

**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Application of Madison Gas and Electric )  
Company for Authority to Change ) Docket No. 3270-UR-121  
Electric and Natural Gas Rates )

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**SURREBUTTAL TESTIMONY OF JONATHAN WALLACH  
ON BEHALF OF THE CITIZENS UTILITY BOARD OF WISCONSIN**  
September 16, 2016

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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,  
4 Inc., 5 Water Street, Arlington, Massachusetts.

5 **Q: Are you the same Jonathan 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 CUB.

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

11 A: My surrebuttal testimony addresses rebuttal testimony by MGE witness Son  
12 T. Trinh regarding the Company’s proposal for allocating a forecast of 2017  
13 test year revenue requirements that reflects proposed changes to the  
14 depreciation rates for the Columbia Energy Center (Columbia).

1           In addition, this surrebuttal testimony responds to rebuttal testimony by  
2           Airgas witness Kenneth Lyons regarding the classification and allocation of  
3           production plant costs.

## 4   **II. Response to Ms. Trinh**

5   **Q: Please summarize Ms. Trinh’s rebuttal testimony regarding the**  
6   **Company’s revised proposal for allocating 2017 test year revenue**  
7   **requirements.**

8   A: Wisconsin Power and Light Company filed for approval of amended  
9   depreciation rates for Columbia in Docket No. 6680-DU-108. On August 24,  
10   2016, MGE filed supplemental direct testimony by Ms. Trinh providing the  
11   results of six cost of service studies which reflected the impact of the  
12   proposed changes to depreciation rates on the Commission staff audit  
13   forecast of 2017 test year revenue requirements (“Company’s revised audit  
14   studies”).<sup>1</sup> Rebuttal-MGE-Trinh-3 and Ex.-MGE-Trinh-5 provide the  
15   Company’s proposal for allocating 2017 test year revenue requirements  
16   based on the results of a revised Standard COSS that reflects the impact of  
17   the proposed changes to depreciation rates.

18   **Q: Based on the results of the Company’s revised audit cost of service**  
19   **studies, how would you allocate 2017 test year revenue requirements?**

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<sup>1</sup> Ms. Trinh provides the results of the six cost of service studies without the adjustment for amended depreciation rates in Ex.-MGE-Trinh-3r and with the adjustment in Ex.-MGE-Trinh-4r. A comparison of these results indicates that 2017 test year revenue requirements would increase by about \$2.3 million if the Commission were to approve the amended depreciation rates.

1 A: Based on the directional results of the Company's revised audit studies, I  
2 would allocate 2017 test year revenues to customer classes as shown in Table  
3 1. I developed this allocation with the goal of narrowing the difference for all  
4 classes between the allocated revenue increase and the system average  
5 increase in order to avoid rate shock for any one class.

6 **Table 1: Revised COSS-Based Allocation of 2017 Test Year Revenues**

	<b>Current Revenue</b>	<b>Proposed Revenue</b>	<b>Revenue Increase</b>	<b>Percent Increase</b>
<b>Residential</b>	138,017,040	139,509,021	1,491,981	1.08%
<b>Small C&amp;I</b>	31,926,235	31,926,235	-	0.00%
<b>Business Services</b>	204,036,054	204,036,054	-	0.00%
<b>Contract Services</b>	42,967,753	43,827,108	859,355	2.00%
<b>Lighting and Misc.</b>	2,775,668	2,775,668	-	0.00%
<b>Total System</b>	419,722,750	422,074,086	2,351,336	0.56%

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8 **Q: Does the revenue allocation shown in Table 1 differ from the allocation**  
9 **you recommended in your direct and rebuttal testimony?**

10 A: Yes. Based on the results of the Commission staff audit cost of service  
11 studies, I recommended in my direct testimony that there be no change to  
12 current revenues for any customer class. I also recommended in my rebuttal  
13 testimony that the revenue requirement impacts of any change in Columbia  
14 depreciation rates approved by the Commission be allocated to customer  
15 classes in proportion to class revenues. Commission staff has not revised its  
16 audit forecast of 2017 test year revenue requirements to reflect amended  
17 Columbia depreciation rates. Consequently, both of my revenue allocation  
18 recommendations still stand.

1           Although my direct and rebuttal recommendations regarding revenue  
2           allocations still stand, I also provide the allocation shown in Table 1 because  
3           the Company on rebuttal has proposed an allocation based on a set of cost of  
4           service studies that differ from the Commission staff audit studies by  
5           incorporating the Columbia depreciation rates as amended.

### 6   **III. Response to Mr. Lyons**

7   **Q: What does Mr. Lyons recommend with regard to the classification and**  
8   **allocation of production plant costs?**

9   A: Mr. Lyons supports classifying all production plant costs as demand-related,  
10   as if production plant costs were incurred solely for the purposes of meeting  
11   system reserve requirements, and not at all for the purposes of minimizing  
12   the cost of meeting energy requirements.<sup>2</sup> Mr. Lyons further recommends  
13   that demand-related production plant costs be allocated using a 4CP allocator,  
14   as if reserve requirements (and thus the plant costs incurred to meet those  
15   requirements) are driven by system peaks only in the four summer months.

16   **Q: Is Mr. Lyons's recommended approach for classifying and allocating**  
17   **production plant costs reasonably consistent with cost-causation?**

18   A: No. Mr. Lyons's recommendation to classify all production plant costs as  
19   demand-related simply does not match the reality of the Company's system.  
20   If, as implied by Mr. Lyons's classification approach, MGE added production  
21   plant solely for the purposes of meeting reserve requirements, then the  
22   Company's resource portfolio would consist solely of peaking generation  
23   since peaking units would be the cheapest option for meeting an increase in

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<sup>2</sup> Rebuttal-Airgas-Lyons-2.

1 planning reserve requirements. In reality, the Company has invested in not  
2 just peaking plant, but also more-expensive baseload generation in order to  
3 minimize the cost of meeting system energy requirements. Thus, Mr. Lyons's  
4 proposal to classify all production plant costs as demand-related is  
5 inconsistent with the drivers of those costs.

6 Likewise, Mr. Lyons's recommended approach for allocating demand-  
7 related production plant costs does not reflect the reality of what drives those  
8 costs to be incurred. In reality, the Midcontinent Independent System  
9 Operator (MISO) determines the amount of capacity required for planning  
10 reserve based on the results of a loss of load probability analysis that  
11 considers the contribution in every month of the year of the Company's  
12 demand to annual loss of load expectation. Thus, contrary to Mr. Lyons's  
13 contention, reserve requirements (and consequently the demand-related  
14 production plant costs incurred to meet those requirements) are driven by  
15 system peaks in all months of the year, not just in the four summer months.

16 **Q: At Rebuttal-Airgas-Lyons-3, Mr. Lyons claims that MISO does not**  
17 **support your “assertion that loss-of-load in 100% of the hours of the**  
18 **year drives the need for capacity.” How do you respond?**

19 A: Mr. Lyons mischaracterizes my testimony in this regard, since I do not assert  
20 that loss of load expectation in every hour of the year drives the need for  
21 reserve capacity. In fact, I contend that MISO's loss of load probability  
22 analysis accounts for the contribution to loss of load expectation by the  
23 Company's demand in every day of every month of the year, not just in the  
24 summer months. In these types of analyses, there will be days in both the  
25 summer and non-summer months that contribute very little to the annual loss  
26 of load expectation.

1 Mr. Lyons also misinterprets MISO's analysis when he claims that  
2 MISO finds that demands in non-summer months do not contribute to annual  
3 loss of load expectation. In fact, what MISO finds is that a loss of load event  
4 is most likely to occur on summer peak days, not that such events never  
5 occur during the non-summer months.

6 **Q: At Rebuttal-Airgas-Lyons-4, Mr. Lyons claims that you selectively quote**  
7 **from the NARUC Cost Allocation Manual to support your preference for**  
8 **using the 12CP allocator to allocate demand-related production plant**  
9 **costs. How do you respond?**

10 A: Mr. Lyons confuses my *classification* arguments with my *allocation*  
11 arguments. At Direct-CUB-Wallach-8, I quoted from the NARUC Cost  
12 Allocation Manual to support my preference for classifying a portion of  
13 production plant costs as energy-related, not in support of my preference for  
14 using the 12CP allocator to allocate demand-related production plant costs.  
15 As noted above, my argument in favor of the 12CP allocator is based on the  
16 reality of how MISO determines system reserve requirements.

17 **Q: At Rebuttal-Airgas-Lyons-7, Mr. Lyons contends that ISO New England**  
18 **determines reserve capacity obligations based “on a single system annual**  
19 **peak.” Is Mr. Lyons correct?**

20 A: No. Mr. Lyons mistakes the *measure* ISO New England uses to express  
21 reserve capacity obligations for the *method* ISO New England uses to  
22 determine those obligations. ISO New England expresses planning reserve  
23 requirements as a simple percentage margin above 1CP demand, calculated  
24 as the amount of capacity required for planning reserve divided by 1CP

1 demand.<sup>3</sup> However, it determines the amount of capacity required for  
2 planning reserve (i.e., the numerator in the calculation of percentage reserve  
3 requirement) based on the results of the same type of loss of load probability  
4 analysis as conducted by MISO.<sup>4</sup> In other words, contrary to Mr. Lyons's  
5 claim, ISO New England determines annual reserve capacity requirements  
6 based on demand throughout the year, not just demand in the single peak  
7 hour of the year.

8 **Q: What do you recommend with regard to Mr. Lyons's proposals for**  
9 **classifying and allocating production plant costs?**

10 A: The Commission should reject Mr. Lyons's proposals to classify all  
11 production plant costs as demand-related and to allocate demand-related  
12 production plant costs using a 4CP allocator, since both proposals are  
13 inconsistent with cost-causation.

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

15 A: Yes.

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<sup>3</sup> ISO New England Inc., *ISO New England Installed Capacity Requirement, Local Sourcing Requirements and Capacity Requirement Values for the System-Wide Capacity Demand Curve for the 2019/20 Capacity Commitment Period*, January 2016, p. 10.

<sup>4</sup> *Id.*, pp. 15-16.