

**EXHIBIT NO. ___(JAP-24CT)
DOCKET NO. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: JON A. PILIARIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049**

**PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF
JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

JANUARY 17, 2012

PUGET SOUND ENERGY, INC.
PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF
JON A. PILIARIS

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF**
3 **JON A. PILIARIS**

4 **I. INTRODUCTION**

5 **Q. Are you the same Jon A. Piliaris who submitted prefiled direct testimony on**
6 **June 13, 2011 and prefiled supplemental direct testimony on November 9,**
7 **2011 on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company") in**
8 **this proceeding?**

9 A. Yes, I filed prefiled direct testimony, Exhibit No. ___(JAP-1T), and twenty
10 supporting exhibits, Exhibit Nos. ___(JAP-2) through ___(JAP-21), on June 13,
11 2011. I also filed prefiled supplemental direct testimony and one supporting
12 exhibit, Exhibit Nos. ___(JAP-22T) and ___(JAP-23).

13 **Q. Please summarize the purpose of your rebuttal testimony.**

14 A. My rebuttal testimony responds to testimony from the following witnesses
15 opposing PSE's CSA Rate proposal, collectively referred to as (the "Parties"):

- 16 1. Ms. Deborah Reynolds, witness for the Staff of the Washington Utilities
17 and Transportation Commission ("Staff");
- 18 2. Mr. Ralph Cavanagh, witness for the NW Energy Coalition ("NWEC");
- 19 3. Mr. Michael Gorman, witness for the Industrial Customers of Northwest
20 Utilities ("ICNU");

- 1 4. Mr. Donald Schoenbeck,¹ witness for ICNU and, separately, witness for
2 the Northwest Industrial Gas Users ("NWIGU");
- 3 5. Mr. Kevin Higgins,² witness for the Kroger Company ("Kroger") and,
4 separately, witness for Nucor Steel Seattle, Inc. ("Nucor"); and
- 5 6. Ms. Andrea Crane, witness for the Public Counsel section of the
6 Washington State Attorney General's Office ("Public Counsel") and The
7 Energy Project.³

8 My rebuttal testimony also responds to ICNU's proposal to reflect the effects of
9 PSE's recently-approved reclassification of certain high-voltage distribution
10 facilities on customers served under Schedules 448, 458, 449 and 459.

11 Finally, my rebuttal testimony responds to a mischaracterization of my prefiled
12 supplemental direct testimony, Exhibit No. ____ (JAP-22T), made by Public
13 Counsel.

14 **Q. What is your overall reaction to the testimony filed by the Parties to this case**
15 **in response to PSE's CSA Rate proposal?**

16 A. Issues raised on behalf of the Parties related to PSE's CSA proposal lack merit,
17 misconstrue PSE's proposal or are generally unsubstantiated by the facts in this
18 case. Moreover, none of the issues that I address below raise any barriers that
19 prevent the Commission from approving PSE's CSA proposal.

¹ While Mr. Schoenbeck offers some of the same arguments for both ICNU and NWIGU, most of the arguments addressed in this testimony are sponsored solely on behalf of one or the other of his clients.

² Nucor also supports Kroger's positions on the CSA through the same witness in Exhibit No. ____ (KCH-1T), page 9, lines 1-5.

³ Hereafter, unless noted otherwise, all references to "Public Counsel" will also include, by reference, The Energy Project.

1 **Q. Did any party in this case file testimony that disputes PSE's calculation of the**
2 **financial impact of Company-sponsored energy efficiency?**

3 A. No. No party to this case filed testimony that disputes PSE's calculation of the
4 financial impact of Company-sponsored energy efficiency, as presented in the
5 Eighth and Ninth Exhibits to my prefiled direct testimony, Exhibit
6 Nos. ____ (JAP-9) and ____ (JAP-10). This is significant and it supports the
7 validity of PSE's analysis, which puts into perspective the magnitude of the
8 problem PSE is attempting to address through its CSA proposal.

9 **Q. Are there any other sources of agreement among the Parties regarding PSE's**
10 **CSA proposal?**

11 A. The parties generally agree that PSE's CSA mechanism does not meet the
12 definition of a "limited decoupling" mechanism, as defined in the Commission's
13 *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling,*
14 *To Encourage Utilities To Meet Or Exceed Their Conservation Targets*⁴ ("Policy
15 Statement"). The Company does not dispute whether the CSA is a "limited
16 decoupling" mechanism or not. However, as discussed later in my testimony, the
17 Company's proposal fits the Policy Statement as the Commission explicitly allows
18 companies to file "other mechanisms".

19 **II. RESPONSE TO SPECIFIC ISSUES RAISED BY PARTIES**
20 **REGARDING PSE'S CSA PROPOSAL**

21 **A. Parties Agree that PSE's CSA Proposal is Not Limited Decoupling**

⁴ Docket No. U-100522 (November 4, 2010).

1 **Q. Please summarize how the Parties characterize PSE's CSA proposal.**

2 A. The Parties characterize PSE's CSA proposal several different ways, including as
3 a "modified form" of limited decoupling, an incentive mechanism, something
4 similar to the pro forma adjustment that PSE proposed in its 2009 general rate
5 case ("GRC") or some combination of these.

6 **Q. What does Staff consider PSE's CSA mechanism?**

7 A. Staff contends that the CSA mechanism is a "hybrid" of limited decoupling and
8 an incentive mechanism.⁵ Staff also refers to the CSA mechanism as a "modified
9 form of limited decoupling."⁶

10 **Q. How does Staff define "limited decoupling?"**

11 A. Using the Commission's Policy Statement as its guide, Staff equates "limited
12 decoupling" to a mechanism that recovers "lost margin," but only as lost margin is
13 defined by the Commission.⁷ Based on the Policy Statement, Staff defines "lost
14 margin" as "a reduction in revenue during a rate-effective period due to a
15 reduction in use, from the level of use determined using a modified historic test
16 year in a general rate case."⁸

17 **Q. Does PSE's CSA proposal conform to the definition of limited decoupling**
18 **relied upon by Staff?**

⁵ Exhibit No. ___(DJR-1T), page 17, lines 4-6.

⁶ Id., lines 19-20.

⁷ Id., lines 9-16.

⁸ Id., lines 11-14.

1 A. No. PSE's CSA proposal does not fit this definition, primarily due to Staff's
2 reliance on the Policy Statement's definition of "lost margin." This definition of
3 limited decoupling more closely aligns with Avista's current gas decoupling
4 mechanism.

5 **Q. Then how does Staff consider PSE's CSA mechanism "a modified form" of**
6 **limited decoupling?**

7 A. Staff apparently relies on the fact that the CSA (a) has a true-up mechanism, (b)
8 attempts to capture only one cause of changes in use and (c) has an earnings test.⁹

9 **Q. Are these three features necessarily restricted to a limited decoupling**
10 **mechanism?**

11 A. No. The features suggested by the Commission for a full decoupling mechanism
12 also include a true-up mechanism and an earnings test.¹⁰ The only similarity
13 between the CSA mechanism and the Commission's limited decoupling
14 mechanism is that both mechanisms attempt to capture changes in use caused by
15 one factor.

16 **Q. Does this similarity preclude characterizing PSE's CSA proposal as**
17 **something other than limited decoupling?**

18 A. No. This similarity does not preclude alternatively categorizing the CSA under
19 the "other mechanisms"¹¹ category in the Policy Statement.

⁹ Id., lines 18-21.

¹⁰ Policy Statement, page 17, ¶28.

¹¹ Id., page 22, ¶34.

1 **Q. You mentioned earlier that Staff also considers PSE's CSA mechanism to be**
2 **like an "incentive mechanism." How does Staff reach this conclusion?**

3 A. Staff apparently reaches this conclusion merely by noting that incentive
4 mechanisms encourage companies to achieve more conservation and that these
5 mechanisms rely on conservation savings to calculate the incentive payment.¹²

6 **Q. Do you agree that the CSA mechanism is an "incentive mechanism?"**

7 A. No. To be an incentive mechanism, increasing levels of utility-sponsored
8 conservation achievement must result in better financial results for the utility.
9 However, the CSA mechanism only makes PSE whole for the financial effects of
10 Company-sponsored energy efficiency, whatever level of conservation savings it
11 may achieve. In other words, the CSA produces \$1 in additional revenue to
12 compensate for every estimated \$1 reduction in cost recovery resulting from its
13 energy efficiency programs. To provide an incentive, the CSA would need to
14 produce something greater than \$1 for every \$1 conservation-related reduction in
15 cost recovery so that the mechanism generated a net financial gain from
16 increasing levels of conservation. Since PSE's proposed CSA mechanism only
17 provides dollar-for-dollar cost recovery, it is inappropriate to characterize the
18 CSA as an incentive mechanism.

19 **Q. If what you say is true, then why does Staff conclude that the CSA**
20 **mechanism will financially benefit PSE with increases in conversation**
21 **achievement?¹³**

¹² Exhibit No. ___(DJR-1T), page 18, lines 1-7.

1 A. Staff ignores the loss in base rate revenue that also occurs with rising level of
2 conservation achievement. This is well illustrated by Exhibit No. ___(JAP-25),¹⁴
3 which is a copy of Staff's response to the question of how PSE's short-term
4 earnings are affected under the Company's CSA proposal by changing levels of
5 conservation savings. In its response, Staff clearly takes note of the increased
6 cost recovery that would occur through the CSA mechanism as a result of
7 increases in conservation savings.¹⁵ However, completely absent from Staff's
8 response is any recognition that PSE would be incurring an associated loss in base
9 rate revenue that offsets the corresponding CSA revenue.

10 **Q. What are the Policy Statement conditions that Staff says the Company did**
11 **not comply with?**

12 A. According to Staff, PSE should have: "(1) provided an analysis of the CSA's
13 impact on rate of return, (2) provided a discussion of offsets or found margin, (3)
14 provided an explanation of the impact of weather on the mechanism, (4) described
15 the incremental conservation to be achieved as a result of the CSA, and (5)
16 demonstrated whether or not its conservation programs provide roughly
17 comparable benefits to low-income rate-payers."¹⁶ It is noteworthy that one of
18 these items was only discussed in the context of limited decoupling in the Policy
19 Statement. So, it seems reasonable to conclude that Staff is applying the
20 Commission's standards for such a mechanism to PSE's CSA proposal.

¹³ Id., page 29, lines 11-13.

¹⁴ WUTC Staff Response to PSE Data Request No. 020.

¹⁵ This is also noted in Exhibit No. ___(DJR-1T), page 29, lines 11-13.

¹⁶ Exh. No. ___(DJR-1T), page 19, lines 1-6.

1 **Q. Did PSE address the five items noted by Staff?**

2 A. Yes. Item (3) was addressed in my prefiled direct testimony,¹⁷ items (2), (4) and
3 (5) were addressed in the Prefiled Direct Testimony of Tom De Boer,¹⁸ and item
4 (1) was addressed in the Prefiled Direct Testimony of Dr. Charles Olson.¹⁹
5 Furthermore, given Staff's characterization that PSE's CSA mechanism fails to
6 meet the Policy Statement's "requirements" for a "limited decoupling"
7 mechanism,²⁰ it is unclear the extent to which the items noted by Staff even apply.

8 **Q. Does Public Counsel also try to tie PSE's CSA proposal to the Policy**
9 **Statement?**

10 A. Yes. After noting that "the Company rejected the decoupling and incentive
11 mechanisms envisioned in the Decoupling Policy Statement," the witness for
12 Public Counsel, Ms. Crane, concludes that "the Company acknowledges that its
13 proposal is inconsistent with the provisions of the policy statement."²¹

14 **Q. Do you agree with Ms. Crane's assertion?**

15 A. No. Nowhere in PSE's testimony did it make such a statement or inference. Ms.
16 Crane is attempting to tie PSE's CSA proposal to one of the first three options
17 listed in the Commission's Policy Statement: full decoupling, limited decoupling
18 or an incentive mechanism. However, like Staff, she fails to acknowledge that the

¹⁷ Exhibit No. ___ (JAP-1T), pages 35-41.

¹⁸ Exhibit No. ___ (TAD-1T), pages 13-21 and 24-25.

¹⁹ Exhibit No. ___ (CEO-1T), pages 29-30.

²⁰ Exhibit No. ___ (DJR-1T), page 3, lines 7-10.

²¹ Exhibit No. ___ (ACC-1T), page 12, line 20 to page 13, line 6.

1 Policy Statement allows for "Other Mechanisms."²² Furthermore, Ms. Crane
2 acknowledges that PSE's CSA mechanism does not conform to the definition of a
3 limited decoupling mechanism in the Policy Statement²³ and she does not attempt
4 to alternatively characterize the CSA as either a full decoupling or incentive
5 mechanism. Therefore, since the CSA mechanism is not one of the three
6 mechanisms identified in the Policy Statement, it would be logical to conclude
7 that this mechanism should fall under the "other" category.

8 **Q. Does ICNU share the view of either Staff or Public Counsel as to how to**
9 **characterize PSE's CSA proposal?**

10 A. No. ICNU characterizes PSE's CSA proposal in a completely different way. It
11 suggests that PSE's CSA proposal is similar to the Conservation Phase-In
12 Adjustment ("CPIA") rejected by the Commission in PSE's 2009 GRC.²⁴

13 **Q. Do you agree that the CSA mechanism is similar to the CPIA?**

14 A. No. The Commission characterized PSE's CPIA as a pro forma adjustment and
15 subsequently rejected PSE's proposal on the grounds that it did not meet the
16 Commission's rules for pro forma adjustments. PSE's CSA proposal in this case
17 is not a pro forma adjustment. The CSA is a rate rider. As discussed later in my

²² Policy Statement, page 22, ¶34.

²³ Exhibit No. ___ (ACC-1T), page 8, lines 12-17.

²⁴ Exhibit No. ___ (DWS-1CT), page 18, lines 8-12. Staff makes a similar inference to the CSA being an "annualizing adjustment" in Exhibit No. ___ (DJR-1T), page 32, lines 17-19. However, Staff later clarified in WUTC Staff Response to PSE Data Request No. 027, which is attached as Exhibit No. ___ (JAP-26), that it did not actually consider the CSA an "annualizing adjustment."

1 testimony, PSE does not consider the rules used to reject PSE's CPIA to apply to
2 a rate rider.

3 **Q. If PSE and the parties agree that the CSA mechanism is not a "limited**
4 **decoupling" mechanism, as defined in the Policy Statement, then what is it?**

5 A. PSE would characterize its CSA mechanism consistent with the industry term,
6 lost revenue (or margin) adjustment mechanism ("LRAM"). The key distinction
7 between an LRAM and the Commission's limited decoupling mechanism is that
8 the LRAM is directly tied to utility-sponsored energy efficiency, whereas the
9 Policy Statement's limited decoupling mechanism is tied to reductions in use-per-
10 customer.

11 **Q. What does the Policy Statement say about LRAMs and the information that**
12 **should be filed to support this type of mechanism?**

13 A. The Policy Statement does not appear to specifically address LRAMs, except
14 through the Commission-stated receptivity to considering "other mechanisms."²⁵
15 Further, it did not provide explicit direction as to what information should be filed
16 to support these "other" types of mechanisms.

17 **Q. Without any explicit direction, did PSE nevertheless attempt to address the**
18 **types of issues raised by the Policy Statement that were relevant to its**
19 **proposal?**

20 A. Yes. To the extent the issues seemed relevant to the CSA proposal, PSE took care
21 in its initial proposal to address the general types of issues that were raised in the

²⁵ Policy Statement, page 22, ¶34.

1 Policy Statement's discussion of full decoupling, limited decoupling and incentive
2 mechanisms. However, PSE did not see a clear need (or clear path) to follow a
3 mechanical point-by-point approach advocated by Parties.

4 **B. PSE's CSA Proposal Properly Considers All Offsetting Factors**

5 **Q. Do Parties generally agree that PSE's CSA proposal properly considers all**
6 **offsetting factors?**

7 A. No. A number of Parties take issue with whether PSE's CSA proposal adequately
8 considers all offsetting factors. For example, Mr. Schoenbeck states that PSE's
9 proposed CSA rates do not conform to his interpretation of the matching
10 principle.²⁶ In another example, Ms. Crane states that PSE's proposal did not
11 consider "found margins" and that PSE's proposal provides it with additional
12 revenues regardless of other business factors.²⁷ In response to PSE's Data
13 Request No. 017, Ms. Crane goes further by alleging that PSE's CSA proposal
14 "fails to address other changes in the Company's revenue requirement, such as
15 revenue from other sources, expense decreases, additions to accumulated
16 depreciation, reductions in capital costs or other factors."²⁸ Her response is
17 attached as Exhibit No. ___(JAP-27).

18 **Q. How do you respond?**

19 A. First, Mr. Schoenbeck has misapplied the "matching principle." A proper
20 application requires that all revenues and costs be considered and "matched" in

²⁶ Exhibit No. ___(DWS-1T), page 18, lines 9-15.

²⁷ Exhibit No. ___(ACC-1T), page 15, lines 19-20.

²⁸ Ms. Crane makes similar assertions in Exhibit No. ___(ACC-1T), page 16, lines 14-20.

1 the period analyzed. One cannot selectively apply a narrow subset of "offsetting"
2 circumstances and ignore the rest, as he suggests.

3 Moreover, these examples illustrate a basic lack of understanding of PSE's CSA
4 proposal. A key feature of PSE's CSA proposal is the Earnings Test. This test
5 addresses every factor raised by Ms. Crane in Exhibit No. ____ (JAP-27), including
6 "found margin," and ensures revenues and costs are properly matched, or at least
7 ensures that the CSA mechanism will not contribute to revenues exceeding costs
8 in the relevant year.

9 **Q. Please elaborate on how the Earnings Test addresses these issues?**

10 A. By operation of the Earnings Test, all factors influencing PSE's revenues and
11 costs are taken into consideration in the relevant year. If other revenues increase
12 (e.g., via "found margin"), they are reflected in the test. If other expenses decline,
13 they are also reflected in the test. Only if, after taking into account all
14 contemporaneous offsetting factors, it can be shown that Company-sponsored
15 energy efficiency contributed to PSE's inability to earn its authorized return in a
16 given year, then the CSA mechanism will recover that contribution to its under-
17 earning. Put differently, PSE's Earnings Test ensures that the matching principle
18 cannot be violated to the detriment of customers for each year in which the costs
19 recovered by the CSA mechanism are determined. Assertions to the contrary are
20 unsupported by the facts in this case and should be rejected by the Commission.

21 **Q. Where did Mr. Schoenbeck suggest that it is appropriate to apply a narrow**
22 **subset of offsets?**

1 A. Mr. Schoenbeck suggests that "the offsetting increase in sales from the growth in
2 customers during a flat load period will allow PSE the same fixed cost recovery
3 even with the conservation savings."²⁹

4 **Q. Are there more offsets to consider?**

5 A. Yes. Mr. Schoenbeck's testimony fails to acknowledge the additional cost
6 associated with serving new customers. Under the hypothesized scenario (i.e.,
7 where sales are flat), this does not necessarily mean that costs are also flat. To the
8 contrary, PSE makes an investment to serve new customers and, based on the rate
9 base/rate of return approach to ratemaking, the revenue requirement impact of
10 serving the new customer should exceed that of existing customers, all other
11 things being equal. Therefore, the cost of the investment made to serve new
12 customers is likely to go under-recovered in the absence of sales and revenue
13 growth. As such, ICNU's proposition that flat loads and a stagnant "fixed cost
14 recovery" is compensatory in the presence of customer growth is unrealistic and
15 should be rejected.

16 **Q. Do any other parties make similar arguments?**

17 A. Yes. Kroger's witness, Mr. Higgins, makes a related proposal to base PSE's CSA
18 rate calculations on the lesser of Company-sponsored energy efficiency and the
19 net reductions in retail kilowatt-hours sold relative to those used in setting base
20 rates.³⁰ Like Mr. Schoenbeck's argument, this proposal is predicated on the

²⁹ Exhibit No. ___ (DWS-1CT), page 18, lines 18-20.

³⁰ Exhibit No. ___ (KCH-2T), page 24, lines 13-17.

1 underlying assumption that a stagnant level of fixed cost recovery is
2 compensatory.

3 **Q. How do you respond to Kroger's proposal?**

4 A. For the same reasons raised with Mr. Schoenbeck's proposal, I recommend that
5 the Commission reject Kroger's proposal.

6 **Q. Do any other Parties assert that PSE's CSA proposal fails to address**
7 **offsetting factors?**

8 A. Yes. Staff claims that, through avoided power costs associated with energy
9 efficiency, the CSA would allow PSE to retain both the foregone revenue and
10 avoided power costs.³¹

11 **Q. Do you agree?**

12 A. No. As shown on line 4 of Exhibit No. ___(JAP-13), the CSA carves power costs
13 completely out of the mechanism. Therefore, the CSA provides PSE no ability to
14 recover the PCA-related retail revenue that is lost due to conservation. As
15 illustrated in Exhibit No. ___(JAP-28),³² Staff does not even acknowledge the
16 possibility that PSE could lose PCA-related retail revenue as a result of energy
17 efficiency.

18 Moreover, to the extent that conservation causes PSE to forgo any projected PCA-
19 related retail revenue, rate year projections in this case indicate that the foregone

³¹ Exhibit No. ___(DJR-1T), page 27, line 19 to page 28, line 3.

³² WUTC Staff Response to PSE Data Request No. 019.

1 retail revenues³³ would outweigh the avoided power costs (or surplus sales
2 opportunity).³⁴ Therefore, PSE could experience an additional loss related to
3 power supply costs from higher levels of conservation achievement.

4 Finally, to the extent that Staff's argument is that differences from projected
5 conservation in the rate year drive differences in the marginal cost of power in the
6 PCA, any associated benefits or costs will be picked up in the PCA Mechanism,
7 as it always has been. Moreover, to the extent that this dynamic contributes to
8 increased earnings, the CSA Earnings test affords customers appropriate
9 protections.

10 **C. It Is Inappropriate to Apply Found Margin to PSE's CSA Proposal**

11 **Q. The issue of "found margin" has been raised a number of times in connection**
12 **with PSE's CSA proposal. Can you briefly explain the concept of found**
13 **margins and its application to the CSA?**

14 A. Yes. At its core, the concept of found margin rests on the belief that, if its sales
15 growth exceeds its customer growth, a utility could *possibly* earn in excess of its
16 authorized return. To prevent this "possible" outcome, Parties have proposed
17 preventing the CSA from recovering "found margin." This is tantamount to
18 limiting the mechanism's recovery of costs to situations where PSE's customer
19 growth exceeds its sales growth from test year levels.

³³ Line 29 of Exhibit A-1 to Exhibit No. ___ (JHS-17) prices the forgone PCA-related retail revenue at \$65/MWh, before grossing up for revenue sensitive items.

³⁴ Lines 74 and 75 of Exhibit No. ___ (DEM-7C) prices PSE's average market purchases at \$40/MWh (\$145,854,000/3,647,592MWh) and average secondary sales at \$32/MWh (\$7,226,000/225,649MWh) in the rate year.

1 **Q. Does found margin guarantee that a utility will earn in excess of its**
2 **authorized return?**

3 A. It does not and no party to this case has presented evidence that proves as much.
4 Moreover, as noted earlier, PSE's proposed Earnings Test prevents the CSA
5 mechanism from ever creating this outcome.

6 **Q. Is found margin created by conservation?**

7 A. No. Found margin is created by factors independent of conservation, another
8 uncontested fact in this case.

9 **Q. If found margin is not created by conservation and customers are protected**
10 **by the Earnings Test, is it appropriate to prevent the recovery of found**
11 **margin under PSE's CSA proposal?**

12 A. No. In fact, state law and Commission precedent appear to suggest otherwise.

13 **Q. How does state law suggest that PSE's CSA mechanism should not be**
14 **prevented from recovering found margin?**

15 A. RCW 80.28.260(3) states, in part, that "[t]he commission shall consider and may
16 adopt other policies to protect a company from a reduction of short-term earnings
17 that may be a direct result of utility programs to increase the efficiency of energy
18 use." PSE interprets this law as encouraging mechanisms like the CSA to protect
19 a utility from reductions in short-term earnings relative to the earnings that would
20 have otherwise been achieved in the absence of its conservation programs. This

1 law makes no mention of, or inference to, limiting this protection, let alone for
2 factors unrelated to conservation.

3 **Q. How does Commission precedent suggest that PSE's CSA mechanism should**
4 **not be prevented from recovering found margin?**

5 A. In the 1980's and early 1990's, the Commission was repeatedly presented with
6 rate case proposals to classify distribution costs on the basis of "minimum
7 system" analyses. Such an approach to classifying distribution costs results in a
8 much larger share of those costs being deemed customer-related (i.e., it suggests
9 that a greater share of these costs are assumed to be *caused* by the number of
10 customers it serves, than meeting peak loads). The Commission rejected these
11 proposals, putting the final nail in the minimum system coffin in PSE's 1992
12 GRC by directing "the parties not to propose the Minimum System approach in
13 the future unless technological changes in the utility industry emerge, justifying
14 revised proposals."³⁵ In essence, the Commission's conclusion was that these
15 costs were driven mainly by the need to meet peak load.

16 **Q. What does the Commission's rejection of the "minimum system" analysis**
17 **have to do with the recovery of found margin?**

18 A. One of the fundamental precepts of ratemaking is that cost recovery should reflect
19 cost causation. As noted earlier, including found margin as a deduction in the
20 CSA limits the mechanism's recovery of costs to situations where PSE's customer
21 growth exceeds its sales growth. This is consistent with the notion that PSE's

³⁵ Consolidated Docket Nos. UE-920433, UE-920499, UE-921262, Ninth Supp. Order on Rate Design, page 11.

1 distribution costs are as much customer-related as they are demand-related (i.e.,
2 *caused* as much by customer growth as by meeting peak load). However, this
3 completely contradicts the Commission's repeated, and seemingly irreversible,
4 rejection of proposals to classify a greater proportion of utility distribution costs
5 as customer-related for rate making purposes (i.e., via the minimum system
6 analysis).

7 Simply put, the Commission's repeated rejection of the "minimum system"
8 analysis cannot reasonably co-exist with the application of "found margin" to the
9 CSA mechanism, either the distribution costs in question are substantially caused
10 by customer growth or they are not. If they are not, as suggested by the
11 Commission's rejection of the minimum system analysis, then the CSA
12 mechanism should not be prevented from recovering found margin.

13 **D. The CSA Calculations are Rigorous Enough for Ratemaking**

14 **Q. Does any Party dispute that PSE's CSA calculations are rigorous enough for**
15 **ratemaking?**

16 A. Yes. Staff claims that the data used to support PSE's CSA calculations are not
17 rigorous enough for ratemaking³⁶ and that, to meet Staff's standard, this data must
18 be "independently verified and evaluated" and include "statistically significant
19 post-installation analysis."³⁷

20 **Q. How do you respond?**

³⁶ Exhibit No. ___ (DJR-1T), page 31, lines 8-17.

³⁷ Id., page 32, lines 11-15.

1 A. First, there are many elements that go into the development of PSE's base rates
2 that rely on projections, estimates and judgment. Second, as discussed in more
3 detail in the prefiled rebuttal testimony of Robert W. Stolarski, Exhibit
4 No. ___(RWS-1T), the conservation savings data used as part of PSE's CSA
5 proposal already meet high standards of data quality. Finally, state law appears to
6 contemplate the Commission approving CSA-like mechanisms that rely on less
7 than perfect information.

8 **Q. What makes you conclude that state law contemplates approval of CSA-like**
9 **mechanisms that rely on less-than-perfect data?**

10 A. RCW 80.28.260(3) states, in part, that the Commission can adopt policies "to
11 protect a company from a reduction of short-term earnings that *may be* a direct
12 result of utility programs to increase the efficiency of energy use." (emphasis
13 added) This language appears to suggest that mechanisms implementing such
14 policies may rely on projections, estimates and judgment.

15 **Q. Can you please provide some specific examples of where the data used to**
16 **formulate PSE's base rates are subject to judgment?**

17 A. Yes. The use of cost of service analyses for purposes of ratemaking is a good
18 example. While a considerable amount of effort is put into a cost of service
19 analysis, by its very nature (e.g., the use of allocation factors) its results can be
20 considered "rough justice." Understanding this, the Commission has historically
21 only used cost of service results as a guide in rate development. The standard
22 practice, long supported by the Commission, has been to apply average rate

1 changes to each customer class as long as their cost of service parity ratios were
2 within a band of error. Should a customer group's parity ratios fall outside of an
3 acceptable margin, rates are only "gradually" adjusted to move the class closer to
4 parity, giving way to other factors (i.e., mitigating rate shock).

5 Another example is a weather-normalization adjustment. While this adjustment
6 admittedly relies on a large sample of data and a detailed process, it is still a
7 statistical analysis. As with any statistical analysis, it is subject to the
8 unavoidable "margin of error." Yet PSE's revenue requirement is adjusted, and
9 with great precision, for these results. Coincidentally, the electric revenue
10 deficiency in PSE's initial case was adjusted downward (i.e., in favor of
11 customers) by nearly \$21 million as a result of this "imperfect" analysis.

12 **Q. Can you provide another example?**

13 A. Yes. Staff's testimony proposes to examine whether, and how, to revise PSE's
14 electric rate Schedule 40 following the conclusion of this rate case.³⁸ The
15 calculations of customer-specific rates within Schedule 40 rely heavily on
16 assumptions and estimates. For example, the development of customer-specific
17 distribution charges within Schedule 40 relies on the Handy-Whitman Index to
18 estimate the net book value for the facilities used to derive these charges. In
19 summary, it is questionable what portion of the existing process for setting PSE's
20 base rates could meet the apparent standards set by Staff for the CSA Rate
21 calculations.

³⁸ Exhibit No. ___ (DJR-1T), page 9, lines 8-12.

1 **Q. What is the basis for Staff's assertion that verified energy savings resulting**
2 **from PSE's conservation program are not rigorous enough for ratemaking**
3 **purposes?³⁹**

4 A. In response to PSE's Data Request No. 023, Staff points to WAC 480-07-
5 510(3)(e)(iii) as its standard. See Exhibit No. ____ (JAP-29).

6 **Q. Does this rule apply to the CSA mechanism?**

7 A. No. The rule Staff cites relates to pro forma adjustments to historic test year
8 results in a GRC (i.e., in the determination of base rates). The CSA is not a base
9 rate, nor is it predicated on the historic test year analysis used to develop base
10 rates. As noted earlier in testimony, the CSA mechanism is a rate rider. So, on its
11 face, the rule does not apply.

12 **Q. Wouldn't the rule noted by Staff at least provide a reasonable basis for**
13 **judging the quality of the data used in the CSA calculations?**

14 A. No. If the Commission demanded the same level of rigor as prescribed in the
15 rule, PSE assumes that the Commission would have indicated that in the Policy
16 Statement, since this was an issue in that proceeding.⁴⁰ Furthermore, the standard
17 proposed by PSE for validating the savings used for purposes of its CSA proposal
18 are no less rigorous than those required by the Commission in its approval of the
19 Electric Conservation Incentive Mechanism ("ECIM") in PSE's 2006 GRC,⁴¹ or

³⁹ Exhibit No. ____ (DJR-1T), page 31, lines 8-11.

⁴⁰ Policy Statement, Appendix 3, pages 11-12.

⁴¹ Docket Nos. UE-060266 and UG-060267. Order 08, ¶145-158.

1 for purposes of assessing whether to levy penalties for PSE's failure to achieve
2 conservation targets.

3 **Q. Is Staff consistent in the application of its data quality standard?**

4 A. No. While Staff objects to PSE's use of verified savings in its CSA proposal, it
5 has no problem using these savings as the basis for the incentive-focused
6 Conservation Test in the strawman decoupling mechanism in its Response to
7 Bench Request No. 3.⁴²

8 **Q. Shouldn't the standard for data quality be different for incentive
9 mechanisms versus mechanisms like the CSA?**

10 A. PSE finds no basis for affording different data quality standards for its CSA
11 mechanism versus an incentive mechanism. PSE calculates an amount to recover
12 through the CSA mechanism based, in part, on verified energy savings, which are
13 then multiplied by a rate to determine an amount to be recovered through a rider.
14 PSE's ECIM was little different. In that mechanism, verified energy savings were
15 multiplied by a pre-determined rate and the resulting amount was then recovered
16 through a rider. In both cases, revenues are collected on the basis of verified
17 energy savings.

18 **Q. What are the primary differences between PSE's CSA proposal and the
19 ECIM?**

⁴² See page 14.

1 A. The primary structural differences between the CSA mechanism and the ECIM
2 are that (a) the ECIM had an incentive element⁴³ and (b) the ECIM was far more
3 crude in how the recoverable costs were determined. To the latter difference, PSE
4 considers the heightened degree of sophistication in the CSA proposal a benefit
5 (i.e., through more targeted assignment of unrecovered costs), not a drawback.
6 However, if the Commission shares Staff's apparent view that the ECIM-like
7 approach is preferable, PSE could easily use the same data that supports its CSA
8 proposal to estimate a recoverable system-level cost and then flow that cost
9 through Rider Schedule 120, as was done with the ECIM.

10 **Q. Would this produce ratepayer revenue that is materially different from**
11 **PSE's CSA proposal?**

12 A. No. The result should be roughly the same as what is proposed in this case, so
13 long as the same general approach is used (1) to determine the applicable
14 conservation savings (i.e., savings accumulated since the test year) and (2) to
15 determine the fixed charge rate.

16 **E. CSA Proposal Promotes Conservation**

17 **Q. Do parties to this case agree that the CSA mechanism will promote**
18 **conservation?**

19 A. Witness for Public Counsel, Ms. Crane, disagrees by suggesting PSE's CSA
20 proposal "does not provide customers with any additional incentive to conserve.

⁴³ It should be emphasized that the ECIM produced customer surcharges even if the Company only met its target.

1 The Company's proposal provides a disincentive to conserve because rates go up
2 the more they conserve...."⁴⁴

3 **Q. Does Ms. Crane provide any evidence to support her assertion that the CSA**
4 **will provide a disincentive for customers to conserve?**

5 A. No. When asked to produce evidence to quantify the reduction in conservation
6 that would occur as a result of PSE's proposed CSA mechanism, Ms. Crane could
7 not provide any facts to support her claim. A copy of her response to PSE's Data
8 Request No. 026 is attached as Exhibit No. ___(JAP-30).

9 **Q. Do you agree that PSE's CSA proposal provides such a disincentive?**

10 A. No. In fact, it should have the opposite effect. Customers' incentive to conserve
11 is related, in part, to the rates they are charged. All other things equal, higher
12 rates produce a greater incentive to conserve. Ms. Crane acknowledges as much
13 in response PSE's Data Request No. 025 by noting that "a customer's incentive to
14 perform conservation would generally increase as energy prices rise." See
15 Exhibit No. ___(JAP-31). Further, as Ms. Crane already acknowledges in
16 testimony, the CSA mechanism will only increase rates.⁴⁵ Therefore, while PSE
17 only expects modest CSA-related rate impacts, the CSA mechanism should
18 provide a modest increase in customers' incentive to conserve.

19 **Q. Does Ms. Crane raise any related concerns regarding the CSA mechanism?**

⁴⁴ Exhibit No. ___(ACC-1T), page 19, lines 7-9.

⁴⁵ See, for example, Exhibit No. ___(ACC-1T), page 13, lines 11-13.

1 A. Yes. Ms. Crane goes on to argue that the CSA mechanism has "the potential to
2 shift costs among customers...because all customers in an affected group pay the
3 CSA surcharge, regardless of whether or not that customer is actually contributing
4 to any revenue shortfall."⁴⁶

5 **Q. Is this a legitimate concern?**

6 A. No. This already occurs through the implementation of PSE's existing energy
7 efficiency program and the CSA only accentuates the benefits that accrue to
8 customers that participate. Customers that participate in PSE's energy efficiency
9 programs already receive greater benefit from these programs (through the
10 reduction in their billed usage) relative to customers that do not participate.
11 Similarly, those customers whose loads are reduced as a result of participation in
12 PSE's programs will also experience less of a burden from the subsequent effect
13 on the CSA Rate.⁴⁷ PSE sees this as a positive attribute of the CSA and in line
14 with the Commission's desire to approve mechanisms that promote energy
15 efficiency.

16 **F. PSE's CSA Proposal Addresses Lost Revenue, Not Increasing Costs**

17 **Q. What problem do ICNU and Public Counsel think PSE's CSA proposal**
18 **addresses?**

⁴⁶ Exhibit No. ___ (ACC-1T), page 19, lines 12-14.

⁴⁷ Customers that do not participate in these programs still benefit from the resulting avoided power costs over the long-run.

1 A. ICNU⁴⁸ and Public Counsel⁴⁹ suggest that PSE's CSA mechanism is intended to
2 compensate the Company for increasing operating costs, irrespective of its
3 conservation programs. Public Counsel goes further by stating that a
4 "conservation decoupling mechanism should not be used to address a situation
5 whereby expenses are faster growing than revenue."⁵⁰

6 **Q. Does PSE's CSA proposal compensate the Company for increasing operating**
7 **costs?**

8 A. No. Costs recovered through the PSE's CSA mechanisms are a function of the
9 historic test year costs and energy sales used to formulate its approved rates, as
10 well as the Company-sponsored energy efficiency that is not reflected in the
11 derivation of those rates. It is clearly erroneous to suggest that the growth in
12 PSE's costs after the test year enter into the CSA Rate calculations. Ms. Crane
13 subsequently acknowledged this fact in response to a data request, attached as
14 Exhibit No. ___(JAP-32).⁵¹ See also Exhibit No. ___(JAP-27), where Ms. Crane
15 further admits that the CSA "does not directly address revenue declines from
16 anything other than Company-sponsored energy efficiency." Insinuations that the
17 PSE's growth in costs enter into CSA Rates any more than they do base rates are
18 completely contrary to the facts in this case and should be rejected by the
19 Commission.

⁴⁸ Exhibit No. ___(MPG-1T), page 3, lines 3-7.

⁴⁹ Exhibit No. ___(ACC-1T), page 14, lines 10-18 and page 15, lines 7-9.

⁵⁰ Id., page 14, lines 15-17.

⁵¹ Response of Public Counsel and The Energy Project to PSE Data Request No. 016.

1 **Q. Are there other similar criticisms of the CSA proposal?**

2 A. Yes. Staff⁵² and Public Counsel⁵³ each attack PSE's CSA proposal as being one-
3 sided and designed to only increase Company revenue.

4 **Q. Is a "one-sided" mechanism necessarily inappropriate?**

5 A. No. In fact, it is supported by state law. RCW 80.28.260(3) states, in part, that
6 "[t]he commission shall consider and may adopt other policies to *protect a*
7 *company from a reduction of short-term earnings* that may be a direct result of
8 utility programs to increase the efficiency of energy use." (emphasis added). The
9 problem being addressed in the statute is a reduction of a utility's short-term
10 earnings created by its energy efficiency program, which is, of course, "one-
11 sided." So, a "one-sided" solution to this "one-sided" problem is wholly
12 appropriate.

13 **Q. Do all the parties even recognize this problem?**

14 A. No. The testimony of Public Counsel's witness dismisses the effect conservation
15 has on PSE's ability to recover its costs.⁵⁴

16 **Q. Is it true that conservation has no impact on PSE's ability to recover its**
17 **costs?**

18 A. No. In fact, this is the very foundation of PSE's CSA proposal. As illustrated in
19 Exhibit Nos. ___(JAP-9) and ___(JAP-10), Company-sponsored energy

⁵² Exhibit No. ___(DJR-1T), page 19, lines 8-14.

⁵³ Exhibit No. ___(ACC-1T), page 14, lines 7-9.

⁵⁴ Id., page 15, lines 7-9.

1 efficiency has a real impact on PSE's ability to recover its cost. It is noteworthy
2 that no party disputed these calculations. When pressed in a data request, Ms.
3 Crane again reverses her testimony, stating that "if all other factors are held
4 constant, conservation would slow the growth rate of revenues." A copy of her
5 response is attached as Exhibit No. ___(JAP-33).⁵⁵

6 **Q. Did Public Counsel have any other criticisms of PSE's CSA proposal?**

7 A. Yes. Ms. Crane suggests that PSE's CSA proposal would allow recovery of costs
8 "even if total revenues were higher than those authorized in the most recent
9 general rate case due to increased load."⁵⁶

10 **Q. Do her concerns have merit?**

11 A. No. Moreover, her statement highlights a lack of understanding of ratemaking in
12 this state. Ms. Crane's flawed perception was further clarified in response to
13 another data request, attached as Exhibit No. ___(JAP-34)⁵⁷, where she states, in
14 part, that "[r]evenues are authorized [by the Commission] prospectively.
15 Authorized revenues are then used to establish individual rates...."

16 It is unclear whether this witness believes that the Commission uses a forward test
17 year for ratemaking, although this inference could be made and would be in-line
18 with repeated assertions by Public Counsel that frequently-filed rate cases makes
19 the CSA unnecessary.⁵⁸ Nonetheless, this witness is clearly incorrect in asserting

⁵⁵ Response of Public Counsel and The Energy Project to PSE Data Request No. 015.

⁵⁶ Exhibit No. ___(ACC-1T), page 16, lines 16-17.

⁵⁷ Response of Public Counsel and The Energy Project to PSE Data Request No. 020.

⁵⁸ See, for example, Exhibit No. ___(ACC-1T), page 19, lines 1-3.

1 that the Commission authorizes prospective revenues. It authorizes prospective
2 rates based on the relationship between historic costs and historic billing
3 determinants. These rates are then applied, in part, to (increasing) loads to,
4 ideally, generate enough revenues to recover (increasing) costs in the rate year.

5 **Q. Were other proposals made regarding the operation of the CSA mechanism?**

6 A. Yes. Kroger's witness proposes that, if the Commission were to adopt PSE's
7 CSA proposal, it should "be limited to truing up any net loss of fixed cost
8 recovery attributable to actual program results starting in the rate-effective
9 period" because such a mechanism "is intended to be a vehicle that is used in-
10 between rate cases."⁵⁹

11 **Q. What is your response to this proposal?**

12 A. PSE recommends that the Commission reject Kroger's proposal. Exhibit
13 Nos. ___(JAP-9) and ___(JAP-10) clearly show that energy efficiency before the
14 rate year⁶⁰ contributes greatly to the unrecovered costs during the rate year. Had
15 Kroger disputed this fact, it would have surely raised this issue in response to
16 these exhibits. In fact, when asked whether all conservation that has occurred
17 prior to the rate year is reflected in the formulation of rates in that year, Kroger's
18 witness indicates that he relied on Exhibit No. ___(JAP-8) for his understanding.
19 See Exhibit No. ___(JAP-35).⁶¹ Exhibit No. ___(JAP-8) shows that a substantial
20 portion of the conservation achieved after the beginning of the test year is not

⁵⁹ Exhibit No. ___(KCH-2T), page 24, lines 18-23.

⁶⁰ In fact, this effect can be traced back into the test year.

⁶¹ Kroger's Response to PSE Data Request No. 013.

1 reflected in rates during the rate year. These facts seriously undermine the
2 credibility of Kroger's proposal.

3 **G. Alternative Proposals to CSA Fail to Address PSE's Problem**

4 **Q. Do Parties offer any alternatives to PSE's CSA proposal?**

5 A. Yes. NWEC offers its decoupling mechanism and Kroger has an alternative rate
6 design proposal.

7 **Q. What is PSE's reaction to NWEC's decoupling proposal?**

8 A. PSE is not receptive to NWEC's decoupling mechanism, offered as an alternative
9 to PSE's CSA proposal. PSE's specific objections to NWEC's proposal are
10 addressed in the Prefiled Direct Rebuttal Testimony of Tom De Boer, Exhibit
11 No. ___(TAD-4T).

12 **Q. What is Kroger's alternative to the CSA proposal?**

13 A. Kroger suggests that, before the Commission approves the CSA mechanism, PSE
14 should attempt to mitigate the need for this mechanism through changes to rate
15 design, including increasing demand charges to align with the recovery of fixed
16 costs.⁶²

17 **Q. Does PSE support this recommendation?**

⁶² Exhibit No. ___(KCH-2T), page 22, line 12 to page 23, line 15.

1 A. No. For a variety of reasons, PSE does not support Kroger's proposal to
2 substitute higher demand charges for the Company's CSA proposal.⁶³

3 **Q. Please explain.**

4 A. First, Kroger provides no evidence that demand charge revenue is immune to the
5 effects of energy efficiency. In fact, Kroger's own experience under Schedule 40
6 shows this is not necessarily true.

7 In defense of its proposal to retain service under Schedule 40, Kroger presents the
8 drop in its load due to energy efficiency since 2005.⁶⁴ According to this
9 testimony, Kroger's annual average load served under Schedule 40 fell from 2.45
10 aMW in 2005 to 1.79 aMW by 2010, or 27 percent. Based on PSE's records, the
11 average monthly billed demands for these same locations fell from ■ MW in
12 2005 to ■ MW by 2010, or 20 percent. Apparently, whatever factors that are
13 contributing to Kroger's reduction in load are also contributing to significant
14 declines in its monthly billed demands. Therefore, Kroger's proposal to move
15 recovery of fixed costs to demand charges, in this instance, would have produced
16 meager results.

17 Second, Kroger's suggestion that classifying more of PSE's power costs as being
18 demand-related would mitigate PSE's cost recovery problem⁶⁵ ignores the fact
19 that the CSA proposal already omits power costs. Therefore, recovering more

⁶³ However, PSE is not necessarily opposed to higher demand charges to the extent that they reflect cost causation.

⁶⁴ Exhibit No. ___ (KCH-2T), page 17, line 3 to page 18, line 6.

⁶⁵ Id. at 23, lines 3-11.

1 power costs through demand charges would have no impact on the CSA results.
2 Moreover, since power costs already reflect a projection of conservation achieved
3 through the rate year, conservation's effect on the recovery of fixed power costs is
4 not as significant a problem.

5 Third, and perhaps most importantly, a large fraction of the fixed costs that are
6 unrecoverable due to conservation are associated with rate schedules that do not
7 have demand charges (e.g., the residential class). So, Kroger's proposal fails to
8 address the majority of the problem.

9 In summary, for the forgoing reasons, the Commission should reject Kroger's
10 proposal to rely on demand charge increases as an alternative to PSE's CSA
11 mechanisms.

12 **Q. Does Kroger have any related recommendations?**

13 A. Yes. Kroger goes on to propose that, if the Commission were to adopt the CSA
14 mechanism, it should remove 75 percent of the costs recovered through demand
15 charges from the CSA calculation.⁶⁶

16 **Q. Should the Commission adopt this proposal?**

17 A. No, for at least three reasons. First, Kroger's proposal to remove 75 percent of
18 costs recovered through demand charges is not supported by any facts. There is
19 simply no basis for the figure being proposed. Second, as discussed earlier, the
20 case study using Kroger's locations served under Schedule 40, seriously calls into

⁶⁶ Exhibit No. ___ (KCH-2T), page 23, line 19 to page 24, line 2.

1 question whether demand charge revenue is actually immune to the effects of
2 conservation. Finally, Kroger does not appear to take into consideration the fact
3 that demand charge revenue recover power costs, which are not recovered in the
4 CSA mechanism, or even address the complications associated with discerning
5 what portion of PSE's demand charges are attributable to the recovery of power
6 versus non-power costs. In summary, the Commission should reject this
7 unsupported, ineffective and ill-constructed proposal.

8 **H. Responses to Other CSA-Related Claims and Proposals**

9 **Q. What other claims made by Parties regarding PSE's CSA proposal would**
10 **you like to address?**

11 A. Staff claims that pages 27 through 29 of my prefiled direct testimony, Exhibit
12 No. ___(JAP-1T), discusses the impact of conservation savings on PSE for the
13 2010 test year.⁶⁷

14 **Q. Is this accurate?**

15 A. Not exactly. The testimony referenced by Staff discusses the development of the
16 impact estimated for the rate year, beginning May 2012, which is affected by
17 conservation achieved from the beginning of the 2010 test year. To develop the
18 full impact of conservation savings on the 2010 test year, the analysis must begin
19 in the test year ending September 2007, since rates for the first three months of
20 2010 were developed using in PSE's 2007 GRC.⁶⁸ Since the analysis referenced

⁶⁷ Exhibit No. ___(DJR-1T), page 14, lines 2-4.

⁶⁸ Docket Nos. UE-072300 and UG-072301.

1 by Staff did not go back that far, the full effect of conservation on the 2010 test
2 year was not provided in this testimony.

3 **Q. Does Staff make other claims that you would like to address?**

4 A. Yes. Staff also claimed that PSE experienced a 20 percent customer loss on
5 certain industrial schedules during the 2010 test year.⁶⁹

6 **Q. Is this a realistic picture of customer growth on PSE's system?**

7 A. No. It is unclear how Staff has interpreted the data provided in their referenced
8 data response. However, the table below paints a more reasonable picture of
9 recent changes in the number of customers served by PSE, one not nearly as dire
10 as Staff's.⁷⁰

11 **Table 1 - Growth in Customers from 2009 to 2010**

Customer Group	Customer Count		% Difference
	2009	2010	
Electric			
Residential	947,299	952,802	0.6%
Small Commercial	112,370	112,615	0.2%
Medium Commercial	9,738	9,612	-1.3%
Large Commercial	120	137	14.2%
Lighting	3,301	3,327	0.8%
Total	1,072,828	1,078,493	0.5%
Gas			
Residential	689,437	694,085	0.7%
Small Commercial - Firm	54,367	54,022	-0.6%
Large Commercial - Firm	2,067	2,062	-0.2%
Interruptible & Contracts	523	506	-3.2%
Total	746,393	750,674	0.6%

12 ⁶⁹ Exhibit No. ____ (DJR-1T), page 22, line 11 to 23, line 1.

⁷⁰ This table relies upon data provided in PSE's Response to NWECC Data Request No. 004.

1 **Q. Does Staff make any recommendations that you would like to address?**

2 A. Yes. Staff recommends that the Commission require further analysis to take into
3 account differences between existing and new customers before approving the
4 CSA mechanism.⁷¹

5 **Q. Do you agree with this recommendation?**

6 A. No, for several reasons.

7 First, the conservation savings used to calculate CSA rates do not distinguish
8 between the savings that might be achieved by customers of various vintages.

9 Second, Staff does not address what one would do with this information, if it is
10 even feasible to obtain, and, if so, at what cost to ratepayers. Does Staff expect
11 the utility to track this information and that a third-party would verify savings at
12 this level of detail every year? Staff's recommendation appears to be a call for
13 more analysis with no clear purpose or benefit.

14 Third, this issue should be just as, if not more, important for mechanisms like the
15 decoupling mechanism constructed in Staff Response to Bench Request No. 3.

16 Yet, PSE cannot find any mention of this issue in Staff's discussion of this
17 decoupling mechanism.⁷²

18 For any of the foregoing reasons, the Commission should reject Staff's
19 recommendation.

⁷¹ Exhibit No. ___ (DJR-1T), page 25, lines 6-8.

⁷² For example, see page 8-9 of Staff's Response to Bench Request No. 3.

1 **Q. Do any other Parties make claims regarding the CSA mechanism that you**
2 **would like to address?**

3 A. Yes. NWEC claims that PSE's CSA would "create a powerful and perverse new
4 incentive for the company to promote programs that look good on paper but
5 deliver little or no savings in practice...."⁷³

6 **Q. How do you respond?**

7 A. NWEC's claims contradict, with no explanation, its support for alternatives that
8 "include (1) earning opportunities linked to energy efficiency performance in
9 addition to full decoupling and/or (2) upward annual adjustments to the
10 authorized per-customer revenue requirement, reflecting the impact on per-
11 customer electricity consumption of meeting or exceeding the company's energy
12 efficiency targets."⁷⁴ To criticize the CSA for its link to energy efficiency
13 performance, while advocating the use of conservation savings only in concert
14 with a decoupling mechanism, is a double-standard the Commission should
15 immediately recognize. Moreover, with the third-party evaluation offered as part
16 of PSE's CSA proposal and, as discussed in the Prefiled Rebuttal Testimony of
17 Robert W. Stolarski, Exhibit No. ___(RWS-1T), the existing level of analysis
18 already used to validate PSE's conservation savings figures, NWEC's concerns
19 should be adequately addressed. For these reasons, the Commission should reject
20 this criticism of PSE's CSA mechanism.

⁷³ Exhibit No. ___(RCC-1T), page 23, line 20 to page 24, line 2.

⁷⁴ Id., page 10, line 22 to page 11, line 2.

1 **Q. Are there any other claims related to PSE's CSA proposal made by the**
2 **witness for Public Counsel that you would like to address?**

3 A. Yes. Ms. Crane's testimony makes the unsupported assertion, one shared by
4 ICNU's witness Mr. Gorman,⁷⁵ that PSE's proposal could reduce PSE's incentive
5 to control costs between general rate cases.⁷⁶

6 **Q. Should the Commission accept these unsupported assertions?**

7 A. No. It is a simple fact that reducing a company's costs will improve a company's
8 short-term profitability, regardless of the level revenues that are generated.
9 Therefore, even in the presence of CSA revenue, there will continue to be an
10 incentive for the Company to control its costs. Moreover, PSE's CSA proposal
11 does not remove the Commission's authority to review the prudence of the
12 Company's costs, which is yet another check against wasteful spending. As
13 reflected in her response to a data request, attached as Exhibit No. ___(JAP-36),⁷⁷
14 when asked for more support for her assertions, Ms. Crane could not produce any
15 factual evidence to the contrary.

16 **Q. Does Ms. Crane make any further assertions you would like to address?**

17 A. Yes. Ms. Crane asserts that PSE's CSA proposal could potentially result in a
18 double-counting of certain conservation savings because PSE used conservation
19 savings since January 2010 in its CSA calculations and a portion of these savings

⁷⁵ Exhibit No. ___(MPG-1T), page 3, lines 15-16.

⁷⁶ Exhibit No. ___(ACC-1T), page 15, line 17 to page 16, line 2.

⁷⁷ Response of Public Counsel and The Energy Project to PSE Data Request No. 019.

1 may already be reflected in the historic test year sales used to develop pro forma
2 revenue at present rates.⁷⁸

3 **Q. Do you share Ms. Crane's concern?**

4 A. No. Here, again, this witness is exposing her lack of understanding of PSE's CSA
5 proposal. When asked to provide all analyses performed by Public Counsel and
6 The Energy Project, or that it was aware of, to estimate the amount of
7 conservation reflected in the historic test year sales used to develop proforma
8 revenue in this case, Ms. Crane responded that "[s]ince Ms. Crane was not
9 engaged to examine pro forma revenue, she did not quantify the impact of this
10 conservation on the Company's pro forma sales forecast." A copy of this
11 response is attached as Exhibit No. ___(JAP-37).⁷⁹

12 This response illustrates at least three things. First, it suggests that Ms. Crane is
13 making unsupported assertions in her testimony about topics that she evidently
14 was not even engaged to examine. Second, it again suggests that Ms. Crane
15 believes that ratemaking in this state relies on a future test year. Third, it
16 highlights how little she understands about the Company's proposal and the
17 exhibits that were filed in support of that proposal.

18 **Q. Why do you say that Ms. Crane fails to understand PSE's proposal?**

19 A. The extent to which conservation is reflected in pro forma revenue in the current
20 GRC is not relevant to the proposed CSA rates in this case. The proposed CSA

⁷⁸ Exhibit No. ___(ACC-1T), page 22, line 21 to page 23, line 5.

⁷⁹ Response of Public Counsel and The Energy Project to PSE Data Request No. 030.

1 rates in this case are for the effects of conservation on revenue collected from
2 base rates in effect during 2011. The base rates resulting from the current GRC
3 will not go into effect until 2012.

4 Moreover, if Ms. Crane's contention is that CSA revenues collected in any given
5 rate case test year should be added to the proforma test year base rate revenue
6 when determining the revenue deficiency, this would entirely defeat the purpose
7 of the CSA proposal. As illustrated by Exhibit Nos. ___(JAP-9) and ___(JAP-
8 10), the CSA Rates address past under-recovery of cost based on conservation
9 that was not reflected in base rates in effect at that time. The CSA Rates do not
10 attempt to address the conservation-related under-recovery that may occur in
11 connection with base rates approved for the rate year in this GRC.

12 Finally, notwithstanding its irrelevance to the CSA Rates proposed in this case,
13 Ms. Crane could have also found an estimate of how much electric and gas
14 conservation savings achieved in 2010 is reflected in 2010 test year results in
15 Exhibit Nos. ___(JAP-9) and ___(JAP-10).

16 **Q. Are there any final issues raised by Kroger that you wish to address?**

17 A. Yes. Kroger's witness suggests that he is not supportive of PSE's CSA proposal,
18 in part, because he is against single-issue ratemaking mechanisms.⁸⁰

19 **Q. What is your reaction?**

20 A. Kroger does not have a consistent stance on the issue of single-issue ratemaking.
21 While, on the one hand, Kroger argues against PSE's CSA mechanism as

⁸⁰ Exhibit No. ___(KCH-2T), page 22, lines 3-6.

1 improper single-issue ratemaking, on the other hand, it is supportive of the
2 settlement proposal in this GRC to flow through the benefits of PSE's renewable
3 energy credits through a stand-alone tracker. Kroger's contradictory views on
4 single-issue ratemaking should encourage the Commission to reject this argument
5 against the CSA.

6 **I. Acceptable Modifications to PSE's CSA Proposal**

7 **Q. Of the proposed modifications to PSE's CSA proposal, are any acceptable to**
8 **PSE?**

9 A. If pressed, there is one that PSE would be willing to accept. NWIGU suggests
10 that, if the Commission were to adopt PSE's Gas CSA mechanism, the groupings
11 of gas customers could follow NWIGU's recommendations.⁸¹

12 **Q. Do you have any reservations about NWIGU's proposal?**

13 A. Yes, at least two. First, PSE notes that NWIGU's proposal would complicate the
14 administration and transparency of the Gas CSA mechanism. NWIGU's
15 regrouping would mix residential and non-residential gas customers into a single
16 group ("Group 1"), whereas the conservation savings commonly reported to the
17 Commission provides a clean break between these two customer groups. Second,
18 it may also introduce concerns about whether any cross-subsidization is occurring
19 between the residential and non-residential gas customers in Group 1, if one

⁸¹ Exhibit No. ___(DWS-8T), page 7, line 11 through page 8, line 6.

1 group or the other are generating a disproportionately larger share of the costs
2 recovered through their CSA rate.

3 **Q. Do you have an alternative proposal that might meet PSE's and NWIGU's**
4 **needs?**

5 A. Yes. A potential common ground between the Company's and NWIGU's
6 proposals could be to start with NWIGU's groupings, but then segregate the
7 residential from non-residential gas customers in Group 1, effectively creating
8 four groups instead of the three proposed by NWIGU.

9 **III. RESPONSE TO ICNU'S PROPOSAL RELATED TO THE**
10 **RECLASSIFICATION OF HIGH-VOLTAGE DISTRIBUTION**
11 **FACILITIES**

12 **Q. Please provide an update on the status of PSE's filing to reclassify certain**
13 **high-voltage distribution facilities to transmission?**

14 A. On September 16, 2011, PSE filed with the Commission a petition for a
15 declaratory order and for an accounting order approving PSE's proposed
16 reclassification of its 55 kV-115 kV ("HV") distribution facilities as transmission
17 facilities and authorizing the Company to apply such reclassification in PSE's
18 accounts and reports to the Commission. This petition was approved by the
19 Commission on December 14, 2011.⁸²

20 **Q. What concern was raised by ICNU in this rate case regarding PSE's**
21 **reclassification petition.**

⁸² Docket No. U-111701, Order 01.

1 A. ICNU, through its witness Mr. Schoenbeck, raised the issue that Schedules 448
2 and 449 customers could end up paying for the reclassified HV distribution
3 facilities twice, upon approval of new open access transmission tariff ("OATT")
4 rates.⁸³

5 **Q. Please explain how these customers could end up paying twice for the same**
6 **facilities.**

7 A. The current electric rate Schedules 448 and 449 include a Transmission Service
8 component, which is tied directly to the Company's OATT rate for Transmission
9 Service. They also include a Distribution Service component, which is approved
10 by the Commission and currently recovers distribution costs covered in the
11 recently-approved reclassification. At the time new OATT rates for Transmission
12 Service go into effect,⁸⁴ it is expected that the cost associated with the reclassified
13 HV distribution facilities will be reflected in the new OATT rate for Transmission
14 Service. However, given the time required to make a filing with the Commission
15 following approval of a new OATT rate, there is likely to be a short period of
16 time where the Distribution Service component of Schedules 448 and 449 will
17 continue to reflect the recovery of costs for the same reclassified facilities.

18 **Q. What does ICNU propose to address this issue?**

19 A. Mr. Schoenbeck proposes that the increase in the OATT charge be offset with a

⁸³ Exhibit No. ___ (DWS-1CT), page 22, line 22 to page 23, line 3. PSE notes that the same issue applies to customers served under electric rate Schedules 458 and 459.

⁸⁴ PSE currently contemplates that new OATT rates will go into effect some time in 2012.

1 "dollar for dollar" credit to the customer's retail bill.⁸⁵

2 **Q. Does PSE accept this proposal?**

3 A. No. While we agree Schedule 448 and 449 customers should not be double-
4 charged for the same facilities, PSE disagrees that a "dollar for dollar" credit is
5 appropriate. If PSE is interpreting ICNU's proposal correctly, every dollar of
6 additional rate revenue paid through the new OATT rate for Transmission Service
7 would displace a dollar of rate revenue paid through the Schedule 448 and 449
8 Distribution Service charges.

9 **Q. What is wrong with this approach?**

10 A. ICNU's proposal ignores at least two facts. First, part of the change to the OATT
11 rate for Transmission Service may simply be due to the increased cost recovery
12 associated with the existing transmission facilities, not the reclassified HV
13 distribution facilities. So, ICNU's proposal would have the Distribution Service
14 charge reduced for increases in cost recovery associated with facilities unrelated
15 to the reclassification. This is not appropriate. Second, even for the same set of
16 HV distribution facilities, there will not necessarily be dollar-for-dollar
17 comparability because of the differing regulatory treatment between the state and
18 federal jurisdictions.

19 **Q. What does PSE propose instead?**

20 A. Upon the effective date of the new rate for Transmission Service under PSE's
21 OATT, which includes the costs of all or part of the HV distribution facilities

⁸⁵ Exhibit No. ___(DWS-1CT), page 23, lines 13-18.

1 included in the reclassification, the Distribution Service charge for High Voltage
2 and Primary Voltage customers served under Schedules 448, 449, 458 and 459
3 will be updated to remove all costs of the HV distribution facilities that are
4 reclassified as transmission facilities and that are included in the new OATT rate.
5 In the event there is any overlap between the effective date of the new OATT rate
6 for Transmission Service, which include the HV distribution facilities, and the
7 effective date of revisions to the Schedules 448 and 449 rates that remove the
8 costs of the HV distribution facilities from the Distribution Service charge, PSE
9 will include in the filing a request to allow refunds for customers served on
10 Schedules 448, 449, 458 and 459 to the extent necessary to avoid double payment
11 of the costs of the HV distribution facilities during that period of time.

12 **IV. RESPONSE TO PUBLIC COUNSEL'S**
13 **MISCHARACTERIZATION OF SUPPLEMENTAL TESTIMONY**

14 **Q. What mischaracterization of your supplemental testimony was made by**
15 **Public Counsel?**

16 A. Witness for Public Counsel testifies⁸⁶ that my Supplemental Testimony, Exhibit
17 No. ___(JAP-22T), states that PSE's "electric revenue requirement would
18 increase by approximately \$70,000 due to the reclassification of one customer to
19 rate Schedule 40."⁸⁷

20 **Q How is this a mischaracterization of your Supplemental Testimony?**

⁸⁶ This testimony was not sponsored on behalf of The Energy Project.

⁸⁷ Exhibit No. ___(ACC-1T), page 3, lines 2-5.

1 A. My testimony in Exhibit No. ___(JAP-22T) stated that moving the additional
2 customer to electric rate Schedule 40 would increase PSE's "revenue
3 deficiency"⁸⁸ by approximately \$70,000, not PSE's "revenue requirement." Public
4 Counsel's witness acknowledged this error in her testimony in response to a data
5 request, which is attached as Exhibit No. ___(JAP-38).⁸⁹

6 **V. CONCLUSION**

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.

⁸⁸ Exhibit No. ___(JAP-22T), page 3, lines 5-14.

⁸⁹ Response of Public Counsel and The Energy Project to PSE Data Request No. 011.