

Exhibit No. ____ (DJR-3T)
Docket UE-111048/UG-111049
Witness: Deborah J. Reynolds

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, Inc.

Respondent.

**DOCKET UE-111048
DOCKET UG-111049**

(Consolidated)

CROSS-ANSWERING TESTIMONY OF

Deborah J. Reynolds

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Responding to the Decoupling Proposal of the NW Energy Coalition

January 17, 2012

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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2
3 **Q. Please state your name, business address, and position of employment.**

4 A. My name is Deborah J. Reynolds. My business address is the Richard Hemstad
5 Building, 1300 S. Evergreen Park Dr. SW, Olympia, Washington 98504. I am
6 employed by the Washington Utilities and Transportation Commission as a
7 Regulatory Analyst.

8
9 **Q. Have you previously filed testimony in this proceeding?**

10 A. Yes. On December 7, 2011, I filed testimony on behalf of Commission Staff with
11 regard to electric rate spread and design, and the proposal of Puget Sound Energy,
12 Inc. (“PSE” or the “Company”) for a Conservation Savings Adjustment. On the
13 same day, Staff filed its response to the Commission’s Bench Request on
14 decoupling.

15
16 **Q. What is the purpose of your cross-answering testimony in this proceeding?**

17 A. My cross-answering testimony serves two purposes. First, in Section II, I respond to
18 the full decoupling proposal of the NW Energy Coalition, presented by Mr. Ralph
19 Cavanagh. Second, in Section III, I respond to the low income funding proposal
20 offered by Mr. John Howat on behalf of The Energy Project.

1 **Q. Please summarize Staff's response to Mr. Cavanagh's decoupling proposal.**

2 A. PSE alleges that it is experiencing attrition due to growth in expenses that are out-
3 pacing growth in revenue. A decoupling mechanism will not address that
4 phenomenon, as Mr. Cavanagh concedes.¹ Staff recommends an attrition adjustment
5 as the best way to deal with this issue.² The Commission should also reject Mr.
6 Cavanagh's decoupling proposal because it does not comply with the Commission's
7 Decoupling Policy Statement.³

8
9 **Q. Please summarize your response to The Energy Project's proposal on low**
10 **income funding.**

11 A. The Energy Project asks the Commission to order PSE to increase its funding level
12 for low-income assistance from .51 percent to .665 percent of total Company annual
13 operating revenues. This proposal appears reasonable in this case and, therefore,
14 Staff supports it. However, any future proposals to increase low income assistance
15 funding should include more detailed supporting analysis.

16

17 **II. NWEC'S DECOUPLING PROPOSAL**

18

19 **Q. Please generally describe NWEC's decoupling proposal.**

¹ Cavanagh, Exhibit No. ___ (RCC-1T) at 10:14.

² Elgin, Exhibit No. ___ (KLE-1T) at 80:5-9.

³ Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets, Docket U-100522 (November 4, 2010) ("Decoupling Policy Statement").

1 A. NWEC proposes a full decoupling mechanism for PSE. PSE's revenues would be
2 based upon a revenue-per-customer ("RPC") value for residential customers and a
3 combined group of commercial customers.⁴ Each group would have separate RPC
4 amounts.

5 The proposal would guarantee PSE would recover that RPC through a
6 deferred accounting and true-up process. The true-ups of actual revenue to the RPC
7 level would occur annually, subject to a three percent rate increase cap. PSE would
8 defer any amount above the cap and recover it in later annual rate changes.

9 NWEC proposes that the mechanism run for at least five years, subject to a
10 future evaluation by an independent contractor. Finally, the proposed mechanism
11 requires annual reports by PSE describing its progress toward conservation targets.⁵
12

13 **Q. Does Staff have any general concerns about implementing NWEC's decoupling**
14 **proposal for PSE?**

15 A. Yes, Staff has two general concerns. First, PSE alleges it is experiencing attrition
16 due to growth in expenses that are out-pacing growth in revenue. As Staff witness
17 Ken Elgin explains, an attrition adjustment is the best way to deal with this issue,
18 including lost revenues due to conservation.⁶ Mr. Cavanagh concedes decoupling
19 does not address attrition.⁷

20 Second, the NWEC proposal fails to comply with the most significant
21 elements of the Decoupling Policy Statement, namely:

⁴ Schedules 24, 25, 26, 29, 31, 35, 43, 57.

⁵ Similar reports are currently required under Docket UE-100177.

⁶ Elgin, Exhibit No. ___ (KLE-1T) at 80:5-9.

⁷ Cavanagh, Exhibit No. ___ (RCC-1T) at 10:14.

- 1 • it is not appropriately applied to all customer classes;
- 2 • it makes no reduction to cost of capital;
- 3 • it fails to condition RPC recovery on achieving conservation targets;
- 4 • it does not identify comparable conservation benefits for low income customers;
- 5 • it does not describe the incremental conservation the Company should pursue;
- 6 and
- 7 • it fails to net increased wholesale sales due to conservation in the true-up.

8 I explain each of these deficiencies in the following sections of my testimony.

9

10 **A. NWEC's Proposal is Not Applied to All Customer Classes**

11

12 **Q. How does the Decoupling Policy Statement address the application of full**
13 **decoupling to customer classes?**

14 **A.** The Commission states that a full decoupling mechanism should include all customer
15 classes, unless it would be lawful or consistent with "the public interest" to do
16 otherwise:

17 *Application to Customer Classes.* Generally, a full decoupling proposal
18 should cover all customer classes. However, where in the public interest and
19 not unlawfully discriminatory or preferential, the Commission will consider a
20 proposal that would apply to fewer than all customer classes.⁸
21

⁸ Decoupling Policy Statement at 18, Criterion 1, ¶ 28.

1 **Q. Is the Commission's policy appropriate?**

2 A. Yes. The discrimination and preference statutes are part of the Commission's overall
3 regulation of utilities; although there may be circumstances where excluding a
4 customer class would satisfy those statutes and also be in the "public interest".

5

6 **Q. Which customer classes does NWECC exclude from its decoupling mechanism?**

7 A. NWECC's proposal exempts customers from six PSE rate schedules:

- 8 • Schedule 40 – Large Demand General Service Greater Than 3 aMW
9 • Schedule 46 – High Voltage Interruptible Service
10 • Schedule 49 – High Voltage General Service
11 • Schedule 448 – Power Supplier Choice
12 • Schedule 449 – Retail Wheeling Service
13 • Schedule 459 – Back-up Distribution Service

14 These schedules are typically very large industrial customers. Mr. Cavanagh
15 exempts them "because they have so few members (140) and account for a relatively
16 small fraction of PSE's projected revenues from energy charges (about 4 percent,
17 although these Schedules account for almost 14 percent of retail electricity sales)."⁹

18

19 **Q. Do these considerations justify exempting these customers from decoupling?**

20 A. Not necessarily, although I do not offer a legal opinion regarding the discrimination
21 or undue preference statutes.

22 Mr. Cavanagh bases his proposal on only two of the three customer groups
23 found in PSE's proposed Conservation Savings Adjustment. His exclusion of the
24 third customer group is not necessary or appropriate because the high-voltage

⁹ Cavanagh, Exhibit No. ____ (RCC-1T) at 13:12-15.

1 customers in that group all participate in conservation programs. The Staff Response
2 to the Commission's Bench Request included all customers in the sample decoupling
3 mechanism.¹⁰

4 Mr. Cavanagh also raises a concern about PSE encouraging customers to
5 change rate schedules in order to increase profits.¹¹ However, he does not explain
6 how this concern is addressed by his exclusion of the high-voltage customers.
7 Neither is this issue directly addressed in Staff's Response to the Commission's
8 Bench Request.¹² Before the Commission makes a decision about decoupling, more
9 justification is needed.

10
11 **B. NWEC's Proposal Excludes the Impact of Decoupling on the Rate of Return**

12
13 **Q. What does the Decoupling Policy Statement say with respect to the impact of**
14 **full decoupling on a utility's cost of capital?**

15 **A.** The Commission contemplates full decoupling will reduce the utility's cost of
16 capital:

17 By reducing the risk of volatility of revenue based on customer usage, both
18 up and down, such a mechanism can serve to reduce risk to the company, and
19 therefore to investors, which in turn should benefit customers by reducing a
20 company's debt and equity costs. This reduction in costs would flow through
21 to ratepayers in the form of rates that would be lower than they otherwise
22 would be, as the rates would be set to reflect the assumption of more risk by
23 ratepayers.¹³

¹⁰ See Staff Response to Bench Request, pages 8 and 9. See also Staff Response to Bench Request, Appendix 1 Workpapers, Electric, Page 1c.

¹¹ Cavanagh, Exhibit No. __ (RCC-1T) at 11:14.

¹² See Staff Response to Bench Request, Appendix 1 Workpapers, Electric, Page 1c.

¹³ Decoupling Policy Statement at 16-17, ¶ 27.

1 The Commission specifically requires a full decoupling mechanism proposal
2 to evaluate its impact on the return on equity:

3 *Impact on Rate of Return.* Evidence evaluating the impact of the proposal on
4 risk to investors and ratepayers and its effect on the utility's ROE.¹⁴
5

6 **Q. Is this policy appropriate?**

7 A. Yes. Full decoupling reduces substantially the utility's revenue risk by guaranteeing
8 a specific amount of revenue per customer regardless of typical causes of fluctuation
9 in revenue related to weather, economic conditions, or any other condition. Reduced
10 revenue volatility represents a risk reduction that should translate into lower capital
11 costs, either as a lower required return on equity or the need for less equity in the
12 utility's capital structure.

13
14 **Q. Does NWEAC recognize any reduction to PSE's cost of capital due to full
15 decoupling?**

16 A. No. Apparently, Mr. Cavanagh believes full decoupling could actually *increase*
17 PSE's cost of equity. This assertion is based on a study by the Brattle Group that
18 found the cost of equity to be higher for the decoupled gas utilities studied.¹⁵

19 In any event, Mr. Cavanagh concludes that the only possible cost of capital
20 benefit will be through a potential reduction in the utility's equity ratio, but, even
21 then, he proposes this capital structure benefit flow to ratepayers if and only if, and

¹⁴ Id. at 17, Element 2, ¶ 28.

¹⁵ Cavanagh, Exhibit No. ____ (RCC-1T) at 20:8-11.

1 only after, the utility actually decreases its equity ratio. He claims the Ratepayer
2 Assistance Project (“RAP”) agrees with him on this timing issue.¹⁶

3
4 **Q. Should the Commission agree that PSE’s cost of equity likely will be higher**
5 **under full decoupling and that it should wait for any capital structure benefits**
6 **to actually occur, before recognizing any cost of capital benefit from**
7 **decoupling?**

8 A. No. The Commission should reject Mr. Cavanagh’s proposal as inconsistent with an
9 important element of the Decoupling Policy Statement: customers should receive the
10 benefits of the risk reduction resulting from decoupling.

11 Moreover, the Brattle Group study upon which Mr. Cavanagh relies did not
12 attempt to exclude any other variables that may have contributed to the higher cost of
13 equity for the studied utilities, such as market perceptions about the consistency of
14 the regulatory agencies that implement decoupling.¹⁷ Consequently, its conclusion
15 about higher cost of equity for decoupled gas utilities is suspect.

16 In addition, the financial impact of full decoupling on the utility’s revenues is
17 immediate, and the utility should capitalize itself properly due to this important
18 change to its operations. Waiting only causes ratepayers to pay for risks twice: first,
19 by having those risks shifted to ratepayers from investors, and again, by keeping the
20 capital structure the same as if the utility was subject to those risks.

¹⁶ Id. at 20:12-17.

¹⁷ See Regulatory Assistance Project, Revenue Regulation and Decoupling: A Guide to Theory and Application (June 2011), at 38, section 10.2. “If the risk mitigation measure is put in place only for a limited period, or the regulatory commission has a record of changing its regulatory principles frequently, the ratings agency may not recognize the measure.”

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Q. Did RAP agree, as Mr. Cavanagh states, that any capital structure benefits should be passed through to customers, if and only if, and only when, the utility actually achieves those improvements?

A. No. Nowhere in its publication does RAP recommend regulators wait until actual capital structure benefits materialize. In fact, RAP considers it correct to recognize cost of capital improvements at the time full decoupling is put into place.

In particular, RAP estimates the equity ratio could be lower by three percentage points due to risk-mitigation benefits of decoupling.¹⁸ RAP also recognizes cost of capital benefits of full decoupling when it is implemented.¹⁹ Though RAP suggests against lowering the cost of equity at the time a decoupling mechanism is implemented, RAP also suggests that regulators may want to lower the utility's equity ratio "when regulators consider how to flow through the risk-mitigation benefits of decoupling to consumers when a mechanism is put into place."²⁰ In other words, RAP agrees with the Decoupling Policy Statement that cost of capital-related reductions may appropriately coincide with the adoption of a decoupling mechanism.

Q. Have other commissions lowered a utility's cost of capital when implementing a decoupling mechanism?

¹⁸ Id. at 38, first paragraph.
¹⁹ Id. at 39, first paragraph.
²⁰ Id. at 39, last paragraph.

1 A. Yes, the Public Service Commission of Maryland, in its approval of a decoupling
2 mechanism for each of its three investor-owned utilities, reduced the return on equity
3 by 50 basis points. The District of Columbia Public Service Commission did the
4 same.²¹

5
6 **Q. If the Commission approves a decoupling mechanism, how could the**
7 **Commission implement its cost of capital reduction policy?**

8 A. The Commission could reduce the overall rate of return by adopting a return on
9 equity in the lower end of Mr. Elgin's range (9.00 to 9.50 percent²²), or by reducing
10 the amount of equity in the company's capital structure,²³ or both.

11
12 **C. NWEC's Proposal Does Not Condition Recovery on Conservation Achievement**

13
14 **Q. What is the Commission's policy regarding meeting conservation targets and**
15 **revenue per customer recovery by a utility under a decoupling mechanism?**

16 A. It is essential that the decoupled utility meet its conservation targets: "Revenue
17 recovery by the company under the mechanism will be conditioned upon a utility's
18 level of achievement with respect to its conservation target."²⁴ Later in the
19 Decoupling Policy Statement, in the discussion about direct conservation incentives,
20 the Commission explains further:

²¹ Decoupling Policy Statement, Appendix 6, page 3.

²² Elgin, Exhibit No. __ (KLE-1T) at 2.

²³ Staff Response to Bench Request, Page 10, footnotes 25 and 26.

²⁴ Id. at 17, Description of Mechanism, ¶ 28.

1 However, the EIA, in RCW 19.285.060(4), provides us with the express
2 authority to provide such incentives: “The commission ... may consider
3 providing positive incentives for an investor-owned utility to exceed the
4 targets established in RCW 19.285.040.” We do not read this provision to
5 permit us to provide incentives to acquire conservation that is not cost-
6 effective. Rather, we read this to suggest that, between the biennial
7 conservation targets designed to determine what cost-effective conservation
8 can be required, the electric utility may be able to acquire additional
9 conservation as technology is improved, federal or other matching funds
10 become available, or for other reasons that were not known at the time of the
11 setting of the target.²⁵
12

13 **Q. Can this policy be practically applied?**

14 A. Yes. Staff’s response to the decoupling Bench Request identifies a Conservation
15 Test that would implement this policy.²⁶
16

17 **Q. Does NWEC’s proposal condition PSE’s revenue recovery under decoupling
18 with achieving the Company’s conservation targets?**

19 A. No. Consequently, the proposal should be rejected by the Commission.
20

21 **D. NWEC’s Proposal Does Not Identify Comparable Conservation Benefits to
22 Low-Income Customers**
23

24 **Q. What is the Commission’s policy on conservation for low income customers in
25 the context of full decoupling?**

26 A. The Commission’s policy is:

27 *Low-income.* A utility proposing a full decoupling mechanism must
28 demonstrate whether or not its conservation programs provide benefits to
29 low-income ratepayers that are roughly comparable to other ratepayers and, if
30 not, it must provide low-income ratepayers targeted programs aimed at

²⁵ Id. at 20, ¶ 31, 32.

²⁶ Staff Response to Bench Request at 14.

1 achieving a level of conservation comparable to that achieved by other
2 ratepayers, so long as such programs are feasible within cost-effectiveness
3 standards.²⁷
4
5

6 **Q. Does NWEC's proposal satisfy this Commission policy?**

7 A. No. In response to Staff Data Request 3, NWEC states that "Mr. Cavanagh has not
8 conducted such analysis."
9

10 **Q. Did Staff independently determine whether PSE's conservation programs
11 provide benefits to low-income ratepayers that are roughly comparable to other
12 ratepayers?**

13 A. No. Staff does not have the information available to conduct such analysis.
14

15 **Q. What do you conclude regarding NWEC's proposal?**

16 A. NWEC's full decoupling proposal should be rejected because it does not address
17 whether PSE's conservation programs provide comparable benefits to low-income
18 ratepayers and others.
19

20 **E. NWEC's Proposal Does Not Describe Incremental Conservation**
21

22 **Q. What is the Commission's policy regarding a utility's acquisition of more
23 conservation than it would have acquired absent decoupling?**

²⁷ Decoupling Policy Statement at 19, Criterion 4, ¶ 28,

1 A. The Commission requires a decoupling proposal to contain: “Evidence describing
2 any incremental conservation the company intends to pursue in conjunction with the
3 mechanism”.²⁸

4
5 **Q. Does Mr. Cavanagh address this policy?**

6 A. No. The only specific levels of conservation Mr. Cavanagh refers to are
7 conservation targets that are in place for PSE today, absent decoupling.²⁹
8 Consequently, NWECC’s full decoupling proposal should be rejected because it does
9 not describe incremental conservation that would result from implementing
10 decoupling.

11
12 **F. NWECC’s Proposal Does Not Account for the Net Benefits of Off-System Sales
13 and Costs Avoided Due to the Utility’s Conservation Efforts**

14
15 **Q. What is the Commission’s policy on increased wholesale sales as a result of
16 decoupling?**

17 A. The Commission requires a full decoupling mechanism to account for certain off-
18 system sales and avoided costs, and to net the benefits as part of the true-up:

19 *Accounting for Off-System Sales and Avoided Costs.* A description of the
20 method the company intends to use to determine the financial benefits
21 associated with off-system sales or avoided costs attributable to the utility's
22 conservation efforts and then to net these benefits against the true-up
23 provided in this mechanism.³⁰

24
25 In the related footnote, the Commission explains:

²⁸ Id. at 19, Criterion 3, ¶ 28.
²⁹ Cavanagh, Exhibit No. ___ (RCC-1T) at 6-8.
³⁰ Id. at 17, Element 4, ¶ 28.

1 In principle, for every megawatt hour saved through the operation of the
2 utility's conservation program, it has the opportunity to either sell the same in
3 the appropriate market (off-system sales), or avoid having to purchase or
4 produce electricity to meet its load requirements. The accounting of this
5 form of found revenue differs between electric utilities with power cost
6 adjustment mechanisms and those without. After rates have been set for an
7 electric utility that does not have a power cost adjustment mechanism, the
8 marginal avoided cost of producing or buying electricity, or the marginal
9 revenue (net of marginal cost) from the sale of electricity made surplus by
10 conservation not incorporated into the calculation of the power costs, is a
11 direct benefit to the utility shareholders. For utilities with a power cost
12 adjustment mechanism, loads are projected in a future test year, with
13 reductions in the load for the expected conservation levels. Consequently, for
14 the effective rate year following the setting of rates, only conservation above
15 the expected level of conservation would result in an opportunity to reduce
16 power costs or realize additional revenues from incremental sales. In the
17 years after the projected rate year, the marginal avoided cost of producing or
18 buying electricity, or the marginal revenue (net of marginal cost) from a sale
19 of electricity made surplus by conservation, is a direct benefit.³¹
20

21 **Q. Is this Commission policy appropriate?**

22 A. Yes. When customers conserve energy, the utility should market the electricity the
23 utility would have sold to its own retail customers. Moreover, the utility incurs
24 lower costs due to the wholesale sales, such as reduced line losses, reduced
25 uncollectible expense, and avoidance of the Public Utility Tax, which effectively
26 applies only to retail sales.

27 Under full decoupling, ratepayers guarantee the utility's recovery of a
28 specified level of revenues per customer. It is appropriate for the decoupling
29 mechanism to recognize the benefits of enhanced wholesale sales that may result
30 from decoupling.
31

³¹ Id. at n. 45.

1 **Q. Can this policy be practically applied?**

2 A. Not within the decoupling mechanism itself. Rather, this policy could be
3 implemented by revising the PCA. One possible revision could be to remove the
4 deadband.³² Needless to say, addressing this policy will require more detailed
5 analysis than has been presented thus far.

6

7 **Q. Does NWEA's proposal apply this Commission policy?**

8 A. No. Mr. Cavanagh suggests the Commission ignore this policy on the basis of his
9 belief that PSE's PCA "already addresses this concern" regarding enhanced
10 wholesale sales.³³

11

12 **Q. Is Mr. Cavanagh's characterization of PSE's PCA correct?**

13 A. No. PSE's PCA has a "dead band" and "sharing bands" which, as a practical matter,
14 would result in ratepayers not receiving the full benefit of incremental wholesale
15 sales occasioned by full decoupling. This is because any such sales likely would fall
16 within the dead band and, therefore, PSE would retain any benefits of enhanced
17 wholesale sales due to decoupling.³⁴

18

19 **Q. Is it consistent with the Decoupling Policy Statement to allow decoupling while**
20 **also maintaining the current PCA?**

³² In the absence of a PCA, this policy would be very difficult and administratively burdensome to apply.

³³ Cavanagh, Exhibit No. ____ (RCC-1T) at 16:9.

³⁴ Staff Response to Bench Request, Page 18.

1 A. No. The current structure of the PCA and the Commission's decoupling policy on
2 enhanced wholesale sales are not compatible. If the Commission wishes to
3 implement full decoupling for PSE, there are two choices: change the PCA, or do
4 not apply the Commission's decoupling policy on wholesale sales. In short, Mr.
5 Cavanagh chooses to not apply the Commission's decoupling policy on wholesale
6 sales, without adequately supporting that choice.

7

8 **Q. What choice should the Commission make and why?**

9 A. Should the Commission choose to implement full decoupling for PSE, it should
10 maintain its policy regarding wholesale sales. However, Staff believes the
11 Commission does not have sufficient time or record in this docket to both address
12 full decoupling and appropriately revise the PCA. Therefore, any decision to adopt
13 full decoupling should await full examination of any required revisions to the PCA.
14 This process is consistent with Staff's recommendation that the Commission re-
15 examine the PCA in total.³⁵

16

17 **Q. Please summarize your position on the full decoupling proposal offered by**
18 **NWEC.**

19 A. The Commission should reject in its entirety Mr. Cavanagh's full decoupling
20 proposal as inconsistent with the several elements I have identified from the
21 Commission's Decoupling Policy Statement.

22

³⁵ Schooley, Exhibit No. __ (TES-1T) at 11:3-8.

1 **Q. Should the Commission nevertheless decide to implement full decoupling, what**
2 **issues should be addressed prior to implementation?**

3 A. Staff recommends that the Commission reject full decoupling in this case. However,
4 if the Commission rejects that recommendation, it should:

- 5 • Reduce the overall rate of return by adopting a return on equity in the lower end
6 of Mr. Elgin's range (9.00 to 9.50 percent³⁶), or by reducing the amount of equity
7 in the company's capital structure³⁷, or both.
- 8 • Adopt the Earnings Test outlined in the Staff Response to the Bench Request,
9 modifying the deadband as appropriate.³⁸
- 10 • Adopt the Conservation Test outlined in the Staff Response to Bench Request.³⁹
- 11 • Require third party evaluation of conservation achievement, which will also
12 identify any incremental conservation.⁴⁰
- 13 • Require third party evaluation of comparable benefits for low-income
14 customers.⁴¹

³⁶ Elgin, Exhibit No. __ (KLE-1T) at 2.

³⁷ Staff Response to Bench Request, Page 10, footnotes 25 and 26.

³⁸ Staff's response to the decoupling Bench Request included an earnings test for discussion purposes that was essentially the same as that addressed by Mr. Cavanagh. It is also very similar to the earnings test in Avista's decoupling mechanism, although Avista's does not contemplate the 25 basis point deadband. I would clarify, however, that whatever deadband is chosen by the Commission, it should be based on a rate of return set in the general rate case that implements decoupling. In addition, the deadband should be carefully crafted to provide upside earnings only if the Company can demonstrate a connection between achieved efficiencies beyond those required by statute and its earnings at the high end of any range determined to be fair.

³⁹ Staff Response to Commission's Bench Request, pages 13-14. See also Staff Response to Bench Request Appendix 1 Workpapers, Electric, page 1b.

⁴⁰ Decoupling Policy Statement at 18, Criterion 3, ¶ 28. In Staff's view, it is not necessary or even feasible to require proof of incremental conservation before implementation of decoupling. It is enough to measure conservation acquired during the measurement period. As long as the decoupling proposal describes how it will measure incremental conservation, including appropriate third party evaluation, the spirit of the Commission's policy will have been realized.

⁴¹ Decoupling Policy Statement at 18, Criterion 4, ¶ 28. It is not clear to Staff how this policy, as phrased, is essential to a decoupling mechanism. Staff assumes this policy is intended as a useful check on the utility's

- 1 • Require revision of the PCA.⁴²

2 **III. THE ENERGY PROJECT LOW INCOME PROPOSAL**

3
4 **Q. Please summarize the low income funding proposal of The Energy Project.**

5 A. Mr. Howat proposes that the Company be ordered to increase its funding for its
6 Home Energy Lifeline Program (“HELP”) available to low-income residential
7 customers from .51 percent to .665 percent of total Company annual operating
8 revenues. Based on 2010 operating revenues, this would increase low-income
9 payment assistance from \$15.5 million to \$20.2 million.⁴³

10
11 **Q. What justification does the Energy Project give for this proposal?**

12 A. Mr. Howat bases his proposal on a comparison of PSE’s level of low-income
13 payment assistance to the level of funding for similar programs by Avista, Seattle
14 City Light, and Snohomish PUD. He also examined three utilities in California and
15 three utilities in New England. He found that PSE devotes the lowest percentage of
16 payment assistance among all utilities he studied. Therefore, he recommends that
17 the level of funding be increased from .51 percent to .665 percent of total Company
18 annual operating revenues in order to achieve greater consistency between the

low income programs to assure they are providing benefits the Commission deems appropriate. In Staff’s view, as long as the decoupling proposal describes how it will measure and compare benefits of conservation provided to low-income customers and other customers, including appropriate third party evaluation, the spirit of the Commission’s policy will have been realized.

⁴² Exhibit No. ___ (TES-1T) at 11:3-8.

⁴³ Exhibit No. ___ (JGH-1T) at 20.

1 Company and Avista, which devotes .82 percent of annual revenues to low-income
2 payment assistance.⁴⁴

3
4 **Q. What is Staff's position regarding the proposal of the Energy Project?**

5 A. Increasing the funding as the Energy Project recommends is reasonable at this time.
6 It is a minor increase and will have little impact on the Company's remaining
7 customers that contribute to HELP funding through PSE's surcharge tariff Schedule
8 129 – Low Income Program. Therefore, Staff recommends that the Commission
9 approve the proposal.

10 However, the comparison that Mr. Howat provides between PSE and other
11 utilities does not explicitly account for differences that may impact the need for low
12 income payment assistance for any particular utility, such as differences in customer
13 demographics and economic conditions in varying service territories. Therefore,
14 Staff would expect any party proposing further increases in low income payment
15 assistance in later PSE general rate cases to support that proposal with more detailed
16 analysis of these and any other relevant factors.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes.
20
21

⁴⁴ Pacific Power & Light Company provided about 0.47 percent of annual revenues to low income bill assistance in 2010. However, I proposed an increase in this amount in my testimony filed January 6, 2012 in Docket UE-111190.