Exh. JLB-8T
Dockets UE-170033/UG-170034
Witness: Jason L. Ball

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-170033 and UG-170034 (*Consolidated*)**

SUPPLEMENTAL TESTIMONY OF

Jason L. Ball

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Natural Gas Special Contract Customers
Rate Design

August 7, 2017

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I. INTRODUCTION

Q. Are you the same Jason Ball who previously filed responsive testimony in this case?

A. Yes.

Q. What is the purpose of your supplemental testimony?

A. I am providing supplemental testimony regarding the treatment of the natural gas special contract customer class and rate spread. I did not provide this position in my responsive testimony because of incorrect information in PSE Response to Staff Data Request 443. Attached as Exhibit JLB-10 is a copy of the Company's revised response which was provided on August 2, 2017, after PSE discovered the error. As a result of this revision, my testimony position regarding both the treatment of the natural gas special contract customer class and rate spread has been materially altered from the position I took in my responsive testimony.

Q. Please provide an overview of your revised position.

A. I recommend the Commission impute the revenues for the natural special contract customer class. As I discuss below, the current rates being paid by these customers is not consistent with the intent of WAC 480-80-143.

Based on the revised information from Staff DR 443, I present an updated rate spread in Exhibit JLB-9. In the interest of consistency and to expedite the

Commission's review of this filing, I also consolidate a handful of additional updates and minor corrections into this exhibit.

II. NATURAL GAS SPECIAL CONTRACT CUSTOMERS

Q. Please describe the special contract customer class.

A. The special contract customer class is a result of the WAC 480-80-143, which allows a utility, upon Commission approval, to contract for the retail sale of regulated utility services with customers directly. Although independently negotiated between the Company and customer, these contracts are treated the same as a tariff and are "subject to enforcement, supervision, regulation, control, and public inspection as such."[1]

As discussed in RCW 80.28.020:

> Whenever the commission shall find, after a hearing …that the rates or charges … or that the rules, regulations, practices or <u>contracts</u> affecting such rates or charges are unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or <u>that such rates or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates</u>, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order.[2]

This gives the Commission the authority and duty to modify the service and rate offered under the contract to ensure reasonable compensation and that the rates are fair, just as with any other tariff.

Most importantly, the Commission rule clearly requires that special contracts must:

[1] WAC 480-80-143(3).
[2] RCW 80.28.020 *(emphasis added).*

> Demonstrate, at a minimum, that the contract charges recover all costs resulting from providing the service during its term, and, in addition, provide a contribution to the gas, electric, or water company's fixed costs."[3]

Q. Are current special contract customers in full compliance with this rule?

A. No. The calculated rate of return for this class is *negative 4.89 percent.* A negative return means these customers do not cover their full level of allocated expenses and contribute less than nothing toward return on rate base. The table below illustrates the relationship between revenue and expenses for this customer class.

Table 10 - Revenue and Expenses for Special Contract Customers

	Special Contracts
Contract Revenue	$1,370,090
O&M and Other	$1,221,903
Depreciation Expense	$720,275
Total Expenses	$1,942,178
Operating Income (Revenue minus Expenses)	$(572,078)
Allocated Net Rate Base	$11,695,231
Proposed Rate of Return	7.37%
Return on Rate Base	$861,939
Total Revenue Requirement (Includes Revenue Conversion)	$2,858,013
Revenue Deficiency	-$1,487,913
Revenue Increase Necessary for Parity	108.60%
Current Revenue to Cost Ratio	**0.48**
Parity Ratio	0.49

[3] WAC 480-80-143(5)(c)

Continuing to allow these customers to pay such drastically low rates is blatantly unfair to other customers, results in other classes subsidizing these customers, violates the principle of cost causation, does not provide PSE with an economic incentive to negotiate favorable contracts, and does not adhere to the express requirements of WAC 480-80-143.

Q. What is Staff's proposed treatment of the special contract customer class?

A. Staff recommends imputing revenues for the special contract customer class sufficient to achieve full recovery of costs including the authorized return on rate base allocated to serve these customers. Setting revenues at the class' cost of service allows any shortfall (or excess) in the actual revenues from these customers to flow to shareholders while the general ratepayer population is held harmless. Staff's proposal gives the parties negotiating the contracts the incentive to negotiate the best possible service contract that a market could offer. Further, this proposal eliminates any cross-subsidization that exists between special contract customers and other ratepayers.

If the Commission accepts Staff's recommendation to impute revenues for the special contract customer class sufficient to achieve PSE's full recovery, it should allow the Company and its customers in the special contract class to renegotiate the rates of the contracts currently on file, if they so choose. This would allow the Company and special contract customers to independently resolve how the revenue shortfall will be allocated between them.

Q. Why is Staff proposing that shareholders be responsible for special contracts?

A. PSE should be encouraged and allowed to negotiate and compete for customers who do not wish to be served on a general tariff. PSE is in the best possible position to negotiate and serve these special contracts as well as to determine what a reasonable contribution to fixed costs may be. Allowing PSE to negotiate these contracts, and reap the rewards, provides PSE additional flexibility in how it manages and operates its utility service while holding other ratepayers harmless.

Staff's proposal is a superior result to the expansion of tariff offerings that cannot readily incorporate individual customer costs and competitive pricing. In the case of a customer seeking a special contract, that customer is seeking a specific price to recognize a unique situation. PSE shareholders should be given the opportunity to compete for the contract without the strict pricing limits that a tariff would demand.

Q. Have you calculated the impact of this proposal on other customers?

A. Yes. The change in rate spread and revenue allocation have been included in Exhibit JLB-9 and are reflected in the "Updated Staff Position" Column.

Q. Do you have any alternative recommendations for this customer class?

A. Yes. If the Commission does not wish to accept an imputed revenue calculation, then I recommend, at a minimum, a rate increase sufficient to bring these customers into compliance with WAC 480-180-143(5)(c). The table below outlines the range of outcomes that comply with this rule.

Table 11 – Range of Return Ratios and Contract Class Revenue

Return Ratio	Total Class Revenue Increase	% Increase Over Current Rates
0.00%	$572,078	41.75%
2.00%	$805,983	58.83%
4.00%	$1,039,898	75.90%
6.00%	$1,273,792	92.97%
7.37%	$1,487,923	108.60%

Staff's alternative recommendation is an overall rate increase of 58.83% which represents approximately a 2.00% return for the class. This recommendation brings the contract into compliance with the applicable WAC and is about half of the rate increase necessary to achieve parity.

Q. Is the Company's proposed increase sufficient to address the revenue shortfall from special contract customers?

A. No. The Company's proposed rate increase is not sufficient to bring the special contract customer class into compliance with WAC 480-180-143. Further, gradually adjusting the rates for special contract customers occurs at the expense of other ratepayers. This result is blatantly unfair and unreasonable. For example, under the Company's proposal, these customers would need 14 incremental rate increases and no associated increase in costs to achieve parity. Cost increases are a defining characteristic of a general rate filing and continual cross-class subsidization would be almost guaranteed.

III. HOUSEKEEPING

Q. Please discuss each of the other updates you include in your Exhibit JLB-9.

A. In an effort to avoid multiple sets of exhibits and workpapers, my supplemental exhibits include the additional updates outlined below:

- Error Correction – I have corrected several modeling input and computation errors in Staff's Gas COS model. These are all minor corrections to input data and modeling parameters.

- PSE DR 24 to Staff – In DR 24, PSE put forward a proposed treatment of revenue associated with rental program customers. In response to PSE Data Request Number 24, attached as Exhibit JLB-11, Staff stated it would support such treatment and provided documents showing the impact on rate spread and rate design by using imputed revenue for the rental customers class.

- Updated Revenue Requirement – Within the next day or so, it is my understanding that Staff will file a motion to modify testimony due to several substantive changes in the testimony and exhibits of Ms. Betty Erdahl and Ms. Melissa C. Cheesman as well as the work papers of Mr. Christopher R. McGuire. Those substantive changes significantly impact Staff's recommended revenue requirement. Because revenue requirement is a key input to cost of service, the revised modified revenue impacts both the parity ratios and revenue allocations in my testimony and exhibits.

Q. Does this conclude your direct testimony?

A. Yes.