Public Service Commission of Wisconsin
Direct Testimony of Jerry Albrecht
Gas and Energy Division

Wisconsin Public Service Corporation
Docket 6690-UR-123

August 13, 2014

Q. Please state your name, business address, and occupation.

A. My name is Jerry Albrecht. My business address is 610 North Whitney Way, Madison, Wisconsin. I am employed by the Public Service Commission of Wisconsin (Commission) as a Senior Rate Engineer in the Gas and Energy Division. I have been employed at the Commission for over 32 years. I have reviewed and prepared both electric and water cost-of-service studies (COSS) and designed electric and water rates for numerous utility rate proceedings, including prior proceedings involving Wisconsin Public Service Corporation (WPSC).

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to present an alternative electric rate design based on the Commission audit staff's revenue increase and to provide comments on the electric revenue allocation and rate design presented by Company witnesses Russell Laursen and Ronda Ferguson. I also have some brief comments regarding the testimony and exhibit presented by Company witness James Beyer.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring one exhibit, Ex.-PSC-Albrecht-1.

Q. Was this exhibit prepared by you or under your direction?

A. Yes.

Q. Please describe Ex.-PSC-Albrecht-1.

A. This exhibit contains six schedules. Schedule 1 summarizes the present revenue, my proposed revenue allocation, and the results for the major electric cost-of-service studies groups. This includes the revenue effects of allocating the remaining RSM credits to the appropriate classes. Schedule 2 is a summary of the present and proposed revenue for each electric rate class, including the effects of the RSM revenue credits. Schedule 3 shows the Commission staff allocation of the 2005 Wisconsin Act 141 (Act 141) costs for the electric portion of WPSC's business. Schedule 4 is the details of my electric rate design for each rate class including the individual class RSM credits. Schedule 5 shows a side-by-side comparison of the test year "present" electric rates and my proposed electric rates for each rate class. Schedule 6 shows bill comparisons for the major rate classes.

Q. What present electric revenues did you use in your analysis?

A. I used electric sales revenue at present rates of $977,114,000, for the 2015 test year, which was provided to me by Commission staff witness Cristopher Larson.

Q. What electric revenue increase is reflected in your revenue allocation and rate design?

A. My analysis is based on a revenue increase target of $28,747,000, which is a 2.94 percent increase above the present revenue, which was also provided to me by Mr. Larson. The resulting total revenue from the sales of electricity is approximately $1,005,861,000, after this increase. The revenue resulting from my proposed electric revenue allocation and rate design are close to the Commission audit staff revenue, but not exactly the same. Exact precision is not required at this time, since the final revenue requirement will likely be different.

REVENUE ALLOCATION

Q. Please describe the general principles you used in establishing your alternative electric revenue allocation.

A. I developed this alternative revenue allocation based primarily on the Commission rates staff's electric cost-of-service studies. I also considered other information such as the customer class impacts and customer bill comparisons. I also used my knowledge and professional experience gained as a senior rate engineer working on previous WPSC rate cases as well as numerous other rate proceedings.

Both the company and Commission rates staff's COSS support a higher than average increase for the Large Commercial and Industrial class of customers and decreases for the lighting and most of the small and medium commercial customer classes, while the results of Commission rates staff's time-of-use (TOU) and Location cost-of-service studies support a small increase or decreases for the Small Use customer classes.

Given the approximate 3 percent overall electric increase and the diverse indications from the class cost-of-service studies, I choose a revenue allocation that provides a range of class increases that are plus or minus 3 percent around Commission staff's overall electric increase, which is much lower than the range proposed by WPSC. My revenue allocation gives close to zero increases for some classes and reduces the customer class impacts for other classes compared to strictly following the cost-of-service results.

A summary of my proposed revenue allocation for the major cost-of-service groups is shown in Schedule 1 of Ex.-PSC-Albrecht-1. It shows an average 1.74 percent

increase for Small Use customer classes, an average 3.84 percent increase for Medium Commercial customers and an average 5.41 percent increase for the Large Commercial and Industrial (Cp) customers. My lower increases for both the Small Use customer classes and the Medium Commercial customer classes reflect the included commercial customer classes that have near zero increase. These smaller than average increases are supported by both WPSC's and Commission staff's COSS that indicate decreases for the small and medium commercial classes. The miscellaneous and lighting classes are also part of the Small Use group. I've proposed an average 0.12 percent increase for these classes. This smaller increase is supported by both WPSC's and Commission staff's COSS that indicate large decreases for the miscellaneous and lighting classes. My revenue allocation for each customer class is shown in Schedule 2 of Ex.-PSC-Albrecht-1.

Q. Please describe, in general, how you handled the electric Revenue Stability Mechanism (RSM) credits in this case.

A. I first took the total credits due to the electric customer classes, and divided that amount by the kWh for the RSM classes. The non-demand metered classes that were part of the RSM classes were treated as one group and the Cg-20 demand metered classes we the other group. This resulted in different credits for each group, just as previously authorized in docket 6690-UR-122. In this case, the Commission audit staff amortized the total RSM credits over 2 years. In Schedule 1 of Ex.-PSC-Albrecht-1, I show the electric revenue increase by class without the RSM credits and then the separate allocation of the electric RSM credits and the combined totals for each class.

Q. Please discuss how the electric RSM credits or charges have been returned to the appropriate customers in prior cases.

A. WPSC has always charged or credited customers over a 1-year period, which was within 2-years of when the revenue was collected. WPSC calculates the RSM amounts after the ended of the test year and include those amounts in the revenue requirement for the next test year rate case. The Commission could choose to do that in this case as well. This would result in reduced impacts on the RSM classes of approximately 0.2 percent. This would also be consistent with past practice, by returning the money that was already over-collected, by WPSC in 2013, within the 2015 test year, rather than extending the refunding into 2016.

Q. How would you propose to address any significant changes in the revenue requirement subsequent to the Commission deciding the issues in this case?

A. I would propose that the changes be allocated using the appropriate cost allocator, if known. For example, a large increase in fuel costs to operate the company's generators is an energy-related cost and therefore an energy allocation should be used. If an allocator cannot be identified for various changes in the revenue requirement, then a neutral allocator, such as present revenues, could be used. Otherwise, the ratio of revenue for each customer class divided by the total sales revenue could be used to adjust the final revenue requirement.

Q. Please describe the general process of revenue reallocation and the revision of the electric rate design subsequent to the Commission deciding the issues in these cases.

A. First, I will update the revenue allocation and rate design to reflect the Commission's decisions in these cases, using rate design principles and my professional experience.

Allocation adjustments to address any significant changes in the revenue requirement would be done as described above. The rate design to recover that revenue allocation would also reflect the Commission's decisions. The Commission will review the revised revenue allocation and rate design and ultimately approve a final revenue allocation and rate design when it issues its *Final Decision*.

2005 WISCONSIN ACT 141 (ACT 141) COSTS

Q. Please describe the allocation of the Act 141[1] costs.

A. WPSC uses an allocation methodology that is similar to what I have used for all of the other private utilities in Wisconsin to determine the Act 141 cost per kilowatt-hour (kWh) that is embedded in rates for the residential and non-residential classes. The total Act 141 costs are split between the residential and non-residential customer classes, based on the statewide spending by Focus on Energy for these classes, which is approximately 40 percent for residential and 60 percent for non-residential.

Q. What is the reasoning behind using a 40 percent/60 percent residential/non-residential split to allocate Act 141 costs?

A. The split of Act 141 dollars spent on residential and non-residential customer classes is likely to vary from utility to utility and may not be known for all utilities. It may also vary from year to year for a particular utility. The use of a single value for all utilities that reflects Focus on Energy spending for the entire state provides a consistency and addresses these factors. The Commission has accepted Commission staff's proposals to split the Act 141 costs between residential and non-residential based on a statewide average of 40 percent for residential and 60 percent for non-residential for most of private

[1] Act 141 costs refers to the cost of energy efficiency and renewable resource programs, generally found in Wis. Stat. §196.374.

utilities in Wisconsin.

Using a 40/60 percent split of the Act 141 costs results in an residential electric classes' embedded cost of $0.00202 per kWh and an embedded cost for non-residential electric classes of $0.00178 per kWh. WPSC's electric Act 141 numbers are slightly different, primarily due to differences in the electric sales forecasts.

RATE DESIGN

Q. What guidelines do you generally use to develop the rate design?

A. The rate design process balances multiple objectives. I used Commission staff's cost study information in this proceeding as a guide in developing rates, but, I also considered many other important factors. Mr. James C. Bonbright[2] lists the following ten attributes of a good rate design:

1. Yields the total revenue requirement effectively;
2. Produces stable and predictable revenues,;
3. Results in stable and predictable rates themselves, with a minimum of unexpected changes adverse to existing customers;
4. Promotes static efficiency, which in turn discourages wasteful use and promotes justified use;
5. Reflects all present and future private and social costs and benefits caused by using the service;
6. Apportions the costs of service fairly among ratepayers;
7. Avoids undue discrimination in rate relationships (no subsidies);
8. Promotes dynamic efficiency by encouraging innovation and economic responses to changing demand and supply patterns;

[2] James C. Bonbright, Albert L. Danielsen, and David R. Kamerschen, *Principles of Public Utility Rates*, Public Utility Reports, 1988.

9. Creates simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application;

10. Eliminates controversy about interpretation.

Q. Does your rate design reflect these attributes?

A. This list represents goals rather than a rigid prescription for a particular rate design. I believe that my rate design achieves these goals. I generally used these goals and applied my 30 plus years of experience as a rate engineer to develop my electric rate design alternative. My narrower range of class revenue allocation and my rate design choices help mitigate both customer class and individual customer bill impacts.

Q. Please describe your electric rate design.

A. This design maintains certain aspects of WPSC's current rate structure, including customer charges billed on a daily basis, mandatory or optional TOU energy rates for all customer classes, and seasonal demand charges for the Cp customer class. I increased most of the customer charges to bring them closer to WPSC's customer costs. I chose a much smaller increase than the 140 or 180 percent increases WPSC proposed for the residential and small commercial customers, respectively, so as to have a lower impact on the small-usage customers. I maintained the customer demand and substation kilovolt-ampere charges rather than decrease these rates as WPSC's proposed. I then adjusted the system demand charges and most of the energy charges to achieve the revenue increase described above. My percentage increases for the demand charge revenue is slightly greater than the increases for energy charge revenue within each demand metered class. My alternative rate design also mitigates the range of intra-class bill impacts compared to WPSC's proposed high increases in demand and customer charges.

Q. Please describe why you are not increasing the customer charges by more than 20 percent.

A. The reasons for this are two-fold. First, there were recent Commission decisions where 40 percent utility-proposed customer charge increases were limited to 20 percent. This occurred in docket 3270-UR-119 for Madison Gas and Electric Company (MGE) and in docket 05-UR-106 for Wisconsin Electric Power Company (WEPCO) last year. In WPSC rate case last year, circumstances were slightly different due the fact that in 2009 the company agreed to lower its customer charges for the smaller usage customer classes as part of the stipulation that created the experimental RSM. One condition of the stipulation was returning the customer charges to the prior levels at the end of the RSM experiment. The Commission decision last year for WPSC authorized an increase in the Rg-1 customer charge of approximately 20 percent above the prior levels. All of these recent decisions have provided guidelines for Commission staff to follow in smaller utility electric rate cases and for this year's cases for the large utilities. Secondly, I agree with Commission staff witness Corey Singletary that the appropriate upper limit for the appropriate costs that should be included in the customer charges is less than the $25 level that WPSC proposed for the 2015 residential customer charges.

OTHER ELECTRIC RATES AND SERVICE RULES

Q. Do you have any concerns regarding the extension allowances and the rate and rule tariff language changes presented by Company witness James Beyer in his direct testimony and exhibit Ex.-WPSC-Beyer-1?

A. No. I do not oppose these changes.

Q. Do you have any other comments regarding Mr. Beyer's testimony and exhibit?

A. Yes. It is my understanding that Midcontinent Independent System Operator's Cost of New Entry (CONE) is a penalty price and as such is inappropriate as the value for the marginal cost of capacity used for retail rate-making purposes.

Q. Do you have comments regarding WPSC's proposals to changes the distributed generation buy-back rates and related tariff language?

A. No. This issue will be addressed by Mr. Singletary.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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