

**EXH. KCH-9T
DOCKETS UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: KEVIN C. HIGGINS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket UE-240004
Docket UG-240005**

**CROSS-ANSWERING TESTIMONY OF
KEVIN C. HIGGINS
ON BEHALF OF NUCOR STEEL SEATTLE, INC.**

September 18, 2024

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1 **CROSS-ANSWERING TESTIMONY OF KEVIN C. HIGGINS**

2
3 **I. INTRODUCTION**

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

5 A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite
6 1200, Salt Lake City, Utah, 84111.

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

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private
9 consulting firm specializing in economic and policy analysis applicable to energy
10 production, transportation, and consumption.

11 **Q. Are you the same Kevin C. Higgins who provided pre-filed Response Testimony**
12 **on behalf of Nucor Steel Seattle, Inc. (“Nucor”)?**

13 A. Yes, I am.

14
15 **II. SUMMARY & RECOMMENDATIONS**

16 **Q. What is the purpose of your cross-answering testimony?**

17 A. My testimony addresses the response testimony of Alliance for Western Energy
18 Consumers (“AWEC”) witness Lance D. Kaufman, Staff witness Glenn A. Watkins,
19 and Public Counsel witness David E. Dismukes on the subjects of cost allocation and
20 revenue allocation pertaining to PSE’s gas operations.

21 **Q. Please summarize your conclusions and recommendations.**

22 A. I offer the following recommendations:

- 23 • AWEC witness Kaufman recommends directly assigning the cost of distribution
24 mains associated with Schedules 87/87T customers served by 4-inch and greater

1 mains, rather than allocating mains costs to Schedules 87/87T using the peak and
2 average allocator.¹ I agree with Dr. Kaufman that Schedules 87 and 87T should be
3 excluded from the allocation of mains that do not serve the class, although we utilize
4 different approaches to effectuate our recommendations. I believe that a more
5 granular approach such as that recommended by Dr. Kaufman is a reasonable
6 alternative for the Commission's consideration.

7 • Staff witness Watkins concludes that the results of PSE's gas cost of service study
8 ("COSS") are reasonable across all classes,² and Public Counsel witness Dismukes
9 does not address the gas COSS. As I explained in my response testimony, PSE's
10 approach to allocating distribution mains violates the principles of cost causation.³ I
11 continue to recommend modifications to PSE's gas class COSS in order to reasonably
12 reflect cost incurrence.

13 • AWEC witness Kaufman recommends that Schedules 87/87T receive 25 percent of
14 the system average increase based on the results of Dr. Kaufman's recommended
15 COSS.⁴ Public Counsel witness Dismukes recommends that Schedules 87/87T
16 receive 125 percent of the system average increase, based on Dr. Dismukes'
17 recommended rate increase limitation for any class.⁵ Staff witness Watkins

¹ Response Testimony of Dr. Lance D. Kaufman on Behalf of Alliance of Western Energy Consumers, AWEC Exh. LDK-1T at 27-30.

² Testimony of Glenn A. Watkins on Behalf of Staff of Washington Utilities and Transportation Commission, Staff Exh. GAW-1T at 25.

³ Response Testimony of Kevin C. Higgins on Behalf of Nucor Steel Seattle, Inc., Nucor Exh. KCH-1T at 4-11.

⁴ AWEC Exh. LDK-1T at 33.

⁵ Response Testimony of David E. Dismukes, Ph.D. on Behalf of the Washington State Office of the Attorney General Public Counsel Unit, PC Exhs. DED-1T at 29 & DED-8.

1 conceptually supports PSE's proposed revenue allocation,⁶ which applies 150 percent
2 of the system average increase to Schedules 87/87T. In my response testimony, I
3 recommended that Schedules 87/87T receive 110 percent of the system average
4 increase,⁷ which I continue to believe is a reasonable upper limit for the class based
5 on the results of my COSS. A lower increase for the class could also be reasonable if
6 the Commission adopts AWEC witness Dr. Kaufman's cost allocation
7 recommendations.

8 • AWEC witness Dr. Kaufman⁸ and Public Counsel witness Dr. Dismukes⁹ both
9 recommend a greater revenue allocation to Schedule 88T (Exclusive Interruptible)
10 than proposed by PSE. As I demonstrated in my response testimony, PSE under-
11 assigns costs to Schedule 88T.¹⁰ I agree with Dr. Kaufman and Dr. Dismukes that a
12 greater revenue allocation to that class than proposed by PSE is warranted.

13

14 **III. RESPONSE REGARDING CLASS COST ALLOCATION**

15 **Q. What does AWEC witness Kaufman recommend regarding the determination of**
16 **the distribution mains-related costs for Schedules 87 and 87T?**

17 A. Dr. Kaufman recommends directly assigning the cost of distribution mains associated
18 with Schedules 87 and 87T customers served by 4-inch and greater mains, rather than
19 allocating mains costs to Schedules 87/87T using the peak and average allocator.¹¹

⁶ Staff Exh. GAW-1T at 27-28.

⁷ Nucor Exh. KCH-1T at 24-25

⁸ AWEC Exh. LDK-1T at 33-36.

⁹ PC Exh. DED-8.

¹⁰ Nucor Exh. KCH-1T at 15-19.

¹¹ AWEC Exh. LDK-1T at 27-30.

1 Based on my review of Dr. Kaufman's testimony and workpapers, it appears that Dr.
2 Kaufman utilized diagrams from PSE's geospatial information system to estimate the
3 feet of piping greater than 4 inches connecting individual Schedule 87/87T customers
4 to the nearest gate or limit station.¹² He then applied PSE's replacement cost per foot
5 for 4-inch, 6-inch, and 8-inch mains to calculate the proportion of total distribution
6 mains costs to assign to the Schedule 87/87T class. Dr. Kaufman then allocated to
7 Schedule 87/87T a share of distribution mains over 8-inches based on the peak and
8 average allocator.

9 **Q. What is the impact of Dr. Kaufman's recommendation on the cost-of-service**
10 **results for Schedules 87/87T?**

11 A. Dr. Kaufman indicates that his recommendation increases Schedule 87/87T's parity
12 ratio from 0.57 to 1.47.¹³

13 **Q. What is your response to Dr. Kaufman's recommendation?**

14 A. I agree with Dr. Kaufman that Schedules 87 and 87T should be excluded from the
15 allocation of mains that do not serve the class. In my response testimony, I
16 recommended that Schedules 85, 85T, 86, 86T, 87, and 87T be excluded from the
17 allocation of small mains (less than 2 inches) and that 87 and 87T also be excluded
18 from the allocation of medium mains (2-3 inches), consistent with past practice and
19 cost causation principles.¹⁴ I utilized the same mains cost allocation approach as PSE
20 used prior to the last general rate case by calculating a weighted peak and average

¹² See AWEC Exh. LDK-3.

¹³ AWEC Exh. LDK-1T at 30.

¹⁴ Nucor Exh. KCH-1T at 9-10.

1 allocator that allocates each mains size category among the subset of classes that
2 utilize each size main.

3 I continue to believe that my recommended approach is reasonable. However,
4 a more granular approach such as that recommended by Dr. Kaufman could be a
5 reasonable alternative for the Commission's consideration. In either case, Schedules
6 87 and 87T should be excluded from the allocation of costs associated with mains that
7 the class does not utilize.

8 **Q. Did Staff or Public Counsel provide a critique of PSE's gas COSS?**

9 A. No. Staff witness Watkins concludes that the end results of PSE's gas COSS are
10 reasonable across all classes,¹⁵ and Public Counsel witness Dismukes does not
11 address the gas COSS.

12 **Q. What is your response to Staff witness Watkins' assessment that the results of
13 PSE's gas COSS are reasonable across all classes?**

14 A. As discussed above, I disagree that PSE's COSS is reasonable with respect to its
15 allocation of the cost of distribution mains. PSE's mains cost allocation approach
16 results in a dramatic and unwarranted cost shift to Schedules 87/87T compared to the
17 established method used in the 2019 general rate case and prior cases. PSE's COSS
18 also under-assigns costs to Schedule 88T for the distribution plant that serves Puget
19 LNG. I recommend corrections to PSE's COSS to properly allocate costs to Schedule
20 88T, as detailed in my response testimony.¹⁶

¹⁵ Staff Exh. GAW-1T at 25.

¹⁶ Nucor Exh. KCH-1T at 15-19.

1 **IV. RESPONSE REGARDING REVENUE ALLOCATION**

2 **Q. What do other parties recommend regarding the revenue allocation to Schedules**
3 **87/87T?**

4 A. AWEC witness Kaufman recommends that Schedules 87/87T receive 25 percent of
5 the system average increase based on the results of AWEC’s recommended COSS.¹⁷
6 Public Counsel witness Dismukes recommends that Schedules 87/87T receive 125
7 percent of the system average increase, based on Public Counsel’s recommended rate
8 increase limitation for any class.¹⁸ Staff witness Watkins conceptually supports
9 PSE’s proposed revenue allocation,¹⁹ which applies 150 percent of the system
10 average increase to Schedules 87/87T.

11 **Q. What is your response regarding the appropriate revenue allocation to**
12 **Schedules 87/87T?**

13 A. In my response testimony, I recommended that Schedules 87/87T receive 110 percent
14 of the system average increase. Under my recommended COSS, the current parity
15 ratio for Schedules 87/87T is 0.91, which is within a similar range as to the current
16 parity ratios for Schedules 41/41T and 85/85T. I applied 110 percent of the system
17 average increase for this grouping of classes.²⁰ I continue to believe that 110 percent
18 of the system average increase is a reasonable upper limit for Schedules 87/87T based
19 on the results of my COSS. A lower increase for the class could also be reasonable if
20 the Commission adopts AWEC witness Kaufman’s cost allocation recommendations.

¹⁷ AWEC Exh. LDK-1T at 33.

¹⁸ PC Exhs. DED-1T at 29 & DED-8.

¹⁹ Staff Exh. GAW-1T at 27-28.

²⁰ Nucor Exh. KCH-1T at 24-25.

1 **Q. Did other parties provide recommendations regarding the revenue allocation to**
2 **Schedule 88T?**

3 A. Yes. AWEC witness Kaufman²¹ and Public Counsel witness Dismukes²² both
4 recommend a greater revenue allocation to Schedule 88T than proposed by PSE. Dr.
5 Kaufman argues that PSE did not allocate costs to Schedule 88T for preexisting
6 distribution pipe serving PSE's affiliate, Puget LNG.²³ He also notes that Schedule
7 88T therms are projected to increase over Rate Years 1 and 2 and argues that
8 Schedule 88T's costs should grow as well. Dr. Kaufman recommends that Schedule
9 88T receive 75 percent of the system average increase.²⁴

10 Dr. Dismukes recommends that Schedule 88T rates be held constant, rather
11 than decreased as PSE proposed.²⁵ My understanding is that current Schedule 88T
12 revenues in PSE's filing are calculated at Schedule 87T rates.

13 **Q. What is your response regarding the revenue allocation to Schedule 88T?**

14 A. I agree with Dr. Kaufman and Dr. Dismukes that a greater revenue allocation to
15 Schedule 88T is warranted. As I explained in my response testimony, PSE's COSS
16 significantly under-assigns costs to Schedule 88T. I incorporated corrections to the
17 net plant assignment to Schedule 88T in the COSS, which increase the costs allocated
18 to Schedule 88T from \$516,784, as calculated by PSE, to \$1,339,325.²⁶ This
19 calculation might require further adjustments to reflect the approved Rate Years 1

²¹ AWEC Exh. LDK-1T at 33-36.

²² PC Exh. DED-1T at 29.

²³ AWEC Exh. LDK-1T at 34.

²⁴ *Id.* at 33-36.

²⁵ PC Exh. DED-1T at 29.

²⁶ Nucor Exh. KCH-1T at 16.

1 and 2 revenue requirements and to precisely to reflect the assignment of depreciation
2 expense and accumulated deferred income tax.²⁷

3 Furthermore, based on a diagram provided in Dr. Kaufman's Response
4 Testimony, it appears that there are mains serving the Tacoma LNG Facility in
5 addition to the distribution upgrades that are directly assigned to Schedule 88T.²⁸ I
6 recommend that Schedule 88T be included in the allocation of any mains that deliver
7 gas to the LNG Facility in addition to the directly assigned mains. If Schedule 88T is
8 included in the allocation of such mains using the peak and average allocator (or any
9 other costs whose allocators include a volumetric component), then it would be
10 appropriate to recognize that Schedule 88T's allocated cost responsibility will
11 increase over Rate Years 1 and 2 as its load is projected to grow. It is critical that
12 Schedule 88T rates be set no lower than its full cost of service to prevent an
13 inequitable cost shift from PSE's affiliate, Puget LNG, to its core customers.

14 **Q. Does this conclude your cross-answering testimony?**

15 A. Yes, it does.

²⁷ *Id.* at 15-19.

²⁸ AWEC Exh. LDK-1T at 25 & 29.