

EXHIBIT NO. _____ (RCC-6T)
DOCKET NO. UE-121697/UG-121705
WITNESS: RALPH C. CAVANAGH

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)	
)	DOCKET UE-121697
PUGET SOUND ENERGY, INC. and NW)	DOCKET UG-121705
ENERGY COALITION)	
)	
For an Order Authorizing PSE to Implement)	
Electric and Natural Gas Decoupling)	
Mechanisms and to Record Accounting Entries)	
Associated with the Mechanisms.)	
_____)	

REBUTTAL TESTIMONY (NON-CONFIDENTIAL) OF
RALPH C. CAVANAGH
ON BEHALF OF NW ENERGY COALITION

December 19, 2014

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1 I. IDENTITY AND QUALIFICATIONS OF THE WITNESS

2 **Q. Please state your name and address.**

3 A. I am Ralph Cavanagh, and my address is c/o Natural Resources Defense Council,
4 111 Sutter Street, 20th Floor, San Francisco, California 94305.

5 **Q. In what capacity are you submitting this rebuttal testimony?**

6 A. I am still a witness for the NW Energy Coalition (“the Coalition”).

7 **Q. Have your qualifications changed since your last testimony in this**
8 **proceeding?**

9 A. No.

10 II. SUMMARY OF TESTIMONY

11 **Q. Please summarize your testimony.**

12 A. My testimony rebuts witness Adolph’s contention that the Washington UTC
13 should apply a lower standard of rigor than a scientific journal in deciding whether revenue
14 decoupling has reduced utilities’ cost of capital.

15 III. REBUTTAL OF WITNESS ADOLPH

16 **Q. In his testimony on behalf of Public Counsel and ICNU, Christopher Adolph**
17 **contends that the Washington UTC should apply a lower standard of rigor than a scientific**
18 **journal when evaluating evidence about the effect of revenue decoupling on utilities’ cost of**
19 **capital. What is your response?**

20 A. I strongly disagree. Witness Adolph concedes that scientific journals apply a
21 higher standard than that used in his testimony to draw conclusions about the impact of revenue
22 decoupling on utilities’ cost of capital, because “space in scientific journals is limited” (not
23 unlike space on Commission agendas), and most journal editors “would prefer to wait until the
24 studies of topic X meet conventional standards of scientific publication.” P. 20:7, 14-16. He

1 further concedes that “requiring high confidence (or setting a tough significance test) is one way
2 in which many scientific journals seek to encourage the production of highly reliable
3 knowledge.” P. 20: 17-19. Yet he wants the Washington UTC to apply a lesser level of rigor in
4 its review of data, because “if academic journals were deciding policy, rather than publishing
5 papers, they might have a different standard.” P. 21:4-5. I don’t dispute him on that specific
6 point, but the “different standard” he has in mind for policymakers is lower rather than higher,
7 and there we part company.

8 **Q. Why shouldn’t regulators who decide policy apply a lower standard when**
9 **evaluating data than journals that publish academic papers, as witness Adolph advocates?**

10 A. As an abstract proposition, I reject the notion that the state utility regulators who
11 decide policy, in ways that affect people profoundly, should embrace more relaxed standards of
12 decision-making rigor than academic journal editors. The price of error is far less on the
13 academic side of this comparison. This case, for example, will help determine whether
14 Washington State can achieve and surpass its demanding energy efficiency and pollution
15 reduction targets while ensuring affordable and reliable electricity service. In deciding whether
16 revenue decoupling should come packaged with an automatic upfront penalty for PSE, the state’s
17 largest utility and most important energy efficiency investor, I believe that the Washington UTC
18 should be no less demanding of the penalty’s proponents than the editor of an academic journal
19 when evaluating statistical data that bears directly on the point at issue. In considering witness
20 Adolph’s views here, the Commission also should note his acknowledgements that “I am not an
21 expert in the areas of accounting, utility regulation, cost of capital or the policy of decoupling,”
22 and “I do not have an opinion on whether [PSE’s cost of capital experts] have collected a
23 representative sample of utilities, whether they have measured the cost of capital or degree of
24

1 decoupling appropriately, or whether they have made reasonable decisions regarding which
2 observations to exclude from these analyses.” P. 3: 20-22.

3 **Q. What is your recommendation to the Commission, based on this rebuttal**
4 **testimony?**

5 A. The Commission should reaffirm its decision to follow the overwhelming
6 majority of Commissions nationwide (cited in my earlier testimony)¹ in declining to include a
7 prospective ROE penalty as part of its approval of revenue decoupling for PSE. As I have stated
8 before, to the extent decoupling makes possible changes in utilities’ capital structure that reduce
9 total costs to customers, those savings can and should be passed through to customers once
10 achieved.²

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

12 A. Yes.

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¹ See Exhibit No. ____ (RCC-5), pp. 14-16 (summarizing 76 ROE decisions).

24 ² See Exhibit No. ____ (RCC-2), p. 20.