

**EXH. KCH-1T  
DOCKETS UE-240004/UG-240005  
2024 PSE GENERAL RATE CASE  
WITNESS: KEVIN C. HIGGINS**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket UE-240004  
Docket UG-240005**

**RESPONSE TESTIMONY OF  
KEVIN C. HIGGINS  
ON BEHALF OF NUCOR STEEL SEATTLE, INC.**

**August 6, 2024**

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1                                   **RESPONSE TESTIMONY OF KEVIN C. HIGGINS**

2

3                                   **I.       INTRODUCTION**

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

5   A.     My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite  
6           1200, Salt Lake City, Utah, 84111.

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

8   A.     I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private  
9           consulting firm specializing in economic and policy analysis applicable to energy  
10          production, transportation, and consumption.

11   **Q.     On whose behalf are you testifying?**

12   A.     This testimony is being sponsored by Nucor Steel Seattle, Inc. (“Nucor”). Nucor  
13          owns and operates a steel mill in Seattle and takes gas transportation service from  
14          Puget Sound Energy, Inc. (“PSE”) under Schedule 87T.

15   **Q.     Please describe your professional experience and qualifications.**

16   A.     My academic background is in economics, and I have completed all coursework and  
17          field examinations toward the Ph.D. in Economics at the University of Utah. In  
18          addition, I have served on the adjunct faculties of both the University of Utah and  
19          Westminster College, where I taught undergraduate and graduate courses in  
20          economics. I joined Energy Strategies in 1995, where I assist private and public  
21          sector clients in the areas of energy-related economic and policy analysis, including  
22          evaluation of electric and gas utility rate matters.

1 Prior to joining Energy Strategies, I held policy positions in state and local  
2 government. From 1983 to 1990, I was an economist, then assistant director, for the  
3 Utah Energy Office, where I helped develop and implement state energy policy. From  
4 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County  
5 Commission, where I was responsible for development and implementation of a  
6 broad spectrum of public policy at the local government level.

7 **Q. Have you previously appeared as an expert witness?**

8 A. Yes. I have testified before this Commission in nine PSE general rate cases dating  
9 back to 2001, as well as PSE's 2017 retail wheeling proceeding, 2014 cost of service  
10 proceeding, 2013 expedited rate filing proceeding, 2013 decoupling proceeding, and  
11 the 2009 proceeding that addressed the treatment of revenues from PSE's sales of  
12 Renewable Energy Credits.

13 In addition, I have testified in approximately 285 other proceedings on the  
14 subjects of utility rates and regulatory policy before state utility regulators in Alaska,  
15 Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas,  
16 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New  
17 York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina,  
18 Texas, Utah, Virginia, West Virginia, and Wyoming. I have also filed affidavits in  
19 proceedings before the Federal Energy Regulatory Commission and prepared expert  
20 reports in state and federal court proceedings involving utility matters.

21

## II. RECOMMENDATIONS

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

A. My testimony pertains to PSE's gas operations and addresses class cost allocation, revenue allocation, and rate design. Absence of comment on my part regarding a particular issue does not signify support for (or opposition to) PSE's filing with respect to any non-discussed issue(s).

**Q. Please summarize your conclusions and recommendations.**

A. I offer the following recommendations:

- Schedules 85, 85T, 86, 86T, 87, and 87T should be excluded from the allocation of small distribution mains (<2"), and 87 and 87T should also be excluded from the allocation of medium mains (2-3"), consistent with past practice and the principles of cost causation.
- PSE's gas cost-of-service study ("COSS") under-assigns costs to Schedule 88T, which is a new schedule applicable only to Puget LNG. I have estimated the impact of correcting Schedule 88T's assigned share of costs.
- I agree with PSE's proposed functionalization and allocation of FERC Account 870, which pertains to operation supervision and engineering.
- I recommend a revenue allocation among classes that is guided by the current parity ratios resulting from my recommended COSS while employing the principle of gradualism. I utilize similar parameters as PSE's proposed revenue allocation but have adapted my approach based on the results of my recommended COSS.

### III. CLASS COST ALLOCATION

#### A. Small and Medium Distribution Mains Allocation

**Q. Has PSE recently changed its allocation approach for small and medium-sized distribution mains relative to historical practice?**

A. Yes. Prior to the last general rate case (2022), PSE excluded certain rate classes from the allocation of smaller distribution mains that do not serve those classes.<sup>1</sup> Specifically, in its 2019 general rate case, PSE excluded Schedules 85, 85T, 86, 86T, 87, and 87T from the allocation of small mains (<2”), and also excluded 87 and 87T from the allocation of medium mains (2-3”).<sup>2</sup> However, in PSE’s 2022 general rate case filing, PSE changed its allocation approach to a method that did not distinguish between main sizes. Nucor opposed the change to PSE’s mains cost allocation approach in that case,<sup>3</sup> as did Alliance for Western Energy Consumers.<sup>4</sup> The approved Revenue Requirement Settlement in that case did not specify a method for mains cost allocation or a particular COSS in general.<sup>5</sup>

**Q. Why did PSE change its mains cost allocation approach?**

A. PSE did not provide an explanation for this specific change in its direct testimony in the instant case, to the best of my knowledge. However, in the last general rate case,

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<sup>1</sup> *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Prefiled Direct Testimony of John D. Taylor, PSE Exh. JDT-1T at 20-21.

<sup>2</sup> *WUTC v. Puget Sound Energy*, Dockets UE-190529 & UG-190260, Prefiled Direct Testimony of John D. Taylor, PSE Exh. JDT-01T at 17-18. The Special Contract class was also excluded from the generic mains cost allocation since the Special Contract class was directly assigned mains costs.

<sup>3</sup> *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Response Testimony of Kevin C. Higgins, Nucor Exh. KCH-1T at 4-10.

<sup>4</sup> *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Response Testimony of Lance Kaufman, Ph.D., AWEC Exh. LDK-1T at 4-12.

<sup>5</sup> *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE’s Green Direct Program (Aug. 26, 2022) (approved in Final Order 24/10 (Dec. 22, 2022)).

1 PSE explained that its change was made in response to Washington Administrative  
2 Code (“WAC”) Chapter 480-85, which does not specify that certain classes should be  
3 excluded from the allocation of smaller mains.<sup>6</sup> In response to discovery in the  
4 current case, PSE again attributes its departure from past practice to the mains cost  
5 allocation method prescribed in WAC Chapter 480-85.<sup>7</sup>

6 **Q. What allocation method is prescribed for mains in WAC 480-85?**

7 A. The approved natural gas cost of service allocation methods are outlined in Table 4 of  
8 WAC 480-85-060. On the allocation of distribution mains, Table 4 states:

9 Direct assignment of distribution mains to a single customer class  
10 where practical. All other costs assigned based on design day (peak)  
11 and annual throughput (average) based on system load factor.

12 Regarding this approved method, the Commission explained in General Order R-599:

13 One principle of cost of service is assigning costs to a customer or  
14 customer class directly, where the costs can be directly attributed to  
15 that customer or customer class. It is not the Commission’s intent to  
16 change this principle and, as it applies to the allocation of distribution  
17 mains, we add language to clarify the Commission’s intent that  
18 distribution mains should be allocated to a customer class directly,  
19 where practical, with all other costs being allocated based upon design  
20 day and annual throughput based on the system load factor.<sup>8</sup>

21 **Q. Does PSE directly assign a portion of its distribution mains costs?**

22 A. Yes. PSE directly assigns a portion of its distribution mains costs to the Special  
23 Contracts class based on a special study that determined the specific mains that are

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<sup>6</sup> PSE Exh. JDT-1T at 20-21.

<sup>7</sup> Exh. KCH-8 at 1 (PSE Response Nucor Data Request No. 001 b.).

<sup>8</sup> Dockets UE-170002 & UG-170003, General Order R-599, Order Amending and Adopting Rules Permanently at ¶ 77 (July 7, 2020) (“General Order R-599”).

1 utilized to serve the class.<sup>9</sup> Accordingly, the Special Contracts class was excluded  
2 from the allocation of the remaining balance of mains.

3 In addition, PSE includes a new schedule in this general rate case, Schedule  
4 88T, which applies only to Puget LNG. PSE assigns a portion of the costs of certain  
5 distribution mains related to the Tacoma LNG Facility to Schedule 88T and excludes  
6 this schedule from the general allocation of other distribution mains.<sup>10</sup> PSE contends  
7 that this is permissible since the WAC 480-85-060 rules allow for the “direct  
8 assignment of distribution mains to a single customer class where practical.”<sup>11</sup>

9 **Q. Do you fully agree with PSE’s cost allocation to Schedule 88T?**

10 A. No. As I will explain later in my testimony, PSE under-assigns costs to Schedule 88T  
11 due to several errors. However, I do not oppose the concept that Schedule 88T should  
12 be excluded from the cost allocation of mains that it does not utilize. For clarity, I  
13 also note that PSE assigns to Schedule 88T only a portion of the costs of specific  
14 pipeline segments, and the remaining costs of those segments are allocated among  
15 PSE’s other customer classes. Therefore, it is not the case that these particular mains  
16 are assigned to only a “single customer class.”

17 **Q. Considering that direct assignment of mains is permitted under WAC 480-85-**  
18 **060, why does PSE contend that it cannot exclude large commercial and**  
19 **industrial customer classes from the allocation of mains that they do not utilize?**

20 A. In response to discovery, PSE explains that its interpretation of WAC Chapter 480-85  
21 is based on feedback PSE received from WUTC Staff in Docket UG-170003, the

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<sup>9</sup> Prefiled Direct Testimony of John D. Taylor, PSE Exh. JDT-1T at 18.

<sup>10</sup> *Id.* at 18-19.

<sup>11</sup> Exh. KCH-8 at 2 (PSE Response Nucor Data Request No. 001(e)).



1 natural gas COSS rulemaking. In that case, PSE filed written comments seeking  
2 clarification of the proposed rules, stating:

3 PSE is unclear whether this rule would allow the use of main pipe diameter to  
4 allocate costs to some customer classes but not others. Additionally, would  
5 this rule allow direct assignment of costs to some customer classes but not  
6 others (e.g., special contracts)? PSE recommends further clarification for this  
7 allocation method.<sup>12</sup>

8 Staff of the Washington Utilities and Transportation Commission (“Staff”)  
9 responded to PSE’s comments, stating that “[t]he rules are clear and do not allow for  
10 the use of main pipe diameter to allocate costs to some classes but not others.” Staff’s  
11 responsive comments were summarized and adopted by the Commission’s Order in  
12 that proceeding.<sup>13</sup>

13 **Q. Is it logically sound to allow for the direct assignment of costs but preclude PSE**  
14 **from excluding large commercial and industrial classes from the allocation of**  
15 **smaller mains that they do not use?**

16 A. No. It is directly contrary to the principles of cost causation and therefore  
17 fundamentally unreasonable to allocate the cost of smaller mains to classes that do  
18 not use them. The same cost causation principles that favor the direct assignment of  
19 costs to customers or classes, when practical, support not assigning to customers or  
20 classes the costs of facility categories that they do not use.

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<sup>12</sup> Dockets UE-170002 & UG-170003, Comments of Puget Sound Energy at 8 (Mar. 27, 2020).

<sup>13</sup> General Order R-599 at ¶ 53; App’x A.

1 **Q. What reasons did PSE provide in the 2019 general rate case for excluding large**  
2 **commercial and industrial classes from the allocation of smaller mains?**

3 A. In direct testimony in the 2019 general rate case, PSE witness John D. Taylor  
4 explained the Company's approach as follows:

5           Regarding the smallest mains (less than two inches), a review of the  
6           meter sizes for the Non-Exclusive Interruptible (87 and 87T) showed  
7           that it is reasonable to assume that none of these customers are served  
8           from mains that are smaller than four inches. Further, the smallest  
9           main are in isolated locations on PSE's gas distribution system and are  
10          unlikely to provide benefits to the large gas commercial and industrial  
11          loads served on Schedules 85, 85T, 86, 86T, 87, and 87T. Further,  
12          none of the medium size mains were allocated to the Non-Exclusive  
13          Interruptible classes (Schedules 87 & 87T), given the mains serving  
14          these customers were four inch or larger.<sup>14</sup>

15 **Q. Do you agree with PSE witness Taylor's reasoning for excluding certain**  
16 **customer classes from the allocation of costs associated with small and medium**  
17 **sized mains in the 2019 general rate case?**

18 A. Yes, absolutely. PSE witness Taylor's treatment of mains was correct in 2019, and  
19 the same approach is equally correct in this case. Unfortunately, the Company's  
20 perception that the current rules require customers that do not use an entire category  
21 of investment to pay for it anyway has prevented PSE from presenting a fair and  
22 reasonable COSS that adheres to basic cost causation principles in this case.

23 **Q. Does the change to the mains cost allocation method materially impact the COSS**  
24 **results?**

25 A. Yes, particularly for the Non-Exclusive Interruptible Schedules (87/87T). The method  
26 utilized by PSE, in which Schedules 85, 85T, 86, 86T, 87 and 87T are included in the

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<sup>14</sup> Dockets UE-190259 & UG-190260, Exh. JDT-1T at 17-18.

1 allocation of mains of all sizes, results in a 64.7% increase in the *total* rate base  
2 allocated to Schedules 87/87T compared to the method used in the 2019 general rate  
3 case.<sup>15</sup> This draconian impact is not justified on the basis of cost but rather is the  
4 result of allocating to Schedules 87/87T the cost of small and medium mains that  
5 customers in this class do not utilize. The impacts on other classes are much less  
6 dramatic. For example, the new method reduces the total rate base allocated to the  
7 Residential class by only 0.8%. In other words, the unwarranted cost shift of nearly  
8 65% of rate base to Schedules 87/87T results in a reduction to Residential rate base of  
9 less than one percent.

10 **Q. Do you believe that it is appropriate to distinguish between distribution main**  
11 **sizes for the purpose of cost allocation in this case?**

12 A. Yes, it is essential in the interest of fairness and the principles of cost causation to  
13 exclude certain customer classes from the allocation of small and medium sized  
14 mains that they do not utilize, consistent with PSE's approach in the 2019 general rate  
15 case. I believe this approach is also consistent with the Commission's commitment to  
16 the principle of directly assigning costs where practical.

17 **Q. Please describe your recommended approach.**

18 A. I recommend grouping distribution mains into three size categories: small (less than  
19 2"), medium (2-3"), and large ( $\geq 4$ "), with each category allocated using the peak and  
20 average method among the subset of customer classes that utilize that size main.

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<sup>15</sup> Based on the change to mains cost allocation in isolation, which was determined in "Nucor WP 240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024" with the "Nucor Mains Allocation" adjustment turned on, compared to PSE's "240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024."

1 I recommend that Schedules 85, 85T, 86, 86T, 87, and 87T be excluded from  
2 the allocation of small mains and 87 and 87T also be excluded from the allocation of  
3 medium mains,<sup>16</sup> consistent with past practice and cost causation principles.

4 **Q. Are you requesting that the Commission grant an exemption from the**  
5 **distribution mains allocation method described in WAC 480-85?**

6 A. To the extent that my recommended approach requires an exemption from WAC 480-  
7 85, then yes, I recommend that the Commission grant such an exemption. However, I  
8 believe that my recommended method of determining mains cost responsibility is  
9 fully in keeping with the spirit of the Commission's directive to directly assign mains  
10 costs where possible. My recommended method incorporates a form of direct  
11 assignment, in that each main size category is first directly assigned to the subset of  
12 customer classes that utilize mains of that size. Then, the costs of each main size  
13 category are allocated among the appropriate customer classes using the peak and  
14 average method, in accordance with WAC 480-85-60.

15 My proposed modification is in the public interest because it would better  
16 align with cost causation and is consistent with the principle that costs that can be  
17 directly attributed to a customer or class should be directly assigned to that customer  
18 or class, as described in General Order R-599.<sup>17</sup>

19 To underscore this point, consider that if only one class used smaller mains, it  
20 would be indisputable that the costs of those smaller mains should be directly

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<sup>16</sup> To the extent that any future customers in these classes were to utilize smaller mains, it would be appropriate to limit the allocation of the costs of those mains to only the customers(s) using them and to implement an "up-charge" within the class rate design to reflect those specific customers' use of the smaller mains, while excluding the other customers in the class from cost responsibility for the mains they do not utilize.

<sup>17</sup> General Order R-599 at ¶ 77.

1 assigned to that class and *not allocated to the classes that do not use the smaller*  
2 *mains*. The mere fact that the customers using the smaller mains can be subdivided  
3 into more than one class does not alter the logic that classes not using the smaller  
4 mains should not be allocated any of the costs of those mains. The Commission's  
5 commitment to directly assigning costs when possible is firmly grounded in the  
6 principles of cost causation, and my recommended treatment for directly assigning  
7 and allocating smaller mains is fully aligned with the Commission's policy regarding  
8 direct assignment of costs.

9

10 **B. Tacoma LNG-Related Distribution Cost Allocation**

11 **Q. Please provide a brief background of the Tacoma LNG Facility and associated**  
12 **cost recovery.**

13 A. The Tacoma LNG Facility is a dual-use project located at the Port of Tacoma. Puget  
14 LNG, a wholly owned subsidiary of PSE's parent company, Puget Energy, sells  
15 liquified natural gas from the facility to shipping customers on a non-regulated basis.  
16 In addition, liquified natural gas from the facility can be vaporized and injected into  
17 PSE's gas distribution system to serve as a peaking resource for regulated gas sales  
18 customers.<sup>18</sup>

19 Several distribution upgrades are associated with the Tacoma LNG Project:

- 20 • Upgrade 1: A four-mile 16-inch distribution pipeline segment connecting the  
21 Tacoma LNG Facility to the PSE natural gas distribution system;

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<sup>18</sup> Docket UG-230393, Final Order 07 at 3 (Apr. 24, 2024).

- Upgrade 2: Golden Givens Limit Station and one-mile pipe connector (“Golden Givens Segment”); and
- Upgrade 3: Frederickson Gate Station upgrades.

The regulated portion of the costs associated with the development, construction and operation of the Tacoma LNG Facility are recovered through Schedule 141LNG (Liquified Natural Gas Rate Adjustment), and Upgrade 1 distribution costs are recovered through Schedule 141D (Distribution Pipeline Provisional Recovery Adjustment),<sup>19</sup> neither of which apply to core transportation rate schedules.<sup>20</sup>

PSE includes the cost of distribution Upgrades 2 and 3 in its proposed base rates in this case.<sup>21</sup> Regarding the Upgrade 1 costs currently recovered in Schedule 141D, the Company indicates in response to discovery that “PSE is open to rolling these costs into base rates should any party propose that in their response testimony.”<sup>22</sup>

**Q. What is the procedural background that led to the creation of Schedule 141D?**

A. The Tacoma LNG Facility and associated distribution upgrades have been the subjects of numerous earlier proceedings. In Docket UG-151663, the Commission approved a settlement stipulation that provided the terms under which PSE could pursue developing the facility and reserved prudence and cost recovery

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<sup>19</sup> According to discovery, it appears that PSE is currently recovering the cost of the Tacoma LNG Meter station in addition to the four miles of distribution pipe in Schedule 141D. *See* Exh. KCH-8 at pages 15-16 (PSE’s response to Nucor Data Request No. 016. a).

<sup>20</sup> Schedule 141D applies to Schedule 88T, applicable only to Puget LNG.

<sup>21</sup> Exh. KCH-8 at 10, 15-16 (PSE Responses to Nucor Data Request Nos. 011.g and 016.a).

<sup>22</sup> *Id.* at 10 (PSE Response to Nucor Data Request No. 011.i).

1 determinations until a later date.<sup>23</sup> Puget LNG was created as a result of that  
2 proceeding.

3 In its 2019 general rate case, PSE requested recovery for distribution  
4 Upgrades 1 and 3, whose in-service dates preceded that of the Tacoma LNG  
5 Facility.<sup>24</sup> Staff opposed PSE's request, recommending that PSE be authorized to  
6 defer the distribution project recovery until the commercial operation date of the  
7 Tacoma LNG Facility. PSE accepted Staff's recommendation in rebuttal and the  
8 Commission's order adopted Staff's recommendation.<sup>25</sup>

9 In Docket UG-210918, PSE filed a petition for deferred accounting treatment  
10 of Tacoma LNG Facility costs beginning with the commercial operation date of the  
11 facility. This docket was later consolidated with PSE's 2022 general rate case,  
12 Dockets UE-220066 and UG-220067.

13 In the 2022 general rate case, PSE requested rate recovery for the Tacoma  
14 LNG Facility and associated distribution costs.<sup>26</sup> A multi-party settlement stipulation  
15 was filed on August 26, 2022 (Tacoma LNG Settlement), which the Commission  
16 conditionally approved.<sup>27</sup> The settlement provided that PSE would file a proposed  
17 tracker to recover non-distribution Tacoma LNG costs and that related distribution

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<sup>23</sup> *WUTC v. Puget Sound Energy*, Docket UG-151663, Order 10 (Nov. 1, 2016).

<sup>24</sup> See generally *WUTC v. Puget Sound Energy*, Dockets UE-190259 & UG-190260, Prefiled Direct Testimony of Duane A. Henderson, Exh. DAH-01T.

<sup>25</sup> *WUTC v. Puget Sound Energy*, Dockets UE-190529, et al., Final Order 08/05/03 at ¶¶ 170-183 (July 8, 2020).

<sup>26</sup> *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Prefiled Direct Testimony of Jon A. Piliaris, Exh. JAP-1T & Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-1T.

<sup>27</sup> Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Final Order 24/10.

1 costs would be recovered in base rates.<sup>28</sup> The settlement further provided that the  
2 Tacoma LNG revenue requirement would be spread only to sales customers and that  
3 Tacoma LNG-related rates would only be charged to sales customers.<sup>29</sup>

4 The Commission's order expressed concern with the Tacoma LNG  
5 Settlement's treatment of distribution costs, particularly the approximately \$30  
6 million investment associated with Upgrade 1. The Commission rejected the  
7 settlement provision that would have included this plant in base rates without further  
8 consideration of cost allocation between core customers and Puget LNG. The  
9 Commission ordered that this \$30 million plant be included in rates on a provisional  
10 basis and associated revenue deferred for later review.<sup>30</sup> As a result, PSE created  
11 Schedule 141D to provisionally recover these distribution costs.

12 In Docket UG-230393, PSE proposed Schedule 141LNG to recover the non-  
13 distribution Tacoma LNG Facility costs. PSE also proposed a method for allocating  
14 the cost of Upgrade 1 between Puget LNG and its regulated core customers, arguing  
15 that 38.25% should be allocated to Puget LNG and 61.75% to its core customers.<sup>31</sup>  
16 The Company also introduced a new rate schedule, Schedule 88T, applicable only to  
17 Puget LNG for the purpose of recovering distribution costs.<sup>32</sup> Numerous parties  
18 opposed PSE's proposed allocation of Upgrade 1 and the Commission adopted Staff's

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<sup>28</sup> *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Settlement Stipulation and Agreement on Tacoma LNG III. ¶ 18.A.

<sup>29</sup> *Id.* at ¶ 18.C.

<sup>30</sup> Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Final Order 24/10 at ¶¶ 406-410.

<sup>31</sup> *WUTC v. Puget Sound Energy*, Docket UG-230393, Final Order 07 at ¶ 235 (Apr. 24, 2024).

<sup>32</sup> *Id.* at ¶ 212, 282-283.



1 recommendation on this subject.<sup>33</sup> The Commission approved Staff's proposed  
2 allocation of 70.4% of Upgrade 1 costs to Puget LNG and 29.6% to core customers.<sup>34</sup>  
3 Schedule 141D currently reflects the rates as calculated in PSE's compliance filing.

4 **Q. What LNG-related distribution costs does PSE include in its proposed base rates**  
5 **in this case?**

6 A. As presented in response to discovery, PSE includes in base rates \$12.8 million in  
7 gross plant for Upgrade 2 (Golden Givens Section), with an associated revenue  
8 requirement of \$1,478,174 in Rate Year 1 (2025) and \$1,477,892 in Rate Year 2  
9 (2026).<sup>35</sup>

10 In addition, PSE includes in base rates \$4.1 million in gross plant for  
11 Upgrade 3 (Frederickson Gate Station upgrades), with an associated revenue  
12 requirement of \$423,917 in Rate Year 1 and \$438,045 in Rate Year 2.<sup>36</sup>

13 **Q. What portion of these costs does PSE propose directly assigning to Schedule 88T**  
14 **(i.e., Puget LNG)?**

15 A. PSE proposes assigning to Schedule 88T 54.1% of Upgrade 2 (Golden Givens  
16 Section)<sup>37</sup> and 22.0% of Upgrade 3 (Frederickson Gate Station upgrades).<sup>38</sup> However,

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<sup>33</sup> *Id.* at ¶¶ 266-279.

<sup>34</sup> *Id.* at ¶ 272.

<sup>35</sup> Exh. KCH-8 at 8-13 (Excerpt of PSE Response to Nucor Data Request No. 011, 240004-05 PSE Resp NUCOR DR 011\_Attach A).

<sup>36</sup> *Id.* at 15-19 (Excerpt of PSE Response to Nucor Data Request No. 016, 240004-05 PSE Resp NUCOR DR 016\_Attach A).

<sup>37</sup> Exh. JDT-1T at 18; Exh. KCH-8 at page 9 (PSE Response to Nucor Data Request No. 011.b).

<sup>38</sup> Exh. KCH-8 at 15-16 (PSE Response to Nucor Data Request No. 016.a).

1 PSE acknowledges in discovery that its COSS did not correctly assign these costs to  
2 Schedule 88T and proposes to correct its errors in its rebuttal or settlement filing.<sup>39</sup>

3 **Q. Are there additional costs that should be allocated or assigned to Schedule 88T?**

4 A. Yes. PSE's COSS model also allocates to Schedule 88T costs for services (FERC  
5 Account 380) and metering equipment, which is recorded in FERC Account 385.<sup>40</sup>  
6 PSE also allocates to Schedule 88T a share of General and Intangible costs in its  
7 COSS model.

8 **Q. Have you estimated the impact of correcting the assignment of Upgrades 2 and 3**  
9 **to Schedule 88T?**

10 A. Yes. I modified the COSS model to manually assign to Schedule 88T the gross plant  
11 and accumulated depreciation associated with Upgrades 2 and 3, based on PSE's  
12 proposed assignment proportions.<sup>41</sup> Including Schedule 88T's allocated share of the  
13 other costs described above, my correction results in total costs assigned/allocated to  
14 Schedule 88T of \$1,339,325<sup>42</sup> compared to \$516,784 as calculated by PSE.

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<sup>39</sup> Exh. KCH-8 at 9, 15-16 (PSE Responses to Nucor Data Request Nos. 011.a and 016.a).

<sup>40</sup> PSE Workpaper 240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024; *see also* Exh. JDT-1T at 19.

<sup>41</sup> I applied this manual assignment to FERC Accounts 376 and 378, which contain the majority of associated plant. *See* Nucor WP 240004-05-PSE-WP-JDT-4-GCOS-EXT-ALLOC-24GRC-02-2024, "88T Allocation WP" tab & Nucor WP 240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024.

<sup>42</sup> Schedule 88T's assigned costs might require further adjustments to reflect the approved Rate Years 1 and 2 revenue requirements, to reflect the assignment of depreciation expense and accumulated deferred income tax, or if the Commission orders different 88T plant assignment proportions than proposed by PSE.

1 **Q. PSE has acknowledged that its cost assignment to Schedule 88T contains errors.**  
2 **Are you confident that PSE's anticipated correction will properly assign costs to**  
3 **Schedule 88T?**

4 A. No. In addition to using incorrect inputs, I believe that PSE's approach will  
5 erroneously understate the plant balances associated with Upgrades 2 and 3 that are  
6 assigned to Schedule 88T in the COSS model. This is because PSE comingles the  
7 Upgrade 2 and 3 plant balances with its other plant balances using replacement costs  
8 for the purpose of cost allocation.<sup>43</sup>

9 For example, to determine Schedule 88T's share of mains plant recorded in  
10 FERC Account 376,<sup>44</sup> PSE calculates the proportion of total Account 376 plant that is  
11 directly assigned to Schedule 88T on a *replacement cost* basis (in 2023 dollars). PSE  
12 then applies this proportion to the *book cost* in the COSS model to determine  
13 Schedule 88T's assigned share of plant. This is problematic because PSE's  
14 distribution mains are of an older vintage, on average, than the LNG-related  
15 distribution upgrades.

16 In total, the replacement cost for PSE's Account 376 is more than double the  
17 book (i.e., embedded) cost.<sup>45</sup> In contrast, the replacement cost for the Upgrade 2 plant  
18 that PSE directly assigns to Schedule 88T is approximately 31% more than its book  
19 cost.<sup>46</sup> This means that the LNG-related distribution upgrades are a much smaller

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<sup>43</sup> Exh. KCH-8 at 14 (PSE Response to Nucor Data Request No. 012).

<sup>44</sup> The majority of Upgrades 2 and 3 plant is recorded in FERC Account 376.

<sup>45</sup> Cf. PSE Workpaper 240004-05-PSE-WP-JDT-4-GCOS-EXT-ALLOC-24GRC-02-2024 (Mains Costs) (showing \$5,500,629,717 in replacement costs) and PSE Workpaper 240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024 (showing embedded costs of \$2,509,413,498).

<sup>46</sup> Exh. KCH-8 at 3-7 (Excerpt of PSE Response to Nucor Data Request No. 007, 240004-05 PSE Resp NUCOR DR 007\_Attach E (Sch. 88T)).

1 share of total Account 376 replacement costs than book costs. PSE's approach  
2 distorts and understates Schedule 88T's share of gross plant on a book basis, upon  
3 which the revenue requirement is based.

4 A similar problem occurs for the associated accumulated depreciation. The in-  
5 service dates for the LNG-related distribution upgrades are more recent than PSE's  
6 distribution mains on average. This means that a lesser share of the LNG distribution  
7 upgrades has been depreciated. However, PSE allocates mains-related accumulated  
8 depreciation to Schedule 88T based on Schedule 88T's assigned share of mains  
9 overall. Thus, PSE overstates the accumulated depreciation associated with the plant  
10 assigned to Schedule 88T.

11 Despite the seemingly great lengths to which PSE has gone to directly assign  
12 LNG-related distribution costs to Schedule 88T and the degree of scrutiny paid to this  
13 matter in past proceedings, PSE's approach fails to properly assign the associated  
14 costs to Schedule 88T.

15 **Q. What is your recommendation to the Commission on this matter?**

16 A. I recommend that the rate base (gross plant, accumulated depreciation and  
17 accumulated deferred income tax) and depreciation expense associated with the LNG-  
18 related distribution upgrades be separately tracked and assigned to Schedule 88T in  
19 the COSS model. This will help to ensure that Puget LNG is properly charged for the  
20 costs it causes, thereby avoiding improperly shifting these costs to PSE's core  
21 customers.

22 In addition, if PSE includes the cost of Upgrade 1 in base rates, which is  
23 currently recovered in Schedule 141D, I recommend that the balance of this cost that

1 is not directly assigned to Schedule 88T continue to be allocated among and  
2 recovered from PSE's sales schedules only, consistent with current practice and cost  
3 causation.

4

5 **C. FERC Account 870 Functionalization & Allocation**

6 **Q. What costs are recorded in FERC Account 870?**

7 A. FERC Account 870, operation supervision and engineering, is listed under the  
8 Transmission function in FERC's Uniform System of Accounts ("USofA"). WAC  
9 480-85-060 also indicates that Account 870 should be functionalized as  
10 Transmission. However, the description of this account in FERC's USofA makes no  
11 mention of transmission, stating:

12 This account shall include the cost of labor and expenses incurred in  
13 the general supervision and direction of *distribution* system operations.  
14 Direct supervision of specific activities such as load dispatching,  
15 mains operation, removing and resetting meters, etc., shall be charged  
16 to the appropriate account.<sup>47</sup>

17 According to PSE witness Taylor, this account relates to the distribution  
18 system and should be functionalized as Distribution.<sup>48</sup> PSE includes \$1.6 million in  
19 total expense in Account 870 in its COSS model and allocates these costs to classes  
20 based on the overall allocation of other distribution operation expenses.

21 **Q. Do you agree with PSE's functionalization and allocation of Account 870?**

22 A. Yes. Based on PSE witness Taylor's characterization of the nature of these costs as  
23 incurred by PSE, I agree with PSE's proposed functionalization and allocation of this

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<sup>47</sup> 18 CFR § 201 (System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act) (emphasis added).

<sup>48</sup> PSE Exh. JDT-1T at 15.

1 account. The treatment of Account 870 has a minor impact on the cost allocation  
2 among classes.

3

4 **D. COSS Results Summary**

5 **Q. Please summarize the class COSS results incorporating your recommendations**  
6 **regarding mains allocation, cost assignment to Schedule 88T, and allocation of**  
7 **FERC Account 370.**

8 A. These results are compared to the results of PSE's COSS in Table KCH-1, below, and  
9 are presented in more detail in Exhibit KCH-2. I provide the results of my  
10 recommended COSS using the Commission's template in electronic format in Exhibit  
11 KCH-3. The results of my recommended COSS are presented at PSE's adjusted year  
12 ended December 31, 2023 revenue requirement increase.

13 **Table KCH-1**  
14 **Comparison of PSE Direct and**  
15 **Nucor Recommended COSS Results**

Rate Class	PSE Direct COSS <sup>49</sup>			Nucor Recommended COSS		
	Current Parity Ratio	Base Increase at Equal. ROR		Current Parity Ratio	Base Increase at Equal. ROR	
		\$	%		\$	%
Residential (16,23,53)	1.10	\$31,917,196	8.27%	1.09	\$34,686,008	8.99%
Comm. & Indus. (31,31T)	0.81	\$58,987,437	46.38%	0.81	\$60,151,080	47.30%
Large Volume (41,41T)	0.94	\$6,099,347	26.31%	0.93	\$6,635,666	28.63%
Interruptible (85, 85T)	0.85	\$3,742,277	40.66%	0.92	\$2,676,912	29.09%
Limited. Int. (86, 86T)	1.31	(\$133,068)	-8.93%	1.42	(\$241,107)	-16.19%
Non-Exclus. Int. (87, 87T)	0.57	\$5,735,819	109.55%	0.91	\$1,618,045	30.90%
Exclusive Int. (88T)	1.15	\$15,963	3.19%	0.45	\$838,504	167.43%
Contracts	2.26	(\$743,063)	-47.41%	2.26	(\$743,200)	-47.42%
Total	1.00	\$105,621,907	19.06%	1.00	\$105,621,907	19.06%

<sup>49</sup> See PSE Workpaper 240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024.

1 I note that the results of PSE's Direct COSS and Nucor's Recommended  
2 COSS in Table KCH-1 both reflect PSE's recommended treatment of FERC Account  
3 870, which has only a minor impact on the COSS results. In Exhibit KCH-4, I  
4 summarize the results of an alternate COSS reflecting my recommendations regarding  
5 mains cost allocation and Schedule 88T cost assignment but utilizing the WAC-  
6 compliant approach to allocating Account 870. I provide the results of this alternate  
7 COSS using the Commission's template in electronic format in Exhibit KCH-5.

8 **IV. CLASS REVENUE ALLOCATION & 87/87T RATE DESIGN**

9 **Q. Do you have any general comments on revenue allocation in the context of this**  
10 **case?**

11 A. Yes. It is important to recognize that PSE's COSS model and current parity ratios are  
12 based on adjusted historical periods, but PSE is proposing rates for a two-year rate  
13 plan based on projected future periods. PSE's COSS model utilizes adjusted test year  
14 ended June 30, 2023 allocation inputs and is based on a revenue requirement  
15 corresponding to an adjusted year ended December 31, 2023. PSE's proposed Rate  
16 Year 1 (2025) and Rate Year 2 (2026) revenue requirements include forecasted plant  
17 additions placed into service in calendar years 2025 and 2026, respectively.<sup>50</sup> PSE's  
18 proposed rates are designed to collect its proposed Rate Year 1 and Rate Year 2  
19 revenue requirements and are calculated using forecasted 2025 and 2026 billing  
20 determinants.

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<sup>50</sup> Prefiled Direct Testimony of Daniel A. Doyle, PSE Exh. DAD-1CT at 7-8.

1 PSE proposes a base rate increase of \$247.6 million in Rate Year 1, which  
2 represents an increase of 46.2% over current adjusted base (non-gas) revenue.<sup>51</sup>  
3 Including the impact of Schedules 141R and 141N rolling in to base rates and PSE's  
4 proposed Schedule 141DCARB, PSE is proposing a net increase of \$196.0 million in  
5 Rate Year 1.<sup>52</sup>

6 In Rate Year 2, PSE proposes a cumulative base increase of \$273.0 million, or  
7 51.2% over current adjusted base (non-gas) revenue.<sup>53</sup> This represents an incremental  
8 increase of \$25.4 million over adjusted Rate Year 1 revenue (proposed Rate Year 1  
9 rates applied to forecasted 2026 billing determinants).<sup>54</sup>

10 In contrast, PSE's COSS model is based on a much lower revenue  
11 requirement corresponding to the adjusted year ended December 31, 2023, reflecting  
12 a base increase of \$105.6 million, or 19.1% over current adjusted base (non-gas)  
13 revenue, as shown in Table KCH-1.<sup>55</sup> As such, PSE's COSS model does not  
14 determine the increase required by each class to attain an equalized rate of return  
15 under PSE's proposed Rate Year 1 or Rate Year 2 revenue requirements.

16 I recommend that moderation should be exercised in determining the  
17 appropriate revenue allocation, particularly given the mismatch between the adjusted

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<sup>51</sup> See Exh JDT-5 (Rate Spread) & 240004-05-PSE-WP-JDT-5-GAS-RATE-SPREAD-DESIGN-24GRC-02-2024.

<sup>52</sup> See PSE Workpaper 240004-05-PSE-WP-JDT-6-GAS-BILL-IMPACTS-24GRC-02-2024 (Rate Impacts\_RY#1).

<sup>53</sup> See PSE Workpaper 240004-05-PSE-WP-JDT-5-GAS-RATE-SPREAD-DESIGN-24GRC-02-2024; Exh JDT-5 (Rate Spread).

<sup>54</sup> See PSE Workpaper 240004-05-PSE-WP-JDT-6-GAS-BILL-IMPACTS-24GRC-02-2024 (Rate Impacts\_RY#2).

<sup>55</sup> See PSE Workpaper 240004-05-PSE-WP-JDT-4-GCOS-MODEL-PSE-24GRC-02-2024 (Summary).



1 historical periods used in the COSS and the forecasted periods that are the basis for  
2 PSE's Rate Years 1 and 2 revenue requirements and rate design.

3 **Q. What does PSE recommend regarding revenue allocation among rate classes?**

4 A. According to PSE witness Taylor's Direct Testimony, PSE considered the current  
5 parity ratios resulting from its COSS and rate impacts to determine its proposed  
6 revenue allocation. PSE recommends the following revenue allocation parameters:

- 7 1. Applying 90 percent of the system average increase to Schedules 16/23/53  
8 (which have a parity ratio of 1.10 at current rates under PSE's proposed  
9 COSS);
- 10 2. Applying 110 percent of the system average increase to Schedules 41/41T  
11 (current parity ratio of 0.94 under PSE's proposed COSS);
- 12 3. Applying 125 percent of the average increase to Schedules 31/31T and 85/85T  
13 (current parity ratios of 0.81 and 0.85, respectively, under PSE's proposed  
14 COSS);
- 15 4. Applying 150 percent of the average increase to Schedules 87/87T (current  
16 parity ratio of 0.57 under PSE's proposed COSS);
- 17 5. Applying 75 percent of the average increase to Schedules 86/86T (current  
18 parity ratio of 1.31 under PSE's proposed COSS); and
- 19 6. Setting Schedule 88T rates to full parity.<sup>56</sup>

20 **Q. What do you recommend regarding revenue allocation?**

21 A. My recommended revenue allocation is guided by the parity ratios resulting from my  
22 recommended COSS while employing the principle of gradualism. I utilized similar

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<sup>56</sup> PSE Exh. JDT-1T at 27-28. In this section of my testimony, references to the system average increase refer to the average increase excluding Schedule 88T and Special Contracts.

1 parameters as PSE's proposal, but adapted my approach based on the results of my  
2 recommended COSS.

3 Specifically, I recommend targeting the following parameters:

- 4 1. Applying 90 percent of the system average increase to Schedules 16/23/53  
5 (which have a current parity ratio of 1.09 under my recommended COSS);
- 6 2. Applying 110 percent of the average increase to Schedules 41/41T, 85/85T,  
7 and 87/87T (current parity ratios ranging from 0.91 to 0.93);
- 8 3. Applying 125 percent of the average increase to Schedules 31/31T (current  
9 parity ratio of 0.81);
- 10 4. Applying 70 percent of the average increase to Schedules 86/86T (current  
11 parity ratio of 1.42); and
- 12 5. Setting Schedule 88T rates to full parity.

13 After applying the targeted percentage rate increases, I spread the remaining  
14 revenue requirement increase among the classes based on their targeted increases,  
15 consistent with PSE's approach for spreading this delta. This results in each class  
16 receiving a slightly higher increase than the initial target in order to recover the  
17 overall revenue requirement.

18 My recommendation is summarized in Table KCH-2, below, and shown in greater  
19 detail in Exhibit KCH-6. I also present an illustrative rate design for Schedules  
20 87/87T in Exhibit KCH-7, which corresponds to my recommended revenue allocation  
21 to the class at PSE's proposed Rate Years 1 and 2 revenue requirements.

**Table KCH-2**  
**Nucor Recommended Rate Years 1 & 2 Revenue Allocation**  
**at PSE's Proposed Revenue Requirements**

Rate Class	Rate Year 1			Rate Year 2		
	Base Revenue at Current Rates	Targeted Base Increase Including Delta		Base Revenue at Current Rates	Targeted Base Increase Including Delta	
		\$	%		\$	%
Residential (16,23,53)	\$370,022,539	\$155,182,053	41.94%	\$367,451,224	\$170,807,977	46.48%
Comm. & Indus. (31,31T)	\$125,397,647	\$73,041,588	58.25%	\$125,457,111	\$80,997,429	64.56%
Large Volume (41,41T)	\$22,475,459	\$11,520,520	51.26%	\$22,413,644	\$12,734,183	56.81%
Interruptible (85,85T)	\$8,911,456	\$4,567,854	51.26%	\$8,804,976	\$5,002,496	56.81%
Limited Int. (86,86T)	\$1,175,918	\$383,571	32.62%	\$1,143,197	\$413,319	36.15%
Non-Exclus. Int. (87,87T)	\$5,147,033	\$2,638,277	51.26%	\$5,087,802	\$2,890,606	56.81%
Exclusive Int. (88T)	\$1,181,475	\$157,850	13.36%	\$1,489,380	(\$150,055)	-10.07%
Contracts	\$1,566,717	\$123,241	7.87%	\$1,557,550	\$269,285	17.29%
Total	\$535,878,245	\$247,614,954	46.21%	\$533,404,884	\$272,965,240	51.17%

**Q. Do you agree with PSE's proposal to limit class increases to 150 percent of the system average increase?**

A. I agree conceptually that no core customer classes should be subject to base increases greater than 150 percent of the system average. However, since the current parity ratios for the core classes resulting from my recommended COSS are within a tighter range than PSE's COSS, I am recommending a maximum increase of 125 percent of the system average.

I note that PSE applied the 150 percent limit to Schedules 87/87T in its proposed revenue allocation based on the current parity ratio of 0.57 calculated under PSE's COSS, with which I disagree. Under my recommended COSS, the current parity ratio for Schedules 87/87T is 0.91, which is within a similar range as the current parity ratios for Schedules 41/41T and 85/85T. As such, I recommend an increase of 110 percent of the system average for this grouping of classes.

1                   Furthermore, it is important to be aware that PSE applies its percentage  
2                   increase targets relative to its proposed Rate Year 1 and Rate Year 2 system average  
3                   increases. PSE witness Taylor's Table 2, which presents the class percentage  
4                   increases corresponding to the adjusted 2023 revenue requirement, does not reflect  
5                   PSE's proposed two-year rate plan increases.<sup>57</sup> Yet, as discussed above, PSE's  
6                   proposed system average increases in Rate Years 1 and 2 are much greater than the  
7                   system average increase reflected in the COSS model. The greater increases proposed  
8                   in Rate Years 1 and 2 relative to the COSS will magnify the resulting customer rate  
9                   impacts, underscoring the need for gradualism in determining the appropriate revenue  
10                  allocation.

11       **Q.     Do you have any other comments regarding PSE's depiction of its revenue**  
12       **allocation and class impacts?**

13       A.     Yes. Unlike PSE witness Taylor's Table 2, Table 3 presents PSE's proposed 2025  
14              and 2026 revenue changes. However, Table 3 calculates the percentage impacts  
15              including current purchased gas revenue, which is not being determined in this case.  
16              Thus, the percentage increases shown in Table 3 are lower than the proposed  
17              increases to non-gas revenue and do not meaningfully depict the proposed impact on  
18              transportation schedules (which are combined with the corresponding sales schedules  
19              in the table). For example, Table 3 presents an overall impact on Schedules 87/87T of  
20              21.20% in 2025.<sup>58</sup> According to PSE witness Taylor's Exhibit JDT-6, the proposed  
21              increase in 2025 for Schedules 87/87T is comprised of a 9.24% increase for Schedule

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<sup>57</sup> PSE Exh. JDT-1T at 28.

<sup>58</sup> *Id.* at 32.

1           87 (Sales) and a 39.55% increase for Schedule 87T.<sup>59</sup> Therefore, I advise caution in  
2           interpreting the impacts of PSE's proposal, recognizing the greater impact on  
3           transportation customers as a percentage of total PSE bills.

4   **Q.     What do you recommend if the Commission approves a lower overall revenue**  
5           **requirement increase in 2025 or 2026 than proposed by PSE?**

6   A.     At a lower revenue requirement, I recommend scaling each core customer class's  
7           base revenues in proportion to each class's share of total proposed base revenues as  
8           shown in Exhibit KCH-6.<sup>60</sup> I also recommend proportionately reducing the Schedules  
9           87/87T volumetric delivery charges and demand charge by an equal percentage  
10          relative to the rates shown in Exhibit KCH-7 to target the class revenues.

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

12 A.     Yes, it does.

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<sup>59</sup> PSE Exh. JDT-6 (Impacts RY#1).

<sup>60</sup> I recommend that Schedule 88T rates be set to fully recover its allocated/assigned share of the revenue requirement. Special Contract rates are governed by the terms of those contracts.