

Docket A.20-04-023  
Date October 14, 2020  
Exhibit \_\_\_\_\_  
Witness Stephens

Direct Testimony of  
**Robert R. Stephens**

On behalf of the  
**Energy Producers and Users Coalition**

October 14, 2020



**Direct Testimony of Robert R. Stephens**

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Robert R. Stephens. My business address is 16690 Swingley Ridge Road,  
3 Suite 140, Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and a Principal with the  
6 firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory  
7 consultants.

8 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
9 **EXPERIENCE.**

10 A This information is included in Appendix A to my testimony.

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

12 A I am testifying on behalf of the Energy Producers and Users Coalition (EPUC).  
13 EPUC is an *ad hoc* group representing the electric end user and customer  
14 generation interests of its members.<sup>1</sup>

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<sup>1</sup> EPUC represents the following companies in this proceeding: Aera Energy LLC; California Resources Corporation; Chevron U.S.A., Inc.; PBF Energy Inc.; and Phillips 66 Company.

1    **Q    WHAT IS THE SUBJECT OF YOUR DIRECT TESTIMONY?**

2    A    I will address Pacific Gas and Electric Company's (PG&E) revenue allocation  
3        and rate design proposal, as outlined in the Testimony of Daniel Pease,  
4        Chapter 9 of PG&E's application.

5                The fact that I do not address any other issues addressed by Mr. Pease  
6        or by any other PG&E witness should not be construed as agreement or  
7        concession with any other matter presented by PG&E.

8    **Q    PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

9    A    My testimony can be summarized as follows:

- 10       1. The purpose of this securitization is to cover wildfire-related costs. While  
11        such costs may be related to both the distribution and transmission systems,  
12        it is the distribution system for which the California Public Utilities  
13        Commission sets rates. Accordingly, it would be more appropriate to link  
14        the cost allocation and recovery more closely with the distribution costs.
- 15       2. PG&E's proposal to allocate the securitized costs to the customer classes  
16        based on energy usage is not just and reasonable ratemaking and should  
17        not be approved. These costs, but for securitization, could be allocated to  
18        customers based on distribution allocation factors. Accordingly, the basis of  
19        such allocation should be modified.
- 20       3. The costs should be allocated, and the Fixed Recovery Charges (FRC)  
21        should be determined, based on sound ratemaking principles, even if the  
22        cost may be offset in some or all of the years in which they are applicable  
23        through the Customer Credit.
- 24       4. I recommend that the FRC for each customer class be collected on the same  
25        basis as distribution costs are collected based on delivery rates, whether  
26        that is a ¢/kWh charge or a \$/kW charge.

1 **Revenue Allocation**

2 **Q HOW DOES PG&E PROPOSE TO ALLOCATE THE SECURITIZED COSTS**  
3 **TO THE CUSTOMER CLASSES?**

4 A As explained at page 9-2 of Mr. Pease's testimony, PG&E proposes to allocate  
5 the securitized costs "on an equal cent per kilowatthour (kWh) basis across all  
6 customer classes," meaning that "all customers that pay the FRC would pay the  
7 same rate per kWh." Mr. Pease rationalizes this proposal stating that this  
8 method of allocation and rate design is consistent with the approach used for  
9 both the Department of Water Resources (DWR) bond charge and the Energy  
10 Recovery Bonds issued in 2005 for PG&E.

11 He also suggests that an equal cent per kWh rate design may be  
12 beneficial from a rating agency perspective.

13 Mr. Pease goes on to explain at page 9-3 PG&E's intention that "all  
14 customers that are required to pay the FRC will also receive the benefit of the  
15 Customer Credit," which PG&E intends to use to fully offset the FRC charge.

16 As Mr. Pease explains:

17 Accordingly, in years where the Customer Credit revenue  
18 requirement and the FRC revenue requirement are equal, the  
19 Customer Credit rate and the FRC rate sum to zero and the net  
20 total rates and charges are unchanged for all customers as a  
21 result of FRC implementation.

22 Mr. Pease provides an estimate of the initial FRC rate at \$0.00541/kWh.

23 **Q DO YOU AGREE WITH PG&E'S PROPOSED ALLOCATION?**

24 A No. The purpose of this securitization is to cover wildfire-related costs. While  
25 such costs may be related to both the distribution and transmission systems, it

1 is the distribution system<sup>2</sup> for which the Commission sets rates. Accordingly, I  
2 think it would be more appropriate to link the cost allocation and recovery more  
3 closely with the distribution costs. Specifically, I recommend an allocation of  
4 the securitized costs that collects the costs from rate classes in proportion to  
5 their distribution costs, *i.e.*, based on the class distribution allocators from the  
6 most recently approved General Rate Case (GRC). This is similar to what  
7 Southern California Edison (SCE) proposed in its pending securitization  
8 application, Application (A.) 20-07-008. The costs that PG&E seeks to  
9 securitize for distribution infrastructure-related expenditures which, but for  
10 securitization, would be allocated to customers based on total distribution  
11 revenue allocation factors derived in a GRC, should be collected on the same  
12 basis. I see no reason to change the basis of such allocation simply because  
13 the costs are being securitized.

14 **Q DOES IT MATTER HOW THE COSTS ARE ALLOCATED AND CHARGED**  
15 **TO PG&E CUSTOMERS, GIVEN THE EXPECTATION THAT THE**  
16 **CUSTOMER CREDIT REVENUE WILL OFFSET THE FRC, AS MR. PEASE**  
17 **CLAIMS?**

18 **A** The costs should be allocated, and the FRCs should be determined, based on  
19 sound ratemaking principles, even if the cost may be offset in some or all of the  
20 years in which they are applicable. There are three primary reasons why this is  
21 the case.

22 First, rates should be charged based on cost of service to the maximum  
23 intent feasible. The fact that there is an offsetting credit, even in years where

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<sup>2</sup> Including high voltage distribution.

1 one exists, should not detract from this bedrock ratemaking principle. Artificially  
2 skewing the charge structure has the potential to send customers the wrong  
3 pricing signals and could potentially lead to inefficient usage decisions.  
4 Consequently, it is fitting and proper to utilize sound ratemaking concepts even  
5 in this case.

6 Second, there is no guarantee that there will be a fully offsetting  
7 Customer Credit in each year. The possibility of a shortfall is hinted at in  
8 Mr. Pease's testimony, both in the statement at page 9-3,<sup>3</sup> quoted above, and  
9 elaborated as follows:

10 As a general matter, the total rates for most customer classes are  
11 developed by adding the rates for each component together to  
12 derive the total applicable rate, so if the FRC rate ever exceeds  
13 the Customer Credit rate (which, as described in Chapter 6,  
14 Customer Credit Mechanism and Investment Returns (D.  
15 Thomason; G. Allen), is not expected), total net rates would  
16 increase by the difference.

Thus, there is a possibility that customers will realize a net charge and such  
charge should be based on cost causation.

17 Third, there is no guarantee that this is the only securitization request  
18 that PG&E may make. If, in subsequent requests, there is no provision for an  
19 offsetting Customer Credit, then the impact of the securitization costs may be  
20 fully paid through the FRC, without a netting. It would be unwise to disregard  
21 cost causation factors in this case when they may be fully relevant in future  
22 cases. A better approach is to establish the FRCs in this case based on sound  
23 cost of service principles.

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<sup>3</sup> "Accordingly, in years where the Customer Credit revenue requirement and the FRC revenue requirement are equal..." (emphasis added).

1 **Q IS THERE A SOUND COST OF SERVICE PRINCIPLE OR BASIS FOR YOUR**  
2 **PROPOSAL?**

3 A Yes. It is a bedrock principle that utility rates should reasonably reflect the cost  
4 of providing services, and particularly services to specific customer classes.  
5 Consequently, the cost of distribution rates should reasonably reflect the cost of  
6 providing distribution service, whether or not such costs are securitized. To the  
7 degree that the securitization funds support distribution system costs or are  
8 otherwise associated with wildfire mitigation costs that are being securitized,  
9 they are not caused by accumulative energy flow. Likewise, the enhancements  
10 are not caused by the demands of customers who take service at high voltages.  
11 Consequently, since such aspects do not cause these costs to be incurred, the  
12 distribution-related costs should be allocated using the distribution allocator, as  
13 approved in PG&E's GRC.

14 If this were not the case, costs associated with the distribution system  
15 could be charged disproportionately to customer classes, including to  
16 customers who use very little or none of the distribution system. Customers  
17 who take service at high voltage use virtually none of the distribution assets on  
18 the PG&E system. This is true whether or not the customers happen to be  
19 located in high fire risk areas. Consequently, it is simply unjust and  
20 unreasonable to charge such customers for the distribution system-related  
21 costs, whether or not the costs are securitized.

22 The quintessential guide for allocating utility costs is provided by the  
23 National Association of Regulatory Utility Commissioners, namely the *Electric*

1        *Utility Cost Allocation Manual* (NARUC Manual).<sup>4</sup> Chapter 6 of this industry  
2        standard publication addresses the proper classification and allocation of  
3        distribution plant and distribution expenses as being either demand-related or  
4        customer-related, but not energy-related. Even though there are alternative  
5        approaches for classifying and allocating these costs described in Chapter 6 of  
6        the NARUC Manual, there is no discussion whatsoever supporting the allocation  
7        of them on an energy basis. In fact, the only significant mention of allocation of  
8        distribution plant on an energy basis is a rebuff of the concept.<sup>5</sup>

9                Distribution costs fall into the traditional FERC Uniform System of  
10        Accounts, numbers 360-373. For example, poles, towers, and fixtures are  
11        included in FERC Account 364, while overhead conductors and devices are  
12        included in Account 365. These accounts are clearly allocated on customer  
13        and/or demand allocators. There simply is no accepted cost of service basis for  
14        allocating distribution costs on energy consumed.

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<sup>4</sup>        *Electric Utility Cost Allocation Manual*, January 19, 1992, published by the National Association of Regulatory Utility Commissioners.

<sup>5</sup>        “Because there is no energy component of distribution related costs, we need to consider only the demand and customer components.” NARUC Manual, p. 89.



1    **Q    HOW DO YOU RESPOND TO MR. PEASE’S STATEMENT THAT PG&E’S**  
2    **METHOD OF ALLOCATION AND RATE DESIGN IS CONSISTENT WITH**  
3    **THE APPROACH USED FOR BOTH THE DWR BOND CHARGE AND THE**  
4    **ENERGY RECOVERY BONDS ISSUED IN 2005 FOR PG&E?**

5    A    The DWR bond charge is markedly different from the securitized costs here and  
6    that allocation was mandated by law. Unlike the DWR bond charge, the  
7    securitized costs are associated with distribution costs, not generation costs,  
8    and are easily attributable to, and distinguished among, the rate classes.

9            In regard to the “Energy Recovery Bonds issued in 2005,”<sup>6</sup> Mr. Pease  
10   did not indicate how these bonds are related to wildfire costs generally or  
11   distribution costs specifically. The Energy Recovery Bonds referenced were  
12   issued to “refinance PG&E’s bankruptcy Regulatory Asset”<sup>7</sup> and are clearly  
13   distinguishable from the instant securitized costs. Thus, the 2005 Energy  
14   Recovery bonds are not persuasive for determinations in this matter. Moreover,  
15   the 2005 Energy Recovery Bonds were established through settlement among  
16   parties<sup>8</sup> and, therefore, have little if any precedential value for the issues present  
17   in this case.

18   **Q    HOW DO YOU RESPOND TO MR. PEASE’S CLAIM AT PAGE 9-2 THAT AN**  
19   **EQUAL CENT PER KWH RATE DESIGN FOR THE FRC MAY BE**  
20   **BENEFICIAL FROM A RATING AGENCY PERSPECTIVE?**

21   A    My colleague, Michael Gorman, will address the substance of the claim  
22   regarding rating agencies’ perspective, as addressed in the Testimony of PG&E  
23   witness Steffen Lunde. I would simply point out that, from a rate design

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6    PG&E Updated Direct Testimony at 9-2.

7    D.04-07-032 at 2.

8    *Id.* at 3.

1 perspective, if PG&E's expectation is realized, *i.e.*, that the Customer Credit fully  
2 offsets the FRC, then I do not see why a rating agency would distinguish  
3 between an equal cent per kWh rate design or any other rate design.

#### 4 **Rate Design**

5 **Q HOW WOULD YOU PROPOSE TO ESTABLISH THE FRC FOR EACH**  
6 **CUSTOMER GROUP?**

7 A I would propose that it be derived by multiplying the total revenue requirement  
8 associated with the securitization by each customer class's allocation factor, as  
9 determined in the most recent GRC, and then dividing the class-level allocated  
10 revenues by the projected kWh sales or kW demands of the respective  
11 customer classes. For customer classes that pay for distribution service on a  
12 per kWh basis, the FRC should also be applied on a per kWh basis. However,  
13 for the classes that pay for distribution service through base rates that are  
14 charged largely or exclusively on a demand basis, *i.e.*, a \$/kW charge, it would  
15 be more appropriate to set the FRCs for such classes on a similar basis. That  
16 is, customer classes that have \$/kW charges for distribution service should also  
17 have \$/kW FRCs. This would be consistent with just and reasonable  
18 ratemaking, as it would align the FRC distribution cost recovery with the  
19 standard distribution cost recovery. This would avoid potential intra-class  
20 subsidies.

1    **Q**    **IS THERE ANY COMPELLING REASON WHY THE FRCs FOR CUSTOMER**  
2           **CLASSES THAT PAY DEMAND CHARGES FOR DISTRIBUTION SERVICE**  
3           **CANNOT BE EXPRESSED ON A \$/KW BASIS?**

4    **A**    None of which I am aware.

5    **Q**    **CAN YOU PROVIDE ILLUSTRATIVE RATES THAT WOULD RESULT FROM**  
6           **YOUR PROPOSED RATE DESIGN APPROACH?**

7    **A**    Unfortunately, I do not have the information necessary to provide such  
8           illustrated rates. However, it should not be difficult for PG&E to provide such  
9           information, using ¢/kWh charges for customer classes who pay for distribution  
10          service on an energy basis and \$/kW charges for the customer classes who pay  
11          for distribution service on a demand basis should the Commission so direct.

12   **Q**    **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13   **A**    Yes, it does.

**Qualifications of Robert R. Stephens**

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Robert R. Stephens. My business address is 16690 Swingley Ridge Road,  
3 Suite 140, Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and a Principal with the  
6 firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory  
7 consultants.

8 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
9 **EXPERIENCE.**

10 A I graduated from Southern Illinois University at Carbondale in 1984 with a  
11 Bachelor of Science degree in Engineering. During college, I was employed by  
12 Central Illinois Public Service Company in the Gas Department. Upon  
13 graduation, I accepted a position as a Mechanical Engineer at the Illinois  
14 Department of Energy and Natural Resources. In the summer of 1986, I  
15 accepted a position as Energy Planner with City Water, Light and Power, a  
16 municipal electric and water utility in Springfield, Illinois. My duties centered on  
17 integrated resource planning and the design and administration of load  
18 management programs.

19 From July 1989 to June 1994, I was employed as a Senior Economic  
20 Analyst in the Planning and Operations Department of the Staff of the Illinois  
21 Commerce Commission. In this position, I reviewed utility filings and prepared

1 various reports and testimony for use by the Commission. From June 1994 to  
2 August 1997, I worked as an advisor to one of the Commissioners. In this role,  
3 I provided technical and policy analyses on a broad spectrum of issues related  
4 to the electric, gas, telecommunications, and water utility industries.

5 In May 1996, I graduated from the University of Illinois at Springfield with  
6 a Master of Business Administration degree.

7 In August 1997, I joined Brubaker & Associates, Inc. as a Consultant.  
8 Since that time, I have participated in the analysis of various utility rate and  
9 restructuring matters in several states and the evaluation of power supply  
10 proposals for clients. Over time, I advanced to my current position.

11 The firm of Brubaker & Associates, Inc. provides consulting services in  
12 the field of energy procurement and public utility regulation to many clients,  
13 including large industrial and institutional customers, some utilities, and on  
14 occasion, state regulatory agencies. More specifically, we provide analysis of  
15 energy procurement options based on consideration of prices and reliability as  
16 related to the needs of the client; prepare rate, feasibility, economic and cost of  
17 service studies relating to energy and utility services; prepare depreciation and  
18 feasibility studies relating to utility service; assist in contract negotiations for  
19 utility services; and provide technical support to legislative activities.

20 In addition to our main office in St. Louis, the firm also has branch offices  
21 in Phoenix, Arizona and Corpus Christi, Texas.