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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	**§ § §**	**BEFORE THE STATE OFFICE OF OF ADMINISTRATIVE HEARINGS**

Cost Allocation and Rate Design

CROSS-REBUTTAL TESTIMONY
OF
KIT PEVOTO

ON BEHALF OF

The University of Texas at El Paso

November 19, 2021

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CROSS-REBUTTAL TESTIMONY
OF
KIT PEVOTO

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Kit Pevoto. My business address is 13436 Athens Trail, Austin, Texas 78737.

Q. On whose behalf are you testifying in this proceeding?

A. I am filing testimony on behalf of The University of Texas at El Paso ("UTEP").

Q. Are you the same Kit Pevoto who previously filed direct testimony in this proceeding?

A. Yes. I filed direct testimony in this case on October 22, 2021 on behalf of UTEP.

II. PURPOSE OF CROSS-REBUTTAL TESTIMONY

Q. What is the purpose of your Cross-Rebuttal Testimony?

A. The purpose of my rebuttal testimony is to respond to testimony filed by:

- City of El Paso ("CEP") witness Mr. Clarence Johnson; and
- Office of Public Utility Counsel ("OPUC") witness Mr. Evan D. Evans.

Q. Please summarize the issues addressed in your Cross-Rebuttal Testimony.

A. My testimony addresses CEP's proposed adjustments to the demand and energy allocation factors used in the cost allocation study. I also address the rate moderation proposals by witnesses for CEP and OPUC.

III. CEP'S PROPOSED ADJUSTMENTS TO THE DEMAND AND ENERGY ALLOCATORS USED IN THE COST ALLOCATION

Q. What are CEP's proposed adjustments to the demand and energy allocator used in the cost allocation study?

A. For allocating costs to the Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes, CEP proposes using the demand and energy allocators developed based on a three year average demand and energy allocators for the period 2017-2019, instead of the demand and energy allocators based on 2020 test year data as traditionally used in cost allocation studies in utility base rate cases.

Q. What is the impact of CEP's proposal?

A. CEP's proposed use of the average demand and energy allocation for 2017 to 2019 reduces the energy and demand allocators (and therefore the costs) for the Residential rate class. Under CEP's proposal, the decreases in the allocation factors for Residential are offset by the total increases in the energy and demand allocation for the Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes. In other words, compared to the costs allocated to each rate class in the cost allocation study based on the test year demand and energy information, CEP's proposal would significantly shift costs from Residential rate classes to the Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes.

Q. What is CEP's stated reason for its use of 2017, 2018, and 2019 energy and demand allocator data for allocating 2020 test year costs among rate classes?

A. CEP's Witness Clarence Johnson states that the increase in Residential customers' electricity usage in 2020 was caused by COVID-19 pandemic and that Residential customers' electricity usage will revert back to the pre-COVID-19 pandemic level when the pandemic disappears. CEP's proposed use of the energy and demand data prior to the test year implies that it expects Residential energy usage pattern will change back to the pre-COVID pandemic level for the rate year and beyond.

Q. What is CEP's rationale for its proposed adjustments to the demand and energy allocators for the Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes?

A. CEP attributes the increase in costs allocated to the Residential rate class determined based on test year usage data to COVID-19 pandemic impacts forcing employees to work from home. In addition, based on the test year demand and energy usage pattern, CEP's witness Mr. Clarence Johnson observes that the increase in Residential customers' usage is roughly equal to the combined decrease in the demand and energy usage for Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes. Therefore, CEP proposes to change the demand and energy allocators for only the Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes.

Q. Do you agree with CEP's proposed adjustments to the demand and energy allocators used to determine the costs assigned to each rate class?

A. No, I do not agree. CEP's proposed adjustments to the demand and energy allocators do not reflect the cost relationship among rate classes for the present or the future, when the rates set in this case will be in effect. As a result, setting rates using CEP's proposed demand and energy allocators will not accurately represent costs to serve each rate class for the rate year and beyond. Therefore, CEP's proposed adjustments to the demand and energy allocators should not be allowed in setting future rates in this case.

Q. Please describe the traditional rate setting process in the rate cases in Texas.

A. 16 TAC §25.234 requires rates to be determined using historical test year costs, revenues, billing, and usage data adjusted for known and measurable changes. This rule allows for known and measurable adjustments to test year data so that rates are designed to reflect customer cost and usage information at the time the rates go into effect. In other words, while the Commission sets rates based on an historical test year, the goal is to set rates as closely as possible to the costs to serve customers that will exist when the rates go into effect.

Q. Why do you think that CEP's proposed known and measurable adjustments based on the 2017, 2018, and 2019 demand and energy data do not reasonably represent the cost relationship for setting rates for the future?

A. CEP has not provided any evidence to support its belief that the customer electricity usage pattern will revert back to the pre-COVID-19 level for the rate year and beyond. Just as presented in EPE's testimony, CEP attributes the increase in Residential customer electricity usage to the COVID-19 pandemic and believes that the pandemic will improve during the rate year and as a result the electricity usage for Residential customers will revert back to the pre-COVID-19 level. However, CEP's conclusion is based wholly on speculation, and is not supported by any evidence demonstrating when and if this would happen.

As discussed in detail in my direct testimony, the COVID-19 pandemic changes the way individuals interact and how businesses are run. Both EPE and CEP speculate that when the pandemic improves, the customers' electricity pattern will revert to the pre-COVID-19 level. However, it is very likely, based on several studies I have reviewed that many of the employment patterns occurring during the pandemic (such as an increase in working remotely) will be permanent. In its testimony, EPE even acknowledges that it is not certain that all businesses and offices that closed will re-open or will operate under the same operating arrangement as that in the pre-COVID-19 time. Therefore, it is not reasonable to assume that the 2017, 2018, and 2019 demand and energy data would accurately reflect the cost relationship for the future rates set in this proceeding. As a result, it is not appropriate to include in the rates set in this proceeding adjustment to the test year data, as proposed by CEP.

Q Are there any other CEP proposed adjustments that concern you?

A. Yes, CEP also proposes adjustments to the present base rate revenues for the Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes.

Q. Do you agree with CEP's proposed adjustments to the present base rate reviews for the Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes?

A. No, I do not agree with CEP's proposed adjustments to EPE's present base rate revenues for the Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes. CEP's proposed adjustments to the demand and energy allocators for these classes simply reduce costs allocated to the Residential rate classes and increase costs to the five non-Residential rate classes (Small General Service, General Service, Large General Service, Petroleum Refining, and City/County). CEP proposes adjustments to the present base rate revenues for Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County rate classes to match the adjustments in the cost allocation. CEP's proposed adjustments to the present base rate revenues result in lower Residential present revenue and higher present revenues for Small General Service, General Service, Large General

Service, Petroleum Refining, and City/County rate classes. Based on the same reasons provided to reject CEP's proposed adjustments to the demand and energy allocators used in the cost allocation, as discussed earlier in this testimony, the Commission should reject CEP's proposed adjustments to the present base rate revenues.

IV. <u>CEP AND OPUC'S PROPOSED RATE MODERATION PROPOSALS</u>

Q. Please describe CEP and OPUC's proposed rate moderation mechanism?

A. If the Commission allows EPE a significant base rate revenue increase, CEP and OPUC propose the following rate moderation mechanism:

1. CEP proposes to cap the percentage base rate increase for any class at 1.4 times the system percentage base rate increase and assign no increase to the rate classes that would experience a rate decrease at unity cost.
2. OPUC proposal includes a maximum percentage increase (no class is assigned a percentage base rate increase that is more than 1.5 times the system average percentage base rate increase) and a minimum percentage increase (no class that is allocated a base rate increase is assigned an increase that is less than half the system average percentage base rate increase). OPUC also proposes that rate classes experiencing a rate decrease at unity cost are not assigned an increase or a decrease.

In addition, if the Commission orders a system base rate revenue reduction for EPE, CEP proposes to assign no increase to the rate classes experiencing a rate increase at unity cost and allocate the total system base rate reduction among the rate classes receiving a rate decrease at unity cost.

Q. Please explain EPE's proposed rate moderation approach.

A. EPE's rate moderation proposal reduces cost increases assigned to the Residential and the Water Heating rate classes while redirecting the significant cost decreases assigned to the

Small General Service, General Service, and City/County rate classes. In addition, all of the remaining rate classes are assigned more than cost at unity cost of service the subsidies account given for Residential and the Water Heating rate classes.

EPE's proposed rate moderation mechanism includes the following steps:

1. The cost increases at unity assigned to the Residential and Water Heating rate classes are first set at 1.5 times the system increase (11.07%=7.38%X1.5).
2. The cost decreases at unity allocated to the Small General Service, General Service, and City/County rate class are reduced to 50%.
3. The unrecovered cost increase resulting from the rate moderation in (1) and (2) is then allocated proportionally among all of the rate classes, (including the five rate classes that have received rate moderation in (1) and (2) based on each rate class' revenue requirement.

Q. **Please describe UTEP's rate moderation proposal.**

A. UTEP's rate moderation proposal reduces the rate decreases for the Commercial/City/County customers to mitigate the rate increases for the Residential customers. In addition, no rate class should receive a rate increase above 30%. The rate classes experiencing a rate decrease at unity cost (other than Commercial/City/County rate classes that already absorb the rate increases for the Residential customers) would bear the subsidies resulting from the application of the 30% cap. UTEP's rate moderation proposal involves the following steps:

1) Moderate the rate impact changes for the Residential, Water Heating, Small General Service, General Service and City/County Service rate classes in the following manner:

a. Reduce the rate decreases at unity cost for the Small General Service, General Service, and City/County Service rate classes by 50%;

b. Cap the percentage rate increase at 30% for the Water Heating rider;

c. Use the rate decrease reduction in (a) above to offset the rate increase amount not recovered from the Water Heating rider in (b) above;

d. Use the remaining rate decrease reduction after (c) to reduce the rate increase for the Residential customers; and,

2) To moderate the rate increases for the Outdoor Recreational Lighting, Irrigation, and Cotton Gin rate classes that would experience a more than 30% percentage increase, I recommend the following:

a. Cap the percentage rate increase at 30% for the Outdoor Recreational Lighting, Irrigation, Cotton Gin rate classes;

b. Use the rate decreases for the Government Street Lighting and Area Lighting rate classes to offset the rate increase unrecovered from Outdoor Recreational Lighting, Irrigation, Cotton Gin rate classes in (a) above. The unrecovered rate increase would be deducted proportionally between the Government Street Lighting and Area Lighting rate classes based on their unity cost decreases.

Q. Do you agree with CEP's and OPUC's proposed rate moderation mechanisms if EPE is allowed a base rate revenue increase?

A. No, I do not agree with CEP's and OPUC's proposed rate moderation mechanisms because compared to UTEP's proposed rate moderation mechanism as discussed in detail in my direct testimony, these proposals would produce a less reasonable and equitable base rate revenue requirement distribution among rate classes. In fact, CEP's and OPUC's proposed rate moderation mechanisms are less reasonable and equitable than EPE's proposal. CEP's and OPUC's proposals would create a more unreasonable base revenue requirement distribution than that under EPE's proposed rate moderation mechanism because CEP's and OPEC's proposal would create more subsidies among all rate classes than those under EPE's proposed rate moderation mechanism. Compared to EPE's proposed rate moderation mechanism, CEP's and OPUC's proposals expand the application of the maximum increase cap to more than two rate classes (the Residential rate classes and its Water Heating rider as in EPE proposal) and assign no rate decreases to the rate classes that experience rate decreases at unity cost (all of the rate classes experiencing rate decrease at unity costs would be assigned rate decreases under EPE's proposal.). As a result, CEP's and OPUC's proposals would create a much larger amount of subsidy and allow for more severe cost shifting among all of the rate classes, as compared to EPE's proposed rate mechanism. Of the four proposals, UTEP's rate moderation mechanism is the most reasonable and equitable. UTEP's proposal would move all of the rate classes closer to cost than EPE's, CEP's or OPUC's proposal. Under UTEP's proposal, out of the seventeen rate classes, the rates for seven rate classes would be set at cost; while under EPE's, CEP's, and OPUC's proposals, no rate class would pay exactly its cost.

Q. Do you agree with CEP's proposed rate moderation mechanism for a system base rate revenue decrease?

A. No, I do not because CEP's proposed mechanism for a system base rate revenue decrease is not cost based and does not conform with the Commission's goal of implementing rate moderation adjustments to address rate impact concerns, while still moving all classes' rates as close to their unity cost as possible. CEP's proposed rate moderation mechanism for a system base rate decrease is not cost based because CEP's proposed mechanism is based a principle that no firm class should receive an increase while the total system experiences a rate decrease, and not based on the costs assigned to rate classes in the cost allocation study, which is traditionally done in setting rates in Texas. In the Commission's traditional rate setting process, if a rate moderation adjustment is needed, it will be made to the results of the unity cost allocation study and in the manner that would maintain the cost relationship among rate classes as close to that reflected in the unity cost allocation before adjustments as possible.

In addition, because CEP's proposed adjustments are not made based on the results from the unity cost allocation study, the base rate revenue distribution resulting from CEP's proposal would not properly reflect the cost relationships reflected in the unity cost allocation study. As a result, CEP's proposal would not result in rates that would move rate classes closer to cost and, therefore, would not conform with the Commission's goal of implementing rate moderation adjustments to address rate impact concerns while setting all classes' rates as close to their unity cost as possible.

Q. What is your recommendation regarding base rate revenue distribution for a system base rate decrease?

A. If the Commission orders a system base rate decrease for EPE, I recommend that UTEP's proposed rate moderation mechanism for a system rate increase, as presented in my direct testimony, be applied. The base rate revenue distribution is a process to determine the appropriate revenue requirement for each individual rate class. During the process, if needed, the rate moderation mechanism is used to addresses rate shock concerns for individual rate classes. In this rate case, a rate moderation mechanism is needed to address the atypical rate impact changes for certain rate classes because of the COVID-19 pandemic. The same rate impact concern caused by the COVID-19 for these individual rate classes occurs regardless whether the entire system experiences a rate increase or decrease. Therefore, the same rate moderation mechanism should be used in determining each rate class' base rate revenue requirement regardless whether the system experiences a rate increase or decrease.

V. CONCLUSION

Q. Does this conclude your cross-rebuttal testimony?

A. Yes.