|---|
| 2  |              | differentiated at the "subclass" level of granularity, whereas SPS's customers are        |
| 3  |              | more voltage-differentiated at the rate class level.                                      |
| 4  | Q.           | Can voltage differentiation be properly performed in either the class cost                |
| 5  |              | allocation phase or in the rate design phase?   |
| 6  | A.           | Yes. Performing the voltage-differentiation in the inter-class (class cost                |
| 7  |              | allocation) versus the intra-class (rate design) phase should produce similar             |
| 8  |              | results, as long as costs are allocated based on cost causation principles. <sup>19</sup> |
| 9  | Q.           | Do various parties in this case propose a customer classification framework               |
| 10 |              | that is not consistent with the above discussion?   |
| 11 | A.           | Yes. Various parties seek to allocate costs to bundles of rate classes (at a low          |
| 12 |              | level of granularity that does not meet the minimum standards of the Filing               |
| 13 |              | Package), without thoughtful consideration of the cost shifting and customer              |
| 14 |              | impacts that arise from such bundling. Under the bundling approach, customers             |
| 15 |              | in the bundle would bear in rates the costs of facilities that are not involved in        |
| 16 |              | serving them.   |
| 17 |              |   |
| 18 | IX.          | CLASS COST OF SERVICE   |
| 19 | <u>Mr. I</u> | Pollock's customer classifications for the purpose of class cost allocation               |
| 20 | Q.           | How did Mr. Pollock classify SPS's customers for the purpose of class cost                |
| 21 |              | allocation?   |
| 22 | A.           | In his direct testimony, Mr. Pollock does not address the customer classification         |
| 23 |              | treatments reflected in his CCOSS.  |

<sup>19</sup> Subject to the caveat that class revenues are set to class cost of service.

| 1          |    | However, based on my review it appears Mr. Pollock's CCOSS reflects                 |
|------------|----|---|
| 2          |    | (a) bundling SPS's rate classes into "major rate classes" for an initial stage of   |
| 3          |    | class cost allocation, (b) re-naming SPS's rate classes, (c) referring to the re-   |
| 4          |    | named rate classes as "subclasses," and then (d) allocating costs among the re-     |
| 5          |    | named rate classes using different cost allocation treatments.                      |
| 6          |    | Mr. Pollock's CCOSS reflects treatments that are consistent with a non-             |
| 7          |    | transparent cost shifting approach to ratemaking, whereby costs are allocated at an |
| 8          |    | inadequate level of granularity, then re-distributed among rate classes in a manner |
| 9          |    | that is not consistent with cost causation.   |
| 10         | Q. | What bundles of rate classes are reflected in Mr. Pollock's consolidated rate       |
| 11         |    | classes for the purpose of cost allocation?   |
| 12         | A. | Mr. Pollock consolidated the secondary general rate class, primary general service  |
| 13         |    | rate class, and large general service-transmission rate class into a single         |
| 14         |    | "Commercial & Industrial" class. Relative to SPS's existing rate classes, Mr.       |
| 15         |    | Pollock's proposed consolidated class corresponds with the "major rate class"       |
| 16         |    | level of granularity.   |
| 17         | Q. | In the Commission-adopted CCOSS in Docket No. 40443, were SWEPCO's                  |
| 18         |    | costs allocated among customers at the lower, "major rate class" level of           |
| 1 <b>9</b> |    | granularity?  |
| 20         | A. | No. In fact, it was the polar opposite. SWEPCO's Texas retail costs were            |
| 21         |    | allocated by the Commission among subdivisions of rate classes-within               |
| 22         |    | SWEPCO's rate schedules—at the highest level of granularity.                        |

#### Did Mr. Pollock consolidate SPS's rate classes in a manner that is consistent 1 Q. 2 with cost causation?

No. Different facilities are involved in serving the rate classes Mr. Pollock 3 A. consolidated. The following table, which is organized according to some of 4 SPS's functions, shows the functions that are associated with serving the 5 secondary-, primary-, and transmission-voltage customers that Mr. Pollock 6 7 consolidated:

Table BTM-4 8

9

10

Types of facilities involved in serving customers that receive service at various voltages

**Primary-voltage** 

Secondary-

| Func | tion           |
|------|----------------|
|      |                |
|      | miggion system |

| ustomers<br>VES       |  | customers                                      |
|-----------------------|--|--|
| VEC                   |  | 1 AMPROVIDED 2                                 |
| 165                   | YES  | YES  |
| unknown <sup>20</sup> | unknown  | unknown  |
| NO I                  | YES  | YES  |
| NO                    | YES  | YES  |
| NO                    | NO   | YES  |
|                       | м<br>Н   |  |
| NO                    | NO <sup>21</sup>                               | YES  |
| k,<br>24 hiji         |  | - 20   |
| NO                    | NO   | YES  |
|                       | YES<br>unknown <sup>20</sup><br>NO<br>NO<br>NO | YESYESunknown20unknownNOYESNOYESNONONONO21NONO |

Transmission-

11

As can be seen, Mr. Pollock's approach would result in some customers in 12 the consolidated class bearing the costs of facilities that are not involved in 13 14 serving them.

In Docket No. 40443, did the Commission express a preference for increased 15 **Q**. granularity in the allocation of costs among customers served at different 16

- voltages? 17
- Yes. In Docket No. 40443, the Commission found: 18 Α.

<sup>21</sup> According to SPS's representation in this proceeding.

<sup>&</sup>lt;sup>20</sup> A determination as to which customers receive services from "radial lines" is outside the scope of my review in this case.

| 1<br>2 |    | 280. Primary distribution substation customers take service at the substation bus and do not use SWEPCO's distribution lines |
|--------|----|--|
| 3      |    | 281. Primary distribution substation demands associated with contained   |
| 4      |    | taking such service should be removed from the allocation for the  |
| 5      |    | related to the distribution investments that should not be it  |
| 6      |    | to primary distribution substation customers. <sup>22</sup>  |
| 7      |    | Mr. Pollock's proposed consolidation of rate classes is opposite the   |
| 8      |    | Commission's decisions in Docket No. 40443.  |
| 9      | Q. | In Docket No. 35717, did the Commission also express a preference for  |
| 10     |    | increased granularity in the allocation of costs among customers served at   |
| 11     |    | different voltages?  |
| 12     | A. | Yes. In Docket No. 35717, the Commission found:  |
| 13     |    | 155A. Oncor's proposed creation of a primary substation rate class   |
| 14     |    | consists of customers that provide their own distribution wires  |
| 15     |    | service.   |
| 16     |    | 156A. It is reasonable to establish the primary substation rate class for  |
| 17     |    | customers that take service directly out of a substation.  |
| 10     |    | 157A. Primary rate class service is designed to impose the cost that this  |
| 20     |    | 158A Distribution sustamore should be maniful to the state   |
| 21     |    | distribution system costs they do not impress on the system is   |
| 22     |    | these customers' bookup to the distribution system is at the   |
| 23     |    | substation.  |
| 24     |    | 159A. The ownership of private distribution lines distinguishes a primary  |
| 25     |    | substation rate class customer from a primary or secondary   |
| 26     |    | distribution customer.   |
| 27     |    | 160A. A primary substation rate class customer does not own the initial  |
| 28     |    | transformation equipment located at the substation that transforms   |
| 29     |    | electricity from transmission voltage to a distribution voltage.   |
| 30     |    | 160B. Oncor's proposed addition of a primary substation rate class is  |
| 31     |    | reasonable and is approved. <sup>23</sup>  |
| 32     |    |  |
| 33     |    | Mr. Pollock's proposed consolidation of rate classes is opposite the   |
| 34     |    | Commission's decisions in Docket No. 35717.  |

 <sup>&</sup>lt;sup>22</sup> Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs, Docket No. 40443, Order on Rehearing at FoFs 280-281 (Mar. 6, 2014).
 <sup>23</sup> Application of Oncor Electric Delivery Company LLC for Authority to Change Rates, Docket No. 35717, Order on Re-Hearing at FoFs 155A-160B (Nov. 30, 2009).

| 1  | Q. | In Docket No. 33309, did the Commission also express a preference for   |
|--|----|---|
| 2  |    | increased granularity in the allocation of costs among customers within a   |
| 3  |    | class?  |
| 4  | A. | Yes. However, in Docket No. 33309, the increased granularity concerned  |
| 5  |    | differences in meter type.  |
| 6<br>7<br>8<br>9<br>10<br>11<br>12<br>13<br>14 |    | <ul> <li>135. The data in the cost-of-service study supporting the development of charges for IDR metered customers, the schedules, and workpapers collectively support the changes proposed by TCC for IDR metered customers.</li> <li>137. IDR-metered customers receive a higher Customer Charge than non-IDR-metered customers in the same class, primarily due to the complexity of preparing the IDR-metered customer's bill.<sup>24</sup></li> <li>Mr. Pollock's proposed consolidation of rate classes which</li> </ul> |
| 15   |    | eliminates important differences in SPS's costs to some sustances which   |
| 15   |    | chimitates important unreferences in SFS's costs to serve customers with  |
| 16   |    | different types of meters, is also in opposition with the Commission's  |
| 17   |    | decisions in Docket No. 33309.  |
| 18   | Q. | In Docket No. 22344, did the Commission order that voltage-based  |
| 19   |    | customer classifications be standardized and adopted by all T&D   |
| 20   |    | utilities in ERCOT?   |
| 21   | A. | Yes. Though T&D utilities do not provide power production services, all   |
| 22   |    | vertically integrated investor-owned utilities provide transmission and   |
| 23   |    | distribution services. In Docket No. 22344, the Commission found  |
| 24<br>25<br>26<br>27<br>28<br>29<br>30         |    | <ol> <li>the NUA provides for the following six customer classes:</li> <li>Residential</li> <li>Secondary less than 10 kW or kVa (less than 5 kW for TNMP and EGSI)</li> <li>Secondary greater than 10 kW or kVa (greater than 5 kW for TNMP and EGSI)</li> <li>Primary</li> </ol>  |

<sup>24</sup> Application of AEP Texas Central Company for Authority to Change Rates, Docket No. 33309, Order on Re-Hearing at FoFs 135, 137 (Mar. 4, 2008).

| 1<br>2<br>3<br>4<br>5<br>6<br>7<br>8<br>9 |    | <ul> <li>6. Lighting<br/>The Commission finds that the six customer classes as proposed in<br/>the NUA should be adopted by each of the utilities participating in<br/>this proceeding. The Commission agrees with the proponents of<br/>the generic customer classifications that cited cost causation as a<br/>significant factor in developing a uniform customer class<br/>configuration.<sup>25</sup></li> <li>Mr. Pollock's proposed consolidation of rate classes served at different<br/>voltages is in opposition with the Commission's customer classification decisions</li> </ul> |
|---|----|---|
| 11  |    | in Docket No. 22344.  |
| 12  | Q. | How would you summarize the Commission's recent findings with respect to  |
| 13  |    | customer classification?  |
| 14  | A. | The Commission has consistently found that customers should be classified   |
| 15  |    | according to service voltage, and the trend has been toward increased granularity.  |
| 16  |    | Primary customers have been divided into those that are served using the entire   |
| 17  |    | primary distribution system, and those that are served using only the primary   |
| 18  |    | substation.   |
| 1 <b>9</b>                                |    | Mr. Pollock proposal to eliminate voltage differences for the secondary   |
| 20  |    | general service rate class, primary general service rate class, and large general   |
| 21  |    | service-transmission rate class is clearly opposite the Commission's recent   |
| 22  |    | decisions. Since it results in customers bearing the costs of facilities that are not   |
| 23  |    | involved in serving them, elimination of voltage differences in customer  |
| 24  |    | classification is also inconsistent with cost causation.  |

Cross-Rebuttal Testimony of Brian T. Murphy

<sup>&</sup>lt;sup>25</sup> Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA Section 39.201 and Public Utility Commission SUBST. R. 24.344, Docket No. 22344, Order No. 40 at 4 (Nov. 22, 2000).

| 1  | Q. | What do you recommend with respect to Mr. Pollock's consolidation of rate          |
|----|----|--|
| 2  |    | classes into a "Commercial & Industrial" class for the purpose of class cost       |
| 3  |    | allocation?  |
| 4  | A. | I recommend that Mr. Pollock's proposed class consolidation be rejected.           |
| 5  | Q. | Is Mr. Pollock's proposal consistent with the Commission's definition of           |
| 6  |    | "customer class"?  |
| 7  | A. | No. The customers Mr. Pollock consolidated have different electric service         |
| 8  |    | characteristics, as discussed later, which makes Mr. Pollock's proposal            |
| 9  |    | inconsistent with the Commission's definition of "customer class."                 |
| 10 |    | Moreover, the Commission allocates costs among rate classes, not                   |
| 11 |    | customer classes. To the extent "customer class" represents a bundle of rate       |
| 12 |    | classes, allocation of costs among the customer classes would not result in a cost |
| 13 |    | study with the necessary level of precision in the assignment of costs among the   |
| 14 |    | rate classes to allow for cost-based rates under each rate schedule or the         |
| 15 |    | establishment of baseline values.  |
| 16 | Q. | Other than inappropriately bundling SPS's dissimilar rate classes, what            |
| 17 |    | other customer classification treatments are reflected in Mr. Pollock's            |
| 18 |    | CCOSS?   |
| 19 | A. | Mr. Pollock has re-named some of SPS's rate classes. He then refers to the re-     |
| 20 |    | named rate classes as "subclasses." For example, the following table compares      |
| 21 |    | RML-RD-4 as built by Mr. Luth in Docket No. 42004 with Mr. Pollock's version       |
| 22 |    | of RML-RD-4, which was altered by typing over the names of some of SPS's rate      |

23 classes:

| 1  | Table BTM-5  | Comparison  | of Worksheet "RML-RD-4, pg.1"   |
|--|--|---|---|
|  |  | Mr. Luth's CCOSS in Docket  | Mr. Pollock's CCOSS in this   |
|  |  | No. 42004   | proceeding  |
|  | Heading  | Rate Class  | Customer (Sub) Class  |
|  | Line 1   | Residential Service   | Residential Service   |
|  | Line 2   | Small General Service   | Small General Service   |
|  | Line 3   | Secondary General   | Large C&I Secondary   |
|  | Line 4   | Primary General   | Large C&I Primary   |
|  | Line 5   | Large General Service-  | Large C&I Transmission  |
|  |  | Transmission  |   |
| 2<br>3<br>1  | "WP-0  | However, Mr. Pollock did not type   | over the names of SPS's rate classes in   |
| 4  | ¥¥ 1 -C  | hass_Anoc., which show the half   | les of SFS's actual rate classes in its   |
| 5  | existin  | g and proposed Tariff:  |   |
| 6  | Table BTM-6  | Worksheet "   | WP-Class_Alloc"   |
| /  |  | In Mr. Luth's CCOSS in Docket   | In Mr. Pollogk's CCOSS in this  |
|  |  | No. 42004   | nroceeding  |
|  | Heading  | Class   | Class   |
|  |  |   |   |
|  | Line 9   | Secondary general service   | Secondary general service   |
|  | Line 9<br>Line 10  | Secondary general service<br>Primary general service  | Secondary general service Primary general service   |
| 8  | Line 9<br>Line 10  | Secondary general service<br>Primary general service  | Secondary general service<br>Primary general service  |
| 8<br>9   | Line 9<br>Line 10<br>Q. Why h  | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's  | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?   |
| 8<br>9<br>10   | Line 9<br>Line 10<br>Q. Why h<br>A. Unkno  | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's p<br>wn. Mr. Pollock did not testif  | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his   |
| 8<br>9<br>10<br>11                                     | Line 9<br>Line 10<br>Q. Why h<br>A. Unkno<br>method  | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's p<br>wn. Mr. Pollock did not testif<br>lology.   | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his   |
| 8<br>9<br>10<br>11<br>12                               | Line 9<br>Line 10<br>Q. Why h<br>A. Unkno<br>method<br>Q. What i   | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's i<br>wn. Mr. Pollock did not testif<br>lology.<br>is one practical effect of mis-labelin   | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his<br>ng the rate classes as "subclasses"?   |
| 8<br>9<br>10<br>11<br>12<br>13                         | Line 9<br>Line 10<br>Q. Why h<br>A. Unkno<br>method<br>Q. What i<br>A. If the  | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's r<br>wn. Mr. Pollock did not testif<br>lology.<br>s one practical effect of mis-labeling<br>rate classes are incorrectly identif   | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his<br>ng the rate classes as "subclasses"?<br>ied as "subclasses," it may grant the  |
| 8<br>9<br>10<br>11<br>12<br>13<br>14                   | Line 9<br>Line 10<br>Q. Why h<br>A. Unknor<br>method<br>Q. What i<br>A. If the<br>appeara                                  | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's i<br>wn. Mr. Pollock did not testif<br>lology.<br>is one practical effect of mis-labelin<br>rate classes are incorrectly identificance that the Commission's rules a   | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his<br>ng the rate classes as "subclasses"?<br>ted as "subclasses," it may grant the<br>nd historical decisions with respect to   |
| 8<br>9<br>10<br>11<br>12<br>13<br>14<br>15             | Line 9<br>Line 10<br>Q. Why h<br>A. Unknor<br>method<br>Q. What i<br>A. If the<br>appeara<br>class co                      | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's is<br>wn. Mr. Pollock did not testif<br>lology.<br>is one practical effect of mis-labeling<br>rate classes are incorrectly identificance that the Commission's rules a<br>post allocation at the rate class level  | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his<br>ng the rate classes as "subclasses"?<br>ied as "subclasses," it may grant the<br>nd historical decisions with respect to<br>are being followed, when in fact they  |
| 8<br>9<br>10<br>11<br>12<br>13<br>14<br>15<br>16       | Line 9<br>Line 10<br>Q. Why h<br>A. Unkno<br>method<br>Q. What i<br>A. If the<br>appeara<br>class co<br>are bei            | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's in<br>wn. Mr. Pollock did not testife<br>lology.<br>as one practical effect of mis-labeling<br>rate classes are incorrectly identified<br>ance that the Commission's rules and<br>ost allocation at the rate class level<br>ng violated. After all, the rules and                                    | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his<br>ng the rate classes as "subclasses"?<br>ied as "subclasses," it may grant the<br>nd historical decisions with respect to<br>are being followed, when in fact they<br>hd Filing Package do not require that   |
| 8<br>9<br>10<br>11<br>12<br>13<br>14<br>15<br>16<br>17 | Line 9<br>Line 10<br>Q. Why h<br>A. Unknor<br>method<br>Q. What i<br>A. If the<br>appeara<br>class co<br>are bei<br>custom | Secondary general service<br>Primary general service<br>as Mr. Pollock mis-labeled SPS's is<br>wn. Mr. Pollock did not testif<br>lology.<br>is one practical effect of mis-labeling<br>rate classes are incorrectly identified<br>ance that the Commission's rules a<br>lost allocation at the rate class level<br>ing violated. After all, the rules and<br>ers be classified and costs be a | Secondary general service<br>Primary general service<br>rate classes as "subclasses"?<br>y in support of this aspect of his<br>ng the rate classes as "subclasses"?<br>ted as "subclasses," it may grant the<br>nd historical decisions with respect to<br>are being followed, when in fact they<br>hd Filing Package do not require that<br>allocated at the "subclass" level of |

| 1  |    | Docket No. 40443.  |
|----|----|--|
| 2  | Q. | Is secondary general service, which Mr. Pollock refers to as "Large C&I                                      |
| 3  |    | secondary," a rate class or a subclass?  |
| 4  | A. | Pursuant to P.U.C. SUBST. R. 25.5(100), Secondary General Service, Tariff Sheet                              |
| 5  |    | No. IV-18 <sup>26</sup> , is a rate class, no matter what Mr. Pollock calls it.                              |
| 6  | Q. | Is primary general service, which Mr. Pollock refers to as "Large C&I  |
| 7  |    | primary," a rate class or a subclass?  |
| 8  | A. | Pursuant to P.U.C. SUBST. R. 25.5(100), Primary General Service, Tariff Sheet                                |
| 9  |    | No. IV-173 <sup>27</sup> , is a rate class, no matter what Mr. Pollock calls it.                             |
| 10 | Q. | Is large general service-transmission, which Mr. Pollock refers to as "Large                                 |
| 11 |    | C&I transmission," a rate class or a subclass?   |
| 12 | A. | Pursuant to P.U.C. SUBST. R. 25.5(100), Large General Service-Transmission,                                  |
| 13 |    | <i>Tariff Sheet No. IV-108</i> <sup>28</sup> , is a <i>rate class</i> , no matter what Mr. Pollock calls it. |
| 14 | Q. | Have the names Mr. Pollock uses to refer to the secondary general service                                    |
| 15 |    | rate class, the primary general service rate class, and the large general                                    |
| 16 |    | service-transmission rate class been used before?  |
| 17 | Q. | Yes, but not as used by Mr. Pollock. <sup>29</sup>   |

- 18 Q. What do you recommend with respect to Mr. Pollock's re-naming of SPS's
- 19 rate classes?

 $<sup>^{26}</sup>$  Schedule Q-8.8 at 13.

 $<sup>^{27}</sup>$  Id. at 64.

<sup>&</sup>lt;sup>28</sup> Id. at 28.

<sup>&</sup>lt;sup>29</sup> The names correspond with headings used in settlement schedules in some of SPS'S settled base-rate proceedings, and appear to have been used by Mr. Luth in those proceedings to organize the rates in his settlement rate design schedules according to *groupings* of rate schedules. In other words, Mr. Pollock's use of the terms is opposite how they were actually used in Mr. Luth's settlement schedules, which was bundles of rate classes, not subdivisions.

| 1  | A. | I recommend that the Commission reject both Mr. Pollock's changes to the names               |
|----|----|--|
| 2  |    | of SPS's rate classes and also Mr. Pollock's mis-labeling of the re-named rate               |
| 3  |    | classes as "subclasses." The name changes unnecessarily confuse the customer                 |
| 4  |    | classification issues in this case, are inconsistent with the Commission rules and           |
| 5  |    | recent decisions, and are inadequately supported in Mr. Pollock's testimony.                 |
| 6  | Q. | Does Occidental witness Charles S. Griffey also refer to some of SPS's rate                  |
| 7  |    | classes as "subclasses"?   |
| 8  | A. | Yes. <sup>30</sup> All of Mr. Griffey's mischaracterizations of SPS's demand-metered rate    |
| 9  |    | classes as "subclasses" should likewise be rejected. Mr. Griffey's use of the term           |
| 10 |    | "subclass" to refer to the voltage-differentiated rates under the LGS-T rate class,          |
| 11 |    | however, is reasonable. <sup>31</sup> Consequently, his contradictory references to the same |
| 12 |    | customer groups as "rate classes" are incorrect. <sup>32</sup>                               |
| 13 | Q. | Has Mr. Pollock used any other non-standard customer classification                          |
| 14 |    | terminology in his direct testimony?   |
| 15 | A. | Yes. Mr. Pollock uses a wide variety of non-standard customer classification                 |
| 16 |    | terms, in alphabetical order:  |
| 17 |    | 1. Consolidated Commercial & Industrial classes. <sup>33</sup>                               |
| 18 |    | 2. Customer (Sub) Class. <sup>34</sup>   |
| 19 |    | 3. Delivery rate classes. <sup>35</sup>  |
| 20 |    | 4. Large C&I class. <sup>30</sup>  |
| 21 |    | 5. Large C&I sub-classes. <sup>37</sup>  |
| 22 |    | 6. Large C&I Subtransmission and Backbone classes. <sup>38</sup>                             |
| 23 |    | /. Major customer classes. <sup>39</sup>   |

<sup>30</sup> See, e.g. Direct Testimony of Charles S. Griffey at 13 line 15 (May 15, 2015).
<sup>31</sup> Id., at 5.
<sup>32</sup> Id. at 14 line 3.
<sup>33</sup> Direct Testimony of Jeffry Pollock at 47.
<sup>34</sup> Id., at Exhibits JP-2-CA and JP-9-CA.
<sup>35</sup> Id. at 40

- <sup>35</sup> Id., at 40. <sup>36</sup> Id., at 48. <sup>37</sup> Id., at 48. <sup>38</sup> Id., at 52.

<sup>&</sup>lt;sup>39</sup> Id., at 11.

- 1 8. Ratepayer classes.<sup>40</sup>
- 2 9. Rates.<sup>41</sup>
- 3 10. Revenue class.<sup>42</sup>
- 4 Q. In your experience, are any of these terms used in class cost allocation for a
  5 vertically integrated utility like SPS?
- A. No. These are non-standard terms that are not defined by Mr. Pollock, are not
  recognized by the Commission, and do not correspond with SPS's existing or
  proposed rate schedules (rate classes).
- 9 Q. What is the practical effect of Mr. Pollock's use of these non-standard terms?
- A. Consistent with the non-transparent cost shifting approach to ratemaking, it
   creates confusion regarding the proper identification of SPS's rate classes, which
   pursuant to P.U.C. SUBST. R. 25.5(100), are simply SPS's rate schedules.
- If the Commission is unable to properly identify SPS's rate classes, the
  Commission may have difficulty evaluating the alternative approaches to class
  cost allocation, class revenue distribution, and rate design that are presented in
  this case. The resulting confusion increases the likelihood that inappropriate
  inter-class cost shifting will go undetected by the Commission.
- It appears as though Mr. Pollock and other parties may be shifting terms
  around so as to achieve results that violate the Commission's rules in a nontransparent manner.
- Q. Has the Commission expressed a preference for a proliferation of customer
   classification terminology?

Cross-Rebuttal Testimony of Brian T. Murphy

<sup>&</sup>lt;sup>40</sup> Id., at 44.

<sup>&</sup>lt;sup>41</sup> Id., at 6.

<sup>&</sup>lt;sup>42</sup> Id., at Exhibit JP-6-CA.

- No. The Commission recognizes two terms: "customer class" and "rate class." A. 1 For ratemaking purposes, the two terms have been used interchangeably in the 2 3 Commission's recent decisions. How is "customer class" defined? Q. 4 Pursuant to P.U.C. SUBST. R. 25.5(22), customer class is a group of customers 5 A. 6 with similar electric service characteristics (e.g., residential, commercial, 7 industrial, sales for resale) taking service under one or more rate schedules. 8 **Q**. For ratemaking purposes, how have the two terms been treated in the 9 **Commission's recent historical findings?** 10 A. For ratemaking purposes, they have been treated as equivalent and have been used interchangeably to refer to the same organizations of customers into rate classes. 11 12 Q. For the purposes of customer classification in setting a utility's energy efficiency cost recovery factor ("EECRF") rates, did the Commission 13 recently decide that the terms "rate class" and "customer class" are 14 equivalent? 15 Yes. PURA § 39.905(b)(4) provides that the Commission must ensure "that the 16 A. costs associated with programs provided under this section and any shareholder 17 18 bonus awarded are borne by the customer classes that receive the services under 19 the programs." In Docket No. 39359, the Commission applied PURA's prohibition on cost shifting in the EECRF at the rate class level, finding that "a 20 21 customer class can be defined as an EECRF rate class." 22 That same year, a rulemaking project was opened to amend the
  - Commission's energy efficiency rule. The issue of upholding the Commission's

23

| 1   |    | decision in Docket No. 39359 applying PURA's prohibition on "customer class"  |
|---|----|---|
| 2   |    | cost shifting at the "rate class" level of granularity was extensively addressed by   |
| 3   |    | rulemaking participants and by the Commission in its preamble to the order  |
| 4   |    | adopting amendments to the EE rule. The Commission found:   |
| 5<br>6<br>7<br>8<br>9<br>10<br>11<br>12<br>13<br>14<br>15<br>16<br>17<br>18 |    | The term "customer class" does not have a well-established<br>meaning. For example, Order No. 40 at page 4 issued in Docket<br>Number 22344, Generic Issues Associated with Applications for<br>Approval of Unbundled Cost of Service Rate Pursuant to PURA<br>Section 39.201 and Public Utility Commission SUBST. R. 25.344,<br>established "six customer classes" as Residential, Secondary less<br>than 10 kW or kVa (less than 5 kW for TNMP and EGSI),<br>Secondary greater than 10 kW or kVa (greater than 5 kW for<br>TNMP and EGSI), Primary, Transmission and Lighting. The<br>commission agreed that cost causation was a "significant factor in<br>developing a uniform customer class configuration" and adopted<br>these six "customer classes." However, those classes have been<br>more commonly referred to as rate classes rather than customer<br>classes in recent discussions of energy efficiency programs <sup>43</sup> |
| 19<br>20  | Q. | Do the six "customer classes" approved by the Commission for use by all   |
| 21  |    | TDUs in ERCOT correspond with one TDU rate schedule or more than one  |
| 22  |    | TDU rate schedule?  |
| 23  | A. | Without exception, the generic TDU "customer classes" correspond with one rate  |
| 24  |    | schedule and rate class, as can be seen in the following chart:   |

| 25 | Table BTM-7              | TDU rat  | e class  | = TD   | U rate | schedule | = TDU   |
|----|--------------------------|----------|----------|--------|--------|----------|---------|
| 26 |                          | "custome | r class" | in ERC | ОТ     |          |         |
| 27 |                          |          |          |        |        |          |         |
|    |                          |          |          | AEP-   | AEP-   | [        | SU-     |
|    | Current T&D Rate Classes | ONCOR    | CEHE     | TCC    | TNC    | TNMP     | McAllen |

<sup>&</sup>lt;sup>43</sup> Rulemaking Proceeding to Amend Energy Efficiency Rules, Order Adopting Amendments to § 25.181 as Approved at the September 28, 2012 Open Meeting, Project No. 39674, 88-89 (Oct 17, 2012) (Rule Preamble).

| Residential                   | X | x | x | X | x | x |
|-------------------------------|---|---|---|---|---|---|
| Secondary                     |   |   |   |   |   | x |
| Secondary $\leq 10 \text{kW}$ | x | x | x | х | x |   |
| Secondary > 10kW              | x | x | x | X | x |   |
| Primary                       |   | x | x | х | x | x |
| Primary $\leq 10 \text{kW}$   | x | 1 |   |   |   |   |
| Primary > 10kW Dist. Line     | x |   |   |   |   |   |
| Primary > 10kW Substation     | x | 1 |   |   |   |   |
| Transmission                  | x | x | x | x | x | x |
| Lighting                      | x | x | x | x | x | x |

1 2

3

4

## Q. Has Texas' largest electric utility, Oncor Electric Delivery Company, LLC,

- confirmed that it has always treated "customer class" and "rate class" as
- equivalent for ratemaking purposes?
- 5 A. Yes. Oncor commented:

It is possible that the opposition to Staff's proposed language is 6 7 simply a result of a lack of clarity around the terms "rate class" and "customer class." For TDUs, the six generic "customer classes"--8 9 which were also referred to as "rate classes" in Order No. 40 in 10 Docket No. 22344—are in fact their "rate classes." Oncor's 11 concern with referencing the definition of "customer class" in the RFP Instructions is because doing so appears to introduce further 12 confusion, in that the "customer class" definition suggests that 13 14 customer classes can he split along 15 residential/commercial/industrial lines, when that is not what the Commission approved in Docket No. 22344 for TDUs. If there is 16 any reference to "customer classes," it should be explicitly limited 17 to the six generic customer classes approved in Docket No. 22344, 18 19 plus any additional generic or TDU-specific customer classes 20 approved by the Commission since that time... 21 ...In sum, any proposal to allocate costs based on undefined

- 21 ....if sun, any proposal to anocate costs based on undefined
   22 "customer classes" should not be adopted, as such proposals do not
   23 refer to the actual rate classes that TDUs have, and is not indicative
   24 of cost causation.<sup>44</sup>
   25
- 26

#### Q. Is it logical that the terms "customer class" and "rate class" would be treated

27 as equivalents for ratemaking purposes?

<sup>&</sup>lt;sup>44</sup> Project to Revise Rate Filing Package for Investor-Owned Transmission and Distribution Utilities, Project No. 39548, Reply Comments of Oncor Electric Delivery Company, LLC at 2 (Oct. 13, 2014).

#### SOAH Docket No. 473-15-1556 P.U.C Docket No. 43695

| 1 | A. | Yes. The Commission's definition of customer class provides that customers be         |
|---|----|---|
| 2 |    | grouped according to similarities in electric service characteristics. Consistent     |
| 3 |    | with cost causation, this is exactly how customers are organized into rate classes.   |
| 4 |    | A rate class that does not represent different electric service characteristics would |
| 5 |    | be unnecessary. Similarly, a customer class that does not represent differences in    |
| 6 |    | electric service characteristics would be inconsistent with the Commission's          |
| 7 |    | definition of "customer class," would be inconsistent with cost causation, and        |
| 8 |    | would have no usefulness in the process of developing just and reasonable rates.      |

9 Q. The Commission's definition of "customer class" contains the parenthetical
10 "(e.g., residential, commercial, industrial, sales for resale)." Does that mean
11 that the customers' end uses for power represent similarities in electric
12 service characteristics?

- Not necessarily. To be consistent with the Commission's definition, it must be 13 A. shown that the customers have similar electric service characteristics. Similarities 14 in customers' end uses for power are not relevant to how customers use the utility 15 system, and there cannot be any presumption that the customer's end use business 16 process is correlated with the customer's electric service characteristics. As noted 17 above, the customer electric service characteristics that are the basis for the 18 organization of customers into classes-load size, load recurrence, service 19 voltage, and meter type-bear no relationship to the customer's end use for 20 21 power.
- 22 In Project No. 39548, Oncor commented:

23TIEC and SPS both propose substituting "customer class" for "rate24class." Oncor strongly opposes these proposals...Oncor does not25have "commercial" or "industrial" customers as rate classes. It

does not functionalize or allocate costs to "commercial" customers 1 or "industrial" customers or "municipal" customers or "qualified 2 businesses under the Texas Enterprise Zone Act." Rather, it 3 4 allocates costs to its eight rate classes, each of which has its own rate schedule: (1) residential; (2) secondary less than or equal to 5 10 kW; (3) secondary greater than 10 kW; (4) primary less than or 6 equal to 10 kW; (5) primary greater than 10 kW-distribution line; 7 (6) primary greater than 10 kW-substation; (7) transmission; and 8 (8) lighting. A "commercial" customer could be in any of the 9 middle six rate classes above. Integrated utilities had, and still 10 have, "municipal" rate classes (as did Oncor's integrated 11 predecessor), but those rate classes were eliminated for TDUs upon 12 restructuring. Thus, Oncor's "municipal customers" can be found 13 in all of the rate classes except residential. However, Oncor does 14 15 not allocate costs to these "commercial" or "industrial" or "municipal" customer classes: it allocates costs strictly to the eight 16 rate classes it has. Any requirement to allocate costs to customer 17 classes, as SPS and TIEC advocate, could be viewed as an attempt 18 to reverse the generic customer classification decisions made in 19 Project No. 22344, and to totally change how Oncor currently 20 21 functionalizes and allocates costs.45 22 SPS has five rate classes that serve commercial customers. The 23 customers differ by load size, load factor, service voltage, and meter type. 24 Under the Commission's definition, a "customer class" can be a grouping of 25 Q. In that event, does the Commission allocate costs among 26 rate schedules. customer classes or rate classes? 27 Rate classes. As noted above, this is the required level of granularity in the Filing 28 A. Package, is the minimum level of granularity to establish the PCRF, TCRF, and 29 DCRF baseline values; and, it is the necessary level of granularity to set cost-30 31 based rates under each rate schedule.

# 32 Q. Have any other witnesses used the term "customer class" in this case?

### <sup>45</sup> Id., at 1.

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| 1  | A.         | Yes. <sup>46</sup> However, the parties have not testified as to how they are using the term.   |
|--|------------|---|
| 2  |            | It is unclear if they are referring to rate classes or bundles of rate classes. If they   |
| 3  |            | are using the term to refer to bundles of rate classes, they have not identified  |
| 4  |            | which rate classes are included in each "customer class," and have not shown that   |
| 5  |            | the bundled rate classes have similar electric service characteristics. These uses  |
| 6  |            | of the term "customer class" are therefore unsupported and should be rejected.  |
| 7  |            | Because "customer class" has a fluid meaning that can be either a rate  |
| 8  |            | class or bundle of rate classes with similar electric service characteristics, the use  |
| 9  |            | of this term confuses the cost allocation issues in this case and is consistent with  |
| 10   |            | the non-transparent cost-shifting approach to ratemaking.   |
| 11   | <u>Mr.</u> | Pollock's class allocation  |
| 12   | Q.         | Please describe the class cost allocation treatments reflected in Mr. Pollock's   |
| 13   |            | CCOSS.  |
|  |            |   |
| 14   | A.         | Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates  |
| 14<br>15   | A.         | Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates costs to bundles of rate classes using one set of class cost allocation treatments.  |
| 14<br>15<br>16                                     | A.         | Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates costs to bundles of rate classes using one set of class cost allocation treatments. He then allocates costs to the rate classes within his "Commercial & Industrial"   |
| 14<br>15<br>16<br>17                               | A.         | <ul> <li>Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates</li> <li>costs to bundles of rate classes using one set of class cost allocation treatments.</li> <li>He then allocates costs to the rate classes within his "Commercial &amp; Industrial"</li> <li>bundle using a different set of class cost allocation treatments.</li> </ul>  |
| 14<br>15<br>16<br>17<br>18                         | A.         | <ul> <li>Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates</li> <li>costs to bundles of rate classes using one set of class cost allocation treatments.</li> <li>He then allocates costs to the rate classes within his "Commercial &amp; Industrial"</li> <li>bundle using a different set of class cost allocation treatments.</li> <li>The following table summarizes Mr. Pollock's class cost allocation</li> </ul>  |
| 14<br>15<br>16<br>17<br>18<br>19                   | A.         | <ul> <li>Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates</li> <li>costs to bundles of rate classes using one set of class cost allocation treatments.</li> <li>He then allocates costs to the rate classes within his "Commercial &amp; Industrial"</li> <li>bundle using a different set of class cost allocation treatments.</li> <li>The following table summarizes Mr. Pollock's class cost allocation</li> <li>treatments for production capacity, transmission capacity, distribution substation,</li> </ul> |
| 14<br>15<br>16<br>17<br>18<br>19<br>20             | A.         | Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates<br>costs to bundles of rate classes using one set of class cost allocation treatments.<br>He then allocates costs to the rate classes within his "Commercial & Industrial"<br>bundle using a different set of class cost allocation treatments.<br>The following table summarizes Mr. Pollock's class cost allocation<br>treatments for production capacity, transmission capacity, distribution substation,<br>and primary distribution system costs.             |
| 14<br>15<br>16<br>17<br>18<br>19<br>20<br>21       | A.         | Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates costs to bundles of rate classes using one set of class cost allocation treatments. He then allocates costs to the rate classes within his "Commercial & Industrial" bundle using a different set of class cost allocation treatments. The following table summarizes Mr. Pollock's class cost allocation substation, treatments for production capacity, transmission capacity, distribution substation, and primary distribution system costs.                   |
| 14<br>15<br>16<br>17<br>18<br>19<br>20<br>21<br>22 | A.         | Mr. Pollock allocates costs among the rate classes in two steps. First, he allocates costs to bundles of rate classes using one set of class cost allocation treatments. He then allocates costs to the rate classes within his "Commercial & Industrial" bundle using a different set of class cost allocation treatments. The following table summarizes Mr. Pollock's class cost allocation substation, treatments for production capacity, transmission capacity, distribution substation, and primary distribution system costs.                   |

### 1 Table BTM-8

|    | Typ                 | be of demand cost          | To bundles of rate classes        | To the rate classes within     |
|----|---------------------|----------------------------|-----------------------------------|--------------------------------|
|    | Production canacity |                            | AED 4CP production                | the bundle                     |
|    | Tra                 | nsmission capacity         | AED 4CP transmission              | Billing demands                |
|    | Dis                 | tribution substation       | AED 4CP transmission              | Billing domands                |
|    | Prin                | nary distribution system   | Class NCP                         | Billing demands                |
| 2  |                     |                            |                                   | Diaing demands                 |
| 3  |                     | Mr. Pollock's t            | reatments that are not consis     | tent with the Commission's     |
| 4  |                     | standard treatments are    | bolded and shaded.                |                                |
| 5  | Q.                  | Is it typical to perform   | n class cost allocation in two    | steps, and to vary the class   |
| 6  |                     | cost allocation basis be   | etween the steps?                 |                                |
| 7  | A.                  | No. This aspect of Mr.     | Pollock's methodology is uni      | que in my experience. After    |
| 8  |                     | Mr. Pollock allocated ca   | apacity costs among bundles of    | of rate classes using one cost |
| 9  |                     | allocation basis, he th    | en allocated costs among          | the rate classes within his    |
| 10 |                     | "Commercial & Indust       | rial" bundle of rate classes      | using a different allocation   |
| 11 |                     | basis.                     |                                   |                                |
| 12 | Q.                  | Do you have any imm        | ediate concerns with Mr. Po       | llock's two-step allocation    |
| 13 |                     | approach?                  |                                   |                                |
| 14 | A.                  | Yes. Allocating the same   | me costs differently to different | ent rate classes ensures that  |
| 15 |                     | customers with the sam     | e electric service characteristi  | cs will experience different   |
| 16 |                     | charges. It is therefore c | liscriminatory.                   |                                |
| 17 |                     | I have not review          | ved a Commission-adopted co       | st of service study in which   |
| 18 |                     | capacity costs are alloc   | ated one way to some rate c       | lasses, and another way to     |
| 19 |                     | other rate classes. Cost   | s should always be allocated      | consistently among the rate    |
| 20 |                     | classes because it is o    | customers' use of the utili       | ty system that drives the      |
| 21 |                     | Company's costs, not t     | he Company's classification       | of its customers. To my        |

knowledge, this type of discriminatory approach to class cost allocation has never
 been approved by the Commission.

Q. Do you also take issue with the class cost allocation basis Mr. Pollock used to
 allocate production, transmission, substation, and primary system capacity
 costs among the rate classes in his "Commercial & Industrial" bundle?

A. Yes. The use of billing demands is inconsistent with cost causation because
billing demands are *undiversified*. The following table shows the Commissionstandard cost allocation treatments at different points in the utility system that are
commensurate with the level of load diversity in the system as power flows
downstream.

11 Table BTM-9

| Load<br>Diversity                           | HIGHEST   | >                                     | >  | >                                       | LOWEST                                   |
|---|---|---------------------------------------|--|---|--|
|   | Upstream  | >                                     | >  | >                                       | Downstream                               |
| Business<br>Function                        | Production,<br>Transmission                                     | Distribution<br>Primary<br>Substation | Other<br>Primary<br>Distribution<br>Elements | Secondary<br>Distribution<br>System     | Meter <sup>47</sup>                      |
| Cost-<br>Causative<br>Demands <sup>48</sup> | <b>AED 4CP</b><br><b>Production</b> ,<br>AED 4CP<br>Trasmission | Class NCP                             | Class NCP                                    | Class NCP<br>and/or<br>Customer<br>NCPs | <b>Billing Demand</b> ,<br>Customer NCPs |

12

Class demand coincident with the peak demands of the production and transmission systems is highly diversified. Class demand coincident with the peak demands on primary distribution system is somewhat less diversified. Billing demand is undiversified and is an inappropriate class allocation basis for production, transmission, and primary distribution system capacity costs because

<sup>&</sup>lt;sup>47</sup> Secondary voltage customer as shown.

<sup>&</sup>lt;sup>48</sup> Demand typically used in the Commission-adopted cost study as a proxy for cost causation.

| 1  |               | it fails to give each rate class proper credit for its relative load diversity at that |
|----|---------------|--|
| 2  |               | point in the system.   |
| 3  | <u>Mr. 1</u>  | Pollock's allocation of distribution substation costs among bundles of rate            |
| 4  | <u>classe</u> | <u>s</u>   |
| 5  | Q.            | Are any non-standard treatments reflected in Mr. Pollock's allocation of               |
| 6  |               | costs to bundles of rate classes?  |
| 7  | A.            | Yes. Mr. Pollock allocates distribution substation costs among the bundles of rate     |
| 8  |               | classes in proportion to AED 4CP transmission demands.                                 |
| 9  | Q.            | Mr. Pollock labeled the class allocation factor he used "distribution                  |
| 10 |               | substation AED 4CP". Did Mr. Pollock use distribution demands to                       |
| 11 |               | calculate this allocation factor?  |
| 12 | A.            | No. He used transmission demands, but changed the name to "distribution                |
| 13 |               | substation AED 4CP," as can be seen in the following table.                            |
| 14 | Table         | BTM-10   |

| Rate class                | Mr. Pollock's<br>"distribution substation<br>AED 4CP" demands | Mr. Pollock's AED<br>4CP transmission<br>demands |
|---------------------------|---|--|
| Secondary general service | 468,230   | 468,230  |
| Primary general service   | 272,304   | 272,304 <sup>49</sup>                            |
| Source:                   | Mr. Pollock's CCOSS, at                                       | Mr. Pollock's CCOSS,                             |
|                           | RML-RD-4, pg.6  | at WP-Class_Alloc                                |

Mr. Pollock's mis-labeling of this measure of demand as distributionrelated is consistent with a non-transparent cost shifting approach to ratemaking under which costs are shifted away from favored customers in part by confusing the issues.

<sup>&</sup>lt;sup>49</sup> Primary general service plus interruptible.

| 1  | Q. | Do you agree with Mr. Pollock's methodology?   |
|----|----|--|
| 2  | A. | No. The need for capacity at the distribution substation is typically driven by the  |
| 3  |    | peak demand at each substation, which appears to have been measured by               |
| 4  |    | CenterPoint in Docket No. 38339. For each class and for each substation, each        |
| 5  |    | class's fair share of distribution substation costs would be the sum of that class's |
| 6  |    | demands coincident with the substations' peak demands.                               |
| 7  | Q. | Did Mr. Pollock use the same treatment that was approved by the                      |
| 8  |    | Commission for CenterPoint?  |
| 9  | A. | No. <sup>50</sup>  |
| 10 | Q. | Does a utility's load research program typically yield measurements of each          |
| 11 |    | class's demand coincident with each substation's peak demand?                        |
| 12 | A. | No. In my experience, utilities typically do not provide this information as part of |
| 13 |    | their load research programs. Perhaps the metering that would be necessary to        |
| 14 |    | capture this data may not exist for some utilities.                                  |
| 15 | Q. | Given that utilities typically do not provide substation coincident demands,         |
| 16 |    | how are substation costs typically allocated among the classes?                      |
| 17 | A. | An allocation basis that is a reasonable proxy for cost causation is selected and    |
| 18 |    | used to allocate the costs of distribution substations among the rate classes. The   |

<sup>&</sup>lt;sup>50</sup> Application of CenterPoint Energy Houston Electric LLC for Authority to Change Rates, Docket No. 38339, Direct Testimony of Matthew A. Troxle at 12-19 (June 30, 2010): Q. HOW DID YOU ALLOCATE CAPACITY RELATED DISTRIBUTION PLANT? A. I allocated capacity related distribution costs based upon the adjusted test year demand for electric power on CenterPoint Houston's distribution system at the time of each of CenterPoint Houston's four monthly coincident summer peak hours ("4CP Distribution"). Furthermore, the allocation factors are determined at two points of service on the distribution system: the substation and the overhead distribution lines. Since some customers are served exclusively on the underground ("UG") line distribution system and do not use the overhead line facilities, having the allocation factors determined at the substation and the overhead distribution line level allows certain costs of the UG line facilities to be allocated exclusively to those classes which have customers served from those facilities.

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- Page 43
- 1 following table shows the substation cost allocation treatments that have been
- 2 adopted by the Commission since unbundling:

3 Table BTM-11

4 5 Commission-adopted class allocation bases for distribution substation costs in fully litigated rate cases since unbundling

6

|                               | <b>Docket</b> | Commission-Adopted Class Allocation          |
|-------------------------------|---------------|--|
| <u>Utility</u>                | <u>No.</u>    | <b>Basis – Distribution Substation Costs</b> |
| Southwestern Electric Power   |               | "Class non-coincident peak demand" or        |
| Company ("SWEPCO")            | 40443         | "Class NCP") <sup>51</sup>                   |
| Entergy Texas, Inc. ("ETI")   | 39896         | Class NCP <sup>52</sup>                      |
| CenterPoint Energy Houston    |               |  |
| Electric, LLC ("CenterPoint") | 38339         | Distribution 4CP - Substation                |
| Oncor Electric Delivery       |               |  |
| Company, LLC ("Oncor")        | 35717         | Class NCP <sup>53</sup>                      |
| AEP Texas Central Company     |               |  |
| ("AEP-TCC")                   | 33309         | Class NCP <sup>54</sup>                      |
| AEP Texas North Company       |               |  |
| ("AEP-TNC")                   | 33310         | Class NCP <sup>55</sup>                      |

7

8

As can be seen, Class NCP has been consistently adopted by the

9 Commission, with one exception.

10 Q. What is Class NCP?

11 A. Class NCP is the peak demand of the class as a whole without regard to when the

12 class's peak occurs in relation to the distribution system's peak. Class NCP is a

13 diversified measure of demand. For that reason, it is also commonly referred to as

14 "maximum diversified demand" ("MDD").

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 <sup>&</sup>lt;sup>51</sup> Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs, Docket No. 40443, Direct Testimony of John O. Aaron at 34-11 (July 27, 2012).
 <sup>52</sup> Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and

<sup>&</sup>lt;sup>52</sup> Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment, Docket No. 39896, Direct Testimony of Myra L. Talkington at 4-7 (Nov. 28, 2011). Also known as maximum diversified demand ("MDD").

<sup>&</sup>lt;sup>53</sup> Application of Oncor Electric Delivery Company LLC for Authority to Change Rates, Docket No. 35717, Direct Testimony of J. Michael Sherburne at 11-28 (June 27, 2008).

<sup>&</sup>lt;sup>54</sup> Application of AEP Texas Central Company for Authority to Change Rates, Docket No. 33309, Direct Testimony of Donald R. Moncrief at 16-4 (Nov. 9, 2006).

<sup>&</sup>lt;sup>55</sup> Application of AEP Texas North Company for Authority to Change Rates, Docket No. 33310, Direct Testimony of Donald R. Moncrief at 16-4 (Nov. 9, 2006).

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| Q. | Why is load diversity an important consideration in determining the                       |
|----|---|
|    | appropriate demands to use to allocate distribution system costs?                         |
| A. | Typically, it is the class's demand that is coincident with the peak demand at each       |
|    | distribution system element that contributes to the need for additional capacity at       |
|    | that distribution system element. To the extent a rate class reflects a diversity of      |
|    | loads, the rate class's load will tend to be less coincident with the demands that        |
|    | drive SPS's capacity investments.   |
| Q. | Is a class's AED 4CP transmission demand directly related to Class NCP?                   |
| A. | No. Transmission AED 4CP is calculated based on the peak of the transmission              |
|    | system.   |
| Q. | Has Mr. Pollock testified in support of his proposal to depart from the                   |
|    | substation cost allocation methodology that has been consistently adopted by              |
|    | the Commission, which is Class NCP?   |
| A. | No.   |
| Q. | What do you recommend?  |
| A. | I recommend that Mr. Pollock's allocation of distribution substation costs among          |
|    | bundles of rate classes in proportion to AED 4CP transmission demands be                  |
|    | rejected. It is inconsistent with cost causation and with the Commission's                |
|    | standard treatment.   |
| Q. | Do you take a position on Mr. Griffey's proposal to use 3CP <sup>56</sup> rather than the |
|    | Commission-standard 4CP in calculating the production and transmission                    |
|    | demand allocation factors?  |
| Α. | No, not at this time.   |
|    | Q.<br>A.<br>Q.<br>A.<br>Q.<br>A.<br>Q.  |

<sup>56</sup> Direct Testimony of Charles S. Griffey at 7 line 1 (May 15, 2015).

| 1  | <u>Mr. P</u> | ollock's allocation of production capacity costs among the rate classes         |
|----|--------------|---|
| 2  | Q.           | How does Mr. Pollock allocate production capacity costs among the rate          |
| 3  |              | classes within the bundle?  |
| 4  | A.           | He allocates production capacity costs among the rate classes in the bundle in  |
| 5  |              | proportion to billing demands.  |
| 6  | Q.           | Do you support Mr. Pollock's approach?  |
| 7  | A.           | No. Billing demands do not cause production capacity costs.                     |
| 8  | Q.           | What causes SPS's production capacity costs?                                    |
| 9  | A.           | Mr. Luth testified that the Company's proposed AED 4CP production cost          |
| 10 |              | allocation basis is "based upon customer demand and usage that the system must  |
| 11 |              | be capable of handling during the Test Year peak periods." <sup>57</sup>        |
| 12 | Q.           | Which peak periods is Mr. Luth referring to in his testimony?                   |
| 13 | A.           | He is referring to the production system peak demand by each Texas retail class |
| 14 |              | for each of the four summer months (June through September). <sup>58</sup>      |
| 15 | Q.           | In Docket No. 39896, did the ALJs find that AED 4CP production demand is        |
| 16 |              | the appropriate allocation methodology for production capacity costs; and,      |
| 17 |              | did the Commission adopt the ALJs' opinion?                                     |
| 18 | A.           | Yes. <sup>59</sup> In Docket No. 40443, the Commission again adopted AED 4CP    |
| 19 |              | production demand as the class allocation basis for production capacity costs.  |

<sup>&</sup>lt;sup>57</sup> Direct Testimony of Richard M. Luth at 44 line 8.
<sup>58</sup> Direct Testimony of Richard M. Luth at 42 line 3.
<sup>59</sup> Docket No. 39896, PFD at 272: "The ALJs recommend the use of A&E 4CP to allocate capacity-related production costs, as proposed by ETI...It recognizes the contribution of both peak demand and the pattern of capacity use throughout the year. It also recognizes that ETI, like all Texas utilities, is a summer peaking utility"; and, Order, at FoF 183: "The Average and Excess (A&E) 4CP method for allocating capacity-related production costs, including reserve equalization payments, to the retail classes is a standard methodology and the most reasonable one."

| 1 | Q. | For the rate classes among which Mr. Pollock proposes to allocate        |
|---|----|--|
| 2 |    | production capacity costs based on their billing demands, is the billing |
| 3 |    | demand for those rate classes currently based on demand coincident with  |
| 4 |    | production system summer peak demands?                                   |

No. Under the secondary general, primary general, and large general service-5 A. transmission rate schedules, billing demand is "the Customer's kW demand for 6 the 30-minute period of greatest use during the month."<sup>60</sup> For secondary general 7 and large general service-transmission, there also tariff provisions to adjust the 8 customer's billing demand, but it is not related to the peak demand on the 9 production system.<sup>61</sup> 10

#### What is the customer's "30-minute period of greatest kW use during the **O**. 11 month"? 12

- It is the customer's peak demand without regard to when it occurs in relation to 13 Α. the peak of the Company's production system-or, in other words, the customer's 14 non-coincident peak demand at the customer's meter. AED 4CP production 15 demand is a highly diversified, upstream measurement of demand. Billing 16 demand is an undiversified, downstream measurement of demand. 17
- 18 Q.

## What do you recommend?

I recommend that Mr. Pollock's allocation of production capacity costs among the 19 A. secondary general service rate class, primary general service rate class, and large 20 general service-transmission rate class in proportion to billing demands be 21 rejected. It is discriminatory, inconsistent with cost causation, and inconsistent 22 with the Commission's standard treatment. 23

<sup>60</sup> Schedule Q-8.8 at 13.

| 1  |             | Mr. Griffey's recommended approach, which is the same, should be                  |
|----|-------------|---|
| 2  |             | rejected for the same reasons. <sup>62</sup>                                      |
| 3  |             |   |
| 4  | <u>Mr. </u> | Pollock's allocation of transmission capacity costs among the rate classes        |
| 5  | Q.          | What is Mr. Pollock's methodology to allocate transmission capacity costs         |
| 6  |             | among the rate classes within the bundle?   |
| 7  | A.          | Similar to his allocation of production capacity costs, Mr. Pollock allocates     |
| 8  |             | transmission capacity costs among the rate classes within the bundle on the basis |
| 9  |             | of billing demands.   |
| 10 | Q.          | Do you support Mr. Pollock's approach?  |
| 11 | A.          | No, for similar reasons. Allocation on the basis of billing demands is            |
| 12 |             | inappropriate and should be rejected by the Commission. <sup>63</sup>             |
| 13 |             | Billing demands do not drive the Company's transmission capacity costs.           |
| 14 |             | A portion of the Company's transmission capacity costs are caused by customers'   |
| 15 |             | peak demands on the transmission system during its peak in the months of June,    |
| 16 |             | July, August, and September; and, the other portion is caused by customers'       |
| 17 |             | average demands on the system throughout the year.                                |
| 18 |             | In Docket No. 39896, the Commission adopted AED 4CP transmission                  |
| 19 |             | demand as the appropriate class allocation basis for these costs. In Docket No.   |
| 20 |             | 40443, the Commission again approved the same class allocation basis. In this     |

<sup>&</sup>lt;sup>61</sup> Schedule Q-8.8 at 13: "In no month, shall the billing demand be greater than the kW value determined by dividing the kWh sales for the billing period by 80 hours."

<sup>&</sup>lt;sup>62</sup> Direct Testimony of Charles S. Griffey at 7 line 3 (May 15, 2015). Many if not all of the nonstandard class cost allocation treatments supported by Mr. Griffey were reflected in SPS's filed case in a number of settled rate proceedings. Mr. Griffey states that he rejects the "changes." Staff understands this to mean that he supports the non-standard methodologies that are also supported by TIEC witness Mr. Pollock.

|    | 1.0.0        |   |
|----|--------------|---|
| 1  |              | proceeding, SPS has adhered to the Commission's recent decisions and requested      |
| 2  |              | the use of AED 4CP transmission demands as the class cost allocation basis.         |
| 3  |              | Mr. Griffey's recommended approach, which is the same, should be                    |
| 4  |              | rejected for the same reasons. <sup>64</sup>  |
| 5  | <u>Mr.</u>   | Pollock's allocation of distribution substation costs among the rate classes        |
| 6  | <u>withi</u> | n the bundle  |
| 7  | Q.           | What is Mr. Pollock's methodology to allocate distribution substation costs         |
| 8  |              | among the secondary general service rate class and primary general service          |
| 9  |              | rate class?   |
| 10 | A.           | Mr. Pollock also allocates distribution substation costs among the secondary        |
| 11 |              | general service rate class and the primary general service rate class in proportion |
| 12 |              | to billing demands. <sup>65</sup>   |
| 13 | Q.           | Do you support Mr. Pollock's approach?  |
| 14 | A.           | No. As discussed above in reference to Mr. Pollock's allocation of substation       |
| 15 |              | costs among the bundles of rate classes, Class NCP is the Commission-standard       |
| 16 |              | class allocation basis. It is the class allocation basis that was approved by the   |
| 17 |              | Commission in Docket Nos. 40443, 39896, 35717, and 33309. It is SPS's               |
| 18 |              | requested class allocation basis in this proceeding.                                |
| 19 |              | Mr. Pollock's use of billing demands is discriminatory, inconsistent with           |
| 20 |              | cost causation, inconsistent with the Commission's recent decisions and should be   |

<sup>&</sup>lt;sup>63</sup> Mr. Pollock allocates transmission capacity costs in two steps to the following rate classes: Secondary General, Primary General, Large General Service Transmission 69-115kV, and Large General Service Transmission 115kV+.

<sup>&</sup>lt;sup>64</sup> Direct Testimony of Charles S. Griffey at 7 line 3 (May 15, 2015). Many if not all of the nonstandard class cost allocation treatments supported by Mr. Griffey were reflected in SPS's filed case in a number of settled rate proceedings. Mr. Griffey states that he rejects the "changes." Staff understands this to mean that he supports the non-standard methodologies that are also supported by TIEC witness Mr. Pollock.

<sup>&</sup>lt;sup>65</sup> Direct Testimony of Richard M. Luth, Attachment RML-RD-8, at 4.