BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. PACIFIC POWER dba PACIFIC POWER & LIGHT COMPANY Respondent.	DOCKET NOS. UE-230172 AND UE-210852 *(Consolidated)*

TESTIMONY OF

LAUREN MCCLOY

ON BEHALF OF

NW ENERGY COALITION

September 14, 2023

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Exh. LM-1T, Response Testimony of Lauren McCloy

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Lauren C. McCloy, and I am the Policy Director for the NW Energy Coalition ("NWEC" or the "Coalition"). My business address is 811 1st Ave, Suite 305, Seattle, WA 98104.

Q. Please describe your background and experience.

A. As Policy Director for NWEC, I support and guide the Coalition's policy work in Washington, as well as Oregon, Idaho, and Montana, and also our work on regional and federal issues, including regional planning, markets, and federal infrastructure funding.

Previously, I worked as Senior Policy Advisor to Governor Jay Inslee, where I led and managed a broad range of issues in support of the Governor's energy priorities, including the Clean Energy Transformation Act, Climate Commitment Act, Environmental Justice issues, and elements of the state's response to the COVID-19 pandemic.

Prior to serving in that role, I was the Legislative Director for the Washington Utilities and Transportation Commission ("UTC", "WUTC", or "Commission"), where I served as the Commission's liaison to the state Legislature and the Governor's office, coordinated the UTC's legislative activities, and advised the Commissioners on energy policy and legislative issues. Before joining the UTC's policy staff, I worked as a Compliance Investigator in the UTC's Consumer Protection Division.

My background and first-hand experience are the basis for my expertise and qualifications to testify as an expert on the issues raised in my testimony. I completed Utility Regulation 101 training with the National Regulatory Research Institute in 2015 and Rate Spread and Rate Design training with EUCI in 2016. I have a B.A. from the University of North Carolina at Chapel Hill and an M.S. in International Development from Tulane University Law School. My CV is included as exhibit LM-2.

Q. On whose behalf are you testifying?

A. NWEC. Established in 1981, the Coalition is an alliance of over 100 environmental, civic, and human service organizations, progressive utilities, and businesses in Oregon, Washington, Idaho, Montana and British Columbia. Our mission is to advance clean, equitable, and affordable energy policies by leveraging our analytic expertise and convening a broad alliance of people and organizations. We envision the Northwest comprised of communities that benefit from a carbon-free energy system that equitably meets the needs of people and preserves the region's natural resources.

We promote the development of renewable energy, energy efficiency, consumer protection, equitable and affordable clean energy services for all consumers, and fish and wildlife restoration on the Columbia and Snake rivers. The Coalition is committed to advancing Justice, Equity, Diversity, and Inclusion and we are committed to addressing the harm that Black, Indigenous, and People of Color have endured due to the energy system, policies, and practices in the Northwest. We are mindful of the intersectional nature of race, economic

wellbeing, and geography (urban/rural), and recognize that our commitment to racial justice will help with energy justice more broadly.

Q. What is the purpose of this response testimony?

A. The principal purpose of my testimony is to oppose Pacific Power & Light Company's ("Pacific Power's" or the "Company's") proposal to eliminate its revenue decoupling mechanism. The WUTC has approved full revenue decoupling for all three electric investor-owned utilities, marking a clear transition away from a commodity-based utility business model and removing a major barrier to cost-effective energy efficiency progress in Washington.[1] The Commission approved Pacific Power's transition to full revenue decoupling in 2016, along with a 5% energy efficiency goal enhancement.[2] In December 2021, the Commission approved amendments to Pacific Power's decoupling mechanism in UE-152253.[3] My testimony supports continuing the mechanism, as amended in that docket.

Additionally, Pacific Power proposes to increase its basic charge and eliminate its tiered block rate structure in favor of a seasonal rate proposal. My

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[1] *See Schedule 75, Decoupling Mechanism – Electric*, Avista Corporation (Aug. 1, 2023), https://www.myavista.com/-/media/myavista/content-documents/our-rates-and-tariffs/wa/wa_075.pdf; *Electric Schedule 142, Revenue Decoupling Adjustment Mechanism*, Puget Sound Energy (Jan. 5, 2023), https://www.pse.com/-/media/Project/PSE/Portal/Rate-documents/Electric/elec_sch_142.pdf?sc_lang=en; *Schedule 93, Decoupling Revenue Adjustment*, Pacific Power (Sept. 1, 2023), https://www.pacificpower.net/content/dam/pcorp/documents/en/pacificpower/rates-regulation/washington/rates/093_Decoupling_Revenue_Adjustment.pdf.

[2] *See In re Pacific Power & Light Company Petition For a Rate Increase Based on a Modified Commission Basis Report, Two-Year Rate Plan, and Decoupling Mechanism*, Docket No. UE-152253, Order 12 (Sept. 1, 2016).

[3] *See* Docket No. UE-152253, Order 18 (Dec. 10, 2021).

testimony also opposes these proposals, which are contrary to the goal of supporting energy efficiency and equity.

Finally, my testimony briefly addresses Pacific Power's proposed capital expenditures for Colstrip, which NWEC opposes.

NWEC Witness Charlee Thompson separately addresses Pacific Power's Net Billing proposal. NWEC does not address and takes no position on other aspects of Pacific Power's 2023 general rate case or the consolidated docket regarding fly ash revenues at this time. NWEC will review the testimony of other parties, and, after that review, may take positions on other aspects of the Company's filing.

Q. Please summarize your testimony.

A. Following this Introduction (Section I), Section II of my testimony discusses the structure, history, and purpose of revenue decoupling. Section III of my testimony outlines the history of revenue decoupling in Washington, the background on Pacific Power's decoupling mechanism, and Pacific Power's proposal to eliminate its decoupling mechanism in this proceeding. Section IV of my testimony advocates for continuing Pacific Power's decoupling mechanism in light of the need to support efficient and affordable electrification. Section V of my testimony addresses the continued need for decoupling in light of the Commission's advancement of performance-based regulation.

Shifting to rate design issues, Section VI recommends the Commission rejects Pacific Power's proposed inclusion of transformers in the basic charge, thereby keeping the fixed monthly charge at $7.75 for all residential customers.

Section VII explains that the elimination of tiered block rates may be worth considering in a future proceeding, but replacing tiered block rates with Pacific Power's proposed seasonal rates would not provide adequate price signals to encourage efficiency.

Finally, Section VIII addresses Pacific Power's proposed capital expenditures for Colstrip, which I oppose.

II. REVENUE DECOUPLING FOR UTILITIES: STRUCTURE, HISTORY, AND PURPOSE

Q. What is revenue decoupling?

A. Revenue decoupling is a simple system of periodic true-ups in electricity rates, designed to correct for disparities between a utility's actual delivery system cost recovery and the revenue requirement approved by a utility commission. The true-ups either restore to the utility or give back to customers the revenues that are under- or over-recovered because of fluctuations in retail electricity sales.

Q. Why is decoupling needed?

A. Affordable, equitable, and reliable electricity service in a decarbonizing economy depends vitally on harnessing the full capacity of cost-effective energy efficiency and demand response (together, these measures are likely to provide half or more of the total solution in aggregate). Yet traditional state utility regulation typically has treated utilities as commodity providers whose financial health is tied directly to sustained growth in retail kilowatt-hour sales. Well-established regulatory principles accommodate a straightforward solution to this business model dilemma, as the revenue decoupling mechanism replaces rate caps with revenue caps. Absent decoupling, there exists a conflict of interest between utilities and their customers,

by guaranteeing that even the most cost-effective electricity savings inflict automatic financial penalties on utilities.

Q. How many U.S. states and utilities have instituted revenue decoupling?

A. The most recent survey results of which I am aware appears in a 2021 *Electricity Journal* article on energy efficiency and decarbonization:

> In total, 43 investor-owned electric utilities (IOUs) are now decoupled, accounting for about 36% of total revenues for the sector. They serve 41% of all IOU customers, up from a little less than 25% at the end of 2013. These decoupled electric utilities serve 42.3 million electric customers (i.e., accounts) and represent some $84.3 billion in annual revenue and 815 terawatt hours of annual demand. Over 30 publicly-owned utilities are also decoupled, including the Los Angeles Department of Water and Power and Long Island Power Authority, representing about 19% of public power customers and revenues.[4]

Q. Please summarize evidence that decoupling mechanisms are associated with improved energy efficiency results.

A. I have not conducted an exhaustive literature review, and I expect there are additional materials in support. In 2015, the American Council for an Energy Efficient Economy ("ACEEE") concluded in a nationwide assessment that utilities in states "with decoupling have much higher energy efficiency spending and savings" than those in the rest of the nation; the ratios were on the order of three to one, favoring decoupling, for both expenditures and savings.[5]

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[4] *See* Exh. LM-3 (later published as: Ralph Cavanagh, *Energy Efficiency and Decarbonization: Priorities for Regulated Utilities*, The Electricity Journal at 4 (Mar., 2021), https://www.sciencedirect.com/science/article/abs/pii/S1040619020302001).

[5] M. Molina & M. Kushler, *Policies Matter: Creating a Foundation for an Energy Efficient Utility of the Future*, ACEEE at 15-16 (June 2015),

III. THE HISTORY OF REVENUE DECOUPLING IN WASHINGTON

Q. Please describe the Commission's policy regarding decoupling.

A. In April 2010, the WUTC initiated an inquiry in Docket U-100522 into improving performance of investor-owned electric and natural gas utilities ("IOUs") in the delivery of conservation resources to customers. Specifically, the inquiry examined whether the Commission should adopt new or modified regulations, or otherwise adopt policies, to address declines in revenues due to utility-sponsored conservation or other causes of conservation. In the Commission's own words:

> This inquiry arose, in part, from debate in the 2010 legislative session over a proposal for utility recovery of lost margin related to conservation efforts, specifically decoupling mechanisms. . . During the 2010 legislative session, a number of bills were introduced to promote conservation and energy efficiency. . . . The Commission raised concerns about these provisions and suggested that it conduct a proceeding to review the issues surrounding conservation incentives in general, including decoupling, and report to the Governor and the Legislature. . . .[6] The Commission's goal in initiating the proceeding was to develop a better understanding of the balance between the recovery of a utility's lost revenue due to conservation and the benefits and costs to ratepayers.[7]

In November 2010, the Commission issued a policy statement in this docket pursuant to RCW 34.05.230(1) and WAC 480-07-920.

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https://www.aceee.org/sites/default/files/policies-matter.pdf (utilities in states with decoupling dedicated an average of 3.8 percent of revenues to energy efficiency investment and achieved annual savings equivalent to 1.4 percent of retail sales; the comparable figures for utilities in states without decoupling were 1.41 percent and 0.5 percent, respectively).

6 *In re WUTC Investigation into Energy Conservation Incentives*, Docket No. U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets at 5, ¶ 7 (Nov. 4, 2010).

7 *See id.* at 6, ⁋ 8 (internal citations omitted).

Q. What is the Commission's policy regarding full revenue decoupling for electric utilities?

A. While the Commission's policy statement deems full revenue decoupling a "close call,"[8] the Commission found that a properly designed full revenue decoupling mechanism can benefit both utilities and customers:

> [W]e believe that a properly constructed full decoupling mechanism that is intended, between general rate cases, to balance out both lost and found margin from any source can be a tool that benefits both the company and its ratepayers. By reducing the risk of volatility of revenue based on customer usage, both up and down, such a mechanism can serve to reduce risk to the company, and therefore to investors, which in turn should benefit customers by reducing a company's debt and equity costs. This reduction in costs would flow through to ratepayers in the form of rates that would be lower than they otherwise would be, as the rates would be set to reflect the assumption of more risk by ratepayers.[9]

Q. Did the Commission establish policy guidance for utility requests for full decoupling?

A. Yes. The Commission established four elements to be addressed in a utility's initial filing in a general rate case, and seven criteria for Commission approval of decoupling mechanisms.[10] The required elements are:

> 1. True-up Mechanism. Where, between general rate cases, customer use by class deviates either higher or lower from that determined by the Commission when setting rates, a utility can seek an annual true-up of revenue attributed to each affected class of customer.

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[8] The Commission expressed a lingering concern that a utility might have less incentive to operate efficiently, and this was something the WUTC intended to consider in utility-specific proceedings. *See id.* at 15-16.

[9] *Id.* at 16-17, ¶ 27 (internal citations omitted).

[10] *Id.* at 17-19, ¶ 28.

2. Impact on Rate of Return. Evidence evaluating the impact of the proposal on risk to investors and ratepayers and its effect on the utility's ROE.
3. Earnings test. A proposed earnings test to be applied at the time of the true- up.
4. Accounting for Off-System Sales and Avoided Costs. A description of the method the company intends to use to determine the financial benefits associated with off-system sales or avoided costs attributable to the utility's conservation efforts and then to net these benefits against the true-up provided in this mechanism.[11]

The criteria for Commission approval of a decoupling mechanism are:

1. Application to Customer Classes. Generally, a full decoupling proposal should cover all customer classes. However, where in the public interest and not unlawfully discriminatory or preferential, the Commission will consider a proposal that would apply to fewer than all customer classes.
2. Weather adjustment mechanism. The Commission generally would support including the effects of weather in a full decoupling proposal.
3. Incremental Conservation. Evidence describing any incremental conservation the company intends to pursue in conjunction with the mechanism.
4. Low-income. A utility proposing a full decoupling mechanism must demonstrate whether or not its conservation programs provide benefits to low-income ratepayers that are roughly comparable to other ratepayers and, if not, it must provide low-income ratepayers targeted programs aimed at achieving a level of conservation comparable to that achieved by other ratepayers, so long as such programs are feasible within cost-effectiveness standards.
5. Duration of Program. The Commission will generally approve a full decoupling mechanism for the period required to achieve its objectives or until the filing of a utility's next general rate case. Under either circumstance, the burden is upon the utility to demonstrate the continued need for the mechanism.
6. Reports. For companies authorized to implement full decoupling, the Commission may require the utility to file periodic reports so the Commission may evaluate the success and impact of the program. The reported information must be made available to representatives of customer groups, and

[11] *Id.*

other interested parties, so they too can evaluate the program and its impact on the utility and its ratepayers.

7. Other Factors Impacting the Public Interest. The criteria listed above are not intended to limit the Commission's authority to review other factors affecting its analysis of full decoupling as a regulatory tool, including whether it remains in the public interest to continue its use by a particular utility.[12]

Q. To your knowledge, has the Commission revisited this policy statement or issued new generally applicable guidance on decoupling?

A. No.

Q. Does the Commission guidance require utilities to have a decoupling mechanism?

A. No. My understanding is that Commission policy statements are non-binding. In its policy statement, the Commission clearly communicated its intent to test and improve decoupling and direct incentives for conservation:

> As stated above, the Legislature has specifically authorized policy statements as tools for agencies to state their current intentions without committing to a binding and perhaps inflexible rule. In our view, this policy statement is a more appropriate means to express our current thinking on decoupling and conservation incentive mechanisms than either a rule or a formal order in an adjudicative proceeding. A rule is too inflexible, while an adjudication does not enable us to evaluate, as we did here, the many facets of the issue of incentives to ensure that utilities acquire all achievable, cost-effective conservation and are not unduly impacted by lost margin attributable to those conservation efforts.
>
> However, within the parameters discussed above, we expect utilities to propose limited decoupling or full decoupling mechanisms in the context of a general rate case and to propose direct incentives in the context of their conservation target filings or in the case of gas utilities in the context of a general rate case. In those proceedings, we encourage the

[12] *Id*.

companies, Commission Staff, Public Counsel, and other parties to test, and help us improve, the policy we here describe and adopt.[13]

Q. Please provide some background on Pacific Power's revenue decoupling mechanism.

A. Pacific Power proposed its decoupling mechanism in an expedited rate filing on November 25, 2015 (docket UE-152253). Previously, in the Company's general rate case filing in 2014 (docket UE-140762), the Commission invited a proposal from Pacific Power to implement a decoupling mechanism similar to those implemented by Puget Sound Energy ("PSE") and Avista Corporation.[14] The Company's rationale for the proposed decoupling mechanism was to provide the Company better fixed cost recovery in light of changes in usage due to weather or energy efficiency. In that case, NWEC supported the Company's proposal.[15]

In this case, Pacific Power Witness Robert Meredith describes the mechanism as a "pilot mechanism."[16] However, the Commission, in its 2016 order, did not refer to the mechanism as a pilot. The Commission approved the mechanism for a duration of five years, subject to an evaluation at the end of the third year.

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13 *Id.* at 22-23, ¶¶ 35-36.

14 *WUTC v. Pacific Power & Light Company*, Docket No. UE-140762 et al., Order 08 at 94, ¶ 222 (Mar. 25, 2015).

15 *See* Docket No. UE-152253, NWEC Exh. RC-1T, Testimony of Ralph Cavanagh (Mar. 17, 2016).

16 RMM-1T at 38:10-21.

Q. Has Pacific Power evaluated and proposed changes to its decoupling mechanism?

A. Yes. In its 2020 General Rate Case, the Company proposed and the Commission approved some refinements to the mechanism that took effect on January 1, 2021. In August 2021, the Company filed its decoupling mechanism evaluation, which is included in this proceeding as Exhibit No. RMM-10. The evaluation made some recommendations to improve the mechanism, which NWEC did not contest, and that the Commission ultimately approved in December 2021. Even if the initial mechanism as proposed in 2015 was considered a pilot, the refinements and reauthorization in the 2020 General Rate Case are indicative that the mechanism has moved well beyond any pilot phase.

IV. THE CONTINUING PUBLIC INTEREST IN REVENUE DECOUPLING FOR PACIFIC POWER

Q. What are the rationales Pacific Power uses for their proposal to eliminate decoupling?

A. Pacific Power argues that a decoupling mechanism is unnecessary in Washington because the Company is already required to pursue all cost-effective conservation measures per I-937, and must meet biennial goals or face penalties. The Company also argues that decoupling is a disincentive for utilities to pursue electrification because electrification of transportation and heating increases sales while energy efficiency reduces sales. Lastly, the Company argues that the passage of multi-year rate plan legislation which supports performance-based regulation in Washington negates the need for decoupling.

Q. Has anything changed that might alter the Commission's 2016 and 2021 conclusions about revenue decoupling for Pacific Power?

A. No. While Washington's policy and regulatory landscape has continued to evolve since Pacific Power established its decoupling mechanism, none of the reasons cited by the Company warrant eliminating the mechanism. My testimony disputes each of Pacific Power's rationales for eliminating the mechanism.

Q. Is decoupling contrary to the goal of increasing electrification?

A. No. In fact, decoupling supports affordability in a system experiencing increased electrification by returning surplus revenues to customers. Washington's strengthened carbon reduction goals will require extensive electrification, but it would be wrong to assume that somehow this removes the need to shift utilities away from a business model linked to commodity sales, or that the value of end-use efficiency is somehow diminished as electrification increases. For example, a recent assessment of untapped energy efficiency potential in electric vehicles demonstrates the cost-effective potential to more than triple fleet average miles/kWh.[17] With revenue decoupling eliminated, Pacific Power would lose money with every efficiency upgrade in its customers' electric vehicles, or any other efficiency improvements in its service territory's buildings or industry. By contrast, Pacific Power would profit automatically from reductions in efficiency or slowdowns in the installation of cost-effective distributed generation. It is not in the public interest automatically to penalize proactive utility investment in reduced

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[17] *See* Amory B. Lovins, *Reframing Automotive Fuel Efficiency*, SAE Mobilus (Apr. 16, 2020), https://saemobilus.sae.org/content/13-01-01-0004.

customer electricity needs, or to reintroduce a utility incentive to resist progress in efficiency and distributed generation.

Q. What underpins your conviction that energy efficiency is crucial to the success of affordable decarbonization and electrification?

A. The research supporting energy efficiency's role in keeping decarbonization affordable is very clear. In a retrospective look at energy resource contributions to meeting the needs of a growing US economy since 1970, the Bipartisan Policy Center determined that energy efficiency had surpassed all other resources combined, including fossil fuels, nuclear power and renewable energy.[18] This is consistent with decades of Northwest energy efficiency progress reports by the Northwest Power and Conservation Council.[19] And forward-looking assessments are united in concluding that all these energy efficiency advances, impressive by any measure, must accelerate dramatically to achieve decarbonization. I provide five examples below:

1. According to a 2018 report from the International Energy Agency, significant investments in energy efficiency could cut global climate pollution by 7.1 Gt CO2-eq annually by 2040, delivering over 40% of the

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[18] *America's Energy Resurgence: Sustaining Success, Confronting Challenges*, Bipartisan Policy Center at VIII (2013), https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2019/03/BPC20SEPI20Energy20Report2020131-1.pdf ("[O]ver the last four decades, energy savings achieved through improvements in energy productivity have exceeded the contribution from all new supply resources in meeting America's growing energy needs.").

[19] *Energy Efficiency*, Northwest Power and Conservation Council (accessed Sept. 13, 2023), https://www.nwcouncil.org/energy/energy-topics/energy-efficiency/#:~:text=Through%20energy%20efficiency%2C%20the%20current,million%20tons%20less%20carbon%20dioxide.&text=Includes%20all%20generating%20resources.

abatement required to be in line with the Paris Agreement. These energy savings would also reduce energy bills for consumers by more than $500 billion dollars per year and cut other hazardous air pollution. Achieving this would require global efficiency spending to double from today's levels by 2025 – and then double again by 2040 – which would result in transportation energy demand remaining flat despite a doubling of miles driven, shipped, or flown by 2040; keep building energy demand flat despite a 60 percent growth in building space; and help industry halve the energy intensity of all goods produced compared to today.[20]

2. According to a 2019 report from the ACEEE, energy efficiency can slash US energy use and greenhouse gas emissions by about 50% by 2050, getting us halfway to our national climate goals. We can achieve almost all these savings, worth more than $700 billion in 2050, by dramatically scaling up government policies and [utility] programs.[21]

3. According to a 2019 report from Evolved Energy, achieving decarbonization in line with 1.5-degree warming rests on four key strategies or "pillars", including energy efficiency, with the energy intensity of the entire economy needing to drop 60% below today's level by 2050.[22]

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[20] *See Energy Efficiency 2018*, IEA (2018), https://www.iea.org/reports/energy-efficiency-2018.

[21] *See Halfway There: Energy Efficiency Can Cut Energy Use and Greenhouse Gas Emissions in Half by 2050*, ACEEE (Sept. 18, 2019), https://www.aceee.org/research-report/u1907.

[22] Exh. LM-3 at 3; *350 ppm Pathway Report for the U.S.*, Evolved Energy Research at 52-53 (May 8, 2019), https://docs.wixstatic.com/ugd/294abc_95dfdf602afe4e11a184ee65ba565e60.pdf.

4. According to Evolved Energy, energy efficiency plays a crucial role in all pathways, and *total energy demand* in 2050 is approximately 10 to 20 percent below today's level, while the population grows by more than 40 percent. Despite overall energy demand decreasing, *electricity consumption* increases in all pathways. By 2050, retail electricity sales are projected to increase by 60 to 75 percent relative to today's level. As a result, electricity's share of overall energy demand is projected to increase in a deeply decarbonized future.[23]

5. According to a 2023 report from the Lawrence Berkeley National Laboratory and the Brattle Group, by 2050, US building carbon dioxide emissions can be reduced up to 91 percent vs. 2005 levels without increasing electricity use given deployment of a broad suite of demand-side measures including energy efficiency and demand flexibility alongside full electricity decarbonization.[24]

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[23] Gabe Kwok & Ben Haley, *Exploring Pathways to Deep Decarbonization for the Portland General Electric Service Territory*, Evolved Energy Research at 31-34 (Apr. 24, 2018), https://assets.ctfassets.net/416ywc1laqmd/7tc4cXtpYgEOTM8my6rxsP/987f9f746e1bae5072204693a34c1b68/exploring-pathways-to-deep-decarbonization-PGE-service-territory__1_.pdf.

[24] Langevin et al., *Demand-side Solutions in the U.S. Building Sector Could Achieve Deep Emissions Reductions and Avoid over $100 billion dollars in power sector costs*, 6 One Earth, 1005 (Aug. 18, 2023), https://doi.org/10.1016/j.oneear.2023.07.008.

Q. What are your general conclusions regarding the role of decoupling in electrification, decarbonization, and energy equity?

A. In general, energy efficiency gains create more headroom in the electricity system to electrify vehicles and buildings, ensuring that widespread electrification can be achieved at lower cost and lower risk. Decoupling also removes a disincentive that utilities might have to invest in deeper energy efficiency retrofits and hard-to-reach market segments which may not be cost-effective in the short-term, but contribute to the achievement of climate and equity goals. These imperatives further reinforce the case for revenue decoupling, given the importance of affordability, reliability, and equity values to Washington's clean energy transition.

Q. Would eliminating revenue decoupling encourage utilities like Pacific Power to press ahead faster with substituting low-carbon electricity for polluting fuels?

A. No. Displacement of polluting fuels is speeded by substituting more efficient electric end uses, not by increasing retail electricity sales. A recent report by Lawrence Berkley National Laboratory and the Brattle Group highlights this point. The study authors found that by 2050, US building carbon dioxide ("CO2") emissions can be reduced up to 91% compared to 2005 levels without increasing electricity use given deployment of a broad suite of demand-side measures including energy efficiency alongside full electricity decarbonization.[25] The scenario which pairs aggressive demand-side measures to reduce energy use with

[25] *Id.*

early retrofits reduces emissions faster and at lower costs than scenarios that prioritize electrification and electricity decarbonization only. Critically, this study found that:

> Demand- side measures in buildings account for up to nearly half (45%) of total 2050 CO2 reductions beyond a reference case, with the remainder attributable to the decarbonization of the electricity supply. Furthermore, aggressive deployment of building efficiency and flexibility generates up to $107 billion in annual power system cost savings by 2050, offsetting more than a third of the incremental cost of full grid decarbonization.[26]

Q. What is the magnitude of the financial disincentives to energy efficiency gains that Pacific Power would avoid by maintaining decoupling?

A. To illustrate the need to maintain decoupling for Pacific Power, consider a highly conservative estimate of efficiency gains from incentives and standards equivalent to one percent of residential electricity use annually, with no contribution from the transportation sector. Without revenue decoupling, every lost kilowatt-hour of sales brings with it an automatic reduction in non-fuel cost recovery, since most of those costs are embedded in Pacific Power's volumetric electricity rates. Lost margins associated with those reduced sales would equal about $1.7 million in the first year.[27]

And the losses get much worse in the context of multi-year programs initiated under a long-term resource plan. Consider a four-year program that pursues annual savings equivalent to one percent of residential load in the initial year, with each year adding new electricity savings equivalent to the savings achieved during the previous

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[26] *Id.* at 1006.

[27] Calculated from Exhibit RMM-6 ("Proposed Rate Spread, Rate Design, and Billing Comparisons") present year residential revenues per MWh billing unit (i.e., $176,072,000 * 0.01 = $1.7 million).

year, and all savings persisting for at least four years – the period of time covered by Pacific Power's Clean Energy Implementation Plan. Using a simplified straight-line calculation based on the Company's proposed first year revenue requirement in this case, the first year impact on fixed cost recovery is about $1.7 million, followed by $3.5 million dollars in the second year (as an equal amount of savings is added), and so on: **after four years, the cumulative "lost margins" from these steady-state residential efficiency gains would be some $17.4 million**,[28] with that total continuing to escalate in succeeding years as initial electricity savings persisted (with some gradual erosion) and more savings were added. Note that the utility would absorb these losses even as customers gained from substituting less costly energy efficiency for more costly resources. Even if Pacific Power were to respond by filing more frequent rate cases, it could not recoup losses incurred in the interval between WUTC decisions, and the stream of losses would recommence as soon as each rate case order was issued. The result is a "throughput addiction" that creates a conflict of interests between utility shareholders and customers.[29]

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[28] Calculated from Exhibit RMM-6 ("Proposed Rate Spread, Rate Design, and Billing Comparisons") present year residential revenues per MWh billing unit. Lost margins of 1 percent per year compounded for four years = $17.4 million in Year 4.

[29] Ralph Cavanagh & John Howat, *Finding Common Ground Between Consumer and Environmental Advocates,* EnergyPolicy.com at 5 (May 2, 2012), https://hepg.hks.harvard.edu/files/hepg/files/cavanagh-howat-5-2-12-final.pdf.

Q. Why should the utility not be required to absorb the losses of efficiency gains when electrification provides them a greater source of revenue in the first place?

A. When utilities automatically suffer financial harms as a result of end-use efficiency gains, the result is simply a conflict of interest between customers and shareholders that impedes clean energy progress. And customers would be the losers if utilities retained excess nonfuel revenues associated with faster than anticipated electrification. Decoupling would cap utility revenues at authorized levels. For example, in 2021, the Oregon Public Utility Commission approved an all-party settlement in Portland General Electric Company's ("PGE's") General Rate Case that eliminated the utility's decoupling mechanism.[30] In 2023, PGE acknowledged that there are long-term cost and risk reduction benefits stemming from including additional quantities of energy efficiency beyond what was previously deemed cost-effective, but declined to increase the energy efficiency target in its Clean Energy Plan because, in part, energy efficiency "can have the effect of increasing the costs per unit of sales because it results in decreased total retail sales…. Other supply side resources do not decrease retail sales."[31] If this argument is sustained,

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30 *See In re Portland General Electric Company, Request for a General Rate Revision*, Oregon Public Utility Commission, Docket No. UE 394, Order No. 22-129 (Apr. 25, 2022).

31 *In re Portland General Electric Company's 2023 Clean Energy Plan and Integrated Resource Plan*, Oregon Public Utility Commission Docket No. LC 80, Portland General Electric Company's Response to Initial Comments at 20 (May 31, 2023).

customers will be harmed by the utility choosing to forego long-term cost and risk reduction benefits in favor of supply-side resources that do not decrease sales.

Q. Are these conflicts of interest limited to cost-effective energy efficiency improvements?

A. No. Adding distributed generation, such as solar photovoltaic on the customer's side of the meter, reduces retail kilowatt-hour sales and has adverse effects on nonfuel-cost recovery that are identical (per kWh of lost retail sales) to those described above.

Q. How does revenue decoupling remove these conflicts of interest?

A. Revenue decoupling makes utilities financially indifferent to retail electricity sales, by ensuring that they recover their authorized nonfuel costs (no more and no less), regardless of any disparities between electricity sales predicted in the most recent rate case and those actually experienced. Efficiency gains and distributed generation additions no longer have any effect on decoupled utilities' opportunity to recover authorized non-fuel costs, even as customers are protected from paying for utility cost recoveries in excess of unauthorized levels as electrification accelerates.

Q. Can a statutory mandate to acquire cost-effective conservation by itself eliminate a potent financial disincentive to pursue the resource?

A. No. While a statutory mandate is certainly important, its effectiveness depends on many other factors that influence utility and customer behavior, including the utility's financial interests. A mandate to save energy combined with financial disincentives to succeed means that the utility is likely to do the bare minimum,

drag its feet, pursue less effective energy efficiency programs and investments, and/or neglect to design programs that serve harder to reach populations or provide a material benefit to low-income customers.

Q. In your opinion, would revenue decoupling make it harder for Pacific Power to support and achieve transportation electrification?

A. No. On the contrary, revenue decoupling would enhance Pacific Power's investment in transportation electrification by helping to ensure that such investments benefit all customers. Utilities have long justified transportation electrification initiatives on the grounds that widespread electric vehicle ("EV") charging will put downward pressure on everyone's rates and bills, regardless of whether they own EVs. NWEC agrees. But decoupling is crucial to fulfilling that promise by automatically returning revenues in excess of authorized costs to all utility customers in the form of lower rates and bills when electricity sales grow as electrification advances. When the Company reasons: "[w]hile cost effective energy efficiency will reduce sales, electrification of transportation and heating will raise sales. Therefore, a decoupling mechanism could in theory be a disincentive for utilities to support electrification efforts[;]"[32] that in essence means that Pacific Power believes it should be permitted to keep throughput-related windfall gains that otherwise would be returned to all customers. In sum, maintaining decoupling allows Pacific Power to push rates and bills down, avoid

[32] RMM-1T at 39:19-22.

automatic penalties if vehicle efficiency improves, and earn a return on investments to accelerate transportation electrification.

V. DECOUPLING AND PERFORMANCE BASED REGULATION

Q. Pacific Power mentions docket U-210590 concerning performance-based regulation ("PBR"). Is NWEC familiar with this docket?

A. Yes, NWEC has submitted comments in Docket No. U-210590. This docket was initiated due to the passage of Senate Bill 5295 ("SB 5295"), which passed the Washington legislature in 2021 and directed the UTC to:

> [C]onduct a proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, including performance measures or goals, targets, performance incentives, and penalty mechanisms. As part of such a proceeding, the utilities and transportation commission must consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.

This PBR proceeding is still in its introductory phase. NWEC provided three sets of comments regarding the workplan for the docket, the goals and outcomes of what utility regulation should seek to achieve in Washington, how well current regulatory mechanisms facilitate achievement of these goals, and the principles for designing metrics to measure outcomes.

Q. Can you briefly summarize NWEC's past comments to the UTC related to PBR in Washington State?

A. Yes. As expressed in our comments, we think that any regulatory model should aim to give customers equitable access to energy services that are clean, affordable, reliable, and transparent. Regulated utilities should have the opportunity to earn a profit, if such services are provided with minimal environmental impacts and are advancing the best interests of customers. The traditional cost of service regulatory ("COSR") model encourages utilities to add and own capital-intensive generation, transmission, and distribution resources. In some cases, these utility investments could be better served by purchased power (e.g., market purchases), distributed energy resources (e.g., rooftop solar), and/or non-wires alternatives (e.g., targeted demand response programs). However, under a traditional COSR approach utilities forego earnings by making these types of investments, making the investments financially unattractive to the utility even if they are better for customers. The outcomes that traditional cost of service regulation facilitate are generally what is in the best interest of utilities and its shareholders or owners, which are not necessarily the outcomes that serve the best interest of customers.

Q. Is decoupling a component of PBR?

A. Yes. Decoupling mechanisms are one of a number of regulatory tools that are often used in PBR, including also: multiyear rate plans ("MYRPs"), performance metrics and scorecards, performance incentives, and penalty mechanisms. The WUTC has made progress over several decades in advancing PBR by adopting decoupling, performance metrics and scorecards, MYRPs, penalties, and most recently,

performance incentives. In the future, we hope to see the Commission continue to build on this foundation.

Q. Does PBR, as currently implemented in Washington, negate the need for decoupling?

A. No. PBR does not negate the need for decoupling for two reasons; on the contrary, decoupling facilitates and lays the foundation for other PBR mechanisms.

First, decoupling is, itself, a form of PBR because it removes an inherent incentive in COSR that is present absent decoupling. As discussed previously in my testimony, with decoupling, the throughput incentive is removed by setting an allowed revenue per customer. There is no financial incentive to maximize sales (by, for example, scaling down conservation efforts) if the utility has to refund amounts over the allowed revenue per customer. In this way, decoupling perfectly complements PBR, and is an important component of incentivizing cost control in a MYRP.

Second, the MYRP by itself does not negate the need for decoupling. Absent decoupling, the throughput incentive would still be present in a MYRP. The MYRP does not set an allowed revenue per customer, or any revenue cap for that matter. The only cap provided in the MYRP is the refund trigger in RCW 80.28.425(6), which is at 0.5% above the company's authorized rate of return ("ROR").[33] But even with a refund cap, the utility has an opportunity to earn up to

[33] RCW 80.28.425(6): If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of

0.5% over its authorized ROR, so it still has an incentive to maximize throughput in pursuit of maximizing its ROR. Further, to the extent that increased throughput is likely to push ROR over the 0.5% cap, the utility can just increase expenses to pull the ROR back down so that it can minimize refunds to customers while maximizing revenues and profit. For these reasons, it is important to maintain full revenue decoupling in a MYRP in Washington.

Q. Has NWEC previously testified on the appropriateness of decoupling in a MYRP filing?

A. Yes. On behalf of the Joint Environmental Advocates, I submitted testimony supporting PSE's proposal to continue its decoupling mechanisms in dockets UE-220066/UG-220067.[34] In that case, I noted that while the transition to PBR and the need to invest in electrification may warrant a discussion about modernizing PSE's decoupling mechanism in the future, decoupling is and will remain an important tool used in ratemaking to address the disincentive to invest in energy efficiency and conservation as utilities decarbonize.

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return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

[34] *See generally In re General Rate Case to Update Electric Base Rate to Recover Increase Electric Revenue Requirements*, Docket Nos. UE-220066 and UG-220067 *(consolidated)*, NWEC Exh. LCM-1T (July 28, 2022).

Q. Would it be appropriate for the Commission to examine the future of decoupling in Washington in docket U-210590?

A. Yes. Likewise, it would not be appropriate to eliminate Pacific Power's decoupling mechanism before the Commission issues a policy statement in docket U-210590.

VI. BASIC CHARGE

Q. Please provide a summary of Pacific Power's initial rate design proposals in this case.

A. Pacific Power proposes to increase the basic charge of single-family residential customers from $7.75 per month to $10.00. The basic charge for multi-family dwellings would remain at $7.75. Pacific Power also proposes replacing inclining tier block rates with seasonal rates. Specifically, residential energy pricing would be 1.921 cents per kwh higher in June through September than during the rest of the year.

Q. Do you support Pacific Power's proposal to increase the basic charge for single-family dwellings from $7.75 to $10.00 per month?

A. I do not, for three reasons. First, the proposed increase to the basic charge inappropriately includes the cost of transformers in the customer charge, a term I explain below. Second, the proposed increase sends a negative price signal for energy efficiency. And third, low-income customers are most negatively impacted by any increase to the customer charge.

A. Inclusion of Transformers in the Basic Charge

Q. What do you mean the basic charge inappropriately includes the cost of transformers in the customer charge?

A. The basic charge is also frequently called the "customer charge." It is called the customer charge because the costs included in the charge cover the costs of providing service to a specific customer. Unlike other costs like generation, transmission, and distribution, which are aggregated and spread amongst and within customer classes, the basic charge exists solely to recover expenditures by a utility that are needed to provide service to a singular customer. Those costs include customer service, metering, and billing. The Regulatory Assistance Project, leading experts in the field of rate design, confirm this definition of Customer Charge: "A fixed charge to consumers each billing period, typically to cover metering, meter reading and billing costs that do not vary with size or usage. Also known as a basic service charge or standing charge."[35]

Q. Do transformers fit into the categories of customer service, metering and billing?

A. They do not.

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[35] Jim Lazar, et al., *Electric Cost Allocation for a New Era: A Manual*, Regulatory Assistance Project at 259 (Jan. 2020), https://www.raponline.org/wp-content/uploads/2020/01/rap-lazar-chernick-marcus-lebel-electric-cost-allocation-new-era-2020-january.pdf.

Q. Do you agree with Pacific Power's characterization of transformers as customer-related for the purposes of the Cost of Service Study?[36]

A. No. Pacific Power notes that distribution costs are classified as demand-related or customer-related in its Cost of Service Study. The utility then makes the decision to include meters, services and transformers as customer-related for the purposes of including those costs in the customer charge.[37] However, Pacific Power also notes that transformers are indeed demand-related: "Transformers are usually set at the time of construction and are *designed to provide a sufficient level of capacity* for the needs of a small group of customers that are located close-by."[38] "Capacity" in this sense is the amount of electricity the customer, or customers, will need to operate their dwelling(s), or, simply put, their demand.

Q. Does the size of a transformer installed depend on expected demand?

A. Yes, Pacific Power notes that there are three levels of transformers that it can select from when installing a transformer: 10 KVA, 25 KVA and 50 KVA.[39] Here again, Pacific Power acknowledges that demand plays a critical role in selection of the transformer to install: "transformers are selected to ensure ample capacity is available to serve the different customers connected to them including some level of growth."[40] Critically, "level of growth" indicates a variation in the amount of usage.

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36 RMM-1T at 7:10.
37 RMM-1T at 7:10.
38 RMM-1T at 14:17-19 (emphasis added).
39 RMM-1T at 15:1-3.
40 RMM-1T at 15:1-3.

Q. Do transformers serve a singular customer?

A. Transformers can serve individual customers, and in very rural areas that is not atypical. However, in urban and suburban areas transformers almost always serve multiple customers. Roughly three single-family customers (2.9), on average, are served by a single transformer on Pacific Power's system.[41]

Q. Has the WUTC previously provided direction on the inclusion of transformers in the basic charge?

A. Yes, the WUTC has provided abundantly clear direction on the issue of transformer cost allocation:

> We determine that neither PSE's proposal to increase basic charges for residential customers, nor Staff's recommendations to add a minimum bill to basic charges and establishing seasonal rates, should be adopted. We are not persuaded on the basis of the current record that transformer costs should recovered in basic charges, or through a minimum bill. We have never approved such a proposal and continue to believe these costs are not customer-related costs as that term is generally understood. Transformer costs should be recovered as distribution charges subject to PSE's electric decoupling mechanism, which adequately protects the [utility's] recovery of its fixed costs.[42]

This comports with the Regulatory Assistance Project's advice on the issue:

> To the extent that regulation is a substitute for market forces, regulators should be careful in considering higher basic charges to recover costs that are incurred for utility infrastructure. In general, all distribution costs other than operating expenses, such as basic metering and billing, should be recovered through volumetric rates, reflecting the fact that utility distribution grids are justified

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41 RMM-1T at 13:18-19.

42 *In re General Rate Case to Increase in Base Rates to Recover Increased Electric Revenue Requirements*, Docket Nos. UE-170033 and UG-170034 (*consolidated),* Order 08 at 120 (Dec. 5, 2017).

> only where usage levels are high enough to justify grid construction. In the long run, there are no fixed costs.[43]

As such, the WUTC should not waver from its strong directive, should not allow Pacific Power to include the costs of transformers in the basic charge, and should allow the continuation of Pacific Power's decoupling mechanism to provide protection for the recovery of prudently incurred fixed costs, including demand-related distribution assets.

B. Basic Charge Impact on Energy Efficiency

Q. How does the customer charge relate to energy efficiency?

A. The importance of energy efficiency stems from the fact that not only does the resource reduce individual customer bills, it reduces overall system cost by reducing peak demands and avoiding expensive generation and transmission upgrades.[44] However, higher fixed charges, and thus lower energy charges, means customers have less incentive to reduce their electricity use because they are required to pay the higher fixed charge regardless of the amount of demand they place on the system.[45] As noted by the National Association of Regulatory Utility

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[43] Jim Lazar, Lisa Shwartz, & Riley Allen, *Pricing Do's and Dont's: Designing Retail Rates As if Efficiency Counts,* Regulatory Assistance Project at 6 (Apr. 2011), https://www.raponline.org/wp-content/uploads/2016/05/rap-lazar-pricingdosanddonts-2011-04.pdf.

[44] Brandon Baatz, *Everyone Benefits: Practices and Recommendations for Utility System Benefits of Energy Efficiency,* ACEEE (June 2015), https://www.aceee.org/research-report/u1505.

[45] *A Troubling Trend in Rate Design: Proposed Rate Alternatives to Harmful Fixed Charges*, Southern Environmental Law Center at 3 (Dec. 2015), *https://legacy.uploads.southernenvironment.org/news-feed/A_Troubling_Trend_in_Rate_Design.pdf.*

Commissioners ("NARUC"), "it may be more reasonable to lower the fixed costs and increase the volumetric rate, which would send a more efficient price signal."[46]

Q. How does Pacific Power's proposal to increase the basic charge impact energy efficiency acquisition?

A. Pacific Power's proposal to include transformers in the basic charge increases the fixed monthly charge by nearly 30%. As a result, utility customers and the utility itself may have a decreased incentive to pursue energy conservation.

Q. How would customers have a decreased incentive to pursue energy efficiency?

A. Pacific Power notes that its proposed increase to the basic charge will be accompanied by a correspondingly lower energy charges.[47] Yet, the energy charge is the only one of the two in which customers can control their costs. The fixed customer charge remains the same no matter how much energy a customer uses. Thus, if the fixed charge is high and the variable charge is low, or lower, customers will not save as much on their energy bill by choosing to either use less energy (conservation) or investing in more efficient equipment (efficiency). As a result, customers are less motivated to participate in utility efficiency programs, and less able to control their bills by reducing their usage. This could also affect customer adoption of distributed generation, with a high fixed charge extending the payback period for residential investment in solar.

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[46] *NARUC Manual on Distributed Energy Resources Rate Design and Compensation*, NARUC Staff Subcommittee on Rate Design at 118 (Nov. 2016), https://pubs.naruc.org/pub/19FDF48B-AA57-5160-DBA1-BE2E9C2F7EA0.

[47] RMM1T at 16:16-17.

Q. How would the utility have a decreased incentive to pursue energy conservation?

A. The utility would have a decreased incentive because it must prove to the Commission that its energy efficiency expenditures are cost-effective. Any cost-effectiveness calculation must consider the amount of savings a measure would achieve. As noted above, the decreased price signal in the variable energy charge will inherently lessen the desire for customers to participate. As a result, when a utility plugs in less anticipated (or realized) savings into their cost-effectiveness equation, it's possible that fewer measures or programs will have high enough savings to justify the costs.

Q. Why should the Commission be concerned about a decreased incentive to invest in energy efficiency and conservation?

A. Cost-effective energy efficiency is inherently the cheapest energy resource. It's also the most reliable, as once installed the resource is all but guaranteed to show up. Furthermore, the price of a resource that is not needed is also inherently the least volatile. And as commissions and utilities express concern about resource adequacy and the ability to meet peak load, energy efficiency and conservation is the cheapest and fastest way to ensure that reliability is maintained.

C. Low-Income Impacts

Q. How does Pacific Power's proposed increase to the basic charge relate to issues concerning low-income customers?

A. Higher fixed charges disproportionately impact low-income customers because in many jurisdictions, they tend to have lower than average energy use.[48] This is consistent with Table 4 in company witness Meredith's initial testimony, showing that a greater percentage of lower-income customers use fall into the 0-600 kwh usage block and a smaller percentage fall in the over-1200kwh block.[49] High fixed charges increase total costs for lower energy users while decreasing costs for high energy users. As a result, the higher fixed charge means that low-income customers will see an increased energy burden (percentage of income spent on energy bills) and a decrease in the ability to spend dollars in other parts of the economy.

The impact to low-income customers is compounded when taking into consideration that weatherization and efficiency efforts will have a significantly lower benefit due to the requirement to pay the higher fixed customer charge regardless of energy usage. For these reasons, 33 groups representing consumer,

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[48] *See* Low Income Home Energy Data for Fiscal Year 2017, U.S. Department of Health and Human Services at 3 (Oct. 2018), https://www.acf.hhs.gov/sites/default/files/documents/ocs/RPT_LIHEAP_HEN01HEData_FY2017_0.pdf (showing that non-low income households use, on average, 64.1 MMBTU of electricity per year, while low-income households use 50.4 MMBTU, and LIHEAP recipients using 53.7 MMBTU). *See also* Mark Lebel et al., *Smart Rate Design for Distributed Energy Resources,* Regulatory Assistance Project at 50 (Nov. 2021), https://www.raponline.org/wp-content/uploads/2021/11/rap-lebel-shipley-linvill-kadoch-smart-rate-design-distributed-energy-resources-2021-november.pdf.

[49] *See* RMM-1T at Table 4; *see also* RMM 1-T at 22:11-12 ("It is true that overall average monthly usage tends to increase with income.").

low-income, environmental, and technology-specific advocates signed a letter to NARUC stating, "We are also concerned that imposing increased fixed charges…may stifle development of nascent technology, discourage innovation, reduce customer control over electricity costs and disproportionately harm low-use and low-income users."[50]

Q. Would an increase to the revenue requirement without changes in rate design also hurt low-income customers?

A. Yes. Any increase in costs passed onto customers without a meaningful increase in weatherization, bill discount, and bill assistance will disproportionately impact low-income customers. That impact is compounded with rate design changes that require lower energy users to pay a higher share of the total costs.

VII. INCLINING BLOCK RATES

Q. What are the rationales Pacific Power uses for their proposal to eliminate the inclining block rate structure in favor of seasonal rates?

A. Pacific Power cites a lack of economic rationale, a perverse incentive to switch to natural gas, a disincentive to invest in transportation electrification, and low-income impacts as its justifications for eliminating the tiered block rate structure.[51]

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[50] *Letter to NARUC President Kavulla*, Environmental Defense Fund at 2 (June 23, 2016), https://blogs.edf.org/energyexchange/files/2016/06/Good-Rate-Design-Process-Letter-to-NARUC.pdf.

[51] *See* RMM-1T at 21-23.

Q. Do you agree that there is no economic rationale supporting inclining block rates?

A. No. Pacific Power states, "there is nothing special about additional overall usage in a monthly billing period that makes it more expensive for the utility to produce that next kilowatt hour of electricity."[52] Yet, Pacific Power acknowledges that peak power prices are volatile, dependent on weather (i.e. fluctuating demand to meet variable heating and cooling needs), and more expensive than off peak prices.[53] It is well known that spot market prices increase during times of peak demand, especially during the height of summer and winter. Generation costs also increase for utilities that utilize natural gas peakers, as the limited supply of the commodity drives up input costs. Inclining block rates, by sending a signal that increased energy usage in the aggregate for the month will be more expensive, inherently reduces usage at any particular moment as well for it is the sum of these moments that leads to the aggregate.

Q. Do you agree that inverted block rates create a perverse incentive to switch to natural gas?

A. No. Switching to natural gas requires significant upfront capital which far outweighs the costs of block rates. I do agree that block rates may compound the difficulty in making the upfront capital investments to switch *away* from natural

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[52] RMM-1T at 21:7-9.

[53] *See* RMM-1T at 34-35. *See also,* PacifiCorp 2023 Integrated Resource Plan, Volume 1 at 44-45 (Mar. 31, 2023), https://www.PacificPower.com/content/dam/pcorp/documents/en/Pacific Power/energy/integrated-resource-plan/2023-irp/2023_IRP_Volume_I.pdf.

gas but the fact remains that tiered block rates send a strong efficiency signal that must be replicated in any new rate design structure in order to keep costs low for all customers.

Q. Do you agree that tiered block rates provide a disincentive to invest in transportation electrification?

A. I agree that there is a fair amount of logic in that statement. Both transportation and building electrification inherently mean that customers will use more electricity, and the costs of doing so may be increased by tiered rates. This is consistent with cost causation principles. Conversely, electricity costs and rates will also be higher if there are not strong signals for customers to be mindful of their energy usage. Furthermore, the decision to purchase an electric vehicle depends much more on other factors, such as the cost savings of electricity compared to gasoline prices.

Q. Do you agree that tiered block rates negatively impact low-income customers?

A. No, and especially not in comparison to Pacific Power's proposed seasonal rates replacement structure. According to Pacific Power's figures in Table 4 of company Witness Meredith's testimony, the average customer with income below $60,000 uses 1,129 kwh per month on average. At the current rate structure, the variable charge for the average customer in this income range is $108.89 per month.[54] In rate year two of Pacific Power's proposal, that same customer would have a bill

[54] (600kwh X .08276) + (529kwh X .11198)

including a variable charge of no less than $123.71.[55] In the months of June-September, the variable charge would rise to $145.40.[56]

Q. What are your overall thoughts of Pacific Power's proposal to replace the tiered block rate structure with seasonal rates?

A. Given our desire to electrify the energy system, we may indeed be approaching the time when simply designed tiered block rates are not justified. However, the replacement structure cannot lead to elimination of the gains we have made in energy efficiency and conservation through rate design. The replacement structure must continue to send a strong price signal to encourage reduced overall usage as well as usage during times of low demand where possible. I don't believe Pacific Power's proposal in this case meets that need.

Q. How does Pacific Power's seasonal rates proposal not send the proper price signal to reduce and shift load?

A. Pacific Power's proposal to charge a higher rate in the months of June-September is merely an acknowledgement that the cost to serve customers are higher during those months due to increased market prices. That may be true, but a flat customer charge during those months does not send any signal to reduce or shift load during those months or hours. It merely forces customers to pay more, even if they are using less.

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[55] 1,129kwh X .10958
[56] 1,129kwh X .12879

Q. What is your recommendation regarding Pacific Power's rate design proposals.

A. I recommend the Commission reject Pacific Power's proposal to increase the basic charge from $7.75 to $10.00 for single-family residential customers. Similarly, I recommend the Commission reject Pacific Power's proposal to eliminate the tier block rate structure in favor of seasonal rates. While I am open to considering the eventual elimination of the tiered rate structure, I believe that a well-designed time-of-use rate, by sending price signals to reduce energy use and shift the time of energy usage, likely provides better outcomes for Pacific Power and its customers. The Commission should direct Pacific Power to complete its time-of-use pilot, and using the data from the pilot, make a proposal to implement time-of-use rates across its service territory in its next general rate filing.

VIII. COLSTRIP

Q. What is your recommendation regarding Pacific Power's proposed Colstrip capital expenditures in this case?

A. All expenditures which are not associated with decommissioning and remediation of the plant should not be included in rates in this proceeding. Under the Clean Energy Transformation Act ("CETA"), Pacific Power must remove all coal-fired power from customer rates by the end of 2025. This means that planned expenditures made during the rate plan for Colstrip Unit 4 will be no longer used and useful by the end of the rate plan. For proposed expenditures which are not part of an approved budget, the Commission should preemptively disallow these investments to provide certainty to customers and the company.

I specifically recommend that the following capital expenditures be disallowed. Given that these projects are clearly meant to extend the life of the plant and are not associated with decommissioning and remediation, the costs should not be included in rates to Pacific Power customers:

- Dry Ash Waste Disposal System (July 2022)
- Colstrip Unit 4 Overhaul Capital (Dec. 2024)
- Colstrip Condenser Tube Replacement (Aug. 2024)
- Colstrip Unit 4 Final Superheat Section Replacement (Aug. 2024)

Furthermore, there is no guarantee—and indeed, it seems unlikely—that Colstrip will be operational in 2024. It would not be prudent, therefore, to include these costs in the revenue requirement given their unlikely implementation.

Q. Why is it important for the Commission to disallow these expenditures?

A. Sending the message that Washington customers will no longer foot the bill for life- extending investments at Colstrip is not only consistent with the intent of CETA, but it will also provide necessary certainty to the owners, and protect Washington customers from further entanglement in complex legal fights between the Colstrip owners. NWEC and other stakeholders have previously asked the Commission to act preemptively to protect customers from sinking more money into the continued operation of this plant.[57] Although the Commission has so far declined to do so, it's not fair to customers to keep kicking this can down the road. In my view, the policy, market conditions, and common sense weigh in favor of disallowance of any life-extending investments. We urge the Commission to disallow these costs for recovery in rates.

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[57] *See* Docket UE-210241: Request to Initiate Investigation on behalf of NGOs.

IX. CONCLUSION

Q. Please summarize your testimony.

A. On decoupling, my testimony summarized the structure, history, and purpose of revenue decoupling and the history of revenue decoupling in Washington. I reviewed the background on Pacific Power's decoupling mechanism, and Pacific Power's proposal to eliminate its decoupling mechanism in this proceeding. I advocate for continuing Pacific Power's decoupling mechanism in light of the need to support efficient and affordable electrification, to eliminate the throughput incentive, and to align financial incentives to the Company with public policy goals supporting decarbonization and advancement of performance-based regulation. With regard to rate design, my testimony recommends the Commission reject the inclusion of transformers in the basic charge, thereby keeping the fixed monthly charge at $7.75 for all residential customers. I also explain that the elimination of tiered block rates may be worth considering in the future, but Pacific Power's proposal of seasonal rates does not provide adequate price signals to encourage efficiency. My testimony therefore recommends rejecting Pacific Power's replacement of tiered block rates with seasonal rates and instead requiring Pacific Power to complete its time-of-use pilot and make a new time-of-use proposal in its next general rate filing.

Q. Does this conclude your testimony?

A. Yes.