

**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Application of Madison Gas and Electric                     )  
Company for Authority to Change                                 ) Docket No. 3270-UR-120  
Electric and Natural Gas Rates                                     )

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**REBUTTAL TESTIMONY OF JONATHAN WALLACH  
ON BEHALF OF THE CITIZENS UTILITY BOARD OF WISCONSIN**  
October 2, 2014

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1   **I. Introduction and Summary**

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 Wallach that filed direct testimony in this**  
6       **proceeding?**

7   A: Yes.

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

9   A: I am testifying on behalf of CUB.

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

11  A: This rebuttal testimony describes my proposal for allocating to customer classes  
12       the Commission staff audit forecast of the 2015 test year electric revenue  
13       deficiency. This proposal is based on the results of Commission staff's cost of  
14       service studies, as described in the pre-filed direct testimony of Commission  
15       staff witness Corey S.J. Singletary.

1           In addition, this rebuttal testimony responds to the recommendation by  
2           Kenneth Lyons on behalf of Airgas Merchant Gases (Airgas) to allocate  
3           demand-related production plant costs on the basis of each customer class's  
4           contribution to the average of the four summer monthly peaks (4CP).<sup>1</sup>

## 5   **II. Cost Allocation and Rate Design**

6   **Q: Please describe Commission staff's cost of service analysis.**

7   **A:** As described in his direct testimony, Commission staff witness Mr. Singletary  
8           conducted six cost of service studies based on the Commission staff audit  
9           forecast of revenue requirements for the 2015 test year:<sup>2</sup>

- 10       • The "Standard COSS" adopts the Company's approach for classifying  
11           production and distribution plant costs, and also adopts the Company's  
12           approach of allocating demand-related production plant costs on the basis  
13           of class load net of interruptible load.
- 14       • The "Standard TOU COSS" modifies the Standard COSS by classifying  
15           60% of production plant costs as demand-related and the remaining 40%  
16           as energy-related. This is the same demand/energy split assumed by MGE  
17           in its TOU cost of service study. Although the results of its Equivalent

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<sup>1</sup> In his direct testimony, Mr. Lyons also discusses certain corrections to the Company's cost of service study. As of this writing, Airgas had not yet responded to CUB interrogatories regarding such corrections. If warranted, I will address these corrections in my surrebuttal testimony once I have had the opportunity to review Airgas's interrogatory responses.

<sup>2</sup> Mr. Singletary conducted two additional cost of service studies (for a total of eight studies), based on a request by Airgas to the Company for a study that allocated demand-related production plant based on each class's contribution to system peak (1CP). However, I give no weight to the results of these two additional studies, since Airgas witness Mr. Lyons does not support use of the 1CP allocator in this proceeding. See Direct-Airgas-Lyons-8, ll. 13-17.

1 Peaker analysis supported use of a 40%/60% demand/energy split,  
2 Commission staff adopted the Company's 60%/40% demand/energy split  
3 for revenue-allocation purposes.

- 4 • The "Standard Locational COSS" modifies the Standard TOU COSS by  
5 classifying all distribution plant costs, other than for meters and services,  
6 as demand-related.
- 7 • The "Capacity COSS" modifies the treatment of interruptible load in the  
8 Standard COSS. Specifically, the Capacity COSS allocates demand-related  
9 production plant costs on the basis of gross class load, but explicitly credits  
10 interruptible load at Mr. Singletary's estimate of the value of interruptible  
11 and direct load control capacity.
- 12 • The "Capacity TOU COSS" modifies the Capacity COSS by classifying  
13 60% of production plant costs as demand-related and the remaining 40%  
14 as energy-related.
- 15 • The "Capacity Locational COSS" modifies the Capacity TOU COSS by  
16 classifying all distribution plant costs, other than for meters and services,  
17 as demand-related.

18 **Q: Please describe the results of the six Commission staff cost of service**  
19 **studies.**

20 A: According to Mr. Singletary, the Commission staff audit revenue deficiency in  
21 the 2015 test year is about \$16.9 million, or about 4.1% of revenues under  
22 current rates.<sup>3</sup> For each of the six cost of service studies, Table 1 shows the

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<sup>3</sup> Ex.-PSC-Singletary-1, Schedule 1, p. 2.

1 allocation of this overall deficiency to each of the major customer classes,  
2 expressed as a percentage of revenues under current rates for each class.<sup>4</sup>

3 As indicated in Table 1, all six of the Commission staff audit cost of  
4 service studies show a revenue *excess* for residential and small C&I customers,  
5 ranging from negative 0.4% in the Standard COSS to negative 2.9% in the  
6 Capacity Locational COSS. On average across the six studies, the revenue  
7 excess for residential and small C&I customers is negative 1.4%.<sup>5</sup>

8 **Table 1: Staff Audit COSS Base Revenue Deficiency (% of Current Revenues)**

	<b>System Average</b>	<b>Residential and Small C&amp;I</b>	<b>Business Services</b>	<b>Lighting and Misc.</b>
<b>Standard COSS</b>	4.1%	-0.4%	7.2%	7.2%
<b>Standard TOU COSS</b>	4.1%	-0.8%	7.5%	7.4%
<b>Standard Locational COSS</b>	4.1%	-2.7%	8.8%	0.5%
<b>Capacity COSS</b>	4.1%	-0.4%	7.2%	7.1%
<b>Capacity TOU COSS</b>	4.1%	-1.0%	7.6%	8.1%
<b>Capacity Locational COSS</b>	4.1%	-2.9%	9.0%	1.1%
<b>Six Study Average</b>	4.1%	-1.4%	7.9%	5.2%

9 **Q: Are any of these studies more appropriate than the others?**

10 A: Of the six studies, the Capacity Locational COSS classifies and allocates  
11 production and distribution plant costs in a fashion that most reasonably reflects

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<sup>4</sup> The percentage values shown in Table 1 were derived based on the results of Commission staff's cost of service studies, as provided in the spreadsheet models for the six cost of service studies. These spreadsheet models were provided as attachments to the PSC Response to 1-CUB/DR-1(b) (PSC REF#: 218481).

<sup>5</sup> In other words, current residential and small C&I rates would need to be reduced on average by 1.4% to eliminate the excess of 2015 test year revenues under current rates over 2015 test year revenue requirements.

1 each class's responsibility for such costs because it corrects for the Company's  
2 misclassification of production plant costs as 100% demand-related and corrects  
3 for the inappropriate use of the minimum distribution system method for  
4 classifying distribution plant costs.<sup>6</sup>

5 However, for the purposes of allocating the overall revenue deficiency to  
6 customer classes and setting rates for the 2015 test year, it would be appropriate  
7 to consider the results of all six studies. To varying degrees, all six studies  
8 indicate that it would not be reasonable to increase residential and small C&I  
9 rates in the 2015 test year.

10 **Q: Based on the results of Commission staff's cost of service studies, how do**  
11 **you propose to allocate the revenue deficiency for the 2015 test year?**

12 A: I provide in Table 2 my proposed allocation of the 2015 test year revenue  
13 deficiency to customer classes. As can be seen by comparing Tables 1 and 2, I  
14 propose to hold revenues constant for the residential and small C&I customer  
15 class, even though revenue reductions would be justified by the results of  
16 Commission staff's cost of service studies. On the other hand, I propose a  
17 smaller revenue increase for the Business Services class than would be  
18 warranted from a cost-causation perspective.  
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<sup>6</sup> Mr. Singletary believes that the Capacity TOU and Capacity Locational cost of service studies "provide the most reasonable basis for the allocation of MGE's costs." Direct-PSC-Singletary-15, ll. 10-11.

1 **Table 2: Recommended Allocation of 2015 Test Year Revenue Deficiency**

	Current Revenues	Revenue Increase	Percent Increase
Residential & Small C&I	\$165,086,629	\$0	0.0%
Business Services	\$241,597,268	\$16,773,545	6.9%
Lighting and Misc.	\$2,833,874	\$155,863	5.5%
Total System	\$409,517,771	\$16,929,408	4.1%

2 **III. Response to Mr. Lyons**

3 **Q: What does Mr. Lyons recommend with regard to the allocation of demand-**  
4 **related production plant costs?**

5 A: Mr. Lyons recommends that demand-related production plant costs be allocated  
6 using a 4CP allocator, rather than the 12CP allocator that MGE has traditionally  
7 used.<sup>7</sup>

8 **Q: Why does Mr. Lyons argue for using the 4CP allocator?**

9 A: Mr. Lyons believes that the 4CP allocator better reflects cost-causation than the  
10 12CP allocator because:

11 ... MGE's generation requirement is driven by its system peak load and not  
12 its average load over a 12 month period. Indeed, 30% of MGE's Test Year  
13 Demand exists only in the 4 summer months.<sup>8</sup>

14 **Q: How do you respond to Mr. Lyons's reasoning?**

15 A: Mr. Lyons is mistaken in his belief that the summer peak drives the Company's  
16 reserve requirement. To the contrary, MISO determines the amount of capacity

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<sup>7</sup> Mr. Lyons recommends the 4CP allocator even though he continues to believe that the 1CP allocator "best reflects cost causation." (Direct-Airgas-Lyons-8, line 13.) However, Mr. Lyons does not discuss why he continues to prefer the 1CP allocator.

<sup>8</sup> Direct-Airgas-Lyons-7, ll. 5-7.

1 required for planning reserve based on the results of a Loss of Load Probability  
2 (LOLP) analysis that considers the daily contribution of the Company's demand  
3 to annual LOLP. In other words, the Company's capacity requirements are  
4 determined based on the Company's demand throughout the year, not just by  
5 summer peak as Mr. Lyons contends. Consequently, it is not appropriate to  
6 allocate demand-related production plant costs using the 4CP allocator, since it  
7 allocates costs as if capacity requirements and costs incurred to meet those  
8 requirements are driven solely by summer peaks.

9 On the other hand, it is reasonable to assume that summer peak demands  
10 contribute more heavily than non-summer peaks to annual loss of load  
11 probability, and thus to the Company's reserve requirement. In that regard, the  
12 12CP allocator appropriately reflects the importance of summer peaks, since the  
13 average of the twelve monthly peaks gives greater weight to the higher summer  
14 peaks than to the lower non-summer peaks. Thus, with the 12CP allocator, the  
15 allocation of production plant costs to a customer class is driven more heavily  
16 by that class's contribution to system summer peaks than to system non-summer  
17 peaks.

18 **Q: Should the Commission adopt Airgas's proposal to rely on the 4CP**  
19 **allocator for allocating demand-related production plant costs?**

20 A: No. Airgas lacks a reasonable basis for its proposal to allocate demand-related  
21 production plant costs using a 4CP allocator. The Company should therefore  
22 continue to allocate demand-related production plant costs on the basis of each  
23 customer class's contribution to the average of the twelve monthly peaks.

24 **Q: Does this complete your rebuttal testimony?**

25 A: Yes.