

**Before the  
Utah Public Service Commission**

**PSC Case No. 01-035-01**

**Rate Design**

---

**PacifiCorp**

---

Direct Testimony of

**Alan Chalfant**

On Behalf of

**Utah Industrial Energy Consumers**

Project 7518  
June 2001



# **PacifiCorp**

**Before the**

**Utah Public Service Commission**

**PSC Case No. 01-035-01**

**Rate Design**

## **Direct Testimony of Alan Chalfant**

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

2    A    Alan Chalfant; 1215 Fern Ridge Parkway, Suite 208; St. Louis, Missouri 63141-2000.

3    **Q    WHAT IS YOUR OCCUPATION?**

4    A    I am a consultant in the field of public utility regulation with Brubaker & Associates,  
5        Inc., energy, economic and regulatory consultants.

6    **Q    HAVE YOU PREVIOUSLY SUBMITTED REVENUE REQUIREMENT TESTIMONY**  
7        **IN THIS PROCEEDING?**

8    A    Yes, I have.

9    **Q    ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10   A    I am appearing on behalf of the Utah Industrial Energy Consumers (UIEC). The  
11       members of UIEC include numerous large customers of PacifiCorp (Company).

1 **Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

2 A My testimony will discuss the allocation of production and transmission plant in the  
3 Company's cost of service study and PacifiCorp's proposal to cap service under  
4 Schedule 9 without offering a replacement rate.

5 **Cost of Service**

6 **Q HOW IS PACIFICORP PROPOSING TO ALLOCATE PRODUCTION AND**  
7 **TRANSMISSION PLANT IN ITS COST OF SERVICE STUDY?**

8 A It is proposing to classify these costs as 75% demand-related and 25% energy-related,  
9 and to allocate the demand-related portion on the basis of the average of 12 monthly  
10 peak demands.

11 **Q DO YOU AGREE WITH THIS PROPOSED ALLOCATION?**

12 A No. UIEC and others have opposed this classification and allocation scheme in the past  
13 and we continue to disagree with it. First, it is simply inappropriate to allocate fixed  
14 demand costs as if they were energy costs. Second, the choice of 25% as the portion to  
15 allocate as energy costs is arbitrary and third, the use of 12 monthly peaks overstates  
16 the importance of demands on the system at times when the system is not stressed.

17 **Q ARE YOU PROPOSING A MORE REASONABLE ALLOCATION AT THIS TIME?**

18 A No. In light of the Commission's continuing acceptance of the 12CP-75/25 method,  
19 UIEC is not proposing an alternative method in this proceeding. It is important to  
20 recognize, however, that allocating 25% of the demand costs as if they were energy  
21 costs and allocating demand costs based on loads in non-peak months are measures  
22 that shift costs from low load factor classes to high load factor classes, such as  
23 Schedule 9. Accordingly, it should be recognized that the study presented by PacifiCorp  
24 reflects the maximum costs that could be attributed to Schedule 9.

1 **Capping Schedule 9**

2 **Q PLEASE DESCRIBE THE ISSUE CONCERNING THE CAPPING OF SCHEDULE 9.**

3 A PacifiCorp witness, Mr. William R. Griffith, states at page 6 of his direct testimony, lines  
4 14 through 16, that:

5 "The Company proposes to cap service to Schedule 9 customers at 50  
6 MW. Customers greater than 50 MW will be served by contracts to be  
7 filed with and approved by the Public Service Commission of Utah."

8 He goes on to note that there are currently no customers that large on Schedule 9 so  
9 this would only apply to customers greater than 50 MW that would otherwise be served  
10 on Schedule 9 in the future.

11 **Q IS IT LIKELY THAT THERE WILL BE SUCH CUSTOMERS THAT WOULD  
12 OTHERWISE TAKE SERVICE UNDER SCHEDULE 9 IN THE FUTURE?**

13 A Yes, it is very likely. Many customers that are currently served under special contracts  
14 have loads in excess of 50 MW and would normally return to Schedule 9 service when  
15 their current contracts expire if they do not renew or negotiate new contracts.

16 **Q HAS THE COMPANY FILED DATA TO SUPPORT ITS PROPOSAL?**

17 A No. It has not supplied data to show that the cap is necessary. It has supplied no data  
18 to indicate that 50 MW is a reasonable level for its proposed cap. Nor has it supplied  
19 data to show any impacts that would occur if its proposal is not adopted.

20 **Q WHAT DOES MR. GRIFFITH PUT FORTH AS A REASON FOR CAPPING  
21 SCHEDULE 9?**

22 A He states at page 6, lines 20 through 22 of his direct testimony, that if such a large  
23 customer were to receive service under Schedule 9, "it could significantly change the

1 characteristics of the customer class and have an impact on rates paid by other  
2 customers.”

3 **Q IS THIS A REASONABLE EXPLANATION FOR MAKING THIS PROPOSAL?**

4 A No. This explanation fails for several reasons. First, it should be recognized that the  
5 impact on the rates of other customers would only occur in the context of a future rate  
6 case where the real impact, if any, would be known and a proposal to deal with any  
7 problems could be addressed with the benefit of facts. Customers presently on  
8 Schedule 9 would see no impact whatsoever of additional customers until the next rate  
9 case.

10 Second, there will be an impact prior to the next rate case on the customer that  
11 leaves a special contract and returns to service under Schedule 9. It would be an  
12 unusual case where the customer would not see an increase as a result of this change.  
13 If the special contract had not resulted in a lower rate in recognition of load or operating  
14 characteristics favorable to PacifiCorp, it is not likely that the customer would have ever  
15 left Schedule 9. Therefore, the proposed cap on the maximum demand of Schedule 9  
16 customers cannot result in avoiding the conference of any unwarranted benefits on  
17 customers whose special contracts have expired.

18 Third, there will be an impact prior to the next rate case on the Company. For  
19 the same reasons that ensure the new Schedule 9 customers will be receiving a rate  
20 increase, the Company will receive incremental revenues. Thus, the Company cannot  
21 be concerned about a loss of revenues.

22 **Q CAN YOU THINK OF A MORE LOGICAL REASON THAT WOULD PROVIDE**  
23 **PACIFICORP WITH AN INCENTIVE TO MAKE THIS PROPOSAL AT THIS TIME?**

24 A Yes. Under the existing situation, when the contracts of customers expire, those  
25 customers can either enter a new contract with PacifiCorp or go back to service under

1 Schedule 9, which is the default schedule. The customers have no other alternatives in  
2 the near term. If, as proposed by PacifiCorp, service under Schedule 9 is no longer  
3 available to these customers, they have no alternative at all but to shut down their  
4 operations or sign a new contract with PacifiCorp on whatever terms it dictates to the  
5 customer. In other words, the Company's proposal allows it to refuse service to  
6 customers except under terms that it can arbitrarily establish.

7 **Q HAS PACIFICORP MADE ANY PROVISION FOR SITUATIONS WHERE THE**  
8 **COMPANY AND SUCH A CUSTOMER CANNOT NEGOTIATE MUTUALLY**  
9 **ACCEPTABLE RATES AND TERMS?**

10 A No clear proposal has been made for a default rate to replace the existing Schedule 9.  
11 UIEC specifically asked the Company how it proposed to handle such situations in Data  
12 Request No. 6.12. The Company's response was that "These customers will receive  
13 service under terms approved by the Public Service Commission of Utah." It also  
14 referenced its response to UIEC Data Request No. 6.11.

15 **Q DID THE COMPANY'S RESPONSE TO UIEC DATA REQUEST NO. 6.11 SHED ANY**  
16 **LIGHT ON THE QUESTION?**

17 A No. That response merely stated: "The rate charged in these contracts would be  
18 determined with reference to the costs to serve these customers, and along with other  
19 terms and conditions would be subject to approval by the Public Service Commission of  
20 Utah."

1 **Q HAS THE COMPANY PROPOSED ANY SPECIFIC COST-BASED RATES**  
2 **APPLICABLE TO CUSTOMERS WITH DEMANDS OF 50 MW OR GREATER FOR**  
3 **THE COMMISSION TO APPROVE IN THIS CASE?**

4 A No. Customers only have the Company's statement that the rates they will be charged  
5 will be determined with reference to costs. Even these statements can only be found in  
6 data responses and have not been offered as testimony. Nowhere is there any  
7 description of what costs the rates will be related to or what the relationship will be. The  
8 Company has not stated that the rates will be set at costs.

9 **Q WHAT ARE YOUR SPECIFIC RECOMMENDATIONS ON THIS ISSUE?**

10 A PacifiCorp's proposal to cap Schedule 9 without any reasonable substitute should be  
11 rejected. As a result of such rejection, no other customers on the system will be harmed  
12 and any impact on other customers could not occur until PacifiCorp files another rate  
13 case subsequent to adding large customers to Schedule 9. If, in preparing its next rate,  
14 the Company can show, based on facts, that customers in excess of 50 MW cause  
15 problems with the design of rates for Schedule 9, it can propose one or more new cost-  
16 based rate schedules to be applied to those customers.

17 **Q IF THE COMMISSION WERE TO ADOPT THE COMPANY'S PROPOSAL, ARE**  
18 **THERE ANY OTHER CHANGES THAT SHOULD BE MADE?**

19 A Yes. If the Commission were to adopt the Company's proposal, it would be reasonable  
20 and appropriate to offer affected special contract customers the option of extending their  
21 existing contracts until the Commission approves a successor contract.

1 Q DOES THIS COMPLETE YOUR DIRECT TESTIMONY ON COST OF SERVICE AND  
2 RATES?

3 A Yes, it does.

\\Larry\Docs\TSK\7518\Testimony\20041.doc