

**BEFORE THE WYOMING PUBLIC SERVICE COMMISSION**

IN THE MATTER OF CHEYENNE LIGHT, )  
FUEL AND POWER COMPANY FOR ) Docket No. 20003-108-EA-10  
APPROVAL OF DEMAND SIDE ) 30005-140-GA-10  
MANAGEMENT PROGRAMS, TARIFFS, AND ) Record No. 12499  
COST RECOVERY AND PERFORMANCE )  
MECHANISMS. )

**PRE-FILED DIRECT TESTIMONY OF**

**Kimber M. Wichmann**

**On Behalf of the Wyoming Office of Consumer Advocate**

**(PUBLIC VERSION)**

Testimony Filed: AUGUST 6, 2010

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2

3 A. My name is Kimber Wichmann. My business address is 2515 Warren Avenue, Suite  
4 304, Cheyenne, WY, 82002. I am a Rate Analyst for the Wyoming Office of Consumer  
5 Advocate (OCA). The OCA is an independent consumer advocacy agency that was  
6 created by an act of the legislature in the 2003 general session.

7

8 **Q. WHAT IS THE FUNCTION OF THE OCA?**

9

10 A. Pursuant to W.S. § 37-2-401,

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12 The office of consumer advocate shall represent the interests of Wyoming  
13 citizens and all classes of utility customers in matters involving public  
14 utilities. In the exercise of its powers the office of the consumer advocate  
15 shall consider all relevant factors, including, but not limited to, the  
16 provision of safe, efficient and reliable utility services at just and  
17 reasonable prices.

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19

20 **Q. ARE THE ANALYSES AND RECOMMENDATIONS OF THE OCA, IN THIS OR**  
21 **ANY OTHER CASE BEFORE THE COMMISSION, INFLUENCED OR**  
22 **DIRECTED BY THE COMMISSION?**

23

24 A. No. Although the OCA is a division within the Commission according to W.S. § 37-2-  
25 401, it is a separate division with no reporting or supervisory links to the Commission.  
26 The OCA has the right under W.S. § 37-2-402(ii) to appeal decisions of the Commission.  
27 The primary link between the OCA and the Public Service Commission is the source of  
28 common funding provided by the assessment on gross utility operating revenues; this  
29 assessment funds both the Commission and the OCA.

30

31 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
32 **OCCUPATIONAL EXPERIENCE.**

33

1 A. I received a B.S. degree with a double major in Economics and Political Science from  
2 The Colorado College and an M.B.A. degree from the University Of Phoenix. While  
3 achieving my undergraduate degree, I worked part-time for a statewide rural electric  
4 association (REA), which gave me the opportunity to learn about electric cooperatives  
5 and the energy industry as well as the members they serve. After college, I accepted a  
6 marketing and media position with Sumpter Electric Cooperative in Sumpterville,  
7 Florida.

8 In 1997, I accepted a position with the Wyoming Department of Employment  
9 Department of Research and Planning (R&P) in the capacity of Statistician. I assisted the  
10 team in gathering employment statistics for businesses throughout Wyoming. I learned  
11 the statistical modeling used by the Bureau of Labor Statistics for the Current  
12 Employment Statistics and Labor Market Information provided by the State of  
13 Wyoming.

14 In 1998, I left the R&P office as a Senior Statistician and accepted a position with eBay,  
15 Inc. as a Business and Process Analyst for the Consumer Experience department. While  
16 at the internet company, I gained 10 years experience in identifying, documenting,  
17 implementing, and measuring the performance of cost effective processes and  
18 informational system improvements on a global scale using data sampling and statistical  
19 modeling techniques. As a lead worker, I established baselines, identified key metrics for  
20 measuring project success, and tracked performance in a timely manner for senior  
21 management. In 2008, I left eBay as a Lead Senior Business Analyst and accepted a  
22 position as a Rate Analyst for the Wyoming Office of Consumer Advocate, where I  
23 remain employed today.

24 I completed the 51<sup>st</sup> Regulatory Studies Program, which is an intensive regulatory boot  
25 camp sponsored by the Institute of Public Utilities and Michigan State University in the  
26 summer of 2009. More recently, I expanded my skills by attending the Essentials of  
27 Utility Finance training in Denver, Colorado in March that was jointly taught by Dr.  
28 Morin, a professor of Finance at Georgia State University, and Ron Kneckt, MS, JD, PE  
29 and Senior Economist at the Nevada Public Utilities Commission.

1 I stay professionally connected to regulatory issues by participating in NARUC through  
2 the internet, phone, and attending the meetings in person when possible. I am also a  
3 member of the Society of Utility and Regulatory Financial Analysts (SURFA) which  
4 meets annually at Georgetown University to discuss current events and evolving  
5 financial modeling methodologies.

6  
7 **Q. ON WHOSE BEHALF DO YOU APPEAR HERE TODAY?**

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9 A. I appear here today on behalf of the OCA. As I indicated previously, the OCA is an  
10 independent party in this proceeding, separate and apart from the Commission or its  
11 advisory staff.

12  
13 **Q. AS A MEMBER OF THE OCA, DO YOU ADVOCATE THE INTERESTS OF  
14 CERTAIN GROUPS OF CONSUMERS OVER OTHERS?**

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16 A. No. As a member of the OCA, it is my statutory obligation to advocate the best interest  
17 of all citizens in the state. Specifically, W.S. § 37-2-401 states that the OCA “shall  
18 represent the interests of Wyoming citizens and all classes of utility customers in  
19 matters involving public utilities.” This public interest standard requires the OCA to  
20 represent the broadest possible utility consumer constituency, even though some of those  
21 consumers may also be represented independently as parties in this case.

22 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

23 A. Yes. I am sponsoring Exhibits KMW1 through KMW2 which detail key points in my  
24 analysis.

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

26 A. The purpose of my testimony is to provide recommendations to the Commission  
27 regarding Cheyenne Light Fuel and Power’s (CLFP) Demand Side Management  
28 application. The following suggestions from the Office of Consumer Advocate (OCA)

1           pertain to CLFP’s application for approval of its Demand Side Management (DSM)  
2           programs, tariffs, and cost recovery and performance mechanisms filed April 30, 2010.

3           The OCA’s recommendations are specific to its mission which is providing independent  
4           representation of Wyoming utility ratepayers and ensuring that safe, adequate and reliable  
5           utility services are available to all Wyoming citizens at just and reasonable rates. The  
6           OCA supports cost effective DSM programs and energy efficiency measures proposed by  
7           utilities that are in the public interest. The DSM programs in this application show the  
8           potential to be cost effective if the participation numbers are met.

9           The OCA supports the approval of the Company’s application with the exception of the  
10          development costs for which prudence cannot be established, and the incentive tier which  
11          rewards the company for performance in attaining savings in excess of 100% of the  
12          company’s projected savings goal. The OCA has concerns regarding the development  
13          costs and Performance Incentive Mechanism which it thought could be best addressed in  
14          testimony to the Commission.

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16       **Q.     WHAT ARE THE DEVELOPMENTAL COSTS IN THIS DOCKET AND WAS**  
17       **PRUDENCY ESTABLISHED FOR THESE COSTS BY THE COMPANY?**

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19       A.     The developmental costs in this docket consist of CLFP’s use of a consultant by the name  
20       of Applied Energy Group, Inc (AEG). The consultant conducted a study that was  
21       submitted during the discovery process in the last DSM dockets, 20003-98-EA-08 and  
22       30005-135-GA-09. The OCA submitted comments in those dockets regarding why it felt  
23       prudence had not been demonstrated. The OCA’s concerns remain the same in this  
24       docket. The OCA opposes approving CLFP’s ability to recover the developmental costs  
25       due to lack of establishing prudence.

26  
27       **Q.     DID CLFP HAVE A SIGNED CONTRACT WITH AEG FOR THE**  
28       **DEVELOPMENTAL COSTS INCURRED?**

1 A. No. To recap an issue from the previous dockets 20003-104-EA-09 and 30005-128-GA-  
2 09, the OCA repeatedly requested a copy of the agreement between CLFP and the  
3 contractor, AEG, for the energy efficiency study throughout the discovery process. When  
4 the Company filed this application, I again requested the contract for the consultant. I  
5 was ultimately told by the Company that a written contract did not exist.  
6

7 **Q. WAS THERE ANY OTHER DOCUMENTATION THAT DETAILED AN**  
8 **AGREEMENT BETEWEEN AEG AND CLFP?**  
9

10 A. Yes, I looked at both the Memorandum of Understanding and the monthly invoices from  
11 AEG in hopes of establishing prudence.  
12

13 **Q. WHAT IS THE COMPANY'S MEMORANDUM OF UNDERSTANDING (MOU)?**  
14

15 A. When a contract could not be located by CLFP, the Company sent me a document it  
16 referred to as the Memo of Understanding that is attached as Exhibit KMW-1. Exhibit  
17 KMW-1 appears to be a proposal from AEG to CLFP to conduct an electric and gas  
18 energy efficiency potential study for CLFP's service area. It is a stretch to refer to this  
19 document as a memo of understanding in that the document is not signed by both parties.  
20 In order to establish a mutual agreement both parties need to be represented on the  
21 document.  
22

23 **BEGIN CONFIDENTIAL**  
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25 **Q. IS THERE OTHER SIGNIFICANT ISSUES REGARDING THE MOU?**  
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**Q. HOW MUCH MONEY IS CLFP SEEKING TO RECOVER DUE TO THE CONSULTANT’S WORK?**

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**Q. DOES THE MEMO OF UNDERSTANDING ACCURATELY DEFINE THE SCOPE OF WORK PREFORMED BY AEG?**

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**Q. WHAT DID YOU LOOK AT NEXT?**

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**Q. COULD THE WORK PERFORMED BY THE AEG STAFF THAT CHARGED  
BEEN PERFORMED BY THE AEG STAFF THAT CHARGED A  
LOWER HOURLY RATE?**

A.

**END CONFIDENTIAL**

**Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING  
THE DEVLEOPMENT COSTS IN CLFP’S APPLICATION?**

A. The OCA was looking for a contract between CLFP and AEG with clear goals and deliverables. Prudency could be established through the contractual agreement by

1 ensuring deliverables were achieved by agreed upon dates and payments could result. No  
2 such document exists. Due to the lack of transparency and the lack of prudence that could  
3 have been easily established using standard business practices, the developmental  
4 expenses should not be recovered from Wyoming ratepayers. The OCA requests that the  
5 Commission deny the recovery of the developmental costs of \$102,655.09 in the DSM  
6 surcharge due to lack of prudence.

7  
8 **Q. WHAT IS THE DISINCENTIVE THAT PREVENTS CLFP FROM**  
9 **AGGRESSIVELY PURSUING DSM PROGRAMS?**

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11 A. CLFP points out in its application that a disincentive currently exists in the CLFP rate  
12 design that inhibits the Company from aggressively promoting DSM programs. The  
13 company's revenue is adversely impacted by a reduction in sales volume.<sup>1</sup> This means  
14 that a certain amount of the company's fixed costs are currently lumped in the sales  
15 volume rather than in the monthly customer charge. As the company encourages its  
16 customers to use energy more efficiently through the DSM programs presented in its  
17 applications success would reveal itself as a reduction in sales volume. Due to the current  
18 rate design, the problem that will surface is that a successful DSM program will cause  
19 revenues to shrink unless there is a solution in place to address the fixed costs tied to the  
20 loss in sales volumes.

21  
22 **Q. HOW WOULD THE OCA ADDRESS THE DISINCENTIVE ISSUE?**

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24 A. The OCA would propose a Straight Fixed Variable (SFV) rate design if this was a rate  
25 case docket. A Straight Fixed Variable rate design sends the best price signals to  
26 customers while reducing inter-class subsidies. In order for energy efficiency to be  
27 successful over the long run, customers need to be clear about which costs are avoidable  
28 and which costs are not. A SFV rate design would be the OCA's first solution to the  
29 problem.

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<sup>1</sup> CLFP Application page 9 paragraph 18.

1 Unfortunately, the nature of this docket does not allow the option of removing the  
 2 disincentive to be explored as it requires a deep dive into the cost of service and the rate  
 3 design of the company. However, in the Company’s next rate case, the OCA recognizes  
 4 the opportunity to provide another solution to the DSM Performance Incentive  
 5 Mechanism that addresses the disincentive issue and better meets the public interest  
 6 regarding DSM.

7  
 8 Since this docket is not one where the cost of service can be addressed, the OCA’s  
 9 second solution to the problem would be to simply recommend that the company recover  
 10 the fixed costs lost due to DSM savings.

11  
 12 **Q. HOW DO YOU CALCULATE THE FIXED COSTS ATTRIBUTABLE TO DSM**  
 13 **IN ORDER TO COMPENSATE THE COMPANY?**

14  
 15 A. In order to make sense of the rates CLFP listed in its application, one must look at the  
 16 company’s tariff and know that its volumetric rates recover a significant portion of the  
 17 Company’s fixed costs. Thus, the rates shown in Jan Kirsch’s testimony have isolated the  
 18 fixed costs that are currently wrapped into the commodity rate when viewing the tariff  
 19 rates online. The fixed costs are the piece of the revenue recovery that concerns both the  
 20 company and the OCA.

21  
 22 CLFP calculated the fixed costs attributable to DSM when it designed the performance  
 23 incentive mechanism presented in its application. The company made three tiers with its  
 24 incentive mechanism:

**CLFP Performance Incentive Mechanism**

	Electric		Gas	
	Residential	Non Residential	Residential	Non Residential
<b>Tier 1: &gt; or = 75% but &lt; 100%</b>	\$0.0342	\$0.0180	\$0.2438	\$0.1835
<b>Tier 2: &gt; or = 100% but &lt; 125%</b>	\$0.0360	\$0.0189	\$0.2567	\$0.1932
<b>Tier 3: &gt; 125%</b>	\$0.0378	\$0.0199	\$0.2695	\$0.2028

5% penalty on revenue

recovers revenue

5% reward on revenue

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The middle tier, which is tier two, is the only tier that recoups the actual revenues the company loses through DSM savings.

**Q. WHAT ARE YOUR RECOMMENDATIONS TO THE COMMISSION?**

A. The OCA has two recommendations to share with the Commission regarding the performance incentive mechanism proposed by the Company. The first is to change the name of the performance incentive mechanism to the revenue recovery mechanism so that the name more accurately reflects the purpose of the mechanism. Second, the OCA recommends approving the rates related only to the second tier of the mechanism and making them applicable to all DSM savings. The rates related to the second tier ensure that all the fixed costs associated with revenues are adequately recovered due to DSM initiatives.

**Q. WHY SHOULD THE TIER ONE RATES NOT BE IMPLEMENTED?**

A. The rates of the first tier should not be approved because it hinders the spirit of the DSM initiatives. The OCA wants CLFP to pursue DSM programs. The OCA understands the first year of a DSM initiative is the hardest to achieve and it will be especially hard for CLFP because it does not have an appropriate rate design. The OCA does not see how putting a punitive percentage on the revenue for not making the 100% targeted DSM goal can be a positive use of resources. The reasoning is simple; experience has shown that even Wyoming utilities that have full decoupling in place are still not able to achieve targeted DSM goals in the first year they roll out the programs.

It is very likely that CLFP will not make its DSM targeted goals in the first year, particularly in view of the fixed cost recovery issue. In order to ensure safe and reliable service and to encourage CLFP to pursue DSM program success for Wyoming consumers we would like to see a revenue recovery mechanism that recovers revenue lost to

1 efficiency savings and that is why the OCA proposes the modified revenue recovery  
2 mechanism above.

3  
4 **Q. WHY SHOULD THE TIER THREE RATES NOT BE IMPLEMENTED?**

5  
6 A. The OCA is adamant that Wyoming ratepayers should not be required to incent or reward  
7 any utility to do the right thing regarding energy efficiency and CLFP is no exception. An  
8 incentive of this kind creates an unnecessary financial burden on Wyoming consumers  
9 that is simply not required for this project. I am confident that CLFP realizes the  
10 importance of energy efficiency and DSM initiatives without having an added incentive  
11 from Wyoming ratepayers. The best analogy I can give is that the tier three rate structure  
12 is akin to making Wyoming consumers pay CLFP a ‘rebate’ for exceeding a DSM goal  
13 on a DSM program the Company created and set the goal for itself. It simply does not  
14 make sense to compensate a company with ratepayers’ money for attaining its own goal.

15  
16 The OCA recommends that the Commission reject the rates proposed by the company in  
17 tier three as it unnecessarily inflates the Company’s revenues for exceeding DSM goals  
18 and in no way creates added benefits to Wyoming customers. I also think that keeping  
19 this portion of the rate in place may cause adverse consequences to the DSM reporting. I  
20 strongly recommend that the Commission reject the rates requested in tier three of  
21 CLFP’s application.

22  
23 What does make sense is to ensure the Company is not harmed in participating in DSM.  
24 Recovering the tier two rates ensures the Company is not harmed.

25  
26 **Q. DOES THE OCA HAVE AN OPINION ON THE DSM PROGRAMS PRESENTED**  
27 **BY THE COMPANY?**

28  
29 A. The OCA recognizes that all the programs presented by the company are shown to be  
30 cost effective using the Total Resource Cost Test (TRC) as the measure. The TRC is the  
31 most commonly used method and largely accepted by most analysts. The TRC

1 calculation is the ratio that results when dividing the lifetime value of the energy savings  
2 by the participants' and the utility's net costs. If the ratio is greater than one then the  
3 program is considered cost-effective.  
4

5 The electric and natural gas program portfolios presented by the company are cost  
6 effective as shown on pages 25-30 of the company's application as long as the annual  
7 participation numbers are met over the duration of the pilot program.  
8

9 CLFP has established cost effectiveness and participation goals for its DSM program  
10 portfolios as well as evaluation metrics that will be measured by a third party. The OCA  
11 does not dispute the DSM programs selected by CLFP.  
12

13 **Q. WOULD YOU SUMMARIZE THE OCA POSITION IN THIS DOCKET?**  
14

15 A. Yes. The OCA supports cost effective DSM programs and energy efficiency measures  
16 proposed by utilities that are in the public interest. The OCA supports the approval of the  
17 Company's application; however, it respectfully requests that the developmental costs not  
18 be included in that approval since prudence cannot be established. Business formalities  
19 such as written contracts are basic standards for conducting business that was not met in  
20 this situation.  
21

22 The OCA recognizes that a revenue recovery mechanism is needed. The OCA  
23 respectfully suggests that the Commission change the name of the Performance Incentive  
24 Mechanism to the Revenue Recovery Mechanism. The OCA recommends approving the  
25 rates related only to the second tier of the mechanism and making them applicable to all  
26 the DSM savings related to the program. The rates related to the second tier ensure that  
27 all the fixed costs associated with revenues are adequately recovered due to DSM energy  
28 savings.  
29

30 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

31 A. Yes.