EXH. CTM-13T
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: CHRISTOPHER T. MICKELSON

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

CHRISTOPHER T. MICKELSON

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF CHRISTOPHER T. MICKELSON

CONTENTS

PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF CHRISTOPHER T. MICKELSON

LIST OF EXHIBITS

PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF CHRISTOPHER T. MICKELSON

I. INTRODUCTION

Q. Are you the same Christopher T. Mickelson who submitted prefiled direct testimony on February 15, 2024, on behalf of Puget Sound Energy in this proceeding?

A. Yes, I am.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony addresses the positions presented by the following witnesses, particularly concerning cost of service, revenue allocation, rate design, and affordability:

- Glenn A. Watkins, Exh. GAW-1T, on behalf of the Washington Utilities and Transportation Commission Staff ("Staff").
- David E. Dismukes, Ph.D, Exh. DED-1T, on behalf of the Washington State Office of the Attorney General Public Counsel Unit ("Public Counsel").
- Lance D. Kaufman, Exh. LDK-1CT, on behalf of Alliance of Western Energy Consumers ("AWEC").
- Justin Bieber, Exh. JB-1T, on behalf of the Kroger Co. ("Kroger").
- Chad D. Wilcox, Exh. CDW-1T, on behalf of Microsoft Corporation ("Microsoft").
- Ali Al-Jabir, Exh. AZA-1T, on behalf of the Federal Executive Agencies ("FEA").

- Roger D. Colton, Exh. RDC-1T, on behalf of The Energy Project ("TEP").

These individuals and groups are collectively, or partially, referred to as the "Parties".

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony asserts that Puget Sound Energy's ("PSE" or the "Company") electric proposals achieve a more balanced approach compared to the proposals put forth by Parties in this case. Here is an overview:

Electric Cost of Service Study

PSE stands by its original electric cost of service ("COS") study, which complies with WAC 480-85, with a single exemption regarding the treatment of FERC Account 565 – Transmission of Electricity by Others. This approach contrasts with FEA's recommendation to ignore years of collaborative workshops with the Washington Utilities and Transportation Commission ("Commission") and revert to outdated practices. Additionally, FEA and Public Counsel suggest revising the renewable future peak credit ("RFPC") method that was approved in PSE's previous general rate case ("GRC"). PSE has also corrected a misallocation to other customer classes of contribution in aid of construction ("CIAC") payments made by Microsoft and addressed in its prefiled response testimony. Additionally, PSE has corrected a formula error in its weather adjusted normalized test-year revenue and correlated kilowatt-hour ("kWh") used for the Residential class, Schedule 7.

Electric Revenue Allocation

PSE retains its original proposed revenue allocation parameters, which aim to address the under- or over-recovery issues for certain customer classes. Other Parties' proposals perpetuate these discrepancies.

Electric Rate Design

PSE supports its original proposed electric rate design proposal that aligns pricing components to reflect the strategic direction of a sustainable and efficient system. Other Parties' proposals continue to prolong the stance of maintaining increases within the volumetric rate and keeping the customer charge as low as possible with little to no movement higher, which is reflective in PSE's electric residential customer charge that has been held flat for over a decade.

Overall Electric Rate Impacts

PSE proposes a multiyear rate plan with revised electric revenue increases of approximately $392.7 million in 2025, or 13.77 percent, and $170.0 million in 2026, or 5.20 percent, as developed in Exh. CTM-18. Table 1 reflects the net overall impact on PSE's electric customer classes, including base rates and multiyear rate plan trackers.

Table 1 – Rebuttal Electric Overall Impact

Customer Class	Rate Schedule	No. of Customers	2025 Overall Impact	2026 Overall Impact
Residential Service	7/307/ 317/ 327	1,071,481	14.27%	5.37%
General Service, <51 kW	8/24/324	125,774	14.99%	5.21%
General Service, 51-350 kW	7A/11 /25/29	8,784	12.27%	5.76%
General Service, >350 kW	12/26	854	12.18%	5.04%
Primary Service, General	10/31	501	12.63%	5.05%
Primary Service, Irrigation	35	2	22.71%	6.11%
Primary Service, Schools	43	143	14.45%	5.22%
High Voltage Service	46/49	23	11.60%	5.41%
Lighting Service	50-59	9,096	6.93%	5.43%
Retail Wheeling	449/459	15	4.68%	0.00%
Special Contract	SC	89	58.88%	4.32%
Firm Resale	5	8	147.16%	0.00%
Total Sales		1,216,770	13.77%	5.20%

Q. Do you sponsor any exhibits in support of your testimony?

A. Yes. I sponsor the following exhibits:

- Exh. CTM-14, Electric Normalized Revenue;
- Exh. CTM-15, Electric Cost of Service Study;
- Exh. CTM-16, Electric Rate Year Revenue Allocation and Rate Design;
- Exh. CTM-17, Lighting Cost of Service and Rate Design;
- Exh. CTM-18, Electric Revenue Impacts;
- Exh. CTM-19, Electric Decoupling Allowed Revenue Calculation;
- Exh. CTM-20, Electric Fixed Power Cost Decoupling Allowed Revenue Calculation;
- Exh. CTM-21, Electric and Gas Low-Income Program Funding Increase; and

III. ELECTRIC COST OF SERVICE STUDY RESPONSE

Q. What is the basis for the rebuttal electric cost of service study provided in this case?

A. The rebuttal electric COS study, as detailed in Exh. CTM-15, is grounded in the pro forma results of operations for the 12-months ending December 2023, outlined in the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-28T, and Exh. SEF-30E. The COS study has also been revised to correct the misallocation of CIAC payments made by Microsoft, which were inadvertently attributed to other customer classes.[1] Additionally, PSE has corrected a formula error in its weather-normalized test-year revenues and corresponding kWh usage calculations for the residential class. This correction results in adjustments to the test-year balances for pro forma revenues in the electric COS and associated taxes.

Q. Can you explain the change made to Exh. CTM-14, Electric Normalized Test Year Revenue?

A. Yes, Exh. CTM-14 has been updated to correct a formula error in the temperature weather adjustment calculation for September 2022 for the residential class. The original weather adjustment of 18,364,686 kWhs has been revised to 19,466,745 kWhs, an increase of 1,102,059 kWhs. This change resulted in an increase of $2,069,782 adjusted in the weather-normalized revenues for the residential class.

[1] Wilcox, Exh. CDW-1T at 1:19 – 3:4.

Q. Does this change impact other calculations?

A. Yes. The correction to Exh. CTM-14 has also affected the electric COS study, specifically the pro forma retail-related allocation factors used for sales revenue and revenue-related costs, such as FERC Accounts 904, 928, and 408. Additionally, an adjustment of $79,651 was made to the state utility tax for the test-year period, as reflected in Exh. SEF-30E. This change has minimal to no impact on overall results.

Q. Can you explain the content of Exh. CTM-15, the electric COS study?

A. Certainly. Exh. CTM-15 presents the COS study results through an electric template that adheres to WAC 480-85-040(1). It includes five sections:

- Section A: cross-references PSE's revenue requirement development, as presented in Exh. SEF-30E, at the FERC account level, enabling the assignment of costs to customer rate classes.
- Section B: provides FERC account level COS results for all customer rate classes.
- Section C: details the allocation factors used to distribute each cost type to the customer rate classes.
- Section D: summarizes revenue requirement adjustments, similar to Exh. SEF-30E.
- Section E: offers a high-level summary of the COS results, including parity ratios at present rates and revenue-to-cost ratios at proposed rates.

Q. Does the Commission have requirements and guidelines for COS studies?

A. Yes. The Commission's guidelines under WAC 480-85-050 specify the sources for COS study inputs and require the use of an embedded cost method with instructions on functionalized, classified, and allocated costs per

WAC 480-85-060. Additionally, the Commission provides procedures for requesting rule exemptions under WAC 480-85-070.

Q. Has PSE complied with these rules in its electric COS study?

A. Yes. PSE's electric COS study adheres to WAC 480-85, employing an embedded cost method and following the regulatory guidelines for functionalizing, classifying, and allocating costs. The Company is seeking an exemption from the rules concerning the treatment of "FERC Account 565 – Transmission of Electricity by Others" and Staff agreed the exemption is warranted.[2] Through this approach, each customer class pays its fair share based on the costs incurred to serve them. The study results inform our revenue allocation and rate design proposals for a fair cost distribution.

Q. Is it appropriate to classify FERC Account 565 – Transmission of Electricity by Others as energy, similar to variable power costs, instead of classifying the costs as demand, similar to other transmission costs?

A. As explained in my direct testimony,[3] yes. WAC 480-85-060 classifies FERC Account 565, a transmission expense account, as demand. The Company is seeking an exemption to this rule in order to classify these costs as energy and allocate the costs similar to other variable power costs. PSE incurs FERC Account 565 costs so that it can wheel energy, either to load or to market, over other utility transmission systems on behalf of PSE customers. Transmission itself does not

[2] Watkins, Exh. GAW-1T at 11:21 – 12:2.
[3] Mickelson, Exh. CTM-1T at 15:12 – 18:7.

meet customers' peak demands. These costs are not typically viewed as demand-related costs and have historically been charged to customers as variable power costs on a dollars per MWh basis as they relate to the supply of energy and are not necessarily a cost that provides additional capacity on the PSE system.

Q. What is FEA proposing for their electric COS study?

A. FEA suggests using outdated practices, including specific modifications to: 1) classification of generation fixed costs, 2) classification of wheeling expenses in Account 565, and 3) allocation of distribution poles and wires costs for their electric COS study.[4] The Commission should reject these proposed COS modifications.

Q. Why should the Commission reject FEA's proposed electric COS study modifications?

A. PSE questions the efficacy and public interest value of FEA's proposal. FEA's proposed modifications threaten to undo years of progress the Commission has made in developing a fair, transparent COS methodology through collaborative workshops, which informed the current approach under WAC 480-85. The current methodology provides that each customer class pays its equitable share of costs based on how the utility incurs those costs. Reverting to outdated pre-WAC 480-85 practices, as FEA suggests, not only undermines the Commission's efforts but also creates significant risk of inequity in cost allocation.

[4] Al-Jabir, Exh. AZA-1T at 10:20 – 14:16; 15:5-27; and 16:2 – 18:14.

For instance, FEA's recommendation to classify poles and wires costs in Accounts 364 and 365 on the single highest annual non-coincident peak ("NCP") is inaccurate. Classifying poles and wires costs on a single NCP would misalign costs and result in improper cost recovery, disproportionately burdening certain customer classes, particularly residential customers. FEA's proposal would also make the COS more volatile from rate case to rate case; that is why the Commission chose to use 12 NCP to allocate these costs, as reflected in WAC 480-85-060, and have consistent results over a longer time horizon.

With regard to FEA's proposal to classify wheeling costs as demand, as described above, PSE's request to classify wheeling charges in Account 565 as energy is appropriate and consistent with cost-causation principles because classifying wheeling charges in Account 565 as demand-related is inaccurate. These wheeling charges arise due to the energy transported across third-party transmission lines, not on demand; thus, PSE's rule exemption should be approved and FEA's proposal rejected.

Q. How does FEA's proposed COS study affect the public interest?

A. FEA's modification would disproportionately increase the financial burden on residential customers—the largest customer group at more than 1.1 million customers—by shifting more costs onto them while benefiting the large industrial customer classes that FEA represents. This cost shift raises concerns about whether FEA's proposal serves the broader public interest or merely benefits a narrow subset of customers (less than 146,000 customers). In contrast, other key

participants, including Microsoft, Kroger, AWEC, and Staff, did not propose modifications to PSE's electric COS study. In fact, Staff stated that PSE's COS "results are reasonable across all classes."[5]

Q. Is FEA's electric COS proposal consistent with cost-causation principles?

A. No, FEA's proposal is inconsistent with cost-causation principles. It relies on outdated logic that fails to account for the evolving nature of PSE's generation system and the energy transition underway in Washington. FEA's witness, Mr. Al-Jabir, asserts that FEA's proposed changes align with cost-causation,[6] but fails to provide any substantive evidence or study to support this claim. In reality, FEA's proposal attempts to shift costs away from large industrial customers to residential customers by misclassifying the costs of renewable energy resources.

Q. Could you elaborate on inconsistency regarding cost-causation principles?

A. Certainly. Other consultants with FEA's witness Al-Jabir's firm have supported modifying the classification and allocation of costs to reflect the energy transition towards renewable resources in other jurisdictions.[7] They have recognized that renewable energy resources and energy storage systems have distinct characteristics that affect system costs differently than traditional fossil fuel-based systems. However, in this case, witness Al-Jabir selectively applies cost-causation

[5] Watkins, Exh. GAW-1T at 13:16-17.
[6] Al-Jabir, Exh. AZA-1T at 11:11-26.
[7] *In the Matter of Application of Duke Energy Carolinas, LLC for Adjustment of Rates and Charges Applicable to Electric Service in North Carolina and Performance-Based Regulation*, Docket No. E-7, SUB 1276, Direct Testimony and Exhibits of Brian C. Collins on Behalf of CIGFUR III at 8:4 – 10:18 (July 19, 2023); Public Service Company of New Mexico, Pricing Advisory Committee, Comments of Jim Dauphinais and Brian Andrews on Behalf of New Mexico Affordable Reliable Energy Alliance (Feb. 23, 2024).

principles in a way that benefits his clients, large industrial customers, at the expense of residential customers. This inconsistency raises concerns about the validity of FEA's proposals. It appears that Al-Jabir is more focused on reducing costs for his clients than on adopting a fair and equitable approach to cost allocation. The Commission should reject FEA's modifications to PSE's electric COS and uphold the principles of cost-causation that have been carefully developed over the years.

Q. Both Public Counsel[8] and FEA[9] recommend changes to PSE's RFPC method; why should the Commission adopt PSE's method?

A. PSE's RFPC method is designed to fairly reflect the contribution of renewable energy resources during peak demand periods, which traditional methods often undervalue. As the energy landscape transitions to more renewable sources like wind and solar, plus storage systems, the planning and operational characteristics of the grid have changed. These changes must be recognized in utility cost allocation methodologies. The RFPC method shows renewable resources to be valued based on their actual contributions to both capacity and energy. This is crucial in a system transitioning to carbon-free resources, where the value of renewable generation must be accurately accounted for. PSE's RFPC method aligns with modern energy system characteristics, allocating costs in a way that reflects the reality of how renewable resources are planned for and will operate within the system.

[8] Dismukes, Exh. DED-1T at 19:10 – 21:11.
[9] Al-Jabir, Exh. AZA-1T at 11:3 – 14:16.

Q. How does PSE's RFPC method support the Commission's policy goals?

A. PSE's RFPC method aligns with the Commission's goals of promoting clean energy, enhancing grid reliability, and results in just and reasonable rates. By properly valuing the capacity contributions of renewable resources, the RFPC method helps PSE comply with clean energy mandates, while maintaining grid stability. It also provides accurate price signals, encouraging further investment in renewable resources. As the Commission works to implement policies that support a carbon-free energy future, it is essential to adopt methodologies like the RFPC that recognize the distinct characteristics of renewable energy and energy storage systems. PSE's RFPC method contributes to achieving these goals by fairly and accurately allocating costs based on the value these renewable resources provide to the grid.

Q. How does PSE's RFPC method contribute to fair cost allocation?

A. The RFPC method contributes to fair cost allocation by accurately reflecting the distinct capacity and energy contributions of renewable resources and energy storage systems with their unique characteristics that alter the way the system is planned and operated.

Renewable resources are primarily energy-focused, with limited capacity contributions during peak demand periods. Energy storage systems are demand-focused. The RFPC method accounts for this by determining the total cost necessary to provide the combined capacity and energy characteristics of a combined cycle gas turbine ("CCGT"). In other words, it is the sum of the

capacity and energy costs that provide the combined demand and energy characteristics. This is because energy storage cannot produce energy and therefore is considered 100 percent demand-related; and wind provides little capacity value and other than the small proportion of its costs assigned to demand via its effective load carrying capability, is considered energy-related. When the two resources are combined they are reasonably able to provide a feasible alternative to a firm, dispatchable resource like a CCGT. This approach not only results in customer classes paying their fair share based on how they use the system but also provides clear price signals. These signals encourage customers to manage their energy consumption in ways that reduce the need for future investments in grid infrastructure. In doing so, the RFPC method supports the long-term sustainability of the grid while promoting equity across customer classes.

Q. How does Public Counsel's RFPC method affect customer classes?

A. Public Counsel's RFPC proposal[10] would reduce costs assigned to residential customers while increasing costs for all other customer classes. This imbalance is neither equitable nor aligned with the system's current cost structure.

Q. How does Public Counsel justify its recommendation?

A. Public Counsel claims that PSE's implementation of the RFPC does not align with previous methods used by the Commission, such as the thermal peak credit classification. While it is true that the RFPC builds upon previous methods, the

[10] Dismukes, Exh. DED-1T at 21:1-11.

implementation of these different methods does not need to be identical. Public Counsel's recommendation fails to account for key differences in the underlying resource attributes and would lead to a biased and inaccurate cost allocation.

Q. How would FEA's proposed four coincident peak modification[11] to PSE's RFPC method affect customer classes?

A. FEA's proposal has the inverse impact of Public Counsel's proposal and would reduce costs assigned to all other customer classes while increasing costs assigned to residential customers.

Therefore, the Commission should reject the changes proposed by Public Counsel and FEA. The Company's approach included in its direct case is equitable across the rate classes, aligns with cost causation, and sets forth a cost of service that provides the necessary information to customers to further the state's energy policy.

A. Rebuttal Cost of Service Results

Q. What are the results of the Company's rebuttal electric COS study presented in this case?

A. Section E of Exh. CTM-15 provides a high-level summary of the results of PSE's rebuttal electric COS by rate class. Table 2 below displays the rate of return, relative return ratio, and the revenue-to-cost parity ratio at present rates for each

[11] Al-Jabir, Exh. AZA-1T 11:3-10 and 14:1-16.

rate schedule. These results inform the calculation for the Company's rate spread and rate design proposals.

Table 2 – Rebuttal Electric Cost of Service Results

Customer Class	Customer Schedule	Rate of Return	Return Ratio	Parity at Current Rates
Residential Service	7	1.61%	0.87	0.99
General Service, <51 kW	8/24	3.22%	1.75	1.05
General Service, 51-350 kW	7A/11 25/29	1.51%	0.82	0.99
General Service, >350 kW	12/26	0.55%	0.30	0.98
Primary Service, General	10/31	1.39%	0.75	1.00
Primary Service, Irrigation	35	-8.81%	(4.78)	0.49
Primary Service, Schools	43	1.02%	0.56	0.98
High Voltage Service	46/49	4.69%	2.54	1.10
Lighting Service	50-59	3.20%	1.74	1.01
Retail Wheeling	449/459	14.93%	8.10	1.71
Special Contract	SC	-2.09%	(1.13)	0.51
Firm Resale	5	-6.77%	(3.67)	0.94
Total System		1.84%	1.00	1.00

IV. ELECTRIC REVENUE ALLOCATION RESPONSE

Q. Do you have an exhibit that reflects PSE's rebuttal electric revenue allocation?

A. Yes. The rebuttal electric revenue allocation is presented in Exh. CTM-16.

Q. FEA, Public Counsel, and AWEC argue for different parameters to guide revenue allocation; how does PSE's approach compare?

A. While the Parties employ similar parameters, PSE's approach aligns revenues, and therefore rates, more closely with the actual cost to serve while considering the financial impact on different customer classes. PSE's method provides a fairer distribution of cost recovery across all classes, addressing historical under- or over-recovery issues and implementing changes gradually to prevent undue burden. The Parties' selective application of fairness principles undermines their credibility, whereas PSE's methodology is consistent and equitable.

Q. How does PSE respond to AWEC's suggestion that revenue allocation should be adjusted more aggressively to achieve parity?[12]

A. While achieving parity is important, PSE's approach balances the need for fair cost recovery with the potential impact on customers. Aggressive adjustments can cause significant rate shock for some customer classes, resulting in undue energy burden. PSE's proposal implements changes gradually, allowing customers to adjust while moving towards more equitable cost allocation. Commission Staff's witness Watkins found PSE's electric rate spread "moves classes closer to parity in a gradual manner" and "is reasonable and consistent with sound ratemaking principles."[13]

[12] Kaufman, Exh. LDK-1CT at 32:12 - 33:8.
[13] *See* Watkins, Exh. GAW-1T at 18:19-21.

Q. Why is it not advisable to move High Voltage Service classes (Schedules 46 and 49) as FEA proposes to 100 percent parity,[14] and how has PSE addressed this concern with its proposed cost allocation?

A. Moving the High Voltage Service classes (the FEA customers) to 100 percent parity to align with the COS study results is not advisable due to several key factors. First, cost allocations fluctuate from rate case to rate case as system infrastructure, energy sources, and customer usage evolve. Moving a customer class to full parity at a single point in time could lead to unfair or inefficient cost allocations in the future as the cost structure shifts. A gradual approach allows for smoother transitions that better reflect long-term trends and avoids unintended inequities.

Second, regulatory precedent typically avoids abrupt movement to 100 percent parity. Commissions often balance cost recovery with rate stability, customer impact, and equity across classes. Moving FEA customers to full parity would disrupt this balance and could unfairly burden other customer classes, particularly when Schedules 46 and 49 are already in a reasonable range to parity.

In PSE's COS study, FEA customers are only slightly above parity at 1.10 at current rates, meaning they are paying 10 percent above their actual cost to serve. To address this, PSE has proposed applying a 90 percent of the system-wide rate increase to FEA customers, rather than the full system average increase. This approach allows their parity ratio to improve gradually to 1.08 at proposed rates

[14] Al-Jabir, Exh. AZA-1T at 18:24 – 19:18 and 21:4 – 22:17,

without creating rate shock, or drastically impacting other customer classes, while moving their rates toward parity in a reasonable and measured way. By proposing a slightly lower-than-system-wide increase, PSE helps align FEA customers within an equitable range while maintaining rate stability and fairness for all customer classes.

Q. Does PSE believe its proposed revenue allocation effectively addresses affordability concerns?

A. Affordability is a significant concern, particularly for residential customers, where it is vital that rate changes do not disproportionately affect low-income or vulnerable customers. PSE aims to achieve parity in revenue-to-cost ratios across customer classes for purposes of fairness and equity. However, PSE also acknowledges the need to consider affordability and has proposed additional funding for low-income support programs to mitigate the effect on vulnerable customers.[15] These initiatives are designed to assist those in need while maintaining overall rate equity.

Q. Does PSE have a response to Public Counsel's proposal to limit electric service increase to 31.7 percent and gas service increase to 64.3 percent?[16]

A. Yes. Public Counsel's proposal is inconsistent and lacks a rational basis. Public Counsel arbitrarily limits the electric increase to 31.7 percent, despite the maximum need being 48.8 percent, while allowing a much higher gas increase of

[15] *See* Exh. CTM-21 for additional funding amount.
[16] Dismukes, Exh. DED-1T at 28:11-19.

64.3 percent. This approach ignores the fundamental principle of cost-causation, in which rates reflect the actual costs to serve customers. By capping the electric rate increase and allowing a much higher gas increase without justification, Public Counsel's proposal could lead to under-recovery of electric service costs from the classes that are under parity. Without any analysis to support these limits, Public Counsel's proposal lacks credibility and should be rejected by the Commission. Rates must be based on sound COS principles to achieve fairness and equity across all customer classes, and PSE's proposed rate increases are grounded in these principles, unlike Public Counsel's arbitrary caps.

A. Rebuttal Revenue Allocation Results

Q. Would you please summarize PSE's proposed rebuttal electric revenue allocation?

A. PSE's proposed rebuttal electric revenue allocation is consistent with its original proposal, aiming for a gradual movement towards full parity across customer classes. This approach uses the same parameters to adjust the average system rate increase for retail classes. Table 3 below and worksheet titled '(Rate Spread)' in Exh. CTM-16 provide a summary. For a detailed analysis, the comprehensive worksheet is available in Exh. CTM-16, offering in-depth insight into PSE's revenue allocation proposal.

Table 3 – Rebuttal Electric Revenue Allocation

Customer Class	Customer Schedule	Parity Ratio	Percent of Uniform Change
Residential Service	7	0.99	100%
General Service, <51 kW	8/24	1.05	100%
General Service, 51-350 kW	7A/11/25/29	0.99	100%
General Service, >350 kW	12/26	0.99	100%
Primary Service, General	10/31	1.00	100%
Primary Service, Irrigation	35	0.51	150%
Primary Service, Schools	43	0.99	100%
High Voltage Service	46/49	1.08	90%
Lighting Service	50-59	1.03	100%
Retail Wheeling	449/459	1.42	-
Special Contract	SC	0.70	-
Firm Resale	5	1.21	-
Total System		1.00	

V. ELECTRIC RATE DESIGN RESPONSE

Q. Please provide an overview of PSE's proposal.

A. As outlined in my prefiled direct testimony,[17] PSE's electric rate design proposal is a strategic approach aimed at realigning pricing components for existing customer classes over multiple rate years. The proposal includes potential maximum increases of up to 30 percent in both monthly customer charges and demand charges, ensuring that these adjustments remain at or below their respective COS study unit costs. Simultaneously, the energy charge component will experience a flat rate increase for each tier within the customer class. Notably, certain classes, such as Choice and Retail Wheeling, Special Contract,

[17] Mickelson, Exh. CTM-1T at 4:2-10.

and Lighting Schedules 50-59, have specific considerations where charges aligned with cost-based levels.

A. Residential Service

Q. Can you explain the rationale behind PSE's proposed changes to rate design and pricing components?

A. PSE's rate design and pricing proposals are driven by the need to provide accurate pricing signals that reflect the actual costs of providing service. This involves aligning customer charges, demand charges, and energy charges with the outcomes of the COS study. Aligning these charges reduces cross-subsidization and promotes efficient grid utilization, which is increasingly important given the rising trends in electrification driven by legislative mandates such as the Clean Energy Transformation Act ("CETA").

Q. Staff argues that PSE's proposed Residential and Small General Service customer charges improperly include overhead costs,[18] while Public Counsel claims that certain costs within the customer charge are not "customer-related."[19] How does PSE address these concerns?

A. PSE acknowledges that overhead costs are included in the customer charge, but these costs are essential for maintaining service infrastructure. Overhead costs, such as those for billing, customer service, and system maintenance, are fixed and

[18] Watkins, Exh. GAW-1T at 21:1 to 22:5; Witness Watkins' testimony provides only specific dollar amounts of overhead allocated to the Residential customer charge although his testimony takes issue with the proposed Residential and Small General Service customer charges.

[19] Dismukes, Exh. DED-1T at 34:16 – 35:20.

do not vary based on energy usage. Excluding these costs from the customer charge would lead to cross-subsidization, where higher-usage customers unfairly bear the burden of fixed costs that benefit all customers. By including overhead costs in the customer charge, all customers contribute equitably to the fixed costs of providing service. This approach aligns with cost-causation principles, in which the costs associated with maintaining a reliable electric grid are shared fairly across all customer classes.

Public Counsel's claim is flawed because it overlooks expenses directly tied to the number of customers, such as customer service and intangible plant costs. PSE followed WAC 480-85-060 to classify costs, analyzing, and categorizing them as customer-related, plant-related, or labor-related. Public Counsel excluded valid customer-related costs from its calculation, leading to an incomplete analysis. Similarly, Staff's analysis fails to include costs associated with maintaining customer connections. Both overlook key fixed costs that must be recovered, making PSE's proposed charge necessary and fair.

Q. Does PSE have a comparison of the proposed residential customer charges in this case?

A. Yes. Table 4 below provides a comparison of the proposed customer charges in this case, including the customer-related unit cost and customer- and demand-related unit costs based on the results of PSE's COS.

Table 4 – Residential Customer Charge Comparison

	PSE Proposal		PSE's COS Unit Costs		Staff / Public Counsel / TEP Proposals	
Current	Rate Year 1	Rate Year 2	Customer-Related	Customer- and Demand-Related	Rate Year 1	Rate Year 2
$7.49	$9.74	$12.66	$20.56	$68.71	$7.49	$7.49

Q. Is PSE's proposed customer charge reasonable given other facts in this case?

A. Yes. Based on the COS results, the residential customer charge could be as high as $68.71 if all fixed costs, including demand-related costs, were included. However, PSE is proposing a much more modest customer charge of $9.74 in the first-rate year and $12.66 in the second-rate year. This proposal reflects only a portion of the total customer-related costs of $20.56, leaving all of demand-related costs and a sizable portion of customer-related costs in the volumetric energy charge. By including only a portion of the total fixed costs in the customer charge, PSE balances the need for cost recovery with minimizing the impact on customers. This approach allows the utility to recover its necessary infrastructure expenses while maintaining affordable rates for residential customers.

Q. Is Public Counsel's comparison of PSE customer charges to non-Washington utilities' customer charges relevant?[20]

A. No. Public Counsel's comparison of PSE's customer charges to utility customer charges in other states is misleading because utilities differ significantly in terms

[20] Dismukes, Exh. DED-1T at 36:3-12, and Exh. DED-13.

of their customer bases, geographic service areas, capital investment needs, and regulatory environments, with this last item being a significant factor.

Moreover, Public Counsel's comparison only focuses on one element of a customer's bill—the customer charge—without considering the total impact of rates, including energy charges. Evaluating the customer charge in isolation provides an incomplete picture of how the overall rate design affects customers. PSE's proposed customer charge is based on its unique COS study, which accurately reflects the costs associated with serving its customers, and moving towards cost-reflective rates is essential for maintaining fairness and transparency.

Q. Does PSE have a response to Public Counsel's argument that PSE's proposed increase to a $12.66 residential customer charge in the second-rate year (2026) will be above the regional average?[21]

A. Yes. Public Counsel's regional analysis in Exhibit DED-13 compares PSE's proposed increase of its residential customer charge to $12.66 for the second-rate year (2026) to multiple out-of-state utilities like Northwestern Energy LLC in Montana. This flawed analysis includes utilities that do not participate in the statewide Washington initiatives such as CETA and the Climate Commitment Act ("CCA").

[21] Dismukes, Exh. DED-1T at 36:9-12.

Q. Why are CETA and CCA requirements important when comparing PSE's residential customer charge to other electric utilities?

A. Both CETA, which requires energy supply to be free of greenhouse gas emissions by 2045, and CCA that requires a reduction of greenhouse gas emissions by 95 percent by 2050, affect all utilities in the state of Washington. PSE anticipates a rapid growth in electrification in various sectors, which will have a very different impact on utilities in Washington as compared to those out-of-state.

Q. How does PSE's proposed residential customer charge compares to other Washington based electric utilities?

A. As explained in my direct testimony,[22] PSE compared its current electric residential customer charge, as well as, its proposed first and second rate year residential customer charges, to the current customer charges for over fifty other electric utilities in Washington. PSE's proposed residential customer charge will remain near the lowest in the state compared to other utilities' customer charges as of today. This demonstrates that PSE's customer charge will remain comparatively low within the state's changing utility landscape.

[22] *See* Mickelson, Exh. CTM-1T at 41, Table 4.

Q. How does PSE address Public Counsel's concerns that increasing the customer charge reduces incentives for energy efficiency and conservation?[23]

A. The argument that increasing the customer charge reduces incentives for energy efficiency and conservation is flawed. While a higher fixed charge may reduce the proportion of a customer's bill that is based on energy consumption, it does not negate energy efficiency or conservation incentives. In fact, aligning more fixed costs with the customer charge provides better price signals to customers. By accurately reflecting the fixed costs of providing service, the volumetric energy charge is more closely tied to the marginal cost of electricity, which provides a clearer price signal for conservation. Customers facing a variable charge that accurately reflects the cost of energy are more likely to make efficient decisions regarding their energy use.

Furthermore, PSE offers a range of energy efficiency and conservation programs and initiatives, which continue to incentivize customers to reduce their energy consumption. These programs encourage customers to reduce their energy usage, while the customer charge ensures that the utility recovers the fixed costs necessary to maintain a reliable grid.

While PSE understands Public Counsel's concerns regarding energy efficiency and conservation, their argument overlooks several critical factors. First, fixed costs represent sunk investments that are necessary to maintain the system and cannot be avoided by changes in customer consumption patterns. These

[23] Dismukes, Exh. DED-1T at 37:3 – 39:10.

investment costs have already been deemed prudent by the Commission, and PSE should not be put at risk of under-recovery due to variations in customer usage, weather, or other external factors that do not affect the need for these fixed investments. Second, energy efficiency and conservation efforts primarily impact the need for future investments, while fixed costs have already been incurred. Variable costs, on the other hand, can be reduced in real-time through decreased consumption. Future fixed investments can only be avoided if customers reduce consumption during the specific hours when new infrastructure would otherwise be needed. For example, investments in the distribution system are driven by NCP demands of customers on individual circuits, while transmission investments are more closely tied to monthly coincident peaks, and resource adequacy is influenced by net system peak loads.

To fully offset future fixed investments, rate designs would need to be far more complex, and customers would need substantially more education on how their usage impacts system costs at specific times. This is quite different from the straightforward relationship between reducing variable costs and consumption, where changes in usage directly correlate to lower costs. Therefore, Public Counsel's argument oversimplifies the relationship between fixed charges and energy efficiency and conservation incentives; and PSE's approach balances these complexities more effectively.

Q. How does PSE respond to TEP's argument that increasing the customer charge exacerbates energy burdens on low-income households?[24]

A. While TEP is correct in highlighting the potential challenges that rate increases can pose for low-income households, PSE's rate design, combined with targeted low-income assistance programs, effectively mitigates these impacts. The Bill Discount Rate ("BDR") program, in particular, is designed to provide significant financial relief to low-income customers, protecting them from the adverse effects of higher customer charges.

Moreover, the increase in the customer charge is necessary to more accurately reflect the fixed costs of providing service, and it more equitably distributes these fixed costs across all customers. This approach minimizes cross-subsidization, where high-usage customers effectively subsidize low-usage customers.[25] By recovering more fixed costs through the customer charge, PSE can maintain a stable and reliable grid, which ultimately benefits all customers, including low-income households. The BDR program, coupled with enhanced funding for low-income assistance, provides for the most vulnerable customers to receive the help they need to manage their utility bills without facing undue financial hardship.

[24] Colton, Exh. RDC-1T at 62:17 to 63:1.
[25] Low-usage does not mean low-income, nor should it be construed that way.

Q. Are low-income customers always low-usage customers?

A. No, low-income customers are not always low-use customers. In fact, many low-income households have higher energy usage due to factors such as inefficient appliances, poor insulation, and aging and outdated housing. This makes these customers more vulnerable to increases in variable energy charges. By shifting a portion of the fixed costs into the customer charge, PSE's rate design provides relief to these higher-usage customers, as they will face lower volumetric charges for their energy consumption.

The U.S. Department of Energy has found that low-income households often face higher energy burdens due to their housing conditions and energy inefficiency.[26] PSE's proposed rate design addresses this by providing targeted assistance to low-income customers while ensuring that they are not disproportionately burdened by high-energy usage. The design strikes a balance in which all customers contribute fairly to fixed costs while protecting those most in need from rate increases.

Q. How does PSE's proposal provide relief to both low-use low-income customers and high-use low-income customers?

A. PSE's rate design provides relief to both low-use low-income customers and high-use low-income customers in different ways. For low-use customers, the BDR program directly reduces the overall bill, helping them manage the fixed customer charge. For high-use low-income customers, shifting more fixed costs

[26] See "Low-Income Household Energy Burden Varies Among States — Efficiency Can Help In All of Them" by U.S DOE https://www.energy.gov/scep/slsc/articles/low-income-household-energy-burden-resource-summary

into the customer charge lowers the volumetric energy rate, reducing the overall energy cost for these customers, who may be using more electricity due to inefficient appliances or housing. PSE's rate design addresses both ends of the spectrum and provides benefits to low-income customers, regardless of their usage levels. This approach is more equitable than focusing solely on low-use customers, as it recognizes that higher-use low-income households are often those most in need of assistance due to the energy inefficiency of their homes.

Q. Is the increase to the customer charge in addition to changes in energy rates?

A. Yes, the increase in the customer charge is accompanied by changes in energy rates. While the energy charge also increases, it is less than it would be without the customer charge increase. The overall rate increase is driven by the Company's revenue requirement, and without elevating the customer charge, a greater share of the revenue requirement would have to be met through larger increases to volumetric charges. For customers with usage levels typical of low-income households, rates are between 0.3 percent and 0.8 percent lower with the customer charge increase in the first year, shown in Table 5.

Table 5 – Residential Crossover

Usage in kWh	Total Bill per Rate Design Option		
	Current Basic Rate = $7.49	Proposed Basic Rate = $9.74	% Difference
1,000	$144.69	$144.27	-0.3%
1,100	$159.58	$158.88	-0.4%
1,200	$174.46	$173.50	-0.6%
1,300	$189.35	$188.12	-0.6%
1,400	$204.23	$202.74	-0.7%
1,500	$219.12	$217.35	-0.8%

Q. What are PSE's recommendations regarding the Parties' proposals concerning PSE's proposed changes to the residential customer charge?

A. The Commission should reject the proposals from the Parties. PSE's approach is equitable across all rate classes, aligns with cost-causation principles, and provides the necessary price signals to support the state's clean energy policies. Unlike the Parties, who are representing specific customer interests, PSE's proposal is designed to achieve fair cost allocation for all customers.

B. Non-Residential Services

Q. Did any Parties propose changes to non-residential customer charges, and how does PSE respond?

A. Yes, Staff[27] and Kroger[28] proposed differing views on adjustments to non-residential customer charges. PSE maintains that non-residential customer charges should be increased for the same reasons residential customer charges should be increased, as described earlier. However, in response to Kroger's proposal to increase the customer charge for Schedule 26, General Service > 350 Kw, PSE is willing to continue gradually aligning customer and demand charges for Schedule 26 with their respective COS unit results in subsequent GRCs.

[27] Watkins, Exh. See, Exh. GAW-1T at 21:1 to 22:5; my response to Staff's testimony concerning the Small General Service customer charge is provided above.

[28] Bieber, Exh. JB-1T at 8:170 to 10:215.

C. Lighting Service

Q. Has PSE determined the impacts on rates for Lighting that result from PSE's revised revenue requirement calculation?

A. Yes, PSE has prepared rate impact assessments for Lighting, which are presented in Table 6 below. The revised rate revenue change for Lighting schedules reflects the total revised revenue impact for the base portion, as well as revenue changes due to tracker or rider schedules. Table 6 below demonstrates overall impacts for Lighting are 6.93 percent higher than current lighting base rate revenue in the year 2025, and 5.43 percent higher in year 2026. More detailed information is provided in Exh. CTM-17.

Table 6 – Rebuttal Lighting Impacts

	2025		2026	
Customer Class	Revenue Change	Overall Impact	Revenue Change	Overall Impact
Lighting	$1,606,662	6.93%	$1,342,251	5.43%

D. Tracker Schedules

Q. AWEC proposes that special contract and high voltage customers should be excluded from the Wildfire Prevention Tracker;[29] how does PSE respond?

A. PSE disagrees with AWEC's proposal to exclude special contract and high voltage customers from the Wildfire Prevention Tracker. Wildfire prevention is a

[29] Kaufman, Exh. LDK-1CT at 22:8 – 24:2; the issues raised in AWEC witness Mullins' proposal to reject the Wildfire Prevention Tracker are addressed in the Prefiled Rebuttal Testimonies of Jamie L. Martin, Exh. JLM-1T, Todd A. Shipman, Exh. TAS-5T, and Susan E. Free, Exh. SEF-28T.

critical initiative that benefits the entire electrical system and all customer classes by enhancing grid reliability and safety. Excluding certain customer classes undermines the principle of equitable cost-sharing for necessary system-wide improvements. The costs associated with wildfire prevention are directly related to maintaining system reliability, which is essential for all customers, including those under special contracts or receiving high voltage service. These customers benefit from a reliable grid, just as other customers do, and therefore, it is equitable for them to contribute to the costs associated with maintaining that reliability.

Furthermore, exempting these customers would result in a disproportionate cost burden on other customer classes, potentially leading to unfair rate increases for residential and smaller commercial customers. PSE's approach provides that all customers who benefit from the improvements will contribute fairly to their implementation.

Q. Why does PSE believe its approach to the Wildfire Prevention Tracker is fair?

A. PSE's approach to the Wildfire Prevention Tracker is grounded in the principle of cost causation, ensuring that costs are allocated to those who benefit from the investments. Wildfire prevention initiatives, such as vegetation management and system hardening, enhance the safety and reliability of the grid for all users. These investments are essential in preventing catastrophic wildfires that could disrupt service and impose significant costs on both the utility and its customers.

By including all customer classes in the cost recovery mechanism, PSE achieves a fair distribution of costs and avoids creating disparities where some customers receive the benefits without contributing to the associated costs. This method aligns with the broader goal of maintaining a safe and reliable grid, the cost of which is a shared responsibility among all customers.

Q. AWEC proposes that certain customer classes be excluded from the Decarbonization Rate Adjustment Tracker; how does PSE respond?

A. AWEC suggest excluding electric schedules 449 and 459, and gas schedule 87T, along with energy intensive trade exposed customers, and special contracts from the Decarbonization Rate Adjustment Tracker.[30] PSE disagrees with this proposal because decarbonization projects are designed to benefit all customers, including those AWEC seeks exclude.

Q. How will the Decarbonization Rate Adjustment benefit all customers, including those AWEC proposes to exclude?

A. As outlined in my prefiled direct testimony, the Decarbonization Rate Adjustment will fund initiatives such as low-income heat pump installations, services in gas-constrained areas, income-qualified fuel-switching rebates, small business installations, multi-family rebates, and the commercial and industrial grant pilot. While the customer classes AWEC proposes to exclude may not directly benefit from every program, they still gain from projects in gas-constrained areas that

[30] Kaufman, Exh. LDK-1CT at 18:1 – 22:7; the issues raised in AWEC witness Mullins' proposal to reject the Decarbonization Rate Adjustment Tracker are addressed in the Prefiled Rebuttal Testimonies of Jamie L. Martin, Exh. JLM-1T, Todd A. Shipman, Exh. TAS-5T, and Susan E. Free, Exh. SEF-28T.

help avoid costly distribution system upgrades. Additionally, these customers will benefit from system-wide decarbonization efforts due to basic supply and demand dynamics. As PSE reduces its need to purchase carbon allowances and offsets in the market, overall demand decreases, leading to lower prices for carbon offsets. This in turn, allows customers to secure their own carbon offsets at a reduced cost, providing them with tangible financial benefits.

Furthermore, PSE's cost allocation for these decarbonization initiatives is minimal for the classes AWEC seeks to exclude—only 0.19 percent of the costs for electric customers and 0.66 percent for gas customers. This small contribution is fair and recognizes that all customers benefit from system-wide improvements driven by decarbonization efforts.

E. Low-Income Support

Q. Is PSE proposing a revision to its proposed funding for low-income programs?

A. Yes. Doubling the revised proposed residential percentage increases as PSE is proposing in its rebuttal testimony in this case translates to a rise in funding for residential bill assistance programs[31] totaling $21.80 million ($16.39 million for electric and $5.41 million for gas) in 2025 and an additional $6.77 million ($6.17 million for electric and $0.60 million for gas) in 2026, as illustrated in Exh. CTM-21. This enhanced funding is equal to a 39.45 percent increase in

[31] *See* RCW 80.28.425(2).

funding above current Schedule 129 levels. For additional updates to PSE's low-income energy assistance, refer to the Prefiled Rebuttal Testimony of Carol L. Wallace, Exh. CLW-10T.

F. Summary of Rebuttal Rate Design Proposal

Q. Has PSE prepared an exhibit consistent with the revised base rate design it is proposing in rebuttal testimony in this case?

A. Yes. Please see Exh. CTM-16 for the derivation of PSE's revised base rates in this case. As discussed in my direct testimony,[32] for each rate year period, PSE proposes that all existing classes experience an increase in monthly customer charges by up to 30 percent, and that all applicable classes experience an increase in demand charges by up to 30 percent, to include more costs that are fixed. The remaining classes' revenue increases are set as flat rate increases for volumetric charges to each tier with some exceptions for Choice and Retail Wheeling customers, Special Contract customers, and Lighting Schedules.

[32] Mickelson, Exh. CTM-1T at 70:6-13.

G. Summary of Rebuttal Rate Impacts

Q. What are the impacts to the various electric customer classes of PSE's rebuttal electric rates in this case?

A. The combined impact of these changes, based on rates currently in effect using forecasted billing determinants for each of the rate years, is presented in the Exhibit CTM-18. See Table 7 below for revenue requirements changes and overall percentage impacts by rate schedule.

Table 7 – Estimated Class Impacts of Proposed Rebuttal Changes

		2025		2026	
Customer Class	Rate Schedule	Revenue Change	Overall Impact	Revenue Change	Overall Impact
Residential Service	7	$224,530,021	14.27%	$97,555,211	5.37%
General Service, <51 kW	8/24	$55,513,851	14.99%	$22,275,961	5.21%
General Service, 51-350 kW	7A/ 11/ 25/ 29	$47,872,723	12.27%	$25,238,922	5.76%
General Service, >350 kW	12/26	$28,963,699	12.18%	$13,625,741	5.04%
Primary Service, General	10/31	$20,467,638	12.63%	$9,159,208	5.05%
Primary Service, Irrigation	35	$95,066	22.71%	$31,283	6.11%
Primary Service, Schools	43	$2,064,106	14.45%	$849,684	5.22%
High Voltage Service	46/49	$6,514,832	11.60%	$3,390,207	5.41%
Lighting Service	50-59	$1,606,662	6.93%	$1,342,251	5.43%
Retail Wheeling	449/459	$777,190	4.68%	$0	0.00%
Special Contract	SC	$3,599,073	58.88%	$433,332	4.32%
Firm Resale	5	$717,392	147.16%	$0	0.00%
Total Sales		**$392,722,253**	**13.77%**	**$169,987,770**	**5.20%**

Q. What is the impact on the typical electric residential customer monthly bill?

A. Exh. CTM-18 presents revised residential bill impacts for a typical residential customer. The impact on the monthly bill of PSE's typical residential customer using 800 kilowatt-hours is an increase of $16.04, or 14.70 percent over current levels in 2025 and an additional increase of $7.46, or 5.96 percent over 2025 levels in 2026. For additional insights into the impacts on both residential and non-residential classes at various consumption levels, please refer to Exh. CTM-18.

VI. CONCLUSION

Q. Does that conclude your prefiled direct testimony?

A. Yes, it does.