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Witness: Edward A. Davis and Kimberly R. Parsons
Request from: Public Utilities Regulatory Authority

Question:

(RATES) Application, Ex. CLP-Rates-1, Dir. Joint Test. Davis & Parsons, p. 8. Provide the following information:

a. Explain how the Company derived the portion of the distribution demand charges assigned volumetric rates for Rate 27A and Rate 30A. Show the calculations and provide the percentage of demand assigned to volumetric rates for each alternative rate class.
b. Provide an analysis of the customers that would benefit from the alternative rates and any recommendation or rationale to modify the current alternative rate design.
c. What are the percentages of customers utilizing Rates 27 and 30 using the alternative rate designs and what is the growth rate for each customer class.

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Response:

a. Prior to the establishment of interim rates 27A and 30A, the Company had implemented an approach to rate design for optional time-of-day rates to whereby, despite differences in metering and related costs, the same customer charge would be applied to the time-of-day alternative. This translated to applying the same customer charge of Rate 30 to its time-of-day equivalent, Rate 27 and solving simply for the demand charge. With the introduction of the interim alternative rates 27A and 30A, the Company set both the uniform customer charge and the previously established volumetric rate before solving the demand charge for each rate class.

   In the current filing, the Company similarly set the same proposed customer charge for Rates 27, 27A, 30 and 30A, and for the new, proposed revenue requirements for each rate class, designed demand and volumetric Distribution rates that provided equivalent, alternative rates between and among the four rate classes (e.g., keeping the same customer charges while providing time-of-day alternatives between 30 and 27 and 30A and 27A). As a basis for setting rates for alternatives, Rate 27A and Rate 30A, the Company then set the same demand charges for Rate 27 and Rate 30. After numerous iterative analyses and review of marginal and average unit volumetric costs (for demand related Distribution costs and residual facilities cost for each rate class) the Company elected to set the proposed volumetric rate for Rate 30A at the current level and solved for the proposed demand charge. For Rate 27A, the Company then set the same proposed demand charge rate as in

proposed Rate 30A, and solved the volumetric, time-differentiated rates to be equivalent to Rate 30A, using the current peak to off-peak price differential as in the current Rate 27A volumetric rate. For all of these rate designs, respective Rate Year billing units were applied in designing rates in this manner to meet targeted revenue requirements of each rate class. The detailed workpapers for these calculations are provided in Exhibit CLP-RATES-2.4, pages 13-18 (Rates 27 and 27A) and pages 22-27 (Rates 30 and 30A). For proposed Distribution demand and volumetric revenues, please see the following in this exhibit. For Rate 27A: page 18, columns H and N, line 19 vs. lines 27 and 39; for Rate 30A: page 27, columns E and N, line 18 vs. lines 26 and 37.

b. Customers who would benefit can be determined on the basis of bill comparisons. The Company conducts a semi-annual "most beneficial rate" analysis for customers on Rates 27/27A/30/30A. Any customer that would save more than $25 by switching from standard to alternate or vice versa are sent a letter letting them know that. Such analysis for potential customers and under proposed rates has not been prepared. Other customers who may benefit are those who may assess that the alternative rate inclusive of the volumetric charge are those who participate in net metering. The Company has not conducted an analysis for such customers, but suggests that a customer may perform such analysis based on their individual circumstances. Among changes that might be made to the proposed process are further assessing and setting volumetric rates closer to average marginal costs, and similarly evaluating and setting peak vs. off-peak volumetric rates for Rate 27A closer to the corresponding marginal cost differential rather than the current differential. Higher customer charges to obtain more class-specific cost-based rates for Rate 27 and 27A may provide the basis for more efficient pricing for the Distribution demand and volumetric rates. Bill impacts relative to any proposed changes would also need to be evaluated to help inform these or other changes.

c. Please refer to RRU-040, Attachment 1, for the requested information.