



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DE 16-383

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

**DIRECT TESTIMONY
OF
HEATHER M. TEBBETTS
AND
JAMES D. SIMPSON**

April 29, 2016

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1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. Ms. Tebbetts, please state your name, occupation and business address.**

3 **A.** My name is Heather Tebbetts and I am employed by Liberty Utilities Service Corp.
4 (“Liberty”) as Utility Analyst; Rates & Regulatory. My business address is 15 Buttrick
5 Road, Londonderry NH 03053. I am responsible for providing rate-related services for
6 Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth”) and Liberty Utilities
7 (Granite State Electric) Corp. (“Granite State” or “The Company”).

8 **Q. Please describe your educational background and training.**

9 **A.** I graduated from Franklin Pierce University in 2004 with a Bachelor of Science degree in
10 Finance. I received a Master’s of Business Administration degree from Southern New
11 Hampshire University in 2007.

12 **Q. Please describe your professional background.**

13 **A.** In October of 2014, I joined Liberty as a Utility Analyst. Prior to my employment at
14 Liberty, I was employed by Public Service Company of New Hampshire (“PSNH”) as a
15 Senior Analyst in NH Revenue Requirements department from 2010 to 2014. Prior to
16 my position in NH Revenue Requirements, I was a Staff Accountant in PSNH’s Property
17 Tax group from 2007 to 2010, and a Customer Service Representative III in PSNH’s
18 Customer Service Department from 2004 to 2007.

19 **Q. Ms. Tebbetts, have you previously testified before the Commission?**

20 **A.** Yes, I have testified on numerous occasions before the Commission.

1 **Q. Mr. Simpson, please state your name, address and position.**

2 **A.** My name is James D. Simpson. I am a Senior Vice President with Concentric Energy
3 Advisors, 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.
4 My professional qualifications and experience have been provided in Attachment
5 RATES-1.

6 **Q. Mr. Simpson, have you testified previously before the New Hampshire Public Utilities
7 Commission ("PUC" or the "Commission")?**

8 **A.** Yes, I testified on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp. in
9 EnergyNorth's 2014 rate case, Docket No. DG 14-180. I also testified on behalf of
10 Northern Utilities ("Northern") in its 2013 rate case, Docket No. DG 13-086, in support
11 of a proposed alternative rate plan, and I also testified on behalf of Northern in several
12 Cost of Gas proceedings.¹ In addition, while I was employed by Bay State Gas
13 Company, I testified before the Commission on behalf of Northern Utilities in many
14 proceedings on a variety of issues related to rates, growth-related projects, and other
15 economic and regulatory matters.

16 **Q. What is the purpose of this testimony?**

17 **A.** The purpose of this testimony is to (a) explain the development of test year billing
18 determinants and base revenues for rate design, and (b) present and support the

¹ (a) 2009 Summer Cost of Gas ("COG") proceeding, Docket No. DG 09-052; (b) 2009 / 2010 Winter COG proceeding, Docket No. DG 09-167; (c) 2010 Summer COG proceeding, Docket No. DG 10-050, (d) 2010 / 2011 Winter COG proceeding, Docket No. DG 10-250; and (e) 2011 Summer COG proceeding, Docket No. DG 11-045.

1 calculations and analysis related to the Company's proposed permanent and step
2 adjustment rates, including typical bill impact analyses.

3 **Q. Have you also prepared rates and bill impact analyses related to the Company's**
4 **proposed temporary rates?**

5 **A.** Yes I have. The details of the calculation of the revenue deficiency for temporary rates
6 are found in the Mullen/Gorman temporary rates testimony (Attachment SEM/HSG-
7 TEMP-1). The resulting rates were determined by increasing all distribution rates and
8 charges by an equal percentage. Calculations and analyses related to the temporary rates
9 and bill impacts are provided in Attachment SEM/HSG-TEMP-2 to the Mullen /Gorman
10 temporary rate testimony.

11 **II. REVENUES**

12 **A. Test Year Revenue Proof**

13 **Q. Please explain the purpose of the test year distribution revenue² proof.**

14 **A.** The purpose of the test year distribution revenue proof is to verify that the billing
15 determinants that I am using to design rates are accurate and suitable for use in
16 developing proposed rates and revenues in this proceeding. For this purpose, we have
17 prepared Attachment RATES-2, which shows (1) test year billing determinants, (2) test
18 year normalized revenues, (3) test year revenues calculated at the monthly effective rates
19 and (4) the rates in effect during the test year.

² As used in this testimony, distribution revenues includes revenues from the Company's distribution charges, Business Profits Tax charge, and Energy Service Cost Reclassification Adjustment charges.

1 **Q. Please describe the analysis of test year normalized revenues that you prepared.**

2 **A.** I prepared Attachment RATES-2, pages 3 – 5 to show test year revenues calculated by
3 applying (1) rates that are the sum of the Company’s currently effective distribution
4 rates³, Business Profits Tax rate and Energy Service Cost Reclassification Adjustment
5 rate to (2) the Company’s test year billing determinants. The Company’s test year billing
6 determinants are provided in Attachment RATES-2, pages 1 and 2, and the currently
7 effective rates are provided in Attachment RATES-2, page 11. As shown on Attachment
8 RATES-2, Page 5, Line 128, the calculated test year normalized distribution revenues are
9 \$2,115, or 0.006%, less than Company normalized test year distribution revenues.

10 **Q. Please describe the analysis that you prepared of test year revenues calculated at the**
11 **monthly effective rates.**

12 **A.** I prepared Attachment RATES-2, pages 6 – 8 to show test year revenues calculated by
13 applying (1) rates that are the sum of the Company’s distribution rates, Business Profits
14 Tax charges and Energy Service Cost Reclassification Adjustment rates that were in
15 effect in each month of the test year, and (2) the Company’s test year billing
16 determinants. The rates that were in effect in each month of the test year are provided in
17 Attachment RATES-2, pages 9 - 11. As shown on Attachment RATES-2, Page 8, Line
18 128, the calculated test year normalized distribution revenues are \$119,800, or 0.342%
19 greater than Company normalized test year distribution revenues. This \$119,800
20 difference between calculated distribution revenues and the Company’s distribution

³ The Company’s currently effective rates are included in the Company’s tariffs, NHPUC No. 19 – ELECTRICITY, Fifth Revised Page 68, Effective November 1, 2015.

1 revenues is primarily caused by the proration of the base distribution rates that became
2 effective May 1, 2015.⁴

3 **B. Pro Forma Base Revenue Adjustment**

4 **Q. Why has the Company proposed a pro forma base rate revenue adjustment?**

5 **A.** On May 1, 2015, the Company implemented new base rates for the recovery of approved
6 costs under the Company's Reliability Enhancement Program in accordance with Order
7 No. 25,785 issued in Docket No. DE 15-087. Since the test year books reflect these costs
8 while the test year revenues do not, it is necessary to include a pro forma adjustment to
9 reflect the revenue difference between current rates and test year rates. This adjustment
10 will increase test year revenue to the level in effect on May 1, 2015.

11 **Q. Please describe how the Company calculated the pro forma base rate revenue**
12 **adjustment.**

13 **A.** The pro forma base rate revenue adjustment, an increase of \$444,447, was calculated by
14 subtracting the difference between the test year Company distribution revenue from the
15 revenue that would have been generated based on the rates approved in Docket No. DE
16 15-087. This calculation is summarized in the Table 1 below.

⁴ Specifically, the Company's May 2015 revenues reflect that customers' May bills were calculated by applying approved rates for April and May 1 2015 on a prorata basis based on meter read dates. The distribution revenues shown in Attachment RATES-2, Pages 6 – 8 for May, 2015 were calculated by applying the rates that became effective May 1 to customers' May 2015 bills.

1

Table 1

Test year normalized revenues	\$35,479,015	Attachment RATES-2, Page 5, Line 126
Test Year Company revenues	\$35,034,568	Attachment RATES-2, Page 8, Line 127
Revenue Adjustment	\$444,447	

2

3 **III. RATE DESIGN**

4 **A. Introduction**

5 **Q. Please describe the principles that were followed in designing the Company's**
6 **proposed rates.**

7 **A.** The proposed rates represent a balancing of the principles of appropriate rate design
8 which include efficiency, simplicity, continuity of rates, fairness between rate classes,
9 and corporate earnings stability.

10 **Q. Please explain your understanding of these principles.**

11 **A.** An efficient rate structure promotes economically justified use of the Company's sales
12 and distribution services and discourages wasteful use. As explained in the following
13 section of this testimony, the results of the Marginal Cost Study (Attachments JDS/MCS-
14 9 and JDS/MCS-10) were used to develop the rate design.

15 Rate design simplicity is achieved if customers understand the basis for the monthly bills
16 that they receive, especially the level of rates and the rate structure. Rate continuity
17 requires that changes to the rate structure should not be abrupt and unexpected; gradual
18 changes to the rate structure should allow customers to modify their usage patterns. A

1 rate design is fair if no customer class pays more than the costs to serve that class. A rate
2 design provides for earnings stability if the Company has a reasonable opportunity to
3 earn its allowed rate of return during the time that the rates are in effect.

4 **B. Permanent Rates**

5 **1. Class Revenue Requirements**

6 **Q. What is the revenue target that the Company's proposed permanent base rates are**
7 **designed to recover?**

8 **A.** Base rates were designed to recover a revenue target of \$40,807,598. This amount is the
9 sum of the \$35,479,015 test year normalized revenues calculated in Attachment RATES-
10 2 plus the revenue deficiency of \$5,328,583 discussed in the testimony of Mr. Mullen and
11 Mr. Gorman.

12 **Q. How did you assign the total Base Revenue Requirement to each of the Company's**
13 **rate classes?**

14 **A.** Class revenue targets were based on the results of the marginal cost of service study
15 ("MCS") making adjustments using the Equi-Proportional Method ("EPM") to recover
16 the allowed revenue requirements. As shown in Attachment JDS/MCS-10, the total
17 delivery service marginal cost is \$35,406,670.⁵ Because the total delivery service
18 marginal cost does not equal the Company's revenue requirement, the delivery service
19 marginal cost for each rate class was adjusted on a pro-rata basis using the EPM.
20 Because the EPM method adjusts all marginal costs by a uniform percentage, the

⁵ Excluding the calculated Rate M Outdoor Lighting class marginal cost.

1 marginal cost based price signals are preserved. In this context, the marginal cost price
2 signals include both the overall level of the revenue target for each rate class, and the
3 specific customer charges and variable (per kWh and per kW) rates charged to the
4 customers in each rate class. As explained in the following section, the equi-
5 proportionally-adjusted delivery service marginal costs, by rate class, were further
6 adjusted to reflect rate design considerations of continuity of rates and fairness between
7 rate classes.

8 **Q. Have you prepared a schedule that shows how you determined the base revenue target**
9 **and the proposed rates for each class?**

10 **A.** Yes. Attachment RATES-3 shows how the class base revenue targets were determined,
11 and the process that was used to determine the final proposed base rates. Attachment
12 RATES-3 consists of the following sections that were included to assist in the rate design
13 process:

- 14 - Section A shows Proforma test year normalized calendar month revenue
15 detail;
- 16 - Section B shows Billing Determinant detail;
- 17 - Section C shows the development of class revenue targets; and
- 18 - Section D shows the development of the proposed rates.

19 Columns A through I show the data and analysis by rate class and total Company. A
20 detailed line-by-line explanation of the calculations is provided in Column J.

1 **Q. Please explain how you determined class revenue targets.**

2 **A.** The following process was used to determine class revenue targets:

- 3 a. “Current” total class revenues were calculated;
- 4 b. “Proposed” total class marginal costs were calculated;
- 5 c. Class impacts were assessed by comparing Current revenues to Proposed revenues;
- 6 and a rate continuity cap was established to limit the amount of the increase
- 7 assigned to any one class;
- 8 d. Revenue shortfalls that resulted from the class impact cap were assigned to all other
- 9 classes; and
- 10 e. The final base revenue targets, by class, including equi-proportionally-adjusted
- 11 class marginal costs, class impact caps, and assignments of revenue shortfalls were
- 12 determined.

13 **Q. Please explain Steps (a) and (b) in the class base revenue target process.**

14 **A.** Attachment RATES-3, Section C, shows total proforma revenues by rate class at current

15 rates. Section C of Attachment RATES-3 also shows that total class targets were

16 calculated by applying an Equi-proportional Adjustment Factor (Attachment RATES-3,

17 Line 44) to the Total Class Delivery Service Marginal Costs, excluding Rate M

18 (Attachment RATES-3, Line 35).

1 **Q. Please explain Step (c) in the class base revenue target process, which you have**
2 **described as testing class impacts by comparing current revenues to proposed**
3 **revenues.**

4 **A.** First, we calculated the difference by class between the proforma base revenues and the
5 proposed revenues resulting from steps (a) and (b); this difference is the “Total Potential
6 increase in Base Revenues” that is shown on Line 55 of Attachment RATES-3. We then
7 calculated the percent change, by class, that the Total Potential Increase represents,
8 relative to the current total class revenues that were calculated in Step (a). To maintain
9 rate continuity, the percent increase in base revenues was limited to 18.02 percent, which
10 is 120 percent of the total Company increase, 15.02 percent, which is shown in Column J,
11 Line 41 Attachment RATES-3. We determined that 120 percent was a reasonable cap
12 that would promote efficiency by ensuring that the final rates to most classes would
13 represent the cost to serve that class, and that the limited level cost subsidization created
14 by the cap would not unduly distort rate efficiencies.

15 **Q. Please explain Step (d) in the process that you used to determine class base revenue**
16 **targets.**

17 **A.** As a result of the constraint that no class could receive an increase that exceeded 120% of
18 the overall Company increase, the sum of the class revenue targets after Step (c) was less
19 than the delivery service revenue requirement by \$265,672 (Attachment RATES-3, Line
20 64). This revenue shortfall was allocated to all classes that were below the cap by
21 apportioning the shortfall to each of these classes in proportion to their relative
22 contribution to total company test year revenues.

1 **Q. Please explain Step (e) in the class base revenue target process.**

2 **A.** As the final step, the final base revenue targets for each class were determined by
3 summing the class revenue requirements plus adjustments calculated in steps (a) through
4 (d).

5 **2. Rate Design for Permanent Rates**

6 **Q. Please explain how you designed the Company's proposed base rates.**

7 **A.** The following process was used to design the Company's proposed base rates:

- 8 a. The appropriate level of customer charges and demand charges (for Rates G-1 and
9 G-2) were determined based on standard rate design considerations; and
10 b. The various energy charges (per kWh) for all rate classes were determined based
11 on rate continuity, rate equity, and marginal cost considerations.

12 **Q. Please explain Step (a) in the rate design process, determining the appropriate level
13 of customer charges.**

14 **A.** To determine the appropriate level of customer charges for each class, we considered:

15 (1) the marginal customer costs resulting from the marginal cost study; (2) rate
16 continuity; (3) rate simplicity, and (4) customer impacts. Based on these considerations
17 we:

- 18 - Increased the Rate D, D-10, G-3, T, and V customer charges to \$14.50 per
19 month; and

- 1 - Increased the General Service Rate G-1 and G-2 customer charges by the
2 Company's overall proposed percent increase.

3 Rate D, D-10, G-3, T, and V customer charges were increased to \$14.50 to bring these
4 customer charges more in line with the unit marginal costs to these classes. Also, the
5 customer charges to these classes were set at a uniform rate, \$14.50 per month, because
6 the customer-related costs to serve these classes are very similar. Attachment RATES-3,
7 Line 84, demonstrates that the proposed customer charges for these classes are still
8 significantly less than the unit marginal customer costs. Although Attachment RATES-3,
9 Line 84, also indicates that the proposed Rate G-1 and G-2 class customer charges exceed
10 the marginal unit customer costs, the customer charges for these rate classes were
11 increased by the overall proposed increase in permanent rates, based on rate continuity
12 considerations. Specifically, if we had not increased the customer charges for these
13 classes, large customers in these classes would experience disproportionately large
14 increases, relative to smaller customers.

15 **Q. Please explain how you determined the appropriate level of demand charges.**

16 **A.** The rate structures for Rates G-1 and G-2 include the following demand-related charges:
17 (a) demand charges for the maximum peak period kW demand, measured in accordance
18 with tariff terms and provisions; (b) High Voltage Delivery credit per kW where service
19 is metered at the Company's supply line voltage; (c) Optional Demand Surcharge, which
20 is calculated as 20% of monthly demand and energy charges; and (d) High Voltage
21 Metering Adjustment, which a discount of 1% on monthly charges.

1 The Rates G-1 and G-2 demand charges and the High Voltage Delivery Credits were
2 increased by the proposed increase in permanent rates for that class, as shown on Line 98,
3 based on rate continuity considerations.

4 **Q. Please explain how you determined the energy-related charges (per kWh) for all rate**
5 **classes.**

6 **A.** First, we determined the revenues to be recovered from the energy-related rates by
7 subtracting the customer charge revenues and the demand-related revenues at proposed
8 rates from each class's revenue target. These remaining revenues are shown on
9 Attachment RATES-3, Line 106.

10 As a preliminary step to calculating the energy-related rates, we developed rates for the
11 Company's controlled water heating services. These controlled water heating rates are
12 available to existing Rate D and Rate T customers for separately-metered service to
13 electric water heaters (and other limited equipment) for either 8 hours per day (16 Hour
14 Control service) or 18 hours per day (6 Hour Control Service). The controlled rates are
15 either a fixed credit per month⁶ or a rate for the controlled usage that is lower than the
16 energy charges for standard service to Rate D and T customers. Because the Company
17 does not have the necessary equipment to control these services, there is no economic
18 support for providing credits or discounted rates. However, based on considerations of
19 rate continuity and customer impact, the Company is proposing to reduce the credits and
20 rate discounts in this proceeding by 50 percent, and to eliminate the credits and rate

⁶ The current Interruptible Control credits are \$6.91 per month for the 6 hour control and \$9.88 per month for the 16 hour control.

1 discounts in the Company's next base rate case. The calculations for the Rate D and T
2 controlled services are shown in Attachment RATES-3, Lines 133 through 142, and the
3 remaining revenues to be recovered through all other energy-related charges are shown
4 on Line 143.

5 For Rate D, we eliminated the separate, lower rate for the first 250 kWh of usage per
6 month. This provision is a legacy from the 1980s when utilities in New Hampshire
7 implemented lifeline rates for low usage through a lower cost block for the first 250 kWh
8 of consumption per month. The theory at the time of implementation of the rate design
9 was that low income customers used less electricity and that there should be a lower price
10 for essential usage. The Company is proposing to eliminate this rate design and to
11 replace it with a flat energy rate for all kilowatt-hours under Rate D. Such a change is
12 consistent with the tariffs of the other New Hampshire electric distribution companies.

13 **Q. Did the Company consider the potential impact on low-income customers of**
14 **eliminating the lifeline rate design?**

15 **A.** Yes. The Company currently offers discounted rates to low income customers through
16 the Electric Assistance Program, which did not exist at the time that the existing rate
17 design was implemented. Under the Electric Assistance Program, customers receive a
18 discount based on income for their first 750 kWh of usage. Therefore, the increase to the
19 first 250 kWh will be somewhat mitigated by the discount the customer receives. For
20 higher usage low-income customers, this change may be a net benefit because the excess
21 kWh consumed over 250 each month is currently well over 1.5¢ per kWh higher than the

1 charge for the first 250 kWh used. Flattening the design of the energy charges will
2 reduce the rate for consumption in excess of 250 kWh per month.

3 **Q. Please continue your discussion of how you determined energy-related charges.**

4 **A.** The percent increase in energy-related rates, by class, is calculated on Line 144, and the
5 proposed energy-related rates are calculated by applying that percent increase to each of
6 the current energy-related rates. The proposed rates are shown on Lines 146 through 151.

7 **Q. Please identify where the final proposed rates are shown.**

8 **A.** The proposed customer charges are provided on Attachment RATES-3, Line 83. The
9 proposed demand charges are shown on Attachment RATES-3, Lines 100 – 103. The
10 proposed energy-related charges are shown on Attachment RATES-3, Lines 146 – 151.
11 The proposed Rate M charges per luminaire and pole are provided in Attachment
12 RATES-4.

13 **3. Revenue Proof for Proposed Permanent Rates**

14 **Q. Has the Company prepared a proof of the revenues that the proposed rates produce?**

15 **A.** Yes, we have calculated the revenues that the proposed rates would produce, on Test
16 Year proforma Billing Determinants. The calculations, which are presented in
17 Attachment RATES-3, Lines 153 to 173, show that the proposed base rates produce
18 revenues of \$40,806,010, which is within -\$1,588 of the revenue requirement of
19 \$40,807,598.

1 **4. Bill Impact Analysis for Proposed Permanent Rates**

2 **Q. Have you prepared Bill Impact analyses?**

3 **A.** Yes, we have prepared Attachment RATES-5 to show annual bill impact analyses by
4 class for an appropriate range of annual usage levels. These analyses demonstrate the
5 combined impact of the changed that are being proposed in this proceeding.

6 **Q. Please explain the bill impact calculations in more detail.**

7 **A.** For each rate class, we calculated monthly bills at current rates, which are shown in
8 Attachment RATES-6, and at proposed rates. For all rate classes except Rate D, we used
9 12 months of monthly data for each customer to calculate annual bills. For Rate D, we
10 calculated average customer billing determinants for twenty groups of customers; the
11 groups were determined by annual energy consumption, and the annual energy limits for
12 each group were determined so that each group would have an equal number of
13 customers. To calculate the bills at current rates, we used: (a) the currently effective
14 base rates; (b) the current energy service rate; and (c) the current cost tracking
15 mechanism rates, all as of April, 2016.⁷⁸ To calculate monthly bills at proposed rates, we
16 used (a) the proposed base rates, (b) the current energy service rate, and (c) the current
17 cost tracking mechanism rates.

⁷ These cost tracking mechanisms include the following: REP/VMP; Transmission Charge; Stranded Cost Charge; Storm Recovery; System Benefits Charge; and Electricity Consumption tax.

⁸ Bills at current rates also included Business Profits Tax and Energy Service Cost Reclassification adjustments. These adjustments are being included in the Company's proposed base rates.

1 **C. Step Adjustment Rates**

2 **Q. Have you also prepared rates and bill impact analyses related to the Company's**
3 **proposed Step Adjustment rates?**

4 **A.** Yes we have. The calculation of the step adjustment revenue requirement is found in
5 Attachment SEM/HSG-3 of the Mullen/Gorman permanent rates testimony. Rate design
6 for the step adjustment was achieved by applying an equal percentage increase to all rates
7 and charges resulting from the permanent rate design. The step adjustment rate design
8 calculations are provided in Attachment RATES-7, and the bill impact analyses are
9 provided in Attachment RATES-8.

10 **Q. In addition to the annual bill impact, have you also prepared a monthly bill impact**
11 **analysis for average residential usage?**

12 **A.** Yes, we have. Attachment RATES-9 shows a comparison of a 650 kWh monthly
13 residential bill at rates in effect in April 2016 to the permanent rates being proposed. It
14 also shows an analysis comparing the average residential monthly bill under the proposed
15 permanent rate level and the monthly bill under the permanent rate level plus the step
16 increase. Finally, it shows a comparison of the average monthly bill under the rate level
17 in effect in April 2016 to the monthly bill including both the permanent and step
18 increases. The bill impacts are summarized in the Table 2below:

1

Table 2

<u>Total Bill Impact - Residential Customer (650 kWh)</u>			
Current	Permanent	Step Increase	
Rates	Rates	Rates	
\$123.62	\$130.90	\$133.65	
		<u>\$ Increase</u>	<u>% Increase</u>
	Permanent vs. Current	\$7.28	5.89%
	Step Increase vs. Permanent	\$2.75	2.10%
	Step Increase vs. Current	\$10.03	8.11%

2

3 **IV. TARIFF CHANGES**

4 **Q. Are you proposing any changes to the Company’s tariff?**

5 **A.** Yes, we are. Those changes are described in the testimony of Heather M. Tebbetts.

6 **Q. Is the Company proposing an LED rate design?**

7 **A.** Yes. The Company has chosen a range of LED lighting to offer to customers. The rate
8 design is provided in Rates-10.

9 **Q. Does this conclude your testimony?**

10 **A.** Yes, it does.