

STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE IRENE JONES

IN THE MATTER OF THE VERIFIED)
PETITION OF ROCKLAND ELECTRIC)
COMPANY FOR APPROVAL OF)
CHANGES IN ELECTRIC RATES, ITS)
TARIFF FOR ELECTRIC SERVICE,)
AND ITS DEPRECIATION RATES, AND)
FOR OTHER RELIEF)

BPU DOCKET NO. ER19050552
OAL DOCKET NO. PUC07548-2019

DIRECT TESTIMONY OF
DAVID E. PETERSON
ON BEHALF OF THE
DIVISION OF RATE COUNSEL

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1
2 **I. INTRODUCTION**

3 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
4 **ADDRESS.**

5 A. My name is David E. Peterson. I am a Senior Consultant employed by
6 Chesapeake Regulatory Consultants, Inc. (“CRC”). Our business address is 1698
7 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk,
8 Maryland.

9
10 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE**
11 **IN THE PUBLIC UTILITY FIELD?**

12 A. I graduated with a Bachelor of Science degree in Economics from South Dakota
13 State University in May of 1977. In 1983, I received a Master’s degree in
14 Business Administration from the University of South Dakota. My graduate
15 program included accounting and public utility courses at the University of
16 Maryland.

17
18 In September 1977, I joined the Staff of the Fixed Utilities Division of the South
19 Dakota Public Utilities Commission as a rate analyst. My responsibilities at the
20 South Dakota Commission included analyzing and testifying on ratemaking
21 matters arising in rate proceedings involving electric, gas and telephone utilities.

22
23 Since leaving the South Dakota Commission in 1980, I have continued
24 performing cost of service and revenue requirement analyses as a consultant. In
25 December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I
26 remained with that firm until August 1991, when I joined CRC. Over the years, I
27 have analyzed filings by electric, natural gas, propane, telephone, water,
28 wastewater, and steam utilities in connection with utility rate and certificate

1 proceedings before federal and state regulatory commissions. A copy of my
2 curriculum vitae is provided in Appendix A attached to my testimony.

3
4 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC**
5 **UTILITY RATE PROCEEDINGS?**

6 A. Yes. I have presented testimony in 170 other proceedings before the state
7 regulatory commissions in Alabama, Arkansas, California, Colorado,
8 Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada,
9 New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West
10 Virginia, and Wyoming, and before the Federal Energy Regulatory Commission.
11 Collectively, my testimonies have addressed the following topics: the appropriate
12 test year, rate base, revenues, expenses, depreciation, taxes, capital structure,
13 capital costs, rate of return, cost allocation, rate design, life-cycle analyses,
14 affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

15
16 In addition, I testified twice before the Energy Subcommittee of the Delaware
17 House of Representatives on the issues of consolidated tax savings and tax
18 normalization. Also, I have presented seminars on public utility regulation,
19 revenues requirements, cost allocation, rate design, consolidated tax savings,
20 income tax normalization and other ratemaking issues to the Delaware Public
21 Service Commission, to the Commissioners and Staff of the Washington Utilities
22 and Transportation Commission, and to the Colorado Office of Consumer
23 Counsel.

24

II. SUMMARY

Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES (“BOARD”)?

A. Yes, I have. I have submitted testimony in the following proceedings before the

Board:

Utility

Docket No.

South Jersey Gas Company

GR8704329
GR03050413
GR03080683
GR10010035

New Jersey-American Water Company

WR88070639
WR91081399J
WR92090906J
WR94030059
WR95040165
WR98010015
WR03070511
WR06030257
WR17090985

ACE/Delmarva Merger
Atlantic City Electric Company

EM97020103
ER03020110
ER11080469
ER17030308
ER18020196

FirstEnergy/GPU Merger (JCP&L)
Jersey Central Power & Light

EM00110870
ER02080506
ER05121018
ER12111052
EM14060581
EM15060733
ER18070728

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1	Rockland Electric Company	ER02100724
2		ER06060483
3		ER09080668
4		
5	Public Service Electric and Gas	EM00040253
6		GR09050422
7		GO12030188
8	Exelon/PSE&G Merger	EM05020106
9		
10	Exelon/Pepco Holdings Merger	EM14060581
11		
12	Conectiv/Pepco Merger (ACE)	EM01050308
13		
14	Elizabethtown Gas Company	GR02040245
15		GR09030195
16	The Southern Company/AGL Resources	GM15101196
17		
18	United Water New Jersey, Inc.	WR07020135
19	United Water Toms River	WR15020269
20		
21	New Jersey Natural Gas Company	GR07110889
22		
23		

24 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

25 A. My appearance in this proceeding is on behalf of the Division of Rate Counsel
26 (“Rate Counsel”).

27

28 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
29 **PROCEEDING?**

30 A. I was asked by Rate Counsel to review and to analyze the Petition, testimonies
31 and exhibits filed by Rockland Electric Company (“RECO” or “the Company”)
32 supporting the rates it proposes to implement at the conclusion of this proceeding.
33 The purpose of my testimony is to present the results of my analyses of RECO’s
34 embedded class cost of service study and proposed delivery service rates to Your
35 Honor and the Board.

36

1 **Q. ARE YOU FAMILIAR WITH RECO'S RATE DESIGN PROPOSALS IN**
2 **THIS PROCEEDING?**

3 A. Yes, I am. I have carefully reviewed the Direct Testimony and Exhibits
4 sponsored by RECO's witnesses relating to the issues that I address herein. The
5 Electric Rate Panel, consisting of Cheryl Ruggiero, Lucy Villeta and Shajan
6 Jacob, present the results of the Company's class cost of service studies. The
7 Electric Rate Panel also recommends a spread of the increase among the classes
8 of service and a rate design for each service class. My review also included an
9 evaluation of the Company's responses to data requests of Rate Counsel and the
10 Board Staff relating to the issues that I address in my testimony.

11
12 **Q. BEFORE DISCUSSING YOUR SPECIFIC FINDINGS AND**
13 **RECOMMENDATIONS, PLEASE SUMMARIZE RECO'S REQUESTS**
14 **RELATING TO THE ISSUES THAT YOU ADDRESS IN YOUR**
15 **TESTIMONY.**

16 A. RECO's initial filing in this proceeding shows a \$19.9 million (excluding Sales
17 and Use Tax) revenue deficiency associated with the Company's delivery service
18 throughout its New Jersey service territory. A change in revenues of this
19 magnitude to correct the alleged deficiency would increase distribution revenues
20 under current rates by 32.5 percent. The Company used a test year consisting of
21 the twelve months ended September 30, 2019, to calculate its revenue deficiency.

22
23 In its Direct Testimony, the Electric Rate Panel presented a class cost of service
24 study for the twelve months ended December 31, 2016. In RECO's cost study, its
25 distribution service related costs were allocated among five major customer
26 classes and 12 subclasses. Following is a summary of the earned rates of return
27 by major customer class from the Company's embedded cost study.

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Table 1
Rockland Electric Company
Earned Rates of Return – RECO Allocation Method
Under Existing Rates

Class	Rate of Return	Unitized ROR
Residential	2.24%	0.39
Commercial & Industrial	10.98%	1.90
Municipal Lighting	11.45%	1.98
Private Lighting	1.38%	0.24
Primary	13.17%	2.28
Total Company	5.78%	1.00

The Electric Rate Panel relied on the results of the cost study, as well as its own judgment, to realign class revenue responsibilities. The Company’s cost study indicates that the Residential and the Private Lighting classes are contributing less than the system average rate of return. This is shown in Table 1 above by a unitized rate of return of less than 1.00 for those two classes. A unitized rate of return is the ratio of the individual class rate of return to the total Company rate of return. A unitized rate of return of less than 1.00, as is the case with the Residential and Private Lighting classes, indicates that the rate class is contributing less than the system-wide average rate of return. Because the unitized rate of return is less than 1.00 for the Residential and Private Lighting classes, the Electric Rate Panel proposed a higher than average revenue increase, on a percentage basis, for those two rate classes. Table 2, below, shows the Electric Rate Panel’s proposed spread of RECO’s initially claimed revenue deficiency among the 12 sub-classes along with the resulting percentage increase for each rate class.

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Table 2
Rockland Electric Company
RECO Proposed Class Revenue Increases¹
(\$000)

Class	Increase	Percent Increase
SC1 Res Svc & SC5 Res Svc	\$13,805.1	40.6%
SC2 Sec Non Dmd Billed	\$ 108.8	27.4%
SC2 Sec Dmd Billed	\$ 4,743.9	24.8%
SC2 Space Heating	\$ 255.0	40.6%
SC2 Primary	\$ 116.5	6.2%
SC3 Res TOD Heating	\$ 4.0	40.0%
SC4 Public Street Lighting	\$ 217.0	24.5%
SC6 POL – Dusk to Dawn	\$ 165.1	40.6%
SC6 POL – Energy Only	\$ 28.9	24.8%
SC7 Primary	\$ 366.2	10.5%
SC7 High Voltage	\$ 17.0	8.6%
SC7 Space Heating	\$ 79.1	40.6%
Total	\$19,906.6	32.5%

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Concerning rate design for the Residential class, the Electric Rate Panel proposes to complete the base rate combination of SC No. 5 customers (space heating) and SC No. 1 customers that began in RECO’s last base rate case. In this proceeding, the Electric Rate Panel proposes to equalize the block rates paid by SC No. 1 and SC No. 5 customers. Immediately following the rate combination, the Company will still maintain separate schedules for SC No. 1 and SC No. 5 customers because there are separate BGS-RSCP and Transmission Surcharge rates for each subclass of customers. The Company anticipates proposing to combine the BGS-RSCP rates for these two classes in its 2020 Statewide BGS Auction and to combine the Transmission Surcharge rates in a future Transmission Surcharge filing.

¹ RECO Exhibit P-4, Schedule 4.

1 The Electric Rate Panel also proposes to increase the Residential monthly
2 customer charge from \$4.53 to \$6.50 (both including Sales and Use Tax); a 43
3 percent increase.
4

5 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS**
6 **ON RECO'S COST ALLOCATION AND RATE DESIGN PROPOSALS.**

7 A. Following is a brief summary of my findings and recommendations.
8

- 9
- 10 • **Embedded cost of service study.** As RECO has proposed in prior base
11 rate proceedings, the Electric Rate Panel has once again relied on class
12 and individual customer diversified peak demands to allocate distribution
13 costs to the various service classes. Using this method, the Electric Rate
14 Panel calculated a 0.39 unitized rate of return for the Residential class. In
15 the past, however, the Board has required that cost studies also reflect
16 class energy usage (i.e., kWh).² The Electric Rate Panel's testimony also
17 included a class cost of service study using the "Peak and Average" cost
18 allocation method, which recognizes relative class energy usage. Under
19 the Peak and Average method, the unitized rate of return for the
20 Residential class is somewhat higher at 0.74. Under either cost allocation
21 method, however, present rates for the Residential class yield less than the
22 system-wide average rate of return.

- 23
- 24 • **Spread of the revenue increase.** The Electric Rate Panel's proposed
25 spread of RECO's calculated revenue deficiency attempts to move each
class closer to its cost of service by moving the class unitized rates of

² *I/M/O The Petition of Jersey Central Power & Light Company for Approval of Increased Base
Tariff Rates and Charges for Electric Service and Other Tariff Revisions*, BRC Docket No.
ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

1 return closer to 1.0. All classes are moved closer to a unitized rate of
2 return of 1.0 under RECO's preferred allocation method. Applying the
3 Electric Rate Panel's proposed increase for the Residential class to the
4 alternative peak and average allocation method results in a 1.04 unitized
5 rate of return, which is slightly greater than a target of 1.00, but still well
6 within the 10 percent tolerance band advocated by RECO to reflect
7 inherent year-by-year variations and inaccuracies in a cost study such as
8 this. Given that the Electric Rate Panel's proposed allocation of the
9 revenue increase by rate class shows significant progress towards
10 equalizing class rates of return for the rate classes under the peak and
11 average allocation method and that the increase to the Residential class is
12 somewhat higher than the system-wide average, I do not object to RECO's
13 proposed allocation of the Company's revenue deficiency.

14
15 In addition, I support the Electric Rate Panel's proposal to limit the
16 percentage of revenue increase assigned to each class to 1.25 times the
17 overall system-wide average increase as a means to mitigate the adverse
18 rate impacts that would result for Residential and Private Lighting
19 customers if no mitigation efforts were taken. Therefore, I support
20 limiting the increase to the Residential class at the same 1.25 times the
21 system wide percentage increase that the Electric Rate Panel proposes.

22
23 Rate Counsel's case, however, provides evidence that RECO's revenue
24 deficiency is significantly lower than that calculated by the Company.
25 Therefore, I proportionally scaled back the Electric Rate Panel's method
26 of allocating the revenue requirement among the rate classes and a 1.25
27 times the system wide percentage increase limitation for the Residential

1 and Private Lighting classes as a guide to allocate among the rate classes
2 the total revenue change that Ms. Crane calculated.

- 3
- 4 • **Rate design.** Increasing the Residential monthly service charge by 43
5 percent, as the Electric Rate Panel proposes, is unnecessary and
6 unreasonable. The same type of mitigation effort that the Electric Rate
7 Panel used to limit class revenue increases, 1.25 of the overall percentage
8 increase, is reasonable in this case for the Residential monthly service
9 charge as well. To that end, I recommend that the Residential monthly
10 customer service charge be increased by no greater than 1.25 times the
11 overall percentage revenue increase approved by the Board in this
12 proceeding. Using Ms. Crane's recommended revenue increase of
13 approximately \$5.817 million, the maximum increase in the Residential
14 monthly customer service charge that I recommend is 11.9 percent. An
15 increase of this amount results in a \$5.07 residential monthly customer
16 charge, including Sales and Use Taxes.

17

18 The bases for these findings and recommendations are explained in more detail in
19 the following sections of this testimony.

20

21

22 III. COST ALLOCATION

23 **Q. HAVE YOU REVIEWED RECO'S EMBEDDED CLASS COST OF**
24 **SERVICE STUDY?**

25 **A.** Yes, I have. RECO's Electric Rate Panel prepared an embedded class cost of
26 service study using costs and class load data for the twelve months ended
27 December 31, 2016. Studies of this nature, if performed carefully and

1 objectively, can be useful tools in apportioning revenue responsibility fairly
2 among the rate classes and in designing unit charges within rate classes.
3

4 **Q. WHICH ALLOCATION PROCEDURE DID THE ELECTRIC RATE**
5 **PANEL USE IN ITS STUDY?**

6 A. Approximately 89 percent of RECO's plant investment at issue in this proceeding
7 is in distribution facilities; including station equipment, conductors, poles, towers,
8 and transformers. The remaining 11 percent represents facilities that provide
9 service to individual customers (i.e., meters, services, and other customer
10 installations), general office facilities, and street lighting. With such a large
11 percentage of plant being distribution-related, the outcome of the cost study can
12 be significantly influenced by the procedures used to allocate the costs of those
13 facilities. The Electric Rate Panel used class and customer maximum diversified
14 demands to allocate the majority of RECO's distribution-related investment and
15 associated costs. RECO's allocation procedures gave no recognition to average
16 demands or annual usage, however.
17

18 **Q. HAS THE BOARD FOUND IT APPROPRIATE TO CONSIDER ANNUAL**
19 **USAGE IN ADDITION TO PEAK DEMAND IN DEVELOPING CLASS**
20 **ALLOCATION FACTORS?**

21 A. Yes, it has. The Board found it appropriate to consider the "dual demand/energy
22 dimension of T&D system planning and operation" in developing class allocation
23 factors in Jersey Central Power and Light's ("JCP&L") 1991 base rate proceeding
24 (BRC Docket No. ER91121820J). In its Order approving an allocation method
25 that recognized both peak demand and annual usage for JCP&L's transmission
26 and distribution facilities, the Board stated:
27

1 The record in this proceeding contains two distinct approaches to
2 the classification and allocation of non-production transmission,
3 subtransmission and distribution (hereafter “T&D”) costs. The DOD/FEA
4 approach classifies plant costs functionalized in accounts 360-368 on an
5 exclusive demand basis, allocating them based upon voltage specific non-
6 coincident peaks. The other approach is a voltage level specific average
7 and excess method advocated by Rate Counsel and included in the MSPM
8 studies advanced by the Staff and the Company.
9

10 Exclusive demand approaches to the allocation of T&D costs –
11 such as that advanced by the DOD/FEA – were rejected in the April 9,
12 1992, Order in JCP&L’s last base rate proceeding [BPU Docket No.
13 ER89110912J] after the Board determined that “there is a dual demand
14 and energy dimension to transmission and distribution system planning
15 and operation which should henceforth be reflected in cost allocation.”
16 See, JCP&L Order, p. 6. In that proceeding, we adopted the average and
17 excess approach advocated by Rate Counsel and supported by Staff as an
18 interim step toward a more complete investigation of the proper allocator
19 for these costs. The difficulty with this prior version of the average and
20 excess method was its use of system load factor to classify T&D costs into
21 demand and energy components. The employment of voltage level
22 specific load factors to classify costs in the Rate Counsel, Staff and
23 Company cost studies in the instant proceeding addresses the concerns
24 raised in our April 9, 1992, Order.
25

26 Accordingly, we CONCUR with the Initial Decision that the
27 voltage specific average and excess method is the appropriate basis for the
28 classification and allocation of T&D costs and ORDER that it be
29 employed in this and future JCP&L proceedings until such time that a
30 more precise methodology is developed. We REJECT the exclusive
31 demand approach advanced by the DOD/FEA based upon its failure to
32 reflect the aforementioned dual demand/energy dimension of the T&D
33 planning process.³
34

³ *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions*, BRC Docket No. ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

1 Thus, the Board found that both annual usage (i.e., kWh) and class maximum
2 demands are appropriate to consider in developing allocation factors for
3 transmission and distribution facilities. Moreover, the Board specifically rejected
4 the demand-only approach that the Electric Rate Panel has advanced in this and
5 prior RECO rate proceedings. The Stipulation of Settlement in BPU Docket No.
6 ER16050428 required RECO to present the results of a class cost study using the
7 Peak and Average cost allocation method. In fact, RECO has been preparing cost
8 studies that include energy usage in the allocation process in each base rate case
9 following RECO's 2006 base rate case in BPU Docket No. ER06060483. The
10 Peak and Average allocation method incorporates class energy usage into the
11 allocation process. In this proceeding, the Electric Rate Panel prepared a second
12 version of its class cost study using the Peak and Average allocation method.
13 Results under the peak and average method were included as Exhibit P-8,
14 Schedule 2 attached to the Electric Rate Panel's Direct Testimony.

15
16 **Q. HOW DO THE RESULTS UNDER RECO'S PREFERRED ALLOCATION**
17 **METHOD COMPARE WITH THOSE USING THE PEAK AND**
18 **AVERAGE METHOD?**

19 **A.** The following table compares the class rates of return that the Electric Rate Panel
20 calculated for each of the two allocation methods.

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Table 3
Rockland Electric Company
Class Rates of Return
Under Current Rates

Rate Class	RECO Method	P&A Method
Residential	2.24%	4.27%
Commercial & Industrial	10.98%	7.93%
Municipal Lighting	11.45%	10.19%
Private Lighting	1.38%	1.56%
Primary	13.17%	6.40%
Total	5.78%	5.78%

7
8 As shown in Table 3 above, both allocation methods produce similar results; the
9 principal difference is in the order of magnitude. The rates of return for the
10 Residential and Private Lighting classes are less than the system-wide average
11 under both methods. The rates of return exceed the system-wide average for the
12 other classes under both methods.

13
14 **Q. HOW DID THE ELECTRIC RATE PANEL USE THESE RESULTS TO**
15 **SPREAD RECO'S REQUESTED REVENUE INCREASE AMONG RATE**
16 **CLASSES?**

17 A. My understanding is that the Electric Rate Panel attempted to move each class
18 closer to a 1.0 unitized rate of return. For the Residential and Private Lighting
19 classes, which had a unitized rate of return of less than 1.0, the Electric Rate Panel
20 proposed a greater-than-average (in percentage terms) increase. The maximum
21 percentage increase within each of these two classes, however, was capped at 125
22 percent over the overall system-wide percentage increase. Because the rates of
23 return for the remaining classes already exceeded the system-wide average rate of
24 return, the Electric Rate Panel proposed less-than-average percentage increases

1 for the C&I, the Municipal Lighting, and the Primary rate classes. See Table 2
2 earlier in my testimony for the specific increase by rate class that the Electric Rate
3 Panel proposed. Even though there is movement towards a unitized rate of return
4 of 1.0 for all rate classes under RECO's proposed spread of the increase, its
5 proposed spread was unable to achieve a uniform 1.0 unitized rate of return for all
6 classes because the rate impacts, principally on the Residential and Private
7 Lighting classes, are far too severe. In that regard, the Electric Rate Panel limited
8 the percentage increase to the Residential and Private classes to 1.25 times the
9 system-wide percentage increase that RECO is requesting. The Electric Rate
10 Panel also is not proposing to decrease present revenues for any customer class.
11 Limiting the increases for the Residential and Private Lighting classes and not
12 reducing revenues for any class are both measured steps to gradually move all
13 classes toward an equalized rate of return. I support RECO's gradual approach.

14
15 **Q. GIVEN THAT THERE ARE TWO COST STUDIES TO CONSIDER IN**
16 **THIS PROCEEDING, HOW CAN THE ELECTRIC RATE PANEL'S**
17 **PROPOSED REVENUE DISTRIBUTION BE EVALUATED?**

18 A. The Electric Rate Panel's proposed revenue distribution was developed
19 principally from the results of its class cost study using class and customer
20 maximum diversified demands as the primary allocation factor. The Electric Rate
21 Panel's revenue distribution can also be evaluated for its effects on class returns
22 under the peak and average allocation method.

23
24 **Q. HAVE YOU PERFORMED THIS ANALYSIS?**

25 A. Yes, I have. A summary of my analysis is shown on Schedule___(DEP-1)
26 attached to my testimony. Table 4, below, summarizes the unitized class rates of
27 return that result from the Electric Rate Panel's proposed spread of the increase

1 under RECO's preferred allocation method and under the alternative Peak and
2 Average allocation method.

3
4 **Table 4**
5 **Rockland Electric Company**
6 **Unitized Rates of Return Resulting**
7 **From RECO's Proposed Revenue Distribution**
8
9

Class	RECO Method	Peak & Average Method
Residential	0.84	1.04
Commercial & Industrial	1.26	1.00
Municipal Lighting	1.42	1.31
Private Lighting	0.83	0.82
Primary	1.18	0.65
Total	1.00	1.00

10
11 The Electric Rate Panel tempered the revenue impact among rate classes
12 somewhat by not forcing each class's unitized rate of return exactly to 1.0. As
13 shown in Table 4 above, RECO's proposed revenue spread under the Peak and
14 Average allocation method for several cases results in class unitized rate of return
15 closer to 1.0 than what is achieved under RECO's preferred allocation method.
16 The unitized rate of return for the Residential class under the Peak and Average
17 allocation method slightly exceeds an ideal 1.00, but it is well within the 10
18 percent tolerance band that RECO has identified to account for year-by-year
19 variances and inaccuracies inherent in rate studies such as this. Thus, I conclude
20 that the Electric Rate Panel's proposed revenue spread produces reasonable
21 results under both allocation methods. The results of RECO's allocation of the
22 increase using Ms. Crane's revenue requirement determination are shown on my
23 Schedule ___(DEP-2) and are summarized in the following table:
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Table 5
Rockland Electric Company
Rate Counsel’s Proposed Spread of the Revenue Increase
(\$000)

Class	Revenue Increase	Percent Change
SC1 Res Svc & SC 5 Spc Ht	\$4,034.1	11.9%
SC2 SC Non Dmd Billed	\$ 31.8	8.0%
SC2 Sec Dmd Billed	\$1,386.2	7.3%
SC2 Space Heating	\$ 74.5	11.9%
SC2 Primary	\$ 34.0	1.8%
SC3 Res TOD Heating	\$ 1.2	12.0%
SC4 Public Street Ltg	\$ 63.4	7.2%
SC6 POL – Dusk to Dawn	\$ 48.2	11.9%
SC6 POL – Energy Only	\$ 8.4	7.2%
SC7 Primary	\$ 107.0	3.1%
SC7 High Voltage	\$ 5.0	2.5%
SC7 Space Heating	\$ 23.1	11.9%
Total Company	\$5,817.0	9.5%

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IV. RATE DESIGN

12 **Q. WHAT CHANGES TO THE RESIDENTIAL RATE SCHEDULES DID**
 13 **THE ELECTRIC RATE PANEL PROPOSE?**

14 A. First, the Electric Rate Panel proposed to continue combining SC No. 1 and SC
 15 No. 5 (space heating) that began in RECO’s last base rate proceeding. In this
 16 proceeding, RECO proposes to equalize the consumption block rate charges for
 17 SC No. 1 and SC No. 5 on an overall revenue neutral basis. The Company’s
 18 impact analysis shows that RECO’s proposal to combine the block rate structure
 19 of SC No. 5 with that of SC No. 1, result in “relatively minor, and mostly

1 negative, bill impacts” for the entire SC No. 5 class.⁴ Given this result, I do not
2 object to combining SC No. 1 and SC No 5 rate schedules, as the Electric Rate
3 Panel proposes.

4
5 In addition, the Electric Rate Panel proposed a 43 percent increase in the monthly
6 service charge for Residential customers. Presently, Residential customers are
7 paying a \$4.53 per month service charge, including Sales and Use Tax. The
8 Company has proposed to increase this charge by \$1.97, so that Residential
9 customers will pay \$6.50 per month, including Sales and Use Tax, if RECO’s
10 proposal is approved by the Board. Per kWh consumption rates, by rate block,
11 were then increased on a uniform percentage basis to generate the required
12 revenue from this rate class.

13
14 **Q. WHAT IS THE REASONING BEHIND RECO’S PROPOSED INCREASE**
15 **IN THE MONTHLY SERVICE CHARGE?**

16 A. The Electric Rate Panel’s primary concern appears to be that the present monthly
17 service charge fails to recover all costs in its study that are classified as customer-
18 related costs. In that regard, the Company’s cost study indicates the average
19 customer-related cost per Residential customer is \$23.08 (excluding SUT) per
20 month.

21
22 **Q. DO YOU AGREE THAT THE “CORRECT” CUSTOMER CHARGE IS**
23 **THE \$23.08 PER MONTH COST CALCULATED FROM RECO’S COST**
24 **STUDY?**

25 A. No, I do not. It does not necessarily follow that all costs classified as customer-
26 related for class allocation purposes must also be recovered through the monthly

⁴ RECO Exhibit P-5, Schedule 5, page 3.

1 service charge. For many costs that are classified as being customer-related there
2 simply is no other reasonable basis for classification other than the relative
3 number of customers. Classifying these costs as customer costs, however, does
4 not mean they are dependent on the number of customers or are incremental to the
5 number of customers served. There is no precise nexus between costs classified
6 as customer-related and those that are appropriately recognized in the monthly
7 service charge.

8
9 **Q. DOES THE BOARD TYPICALLY INCLUDE ALL CUSTOMER-**
10 **CLASSIFIED COSTS IN THE DETERMINATION OF THE SERVICE**
11 **CHARGE?**

12 A. No, not that I am aware of. My understanding is that the Board has taken a
13 restrictive view of the costs that are recognized in a monthly service charge. I am
14 advised that the Board generally allows only costs that vary directly and linearly
15 with the number of customers served in the calculation of the monthly service
16 charge. It is for this reason that the residential service charges for all New Jersey
17 electric utilities remain relatively low.

18
19 **Q. WHAT HAS THE BOARD APPROVED FOR OTHER NEW JERSEY**
20 **UTILITIES?**

21 A. Table 6 below shows the presently approved residential monthly service charge
22 for the New Jersey electric utilities that are regulated by the Board.

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Table 6
BPU Approved Residential Monthly Service Charges*
New Jersey Regulated Electric Utilities

Electric Utility	Residential Service Charge
Rockland Electric Company	\$4.53
Atlantic City Electric Company	\$5.77
Public Service Electric and Gas	\$4.95
Jersey Central Power & Light Company	\$2.78
Rockland Electric Company – Proposed	\$6.50

* Includes Sales and Use Tax

As Table 6 shows, RECO’s existing residential monthly service charge already is in line with the monthly service charges the Board has approved for the other electric utilities in the State. RECO’s proposed increase would place the Company’s monthly service charge significantly above the charges being paid by all of the other electric residential customers in the state. The Electric Rate Panel’s proposed increase also exposes RECO’s low volume customers to disproportionate rate increases – as much as 43 percent at the lowest residential usage volumes. Therefore, I recommend that RECO’s monthly service charge for the Residential class be increased by no more than 1.25 times the percentage revenue increase that is ultimately approved for RECO. This is the same limitation that RECO placed on residential customers in allocating the overall revenue deficiency to that rate class. Based on Ms. Crane’s finding that RECO’s revenue deficiency is approximately \$5.817 million, I recommend that the Residential monthly customer service charge be increased by no greater than 11.9 percent; which results in a \$5.07 per month charge, including Sales and Use Tax.

- 1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**
- 2 **A. Yes, it does.**

APPENDIX A

**STATEMENT OF EDUCATION AND EXPERIENCE
FOR
DAVID E. PETERSON**

Senior Consultant
Chesapeake Regulatory Consultants, Inc.
10351 Southern Maryland Blvd. Suite 202
Dunkirk, Maryland 20754-9500
410.286.0503

Email: davep@chesapeake.net

Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has over forty-two years of experience analyzing regulated public utility ratemaking and service matters including three years as a member of a state regulatory commission staff and thirty-nine years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. He has presented testimony in more than 170 proceedings before twenty state regulatory commissions, the Delaware House Energy Subcommittee, and the Federal Energy Regulatory Commission. Utilities addressed in Mr. Peterson's analyses and testimonies have included electric, natural gas, propane, telephone, water, steam and sewer companies.

EMPLOYMENT

1991 - Present	Senior Consultant Chesapeake Regulatory Consultants, Inc. Annapolis, Maryland
1980 - 1991	Consultant Hess & Lim, Inc. Greenbelt, Maryland
1977 - 1980	Rate Analyst South Dakota Public Utilities Commission Pierre, South Dakota
1977	Research Assistant Economics Department South Dakota State University Brookings, South Dakota

As a rate analyst and consultant, Mr. Peterson has served a diverse group of public utility consumers and governmental agencies on utility ratemaking and service-related issues. Clients have included state regulatory commissions and their staffs, consumer advocate agencies of state governments, federal agencies, municipalities, privately owned, municipally owned and cooperatively owned utilities, civic organizations, and industrial consumers.

EDUCATION

December 1983 Master of Business Administration
University of South Dakota
Vermillion, South Dakota

May 1977 Bachelor of Science Degree in Economics
South Dakota State University
Brookings, South Dakota

EXPERT TESTIMONY

Among the issues that Mr. Peterson has addressed in testimony are the appropriate test year, construction work in progress, cash working capital lead/lag studies, rate base, excess capacity, revenues, expenses, depreciation, income taxes, capital structure, rate of return, cost allocation, rate design, customer service charges, flexible rates, life-cycle analyses, cost tracking procedures, affiliate transactions, mergers, acquisitions and the consequences of industry restructuring. Mr. Peterson has presented testimony to the following regulatory bodies.

Alabama Public Service Commission
Arkansas Public Service Commission
California Public Utilities Commission
Colorado Public Utilities Commission
Connecticut Public Utilities Control Authority

Delaware Public Service Commission
Indiana Public Service Commission
Kansas State Corporation Commission
Maine Public Utilities Commission
Maryland Public Service Commission

Montana Public Service Commission
Nevada Public Service Commission
New Jersey Board of Public Utilities
New Mexico Public Service Commission
New York Dept. of Environmental Protection

New York Public Service Commission
Pennsylvania Public Utility Commission
South Dakota Public Utilities Commission
West Virginia Public Service Commission
Wyoming Public Service Commission

Delaware House of Representatives (Energy Subcommittee)
Federal Energy Regulatory Commission

In addition, Mr. Peterson has presented several utility training seminars, including the following:

Consolidated Tax Savings and Income Tax Normalization
Presented to Delaware Public Service Commission 2006

Public Utility Ratemaking Principles
Presented to Washington Utilities and Transportation Commission 2011

Electric Cost Allocation and Rate Design
Presented to Colorado Office of Consumer Counsel 2012

Public Utility Revenue Requirements
Presented to Delaware Public Service Commission 2012

Electric Cost Allocation and Rate Design
Presented to Delaware Public Service Commission 2013

SCHEDULES

ROCKLAND ELECTRIC COMPANY
Pro Forma Rate of Return - Board Staff Method

(A)	Residential (B)	Commerical & Industrial (C)	Municipal Lighting (D)	Private Lighting (E)	Primary (F)	Total (G)
Operating Income - RECO Method						
1. Under proposed rates	\$14,300,024	\$11,757,874	\$403,922	\$158,961	\$1,783,480	\$28,404,261
2. Under current rates	2,748,542	7,335,653	234,130	18,877	1,424,135	11,761,337
3. Change in operating income	\$11,551,482	\$4,422,221	\$169,792	\$140,084	\$359,345	\$16,642,924
Operating income - Board Staff Method						
4. Under current rates	\$4,840,638	\$5,834,774	\$215,897	\$22,106	\$847,921	\$11,761,336
5. Increase under RECO proposed rates	11,551,482	4,422,221	169,792	140,084	359,345	16,642,924
6. Pro form - Board Staff Method	\$16,392,120	\$10,256,995	\$385,689	\$162,190	\$1,207,266	\$28,404,260
7. Rate base - Board Staff Method	113,291,221	73,585,911	2,117,793	1,418,560	13,243,721	203,657,206
8. Pro Forma Rate of Return	14.47%	13.94%	18.21%	11.43%	9.12%	13.95%
9. Unitized Rate of Return	1.04	1.00	1.31	0.82	0.65	1.00
Tolerance band + 10%						15.35%
Tolerance band - 10%						12.56%

ROCKLAND ELECTRIC COMPANY
Rate Counsel's Proposed Spread of the Increase
Test Year Ended September 31, 2019
(\$000)

	Present Revenues	RECO Proposed Increase			Rate Counsel Increase	
		Amount	% of Total	% Increase	Amount	% Increase
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1. SC1 Res Svc & SC 5 Spc Ht	\$34,017.9	\$13,805.1	69.34936%	40.6%	\$4,034.1	11.9%
2. SC2 Sec Non Dmd Billed	397.2	108.8	0.54655%	27.4%	31.8	8.0%
3. SC2 Sec Dmd Billed	19,110.9	4,743.9	23.83079%	24.8%	1,386.2	7.3%
4. SC2 Space Heating	628.4	255.0	1.28098%	40.6%	74.5	11.9%
5. SC2 Primary	1,866.9	116.5	0.58523%	6.2%	34.0	1.8%
6. SC 3 Res TOD Heating	10.0	4.0	0.02009%	40.0%	1.2	12.0%
7. SC4 Public Street Ltg	884.0	217.0	1.09009%	24.5%	63.4	7.2%
8. SC6 POL - Dusk to Dawn	406.7	165.1	0.82937%	40.6%	48.2	11.9%
9. SC6 POL - Energy Only	116.7	28.9	0.14518%	24.8%	8.4	7.2%
10. SC7 Primary	3,485.8	366.2	1.83959%	10.5%	107.0	3.1%
11. SC7 High Voltage	196.7	17.0	0.08540%	8.6%	5.0	2.5%
12. SC7 Space Heating	194.8	79.1	0.39736%	40.6%	23.1	11.9%
13. Total Company	<u>\$61,316.0</u>	<u>\$19,906.6</u>	<u>100.00000%</u>	<u>32.5%</u>	<u>\$5,817.0</u>	<u>9.5%</u>

Sources:

Columns B,C,E: RECO Exhibit P-5, Schedule 4

Column F: Total Company increase from A. Crane