



# PUBLIC MEETING

## **Utah Committee of Consumer Services**

May 15, 2012



# Welcome & Business

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# Updates

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## Case Updates

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- Energy Balancing Account
  - Order re compliance filing for new tariff
  - Ongoing process for interim rates for first recovery filing
- Integrated Resource Plan
  - 2011 IRP Update filed, comments will be filed
  - 2013 IRP process underway
- Questar contract to deliver gas to LakeSide 2
  - Initial comments filed
  - Primary issue: to what extent has Company requested (and can Commission grant) approval for issues outside of the contract



## Ongoing Issues & Cases

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- Telecom RFP work
- Manti Telecom – GRC
- RMP – GRC
- Questar – Cost of Service potential agreement
- DSM Advisory Group: Questar and RMP
- Regional transmission and energy market issues
  - Order 1000 cost allocation
  - EIM development



## Other Updates

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- Energy Code: potential compromise position being developed
- Website: goal for July 1<sup>st</sup> launch



# Follow-Up: Open and Public Meetings

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## Open and Public Meetings Act

- AG presentation last meeting contained some false information
- Bottom line: Committee of Consumer Services has been in full compliance with the law and will continue to do so.



# Federal Universal Service Fund: **MAJOR REVISION**

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# Federal Universal Service Fund History

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- Established in 1934 to provide telephone service to all households; and to ensure that customers have access to basic telecommunications service at just, reasonable and affordable rates.
- The 1996 Telecommunications Reform Act added four programs: 1) High Cost, 2) Low-Income, 3) Schools and 4) Health Care



## Changes to USF to reflect changes in telecom

- Federal Universal Service Fund reform proposals began in earnest at the FCC in 2008.
- Finally a much anticipated new order was issued on Friday, November 18, 2011 – 751 pages.  
[http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/FCC-11-161A1.doc](http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.doc)
- The changes are not all immediate. There are several stages in the implementation of the new rules.
  - Immediate change is in compensation rules for VOIP traffic.
  - Other changes will happen over time as further Notice of Proposed Rulemaking (NOPR) are issued.



## Overview of the New Rules

- **Universal Service:** The focus is away from basic landline voice telephone service towards the universal availability of broadband internet service and mobile wireless broadband service.
- The fund is ‘capped’ at \$4.5 billion (its current level) or 17.9%
- **Intercarrier Compensation:** Carriers receive money for the calls terminated at their end by charging customers rather than receiving the money from the initiating caller’s phone company.
- **IP-to-IP Interconnection:** To encourage the use of IP technology the FCC expects carriers to negotiate in good faith to migrate to IP technology.



## New Funds Created

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- **Connect America Fund (CAF):** The new umbrella program that will govern the disbursement of funding aimed at increasing access to voice and broadband service in rural and remote areas.
- **Mobility Fund:** The funding of 3G or better mobile broadband where such services are unavailable.



## New Technology Emphasis

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- Forces technology neutral services – to ensure VOIP services are included within the telecommunication system and set IP as the technology standard
- Requires ETCs to offer broadband services (4 Mbps downstream / 1 Mbps upstream).



# Intercarrier Compensation

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- Mandates the phase down of termination charges to zero;
  - To end traffic pumping and Phantom traffic (Access Stimulation)
- Forces the integration of VOIP traffic into the system; and
- Allows the reduction of revenues from other carriers can be recovered from end users.



## Further Decisions Expected

- Open USF issues:
  - How should broadband speed and performance be measured?
  - How will it be determined if USF services are “reasonably comparable” to those in urban areas?
  - How will the decision on which company can offer a particular area’s wireless broadband be determined?
  - How should ILEC and ETC obligations be modified?
- Open Intercarrier compensation issues:
  - How can IP to IP be implemented when location is unknown?
  - Under what legal rationale can carriers charge end users for terminating calls?
  - How can the system transform from carrier to carrier billing agreements, negotiated in good faith, to end user billing?



## Implications for Utah telephone customers

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- New uses for USF likely to exceed the soft “cap” (i.e. continued cost increases).
- State USF is expected to be leaned on to fill the gap caused by reduced Federal funding (i.e. more cost increases)
- Results in winners and losers (both companies and customers).
- Uncertainty.



## 2<sup>nd</sup> USF Order Addressing Lifeline/Link-Up

- Issued February 6, 2012
- 299 pages just addressing Lifeline/Link-up.

<http://www.fcc.gov/encyclopedia/lifeline-program-low-income-consumers>

- Key Elements:
  - Eliminate waste and misuse of the Fund
  - Clarify Lifeline eligibility criteria
  - Establish a national data base to ensure one Lifeline per household
  - Eliminate the Link-up program entirely (except for Tribal Lands)
  - Cap Lifeline disbursements at \$9.25 per line
  - Promote Lifeline more aggressively



# Implications for Utah Companies and Customers

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- Federal subsidies for low-income programs are reduced
  - The \$30 Link-up fee is eliminated beginning April 1, 2012
  - Lifeline reimbursement amount down to \$9.25/month (previously \$10/month)
- Lower federal subsidies may lead to requests for greater subsidies from state USF
- Objectives of USF Order may assist in achieving objectives of Utah
  - Helps to eliminate multiple Lifeline telephones to same customer
  - Companies are encouraged to promote Lifeline



# Discussion: Rate Design and Residential Customer Charges

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# Overview of Ratemaking Process

- Step 1: Revenue Requirement
  - Determine total amount of revenue allowed and necessary to meet customer needs and utility requirements
  - Rate of return often determined in a separate process
- Step 2: Rate Spread
  - Company completes a cost of service study to determine how much it costs to serve the major customer classes
  - Determine how much of the rate increase each class of customer must pay (the “spread”) using cost of service and other ratemaking principles
- Step 3: Rate Design
  - Determine the method by which the revenue is collected from the different customer classes (e.g. how much is in the customer charge, demand charges, energy charges)



## Ratemaking Principles

- **Cost Causation** - Rates should reflect cost-of-service to send appropriate price signals to customers regarding their use of electricity.
- **Fairness** - Rate increases to the various classes should be fair such that inter-class subsidies are either minimized or eliminated.
- **Gradualism**: Rate analysts strive to moderate substantial, one-time rate impacts on a single customer class, or a segment of customers within a class.
- **Conservation**: Energy conservation is an increasingly important ratemaking objective to encourage customers to use energy wisely.
- **Simplicity**: Customers should be able to reasonably understand their utility bills
- **Revenue Collection**: A good rate design should,
  - (a) provide the utility with an opportunity to collect the revenue requirement authorized by the Commission and
  - (b) avoid significant over- or under-collection of revenues from individual classes.

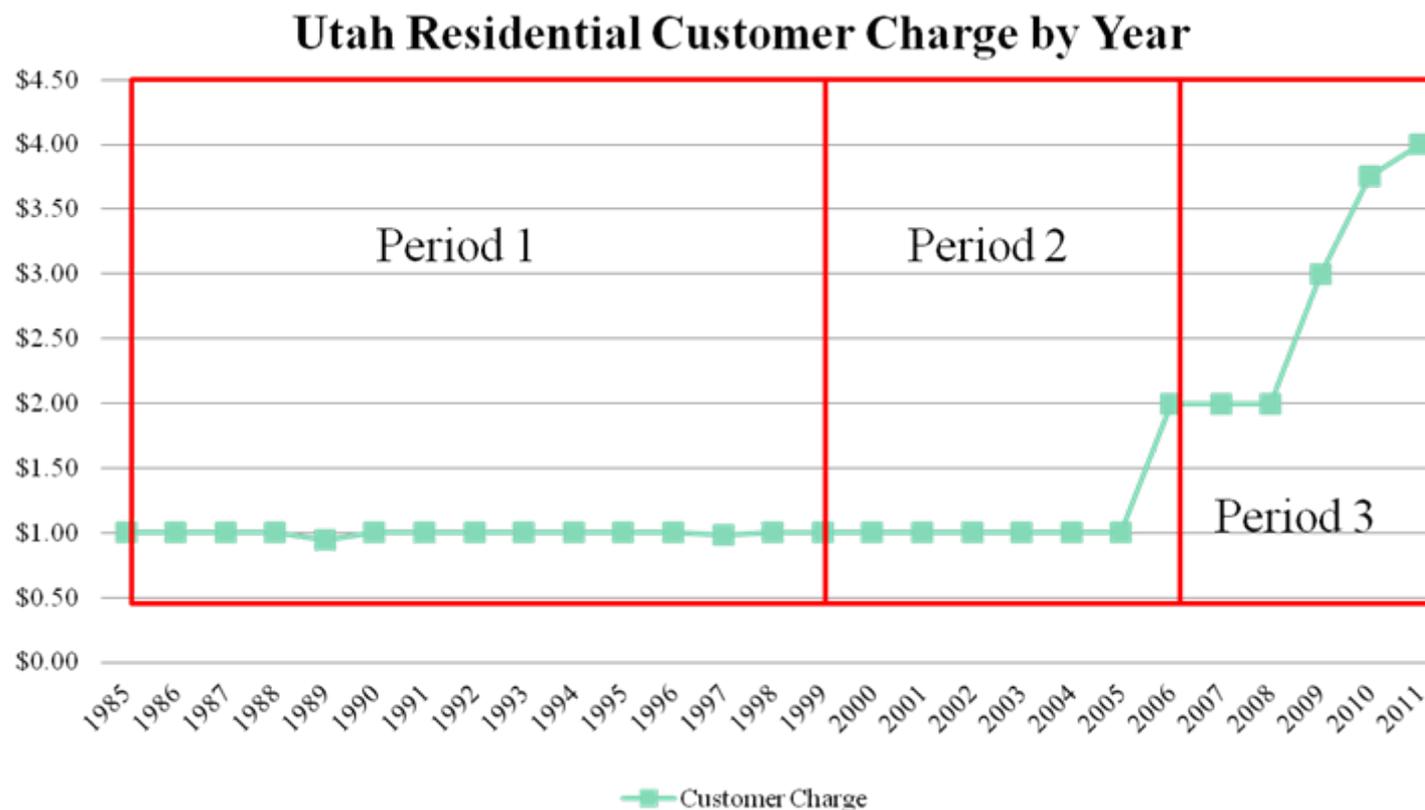


## Today's Discussion: Customer Charge

- The “customer charge” is the portion of the bill that is constant every month for every customer within the class
- Determining the appropriate customer charge for residential customers has been an ongoing issue
  - Questar Cost of Service Task Force is examining raising the customer charge to resolve an intra-class subsidy issue
  - Questar Cost of Service Task Force does not agree on the “correct” set of costs to be included
  - Rocky Mountain Power has been advocating steeply increasing customer charge, suggesting that it may be appropriate to include all fixed costs within the customer charge
  - Low income advocates and environmental (clean energy) advocates oppose high customer charge as penalizing low use and discouraging conservation



# History: RMP Utah Residential Customer Charge





# History of the Utah Residential Rates

- Period 1, 1985 – 1999: Low Customer Charge Period
  - Mitigate impacts on low usage customers
  - Implement rate decreases through energy rates
  - Customer charge remained around \$1.00
- Period 2, 2000 – 2006: Three Tier Energy Block Period
  - Summer usage patterns changed due to Central AC
  - Emphasis on sending better price signals via energy rates
  - Customer charges remained at \$1.00
- Period 3, 2006 – Current: Balanced Rate Design Period
  - Emphasis on achieving a cost based customer charge
  - Gradual increase in customer charge from \$1 to \$4
  - Relatively higher increases in 2<sup>nd</sup> and 3<sup>rd</sup> summer energy blocks



# Discussion

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## OCS Position: Key Drivers

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- Determine evidence-based approach for formula to determine customer charge
- Incorporate gradualism and other ratemaking principles in developing specific position for this case
- Customer charge must always be evaluated in the context of energy rates, total increased revenue to be collected, and other rate design elements



# Rocky Mountain Power: General Rate Case

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## Direct Testimony Upcoming Soon

- Deadlines:
  - Rate of Return/Cost of Capital: May 31
  - Revenue Requirement: June 11
  - Cost of Service/Rate Design: June 22
- Initial positions are being developed internally



## Rate of Return/Cost of Capital

- Rocky Mountain Power requested a rate of return of 10.2%
- RMP is currently allowed to earn 10.0%
- Each 10 basis points (0.1 %) is approximately equivalent to a reduction in revenue requirement of \$4.84M
  - For example, if 10.0 is allowed it would reduce the requested increase from \$172.27 to \$162.59
- Other recommended changes (e.g. capital structure) could also impact the overall revenue requirement



# Revenue Requirement Positions

- The Office will express its position in terms of adjustments to the Company's request

|  |           |
|--|-----------|
| RMP requested rate increase              | \$172.27  |
| Adjustments to expenses                  | XX        |
| Adjustments to NPC                       | XX        |
| (70% is trued up through the EBA)        |           |
| Adjustments to capital investment        | XX        |
| (in rates via tax, depreciation, return) |           |
| Subtotal                                 | XX        |
| <u>Adjustments due to ROE</u>            | <u>XX</u> |
| Office recommended rate increase         | XX        |



## Revenue Requirement: Initial Issues

- Expense items
  - Property Tax Expense
  - Generation Overhaul Expense
  - Operation & Maintenance Expense
  - Wind Turbine Expense
  - Labor Issues
  - Benefit Expense
  - Labor Increase
  - 401K Expense
  - Pension Expense
  - Post Retirement Medical
- Legal Dispute Issues



# Revenue Requirement: Initial Issues

- Plant in Service
- Plant Additions
- Plant Retirements
- Net Power Costs
  - Reserve Modeling Adjustments
  - GRID Start Up Logic and Costs
  - Long-Term contracts
  - Hydro Logic and Inputs
  - Transmission Issues
  - Planned and Forced Outage Modeling Issues



## Cost of Service/Rate Design: Initial Issues

- Data Issues
  - Eliminate the calibration of sampled class loads to jurisdictional loads
  - Both jurisdictional and class load forecasts should be based on weather normalized data (software fix)
  - Investigate whether current irrigation load data has better accuracy
- Classification Issue
  - Currently all generation classified as 75% demand, 25% energy
  - Advocate for type by type classification: greater percentage of coal and wind plant as energy related
- Allocation Issues
  - Correct the error in the over-allocation of service drop costs to the residential and commercial classes (shared services issue)
- Rate Design Issues
  - Appropriate formula for residential customer service charge
  - Advocate positions to balance rate design objectives



# Closed Session (if necessary)

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# Other Business

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# Adjourn

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