BEFORE THE PUBLIC SERVICE COMMISSION OF WEST VIRGINIA

IN THE MATTER OF	**)**	
APPALACHIAN POWER COMPANY	**)**	**Case No. 18-0646-E-42T**
AND WHEELING POWER COMPANY	**)**	

REBUTTAL TESTIMONY OF

JONATHAN F. WALLACH

ON BEHALF OF THE

CONSUMER ADVOCATE DIVISION

Resource Insight, Inc.

October 24, 2018

I. Introduction

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

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

Q: Are you the same Jonathan F. Wallach who filed direct testimony in this proceeding?

A: Yes.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of the Consumer Advocate Division (CAD).

Q: What is the purpose of your rebuttal testimony?

A: My rebuttal testimony responds to direct testimony by:

- Stephen J. Baron, on behalf of the West Virginia Energy Users Group (WVEUG), regarding inter-class subsidy relief provided by the Joint Stipulation and Agreement for Settlement regarding the Tax Cuts and Jobs Act of 2017 ("TCJA Settlement"), filed on August 23, 2018 in General Investigation No. 236.1.
- Terry R. Eads, on behalf of Commission staff (Staff), regarding the Companies' proposal to increase the residential basic service charge (BSC).

II. Response to WVEUG Witness Stephen J. Baron

Q: Please summarize Mr. Baron's testimony regarding the inter-class subsidy relief provisions of the TCJA Settlement.

A: Mr. Baron claims that the subsidy relief provided to industrial customers in the TCJA Settlement bears no relation to the subsidy relief proposed by the Companies in this proceeding. Mr. Baron instead contends that:

> The subsidy reduction included in the TCJA Case Stipulation effectively eliminated the subsidies paid by Rates LCP, IP, and Special Contracts <u>for the six-month period from September 1, 2018, through February 28, 2019</u>. It was presumed that new base rates in this case would become effective in March 2019, at which time industrial subsidy reductions would be reflected in (or eliminated from) new base rates approved in this case.[1]

Q: How do you respond to Mr. Baron's claims regarding the inter-class subsidy relief provisions of the TCJA Settlement?

A: Mr. Baron mischaracterizes the terms of the TCJA Settlement. Mr. Baron's clients may have presumed that the subsidy relief provided by the TCJA Settlement amounts to six-months' worth of the annual subsidy currently paid by industrial customers and that the subsidy provisions were intended to provide interim relief until such time as new base rates came into effect. However, the TCJA Settlement adopts neither of those presumptions and is silent both with regard to the magnitude of the alleged industrial subsidy and with regard to the intent of the subsidy relief provisions.

Q: Is the timing of the subsidy relief provided by the TCJA Settlement relevant in this proceeding?

A: No. The beliefs and presumptions of Mr. Baron's clients notwithstanding, the fact is that the TCJA Settlement provides for $9.8 million of residential

[1] *Direct Testimony and Exhibits of Stephen J. Baron*, Case No. 18-0646-E-42T, 21 (October 9, 2018).

funding of subsidy relief for industrial customers.[2] As I discussed in my direct testimony, it would be appropriate to consider this fact when determining the allocation of test-year revenue requirements to customer classes in this proceeding.

III. Response to Staff Witness Terry R. Eads

Q: Please summarize Mr. Eads's testimony regarding the Companies' proposal to increase the residential BSC.

A: According to Mr. Eads, Staff supports the Companies' proposal to increase the residential BSC from $8 to $12 per customer per month.[3]

Q: Is Staff's support of the Companies' proposal based on any form of cost analysis?

A: No. As Mr. Eads acknowledges, Staff's support of the Companies' proposal is not based on either the Companies' analysis or its own cost analysis:

> In this proceeding Staff supports a $4.00 increase in the residential customer charge. This support, however, is not based on the Companies' analysis of the distribution system required to connect the customer and stand ready to serve….
>
> Furthermore Staff's support for the increase in the service charge is not based on any analysis indicating there has been an increase in customer service, metering and billing costs.[4]

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[2] Under the terms of the TCJA Settlement, the RS, SWS, SGS, and SS classes provide $10.0 million of subsidy relief, of which $9.8 million is from the RS class. *See* TCJA Settlement, Exhibit A.

[3] *Prepared Direct Testimony by Terry R. Eads,* Case No. 18-0646-E-42T, 25 (October 9, 2018).

[4] *Id.*

Q: If not based on any form of cost analysis, what then is the basis for Staff's support for the $4 increase in the residential BSC proposed by the Companies?

A: Staff's support is based solely on the belief that the Companies' proposal would reduce intra-class subsidies by shifting recovery of allegedly "fixed" costs from the volumetric energy rate to the fixed basic service charge.[5]

Q: According to Mr. Eads, how does recovery of "fixed" costs through the energy rate give rise to intra-class subsidies?

A: Mr. Eads contends that all costs other than fuel-related costs are "fixed" because they are "incurred regardless of the amount of energy used."[6] By this logic, if such costs were incurred regardless of the amount of energy used, then they should be recovered uniformly from all residential customers regardless of their usage. However, when such "fixed" costs are recovered in proportion to usage through a volumetric energy rate:

> … residential customers with higher levels of consumption are required to shoulder a disproportionately greater share of the fixed costs of the utility. Conversely, customers with low levels of energy consumption may bear far less than their fair share of the fixed costs. This results in an intra-class subsidy problem among customers within the residential class.[7]

Q: Is Mr. Eads correct in his contention that recovery of non-fuel costs through the energy rate gives rise to intra-class subsidies?

A: No. Mr. Eads is mistaken in his belief that non-fuel costs were incurred regardless of energy usage. To the contrary, the Companies consider such

[5] *Id.*

[6] *Id.*, p. 22.

[7] *Id.*

costs to have been "caused" by customers' usage in either the system-peak hour (in the case of production and transmission plant costs) or the class-peak hour (in the case of distribution plant costs).[8] Consequently, the Companies' cost of service study allocates non-fuel costs to customer classes in proportion to each class's peak demand, so that each class is responsible for their fair share of such costs consistent with cost-causation.

Likewise, since non-fuel costs allocated to the residential class were "caused" by peak-hour usage, a greater share of such costs should be recovered from high-usage (and thus high-demand) residential customers than from low-usage customers. In other words, non-fuel costs are appropriately recovered from each residential customer in proportion to usage through the energy rate, so that each customer is responsible for their fair share of such costs consistent with cost-causation.

Thus, Mr. Eads is incorrect in his claim that recovery of non-fuel costs through the energy rate gives rise to intra-class subsidies. To the contrary, it is the Companies' proposal to shift recovery of such costs from the energy rate to the basic service charge that is inconsistent with cost-causation and that would give rise to intra-class subsidies.

Q: How would the Companies' proposal to increase the residential BSC cause intra-class subsidization?

A: As I discussed in my direct testimony, the Companies' proposal to increase the residential BSC would shift recovery of costs "caused" by customer load from the volumetric energy rate to the fixed basic service charge. Such load-

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[8] As I explained in my direct testimony, non-peaking production plant costs incurred by the Companies were "caused" by energy usage in all hours and thus appropriately classified as energy-related.

related costs are driven by residential load and are therefore appropriately recovered from residential customers in proportion to their contribution to total load. To the extent that load-related costs are recovered at a fixed rate through the residential BSC rather than at a volumetric rate through the energy charge, residential customers with below-average usage would bear a disproportionate share of load-related costs and consequently subsidize customers with above-average usage. In this case, a residential customer with below-average usage will pay more, and a residential customer with above average-usage will pay less, than their fair share of such costs.

Q: How can such intra-class subsidies be avoided?

A: As I discussed in my direct testimony, subsidies within the residential class can be avoided by following the Commission practice of setting the residential BSC based on the costs of meters, service drops, and customer services. Based on my estimate of the cost of meters, service drops, and customer services (as described in my direct testimony), such intra-class subsidies can be avoided by maintaining the residential BSC at its current rate of $8 per customer per month.

Q: Does this conclude your rebuttal testimony?

A: Yes.