

EXHIBIT NO. _____ (RCC-6T)
DOCKET NO. UE-111048/UG-111049
2011 PUGET SOUND ENERGY, INC. GENERAL RATE CASE
WITNESS: RALPH C. CAVANAGH

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	DOCKET NOS. UE-111048
TRANSPORTATION COMMISSION,)	and UG-111049 (<i>Consolidated</i>)
)	
Complainant,)	
)	
vs.)	
)	
PUGET SOUND ENERGY, INC.,)	
)	
Respondent.)	
_____)	

PREFILED CROSS-ANSWERING TESTIMONY (NON-CONFIDENTIAL) OF
RALPH C. CAVANAGH
ON BEHALF OF NW ENERGY COALITION

January 17, 2012

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I. SUMMARY OF TESTIMONY 1

II. UTC STAFF RESPONSE TO BENCH REQUEST..... 2

III. KEN ELGIN’S TESTIMONY 5

IV. KEVIN HIGGINS’S TESTIMONY FOR KROGER CO. 7

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

2 A. Ralph Cavanagh, c/o NRDC, 111 Sutter Street, 20th Floor, San Francisco,
3 California 94104.

4 **Q. Are you still testifying for the NW Energy Coalition in this proceeding?**

5 A. Yes

6 **Q. Have there been any changes in the qualifications you reported in your direct**
7 **testimony?**

8 A. No.

9 I. SUMMARY OF TESTIMONY

10 **Q. Why are you filing rebuttal/cross-answering testimony in this proceeding?**

11 A. I am responding to the Washington Utilities and Transportation Commission
12 (“UTC”) Staff Response to Bench Request on Full Decoupling (“Staff’s Response”), which
13 outlines an approach to full decoupling that is in some respects different from that advocated in
14 my Direct Testimony (although there are many similarities as well). I also explain my reasons
15 for disagreeing with Staff witness Ken Elgin that more frequent rate cases would constitute a
16 form of decoupling with less “complexity,” and I address the energy efficiency disincentives
17 inherent in Kroger witness Kevin Higgins’s proposal to change rate design in order to recover
18 more of Puget Sound Energy’s (“PSE”) fixed costs through non-volumetric charges.

19 **Q. Please summarize your testimony.**

20 A. On the issues involving design of a full decoupling mechanism, Staff’s Response
21 to the Commission’s bench request represents a worthy effort that is in many respects consistent
22 with my Direct Testimony. We disagree on a few issues involving PSE’s rate of return, per-
23 customer revenue calculation, and off-system sales, but our areas of agreement are much more
24 substantial than our differences.

1 Staff witness Elgin raises what I believe to be unjustified concerns about the
2 “complexity” of decoupling, citing the Commission’s reference in its Policy Statement to the
3 possibility of “unreasonable administrative burdens.” But the Commission was addressing
4 potential joint applications for full and partial decoupling by dual fuel utilities, which are not an
5 issue in this proceeding. I also argue that witness Elgin is incorrect in suggesting that more
6 frequent rate cases would represent “a form of decoupling,” since this would do nothing to break
7 the linkage between retail electricity use and recovery of a utility’s authorized nonproduction
8 costs.

9 Finally, I show that the rate design changes advocated by Kroger witness Higgins as an
10 alternative to decoupling could be justified only if the Commission concluded that utility
11 customers currently had excessive incentives to save energy. This seems inconceivable in light
12 of the Commission’s consistent and well-justified support for aggressive utility efforts to help
13 customers improve the energy efficiency of their buildings and equipment.

14 II. UTC STAFF RESPONSE TO BENCH REQUEST

15 **Q. What is your general reaction to the UTC Staff response to the Bench**
16 **Request on Full Decoupling?**

17 A. I disagree strongly with Staff’s recommendation to substitute “a well-defended
18 attrition adjustment” for full decoupling, but I appreciate Staff’s careful and good-faith effort to
19 address the design issues associated with full decoupling. I see much common ground there with
20 my own testimony.

21 **Q. Why do you disagree with the Staff’s preference for attrition adjustments**
22 **over decoupling?**

23 A. As explained further below in my response to Ken Elgin’s testimony, I believe
24 that more frequent rate cases (which is what Staff appears to mean by “a well-defended attrition

1 adjustment”) would be much more complex than full decoupling, while achieving none of its
2 principal objectives and sharing the deficiencies of PSE’s lost revenue recovery proposal.
3 Assuming that the Commission does not choose this alternative to full decoupling, however, I
4 believe that Staff has provided much of value on designing a full decoupling mechanism in the
5 body of its response. I disagree with the Staff analysis on only a few points, as explained below.

6 **A. Summarize your areas of agreement with the Staff Response.**

7 Q. Staff describes a per-customer decoupling mechanism that would “remain in place
8 until modified or cancelled by the Commission.”¹ I agree. My testimony, like Staff’s Response,
9 argues for a middle course between system-wide decoupling and class-by-class decoupling.²
10 Staff’s proposal is slightly more comprehensive in coverage than mine, but I certainly would not
11 oppose Staff’s recommendation to “includ[e] all customers.”³ Staff’s recommended earnings test
12 is essentially the same as mine.⁴ Staff and I agree that full decoupling will not reduce utility
13 managers’ incentive to reduce costs.⁵ Staff’s approach to conservation achievement seems
14 generally reasonable to me,⁶ although I hope that Staff would join also in my specific emphasis
15 on “strong low-income savings results and implementation of energy efficiency programs across
16 all sectors.”⁷ I appreciate Staff’s concerns about the lack of data to perform analysis of benefits

17 _____
18 ¹ See Exhibit No. ____ (Staff Response to Bench Request on Full Decoupling), pp. 7-8.

19 ² Compare Staff Response, p. 9 with Exhibit No. ____ (RCC-1T), p. 11.

20 ³ My proposal excludes less than 140 very large customers accounting for only about 4 percent
of Puget’s projected revenues from energy charges. Exhibit No. ____ (RCC-1T), p. 13: 9-15.

21 ⁴ Compare Exhibit No. ____ (Staff Response to Bench Request on Full Decoupling), pp. 10-12
with Exhibit No. ____ (RCC-1T), pp. 16:1-5.

22 ⁵ Compare Exhibit No. ____ (Staff Response), pp. 12-13 with Exhibit No. ____ (RCC-1T),
p. 27:13-22.

23 ⁶ Exhibit No. ____ (Staff Response), pp. 13-14.

24 ⁷ Exhibit No. ____ (RCC-1T), p. 11:4-5.

1 to low-income customers from PSE conservation programs, and I note that my direct testimony
2 proposes a specific remedy as part of an independent evaluation of the decoupling mechanism.⁸
3 Staff also offers what I view as reasonable recommendations on periodic reports to the
4 Commission and service quality.⁹

5 **Q. Where do you disagree with Staff?**

6 A. Staff believes that full decoupling justifies a prospective reduction in PSE's
7 authorized rate of return, and I strongly disagree,¹⁰ although I hope that Staff would join my
8 recommendation that "the company should pass through to customers any cost savings
9 associated with changes in its capital structure following adoption of the decoupling mechanism
10 (e.g., a shift in the equity/debt ratio)."¹¹ I also don't agree with Staff that it is appropriate to
11 include in the mechanism an automatic reduction in authorized revenue per customer after three
12 years,¹² given my conclusion that PSE gains no inherent advantage from substituting per-
13 customer revenue decoupling for "the status quo, which effectively allows PSE's annual fixed-
14 cost revenue requirement to grow in proportion to its retail sales instead of its customer count."¹³
15 Staff's proposal here would inflict an automatic penalty for adoption of per-customer
16 decoupling, whereas my aim is relative neutrality. Finally, Staff proposes to include in full
17
18

19 ⁸ Compare Exhibit No. ____ (Staff Response), p. 15 with Exhibit No. ____ (RCC-1T), pp. 18-19.

20 ⁹ Exhibit No. ____ (Staff Response), pp. 19-21. On the issue of service quality, I agree also with
the additional approaches identified by the Regulatory Assistance Project, Exhibit No. ____
(RCC-7), p. 49.

21 ¹⁰ Compare Exhibit No. ____ (Staff Response), pp. 9-10 with Exhibit No. ____ (RCC-1T),
pp. 19-20.

22 ¹¹ Exhibit No. ____ (RCC-1T), p. 19:15-17.

23 ¹² Exhibit No. ____ (Staff Response), p. 6.

24 ¹³ Exhibit No. ____ (RCC-1T), p. 12.

1 decoupling a complex new system of accounting for off-system sales and power costs,¹⁴
2 effectively amending PSE’s Power Cost Adjustment (“PCA”), whereas my recommendation is to
3 limit the decoupling mechanism to nonproduction costs, and to let an unadjusted PCA continue
4 to “strike a reasonable balance between shareholder and customer interests in allocating risks
5 associated with power supply costs and cost recovery at both wholesale and retail levels.”¹⁵

6 III. KEN ELGIN’S TESTIMONY

7 **Q. Please respond to Ken Elgin’s concern that “decoupling in all its varied**
8 **forms creates unnecessary complexity.”**

9 A. My direct testimony does not advocate “decoupling in all its varied forms.” I
10 have presented a specific proposal that is broadly consistent with Staff’s Response to the Bench
11 Request in this proceeding. I note that my proposal is far less “complex” than Mr. Elgin’s
12 proposal for multiple expedited rate cases as what he calls “a form of decoupling.”¹⁶ My
13 proposal does not require the Commission to reexamine any cost-of-service issues between rate
14 cases, and it involves only an annual true-up in rates that would not exceed three percent,
15 designed to ensure that the utility recovered no more and no less than a Commission-approved
16 per customer revenue requirement notwithstanding fluctuations in retail sales volumes.

17 **Q. Do you agree with Mr. Elgin that “the Commission recognized the potential**
18 **for decoupling to create unreasonable administrative burdens” in its Decoupling Policy**
19 **Statement?**

20 A. The Commission identified the potential for unreasonable administrative burdens
21 from decoupling only in contexts wholly unrelated to my proposal. In the passage that Mr. Elgin

22 _____
¹⁴ Exhibit No. ____ (Staff Response), pp. 16-19.

23 ¹⁵ Exhibit No. ____ (RCC-1T), p. 16:10-12.

24 ¹⁶ Exhibit No. ____ (KLE-1T), p. 81:16-18.

1 cites, the Commission was referring to the possibility that “a dual fuel utility may propose full
2 decoupling for its electric utility and limited decoupling for its gas utility,” using as an example
3 “different returns on equity for the natural gas and electric utilities under common ownership.”¹⁷
4 My direct testimony proposes no such bifurcation; it is limited to full decoupling for PSE’s
5 electric utility.

6 **Q. Do you agree with Mr. Elgin that his proposal for more frequent rate cases**
7 **involves “a form of decoupling since rates will be adjusted in a timely manner to capture**
8 **the effects of DSM”?**

9 A. No. From my perspective, the central purpose of decoupling is to break the link
10 between retail electricity use and utilities’ recovery of authorized nonproduction costs; merely
11 adjusting rates to capture estimated DSM effects does not accomplish this, and shares all the
12 deficiencies of PSE’s proposal for a lost revenue recover mechanism, which my direct testimony
13 addresses in detail.¹⁸ In my disagreement with Mr. Elgin, I am in full accord with the Regulatory
14 Assistance Project, which responds as follows to the contention that “the use of frequent rate
15 cases using a future test year eliminates the need for decoupling”:

16 A future test year may have the effect of causing a utility’s “revenue requirement”
17 to more closely track a utility’s revenue requirement over time. A future test year
18 does not, however, have the effect of constraining *allowed revenues* to a utility’s
19 revenue requirement. In addition, a future test year does not address the
throughput issue, which is one of the primary reasons for using decoupling. The

20 ¹⁷ Docket No. U-100522, Commission’s Report and Policy Statement on Regulatory
21 Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their
Conservation Targets (Nov. 4, 2010) (“Policy Statement”), p. 19.

22 ¹⁸ Exhibit No. ____ (RCC-1T), pp. 23:11 – 24:16 (unlike full decoupling, lost revenue recovery
23 mechanisms are automatic rate increases that create perverse incentives to promote programs that
24 look good on paper but deliver little or no savings in practice, while leaving unimpaired strong
utility incentives to promote increased electricity use and creating automatic penalties for cost-
effective savings associated with efficiency standards and effective public education campaigns).

1 term "decoupling" itself is rooted in the notion of separating the utility's incentive
2 to increase profits through increased sales by breaking the link between – that is,
by decoupling – revenues from sales."¹⁹

3 IV. KEVIN HIGGINS'S TESTIMONY FOR KROGER CO.

4 **Q. What is your response to Kevin Higgins's opposition to revenue decoupling?**

5 A. Mr. Higgins simply recites traditional objections to revenue decoupling, without
6 citing or addressing the Commission's Policy Statement, which takes those same objections fully
7 into account.²⁰ The Commission has moved past Mr. Higgins's reflexive opposition in its
8 conclusion that "a properly constructed full decoupling mechanism . . . can be a tool that benefits
9 both the company and its ratepayers."²¹ And his specific objections to decoupling for
10 nonresidential customers fly in the face of the Commission's conclusion that "[g]enerally, a full
11 decoupling proposal should cover all customer classes."²²

12 **Q. Do you support Mr. Higgins's recommendation to substitute rate design**
13 **changes for full decoupling?**

14 A. No. Mr. Higgins wants to shift more fixed cost recovery into charges that do not
15 vary with electricity consumption.²³ But that is tantamount to arguing that PSE's current rate
16 structure creates excessive rewards for saving energy. Certainly Mr. Higgins's proposal would
17 reduce those rewards, at a time when the Commission and the legislature are clearly on record in
18 support of more, not less, energy efficiency effort and investment across the PSE system.²⁴

19 _____
20 ¹⁹ Exhibit No. ____ (RCC-7), Regulatory Assistance Project, Revenue Regulation and
Decoupling: A Guide to Theory and Application (June 2011), p. 49.

21 ²⁰ Exhibit No. ____ (KCH-3T), pp. 19-25.

22 ²¹ Policy Statement, p. 16.

23 ²² Compare Exhibit No. ____ (KCH-3T), p. 21:7-18 with Policy Statement, p. 18, item 1.

24 ²³ Exhibit No. ____ (KCH-3T), pp. 22-23.

²⁴ See, e.g., Policy Statement, pp. 1-9, and sources cited there.

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Q. Does this conclude your testimony?

A. Yes.