EXH. JAP-1T
DOCKETS UE-18___/UG-18___
PSE EXPEDITED RATE FILING
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of: **PUGET SOUND ENERGY** **Expedited Rate Filing**	**Docket UE-18____** **Docket UG-18____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

JON A. PILIARIS

ON BEHALF OF PUGET SOUND ENERGY

JUNE 15, 2018

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jon A. Piliaris. I am employed as Director, Regulatory Affairs, with Puget Sound Energy ("PSE" or the "Company"). My business address is 10885 NE Fourth Street, Bellevue, WA 98009-9734.

Q. Have you prepared an exhibit describing your education, relevant employment experience and other professional qualifications?

A. Yes, I have. It is Exh. JAP-2.

Q. What is the purpose of your testimony?

A. My testimony presents the following:

i) PSE's calculation of the revenues at present rates used to derive the electric and natural gas revenue deficiencies in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T, using weather-normalized billing determinants for the test year ending March 31, 2018;

ii) PSE's proposed rate spread and rate design for the recovery of a substantial portion of the $41.2 million electric revenue deficiency presented in the

Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T, through electric Schedule 141;

iii) PSE's proposed rate spread and rate design for the recovery of $23.2 million of the $33.4 million natural gas revenue deficiency presented in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T, through natural gas Schedule 141; and

iv) The resulting updates to natural gas Monthly Allowed Delivery Revenue Per Customer and the associated Delivery Revenue Per Unit in electric and natural gas Schedule 142.

Q. Please summarize your testimony.

A. Consistent with the methodology used to develop rates in PSE's 2013 expedited rate filing ("ERF") in Dockets UE-130137 and UG-130138, PSE has spread electric and gas revenue deficiencies on an equal percent of margin and equally across all margin rate components. This approach is consistent with the Multiparty Settlement Stipulation and Agreement ("2017 Settlement Agreement") in PSE's 2017 general rate case in Dockets UE-170033 and UG-170034 ("2017 general rate case").[1]

[1] Exhibit I to the Multiparty Settlement Stipulation and Agreement in Dockets UE-170033 and UG-170034 states that "[t]he ERF will not include changes to rate spread or rate design from the most recently filed general rate case."

The tariff increases requested in electric Schedule 141 will result in a 2.0 percent average rate increase for electric customers. The tariff increases requested in natural gas Schedule 141 will result in a 2.6 percent average rate increase for natural gas customers. PSE has proposed corresponding updates to its decoupling mechanisms in electric and natural gas Schedule 142 to align with the rates being proposed in electric and natural gas Schedule 141.

II. DEVELOPMENT OF RATE SPREAD

Q. How did PSE assign its ERF revenue deficiencies to customer classes?

A. In a general rate case, PSE uses its cost of service study to provide guidance for the allocation of a revenue deficiency to customer classes. In the present proceeding, however, there are no cost of service studies. As discussed in the Prefiled Direct Testimony of Katherine J. Barnard, Exh. KJB-1T, parties to PSE's last general rate case agreed to use a methodology consistent with the one used in PSE's 2013 ERF filing. Accordingly, consistent with the 2013 ERF methodology, all customer classes will receive an equal percentage change in rates, calculated as a percent of margin.

Q. Please summarize how PSE spreads the electric revenue deficiency.

A. PSE used results from the electric cost of service model submitted in Docket UE-180282, which updated the model provided with the compliance filing to PSE's 2017 general rate case, Docket UE-170033, for the effects of the lower federal income tax rates associated with the Tax Cuts & Jobs Act of 2017, as the basis for

spreading the electric revenue deficiency. To do this, PSE's allocated fixed and variable power costs[2] were first subtracted from each class's weather-normalized test year base rate revenues at rates approved in Docket UE-180282 to derive ERF-related expenses. Each class's share of this amount was then used to derive an allocation factor. With two exceptions, this allocation factor was then applied to the electric revenue deficiency to determine the amount to be recovered from each rate class. In effect, this approach allocates the ERF-related increases proposed in this filing on an equal percent of "margin" basis.

Q. Please explain the two exceptions to the approach described above.

A. The Lighting and Retail Wheeling customer classes would have experienced rate increases in excess of three percent as a result of the approach described above (and in more detail below). However, WAC 480-07-505(1)(b) limits the increase to any customer class to under three percent of total revenues in a non-general rate case such as this proceeding. Therefore, as with PSE's previous ERF filing in Docket UE-130137, PSE has limited the increase to these two customer classes to 2.9 percent to ensure that they are not assigned an increase of 3.0 percent or greater. As a result, the revenue to be collected by the proposed rates is approximately $200,000 less than the electric revenue deficiency presented in the Prefiled Direct Testimony of Ms. Free. To be clear, the $200,000 is not being

[2] These include variable costs now included in PSE's power cost adjustment mechanism and the fixed production costs now included in PSE's decoupling mechanism. Together, these constitute the costs eligible for recovery in PSE's power cost only rate cases.

spread to other customer classes; PSE is simply requesting a smaller increase than is supported by its calculated electric revenue deficiency.

Q. How were PSE's power-related costs allocated to each rate class?

A. PSE used the peak credit methodology in the 2017 general rate case[3] to allocate its power-related revenue requirement to each rate class. Specifically, PSE derived a power-related allocation factor by adding (1) the product of the DEM-2B[4] class allocation factor and the peak credit demand percentage of 25 percent (2) to the product of the ENERGY2[5] class allocation factor and the peak credit energy percentage of 75 percent. PSE used this factor to allocate the power-related revenue requirement to each rate class.

Q. What is the resulting ERF-related revenue used to allocate the electric revenue deficiency to state-jurisdictional customers in this filing?

A. This amount is approximately $715.3 million, which is slightly different than the $723.8 million identified in Exh. SEF-3.[6] This difference was ignored for purposes of the allocation factor, shown on Table 1 below, since it only amounts

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[3] *See* Piliaris, Exh. No. JAP-1T 26:6 - 27:14; Exh. No. JAP-5C (Dockets UE-170033 & UG-170034).

[4] This allocation factor is derived from each class's contribution to the coincident system peaks in the months of November 2015 through February 2016 of the rate case test period. Interruptible and Retail Wheeling customers are excluded from this factor.

[5] This allocation factor is derived from each class's contribution to PSE's retail energy sales in the rate case test year, excluding Retail Wheeling customers.

[6] This difference is largely due to the removal of FERC-jurisdictional revenue for purposes of allocating state-jurisdictional increases.

to 1.1 percent of the overall amount used to derive the ERF-related allocation factor. This is well within the five percent dead band PSE has historically used as the basis for proposing average rate changes to applicable rate classes in its general rate cases.

Q. Please summarize the results of the electric ERF allocation factor calculation.

A. This summary is provided in the table below. Additional detail supporting these figures is provided in Exh. JAP-3.

Table 1 – Electric ERF Allocation Factor Results

Customer Class	Rate Schedules	ERF Revenue ($millions)	Allocation Factor
Residential	7	$411.7	56.9%
General Service, < 51 kW	8/24	$105.3	14.5%
General Service, 51 – 350 kW	7A/11/25/29	$89.5	12.4%
General Service, >350 kW	12/26/26P	$47.5	6.5%
Primary Service	31/35/43	$36.5	5.0%
Campus Rate	40	$11.4	1.6%
High Voltage	46/49	$8.5	1.2%
Lighting Service	50 – 59	$13.0	1.8%
Choice/Retail Wheeling	448/449	$0.5	0.1%
Firm Resale/Special Contract	5	$0.0	0.0%
System Total / Average		$723.8	**100.0%**

Q. Please summarize how PSE spread the natural gas revenue deficiency.

A. PSE's natural gas rates already unbundle delivery from gas supply; therefore, the natural gas revenue deficiency was simply allocated on relative weather-normalized test year delivery rate revenue for natural gas customers.[7]

Q. Please summarize the results of the natural gas ERF allocation factor calculation.

A. This summary is provided in the table below. Additional detail supporting and explaining the derivation of these figures is discussed in the next section of this testimony.

Table 2 – Natural Gas ERF Allocation Factor Results

Customer Class	Rate Schedules	ERF Revenue ($millions)	Allocation Factor
Residential	16/23/53	$310.5	70.0%
Commercial & Industrial	31/31T/61	$91.5	20.7%
Large Volume	41/41T	$18.7	4.2%
Interruptible	85/85T	$8.7	2.0%
Limited Interruptible	86/86T	$2.1	0.5%
Non-exclusive Interruptible	87/87T	$4.7	1.1%
Special Contracts		$1.7	0.4%
Rentals	71/72/74	$5.4	1.2%
System Total / Average		$443.2	**100.0%**

[7] Delivery revenue is also commonly referred to as "base" or "margin" revenue for natural gas service.

III. EXPEDITED RATE FILING TEST PERIOD REVENUE

Q. Please describe how PSE determined the electric ERF-related revenue associated with weather-normalized sales made during the test year ended March 31, 2018.

A. PSE first divided each class's ERF-related revenue in the test period used in Docket UE-180282,[8] as discussed above, by each class's respective associated weather-normalized energy sales. These unit rates were then applied to each class's weather-normalized energy sales for the ERF test period ended March 31, 2018. Using this approach, the resulting ERF-related electric revenue for this period was determined to be $734.5 million. These calculations are shown in Exh. JAP-3 at line 40. This level of revenue was used to determine the electric revenue deficiency in the prefiled direct testimony of Ms. Free.

Q. Please describe how PSE determined the natural gas ERF-related revenue associated with weather-normalized sales made during the test year ended March 31, 2018.

A. PSE multiplied natural gas rates approved in Docket UG-180283 by the weather-normalized billing determinants for the period ended March 31, 2018. The resulting ERF-related natural gas revenue for this period was determined to be $443.2 million. These calculations are shown in Exh. JAP-4. This level of

[8] This is the same 12-month test period ending September 30, 2016 that was used in PSE's 2017 general rate case, Dockets UE-170033 and UG-170034.

revenue was used to determine the natural gas revenue deficiency in the prefiled direct testimony of Ms. Free.

IV. RATE DESIGN

Q. Please describe the rate design methodology used to recover the electric ERF revenue deficiency.

A. The revenue associated with the recovery of power supply costs was first removed from all base electric rates to derive electric "margin" revenue. This margin revenue was used to apportion each class's allocated revenue deficiency to the basic, energy, demand, reactive or lamp charges, as applicable, on an equal percentage of revenue basis, within the appropriate rate schedule. These deficiencies are recovered through the electric adjusting rate schedule, Schedule 141.

Q. How did PSE design electric ERF rates?

A. First, PSE identified power-related and ERF-related revenue for each of the tariff charges. Basic charge revenue was assumed to be entirely related to ERF. The remaining charges (energy, demand and reactive power) were assumed to recover both ERF and power-related costs. For each class, the power-related demand and reactive power revenue was assumed to be limited to the lesser of these revenues or the allocated demand-related power costs. The remaining power-related revenue was assumed to be energy related and was spread across each class's energy rate blocks in proportion to the rate block's share of total energy revenue.

The sum of these energy and demand components equal the power-related cost allocation from PSE's cost of service study in Docket UE-180282.

ERF-related revenue at current rates was then calculated by subtracting the power-related revenue requirement from the total weather-normalized test year electric revenue. The ERF increase was spread across the basic, energy, demand and reactive power charge components in proportion to the ERF-related revenues. Where the existing demand charge revenue was less than the allocated power-related demand costs, no change to the demand or reactive power charge was made. For Lighting customers, the increases were allocated proportionally with rates approved in Docket UE-180282, for rates effective June 1, 2018. The calculations of the ERF-related rates, inclusive of the proposed increases in this filing, are provided in Exh. JAP-5. Column C of Exh. JAP-5 at pages 3 through 9 shows the derivation of proposed Schedule 141 rates that recover only the calculated ERF electric revenue deficiency.

Q. Is this the same approach taken for electric rate design in PSE's previous ERF filing in Docket UE-130137?

A. Yes. This approach is consistent with the one taken in PSE's 2013 ERF filing and is consistent with the 2017 Settlement Agreement in which the parties agreed to follow the process and procedures used by the Commission in Docket UE-130137

and to not include changes to rate spread and rate design from the 2017 general rate case.[9]

Q. Can you summarize the impacts of PSE's electric ERF proposal for each class?

A. Yes. The allocated electric ERF-related deficiency and associated average rate impacts are presented below. Additional detail supporting these figures is provided in Exh. JAP-5 at page 1.

Table 3 – Summary of Electric ERF-Related Revenue and Rate Impacts

Customer Class	Rate Schedule	Allocated ERF Deficiency ($M)	Average Rate Impact
Residential	7	$23.7	2.2%
General Service, < 51 kW	8/24	$6.0	2.1%
General Service, 51 – 350 kW	7A/11/25/29	$5.2	2.3%
General Service, >350 kW	12/26/26P	$2.6	1.6%
Primary Service	10/31/35/43	$2.1	1.7%
Campus Rate	40	$0.6	1.3%
High Voltage	46/49	$0.5	1.1%
Lighting Service	50 - 59	$0.5	2.8%
Choice/Retail Wheeling	448/449	$0.0	0.1%
Firm Resale/Special Contract	5	$0.0	0.0%
System Total / Average		$41.2	2.0%

[9] *See* Dockets UE-170033 & UG-170034, 2017 Settlement Agreement, ¶ 115 and Exh. I.

Q. Has PSE prepared electric rates based upon the rate spread and rate design approach you describe above?

A. Yes, the proposed rates are calculated in Exh. JAP-5 and proposed sheets for electric tariff Schedule 141 are presented in Exh. JAP-6.

Q. How did PSE design natural gas ERF rates?

A. For each rate schedule, all elements of rates (basic, energy, demand and procurement charge) were increased by an equal percentage to recover the ERF increase. The calculations of the ERF-related natural gas rates, inclusive of the proposed increases in this filing, are provided in Exh. JAP-7.

Q. Has PSE prepared natural gas tariff sheets to recover its natural gas ERF deficiency?

A. Yes, the proposed natural gas tariff sheets for Schedule 141 are presented in Exh. JAP-8.

Q. Please summarize the impacts of PSE's natural gas ERF proposal for each class.

A. The allocated natural gas ERF-related deficiency and associated average rate impacts are summarized below. More detailed rate impact calculations can be found in Exh. JAP-9.

Table 4 – Summary of Natural Gas ERF-Related Revenue, Rate Spread and Rate Impacts

Customer Class	Rate Schedule	Allocated ERF Deficiency ($M)	Base Rate Impact[10]	Overall Rate Impact[11]
Residential	16/23/53	$15.7	2.9%	2.6%
Commercial & Industrial	31/31T/61	$5.2	2.9%	2.8%
Large Volume	41/41T	$1.2	2.9%	2.7%
Interruptible	85/85T	$0.4	2.9%	2.8%
Limited Interruptible	86/86T	$0.2	2.9%	2.7%
Non-exclusive Interruptible	87/87T	$0.4	2.8%	2.7%
Special Contracts		$0.05	2.9%	2.6%
Rentals	71/72/74	$0.2	2.9%	2.8%
System Total / Average		$23.2	2.9%	2.6%

Q. Why doesn't the overall natural gas revenue deficiency presented above match the amount presented in the prefiled direct testimony of Ms. Free?

A. The overall increase associated with the deficiency presented in Ms. Free's testimony would exceed the three percent limit in rate impacts allowed in WAC 480-07-505(1)(a). Therefore, consistent with process and procedures used in Docket UG-130138, PSE is limiting natural gas rate increases in this proceeding to 2.9 percent of current base rate revenue, inclusive of gas costs.

[10] *See* Exh. JAP-7, Page 1, Column L. This represents increases relative to the sum of margin and gas cost rates (i.e., excluding other adjusting price schedules).

[11] *See* Exh. JAP-9, Page 1, Column T. These impacts are relative to all revenue, including other adjusting price schedules.

Q. What are the residential impacts associated with PSE's ERF proposal?

A. The typical impact to PSE's residential electric customers using 900 kWh per month would be $1.96 per month, or a 2.2 percent increase over current rates. The typical impact to PSE's residential natural gas customers using 64 therms per month would be $1.68 per month, or a 2.6 percent increase over current rates.

V. DECOUPLING MECHANISM UPDATES

Q. Do the proposed ERF rates necessitate changes to PSE's decoupling mechanism?

A. Yes. PSE's decoupling mechanisms allow the Company to recognize revenue that is collected volumetrically on a per-customer basis for certain classes of customers. Since the proposed ERF rates will change PSE's volumetric "margin" rates for electric and natural gas service, the allowed revenue per customer for each decoupling rate group within Schedule 142 must be contemporaneously updated to consistently recognize the additional revenues being authorized as part of the ERF rate increases in Schedule 141. Similarly, in the tracking of variances between volumetric and allowed revenue (i.e., on a per-customer basis), the delivery revenue per unit for each decoupling rate group must also be updated to reflect the increase in volumetric ERF rates.

Q. Has PSE calculated the updated allowed revenue and delivery revenue per unit associated with the proposed ERF rate increases?

A. Yes. PSE has calculated updated allowed revenue and delivery revenue per unit associated with the proposed ERF rate increases for each decoupling rate group. The derivation of the electric decoupling allowed revenue and delivery revenue per unit are presented in Exh. JAP-10. The associated calculations for PSE's natural gas decoupling mechanisms are presented in Exh. JAP-11.

Q. Has PSE prepared updated decoupling tariff sheets to reflect these updated allowed revenue and delivery revenue per unit?

A. Yes. Proposed tariff sheets for the electric decoupling mechanism are presented in Exh. JAP-12. Proposed tariff sheets for the natural gas decoupling mechanism are presented in Exh. JAP-13.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.