Q.Please state your name and business address for the record.

A.My name is Rick Sterling.  My business address is 472 West Washington Street, Boise, Idaho.

Q.By whom are you employed and in what capacity?

A.I am employed by the Idaho Public Utilities Commission as a Staff engineer.

Q.What is your educational and professional background?

A.I earned a Bachelor of Science degree in Civil Engineering from the University of Idaho in 1981 and a Master of Science degree in Civil Engineering from the University of Idaho in 1983.  I worked for the Idaho Department of Water Resources from 1983 to 1994.  I received my Idaho license as a registered professional Civil Engineer in 1988.  I began working at the Idaho Public Utilities Commission in 1994.  Since that time, I have attended the annual regulatory studies program sponsored by the National Association of Regulatory Commissioners (NARUC) at Michigan State University, the 1995 Lawrence Berkeley Laboratory Advanced IRP Seminar, and an advanced IRP course sponsored by EPRI entitled “Resource Planning in a Competitive Environment.”  My duties at the Commission include analysis of utility rate applications, rate design, tariff analysis and customer petitions.

Q.What is the purpose of your testimony in this proceeding?

A.The purpose of my testimony is to present Staff’s position on the application filed by Utah Power to change its line extension policies.  I will address the following issues:

I.   Change in Allowances

II.  Contract Administration Pilot Program

III. Vested Interest Refund Policy

IV.  Contract Minimum Billings

V.  Reconciling Actual Costs with Estimated Costs

Q.Before continuing your testimony, would you please define some of the terminology which you intend to use and which is critical to your testimony?

A.I will make frequent reference to the terms listed below and wish to define them as follows:

Distribution system, or distribution refers to that portion of the delivery system closest to the customer with voltages under 44 kV.  The distribution system includes line extensions and terminal facilities.

Lineextension is any installation of new distribution facilities (excluding relocations) or alteration of existing distribution facilities owned by the Company other than terminal facilities.

Terminalfacilities include transformer, meter and service cable.

Service, services, or service cable refers to the conductor providing usable voltage to the customer from, typically, the Company’s last pole, junction box or transformer.  The service cable may be overhead or underground.

Q.Please summarize your testimony.

A.I recommend, like Utah Power, that the cost of new terminal facilities and line extensions needed to serve new customers, to the extent those costs exceed the investment per customer that existing rates will support,  be paid by the customers who cause those costs to be incurred.  Consequently, I propose that the Company reduce its share of the investment in new distribution and terminal facilities by recovering from customers through line extension charges, actual connection costs not currently recovered through rates.  This reduction in the level of Company investment can be economically justified because it eliminates the subsidies provided to new customers at the expense of existing customers.  I recommend that the Company’s investment in facilities for each new customer be equal to the embedded costs of the same facilities used to calculate rates, and that costs in excess of embedded costs be borne by the customers requesting service through a one-time capital contribution.

For residential customers, I calculate that an investment of $1078 would be revenue neutral. This is fairly close to the cost of terminal facilities for residential customers, thus I recommend free terminal facilities be provided by the Company for residential customers, and that no allowance be offered toward line extension costs.  The Company recommends the same for residential customers.

For all other customer classes except industrial (Schedules 8 and 9), I recommend an allowance be offered towards the cost of terminal facilities and line extensions.  My recommended allowance is $90 per kilowatt of estimated load.  I recommend allowances be calculated on a case-by-case basis for all industrial customers.  The Company is proposing an allowance for all non-residential customers of one times annual revenue.

I recommend that the Commission allow Utah Power to implement a pilot program to permit customers to waive their right to future vested interest refunds.  However, contrary to the Company’s proposal, I propose that customers who wish to retain their right not be required to pay any fee, and customers who waive their right receive a contract administration refund.  In addition, I propose that the current 25 percent refund methodology be discontinued for residential customers and non-residential customers less than 1000 kW, in favor of the shared length and load ratio method now used for other customers.  Utah Power, on the other hand, has not requested any changes to its vested interest refund methodology.

I recommend that the Commission accept the Company’s proposed method for determining contract minimum billings.

I. Change in Allowances

Q.The Company has stated in its application that one reason for requesting a change in line extension policy is that the existing policy “provides for allowances that are not economically justified and continues to provide subsidies to some customers at the expense of others.”  Do you agree with the Company’s assessment of its current policy, and do you believe this reason justifies making a change in policy?

A.In my opinion, Utah Power’s current policy cannot be economically justified because it does not permit them to earn their authorized return on their investment, and does, in fact, provide subsidies to some customers at the expense of others.  I concur with the Company that a change in line extension policy is needed, but I do not fully agree with the details of the Company’s proposed changes as I will discuss later in my testimony.

Q.Why do you agree with the Company that the current policy cannot be economically justified and that it provides subsidies to some customers at the expense of others?

A. The Company’s investment in distribution plant and terminal facilities, on a per customer basis, has been increasing in recent years.  Exhibit No. 101 illustrates the Company’s distribution plant investment (plant in service) on a per customer basis from 1987 to 1995.  Revenues per customer, as shown in Exhibit No. 102, have flattened out in recent years and are not keeping pace with the increasing investment per customer.

Q.What is the result of increasing levels of investment and decreasing revenues per customer?

A.The result is upward pressure on rates.  Upward pressure results when new customers are added at higher levels of investment per customer than current rates can support.  Each new customer that is added requires an investment in distribution plant and terminal facilities.  The new investment is undepreciated, while the investment upon which the Company’s revenue requirement (and rates) is calculated was both lower on a per customer basis when originally made and is now partially depreciated.  Therefore, when the new plant investment is booked by the Company, the resulting revenue requirement is higher per customer than it was before the new customers were connected.  The Company then has three alternatives: increase rates to all customers to cover the increased revenue requirement, decrease the revenue requirement by shifting more of the cost of investment in new distribution/terminal facilities to the customer, or absorb the increased costs and reduce their return on investment.  I believe it is more appropriate to shift to new customers those costs that exceed the investment supportable by existing rates because they are the people who benefit exclusively from those facilities.

Q.If the investment required to connect new customers has always caused revenue requirement per customer to increase more or less over the years, why do you agree that the policy should be changed now?

A.Utah Power’s current line extension allowances are too generous and cannot continue to be supported at the current level given the rates which are now in effect.  Without a decrease in the allowances, a portion of the increased cost attributable solely to serving new customers will be borne by the Company or existing customers.

Neither the Company nor Staff has any evidence that supports the current level of allowances.  It appears that the level of Company investment in the past has been set depending upon how promotional the Company wanted to be in attracting new customers, depending upon economic conditions at the time or upon other factors.

Q.How is your line extension proposal in this case different than previous policies?

A.My line extension proposal in this case is different than previous Utah Power line extension policies because it is based on the calculated embedded costs for existing customers which are used to calculate rates.  Under past policies, new customer revenue has not been required to support the cost of new service.  Staff’s proposed policy based on the embedded cost methodology does require new customer revenue to support new service costs.

Q.Do you believe that the Company’s current rates are sufficient to cover all of the current average investment per new customer for required distribution plant and terminal facilities common to each new customer?

A.No, as I have previously stated, current Utah Power rates were established partially based upon the average embedded investment per existing customer and are not sufficient to cover all of the current average investment per new customer.  However, base rates will support a significant portion of the required distribution/terminal facilities investment common to each new customer.

Q.Who do you believe should pay the cost of new distribution/terminal facilities needed to serve new customers?

A.I believe that the Company’s investment in distribution/terminal facilities for each new customer should be equal to the embedded costs of the same facilities used to calculate rates.  Costs in excess of embedded costs should be paid through one-time capital contributions by the new customers.  I further believe that those costs over and above the costs for standard overhead service with pole-mounted transformers and overhead distribution lines should be paid entirely by the customer requesting the new facilities.

Q.Utah Power has proposed eliminating the 300-foot line extension allowance for residential customers and reducing the allowance for all other customers from three times annual revenue to one times annual revenue.  Do you agree with the Company’s proposal concerning reduction in the allowances?

A.I do not agree with their analysis and some of the details of the Company’s proposal, but I do agree that some reduction in allowances is warranted.  It is not yet known how competition will come to Idaho, or to what extent.  However, it is clear that costs will have to be aligned with rates in a competitive environment, and that the cost of extending service to new customers will not be subsidized by other customers.

Q.Have you reviewed the methodology used by the Company to compute their recommended allowances?

A.Yes, I have.

Q.Do you agree with the approach used by the Company to calculate the allowable investment for new customers?

A.No, I do not.  The analysis done by the Company suffers from several flaws, rendering it inappropriate and inaccurate.  Furthermore, even if the analysis was correct, the Company provides little support for their position.

First, the Company has used figures from a 1995 cost of service study as a basis for their calculations.  The cost of service study has not been reviewed by the Commission.  It conceivably can include assumptions about recovery of costs for investments and expenses not approved by the Commission.  In addition, current costs are most likely higher than costs were at the time rates were set.  Current rates, which are also used by the Company in its analysis, have not been set based on the cost of service study used by the Company.  Instead, current rates were established in a 1990 general rate case, in which a cost of service study based on a 1988 test year was used.  By using current costs but existing rates, the Company maximizes the deficiency between costs and revenues.  The Company’s analysis then further incorrectly assumes that the entire deficiency is being caused by increases in distribution investment, when in reality, costs in all categories have been increasing.  It is possible that Utah Power may need a base rate increase, but instead they would be recovering any revenue deficiency through higher line extension fees if their analysis is accepted.  I do not believe this would be appropriate.

An additional problem with the Company’s analysis is that even if an appropriate cost of service study was used, rates for some customer classes have not been set based on cost of service.  For example, irrigation rates are far below cost of service.  When there is a mismatch between rates and cost of service, incorrect allowances are calculated using the Company’s method.  The allowance calculated for irrigators for example, becomes very small because while cost of service is still high, revenue is very low.  To make up for such a large revenue deficiency, only a very small investment can be made by the Company for terminal facilities and line extensions.

Finally, I am uncertain about whether the Company’s analysis uses weather normalized costs and revenues, and whether it uses actual or authorized cost of capital.  I believe weather normalized costs and revenues, and authorized cost of capital should have been used.

Because of the numerous flaws in Utah Power’s analysis, I recommend that the Commission not use it as a basis for determining allowances in this case.  I believe my own approach is superior.

Q.Please summarize the approach you used in determining a Company provided allowance.

A.My approach to determining a Company provided allowance for service connections and line extensions was to determine what equivalent investment the Company can make that will be supported by the revenue stream provided by new customers.  Exhibit No. 103 details the approximate size of that investment for residential, small commercial, large commercial, irrigation and industrial classes.  I used the Commission’s last rate order in Case No. UPL-E-90-1 as the basis of the calculations.  Assumptions used in making the calculations are provided in Exhibit No. 104.  I also used the Company’s 1988 cost of service study as a basis for calculations, since that is the foundation for today’s rates.  A summary of the cost of service figures used in the analysis is included as Exhibit No. 105.

The equivalent investment per residential customer is calculated using the cost of service study and capital structure accepted by the Commission.  Exhibit No. 106  summarizes the calculation of the investment for the residential class.  The net distribution plant and terminal facility value of $1020.75 per customer (plant in service less accumulated depreciation and amortization) is used to calculate the revenue requirement associated with the return on common equity grossed up to recognize the income taxes associated with the return (1020.75 x (0.05360 x 1.524) = $83.38).  Debt service costs (0.05065 x 1020.75 = $51.70) and the carrying costs of preferred stock (0.00930 x 1020.75 = $9.49) are added to the equity return and tax calculation to produce the total revenue requirement associated with the cost of capital and associated income taxes of $144.58.  Depreciation expense of $45.25 (actual distribution plant and terminal facilities depreciation expense per customer) is added to the capital and tax cost to produce a total revenue requirement related to distribution plant and terminal facilities of $189.82.

This revenue stream is provided by customers through the rates they pay.  I used this revenue stream that would be available from new customers to calculate the Company investment that can be made to render new service without applying either upward or downward pressure on the Company’s rate structure.  The revenue stream represents the total cost of capital, with associated taxes, plus depreciation expenses associated with the Company’s distribution plant and terminal facilities.  Because the actual depreciation expense is based upon a gross investment greater than the net plant investment built into rates, it follows that the new investment can be an amount larger than the current embedded net investment.  The composite of the total cost of capital and associated taxes expressed as a percentage of rate base is 14.164 percent.  The composite depreciation rate for distribution and terminal facilities is 3.44 percent.  The combined total of these two percentages (17.604 percent) represents the relationship of the current revenue stream to new gross investment.  Dividing the revenue stream of $189.82 by 17.604 percent produces the revenue neutral investment of $1078 which Utah Power Company can make to provide service to new residential customers.

Exhibit No. 107 summarizes similar calculations for other customer classes.

Q.How do you believe the allowance should be applied to new customers?

A.Even though the Company’s embedded investment is split between investment in distribution plant and terminal facilities, I suggest that all of the recommended Company investment be applied toward the total cost of rendering service to the customer.  I maintain that it is only important that the total value of the Company’s investment be equal to the total embedded cost — not that the Company’s investment be applied to both terminal facilities and distribution facilities in the exact proportion as are their embedded costs.  Terminal facilities are defined as a transformer, meter, and service drop.  The Company has estimated the cost of terminal facilities by averaging actual terminal facilities costs in 1993.  The cost for residential customers is $1432; the cost for all other customers on average was $3218.

Q.What allowance do you recommend for the residential customer class?

A.Because the average investment for existing customers ($1078) is fairly close to the 1993 average cost of terminal facilities ($1432), I believe terminal facilities should be provided at no cost to the residential customer.  Even though the cost of terminal facilities is larger than the average investment, I believe that simplicity, both to the Company and the customer, is important.  For the same reason, I recommend the same allowance for both Schedule 1 and Schedule 36 residential customers.  Under the present tariff, terminal facilities are already provided at no charge for residential customers, so in this respect there would be no change.  Since the amount of the recommended Company investment is approximately equal to the cost of terminal facilities, there is nothing that could be applied as an allowance toward line extension costs if a line extension is required.

Q.What allowances do you recommend for non-residential customer classes?

A.For all non-residential customer classes except Schedules 8 and 9, I recommend allowances equal to $90 per kilowatt of estimated load.  The embedded costs on a per kilowatt basis have been calculated for each of these major customer classes.  Exhibit No. 108 shows graphically how the computed allowances compare.  Since the embedded cost is nearly the same for all non-residential classes on a per kilowatt basis, except industrial (Schedules 8 & 9), I recommend an allowance of $90 per kW.

Alternatively, the Commission could consider approving terminal facilities as the allowance for these classes.  For customers smaller than about 100 kW, an allowance of $90 per kW is approximately equal to the cost of terminal facilities.  For larger customers however, terminal facilities cost less than $90 per kW.  Consequently, an allowance of only terminal facilities would be less generous for large customers, and to some extent would limit very large allowances for very large customers.

Because the proposed allowance for these customer classes is in terms of dollars per kilowatt, rather than in terms of facilities as in the residential class, I recommend that this allowance be periodically reviewed to insure that the value of the investment keeps pace with inflation.  Equipment and facilities allowances, such as are proposed for the residential class, will maintain value despite inflationary increases in cost; however, inflation will gradually erode the value of a dollar allowance.  Dollar allowances should be inflated at the same rate as total distribution/terminal facilities costs in order to preserve the same balance between the Company’s and the customer’s investment.  Periodic adjustments to the amount of the allowance will very slowly change the average investment per existing customer over time; consequently, I also recommend that the allowance be reviewed regularly, perhaps annually, to insure that the Company continues to make the same investment for new customers as they made, on average, for existing customers.

For industrial customers, Schedules 8 and 9, I recommend that allowances be determined on a case-by-basis.  There are only 17 customers currently on Schedule 8, and 9 customers on Schedule 9.  Embedded cost calculations could be disproportionately influenced by only one or a few customers, thus the results may not be representative for a new customer in the class.  Furthermore, each new customer is very unique in its needs for distribution facilities.

Q.Utah Power has recommended allowances for only two categories of customers, residential and non-residential.  Do you support grouping customers into only these two groups for purposes of allowances?

A.For purposes of its analysis, Utah Power grouped customers as either residential or non-residential.  In the residential group were Schedules 1, the standard residential tariff, and Schedule 36, a time-of-use residential tariff.  The non-residential group included the following tariffs:

Schedule 6Large Power (Large Commercial)

Schedule 8General Service Medium Voltage (Industrial)

Schedule 9General Service High Voltage (Industrial)

Schedule 10Irrigation

Schedule 23Small Power (Small Commercial)

The Company’s analysis showed that based on annual revenue, residential customers’ revenue can support 1.26 times annual revenue.  For non-residential customers, the cost justified allowance was only 51 percent of the estimated annual revenue.  When all customers are considered together, the Company calculated that an allowance of 83 percent of revenue can be supported by present rates.  As a simplifying assumption, the Company rounded their calculated allowable investment to one times revenue.  (As I stated previously however, I do not believe the Company’s analysis is valid.)

I believe it would be reasonable to group customers into only two categories if the calculated allowable investment were similar for each customer class in the category.  However, when Utah Power calculates the allowable investment for each customer class individually, the cost justified allowances are radically different.  Exhibit No. 109 is the Company’s break-even connect allowance analysis for each customer class.  The analysis shows that the allowable investment ranges from as little as 0.14 times revenue for irrigation customers to 1.79 times revenue for small commercial customers.  This analysis very clearly illustrates, for example, that the Company can invest more than one times revenue for a small commercial customer and still earn a fair return on its investment, but cannot invest one times revenue for an irrigation customer and earn their authorized return. This is because the margin on a small commercial customer is much greater than the margin on an irrigation customer.  Similarly, the margins are very different for each customer class; therefore, I believe it is inappropriate to group all non-residential classes.  Grouping customers into only two classes results in subsidies being provided to some customer classes at the expense of others — precisely one of the problems the Company stated they wanted to remedy.

Q.If you do not agree with the Company’s proposal to group customers’ allowances into only two categories, why do you similarly propose to group customer allowances into only a few categories?

A.My recommended allowance for non-residential customers would be applied based on the individual customer’s kilowatts of estimated load, while the Company’s allowance would be applied based on the individual customer’s expected annual revenue.  Whether the same allowance can be given to multiple customer classes depends, in part, on how the allowance is applied.  My analysis shows that non-residential customers can be grouped if an allowance is applied on a per-kilowatt basis because the embedded investment is nearly the same for most non-residential classes.  Utah Power’s own analysis (see Exhibit 109, page 2) shows that it would not be fair to group all non-residential customers under a “times revenue” allowance because there is a ten-fold difference in the calculated allowances between some customer classes.

Admittedly, some degree of subsidization between customers occurs with either the Company’s or Staff’s recommended allowances.  Subsidization occurs under the Company’s method because when the calculated allowances are all rounded to one times revenue, some customers would receive an allowance larger than their revenue will support, while others would receive less.  Under Staff’s method, customer classes with low margins such as irrigation would receive allowances greater than can be justified based on expected revenue, primarily because current rates have not been set strictly based on cost of service.  In my opinion, my method of determining allowances is more appropriate than the Company’s because I believe rates in the future will be set closer to cost of service and because embedded costs will only change very slowly.

Q.How do your recommended allowances compare to those proposed by the Company?

A.My recommended allowance of terminal facilities for residential customers (Schedules 1 & 36) is exactly the same as the Company’s.  For non-residential customers, the allowances are not directly comparable because mine are based on estimated kilowatts of load and the Company’s are based on annual revenue.  My recommended allowance is $90 per kilowatt for all non-residential customers except industrial; the Company recommends an allowance of one times annual revenue.  As I discussed previously, the allowances are also different because of the different analysis methods and data used by Staff and the Company.

Q.Please summarize your recommended allowances.

A.My proposed allowances are summarized in Exhibit No. 110.

Q.What is your position on payment of line extension costs by subdividers?

A.In the case of subdivisions, I recommend that subdividers be responsible for the full cost of the line extension.  Subdividers would not be eligible for refunds for line extension work inside the subdivision; however, they would be eligible for vested interest refunds for line extension work outside the subdivision.

Q.The Company has indicated a desire to make its line extension policy more uniform in the jurisdictions where it serves.  Do you believe this should be a consideration of the Commission?

A.I agree it is a desirable goal from the Company’s perspective to have the same policies in each jurisdiction in which it serves.  There is undoubtedly some value in having only one policy with which employees must be familiar.  However, I believe that the Company’s line extension policy in Idaho must stand on its own merits.  I do not believe the Company’s application and testimony in this case support their proposed policy.  Idaho ratepayers are entitled to a policy that is fair and reasonable, irrespective of what the Company’s policy may be in other states.  The fact that policies similar to the one proposed here have been approved in Oregon, California, and Wyoming offers some encouragement, but that fact alone is not sufficient reason to approve it here.  The Company has historically had differences in line extension policies between states, as well as in other parts of their tariff, and can continue to do so.

Q.Have you prepared examples to compare the existing line extension policy to the proposed policy?

A.Yes, I prepared several examples for actual recent line extensions made by the Company to compare the existing line extension policy to the proposed policy.  These examples are included as Exhibit No. 111.  None of the examples are intended to be representative of all cases for an entire customer class.  Their purpose is simply to contrast the existing policy with the proposed policy and to give a general indication of how costs would be shifted from the Company to the customer.

The first examples are for residential line extensions not located in a subdivision.  The effect of the proposed policy change would be to shift the line extension portion of the cost from the Company to the customer.  The effect of the change in most cases is to increase the cost to the customer.  In these examples, the increase ranges from none to over $2000.  Note that there is no difference between Staff’s proposal and the Company’s for residential customers.

The second examples are for residential customers in a subdivision.  Again, the effect of the proposed change would be to shift the line extension portion of the cost (only the portion for work inside the subdivision) from the Company to the customer.  In these examples, the developer of the subdivision would be faced with an increase in cost ranging from zero to over $30,000.  On a per lot basis however, the cost increase would range from $0 to $3000.  Once again, Staff’s proposal is the same as the Company’s.

Page 3 of Exhibit 111 shows examples for four irrigation customers.  Under both the Company’s and Staff’s proposals, customers would see an increase in their share of the cost.  In some cases, Staff’s recommended allowance is greater than the Company’s, but in other cases the Company’s allowance would be greater.  Whose allowance would be greater in any particular case depends on the size of the pump to be installed and the customer’s expected annual revenue.

The final example is for a commercial customer.  In this example, the Company’s current allowance of three times revenue is generous enough that all of the cost, except for the underground fee, is covered by the Company’s investment.  With an allowance of only one times revenue, the customer would be required to pay an additional $4868, but the customer would still only be paying approximately 20 percent of the total cost.

II. Contract Administration Pilot Program

Q.Utah Power is proposing a two-year pilot program to permit new customers receiving line extensions to waive their right to future refunds should any additional customers connect to the same line.  In waiving their right to potential refunds, customers would be excused from paying a proposed “contract tracking charge.”  Customers who wish to retain their right to potential future refunds would pay a contract tracking charge.  Do you support Utah Power’s proposal?

A.I support the idea of a pilot program that permits customers to waive their right to refunds, since in many cases there is little or no likelihood of any additional customers ever connecting to the same line.  In those cases, there is really no reason for the Company to continue to administer line extension contracts.  I agree with the Company that it is relatively easy in most cases to predict when no additional customers are likely to connect in the future.

Q.Do you agree with the Company’s proposal regarding contract tracking charges?

A.No, I do not.  Rather than charging a contract tracking charge to customers who wish to retain their right to refunds, I propose as an alternative that customers who want to retain their right to refunds pay no contract tracking charge and customers who waive their right receive a “contract administration refund” of $250.  I believe all customers are entitled to the right to receive vested interest refunds and should not be required to pay for that right.  If customers give up that right, the utility should compensate the customer since the utility will realize some savings as a result of not having to administer a contract.  In cases where it is truly unknown whether additional customers will connect, I believe most customers would forego a $250 contract administration refund (under Staff’s proposal) and preserve their right to future possible refunds, since the refund amount is very small in comparison to the cost of most typical line extensions.

Q.Because the amount of your proposed “contract administration refund” is so small compared to the cost of a line extension and the amount of potential refunds, do you think many customers will choose to retain their right to refunds even if the possibility is very small?

A.I don’t know, but that is one of the reasons for a pilot program, rather than a permanent change in policy.

Q.What is your opinion of the Company’s estimate of contract administration costs?

A.The Company’s estimate of contract administration costs seems reasonable, but as I stated earlier, I believe it should be offered as a refund to customers who waive their right to vested interest refunds rather than a charge to customers who wish to retain their refund rights.  Consequently, I recommend a contract administration refund in the amount of $250.

III. Vested Interest Refund Policy

Q.Has the Company proposed a change in its vested interest refund policy?

A.No, it has not.  However, I believe that the policy should be examined in light of the extensive changes being proposed to the Company’s line extension rules.

Q.Please briefly summarize the Company’s current vested interest refund policy.

A.Under the current policy for residential customers and non-residential customers less than 1000 kW, the first customer is required to pay the entire cost of the line extension.  A charge equal to 25 percent of the line extension cost is assessed against each of the next three customers, which in turn, is refunded to the original applicant.  If four customers ultimately connect to a line extension, each customer will end up paying one fourth of the cost.  If fewer than four customers ultimately connect, the original applicant will pay a greater share than successive applicants.  If more than four customers ultimately connect, the first four customers will bear the entire cost of the extension while all successive applicants will pay nothing towards the cost of the line.  For non-residential over 1000 kW, or remote residential customers, costs are shared by all applicants based on their respective proportion of shared length and load.

Q.Do you believe the current refund policy should be changed?

A.Yes, I do.  More specifically, I believe the portion of the policy for residential customers and less than 1000 kW non-residential customers that provides a 25 percent refund to the second, third and fourth customers sharing a line extension should be changed.  The portion of the policy for greater than 1000 kW non-residential customers and remote or seasonal residential customers that requires that refund amounts be calculated based on the proportions of shared line length and the ratio of load should be retained.  In fact, I recommend that this methodology be used to calculate refund amounts for all customers.

Q.Why do you believe the refund policy should be changed?

A.Because I do not believe the 25 percent method is fair to customers in most cases.  The 25 percent refund methodology is only fair when four, and only four, customers ultimately share a line extension and if each customer connects to the line at the same point and imposes an equal load on the system.  Although Utah Power does not keep records on the number of customers sharing individual line extensions, the minimal evidence provided to Staff by the Company indicates that only rarely is a line extension shared by four customers, and almost never under the situation described above.  Consequently, the evidence seems to argue against a 25 percent methodology rather than for it.

Q.What do you believe are the Company’s primary reasons for retaining the current policy?

A.The Company states that the current policy is simple and easily understood by customers.  It has been in place for many years and is accepted by customers.  Furthermore, it appears that the method is used by many other electric utilities.

Q.Wouldn’t you agree that these are good reasons to retain the current refund methodology?

A.I readily admit that the reasons are good and clearly represent many of the advantages of the current method.  However, I do not believe that tradition and customer acceptance, by themselves, are good enough reasons to continue to support the method.  I believe fairness is an equally important feature of a good line extension policy.  I think fairness and customer understanding and acceptance can all be achieved through other refund methodologies.

Q.What changes do you recommend in the vested interest refund policy?

A.I recommend that the same method that is currently being used for greater than 1000 kW non-residential and remote residential customers be used for all customers.  Using the same method for all customers treats all customers equally and fairly.

Q.Isn’t the 25 percent method currently being used for residential customers much simpler to administer?

A.Yes; however, I do not believe that changing to a shared length and load method would be burdensome on the Company.  The Company already uses the shared length and load method for some customers; consequently, Company employees are familiar with it and experienced in applying it.  Furthermore, if the Company’s proposal to discontinue tracking line extension contracts with little potential for future refunds is adopted, the number of line extension contracts to administer should decrease.  Finally, Utah Power, on average, only makes about a dozen  refunds each year under the present system.  In any five year time period, the number of active contracts is relatively few, thus making a slightly more difficult calculation for some line extension contracts should not be burdensome.  In my opinion, the advantage of fairness greatly outweighs the disadvantage of administrative complexity.

IV. Contract Minimum Billings

Q.Utah Power is requesting a contract minimum billing for remote and seasonal residential service and for non-residential service.  Does the Company currently have a minimum billing for similar customers?

A.Yes, a facilities charge is presently assessed, and is intended to serve a similar purpose.

Q.Does the change being proposed by the Company significantly affect the minimum billing requirements as far as customers are concerned?

A.From the customer’s perspective the change would be minor in most cases.  Included as Exhibit No. 112 is a comparison of the monthly minimums for a typical customer.  Page 1 of the exhibit is a numerical comparison of the minimums prepared by Utah Power.  Page 2 of the exhibit is a graphical comparison.  If a customer’s schedule billing is low, the minimum billing is less under the existing policy.  The reverse is true over a range of higher schedule billings; however, the minimum billings eventually converge and are the same.

Q.Do you have any objection to the Company’s proposed change?

A.No, I do not.

V. Reconciling Actual Costs with Estimated Costs

Q.When a customer requests a new hookup, the Company prepares a detailed estimate of the cost of the job using its computerized cost estimating system.  The customer is then required to make payment in advance based on the cost estimate.  What assurance does the customer have that the cost estimate is a fair price for the work which will ultimately be done?

A.The customer’s primary protection against high costs is his option to hire his own contractor to do the work for a lower price.  Utah Power’s current policy permits customers to hire their own contractor from a list of qualified contractors provided by the Company.  All qualified contractors must meet requirements established by the Company, and all work must be built to Company specifications.  This creates a competitive situation that effectively keeps costs down.

Customers who may not have the inclination or ability to hire their own contractor, a small residential customer, for example, really has little protection other than the good faith of the Company to provide fair estimates and his ability to appeal to the Commission.

Q.What assurance is there that the estimated cost, as paid by the customer, is close to the actual construction cost booked by the Company after construction has been completed?

A.There appears to be little assurance other than the accuracy of the Company’s cost estimating system and a general ability to compare estimated and booked FERC account totals for all line extensions collectively in PacifiCorp’s Idaho jurisdiction.  In the case of any individual line extension, it appears there presently is no reconciliation between estimated and booked costs.  Consequently, I recommend that the Company be required to periodically prepare, perhaps annually, information comparing estimated costs to booked costs.  This will offer protection to both customers and the Company alike by insuring that cost estimates are not being made either systematically too high or too low.

Q.Please summarize the issues in this case.  State the positions of Staff and the Company on those issues, and indicate where there are differences in positions.

A.The primary issue in this case is whether to reduce line extension allowances from their present level.  Both Staff and the Company agree that the allowance for residential customers should be reduced from terminal facilities plus 300 feet of line extension, to terminal facilities only.  For non-residential customers, the Company recommends reducing the allowance from three times annual revenue to one times annual revenue.  I recommend an allowance of $90 per kilowatt for all non-residential customers except industrial.  Their allowance would be determined on a case-by-case basis under my proposal.

A second issue in this case is Utah Power’s policy on vested interest refunds.  Staff agrees with the Company’s proposal for a pilot program to permit customers to waive their right to potential future refunds.  However, the Company proposes that customers pay a contract administration charge to be eligible for refunds, while Staff proposes that all customers remain eligible for refunds, but receive a contract administration refund if they choose to waive their right.  I also propose that the refund methodology currently used for non-residential customers greater than 1000 kW be used for all customers.  The Company did not propose any change in the refund methodology.

Utah Power proposed changing the method of calculating contract minimum billings.  Staff agrees with the Company’s proposal.

Q.  Does this conclude your direct testimony in this proceeding?

A.Yes, it does.