

**EXHIBIT NO. \_\_\_(SPE-1T)**  
**DOCKET NOS. UE-111048/UG-111049**  
**2011 PSE GENERAL RATE CASE**  
**WITNESSES: KEVIN C. HIGGINS**  
**JON A. PILIARIS**  
**DONALD SCHOENBECK**  
**DEBORAH J. REYNOLDS**  
**GLENN A. WATKINS**

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

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-111048**  
**Docket No. UG-111049**

**JOINT TESTIMONY OF**  
**KEVIN C. HIGGINS, JON A. PILIARIS, DONALD SCHOENBECK,**  
**DEBORAH J. REYNOLDS, AND GLENN A. WATKINS**

**ELECTRIC RATE SPREAD, ELECTRIC RATE DESIGN AND RENEWABLE  
ENERGY CREDIT TRACKER**

**JANUARY 17, 2012**

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**CONTENTS**

I.	INTRODUCTION .....	1
A.	Qualifications of Kevin C. Higgins .....	1
B.	Qualifications of Jon A. Piliaris.....	1
C.	Qualifications of Donald Schoenbeck .....	1
D.	Qualifications of Deborah J. Reynolds .....	2
E.	Qualifications of Glenn A. Watkins.....	2
F.	Purpose of Joint Testimony .....	3
II.	JOINT TESTIMONY ON ELECTRIC RATE SPREAD.....	4
III.	JOINT TESTIMONY ON ELECTRIC RATE DESIGN .....	7
IV.	JOINT TESTIMONY ON SPECIFIC AGREEMENTS RELATED TO SCHEDULE 40.....	8
V.	JOINT TESTIMONY RELATED TO NEW RENEWABLE ENERGY CREDIT TRACKER .....	10
VI.	INDIVIDUAL STATEMENTS OF SUPPORT FOR THE MULTIPARTY SETTLEMENT .....	12
VII.	CONCLUSION.....	16



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
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Exhibit No. \_\_\_\_ (DWS-2).

**D. Qualifications of Deborah J. Reynolds**

**Q. Please state your name and the party for whom you are appearing.**

A. My name is Deborah J. Reynolds, and I am appearing on behalf of Commission Staff. My qualifications are presented in Exhibit No. \_\_\_\_ (DJR-1T).

**E. Qualifications of Glenn A. Watkins**

**Q. Please state your name and the party for whom you are appearing.**

A. My name is Glenn A. Watkins. I am testifying on behalf of the Public Counsel Section of the Washington Attorney General’s Office (“Public Counsel”) regarding the electric rate spread and rate design settlement. I did not file direct testimony in this docket, but have analyzed the PSE filing and testimony of other parties and provided advice to Public Counsel regarding the electric rate spread and rate design issues.

**Q. Please describe your professional qualifications.**

A. Except for a six month period during 1987 in which I was employed by Old Dominion Electric Cooperative as its forecasting and rate economist, I have been employed by Technical Associates continuously since 1980.

1 During my career at Technical Associates, I have conducted marginal and  
2 embedded cost of service, rate design, cost of capital, and load forecasting studies  
3 involving numerous electric, gas, water/wastewater, and telephone utilities, and  
4 have provided expert testimony in Alabama, Arizona, Georgia, Kansas,  
5 Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, North  
6 Carolina, Illinois, Pennsylvania, Vermont, Virginia, South Carolina, Washington,  
7 and West Virginia. I hold an M.B.A and B.S. in economics from Virginia  
8 Commonwealth University. I am a member of several professional organizations  
9 as well as a Certified Rate of Return Analyst. In addition to representing Public  
10 Counsel in several PSE general rate cases, I have also represented Public Counsel  
11 in two recent PacifiCorp and Avista general rate cases relating to issues  
12 concerning class cost of service, class revenue allocations (rate spread), and  
13 residential rate design.

14 **F. Purpose of Joint Testimony**

15 **Q. What is the purpose of this joint testimony?**

16 A. The purpose of this Joint Testimony is to present the common recommendation of  
17 PSE, Staff, Public Counsel, ICNU, and Kroger (hereinafter collectively referred  
18 to as “Settling Parties”) on the topics of electric rate spread and electric rate  
19 design, as well as specific recommendations related to electric Schedule 40 and  
20 the introduction of a new rate tracker for renewable energy credit (“REC”)  
21 revenues. These recommendations are all contained in the Multiparty Settlement

1 Re: Electric Rate Spread, Electric Rate Design and Renewable Energy Credit  
2 (“REC”) Tracker, filed with the Commission on January \_\_, 2012 (the  
3 “Multiparty Settlement”).

4 Page 1 of the Attachment to the Multiparty Settlement shows the agreed-upon rate  
5 spread recommendation of the Settling Parties illustrating the results of a final  
6 revenue requirement increase using a hypothetical amount of \$152.9 million,  
7 called the “baseline increase”. The Settling Parties recognize the Commission-  
8 ordered electric revenue increase in this proceeding may be a different amount.  
9 This value was chosen simply to show the workings of our rate spread  
10 recommendation.

11 Page 2 of the Attachment to the Multiparty Settlement shows a summary of the  
12 agreed upon rate design recommendation of the Settling Parties.

## 13 II. JOINT TESTIMONY ON ELECTRIC RATE SPREAD

14 **Q. Please describe rate spread and the policy interests that are important for**  
15 **consideration.**

16 A. Rate spread allocates the revenue requirement to each of PSE’s customer classes.  
17 Rate spread should recognize that rates must be just and reasonable and not cause  
18 undue discrimination. To this end, revenue responsibility for any class should be  
19 informed by the cost to serve the class. However, the Commission has often  
20 stated that factors in addition to cost weigh in the rate spread decision, including

1 the appearance of fairness, perceptions of equity, economic conditions in the  
2 service territory, gradualism, and stability.

3 **Q. Please describe the rate spread proposal in the Multiparty Settlement.**

4 A. For Schedule 40, rates will be derived in accordance with the calculated rate  
5 methodology as proposed by PSE in its direct case and discussed below.

6 The Multiparty Settlement assigns a rate increase equal to 100 percent of the  
7 uniform percentage rate increase to Schedules 7, 24, 26, 31, 35, 43, 46, 49, 50-59,  
8 448, and 449. At the baseline increase, this is an 8.01% percent increase.

9 For Schedules 25 and 29, the Multiparty Settlement assigns a rate increase equal  
10 to 75 percent of the uniform percentage rate increase assigned to the other rate  
11 schedules, or 6.00% percent given the baseline increase.

12 For Firm Resale and Special Contract classes, the Multiparty Settlement provides  
13 that they will receive an increase equal to the class revenue deficiency as  
14 determined in PSE's cost of service model provided with the final compliance  
15 filing in this proceeding.

16 **Q. How are Schedule 40 rates determined?**

17 A. Schedule 40 rates will be determined in accordance with the formula rate  
18 methodology. Under this approach, Schedule 40 rates for power supply  
19 (generation and transmission) are set equal to the Schedule 49 charges (adjusted  
20 for power factor and losses). In addition, delivery-related charges are derived

1 based upon customer specific costs of PSE's distribution facilities used to directly  
2 provide delivery services to the Schedule 40 customers.

3 **Q. Why does the Multiparty Settlement propose a rate increase for Schedules 25**  
4 **and 29 that is 75 percent of the rate increase for most other rate schedules?**

5 A. The cost-of-service evidence indicates that the parity ratio of this rate schedule is  
6 significantly above one and, as a result, this rate schedule is providing  
7 substantially higher rates-of-return at current rates than the system average rate of  
8 return. Therefore, assigning 75 percent of the uniform rate increase to this rate  
9 schedule represents a reasonable balancing of cost-of-service considerations with  
10 other ratemaking principles, such as gradualism.

11 **Q. How does the Multiparty Settlement treat residential customers in the rate**  
12 **spread?**

13 A. Residential customers would receive the uniform rate increase applicable to most  
14 rate schedules.

15 **Q. Please explain why the Settling Parties believe this rate spread is in the**  
16 **public interest.**

17 A. The Settling Parties believe that the rate spread set forth in the Multiparty  
18 Settlement and illustrated on page 1 of its Attachment represents a reasonable  
19 balancing of the factors used by the Commission to set rates, including cost-of-  
20 service, fairness, perceptions of equity, economic conditions in the service



1 territory, gradualism, and rate stability.

2 **III. JOINT TESTIMONY ON ELECTRIC RATE DESIGN**

3 **Q. Please describe the importance of rate design.**

4 A. Rate design is the pricing mechanism for PSE to recover its costs. Rate design  
5 determines the rates that each individual customer actually pays. As a result, rate  
6 design is important for the same reasons that rate spread is important.

7 **Q. What public interest factors are involved in rate design?**

8 A. There is a variety of interests that need to be addressed, and there are tradeoffs  
9 between these interests. Rates should be adequate to recover the revenue  
10 requirement, be reasonably stable, reflect the costs of providing service, be fair,  
11 send proper price signals, and be relatively simple.

12 **Q. Were these principles applied in order to develop the rate designs proposed**  
13 **by the Settling Parties?**

14 A. Yes, the proposed rate design reflects a balancing of these factors and represents  
15 the different perspectives of the Settling Parties. The rate structure will be similar  
16 to the current structure.

17 **Q. What is the Settling Parties' recommended rate design?**

18 A. The Settling Parties' rate design follows the methods proposed by PSE and  
19 detailed in the Prefiled Direct Testimony of Mr. Jon A. Piliaris, Exhibit

1 No. \_\_\_(JAP-1T), and supporting exhibits. The rate design agreement is  
2 summarized in the Attachment, page 2.

3 **IV. JOINT TESTIMONY ON SPECIFIC AGREEMENTS**  
4 **RELATED TO SCHEDULE 40**

5 **Q. Have the Settling Parties reached any other agreements related to Schedule**  
6 **40?**

7 A. Yes. The Settling Parties have reached an agreement on two additional issues  
8 related to Schedule 40.

9 **Q. Please describe the first agreement.**

10 A. The Settling Parties' agree that the following language should be added to the end  
11 of Section 1.b. of Schedule 40:

12 However, a Customer whose Schedule 40 usage falls below 2  
13 aMW shall remain on Schedule 40 if the Customer has a  
14 designated energy manager and can document to the Company that  
15 the reduction in its energy usage below 2 aMW is directly  
16 attributable to energy efficiency investments undertaken by the  
17 Customer during the time the Customer has been served on  
18 Schedule 40.

19 **Q. Why are the Settling Parties proposing this new tariff language?**

20 A. The existing language of Schedule 40 may provide a disincentive for customers  
21 served under Schedule 40 to pursue energy efficiency. The Settling Parties'  
22 proposed new language removes that potential disincentive.

23 **Q. Please explain.**

1 A. Once a customer initially qualifies for service under Schedule 40, it must maintain  
2 a minimum of 2 aMW of applicable load over the entire test year of the most  
3 recent general rate case to remain on this schedule. For customers that vigorously  
4 pursue energy efficiency, the resulting reduction in load can lead to a situation  
5 where they no longer qualify for this schedule. Since such a customer would  
6 likely face higher rates under an alternate rate schedule, this provides a  
7 disincentive for customers to pursue energy efficiency and, therefore, may be  
8 contrary to the State's policies to encourage energy efficiency.

9 **Q. Please describe the second agreement related to Schedule 40.**

10 A. The Settling Parties agree to meet, one or more times, following the conclusion of  
11 this general rate case to discuss potential future revisions to Schedule 40, as  
12 explained in the direct testimony of Commission Staff witness, Deborah  
13 Reynolds, in Exhibit No. \_\_\_ (DJR-1T), page 9, lines 8-12.

14 **Q. Who is expected to participate in these meetings and what are the expected  
15 outcomes?**

16 A. The following parties are expected to participate in these Schedule 40 meetings:  
17 Commission Staff, PSE, and any affected parties. The expected goals of the  
18 meeting are to simplify the process, lessen the administrative burden, and validate  
19 that appropriate cost are being allocated.

20 **Q. Will these meetings impact the timing of PSE's next general rate case?**

1 A. No. However, PSE commits to remain engaged in these discussions, even if it  
2 files a proposal in another general rate case before the conclusion of these  
3 meetings.

4 **Q. What happens if these meetings result in an agreement regarding Schedule**  
5 **40 that differs from what PSE has proposed in a newly-filed rate case?**

6 A. Depending on the timing of such an agreement, it could be introduced into the  
7 record at an appropriate time during the case.

8 **V. JOINT TESTIMONY RELATED TO NEW RENEWABLE**  
9 **ENERGY CREDIT TRACKER**

10 **Q. Please describe the proposed tracker.**

11 A. The proposed tracker will provide a credit to customers for the revenues received  
12 for RECs.

13 **Q. Over what period will REC benefits be provided to customers?**

14 A. The proposed REC tracker will flow through the REC revenues that are collected  
15 by PSE each year over a three-year amortization period.

16 **Q. Will the deferred REC balance accrue interest?**

17 A. Yes. As the REC liability, net of associated deferred taxes, would have been  
18 offset against rate base under the provisions of the Commission's order in Docket  
19 UE-070725, the net of tax REC liability will accrue interest at PSE's net of tax

1 rate of return so that customers are no worse off by moving this amortization to a  
2 tracker.

3 **Q. What other characteristics will the new tracker include?**

4 **A.** Amounts included in the tracker will be based on deferred REC proceeds for the  
5 current period with an amortization period of three years. An amount sufficient to  
6 provide interest on the deferred REC balance at PSE's authorized rate of return  
7 will be included in the tracker rates. The tracker will also include one-third of the  
8 amount of REC proceeds projected to occur in the Tracker period, consistent with  
9 the three-year amortization approach.

10 The initial rate will be set in May 2012, coincident with the effective date of rates  
11 in this proceeding. The tracker rates will then be reset annually and would  
12 become effective each January 1st. The first of these annual filings will be for  
13 new rates effective on January 1, 2013.

14 At the time of the annual filing, the tracker rates will be trued up for the actual net  
15 of tax REC liability based on actual receipts and refunds during the then-current  
16 rate period, and the interest thereon, versus the amounts assumed when setting the  
17 rate. The rates will also be trued up for any variances between the amounts set in  
18 rates and the amount actually passed back to customers over that period due to  
19 variances in load.

20 **Q. Does this REC proposal change any of the parties' proposed revenue**  
21 **deficiency as originally filed?**

1 A. Commission Staff had an adjustment for RECs that is shown on Exhibit No. \_\_\_\_  
2 (RCM-2), page 15. If the Commission accepts this Settlement Agreement, lines  
3 22 and 43 should be removed. The impact on the Commission Staff's electric  
4 revenue deficiency would be to increase it from \$38,919,352 to \$40,171,573, an  
5 increase of \$1,252,221. Prior to hearings in February, Commission Staff will  
6 revise its Exhibit No. \_\_\_\_ (RCM-2) accordingly.

7 Kroger had also made a recommendation to adjust base rates to reflect REC  
8 revenues. In Exhibit No.\_\_(KCH-3T), pp. 5-11, Kroger recommended reducing  
9 base rates to reflect amortization of the REC liability over three years, as well as  
10 for one-third of projected REC revenues in the rate year. The adoption of the  
11 REC Tracker proposal would negate the need for such an adjustment to base  
12 rates.

13 **VI. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**  
14 **MULTIPARTY SETTLEMENT**

15 **Q. Please explain why the Multiparty Settlement satisfies the interests of PSE.**

16 A. Regarding rate spread, a major interest of PSE is that our customers view the  
17 allocation to rate classes as fair and reasonable. The acceptance of this  
18 recommendation by a majority of the parties to this case is a good indication that  
19 this interest has been served. Regarding rate design, the changes from current  
20 practice are limited and reasonable.

1 Regarding the specific Schedule 40 proposals, the proposed tariff language better  
2 aligns with the State's policies toward promoting energy efficiency; and, having  
3 had the benefit of six years of experience with Schedule 40, the Company  
4 believes that it is timely to re-evaluate its operation and continued purpose  
5 outside of a litigated proceeding

6 Regarding the REC tracker proposal, the recommendation balances customers'  
7 interest in timely, but stable, rate relief with the Company's interest in more  
8 predictable cost recovery.

9 **Q. Please explain why the Multiparty Settlement satisfies the interests of**  
10 **Commission Staff.**

11 A. Staff is pleased that the Settling Parties were able to reach agreement on electric  
12 rate spread and rate design. The agreed rate spread reasonably balances the  
13 factors used by the Commission to set rates such as cost-of-service, fairness,  
14 perceptions of equity, economic conditions, gradualism, and rate stability.  
15 Although PSE's cost of service study and rate spread was not endorsed by all  
16 Settling Parties, the compromise reached is similar to PSE's original proposal  
17 and, in Staff's opinion, is fair and reasonable. The rate spread agreed upon by all  
18 the Settling Parties allocates revenues equally to all schedules except Schedules  
19 25 and 29, which receive a slight reduction to 75 percent of the average. Under  
20 PSE's cost of service study, Schedules 25 and 29 exceed parity by the greatest  
21 amount, indicating that a less than average increase is fair for those customers.

1 The agreement on electricity rate design applies the class average percent increase  
2 to basic charges, demand charges and reactive power charges. Energy charges are  
3 based on class averages plus any residual charges. Staff accepts this rate design  
4 as fair and reasonable for settlement purposes.

5 The Settling Parties' agreement to reexamine Schedule 40 provides the  
6 opportunity to simplify the process, lessen any administrative burdens, and  
7 validate that costs are allocated appropriately. The pass through of RECs through  
8 the proposed tracker, instead of the rate base offset approved previously by the  
9 Commission, assures that the full benefits are received by the ratepayers, no more  
10 no less. The 3-year amortization period also brings the benefits to ratepayers  
11 sooner than the 5-year period provided in Docket UE-070725.

12 **Q. Please explain why the Multiparty Settlement satisfies the interest of Public**  
13 **Counsel.**

14 A. Public Counsel witness Watkins recognizes the diverse interests of the various  
15 parties and stakeholders in this proceeding. This diversity is particularly evident  
16 in the area of class revenue responsibility. The Multiparty Settlement represents  
17 compromises made by all interests and provides for the allocation of any overall  
18 authorized increase that is fair and reasonable to the Company and all  
19 jurisdictional ratepayers including residential and small business customers.



1 **Q. Please explain why the Multiparty Settlement satisfies the interests of ICNU.**

2 A. Rate spread and rate design are critical elements for ICNU. ICNU firmly  
3 believed working with the all parties to achieve a settlement in these areas was  
4 extremely important. The Multiparty Settlement is supported by a majority of the  
5 parties in this proceeding; and, it is not opposed by any party. As a result, the  
6 Multiparty Settlement has a very broad range of support. For ICNU, the  
7 Multiparty Settlement presents a reasonable distribution of revenue responsibility  
8 given the various positions articulated by the settling parties with regard to class  
9 cost-of-service and the retention of Rate Schedule 40. For these reasons, the  
10 Multiparty Settlement is in the public interest and fully supported by ICNU.

11 **Q. Please explain why the Multiparty Settlement satisfies the interests of**  
12 **Kroger.**

13 A. Kroger believes the rate spread approach in the Multiparty Settlement is equitable  
14 because it appropriately balances considerations of cost causation and gradualism,  
15 as evidenced by the adoption of a below-average percentage increase for  
16 Schedule 25. Kroger also believes the rate design in the Multiparty Settlement  
17 reasonably aligns rate components with customer-related, demand-related, and  
18 energy-related costs for the rate schedules under which Kroger takes service.

19 Further, Kroger appreciates the flexibility introduced into Schedule 40 to permit a  
20 customer who falls below the minimum size threshold due to energy efficiency  
21 investments to remain on that rate schedule if the customer can document that the

1 reduction in its energy usage below the threshold is directly attributable to those  
2 investments. As a customer that is committed to pursuing cost-effective energy  
3 efficiency, Kroger believes this modification is reasonable, rational, and  
4 consistent with the furtherance of the State of Washington's energy policies.

5 Kroger also believes the provision to recognize REC revenues as a credit to  
6 customers through the proposed tracker mechanism is a reasonable means to  
7 reflect the benefits of REC revenues in customer rates. The proposed mechanism  
8 strikes an appropriate balance between the benefits of speedy recognition of the  
9 REC proceeds in customer rates with the desirability of rate stability.

## 10 VII. CONCLUSION

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

12 **A. Yes.**