

**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)

CROSS-ANSWERING TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

August 9, 2017

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

2 **A.** Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q. ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 **A.** Yes. On June 30, 2017, I filed Response Testimony on behalf of the Industrial
7 Customers of Northwest Utilities (“ICNU”), an association of large industrial
8 businesses, some of whom are customers of Puget Sound Energy (“PSE” or the
9 “Company”).

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 **A.** I will respond to the following witnesses: Staff witnesses Jing Liu, Jason Ball, and
12 Thomas E. Schooley, and Public Counsel witness Glenn Watkins.

13 **I. SUMMARY**

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCLUSIONS.**

15 **A.** My recommendations and conclusions are summarized as follows:

- 16 1. I support Staff witnesses’ recommendations to replace decoupling for PSE large
17 customers with a higher demand charge.
- 18 2. If the Commission ultimately authorizes a rate decrease in this case, customers that
19 are above parity in the Company’s electric class cost of service study should see a
20 larger decrease than the system average to bring these classes closer to their cost of
21 service.
- 22 3. The Commission should reject Staff’s reasoning for supporting the Company’s
23 ability to make an Expedited Rate Filing (“ERF”).
- 24 4. The Commission should reject Public Counsel witness Glenn Watkins’ proposed
25 rate increases to Open Access delivery rate Schedule 449, and Standby Generation
26 rate Schedule 459.

27 My failure to address other witnesses’ testimony should not be interpreted as
28 support for their positions.

1 **II. RESPONSE TO STAFF WITNESSES JING LIU AND JASON BALL**

2 **II.A. Rate Design Schedules 40, 46 and 49**

3 **Q. DID STAFF WITNESSES LIU AND BALL MAKE RECOMMENDATIONS**
4 **CONCERNING THE DESIGN OF RATE SCHEDULES 46 AND 49?**

5 **A.** Yes. Staff witness Ball recommends that rate Schedules 46 and 49 be adjusted to
6 recover a greater amount of fixed costs in demand charges. He and Staff witness Liu
7 conclude that this rate design will produce greater stability in the recovery of fixed costs,
8 and, thus, justify the exemption of these rate schedules from PSE's decoupling
9 mechanisms. They accurately observe that the purpose of decoupling is to stabilize the
10 recovery of fixed costs, which is adequately accomplished with Mr. Ball's proposed rate
11 design for Schedules 46 and 49, without including the Schedules in a decoupling
12 mechanism.^{1/}

13 **Q. WHAT IS YOUR RESPONSE TO THE STAFF WITNESSES' RATE DESIGN?**

14 **A.** As an alternative to eliminating decoupling for PSE, as I proposed in my Response
15 Testimony, I support Staff's proposal to exclude Schedules 46 and 49 from the Schedule
16 142 decoupling mechanism in favor of Mr. Ball's proposed rate design for these
17 schedules. Large customers' demand billing units are more stable and less susceptible
18 to variations due to weather and economic conditions. Therefore, recovering fixed costs
19 in demand rates will stabilize PSE's revenue collection, and accomplish the revenue
20 stabilization objective of a decoupling mechanism. Because customers can more
21 accurately plan for their cost of electricity service without a decoupling mechanism,
22 Staff's proposed rate design would produce a more balanced result for both the
23 Company and its large customers by using a rate design which enhances revenue

^{1/} Exh. No. JLB-1T at 54:3-10; Exh. No. JL-1CT at 31:3-10.

1 stability to recover fixed costs, as opposed to relying on a decoupling regulatory
2 mechanism which makes it more difficult for large customers to plan and budget for
3 their cost of electric service because the deferrals they will be subject to are more
4 unpredictable. Staff's proposal with respect to Schedules 46 and 49 should be approved.

5 **Q. DO YOU HAVE ANY OTHER COMMENTS ON STAFF'S PROPOSAL?**

6 A. Yes. Staff's proposed rate design and exclusion from decoupling for Schedules 46 and
7 49 should also be made to Schedule 40 if the Commission determines to retain this
8 schedule. ICNU witness Bradley Mullins testifies in response to Staff's proposal to
9 eliminate Schedule 40.

10 As PSE witness Piliaris testified in his direct and supplemental testimony, the
11 production and transmission cost under Schedule 40 is tied to the demand charge in rate
12 Schedule 49, adjusted for delivery voltage losses.^{2/} As such, recovering all fixed costs
13 and demand components for Schedules 46 and 49 should also apply to Schedule 40.
14 Also, for the same reasons Schedules 46 and 49 should be exempt from the decoupling
15 mechanism based on the Staff's fixed cost recovery rate design, so too should Schedule
16 40 be exempt from decoupling.

17 **II.B. Revenue Spread**

18 **Q. DO YOU HAVE ANY COMMENTS CONCERNING STAFF'S PROPOSED**
19 **REVENUE SPREAD?**

20 A. Yes. In his Direct Testimony, PSE witness Piliaris proposed applying the system
21 average rate increase to schedules within five percent of parity, and an increase of 75%
22 of the average to schedules that are more than 5% above parity. Staff witness Ball

^{2/} Exh. No. JAP-1T at 53:16-20; Exh. No. JAP-34T at 2:15-17.

1 accepts PSE's methodology, but applies it to Staff's proposed revenue requirement,
2 which results in an overall rate decrease. Thus, Mr. Ball is proposing to adjust the
3 various rate schedule revenues based on either a uniform system average decrease, or
4 75% of the uniform system average decrease. Doing so, as shown at page 15 of Mr.
5 Ball's testimony under Table 2, results in rate schedules that are already above parity to
6 move even farther above their cost of service, with parity ratios as high as 109% for
7 Schedules 46 and 49 at proposed rates. Under Staff's proposed spread, Schedules 46
8 and 49 will be further above parity than all other rate schedules.

9 **Q. DO YOU BELIEVE THAT STAFF'S PROPOSAL IS APPROPRIATE?**

10 **A.** No. If the Commission adopts Staff's claimed revenue requirement decrease, then
11 Staff's proposed spread of a revenue decrease would not properly move classes toward
12 cost of service. Further, with a revenue decrease, a more aggressive movement toward
13 cost of service can be accomplished without creating a detrimental impact, or rate shock,
14 on any specific rate schedule. Therefore, if a rate decrease is approved, I recommend
15 that the Commission adjust all rate schedules to cost of service in this proceeding. This
16 would require an above system average revenue decrease to rate schedules that are
17 above parity to reflect their rates being substantially above current cost of service, and
18 a below system average revenue decrease to rate schedules that are below parity.

19 Alternatively, if the Commission still chooses a gradual step movement toward
20 cost of service, then Staff's proposal for a 75% of system average decrease for schedules
21 that are farthest above their cost of service should be revised. Those customers that are
22 priced at above cost of service, and have a parity ratio greater than 105% of their cost
23 of service, should receive at least 100% of the system average decrease, and those
24 customers that have parity ratios of less than 105% of their cost of service should receive

1 a decrease of 75% of the system average decrease. This reverses Staff's position. This
2 would be a more equitable spread of a revenue decrease, and would accomplish the
3 objective of moving rate classes toward cost of service.

4 **IV. RESPONSE TO PUBLIC COUNSEL WITNESS GLENN WATKINS**

5 **Q. DO YOU HAVE CONCERNS ABOUT ANY OTHER PARTIES' RATE SPREAD**
6 **PROPOSALS?**

7 **A.** Yes. Public Counsel witness Glenn Watkins proposes to increase rates for Schedules
8 449/459 by 150 percent of the system average increase. Customers served under these
9 schedules would see a 10.97 percent rate increase.^{3/}

10 **Q. WHAT IS MR. WATKINS' RATIONALE FOR HIS PROPOSAL?**

11 **A.** Mr. Watkins notes that the parity ratio for Schedules 449/459 is at approximately 65%
12 in the Company's electric cost of service study. He testifies that "[g]iven the desire to
13 move those classes with parity ratios significantly below 100 percent closer to system
14 parity, I see no reason for this class to sustain a significantly smaller increase than the
15 jurisdictional system average."^{4/}

16 **Q. IS THE COMPANY'S CLASS COST OF SERVICE STUDY AN ADEQUATE**
17 **METHOD TO DETERMINE WHETHER OR NOT RATE SCHEDULES 449/459**
18 **PRICES ARE REASONABLY CONSISTENT WITH THE COMPANY'S COST**
19 **OF SERVICE?**

20 **A.** No. These rate structures are unique in the way they are designed, and pass through the
21 Company's cost of providing service to the customers that take service under these rate
22 schedules. The Company's class cost of service study measures cost based on system
23 average cost and allocates these costs across rate classes for purposes of designing rates.

^{3/} Exh. No. GAW-1T at 36:14-18.

^{4/} Id. at 36:14-16.

1 However, rate Schedules 449/459 have rates that either directly pass-through the
2 Company's cost of providing service, or directly allocate costs to these rate schedules.
3 Therefore, the cost of service study simply is not a useful nor accurate tool to determine
4 whether or not the charges for Schedules 449/459 are reasonably consistent with PSE's
5 cost of providing service.

6 **Q. PLEASE DESCRIBE SCHEDULES 449/459.**

7 **A.** Schedule 449 was created in 2001 as part of a settlement between the Company and
8 some of its large customers. The settlement resolved a complaint these customers filed
9 that alleged the Company had not charged them just and reasonable rates during the
10 Western Energy Crisis when power prices reached unprecedented levels.^{5/} Schedules
11 449/459 are retail wheeling schedules that allow these customers to purchase their
12 electric commodity from third-party suppliers and have it delivered over the Company's
13 transmission and distribution system.

14 Schedule 459 provides backup distribution service to certain customers on
15 Schedule 449 who have installed self-generation to meet all or a portion of their load.

16 **Q. PLEASE FURTHER DESCRIBE WHY THE COMPANY'S COST OF SERVICE**
17 **STUDY DOES NOT ACCURATELY MEASURE PSE'S COST OF PROVIDING**
18 **SERVICE TO SCHEDULES 449/459.**

19 **A.** Unlike other retail customers of the Company, the vast majority of the charges under
20 rate Schedules 449/459 are actually a pass-through of cost-based rates approved by the
21 Federal Energy Regulatory Commission ("FERC"). As such, this rate schedule does
22 not receive an allocated share of PSE's retail cost of production and transmission
23 capacity service in a similar way as the other rate schedules. Rather, this rate schedule

^{5/} Air Liquide America Corp. et al. v. PSE, Docket Nos. UE-001952/UE-001959, 11th Supp. Order (Apr. 5, 2001).

1 does not pay PSE production costs and receives a direct pass-through of PSE's FERC
2 approved transmission service rates, as well as either direct assignment or a contractual
3 allocation of PSE costs of service. The design of rate Schedules 449/459 is distinct and
4 different from the other retail classes' cost of service, and therefore PSE's retail cost of
5 service study does not produce an accurate gauge of whether Schedule 449/459 are
6 priced at cost of service.

7 Again, the Company's cost of service study classifies Production, Transmission,
8 Distribution, and Administrative and General costs, and allocates these costs to PSE's
9 various rate schedules based on approved allocation factors. However, rate Schedules
10 449/459 do not procure power production service from PSE, and therefore the
11 methodology used to allocate retail production cost of service (production and
12 transmission) services, does not accurately describe how this rate compensates PSE for
13 services provided. Rather than paying a portion of the system average allocated
14 production and transmission costs, rate Schedules 449/459 get no allocated production
15 cost, and pays for transmission service based on PSE transmission charges and ancillary
16 costs based on a direct pass-through of PSE's Open Access Transmission Tariff. This
17 is a cost-based rate that is administered by the FERC^{6/} and applied to Open Access cost
18 of service. Schedules 449/459 customers have very little distribution costs because they
19 are served almost exclusively at transmission voltage,^{7/} but the distribution costs they
20 do incur are collected via the Company's Schedule 62, which effectively leases a portion
21 of the Company's substations and related equipment used to provide service to the
22 customer.

^{6/} PSE Schedule 449, Sheet No. 449-I.

^{7/} Exh. No. JAP-7 at 2-3.

1 Another factor that distinguishes this schedule from PSE's other schedules is
2 that this tariff schedule also ensures that the customer fully pays for these costs because
3 it imposes a termination charge that collects all unrecovered costs and decommissioning
4 in the event the customer does not fulfill the terms of the agreement.^{8/}

5 Schedules 449/459 customers also currently pay a distribution demand charge;
6 however, PSE has proposed to eliminate this charge in favor of a significantly higher
7 customer charge in order to simplify pricing for these customers.^{9/} Finally, to the extent
8 Schedules 449/459 customers have dedicated facilities, these are paid for pursuant to a
9 separate service agreement with the Company.^{10/} These costs represent the unique costs
10 incurred by PSE in providing the service to these customers.^{11/}

11 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO MR. WATKINS'**
12 **PROPOSAL TO INCREASE SCHEDULES 449/459 RATES BY 150% OF THE**
13 **AVERAGE RATE INCREASE?**

14 **A.** For the reasons discussed above, I recommend that the Commission reject this proposal.
15 It is inconsistent with established cost-causation and cost-allocation principles and rests
16 on a fundamental misunderstanding of how customers on Schedules 449/459
17 compensate PSE for costs incurred under these rates.

18 **III. RESPONSE TO STAFF WITNESS THOMAS E. SCHOOLEY**

19 **Q. DO YOU HAVE ANY COMMENTS CONCERNING MR. SCHOOLEY'S**
20 **DIRECT TESTIMONY?**

^{8/} PSE Schedule 62, Sheet No. 62-D.

^{9/} Exh. No. JAP-1T at 74:3-5; Exh. No. JAP-16 at 80.

^{10/} PSE Schedule 449, Sheet No. 449-I.

^{11/} Exh. No. JAP-1T at 74:17-18.

1 **A.** Yes. I am responding to Mr. Schooley’s testimony supporting the Expedited Rate Filing
2 (“ERF”) proposal made by PSE in its initial filing.^{12/} Unfortunately, it appears that Mr.
3 Schooley is unjustifiably following PSE’s lead on this proposal. Like PSE, Mr.
4 Schooley has not offered any justification in support of the ERF mechanism proposed
5 by PSE. Hence, this mechanism should be rejected as unnecessary and unreasonable.

6 **Q.** **PLEASE PROVIDE A SUMMARY OF PSE’S USE OF AN EXPEDITED RATE**
7 **FILING TO SET RATES.**

8 **A.** As noted by Mr. Schooley, the ERF was used to set PSE’s rates in 2013.^{13/} These were
9 highly contested cases that attempted to combine two multi-party settlements into one
10 overarching proceeding.^{14/} The settling parties were PSE, Commission Staff, and the
11 Northwest Energy Coalition. ICNU, among others, requested that the Commission
12 reject the settlements for numerous reasons

13 The multiparty settlements were centered around three principal “deals.” First,
14 the settling parties agreed to terms regarding overall rate increases for PSE, and the use
15 of its proposed ERF to set rates. Next, the settling parties agreed to terms regarding
16 PSE’s use of a decoupling mechanism that included what is referred to as the “K-factor.”
17 Finally, the settlement included a multi-year rate plan wherein PSE agreed to “stay out”
18 and not seek general rate relief until 2016, but in exchange was provided with fixed 3%
19 annual rate increases.

20 **Q.** **WHY IS THIS HISTORY IMPORTANT TO THIS CASE?**

^{12/} Exh. No. TES-1T at 29-30.

^{13/} Id. at 29:4-5; see also WUTC v. PSE, Docket Nos. UE-130137/UG-130138 (*consolidated*),
Order 07 (June 25, 2013).

^{14/} The initial settlement package also included an agreement dealing with PSE’s Coal Transition
Power Purchase Agreement (“PPA”) with TransAlta, a Canadian company that owned and
operated the Centralia coal-fired power plant.

1 **A.** It is important for many reasons. First, Mr. Schooley testifies that an ERF is appropriate
2 for PSE given the facts of this case. It is not. The ERF was originally conceived by
3 Staff to address regulatory lag and its potential impact upon the earnings of the
4 Company.^{15/} However, the Company’s financial condition and ability to earn its
5 authorized return have greatly improved since 2013. In fact, PSE has been very
6 successful at earning a return that is higher than its authorized return, without an ERF,
7 since 2015.^{16/} As a result, the Company has been required to share these excessive
8 earnings with ratepayers.^{17/} Mr. Schooley provides these facts in his testimony, but
9 ignores them to conclude the PSE deserves the additional earnings boost provided by
10 an ERF.^{18/}

11 In addition, the procedural context and supporting conditions encountered by the
12 Commission when it made its 2013 decision are much different than in the present case.
13 In 2013, PSE’s ERF proposal was packaged with its decoupling program, and sweetened
14 by its agreement to both a multi-year rate plan and an excessive earnings sharing
15 mechanism. As a package, these elements formed the basis of the multi-party settlement
16 between PSE, Staff and NWEA. For reasons stated in Order 06, the Commission
17 rejected the settlement,^{19/} but approved PSE’s ERF and decoupling proposals by
18 separate order (Order 07).^{20/} Included in Order 07 were the approvals of the Company’s
19 rate plan and the 50/50 excessive earnings sharing requirement.^{21/} In this case, the ERF

^{15/} Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 07 ¶¶ 33-34.

^{16/} Exh. No. DAD-1T at 4.

^{17/} Exh. No. TES-1T at 9-10.

^{18/} In stark contrast, he also encourages the Commission to “reset the program” and “re-introduce PSE to the concept of risk,” after considering PSE’s over-earnings. Exh. No. TES-1T at 9-11.

^{19/} Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 06 ¶¶ 15-27 (June 25, 2013).

^{20/} Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 07 at 93-95.

^{21/} Id. at 94.

1 is being offered by PSE as a stand-alone proposition, and not as an element of a multi-
2 faceted settlement package. Furthermore, all of the conditions of settlement agreed to
3 by PSE in 2013, such as the 50/50 excessive earnings sharing mechanism, are not
4 advocated by PSE in this case.^{22/} In sum, the Commission's 2013 decision to approve
5 the ERF reflected the facts and circumstances presented at that time. These same facts
6 and circumstances are not present in this case.

7 The best evidence of this is the fact that Staff recommends that the Commission
8 reduce PSE's rates by 2.2%, or \$46 million dollars, in this case.^{23/} This recommendation
9 is clearly disjointed from Mr. Schooley's recommendation that the Company be allowed
10 to file an ERF following this case. Apparently, the Company is to reduce rates to correct
11 for *overearning*, but is then to update rates through the ERF shortly thereafter to mitigate
12 *underearning* resulting from regulatory lag. This makes no sense.

13 **Q. DOES MR. SCHOOLEY CONSIDER THE IMPACT ON CUSTOMERS**
14 **THROUGH USE OF AN ERF IN ASSESSING THE APPROPRIATENESS OF**
15 **THIS PROGRAM?**

16 **A.** It does not appear so. Mr. Schooley does quote from the Commission's Order 07 at
17 page 9 of his testimony noting that the multi-year rate plan approved in 2013 was
18 designed to incent PSE to cut costs in order to allow it to earn its authorized rate of
19 return. PSE now is in a position to accomplish this objective without an ERF. However,
20 what is equally important is the Commission's recognition that efficiencies realized by
21 PSE during the rate plan period ultimately mean rates to customers should be lower than

^{22/} PSE is, however, advocating that the mechanism's sharing bands be adjusted to give the Company 50% more of the excessive earnings than it agreed to in 2013.

^{23/} Exh. No. TES-1T at 3:21; Exh. No. MCC-1T at 4:1-2.

1 they otherwise would have been without PSE's incentive to reduce costs and the
2 resulting increase in its overall return.

3 As such, extraordinary regulatory mechanisms should only be used if there is a
4 need for balancing of interests for the competitive rates for customers, and providing
5 the Company the mechanisms necessary to allow it to earn its authorized return. The
6 ERF is not needed, and subjecting customers to unnecessary rate increases that
7 ultimately may result in refunds through excess earnings adjustment later will constitute
8 a regulatory mechanism that is not balanced.

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON MR. SCHOOLEY'S**
10 **SUPPORT FOR THE ERF.**

11 **A.** Mr. Schooley seems to support the ERF simply because it agrees with his regulatory
12 philosophy that it is an efficient way to reduce regulatory lag. He makes no attempt to
13 justify its application to *this* case, however, or to explain how the mechanism would
14 balance the interests of ratepayers and the Company should it be adopted. Nor does he
15 attempt to reconcile the need for an ERF and PSE's ability to earn its authorized return.

16 From my reading of Order 07, it appears that the Commission was
17 experimenting with innovative regulatory tools such as the ERF and rate plan to address
18 PSE's recurring under-earnings and the constant filing of rate cases facing Staff and
19 interested parties.^{24/} For the reasons I present above, PSE's ability to earn its return is
20 no longer in question. Furthermore, PSE is not offering to "stay out" and refrain from
21 filing general rate cases if the ERF is approved. Without any evidence of regulatory
22 lag, of which there can be none in this case given PSE's overearning, there is no basis
23 for approval of an ERF.

^{24/} Docket Nos. UE-130137/ UG-130138 (*consolidated*), Order 07 at 8-11.

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

2 **A.** Yes, it does.

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