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Original

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

FILED

In the matter of the)
Unbundling of the rates of)
Entergy Arkansas, Inc.)
_____)

Docket 99-249-U

PREPARED SUPPLEMENTAL TESTIMONY

OF WILLIAM B. MARCUS

on behalf of

THE ARKANSAS ATTORNEY GENERAL

October 31, 2000

1 **ARKANSAS PUBLIC SERVICE COMMISSION**
2 **DOCKET 99-249-U**

3 **SUPPLEMENTAL TESTIMONY OF WILLIAM B. MARCUS**
4 **ON BEHALF OF THE ATTORNEY GENERAL**

5 **Q Did you previously prefile testimony in this docket, Mr. Marcus?**

6 **A Yes.**

7 **Q What is the purpose of your supplemental testimony?**

8 **A I provide an expansion of my views on the one issue that was not**
9 previously settled - the use of declining block generation rates for
10 customers.

11 **Q What is the difference between Entergy's position and the AG's**
12 **position on this issue?**

13 **A Entergy has essentially pro-rated its declining block rates across all**
14 functions, thus providing for a generation rate for water heater users and
15 winter users in excess of 1000kWh per month that is 18 mills per kWh less
16 than that for smaller winter users.

17 The Attorney General believes that a declining block rate for generation in
18 a default rate offered by Entergy is anti-competitive inasmuch as retailers
19 have not offered declining block rates to customers. Thus, in our view, in
20 the long term a declining block rate should not be offered by the default
21 supplier of generation.¹

22 Nevertheless, in order to assure that Entergy's rates are designed on a
23 revenue-neutral basis, we recognize that it is not possible to eliminate the
24 declining block generation rate during the rate freeze, because the
25 difference between the first and second blocks of the declining block is so

¹ Lower flat generation rates in winter than in summer may be appropriate.

1 large (over 3 cents/kWh in total). Therefore, I have recommended an
2 intermediate step (shown in Exhibit WBM-S-1), where the declining block
3 on generation is reduced from 18 mills per kWh to 10 mills/kWh.²

4 **Q Have generators and retailers typically used declining block rates for**
5 **generation?**

6 A No. Generation will not be competitively priced by alternative suppliers
7 on a declining block basis. Within the residential class, my experience in
8 California, Pennsylvania, and New Jersey is that most marketers are
9 offering rates which do not vary with usage (flat rates) although they may
10 vary monthly with power prices.. In the case of a few green marketers
11 selling a premium product, the rates have been two-part rates containing a
12 service charge and a flat energy rate. Presumably, the service charge
13 recovers more of the customer acquisition cost from smaller customers. I
14 have never seen a declining block generation rate offered by a marketer.

15 **Q Then how do declining block rates give Entergy a competitive**
16 **advantage in serving residential customers?**

17 A It is likely that customers who are large winter users will be unable to find
18 a better deal than Entergy default service during a transition period to
19 competition As it is likely that the larger customers will be among the
20 most motivated to shop for electricity (because it is a larger fraction of
21 their budget, so savings would be more meaningful to them), this would
22 have an effect of slowing down the development of a residential retail
23 electric market. If the State decides to move down the path toward
24 restructuring, then it should not throw up barriers to retail competition for
25 small customers, such as these declining block rates.

² This exhibit is calculated using the same principles as the one contained in my surrebuttal testimony but corrects a small computer programming error in my previous exhibit WBM-R-1.

1 **Q Is there a clear cost basis for declining block generation rates?**

2 A No. The Company has offered no substantiation of any cost basis for a
3 declining block generation rate. In response to AG DR 2-24 and AG DR 2-
4 25, the Company provided no cost-based information to support the
5 contention that large users in either of these classes use less peak energy
6 than smaller users.

7 In my analysis of a number of utilities, I have actually found contrary
8 evidence - that smaller users and customers living in apartments often
9 actually have less peaked load profiles than larger or single-family
10 customers within the residential class.

11 **Q Have other Arkansas utilities proposed flat generation rates while**
12 **leaving declining blocks in distribution?**

13 A Yes. My proposal to move toward flat generation rates for Entergy,
14 (although not all the way in this filing), is consistent with the proposals of
15 the vast majority of the electric cooperatives which have declining block
16 rates and which have gone through the rate unbundling process over the
17 past year. Ouachita, Craighead, First Electric, Woodruff, Petit Jean, and
18 North Arkansas have all proposed flat generation rates. Any declining
19 blocks offered by these co-ops are in the distribution rate. Only three of
20 seven co-ops processed to date by the Commission have proposed a
21 declining block generation rate.³ The other seven have declining blocks
22 only in the distribution function, if at all.

23 **Q Does this complete your supplemental testimony, Mr. Marcus?**

24 A Yes, it does. Thank you.

³ Those co-ops' (South Central, Southwest Arkansas, and Clay County) rate cases are pending. I have filed testimony opposing their declining block generation rates.

CERTIFICATE OF SERVICE

I, M. Shawn McMurray, hereby certify that a copy of the foregoing Prepared Supplemental Testimony of William B. Marcus on behalf of the Attorney General, has been served upon the following persons by mailing a copy of same, in the U. S. mail, postage prepaid, this 31st day of October, 2000.

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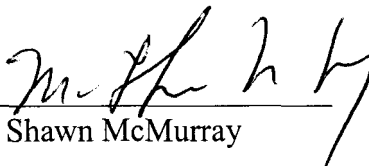
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		Total energy rate	Generation	Transmission	Distribution	Customer Service
<u>Entergy Rate Design</u>						
Full Price kWh	4,081,943	\$0.06013	\$0.03621	\$0.00350	\$0.01740	\$0.00302
Low price kWh	1,533,269	\$0.02990	\$0.01801	\$0.00174	\$0.00865	\$0.00150
Low Use kWh	143,160	\$0.05340	\$0.03216	\$0.00311	\$0.01545	\$0.00268
Revenue Requirement by Function			180,025	17,400	86,500	15,011
<u>AG Rate Design (Reduce Generation Declining Block)</u>						
Full Price kWh	4,081,943	0.06013	0.03402	\$0.00350	\$0.02959	\$0.00302
Low price kWh	1,533,269	0.02990	0.02402	\$0.00174	\$0.00264	\$0.00150
Low Use kWh	143,160	0.05340	0.03022	\$0.00311	\$0.01739	\$0.00268
Revenue Requirement by Function			180.023	17,400	86,503	15,011