BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent. In the Matter of the Petition of PUGET SOUND ENERGY, Petitioner, For an Accounting Order Authorizing deferred accounting treatment of purchased power agreement expenses pursuant to RCW 80.28.410.	DOCKETS UE-240004, UG-240005, and UE-230810 *(Consolidated)*

CROSS-ANSWERING TESTIMONY OF DR. LANCE D. KAUFMAN

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

September 18, 2024

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EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Lance D. Kaufman. I am a consultant representing utility customers before state public utility commissions in the Northwest and Intermountain West. My witness qualification statement can be found at Exhibit LDK-2.

Q. ARE YOU THE SAME WITNESS THAT CAUSED TO BE FILED RESPONSE TESTIMONY IN THIS DOCKET?

A. Yes. On August 6, 2024, I submitted Response Testimony on behalf of the Alliance of Western Energy Consumers ("AWEC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my cross-answering testimony is to respond to Commission Staff ("Staff"), Public Counsel and Intervenor Response Testimony regarding depreciation, electrification, cost of service, and rate spread.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I make the following recommendations:

- Unless specifically addressed herein, I maintain all of the recommendations set forth in my Response Testimony.
- Reject JEA's recommendation to reduce the impact of PSE's accelerated depreciation of the gas system by reducing depreciable lives by 5 years rather than 10 years as proposed by PSE.
- Reject Joint Environmental Advocates' ("JEA") annual electrification target.
- Reject JEA's general electrification program.

II. NATURAL GAS DEPRECIATION EXPENSE

Q. WHAT DEPRECIATION CHANGES DID PSE PROPOSE IN THIS CASE?

A. PSE recommends updating depreciation rates because there is "more information" about the future outlook of gas assets, particularly driven by what it describes as the combined effect of Washington's "combined goals" to get to net zero greenhouse gas emissions by 2050 through the Climate Commitment Act ("CCA"), Clean Energy Transformation Act ("CETA"), and the state's adoption of new building codes.[1] Further driving these changes is the Company's line extension policy enacted in its 2022 general rate case.[2]

Q. HOW DID STAFF RESPOND TO PSE'S PROPOSAL?

A. Staff did not fully analyze PSE's proposed depreciation rates and takes no specific position.[3] Staff does note that the requirements of Engrossed Substitute House Bill 1589 ("HB 1589") are not directly applicable in this rate case.[4] Staff recommends the Commission keep the administrative record open long enough to take notice of the results of the ballot initiative pursuant to WAC 480-07-495(2).[5] Staff's position on whether depreciation rates should be accelerated if the ballot initiative does not pass is not clear, though it does offer a number of considerations for the Commission to weigh in its decision on PSE's proposal.[6]

Q. HOW DO YOU RESPOND TO STAFF'S RECOMMENDATION?

A. Staff's recommendation to keep the record open regarding this issue is reasonable. To the extent that Staff's recommendation is supportive of accelerated depreciation in this case, I

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1 Allis, Exh. NWA-1T at 3:7-19.

2 Allis, Exh. NWA-1T at 3:13-14. Notably, the Company's line extension policy was enacted as a function of settlement in its 2022 general rate case, and not driven by specific legal requirements.

3 Exh. CRM-1T at 23:14-18.

4 Exh. CRM-1T at 22:9-12.

5 Exh. CRM-1T at 25:11-13.

6 Exh. CRM-1T at 26:18-27:18.

oppose that recommendation for the reasons set forth in my Response Testimony and as also discussed below.

Q. HOW DOES PUBLIC COUNSEL REPSOND TO PSE'S DEPRECIATION RECOMMENDATIONS?

A. Public Counsel performs a traditional actuarial analysis of PSE's plant records and proposes depreciation accrual rates nearly identical to current rates.[7]

Q. HOW DO YOU REPSOND TO PUBLIC COUNSEL'S RECOMMENDATION?

A. Public Counsel's recommendation is consistent with my recommendation to make no changes to depreciation rates, because Public Counsel's recommendations have an immaterial impact on annual depreciation expense.[8]

Q. HOW DOES JEA RESPOND TO PSE'S DEPRECIATION RECOMMENDATIONS?

A. JEA notes that PSE recommends reducing depreciable live by 10 years.[9] JEA recommends that, in the interest of gradualism, depreciable life be reduced by 5 years rather than 10 years.[10]

Q. HOW DO YOU RESPOND TO JEA'S RECOMMENDATION?

A. JEA appears to adopt PSE's assertions regarding declining future customers and gas throughput. I demonstrate in my Response Testimony that these assertions are unreasonable.[11] JEA also fails to consider that the impacts of declining customers on PSE's plant will differ across asset type,[12] or the various cross schedule equity implications associated with arbitrarily increasing depreciation expense.[13]

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[7] Exh. DJG-1T at 3, Figure 1.
[8] Exh. DJG-1T at 3, Figure 1.
[9] Exh. WAG-1T at 7:11:12.
[10] Exh. WAG-1T at 7:9-15.
[11] Exh. LDK-1T at 10 to 17.
[12] Exh. LDK-1T at 10 to 11.
[13] Exh. LDK-1T at 6.

Q. HOW DOES THE ENERGY PROJECT ("TEP") RESPOND TO PSE'S RECOMMENDATION?

A. TEP recommends the Commission reject PSE's revised depreciation rates.[14]

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM INTERVENOR TESTIMONY REGARDING DEPRECIATION RATES?

A. Intervenors that primarily represent PSE customers, such as Public Counsel, TEP and AWEC, oppose increasing depreciation rates. This indicates that customers are willing to accept the risk that future depreciation rates will increase in exchange for retaining current depreciation rates.

Q. DO YOU CONTINUE TO MAINTIAIN THE DEPRECIATION RECOMMENDATIONS IN YOUR RESPONSE TESTIMONY?

A. Yes.

III. DECARBONIZATION RATE ADJUSTMENT AND TARGETED ELECTRIFICATION PILOT PHASE 2

Q. PLEASE SUMMARIZE OTHER PARTIES' POSITIONS REGARDING PHASE 2 OF PSE'S TARGETED ELECTRIFICATION PILOT AND PSE'S PROPOSED DECARBONIZATION RATE ADJUSTMENT.

A. Staff, Public Counsel, JEA, TEP and Federal Executive Agencies ("FEA") all appear to support or not oppose PSE's proposal to move forward with Phase 2 of its Targeted Electrification Plan. As set forth in my Response Testimony, AWEC recommends that the Commission not approve Phase 2 at this time. Regarding cost recovery, JEA supports cost-recovery through PSE's proposed Decarbonization Rate Adjustment mechanism initially, with project costs to be rolled into base rates at a future time.[15] TEP does not appear to take issue

[14] Exh. SNS-1T at 51:8-9.

[15] Exh. BTC-1T at 66:1-13.

with PSE's proposed Decarbonization Rate Adjustment.[16] However, Staff, Public Counsel, FEA and AWEC each proposed that the Commission reject PSE's proposed Decarbonization Rate Adjustment as a separate tariff rider.[17]

Targeted Electrification Pilot Phase 2

Q. AFTER REVIEWING STAFF'S, PUBLIC COUNSEL'S AND INTERVENORS' POSITIONS ON PHASE 2, DO YOU CONTINUE TO RECOMMEND THAT THE COMMISSION DENY PSE'S PROPOSAL TO MOVE FORWARD WITH PHASE 2 AT THIS TIME?

A. Yes. Each of these parties lend support, on a policy basis, for continuation of PSE's Targeted Electrification Pilot into a second phase, though JEA takes issue with PSE's electrification efforts not going far enough and advocates for the Commission to take a more prescriptive approach to supplement PSE's approach in this proceeding.[18] However, none of the supporting parties conclude, as AWEC has concluded, that it is premature at this time for PSE to spend substantial resources on additional targeted electrification measures in light of its obligation to develop an Integrated System Plan pursuant to ESHB 1589. No party addresses the fact that when looking at decarbonization efforts necessary to meet the requirements of ESHB 1589, the strategies and resources required may substantially differ from PSE's current Phase 2 proposal. JEA goes so far as to argue that PSE should expand its Phase 2 efforts beyond a "pilot phase,"[19] in part because additional efforts are necessary in order for PSE to "meet its CCA compliance obligations."[20]

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[16] Exh. SNS-1T at 21:1-5.

[17] Exh. WF-1T at 31:1-6; Exh. MPG-1CT at 35: 7-20; Exh. AZA-1T at 29:6-10; Exh. LDK-1CT at 18:3-15.

[18] Exh. BTC-1T at 54:17-62:23.

[19] Exh. BTC-1T at 40:7-8.

[20] Exh. BTC-1T at 42:6-46:3.

Q. DO YOU AGREE WITH JEA THAT PSE'S PHASE 2 EFFORTS ARE INSUFFICIENT FOR MEETING CCA COMPLIANCE NEEDS?

A. AWEC will address legal and policy requirements and considerations of the CCA in more detail in briefing; however, I do not agree with JEA's premise that the CCA provides PSE with individual requirements for carbon reductions for either its gas or electricity operations. Thus, I do not agree with JEA that PSE must achieve any particular amount of electrification of its gas system in order for it to meet its CCA compliance obligations.[21]

Q. DO YOU AGREE WITH JEA THAT THE COMMISSION SHOULD ESTABLISH AN OVERALL ELECTRIFICATION TARGET FOR PSE THAT IS CONSISTENT WITH ITS CCA REQUIREMENTS?

A. No. I am again concerned that this recommendation is premised on an unsupported legal interpretation of the CCA and the Commission's legal authority; however, I am not an attorney and as stated previously, AWEC will address this in briefing. Again as a matter of policy, though, JEA ignores the requirements of ESHB 1589 and the fact that the Company will soon be required to address decarbonization of its gas and electric system on a holistic basis, subject to specific requirements and standards for Commission approval and what may be passed on in rates. It is again premature for the Commission to set goals, offer guidance, and in particular set an overall electrification target for PSE with an interim target in 2030.[22]

Q. WHY DOES JEA RECOMMEND FIXED ELECTRIFICATION TARGETS FOR PSE?

A. JEA assumes that PSE must electrify 182,000 customers to comply with CCA.[23] However, this is incorrect. PSE's most recent IRP indicates that the least cost approach to meeting CCA requirements is before 2030 is to purchase allowances rather than to pursue comprehensive

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21 *See* Exh. BTC-1T at 42:14-43:4.

22 *See* Exh. Cebulko, BTC-1T at 49:1-5.

23 Exh. BTC-1T at 44:3-5.

electrification of customers.[24] PSE's updated decarbonization study supports this plan, as every electrification scenario exceeds the base case by at $4.4 to $5.8 billion.[25]

Q. WHAT IS YOUR RECOMMENDATION FOR THE TARGETED ELECTRIFICATION PILOT PHASE 2?

A. I maintain the recommendation set forth in my Response Testimony that the Commission should not approve Phase 2 of PSE's Targeted Electrification Pilot at this time. Should the Commission approve PSE's Targeted Electrification Phase 2, I recommend that Schedules 87T, 449, 459, Energy-Intensive Trade-Exposed organizations ("EITEs"), and special contracts be excluded from allocation of these costs. This is my recommendation regardless of whether the Commission allows for cost recovery through PSE's proposed Decarbonization Rate Adjustment. Exhibit LDK-5 contains my proposed allocation.

Targeted Electrification Pilot Cost Allocations

Q. DO YOU AGREE WITH FEA THAT PSE'S PROPOSED COST ALLOCATIONS AND RATE DESIGN FOR THE TARGETED ELECTRIFICATION PILOT PHASE 2 COSTS ARE APPROPRIATE?

A. No. PSE, via its Decarbonization Rate Adjustment, is proposing to allocate costs from the Targeted Electrification Pilot Phase 2 to rate schedules and/or customers that either do not drive a CCA or CETA compliance obligation for PSE, and/or are otherwise unlikely to derive benefits from the program. Specifically, as I noted in my Response Testimony, PSE is proposing to spread costs to Schedules 87T, 449, 459, EITEs the CCA, and to special contracts. As set forth in my Response Testimony, the Commission should exclude these rate schedules and customers from the allocation of Targeted Electrification Phase 2 pilot costs, if

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[24] PSE 2023 Gas IRP at 2.2 (March 31, 2023).

[25] *See* Docket Nos. UE-220066/UG-220067, PSE GRC Stipulation O: Updated Decarbonization Study (Dec. 22, 2023) at 60 (Dec. 22, 2023).

approved, regardless of whether they are recovered in base rates or as part of the Decarbonization Rate Adjustment.

Q. WHAT ARE JEA'S CONCERNS REGARDING PSE'S PROPOSED ALLOCATION OF COSTS BETWEEN ELECTRIC AND GAS CUSTOMERS?

A. JEA takes issue with PSE's allocation of costs between electric and gas customers of 65 percent and 35 percent, respectively, based on its 4-factor methodology typically used to allocate general and common expenses and plant.[26] Instead, JEA advocates for a 50/50 allocation between gas and electric customers because "one goal of electrification is to reduce gas throughput for compliance with the CCA and meeting state emissions reduction targets,"[27] and because the electric system will likely benefit from increased fuel-switching from gas to electric due to a greater number of customers over which to spread fixed costs.[28]

Q. DO YOU SHARE JEA'S CONCERNS ABOUT PSE'S PROPOSED ALLOCATION OF COSTS BETWEEN GAS AND ELECTRIC CUSTOMERS?

A. No. As discussed in my Response Testimony, electrification introduces inequity between gas and electric customers because electrifying customers avoid the stranded costs associated with electrification.[29]

Q. IS JEA'S ACCEPTANCE OF PSE'S TARGETED ELECTRIFICATION PILOT PHASE 2 RATE SPREAD EQUITABLE FOR CUSTOMERS?

A. No, JEA supports PSE's proposed allocation among customer classes, which is based on customer count and margin revenue.[30] This allocation is problematic because it assigns decarbonization costs to customers that do not create a CCA burden on PSE.[31]

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[26] Exh. BTC-1T at 68:15-69:14.
[27] Exh. BTC-1T at 69:2-3.
[28] Exh. BTC-1T at 69:8-14.
[29] Exh. LDK-1T at 6:14-20.
[30] Exh. BTC-1T at69:15-20.
[31] Exh. LDK-1T at 20:10-21:19.

Q. WHAT IS YOUR RECOMMENDATION FOR COST ALLOCATION AND RATE SPREAD FOR PSE'S PROPOSED TARGETED ELECTRIFICATION PILOT PHASE 2?

A. My primary recommendation is that the Commission reject PSE's proposal to move forward with its proposed Phase 2. However, should the Commission approve PSE's Targeted Electrification Phase 2, I recommend that Schedules 87T, 449, 459, EITEs, and special contracts be excluded from allocation of these costs. Exhibit LDK-5 contains my proposed allocation. I recommend not adopting JEA's proposed allocation between gas and electric customers.

Decarbonization Rate Adjustment Tariff Rider

Q. AFTER REVIEWING OTHER PARTIES' TESTIMONY ON THE PROPOSED DECARBONIZATION RATE ADJUSTMENT TARIFF RIDER, DO YOU CONTINUE TO RECOMMEND THAT THE COMMISSION REJECT PSE'S PROPOSAL FOR A SEPARATE TRACKER?

A. Yes. I continue to recommend that the Commission reject PSE's proposal for a separate Decarbonization Rate Adjustment, regardless of whether the Commission approves Phase 2. As set forth in my Response Testimony, as well as the Response Testimony of Staff, Public Counsel and FEA, separate trackers for cost recovery outside of the MYRP should be heavily scrutinized and in this case, PSE has not met its burden in demonstrating that extraordinary cost recovery for decarbonization costs are necessary as a separate tracker.

IV. JEA'S PROPOSAL FOR A TARGETED ELECTRIFICATION PERFORMANCE INCENTIVE MECHANISM AND GENERAL ELECTRIFICATION PROGRAM

Q. PLEASE SUMMARIZE JEA'S PROPOSAL FOR AN ELECTRIFICATION PIM.

A. JEA proposes that the Commission adopt a PIM in order to encourage PSE to electrify its natural gas system given what it characterizes as an economic disincentive to do so.

Specifically, JEA proposes that PSE "pursue a target of electrifying at least 7,500 incremental customers in 2025 and 15,000 incremental customers in 2026, with the goal of additional scaling in subsequent years."[32] If PSE were to achieve 90% greater than 90 percent of this target, it would receive a PIM equal to 4.5 percent of the initial program budget with incentives increasing with additional customers electrified from there.[33]

Q. PLEASE SUMMARIZE JEA'S PROPOSAL FOR SUPPLEMENTAL MEAURES THAT WOULD CONSTITUTE A GENERAL ELECTRIFICATION PROGRAM.

A. JEA proposes that, in addition to PSE's proposed Phase 2 targeted electrification efforts, the Company take three additional measures: "(1) a General Electrification effort targeted towards New Construction customers, (2) a General Electrification effort targeted towards existing gas customers who convert to all-electric heating systems (effectively continuing Phase 1 rebate program rather than discontinuing it), and (3) a General Electrification effort targeted towards existing as customers who convert to hybrid heat pump systems (without adding a new gas furnace) but retain their gas furnace as a backup."[34] Specific General Electrification Program design elements can be found in Exh. BTC-1T at 54:17-62:23. If JEA's proposal is adopted, it estimates that this will come at triple the cost of PSE's proposed budget for Phase 2 assuming 100 percent of incentives are achieved, which would mean that PSE's budget for electrification efforts in this case would be set at $44.47 million in 2026, which is four times PSE's request for Phase 2.[35]

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32 Exh. BTC-1T at 50:12-14.

33 Exh. BTC-1T at 51:10-52:1.

34 Exh. BTC-1T at 58:12-17.

35 Exh. BTC-1T at 60: Table 8.

Q. WHAT IS THE RATE IMPACT OF JEA's REVISED ELETRIFICATION BUDGET?

A. JEA's proposed electrification budget for Rate Year 2 is 8 percent of current gas revenue.[36]

Q. DO YOU AGREE THAT PSE HAS AN ECONOMIC DISINCENTIVE TO ELECTRIFY ITS NATURAL GAS SYSTEM?

A. Not necessarily. While JEA is correct that in general, utilities have a financial incentive to increase the number of customers on their system, JEA ignores the fact that reducing customers on its gas system results in customer growth on its electric system. While not all PSE gas customers are PSE electric customers, PSE targets its electrification efforts towards gas customers that are also PSE electric customers.[37] This means electrification will result in PSE growing its electric rate base, while still recovering its return on and return of its gas rate base.

Q. DO YOU AGREE THAT ESTABLISHING AN ELECTRIFICATION PIM AND GENERAL ELECTRIFICATION MEAUSURES IS APPROPRIATE AT THIS TIME?

A. No. Again as stated above, Washington already has robust legislation in place that is aimed at addressing the decarbonization of Washington's electric and natural gas systems through CETA and the CCA. For PSE specifically, ESHB 1589 also addresses decarbonization of PSE's electric and natural gas operations. JEA's proposal raises legal and policy questions in light of these legal requirements, which AWEC will address in briefing. However, briefly, as a matter of policy, it is at best premature for the Commission to design an electrification PIM for PSE at this time. As I stated above, ESHB 1589 was enacted to take a comprehensive, holistic approach at decarbonizing PSE's electric and natural gas operations. The Commission should not take a piecemeal interim step in this case that could frustrate or conflict with the requirements of that legislation. Moreover, Washington Initiative No. 2066 is up for voter

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36 Calculated as \$44.5 million / \$554 million.

37 Exh. JM-1CT at 5:4-6.

consideration in November, and if it passes, will impact what actions and incentives that can be taken and/or provided to encourage fuel-switching from PSE's natural gas system to electric service.[38] Legal issues aside, as a matter of policy and in the interest of ratepayers who ultimately bear the costs of these policy decisions, the Commission should decline to provide additional financial incentives for PSE to move faster than current policies – passed by the legislature – would otherwise dictate.

Q. DO YOU AGREE WITH JEA THAT ITS PROPOSED INCREASE IN ELECTRIFICATION EXPENDITURES IS "REASONABLE AND IN THE PUBLIC INTEREST"?[39]

A. No. It is not in the public interest for PSE to spend the equivalent of 8 percent of its annual gas revenues on a program that is both unnecessary and uneconomic. Further, the Commission should not be persuaded to "trade" these cost impacts for other reductions to PSE's proposed revenue requirement, such as accelerated depreciation of the natural gas system, as suggested by JEA.[40] Such a trade is illusionary because delaying depreciation expense simply pushes this cost into the future. The Commission should consider, on an individual basis, whether proposed rate impacts to customers are supported and in the public interest as opposed to determining whether they are in the public interest relative to other potential outcomes. At a time when customers are already facing tremendous cost pressures and increased rates from PSE, the Commission should eliminate non-essential cost-drivers from PSE's revenue requirement.

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[38] Exh. LDK-9.

[39] Exh. BTC-1T at 61:11-62:11.

[40] Exh. BTC-1T at 62:12-23.

V. COST OF SERVICE STUDY

Q. WHICH INTERVENING PARTIES RAISED COST OF SERVICE ISSUES?

A. Nucor recommends two adjustments to PSE’s Cost of Service Study (“COSS”):

1. Schedules 85, 85T, 86, 86T, 87, and 87T should be excluded from the allocation of small distribution mains (<2”) and 87, and 87T should be excluded from the allocation of medium distribution mains (2-3”).
2. Revise the direct costs assigned to Schedule 88T.

Q. HOW DO YOU RESPOND TO NUCOR’S PROPOSAL TO EXCLUDE SCHEDULES FROM SMALL AND MEDIUM MAINS?

A. AWEC supports this recommendation because Nucor’s proposal is consistent with cost causation. This recommendation is also consistent with AWEC’s recommended COSS, which excludes these costs when directly assigning mains to Schedule 87 and 87T.

Q. HOW DOES AWEC’S TREATMENT OF MAINS DIFFER FROM NUCOR?

A. AWEC did not exclude the allocation of mains under 2 inches from the allocation of Schedule 85, 85T, 86, and 86T. AWEC’s study also has different treatment of large mains (>=4”). In AWEC’s study these mains are directly assigned to Schedule 87 and 87T using the same method PSE applied to 88T, while Nucor uses PSE’s proposed peak and average allocator for large mains. Nucor’s method allocates a greater portion of mains to Schedule 87 and 87T than my direct assignment approach because these customers tend to be closer to regulating stations on average compared to other schedules.

Q. WHY DO YOU RECOMMEND DIRECT ASSIGNMENT OVER ALLOCATION OF LARGE MAINS FOR SCHEDULE 87 AND 87T?

A. WAC 480-85-060 Table 4 indicates that direct assignment is preferred over allocation. In addition, Schedule 87, 87T, and 88T are sufficiently similar that these customers should all have consistent treatment of main costs. Thus, if mains are directly assigned to 88T, mains should also be directly assigned to Schedules 87 and 87T. In addition, direct assignment provides a more accurate estimate of the cost to serve Schedule 87 and 87T than allocation using the peak and average allocator because this allocation factor doesn't account for the relative locations of large gas customers.

Q. PLEASE DESCRIBE THE ISSUES NUCOR IDENTIFIED REGARDING 88T.

A. Nucor noted that PSE identified an error in its initial filing. PSE states "[t]he Golden Givens costs filed in the GRC do not include all components of the Golden Givens revenue requirement; the GRC filing identified $8.2 million gross plant associated with Golden Givens, while the correct amount is $12.7 million as included in this data request response."[41] This increases the revenue requirement of Golden Givens allocated to Schedule 88T by approximately 55 percent.[42] In addition to correcting this error, Nucor also revises the direct assignment of 88T costs to reflect account for the difference in age between PSE's average plant and the directly assigned plant.[43] Nucor changes increase costs allocated to Schedule 88T by approximately $800,000.[44]

Q. ARE THE SCHEDULE 88T ISSUES IDENTIFIED BY NUCOR DISTINCT FROM THE SCHEDULE 88T ISSUES YOU RAISED IN TESTIMONY?

A. Yes. The primary issue I raised regarding Schedule 88T relates to rate spread, not cost of service. While I do discuss Schedule 88T in my cost of service testimony, I did not propose any changes to the specific treatment of Schedule 88T in the cost of service testimony, and any

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41 Exh. KCH-8 at 9.

42 Calculated as 12.7/8.2 – 1.

43 Exh. KCH-1T at 6:9-16.

44 Exh. KCH-1T at 16:14.

changes to cost allocations are secondary model impacts rather than direct changes to how costs are assigned to Schedule 88T.

Q. HOW DO YOU RESPOND TO NUCOR'S SCHEDULE 88T COSS CHANGES?

A. Both of Nucor's proposed changes Schedule 88T costs have a reasonable basis. This is apparent simply by comparing the Golden Givens revenue requirement with PSE's filed cost of service study. The Golden Givens revenue requirement, which only accounts for a portion of Schedule 88T's costs, and does not include miscellaneous plant, operating and maintenance costs, or administrative costs, is $800,000.[45] Thus it is reasonable to expect that after accounting for Schedule 88T's share of PSE's other costs, the total cost to serve Schedule 88T should be materially higher than $800,000.

Q. HOW DO NUCOR'S ADJUSTMENTS AFFECT YOUR COST OF SERVICE STUDY MODEL?

A. I updated my COSS model to reflect PSE's error regarding the Golden Givens revenue requirement. I did not update my model to reflect the younger age of Schedule 88T directly assigned assets in order to retain consistent treatment with Schedule 87 and 87T directly assigned assets. The table below compares the parity ratio proposed in my Response Testimony, and the ratio after correcting for the revised Golden Givens revenue requirement.

Table 1: AWEC COSS Results

	Residential (16,23,53)	Comm. & Indus. (31,31T)	Large Volume (41,41T)	Interruptible (85, 85T)	Limited Interruptible (86, 86T)	Non-Exclusive Interruptible (87, 87T)	Exclusive Interruptible (88T)	Contracts
AWEC Response Testimony	1.08	0.82	0.95	0.85	1.31	1.49	1.17	2.30
AWEC Cross Answering Testimony	1.08	0.82	0.95	0.85	1.31	1.49	0.91	2.30

45 Exh. KCH-8 at 12.

VI. GAS RATE SPREAD

Q. WHAT PARTIES MAKE RATE SPREAD RECOMMENDATIONS DO YOU RESPOND TO?

A. I respond to the gas rate spread recommendations made by Staff, Public Counsel, and Nucor. All three of these parties make specific recommendations for rates based on a COSS that allocates mains to Schedules 87 and 87T, rather than direct assignment of mains to these schedules. If the Commission approves direct assignment of mains to Schedules 87 and 87T, the parity ratio of Schedules 87 and 87T will be substantially higher than 1, rendering the rate spread proposed by all three parties inapplicable. In this case, the Commission should allocate revenue to Schedule 87 and 87T in the same manner as Schedule 86 and 86T.

Q. WHAT IS STAFF'S GAS RATE SPREAD RECOMMENDATION?

A. Staff recommends adopting PSE's proposed rate spread.[46]

Q. WHAT IS YOUR RESPONSE TO STAFF'S RECOMMENDED RATE SPREAD?

A. Staff's acceptance of PSE's proposed rate spread is inconsistent with prior Staff testimony. In Avista's 2020 general rate case, Staff concluded that a 145 percent of average increase for residential electric customers and a 25 percent of average increase for large general service gas customers was appropriate given the "grossly excessive cross-class subsidization for the residential class and the unreasonable cross-class subsidization by large general service gas customers.[47] Staff's prior testimony also concludes that this broader spread is gradual.[48] If the Commission adopts Staff's proposed rate spread but also agrees with AWEC's recommendation for direct assignment of mains to Schedules 87 and 87T, Staff's rate spread

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46 Exh. GAW-1T a27:18-20.

47 Docket Nos. UE-200900, UG-200901, and UE-200894 (consolidated) Jordan, Exh. ELJ-1T at 10, Table 4 and 20, Table 6.

48 Docket Nos. UE-200900, UG-200901, and UE-200894 (consolidated) Jordan, Exh. ELJ-1T at 16:20 to 17:4.

should be modified to increase Schedules 87 and 87T's rates by 75 percent of average, consistent with the treatment of Scheule 86 and 86T. If the Commission approves setting Schedule 88T to full cost of service, the Commission should implement the corrections discussed in AWEC's Response Testimony.[49]

Q. WHAT IS PUBLIC COUNSEL'S GAS RATE SPREAD RECOMMENDATION?

A. Public Counsel states that PSE's recommended rate spread, which includes some schedules receiving a 150 percent of average increase, is inconsistent with the concept of gradualism and thus should be rejected.[50] Public Counsel recommends limiting the rate increase for any one schedule to no more than 125 percent of the average increase.[51] While not explicitly addressed in testimony, Public Counsel's gas rate spread also imposes a floor of zero percent rate increase, which is applied to Schedule 88T.[52]

Q. IS PUBLIC COUNSEL'S TESTIMONY CONSISTENT IN ITS TREATMENT OF SCHEDULE 88T?

A. No. Public Counsel does not offer an alternative to PSE's gas cost of service study,[53] which indicates Schedule 88T rates are currently below cost.[54] This means that setting rates equal to cost requires a rate increase. However, Public Counsel proposes a zero percent increase for Schedule 88T, which does not move rates towards cost. Public Counsel does not explain why this allocation is fair and reasonable. Public Counsel's proposal is also inconsistent with the assertion that an increase of 150 percent of average is not gradual, as a zero percent increase deviates from average by more than a 150 percent of average increase.

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49 Exh. LDK-1T at 35:1-5.
50 Exh. DED-1T at 28:5-8.
51 Exh. DED-1T at 29:13-15.
52 Exh. DED-8.
53 *See* Exh. DED-1T at ii.
54 Exh. JDT-4 tab named E-Summary of Results (PSE) cell J23.

Q. WHAT RATE SPREAD IS PROPOSED BY NUCOR?

A. Nucor, like Public Counsel, recommends a narrower spread of rates than PSE. Nucor's recommended rate spread increases rates from 70 to 125 percent of the average rate increase, depending on the corresponding parity ratio, with the exception of Schedule 88T. Nucor accepts PSE's recommendation to move Schedule 88T to parity.[55] Nucor does not object to increasing rates by more than 125 percent, but does not find it is warranted under Nucor's cost of service study.[56]

Q. WHAT IS YOUR RESPONSE TO NUCOR'S RECOMMENDATION?

A. Nucor's recommendation to move Schedule 88T to parity is subject to the same concerns I raised in my Response Testimony. First, there is no reason to move Schedule 88T to cost of service when other rate schedules are not offered similar treatment. Second, Nucor implements PSE's method of simply setting Schedule 88T revenue in Rate Year 1 and Rate Year 2 to historical cost of service, which does not account for growth in costs.

Q. WHAT IS YOUR RECOMMENDED RATE SPREAD?

A. I maintain my recommendation for gas rate spread as set forth in my Response Testimony.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes.

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55 Exh. KCH-1T at 24:3-12.

56 Exh. KCH-1T at 25:4-16.