

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

<b>WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,</b>	)	
	)	
<b>Complainant,</b>	)	
	)	
<b>v.</b>	)	<b>DOCKETS UE-170033 and UG-170034 (Consolidated)</b>
	)	
<b>PUGET SOUND ENERGY,</b>	)	
	)	
<b>Respondent.</b>	)	
_____	)	

**CROSS-ANSWERING TESTIMONY OF ALI AL-JABIR  
ON BEHALF OF  
THE FEDERAL EXECUTIVE AGENCIES**

**August 9, 2017**

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Ali Al-Jabir. My business address is 5151 Flynn Parkway, Suite 412 C/D, Corpus  
3 Christi, Texas, 78411.

4 **Q. DID YOU PREVIOUSLY FILE RESPONSE TESTIMONY IN THIS**  
5 **PROCEEDING?**

6 **A.** Yes.

7 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

8 **A.** I am appearing on behalf of the Federal Executive Agencies (“FEA”). Our firm is  
9 under contract with The United States Department of the Navy (“Navy”) to perform  
10 cost of service, rate design and related studies. The Navy represents the Department  
11 of Defense and all other Federal Executive Agencies in this proceeding. The FEA is  
12 one of the largest consumers of electricity in the service territory of Puget Sound  
13 Energy (“PSE” or “the Company”) and takes electric service from the Company  
14 primarily on Schedule 49.

15 **Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?**

16 **A.** My cross-answering testimony focuses on two topics. First, I address the electric  
17 revenue allocation proposals set forth in the response testimony of Jason L. Ball of the  
18 Staff of the Washington Utilities and Transportation Commission (“Commission  
19 Staff”), Glenn A. Watkins on behalf of the Public Counsel Unit of the Washington  
20 State Office of the Attorney General (“Public Counsel”) and Kevin C. Higgins on  
21 behalf of the Kroger Company (“Kroger”). Second, I address the recommendations of  
22 Staff witness Thomas E. Schooley with respect to the Company’s proposal to  
23 implement an expedited rate filing mechanism (“ERF”).

1           The fact that I am not addressing other issues raised in the response testimony  
2 filed by the parties to this proceeding should not be construed as an endorsement of  
3 the positions taken by these parties with regard to such issues.

4 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND**  
5 **RECOMMENDATIONS.**

6 **A.** My conclusions and recommendations can be summarized as follows:

- 7       1. The Commission should apply an electric base rate revenue allocation method that  
8       maximizes movement toward cost-based rates and that minimizes cross-subsidies  
9       among rate classes.
- 10      2. The Commission should reject the electric revenue allocation proposals of the  
11      Commission Staff, Public Counsel and Kroger because they either exacerbate or  
12      fail to adequately remedy the misalignment between costs and rates that would  
13      apply to the High Voltage class under PSE's revenue allocation proposal.
- 14      3. If the Commission significantly scales back PSE's revenue requirement request as  
15      recommended by the Commission Staff, the Commission will be able to make a  
16      significant movement toward cost-based rates without severely impacting the  
17      customer classes that benefit from cost subsidies under current rates. The  
18      Commission should use this opportunity to substantially reduce the cost subsidy  
19      that the High Voltage class is currently paying by imposing no base rate increase  
20      on this class in this proceeding.
- 21      4. The Commission should adopt an electric base rate revenue allocation method that  
22      ensures that no class receives a base rate increase if it would be entitled to a rate  
23      reduction under cost-based rates. This approach would maintain the High Voltage  
24      class (Schedules 46 and 49) at its current base rates. This recommendation would  
25      eliminate the inequity of imposing a base rate increase on the High Voltage class  
26      as recommended by PSE, the Commission Staff, Public Counsel and Kroger when  
27      this class is in fact entitled to a base rate reduction on the basis of cost of service.
- 28      5. A reasonable degree of regulatory lag is a normal part of the traditional ratemaking  
29      process that can provide healthy incentives for PSE to control its costs between  
30      base rate cases. Therefore, concerns regarding regulatory lag do not justify  
31      approval of PSE's proposed ERF mechanism as recommended by the Commission  
32      Staff.
- 33      6. The extremely compressed 60 to 90 day timeframe for processing ERFs that the  
34      Company proposed would not allow the Commission Staff or impacted parties  
35      adequate time to review PSE's application or to engage in meaningful discovery  
36      on the Company's proposed revenue requirement.

1 7. The proposed ERF process would exclude critical components of a utility's  
2 revenue requirement, such as the return on equity. This would hinder the  
3 Commission's ability to set rates that adequately reflect all elements of the utility's  
4 cost structure.

5 8. The Commission should reject PSE's request to establish a formal ERF process.  
6 PSE should only be allowed to adjust its base rates in a full general rate case  
7 proceeding.

8 **Electric Revenue Allocation**

9 **Q. PLEASE SUMMARIZE THE COMMISSION STAFF'S ELECTRIC REVENUE**  
10 **ALLOCATION RECOMMENDATION.**

11 **A.** The Commission Staff states that it agrees with the Company's proposed revenue  
12 allocation method, even in the context of the Commission Staff's recommendation of  
13 an overall revenue requirement decrease of 2.2% and a much smaller base rate  
14 increase of 1.9% relative to PSE's proposed base rate increase of 7.3%.<sup>1/</sup>

15 As I explained in my response testimony, with limited exceptions, PSE generally  
16 proposes to apply an adjusted system average percentage rate increase to retail  
17 customer classes that are within five percent of full parity. Rate classes that are more  
18 than five percent above full parity would receive a percentage rate increase that is  
19 75 percent of the adjusted system average increase.<sup>2/</sup>

20 Staff's application of the Company's proposed revenue allocation criteria results  
21 in allocating 75% of the Staff's proposed system average base rate increase to the  
22 Small General Service, Medium General Service, Large General Service, Primary

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<sup>1/</sup> Docket Nos. UE-170033 and UG-170034, Response Testimony of Jason L Ball on behalf of the Commission Staff, June 30, 2017, pages 14-15 and Response Testimony of Melissa C. Cheesman on behalf of the Commission Staff, June 30, 2017, pages 3-4.

<sup>2/</sup> Docket Nos. UE-170033 and UG-170034, Prefiled Direct Testimony of Jon A. Piliaris on behalf of Puget Sound Energy, January 13, 2017, pages 53 - 54.

1 Service and High Voltage rate schedules. Under the Staff's proposal, all other rate  
2 schedules would receive 100% of the system average base rate increase.<sup>3/</sup>

3 **Q. WHAT IS THE ELECTRIC REVENUE ALLOCATION PROPOSAL OF**  
4 **PUBLIC COUNSEL?**

5 **A.** Public Counsel would allocate the Company's proposed system average percentage  
6 base rate increase of 7.3% to all rate classes that are within a 10% band of a unity rate  
7 of return. Public Counsel would assign 150% of the system average percentage  
8 increase to the Irrigation and Retail Wheeling classes and move the Firm Resale class  
9 to full cost of service rates. This approach would assign the system average base rate  
10 increase of 7.3% to the majority of PSE's customer classes, including the High  
11 Voltage and the Residential class.<sup>4/</sup>

12 **Q. PLEASE SUMMARIZE KROGER'S ELECTRIC REVENUE ALLOCATION**  
13 **RECOMMENDATIONS.**

14 **A.** Kroger recommends that any rate schedule that needs a rate decrease to achieve parity  
15 under PSE's class cost of service study should receive no more than 35% of the  
16 adjusted system average percentage base rate increase, rather than the 75% of the  
17 adjusted system average percentage increase that the Company recommends for such  
18 rate schedules. Moreover, Kroger recommends that the General Service – Primary  
19 Voltage class should receive no more than 65% of the adjusted system average  
20 percentage increase. Under Kroger's proposal, the Secondary Voltage and High

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<sup>3/</sup> Docket Nos. UE-170033 and UG-170034, Response Testimony of Jason L Ball on behalf of the Commission Staff, June 30, 2017, pages 14-15.

<sup>4/</sup> Docket Nos. UE-170033 and UG-170034, Response Testimony of Glenn A. Watkins on behalf of Public Counsel, June 30, 2017, pages 37-38.

1 Voltage classes would receive a base rate increase of 3.46% rather than the 6.12%  
2 increase recommended by the Company.<sup>5/</sup>

3 **Q. ARE THE ELECTRIC REVENUE ALLOCATION PROPOSALS OF THE**  
4 **COMMISSION STAFF, PUBLIC COUNSEL AND KROGER REASONABLE**  
5 **IN YOUR OPINION?**

6 **A.** No. As I discussed in my response testimony, the revenue allocation and class rate  
7 design in this proceeding should be mainly driven by the goal of achieving cost-based  
8 rates. In my view, the electric revenue allocation proposals of the Commission Staff,  
9 Public Counsel and Kroger do not exhibit sufficient movement towards cost-based  
10 rates, particularly with regard to the High Voltage class (Schedules 46 and 49).

11 **Q. PLEASE DISCUSS YOUR SPECIFIC CONCERNS REGARDING THESE**  
12 **ELECTRIC REVENUE ALLOCATION PROPOSALS AS THEY IMPACT**  
13 **THE HIGH VOLTAGE CLASS.**

14 **A.** As I explained in my response testimony, the High Voltage class is above cost of  
15 service at present rates and should therefore receive a 1.4% base rate reduction to  
16 bring its base rates completely in line with cost of service. In light of this reality, it  
17 would be inappropriate to impose a base rate increase on the High Voltage class in this  
18 proceeding, as proposed by the Company and other parties. While a base rate  
19 reduction would be justified for the High Voltage class to bring it to cost-based rates,  
20 the more conservative approach that I recommended in my response testimony is to  
21 reduce the extent of the cost subsidy that this class is currently providing by  
22 maintaining the High Voltage class at its present base rate levels. This approach  
23 would avoid the inequity of imposing a base rate increase on a rate class that in fact  
24 merits a base rate reduction. By contrast, the revenue allocation proposals of PSE, the

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<sup>5/</sup> Docket Nos. UE-170033 and UG-170034, Response Testimony of Kevin C. Higgins on behalf of Kroger, June 30, 2017, pages 11-12.

1 Commission Staff, Public Counsel and Kroger would all impose base rate increases on  
2 the High Voltage class and would therefore fail to adequately address the  
3 cross-subsidies embedded in PSE's base rates.

4 **Q. WHY IS THE COMMISSION STAFF'S ELECTRIC REVENUE**  
5 **ALLOCATION PROPOSAL INADEQUATE IN YOUR VIEW?**

6 **A.** The electric revenue allocation proposal put forth by the Commission Staff mirrors the  
7 Company's proposal to increase the base rates of the High Voltage class by 75% of the  
8 system average percentage increase. The Commission Staff's proposal is inadequate  
9 because it would require the High Voltage class to bear a share of the Commission  
10 Staff's proposed base rate increase of 1.9%, despite the fact that a base rate reduction  
11 is justified for this class to bring it to cost-based rates.

12 The fact that the Commission Staff is proposing a much smaller system average  
13 base rate increase of 1.9% relative to the Company's proposal and the fact that it is  
14 proposing an overall revenue requirement reduction creates an opportunity to move  
15 more aggressively toward cost-based rates without imposing large percentage rate  
16 increases on any customer class. Thus, if the Commission significantly scales back  
17 PSE's revenue requirement request as recommended by the Commission Staff, the  
18 Commission will be able to make a larger movement toward cost-based rates without  
19 severely impacting the customer classes that benefit from cost subsidies under current  
20 rates. The Commission should use this opportunity to achieve a more substantial  
21 reduction of the cost subsidy that the High Voltage class is currently paying by  
22 imposing no base rate increase on this class.



1 **Q. PLEASE EXPLAIN YOUR SPECIFIC CONCERNS WITH THE ELECTRIC**  
2 **REVENUE ALLOCATION PROPOSALS OF PUBLIC COUNSEL AND**  
3 **KROGER.**

4 **A.** Public Counsel proposes to impose a 7.3% base rate increase on the High Voltage  
5 class, which is equivalent to 100% of the system average percentage increase. This  
6 approach would impose a larger base rate increase on the High Voltage class relative  
7 to PSE's proposed base rate increase of 6.1%, which is equivalent to 75% of the  
8 adjusted system average increase. Therefore, this proposal is a step in the wrong  
9 direction. All else being equal, Public Counsel's proposal would exacerbate the  
10 misalignment between costs and rates for the High Voltage class and would increase  
11 the subsidy that this class is required to pay relative to PSE's proposal. This result is  
12 inconsistent with the goal of increasing the movement to cost-based rates.

13 Kroger proposes to reduce the magnitude of the cost subsidy imposed on the  
14 High Voltage class by moderating the base rate increase for this class to 35% of the  
15 adjusted system average percentage base rate increase, rather than the 75% of the  
16 adjusted system average increase that the Company recommends. While this proposal  
17 is well intentioned in that it attempts to shrink the magnitude of the cost subsidy that  
18 the High Voltage class provides relative to PSE's proposal, it nevertheless results in  
19 inadequate movement toward cost-based rates because it would impose a base rate  
20 increase on the High Voltage class when a base rate reduction would be appropriate to  
21 achieve full movement to cost-based rates for this class.

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE**  
2 **ELECTRIC REVENUE ALLOCATION PROPOSALS PUT FORTH BY THE**  
3 **COMMISSION STAFF, PUBLIC COUNSEL AND KROGER IN THIS**  
4 **PROCEEDING.**

5 **A.** The Commission should apply an electric revenue allocation method that maximizes  
6 movement toward cost-based rates and that minimizes cross-subsidies among rate  
7 classes. For the reasons discussed above, I recommend that the Commission reject the  
8 electric revenue allocation proposals of the Commission Staff, Public Counsel and  
9 Kroger because they either exacerbate or fail to adequately remedy the misalignment  
10 between costs and rates that would apply to the High Voltage class under PSE's  
11 revenue allocation proposal.

12 As I explained in my response testimony, a reasonable and conservative  
13 approach toward electric revenue allocation would be to ensure that no class receives a  
14 base rate increase if it would be entitled to a rate reduction under cost-based rates.  
15 While my recommendation would not result in a full movement to cost-based rates for  
16 the High Voltage class, it would eliminate the inequity of imposing a base rate  
17 increase on this class as recommended by PSE, the Commission Staff, Public Counsel  
18 and Kroger when this class is in fact entitled to a base rate reduction to fully align its  
19 base rates with cost of service.

1 **Expedited Rate Filing Process**

2 **Q. PLEASE SUMMARIZE THE COMMISSION STAFF'S POSITION WITH**  
3 **RESPECT TO PSE'S ERF PROPOSAL.**

4 **A.** Commission Staff witness Schooley recommends that the Commission accept PSE's  
5 proposal for an ERF process and characterizes this process as a far preferable way to  
6 reduce regulatory lag than any special tracker mechanisms.<sup>6/</sup>

7 **Q. DO YOU AGREE THAT APPROVAL OF THE ERF MECHANISM IS AN**  
8 **APPROPRIATE MEANS OF ADDRESSING ANY ALLEGED CONCERNS**  
9 **WITH REGULATORY LAG?**

10 **A.** No. As an initial matter, a reasonable degree of regulatory lag is a normal part of the  
11 traditional ratemaking process that can provide healthy incentives for PSE to control  
12 its costs between base rate cases. Therefore, I disagree with the premise that  
13 extraordinary measures such as an ERF mechanism are needed to remedy this alleged  
14 problem.

15 Moreover, as I explained in my response testimony, the extremely compressed  
16 60 to 90 day timeframe for processing ERFs that the Company proposed would not  
17 allow the Commission Staff or impacted parties adequate time to review PSE's  
18 application or to engage in meaningful discovery on the Company's proposed revenue  
19 requirement. In addition, the proposed ERF process would exclude critical  
20 components of a utility's revenue requirement, such as the return on equity. This  
21 would hinder the Commission's ability to set rates that adequately reflect all elements  
22 of the utility's cost structure.

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<sup>6/</sup> Docket Nos. UE-170033 and UG-170034, Response Testimony of Thomas E. Schooley on behalf of the Commission Staff, June 30, 2017, pages 29-30.

1 **Q. HAVE OTHER PARTIES TO THIS PROCEEDING EXPRESSED THEIR**  
2 **OPPOSITION TO THE COMPANY’S ERF PROPOSAL?**

3 **A.** Yes. Both Public Counsel and the Industrial Customers of Northwest Utilities  
4 recommend that the Commission reject the ERF proposal due to concerns that it would  
5 be harmful or disadvantageous to ratepayers.<sup>7/</sup> The alignment of several intervenors in  
6 opposition to the ERF proposal demonstrates that multiple parties have significant  
7 concerns that this proposal would inappropriately skew the regulatory playing field to  
8 the advantage of the Company and to the detriment of ratepayers.

9 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE**  
10 **COMPANY’S ERF PROPOSAL?**

11 **A.** The Commission should reject PSE’s request to establish a formal ERF process. PSE  
12 should only be allowed to adjust its base rates in a full general rate case proceeding.

13 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

14 **A.** Yes, it does.

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<sup>7/</sup> Docket Nos. UE-170033 and UG-170034, Response Testimony of Michael L. Brosch on behalf of Public Counsel, June 30, 2017, pages 63-70.  
Docket Nos. UE-170033 and UG-170034, Response Testimony of Michael P. Gorman on behalf of Industrial Customers of Northwest Utilities, June 30, 2017, pages 36-41.