



Control Number: 46449



Item Number: 607

Addendum StartPage: 0

SOAH DOCKET NO. 473-17-1764
PUC DOCKET NO. 46449

RECEIVED
2017 MAY 22 PM 2:23

APPLICATION OF SOUTHWESTERN
ELECTRIC POWER COMPANY FOR
AUTHORITY TO CHANGE RATES

§
§
§

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON
ADMINISTRATIVE HEARINGS

WORKPAPERS
TO THE
CROSS-REBUTTAL TESTIMONY OF
JAMES W. DANIEL
ON BEHALF
OF
NUCOR STEEL-LONGVIEW, LLC

MAY 22, 2017

1 607

SOAH DOCKET NO. 473-12-7519
PUC DOCKET NO. 40443

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR AUTHORITY TO CHANGE RATES AND RECONCILE FUEL COSTS	§ § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
--	------------------	--

REDACTED

Direct Testimony and Exhibits

of

JEFFRY POLLOCK

On Behalf of

Texas Industrial Energy Consumers

December, 2012



J . P O L L O C K
I N C O R P O R A T E D

1 **Q WHY ARE COST-BASED RATES EQUITABLE?**

2 A Rates which primarily reflect cost-of-service considerations are equitable because
3 each customer pays what it actually costs the utility to serve the customer – no more
4 and no less. If rates are not based on cost, then some customers must pay part of
5 the cost of providing service to other customers, which is inequitable.

6 **Q HOW DO COST-BASED RATES PROMOTE ENGINEERING EFFICIENCY?**

7 A With respect to engineering efficiency, when rates are designed so that demand and
8 energy charges are properly reflected in the rate structure, customers are provided
9 with the proper incentive to minimize their costs which will, in turn, minimize the costs
10 to the utility.

11 **Q HOW CAN COST-BASED RATES PROVIDE STABILITY?**

12 A When rates are closely tied to cost, the utility's earnings are stabilized because
13 changes in customer use patterns result in parallel changes in revenues and
14 expenses. If rates are not based on cost, then an increase in usage by subsidized
15 classes or a decrease in usage by classes providing subsidies will adversely affect
16 the utility's earnings.

17 **Q HOW DO COST-BASED RATES ENCOURAGE CONSERVATION?**

18 A By providing balanced price signals against which to make consumption decisions,
19 cost-based rates encourage conservation (of both peak day and total usage), which
20 is properly defined as the avoidance of wasteful or inefficient use (and not just less
21 use). If rates are not based on a class cost-of-service study, then consumption

5. Class Revenue Allocation

**PUC DOCKET NO. 40443
SOAH DOCKET NO. 473-12-7519**

RECEIVED
14 MAR -6 PM 1:39
PUBLIC UTILITY COMMISSION
FILING CLERK

**APPLICATION OF SOUTHWESTERN § PUBLIC UTILITY COMMISSION
ELECTRIC POWER COMPANY FOR §
AUTHORITY TO CHANGE RATES § OF TEXAS
AND RECONCILE FUEL COSTS §**

ORDER ON REHEARING

This Order addresses the application filed on July 27, 2012 by Southwestern Electric Power Company (SWEPCO) for authority to change its rates and reconcile its fuel costs. The primary contested issue regarding the proposed increase involves the portion of SWEPCO's share of the costs of the Turk coal plant in Hempstead, Arkansas that are allocated to Texas.

SWEPCO's application sought a total-company revenue requirement of \$1.033 billion, exclusive of fuel revenues. The requested Texas retail revenue requirement exclusive of fuel revenues was \$329 million, which reflected an increase in annual Texas retail revenues of \$83.37 million over its adjusted test-year revenues.¹ The increase primarily consists of the inclusion of the newly constructed Turk coal plant and Stall gas plant. For the fuel reconciliation period from April 1, 2009 through December 31, 2011, SWEPCO sought to reconcile a cumulative fuel under-recovery balance of \$3,936,492, including interest, and proposed no surcharge. SWEPCO's reconciliation included proposed revisions to Dolet Hills Lignite Company benchmark price.

The State Office of Administrative Hearings' administrative law judges (ALJs) issued a proposal for decision on May 20, 2013. The ALJs' recommended approval of the application, with certain adjustments. Regarding the Turk plant, the ALJs recommended the disallowance of all Turk costs over approximately \$934 million as being imprudently incurred in continuing construction after June 2010. The ALJs further recommended that approximately \$260 million be allowed for the estimated costs to retrofit the Welsh Unit 2 coal plant that SWEPCO should have undertaken instead of completing the Turk plant. However, the ALJs recommended in the

¹ Rebuttal Testimony of Jennifer L. Jackson, SWEPCO Ex. 88, JLJ-1R at 2.

1155
4

Revenue Distribution

287. SWEPCO's proposed revenue distribution is reasonable because having few customers can make the class cost-of-service results for a particular class susceptible to unusual circumstances in a particular test year.
288. Grouping rate classes together may mitigate unusual pricing circumstances.
289. SWEPCO's proposed revenue distribution incorporates the major class groupings that were acceptable to parties to SWEPCO's last rate case settlement.
290. SWEPCO's proposed major class groupings isolate any rate class subsidies to affect rate classes within the major class groupings.

Class Cost Allocation and Rate Design
Residential

291. SWEPCO's residential service is composed of two elements: a customer charge and a consumption-based energy charge. SWEPCO has an on-peak energy charge imposed in the months of May through October (summer) for all kWh. SWEPCO has a two-tiered off peak energy charge during the months of November through April (winter) that includes a declining block rate for usage in excess of 600 kWh, in which the price of each unit is reduced after a defined level of usage.
292. It is reasonable to increase the Residential customer charge to \$8.00.
293. A slight increase in the customer charge considers SWEPCO's concern that the current customer charge under-recovers the customer costs shown in the class cost-of-service study, while at the same time giving consideration to the concern that an excessive customer charge can promote wasteful energy consumption.
294. SWEPCO's Residential declining block rate structure is contrary to energy efficiency efforts and the Legislature's goal of reducing both demand and energy consumption, as stated in PURA § 39.905.
295. SWEPCO's Residential declining block rate differential should be decreased by 20% from the current level of 1.23 cents/kWh to 0.98 cents/kWh.

P.U.C. Docket No. 40443
SWEPCO Rate Case
Test Year Ending 12/31/2011
Revenue Allocation Schedule - Commission's Order on Re-Hearing

<u>Customer Group</u>	<u>Rate Class</u>	<u>Commission Re-Hearing Present Revenues</u> a	<u>Commission Re-Hearing Cost of Service*</u> b	<u>Commission Re-Hearing Target Revenues</u> c	<u>Commission Re-Hearing Target Increase (%)</u> d = (c / a) - 1
Residential	Residential	\$99,607,457	\$120,429,955	\$120,429,955	20.90%
General Service	General Service with Demand	\$10,897,738	\$12,141,280	\$12,629,829	15.89%
	General Service without Demand	\$4,385,601	\$5,559,664	\$5,082,650	15.89%
	General Service Primary	\$716	\$12,366	\$830	15.89%
	Group Subtotal	\$15,284,056	\$17,713,310	\$17,713,310	15.89%
Lighting & Power	Lighting & Power Secondary	\$71,281,800	\$92,318,060	\$92,096,782	29.20%
	Lighting & Power Primary	\$18,610,522	\$24,080,853	\$24,044,976	29.20%
	Lighting & Power Transmission	\$678,134	\$619,001	\$876,156	29.20%
	Group Subtotal	\$90,570,455	\$117,017,914	\$117,017,914	29.20%
Electric Furnace	Electric Furnace	\$54,501	\$45,207	\$45,207	-17.05%
Industrial	Cotton Gin	\$120,184	\$306,236	\$130,020	8.18%
	Metal Melting Primary	\$323,727	\$505,676	\$350,220	8.18%
	Metal Melting Transmission	\$1,051,368	\$1,052,389	\$1,137,412	8.18%
	Oilfield Large Industrial	\$1,053,833	\$988,411	\$1,140,078	8.18%
	US Steel Special Contract	\$4,125,573	\$5,942,923	\$4,463,208	8.18%
	Large Lighting & Power Primary	\$4,570,425	\$6,904,126	\$4,944,467	8.18%
	Large Lighting & Power Transmission	\$16,002,156	\$13,777,412	\$17,311,767	8.18%
	Group Subtotal	\$27,247,265	\$29,477,172	\$29,477,172	8.18%
Municipal Pumping	Municipal Pumping	\$1,646,431	\$2,021,263	\$1,803,263	9.53%
	Municipal Service	\$1,013,241	\$891,759	\$1,109,758	9.53%
	Group Subtotal	\$2,659,672	\$2,913,021	\$2,913,021	9.53%
Municipal Lighting	Municipal Lighting	\$1,967,086	\$2,158,052	\$2,244,083	14.08%
	Public Street & Highway Lighting	\$32,437	\$123,035	\$37,005	14.08%
	Group Subtotal	\$1,999,524	\$2,281,088	\$2,281,088	14.08%
Lighting	Private, Outdoor, Area Lighting	\$3,988,788	\$3,924,527	\$3,961,753	-0.68%
	Customer-Owned Lighting	\$86,411	\$123,051	\$85,825	-0.68%
	Group Subtotal	\$4,075,199	\$4,047,578	\$4,047,578	-0.68%
TOTAL TEXAS RETAIL		\$241,498,128	\$293,925,244	\$293,925,244	21.71%

Notes:

* Adjusted to reflect SWEPCO's migration of two customers from gs-primary to lp-primary.