

Exhibit No. ____ (CTM-1T)
Docket UE-132027
Witness: Christopher T. Mickelson

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

DOCKET UE-132027

PUGET SOUND ENERGY, INC.

**For an Accounting Order Approving the
Allocation of Proceeds of the Sale of
Certain Assets to Public Utility District #1
of Jefferson County**

TESTIMONY OF

CHRISTOPHER T. MICKELSON

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Distribution of Proceeds and Rate Design

March 28, 2014

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1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Christopher Thomas Mickelson. My business address is the Richard
5 Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington
6 98504.

7

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Senior Regulatory Analyst in the Energy Section of the
11 Regulatory Services Division. Among other duties, I am responsible for analyzing
12 financial, accounting, and revenue allocation and rate design issues in general rate
13 cases, accounting petitions, and other tariff filings, as they pertain to the electric and
14 natural gas companies under the jurisdiction of this Commission.

15

16 Q. How long have you been employed by the Commission?

17 A. I have been employed by the Commission since June 2007.

18

19 Q. Would you please state your educational and professional background?

20 A. I graduated from the University of Washington in 2002, receiving a Bachelor of Arts
21 degree in Business Administration. While attending college, I performed the duties
22 of accounts payable and subcontracting accounting for Sellen Construction
23 Company. In 2006, I was employed as a fraud auditor for the Washington State

1 Department of Labor & Industries. Since joining the Commission, I have attended
2 several regulatory courses, including the 49th Annual National Association of
3 Regulatory Utility Commissioners Regulatory Studies Program held at Michigan
4 State University.

5 I testified on uncollectible expenses, net-to-gross conversion factor, electric
6 cost of service, revenue allocation, rate design, and service charges in PacifiCorp
7 d/b/a Pacific Power & Light Company's general rate case ("GRC"), Docket UE-
8 130043. I also testified on Aldyl-A pipe replacement accounting treatment, electric
9 and natural gas cost of service, revenue allocations and rate design in Avista
10 Corporation's GRC, Dockets UE-120436 and UG-120437.

11 I testified on the treatment of planned major maintenance activities, hydro
12 production operating and maintenance expense, the handling of United States
13 Department of the Treasury Grants, other power cost issues and calculations, revenue
14 allocation, and rate design in Puget Sound Energy, Inc.'s ("PSE" or "Company")
15 Power Cost Only Rate Case ("PCORC"); Docket UE-130617; and on natural gas
16 revenue requirement, revenue allocation and rate design in PSE's GRC, Docket UG-
17 111049. I was the lead analyst in numerous other tariff applications, including GRCs
18 of Murrey's Disposal Company, Inc., Docket TG-090097; American Disposal
19 Company, Inc., Docket TG-090098; Washington Water Service Company, Docket
20 UW-090733; and Waste Management of Washington, Inc., Dockets TG-091933 and
21 TG-101080.

22 I have participated in the development of Commission rules, prepared
23 detailed statistical studies for use by commissioners and other Commission

1 employees, and examined utility and transportation company reports for compliance
2 with Commission regulations. I have also presented Staff recommendations at
3 numerous open public meetings.

4
5 **II. SCOPE AND SUMMARY OF TESTIMONY**

6
7 **Q. What is the purpose of your testimony?**

8 A. My testimony presents Staff's recommendations for allocating to PSE's rate
9 schedules the proceeds from the sale of the Company's assets to Jefferson County
10 Public Utility District #1 ("JPUD Sale") that Staff witness E.J. Keating recommends
11 be distributed to ratepayers. I also present Staff's recommended rate design to
12 implement that allocation.

13 My testimony responds to the proposals of Company witness Jon Piliaris in
14 his direct testimony at Exhibit No. __ (JAP-1T), pages 16-19.

15
16 **Q. Please summarize your recommendation on the allocation of JPUD Sales
17 proceeds to the Company's rate schedules.**

18 A. Staff modifies the Company's proposal by adding general plant as an allocation
19 factor and by removing special contract customers from the distribution of proceeds.
20 These proposals more appropriately align costs and benefits for ratemaking purposes.

1 **Q. Please summarize your recommendation on rate design.**

2 A. Staff recommends that the Company pass back the proceeds from the JPUD Sale
3 through a rate credit similar to Tariff Schedule 95a,¹ over a four-year period. This
4 proposal will alleviate the immediate short-term harm to ratepayers from the JPUD
5 Sale that is shown in Exhibit No. ____ (EJK-4).² The account balance should accrue
6 interest at the Company's after-tax rate of return grossed up for taxes.

7
8 **Q. Do you sponsor any exhibits?**

9 A. Yes, I sponsor the following exhibit:

- 10 • Exhibit No. ____ (CTM-2), Distribution of Proceeds

11
12 **III. DISTRIBUTION OF PROCEEDS**

13
14 **Q. Please summarize Staff's proposal to allocate JPUD Sales proceeds to PSE's**
15 **rate schedules.**

16 A. Staff modifies the Company's proposal by adding general plant as an allocation
17 factor and by removing special contract customers from the distribution of proceeds.
18 As I explain below, these proposals more properly align costs and benefits for
19 ratemaking purposes than the Company's proposals.

20

¹ Tariff Schedule 95a passes back Treasury Grant monies over a ten-year amortization period that PSE received for the White Horse Expansion and Lower Snake River Phase 1.

² Immediate short-term harm to remaining ratepayers is reflected for years 2013 through 2017.

1 **Q. Please summarize how Staff's modifications are implemented.**

2 A. Staff allocates the proceeds based on closing plant data. This data is broken out into
3 three categories: general plant, low-voltage and high-voltage distribution plant. The
4 results from each of these categories are spread to each rate schedule based on the
5 Company's cost of service study from PSE's last fully litigated GRC, Dockets UE-
6 111048 and UG-111049.³

7 Next, Staff removed special contract customers' allocated proceeds by
8 applying each rate schedule's percentage of total allocated proceeds excluding
9 special contract customers to derive each rate schedule's incremental proceeds
10 received.

11 Finally, the categories are aggregated for each rate schedule. The allocation
12 to each rate schedule is shown in my Exhibit No. ____ (CTM-2).

13

14 **A. Inclusion of General Plant**

15

16 **Q. How does the Company allocate JPUD Sales proceeds to the rate schedules?**

17 A. The Company allocates proceeds to the current rate schedules based on distribution
18 plant. This is the same manner by which customers are charged for the costs they
19 impose on the total system. This premise of cost causation is present in many
20 aspects of determining rates in a price-regulated industry. It was also the
21 methodology used to allocate revenues as the basis for setting rates in the Company's
22 last fully litigated GRC in 2011.

³ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 at ¶¶ 331-340 (May 7, 2012).

1

2 **Q. Does Staff accept PSE's method for allocating JPUD Sales proceeds based on**
3 **distribution plant?**

4 A. In general, yes. The Company has proposed a fair allocation among the schedules
5 based on distribution plant in its 2011 cost of service study. Staff's inclusion of
6 general plant slightly improves the allocation results between each rate schedule
7 because it more properly identifies all costs required to serve each particular
8 customer class.

9

10 **Q. How did Staff determine the amount of general plant to include within the**
11 **allocation method?**

12 A. Staff used the Company's response to Staff Data Request 21 to determine the amount
13 of general plant to allocate between customer classes. That response reflects the
14 difference between the plant amounts used in Exhibit No. ____ (MRM-3), lines 2-4
15 and Exhibit No. ____ (JAP-8), lines 7-9. This difference represents two percent of the
16 net book value for allocation purposes; therefore, general plant could have value
17 depending on the proceeds split between the Company and ratepayers, and also
18 between the different customer classes.

19

20 **Q. How did Staff allocate JPUD Sales proceeds to the PSE's rate schedules once**
21 **you determined the amount of general plant to include in the allocation?**

22 A. Staff used the same allocation method among the rate schedules based on the general
23 plant in the Company's 2011 cost of service study. This is the exact same method

1 the Company uses in this case to allocate proceeds to the current rate schedules
2 based on distribution plant.

3

4 **Q. Have you prepared an exhibit supporting Staff's allocation methodology?**

5 A. Yes. Exhibit No. ___ (CTM-2) develops Staff's recommended allocation of JPUD
6 Sales proceeds. Because Staff fine-tunes the allocation parameters proposed by the
7 Company, my exhibit uses a formatted model similar to Mr. Piliaris's Exhibit No.
8 ___ (JKP-8).

9

10 **B. Removal of Special Contract Customers**

11

12 **Q. Does Staff accept the Company's proposal to allocate JPUD Sales proceeds to**
13 **special contract customers?**

14 A. No. Special contract customers should not receive any of these benefits.

15

16 **Q. Why should special contracts customers be excluded from the allocation of**
17 **proceeds?**

18 A. Special contract customers are the exception to the uniform rate-making process.
19 Their rates are individually negotiated with the Company to cover any incremental
20 costs and retain some contribution to margin.

21 Special contract customers, therefore, in all likelihood did not contribute to
22 the distribution plant within Jefferson County; therefore, they should not receive any
23 benefits from the JPUD Sale.

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Q. How did Staff ensure that special contract customers do not receive proceeds from the JPUD Sale?

A. Staff utilized each rate schedule's percentage of total allocated proceeds excluding special contract customers and applied each rate schedule's percentage to the allocation of special contract proceeds.

IV. RATE DESIGN

Q. Please describe Staff's four-year bill credit proposal concerning rate design.

A. Staff's recommendation is for the Company to pass back JPUD Sales proceeds allocated to ratepayers through a rate credit similar to Tariff Schedule 95a, over a four-year period. This proposal will offset the immediate short-term harm to ratepayers reflected in Exhibit No. ___ (EJK-4). The account should accrue interest at the Company's after-tax rate of return grossed up for taxes.

Q. How does Staff's four-year bill credit proposal differ from PSE's proposal?

A. Staff's proposal is more specific than the Company's proposal which is simply:
[C]onsistent with the treatment of PSE's comparably sized regulatory assets and liabilities, PSE proposes to credit customers' share of the gain on the sale of the assets over a four-year period.⁴

⁴ Piliaris, Exhibit No. ___ (JAP-1T) at page 19, lines 2-4.

1 **Q. Have you prepared an exhibit calculating the four-year bill credit proposal?**

2 A. No. Instead, the Commission should order the Company on compliance to file the
3 calculation of the rate credits for each eligible rate class in a newly designed
4 Schedule. Within that compliance filing, the Schedule would calculate rates for each
5 class by dividing the ratepayer allocated proceeds, which will accrue interest at the
6 Company's after-tax rate of return grossed up for taxes, by the weather-adjusted
7 kWh for each class. What Staff can state is that residential customers receive
8 approximately sixty-three percent of the overall proceeds, as shown in my Exhibit
9 No. ___ (CTM-2).

10

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

12 A. Yes.

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