BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-121697 and UG-121705
Puget Sound Energy, Inc. and NW Energy Coalition
Joint Petition for Approval of a Decoupling Mechanism

PUBLIC COUNSEL DATA REQUEST NO. 052

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Re: Testimony of Dr. Michael J. Vilbert, Exhibit No. MJV-1T, p. 6, ll. 9-12.

a) In the Brattle Group's most recent published study on decoupling, which was co-authored by Dr. Vilbert ("The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities: An Empirical Investigation, The Brattle Group, March 20, 2014), straight fixed-variable (SFV) rate design and lost revenue adjustments (LRAM) were not considered to be decoupling. In fact, the Brattle Group explicitly noted in footnote 1 of that report that LRAM and straight fixed-variable rate mechanisms were excluded from the decoupling study. Please explain why Dr. Vilbert excluded SFV and LRAM originally but now elects to include those methods in the definition of decoupling in this proceeding.

b) Did the inclusion of LRAM and fixed-variable rates in the decoupling study cause the results of the indicated overall cost of capital reduction to decline from the approximately 40 basis points shown in the March 2014 study to the approximately 25 basis points shown in Dr. Vilbert's testimony in this case? If not, please provide statistical support for your response.

c) What other factors have changed in the decoupling analysis of electric utilities from the Brattle Group's March 2014 publication to Dr. Vilbert's analyses in this case? (e.g., are the companies analyzed different, if so, how; is the cost of equity calculated differently, if so, how, is the data analyzed differently (the March 2014 report shows four estimates of the reduction in the overall cost of capital, Dr. Vilbert's analysis in this case shown only one), if so, how). Please list, describe and detail the differences in the analysis of electric utility decoupling between the March 2014 Brattle Study and the electric utility decoupling studies contained in Dr. Vilbert's testimony in this proceeding.

Response:

a) This question mischaracterizes Dr. Vilbert's testimony. As noted on page 6 of the Prefiled Direct Testimony of Dr. Michael J. Vilbert, Exhibit No. ___(MJV-1T), there are three basic types of decoupling of ratemaking policies. The March 2014 study focused only on true-up decoupling.

In the update done for this testimony, LRAMs are not included in the Brattle empirical analysis discussed in this testimony as is explicitly stated on page 6, lines 21-22, of the Prefiled Direct Testimony of Dr. Michael J. Vilbert, Exhibit No. ___(MJV-1T), but straight fixed variable rates were included, as stated on page 6, line 7-8, of the Prefiled Direct Testimony of Dr. Michael J. Vilbert, Exhibit No. ___(MJV-1T). The reason stated there is that LRAM policies are different in that they compensate only for the estimated lost fixed revenues from the energy efficiency programs. LRAMs have little or no effect on revenue reductions caused by price-induced conservation or distributed generation.

Fixed variable rates have been included in the updated electric and gas studies because they operate in much the same way as true-up decoupling to increase the likelihood of recovering all fixed costs when sales (kWh or therms, depending on the industry) are increasing more slowly or are even declining. The only company with a form of fixed variable rates in the electric study is Commonwealth Edison, subsidiary of Exelon. In our updated electric study, Brattle included fixed variable rates to capture the effect of this form of decoupling on the cost of capital

b) LRAMs were not included, as stated above. Although the scope of decoupling was expanded to include both decoupling with revenue true-up and fixed variable rates, there are no separate estimates of either. As noted above, there is only one instance of fixed variable rates and 21 instances of revenue true-up decoupling in the electric study. The change in the estimated coefficient on the decoupling index for the electric study is the result of all of the changes in the data used in the update. See the response to part c) below for the modifications made to the model for the update.

c) The differences in the updated analysis presented in this analysis are the following:

- Six quarters of data were added to extend the period of analysis out to the second quarter of 2014. (Exhibit No. ___(MJV-1T) at page 23, lines 14-16)

- ROE used in determining the COC for each holding company each quarter is estimated using the multistage DCF model. (Exhibit No. ___(MJV-1T) at page 25, lines 13-14)

- Modified the company indicator variables to recognize the changing nature of the electric holding companies signaled by mergers and acquisitions, dividends cuts, non-investment grade bond ratings, and major legal and regulatory challenges to decoupling. These are now captured by company epoch indicator variables. (Exhibit No. ___(MJV-1T) at page 27, lines 6-11)

- Consideration of Commonwealth Edison as a decoupled subsidiary of Exelon Corp. with the approval of fixed-variable rates for their distribution business in May of 2011, which is in the model and the workpapers.