

Exhibit No. ___ (JLB-4T)
Dockets UE-141335
Witness: Jason L. Ball

**BEFORE THE
WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION**

DOCKET UE-141335

**In the Matter of the
Petition of King County, Washington,
BNSF Railway, Frontier Communications
Northwest, Inc., Verizon Wireless, and
New Cingular Wireless PCS, LLC. For a
Declaratory Order to address the
degradation of service from Puget Sound
Energy due to the physical deterioration
of the Maloney Ridge Line underground
cable.**

CROSS-ANSWERING TESTIMONY OF

Jason L. Ball

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Cross-Answering Testimony in Response to Petitioners

December 17, 2014

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1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Jason L. Ball. My office address is the Richard Hemstad Building, 1300
5 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington
6 98504. My email address is jball@utc.wa.gov.

7

8 Q. Are you the same Jason L. Ball that testified previously in this Docket?

9 A. Yes.

10

11 Q. What topic will you be testifying to?

12 A. I am responding generally to the prefiled opening testimony of Michael P. Gorman
13 on behalf of King County, BNSF Railway, Frontier Communications Northwest Inc.,
14 Verizon Wireless, and New Cingular Wireless PCS (Petitioners).

15

16 II. RESPONSE TO PETITIONERS

17

18 Q. Do you agree with Mr. Gorman's analysis¹ that economic feasibility is not
19 relevant?

20 A. No. As discussed by Mr. Nightingale in his direct testimony², economic feasibility is
21 an important factor that is specifically mentioned in the contract signed by the
22 Petitioners and PSE. A project's economic feasibility is the cornerstone of the

¹ Michael P. Gorman, Direct Exhibit No. ___ (MPG-1T) at 10:7-17

² David Nightingale Direct Exhibit No. ___ (DN-1T) at 7:17 – 9:11

1 decision to invest capital. This is one reason why PSE's tariff's place importance on
2 a project's ability to demonstrate economic feasibility; if the project cannot, PSE is
3 under no obligation to invest capital in its construction.

4
5 **Q. Staff relied on PSE's response to Petitioners data request No. 001 and the**
6 **attached economic feasibility study. Do Mr. Gorman's critiques³ of PSE's**
7 **economic feasibility study apply to Staff's analysis?**

8 A. No. Staff's analysis included the adjustments for the three issues discussed by Mr.
9 Gorman:

- 10 1. Staff calculated an expected amount of revenue to be collected under tariffed
11 rates from the Petitioners
- 12 2. Staff's analysis used a depreciation time frame consistent with the estimated
13 operating life of the replacement line
- 14 3. Staff's analysis was focused solely on the revenue requirement for replacing
15 the Maloney Line and specifically excluded estimates for O&M expenses.

16 With these adjustments, Staff's economic feasibility study shows that there is a
17 significant disparity between the expected revenues from the Petitioners and the
18 capital cost of the line.

19
20 **Q. Do you agree with Mr. Gorman's assertion that "it is reasonable for PSE to**
21 **treat the Maloney Ridge Distribution Lines customers the same way it treats all**
22 **of its other tariff rate customers?"⁴**

³ Michael P. Gorman Exhibit No. ___ (MPG-1T) at 11:7-22

⁴ Michael P. Gorman Exhibit No. ___ (MPG-1T) at 11:28-29

1 A. No. Mr. Gorman errs on two points in making this statement. First, it is only
2 reasonable to treat *similar* customers receiving *similar* service the same. If Mr.
3 Gorman's assertion were carried to the extreme, there would be one rate for all
4 customers, industrial, residential, and others. The need for separate rate schedules
5 and differing rates for differing groups of customers is directly related to the costs to
6 serve groups of similarly situated customers. This is why Washington sets rates
7 through rate spread and rate design and focuses primarily on the principle of cost
8 causation.

9 Second, as Mr. Gorman himself notes, PSE's tariff rates "include an allocated
10 component of PSE's distribution cost of service."⁵ This bundled service rate covers
11 the costs of service to the end of the general distribution system for Schedule 24
12 customers. However, absent the existing special contract between PSE and the
13 Petitioners, PSE could refuse to extend its general distribution service to serve
14 Maloney Ridge.⁶ Had the petitioners' facilities been located at the beginning of the
15 8.5-miles that makes up the Maloney Line (effectively eliminating the need for it)
16 there would be no question as to their similarity to other schedule 24 customers.
17 PSE's bundled service rate covers the cost of providing power to *similarly* situated
18 customers receiving *similar* service. The petitioners' bundled service rate includes
19 the cost of delivering power through PSE's general distribution system to the
20 beginning of the Maloney Line. They received the same treatment afforded other
21 customers taking service under PSE's tariffs.

22

⁵ Gorman Direct Exhibit No. ___ (MPG-1T) at 11:26
⁶ Nightingale Direct Exhibit No. ___ (DN-1T) at 9:5-9

1 **Q. Does the test for economic feasibility risk “pitting geographic customers groups**
2 **against other geographic customers groups across PSE’s system?”⁷**

3 A. No. This is in fact the exact opposite effect of the economic feasibility test as well as
4 the line extension tariffs. As discussed above, similar customers receiving similar
5 types of service receive the same rates. PSE is given the right to refuse service⁸ for
6 numerous reasons and economic feasibility is an important one. If PSE did not
7 refuse service due to economic feasibility, then low use customers located long
8 distances from the general distribution system and carrying minimal loads, as in the
9 case of the Maloney Line customers, would require significant subsidization by the
10 rest of their rate class.

11
12 **Q. Do you agree with Mr. Gorman’s characterization of the potential rate impact**
13 **on other ratepayers of re-building the Maloney Line?**

14 A. No. First, it is not at all relevant to compare the cost of replacing the Maloney Line
15 with PSE’s total revenue requirement. As was done in Staff’s direct analysis, it is
16 only relevant to look at the impact on other Schedule 24 customers.

17 Second, an \$8 million investment should not be treated as de-minimis. The
18 petitioners contradict Mr. Gorman by saying the cost of replacing the line would
19 require “significant capital contribution.”⁹ Further, the Petitioners have access to far
20 larger pools of capital than does PSE. Verizon wireless had approximately \$81

⁷ Gorman Direct Exhibit No. ___ (MPG-1T) at 12:7-8

⁸ Puget Sound Energy Electric Tariff G, Schedule 80-d, section 9. Refusal of Service, effective August 1, 2006

⁹ Initial Petition, at ¶49

1 billion¹⁰ in revenues during 2013. BNSF reported over \$21 Billion¹¹ in revenues
 2 during 2013. By contrast, PSE's revenues were approximately \$2.1 Billion¹² in
 3 2013. If the impact of building this line were truly de-minimis then why are the
 4 Petitioners, with just two of them representing about 50 times the cumulative
 5 revenue, in such need of PSE's customers to pay for the Maloney Line?

6

7 **Q. Is it possible for PSE to make this investment “without creating a need to**
 8 **increase its distribution rates?”¹³**

9 A. No. I believe that Mr. Gorman simply did not take this analysis to its rational
 10 conclusion. Revenue Requirement is determined by the formula:

$$RR = OE + T + r(\text{Net RB})$$

RR	Revenue Requirement
OE	Operating Expenses
T	Taxes
r	Authorized Return on rate base
Net RB	Rate Base minus accumulated depreciation

11

12 All else equal, a decrease in the level of rate base (RB) would lead to a reduced
 13 overall revenue requirement (RR). If the Maloney Line were then included, the rate
 14 base level (RB) would increase, and revenue requirement (RR) would increase. Staff
 15 estimates RR to increase by approximately \$696,184 as shown in our direct case.¹⁴

16 The expected revenues from the Maloney Line Customers is \$19,929 or about 2.9
 17 percent of the estimated RR increase - a significant disparity.¹⁵ Since rates must be

¹⁰ Verizon Communications, Inc., Annual Report (Form 10-K) at 2 (December 31, 2013)
¹¹ BNSF Railway Company, Annual Report (Form 10-K) at 8 (December 31, 2013)
¹² Puget Energy, INC. Annual Report (Form 10-K) at 11 (December 31, 2013)
¹³ Gorman Direct Exhibit No. ___ (MPG-1T) at 15:17-18
¹⁴ Jason L. Ball Exhibit No. ___ (JLB-2C) at 1:3
¹⁵ *Idib.*, at 1:9-11

1 designed to recover the full revenue requirement, the remaining 97.1 percent of the
2 estimated RR increase would be recovered from other customers. This is an increase
3 in rates from what they otherwise would have been without the Maloney Line. Mr.
4 Gorman's argument that PSE's apparent reduction in distribution rate base over the
5 last few years could offset the costs of the Maloney Line does not reflect how
6 revenue requirement in calculated in Washington.

7

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

9 **A. Yes.**

10