

**EXHIBIT NO. ___(RCC-3T)
DOCKET NO. UE-121697/UG-121705
JOINT DECOUPLING ACCOUNTING
PETITION
WITNESS: RALPH C. CAVANAGH**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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
With the Mechanisms**

**Docket No. UE-121697
Docket No. UG-121705**

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF
RALPH C. CAVANAGH
ON BEHALF OF NW ENERGY COALITION**

MARCH 1, 2013

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**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF RALPH C. CAVANAGH**

I. INTRODUCTION

Q. Are you the same Ralph C. Cavanagh who provided in this proceeding prefiled direct testimony, Exhibit No. ___(RCC-1T), and supporting exhibits on October 25, 2012, on behalf of the Northwest Energy Coalition (the "Coalition")?

A. Yes.

Q. What is the purpose of this supplemental direct testimony?

A. This supplemental testimony supports a revised joint decoupling proposal by the Coalition and PSE for electric and natural gas revenue decoupling for PSE. The revised joint decoupling proposal includes adjustments to the one that we submitted to the Commission in October, reflecting comments by numerous parties in two subsequent technical workshops convened by the Commission. I believe that the revised proposal remains entirely consistent with, and is in some ways an improvement upon, the revenue decoupling mechanism proposed in my original testimony in PSE's 2011 general rate case Docket No. UE-111048/UG-111049. In Order 08 in that proceeding, the Commission stated that it would be open to considering such a proposal if the Company withdrew its opposition.

1 **II. BACKGROUND**

2 **Q. Please briefly explain the circumstances leading up to this filing.**

3 A. In PSE's 2011 general rate case, the Coalition submitted a full decoupling
4 proposal for PSE retail electricity sales, which I supported in prefiled testimony
5 and at the hearing. In its final order in that case, the Commission commended the
6 Coalition for its decoupling proposal and determined that the Coalition's proposal
7 largely followed, and was consistent with the purpose of, the Commission's
8 Decoupling Policy Statement. However, the Commission declined to require
9 PSE to implement full decoupling, as set forth in my testimony, in the face of
10 PSE's opposition. PSE opposed the Coalition's decoupling proposal because it
11 contended that the proposal did not adequately address the financial consequences
12 of PSE's energy efficiency programs.

13 Although the Commission did not implement the Coalition's decoupling proposal,
14 in its final order the Commission stated that it remained open to proposals for a
15 full decoupling mechanism, even to one that varies somewhat from the
16 Commission's Decoupling Policy Statement. In response, PSE and the Coalition
17 worked intensively together to craft a decoupling proposal that was consistent
18 with the Coalition's proposal in PSE's 2011 general rate case and the
19 Commission's Decoupling Policy Statement, and that better addressed PSE's
20 concerns regarding the effects of conservation and decoupling on PSE's ability to
21 recover its costs of service. That proposal was filed in October.

1 After the filing, the Commission convened two technical workshops to explore all
2 aspects of the revised proposal. The first workshop, on November 8, 2012,
3 generated numerous questions about the “K-Factor” element of the proposal,
4 which would have allowed for adjustment of PSE’s per-customer revenue
5 requirement based on the company’s energy efficiency performance and other
6 factors. At the second workshop, on January 15, 2013, the Coalition and Puget
7 proposed and discussed a modified approach to the K-factor, which is the focus of
8 this filing.

9 **III. THE REVISED COALITION/PSE**
10 **DECOUPLING PROPOSAL**

11 **Q. Why do you support the revised joint proposal?**

12 A. For all the reasons set out in my October testimony, where I said that
13 “[s]ometimes negotiations produce imperfect compromises of incompatible
14 positions, but here it was clear from the outset that the Coalition and PSE had
15 common objectives that were entirely consistent with the Commission’s extensive
16 prior guidance on revenue decoupling and utility-sector energy efficiency
17 leadership. The result is an electricity and natural gas decoupling and energy
18 efficiency proposal that I view as a model for the entire utility industry, and a
19 tribute to the regulatory leadership exemplified in the Commission’s Policy
20 Statement.” The only significant difference between the original and revised joint
21 proposals in terms of the decoupling mechanism involves a change in the
22 structure of the K-factor, which I view as a further improvement.

1 **Q. Explain why you view the change in the K-factor as an improvement on your**
2 **initial proposal.**

3 A. Some parties had complained that the original K-factor was too complex,
4 inconsistent with the Regulatory Assistance Project's (RAP) revenue decoupling
5 manual, and an insufficient antidote to the linkage between PSE's financial health
6 and its energy sales. The new K-factor addresses all these objections; it makes
7 revenue recovery completely independent of throughput (both short-term and
8 long-term), requires no complex (or indeed any) calculations, and adopts the RAP
9 model of a K-factor adjustment in annual authorized revenue per customer that
10 anticipates changes in the utility's cost of service (as opposed to its energy
11 efficiency performance).

12 **Q. Is there another important improvement in the revised joint decoupling**
13 **proposal that you would like to highlight?**

14 A. Yes. PSE proposes to increase funding for low-income bill assistance on an
15 annual basis beginning in August 2013, and link that increase to the percentage
16 bill impacts to residential customers that result from the Schedule 139 rate
17 changes. These low-income assistance dollars would be increased for both
18 electric and gas customers. Ensuring protections for low-income customers is a
19 goal of the Coalition, and aligns with the Commission's principles in its
20 Decoupling Policy Statement.

1 **Q. Are there any other proposed changes in the joint decoupling proposal?**

2 A. Yes, there are a few other adjustments to the original proposal. For example, the
3 timing of the PSE commitment to file its next general rate case is adjusted slightly
4 (to between April 2015 and April 2016); an earnings test is now part of the
5 proposal rather than a mutually endorsed potential amendment; and the interest on
6 any deferrals would be lower. And finally, PSE has agreed to participate in a
7 Northwest Energy Efficiency Alliance (“NEEA”) gas market transformation
8 assessment. NEEA is a leading electric energy efficiency organization in the
9 region, and PSE and the Coalition are both members of the Board. Supporting
10 NEEA’s evaluation of gas market transformation efforts is an important step in
11 evaluating gas savings.

12 **Q. Do any recent regulatory precedents outside Washington State provide**
13 **support for the revised Coalition/PSE proposal?**

14 A. Yes. On January 31, 2013, the Idaho Commission made permanent a full
15 decoupling mechanism for Idaho Power that shares many of the features in the
16 joint proposal.

17 **IV. CONCLUSION**

18 **Q. Does this conclude your prefiled supplemental direct testimony?**

19 A. Yes.