

**EXHIBIT NO. ___(TAD-4T)
DOCKET NO. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: TOM DE BOER**

**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 (NONCONFIDENTIAL) OF
TOM DE BOER
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JANUARY 17, 2012

PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
TOM DE BOER**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **TOM DE BOER**

4 **I. INTRODUCTION**

5 **Q. Are you the same Tom De Boer who submitted prefiled direct testimony in**
6 **this proceeding on June 13, 2011 on behalf of Puget Sound Energy, Inc.**
7 **(“PSE” or “the Company”)?**

8 **A. Yes.**

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

10 **A. My prefiled direct testimony, Exhibit No. ___(TAD-1T), provided a general**
11 **overview of the reasons PSE proposed the Conservation Savings Adjustment**
12 **(“CSA”) Rate. My rebuttal testimony responds to testimony from the following**
13 **witnesses opposing PSE’s CSA Rate proposal:**

- 14 1. Deborah Reynolds, witness for the Staff of the Washington
15 Utilities and Transportation Commission (“Staff”);
- 16 2. Ralph Cavanagh, witness for the NW Energy Coalition
17 (“NWECC”);
- 18 3. Michael Gorman, witness for the Industrial Customers of
19 Northwest Utilities (“ICNU”);
- 20 4. Donald Schoenbeck, witness for ICNU and, separately, witness
21 for the Northwest Industrial Gas Users (“NWIGU”);
- 22 5. Kevin Higgins, witness for the Kroger Company (“Kroger”)
23 and, separately, witness for Nucor Steel Seattle, Inc. (“Nucor”);
24 and

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6. Andrea C. Crane, witness for the Public Counsel section of the Washington State Attorney General’s Office (“Public Counsel”) and The Energy Project.

My rebuttal testimony also responds to the proposal of The Energy Project witness, John Howat, to increase funding to PSE’s low income payment assistance program and Commission Staff witness Roger Kouchi’s recommendations to modify the meter and billing performance standards agreed to as part of partial settlement in PSE’s 2007 general rate case (“Partial Settlement”).¹

Q. What is your overall reaction to the testimony filed by the parties to this case in response to PSE’s CSA Rate proposal?

A. The testimonies of the parties on this issue are wide-ranging, but are consistent in their opposition to PSE’s CSA proposal. However, none of the parties offer cogent arguments that dispute that PSE is financially harmed by the achievement of energy efficiency or identify any legal or policy barriers that would prevent the Commission from approving PSE’s CSA proposal. PSE’s CSA proposal is an attempt to address the financial impact resulting from its achievement of energy efficiency, while also attempting to balance the concerns raised by the parties and the Commission over the years-long discussion of this issue. While the parties to this case have proffered many arguments in opposition to the proposal, in the final analysis, their arguments rest on form over substance, lack merit, or are unsupported by the facts in this case and should be

¹ The Partial Settlement was approved by the Commission in Order 12, Docket Nos. UE-072300 and UG-072301 (Oct. 8, 2008).

1 rejected. The incremental cost to customers of PSE's CSA proposal is small—
2 approximately 31 cents per month for the typical residential electric customer and
3 11 cents per month for the typical residential gas customer in the first CSA rate
4 year—and these small costs are far exceeded by the benefits customers are
5 already receiving from the Company's energy efficiency programs. Moreover,
6 PSE's CSA proposal preserves the alignment of interests with the state's broader
7 energy policy far better than NWECC's decoupling proposal.

8 **Q. Did any party dispute PSE's calculation of the financial impact of Company-**
9 **sponsored energy efficiency?**

10 A. No party to this case disputed PSE's calculation of the financial impact of
11 Company-sponsored energy efficiency, as presented in the Eighth and Ninth
12 Exhibits to the Prefiled Direct Testimony of Jon A. Piliaris, Exhibit
13 Nos. ___(JAP-09 and JAP-10). This is significant and it supports the validity of
14 PSE's analysis, which puts into perspective the magnitude of the problem the
15 Company is attempting to address through its CSA proposal.

16 **Q. If no party disputed PSE's calculations of the financial impact resulting from**
17 **Company-sponsored energy, why don't they support PSE's CSA proposal?**

18 A. Many parties suggest that PSE did not explicitly follow the guidance provided by
19 the Commission in its *Report and Policy Statement on Regulatory Mechanisms,*
20 *Including Decoupling, To Encourage Utilities To Meet Or Exceed Their*

1 *Conservation Targets*² (“Policy Statement”) and this provides sufficient grounds
2 for rejecting the CSA proposal. In addition, many parties claim that PSE should
3 consider other offsetting factors as part of its CSA proposal and that the
4 Company’s authorized return should be adjusted to reflect a perceived reduction
5 in risk that would result from its implementation. As discussed later in my
6 testimony, these disagreements are without merit, unsupported by the facts in this
7 case and should be rejected.

8 **Q. What is your reaction to the The Energy Project’s proposal to increase**
9 **payment assistance among PSE’s customers?**

10 A. As discussed later in my testimony, PSE takes no position with regard The Energy
11 Project’s proposal to increase the payment assistance amount but does have other
12 process concerns.

13 **Q. What is your reaction to Commission Staff’s proposal to modify the Partial**
14 **Settlement approved in PSE’s 2007 general rate case?**

15 A. As discussed in later in my testimony and in the Prefiled Rebuttal Testimony of
16 Zana Jones, Exhibit No. ____ (ZDJ-1T), PSE agrees that the Partial Settlement
17 should be modified and proposes changes building on Commission Staff’s basic
18 concept of including the time to both identify and correct meter issues in the
19 standard and other changes.

² Docket No. U-100522 (Nov. 4, 2010).

1 **II. RESPONSE TO SPECIFIC ISSUES RAISED BY OTHER**
2 **PARTIES REGARDING PSE’S CSA PROPOSAL**

3 **A. The Commission’s Policy Statement**

4 **Q. Do arguments that PSE did not explicitly follow the guidance provided by**
5 **the Commission’s Policy Statement provide sufficient grounds for denying**
6 **the Company’s CSA proposal?**

7 A. No. While the Company found the discussion in the Commission’s Policy
8 Statement a useful insight into the Commission’s thinking on the topic of
9 “decoupling,” we agree with the Commission’s characterization of its Policy
10 Statement:

11 As stated above, the Legislature has specifically authorized policy
12 statements as tools for agencies to state their current intentions
13 without committing to a binding and perhaps inflexible rule. In
14 our view, this policy statement is a more appropriate means to
15 express our current thinking on decoupling and conservation
16 incentive mechanisms than either a rule or a formal order in an
17 adjudicative proceeding.³

18 Clearly, the Commission contemplated that its position on the issues raised in the
19 Policy Statement could change and certainly were not binding. Therefore, PSE’s
20 proposal should be judged solely on its merits and the facts presented in this fully
21 adjudicated general rate case, not on the basis of statement of policy which by its
22 very terms is not intended to be binding or inflexible.

³ Policy Statement at page 22, paragraph 35.

1 **B. Response to NWEC's Electric Decoupling Proposal**

2 **Q. Were alternatives to PSE's CSA mechanism proposed by parties in this case?**

3 A. Yes. NWEC provide a decoupling alternative to PSE's CSA proposal. NWEC's
4 electric decoupling proposal is ostensibly meant to address PSE's financial
5 disincentives toward promoting energy efficiency.

6 **Q. Is PSE receptive to this proposal for electric decoupling?**

7 A. No. While PSE appreciates NWEC's attempt to address the financial disincentive
8 caused by conservation, the proposal falls far short of the mark. Further, as
9 discussed later in my testimony, PSE is concerned with the potential
10 consequences of NWEC's proposal on the success of the state's formal energy
11 policy.

12 **Q. What is PSE's primary objection to NWEC's proposal for electric**
13 **decoupling?**

14 A. PSE's primary objection to NWEC's electric decoupling proposal is that it does
15 not address PSE's fundamental reason for proposing its CSA mechanism. PSE's
16 CSA proposal is intended to address the financial consequences of PSE's energy
17 efficiency program, particularly as it relates to the recovery of its costs not
18 covered by the Company's Power Cost Adjustment ("PCA") and Purchased Gas
19 Adjustment ("PGA") mechanisms.

1 **Q. Are PSE’s objectives for filing its CSA proposal supported by state law?**

2 A. Yes. RCW 80.28.260(3) states, in part, that “[t]he commission shall consider and
3 may adopt other policies to protect a company from a reduction of short-term
4 earnings that may be a direct result of utility programs to increase the efficiency
5 of energy use.” PSE interprets this law as encouraging energy efficiency by
6 removing financial impacts of reductions in short-term earnings relative to what
7 would have otherwise been achieved in the absence of the utility energy
8 efficiency programs. PSE’s CSA proposal is meant to address the financial
9 impact contemplated by this law.

10 **Q. Why do you conclude that NWECE’s proposal doesn’t address this financial**
11 **impact on PSE?**

12 A. Testimony supporting NWECE’s proposal admits as much. In summarizing the
13 financial effects of NWECE’s electric decoupling proposal, NWECE’s witness
14 concludes that “a switch to per-customer decoupling does not appear to create any
15 substantial advantages for shareholders compared to status quo practices...”⁴
16 This is in stark contrast to the estimated \$18 million impact on PSE in 2010 from
17 the effects of Company-sponsored electric energy efficiency.⁵

⁴ Exhibit No. ___(RCC-1T) at page 12, lines 10-11.

⁵ See Attachment C of PSE’s Response to WUTC Staff Data Request No. 037, Exh.
No. ___(TAD-5).

1 **Q. Does NWEC share PSE’s concern regarding the impact of energy efficiency**
2 **on the Company’s earnings?**

3 A. NWEC’s testimony appears to share this concern. In summarizing his testimony,
4 NWEC’s witness notes:

5 The case for approving this full electric decoupling proposal is
6 underscored by a straightforward summary of the record in this
7 proceeding: if PSE helped its customers save just one percent of
8 system wide electricity use per year every year for the next five
9 years, the company would automatically lose more than \$75
10 million in authorized recovery of costs unrelated to electricity
11 production (hereafter referred to as “fixed costs” or
12 “nonproduction costs”).⁶

13 NWEC’s witness further acknowledges that PSE’s concern about the gap between
14 the growth in its expenses and the growth its electricity use and customer count
15 “deserves the Commission’s attention.”⁷ Notwithstanding this apparent concern,
16 as noted earlier, NWEC’s witness admits that its decoupling mechanism does not
17 address this issue.

18 **Q. Has NWEC provided any evidence that its proposal is compensatory, as**
19 **required by RCW 80.28.020?**

20 A. No. NWEC has provided no evidence to support that its proposal is
21 compensatory other than to suggest that PSE would be made no worse off than
22 under the status quo.⁸

⁶ Exhibit No. ___(RCC-1T) at page 2, lines 10-15.

⁷ *Id.* at page 10, line 18.

⁸ *Id.* at page 12, lines 10-11.

1 **Q. Does PSE believe NWEC's proposal is compensatory?**

2 A. No. As previously noted, NWEC's decoupling proposal purports to make PSE no
3 worse off than the status quo. If PSE believed that the status quo was
4 compensatory in the presence of a robust conservation program, it would not have
5 made its CSA proposal.

6 **Q. If NWEC's proposal does not address PSE's core reason for proposing its
7 CSA mechanism, what is the purpose of NWEC's proposal?**

8 A. According to its witness, one of the purposes of NWEC's proposal is to remove
9 PSE's throughput incentive.⁹

10 **Q. Are PSE's ratepayers harmed by this throughput incentive?**

11 A. PSE is unaware of any evidence presented in this case that proves its customers
12 have been harmed by this throughput incentive. To the contrary, removing PSE's
13 throughput incentive may cause harm to its ratepayers and other residents of the
14 state.

15 **Q. How do you reach this conclusion?**

16 A. NWEC's aversion to the throughput incentive rests on the belief that, as a general
17 proposition, increasing levels of electricity consumption is undesirable and,
18 therefore, utilities should not have an incentive to promote its use. What NWEC
19 fails to consider is the alternative. The primary focus of the 2012 Washington
20 State Energy Strategy, the state's formal energy policy, is the reduction in our

⁹ *Id.* at page 5, line 19, through page 6, line 5.

1 state's dependence on fossil fuels, primarily in the transportation sector.¹⁰ This
2 will require the use of other forms of transportation "fuel," with electricity being
3 the most touted alternative. PSE finds that removing the throughput incentive
4 would be counterproductive to aligning electric utilities' financial incentive with
5 this goal. This is a risky course to take, especially given the infancy of electric
6 vehicles.

7 **Q. Is the removal of a utility's throughput incentive supported by state law or**
8 **its energy policy?**

9 A. PSE is unaware of any expressed support for the removal of any throughput
10 incentive in state law or its energy policy. Clearly there is an emphasis on
11 promoting efficient use, but not an outright attack on all forms of electricity use.
12 To the contrary, the state clearly recognizes the value of its affordable, reliable
13 and abundant electricity in supporting economic development within the state.

14 **Q. Doesn't the State's Energy Strategy also promote energy efficiency?**

15 A. It does. However, it is silent as to what specific ratemaking mechanisms should
16 be used to achieve this purpose. Moreover, it seems reasonable to conclude that
17 the state would not support mechanisms that were counterproductive to the
18 primary focus of its energy policy, increasing energy efficiency and reduction in
19 greenhouse gas emissions in the transportation sector.

¹⁰ Washington State Energy Policy, Core Solutions for Economy, Jobs and Climate, Department of Commerce; available at www.commerce.wa.gov/energystrategy.

1 **Q. Please summarize the merits of NWECE's proposed decoupling mechanism**
2 **relative to PSE's proposed CSA mechanism.**

3 A. PSE's CSA is supported by state law, which encourages that the financial effects
4 of energy efficiency on the utility be addressed, while also promoting the two
5 primary goals of the state's energy policy to: (1) reduce dependence on fossil
6 fuels in the transportation sector; and (2) remove barriers to promoting more
7 efficient use of electricity. By contrast, NWECE's proposal offers little in the way
8 of financial relief from the effects of Company-sponsored energy efficiency, has
9 not been proven to be compensatory and removes potentially strong financial
10 incentives to promote alternatives that could reduce the state's dependence on
11 fossil fuels.

12 **C. Response to Staff's Requirements for a Decoupling Mechanism**

13 **Q. Did other parties weigh in on what should be included in a decoupling**
14 **mechanism?**

15 A. Yes. In its response to Bench Request No. 3, Commission Staff also addressed
16 the factors that should be considered in approving an NWECE-like decoupling
17 mechanism applicable to either gas or electric. One novel recommendation on
18 pages 20-21 of Commission Staff's response is to adjust the annual deferrals
19 associated with a decoupling mechanism to reflect differences between actual
20 sales and those sales estimated to occur had PSE's system average interruption
21 duration interval ("SAIDI") statistic in that year equaled the Company's 10-year
22 average.

1 **Q. Is this an appropriate adjustment?**

2 A. No. While we appreciate Commission Staff’s concerns regarding prompt service
3 restoration, these are already addressed by PSE’s existing service quality indices
4 (“SQIs”). To the extent that PSE does not meet the SAIDI targets identified in its
5 SQIs, for reasons inclusive of those raised by Commission Staff in its response to
6 the bench request, PSE is subject to significant penalties. It borders on the absurd
7 to think that PSE would delay restoring service after an outage—and in so doing
8 risk millions of dollars in penalties and impaired customer relations—in order to
9 push its current year usage below a baseline usage and thus “recover revenue
10 associated with outage-related usage,” as suggested by Commission Staff.¹¹
11 Moreover, including SAIDI statistics in a decoupling mechanism would only
12 further complicate the mechanism.

13 **D. Approval of the CSA Does Not Require Adjustment to PSE’s ROE**

14 **Q. Did parties suggest that the Company’s authorized return on equity should**
15 **be reduced if the CSA proposal is approved?**

16 A. Yes. Witnesses for ICNU¹², Public Counsel and the Energy Project¹³ suggest that
17 PSE’s CSA mechanism will reduce the Company’s risks and, therefore, the
18 Commission should adjust the Company’s authorized return accordingly.¹⁴

¹¹ Commission Staff Response to Bench Request No. 3 at page 20.

¹² Exhibit No. ___(MPG-1T) at page 1, line 16, through page 4, line 20.

¹³ Exhibit No. ___(ACC-1T) at page 17, line 1, through page 18, line 3. Testimony of Ms. Crane related to the CSA was sponsored jointly by Public Counsel and The Energy Project.

1 **Q. Are these claims and proposals supported by the facts presented in this case?**

2 A. No. No party could provide a specific quantification of the risks that would be
3 avoided by the Company with the implementation of the CSA mechanism. In
4 fact, only ICNU offers a specific (20 basis point) reduction to the authorized
5 return on equity (“ROE”) to account for the perceived reduction in risk resulting
6 from PSE’s CSA mechanism. However, ICNU provides no factual evidence that
7 correlates this proposed ROE reduction with a quantified reduction in risk. Nor
8 does ICNU provide evidence indicating the extent to which any of the utilities in
9 the proxy group used to formulate its ROE proposal have comparable “risk
10 reducing” mechanisms. ICNU simply makes the unsupported assumption that the
11 adoption of the CSA mechanism will result in PSE facing a lower-than-average
12 operating risk relative to the proxy group.

13 **Q. Was PSE’s ROE adjusted upward to reflect the increased risk to the**
14 **Company resulting from its mandated pursuit of conservation or the**
15 **requirement of the Energy Independent Act to acquire all cost effective**
16 **conservation?**

17 A. Not to my knowledge.

¹⁴ Staff only addressed the issue of risk, but not the implications for authorized return, in the Prefiled Response Testimony of Deborah J. Reynolds, Exhibit No. ___(DJR-1T) at page 19, lines 8-14.

1 **Q. How does ICNU's proposed ROE reduction compare with proposed CSA**
2 **revenue?**

3 A. ICNU's proposed 20 basis point CSA-related reduction to authorized ROE would
4 offset over 80 percent of the proposed CSA revenue for recovery of costs in 2011.
5 Such a drastic reduction to CSA revenues, for an unquantified mitigation of risk,
6 casts serious doubt over the fairness of ICNU's proposal.

7 **Q. Given the parties' lack of credible evidence, as well as the unfairness of the**
8 **one specific proposal to reduce ROE, what do you recommend?**

9 A. I recommend that the Commission reject the unsupported arguments and
10 proposals made by these parties. To the extent that there is any risk reduction
11 resulting from PSE's CSA mechanism, this will ultimately manifest itself in the
12 form of lower future borrowing costs. The benefit of these lower costs will flow
13 through to customers as they are realized by the Company.

14 **E. Customers Benefit from Energy Efficiency and CSA Proposal**

15 **Q. Does any party in this case question the customer benefit associated with**
16 **PSE's CSA proposal?**

17 A. Yes. ICNU's and NWIGU's shared witness in this case, Mr. Don Schoenbeck,
18 suggests that PSE's CSA proposal comes with no corresponding tangible or
19 quantifiable benefits.¹⁵

¹⁵ Exhibit No. ___(DWS-1CT) at page 17, lines 11-13; *see also* Exhibit No. ___(DWS-8T) at page 6, lines 17-19.

1 **Q. Should a mechanism like the CSA be required to produce incremental**
2 **benefits?**

3 A. If by “benefits” Mr. Schoenbeck means conservation savings, this is more the
4 domain of “incentive” mechanisms. The CSA mechanism is simply intended to
5 address the financial consequences of PSE’s existing conservation program. That
6 said, Mr. Schoenbeck fails to acknowledge that substantial benefits (i.e., those
7 rendered by PSE’s energy efficiency program) are already being conferred at
8 great cost to the Company. To require proof of further benefit simply to address
9 the financial impact of energy efficiency that is already benefiting customers is, at
10 best, unreasonable.

11 **F. Parties Application of Found Margin is Inconsistent With**
12 **Commission Ratemaking Precedents**

13 **Q. Do parties raise the issue of “found margin” in response to PSE’s CSA**
14 **proposal?**

15 A. Yes. Witnesses for Kroger¹⁶, Nucor¹⁷, Public Counsel and The Energy Project¹⁸
16 bring up the issue of “found margin” in their testimony, suggesting that the
17 associated revenues are above and beyond what the Commission “approved” in a
18 utility’s rate case.

¹⁶ Exhibit No. ___(KCH-2T) at page 24, lines 3-17.

¹⁷ Exhibit No. ___(KCH-1T) at page 9, lines 1-5.

¹⁸ Exhibit No. ___(ACC-1T) at page 15, lines 19-20.

1 **Q. Do you share this view?**

2 A. No. These parties continue to misconstrue the application of historic test year
3 ratemaking when it benefits their arguments. “Found margin” has always been
4 present and is not caused by conservation. These parties are also misinterpreting
5 what the Commission approves in a rate order. The Commission approves rates
6 based on the relationship between revenues, costs (including an expected return
7 on rate base) and a set of “billing determinants” in a test year. This relationship is
8 assumed to continue into the rate year. The Commission does not approve the
9 absolute level of revenues to be collected. Moreover, related to the discussion of
10 “found margin,” the Commission does not approve a specified level of revenue
11 per customer (i.e., based on an assumed level of use per customer).

12 **Q. Are these parties’ application of the concept of “found margin” supported by**
13 **PSE’s past Commission’s rate orders?**

14 A. No. As noted above, the Commission approves rates based upon billing
15 determinants to derive revenue that, in its opinion, would have been sufficient to
16 recover the utility’s normalized revenue requirement in the test year. The
17 underlying theory is that the utility’s billing determinants will change in tandem
18 with its costs (i.e., through “cost causation”) so that the billing determinants in the
19 rate year will produce a sufficient level of revenue to cover the utility’s costs
20 (including the expected return on rate base) in the rate year.

21 The primary billing determinants used in PSE’s tariffs include the number of
22 customers served, monthly energy sales and monthly peak demands. In tying

1 PSE's revenues to its billing determinants, the Commission has not prejudged any
2 relationship between the billing determinants in the rate year. Each billing
3 determinant is allowed to change from test year levels at a pace that is
4 independent of the others. Nothing in the Commission order in PSE's 2009
5 general rate case suggests otherwise, let alone suggests that the Commission is
6 approving rates on the assumption that the Company's customer counts and
7 energy-related billing determinants will change at the same pace. Yet parties are
8 imposing this distorted view of ratemaking in support of their "found margin"
9 arguments. Mr. Piliaris provides other examples of Commission precedent that
10 show that "found margin" is misused by the parties.

11 **Q. So, how do parties support the view that the Commission's rate orders are**
12 **based on an assumption that the Company's customer counts and energy-**
13 **related billing determinants will change at the same pace?**

14 A. Parties that have raised the found margin issue appear to be relying on language in
15 the Commission's Policy statement to support their arguments. Specifically, they
16 appear to be relying on the following:

17 The Commission defines "lost margin" as a reduction in revenue
18 during a rate-effective period due to a reduction in usage, from the
19 level of usage determined using a modified historic test year in a
20 general rate case.¹⁹

21 and

22 Just as reduced usage per customer may lead to lost margin,
23 increased per-customer usage or the addition of new customers can

¹⁹ Policy Statement at page 6, paragraph 9.

1 lead to additional revenues (“found margin”), possibly resulting in
2 a utility earning more than its authorized ROR.²⁰

3 **Q. How do you reconcile the Commission’s historic practice in approving utility**
4 **rates with these definitions of “lost margin” and “found margin?”**

5 A. Unfortunately, these definitions cannot be reconciled with past Commission
6 practice or rate theory, at least not in PSE’s case. PSE interprets these Policy
7 Statement definitions to imply that the Commission’s approved rates are
8 predicated on an assumption that the billing determinants, specifically the number
9 of customers served and the volume of energy sold, used to generate revenue in
10 the rate year will change at the same pace between the historic test year and the
11 rate year. However, PSE’s 2009 general rate case order, for example, does not
12 indicate that the Commission-approved rates were predicated on this assumption.
13 No evidence was presented in PSE’s 2009 general rate case, or other recent cases,
14 to prove that customer growth would be equivalent to volumetric growth into the
15 rate year or that, if equivalent customer and volumetric sales growth was required,
16 the resulting rates would be compensatory.

17 **Q. How do you respond to this inconsistency between the Commission’s**
18 **ratemaking policy as articulated in its Policy Statement and its ratemaking**
19 **policy as demonstrated in past general rate cases?**

20 A. PSE respectfully requests that the Commission reconsider the Policy Statement, in
21 particular the expectations for equivalent growth rates in customer counts and

²⁰ Policy Statement at page 7, paragraph 11.

1 volumetric sales between the test year and rate year when approving utilities'
2 rates. As mentioned at the beginning of my testimony, PSE understands the
3 Commission's Policy Statement to be indicative of its then-current thinking and
4 that the Commission has ample authority to modify (or clarify) its views on these
5 matters. Left unchanged, PSE believes that its new policy will fail to address the
6 issue that the Commission had intended to solve (i.e., to address declines in
7 revenues due to utility-sponsored conservation or other causes of conservation)²¹
8 and, worse, potentially undermine the broader foundation of utility ratemaking
9 theory in this state (i.e., one that is grounded in the principle of cost-causation).

10 **III. RESPONSE TO THE ENERGY PROJECT'S PROPOSAL**
11 **TO INCREASE PAYMENT ASSISTANCE FUNDING**

12 **Q. Have you reviewed The Energy Project's proposal to increase funding for**
13 **payment assistance?**

14 A. Yes. The Energy Project is recommending that PSE and Avista's level of
15 ratepayer funding for payment assistance be comparable on a percentage of
16 revenue basis. As described by The Energy Project, this recommendation would
17 increase PSE's HELP program funding from \$15,541,000 to \$20,175,000.

18 **Q. Do you agree with The Energy Project's proposal?**

19 A. PSE does not take a position on The Energy Project's proposal to increase the
20 funding level. However, PSE does take issue with the concept that payment
21 assistance should be comparable on a percentage of revenue basis with the other

²¹ Policy Statement at page 1, paragraph 1.

1 utilities in the state. Each utility service territory is unique and there is no rational
2 basis to link the level of funding to a percentage of a utility's revenue.

3 Furthermore, if the Commission agrees that The Energy Project has met its
4 burden of proof and approves this increase in ratepayer funding, PSE suggests
5 that the increase in ratepayer funding take place as part of the normal ongoing
6 annual true-up compliance filing (on August 31), as provided for in the original
7 settlement terms for low income payment assistance.

8 **IV. RESPONSE TO COMMISSION STAFF'S**
9 **RECOMMENDATION TO MODIFY THE METER**
10 **AND BILLING PERFORMANCE STANDARDS**

11 **Q. Please summarize Commission Staff's testimony on the meter and billing**
12 **Partial Settlement.**

13 A. In his prefiled response testimony, Mr. Kouchi describes the background of the
14 issue, discusses Commission Staff's view of PSE's performance on meter and
15 billing and proposes modifications to the Partial Settlement.

16 **Q. Does Commission Staff allege that PSE is in violation of the Partial**
17 **Settlement?**

18 A. No. Mr. Kouchi acknowledges that PSE has complied with the Partial Settlement.
19 However, he goes on to describe Commission Staff's concerns about the number
20 and duration of back-bills.

1 **Q. Are Mr. Kouchi's conclusions that the number and duration of back-bills are**
2 **not being reduced accurate?**

3 A. No. As demonstrated in the Prefiled Rebuttal Testimony of Zana Jones, Exhibit
4 No. ___(ZDJ-1T), a correct analysis of the data actually shows the number of
5 back-bills is decreasing, the duration of back-bills is decreasing and the number of
6 complaints is decreasing.

7 **Q. Are the modifications to the Partial Settlement offered by Mr. Kouchi**
8 **workable?**

9 A. Not entirely. Many of the modifications suggested by Mr. Kouchi are acceptable
10 and PSE agrees with the basic concept that the Partial Settlement should be
11 modified to include the time to both identify and correct back-bills. However, as
12 described in more detail by Ms. Jones in her prefiled rebuttal testimony, the
13 timeframes and targets suggested by Mr. Kouchi simply are not workable.

14 **Q. Does PSE agree that the Partial Settlement should be modified?**

15 A. Yes. The Company is quite concerned about Mr. Kouchi's proposal as to timing
16 of back-bill correction and percentage of back-bills corrected. It is not workable
17 as proposed. The Company agrees that the Partial Settlement should be modified,
18 however, targets must be achievable. Ms. Jones outlines the Company's proposed
19 modifications in her testimony and exhibits.

V. CONCLUSION

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2 Q. Does this conclude your testimony?

3 A. Yes, it does.