

**EXH. JDT-8T  
DOCKETS UE-240004/UG-240005 et al.  
2024 PSE GENERAL RATE CASE  
WITNESS: JOHN D. TAYLOR**

**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**

**JOHN D. TAYLOR**

**ON BEHALF OF PUGET SOUND ENERGY**

**SEPTEMBER 18, 2024**

**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
JOHN D. TAYLOR**

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**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
JOHN D. TAYLOR**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **JOHN D. TAYLOR**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is John D. Taylor, and my business address is 10 Hospital Center  
7 Commons, Suite 400, Hilton Head Island, South Carolina 29926

8 **Q. By whom are you employed and in what capacity?**

9 A. I am employed by Atrium Economics, LLC (“Atrium”) as a Managing Partner.

10 **Q. On whose behalf are you appearing in this proceeding?**

11 A. I am appearing on behalf of Puget Sound Energy (“PSE” or the “Company”).

12 **Q. Are you the same John D. Taylor who submitted prefiled direct testimony on**  
13 **February 15, 2024, on behalf of PSE in this proceeding?**

14 A. Yes, I am.

15 **II. SCOPE AND SUMMARY OF TESTIMONY**

16 **Q. What is the purpose of your rebuttal testimony?**

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

- 1 • Glenn A. Watkins on behalf of the Washington Utilities and Transportation  
2 Commission Staff (“Staff Witness Watkins” or “Witness Watkins”).
- 3 • David E. Dismukes, Ph.D on behalf of the Washington State Office of the  
4 Attorney General Public Counsel Unit (“Public Counsel Witness Dismukes”  
5 or “Witness Dismukes”).
- 6 • Lance D. Kaufman on behalf of Alliance of Western Energy Consumers  
7 (“AWEC Witness Kaufman” or “Witness Kaufman”).
- 8 • Kevin C. Higgins on behalf of Nucor Steel Seattle, Inc. (“Nucor Witness  
9 Higgins” or “Witness Higgins”).
- 10 • Roger D. Colton on behalf of The Energy Project (“TEP Witness Colton”, or  
11 “Witness Colton”).

12 These individuals and groups are collectively, or partially, referred to as the  
13 “Parties”.

14 **Q. Please summarize your rebuttal testimony.**

15 A. My rebuttal testimony reiterates the fact that PSE’s natural gas cost of service  
16 study (“COSS”) is in alignment with WAC 480-85-050 and responds to the  
17 testimony of AWEC Witness Kaufman and Nucor Witness Higgins relating to the  
18 allocation of mains and the allocation of facilities to the new Exclusive  
19 Interruptible Service (Rate 88T). Staff Witness Watkins finds PSE’s gas COSS  
20 model to comply with WAC 480-85-050 and “concluded that the end results of  
21 witness Taylor’s natural gas COSS results are reasonable across all classes.”<sup>1</sup>  
22 Public Counsel Witness Dismukes provides no testimony disputing the methods  
23 or results of PSE’s gas COSS, however does recommend a different revenue  
24 apportionment. This rebuttal also addresses the Company’s proposed revenue

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<sup>1</sup> See Watkins, Exh. GAW-1T at 25:1-2.

1           apportionment which sets the revenue targets for each customer class responding  
2           to all parties referenced above; with the exception of Staff Witness Watkins who  
3           found that “witness Taylor’s conceptual approach is reasonable and consistent  
4           with sound ratemaking practices.”<sup>2</sup> Lastly, I discuss the appropriateness, from a  
5           cost causative and pricing standpoint, of the Company’s proposed customer  
6           charges in response to Public Counsel Witness Dismukes, Staff Witness Watkins,  
7           and TEP Witness Colton.

8           **Q.    If you fail to mention an issue or take a stance in your testimony, does that**  
9           **imply agreement with other parties?**

10          A.    No. I have not attempted to respond to every argument made by the other parties  
11          in this case. The fact that I may not have responded to any specific argument or  
12          statement does not indicate my agreement with that argument or statement.

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

14          A.    Yes. The list of exhibits I am sponsoring in support of my rebuttal testimony is  
15          provided on page ii of ii above. Exh. JDT-9 through Exh. JDT-13 are aligned  
16          with the exhibits provided in my direct testimony and reflect PSE’s rebuttal  
17          revenue requirement and updates to the gas COSS model discussed in more detail  
18          in this rebuttal testimony. Exh. JDT-14 provides additional analysis presented in  
19          response to AWEC Witness Kaufman’s direct assignment of mains proposal.  
20          Lastly, Exh. JDT-15 provides a summary of the distribution system upgrade

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<sup>2</sup> See Watkins, Exh. GAW-1T at 28:3-4.

1 projects associated with the Tacoma LNG facility that are directly assigned to  
2 Schedule 88T.

3 **III. GAS COST OF SERVICE STUDY RESPONSE**

4 **Q. Does the Commission have requirements and guidelines for preparing a gas**  
5 **COSS?**

6 A. Yes. The Commission’s rules governing gas and electric COSS are found in  
7 WAC 480-85. WAC 480-85-050 specifies the sources for COSS inputs and  
8 requires the use of an embedded cost method. Instructions for functionalizing,  
9 classifying, and allocating costs are found in WAC 480-85-060. Additionally, the  
10 Commission provides procedures for requesting rule exemptions under  
11 WAC 480-85-070.

12 **Q. Has PSE complied with these Commission rules in its gas COSS study?**

13 A. Yes. PSE’s gas COSS adheres to WAC 480-85. PSE employed an embedded cost  
14 methodology and followed the regulatory methodology for functionalizing,  
15 classifying, and allocating costs. The Company is seeking an exemption from the  
16 rules concerning the treatment of “FERC Account 870 – Operation supervision  
17 and engineering.” Staff and Nucor agreed that the exemption PSE requested is  
18 warranted.<sup>3</sup> This approach results in each customer class paying its fair share  
19 based on the costs incurred to serve them. The gas COSS results inform PSE’s  
20 revenue allocation and rate design proposals to achieve a fair cost distribution.

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<sup>3</sup> Watkins, Exh. GAW-1T at 24:5-7; Higgins, Exh. KCH-1T at 3:16-17.

1 **Q. Do any of the parties agree with PSE’s COSS results?**

2 A. Yes. Staff Witness Watkins concluded that the end results of PSE’s gas COSS  
3 were reasonable across all classes.<sup>4</sup> Witness Watkins also agrees with the second  
4 (and recommended) study presented by PSE which seeks an exemption from  
5 WAC Rules relating to the allocation of FERC Account 870 noting that contrary  
6 to WAC Rules stating Account 870 is Transmission related, “the functionalization  
7 and allocation of Account 870 is properly functionalized as distribution related.”<sup>5</sup>

8 **Q. What issues do the parties raise regarding the Company’s COSS results?**

9 A. Public Counsel Witness Dismukes, AWEC Witness Kaufman, and Nucor Witness  
10 Higgins raise certain issues related to the Company’s COSS. These parties’  
11 specific contentions are outlined below:

12 Public Counsel - Public Counsel Witness Dismukes refers to the Company’s gas  
13 COSS only in the context of his disagreement with PSE’s proposed revenue  
14 apportionment, and states that he finds the Company’s gas COSS “faulty.”<sup>6</sup>  
15 Witness Dismukes provides no other discussion or recommendations regarding  
16 PSE’s gas COSS.

17 AWEC - AWEC Witness Kaufman proposes two changes to the Company’s  
18 COSS: (1) to directly assign distribution mains for Schedule 87 and 87T

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<sup>4</sup> Watkins, Exh. GAW-1T at 25:1-2.

<sup>5</sup> Watkins, Exh. GAW-1T at 24:6-7.

<sup>6</sup> Dismukes, Exh. DED-1T at 28:5-6.



1 customers served by 4-inch and greater mains; and (2) to allocate accelerated  
2 depreciation associated with fuel switching using customer counts.<sup>7</sup>

3 Nucor - Nucor Witness Higgins offers two recommendations on PSE's COSS:  
4 (1) (a) Schedules 85, 85T, 86, 86T, 87 and 87T should be excluded from the  
5 allocation of small distribution mains (<2"), and (b) Schedules 87 and 87T should  
6 also be excluded from the allocation of medium mains (2-3"); and (2) Schedule  
7 88T's assigned share of costs should be corrected because he believes the costs  
8 assigned to Schedule 88 are under-assigned.<sup>8</sup>

9 **Q. How do you respond to Public Counsel Witness Dismukes's contention that**  
10 **the gas COSS is faulty?**

11 A. It is not possible to respond to Witness Dismukes's criticism of the gas COSS  
12 because he provides no context or rationale for arriving at the conclusion that  
13 PSE's gas COSS is faulty. Public Counsel Witness Dismukes simply uses the  
14 argument that the gas COSS is faulty as a backstop for his revenue apportionment  
15 recommendation. The fact that Witness Dismukes provides no evidence to  
16 support his assertion that the gas COSS is faulty should lead to the dismissal of  
17 his claim. Additionally, it is worth pointing out again that the Staff accepted and  
18 found PSE's COSS to be in alignment with WAC rules.

19 **Q. How do you respond to AWEC's and Nucor's recommendations to allocate**  
20 **or exclude certain distribution mains from specific rate schedules?**

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<sup>7</sup> Kaufman, Exh. LDK-1T at 24:4-8.

<sup>8</sup> Higgins Exh. KCH-1T at 3:9-15.

1 A. I refer back to my discussion of the rules in WAC 480-85 which set forth the  
2 procedures to be taken in conducting a COSS. The Company could not make the  
3 recommendations that AWEC and Nucor are requesting and stay in compliance  
4 with WAC 480-85 based on PSE's understanding of the rulemaking. As  
5 previously mentioned, Staff reviewed the PSE's COSS results and found them  
6 reasonable and in compliance with WAC 480-85.

7 **Q. What informs PSE's interpretation of the requirements of WAC Chapter**  
8 **480-85 regarding distribution mains allocation and whether the rules allow**  
9 **for excluding some customer classes from the allocation of smaller size**  
10 **mains?**

11 A. PSE's position is based on feedback PSE received from Washington Utilities and  
12 Transportation Commission ("WUTC") Staff in Docket UG-170003, the  
13 rulemaking for natural gas cost of service studies. In Docket UG-170003, on  
14 February 12, 2020, the Commission issued a notice of opportunity to file written  
15 comments on the proposed cost of service rules. PSE filed written comments on  
16 March 27, 2020, including a specific comment seeking clarification of whether  
17 the proposed rules would allow the use of main pipe diameter to allocate costs to  
18 some customer classes but not others. On July 7, 2020, the Commission issued its  
19 final order in Docket UG-170003 adopting the new cost of service rules.  
20 Appendix A to the final order summarized all the comments the Commission  
21 received regarding the cost of service rulemaking along with WUTC Staff's  
22 responses to the comments. On page 16, WUTC Staff responded to PSE's  
23 comments seeking clarification of the mains allocation rules, stating that "[t]he

1 rules are clear and do not allow for the use of main pipe diameter to allocate costs  
2 to some classes but not others.”<sup>9</sup> Nucor Witness Higgins included as exhibit  
3 Exh. KCH-8 to his testimony, PSE’s Response to Nucor’s Data Request No. 001  
4 in which PSE stated that it relied on Staff’s response to PSE comments in  
5 Docket UG-170003 where Staff said the rules clearly do not allow for the use of  
6 main pipe diameter to allocate costs to some classes but not others.

7 **Q. How do Nucor Witness Higgins’s and AWEC Witness Kaufman’s**  
8 **approaches to allocating distribution mains differ?**

9 A. Nucor Witness Higgins recommends that Schedules 85, 85T, 86, 86T, 87, and  
10 87T be excluded from the allocation of small distribution mains (<2”), and  
11 Schedules 87 and 87T should be excluded from the allocation of medium mains  
12 (2-3”).<sup>10</sup> In contrast, AWEC Witness Kaufman is proposing a direct assignment of  
13 mains to Schedules 87 and 87T, stating the allocation of “distribution costs are not  
14 well represented by general allocators, and it is practical to directly allocate the  
15 cost of mains serving these customers.”<sup>11</sup>

16 **Q. Outside of pointing back to the WAC rules please provide other comments**  
17 **relating to Nucor Witness Higgins’s approach to allocating distribution**  
18 **mains?**

19 A. The segmentation of a distribution system into separate groupings of distribution  
20 mains based on size or operating pressure is not an across the board standard

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<sup>9</sup> Docket UG-170003, General Order R-599, Appendix A (July 7, 2020).

<sup>10</sup> Higgins, Exh. KCH-1T at 3:9-12.

<sup>11</sup> Kaufman, Exh. LDK-1T at 27:3-7.

1 approach. Some jurisdictions refrain from doing so, or do so with only a specific  
2 subset of mains, such as high-pressure distribution mains that fulfill a similar role  
3 as transmission mains. In addition, the allocation of the segmented system does  
4 not come without controversy (e.g., should high-pressure distribution system be  
5 allocated in the same manner as medium and low-pressure distribution mains).  
6 The argument against segmentation, and in some circumstances against direct  
7 assignment, is that the distribution system of a gas utility is a fully integrated  
8 system where the system is providing capacity, as a whole, to all customers.  
9 However, this logic is less justified when it can be shown that certain customers  
10 are not interconnected to, or supported by, medium or low-pressure systems or  
11 when they are directly connected to utility transmission mains or interstate  
12 pipeline-connected gate stations. It is worth noting that the WAC rules as  
13 interpreted by PSE and Staff result in significantly more costs being allocated to  
14 Schedules 85, 85T, 86, 86T, 87, and 87T, in comparison to the segmented  
15 analysis that PSE utilized in its 2019 general rate case (filed before the  
16 Commission issued its order in Docket UG-17003) and as advocated in this  
17 proceeding by Nucor Witness Higgins.

18 **Q. Do you have any comments on the analysis performed by AWEC Witness**  
19 **Kaufman to determine direct assignment of main costs to Schedule 87 and**  
20 **Schedule 87T?**

21 A. Yes. At first glance, the type of analysis AWEC Witness Kaufman performed  
22 appears somewhat reasonable. That, however, does not mean the steps taken or  
23 results of that analysis are appropriate in this proceeding. For instance, it is not

1 evident if Witness Kaufman included pipelines that were back-looped to  
2 Schedule 87 and 87T customers. The looped pipelines may have the ability to  
3 serve the Schedule 87 and 87T customers and therefore, they should pay a portion  
4 of the pipeline costs. Looped pipelines can serve to diversify the pathways for gas  
5 to be delivered to a customer, as well as provide pressure support for the pipeline.  
6 Another potential issue with AWEC Witness Kaufman's analysis is the accuracy  
7 of the pipelines attributed to Schedule 87 customers. From my review of Witness  
8 Kaufman's workpaper's, only three of the eleven customer maps included a gate  
9 station or border station, where an upstream interstate pipeline connects to PSE's  
10 system. This would indicate that the other eight customers could be served by  
11 more pipeline than was included in AWEC Witness Kaufman's calculations,  
12 which would increase the assignment of mains costs under his method.

13 Ultimately, PSE conducted its allocation of mains in a manner that is consistent  
14 with WAC rules. The allocation of certain mains costs might possibly be made  
15 more accurate based on a type of analysis that AWEC Witness Kaufman  
16 performed, but a closer review of the data and system layout is needed to reach  
17 that determination. Furthermore, PSE does not believe it can or should make the  
18 determination on whether AWEC's proposed direct assignment method of mains  
19 to Schedule 87 and 87T can be adopted; rather that question should be determined  
20 by this Commission.

21 **Q. Has PSE reviewed the AWEC analysis of detailed line diagrams AWEC was**  
22 **provided in discovery?**

1 A. Yes. AWEC Data Request No. 063 requested, “For each Schedule 87 or 87T  
2 customer, please provide a scaled diagram of all 4 inch or larger pipe connected to  
3 the customer to a citygate.” In response to this request, PSE provided eleven  
4 attachments that provided scaled line diagrams for all fourteen customers (one  
5 attachment contained four customers) with the size of mains indicated between  
6 the customer location and a gate station. The response included four types of gate  
7 stations defined by PSE as indicated below; the first two, district regulators and  
8 limit stations, do not have a direct connection with the NW Pipeline; in other  
9 words, they do not connect the customer to a citygate.

- 10 1. District Regulators – located within PSE system with no connection to  
11 NW Pipeline
- 12 2. Limit Station - located within PSE system with no connection to NW  
13 Pipeline
- 14 3. Town Border Station – Transfer of custody point from NW Pipeline lateral  
15 but different from a Gate Station in the sense that metering takes place  
16 upstream of this type of station
- 17 4. Gate Station – Transfer of custody point from NW Pipeline where  
18 metering also occurs

19 I reviewed the line diagrams, and the use of these diagrams by AWEC Witness  
20 Kaufman and discovered that only three of the eleven customer maps included  
21 interconnections with NW Pipeline. During the preparation of this rebuttal  
22 testimony, PSE requested line diagrams from its mapping division that show  
23 pipelines connecting the Schedule 87 and 87T customers to NW Pipeline.<sup>12</sup> I

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<sup>12</sup> PSE issued a supplemental response to AWEC Data Request No. 063 with the line diagrams that show pipelines connecting the Schedule 87 and 87T customers to NW Pipeline.

1 analyzed those line diagrams in a similar manner to AWEC Witness Kaufman and  
2 updated the direct assignment analysis presented by AWEC Witness Kaufman.

3 **Q. How does your analysis using the line diagrams showing pipelines connecting**  
4 **the Schedule 87 and 87T customers to NW Pipeline impact the conclusions**  
5 **presented by AWEC Witness Kaufman?**

6 A. The analysis I prepared is presented in Exh. JDT-14. AWEC Witness Kaufman's  
7 analysis of the scaled line diagrams directly assigned, on a replacement cost basis,  
8 \$43 million of distribution mains, whereas my analysis of the line diagrams  
9 indicates a replacement cost of \$84 million. It is important to note that both  
10 AWEC Witness Kaufman's analysis and my analysis were based on scaled line  
11 diagrams in pdf and not verified by actual GIS measurements. Further, a number  
12 of Schedule 87T customer locations are back fed and/or looped where the choice  
13 of mapping a path to a city gate station (i.e., interconnection with NW Pipeline)  
14 requires some discretion, and this discretion may benefit from gas flow modeling,  
15 which was not completed. While this approach is informative, as it captures the  
16 difference between the general peak and average allocator and a direct assignment  
17 approach for the 14 customers on Schedule 87T, it was prepared in a fairly short  
18 time frame in preparation of this rebuttal testimony, is based on pdf line diagrams,  
19 and may not fully represent the direct assignment of costs to Schedules 87 and  
20 87T customers. AWEC Witness Kaufman states his analysis moves Schedule 87T  
21 from a parity ratio of 0.57 to 1.47; however, using the analysis I prepared, the  
22 parity ratio for Schedule 87T in the Company's rebuttal COSS moves from 0.57  
23 to 0.91. As such, Schedule 87T is still below its cost to serve.

1 **Q. Is PSE giving Schedule 88T preferential treatment in the allocation of costs**  
2 **as contended by AWEC Witness Kaufman?**<sup>13</sup>

3 A. No. PSE has either corrected for any allocations to Schedule 88T in its rebuttal  
4 COSS or has correctly accounted for the costs in Docket UG-230393. A review of  
5 plant records was undertaken to determine which plant should be allocated to  
6 Schedule 88T, as well as which plant is already being recovered through Schedule  
7 141D. The corrections being made for the allocation of plant are discussed  
8 below. It is important to note that the treatment of the allocation of costs to  
9 Schedule 88T is not solely determined in this proceeding. The costs of the  
10 Distribution Mains plant associated with the Four-Mile 16-Inch segment are  
11 currently recovered in the Company's Schedule 141D Distribution Pipeline  
12 Provisional Recovery Adjustment. Furthermore, since PSE filed its direct  
13 testimony in this rate case, PSE received a final order in Docket UG-230393 that  
14 addressed the allocation of the Four-Mile 16-Inch segment between PSE and  
15 Puget LNG.<sup>14</sup> Order 07 resulted in an annual revenue requirement of \$1.9 million  
16 associated with Puget LNG's portion of the pipeline being recovered through the  
17 new customer class (Schedule 88T) contained within Schedule 141D.

18 **Q. How do you respond to Nucor's contention that PSE is currently under-**  
19 **assigning costs to Schedule 88T?**

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<sup>13</sup> Kaufman, Exh. LDK-1T at 34:1-2.

<sup>14</sup> *Washington Utilities and Transportation Commission v. Puget Sound Energy*, Docket UG-230393, Order 07 (Apr. 24, 2024) ("Order 07").



1 A. As detailed in Nucor Data Request No. 011, No. 013, and No. 016, PSE agreed to  
2 correct the assignment of costs to Schedule 88T. The results of that correction are  
3 provided in the rebuttal COSS Exh. JDT-10 and discussed below. Nucor Witness  
4 Higgins takes issue with the method of directly assigning the cost of mains where  
5 PSE calculates the proportion of total Account 376 plant that is directly assigned  
6 to Schedule 88T on a replacement cost basis and then applies this proportion to  
7 the book cost in the COSS model to determine the appropriate share of plant to  
8 assign to Schedule 88T. In contrast, Nucor Witness Higgins recommends “that the  
9 rate base (gross plant, accumulated depreciation and accumulated deferred income  
10 tax) and depreciation expense associated with the LNG-related distribution  
11 upgrades be separately tracked and assigned to Schedule 88T in the COSS  
12 model.”<sup>15</sup>

13 **Q. What updates were made to the direct assignment of facilities to Schedule**  
14 **88T in the Company’s rebuttal COSS model?**

15 A. First, it is important to note that there were three distribution system upgrade  
16 projects associated with the Tacoma LNG project and all of the costs associated  
17 with upgrade 1 (4-mile pipe) are included in the Company’s Schedule 141D with  
18 upgrade 2 and upgrade 3 included in the Company’s base rate request in this case.  
19 Upgrade 2 represents costs associated with the Golden Given’s Limit Station and  
20 1-mile pipe connector, and Upgrade 3 is Frederickson’s Gate Station expansion.  
21 In its direct testimony in this case, the Company assigned some costs associated

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<sup>15</sup> Higgins, Exh. KCH-1T at 18:16-19.

1 with Upgrade 2 and Upgrade 3 to Schedule 88T, but, as indicated in response to  
2 Nucor Data Requests, inadvertently left out some costs associated with Upgrade 2  
3 and Upgrade 3. Updating the direct assignment in the rebuttal COSS model  
4 results in a higher level of direct assignment of these upgrade projects to Schedule  
5 88T and as such a higher cost to serve Schedule 88T and, thus, the proposed  
6 revenues for Schedule 88T are higher than in the direct filing. The result is an  
7 increase from approximately \$517 thousand to \$728 thousand in the revenue  
8 requirement and the proposed revenue for Schedule 88T. The details of the direct  
9 assignment of costs are provided in Exh. JDT-15.

10 **Q. Are there other revenues that will be generated from Schedule 88T?**

11 A. Yes. As described above, Schedule 88T is paying approximately \$1.9 million  
12 annually for the 4-mile 16-inch pipeline segment through Schedule 141D as a  
13 result of Order 07 in Docket UG-230393. In the Company's direct filing in this  
14 proceeding, the current levels of revenues for Schedule 88T were calculated based  
15 on Puget LNG taking service on Schedule 87T. However, since the direct filing  
16 in this case, the Commission approved the new Schedule 88T rates in Order 07 in  
17 Docket UG-230393. These new rates for Schedule 88T are reflected in the  
18 Company's rebuttal projected rate year revenues for Schedule 88T. As a result of  
19 reflecting the current rates for Schedule 88T, the projected revenues for Rate Year  
20 1 decreased from \$1.2 million to \$182 thousand. This has no impact on any other  
21 customer classes since the Company is proposing to move Schedule 88T fully to  
22 its cost to serve.

1 **Q. What comments do you have on whether the allocation of distribution mains**  
2 **should be directly assigned on a gross plant basis or on a relative portion of**  
3 **embedded plant basis?**

4 A. First, the current gas COSS model relies on the same method for directly  
5 assigning distribution mains to the Special Contracts class as was used in PSE's  
6 last two cases (2019 and 2022) and this method was replicated for the direct  
7 assignment of distribution mains costs for the newly created Schedule 88T.  
8 Further AWEC Witness Kauffman relies on the same method as proposed by PSE  
9 for directly assigning costs, "My method of first calculating replacement cost,  
10 then adjusting proportionately to embedded cost is also consistent with PSE's  
11 method."<sup>16</sup> In addition, no other customers have to pay more for distribution  
12 service when the directly attributable plant serving them (meters and services) is  
13 newer than the average plant, and no other customers pay less when the directly  
14 attributable plant serving them is older than the average plant. In short, the costs  
15 to serve customers are not distinguished based on when the customer or premise  
16 first received service. I would also note that assignment of the costs associated  
17 with the four-mile 16-inch segment was specifically addressed in Order 07 in  
18 Docket UG-230393<sup>17</sup> and those costs are specifically included in PSE's Schedule  
19 141D as described above. Further, these facilities, as described above, represent a  
20 direct assignment of the portion of distribution mains relied upon by the Special  
21 Contracts class, Schedule 88T, and in AWEC's analysis of Schedules 87 and 87T,

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<sup>16</sup> Kaufman Exh. LDK-1T at 29:4-6.

<sup>17</sup> Order 07 at ¶¶ 271 - 279, 12 (Nov. 1, 2016).

1 and are not solely used by these customers. As such, in alignment with the past  
2 methods employed for direct assignment to the Special Contracts customer class,  
3 the method proposed in this case by AWEC, and the fact that the four-mile 16-  
4 inch segment is uniquely identifiable and was addressed in other proceedings, the  
5 additional mains directly assigned in this case to Schedule 88T should be  
6 allocated on a replacement cost basis and not on a gross plant basis as proposed  
7 by Nucor Witness Higgins.

8 **Q. How do you respond to AWEC's recommendation to allocate accelerated**  
9 **depreciation on customer count?**

10 A. First, simply because PSE's analysis of stranded costs is based on the number of  
11 customers switching from gas to electric service does not support AWEC's  
12 conclusion that customer count is a reasonable measure for allocating these costs.  
13 The shorter useful lives that informed the accelerated depreciation reflect the  
14 results of public policy implemented by the state legislature, not customer counts.  
15 Whether class of customers should bear more of the costs associated with this  
16 public policy decision, is also a public policy decision. A rate case for one utility  
17 is not the appropriate proceeding for making such a public policy decision.  
18 Further, if non-electrifying customers will benefit from the longer useful lives of  
19 assets through lower depreciation rates, then there should be guarantees or  
20 contractual terms to ensure they continue to pay for these longer useful lives and  
21 do not leave the system prior to paying for the costs, or pay for the stranded costs  
22 if they leave earlier than expected. There is also an equity issue with AWEC's  
23 recommendation; customers who may not be able to afford to switch would be

1 allocated a greater proportion of the accelerated depreciation under AWEC's  
2 method. In short, AWEC's recommendation to allocate accelerated depreciation  
3 to fuel-switching customers on the basis of customer count raises a multitude of  
4 broader policy considerations. There is no rationale addressing these policy  
5 considerations in this proceeding. I recommend the Commission reject AWEC's  
6 recommendation.

7 **A. Rebuttal Cost of Service Results**

8 **Q. What is the basis for the rebuttal gas cost of service study provided in this**  
9 **case?**

10 A. The rebuttal gas COSS study, as detailed in Exh. JDT-10, is grounded in the pro  
11 forma results of operations for the 12-months ending December 2023, outlined in  
12 the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-28T, and Exh.  
13 SEF-30E. The study has also been updated to reflect the additional direct  
14 assignment of facilities to Schedule 88T as documented above in this testimony.

15 **Q. What are the results of the Company's rebuttal gas COS study presented in**  
16 **this case?**

17 A. The results of PSE's rebuttal gas COSS can be found in Exh. JDT-10. As detailed  
18 in my direct testimony, this exhibit presents the resulting allocation by customer  
19 class of PSE's revenue requirement based strictly on the results of the  
20 computations included in the COSS. Table 1 below presents the revenue-to-cost  
21 ratios and parity ratios by class, based on the results contained in Exh. JDT-10.

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**Table 1 – Rebuttal Gas Cost of Service Results**

<b>Customer Class</b>	<b>Schedule</b>	<b>Revenue-to-Cost Ratio</b>	<b>Parity Ratio</b>
Residential	16/23/53	0.92	1.10
Commercial & Industrial	31/31T	0.68	0.81
Large Volume	41/41T	0.79	0.94
Interruptible	85/85T	0.71	0.85
Limited Interruptible	86/86T	1.10	1.31
Non-exclusive Interruptible	87/87T	0.47	0.57
Exclusive Interruptible	88T	0.15	0.18
Special Contracts		1.93	2.30
Total/System Average		0.84	1.00

**IV. GAS REVENUE ALLOCATION RESPONSE**

**Q. Do any of the parties agree with PSE’s proposed revenue allocation?**

A. Yes. Staff Witness Watkins determined that PSE’s proposed rate spread associated with base rates was reasonable.<sup>18</sup>

**Q. What positions do the parties take regarding PSE’s revenue allocation?**

A. Public Counsel Witness Dismukes recommends different revenue allocations based on his review. As I have previously stated, his recommendations are grounded in his unfound claim that the gas COSS is “faulty”. Nonetheless, Witness Dismukes proposes a revenue allocation that (1) limits the rate increase to any single customer class to 1.25 times the overall system average increase,

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<sup>18</sup> Watkins, Exh. GAW-1T at 27:18 – 28:4.

1 (2) increases the revenue allocation to Large Volume customers to 1.15 times the  
2 system average increase, and (3) holds Exclusive Interruptible rates constant.<sup>19</sup>

3 Nucor Witness Higgins and AWEC Witness Kaufman both recommend different  
4 revenue allocations than PSE, which were informed by their respective COSS  
5 results. AWEC Witness Kaufman also contends that PSE's revenue allocations  
6 give preferential treatment to Schedule 88T.

7 **Q. Do you have a comparison of the different revenue allocations proposed in**  
8 **this case?**

9 A. Yes. Table 2 below compares the different revenue allocations proposed in this  
10 case, including the percentage of each customer classes' revenue to the total  
11 revenue. Each column was developed using the revenue apportionment  
12 approaches outlined in the respective testimonies of each party using PSE's  
13 initially filed revenue requirement and does not reflect differences in the total  
14 revenue requirement presented by the parties.

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<sup>19</sup> Dismukes, Exh. DED-1T at 29:13-23.

1 **Table 2 - Revenue Targets (\$1000s) and Total Percent of Revenue<sup>20</sup>**

	PSE / Staff		Public Counsel		Nucor		AWEC	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
Residential (16,23,53)	524,714	67.0%	524,136	66.9%	525,205	67.0%	532,806	68.0%
Comm. & Indus. (31,31T)	198,208	25.3%	198,200	25.3%	198,439	25.3%	194,355	24.8%
Large Volume (41,41T)	33,960	4.3%	34,480	4.4%	33,996	4.3%	32,363	4.1%
Interruptible (85, 85T)	14,086	1.8%	14,085	1.8%	13,479	1.7%	13,812	1.8%
Limited Interruptible (86, 86T)	1,586	0.2%	1,586	0.2%	1,559	0.2%	1,305	0.2%
Non-Exclusive Interruptible (87, 87T)	8,733	1.1%	8,135	1.0%	7,785	1.0%	5,713	0.7%
Exclusive Interruptible (88T)	517	0.1%	1,181	0.2%	1,339	0.2%	1,571	0.2%
Contracts	1,690	0.2%	1,690	0.2%	1,690	0.2%	1,567	0.2%
<b>Total</b>	<b>783,493</b>	<b>100.0%</b>	<b>783,493</b>	<b>100.0%</b>	<b>783,493</b>	<b>100.0%</b>	<b>783,493</b>	<b>100.0%</b>

2  
3 **Q. Do you have any comments on the comparison of revenue allocations detailed**  
4 **in Table 2 above?**

5 A. The Parties are not significantly apart from each other, with differences primarily  
6 reflecting the revenue targets for the interruptible classes being lower than PSE's  
7 and Staff's recommendations and other parties' recommendations to increase the  
8 revenue targets for Schedule 88T.

9 **Q. How do you respond to the revenue allocation recommendations of Public**  
10 **Counsel Witness Dismukes?**

11 A. I would refer back to the COSS section of my rebuttal testimony where I point out  
12 that Public Counsel Witness Dismukes makes the claim that PSE's gas COSS is  
13 faulty, while providing no evidence to support the assertion. He then uses his  
14 unsupported assertion that the gas COSS is faulty to propose a different revenue  
15 allocation. As I have previously pointed out, Staff reviewed the Company's COSS  
16 results and proposed revenue allocations and found them reasonable. Further,

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<sup>20</sup> Public Counsel - Dismukes Exhibit DED-8 | Nucor – Nucor WP 240004-05-PSE-WP-JDT-5-GAS-RATE-SPREAD-DESIGN-24GRC-02-2024.xlsx | AWEC - AWEC's revenue apportionment was calculated using its proposed rate spread (Table 8) applied to PSE's revenue requirement.



1 Public Counsel Witness Dismukes provides no support as to why his  
2 recommended limit of the rate increase to any single customer class to 1.25 times  
3 the system average increase is superior to the Company's recommendation of 1.50  
4 times the overall natural gas system average increase. Nor does Witness  
5 Dismukes provide any support for increasing the revenue allocation to Large  
6 Volume customers to 1.15 times the average increase or holding Exclusive  
7 Interruptible rates constant. The Commission should reject these proposals given  
8 the absence of support provided by Witness Dismukes.

9 **Q. How do you respond to Nucor and AWEC's proposed revenue allocations?**

10 A. As previously discussed, Nucor and AWEC's COSS are based on methods that do  
11 not comply with WAC 480-85, and thus cannot be used to analyze their respective  
12 revenue allocations. The Company's COSS does comply with WAC 480-85 and  
13 was reviewed by Staff which found the results reasonable. The Company did not  
14 offer Schedule 88T preferential treatment, in fact, 88T's revenue to cost ratio is  
15 proposed at 1.00. This equates the revenues to be collected from 88T to the costs  
16 incurred to serve the class. A revenue to cost ratio of 1.00 is desirable from a  
17 ratemaking perspective because it means the schedule should contribute 100  
18 percent of the revenues to cover its costs. This is in contrast to the proposed  
19 revenue apportionment in the Company's direct filing where the parity ratios for  
20 Schedules 85 and 85T and Schedules 87 and 87T were still below 1.00. If one  
21 was to treat Schedule 88T the same as these other interruptible schedules, then it  
22 would not have been moved to a parity ratio of 1.00.

1 **A. Rebuttal Revenue Allocation Results**

2 **Q. Would you please summarize PSE’s proposed rebuttal gas revenue**  
3 **allocation?**

4 A. PSE’s proposed rebuttal gas revenue allocation is consistent with its original  
5 proposal, aiming for a gradual movement towards full parity across customer  
6 classes. This approach uses the same parameters to adjust the average system rate  
7 increase for retail classes. Table 3 below and worksheet titled ‘(Rate Spread)’ in  
8 Exh. JDT-11 provide a summary. For a detailed analysis, the comprehensive  
9 worksheet is available in Exh. JDT-11, offering in-depth insight into PSE’s  
10 revenue allocation proposal.

11 **Table 3 – Rebuttal Gas Revenue Allocation**

<b>Customer Class</b>	<b>Schedule</b>	<b>Current Parity Ratio</b>	<b>Proposed Parity Ratio</b>	<b>Percentage Increase</b>
Residential	16/23/53	1.10	1.08	17.12%
Commercial & Industrial	31/31T	0.81	0.85	24.44%
Large Volume	41/41T	0.94	0.96	21.15%
Interruptible	85/85T	0.85	0.88	24.00%
Limited Interruptible	86/86T	1.31	1.23	11.74%
Non-exclusive Interruptible	87/87T	0.57	0.61	29.24%
Exclusive Interruptible	88T	0.18	1.00	555.58%
Special Contracts		2.30	2.08	7.86%
Total/System Average		1.00	1.00	19.27%

12  
13 **V. GAS RATE DESIGN RESPONSE**

14 **Q. What issues do the parties raise regarding PSE’s proposed rate design.**

15 A. Staff, Public Counsel, AWEC, and TEP each present varying proposals regarding  
16 rate design for PSE’s customer classes. I will briefly describe each parties’  
17 recommendations.

1           Staff - Staff Witness Watkins contends that the Company’s calculation of basic  
2 customer charges for Residential and Commercial & Industrial (“C&I”) classes  
3 contain costs that are not required to connect nor maintain a customer’s account.  
4 Witness Watkins presents an alternative analysis that excludes the accounts he  
5 contends are unneeded for customer connection and maintenance. Despite  
6 Witness Watkins opposition to the methodology of PSE determining basic  
7 customer charges, through his analysis Witness Watkins accepts PSE’s proposed  
8 customer charge for C&I customers.

9           Public Counsel - Public Counsel Witness Dismukes disagrees with PSE’s  
10 proposed residential customer charge. Like Staff Witness Watkins, Witness  
11 Dismukes contends that PSE’s calculation includes costs that are not “customer-  
12 related”. Witness Dismukes includes an analysis of customer charges of other  
13 regional utilities. Lastly, Witness Dismukes provides arguments and references he  
14 contends show that higher residential charges are inconsistent with energy  
15 efficiency and harmful to low-income customers. Thus, Witness Dismukes  
16 recommends a lower residential customer charge.

17           AWEC - AWEC Witness Kaufman makes two recommended rate design changes  
18 to Schedules 87 and 87T. Specifically, Witness Kaufman recommends adding  
19 storage commodity costs from the COSS to the procurement charge for Schedule  
20 87 and to escalate the procurement charge for Schedule 87 proportionally to base  
21 rate increases in Rate Year 1 and 2.

1            TEP – TEP Witness Colton recommends PSE’s proposed residential customer  
 2 charge be denied because he believes it will disproportionately adversely affect  
 3 low-income customers.

4 **Q. Do you have a comparison of the proposed residential customer charges in**  
 5 **this case?**

6 A. Yes. Table 4 below provides a comparison of the proposed customer charges in  
 7 this case, including the Customer-Related unit cost and Customer & Demand-  
 8 Related unit costs based on the results of PSE’s COSS.

9            **Table 4 - Residential Customer Charge Comparison<sup>21</sup>**

Current	PSE Proposal		PSE Customer-Related Unit Cost	PSE Customer & Demand Related Unit Cost	Staff Proposal		Public Counsel / TEP Proposal	
	Year 1	Year 2			Year 1	Year 2	Year 1	Year 2
\$12.50	\$14.86	\$17.67	\$17.67	\$42.35	\$14.00	\$14.00	\$12.50	\$12.50

10  
 11 **Q. How do you respond to Staff and Public Counsel’s arguments that PSE’s**  
 12 **customer charge calculation includes costs that are not “customer-related”?**

13 A. Public Counsel Witness Dismuke’s analysis of what he contends are  
 14 customer-related costs is flawed because it does not include many expenses that  
 15 are driven by the number of customers on the utility system. This includes  
 16 customer service and informational expenses and intangible plant. Intangible plant  
 17 includes much of the plant used by service employees to serve PSE’s customers. I

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<sup>21</sup> Watkins, Exh. GAW-1T at 31:13-15; Dismukes, Exh. DED-1T at 42:9-12; and Colton, Exh. RDC-1T at 74:16-17

1 do not agree with Public Counsel Witness Dismuke's hand-picking of only certain  
2 components of costs and assuming that no other costs incurred by the Company  
3 are driven by the number of customers on the system. In addition, WAC  
4 480-85-060 outlines the steps a utility must take to classify and allocate costs.  
5 One of those items is intangible plant, which the rules require to be separated by  
6 type. In this case, PSE analyzed material amounts of intangible plant and  
7 classified them as plant-, customer-, or labor-related, in order to determine  
8 whether certain intangible plant was customer-related or not. Despite this  
9 analysis, Public Counsel did not include the customer-related intangible costs in  
10 its customer charge calculation.

11 Staff Witness Watkins also argues that there are non-customer-related costs in the  
12 Company's calculation of monthly customer charges. Like Public Counsel, Staff  
13 Witness Watkins's analysis does not include costs that are associated with  
14 connecting and maintaining customers on the system. This has the result of  
15 artificially lowering the amount of customer costs that should be collected  
16 through the customer charge. Staff Witness Watkins's analysis also suffers from  
17 other flaws similar to Public Counsel Witness Dismukes in that the intangible  
18 plant was excluded, despite an analysis performed by the Company to determine  
19 which intangible plant was customer-related.

20 **Q. Is Public Counsel Witness Dismuke's comparison of other regional utilities'**  
21 **customer charges a reasonable means of supporting a lower customer charge**  
22 **for PSE?**

1 A. No. There are various attributes that can make different utility systems and their  
2 respective costs different such as capital asset investment and geographic  
3 disbursement of customers. Additionally, customer charge is but one aspect of a  
4 customer's bill; therefore, Witness Dismukes is providing a comparison of only  
5 one piece of the customer's total bill. From this limited comparison, it is hard to  
6 determine what the real effect a customer would experience on their total bill.  
7 Further, my direct testimony explains the reasoning behind PSE's proposed  
8 customer charges moving towards the unit cost to serve.

9 **Q. Is Public Counsel Witness Dismukes correct that higher residential customer**  
10 **charges discourage energy efficiency and conservation?** <sup>22</sup>

11 A. No. On the contrary, properly designed rates that reflect the nature of the cost  
12 being recovered will send proper price signals to consumers. It is not sound  
13 ratemaking to recover a substantial portion of fixed costs, such as  
14 customer-related costs, which bear no relationship to customer consumption  
15 patterns, in the volumetric portion of the rate structure. In addition, Witness  
16 Dismukes idea of conservation as a customer's ability to control its monthly bills  
17 is misguided.

18 **Q. What definition of conservation should be utilized in the context of setting**  
19 **rates?**

20 A. Conservation is the act of preserving, guarding, and protecting wise use. In this  
21 case, it is the wise use of PSE's gas facility resources. The issue under

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<sup>22</sup> Dismukes, Exh. DED-1T at 37:1-8.

1 consideration is much broader than simply a concept of reducing usage, where  
2 numerous principles and considerations must be made as to the correct level of  
3 fixed monthly customer charges. Certain costs of operating a gas utility are  
4 incurred regardless of the level of gas consumed; they are incurred simply to  
5 attach a customer and meet their demand requirements. Charging customers on a  
6 variable basis for these fixed costs may prompt customers to spend time and  
7 resources on reducing their bills; however, this does not reduce the costs incurred  
8 by the utility. This is not an efficient use of our resources as a society. Although  
9 the consumer spent time and resources to “save” money, it did not reduce fixed  
10 distribution costs incurred by the utility to provide service, i.e., any bill savings  
11 under a lower customer charge would exceed the actual savings of the resources  
12 used to provide service. Those costs are simply charged to other customers. This  
13 is a zero-sum game; the gain to one customer by reducing how much they pay for  
14 fixed costs is the loss of another customer that ends up paying more.

15 **Q. Do you agree with Public Counsel’s claims that increasing the customer**  
16 **charge makes it more difficult for customers to reduce their bills through**  
17 **conservation?**

18 A. No. Placing more fixed customer-related costs in customer charges can result in  
19 more conservation by customers simply because it moves the incremental price  
20 signal closer to marginal variable costs for gas service. This provides a better  
21 incentive consistent with the Bonbright principle of consumer rationing which is  
22 defined as “discouraging wasteful use and encouraging all use that is  
23 economically justified.” This means that customers will make better decisions that

1 may not result in reduced gas use but increased use where it is appropriate and  
2 efficient to do so.

3 Given a proposed revenue increase, reduced gas use may result from any increase  
4 in the total volumetric price per dekatherm above the current volumetric charge. It  
5 is also more likely that customers will respond not only to the incremental  
6 volumetric price signal but to the increase in their total gas utility bill. In that  
7 case, the increase in the customer charge will result in reduced gas use as well  
8 because the total bill has increased.

9 PSE and its customers have the same interests in conservation. Specifically, price  
10 signals should reflect the matching principle such that the dollars the customer  
11 saves through conservation measures are the same as the costs the Company, or  
12 society, saves or avoids (the matching principle of rate design). By matching rates  
13 to the Company's avoided costs, all customers are held harmless from cross-  
14 subsidy and the Company is provided a reasonable opportunity to earn its allowed  
15 return.

16 **Q. How do you respond to Public Counsel Witness Dismukes and TEP Witness**  
17 **Colton's claims that PSE's proposed residential customer charge is harmful**  
18 **to low-income customers?**

19 A. As I have previously pointed out, it is sound ratemaking to match fixed and  
20 customer costs to the customer charge to promote the appropriate price signals.

21 Also, all else equal, higher customer charges necessitate lower variable charges.

22 The collection of costs through fixed or volumetric charges is only the means of



1 collecting the revenue to cover costs for a specific customer class. The amount of  
2 total revenue does not change. Additionally, proposals such as Public Counsel  
3 Witness Dismukes's and TEP Witness Colton's can adversely affect low-income  
4 customers who have higher than average usage. Those customers will pay more  
5 under a proposal such as Witness Dismukes or Witness Colton, because more  
6 fixed customer costs are embedded in the volumetric rates. This also creates a  
7 social equity concern, as customers who can afford to reduce their usage through  
8 energy efficiency investments can decrease their bills by making such  
9 investments, while those customers who cannot afford to make energy efficiency  
10 investments will see increases in their bills. Examples of those who could  
11 possibly afford to reduce their usage include wealthier households who can  
12 undertake more expensive energy efficiency measures or through a living  
13 situation such as a single individual who can put on a sweater vs a family with  
14 infant children. Further, the continued desire to recover fixed costs in volumetric  
15 charges by various public advocates, places regressive burdens on low-income  
16 households who have to make decisions to reduce their gas usage that impacts  
17 their quality of life. While environmental advocates would prefer households stop  
18 using natural gas altogether, families still use gas for basic human needs such as  
19 keeping themselves warm and to cook and care for themselves. Lastly,  
20 considerations relating to the intersection of income and rate design would be  
21 amiss if they did not include discussions relating to PSE's low-income programs.  
22 PSE offers a continuum of low-income targeted programs, including bill discount  
23 rates, low-income home energy assistance program ("LIHEAP"), home energy

1 lifeline program (beyond LIHEAP), and weatherization assistance. There is no  
2 reason to send the wrong price signal to all customers when the impacts on low-  
3 income customers are mixed (i.e., their ability to respond to higher variable  
4 charges, the lower quality of living they may choose to respond to higher variable  
5 charges, and the fact that low-income customers that use higher than average will  
6 disproportionately be impacted by higher variable charges) and when there are  
7 robust programs in place that target bill and weatherization assistance for low-  
8 income customers.

9 **Q. Do you agree with Public Counsel Witness Dismukes' and Nucor Witness**  
10 **Higgins' contention that PSE's proposed rate increases are inconsistent with**  
11 **the principle of gradualism?**<sup>23</sup>

12 A. No. Both of these witnesses focus on a singular ratemaking principle in an attempt  
13 to discredit PSE's analysis and proposal. It should also be pointed out that  
14 gradualism is used when referring to different aspects of the ratemaking process.  
15 For instance, some may use it in the context of class revenue increases while  
16 others may look at it from the perspective of the customer's total bill. In my direct  
17 testimony, I acknowledged the principle of gradualism, among other principles  
18 commonly cited in ratemaking literature.<sup>24</sup> I also described how the principles are  
19 often in competition or tension with each other and the actions needed to address  
20 this.<sup>25</sup> This tension is why one must carefully review all aspects of the revenue

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<sup>23</sup> Dismukes, Exh. DED-1T at 28:6-8 and Higgins, Exh. KCH-1T at 26:7-9.

<sup>24</sup> Taylor, Exh. JDT-1T at 25:5-19.

<sup>25</sup> *Id.* at 26:1-21.

1 proposals and resulting rates in conjunction with all relevant ratemaking  
2 principles to determine the best and fairest outcome to all rate classes. PSE  
3 considered these various principles when it reviewed the COSS results and  
4 designed its class rates.

5 **Q. Does either Public Counsel Witness Dismukes or Nucor Witness Higgins**  
6 **acknowledge other ratemaking principles or factors when designing revenues**  
7 **and rates for customers?**

8 A. Yes. Public Counsel Witness Dismukes acknowledges several of the same factors  
9 I outlined in my direct testimony.<sup>26</sup> He also details factors that the Commission  
10 has historically considered important based on its past Orders. Public Counsel  
11 Witness Dismukes further acknowledges that the Commission seemingly relies  
12 most heavily on rate parity as a means for allocating revenues.<sup>27</sup> Without reading  
13 too much into the statement, it indicates to me that the Commission puts a good  
14 deal of weight in trying to match any given classes' revenues to their costs. The  
15 matching of a classes' revenues to that classes' costs is the most desirable  
16 outcome in setting rates because it means each class will pay the cost to serve  
17 their class. However, it is not often feasible to exactly match class revenues to the  
18 costs to serve that class due to regulatory policy and the numerous principles  
19 already discussed. PSE's proposal attempts to more closely match class revenues  
20 to class costs by moving all classes parity ratios closer to 1.00.

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<sup>26</sup> Dismukes, Exh. DED-1T at 23:11-13.

<sup>27</sup> *Id.* at 13-15.

1 Nucor Witness Higgins simply refers to gradualism as a means of supporting his  
2 COSS results and revenue allocation and does not mention other commonly used  
3 ratemaking principles.

4 **Q. Are there any other important excerpts from the Order in Docket UE-200900**  
5 **to which Public Counsel Witness Dismukes refers?**

6 A. Yes. Order 08/05 in Docket UE-200900 *et al.*, quoted the following from Staff’s  
7 witness Jordan, “While gradualism is an important principle, the residential class  
8 has been the beneficiary of substantial cross-class subsidization for a decade...”.<sup>28</sup>  
9 In the Commission discussion section, the Commission stated, “However, Staff  
10 witness Jordan presents a compelling demonstration that Avista’s residential  
11 customers have enjoyed the benefits of unreasonable cross-subsidization for  
12 nearly a decade, while Avista’s largest customers have been excessively  
13 subsidizing the other classes...”.<sup>29</sup> The point to focus on from this discussion in  
14 Order 08/05 is that the Commission has ruled and viewed gradualism as just one  
15 important principle of many. However, the principle should not just be used as a  
16 means to try and limit specific class revenue increases, as Public Counsel and  
17 Nucor attempt to argue. As I have pointed out, setting revenue increases can be a  
18 zero-sum game when trying to mitigate specific class increases. The increase that  
19 is removed from one class will be allocated to one or more other classes. That is  
20 why the Company takes an unbiased approach to holistically look at its COSS

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<sup>28</sup> *Washington Utilities and Transportation Commission v. Avista Corporation*, Dockets UE-200900, UG-200901, and UE-200894 (consolidated) Final Order 08/05, ¶ 322, (Sept. 27, 2021).

<sup>29</sup> *Id.* at ¶ 328.

1 results by class and then determine appropriate revenue targets and rates while  
2 adhering to sound principles of ratemaking. On the other hand, Public Counsel  
3 Witness Dismukes and Nucor Witness Higgins attempt to use the principle of  
4 gradualism to limit revenue increases for certain classes, even though the COSS  
5 results show those classes to be well below parity.

6 **Q. Are PSE's proposed revenues and rates gradual in the context of the COSS**  
7 **results?**

8 **A.** Yes. As I have previously explained, the Company took great care in reviewing  
9 the COSS results and coming up with a reasonable method to allocate the needed  
10 system revenues as well as designing the rates. Classes that are receiving larger  
11 increases are those that are furthest away from parity; they are not currently  
12 paying their share of the system costs. PSE considered gradualism because its  
13 recommendation does not move every single class to parity, instead, it moves  
14 them closer to parity.

15 **Q. How do you respond to AWEC Witness Kaufman's recommended rate**  
16 **design proposals for Schedules 87 and 87T?**

17 **A.** AWEC Witness Kaufman has two recommendations (1) add the storage  
18 commodity costs from the COSS to the procurement charge for Schedule 87 and  
19 (2) escalate the procurement charge for Schedule 87 proportionally to base rate  
20 increases in Rate Year 1 and Rate Year 2.<sup>30</sup> Regarding AWEC's storage  
21 commodity cost proposal, PSE recommends the Commission reject this proposal.

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<sup>30</sup> Kaufman, Exh. LDK-1T at 36:15-18.

1 Storage costs classified as commodity costs are related to the distribution system  
2 balancing function of the Jackson Prairie storage facility. PSE uses Jackson  
3 Prairie to balance its system for both sales and transportation customers. An  
4 analysis was prepared and discussed in my direct testimony that indicates 20.8  
5 percent of Jackson Prairie storage costs relate to providing system balancing.  
6 Further, the analysis presented in my direct testimony makes a modification of the  
7 2022 general rate case method to address one of AWEC's criticisms in the 2022  
8 general rate case.<sup>31</sup> Rather than taking issue with that study in this proceeding,  
9 AWEC is simply proposing to include all of the balancing function of the Jackson  
10 Prairie storage facility in the procurement charge. By including these costs in the  
11 procurement charge, only sales customers would pay for this cost while both sales  
12 and transportation customers benefit from the use of Jackson Prairie for system  
13 balancing. For this reason, the Commission should reject this proposal. PSE also  
14 recommends the Commission reject AWEC's second proposal to escalate the  
15 procurement charge for Schedule 87 proportionally to base rate increases in Rate  
16 Year 1 and Rate Year 2. Under AWEC's proposal, the procurement charge for  
17 Schedule 87 in Rate Years 1 & 2 would exceed the procurement charge indicated  
18 by the COSS. Witness Kaufman argues that the COSS study reflects test year  
19 costs so the procurement charge should increase beyond the cost of service to  
20 reflect procurement charge cost increases for Rate Year 1 and Rate Year 2. PSE's  
21 proposal is to increase the Schedule 87 procurement charge to the cost indicated  
22 by the COSS for Rate Year 1. PSE recommends the Commission accept PSE's

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<sup>31</sup> Taylor, Exh. JDT-1T at 19-20.

1 proposal as a COSS has not been performed for Rate Year 1 and Rate Year 2  
2 separately, so it's unknown if these costs for Schedule 87 are increasing or not.

3 **A. Summary of Rebuttal Rate Design Proposal**

4 **Q. Has PSE prepared an exhibit consistent with its revised base rate design**  
5 **proposals in this case?**

6 A. Yes. The rate design provided in Exh. JDT-11 Gas Rate Spread & Rate Design  
7 reflects the same customer charges<sup>32</sup> as presented in PSE's direct filing but  
8 reflects the updated gas COSS results and revenue apportionment discussed  
9 above. PSE recommends this Commission reject the customer charges proposed  
10 by Staff Witness Watkins, Public Counsel Witness Dismukes, and TEP Witness  
11 Colton for the reasons cited above.

12 **Q. Has PSE updated its gas decoupling mechanism to reflect the rates proposed**  
13 **in this rebuttal filing?**

14 A. Yes. PSE has updated the Monthly Allowed Delivery Revenue per Customer and  
15 Delivery Revenue Per Unit Rates associated with PSE's gas decoupling  
16 mechanism, which are provided in Exh. JDT-13.

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<sup>32</sup> PSE's rebuttal gas COS study indicates a lower customer charge for Schedule 88T compared to its direct testimony and COS exhibits. This is because the meter costs are recovered through Schedule 141D. However, if the Schedule 141D costs were instead included in base rates, the customer charge for Schedule 88T would be appropriate as originally proposed. Therefore, PSE proposes to maintain the customer charge at the same level as initially proposed in its direct filing.

1

**VI. CONCLUSION**

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**Q. Does that conclude your rebuttal testimony?**

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A. Yes, it does.