

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES & TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-170033 and UG-170034 (*Consolidated*)

CROSS-ANSWERING TESTIMONY OF GLENN A. WATKINS (GAW-13T)

ON BEHALF OF

WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL,
PUBLIC COUNSEL UNIT

AUGUST 9, 2017

1 **Q: Please state your name and business address.**

2 A: My name is Glenn A. Watkins. My business address is 1503 Santa Rosa Road, Suite
3 130, Richmond, Virginia 23229.

4 **Q: Have you previously filed testimony in this proceeding?**

5 A: Yes. I pre-filed direct testimony in this proceeding on June 30, 2017, which was
6 designated as Exhibit No. GAW-1T.

7 **Q: What is the purpose of your cross-answering testimony in this proceeding?**

8 A: In this testimony, I will briefly respond to the proposals and recommendations of other
9 parties on issues concerning rate spread and residential rate design. Specifically, I will
10 address the direct testimonies of Staff witness Jason Ball, Kroger witness Kevin Higgins,
11 Federal Executive Agencies witness Ali Al-Jabir, and Northwest Industrial Gas User's
12 witness Brian Collins. In large part, my disagreements with the experts providing
13 testimony on these issues have already been discussed in my direct testimony. Therefore,
14 in order to avoid redundancy in disagreeing with these various witnesses, I do not set
15 forth all of the rationale supporting my disagreements. As such, my silence in this
16 testimony relating to particular issues or witnesses should not be construed as acceptance
17 of their recommendations.

18 **Q: Do you have any comments relating to Staff witness Mr. Ball's electric rate spread
19 proposal?**

20 A: Yes. Mr. Ball's recommended electric rate spread is based on Staff's recommended
21 overall decrease in revenue requirement in this case. As such, Mr. Ball sets forth his
22 recommendation of how this overall decrease should be spread across all rate classes. In

1 his direct testimony, Mr. Ball sets forth his proposed revenue decreases for each class.¹

2 While the basic framework of Mr. Ball's recommendation is reasonable, I question how
3 his approach will generate the required decrease recommended by Staff. This is because
4 under Mr. Ball's proposal, every class will receive either 100 percent of the system
5 average percentage decrease or only 75 percent of the overall system average percentage
6 decrease. As a matter of arithmetic, I do not see how Staff's overall decrease would be
7 accomplished since some customer classes will receive less than the system average
8 percentage decrease, while at most other classes will receive decreases equal to the
9 system average percentage decrease. Put differently, the effect of some classes receiving
10 less than the system average decrease must be compensated through larger than system
11 average decreases allocated to other classes.

12 **Q: Please respond to Staff witness Mr. Ball's recommended residential rate structure**
13 **as it relates to his proposed fixed monthly customer charges and his "minimum bill"**
14 **proposal.**

15 A: It appears that Mr. Ball is proposing a fixed monthly customer charge plus a minimum
16 bill associated with usage charges. While rate structures based on minimum charges
17 were utilized in the industry several years ago, the concept of minimum bills has largely
18 been eliminated over the last 20 or so years.

19 As I understand Mr. Ball's proposal, he recommends a basic customer charge of
20 \$7.87 per month. In addition, all customers must pay an additional \$3.01 associated with
21 a minimum usage charge. As such, a customer's minimum bill would be \$10.88 per
22 month regardless of usage.

¹ Direct Testimony of Jason Ball, Exh. JLB-1T at 15:1.

1 **Q: Do you support Mr. Ball's recommended residential rate structure change to**
2 **include his concept of a minimum bill provision?**

3 A: No. First of all, Mr. Ball's so-called minimum charge is not the minimum bill that a
4 customer would pay; rather, it is an imputed energy charge that would be utilized for all
5 customers using less than his recommended 40 KWH per month. Mr. Ball sets forth his
6 recommended basic charge and minimum charges on page 20 of his direct testimony.²
7 As I understand Mr. Ball's proposal, a residential customer's first 40 KWH of usage
8 would be implicitly billed at 9.1996¢ per KWH. If that customer uses less than 40 KWH
9 in a given month, they would be subject to the \$3.01 minimum usage charge plus the
10 \$7.87 basic monthly customer charge. While not explicitly stated in Mr. Ball's
11 testimony, it is my understanding that usage between 41 KWH and 600 KWH would be
12 billed at a lower rate of 8.6107¢ per KWH, while usage above 600 KWH per month
13 would then flip back to a higher rate of 10.0917¢ in the summer and 10.9528¢ in the
14 winter.

15 While I recognize that Mr. Ball's determination of his implicit price of 9.1996¢
16 per KWH is the result of selecting 40 KWH for minimum usage, the subsequent pricing
17 structure is inconsistent with Staff's previous positions in support of truly inverted-block
18 rates. Under Mr. Ball's recommendation, the pricing structure for energy charges would
19 seesaw back and forth. That is, the first 40 KWH is billed about 9¢ per KWH, the next
20 560 KWH is priced lower at about 8.6¢ per KWH, and then increased to about 10.1¢ to
21 11.0¢ for usages greater than 600 KWH.

² Ball, Exh. JLB-1T at 20:1-4.

1 **Q: In your opinion, is there an overall rationale for Mr. Ball's fixed charge/minimum**
2 **bill recommendation?**

3 A: Yes. Consistent with recent recommendations of Commission Staff, Mr. Ball is
4 attempting to provide greater guaranteed revenue recovery from fixed charges. That is,
5 even for customers utilizing less than 40 KWH per month, the guaranteed revenue
6 recovery per residential customer bill will be \$10.88 per month. In support of this
7 objective, Mr. Ball believes that high-volume usage customers are subsidizing
8 low-volume customers under the current rate structure. As discussed in my direct
9 testimony, PSE's data indicates that low-volume usage customers tend to have a
10 somewhat higher load factor than high-volume usage customers.³ It is well recognized
11 that high load-factor customers are less expensive to serve per unit than low load-factor
12 customers. My direct testimony also indicates that these customers are adequately
13 providing revenue to recover their incremental cost of service⁴ to the extent that all
14 customers' bills reflect the costs to connect and maintain that customers' account.

15 **Q: Does Mr. Ball support PSE's proposal to include transformer costs within the**
16 **"customer cost" calculation considered in establishing reasonable fixed monthly**
17 **customer charges?**

18 A: Yes. I discussed my difference of opinion relating to the inclusion of transformers within
19 the determination of customer costs in my direct testimony. In my discussion, I pointed

³ Direct Testimony of Glenn A. Watkins, Exh. GAW-1T at 58:1-6 and 60:1-6.

⁴ Watkins, Exh. GAW-1T at 49:1-9.

1 to the Commission's clear rejection of this concept as proposed by the Company and
2 Staff in a recent PacifiCorp rate case.⁵

3 **Q: Please comment on Mr. Ball's recommended natural gas customer charge.**

4 A: Even though Commission Staff is recommending an overall revenue reduction for PSE's
5 natural gas operations, Mr. Ball proposes to increase the residential natural gas fixed
6 monthly customer charge by 16 percent, from \$10.34 to \$12.04. While I recognize that
7 Mr. Ball's recommended customer charge of \$12.04 per month may be supported from
8 the arithmetic of his cost analysis, it is inconsistent to reduce residential base rate
9 revenues overall while increasing the fixed monthly customer charge. In this regard,
10 Staff's proposal in this case resembles another Commission Order that rejects recurring
11 proposals to increase fixed monthly charges. In Docket UE-100749, Staff recommended
12 significant increases to the residential fixed monthly customer charge. In its Final Order
13 dated March 25, 2011 (Order 06), the Commission stated as follows:

14 [W]ith respect to the residential basic charge, we conclude that the basic
15 charge should remain at \$6.00. While we acknowledge the Company's
16 and Staff's intention to bring the basic charge more in line with their
17 proposed rates for the class and to cover a number of costs attributable to
18 individual customers (such as those associated with meters, service drops,
19 and billing) these are not the only considerations.⁶

20 The Commission continues:

21 Not recovering some of the "basic" costs through the basic charge does
22 not mean those costs will not be recovered; rather, those costs will just be
23 recovered through the variable charges.

⁵ See, Watkins, Exh. GAW-1T at 48:3-21, nn.17 and 18.

⁶ *Wash. Util. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket No. UE-100749, Final Order No. 06 ¶ 332 (Mar. 25, 2011).

1 Finally, we share the Energy Project's concern that lower energy charges
2 could result in reduced deployment of energy efficiency.⁷

3 **Q: What are your overall conclusions regarding Staff witness Mr. Ball's residential**
4 **rate design recommendations?**

5 A: While I respect Staff's opinions, the consistent desire to recommend higher fixed charge
6 revenue recovery is at odds with the policy of this Commission.

7 **Q: Please respond to the direct testimony of Kroger witness Kevin Higgins.**

8 A: Among other topics, Mr. Higgins addresses electric class rate spread wherein he
9 recommends an alternative distribution of the overall revenue increase. In making his
10 recommendations, Mr. Higgins accepted the Company's class cost of service study
11 results, but designed class revenue responsibility to more narrowly conform with the
12 arithmetic embedded within the Company's class cost of service study. As discussed in
13 my direct testimony, this Commission has maintained a policy that parity ratios within
14 +/- 10 percent of unity should be considered the same as a 100 percent parity ratio.⁸
15 Mr. Higgins' recommended electric rate spread is arithmetically derived to bring those
16 classes that are within this 10 percent band closer to 100 percent parity.

17 **Q: Has the Commission previously addressed the 10 percent parity band and its**
18 **relation to cost of service studies?**

19 Yes. The Commission addressed the issue in the 2010 rate case order involving
20 PacifiCorp in Docket UE-100749. Commission Staff proposed a rate spread almost
21 identical in concept to Mr. Higgins' recommendation in this case. Staff's proposed rate
22 spread, in the 2010 PacifiCorp case, reflected the arithmetic of a class cost of service

⁷ *Id.* ¶¶ 333-34.

⁸ Watkins, Exh. GAW-1T at 33:3-4.

1 study. The Commission rejected this proposal wherein in its Final Order the Commission
2 stated:

3 [Determining] an appropriate rate spread requires consideration of a
4 number of factors and is not the result of pure arithmetic calculations. Of
5 course [*sic*] we consider the results of a valid COSS with the goal of
6 ensuring that each customer class bears the burden of the costs it imposes
7 on the utility. However [*sic*] we also consider principles of rate stability,
8 gradualism, and the avoidance of rate shock.

9 The Commission continues:

10 Staff's rate spread, now supported by the Company, proposes higher than
11 average increases for certain schedules and lower than average increases
12 for others with the intent to move each customer class closer to full parity.
13 For example, Staff's rate spread would result in residential and industrial
14 customers receiving a rate increase of 114 percent of the average increase.
15 We conclude that this is unreasonable and ignores the other principles that
16 guide a determination of rate spread. Using PacifiCorp's COSS, all major
17 customer classes are within 97 to 108 percent of parity. We conclude that
18 the principles of gradualism and rate stability do not warrant moving these
19 customer classes even closer to actual parity in the current economic
20 conditions.⁹

21 **Q: Does Mr. Ali Al-Jabir's rate spread recommendation on behalf of the Federal**
22 **Executive Agencies include recommendations similar to Mr. Higgins' proposal?**

23 A: Yes. Mr. Al-Jabir also recommends arithmetically calculating a larger percentage
24 increase to the residential class. Like Mr. Higgins' recommendation, Mr. Al-Jabir simply
25 bases his rate spread on the arithmetic in the Company's class cost of service study.

26 **Q: What are your conclusions regarding the rate spread recommendations of Messrs.**
27 **Higgins and Al-Jabir?**

⁹ *Wash. Util. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket No. UE-100749, Final Order No. 06 ¶¶ 315 and 316 (Mar. 25, 2011).

1 A: They should be rejected in favor of rate spread recommendations that take into account
2 the results of cost of service studies and better align with Commission policy, rate
3 stability, gradualism, and the avoidance of rate shock.

4 **Q: Please respond to the testimony of Brian Collins on behalf of the Northwest**
5 **Industrial Gas Users Group.**

6 A: Mr. Collins disagrees with the Company's use of a modified Peak & Average ("P&A")
7 method to allocate natural gas costs across customer classes. Instead, Mr. Collins
8 recommends that the Company's gas class cost of service study should be rejected in
9 favor of his proposed Peak Responsibility method. Under this proposal, all costs related
10 to distribution mains costs are allocated based only on peak-day demands with no
11 recognition of usage throughout the year. In this regard, I refer to PSE's method as a
12 "modified Peak and Average approach" because the Company's study separates
13 distribution mains by different sizes and then allocates the various pipe sizes based on
14 different approaches and factors.

15 As discussed at length in my direct testimony, there is a history of controversy
16 regarding the methodology utilized to allocate distribution mains in Washington.
17 Industrial intervenor witnesses have continually recommended rejecting the
18 long-accepted Peak and Average method in favor of the Peak Responsibility method.
19 Mr. Collins' recommendation in this case is consistent with the historical pattern.

20 Various experts have different opinions as to how distribution mains should be
21 allocated across classes. As noted in my direct testimony, a collaborative was formed to
22 investigate natural gas allocation methodologies at the request of industrial intervenors in

1 the 2009 PSE general rate case.¹⁰ In the end, the parties agreed to disagree on an
2 approach to allocate distribution mains. In the wake of the collaborative, PSE developed
3 a modified Peak and Average method that can be considered a middle-of-the-road
4 approach. That is, this modified method reflected the concerns that I raised on behalf of
5 Public Counsel, as well as those advocated by the industrial intervenor experts. PSE's
6 class cost of service methodology is a compromise of the opinions of various experts
7 concerning the allocation of distribution mains.

8 **Q: How long has this Commission supported, endorsed, and utilized the Peak and**
9 **Average method to allocate distribution mains?**

10 A: The Commission has utilized the Peak and Average methodology since at least 1990. In
11 its Third Supplemental Order in Docket UG-901459 involving the Washington Water
12 Power Company (now Puget Sound Energy), the Commission rejected the Company's
13 and industrial intervenor proposals to allocate mains based solely on peak-day demand.

14 In this Order, the Commission stated:

15 The cost of a main does not increase proportionally as the size of the main
16 is increased. The system was built to deliver gas daily. Cost-of-service
17 analysis thus should reflect the fact that fixed costs are incurred for the
18 company to delivery gas year-round, not just on a peak day. The Staff's
19 allocation proposal recognizes this.¹¹

20 **Q: Has anything changed related to the cost causation and reasonable allocation of**
21 **distribution mains since the 1990 Commission order?**

22 A: No.

¹⁰ Watkins, Exh. GAW-1T at 65:2-5.

¹¹ *Wash. Util. & Transp. Comm'n v. Wash. Water Power Co.*, Docket UG-901459, Third Supplemental Order at 8 (Mar. 9, 1992).

1 **Q: What are your conclusions regarding Mr. Collins' recommendation to rely on the**
2 **Peak Responsibility method to allocate distribution mains?**

3 A: Mr. Collins' recommendation should be rejected.

4 **Q: Does this complete your cross-answering testimony?**

5 A: Yes.