

**Exhibit No. ___ T (DJR-1T)
Dockets UE-121697/UG-121705
Witness: Deborah J. Reynolds**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

DOCKET UE-121697/UG-121705

**PUGET SOUND ENERGY, INC. and
NW ENERGY COALITION**

**For an Order Authorizing PSE to
Implement Electric and Natural Gas
Decoupling Mechanisms and to Record
Accounting Entries Associated with the
Mechanisms.**

TESTIMONY OF

Deborah J. Reynolds

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

March 4, 2013

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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2

3 **Q. Please state your name and business address.**

4 A. My name is Deborah J. Reynolds. My business address is the Richard Hemstad Building,
5 1300 S. Evergreen Park Dr. SW, Olympia, Washington 98504.

6

7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by the Washington Utilities and Transportation Commission
9 (“Commission”) as the Assistant Director of Conservation and Energy Planning in the
10 Regulatory Services Division. My employment at the Commission began in 1999.

11

12 **Q. Please describe your education and your professional qualifications.**

13 A. I have a Bachelor of Science degree in General Studies emphasizing ecology and
14 statistics and a Master of Regional Planning degree, both from Washington State
15 University. I attended the National Association of Regulatory Utility Commissioners’
16 Annual Regulatory Studies Program in August 2004, the New Mexico State University’s
17 rate case basics workshop in May 2008, Electric Utility Consultants, Inc.’s cost of service
18 and rate design workshops in August 2008, the International Energy Program Evaluation
19 Conference and training in August 2009, as well as a number of other utility related
20 seminars, conferences, and training opportunities.

21 As the Assistant Director of Conservation and Energy Planning, I am responsible
22 primarily for the oversight of Commission Staff members reviewing and evaluating
23 conservation programs, participating in conservation and resource planning, and issues

1 like decoupling, reliability, service quality, low-income issues, and other analyses in
2 general rate case and tariff filings of electric and natural gas utilities regulated by the
3 Commission. I also provide technical assistance to companies on energy regulatory
4 matters.

5 I have participated in the development of Commission rules and examined utility
6 reports for compliance with Commission regulations. I have also presented Staff
7 recommendations at numerous open public meetings. I have filed Staff comments on
8 conservation target filings in Dockets UE-100170/UE-100176/UE-100177. I have filed
9 testimony on decoupling in general rate cases for Avista Corporation (Avista) and Puget
10 Sound Energy, Inc. (PSE) under consolidated Dockets UE-090134/UE-090135/UG-
11 060518, consolidated Dockets UE-110876/UG-110877/UE-120436/UG-120437, and
12 consolidated Dockets UE-111048/UG-111049. I am responsible for the preparation of
13 the response to the Commission's bench request on decoupling in the most recent general
14 rate cases for Avista and PSE. I have filed testimony on low-income issues in the most
15 recent general rate cases mentioned above for Avista and PSE, and for Pacific Power and
16 Light Company d/b/a PacifiCorp under Docket UE-111190.

17
18 **Q. What is the purpose of your testimony in this proceeding?**

19 A. My testimony supports the revised joint petition filed March 1, 2013, to implement a rate
20 plan, electric and natural gas decoupling mechanisms, and to record accounting entries
21 associated with the mechanisms (revised petition).¹ PSE and the NW Energy Coalition

¹ *In the Matter of the Petition of Puget Sound Energy, Inc. and NW Energy Coalition For an Order Authorizing PSE To Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated*

1 (Coalition) originally filed a joint proposal on October 25, 2012. As described in the
2 testimony of Mr. Piliaris, Commission Staff members and the company discussed the
3 proposals informally and found broad areas of agreement.² This agreement is enabled by
4 the Commission's final Order 08 in PSE's most recent general rate case, which provided
5 guidance on the approach to consideration of the Commission's Decoupling Policy
6 Statement.^{3,4} This testimony responds to the Commission's guidance, and reconciles it
7 with my previous testimony on decoupling.⁵

8
9 **Q. Please reconcile Staff's support of the revised petition with its testimony about**
10 **attrition in the previous general rate case in response to the Coalition's previous**
11 **decoupling proposal.**

12 A. In its previous general rate case, PSE alleged that it was experiencing attrition due to
13 growth in expenses that were outpacing growth in revenue. A basic full decoupling
14 mechanism would not address that phenomenon.⁶ Staff recommended the company file
15 an attrition study as the best way to deal with this issue.⁷ The Commission made no
16 attrition adjustment since there was no attrition study in the record.⁸ However, the
17 Commission's final order 08 "emphasize[d] that the Commission remains open to, and
18 will consider fairly, specific proposals supported by adequate evidence showing them to

With the Mechanisms, Dockets UE-121697 and UG-121705, Amended Petition and Attachments A and B (March 1, 2013) ("revised petition").

² Piliaris, Exhibit No. ____ (JAP-8T).

³ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, consolidated, Order 08 (May 7, 2012) ("Order 08").

⁴ Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets, Docket U-100522 (November 4, 2010) ("Decoupling Policy Statement").

⁵ Dockets UE-111048 and UG-111049, Reynolds, Exhibit No. ____ (DJR-3T) ("Reynolds").

⁶ Id. at 3:15-19.

⁷ Order 08 at ¶ 487.

⁸ Id. at ¶ 489.

1 be an appropriate response to PSE's economic and financial circumstances including, if
2 demonstrated, under earnings due to attrition."⁹

3 The revised petition contains a rate plan in the form of a K-Factor, implemented
4 as a fixed-percentage increase applied only to non-power costs, which are about one-third
5 of the company's total costs. The evidence supporting the K-Factor is found in Ms.
6 Barnard's testimony. Staff is comfortable with the K-Factor because it is limited to non-
7 power costs, addresses attrition, and is completely reset in the next general rate case,
8 which must be filed no sooner than April 1, 2015, and no later than April 1, 2016. This
9 means it will be in place for a limited period of time, thus limiting its possible impacts.
10 The three percent soft cap on rate increases compared to total revenue under the revised
11 petition, which addresses both increases due to the underlying decoupling mechanisms
12 and those increases due to the operation of the K-Factor, provides additional rate payer
13 protection, ensuring that rate increases will be relatively small.

14
15 **Q. Please reconcile Staff's support of the revised petition with its testimony from the**
16 **previous general rate case about the Coalition's decoupling proposal and its**
17 **inconsistency with the Decoupling Policy Statement.**

18 A. Staff previously testified that the Commission should reject the Coalition's decoupling
19 proposal because it did not comply with the Commission's Decoupling Policy Statement.
20 However, in Order 08, the Commission said the Coalition's proposal in the previous rate
21 case was "consistent in intent and general design" with the Commission's Decoupling

⁹ Id. at ¶ 491.

1 Policy Statement.¹⁰ In light of this comment, Staff found it necessary to reevaluate its
2 previous testimony. Staff addresses each of the points raised in its previous testimony
3 below. Staff concludes that the revised petition is consistent with the Decoupling Policy
4 Statement in intent and general design, and should be accepted.

5
6 **II. THE REVISED PETITION'S DECOUPLING PROPOSALS**

7
8 **Q. Please generally describe the revised petition's decoupling proposals.**

9 A. The revised petition proposes full electric and natural gas decoupling mechanisms for
10 PSE. PSE's revenues would be based upon a revenue-per-customer ("RPC") value for
11 residential customers and a combined group of commercial customers.¹¹ Each group
12 would have separate RPC amounts based on delivery revenues only.

13 The revised petition guarantees that PSE will recover the allowed revenues (as
14 generated by multiplying the RPC by the actual customers) in a given calendar year.
15 Sales of kilowatt-hours or therms at the volumetric rates will occur as usual. The
16 difference between the allowed RPC revenues and the cash collected through sales is
17 deferred for refunds or collections in the succeeding year. The true-ups of actual sales
18 revenue to the allowed RPC level would occur annually, subject to a three percent rate
19 increase soft cap and an earnings test. The three percent soft cap means that each year,
20 the deferred balance for each rate group must be compared to the total revenue of the rate
21 group, and any amount over three percent must be carried forward for recovery in later

¹⁰ Id. at ¶ 455.

¹¹ Revised petition, Attachments A and B.

1 years. The earnings test adds 25 basis points to the allowed rate of return, and returns
2 half of any over-earnings above that rate of return to customers each year.

3 The revised petition proposes that the mechanisms run until the conclusion of the
4 next general rate case, which must be filed no sooner than April 1, 2015 and no later than
5 April 1, 2016. The filing will include an evaluation by an independent contractor.
6 Finally, the revised petition proposes a five percent increase in electric conservation
7 achievement, participation in a gas market transformation project, and relies on annual
8 reports filed by PSE under existing requirements to describe its progress toward its
9 increased conservation targets.¹²

10
11 **A. The Revised Petition is Applied to All Customer Classes**

12
13 **Q. How does the Decoupling Policy Statement address the application of full
14 decoupling to customer classes?**

15 A. The Commission states that a full decoupling mechanism should include all customer
16 classes, unless it would be lawful or consistent with “the public interest” to do otherwise:

17 *Application to Customer Classes.* Generally, a full decoupling proposal should
18 cover all customer classes. However, where in the public interest and not
19 unlawfully discriminatory or preferential, the Commission will consider a
20 proposal that would apply to fewer than all customer classes.¹³
21

¹² Docket UE-111881.

¹³ Decoupling Policy Statement at 18, Criterion 1, ¶ 28.

1 **Q. Does Staff have any concerns about implementing the Commission's policy?**

2 A. No. The discrimination and preference statutes are part of the Commission's overall
3 regulation of utilities; however, there may be circumstances where excluding a customer
4 class would satisfy those statutes and also be in the "public interest".
5

6 **Q. Which customer classes are included in the revised petition?**

7 A. The revised petition includes all customers in the application of the K-Factor rate plan
8 except for gas special contract customers. Electric lighting customers served under
9 Schedules 51 through 59, electric retail wheeling customers, and gas lighting and rental
10 customers already have rate designs that remove the vast majority of non-power costs
11 from their state-jurisdictional base variable rates, so they do not need to be otherwise
12 included in the underlying decoupling mechanisms.¹⁴ Rates for gas special contract
13 customers are governed by their contracts and are also excluded from the revised
14 petition.¹⁵ Cost-of-service treatment for gas special contract customers will be addressed
15 during the next general rate case to ensure that these customers do not unduly benefit
16 from the new system.
17

18 **Q. What do you conclude about the revised petition?**

19 A. The revised petition appropriately includes all customers in the application of the K-
20 Factor rate plan, appropriately excludes those customer classes whose existing rate

¹⁴ Piliaris, Exhibit No. ____ (JAP-8T) at 17:10-19.

¹⁵ Id. at 17:20-22. See also revised petition, Attachment B, page 2. Allowed gas revenue per customer includes only these customers: Schedules 23, 31, 31T, 41, 41T, 53, 85, 85T, 86, 86T, 87 and 87T.

1 designs render decoupling moot, and appropriately leaves cost-of-service issues for the
2 next general rate case.

3
4 **B. The Revised Petition Delays the Impact of Decoupling on the Rate of Return**

5
6 **Q. What does the Decoupling Policy Statement say with respect to the impact of full
7 decoupling on a utility's cost of capital?**

8 A. The Commission contemplates that full decoupling will reduce the utility's cost of
9 capital:

10 By reducing the risk of volatility of revenue based on customer usage, both up
11 and down, such a mechanism can serve to reduce risk to the company, and
12 therefore to investors, which in turn should benefit customers by reducing a
13 company's debt and equity costs. This reduction in costs would flow through to
14 ratepayers in the form of rates that would be lower than they otherwise would be,
15 as the rates would be set to reflect the assumption of more risk by ratepayers.¹⁶

16
17 The Commission specifically requires a full decoupling mechanism proposal to
18 evaluate its impact on the return on equity:

19 *Impact on Rate of Return.* Evidence evaluating the impact of the proposal on risk
20 to investors and ratepayers and its effect on the utility's ROE.¹⁷

21
22 **Q. Does Staff have any concerns about implementing this policy?**

23 A. Staff is only concerned about the timing of implementing this policy. Full decoupling
24 should reduce substantially the utility's revenue risk by guaranteeing a specific amount of
25 revenue per customer regardless of typical causes of fluctuation in revenue related to
26 weather, economic conditions, or any other condition. Reduced revenue volatility

¹⁶ Decoupling Policy Statement at 16-17, ¶ 27.

¹⁷ Id. at 17, Element 2, ¶ 28.

1 reduces risk, which should translate into lower capital costs, either as a lower required
2 return on equity or the need for less equity in the utility's capital structure.

3
4 **Q. Does the revised petition anticipate any reduction to PSE's return on equity due to**
5 **full decoupling at this time?**

6 A. No. Staff strongly believes that adjustments to return on equity or to capital structure are
7 only appropriate within a general rate case, where the Commission can look at all
8 offsetting factors. As mentioned above, the Commission said the Coalition's decoupling
9 proposal in the previous rate case was "consistent in intent and general design" with the
10 Commission's Decoupling Policy Statement, and that PSE's opposition to full decoupling
11 militated strongly against accepting the Coalition's decoupling proposal regardless of the
12 merit the Commission might find on a close examination of its details.¹⁸ In addition, the
13 Commission reiterated that it "remains open to proposals for a full decoupling
14 mechanism, even to one that may vary somewhat from what is described in [its
15 Decoupling Policy Statement]".¹⁹

16 Staff notes that PSE's allowed return on equity was reduced from 10.1 percent to
17 9.8 percent at the end of the most recent rate case, although not due to decoupling.^{20, 21}
18 This recent reduction in the overall rate of return, when combined with the Commission's
19 discussion of the previous decoupling proposal and its discussion of expedited rate
20 filings, which urged parties to come forward with proposals that would reduce the

¹⁸ Order 08 at ¶ 455-456.

¹⁹ Id. at n. 617.

²⁰ Id. at ¶ 89.

²¹ That ROE reduction resulted in a reduction in the overall rate of return from 8.1 percent to 7.8 percent. See Order 08 at ¶ 92.

1 frequency of general rate cases; seems to support acceptance of an allowed rate of return
2 over multiple years.²² Staff also recognizes that a decoupling mechanism is yet another
3 tool that would help the Commission avoid annual rate cases. In any event, the next
4 general rate case, as described in the revised petition, is the right time to adjust the return
5 on equity or the capital structure to reflect the effects of the joint petition.
6

7 **Q. Does the revised petition include any customer protections in the event PSE does**
8 **exceed its allowed rate of return?**

9 A. Yes. In the event the Company earns more than 25 basis points over its allowed rate of
10 return, half of the excess will be deferred and returned to customers. With the rate of
11 return at 7.8 percent, PSE may earn up to 8.05 percent before excess earnings will be
12 returned to customers. PSE does not propose a commensurate floor to address under-
13 earnings, which retains the regulatory principle that PSE has only an opportunity to earn
14 its rate of return, not a guarantee.
15

16 **C. The Revised Petition Includes an Appropriate Alternative to Conditioning Recovery**
17 **on Conservation Achievement**
18

19 **Q. What is the Commission's policy regarding meeting conservation targets and**
20 **revenue per customer recovery by a utility under a decoupling mechanism?**

21 A. It is essential that the decoupled utility meet its conservation targets: "Revenue recovery
22 by the company under the mechanism will be conditioned upon a utility's level of

²² Id. at ¶ 507.

1 achievement with respect to its conservation target.”²³ Later in the Decoupling Policy
2 Statement, in the discussion about direct conservation incentives, the Commission
3 explains further:

4 However, the [Energy Independence Act, or] EIA, in RCW 19.285.060(4),
5 provides us with the express authority to provide such incentives: “The
6 Commission ... may consider providing positive incentives for an investor-owned
7 utility to exceed the targets established in RCW 19.285.040.” We do not read this
8 provision to permit us to provide incentives to acquire conservation that is not
9 cost-effective. Rather, we read this to suggest that, between the biennial
10 conservation targets designed to determine what cost-effective conservation can
11 be required, the electric utility may be able to acquire additional conservation as
12 technology is improved, federal or other matching funds become available, or for
13 other reasons that were not known at the time of the setting of the target.²⁴
14

15 **Q. Can this policy be practically applied?**

16 A. Yes. Staff’s response to the decoupling bench request identifies a conservation test that
17 would implement this policy.²⁵
18

19 **Q. Does the revised petition condition PSE’s revenue recovery under decoupling with**
20 **achieving the Company’s conservation targets?**

21 A. No. As an alternative, the revised petition offers to include any shortfall in meeting
22 *increased* electric conservation targets as subject to penalties under the EIA. This does
23 not explicitly implement the Decoupling Policy Statement. However, since the issuance
24 of that policy, the Commission has established the Conservation and Energy Planning
25 group, which provides for a significant increase in the oversight of conservation
26 programs, thus providing additional insurance that regulated utilities will stay on track to

²³Decoupling Policy Statement at 17, Description of Mechanism, ¶ 28.

²⁴Id. at 20, ¶ 31, 32.

²⁵Dockets UE-111048 and UG-111049, Staff Response to Decoupling Bench Request at 14.

1 meet their conservation targets. Given this increase in oversight, combined with the
2 Commission's conclusion that the Coalition's previous decoupling proposal was
3 consistent with the intent and general design found in the Decoupling Policy Statement,
4 Staff accepts the application of EIA penalties to incremental conservation as a substitute
5 for a conservation test.²⁶ This adequately addresses the Commission's concern that the
6 company might reduce its conservation efforts under a decoupling mechanism, as
7 separate from the overall purpose of decoupling, which is to account for any effect,
8 including conservation, in changing utility sales, which then drives the utility's earnings.

9
10 **D. The Revised Petition Addresses Comparable Conservation Benefits to Low-Income**
11 **Customers**

12
13 **Q. What is the Commission's policy on conservation for low income customers in the**
14 **context of full decoupling?**

15 A. The Commission's policy is:

16 *Low-income.* A utility proposing a full decoupling mechanism must demonstrate
17 whether or not its conservation programs provide benefits to low-income
18 ratepayers that are roughly comparable to other ratepayers and, if not, it must
19 provide low-income ratepayers targeted programs aimed at achieving a level of
20 conservation comparable to that achieved by other ratepayers, so long as such
21 programs are feasible within cost-effectiveness standards.²⁷

22
23
24 **Q. How should a decoupling proposal address this Commission policy?**

25 A. This policy is a useful check on the utility's low income programs to assure they are
26 providing benefits the Commission deems appropriate. A decoupling proposal must
27 describe its existing programs and how it will regularly measure and compare benefits of

²⁶ Order 08 at ¶ 455.

²⁷ Decoupling Policy Statement at 19, Criterion 4, ¶ 28.

1 conservation provided to low-income customers and other customers, including
2 appropriate third party evaluation, to meet the spirit of the Commission's policy.

3
4 **Q. Does the revised petition refer to its existing programs and propose analysis and
5 comparison of low-income conservation benefits?**

6 A. Yes. The revised petition relies on the review of low-income programs from the previous
7 rate case.²⁸ The revised petition describes a thorough evaluation of this issue at an
8 appropriate point in the mechanisms' operation, which will allow the utility to take steps,
9 if necessary, to provide low-income ratepayers targeted programs aimed at achieving a
10 level of conservation comparable to that achieved by other ratepayers, so long as such
11 programs are feasible within cost-effectiveness standards.²⁹

12
13 **Q. What do you conclude regarding the revised petition?**

14 A. The revised petition should be accepted because it appropriately addresses whether PSE's
15 conservation programs provide comparable benefits to low-income ratepayers and others.

16
17 **E. The Revised Petition Describes Incremental Conservation**

18
19 **Q. What is the Commission's policy regarding a utility's acquisition of more
20 conservation than it would have acquired absent decoupling?**

²⁸ Revised petition at 18, ¶ 32.

²⁹ Revised petition at 20, ¶ 37 (3).

1 A. The Commission requires a decoupling proposal to contain: “[e]vidence describing any
2 incremental conservation the company intends to pursue in conjunction with the
3 mechanism”.³⁰

4
5 **Q. How does the revised petition address this policy?**

6 A. The revised petition describes a 5 percent increase in the electric conservation target,
7 which is the incremental conservation that PSE will pursue if the revised petition is
8 approved.³¹ In addition, as part of the revised petition, PSE has agreed to investigate a
9 natural gas market transformation project in cooperation with Commission Staff and the
10 Northwest Energy Efficiency Alliance.

11
12 **Q. What do you conclude about the revised petition?**

13 A. The revised petition should be approved because it appropriately addresses the
14 incremental conservation that PSE will pursue.

15
16 **F. The Revised Petition Does Not Change the Accounting for the Net Benefits of Off-
17 System Sales and Costs Avoided Due to the Utility’s Conservation Efforts**

18
19 **Q. What is the Commission’s policy on increased wholesale sales as a result of
20 decoupling?**

21 A. The Commission requires a full decoupling mechanism to account for certain off-system
22 sales and avoided costs, and to net the benefits as part of the true-up:

³⁰ Decoupling Policy Statement at 19, Criterion 3, ¶ 28.

³¹ Revised petition at 17, ¶ 31.

1 *Accounting for Off-System Sales and Avoided Costs.* A description of the method
2 the company intends to use to determine the financial benefits associated with off-
3 system sales or avoided costs attributable to the utility's conservation efforts and
4 then to net these benefits against the true-up provided in this mechanism.³²
5

6 In the related footnote, the Commission explains:

7 In principle, for every megawatt hour saved through the operation of the utility's
8 conservation program, it has the opportunity to either sell the same in the
9 appropriate market (off-system sales), or avoid having to purchase or produce
10 electricity to meet its load requirements. The accounting of this form of found
11 revenue differs between electric utilities with power cost adjustment mechanisms
12 and those without. After rates have been set for an electric utility that does not
13 have a power cost adjustment mechanism, the marginal avoided cost of producing
14 or buying electricity, or the marginal revenue (net of marginal cost) from the sale
15 of electricity made surplus by conservation not incorporated into the calculation
16 of the power costs, is a direct benefit to the utility shareholders. For utilities with
17 a power cost adjustment mechanism, loads are projected in a future test year, with
18 reductions in the load for the expected conservation levels. Consequently, for the
19 effective rate year following the setting of rates, only conservation above the
20 expected level of conservation would result in an opportunity to reduce power
21 costs or realize additional revenues from incremental sales. In the years after the
22 projected rate year, the marginal avoided cost of producing or buying electricity,
23 or the marginal revenue (net of marginal cost) from a sale of electricity made
24 surplus by conservation, is a direct benefit.³³
25

26 **Q. Does Staff have any concerns about implementing this policy?**

27 A. Staff is only concerned about the timing of implementing this policy. When customers
28 conserve energy, the utility should market the electricity the utility would have sold to its
29 own retail customers. Moreover, the utility incurs lower costs due to the wholesale sales,
30 such as reduced line losses, reduced uncollectible expense, and avoidance of the Public
31 Utility Tax, which effectively applies only to retail sales.

32 Under full decoupling, ratepayers guarantee the utility's recovery of a specified
33 level of delivery revenues per customer. It is appropriate for the Commission to

³² Decoupling Policy Statement at 17, Element 4, ¶ 28.

³³ Id. at n. 45.

1 recognize the benefits of reduced power purchases or enhanced wholesale sales that may
2 result from decoupling in designing and approving a power cost adjustment mechanism.

3
4 **Q. Does the Commission's Order 08 provide any guidance on applying this**
5 **Commission policy?**

6 A. Yes. The Commission rejected Staff's request for a separate proceeding to adjust the
7 PCA.³⁴ In light of this action and the Commission's statement about the Coalition's
8 proposal in the previous rate case being "consistent in intent and general design" with the
9 Commission's Decoupling Policy Statement, Staff believes it is appropriate to implement
10 decoupling without first addressing off-system sales.³⁵ Mr. Cavanagh agrees that PSE's
11 PCA "already addresses this concern" regarding enhanced wholesale sales.³⁶

12
13 **Q. When should the Commission address the issue of off-system sales and avoided costs**
14 **from conservation?**

15 A. This issue is best addressed within a power cost only rate case, or in a general rate case.
16 PSE's PCA has a "dead band" and "sharing bands" which, as a practical matter, currently
17 result in ratepayers not receiving the full benefit of incremental wholesale sales
18 occasioned by full decoupling. This is because any such sales likely would fall within the
19 dead band and, therefore, PSE would retain any benefits of enhanced wholesale sales due
20 to decoupling.³⁷ While this is correct, there may be other, more urgent reasons to retain

³⁴ Order 08 at ¶ 511.

³⁵ Id. at ¶ 455.

³⁶ Cavanagh, Exhibit No. ____ (RCC-2) at 18:9.

³⁷ UE-111048 and UG-111049, Staff Response to Bench Request, Page 18.

1 the dead bands within the PCA, such as the need to ensure that PSE has an incentive to
2 get the best possible price when negotiating for power contracts.

3
4 **Q. Is it consistent with the Decoupling Policy Statement to allow decoupling while also**
5 **maintaining the current PCA?**

6 A. Staff testified previously that the current structure of the PCA and the Commission's
7 decoupling policy on enhanced wholesale sales were not compatible.³⁸ In making a
8 determination to either change the PCA as Staff had advocated, or refrain from applying
9 the Commission's decoupling policy on wholesale sales, the Commission has elected the
10 latter. Given this guidance, it is appropriate to maintain the current PCA and approve the
11 revised petition. If the PCA needs to be modified, it should be done separately within a
12 power cost only rate case, or in a general rate case.

13
14 **III. CONCLUSION**

15
16 **Q. Please summarize your position on the revised petition.**

17 A. The Commission should approve the revised petition.

18
19 **Q. Staff recommended that the Commission reject full decoupling in PSE's previous**
20 **general rate case, and provided recommendations on issues to address if decoupling**

³⁸ Reynolds at 16:1-6.

1 were implemented.³⁹ Is the revised petition consistent with Staff's
 2 recommendations?

3 A. Yes. Staff's recommendations are below, with the revised petition's responses:

Staff's recommendations from the previous general rate case	The revised petition
Reduce the overall rate of return by adopting a return on equity in the lower end of Mr. Elgin's range (9.00 to 9.50 percent), or by reducing the amount of equity in the company's capital structure, or both.	Addresses rate of return in the next general rate case.
Adopt the Earnings Test outlined in the Staff Response to the Bench Request, modifying the deadband as appropriate.	Adopts the Earnings Test with a higher deadband but adds 50-50 sharing of over-earning.
Adopt the Conservation Test outlined in the Staff Response to Bench Request. ⁴⁰	Offers the application of EIA penalties for the failure to meet the incremental increase to the electric conservation target.
Require third party evaluation of conservation achievement, which will also identify any incremental conservation.	Relies on the third party-evaluation of conservation required under Docket UE-111881. Also identifies five percent increase in conservation achievement.
Require third party evaluation of comparable benefits for low-income customers.	Included in the revised petition.
Require revision of the PCA.	Denied by Order 08.

4

³⁹ Reynolds at 17.

⁴⁰ UE-111048 and UG-111049, Staff Response to Commission's Decoupling Bench Request, pages 13-14. See also Staff Response to Bench Request Appendix I Workpapers, Gas, page 1b.

1 Q. Does this conclude your testimony?

2 A. Yes.

3

4