

BOEHM, KURTZ & LOWRY

ATTORNEYS AT LAW
36 EAST SEVENTH STREET
SUITE 1510
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255
TELECOPIER (513) 421-2764

VIA E-FILE and
OVERNIGHT MAIL

August 9, 2017

Mr. Steven V. King, Executive Director
Washington Utilities and Transportation Commission,
1300 S. Evergreen Park Drive, S.W.
P.O. Box 47250
Olympia, Washington 98504-7250

Attn: Filing Center

Re: Docket No. UE-170033/UG-170034 (Consolidated)

Dear Mr. King:

Enclosed please find the original and eleven (11) copies of the CROSS-ANSWERING TESTIMONY OF KEVIN C. HIGGINS on behalf of THE KROGER CO. for filing in the above-referenced dockets. Please note that we also filed the above via electronic mail on same date.

By copy of this letter, all parties listed on the Certificate of Service have been electronically served. Please place this document of file.

Very Truly Yours,



Kurt J. Boehm, Esq.

Jody Kyler Cohn, Esq.

BOEHM, KURTZ & LOWRY

MLKkew

Enclosures

cc: Certificate of Service

**EXHIBIT NO. ____ (KCH-4T)
DOCKET NOS. UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: KEVIN C. HIGGINS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-170033
Docket No. UG-170034**

**CROSS-ANSWERING TESTIMONY OF
KEVIN C. HIGGINS
ON BEHALF OF THE KROGER CO.**

August 9, 2017

Table of Contents

1
2
3
4
5
6
7

I. INTRODUCTION1

II. SUMMARY AND RECOMMENDATIONS.....1

III. RESPONSE TO MR. BALL REGARDING SCHEDULE 40.....2

IV. RESPONSE TO MR. WATKINS REGARDING RATE SPREAD.....5

V. RESPONSE TO MS. LIU REGARDING REVENUE DECOUPLING.....9

1 **CROSS-ANSWERING TESTIMONY OF KEVIN C. HIGGINS**

2

3 **I. INTRODUCTION**

4 **Q. Please state your name and business address.**

5 A. My name is Kevin C. Higgins. My business address is 215 South State
6 Street, Suite 200, Salt Lake City, Utah, 84111.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. Are you the same Kevin C. Higgins who provided pre-filed Response**
12 **Testimony, on June 30, 2017, on behalf of The Kroger Co. (“Kroger”)?**

13 A. Yes, I am.

14

15 **II. SUMMARY AND RECOMMENDATIONS**

16 **Q. What is the purpose of your Cross-Answering testimony?**

17 A. In my Cross-Answering testimony, I respond to:

- 18 • The recommendation of Staff witness Jason L. Ball to eliminate Schedule 40;
- 19 • The recommendations of Attorney General (AG) witness Glenn A. Watkins
20 regarding rate spread; and
- 21 • The recommendation of Staff witness Jing Liu to exclude larger electric
22 customers from the revenue decoupling mechanism.

23 **Q. Please summarize your conclusions and recommendations.**

1 A. Eliminating Schedule 40 will result in exceedingly large rate increases for
2 some customers and will disregard the benefit of the work that has been done to
3 directly assign distribution costs for those customers based on cost causation. I
4 recommend that the Commission retain Schedule 40 without any changes except
5 those proposed by PSE in the Direct Testimony of Jon Piliaris.

6 Mr. Watkins' rate spread proposal represents an unreasonable divergence
7 from the principles of cost causation. The +/- 10% band that Mr. Watkins
8 proposes, in which rate classes will receive the adjusted average rate increase
9 without any additional movement towards parity, is unreasonably large and
10 should be rejected.

11 Ms. Liu's recommendation to exclude larger electric customers from the
12 decoupling mechanism should be adopted.

13

14 **III. RESPONSE TO MR. BALL REGARDING SCHEDULE 40**

15 **Q. Please describe Staff's proposal to eliminate Schedule 40.**

16 A. Staff witness Jason Ball recommends the elimination of Schedule 40.
17 According to Mr. Ball, Schedule 40 should be closed to new customers and the
18 current Schedule 40 customers should be transitioned to other rate schedules in
19 the year following the implementation of rates from this case. Mr. Ball provides
20 an alternative recommendation in which customers currently on Schedule 40
21 could negotiate special service contracts with PSE if it is appropriate to recognize
22 a unique situation.

1 **Q. What are Mr. Ball's reasons for recommending that Schedule 40 be**
2 **eliminated?**

3 A. Mr. Ball describes the Schedule 40 distribution rate as involving a
4 convoluted calculation of distribution assets for each Schedule 40 customer.
5 According to Mr. Ball, such an approach is inconsistent with the purpose of a
6 tariff, which groups similar customers together to calculate aggregate rates.¹
7 Further, Mr. Ball claims that the use of tariff rate components from other rate
8 schedules for a portion of Schedule 40 rates results in a nonsensical rate structure
9 comprised of unrelated rate components.²

10 **Q. What is your response to Mr. Ball's claim that Schedule 40 is inconsistent**
11 **with the purpose of a tariff?**

12 A. I do not disagree that the determination of distribution costs under
13 Schedule 40 is somewhat complex. However, this rate schedule has been in place
14 since 2005 and the details surrounding the direct assignment of distribution costs
15 unique to each Schedule 40 customer have already been developed. Thus, the
16 work of implementing this rate schedule has already been done. Moreover, I do
17 not agree that Schedule 40 is inconsistent with the purpose of a tariff. When
18 possible, direct assignment of costs is preferable to the averaging of costs that
19 occurs when costs are allocated. Whereas it is impractical to directly assign
20 distribution costs across all customers in a system, in the case of Schedule 40, this
21 effort has been completed for customers with unique campus attributes. Since the
22 directly-assigned costs used in Schedule 40 have already been identified, the

¹ Response Testimony of Jason L. Ball, p. 46

² Id., p. 46.

1 public interest is not served by ignoring this information and forcing these
2 customers to migrate to other rate schedules where they will pay more.

3 **Q. How do you respond to Mr. Ball's assertion that the use of tariff rate**
4 **components from other rate schedules for a portion of Schedule 40 rates**
5 **results in a nonsensical rate structure?**

6 A. Mr. Ball's characterization is inaccurate and unduly harsh. Mr. Ball
7 illustrates his point by claiming that "a discounted energy charge from Schedule
8 49 does not have any relation to the demand charge from Schedule 26 – yet a
9 Schedule 40 [customer's] bill includes both of these rates."³ However, contrary to
10 Mr. Ball's depiction, the production and transmission *energy and demand* charges
11 for Schedule 40 are linked to the Schedule 49 High Voltage rate, adjusted for
12 losses, to account for the fact that the aggregated load of each of these customers
13 is comparable to the load of high voltage customers. Using the same rate as the
14 basis for both demand and energy charges demonstrates appropriate consistency,
15 contrary to Mr. Ball's depiction of the situation.

16 **Q. Does Mr. Ball provide any analysis regarding the impacts of transitioning**
17 **Schedule 40 customers to other tariffs?**

18 A. Yes. Mr. Ball provides estimated bill impacts on each Schedule 40
19 customer on an annual basis based on their billed usage during the test year. The
20 estimated bill increases range between 7% and 29% for Schedule 40 customers to
21 migrate to other rate schedules.⁴

22 **Q. How does Mr. Ball propose to mitigate the bill impacts on these customers?**

³ Id., p. 46.

⁴ Id., p. 50

1 A. Mr. Ball states the one-year time frame he has proposed is a reasonable
2 transition period because it allows the effects of the Microsoft special contract to
3 be known and gives the remaining customers time to plan for a rate change.

4 **Q. Do you have any concerns with the extensiveness of the rate impacts that**
5 **would result from Mr. Ball's proposal?**

6 A. Yes. As shown in Mr. Ball's analysis, there would be significant rate
7 impacts for customers currently on Schedule 40 that range from ~7% to ~29%.
8 Some customers will have rate impacts that are three or four times greater than
9 PSE's proposed system average increase. Mr. Ball's proposal to transition these
10 customers over the course of a year does not reasonably mitigate these impacts
11 and is not consistent with the principles of gradualism.

12 **Q. What is your recommendation for Schedule 40?**

13 A. I recommend that the Commission reject Mr. Ball's proposal to eliminate
14 Schedule 40. Eliminating the schedule and moving those customers to other rate
15 classes would cause those customers to experience significant rate increases,
16 some of which would be far in excess of the system average. Moreover, directly
17 assigning distribution costs to customers when practicable is a more accurate way
18 to align costs with causation. Further, the required effort in determining the
19 directly-assigned distribution costs has already been performed.

20

21 **IV. RESPONSE TO MR. WATKINS REGARDING RATE SPREAD**

22 **Q. Please describe Mr. Watkins' rate spread proposal.**

1 A. Mr. Watkins concurs with the Company's proposal to price the Non-
2 Jurisdictional Resale business at the full cost of service. Additionally, he
3 proposes a few changes to the rate spread proposed by PSE. Mr. Watkins
4 explains that the Irrigation and Retail Wheeling classes are so revenue deficient
5 that their revenues should be increased at 150% of the jurisdictional system
6 average, or 10.97%. This proposal does not bring those classes to parity ratios up
7 to 100%, but it does move them closer to parity. Mr. Watkins also takes issue
8 with the Company's proposal that classes with a parity percentage greater than
9 105% should receive a rate increase at only 75% of the adjusted system average.
10 According to Mr. Watkins, all the remaining jurisdictional classes have parity
11 ratios that are within a 10% band of unity, and he recommends that those
12 remaining classes all receive an equal percentage increase of 7.30% at the
13 Company's requested revenue requirement.⁵

14 **Q. What reasoning does Mr. Watkins provide for recommending an equal**
15 **percentage increase to all of the jurisdictional classes that are within 10**
16 **percent of parity?**

17 A. Mr. Watkins states that the Company's proposal to use a 5% band above
18 parity, above which a class would receive a rate increase that is less than the
19 adjusted system average, is too narrow, and notes anecdotally that other cost of
20 service studies would produce different results than the Company's study,
21 although he admits in his Response Testimony that the Company's cost of service

⁵ Response Testimony of Glenn A. Watkins, pp. 37-38.

1 “results obtained by Mr. Piliaris’ Peak Credit study are within the range of
2 reasonableness.”⁶

3 **Q. Do you have any concerns with Mr. Watkins’ proposal to provide an equal**
4 **percentage increase to all of the jurisdictional classes that are within 10**
5 **percent of parity?**

6 A. Yes, I disagree with Mr. Watkins’ proposal. Under the revenue
7 requirement parity ratios used by PSE, a class’s parity ratio is a direct measure of
8 how far the class’s revenue allocation deviates from its cost of service. Thus,
9 when the Company is earning its fully-authorized revenue requirement, a class
10 with a parity ratio of 106%, for example, is paying rates that are 6% above its cost
11 of service.⁷ Under Mr. Watkins’ proposal, a class that is at 90% of parity under
12 current rates would receive the same percentage revenue increase as a class that is
13 at 110% of parity.⁸ That is a very wide range of imprecision to accept without
14 making any adjustments to the average rate increase of certain classes to move
15 them closer to cost.

16 The unreasonableness of Mr. Watkins’ proposal is apparent when one
17 considers that PSE’s cost-of-service study demonstrates that several rate
18 schedules (24, 25/29, 26, 46/49) actually deserve rate *decreases*. Yet under Mr.
19 Watkins’ proposal, these rate schedules would receive the adjusted average
20 increase. Mr. Watkins’ proposal does not allow these customers to advance

⁶ Id., p. 33

⁷ Some notes on terminology: PSE calculates revenue-to-cost ratios at both current and proposed rates, whereas the class parity ratios are presented only at current rates. A class’s parity ratio is the class’s revenue-to-cost ratio divided by the system’s revenue-to-cost ratio. Therefore, a class’s parity ratio at proposed rates is equal to its revenue-to-cost ratio at proposed rates.

⁸ The actual parity ratios captured within Mr. Watkins’ +/- 10% parity proposal range from 95% to 109%, which is still an unreasonably large range in this case.

1 sufficiently toward cost of service and sets them up to be perpetual subsidizers of
2 other customers.

3 **Q. What is your recommendation regarding rate spread?**

4 A. As I explain in my Response Testimony, I recommend a rate spread that
5 makes movement toward the cost of service. It is important to align rates with
6 cost causation, to the greatest extent practicable. Properly aligning rates with the
7 costs caused by each customer group is essential for ensuring fairness, as it
8 minimizes cross subsidies among customers. It also sends proper price signals,
9 which improves efficiency in resource utilization.

10 While it can be appropriate to mitigate the impact of moving immediately
11 to cost-based rates for certain reasons, it is important to adopt a long-term strategy
12 of moving in the direction of cost causation, and to avoid practices that result in
13 permanent cross-subsidies from other customers.

14 I recommend that the Commission reject Mr. Watkins' rate spread
15 proposal to adopt a 10% band around parity where there would be no adjustments
16 to the adjusted system average increase for classes within that band. The band is
17 unreasonably large and hinders movement in the direction of cost causation.
18 Instead, the Commission should adopt the rate spread recommended in my
19 Response Testimony, in which the rate schedules needing a rate decrease to
20 achieve parity in PSE's cost-of-service study would receive no more than 35% of
21 the adjusted average increase.

22

23

1 **V. RESPONSE TO MS. LIU REGARDING REVENUE DECOUPLING**

2 **Q. Please describe Ms. Liu’s recommendation regarding the exclusion of larger**
3 **electric customers from the decoupling mechanism.**

4 A. Based on her evaluation, Ms. Liu concludes that decoupling is not suitable
5 for customer groups with few customers and diverse usage patterns. She notes
6 that revenue decoupling for a group with few customers may cause rate volatility
7 within the group, such as might occur if a very large customer on the schedule
8 leaves the group. She also points out the challenges to set a revenue-per-customer
9 target for a small group of diverse large users based on a snapshot of the test year,
10 noting that the usage-per-customer target for the group will be susceptible to
11 individual large customers’ business cycles and conservation efforts. Ms. Liu
12 further notes that the changes in usage for these customers tend to have a larger
13 magnitude than the residential and small non-residential customers who have
14 much more homogeneous usage patterns within the group and more stable trends.
15 She also concludes that rate design is a better tool than revenue decoupling to
16 address the concern of fixed cost recovery for large customers. Accordingly, Ms.
17 Liu recommends excluding customers on Schedules 12/26, 10/31, 29, 35, 40, 46
18 and 49 from the decoupling mechanism going forward.⁹

19 **Q. What is your response to Ms. Liu’s recommendation?**

20 A. I find Ms. Liu’s testimony persuasive and I fully support her
21 recommendation to exclude these customers from the decoupling mechanism. In
22 the 2013 PSE Decoupling Case, I presented a number of similar arguments

⁹ Response Testimony of Jing Liu, pp. 31, 35-42.

1 regarding the inappropriateness of including larger electric customers in a revenue
2 decoupling mechanism.¹⁰ My recommendation to exclude such customers was
3 not accepted by the Commission at that time, although after petitioning for
4 reconsideration, Kroger was successful in reaching a compromise with the
5 stipulating parties in that case in which Kroger agreed to a modified decoupling
6 mechanism for Schedules 10, 12, 26, and 31. In the modified mechanism,
7 demand charge revenue is used as the basis for determining the actual delivery
8 revenue used in the decoupling deferral calculation for these rate schedules. The
9 agreement, which was approved by the Commission, also included an increase in
10 the demand charges for these rate schedules. While the modified mechanism that
11 was negotiated in that case is an improvement over the originally-proposed
12 mechanism (in which “actual” revenues-per-customer for non-residential
13 customers were imputed based solely on changes in kilowatt-hour sales), I agree
14 with Ms. Liu that the most appropriate regulatory treatment is to exclude these
15 larger customers from the decoupling mechanism entirely. Consequently, I
16 support Ms. Liu’s recommendation and request that it be adopted.

17 **Q. Does this conclude your Cross-Answering Testimony?**

18 **A. Yes, it does.**

¹⁰ See Docket No. UE-130137/UG-130138 & UE-121697/UG-121705, Prefiled Response Testimony of Kevin C. Higgins on Behalf of The Kroger Co., pp. 24-31.

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Respondent.

Docket No. UE-170033

Docket No. UG-170034

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)

COUNTY OF SALT LAKE)

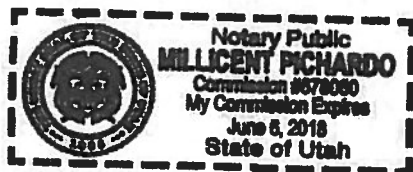
Kevin C. Higgins, being first duly sworn, deposes and states that:

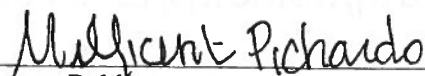
1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;
2. He is the witness who sponsors the testimony entitled "Cross-Answering Testimony of Kevin C. Higgins on Behalf of the Kroger Co.";
3. Said testimony was prepared by him;
4. If inquiries were made as to the facts in said testimony he would respond as therein set forth; and
5. The aforesaid testimony is true and correct to the best of his knowledge, information and belief.



Kevin C. Higgins

Subscribed and sworn to or affirmed before me this 8th day of August, 2017, by Kevin C. Higgins.

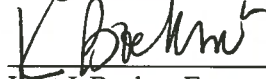




Notary Public

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the parties listed on the attached Certificate of Service by regular U.S. mail and electronic mail (when available) this 9th day of August, 2017.



Kurt J. Boehm, Esq.

Jody Kyler Cohn, Esq.

MASTER SERVICE LIST
Docket #UE-170033/UE-170034

Sally Brown
sbrown@utc.wa.gov

B. Mullins
brmullins@mwanalytics.com

Brian T. Moran
brian.moran@orrick.com

Leslie Rothbaum
leslie@ffitchlaw.com

Chad M Stokes
cstokes@cablehuston.com

Data Request Response Center Puget Sound Energy
psedrs@perkinscoie.com

Brett Shearer
Bshearer@utc.wa.gov

Alexa Zimbalist
alexa.zimbalist@sierraclub.org

Kay Davoodi
khojasteh.davoodi@navy.mil

Edward Finklea
efinklea@nwigu.org

Robert McKenna
rmckenna@orrick.com

Jesse Gorsuch
jog@dvclaw.com

Armikka R. Bryant
armikkab@atg.wa.gov

Andrew O'Connell
AOConnel@utc.wa.gov

Tommy A. Brooks
tbrooks@cablehuston.com

Donna Barnett
dbarnett@perkinscoie.com

David Steele
dsteele@perkinscoie.com

Larry Allen
larry.r.allen@navy.mil

Tom Butler
tommybutler@mt.gov

Damon E Xenopoulos
dex@smxblaw.com

Jennifer Cameron-Rulkowski
JCameron@utc.wa.gov

Carla Colamonic
carlac@atg.wa.gov

Wendy Gerlitz
wendy@nwenergy.org

Corey Dahl
coreyd@atg.wa.gov

Betsy DeMarco
bdemarco@utc.wa.gov

Noah Long
nlong@nrdc.org

Ali Al-Jabir
aaljabir@consultbai.com

Makda Solomon
makda.solomon@navy.mil

Carol Baker
carol@ffitchlaw.com

Shaun Mohler
scm@smxblaw.com

Silvia Tanner
silvia@renewablenw.org

Simon ffitch
simon@ffitchlaw.com

Dina Dubson Kelley
dina@renewablenw.org

Chris Casey
ccasey@utc.wa.gov

MASTER SERVICE LIST
Docket #UE-170033/UE-170034

Sheree Strom Carson
scarson@perkinscoie.com

Krista Gross
kgross@utc.wa.gov

Ken Johnson
ken.s.johnson@pse.com

Adam Tabor
atabor@orrick.com

Patrick Oshie
pjo@dvclaw.com

Tyler Pepple
tcp@dvclaw.com

Lisa W Gafken
Lisaw4@atg.wa.gov

Joni Bosh
joni@nwenergy.org

Jason Kuzma
JKuzma@perkinscoie.com

Jeff Roberson
jroberso@utc.wa.gov

Chanda Mak
chandam@atg.wa.gov

Travis Ritchie
travis.ritchie@sierraclub.org

Rita M. Liotta
rita.liotta@navy.mil

Goodin, Amanda
agoodin@earthjustice.org

PCCSeaEF@atg.wa.gov