

EXHIBIT NO. ___(JAP-9T)
DOCKET NO. UE-132027
WITNESS: JON A. PILIARIS

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

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.**

Docket No. UE-132027

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY, INC**

APRIL 22, 2014

PUGET SOUND ENERGY, INC.
PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3
4 **JON A. PILIARIS**

5 **I. INTRODUCTION**

6 **Q. Please state your name, business address, and present position with Puget**
7 **Sound Energy, Inc.**

8 A. My name is Jon A. Piliaris. I am employed as Manager, Pricing and Cost of
9 Service at Puget Sound Energy, Inc. ("PSE" or the "Company"). My business
10 address is 10885 N.E. Fourth Street, Bellevue, Washington, 98009.

11 **Q. Are you the same Jon A. Piliaris who sponsored prefiled direct testimony in**
12 **this proceeding?**

13 A. Yes, I am. I prepared prefiled direct testimony, Exhibit No. ___(JAP-1T) and
14 seven supporting exhibits, Exhibit No. ___(JAP-2) through Exhibit No. ___(JAP-
15 8), filed on October 31, 2013.

16 **Q. What is the purpose of your rebuttal testimony?**

17 A. My rebuttal testimony responds to the following:

18 (i) the prefiled Direct Testimony of Mr. James R. Dittmer,
19 Exhibit No. JRD-1T, on behalf of the Public Counsel
20 Section of the Washington Attorney General's Office
21 ("Public Counsel");

22 (ii) the Prefiled Response Testimony of Mr. Michael P.
23 Gorman, Exhibit No. ___(MPG-1T), on behalf of the
24 Industrial Customers of Northwest Utilities ("ICNU"); and

1 (iii) the prefiled testimony of Mr. Edward J. Keating and Mr.
2 Christopher T. Mickelson, witnesses for the Staff of the
3 Washington Utilities and Transportation Commission
4 ("Staff").

5 **Q. Please summarize the more significant points in your rebuttal testimony.**

6 A. The following is a summary of the more significant points from my rebuttal
7 testimony.

- 8 • While challenging numerous assumptions and discounting the veracity of future
9 benefits projected in PSE's analysis, the parties fail to prove harm to remaining
10 customers from the loss of PSE's Jefferson County service area and, in fact, fail to
11 disprove that remaining customers will actually benefit.
- 12 • When the parties' quantified issues with PSE's analysis are addressed, the facts
13 show that remaining customers still benefit from nearly \$80 million of avoided
14 net power cost over the 20-year projections. Moreover, parties fail to explain why
15 these results should differ due to the cause of the avoided power (i.e., loss of load
16 through a loss of service area versus through conservation, for example).
- 17 • The parties' election to accept only the projected power cost results in the early
18 years is arbitrary and, to my knowledge, has no basis in relevant regulatory
19 precedent. Parties provide no justification for such an arbitrary point of
20 demarcation. It is noteworthy that the net present values of power cost benefits
21 turn positive in year six of PSE's analysis, only one year later than the period of
22 review recommended by Staff and ICNU, and generally grow from that point
23 forward.

- 1 • Parties fail to acknowledge that the Commission routinely relies upon long-range
2 cost projections to support its decisions to approve rate recovery of PSE's
3 resource acquisitions, including approximately \$100 million in annual electric
4 conservation acquisitions and over \$2 billion in generating resource acquisitions
5 over the past 10 years. Moreover, the parties have failed to prove that PSE's
6 long-range projections are biased.
- 7 • To the extent that parties believe remaining customers are harmed prospectively,
8 they fail to acknowledge that it may also be true that these customers similarly
9 benefited retrospectively. Similarly, while parties claim PSE's projections may
10 produce fewer benefits to remaining customers than predicted, they
11 simultaneously fail to also acknowledge that these benefits could ultimately be
12 higher.
- 13 • Notwithstanding the fact that the parties cannot agree on which extreme to use,
14 they rely on the unlikely bookend results presented in Exhibit No.__(JAP-3),
15 rather than acknowledging that a more reasonable result would fall somewhere in
16 between.
- 17 • Staff's claim of harm to remaining customers resulting from the application of
18 PSE's decoupling mechanism is actually shown to be an overall benefit when
19 non-residential customers are also included in this analysis.

1 **II. RESPONSE TO ISSUES RAISED REGARDING**
2 **CUSTOMER HARM FROM LOSS OF JEFFERSON COUNTY**
3 **SERVICE AREA**

4 **A. Parties Acknowledge the Challenge in Quantifying Harm to**
5 **Remaining PSE Customers**

6 **Q. Do parties in this case acknowledge the challenges inherent in attempting to**
7 **quantify the harm to remaining PSE customers from the loss of the Jefferson**
8 **County service area?**

9 A. Yes. ICNU’s witness addresses this most directly in his testimony. In part, he
10 states:

11 By attempting to allocate the costs of supporting the JPUD assets to its
12 former JPUD customers, *PSE is assuming a precision in cost recovery that*
13 *simply does not exist in ratemaking.* Customers pay for the costs of PSE’s
14 service on a system-wide basis. *As such, it is not clear which customers*
15 *paid rates that provided PSE full cost recovery of its JPUD assets.*¹

16 **Q. Do you agree with this assessment?**

17 A. While I generally agree that assigning cost responsibility among utility customers
18 is an inexact science, this is nonetheless the challenge faced by regulators every
19 time they approve rates that are differentiated between groups of customers.
20 Moreover, this is the task at hand in this proceeding in order to determine the
21 consequences to PSE customers served outside of Jefferson County.

¹ Exh. No. ___(MPG-1T), 4:9-13 (emphasis added).

1 **Q. Do you agree with ICNU's assertion that PSE assumed an undue level of**
2 **precision in its analysis?**

3 A. No. To the contrary, this is precisely why a range of results was presented in
4 Exhibit No.__(JAP-3). This exhibit explicitly acknowledges some reasonable
5 variations inherent in ascribing cost responsibility to a subset of PSE's customers.
6 As will be discussed later in my testimony, Mr. Gorman's criticisms in this regard
7 are more aptly directed to the testimony of witnesses for Staff and Public Counsel,
8 who rely on the extreme ends of the range of results presented in Exhibit
9 No.__(JAP-3) to support their respective positions.

10 **Q. Do other parties acknowledge the challenges in assigning cost responsibility**
11 **to subsets of PSE's customer base?**

12 A. Yes, this was also acknowledged by Staff witness, Mr. Keating.² However, as
13 noted above and addressed in more detail below, this did not dissuade Mr.
14 Keating from relying on only one end of the range of results presented in Exhibit
15 No.__(JAP-3) to support Staff's case.

16 **Q. Have the parties attempted to perform their own analyses to distinguish the**
17 **cost of service for Jefferson County relative to PSE's overall system?**

18 A. No. In a series of data requests, PSE requested such analyses from each of the
19 parties. In response, they indicated that they either relied solely on PSE's analysis

² Exh. No.__(EJK-1T), 32:5-8.

1 or discounted the value in performing their own analysis. These responses are
2 provided as Exhibit No.__(JAP-10).

3 **Q. Do the challenges inherent in assigning cost responsibility to subsets of PSE's**
4 **customer base invalidate their value in this proceeding?**

5 A. No. While PSE acknowledges the imprecision inherent in this analysis, it has
6 presented a range of results through analysis that is substantial, credible and
7 reasonable. The issue of customer burden (or benefit) is central to this case and
8 we must do our best to provide a reasonable analysis to support a fair outcome to
9 customers and investors.

10 **B. Parties Fail to Prove Power Cost Harm to Remaining PSE Customers**

11 **Q. Please summarize the parties' criticism of PSE's power supply cost**
12 **projections used to estimate customer impact in this case.**

13 A. Staff³, Public Counsel⁴ and ICNU⁵ all contend that the Commission should rely
14 on the results presented in the first five years of PSE's analysis and that results
15 beyond that time are speculative. Staff⁶, Public Counsel⁷ and ICNU⁸ also appear
16 to object to several specific assumptions used in PSE's analysis.

³ Exh. No.__(EJK-1T), 26:15- 28:3.

⁴ Exh. No. JRD-1T, 29:16-30:6.

⁵ Exh. No.__(MPG-1T), 14:19- 15:5.

⁶ Exh. No.__(EJK-1T), 26:19-21.

1 **Q. Did any party in this proceeding show that PSE's remaining customers will**
2 **see higher power costs due to the effect of the loss of the Jefferson County**
3 **service area over the long run?**

4 A. No. No party showed that PSE's remaining customers will experience higher
5 power supply costs over the long run from the loss of the Jefferson County service
6 area. Instead, all of the parties simply chose to focus on the results in the early
7 years as evidence of such harm. As discussed in more detail below, where parties
8 have attempted to point out perceived flaws in PSE's long-range analysis, they
9 have all failed to show any financial harm to remaining customers, even when
10 their claimed flaws are remedied. Surely, if there were even the potential for
11 customer harm over the longer run, parties in this case should have been able to
12 provide a credible analysis to quantify this harm. It is certainly telling that all
13 failed to do so in this proceeding.

14 **Q. Is it appropriate to ignore all but the early years of PSE's power supply**
15 **analysis in the determination of customer impact?**

16 A. No, and the parties to this case have presented no compelling evidence to suggest
17 otherwise. The loss of load in Jefferson County is known and is permanent.
18 Therefore, the effects of this load loss will be felt through the entire 20-year
19 horizon used in PSE's analysis, and beyond.

⁷ Exh. No. JRD-1T, 31:19-32:18.

⁸ Exh. No. ___(MPG-1T), 14:24-15:4.

1 **Q. How do parties justify focusing solely on the first five years of PSE's**
2 **analysis?**

3 A. Parties claim that the effects of the lost load are uncertain over the longer-term,
4 and therefore the Commission should simply ignore them.⁹

5 **Q. Has the Commission relied upon long-range projections in other PSE filings?**

6 A. Yes. The Commission has consistently used long-range projections – in all cases
7 incorporating at least 20 years of forecast projections – to approve and deem
8 prudent over \$2 billion in generating resource acquisitions by PSE since 2004. A
9 summary of these acquisitions is listed in Table 1 below.

10
11 **Table 1 - PSE Generating Resource Acquisitions Since 2004**

Year	Project	Cost (\$ millions)
2004	Frederickson 1	\$80
2005	Hopkins Ridge	200
2006	Wild Horse	383
2007	Goldendale	126
2008	Sumas	30
2008	Hopkins Ridge Expansion	13
2008	Mint Farm	259
2009	Whitehorn 2&3	25
2009	Wild Horse Expansion	103
2010	Fredonia 3&4	42
2012	Lower Snake River, Phase I	830
2012	Ferndale	84
Total		\$2,175

12

⁹ Exh. No. ___(EJK-1T), 27:6-28:3; Exh. No. JRD-1T, 29:16-31:3; Exh. No. ___(MPG-1T), 14:19-15:5.

1 **Q. What model did PSE use to support the acquisition of these resources?**

2 A. Despite insinuations from Staff that PSE’s Portfolio Screening Model (“PSM”) III
3 is only used to support the Company’s integrated resource planning,¹⁰ PSE used
4 its PSM --or a predecessor version of the model--to support the acquisition of all
5 of the resources listed in Table 1. This was most recently highlighted in PSE’s
6 2011 general rate case, where the Commission discussed the use of this model to
7 evaluate the Company’s development of Phase 1 of the Lower Snake River
8 Project.¹¹

9 **Q. Has any party shown that PSE’s long-range projections in this proceeding**
10 **are biased?**

11 A. No. Parties have provided no evidence to suggest that PSE’s projections in this
12 proceeding are biased towards any particular outcome regarding future benefits.
13 They simply assert that since future benefits “could” be lower or might occur later
14 than expected,¹² the Commission should ignore them. However, parties fail to
15 also acknowledge that future benefits “could” be higher.

16 **Q. Does the Commission also rely on long-range projections for PSE’s**
17 **conservation resource acquisitions?**

¹⁰ Exh. No. ___(EJK-1T), 27:12-24.

¹¹ Docket Nos. UE-111048 and UG-111049 (consolidated), Order No. 08, ¶391.

¹² Exh. No. ___(EJK-1T), 27:9-10.

1 A. Yes. The Commission routinely relies on long-term avoided power cost
2 projections in approving the funding of PSE's conservation acquisitions. In fact,
3 the financial benefits from the reduction of load related to Jefferson County that
4 parties would have the Commission ignore in this proceeding are nearly identical
5 in nature to the financial benefits of conservation-related load reductions that the
6 Commission has relied upon, in part, for approving \$112 million per year in
7 PSE's conservation program funding.¹³ Inexplicably, when parties are faced with
8 a load reduction comparable in magnitude to one year's worth of PSE's
9 conservation resource acquisition, and that costs roughly \$100 million less to
10 acquire, they would have the Commission believe that customers are somehow
11 harmed by this form of load reduction. There is simply no rational basis to
12 support such a distinction in regulatory treatment of a load reduction that is
13 absolute and certain to occur, notwithstanding the criticisms of PSE's power
14 supply analysis in Exhibit No.__(JAP-7).

15 **Q. Has Staff, Public Counsel or ICNU raised concerns about relying on long-**
16 **term avoided power cost projections to justify spending \$100 million per year**
17 **on the acquisition of electric conservation resources?**

18 A. No. To PSE's knowledge, no party in this case has voiced similar concerns
19 regarding the reliance on long-range avoided costs to justify these conservation
20 expenditures, either through their participation in PSE's Conservation Resource

¹³ Rates currently in effect are recovering \$98.8 million in electric conservation expenditures (Docket No. UE-130305) and \$13.8 million in gas conservation expenditures (Docket No. UG-130306).

1 Advisory Group or in the formal proceedings approving the recovery of these
2 expenditures. In fact, when asked to explain whether Staff would support using
3 five years of analysis to evaluate PSE's decisions to acquire longer-term
4 conservation resources, Mr. Keating response indicated that Staff would not. This
5 response is provided as Exhibit No.__(JAP-11).¹⁴

6 **Q. Did Staff elaborate on its justification for treating the load reduction**
7 **resulting from the loss of the Jefferson County service area differently from**
8 **that associated with PSE's conservation programs?**

9 A. Yes. In response to another data request, provided as Exhibit No.__(JAP-12),
10 Staff confirmed that all bundled service customers benefit from PSE's
11 conservation program by "mitigat[ing] the immediate need for building additional
12 generation plant" even when those customers do not actively participate in those
13 programs (e.g., through the redemption of conservation rebates or other
14 incentives). However, Staff drew a distinction between the load-reducing effect
15 of the loss of the Jefferson County service area and that related to PSE's
16 conservation programs by noting the "[c]onservation programs do not change the
17 number of ratepayers on the system. Therefore there is no loss of contributions to
18 fixed costs." Staff goes on to suggest that the "loss of Jefferson County load and
19 ratepayers results in a harm to ratepayers because there are now fewer ratepayers
20 on the system to contribute to the same level of fixed production plant costs."

¹⁴ PSE notes here that it does not fully understand Staff's response to the follow-on questions in Exh. No.__(JAP-11) to reconcile the different treatment between conservation and the load reductions at issue in this case.

1 **Q. Do you agree with Staff's rationale?**

2 A. No. Staff's explanation is contrary to power supply cost causation. PSE, or any
3 other electric utility, does not secure energy resources to serve a given number of
4 customers, they do so to meet a given amount of electric load obligation. It does
5 not matter whether the utility serves one customer with 20 million MWh of load
6 or 1,000,000 customers with an equivalent electrical requirement, the utility is
7 acquiring energy resources to serve the load (in this case, identical load).
8 Similarly, it does not matter whether the fixed production costs associated with
9 providing this 20 million MWh is spread across one customer or 1,000,000
10 customers. This is not the way these costs are recovered. Rather they are
11 recovered based on the energy usage characteristics of those customers.
12 Moreover, if the usage by 1 customer or 1,000,000 customers is reduced by (for
13 example) 1 million MWh, the impact on the utility's fixed production cost
14 recovery is the same, whether this load reduction comes in the form of
15 conservation or loss of load related to the loss of customers.¹⁵ As such, Staff
16 provides no meaningful distinction between load reduction resulting from
17 conservation versus the loss of customers.

¹⁵ In this simple example, rate design complexities are avoided by simply assuming that the fixed production costs are recovered through a single energy charge. This simplifying assumption does not diminish the fundamental point that fixed production costs are not recovered on a per-customer basis.

1 **Q. Can you provide a simple numerical example here to illustrate?**

2 A. Yes. First, assume that fixed power costs are \$500 million, so that the “rate”
3 associated with recovering these costs is \$25 per MWh (i.e., \$500 million divided
4 by 20 million MWh). In one instance, assume that a 1 million MWh reduction in
5 sales occurred through the loss of 50,000 customers. The rate paid by the
6 remaining 950,000 customers would increase to roughly \$26.3 per MWh (i.e.,
7 \$500 million divided by 19 million MWh). In the other instance, assume that an
8 identical 1 million MWh reduction in sales occurred due to conservation that was
9 achieved by 50,000 of the 1,000,000 customers.¹⁶ The rate paid by all customers,
10 including the 950,000 customers that did not reduce their load through
11 conservation, would increase to an identical \$26.3 per MWh, since the “rate” used
12 to recover the fixed power supply costs only hinges on the amount of electricity
13 sold, not the number of customers served. In the end, it makes no difference to
14 the 950,000 customers whether the reduction in sales came from the conservation
15 achieved by the 50,000 other customers or their entire departure from the system.
16 The resulting impact on their rates is the same.

¹⁶ In this example, the conservation effectively eliminates the 50,000 customers’ entire load. Clearly, this is an extreme example to help simplify the discussion. However, extending this analogy to customers adding rooftop solar would be well within the realm of possibility and lead to the same conclusion. That is, customers that are not contributing to the load loss would feel the same rate impact regardless of how the loss of load occurs.

1 **Q. Do you have any other observations regarding parties' exclusive reliance on**
2 **the early years of the projections for determining the impact to PSE's**
3 **remaining customers?**

4 A. Yes. First, the parties' election to accept only the results in the early years is
5 arbitrary and, to my knowledge, has no basis in relevant regulatory precedent.
6 Parties provide no justification for such an arbitrary point of demarcation. It is
7 noteworthy here that the net present values of benefits presented in Exhibit
8 No.__(JAP-7) turn positive in year six of the analysis, only one year later than
9 the period of review recommended by Staff and ICNU, and generally grow from
10 that point forward. ICNU's position is particularly puzzling when contrasted with
11 Mr. Gorman's use of long-range projections to conduct discounted cash flow
12 analyses that support his cost of capital recommendations in PSE's rate cases. In
13 fact, in PSE's most recent general rate case, Mr. Gorman downplayed the cost of
14 capital results predicted using short range growth rates and instead relied on long
15 range trends that were, in his view, more sustainable.¹⁷ Ultimately, the
16 Commission agreed with Mr. Gorman and opted to take the long view,
17 notwithstanding any uncertainties in doing so.¹⁸

18 Second, PSE's analysis already discounts the projected customer benefits for the
19 time value of money. This is not only standard practice for PSE and the
20 Commission, it is standard industry practice. Using PSE's authorized rate of

¹⁷ For example, see Docket No. UE-111048, Exh. No.__(MPG-1T), 19:17-21:4.

¹⁸ Docket No. UE-111048, Order No. 08, ¶86.

1 return as the basis for discounting, the analysis presented in Exhibit No.__(JAP-
2 7) already greatly reduces the present value of projected benefits to customers. In
3 fact, had PSE followed the approach taken by Mr. Keating in Exhibit
4 No.__(EJK-4) and not discounted future results, the net benefits to customers in
5 Exhibit No.__(JAP-7) would have grown from \$83 million to almost \$227
6 million.

7 Finally, PSE has provided the only credible estimate of power cost savings in this
8 case. No party has produced its own forecast of future benefits, rather simply
9 criticizing PSE's calculations and relying on the notion that they are too uncertain
10 to be relied upon for purposes here.

11 **Q. You mentioned earlier that parties objected to specific assumptions used in**
12 **developing Exhibit No.__(JAP-7). Can you provide examples?**

13 A. Yes. Staff claims that PSE has erroneously omitted customer harm in 2013 in
14 Exhibit No.__(JAP-7).¹⁹

15 **Q. How do you respond?**

16 A. In effect, Staff suggests that remaining customers can be harmed prior to the
17 effects of PSE's loss of Jefferson County load being reflected in rates. Unless
18 power costs were being accrued for later recovery, which they were not,
19 remaining customers are not harmed prior to the setting of new rates.

20 **Q. When did the loss of Jefferson County load get reflected in current rates?**

¹⁹ Exh. No.__(EJK-1T), 28:16-17.

1 A. In its 2013 PCORC, Docket No. UE-130617, PSE filed for new power cost rates
2 that reflected rate year loads without Jefferson County. These rates went into
3 effect on November 1, 2013. PSE’s analysis in this proceeding began in 2014,
4 only two short months after the new power cost rates went into effect. Given that
5 this was intended to be a long-range analysis, capturing month-to-month effects
6 appeared overly precise and therefore these effects were ignored.

7 However, if the Commission wished to incorporate the impacts of these two
8 additional months into its decision in this case, based on negative net benefits
9 estimated to be approximately \$10 million per year over the first few years of the
10 projections, it would be reasonable to extrapolate that the net effect of adding the
11 last two months of 2013 to the analysis would reduce power cost benefits by
12 roughly \$2 million.

13 **Q. Does Staff raise any other issues regarding Exhibit No. ___(JAP-7)?**

14 A. Yes. Staff questions a “PSM III model run with 508,175 fewer MWhs than the
15 load forecasted in Exhibit No. ___(JAP-7).”²⁰ Staff goes on to state that there was
16 an “abnormally high load growth rate used for Jefferson County”²¹ in the first
17 year of the analysis in Exhibit No. ___(JAP-7), which “place into question the
18 reliability of the results.”²²

²⁰ Exh. No. ___(EJK-1T), 28:14-15.

²¹ *Id.*, 28:9.

²² *Id.*, 28, 7-8

1 **Q. How do you respond?**

2 A. Staff makes a valid observation regarding two related issues. First, the load
3 forecast in column (g) of Exhibit No.__(JAP-7) that is used to perform the retail
4 rate revenue calculation for Jefferson County include line losses, when in fact the
5 line losses should be removed. Second, the growth rate for Jefferson County load
6 in 2014 was shown relative to 2012 (i.e., two years of growth), resulting in what
7 appeared to be an “abnormally high” rate of load growth in the first year. Both of
8 these issues are easily addressed.

9 **Q. Have you addressed these issues?**

10 A. Yes. Staff’s issues have been addressed in Exhibit No.__(JAP-13). First, the
11 load forecast in column (g) was reduced to remove line losses that are still
12 properly included in the calculation of avoided power costs. Second, the rate of
13 growth in 2014 was recalculated to show an annualized growth rate between 2012
14 and 2014, rather than the two-year amount. All other calculations and
15 assumptions are the same as was used for Exhibit No.__(JAP-7).

16 **Q. What do the new results show?**

17 A. The results in Exhibit No.__(JAP-13) show that the 20-year benefits to
18 customers *increase* from \$83 million, as calculated in Exhibit No.__(JAP-7), to
19 \$103 million.²³ Also noteworthy relative to the parties’ focus on only the early
20 years of results, it reduces the cumulative impact in 2017 from \$40 million to \$35

²³ The customer benefits are \$267 million, if left undiscounted as in Staff’s analysis.

1 million. As can also be seen in column (h) of Exhibit No.____(JAP-13), the
2 annualized growth rate between 2012 to 2014 is now shown to be 1.43 percent,
3 which is more in line with the long-range forecast.

4 **Q. Did other parties raise specific issues with Exhibit No.____(JAP-7)?**

5 A. Yes. ICNU criticizes PSE’s analysis for assuming an incremental power cost
6 increase of “around 21% from 2017 to 2018, but an increase in JPUD-related
7 PCA revenue of only 5%.”²⁴

8 **Q. How do you respond?**

9 A. ICNU is comparing incompatible concepts. A 21 percent increase in incremental
10 costs does not recognize the costs of PSE’s existing generation resources. When
11 combined with those more substantial costs, this will materially dilute the impact
12 of the incremental costs.

13 In addition, ICNU is not recognizing the reduction to PSE’s generating rate base
14 that would occur over time, mitigating the increases to future PCA rates. PSE’s
15 assumption in Exhibit No.____(JAP-7) was that the additions and subtractions to
16 rate base would exactly offset over time. Particularly over the near term, this
17 should be a very reasonable assumption, as generating rate base will likely decline
18 (i.e., depreciate) until the addition of the next generating unit.

²⁴ Exh. No.____(MPG-1T), 14:24-15:1.

1 **Q. Did ICNU attempt to quantify the customer “harm,” correcting for its**
2 **perceived flaw in Exhibit No.__(JAP-7)?**

3 A. No. However, Public Counsel raises the same issue and produced an estimate that
4 is shown in Exhibit No. JRD-4. Public Counsel’s analysis shows that PSE’s
5 remaining customers would continue to see a significant power cost benefit, \$58
6 million, from the loss of the Jefferson County load. It should also be noted that
7 Public Counsel’s analysis uses the conservative assumption that the PCA fixed
8 rate for existing generating resources will remain constant. Taking into account
9 the gradual decline in existing generating rate base and an increasing growth in
10 sales, the PCA fixed rate associated with PSE’s existing generating facilities
11 would more likely be declining over the 20 year forecast horizon.
12 Notwithstanding these very conservative assumptions, the resulting net benefits to
13 customers are virtually equivalent to the entire gain on sale at issue in this
14 proceeding.

15 **Q. Does Exhibit No. JRD-4 suffer from the same load growth-related issues**
16 **raised by Staff regarding Exhibit No.__(JAP-7)?**

17 A. Yes it does.

18 **Q. Have you corrected Exhibit No. JRD-4 for these issues?**

19 A. Yes. I have developed Exhibit No.__(JAP-14) to correct Exhibit No. JRD-4 in a
20 manner identical to that used to develop Exhibit No.__(JAP-13).

1 **Q. What is the impact of these corrections on the results originally presented in**
2 **Exhibit No. JRD-4?**

3 A. As shown in Exhibit No.__(JAP-14), when Exhibit No. JRD-4 is corrected for
4 the issues Staff raised related to Exhibit No.__(JAP-7), the benefits to remaining
5 customers *increase* from \$58 million to \$79 million. This is only slightly lower
6 than the \$83 million originally estimated in Exhibit No.__(JAP-7), despite
7 including the very conservative assumptions regarding the escalation in PCA
8 fixed rates used by Public Counsel.

9 **Q. Did Public Counsel raise other issues with Exhibit No.__(JAP-7)?**

10 A. Yes. As with the other parties, Public Counsel claims that the results of PSE's
11 long-range analysis is uncertain. Public Counsel goes further by providing an
12 example of how a change in assumptions can influence the results.²⁵

13 **Q. How do you respond?**

14 A. Public Counsel's analysis fails to prove bias or inaccuracy in PSE's analysis.
15 Rather, Public Counsel points out the potential sensitivity of the results to varying
16 assumptions, which is a criticism that can be made of any long range forecast.
17 Significantly, Public Counsel fails to present a reasonable set of assumptions that
18 produce a result where remaining customers are actually harmed. Public Counsel
19 presents a biased view of these results by choosing to only look at the potential
20 for less customer benefit, but not the potential for more customer benefits.

²⁵ Exh. No. JRD-1T, 33:10-36:9.

1 **C. Parties Fail to Prove Delivery System Cost Harm to Remaining PSE**
2 **Customers**

3 **Q. Would you like to make any general observations regarding parties’**
4 **interpretation and use of the analysis in Exhibit No.__(JAP-3)?**

5 A. Yes. As noted in my initial testimony,²⁶ Exhibit No.__(JAP-3) was meant to
6 present bookends for the impacts to delivery system costs likely to occur from the
7 loss of the Jefferson County service area. These results can be thought of as the
8 tail ends of a “bell shaped” curve, where the further you go from the middle, the
9 more unlikely the results. Parties focus their claims of customer harm solely on
10 these unlikely outliers and ignore the expected results. Moreover, even the parties
11 can’t agree which end of the spectrum in Exhibit No.__(JAP-3) is more
12 realistic.²⁷ Staff claims the results on page 1 of Exhibit No.__(JAP-3) are
13 “unreliable”²⁸ and yet it is precisely these results that Public Counsel relies upon
14 to quantify Jefferson County’s foregone contribution to common fixed costs.²⁹
15 ICNU also questions the use of page 1 of Exhibit No.__(JAP-3) “because it does
16 not compare lost revenue to avoided cost.”³⁰ These conflicting positions
17 demonstrate the fallacy in using either end of the spectrum presented in Exhibit

²⁶ Exh. No.__(JAP-1T), 5:6-18.

²⁷ As noted earlier in this testimony, ICNU eschews ascribing the level of precision being used by either Staff or Public Counsel with regard to the results presented in this exhibit.

²⁸ Exh. No.__(EJK-1T), 30:7-9.

²⁹ Exh. No. JRD-1T, 25:2-5.

³⁰ Exh. No.__(MPG-1T), 14:15-17.

1 No.__(JAP-3). By way of contrast, PSE’s analysis instead focuses not on these
2 unlikely “tail” results, but on the “middle” of the range, which is more realistic.

3 In addition, regardless of which end of the spectrum parties used to support their
4 claims, they invariably failed to acknowledge the other side of the coin: that is, if
5 one is to claim a prospective burden to remaining PSE customers related to
6 delivery system costs from the loss of Jefferson County, then one must also
7 consider that those customers may have been receiving a retroactive benefit from
8 the same system. In other words, if customers are burdened when assets are sold,
9 then those same customers may have also received a benefit before those assets
10 were sold. A prospective burden could be matched with retrospective benefit, and
11 retrospective burden could be matched with prospective benefit. From the
12 perspective of weighing benefits versus burdens and risks versus rewards, it all
13 likely balances out.

14 **Q. Can you provide an example where parties have focused on prospective**
15 **harm without acknowledging retrospective benefit?**

16 A. Yes. A very simple example is where Public Counsel points to the lost
17 contribution of \$370,000 from Jefferson County customers for the recovery of
18 property tax expenses relative to the actual property taxes in Jefferson County of
19 under \$250,000.³¹ Assuming that this were the expected result in every year,
20 then a claim that remaining customers are harmed prospectively by these lost

³¹ Exh. No. JRD-1T, 27:15-28:11.

1 revenues must also be matched with an equally valid claim that remaining
2 customers were benefiting from the property tax revenue subsidy from Jefferson
3 County customers historically.

4 **Q. What specific issues did Staff raise related to the analysis presented in**
5 **Exhibit No.__(JAP-3)?**

6 A. Relying upon page 2 of Exhibit No.__(JAP-3), Staff claims that, by way of
7 PSE’s Expedited Rate Filing in Docket No. UE-101037 (“ERF”), remaining
8 customers “are harmed \$1,142,941 per year through the end of 2017 or until new
9 rates become effective³²...” by the loss of Jefferson County customers. Staff
10 further claims that residential customers suffer roughly \$8.4 million in additional
11 harm by the departure of Jefferson County customers through application of
12 PSE’s decoupling mechanism.³³ Staff uses these estimates of harm in support of
13 its proposal to allocate a greater share of the gain at issue in this proceeding to
14 PSE’s remaining customers.

15 **Q. How do you respond to Staff’s claim of harm caused by rates approved in the**
16 **ERF docket?**

17 A. In addition to the general observations provided earlier related to relying on
18 results at either end of the spectrum presented in Exhibit No.__(JAP-3), I have
19 one additional point. Staff has failed to consider that, while not specifically

³² Exh. No.__(EJK-1T), 29:14-16.

³³ *Id.*, 31:1-3.

1 identified, much of the \$1.1 million per year may in fact be avoidable. A very
2 basic example is the cost of providing bills and other correspondence to customers
3 served in Jefferson County. These were not costs specifically tracked for
4 Jefferson County in page 1 of Exhibit No.____(JAP-3), but they very certainly will
5 be avoided with the loss of this service area.³⁴ Related examples include the costs
6 to bill and read customers' meters. Another less clear cut example is the impact
7 the loss of the Jefferson County service area will have on PSE's call center.
8 While it is true that 18,000 electric customers is small in comparison to the entire
9 system, it should have some effect on call volumes and potentially labor
10 requirements in PSE's 200+ employee call center. Reductions in working capital
11 could also be factored in here, as could property insurance, outside service
12 expense, and a host of other administrative & general ("A&G") expenses. In
13 general, while it is difficult to estimate the precise impact of the loss of Jefferson
14 County on PSE's system-wide costs, some level of cost savings are certain to
15 occur. Staff's unequivocal use of page 1 of Exhibit No.____(JAP-3) completely
16 dismisses this reality.

³⁴ Using round numbers, 18,000 customers x \$0.45 average cost per bill x 12 months = \$97,200.

1 **Q. Is PSE’s view shared by other parties?**

2 A. Yes. ICNU correctly understands that page 1 of Exhibit No.__(JAP-3) “does not
3 compare lost revenue to avoided cost.”³⁵ In other words, it does not take into
4 account that many of these allocated costs may in fact be avoidable.

5 **Q. Please respond to Staff’s analysis regarding the harm created through the
6 implementation of PSE’s decoupling mechanism.**

7 A. While Staff’s analysis requires some minor corrections to the estimated impacts in
8 2013 and 2017, the greatest flaw is the omission of the impact to non-residential
9 customers. If Staff would have included non-residential customers in its analysis,
10 the analysis would have shown an overall benefit to all remaining customers.

11 **Q. Please explain.**

12 A. PSE’s analysis regarding non-residential customers was performed in stages to
13 illustrate how Staff’s analysis relates to the more realistic outcome I will present
14 shortly. The first stage is to perform an analysis comparable to the one Staff
15 conducted to estimate the impact of PSE’s electric decoupling mechanism on its
16 remaining non-residential customers. This is shown on page 1 of Exhibit
17 No.__(JAP-15). The results on page 1 show that, using Staff’s approach, PSE’s
18 remaining non-residential customers would *benefit* by approximately \$17.5
19 million from the loss of Jefferson County customers. This benefit is nearly twice

³⁵ Exh. No.__(MPG-1T), 14:14-18.

1 as great as the harm calculated by Staff for PSE’s remaining residential
2 customers.

3 In the next stage, I correct these estimated impacts for the period over which this
4 “decoupling effect” may be experienced. Staff’s analysis calculates this effect
5 over the full five-year period between January 1, 2014 and December 31, 2017.
6 PSE originally received approval of its electric decoupling mechanism, effective
7 July 1, 2013, in Docket No. UE-121697. Without further approval by the
8 Commission for its continuation, this mechanism can operate no longer than the
9 end of February 2017. As such, pages 2 and 3 of Exhibit No.__(JAP-15)
10 calculate the effects under the decoupling mechanism within this more narrow
11 time frame. The results on pages 2 and 3 show that the alleged harm to remaining
12 PSE residential customers is reduced to \$6.3 million and the benefit to remaining
13 PSE non-residential customers is reduced to \$12.8 million. Of the benefit to non-
14 residential customers, \$1.7 million was experienced in 2013.

15 Finally, subsequent to the approval of PSE’s electric decoupling mechanism, there
16 were further negotiations with PSE’s non-residential customers to modify the
17 approved mechanism. Near the end of 2013, an agreement was reached that,
18 among other things, modified the mechanism to treat customers served under
19 electric Schedules 26 and 31, including associated customers eligible to
20 participate in the Bonneville Power Administration’s residential exchange
21 program, as separate rate groups within the decoupling mechanism. These
22 modifications were approved by the Commission to take effect on January 1,

1 2014. As such, pages 4, 5 and 6 of Exhibit No.____(JAP-15), reflect these
2 approved modifications to the non-residential portion of PSE’s decoupling
3 mechanism. Page 4 shows a net benefit of \$6.9 million to remaining non-
4 residential PSE customers not served under Schedules 26 or 31 (and associated
5 schedules) from January 2014 through February 2017. Pages 5 and 6 show a net
6 benefit of \$0.5 million and \$1.0 million to remaining non-residential PSE
7 customers served under Schedules 26 or 31, respectively.

8 Finally, page 7 of Exhibit No.____(JAP-15) combines the impacts of these
9 corrections into a single summary.³⁶ These results show that, overall, remaining
10 PSE customers are projected to be \$3.8 million better off due to the effect of the
11 decoupling mechanism over the period which it is currently approved to operate.

12 **Q. The results on page 7 of Exhibit No.____(JAP-15) still show a net harm to**
13 **remaining residential PSE customers. To what extent should this be**
14 **considered in this proceeding?**

15 A. As a preliminary matter, it is important to remember that this potential net harm to
16 remaining residential customers with respect to delivery costs is far outweighed
17 by the power cost benefits remaining residential customers will receive.
18 Notwithstanding the overall benefit, the Commission may want to incorporate this
19 information into its decision regarding how the gain on sale going to customers
20 should be allocated between remaining residential and non-residential customers.

³⁶ These results could be further refined to reflect the discounted impact over time. However, given the short period of time in this analysis, the results would not differ much.

1 Since remaining non-residential customers are already projected to see a \$10.1
2 million benefit due to the effects of the decoupling mechanism, perhaps a greater
3 share of the gain that is ultimately shared with customers could go to remaining
4 residential customers to address the \$6.3 million in projected harm related to the
5 recovery of delivery system costs through PSE's decoupling mechanism. Based
6 on PSE's proposal to share \$15 million of the gain with customers, this should
7 provide more than enough money to address this harm, even before consideration
8 of the additional power cost benefits.

9 **Q. What issues raised by Public Counsel related to delivery system costs would**
10 **you like to address?**

11 A. The issues I would like to address all relate to Public Counsel's use of results in
12 page 1 of Exhibit No.__(JAP-3). As with Staff, Public Counsel has used the
13 results contained therein without any acknowledgement that they represent
14 boundaries rather than likely outcomes. Specifically, Public Counsel concludes
15 that just because PSE was not tracking a particular type of cost directly for
16 customers served in Jefferson County that it was therefore some form of "fixed"
17 costs that will now be borne by the remaining customers.³⁷ In addition, Public
18 Counsel continues to misconstrue PSE's responses related to these costs.³⁸

³⁷ Exh. No. JRD-1T, 25:2-5.

³⁸ *Id.*, 26:3-13.

1 **Q. Can you expand upon Public Counsel’s failure to acknowledge that not all of**
2 **the \$3.2 million shown in page 1 of Exhibit No.__(JAP-3) are fixed?**

3 A. Yes. I’d first note that this is the mirror image of the issues noted above with
4 Staff’s reliance on the results presented in page 2 of Exhibit No. __(JAP-3).
5 Public Counsel does not acknowledge the fact that there will be avoided costs
6 beyond those listed in page 1 of this exhibit. Numerous examples of these types
7 of costs were provided above (e.g., billing, metering, customer service, working
8 capital, various components of A&G, etc.).

9 **Q. But isn’t it true that there would be some fixed costs that Jefferson County**
10 **customers are leaving behind?**

11 A. Theoretically, that is true. But, as discussed at the beginning of my testimony,
12 and largely echoed by ICNU, determining these amounts with any great precision
13 is an inexact science. As noted in Exhibit No. JRD-3, the loss of Jefferson
14 County is equivalent to about a year of system-wide load growth. By the time
15 rates are set in PSE’s next general rate case, any “excess capacity” will be
16 absorbed by the new customers.

17 **Q. Does Public Counsel take issue with the notion that load growth will relieve**
18 **remaining customers of the harm caused by the fixed costs no longer carried**
19 **by Jefferson County customers?**

20 A. Yes. However, Public Counsel’s perspective here is too narrow. Just because a
21 cost is considered “fixed” does not mean that it does not change under any
22 circumstance. Clearly, a utility with one million customers has greater fixed costs

1 than a utility with 100,000 customers. Therefore, it is apparent that “fixed” costs
2 grow (or shrink) with the size of the utility, whether measured by the number of
3 customers served or energy sold. In addition, it is well understood that
4 incremental utility costs are generally greater than those embedded in rates. So,
5 delaying the need to expand the utility’s existing infrastructure (i.e., whatever one
6 might consider as being included among the utility’s “fixed” costs), should
7 provide a benefit to remaining customers, much the same way customers benefit
8 by being able to defer the addition of “fixed” power resource investments. By
9 simply focusing on the current reduction in utilization (i.e., fixed cost recovery),
10 Public Counsel ignores this future benefit.

11 **Q. Earlier you mentioned that Public Counsel again misinterpreted one of**
12 **PSE’s data responses. Were you referring to the response provided in**
13 **Exhibit No. JRD-3?**

14 A. Yes. In that response PSE made the point that, if one relies on the results from
15 page 1 of Exhibit No.__(JAP-3) and ignores all the other issues with doing so
16 that I discuss above, shareholders would be the ones carrying the resulting
17 revenue shortfall until the conclusion of PSE’s next general rate case. Public
18 Counsel used this response to “prove” that PSE believes that these costs were
19 actually being incurred. This is not true, and ignores what I stated in my direct
20 testimony. Exhibit No.__(JAP-3) presents bookend results. PSE is not
21 endorsing results at either end of this spectrum, rather the “real” answer lies
22 somewhere in between. As stated in my direct testimony, “...it is reasonable to

1 conclude that there is a negligible effect on the delivery component of remaining
2 customers' overall revenue requirements."³⁹

3 **D. The Hermiston Case has Little Relevance in this Proceeding**

4 **Q. How do you respond to Staff's comparison of this proceeding to the Oregon**
5 **Public Utility Commission's decision in PacifiCorp's sale of utility property**
6 **to the City of Hermiston?**

7 A. While this is a legal issue better addressed by the parties' respective counsel, I do
8 note that Staff states in several places that the Oregon PUC allocated the gain
9 between PacifiCorp's shareholders and customers.⁴⁰ It would be more accurate
10 to say that the Oregon PUC approved an allocation of the gain that the parties
11 agreed to, since that case involved a settlement and was not an adjudicated
12 proceeding. I would also point out that the gain in Hermiston case was far less
13 (roughly \$4 million) than the \$60 million at issue in this case. Therefore, it would
14 be understandable if PacifiCorp found it more financially advantageous to
15 promptly resolve the issue of the gain allocation by settlement rather than through
16 protracted litigation.

³⁹ Exh. No.__(JAP-1T), 8:14-16.

⁴⁰ Exh. No.__(EJK-1T), 22:1 and 22:11.

1 **III. RESPONSE TO STAFF’S PROPOSAL REGARDING THE**
2 **ALLOCATION OF GAIN AMONG CUSTOMERS**

3 **Q. Please summarize Staff’s proposal to allocate the customers’ share of gain in**
4 **this case.**

5 A. Staff proposes to add general plant as an allocation factor for the gain on sale
6 being distributed to PSE customers and to allocate such gain to all but what Staff
7 is calling the “special contract” customers.⁴¹

8 **Q. What are the “special contract” customers Staff is referring to?**

9 A. These are customers, primarily marinas, that PSE provides wholesale power
10 service under the jurisdiction of the Federal Energy Regulatory Commission
11 (“FERC”). Based on the description provided in Staff testimony, it appears Staff
12 has misunderstood the nature of service for these customers. These are not
13 special contract customers, with rates “individually negotiated with the Company
14 to cover any incremental costs and retain some contribution to margin”⁴² as Staff
15 suggests. Nor are these customers’ rates approved by the Commission under its
16 special contract rules. These are customers who resell the power sold to them by
17 PSE and, therefore, fall under FERC jurisdiction.

18 **Q. How does PSE normally treat these customers in its rate filings?**

19 A. To prevent inter-jurisdictional subsidies between PSE’s retail and wholesale
20 customers, the wholesale customers are allocated costs consistently with retail

⁴¹ Exh. No. ___(CTM-1T), 4:16-17.

⁴² *Id.*, 7:19-20.

1 customers based on the methods approved in PSE's general rate cases. The
2 wholesale customers' allocated costs are then shielded for retail customers' rates.
3 For example, Order No. 08 in Docket No. UE-111048 states: "Firm Resale and
4 Special Contract Classes shall receive an increase equal to the class revenue
5 deficiency as determined in PSE's cost of service model provided with the final
6 compliance filing in this proceeding."⁴³ As a result, PSE's retail customers bear
7 none of the wholesale customers' cost responsibility, and vice versa.

8 **Q. How does Staff justify its proposal to allocate customers' share of the gain to**
9 **all but these "special contract" customers?**

10 A. Staff contends that these customers "in all likelihood did not contribute to the
11 distribution plant within Jefferson County; therefore, they should not receive any
12 benefits from the JPUD sale."⁴⁴

13 **Q. How do you respond?**

14 A. I see at least two problems with Staff's logic. First, as already discussed,
15 Jefferson County customers paid a proportional share of their cost of service.
16 Using Staff's logic, since this burden was not borne by either PSE's remaining
17 retail customers or its remaining wholesale customers, neither would logically be
18 entitled to a share of the gain. Conversely, if one group is entitled to share in the
19 gain, then the other should as well.

⁴³ Docket No. UE-111048, Order 08, ¶335.

⁴⁴ *Id.*, 7:21-24.

1 Second, and noting my earlier comments about the lack of inter-jurisdictional
2 subsidization, if retail customers are not bearing the wholesale customers' share
3 of the cost burden, then they should not also be entitled to the wholesale
4 customers' share of any cost offsets. It is simply unfair to allocate costs to one
5 group of customers but not the costs offsets when they are available.

6 **Q. What was Staff's justification for separating general plant as a separate item**
7 **to allocate customer-related gain?**

8 A. Staff believes that this approach "slightly improves the allocation results between
9 each rate schedule because it more properly identifies all costs required to serve
10 each particular customer class."

11 **Q. Do you agree with Staff's suggested modification to the approach taken in**
12 **Exhibit No.__(JAP-8)?**

13 A. While PSE appreciates what Staff is attempting to accomplish, it is not clear that
14 it necessarily improves the allocation results. The general plant allocation factor
15 used by Staff is largely driven by labor expense, which includes a large
16 component that is production related. Production assets were not included among
17 the plant that was sold in Jefferson County. So, it is reasonable to ask whether the
18 influence of production-related labor should be removed from the general plant
19 allocator before applying it in the fashion proposed by Staff. This would likely
20 lead back to a result closer to what was originally proposed in Exhibit
21 No.__(JAP-8). In any event, the differences between Staff and PSE's proposals

1 are minor. As such, PSE would be willing to accept Staff's proposal for purposes
2 of this filing.

3 IV. CONCLUSION

4 **Q. Please summarize your analysis of parties' response testimony.**

5 A. Despite the many criticisms of PSE's analysis and claims that its long-range
6 projections are unreliable for purposes of this proceeding, the parties have failed
7 to disprove that remaining customers will nonetheless benefit as a result of the
8 loss of PSE's Jefferson County service area, primarily through avoided power
9 costs. Even using Public Counsel's conservative assumptions related to future
10 PCA rates, customers were projected to benefit by nearly \$80 million, on a net
11 present value basis, over the 20-year forecast horizon. This alone well exceeds
12 the entire gain at issue in this proceeding.

13 **Q. Based on your analysis, what do you recommend?**

14 A. Given the overwhelming lack of evidence to the contrary, the Commission should
15 conclude that PSE's remaining customers will not be harmed by the loss of the
16 Jefferson County service area, and in fact will benefit substantially.

17 **Q. Does this conclude your rebuttal testimony?**

18 A. Yes, it does.