

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 19-1270-TF

Investigation into Washington Electric Cooperative, Inc.'s
tariff filing for rate design changes and a change in rate
schedules to be effective on services rendered beginning
June 17, 2019

DIRECT TESTIMONY OF
SEAN FOLEY

ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

September 4, 2019

Summary: Mr. Foley presents the Department of Public Service's (Department) analysis of and recommendations with respect to proposed changes to Washington Electric Cooperative, Inc. ("WEC"), Rate Design Changes. Mr. Foley also testifies as to how the Department's recommendation that WEC eliminate the residential tail block mechanism will affect WEC's residential rates.

Direct Testimony
of
Sean Foley

1 **Q1. Please state your name and occupation.**

2 A1. My name is Sean Foley, and I am the Chief of Finance and Economics with the Vermont
3 Department of Public Service (the Department).

4

5 **Q2. Please describe your educational background and experience.**

6 A2. I have a B.A. in Physics from Saint Michael's College and a Master's Degree from the
7 New York University in Applied Science and Energy Science. I have been with the
8 Department for over twenty-five years, in both the Planning and Finance Divisions. Prior
9 to joining the Department, I was a Senior Associate at Barakat & Chamberlin and, prior
10 to that, I was Director of Resource Planning at Burlington Electric Department.

11

12 **Q3. Have you ever testified before the Vermont Public Utility Commission**
13 **(Commission) before?**

14 A3. Yes, I have testified in PUC Case Nos. 5270, 5965, 5970, 6018, 6120, 6430, 6495, 6596,
15 6750, 7032, 7373, 7508, 7742, 7780, 7781, 7782, 7843, 18-0409-TF, 19-0513-TF and
16 others.

17

18 **Q4. What is the purpose of your testimony?**

19 A4. I describe concerns that the Department identified in reviewing Washington Electric
20 Cooperative's (WEC) cost-of-service study. Specifically, I have concerns that WEC's

1 study did not appropriately factor causation. In his direct testimony on behalf of the
2 Department, Mr. Daniel Potter recommends that the Public Utility Commission
3 (Commission) require that WEC eliminate the inclining block rate from its residential
4 tariff. In her testimony, Ms. Carol Flint identifies affordability concerns for low-income,
5 low-use customers associated with increasing WEC's monthly customer charge and
6 eliminating the tail block rate. In my testimony, I demonstrate how the increased
7 customer charge and elimination of the inclining block structure would affect WEC's
8 residential rates. In light of affordability concerns, I propose that WEC phase-in the
9 adjusted customer charge to avoid rate shock and mitigate the immediate impact for low
10 volume customers.

11
12 **Q5. Can you briefly summarize the Department's proposed changes to WEC's rate**
13 **design filing?**

14 A5. Yes. As I noted above, the Department recommends that the inclining block rate structure
15 for WEC's resident rate be eliminated. Mr. Potter discusses the policy rationale for this
16 recommendation in his testimony. The Department, however, is not proposing to change
17 WEC's request to increase the monthly Residential customer service charge. Therefore
18 all the revenues in the incline block rate would need to be collected through a single
19 block energy charge. Maintaining WEC's proposed customer charge but eliminating the
20 inclining block structure would result in a \$0.17796/kWh charge for the residential class.

21

1 **Q6. Can you describe how the elimination of the inclining block rate structure affects**
2 **residential bills at various levels of use?**

3 A6. Yes. The Department used WEC's analysis (found in Exhibit WEC 5-PR-5) of bill
4 impact and applied the new rate structure. Members using more than 500 kWh per month
5 will see lower bills in the proposed rate design while those using less will see increases.
6 Those using than 200 kWh a month will still see the largest dollar impact with bills
7 increasing from \$36.89 per month to \$60.59 per month. At 500 kWh per month the bill
8 increases very slightly from \$112.91 to \$113.98; the 500 kWh level remains the
9 breakeven point in this rate structure also. At 700 kWh the bill decreases from \$163.60 to
10 \$149.57

11
12 **Q7. Does the Department recommend that these changes be implemented immediately?**

13 A7. No. As Ms. Flint makes clear in her testimony, the bill impact for low-income, low usage
14 customers raises affordability concerns for the Department. However, in light of the
15 policy rationales discussed by Mr. Potter, the Department nonetheless maintains that it is
16 important for WEC's rate design to both include the increased monthly charge and be
17 modified to eliminate the inclining block structure. To mitigate against potential rate
18 shock for the customer classes that would be most significantly affected by the revised
19 rate design structure, the Department recommends that WEC's increased customer charge
20 for residential customers be phased-in with four steps over a three year period (step 1
21 would take effect immediately after approval by the Commission, with a commensurate

1 increase each of the next three years). Such a phase-in should be easy to calculate and is
2 consistent with prior Commission practice in rate design cases.
3

4 **Q8. Do you have some concerns with the methodology employed by WEC in their rate**
5 **design?**

6 A8. Yes, while WEC's rate design methodology generally relies on traditional concepts and
7 follows the methodology as proposed in National Association of Regulatory Utility Cost
8 Allocation Manual, it varies considerably from past practice in Vermont.
9

10 **Q9. Would please provide an example of one of your concerns?**

11 A9. Yes, WEC allocates Production Plant costs only to demand and not energy. This
12 methodology is problematic as it ignores cost causation. To be clear, there are numerous
13 different approaches to classifying and allocating costs in a cost-of-service study, and
14 thus different analysts can reach different results. In response to discovery from the
15 Department on this issue, WEC (through its witness Mr. Strong) stated that:

16 In accordance with the National Association of Regulatory Utility
17 Commissioners (NARUC) Cost Allocation Manual, '[p]roduction plant
18 costs are either fixed or variable. Fixed production costs are those revenue
19 requirements associated with generating plant owned by the utility,
20 including cost of capital, depreciation, taxes and fixed O&M expenses.
21 Fixed production costs vary with capacity additions, not with energy
22 produced from given plant capacity, and are classified as demand related.'
23 'The cost accounting approach to classification is based on the argument
24 that plant capacity is fixed to meet demand and that the costs of plant
25 capacity should be assigned to customers on the basis of their demands.'
26

27 There is no universally accepted method for classifying and allocating embedded costs.

28 As a result, these decisions are usually based on judgments and depend mostly on the

1 objectives of the cost analyst and the characteristics of the company being analyzed. Past
2 practice in Vermont included cost allocation methodologies that vary significantly from
3 this very traditional approach. As an example, in Green Mountain Power's (GMP) most
4 recent rate design, GMP employed a methodology in which production plant costs were
5 classified and allocated in an embedded cost-of-service study using a Fuel Offset
6 methodology.¹ In WEC's prior rate design filings, Production Plant was allocated based
7 on energy.

8
9 In my opinion the major reason WEC's allocation methodology is inappropriate is
10 because a majority of WEC's Production Plant costs are associated with its Coventry
11 Vermont Landfill Gas to Energy Generating Facility. This facility runs in a base load
12 fashion that was designed to serve energy needs rather than demand requirement. WEC
13 did not, however, allocate any of the costs associated with this facility to energy. This
14 allocation to demand does not follow cost causation methodology generally employed in
15 Vermont. It also results in cost-of-service study outputs that do not properly allocate
16 fixed and variable costs among WEC's various customer classes.

17
18 **Q10. Do you have a recommendation that addresses your concerns?**

19 A10. WEC did not propose any changes to the rate class revenues collected from its customers
20 based on the results of the cost-of-service study. In response to a discovery request asking
21 why WEC did not propose "any changes to the rate class revenues collected from

¹ *GMP Rate Design*, Case No. 18-2850-TF, Heintz pf. at 9.

1 [WEC's] customers based on the results of the cost-of-service study," WEC replied that:

2 Based on the cost of service study results, revenue collected under the
3 existing class structure did not materially differ from the cost of service
4 study results. While there were differences in the revenues when
5 comparing existing revenues to the COSS revenue results, the differences
6 were not sufficiently large in magnitude to justify a redistribution in
7 revenue among classes.

8 Since WEC did not adjust rate case revenue based on the results on the cost-of-service
9 study, my concerns about the underlying methodology employed by WEC are
10 ameliorated. I would, however, suggest that WEC work closer with the Department on its
11 cost-of-service study methodology prior to filing its next rate design petition with the
12 PUC.

13
14 **Q11. Does that conclude your testimony?**

15 **A11.** Yes, it does at this time.