

**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Application of Northern States Power            )  
Company, a Wisconsin Corporation, for        )  
Authority to Adjust Electric and                )  
Natural Gas Rates                                 )       Docket No. 4220-UR-119

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**SURREBUTTAL TESTIMONY OF JONATHAN WALLACH  
ON BEHALF OF THE CITIZENS UTILITY BOARD OF WISCONSIN**

October 28, 2013

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1    **I.    Introduction**

2    **Q:    Please state your name, occupation, and business address.**

3    A:    My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc.,  
4         5 Water Street, Arlington, Massachusetts.

5    **Q:    Are you the same Jonathan F. Wallach that filed direct and rebuttal**  
6         **testimony in this proceeding?**

7    A:    Yes.

8    **Q:    On whose behalf are you testifying?**

9    A:    I am testifying on behalf of the Citizens Utility Board of Wisconsin (CUB).

10   **Q:    What is the purpose of your surrebuttal testimony?**

11   A:    This surrebuttal testimony responds to rebuttal testimony by Company witness  
12         Gerald W. Marx and WIEG witness Richard A. Baudino.

1 **II. Response to Mr. Marx's Rebuttal**

2 **Q: What is your response to Mr. Marx's rebuttal testimony?**

3 A: Mr. Marx criticizes my proposals for classifying and allocating production  
4 capacity and distribution plant costs, because he believes that the allocations that  
5 result from my proposals are "extreme" in comparison with the Company's  
6 "moderate" results.<sup>1</sup> The Commission should give no weight to Mr. Marx's  
7 critique, since he judges my proposals not on whether they allocate costs  
8 consistently with cost-causation principles, but simply as to whether they  
9 produce allocation results similar to the Company's.

10 Moreover, Mr. Marx relies on a flawed analysis as the basis for his  
11 criticism of my recommended approach for classifying production capacity  
12 costs.

13 In Table 3 of his rebuttal testimony, Mr. Marx purports to compare the  
14 percentage allocation to customer classes of the 2014 test year revenue  
15 deficiency resulting from my classification of production capacity costs against  
16 those resulting from the classifications recommended by the Company,  
17 Commission staff, and WIEG. The problem is that Mr. Marx is comparing  
18 apples to oranges. Although Mr. Marx purports to be comparing the effects on  
19 revenue allocations of the different parties' classifications of production capacity  
20 costs, the results shown for the CUB analysis reflects differences from other  
21 parties in the classification of both production capacity and distribution plant  
22 costs.

23 Table 1 corrects Mr. Marx's error by removing the impact of my  
24 recommended classification of distribution plant costs from the results shown in

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<sup>1</sup> See, for example, Rebuttal-NSPW-Marx-11, ll. 2-5.

1 Mr. Marx's Table 3 for the CUB analysis. As indicated in Table 1, the revenue  
2 allocations resulting from my recommended classification of production  
3 capacity costs are generally consistent with the results of Commission staff's  
4 60%/40% demand/energy classification.

5 **Table 1**

6 **Relative Share of Increase by Major Customer Class for Production**  
7 **Capacity Cost Allocators Supported by Parties**

	<b>WIEG</b>	<b>NSPW-1</b>	<b>NSPW-3</b>	<b>NSPW-4</b>	<b>PSCW</b>	<b>CUB</b>
Residential	40%	37%	27%	37%	28%	22%
Small General	14%	11%	10%	11%	9%	8%
Total Medium	21%	17%	18%	21%	13%	10%
Total Large	25%	35%	45%	31%	50%	60%
Overall	100%	100%	100%	100%	100%	100%

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9 **III. Response to Mr. Baudino's Rebuttal**

10 **Q: What is Mr. Baudino's response to your use of the Equivalent Peaker**  
11 **method to classify production capacity costs?**

12 **A:** Mr. Baudino faults my Equivalent Peaker analysis because it is not based on the  
13 actual analysis of economic trade-offs that led to the decisions to add capacity to  
14 the NSP system. According to Mr. Baudino, without these historical analyses, "it  
15 is impossible to identify the 'cost causation' underlying each unit and the  
16 expected fuel savings that a base load coal or nuclear unit was likely to  
17 achieve."<sup>2</sup> Mr. Baudino goes on to claim that:

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<sup>2</sup> Rebuttal-WIEG-Baudino-7, ll. 4-6.

1           The additional cost of a base load unit may not have been justified by fuel  
2           savings expectations alone. Rather, the decision may also have considered  
3           several other factors including, but not limited to, the longer life of a base  
4           load unit that, when combined with fuel savings, justified the higher cost  
5           base load unit.<sup>3</sup>

6       **Q: Are historical analyses of fuel savings relevant to the determination of cost**  
7       **causation for production capacity costs?**

8       A: No. What is relevant is that the decision to invest in baseload or cycling  
9       capacity, rather than less-expensive peaking units, was based on the fundamental  
10       economic logic underlying least-cost capacity expansion planning. In other  
11       words, what is relevant is not the amount of “the expected fuel savings that a  
12       base load coal or nuclear unit was likely to achieve,” but that under typical  
13       capacity expansion planning practice the Company’s additional capital  
14       investment for baseload or cycling units would have been justified on the basis  
15       of fuel savings. As described in the NARUC manual on cost allocation:

16           The utility can choose to construct one of a variety of plant-types:  
17           combustion turbines (CT), which are the least costly per KW of installed  
18           capacity, combined cycle (CC) units costing two to three times as much per  
19           KW as the CT, and baseloaded units with a cost of four or more times as  
20           much as the CT per KW of installed capacity. The choice of unit depends  
21           on the energy load to be served.<sup>4</sup>

22           Thus, from a cost-allocation perspective, the fixed costs incurred for  
23       baseload or intermediate capacity over and above that incurred for peaking  
24       capacity are appropriately classified as energy-related, since these additional  
25       fixed costs are incurred to meet energy requirements at lowest total cost.

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<sup>3</sup> Rebuttal-WIEG-Baudino-7, ll. 10-13. Emphasis in original.

<sup>4</sup> *Electric Utility Cost Allocation Manual*, National Association of Regulatory Utility Commissioners, January 1992, p. 53.

1 **Q: Could other factors, such as expected plant life, play a role in determining**  
2 **the type of investment, as Mr. Baudino contends?**

3 A: Expected life, along with a number of other assumptions regarding plant and  
4 transmission-system characteristics, are typically factors that are accounted for  
5 in economic evaluations of capacity-expansion plans, and these factors, either  
6 individually or collectively, may affect the economic trade-offs between  
7 different types of plant investments. However, it is unlikely that such factors  
8 would prove to be material in the determination of the least-cost capacity  
9 additions.

10 **Q: Do you have any comment regarding Mr. Baudino's rebuttal of your**  
11 **recommended classification of distribution plant costs?**

12 A: Mr. Baudino's argument against my recommended classification appears to rest  
13 solely on his judgment that the principles underlying the Company's reliance on  
14 the minimum-system approach are "well reasoned and well supported."<sup>5</sup> In  
15 particular, Mr. Baudino argues that:

16 ... to the extent that the utility incurs a distribution cost simply to connect a  
17 customer to its system, regardless of that customer's size, it is appropriate  
18 to assign the cost of these minimal facilities to rate schedules on the basis  
19 of the number of customers, rather than on the kW demand of the class.<sup>6</sup>

20 The fallacy in Mr. Baudino's argument is that even if there is a minimum  
21 cost to connect customers, the cost of that minimum system does not necessarily  
22 vary with the number of customers. For example, if service were extended to a  
23 new area using minimum-height poles, the total cost of those poles would likely  
24 be the same whether service was being extended to a single industrial customer  
25 or to an apartment building with 100 residential customers. If the cost of the

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<sup>5</sup> Rebuttal-WIEG-Baudino-8, line 22.

<sup>6</sup> Rebuttal-WIEG-Baudino-9, 13-16.

1 minimum system does not vary with the number of customers, it would not be  
2 appropriate to allocate such minimum costs to rate classes in proportion to the  
3 number of customers in each class.

4 This discussion illustrates the fundamental problem with the minimum-  
5 system approach. Even if one could reasonably estimate the cost of a minimum  
6 system to serve the Company's customers, there is no reason to believe that  
7 those costs would vary directly with the number of customers. Instead, such  
8 costs might vary with such factors as customer density or topography.

9 Consequently, the Commission should give little weight to Mr. Baudino's  
10 finding that the Company's reliance on the minimum-system method is  
11 reasonable.

12 **Q: Does this complete your surrebuttal testimony?**

13 A: Yes.