

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Application of Madison Gas and Electric)
Company for Authority to Change) Docket No. 3270-UR-117
Electric and Natural Gas Rates)

**REBUTTAL TESTIMONY OF JONATHAN WALLACH
ON BEHALF OF THE CITIZENS UTILITY BOARD OF WISCONSIN
September 21, 2010**

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

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

4 **Q: Are you the same Jonathan Wallach that filed direct testimony in this**
5 **proceeding?**

6 A: Yes.

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

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

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

10 A: On September 8, 2010, the University of Wisconsin (UW or “the
11 University”) filed direct testimony by Murray Sim regarding, among other
12 matters, the University’s proposal for a new rate design for Rate Schedule
13 Sp-3.¹ In particular, the University proposes a rate design that prices firm

¹ The University filed a revised and corrected version of Mr. Sim’s direct testimony on September 9, 2010.

1 service separately from standby service. This rebuttal testimony responds to
2 the University’s proposed design for Sp-3 rates.

3 **Q: Please summarize your findings and conclusions.**

4 A: The University’s proposal for separating firm service from standby service
5 would unreasonably shift costs from the UW to other ratepayers. The
6 University’s proposal for nominating and pricing standby demand would
7 allow the UW to lean on the Madison Gas and Electric Company (MGE or
8 “the Company”) system for standby capacity without paying the full cost for
9 that capacity. Moreover, the University’s proposal to shift costs from the
10 customer and distribution demand charges to the on-peak demand charges for
11 firm service would inappropriately allow the University to avoid such costs
12 when electric generating capacity at the Charter Street Heating Plant
13 (“Charter Street”) increases. It would not be reasonable for other ratepayers
14 to have to compensate MGE for the revenue losses associated with the
15 University’s proposed Sp-3 rate design.

16 **Q: Please describe the University’s proposal regarding Rate Schedule Sp-3.**

17 A: There are two major elements to the University’s proposal. First, the UW
18 proposes to unbundle Sp-3 rates to create separate charges for firm service and
19 for standby service. Second, the University proposes to reduce the currently
20 approved rates for the customer charge and the distribution demand charge, and
21 commensurately increase the on-peak demand charges for firm service.

22 **Q: Please describe the University’s proposal for Sp-3 firm service.**

23 A: The University proposes to take firm service for load not served by its own
24 generation at a price that reflects the Company’s cost of service. The University
25 further proposes to create a rate structure for firm service by modifying various
26 elements of the currently approved Sp-3 rate structure. First, the UW proposes

1 to change the definition of billing demand applied to the on-peak demand
2 charges from maximum gross demand (i.e., including Charter Street rated
3 capacity) to maximum gross demand less nominated standby capacity (i.e., net
4 of Charter Street capacity.) Consequently, under the University's proposal, on-
5 peak demand charges for firm service would be assessed based on maximum
6 demand in excess of that served by Charter Street capacity.²

7 Second, the UW proposes to replace the currently approved LMP-based
8 Sp-3 energy charges with rates based on the Company's average fuel costs.
9 Finally, the University proposes to increase the on-peak demand charges to
10 compensate for the revenue reduction associated with its proposed modification
11 to the Sp-3 energy charges.³

12 **Q: Does the UW also propose to increase the on-peak demand charges to**
13 **compensate for the revenue reduction associated with its proposed revision**
14 **to the definition of billing demand to be applied to on-peak demand**
15 **charges?**

16 A: No. Instead, as I discuss below, the University essentially proposes to recover
17 some amount of that revenue through a separate demand charge for standby
18 service.

² More precisely, on-peak demand charges would be assessed on monthly maximum demand less a fixed amount of *nominated* standby capacity for that month. Under the University's proposal, the nominated amount of capacity would be netted from maximum metered demand regardless of whether Charter Street is available at the time of maximum demand.

³ The University also proposes to eliminate the seasonal differential in on-peak demand charges, as well as the seasonal and time-of-day differentials in energy charges. Mr. Sim does not provide a rationale for these proposed changes.

1 **Q: If on-peak demand charges were not increased to compensate for proposed**
2 **changes in billing demand, why does Mr. Sim’s Exhibit D9.6r indicate that**
3 **the University’s proposal for firm service is revenue-neutral?**

4 A: Exhibit D9.6r appears to be designed to show revenue adequacy under a
5 hypothetical scenario where the University takes firm service for its gross
6 billing demand, rather than for demand in excess of Charter Street nominated
7 capacity. According to Mr. Sim, in order to calculate on-peak demand revenues
8 under the University’s proposal for firm service, the billing units used to
9 calculate on-peak demand revenues under currently approved rates “should be
10 reduced by 8,000 kW per month to reflect the separation of Standby Service
11 from Utility Firm Service.”⁴ However, Exhibit D9.6r does not appear to reflect
12 this reduction in billing units in the calculation of revenues under the
13 University’s proposal for firm service. Instead, Exhibit D9.6r appears to apply
14 the same billing units to calculate on-peak demand revenues for the University’s
15 proposal as for the currently approved rate design. As a result, Exhibit D9.6r
16 overstates expected revenues under the University’s proposed rate design for Sp-
17 3 firm service.⁵

18 I estimate that Exhibit D9.6r overstates on-peak demand revenues under
19 the Company’s proposed rate design by about \$2.3 million.⁶ In other words,

⁴ *Direct Testimony of Murray Sim on Behalf of the Board of Regents of the University of Wisconsin System*, PSCW Docket No. 3270-UR-117, September 9, 2010, p. D9.32.

⁵ Exhibit D9.6r also overstates expected revenues under the currently approved rate design. Consistent with the calculation for the University’s proposed rate design under the hypothetical scenario, the calculation in Exhibit D9.6r of revenues under current rates does not reflect the revenue reduction from interruptible credits associated with Charter Street capacity.

⁶ This amount is net of about \$360 thousand of interruptible-credit revenues under the currently approved rate design.

1 revenues recovered by the Company under the University’s proposed rate design
2 for firm service would be \$2.3 million less than that under the currently
3 approved Sp-3 rate design.

4 **Q: What does the UW propose with regard to standby service?**

5 A: Under the University’s proposal, the UW would have the option to purchase
6 either firm or non-firm standby service (or some mix thereof) to back up Charter
7 Street electric generating capacity. According to Mr. Sim, once a year, the
8 University would provide to the Company a monthly nomination schedule that
9 specifies the firm and non-firm portions of the total amount of Charter Street
10 capacity for the following 36 months. For the firm portion, the UW would pay a
11 market-based standby demand charge assessed on any differences between
12 nominated firm capacity and actual generation.⁷ The University would not be
13 assessed demand charges on the non-firm portion of total nominated capacity. In
14 addition, the UW would pay (or receive) LMP prices to the extent that actual
15 generation in any hour falls short (or exceeds) total nominated capacity.

16 **Q: Does the University propose a specific demand charge for the firm standby
17 service?**

18 A: No. The proposed tariff language in Exhibit D9.3 of Mr. Sim’s direct testimony
19 simply states the Standby Generation Service Demand Charge “shall be market-

⁷ According to the proposed tariff language in Exhibit D9.3 of Mr. Sim’s direct testimony, the Standby Generation Service Hourly Demand Charge for firm standby service would be assessed against Standby Generation Service Hourly Demand. In turn, Standby Generation Service Hourly Demand would be defined as the “the currently effective Standby Service Capacity Nomination less Customer hourly generation.” (Exhibit D9.3, p. 3) In other words, the University would be charged for firm standby demand only to the extent that actual generation falls short of nominated capacity.

1 based firm capacity or hedging options selected by the Customer.”⁸ Mr. Sim also
2 states that:

3 A Firm Standby Service nomination process is needed so that MGE can
4 purchase firm service or help the UW hedge its volatile LMP energy prices
5 for specific quantities for future months....UW proposes that it work with
6 MGE to investigate various Firm Standby Service pricing options that
7 might exist for future months. However, it should be the sole decision of
8 UW to determine how much Firm Standby Service is needed for any given
9 month, and which pricing option is best among those available.⁹

10 **Q: Would the University pay the full cost of standby capacity under it’s**
11 **proposal?**

12 A: Under the University’s proposed rate design, it is unlikely that the Company
13 would recover the full cost of providing standby capacity for three reasons.
14 First, the University proposes to pay market price for firm standby capacity, not
15 the full embedded cost of the Company’s generation portfolio which serves to
16 back up Charter Street capacity. To the extent that there is excess capacity in
17 MISO, the embedded cost of existing MGE capacity would likely exceed the
18 market price for MISO excess capacity. If so, then the Company would not
19 receive full compensation for the cost of providing standby capacity.¹⁰

20 Second, the University proposes to pay standby demand charges not for the
21 full amount of capacity that must stand ready to back up Charter Street, but only
22 for the amount of standby capacity that is actually required in each hour to cover
23 the shortfall in hourly output from Charter Street. In essence, the University

⁸ Exhibit D9.3, p. 2.

⁹ Sim Direct, p. D9.22.

¹⁰ The Company would incur an equivalent loss if it instead purchased new capacity from the market to back up Charter Street and sold existing capacity freed up by that market purchase into the market. In this case, MGE would incur a loss from the sale of existing capacity whose embedded costs exceed the market price received from the sale.

1 proposes to pay for capacity-reservation service as if it were replacement-energy
2 service, paying only for that portion of the capacity standing in reserve to back
3 up Charter Street that it actually relies on to firm up Charter Street generation.

4 Finally, under the University's proposal, the UW has the option to avoid
5 any payment for standby capacity simply by taking non-firm standby service. As
6 Mr. Sim readily acknowledges, the University faces relatively little financial risk
7 by not taking firm standby service, so long as either MGE or other MISO
8 market participants have excess capacity on their systems.¹¹ The University's
9 proposal for non-firm standby service would therefore allow the UW to lean on
10 the system for standby capacity at no cost and little financial risk for as long as
11 it expects there to be excess capacity on the system.

12 **Q: How might residential ratepayers be affected by the University's proposal**
13 **for standby service?**

14 A: To the extent that the University avoids paying the full cost of standby capacity,
15 the Company would not be fully compensated by the UW for the \$2.3 million
16 revenue shortfall I discuss above with respect to the change in billing units for
17 firm service. If so, the Company would likely seek to recover this revenue
18 shortfall from other customer classes.

19 **Q: Does the UW offer any other proposals regarding rate designs for standby**
20 **service?**

21 A: Mr. Sim offers two alternative proposals for standby service in the event that the
22 Commission rejects the University's primary proposal. However, other than
23 noting that these alternatives would be acceptable to the University, Mr. Sim

¹¹ See Mr. Sim's discussion on page D9.23 of his direct testimony of the worst-case scenario for the University if it chooses to not take firm standby service.

1 does not provide any basis for their consideration or evidence that their adoption
2 would be reasonable and in the public interest.

3 **Q: Does the University propose any changes to the Sp-3 rate design other than**
4 **those proposed for separating firm service from standby service?**

5 A: Yes. The University proposes to reduce the currently approved rates for the
6 customer charge and the distribution demand charge, and commensurately
7 increase the on-peak demand charges for firm service.

8 **Q: Would these proposed changes adversely affect residential ratepayers?**

9 A: These changes would inappropriately shift costs to other ratepayers when
10 electric generating capacity at Charter Street increases as a result of the planned
11 renovation. Any increase in nominated capacity would reduce the billing units
12 applied to the on-peak demand charges for firm service, and would thereby
13 reduce costs recovered from the UW through the on-peak demand charges.
14 Other ratepayers would be adversely affected to the extent that they are required
15 to compensate MGE for these revenue losses.

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

17 A: Yes.