BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PUGET SOUND ENERGY, Request for a General Rate Revision	Docket Nos. UE-240004/UG-240005

CROSS-ANSWERING TESTIMONY AND EXHIBITS OF

JAIME MCGOVERN

ON BEHALF OF

WALMART INC.

SEPTEMBER 18, 2024

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<u>Exhibits</u>

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I. Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Jaime McGovern. My business address is 2608 SE J Street, Bentonville, AR 72716-0550. I am employed by Walmart Inc. ("Walmart") as Senior Manager, Utility Partnerships - Regulatory.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Walmart.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I earned a Bachelor of Arts in economics and mathematics from Arizona State University, and subsequently, a Master of Science and a PhD in economics at Arizona State University. I was a utility analyst at the Oregon Public Utility Commission from 2006-2008, and Assistant Professor of Economics at SUNY from 2008-2010. I held the role of Senior Economist and Policy Analyst at the Citizen's Utility Board of Oregon from 2013-2018 and at The Utility Reform Network of California from 2023-2024. At the Oregon Legislature, I was a Revenue Economist with areas of expertise including energy, natural resources, forestry, property, and telecommunications from 2017-2023.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION ("THE COMMISSION")?

A. No, I have not.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have submitted testimony with Oregon Public Utility Commission and the California Public Utility Commission in the cases listed under "Commission Dockets" in Walmart/101.

Q. ARE YOU SPONSORING EXHIBITS IN YOUR TESTIMONY?

A. Yes. I am sponsoring the Exhibits listed in the Table of Contents.

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN WASHINGTON.

A. As shown on Walmart's website, Walmart operates 64 retail units, two distribution centers, and employs over 23,000 associates in Washington.[1] In fiscal year ending 2024, Walmart purchased $2.7 billion worth of goods and services from Washington-based suppliers, supporting over 34,000 supplier jobs.[2]

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE SERVICE TERRITORY FOR PUGET SOUND ENERGY ("PSE" OR "THE COMPANY").

A. Walmart is a large customer of PSE with 19 retail facilities and other related facilities that take electric service primarily on the Company's Large Demand General Service (“Schedule 26”), General Service (“Schedule 24”) and Small

[1] https://corporate.walmart.com/about/location-facts/united-states/washington
[2] *Id.*

Demand General Service ("Schedule 25") rate schedules. Additionally, Walmart operates 31 locations on the Schedule 31 and 41 gas schedules.

Q. DOES WALMART ENGAGE REGULARLY WITH THE COMPANY'S KEY ACCOUNT MANAGEMENT TEAM?

A. Yes. Walmart appreciates the Company's ongoing commitment to engaging with all its customers through continuous evaluation of their relationship and adapting processes as technology and customer needs evolve. In particular, Walmart values the Company's key account program and supports the efforts of this team. Walmart highlights this in its testimony to inform the Commission of the valuable service provided by the Company's key account management team and the importance of continued support for the Company's business customers through that channel.

II. Purpose of Testimony and Summary of Recommendations

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the testimonies of: (i) Staff, which recommends the disallowance of the three new trackers; (ii) AWEC and Public Counsel,[3] which adjust the Company's capital structure and return on equity ("ROE"); and (iii) Fred Meyer, which discusses the Company's cost of service study ("COSS") and rate design.

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[3] Response Testimony of J. Randall Woolridge Exhibit JRW-1CT and JRW-9.

Q. IN SETTING THE REVENUE REQUIREMENT AND ROE FOR THE COMPANY, SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE ASSOCIATED RATE INCREASE ON BUSINESS CUSTOMERS?

A. Yes. Business customers are directly affected by the rates set by the Commission. Walmart is aware of the thorough consideration that the Commission deploys in the general rate case ("GRC") process and appreciates the ability to inform that decision process. Electricity and gas costs are significant operating costs for retailers such as Walmart. When rates increase, the increased cost to retailers can put upward pressure on consumer prices. The impact to customers of the requested revenue requirement and ROE, in addition to all other facets of this case, can be sizeable. Walmart appreciates that the Commission must balance the opportunity of the Company to earn a reasonable rate of return on its prudently incurred investments, while ensuring safe, adequate, and reliable service to its customers.

Q. PLEASE SUMMARIZE WALMART'S RECOMMENDATIONS TO THE COMMISSION.

A. Walmart's recommendations to the Commission are as follows:

(1) Walmart recommends that the Commission reject the Company's proposed new trackers and adopt Staff's approach to developing consistent policy regarding cost recovery mechanisms and allow the Company to pursue prudently incurred costs through GRC approval of base rates. If the Commission decides to approve some of the revenue associated with the Company's proposed new trackers, Walmart recommends the Commission consider ROE according to the reduced shareholder risk this introduces. In

addition, Walmart recommends that if the Commission approves the use of some trackers, the tracker recovery should be subject to a band and an overall earnings test.

(2) Walmart supports AWEC's recommendation of a 49 percent equity portion,[4] and rejects the Company's proposal to use a hypothetical equity portion of 50 percent and 51 percent in the first and second years of the multiyear rate plan respectively, which doesn't align with the Company's debt/equity structure, historical or anticipated.[5]

(3) Walmart supports a lower ROE than the Company's requested 9.95 percent and 10.5 percent for 2025 and 2026 respectively. Both Public Counsel and AWEC,[6] reject the Company's request to increase the authorized ROE by 55 basis points annually.[7] Walmart recommends no increase in the Company's authorized ROE based on the following:

(a) The customer impact of ROE on the resulting revenue requirement.

(b) The Company's currently approved ROE of 9.4 percent, and

(c) Recent ROEs approved in Washington and other jurisdictions nationwide, which do not support the Company's requested ROE.

(d) The Company's proposed expanded use of trackers.

(4) The Commission should approve Fred Meyer's rate design proposal for Schedule 26 at the Company's proposed revenue requirement. However, if

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[4] *See,* AWEC Exhibit LDK-1T pg. 37
[5] *See,* PSE Exh. CGP-1CT
[6] *See,* AWEC Exhibit LDK-1T line 10
[7] *See,* PSE Exh. CGP-1CT

the Commission approves a lower revenue requirement for Schedule 26 than that proposed by the Company, the Commission should first start with Fred Meyer's proposed base rate charges and apply the revenue requirement reduction to the energy charge only.

Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION ADVOCATED BY THE COMPANY INDICATE WALMART'S SUPPORT?

A. No. The fact that an issue is not addressed herein or in related filings should not be construed as an endorsement of, agreement with, or consent to any filed position.

II. Rejection of Tracker Expansion

Q. DOES WALMART AGREE WITH STAFF'S RECOMMENDATION THAT THE THREE NEW TRACKERS[8] PROPOSED BY THE COMPANY SHOULD BE REJECTED?

A. Yes. Walmart supports Staff's proposal to develop a consistent policy driven approach to the treatment of automatic revenue mechanisms or 'trackers'. The Staff recommendation prioritizes transparency for the Commission, and equity for the Company, stakeholders and customers alike. As Staff discusses, regarding the Company's proposed Clean Generation Resource Tracker, the Wildfire Prevention Plan Tracker and the Decarbonization Rate Adjustment Tracker, these trackers shift risk onto customers, and create administrative burden for the Commission and

[8] *See,* Schedule 141CGR, 141WFP, 141DCARB

Staff. This means that for costs recovered in trackers, the Company does not have to operate within its approved base rates and is not subject to an earnings test. So, if the Company reduces costs in other areas, but the items within the tracker are costlier than expected, the customers only see the downside of this mechanism because specific to tracker activities, the Company will collect additional costs in the tracker specific schedules. Trackers also mean that in between rate cases, staff and stakeholders must examine prudence and compliance with the tracker structure. In addition, as wildfire and vegetation management become more central issues, clarity on what is classified as maintenance versus wildfire prevention is key to determining what belongs in a tracker if one exists. Otherwise, customers absorb risk by paying dollar-for-dollar on activities that are standard to supply safe and affordable gas and electric service.

Walmart also concurs with Staff[9] that as the proportion of a company's business is increasingly collected through trackers, ROE calculations should reflect the reduced risk.

Q. WHAT IS WALMART'S RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?

A. Walmart recommends that the Commission reject the Company's proposed new trackers and adopt Staff's approach to developing consistent policy regarding cost recovery mechanisms and allow the Company to pursue prudently incurred costs

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[9] *See,* Exh. CRM-1T pg. 66

through GRC approval of base rates. If the Commission decides to approve some of the revenue associated with the Company's proposed new trackers, Walmart recommends the Commission consider ROE according to the reduced shareholder risk this introduces. In addition, Walmart recommends that if the Commission approves the use of some trackers, the tracker recovery be subject to a band and an overall earnings test.

III. Revenue Requirement and ROE

(A) Revenue Requirement and Requested ROE

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE REQUIREMENT INCREASE IN THIS DOCKET?

A. My understanding is that the Company is requesting a multi-year revenue requirement increase of $388.2 million and $310.6 million for 2025 and 2026 respectively,[10] with the proposed revenue requirement being approximately equally split between Gas and Electric in 2025. In 2026, however, electric operations drive over 90 percent of the proposed revenue requirement increase.

Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED CHANGE IN AUTHORIZED CAPITAL STRUCTURE?

A. The Company expects to maintain an actual capital structure in alignment with its currently approved capital structure, consisting of 49 percent equity and 51 percent

[10] *See* PSE Exh. SEF-1T pg. 37 of 107 Table 2: determined by summing Gas and Electric for respective years

debt. The Company acknowledges this,[11] yet proposes to increase the equity share "for ratemaking purposes",[12] to 50 percent in Year 1 and 51 percent in Year 2 of the Multi-Year Plan ("MYP").

Q. WHAT ARE THE REVENUE REQUIREMENT IMPACTS OF THIS PROPSAL?

A. Under the Company's proposed cost of debt ("COD") and proposed ROE, the impact of this hypothetical capital structure increases rate base by approximately $4.4 million in Year 1 and another $10.6 million in Year 2.

Q. IS WALMART CONCERNED WITH THIS PROPOSAL?

A. Yes. Given that ROE is higher than COD, a synthetic ratemaking equity/debt structure that artificially inflates the proportion of equity directly increases the cost of service to customers and reduces transparency in cost of service. In addition, it misrepresents the actual return on equity, creating distorted incentives for the Company. The Company cites "unprecedented financing conditions"[13] as a justification for this proposal. Since the time that the Company prepared this filing, however, inflation and interest rates have continued to drop, as the FED continues to pursue its long-held goal of two percent inflation.[14] Although the Company has the burden of proof to demonstrate that this ratemaking structure is necessary, it has not demonstrated that this fictionalized capital structure would be appropriate.

[11] *See,* PSE Exh. CGP-1CT pg. 8 of 55
[12] *See,* PSE Exh. CGP-1CT pg. 7 of 55
[13] *See,* PSE Exh. CGP-1CT pg. 8 of 55
[14] *See,* https://www.federalreserve.gov/faqs/economy_14400.htm

The Company argues, "[i]f PSE were to be required to achieve actual equity ratios identical to the equity ratios proposed by PSE in this proceeding, then PSE's investors would need to invest approximately $200 million of additional equity"[15] The Company fails to highlight that with this $200 million of hypothetical equity, if it were real and prudently invested, would come real benefits to customers through tax benefits, stability, and resource adequacy. With the Company's proposal, customers only receive the cost of the increased equity structure without the benefits. The Company has not demonstrated that an additional $200 million of investment is prudent and necessary to serve customers. In fact, the Company's plan demonstrates a direct path to the currently approved debt equity structure of 49 percent equity. [16]

Q. WHAT IS WALMART'S RECOMMENDATION ON THIS ISSUE?

A. Walmart recommends that the Commission approve a capital structure "for ratemaking purposes" that reflects the Company's projected equity/debt ratio of 49/51, as was approved by the Commission in the prior GRC, and as recommended by AWEC and Public Counsel.

Q. IS WALMART CONCERNED THAT THE COMPANY'S PROPOSED ROE IS EXCESSIVE?

A. Yes. Walmart is concerned that the Company's proposed ROE of 9.95 percent in 2025 and 10.5 in 2026 percent is excessive, especially in light of:

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[15] *See* PSE CGP-1CT page 8 of 55.
[16] See PSE CGP-1CT page 5 of 55 Table 2

(1) The customer impact of the resulting revenue requirement increases as discussed below;

(2) The Company's proposal of an increasing number of trackers;

(3) The Company's currently approved ROE; and

(4) Recent ROEs approved in Washington and other jurisdictions nationwide, as discussed in more detail below, which do not support the Company's requested ROE.

(A) Recent ROE Approved by the Commission

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S CURRENTLY APPROVED ROE?

A. My understanding is that the Company's currently approved ROE is 9.4 percent.[17]

Q. HAVE YOU CALCULATED AN ESTIMATE OF THE IMPACT TO CUSTOMERS FROM THE COMPANY'S PROPOSED INCREASE IN ROE FROM 9.4 PERCENT TO 9.95 and 10.5 PERCENT?

A. Yes. The impact of the proposed increase in authorized ROE is an increase to revenue requirement of approximately $42 million in Year 1, or approximately 11 percent of the rate increase requested by the Company.[18] The additional impact in Year 2 of the elevated ROE under the Company's proposed capital structure is an

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[17] *See,* PSE Exh. CGP-1CT pg. 17 of 55.
[18] *See* Walmart/103/McGovern/1.

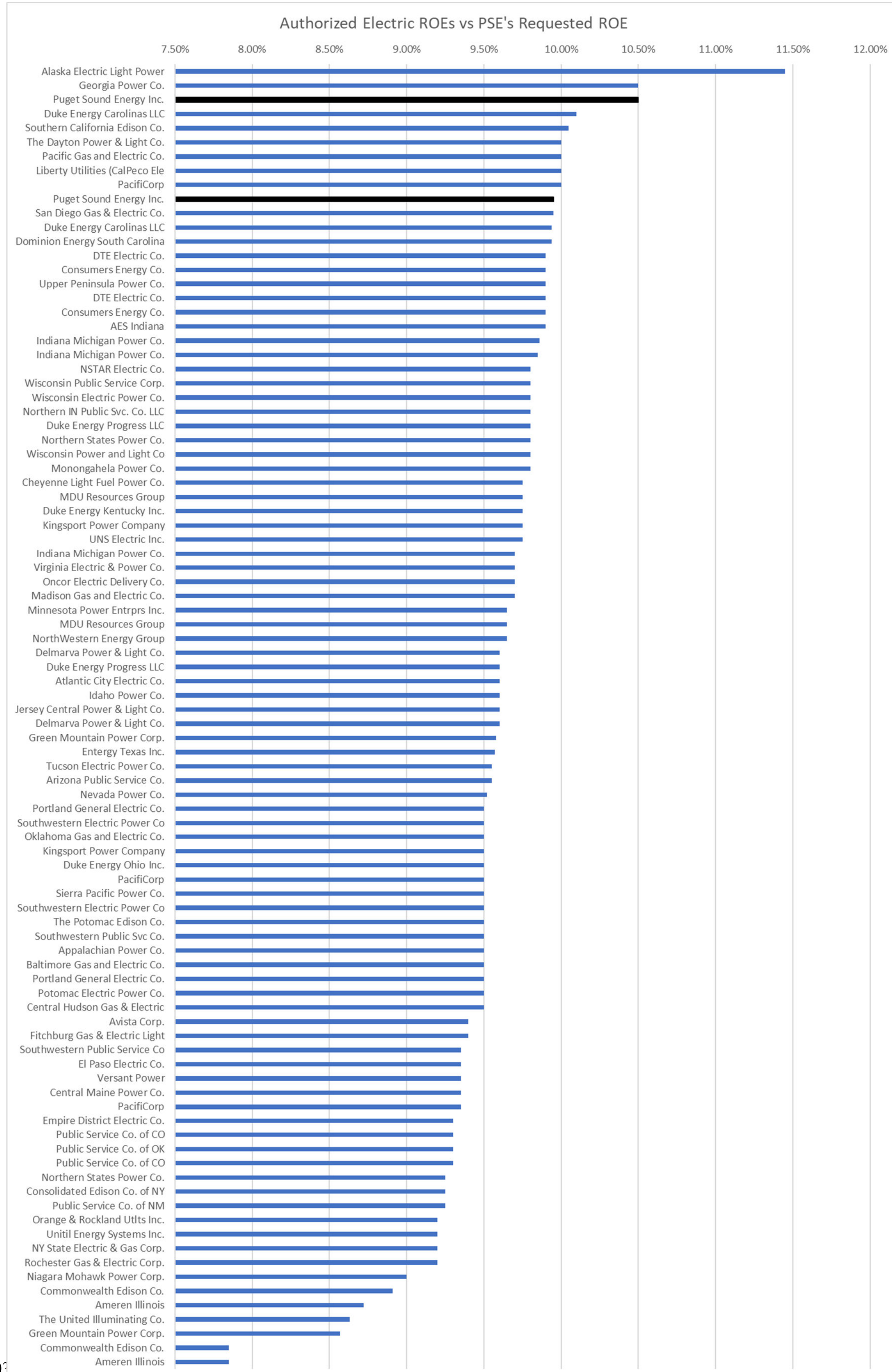
incremental $77.5 million or approximately 11 percent of the overall $699 million increase.

(C) National Utility Industry ROE Trends

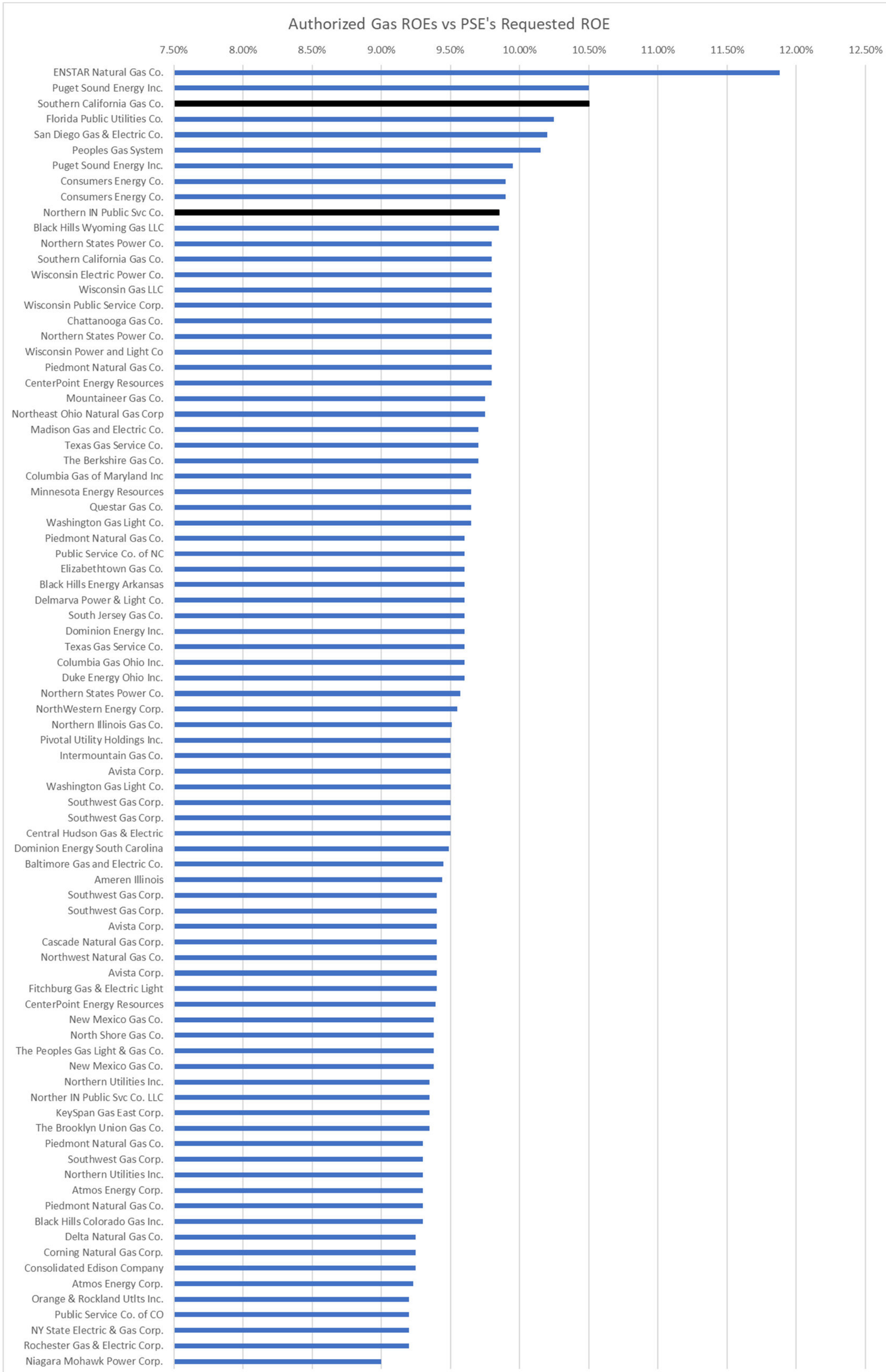
Q. IS THE COMPANY'S PROPOSED ROE SIGNIFICANTLY HIGHER THAN THE ROEs APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2022, 2023, AND SO FAR IN 2024?

A. Yes. According to data from S&P Global Market Intelligence ("S&P Global"), a financial news and reporting company, the average of the 91 reported electric utility rate case ROEs authorized by commissions to investor-owned utilities in 2022, 2023, and so far in 2024, is 9.56 percent.[19] The range of reported authorized ROEs for the period is 7.36 percent to 11.45 percent, and the median authorized ROE is 9.50 percent.[20] Below are the two sequential ROE's requested by PSE (in black) compared to all ROEs approved for electric utilities (in blue) across the US in the past two years.

[19] *See* Walmart/102.
[20] *See id.*


Authorized Electric ROEs vs PSE's Requested ROE
7.50%
8.00%
8.50%
9.00%
9.50%
10.00%
10.50%
11.00%
11.50%
12.00%
Alaska Electric Light Power
Georgia Power Co.
Puget Sound Energy Inc.
Duke Energy Carolinas LLC
Southern California Edison Co.
The Dayton Power & Light Co.
Pacific Gas and Electric Co.
Liberty Utilities (CalPeco Ele
PacifiCorp
Puget Sound Energy Inc.
San Diego Gas & Electric Co.
Duke Energy Carolinas LLC
Dominion Energy South Carolina
DTE Electric Co.
Consumers Energy Co.
Upper Peninsula Power Co.
DTE Electric Co.
Consumers Energy Co.
AES Indiana
Indiana Michigan Power Co.
Indiana Michigan Power Co.
NSTAR Electric Co.
Wisconsin Public Service Corp.
Wisconsin Electric Power Co.
Northern IN Public Svc. Co. LLC
Duke Energy Progress LLC
Northern States Power Co.
Wisconsin Power and Light Co
Monongahela Power Co.
Cheyenne Light Fuel Power Co.
MDU Resources Group
Duke Energy Kentucky Inc.
Kingsport Power Company
UNS Electric Inc.
Indiana Michigan Power Co.
Virginia Electric & Power Co.
Oncor Electric Delivery Co.
Madison Gas and Electric Co.
Minnesota Power Entrprs Inc.
MDU Resources Group
NorthWestern Energy Group
Delmarva Power & Light Co.
Duke Energy Progress LLC
Atlantic City Electric Co.
Idaho Power Co.
Jersey Central Power & Light Co.
Delmarva Power & Light Co.
Green Mountain Power Corp.
Entergy Texas Inc.
Tucson Electric Power Co.
Arizona Public Service Co.
Nevada Power Co.
Portland General Electric Co.
Southwestern Electric Power Co
Oklahoma Gas and Electric Co.
Kingsport Power Company
Duke Energy Ohio Inc.
PacifiCorp
Sierra Pacific Power Co.
Southwestern Electric Power Co
The Potomac Edison Co.
Southwestern Public Svc Co.
Appalachian Power Co.
Baltimore Gas and Electric Co.
Portland General Electric Co.
Potomac Electric Power Co.
Central Hudson Gas & Electric
Avista Corp.
Fitchburg Gas & Electric Light
Southwestern Public Service Co
El Paso Electric Co.
Versant Power
Central Maine Power Co.
PacifiCorp
Empire District Electric Co.
Public Service Co. of CO
Public Service Co. of OK
Public Service Co. of CO
Northern States Power Co.
Consolidated Edison Co. of NY
Public Service Co. of NM
Orange & Rockland Utlts Inc.
Unitil Energy Systems Inc.
NY State Electric & Gas Corp.
Rochester Gas & Electric Corp.
Niagara Mohawk Power Corp.
Commonwealth Edison Co.
Ameren Illinois
The United Illuminating Co.
Green Mountain Power Corp.
Commonwealth Edison Co.
Ameren Illinois

The results for gas utilities are similar, with the median over the past two years being 9.5 percent. The industry average and median values are considerably below the Company's proposed ROE of 9.95 and 10.5 percent. As such, the Company's proposed 10.5 percent ROE would place it in the 95th percentile.


Authorized Gas ROEs vs PSE's Requested ROE
7.50%
8.00%
8.50%
9.00%
9.50%
10.00%
10.50%
11.00%
11.50%
12.00%
12.50%
ENSTAR Natural Gas Co.
Puget Sound Energy Inc.
Southern California Gas Co.
Florida Public Utilities Co.
San Diego Gas & Electric Co.
Peoples Gas System
Puget Sound Energy Inc.
Consumers Energy Co.
Consumers Energy Co.
Northern IN Public Svc Co.
Black Hills Wyoming Gas LLC
Northern States Power Co.
Southern California Gas Co.
Wisconsin Electric Power Co.
Wisconsin Gas LLC
Wisconsin Public Service Corp.
Chattanooga Gas Co.
Northern States Power Co.
Wisconsin Power and Light Co
Piedmont Natural Gas Co.
CenterPoint Energy Resources
Mountaineer Gas Co.
Northeast Ohio Natural Gas Corp
Madison Gas and Electric Co.
Texas Gas Service Co.
The Berkshire Gas Co.
Columbia Gas of Maryland Inc
Minnesota Energy Resources
Questar Gas Co.
Washington Gas Light Co.
Piedmont Natural Gas Co.
Public Service Co. of NC
Elizabethtown Gas Co.
Black Hills Energy Arkansas
Delmarva Power & Light Co.
South Jersey Gas Co.
Dominion Energy Inc.
Texas Gas Service Co.
Columbia Gas Ohio Inc.
Duke Energy Ohio Inc.
Northern States Power Co.
NorthWestern Energy Corp.
Northern Illinois Gas Co.
Pivotal Utility Holdings Inc.
Intermountain Gas Co.
Avista Corp.
Washington Gas Light Co.
Southwest Gas Corp.
Southwest Gas Corp.
Central Hudson Gas & Electric
Dominion Energy South Carolina
Baltimore Gas and Electric Co.
Ameren Illinois
Southwest Gas Corp.
Southwest Gas Corp.
Avista Corp.
Cascade Natural Gas Corp.
Northwest Natural Gas Co.
Avista Corp.
Fitchburg Gas & Electric Light
CenterPoint Energy Resources
New Mexico Gas Co.
North Shore Gas Co.
The Peoples Gas Light & Gas Co.
New Mexico Gas Co.
Northern Utilities Inc.
Norther IN Public Svc Co. LLC
KeySpan Gas East Corp.
The Brooklyn Union Gas Co.
Piedmont Natural Gas Co.
Southwest Gas Corp.
Northern Utilities Inc.
Atmos Energy Corp.
Piedmont Natural Gas Co.
Black Hills Colorado Gas Inc.
Delta Natural Gas Co.
Corning Natural Gas Corp.
Consolidated Edison Company
Atmos Energy Corp.
Orange & Rockland Utlts Inc.
Public Service Co. of CO
NY State Electric & Gas Corp.
Rochester Gas & Electric Corp.
Niagara Mohawk Power Corp.

Q. SEVERAL OF THE REPORTED AUTHORIZED ROEs ARE FOR DISTRIBUTION-ONLY UTILITIES OR FOR ONLY A UTILITY'S DISTRIBUTION SERVICE RATES. WHAT IS THE AVERAGE AUTHORIZED ROE IN THE REPORTED GROUP FOR VERTICALLY INTEGRATED UTILITIES?

A. In the group reported by S&P Global, the average ROE for vertically integrated electric utilities authorized from 2022 through present is 9.69 percent.[21] The average ROE authorized for vertically integrated utilities in 2022 was 9.60 percent; in 2023, it was 9.71 percent; and thus far in 2024, it is 9.77 percent.[22] As such, the Company's proposed increase to 10.5 percent ROE is counter to broader utility industry trends.

Q. IS WALMART RECOMMENDING THAT THE COMMISSION BE BOUND BY ROEs AUTHORIZED BY OTHER STATE REGULATORY COMMISSIONS?

A. No. Decisions of other state regulatory commissions are not binding on the Commission. Additionally, each state regulatory commission considers the specific circumstances in each case in its determination of the proper ROE. Walmart is providing this information to illustrate a national customer perspective on industry trends in authorized ROE.

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[21] *See id.*
[22] *See id.*

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN REGARD TO THE COMPANY'S PROPOSED ROE?

A. The Commission should thoroughly and carefully consider the impact on customers in examining the requested ROE, in addition to all other facets of this case, to ensure that any increase in the Company's rates reflects the minimum amount necessary to compensate the Company for adequate and reliable service, while also providing PSE an opportunity to earn a reasonable return for its shareholders.

Specifically, Walmart advises against raising the Company's authorized ROE. Walmart recommends the Commission closely examine the Company's proposed revenue requirement increase and the associated ROE in light of:

(a) The customer impact of ROE on the resulting revenue requirement;

(b) The Company's currently approved ROE of 9.4 percent;

(c) Recently approved ROEs nationwide, which do not support the Company's requested ROE; and

(d) The Company's proposed increased use of trackers.

IV. Cost of Service and Rate Design

Q. GENERALLY, WHAT IS WALMART'S POSITION ON SETTING RATES BASED ON THE UTILITY'S COST OF SERVICE?

A. Walmart advocates that rates be set based on the utility's cost of service for each rate class. This produces equitable rates that reflect cost causation, sends proper price signals, and minimizes price distortions.

Q. WHAT IS YOUR GENERAL UNDERSTANDING OF THE COMPANY'S PROPOSED COST OF SERVICE STUDY?

A. My understanding is that the Company is providing marginal cost of service studies for generation, transmission, distribution, and customer services. Costs that can be specifically assigned are assigned to individual customer classes, and for costs that are not directly assignable, the cost-of-service study informs the allocation process.

Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE OF GENERATION AND TRANSMISSION CAPACITY COST ALLOCATION?

A. Generation capacity cost allocation is the process of allocating to each customer class the fixed costs of a utility's generation assets. Likewise, transmission cost allocation is the process of allocating to each customer class the fixed costs of a utility's transmission assets. Fixed costs are defined as costs that do not vary with the level of output and must be paid even if there is no output.[23]

Q. DOES A UTILITY'S FIXED GENERATION OR TRANSMISSION CAPACITY COSTS CHANGE WITH CHANGES IN THE AMOUNT OF ELECTRICITY GENERATED?

A. No. The utility's fixed production capacity costs do not change with changes in the amount of electricity generated. For example, if a baseload unit is not dispatched and produces no energy, the fixed costs are not avoided by the utility or customers. Generation units can be built and operated for different reasons, such as lower fuel costs, peaking needs, or reliability, but the way in which a generation unit is

[23] Pindyck, Robert S. and Daniel L. Rubinfeld, Microeconomics, 5th ed., 2001, p. 206.

operated does not change the fact that the fixed costs are, in fact, fixed, and should be treated as such in the generation capacity cost allocation.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED CHANGES TO RATE DESIGN?

A. My understanding is that the Company proposes rate design changes to reduce cross-subsidization, address inequities and establish pricing signals, while keeping within the Company's cost of service ("COS") study results.[24]

Q. WHAT IS WALMART'S UNDERSTANDING OF FRED MEYER'S ALTERNATIVE RATE DESIGN PROPOSAL FOR SCHEDULE 26?

A. My understanding is that Fred Meyer supports the Company's goal of moving, within the customer class, to cost of service-based rates to reduce intra-class subsidization, but suggests the progress to parity is too gradual.[25] Fred Meyer argues the approach can be improved by first removing non-firm customers from the energy-related cost of service prior to determining the relative proportion of customer, demand, and energy related costs for Schedule 26.[26] Fred Meyer then proposes, at the Company's proposed revenue requirement, slightly larger increases to the customer and demand charges, and a slightly lower increase to the energy charge than proposed by the Company in order to bring Schedule 26 rates closer to cost-based levels.[27]

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[24] *See,* PSE Exh. CTM-1T pgs. 27-29.
[25] *See,* Kroger Exh. No. (JB-1T) pg. 5
[26] *Id., pg. 6*
[27] *Id., pg. 9*

Q. WHAT DOES FRED MEYER PROPOSE IF THE COMMISSION APPROVES A LOWER REVENUE REQUIREMENT FOR SCHEDULE 26 THAN THAT PROPOSED BY THE COMPANY?

A. Fred Meyer proposes that the Commission start with their proposal at the Company's proposed revenue requirement and reduce each base rate charge on an equal percentage basis.[28]

Q. WHAT IS WALMART'S RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?

A. The Commission should approve Fred Meyer's rate design proposal for Schedule 26 at the Company's proposed revenue requirement. However, if the Commission approves a lower revenue requirement for Schedule 26 than that proposed by the Company, the Commission should first start with Fred Meyer's proposed base rate charges and apply the revenue requirement reduction to the energy charge only.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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[28] *Id.,* pg. 12