

Exhibit No. ___ T (JT-1T)

Docket UE-141368

Witnesses: Jon A. Piliaris

Juliana M. Williams

Lea Fisher

Bradley G. Mullins

Kevin Higgins

Charles Eberdt

Ali Al-Jabir

Steve W. Chriss

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY

**To Update Methodologies Used to
Allocate Electric Cost of Service and For
Electric Rate Design Purposes.**

DOCKET UE-141368

**JOINT TESTIMONY IN
SUPPORT OF SETTLEMENT STIPULATION**

OF

**JON A. PILIARIS
JULIANA M. WILLIAMS
LEA FISHER
BRADLEY G. MULLINS
KEVIN HIGGINS
CHARLES EBERDT
ALI AL-JABIR
STEVE W. CHRISS**

PSE Electric Cost of Service and Rate Design Petition

November 4, 2014

1
2
3 **I. INTRODUCTION**

4 **Q. Please state your names, titles, and who you represent in this matter.**

5 A. Our names, titles, and representation are as follows:

- 6 • Jon A. Piliaris, Manager, Pricing and Cost of Service, with Puget Sound
7 Energy, Inc. (“PSE” or “the Company”);
- 8 • Juliana M. Williams, Regulatory Analyst for Commission Staff (“Staff”);
- 9 • Lea Fisher, Regulatory Analyst for the Office of Public Counsel (“Public
10 Counsel”);
- 11 • Bradley G. Mullins, Consultant for the Industrial Customers of Northwest
12 Utilities (“ICNU”);
- 13 • Kevin Higgins, Consultant for The Kroger Company (“Kroger”)
- 14 • Charles Eberdt, Consultant for The Energy Project;
- 15 • Ali Al-Jabir, Consultant for Federal Executive Agencies (“FEA”);
- 16 • Steve W. Chriss, Senior Manager, Energy Regulatory Analysis, Wal-Mart
17 Stores, Inc. for Wal-Mart Stores Inc. (“Walmart”).

18 **Q. Mr. Piliaris, have you provided information pertaining to your educational**
19 **background and professional experience?**

20 A. Yes. My qualifications are provided in Exhibit No. ____ (JAP-2).
21

1 **Q. Ms. Williams, please describe your education, relevant experience, and other**
2 **professional qualifications.**

3 A. I am employed as a Regulatory Analyst with the Washington Utilities and
4 Transportation Commission (“Commission”). I hold a Bachelor of Arts in Geology
5 from Whitman College and a Master of Public Policy from the University of
6 Maryland. My responsibilities with the Commission include review and analysis of
7 utility compliance filings, primarily related to integrated resource planning, the
8 Energy Independence Act, low-income issues, reliability, and critical infrastructure
9 security. Since joining the Commission in 2012, I have filed testimony in rate cases
10 for all three electric utilities and supported the development of several multiparty
11 settlements.

12
13 **Q. Ms. Fisher, please describe your education, relevant experience, and other**
14 **professional qualifications.**

15 A. I am employed as a Regulatory Analyst with the Public Counsel Division of the
16 Attorney General’s Office. I have a B.A. in International Studies from the
17 University of Oregon and a Master of Public Administration degree from the Mark
18 Hatfield School of Government at Portland State University. Since joining Public
19 Counsel in August 2008, I have worked on a wide range of energy issues and cases
20 and testified before the Commission in the 2014 Avista general rate case and the
21 2013 PacifiCorp general rate case. In addition, I have filed written testimony and
22 testified as a member of the settlement panel supporting a number of rate case
23 settlements.

1 **Q. Mr. Mullins, please describe your education, relevant experience, and other**
2 **professional qualifications.**

3 A. I am an independent consultant. My business address is 333 SW Taylor Street, Suite
4 400, Portland, Oregon 97204. I have two Bachelor of Science degrees, one in
5 Accounting and the other in Finance. I also have a Master of Science Degree in
6 Accounting. Before starting my consulting business, I was a Senior Analyst for
7 PacifiCorp from 2010 through 2013. Prior to that I was a Tax Senior at Deloitte Tax
8 from 2007 through 2009. I have appeared in regulatory proceedings in multiple
9 jurisdictions.

10

11 **Q. Mr. Higgins, please describe your education, relevant experience, and other**
12 **professional qualifications.**

13 A. I am a principal in the consulting firm Energy Strategies. My business address is
14 215 South State Street, Salt Lake City, Utah 84111. My academic background is in
15 economics, and I have completed all coursework and field examinations toward the
16 Ph.D. in Economics at the University of Utah. In addition, I have served on the
17 adjunct faculties of both the University of Utah and Westminster College, where I
18 taught undergraduate and graduate courses in economics. Prior to joining Energy
19 Strategies in 1995, I held policy positions in state and local government. From 1983
20 to 1990, I was economist, then assistant director, for the Utah Energy Office and
21 from 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
22 Commission. I have testified in eight previous proceedings before this Commission

1 and in approximately 190 proceedings before other utility regulatory commissions in
2 the United States.

3
4 **Q. Mr. Chriss, please describe your education, relevant experience, and other**
5 **professional qualifications.**

6 A. In 2001, I completed a Master of Science in Agricultural Economics at Louisiana
7 State University. From 2001 to 2003, I was an Analyst and later a Senior Analyst at
8 the Houston office of Econ One Research, Inc., a Los Angeles-based consulting firm.
9 My duties included research and analysis on domestic and international energy and
10 regulatory issues. From 2003 to 2007, I was an Economist and later a Senior Utility
11 Analyst at the Public Utility Commission of Oregon in Salem, Oregon. My duties
12 included appearing as a witness for PUC Staff in electric, natural gas, and
13 telecommunications dockets. I joined the energy department at Walmart in July
14 2007 as Manager, State Rate Proceedings, and was promoted to my current position
15 in June 2011. I have submitted testimony before this Commission in Dockets UE-
16 100749 and UE-140762. I have also submitted testimony in over 100 proceedings
17 before 34 other utility regulatory commissions and before the Missouri House
18 Committee on Utilities, the Missouri Senate Veterans' Affairs, Emerging Issues,
19 Pensions, and Urban Affairs Committee, and the Kansas House Standing Committee
20 on Utilities and Telecommunications. My testimony has addressed topics including,
21 but not limited to, cost of service and rate design, ratemaking policy, qualifying
22 facility rates, telecommunications deregulation, resource certification, energy

1 efficiency/demand side management, fuel cost adjustment mechanisms, decoupling,
2 and the collection of cash earnings on construction work in progress.

3
4 **Q. Mr. Al-Jabir, please describe your education, relevant experience, and other**
5 **professional qualifications.**

6 A. I am a graduate of the University of Texas at Austin ("UT-Austin"), with the degrees
7 of Bachelor of Arts and Master of Arts in Economics. I have also completed course
8 work at Harvard University.

9 I joined Brubaker & Associates, Inc. ("BAI") in January 1997. My work
10 consists of preparing economic studies and economic policy analysis related to
11 investor-owned, cooperative, and municipal utilities. Prior to joining BAI, I was
12 employed at the Public Utility Commission of Texas ("Texas Commission") since
13 1991, where I held various positions including Policy Advisor to the Chairman. As
14 Policy Advisor, I advised the Chairman on policy decisions in numerous rate and
15 rulemaking proceedings. In 1995, I advised the Texas Legislature on the
16 development of the statutory framework for wholesale competition in the Electric
17 Reliability Council of Texas ("ERCOT"), and I was involved in subsequent
18 rulemakings at the Texas Commission to implement wholesale open access
19 transmission service in the region.

20 During my tenure at the Texas Commission and in my present capacity, I
21 have reviewed and analyzed several electric utility base rate and fuel filings in
22 Texas. I have also worked on utility rate, fuel, and merger proceedings and
23 rulemakings in Louisiana, Virginia, Missouri, Colorado, Indiana, Pennsylvania,

1 North Carolina, South Carolina, Michigan, Rhode Island, Alberta and Nova Scotia.
2 In addition to my work on such proceedings, I have drafted policy papers and
3 comments regarding electric industry restructuring and competitive policy issues in
4 Texas, Alabama, Louisiana, Georgia, and Delaware, as well as before the Federal
5 Energy Regulatory Commission. I have been an invited as a speaker at several
6 electric utility industry conferences, and I have presented seminars on utility
7 regulation and industry restructuring.
8

9 **Q. Mr. Eberdt, please describe your education, relevant experience, and other**
10 **professional qualifications.**

11 A. I have been working in the field of residential energy efficiency since the mid-1970s
12 from being trained to install solar hot water systems and building houses to educating
13 homeowners, code officials, and builders about energy efficient building
14 construction and systems for the Washington State Energy Office. In 1993, I began
15 working in energy policy as it affects low-income households on behalf of
16 Washington's community action agencies in their provision of energy services
17 funded by the Washington Department of Commerce and local utilities. I was a
18 Board member of the National Center for Appropriate Technology (NCAT) from
19 1996-2012, and currently sit on the board of A World Institute for a Sustainable
20 Humanity (A W.I.S.H.). I have participated in several proceedings before this
21 Commission over the last twenty years, including general rate cases for all the
22 energy utilities that this Commission regulates.
23

1 **Q. What is the scope of this testimony?**

2 A. This testimony recommends approval by the Commission of the Settlement
3 Stipulation (“Settlement”) addressing electric cost of service and rate design
4 methodologies that was executed by the following parties in this proceeding: PSE,
5 Staff, Public Counsel, ICNU, Kroger, The Energy Project, FEA and Walmart
6 (collectively, the “Settling Parties”). NW Energy Coalition is a party to the
7 proceeding, and although NW Energy Coalition does not join in the Settlement, it
8 also does not oppose the Settlement. The Petition of Puget Sound Energy, Inc. to
9 Update Methodologies Used to Allocate Electric Cost of Service and for Electric
10 Rate Design Purposes, filed on July 1, 2014, received sufficient scrutiny by the
11 parties to the proceeding and the proposed Settlement is supported by sound analysis
12 and sufficient evidence, including this testimony and the testimony and exhibits that
13 were prefiled by PSE on July 1, 2014. Approval of the Settlement Stipulation is in
14 the public interest.

15

16 **II. THE SCOPE OF THE UNDERLYING DISPUTE**

17

18 **Q. Please describe the events that gave rise to this proceeding.**

19 A. As part of the settlement in PSE’s 2013 power cost only rate case (“PCORC”),
20 Docket UE-130617 et al, PSE and the parties to those dockets agreed to participate in
21 a collaborative process “to address issues with respect to electric cost of service, rate
22 spread, and rate design.” Pursuant to the terms of the settlement, if no agreement
23 was reached in the collaborative, PSE would initiate a docket no later than July 1,

1 2014, to address issues with respect to cost of service, rate spread, and rate design.

2 The parties met for collaborative discussions addressing cost of service, rate design
3 and Schedule 40, from November 2013 through June 2014, but did not reach
4 agreement on these issues. As agreed to in the 2013 PCORC settlement, PSE filed
5 its petition and supporting testimony in this docket on July 1, 2014.

6
7 **Q. Was a settlement conference held in this docket?**

8 A. Yes. The parties participated in a settlement conference on September 22, 2014, and
9 participated in subsequent settlement-related calls and correspondence after that date.
10 As a result of these discussions, the Settling Parties have reached agreement on the
11 following terms of a Settlement, which is unopposed, and which they now present to
12 the Commission and request approval.

13
14 **III. THE SCOPE OF THE SETTLEMENT AND**
15 **ITS PRINCIPAL ASPECTS**
16

17
18 **Q. Please describe the scope of the Settlement Stipulation and its principal aspects.**

19 A. The Settlement Stipulation is intended to modify aspects of PSE's cost of service and
20 rate design methodologies, which have not been updated since PSE's 2011 general
21 rate case ("GRC"). The text of the proposed Settlement Stipulation is largely self-
22 explanatory, thus, we do not repeat each detail here. Some of the key points are as
23 follows:

- 1 • PSE will continue to use a “peak credit” classification methodology in regard
2 to electric production and transmission cost allocation; however, the
3 Company will update certain underlying assumptions and data used in “peak
4 credit” analyses, which have not been updated since the 2011 GRC, such as
5 capital and O&M costs, heat rates, natural gas price forecasts, carbon costs
6 assumptions, capacity factor for baseload resources, and potentially rate of
7 return depending on the Commission’s final order in the pending rate plan
8 remand proceeding. These updated assumptions are set forth in more detail
9 in the Settlement Stipulation.
- 10 • Consistent with the foregoing updates to peak credit classification
11 assumptions, PSE will adjust the demand/energy cost allocation percentages
12 under the peak credit classification methodology to 25 percent demand and
13 75 percent energy.
- 14 • PSE will use a four coincident peak (“4-CP”) allocator for demand related
15 production and transmission costs. The use of a 4-CP allocator is for
16 settlement purposes only and is neither an implicit acceptance by the Settling
17 Parties of the Peak-Credit methodology, nor does it imply an agreement to
18 depart from the Peak-Credit methodology in the future. The use of the 4-CP
19 allocator does not bind any Settling Party to its use when discussing such
20 allocators in a Generic Proceeding referred to below, or in future proceedings
21 after the final order is issued in the Company’s next GRC.
- 22 • All cost of service and allocation results modified by this settlement will be
23 applied to all PSE rate schedules, as the Company files to have them

1 updated—i.e., peak credit updates will apply to any and all filings that will be
2 made after the Commission’s final order in this docket, except that: 1) the
3 results will not be applied to rates under the 2014 PSE Power Cost Only Rate
4 Case settlement; 2) if the Generic Proceeding referred to below concludes
5 before a final order is issued in the Company’s next GRC, the Generic
6 Proceeding results will be applied; and 3) if the Generic Proceeding referred
7 to below does not conclude before a final order is issued in the Company’s
8 next GRC, Settling Parties will not be bound by any cost of service or
9 allocation agreements in this settlement in any proceedings initiated
10 subsequent to the issuance of the final order in the Company’s next GRC.

- 11 • If initiated or allowed by the Commission, the Settling Parties agree to
12 participate in a formal Generic Proceeding to address cost of service
13 allocation methodologies for all system costs for the three electric investor-
14 owned utilities. Through this process the Company and all interested
15 interveners would be able to fully present their viewpoints on cost of service
16 and allocation methodologies with the goal of receiving consistent policy
17 direction from the Commission, and in that proceeding no party will be
18 bound by any cost of service or allocation agreements in this settlement.
- 19 • With respect to rate design, the Settling Parties agree to a three-tiered block
20 rate structure for residential service, as set forth in the Settlement Stipulation.
21 In its next GRC, PSE will file a proposal for a tiered block structure using an
22 inverted rate structure for the second and third block. PSE will include in the
23 proposal rates for each block, and other parties may propose alternative rates.

1 Regarding Schedule 40, while no significant changes to the current rate
2 design have been agreed upon, PSE's interests have been served in conducting the
3 review of this schedule with its customers outside of the normal litigated process.
4 Specifically, PSE received valuable comments and suggestions that may inform
5 future proposals for this schedule. In addition, the continuation of the distribution
6 cost study and a new demand study will be in the interest of PSE and all its
7 customers to fairly assign customer costs.

8
9 **Q. Ms. Williams, why does the Settlement Stipulation satisfy the interests of Staff?**

10 A. Although the collaborative discussions did not result in broad agreement on cost of
11 service, rate spread and rate design issues, this settlement provides for incremental
12 improvements to PSE's current rate structure. More importantly, this settlement sets
13 the stage for the Commission to conduct a comprehensive review of cost of service
14 allocation methodologies. The Settlement Stipulation satisfies the interests of Staff
15 for the following reasons:

16
17 **A. Generic Proceeding**

18
19 The Settling Parties agree to participate in a formal Generic Proceeding. This
20 proceeding will address cost of service allocation methodologies for all costs for the
21 three electric investor-owned utilities. A Generic Proceeding would enable the
22 Commission to consider various positions on cost of service allocation
23 methodologies, and to issue an order binding the parties to specific principles or

1 methodologies. Staff estimates that the last time the cost of service allocation
2 methodologies were consistent for the three electric investor-owned utilities was
3 following the Puget Sound Power & Light Co. general rate case filed in 1992¹; the
4 methodologies have since diverged through various rate case orders. As a result,
5 there is no longer clear guidance on the Commission's preferred cost of service
6 allocation methodologies. The collaborative discussions resulting from the PCORC
7 settlement in Docket UE-130617 exposed fundamental differences among parties on
8 a number of issues which prevented agreement. A Generic Proceeding:

9 1. Is an appropriate venue for the Commission to provide clear
10 policy direction on cost of service and allocation methodologies. It allows
11 for the current parties, other electric utilities, and interested interveners to
12 present in full different viewpoints on cost of service and allocation
13 methodologies.

14 2. Would establish cost of service and rate spread methodologies
15 and enable parties to focus their limited resources on other issues in the next
16 general rate case.

17 3. Would explore allocation methodologies across all cost
18 categories at the same time. The scope of this docket, UE-141368, has
19 focused only on methodologies for production and transmission costs.

¹*In re* Petition of Puget Sound Power & Light Company for an Order Regarding the Accounting Treatment of Residential Exchange Benefits, Docket Nos. UE-920433, UE-920499, and UE-921262. That matter was a consolidated rate increase request, rate design proceeding, and accounting petition. Subsequent rate filings by other electric utilities used a cost of service methodology similar to that approved in that case.

1 The Commission has previously held generic proceedings, such as the 1996
2 proceeding establishing a cost methodology for telecommunication companies.²
3 Staff envisions that the Generic Proceeding would begin with a series of workshops
4 to identify and discuss the parties' interests and positions on specific topics, followed
5 by the opportunity to file testimony, and concluding with a formal hearing and
6 Commission order. The workshops allow the parties and Commission to engage in
7 dialogue prior to the filing of testimony, which fosters deeper understanding of the
8 parties' interests. The formal hearing enables due process for the Commission to
9 issue a decision on its preferred cost of service allocation methodology. Based on
10 experience, it is Staff's opinion that this Generic Proceeding could be completed
11 within two years and resolve cost of service allocation methodologies for a
12 reasonable time into the future.

13
14 **B. Peak Credit Methodology**

15
16 Until the Commission issues a decision on cost of service allocation
17 methodologies through the Generic Proceeding, or in the company's next GRC, Staff
18 accepts the continued use of the existing Peak Credit methodology to allocate
19 electric production and transmission expenses to demand or energy cost categories.
20 Staff accepts the continued use of this methodology with updates to certain
21 underlying assumptions and data that is currently based on the 2011 GRC.

² See, *In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale* for Dockets UT-960369, UT-960370, and UT-960371. A general explanation can be found on the commission's website here:

<http://www.utc.wa.gov/regulatedIndustries/utilities/Documents/960369%20phase%201%20order.pdf>

1 Staff would prefer that no changes to the company's cost allocation
2 methodology occur until either the Generic Proceeding or the Company's next GRC.
3 However, for settlement purposes, Staff accepts the use of a 4-CP allocator for
4 demand related production and transmission costs in the near term. Further, the use
5 of this allocator has a minor impact on customer rates, as described in Exhibit No.
6 ____ (JAP-5). Staff's support of the Settlement Agreement should not be construed
7 as support for the 4-CP allocator.
8

9 **C. Residential Rate Design**

10
11 Staff supports the creation of a third residential block using an inverted rate
12 structure in PSE's next GRC, as agreed by the Settling Parties. The third block
13 would apply to usage of 1801 kWh or more in a month. Data from the Northwest
14 Energy Efficiency Alliance's Residential Building Stock Assessment indicates that
15 average monthly usage for electrically-heated single family homes in Washington is
16 between 1500 and 1600 kWh, as shown on page 3 of the attached Exhibit No. ____
17 (JMW-1); this reflects average usage, and therefore half of all customers use more
18 than this amount. Staff recognizes that it is reasonable to set the third block above
19 the average monthly usage to address the potential impact on low-income customers,
20 whose monthly bills are often higher than the average. Based on Staff's analysis,
21 approximately 90 percent of residential customers and approximately 87 percent of
22 low-income customers would be unaffected by the creation of a third block starting
23 at 1801 kWh, as shown in the attached Exhibit No. ____ (JMW-1). The creation of a

1 third block will have a minimal impact on most low-income customers, the inverted
2 rate structure preserves customer's incentive for conservation, and the design will
3 more appropriately reflect the cost of serving different customers within the
4 residential class. Although the Settling Parties agreed to establish the third block
5 starting at 1801 kWh, there was not agreement on a methodology for allocation costs
6 between the three blocks. Staff supports the provision of the Settlement Stipulation
7 that reserves the rights of the parties to propose alternate rates.

8
9 **D. Schedule 40**

10
11 An important part of the Settlement Stipulation is the agreement that PSE
12 will present updated demand studies for each customer on Schedule 40 in its next
13 GRC, and that in future rate cases PSE will present customer demand studies that are
14 no more than five years old. In the course of the collaborative discussions, Staff
15 became aware that some of these demand studies had not been updated in more than
16 ten years. In weighing the need for up-to-date information against the costs to
17 conduct such studies, Staff considers that updating these studies every five years is
18 reasonable.

19 For the reasons expressed above, Staff supports the Settlement Stipulation
20 and recommends it be approved by the Commission.

21

1 **Q. Please explain why Public Counsel believes the Settlement is in the public**
2 **interest.**

3 A. Public Counsel believes the settlement stipulation reflects a reasonable compromise
4 among the parties on cost of service methodology and rate design. Public Counsel
5 believes the settlement is in the public interest for the following reasons:

6

7 **A. Peak Credit Methodology**

8

9 Under the settlement PSE will continue to use the Peak Credit classification
10 methodology for electric production and transmission cost allocation with updates
11 for certain assumptions and data. Public Counsel supports the use of the Peak Credit
12 methodology because it allocates costs in a reasonable manner that is fair to
13 residential customers. The settlement does not contain any agreement or implication
14 that the use of the Peak Credit methodology will be discontinued in the future. For
15 settlement purposes Public Counsel agrees with the updates to certain peak credit
16 assumptions that have not been updated since the 2011 general case. The updates
17 proposed generally use assumptions consistent with those found in PSE's 2013 IRP,
18 with the exception of natural gas prices which will be updated consistent with those
19 used in PSE's 2015 IRP. The updates to peak credit assumptions result in a
20 demand/energy split of 25 percent demand and 75 percent energy. This reflects a
21 modest increase to costs that are considered to be demand-related, from 19 percent to
22 25 percent, and is therefore within the range of reasonableness in Public Counsel's
23 view.

1 **B. The Updates to Cost of Service will not be Applied until after the 2014**
2 **PCORC Rates Take Effect**

3
4 Under the settlement, the updates to PSE's cost of service methodology will
5 not be applied to rates in Docket UE-141141, PSE's 2014 Power Cost Only Rate
6 case (2014 PCORC). A Settlement Stipulation establishing rates under the 2014
7 PCORC has already been approved by the Commission on November 3, 2014.³
8 Public Counsel opposed application of the cost of service modifications in this
9 docket to the 2014 PCORC for both legal and policy reasons and because of the
10 negative rate impact on residential customers that would result. Applying the agreed
11 peak credit results in this case to the full revenue requirement approved in the 2014
12 PCORC would have had the impact of increasing revenue requirement for residential
13 customers by \$19.2 million or approximately 2.7 percent. We are, therefore, pleased
14 that the settlement stipulation clarifies that changes in this docket will not be applied
15 to the 2014 PCORC rates.

16
17 **C. PSE's Final Cost of Capital will Incorporate the Commission's Decision**
18 **in the PSE Rate Plan Remand Proceeding**

19
20 Public Counsel's position is that PSE's current cost of capital is no longer
21 legal given the result of the Thurston County Superior Court's decision in case Nos.
22 13-2-01576-2 and 13-01582-7. For settlement purposes, Public Counsel was able to
23 agree that the initial overall ROR of 7.77 percent will be used, with the condition that
24 the final cost of capital will be based on and incorporate the Commission's decision

³ *WUTC v. Puget Sound Energy*, Docket UE-141141, Order 04 (Nov. 3, 2014).

1 with respect to cost of capital in the remand of Dockets UE-121697/UG-121705 and
2 UE-130137/UG-130138.

3
4 **D. Rate Design**

5
6 Public Counsel is supportive of the settlement term that requires PSE to file a
7 three-tiered inverted rate block structure for residential service in its next general rate
8 case. Public Counsel believes this proposal encourages conservation which is a goal
9 we support.

10
11 **E. Generic Proceeding on Cost of Service Methodologies**

12
13 The settlement stipulation proposes a generic proceeding to address cost of
14 service methodologies for all system costs for the three electric investor-owned
15 utilities. Public Counsel is supportive of the Commission Staff's interest in the
16 initiation of such a proceeding because we believe it would be beneficial to develop
17 consistent policy guidance on cost of service methodologies. This process would
18 allow all parties to fully present their viewpoints on this issue in one proceeding and
19 receive policy guidance from the Commission which would hopefully alleviate the
20 need to litigate this issue in every rate case.

21 For these reasons Public Counsel supports the Settlement Stipulation and
22 recommends it be approved by the Commission.

23

1 **Q. Mr. Mullins, do you agree with everything in this joint testimony?**

2 A. No. My views are only reflected in the questions addressed directly to me. I am
3 providing no attestation regarding the questions addressed to other parties, including
4 those questions where a party is not identified.

5
6 **Q. Mr. Mullins, does this joint testimony represent an agreement among the
7 Settling Parties?**

8 A. No. Nothing in this joint testimony should be interpreted as an agreement between
9 Settling Parties. The terms and conditions in the Settlement Stipulation represent the
10 only agreement between the Settling Parties in this proceeding.

11
12 **Q. Mr. Mullins, does ICNU agree with any ratemaking methodology, theory, or
13 principle outlined in this Settlement?**

14 A. No. While ICNU is supportive of the Settlement, the Settlement Stipulation should
15 not be construed as agreement on the part of ICNU, or myself, on the underlying
16 ratemaking methodologies, principles or theories employed by the Settlement
17 Stipulation. The Settlement Stipulation is a negotiated document that resulted from a
18 compromise of ICNU's, as well as my own, positions on this matter. While ICNU
19 found the Settlement Stipulation to be a reasonable compromise, it did not
20 specifically find any of the individual terms or conditions of the settlement to be
21 reasonable, if viewed in isolation. In addition, ICNU did not find any of the terms
22 and conditions to be individually reasonable, if viewed outside the context of the

1 burdens and risks associated with litigating the ratemaking issues resolved through
2 the Settlement Stipulation.

3
4 **Q. Notwithstanding, Mr. Mullins, should the Commission find this Settlement to be**
5 **just, reasonable, and in the public interest?**

6 A. Yes. The Settlement is just, reasonable, and in the public interest because it
7 implements improvements to the Company's cost of service and allocation
8 methodologies.

9 ICNU is generally supportive of the proposed updates to underlying
10 assumptions and data used in the Company's peak credit analyses, given that no such
11 updates have been made since the Company's 2011 GRC. The current docket is, at
12 least in part, a product of ICNU testimony in the 2013 PCORC, in which ICNU
13 witness Donald W. Schoenbeck testified to the need for peak credit updates,
14 particularly in regard to carbon cost assumptions. Consequently, it is ICNU's view
15 that the adjustment to the demand-energy-split to 25 percent demand/75 percent
16 energy, pursuant to these updates, is an improvement.

17 In addition, ICNU views the Company's proposed transition to a 4-CP
18 allocator for demand related production and allocation costs to have adequate basis,
19 as demonstrated in the testimony of Mr. Piliaris. Thus, ICNU has agreed to this
20 provision for purposes of the settlement.

21 ICNU is also generally supportive of the provision that preserves the parties'
22 interests regarding the appropriate return on equity, along with a provision for

1 application of the Commission's ultimate cost of capital findings, in the rate plan
2 remand dockets.

3 Further, ICNU finds that timing and application provisions of the Settlement
4 will allow for meaningful rate effects in the next proceeding that the Company files,
5 as specified in Settlement Stipulation paragraph 12. The various contingencies
6 outlined in that paragraph represent a fair compromise between the parties, providing
7 for a reasonable outcome under any future circumstance.

8 Finally, for purposes of settlement, ICNU has agreed to a provision requiring
9 the Company to update demand and distribution studies for Schedule No. 40 in
10 future rate proceedings. No other changes to Schedule No. 40 were agreed upon in
11 the settlement.

12
13 **Q. Mr. Higgins, why does the Settlement Stipulation satisfy the interests of**
14 **Kroger?**

15 A. Kroger believes it is reasonable to use updated assumptions in the classification of
16 production and transmission costs as provided in the Settlement Stipulation. Further,
17 the use of the 4-CP allocator for demand related production and transmission costs in
18 combination with the continued use of the "peak credit" method for classification
19 strikes a reasonable balance among the interests of the parties until such time as cost
20 classification and allocation issues can be more thoroughly vetted in a future
21 proceeding.

22

1 Q. Mr. Eberdt, why does the Settlement Stipulation satisfy the interests of The
2 Energy Project?

3 A. The Settlement Stipulation provides a working agreement that sufficiently balances
4 the interests of diverse parties to provide a compromise that is in the public interest.
5 Since The Energy Project does not have the expertise nor the resources to participate
6 in negotiations regarding such items as the peak credit methodology, cost of service,
7 or cost of capital, we are persuaded by other parties' acceptance of this stipulation as
8 a satisfactory workable compromise going forward in those matters. In regard to
9 these matters, our position essentially aligns with that of Public Counsel. Our
10 concern and involvement in the discussion centered around the proposal to add a
11 third tier to the residential rate blocks and the impact that higher priced third tier
12 might have on low-income customers. We support the idea that this rate design will
13 send a conservation signal to higher users. We appreciate any intention to
14 discourage unnecessary discretionary use. However, the low-income population is
15 much more reliant on electric resistance heat than are PSE's general residential
16 customers as a whole. We believe the initial proposal would have pushed many low-
17 income customers too far into that highest tier during the coldest three or four
18 months of the year, saddling them with higher electric bills at a time of year when
19 many already find paying the bill difficult. This was borne out when Commission
20 Staff, the Company and the Energy Project examined the monthly usage of nearly
21 39,000 low-income customer records. This stipulation increases the threshold for
22 that third tier such that fewer low-income customers will face that problem. We
23 believe this will mean fewer disconnections and less bad debt, which is good for all

1 rate payers. For these reasons, we support the stipulation as a reasonable
2 compromise in the public interest.

3
4 **Q. Mr. Al-Jabir, does the FEA's acceptance of the Settlement Stipulation suggest**
5 **that you or the FEA approve of any ratemaking principles, theories or concepts**
6 **that underlie the Settlement Stipulation?**

7 A. No. The FEA supports the Settlement Stipulation as a reasonable compromise of
8 competing interests with respect to the matters addressed in the Settlement
9 Stipulation. The FEA's acceptance of the Settlement Stipulation should not be
10 interpreted as agreement with any specific ratemaking principle, theory or concept
11 that may be reflected therein, either on my part or on the part of the FEA. While the
12 Settlement Stipulation, as a whole, constitutes a reasonable compromise among the
13 Settling Parties, the FEA's acceptance of the Settlement Stipulation should not
14 suggest that I, or the FEA, consider any individual element of the Settlement
15 Stipulation to be reasonable on a stand-alone basis.

16
17 **Q. Mr. Al-Jabir, why does the Settlement Stipulation satisfy the interests of FEA?**

18 A. The Settlement Stipulation is acceptable to FEA because it results in improvements
19 to the cost of service and allocation methodologies, and a movement in the direction
20 of more cost-based rates.

21 In my view, fixed production and transmission costs are capacity-related
22 costs that are incurred by a utility to serve the amount of demand that a customer
23 class places on the utility's system. Once the utility makes an investment in these

1 facilities, the costs continue to be incurred, irrespective of the number of kilowatt
2 hours generated and sold or the number of customers taking service from the utility.
3 Moreover, a customer class's demand at the time of the utility's system peak is the
4 primary driver for capacity-related production and transmission investments.
5 Consequently, allocation methodologies for fixed production and transmission costs
6 that give primary weight to the demands imposed by customer classes (particularly
7 coincident peak demands) are better aligned with cost causation principles and
8 should be encouraged.

9 The Settlement Stipulation moves in an appropriate direction in two key
10 respects. First, the weighting of customer class demands under the peak credit
11 classification methodology is increased from 19 percent under the current method to
12 25 percent under the Settlement Stipulation. Second, for the demand-related portion
13 of production and transmission costs, the Settlement Stipulation would implement a
14 4-CP allocator, which places greater emphasis on the highest coincident peak
15 demands of the customer classes relative to the existing demand allocation
16 methodology that is based on an average of the hourly class demands that occur
17 coincident with the top 75 system hourly loads. While an even stronger weighting of
18 customer class demands in the allocation of production and transmission fixed costs
19 would be preferred, the allocation methodology set forth in the Settlement
20 Stipulation is a reasonable compromise and represents a step in the right direction.

21 For the foregoing reasons, the Settlement Stipulation constitutes a reasonable
22 compromise agreement from the FEA's perspective.
23

1 **Q. Mr. Chriss, why does the Settlement Stipulation satisfy the interests of**
2 **Walmart?**

3 A. Settlements in general are a product of a give-and-take between numerous parties
4 with diverse interests. The settlement process greatly aids in administrative
5 efficiency, which can reduce costs to all parties and ratepayers, including Walmart.
6 This stipulation balances the interests of the parties in the instant docket while
7 preserving the future advocacy rights of parties and for those reasons the stipulation
8 is in Walmart's interest.

9
10 **Q. To all witnesses, why does the Settlement Stipulation satisfy the public interest?**

11 A. The Settlement Stipulation allows for the updating of cost of service and rate design
12 methodologies, which have not been updated since PSE's last GRC, more than two
13 years ago. It is reasonable to update the assumptions now, given that these
14 assumptions are typically updated in a GRC and PSE will not be filing a GRC for
15 several months. The Settlement Stipulation constitutes a compromise on allocation
16 issues while preserving parties' rights to advocate for other cost of service allocation
17 and rate design methodologies in the future, such as in a Generic Proceeding
18 involving all investor-owned electric utilities. It also marks the fulfillment of
19 commitments made as a part of past settlements, including the commitment to review
20 Schedule 40.

21

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

23 A. Yes.