

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
v.)	Dockets UE-121697 and UG-121705
)	<i>(Consolidated)</i>
PUGET SOUND ENERGY, INC.,)	
)	Dockets UE-130137 and UG-130138
)	<i>(Consolidated)</i>
Respondent.)	
)	
)	
)	
_____)	

RESPONSE TESTIMONY OF MICHAEL C. DEEN
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

April 26, 2013

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EXHIBITS

Exhibit No.__(MPG-2) – Qualification Statement of Michael C. Deen	
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1 **I. INTRODUCTION**

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

3 **A.** My name is Michael C. Deen, and my business address is 900 Washington Street, Suite
4 780, Vancouver, Washington 98660. I am employed by Regulatory and Cogeneration
5 Services, Inc. (“RCS”), a utility rate and consulting firm.

6 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

7 **A.** I have been involved in the electric utility industry for over 6 years. During that time, I
8 have served as an analyst and expert on a variety of power supply, cost, ratemaking, and
9 policy topics—primarily regarding the Bonneville Power Administration and Pacific
10 Northwest utilities. I provided testimony on behalf of the Industrial Customers of the
11 Northwest Utilities (“ICNU”) before the Washington Utilities and Transportation
12 Commission (the “Commission” or “WUTC”) in the Puget Sound Energy general rate
13 case, consolidated dockets UE-111048/UG-111049, in the PacifiCorp Washington
14 general rate case, docket UE-111190, and in the Avista decoupling proceeding,
15 consolidated dockets UE-110876/UG-110877. A further description of my educational
16 background and work experience can be found in Exhibit No.____ (MCD-2).

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

18 **A.** I am testifying on behalf of ICNU. ICNU is a non-profit trade association whose
19 members are large industrial customers served by electric utilities throughout the Pacific
20 Northwest, including Puget Sound Energy (“PSE” or the “Company”).

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

22 **A.** The purpose of this testimony is to address the proposed Multiparty Settlement (“Global
23 Settlement”) that proposes to settle issues related to PSE's Petition for Reconsideration

1 and Motion to Reopen the Record filed on January 22, 2013 ("Petition For
2 Reconsideration") in Docket UE-121373, issues in the joint petition for decoupling in
3 Dockets UE-121697 and UG-121705, and issues in PSE's Expedited Rate Filing ("ERF")
4 in Dockets UE-130137 and UG-130138. In addition to addressing the overall merits of
5 the settlement proposal as a package, this testimony will also address aspects of the
6 underlying proposals and circumstances of the cases involved in the Global Settlement,
7 particularly as related to the ERF, the decoupling proposal, and the associated rate plan.

8 **Q. WOULD THE GLOBAL SETTLEMENT, IF IMPLEMENTED, CREATE RATES**
9 **THAT ARE JUST, FAIR, REASONABLE, AND SUFFICIENT?**

10 **A.** No. PSE and Staff have made clear that the decoupling mechanism, rate plan, and ERF
11 mechanisms promoted by the Global Settlement are meant to work together to
12 cumulatively set rates between 2013, and until at least February of 2016, possibly until
13 February of 2017, and will involve cumulative rate increases of up to nearly \$351 million
14 (\$227 million from decoupling and rate plan charges and \$123 million in ERF revenues
15 through February 2017 relative to current rates). This three-part rate regime breaks
16 from the Commission's cost-based rate methodology, meaning that there is no way of
17 knowing whether these increases will reflect PSE's actual revenue requirement needs—
18 or, as appears more likely, simply act as an annual rate increase and a substantial shift of
19 risk to ratepayers.

20 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY A BREAK FROM COST-BASED**
21 **METHODOLOGY.**

22 **A.** A fundamental principle of Commission ratemaking has been that a test year matches
23 expenses and revenues in a fixed period and projects that historic relationship into the
24 rate year, subject to known and measurable adjustments. As the Commission stated in its

1 Final Order in UE-111048, “the relationship between rate base, expenses and revenues is
2 used to represent the future and to set prospective rates adequate to allow a reasonable
3 return.”^{1/} Here, PSE and Staff have abandoned that approach and propose rate increases
4 that pick and choose from multiple time periods, while ignoring known and measurable
5 adjustments.

6 To explain, if the Global Settlement is accepted as proposed, PSE’s permitted cost
7 of capital and power costs will be set based on the 2010 test year that was used in PSE’s
8 last rate case. PSE’s rate base and non-power costs will be set on a hybrid test year
9 created specifically for this case—a 12 month period ending on June 30, 2012. But, for
10 the purposes of this discussion, matching these hybrid 2011/2012 costs to select 2010
11 assumptions violates the matching principle and the fundamental ratemaking principle
12 that a test year should match contemporaneous costs and revenues to create an accurate
13 rate relationship.^{2/}

14 PSE’s request for a one-time ERF attrition adjustment and yearly K-Factor
15 attrition adjustments are included in the “rate plan.” PSE requests these adjustments
16 based on an assertion that it is chronically under-earning.^{3/} This is problematic, because
17 both PSE and Staff fail to provide a cost-based attrition study to quantify that claim;
18 rather, they justify these unprecedented rate increases on the basis that PSE failed to
19 reach target return on equity (“ROE”), primarily during 2008, 2009, and 2010.^{4/} This
20 means that rather than adjusting a test year for demonstrated attrition and providing
21 evidence that such uncontrollable attrition will continue during the future rate years, Staff

^{1/} WUTC v. PSE, Docket Nos. UE-111048 and UG-111049, Order 08 ¶ 490 (May 7, 2012) (“Order 08”).

^{2/} See Order 08 ¶ 490.

^{3/} WUTC v. PSE, Docket Nos. UE-121697/UG-121705, Exh. No. __ (KJB-1T), 4:19-22.

^{4/} Docket Nos. UE-121697/UG-121705, Exh. Nos. __ (TES-1T) at 12:18-13:5; (TES-3); (KJB-1T) at 5:3-7.

1 and PSE rely on reduced financial returns from up to five years ago—during the heart of
2 the “Great Recession”—when few if any companies were posting robust earnings. On
3 this basis, they ask the Commission to allow substantial increases in the present and
4 future. In sum, rather than using a test year to set rate relationships and adjusting for
5 known and measurable changes (or even using an attrition adjustment to create evidence-
6 based projections), PSE and Staff pick and choose among results of operations from
7 2008, 2009, 2010, 2011, and part of 2012. In so doing, PSE and Staff have decided to
8 create a “rate cocktail” having little to do with the cost of service for 2013, let alone for
9 2014, 2015, 2016, and potentially 2017, when this rate plan, if approved, would still be
10 burdening customers with yearly increases.

11 **Q. ARE THERE ANY OTHER FACTORS IGNORED IN PROPOSING THESE**
12 **RATES?**

13 **A.** Yes. As noted above, evidence-based rate making involves setting a relationship based
14 on a single test year and adjusting for known and measurable factors. By creating a
15 hybrid test year that ignores half of 2012, PSE has avoided acknowledging that its results
16 of operations for the past year are already drastically improved—likely as a function of
17 Washington’s steady economic recovery. In all likelihood, if PSE had just waited to use
18 a standard 2012 test year (which is common practice), much or all of PSE’s claimed
19 “revenue deficiency” would disappear from its books. It also appears that if PSE
20 considered the U.S. Treasury Grant received for its Wild Horse Wind Farm, all shortfalls
21 would essentially disappear. Mr. Gorman’s testimony will demonstrate that PSE does not
22 currently have an earnings problem and the ERF is not justified.

1 Further, a significant portion of PSE’s service territory has recently been sold to
2 Jefferson Public Utility District, yet nowhere does PSE account for what changes this
3 known and measurable event will make to its rate base and costs. In addition, as a
4 general matter, capital costs have dropped since the data used for PSE’s 2010 ROE was
5 produced.^{5/} This is more fully explained by the Testimony of Mike Gorman, who
6 demonstrates that a number of vital adjustments to PSE’s costs—including debt costs, its
7 actual capital structure, and an update to its overstated ROE requirement—are ignored in
8 PSE’s hybrid, mismatched proposed rate structure.

9 **Q. WHAT DOES THIS MEAN FOR THE VALIDITY OF THE RATES UNDER**
10 **THIS “RATE PLAN”?**

11 **A.** It means that the rates proposed are arbitrary and not cost-based. Any customer group
12 could pick and choose elements from the five years used by PSE and Staff and produce
13 any number of combinations, which, in turn, would produce much different results than
14 those advocated by PSE. For example, combining PSE’s current appropriate capital costs
15 and current energy costs with a 2010 test year would likely lead to a significant rate
16 decrease. Likewise, Staff’s justification for a yearly attrition adjustment—that PSE is
17 chronically “under-earning”—is driven by reported financial results from 2008-2010.^{6/}
18 If, instead, PSE’s reported earnings were subject to a trend analysis, with PSE’s 2012
19 results included, a more likely conclusion would be that PSE is on course to over-earn
20 during the rate plan period because PSE’s earnings are rising without the help of any rate
21 plan.

^{5/} WUTC v. Avista, Docket Nos. UE-120436/UG-120437, Order 09 ¶ 74 (Dec. 26, 2012).
^{6/} Exh. Nos. __ (TES-1T) at 12:18-13:5; (TES-3).

1 The point, however, is that none of these methods are properly cost-based, and
2 none of them, particularly that chosen by PSE, will produce evidence-based rates. PSE
3 and Staff propose a method of ratemaking that makes up the rules as it goes along. And,
4 while the evidence presented does not demonstrate the rates will be fair, just, reasonable
5 and sufficient in 2013, there is absolutely no evidence that the rate increases the rate plan
6 will effect in 2016 (and potentially in 2017) would be fair, just, or reasonable.

7 **Q. PLEASE BRIEFLY SUMMARIZE YOUR FINDINGS AND**
8 **RECOMMENDATIONS ADDRESSED IN THIS TESTIMONY.**

9 **A.** At the broadest level, ICNU has found that the Global Settlement as proposed is not in
10 the public interest and would not produce fair, just, and reasonable electric rates. The
11 proposed changes in rates are very substantial and not based on cost of service, the
12 proposed decoupling mechanism does not appear to be conservation program-driven, and
13 the proposed resolution of the outstanding Petition for Reconsideration in the Centralia
14 docket is both of both dubious value to consumers and has no substantive relationship to
15 the other issues in the Global Settlement.

16 Further, the process by which the proposed Global Settlement has been reached,
17 as well as the features of the settlement itself, form a radical departure from historic
18 WUTC practice and undermine foundational aspects of regulation in the state of
19 Washington to the detriment of customers.

20 For these reasons, ICNU recommends that the Global Settlement and its
21 constituent parts should be rejected in their entirety. However, if the Commission wishes
22 to continue with the Global Settlement construct, ICNU has a number of
23 recommendations to make the proposal more balanced for customers.

1 **II. ANALYSIS OF ERF AND RATE PLAN IMPACTS**

2 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE ERF**
3 **AND RATE PLAN.**

4 **A.** As currently proposed, the ERF and rate plan elements of the Global Settlement will not
5 produce cost based rates. Also, the benefits to ratepayers alleged by Staff are, at best,
6 drastically overstated. If the Commission wishes to continue with the Global Settlement
7 construct, to address the flaws identified in this section of testimony the Commission
8 should reject the novel use of end of period rate base in the ERF, make cost of capital an
9 issue in the Global Settlement proceedings, and include more meaningful customer
10 protections.

11 **Q. PLEASE DESCRIBE THE PROPOSED RATE AND VALUE COMPONENTS OF**
12 **THE GLOBAL SETTLEMENT AGREEMENT.**

13 **A.** The Global Settlement is composed of a variety of disparate parts. The core elements are
14 the ERF, the “rate plan”, the joint decoupling proposal, and the resolution of issues in the
15 Coal Transition Power Purchase Agreement (“PPA”) order from the Commission.

16 The ERF serves to provide an updated baseline for the so-called “delivery” related
17 portion of PSE’s revenue requirement based on the 12-month period ending June 30,
18 2012. The costs included in this proposed rate increase are PSE’s remaining costs after
19 property taxes and power costs. PSE’s filing alleges a revenue deficiency of
20 approximately \$32 million for these delivery related costs, or 1.6% of total rates (and
21 approximately 5% of delivery revenues).

22 The rate plan component of the settlement establishes a base Revenue Per
23 Customer (“RPC”) from the ERF for delivery revenues and then applies a 3% increase
24 immediately and then another 3% annual increase for each year the rate plan is in effect.

1 This first 3% K-Factor increase to delivery RPC would result in a \$21.2 million electric
2 rate increase to customers.

3 The decoupling proposal represents a revised joint proposal by the Northwest
4 Energy Coalition (“NWEC”) and PSE. Under this proposal, the delivery RPC for a given
5 year is multiplied by actual customers in that year to give a total amount of delivery
6 revenue that PSE is allowed to recover for that year. Any variation from actual allowed
7 delivery revenues is deferred with interest for recovery from customers in the following
8 year.

9 The last central component of the settlement is the resolution of PSE’s Motion for
10 Reconsideration regarding the Commission’s order on the acquisition of coal transition
11 power. The Commission order in that proceeding allowed for ongoing approval authority
12 of the prudence of the PPA and left the method of cost recovery (including the equity
13 adder) to a later time. The Global Settlement provides PSE certainty that the
14 Commission will not make a prudency disallowance of costs incurred under the Coal
15 Transition PPA at a future time and also gives the PSE the option to either seek recovery
16 of the PPA costs and equity adder through a power cost only rate case (“PCORC”) or cost
17 deferral filing (or combination thereof) as the Company sees fit. In exchange for these
18 considerations, PSE agrees to withdraw any challenge of the \$1.49/MWh level of the
19 equity adder.

20 In addition to the agreements above, PSE agrees under the settlement to not file a
21 general rate case not before April 1, 2015, and no later than April 1, 2016. The
22 settlement document also specifies that the settling parties expect that PSE will file a

1 PCORC on or before May 1, 2013, and may file additional PCORCs before the end of the
2 general rate case stay out period.

3 **Q. WHAT IS THE FINANCIAL IMPACT TO CUSTOMERS OF THE PROPOSED**
4 **AGREEMENT?**

5 **A.** The full potential impact of the settlement for electric customers is likely to be between
6 approximately \$211 and \$351 million, relative to current rates and depending on the
7 length of the term. However, the precise impacts are impossible to quantify given the
8 uncertainty of the amounts of potential deferrals under the decoupling proposals and the
9 impacts of potential multiple PCORC filings during the period of the rate plan.

10 **Q. IS THERE POTENTIAL FOR ADDITIONAL COSTS RELATED TO THE**
11 **SETTLEMENT?**

12 **A.** Absolutely. Under the Global Settlement PSE maintains the ability to file PCORC rate
13 adjustments. Deferral adjustments from the decoupling mechanism could also result in
14 substantial rate increases beyond those contemplated in the rate plan. There are
15 numerous other items exempt from the so-called rate moratorium.

16 **Q. ARE THERE ANY CONSUMER PROTECTIONS INCLUDED IN THE**
17 **SETTLEMENT?**

18 **A.** The Global Settlement includes two alleged customer protections. The first of these is a
19 three percent “soft cap” on overall rate increases in any given year. The second is an
20 earnings test that would cap PSE’s earning at 25 basis points above the authorized level
21 and allow PSE to retain 50% of any such over earnings above the cap level.

22 **Q. DO THESE CONSTITUTE MEANINGFUL CONSUMER PROTECTIONS?**

23 **A.** No. I will discuss the defects of the proposed earnings test in more detail in the
24 decoupling portion of this testimony. The 3% soft cap on revenue increases is without
25 any significant merit to customers. This is because any amounts in excess of the 3% are

1 deferred by the Company for later collection from customers, with interest. Therefore in
2 effect there is no limit on the amount of increased revenue that PSE could collect from
3 customers for a given year. To make matters worse, the deferral collection does not end
4 at the conclusion of the rate plan. Any amounts left in the deferral account at the end of
5 the rate plan would continue to be collected, in addition to whatever rate increases PSE
6 seeks at that time.

7 **Q. HOW DOES ICNU RECOMMEND THAT THESE CUSTOMER PROTECTIONS**
8 **BE IMPROVED?**

9 **A.** At a minimum, the soft cap should be made a hard cap in each year, and any amount of
10 revenue increases in excess of the cap should not be deferred for future collection. As
11 described in more detail in the decoupling section of this testimony, I recommend that the
12 true-up be capped at the allowable rate of return (“ROR”), not 25 basis points above the
13 ROR. Similarly, PSE should not be permitted to retain 50% of its excess earnings from
14 customers, whatever the cap level.

15 **Q. DO THE RATE MECHANISMS CONTEMPLATED UNDER THE GLOBAL**
16 **SETTLEMENT PROPERLY CONSIDER THE RELATIONSHIP BETWEEN**
17 **PSE’S COSTS AND RATE REVENUES?**

18 **A.** Absolutely not. The Global Settlement is a calculated attempt to subvert the regulatory
19 process by not providing the Commission and customer groups an opportunity to
20 consider the full picture of PSE’s costs and revenues.

21 **Q. WHAT OFFSETTING FACTORS ARE BEING OBSCURED BY THE CHOSEN**
22 **PRESENTATION OF FACTS IN THESE PROCEEDINGS?**

23 **A.** First, the use of a hybrid test year for the ERF provides a fundamentally distorted picture
24 of PSE’s earnings. Additionally, the alleged under-earnings claimed in the ERF do not
25 consider the full picture of PSE’s earnings, including, in particular, changes in its cost of

1 capital, adjustments to the Company's risk profile as a result of the proposed decoupling
2 mechanism, or the Company's recent power costs.

3 **Q. PLEASE DESCRIBE PSE'S RECENT PATTERN OF ACTUAL POWER COSTS**
4 **AS COMPARED TO COSTS IN RATES.**

5 **A.** For 2011 and 2012, PSE has drastically over-recovered its power costs relative to the
6 levels set in rates. In 2011, PSE's actual power costs were approximately \$41 million
7 lower than budgeted amounts.^{7/} In 2012, PSE's actual power costs were approximately
8 \$44 million lower than the budgeted amounts.^{8/} The Global Settlement gives absolutely
9 no consideration to this pattern in determining PSE's alleged under-earning and need for
10 various types of attrition relief. Again, the claims of needing \$32 million through the
11 ERF is based on old and selective data.

12 **Q. DOES THE ERF RELY STRICTLY ON COMMISSION BASIS REPORT**
13 **RESULTS IN THE ERF REVENUE DEFICIENCY CALCULATION?**

14 **A.** No. In addition to the fact that PSE uses a hybrid 2011-2012 reporting year that is based
15 on non-audited results, the Company's revenue deficiency calculation is dependent on the
16 novel use of end of period ("EOP") rate base amounts, rather than the Commission
17 standard of average of monthly averages ("AMA") rate base for the test period.

18 **Q. WHAT IS THE RATIONALE FOR THIS PROPOSED CHANGE?**

19 **A.** The testimony of Ms. Barnard describes that this change was agreed upon with Staff as a
20 way in which to alleviate regulatory lag between the test year and the rate year.^{9/} Ms.
21 Barnard further supports this change on the basis of a single line from Order 08 from

^{7/} Exh. No. __ (MCD-7) at 5.

^{8/} Id.

^{9/} Docket Nos. UE-130137/UG-130138, Exh. No. __ (KJB-1T) at 16:20-17:4.

1 Dockets UE-111048 and UG-111049 in which the Commission stated it would be open to
2 considering such a change.^{10/}

3 **Q. IS THIS CHANGE APPROPRIATE?**

4 **A.** Absolutely not. This is an extremely significant methodology change from both the
5 Company's approved methodology in the last general rate case, and from Commission
6 practice in general. This type of methodological change should only be considered in the
7 context of general rate case when a full picture of the relationship between the
8 Company's test year and rate year are available. Further, the ERF and the rate plan are in
9 themselves methods to address alleged attrition or regulatory lag issues. The addition of
10 EOP rate base is simply an additional selective measure to extract revenue increases from
11 rate payers.

12 **Q. HAS ICNU ANALYZED THE EFFECTS ON THE ERF REVENUE DEFICIENCY**
13 **OF USING AMA RATE BASE RATHER THAN EOP RATE BASE?**

14 **A.** Yes. Based on PSE's supplemental response to ICNU Data Request 1.5 in the ERF
15 proceeding, using AMA rate base in the revenue deficiency calculation would reduce the
16 stated revenue deficiency from approximately \$32.2 million to \$18.6 million.

17 **Q. PLEASE DESCRIBE STAFF'S POSITION REGARDING THE GLOBAL**
18 **SETTLEMENT.**

19 **A.** Staff's support of the Global Settlement agreement is presented in the testimony of Mr.
20 Schooley, Exhibit No. ___(TES-1T). Staff's general position is that the settlement
21 produces fair and reasonable results, including the plan for "minor" increases over the
22 next 2-3 years. Staff also asserts that the Global Settlement will support Commission
23 policy goals to streamline the regulatory process to break the cycle of constant rate case

^{10/} Order 08 ¶ 506.

1 filings by the Company, remove throughput incentives to the Company, and resolve
2 issues related to the PPA in a manner that is “fair and timely.”

3 **Q. WHAT ANALYSIS SUPPORTS STAFF’S POSITION REGARDING THE**
4 **PROPOSED GLOBAL SETTLEMENT?**

5 **A.** As supported by numerous data responses from Staff as well as deposition of Staff
6 witnesses in these proceedings, Staff appears to have conducted very limited independent
7 analysis of the elements of the proposed Global Settlement and has instead relied heavily
8 on the Company’s analysis.^{11/} Staff is on record estimating the settlement impacts are
9 between \$160 and \$200 million^{12/} over that time span for gas and electric customers,
10 which drastically understates the potential impacts to electric customers during the
11 timeframe of the settlement.

12 **Q. FROM A RATEPAYER PERSPECTIVE, WHAT BENEFITS DOES STAFF**
13 **BELIEVE THE SETTLEMENT WILL ACHIEVE?**

14 **A.** In response to ICNU Data Request 4.7, Staff provided the following description of
15 benefits to customers resulting from the Global Settlement:

16 Benefits to PSE’s customers include relative bill certainty through
17 2015, annual increases through 2015 that are roughly equal to, or
18 less than, increases in gas and electric rate provide in recent
19 general rate cases, a decoupling regime that ensures PSE’s rates
20 reflect the impact of mandatory conservation , and energy from the
21 Centralia coal plant at costs that are lower than what PSE had
22 originally proposed through the reduced equity adder.

23 **Q. WILL THE RATE ELEMENTS OF THE GLOBAL SETTLEMENT DELIVER**
24 **THE BENEFITS PURPORTED BY STAFF?**

25 **A.** No. ICNU is extremely skeptical of Staff’s analysis of the benefits to customers under
26 the settlement proposal.

^{11/} Exh. No. __ (MCD-4) at 1, 14 (Deposition of Thomas E. Schooley at 32:19-23, 84:22-85:4).

^{12/} Exh. No. __ (MCD-3) at 32 (Deposition of Deborah J. Reynolds at 77: 4-20); Exh. No. __ (MCD-4) at 7 (Deposition of Thomas E. Schooley at 65: 15-23).

1 **Q. PLEASE DISCUSS THE ALLEGED BENEFIT OF BILL CERTAINTY DURING**
2 **THE PERIOD OF THE GLOBAL SETTLEMENT.**

3 **A.** The Global Settlement sets automatic increases to a portion of PSE’s costs, but as
4 discussed previously, there is the potential for substantial and ongoing additional rate
5 increases due to the proposed decoupling mechanism. Also, the time period for which
6 the rate plan will be in effect is in itself uncertain. Perhaps most importantly, the Global
7 Settlement provides absolutely no certainty regarding the level of PSE’s power costs
8 during the rate plan period, which represents two thirds of PSE’s billing to customers.
9 PSE has the full option to file multiple PCORCs during the rate plan. Given that PSE is a
10 sophisticated company with a duty to protect the financial interest of its foreign
11 shareholders, it would be naïve to assume that PSE’s choices in filing PCORCs during
12 the settlement period will be timed for any other purpose than to maximize revenues that
13 it collects from its customers. As discussed below, the settlement strips away the
14 requirement that PSE file a general rate case (“GRC”) soon after a PCORC to protect
15 customers from such behavior.

16 **Q. WILL THE PROPOSED DECOUPLING MECHANISM ACHIEVE**
17 **COMMISSION POLICY GOALS RELATED TO CONSERVATION?**

18 **A.** No. The extensive problems with the proposed decoupling mechanism are discussed
19 later in this testimony.

20 **Q. DOES THE RESOLUTION OF ISSUES RELATED TO THE PPA PROVIDE**
21 **SUBSTANTIAL BENEFITS TO CUSTOMERS?**

22 **A.** No. This is one of the most puzzling aspects of the settlement proposal as it is
23 completely unrelated to the other elements. Indeed it is the only power-cost related item
24 specifically addressed in the Global Settlement. As described by Staff in response to
25 ICNU Data Responses 4.6 and 4.23, the resolution of issues related to ongoing prudence

1 determinations and the method of cost recovery for the PPA merely clarify and add detail
2 to the existing Commission Order.^{13/} Taking this analysis at face value, the resolution of
3 these issues provides little value to rate payers as it merely implements details of an
4 existing order.

5 Regarding PSE’s “acquiescence” to the Commission ordered \$1.49 per MWh
6 equity adder rather than PSE’s proposed \$2.92 per MWh initial proposal, ICNU again
7 sees minimal value to rate payers. As a preliminary matter, ICNU is extremely skeptical
8 of PSE’s ability to effectively challenge the Commission’s ruling in a fully litigated
9 proceeding with a full procedural schedule and final order which carefully considered
10 both the Company and parties’ positions. Second, the amount of money at stake per year
11 between the two bookend values of the equity adder is trivial in the context of the total
12 amounts of revenue increases and damaging policy decisions being undertaken in the
13 other elements of the proposed Global Settlement. From the period of December 2014
14 (when the PPA would take effect) to December of 2017 (i.e., the first three years of the
15 PPA), the difference between the Company’s proposed equity adder and the Commission
16 approved amount is only about \$3.5 million per year. Further, it is ICNU’s risk analysis
17 that even if the Commission were to allow the record to be reopened in UE-121373 on
18 the issue of the equity adder, it is unlikely that the Company would gain its full requested
19 amount. Thus, during the rate plan period, the value to consumers of PSE’s withdrawal
20 of its request for reconsideration is likely only a fraction of the full \$3.5 million per year.

21 Lastly, as part of Staff’s response to ICNU Data Request 4.6, Staff states that,
22 “Further value is found in settling these matters while they are fresh in our minds,

^{13/} Exh. No. __ (MCD-7) at 1-2.

1 avoiding the need to resurrect and relearn the issues sometime in the distant future.”
2 ICNU notes that one of the purposes of developing a written factual record in a
3 proceeding is to allow for unresolved or reopened issues to be cogently addressed at a
4 later time. Given the presence of the written factual record and detailed reasoning in the
5 Commission orders in the UE-121373 proceeding, ICNU does not view resolving the
6 selected issues from that proceeding at this time “while they are fresh in our minds” as a
7 compelling benefit of the proposed Global Settlement.

8 **Q. WILL THE GLOBAL SETTLEMENT ACHIEVE THE GOAL OF PROVIDING**
9 **REGULATORY RELIEF TO COMMISSION STAFF AND CUSTOMERS FROM**
10 **ANNUAL RATE FILINGS BY THE COMPANY?**

11 **A.** Not particularly. Under the terms of the Global Settlement, in 2013 customers and staff
12 will have been presented with the ERF to increase PSE’s non-power costs, a novel
13 decoupling proposal, and a PCORC to address PSE’s power costs. In future years of the
14 Global Settlement, PSE may very well file additional PCORCs to increase power costs.
15 Finally, to the extent that PSE exercises the option to extend its general rate case stay out
16 to the latest possible date, as rational actors, it would only mean that doing so was the
17 best option to maximize returns to its shareholders to the detriment of customers.

18 **Q. WHY IS IT APPROPRIATE TO ADDRESS PSE’S COST OF CAPITAL IN THE**
19 **PRESENT DOCKETS?**

20 **A.** There are a number of important reasons why PSE’s cost of capital should be addressed
21 at this time. As a simple factual matter, the test year basis on which PSE’s currently
22 authorized ROR is set is now significantly out of date. Equally important on a policy
23 level, the settlement terms as proposed have allowed PSE to address all other issues
24 related to its costs in a piecemeal fashion while avoiding adjustments to its authorized

1 cost of capital, which, as shown by the testimony of ICNU witness Michael Gorman, are
2 significantly too high. The rules related to PSE's ability to file a PCORC state that PSE
3 must file a general rate case within 3 months of filing a PCORC that increases rates. The
4 entire purpose of this provision is to prevent PSE from filing expedited rate mechanisms
5 that address portions of its costs without giving full consideration to the relationship
6 between all important components of the Company's costs and revenues, which is needed
7 to ensure the establishment of fair, just and reasonable rates. This is exactly the situation
8 that will occur under the Global Settlement if customers are not allowed to present
9 evidence regarding cost of capital. Finally, without cost of capital evidence as part of the
10 Global Settlement proposal, it will be difficult to make an appropriate adjustment to the
11 Company's cost of capital to reflect the significant decrease in risk as a result of the
12 proposed decoupling mechanism.

13 **Q. IF THE COMMISSION SHOULD DEEM FOR SOME REASON THAT IT IS**
14 **NOT APPROPRIATE TO ADDRESS COST OF CAPITAL IN THE CURRENT**
15 **PROCEEDINGS, DOES ICNU HAVE A RECOMMENDED ALTERNATIVE?**

16 **A.** Yes. A simple solution would be for the Commission to make PSE's cost of capital an
17 open issue in the upcoming PCORC filing and make the results of that determination
18 effective retroactively on all of PSE's costs.

19 **Q. DID ICNU SUPPORT A RATE PLAN AS PART OF AVISTA'S LAST GENERAL**
20 **RATE CASE?**

21 **A.** Yes. ICNU is not inherently adverse to rate plans. However, the circumstances between
22 the Avista proposal and the current proceedings are extremely different. That two-year
23 rate plan came as part of a general rate case which considered all elements of Avista's
24 costs, including cost of capital, on a consistent basis. Additionally, the Avista settlement

1 did not include a decoupling proposal with substantial deviations from the Commission’s
2 policy statement regarding decoupling.

3 **Q. HOW WAS THE PROPOSED GLOBAL SETTLEMENT AT ISSUE IN THESE**
4 **PROCEEDINGS DEVELOPED?**

5 **A.** It was developed by Staff, NWECA and PSE in settlement meetings or “technical
6 workshops” without the inclusion of any other parties.

7 **Q. WAS THE PROCEDURE USED TO DEVELOP THE GLOBAL SETTLEMENT**
8 **AND ITS CONSTITUENT PARTS EQUITABLE TO RATE PAYERS?**

9 **A.** No. Conducting settlement negotiations in secret does not result in a balanced result as
10 no party was exclusively representing ratepayers’ interests.

11 **III. ANALYSIS OF AMENDED DECOUPLING PROPOSAL**

12 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE**
13 **AMENDED DECOUPLING PROPOSAL.**

14 **A.** The amended decoupling proposal should be rejected in light of the WUTC’s Report and
15 Policy Statement on Regulatory Mechanisms (the “Policy Statement”).^{14/} PSE and Staff
16 testimony reveal the proposed decoupling mechanism has little to no bearing on actual
17 conservation. Rather, the primary function of the proposed mechanism—addressing
18 PSE’s alleged earnings attrition—is a function that decoupling was never meant to
19 perform. No party has identified any disincentive to conservation that the decoupling
20 mechanism will remove. This means that the decoupling mechanism and accompanying
21 “rate plan” amount to a multi-year transfer of potentially over a hundred million dollars
22 from ratepayers to PSE shareholders. For this reason alone, the Commission should
23 reject the proposed mechanism and rate plan. Additionally, however, the Global

^{14/} Re WUTC Investigation into Energy Conservation Incentives, Docket No. U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets (Nov. 4, 2010) (“Policy Statement”).

1 Settlement mechanism and rate plan suffer from the same flaws that compelled Staff and
2 ICNU to recommend rejection of NWECC's last decoupling proposal.

3 **Q. COULD YOU SUMMARIZE THE BACKGROUND OF DECOUPLING BEFORE**
4 **THIS COMMISSION?**

5 **A.** Yes. Although decoupling is not a new issue before the WUTC, the decoupling
6 mechanism contained in the Global Settlement is both new and unprecedented. In 2010,
7 the Commission opened an inquiry into improving the performance of investor-owned
8 utilities ("IOUs") in the delivery of conservation resources to consumers. The WUTC
9 crafted its Policy Statement as the result of this inquiry, which included extensive
10 meetings and workshops with all stakeholders. The Policy Statement continues as the
11 Commission's most complete and thorough analysis of decoupling and other
12 conservation measures, and it chronicles the WUTC's efforts in the conservation
13 incentive field for the twenty years preceding the Policy Statement.

14 Following the issuance of the Policy Statement, NWECC proposed a "full
15 decoupling" mechanism as part of its 2011 general rate case, Docket Nos. UE-
16 111048/UG-111049 ("2011 GRC").^{15/} The Commission, however, concluded that PSE
17 was actually opposed to full decoupling in the 2011 GRC, and determined to not "require
18 PSE to implement full decoupling on this record."^{16/} The WUTC expressed surprise that
19 PSE "rejected another opportunity to effectively address the arguable adverse impacts of
20 conservation on earnings."^{17/} Ultimately, the Commission apparently considered PSE's

^{15/} Re PSE and NWECC for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanisms, Docket Nos. UE-121697 and UG-121705, Amended Petition for Decoupling Mechanisms ¶ 11 (Mar. 1, 2013) ("Amended Petition").

^{16/} Order 08 ¶ 456.

^{17/} Id. ¶ 455.

1 2011 “decoupling” proposal as an attrition mechanism, remarking that decoupling “was
2 never intended to supplant other tools that deal with demonstrated earnings attrition.”^{18/}

3 **Q. PLEASE SUMMARIZE THE BACKGROUND OF DECOUPLING PROPOSALS**
4 **IN THIS PROCEEDING.**

5 **A.** On October 25, 2012, PSE and NWECC filed a petition seeking approval of an electric and
6 natural gas decoupling mechanism and deferred accounting associated with the
7 mechanisms in Dockets UE-121697 and UG-121705. On March 1, 2013, PSE and
8 NWECC submitted an amended decoupling petition, with Staff filing testimony in support
9 of this revised proposal on March 4, 2013.

10 **Q. IS THE MODIFIED DECOUPLING PROPOSAL THE SAME AS THE**
11 **DECOUPLING PROPOSAL OFFERED BY NWECC IN DOCKET NO. UE-111048?**

12 **A.** No. As the parties supporting the settlement suggest, parts of the current modified
13 decoupling proposal appear to be based on NWECC’s decoupling proposal in UE-111048.
14 New elements, particularly the K-Factor and Rate Plan, drastically alter the function of
15 the NWECC proposal. Additionally, this decoupling proposal applies to customer classes
16 that NWECC previously testified should not be included in a decoupling mechanism. The
17 result of these new elements is that the decoupling proposal is now more appropriately
18 described as an attrition mechanism, not a mechanism to promote conservation. This is
19 highlighted by the fact that Staff has noted that PSE is not currently foregoing any
20 available opportunities to acquire conservation,^{19/} and the fact that PSE rejected NWECC’s
21 previous mechanism because it was not intended to “recover incremental revenue to
22 offset new investments between rate cases.”^{20/}

^{18/} Id.
^{19/} Exh. No. ___(MCD-3) at 9 (Deposition of Deborah J. Reynolds at 32:12-14).
^{20/} Order 08 ¶ 454.

1 **Q. DID THE COMMISSION APPROVE THE MECHANISM OFFERED BY NVEC**
2 **IN DOCKET NO. UE-111048?**

3 **A.** No. Staff appears to claim that the Commission conducted a full analysis of the former
4 NVEC proposal and the objections that were raised to it, and that Order 08 in that docket
5 somehow approved of all facets of the NVEC proposal and made it, not the Policy
6 Statement, the standard against which decoupling should be measured. I cannot find
7 support for this position in the Commission’s order. Numerous parties—including
8 Staff—raised objections to various aspects of the NVEC proposal, and the Commission
9 noted, but did not consider these objections because PSE’s rejection of the proposal
10 foreclosed the need to take up a detailed consideration of its merits. In fact, the
11 Commission noted that, while the “intent and general design” of NVEC’s proposal was
12 consistent with the “motivation behind [the] Policy Statement,” PSE’s opposition
13 foreclosed its adoption “regardless of the merit we might find on a close examination of
14 its details.”^{21/} Thus, the Commission made clear that it did not reach a close examination
15 of the details of NVEC’s proposal, let alone endorse any specific components that were
16 not already endorsed in the Policy Statement. Importantly, the Commission did not
17 conclude that it would have approved NVEC’s decoupling proposal without adjustments.

18 **THE WUTC POLICY STATEMENT ON DECOUPLING**

19 **Q. HAVE YOU REVIEWED AND CONSIDERED THE COMMISSION’S REPORT**
20 **AND POLICY STATEMENT ON DECOUPLING IN THIS TESTIMONY?**

21 **A.** Yes. The Commission’s Policy Statement remains the Commission’s most thorough
22 investigation concerning decoupling.^{22/} The Commission would be expected to use the
23 Policy Statement as a starting point to conduct the sort of detailed examination required

^{21/} Id. ¶¶ 455-456.
^{22/} Policy Statement.

1 for consideration of the decoupling proposal filed by PSE and NVEC and supported by
2 Staff. As I understand from parties who participated in the process that produced the
3 Policy Statement, the Commission’s decision resulted in a middle ground of sorts among
4 the various parties’ positions. Given the time and effort that produced the Policy
5 Statement, it would be surprising if the Commission abandoned it. The Policy Statement,
6 however, offers little guidance when attrition adjustments such as the K-Factor, or the
7 automatic rate escalator “rate plan” are involved, as is the case here. Nonetheless, sound
8 ratemaking principles and Commission precedent offer substantial guidance, as I discuss
9 later in my testimony.

10 **Q. DOES PSE’S DECOUPLING PROPOSAL CONFORM TO THE COMMISSION’S**
11 **POLICY STATEMENT?**

12 **A.** No. The decoupling proposal neither adheres to the Commission’s stated decoupling
13 policy nor achieves its underlying goals. The purpose of decoupling, according to the
14 Policy Statement, is to “remove barriers to utilities acquiring all cost-effective
15 conservation or to encourage utilities to acquire all cost-effective conservation.”^{23/} The
16 proposed decoupling mechanism in this case would not accomplish these goals.

17 First, PSE’s decoupling request has been made outside of a general rate case,
18 eliminating all the customer safeguards and the full balancing of interests made possible
19 in the context of a GRC proceeding. Second, the proposed mechanism would decouple
20 on a per-customer basis rather than a per-class basis—a stark contrast to the
21 Commission’s express preference. Third, the K-factor effectively guarantees utility profit
22 and insulates PSE from risk while failing to adequately incentivize conservation (in
23 addition to being unsupported in the record). Fourth, the proposed decoupling

^{23/} Id. ¶ 12.

1 mechanism and rate plan do not incorporate a decreased ROR and are also largely
2 unsupported. Fifth, there is no consideration of off-system sales of the power freed up
3 due to increased conservation or other power costs. Additionally, like the K-factor,
4 further proposed elements would effectively insulate PSE from risk without incentivizing
5 further conservation.

6 **Q. HAS PSE REQUESTED A DECOUPLING MECHANISM IN THE MANNER**
7 **PRESCRIBED BY THE POLICY STATEMENT?**

8 **A.** Quite the opposite, exposing a fatal flaw in PSE’s proposal. The Commission expressly
9 directed utilities to file decoupling requests in the context of a GRC. The Policy
10 Statement directs that the WUTC will consider a full decoupling mechanism request from
11 an electric IOU “[i]n the context of a general rate case [I]n its direct testimony of its
12 rate case filing.”^{24/} Indeed, the Commission mandated that even limited decoupling
13 requests from natural gas IOUs are to be made in the context of a GRC—a deliberate and
14 explicit reversal of an earlier indication from the Commission that such requests may
15 have been considered outside a GRC.^{25/}

16 The requirement for consideration of decoupling mechanisms only within the
17 context of a GRC is a crucial ratepayer safeguard. The Commission’s reversal on limited
18 decoupling requests was based on the anticipated impact of decoupling on ROE,^{26/}
19 raising equity and capital structure concerns that can best be addressed within a GRC.
20 Likewise, with four mandatory, public interest elements that must demonstrated (one
21 being ROR impact), and six (or more) additional criteria for decoupling approval, the
22 interests of electric IOU customers can only be adequately considered in a GRC context.

^{24/} Id. ¶ 28.

^{25/} Id. ¶ 18, n. 33.

^{26/} Id.

1 **Q. HAS THE COMMISSION GIVEN ANY INDICATION OF DEPARTING FROM**
2 **THE GRC REQUIREMENT CONTAINED IN THE POLICY STATEMENT?**

3 **A.** Actually, the WUTC’s Final Order in the PSE 2011 GRC appears to solidify the
4 requirement. In that order, when reiterating its willingness to consider variations to the
5 Policy Statement, the Commission did not waiver from its expectation that decoupling
6 requests are to be made within a GRC. After affirming that it “remains open to proposals
7 for a full decoupling mechanism” varying from the Policy Statement, the Commission
8 then noted the consistency of its flexible position.^{27/} Quoting from the Policy Statement,
9 the Commission emphasized that the guidance provided “does not imply that the
10 Commission would not consider other mechanisms *in the context of a general rate*
11 *case*”^{28/} There is no reason to believe the Commission has departed from the
12 requirement that decoupling requests are to be considered only within a GRC.

13 Notwithstanding, if the Commission is determined to abandon the GRC
14 requirement, care must be taken to replace customer protections afforded by the
15 thorough and complete review of decoupling mechanisms normally available in a GRC.
16 As discussed in the testimony of Mr. Gorman, impact on equity and capital structure will
17 be a vital component to the fair consideration of PSE’s decoupling proposal—a
18 consideration that should not be discarded simply because of PSE’s decision to file a full
19 decoupling request outside of a GRC.

^{27/} Order 08 at n. 617.

^{28/} Id. (emphasis added).

1 **Q. DOES THE PROPOSED DECOUPLING MECHANISM MEET THE BASIC**
2 **DESCRIPTION OF A PERMISSIBLE MECHANISM AS LAID OUT BY THE**
3 **COMMISSION IN THE POLICY STATEMENT?**

4 **A.** No. According to the Policy Statement, the Commission will consider a full decoupling
5 mechanism for electric IOUs if it will “allow a utility to either recover revenue declines
6 related to reduced sales volumes or, in the case of sales volume increases, refund such
7 revenues to its customers.”^{29/} This does not describe the Settlement mechanism. Rather,
8 PSE has proposed a mechanism, which, at its core, is a simple revenue escalator: if
9 volumes go down, recovery goes up; likewise, if volumes go up, recovery still goes up.

10 **Q. WHY DO YOU DRAW THIS CONCLUSION?**

11 **A.** Two primary reasons. This filing is apparently not about conservation, but has
12 everything to do with addressing PSE’s alleged attrition and increasing its rate recovery
13 from customers. But, as a policy matter, the proposal ignores the Commission’s guidance
14 for a per-class decoupling mechanism.

15 **Q. WHAT IS PER-CUSTOMER DECOUPLING AND HOW IS IT DIFFERENT**
16 **FROM PER-CLASS DECOUPLING?**

17 **A.** Per-customer decoupling is a system that sets a revenue per-customer rate, meaning that
18 when a utility’s rate base grows, so does the total revenue the utility is entitled to receive
19 through the true-up.^{30/} On the other hand, per-class decoupling divides a utility’s revenue
20 requirement proportionally among classes, and trues-up each class to the particular class
21 amount. While both methods assign a revenue requirement per customer, per-customer
22 decoupling automatically increases the utility’s revenue requirement when a new
23 customer joins the system. This is important since PSE expects to see load growth.

^{29/} Policy Statement ¶ 18, n. 33.

^{30/} Exh. No. __ (MCD-6) at 2.

1 Combined with the K-Factor—implementing its own fixed-percentage escalator to
2 rates—these two proposals would institute a significant automatic rate increase, which
3 has nothing to do with conservation.

4 **Q. IS PSE’S PER-CUSTOMER DECOUPLING PROPOSAL APPROPRIATE?**

5 **A.** No. While PSE’s proposal divides all customers between two rate groups,^{31/} it
6 effectively employs per-customer decoupling: calculating its Current Allowed Revenue
7 (“CAR”) by multiplying the monthly allowed Delivery Revenue Per Customer by the
8 number of customers in each rate group for that calendar month.^{32/} In other words, PSE’s
9 CAR increases whenever new customers join the system. This decoupling proposal
10 contradicts the stated policy and underlying goals of the WUTC.

11 **Q. PLEASE ELABORATE.**

12 **A.** The Policy Statement explicitly states that a true-up should track customer use by class,
13 and recover “revenue attributed to each affected class of customer,” rather than revenue
14 per-customer.^{33/} This deliberate choice is consistent with the rest of the Policy Statement,
15 in which the WUTC stated that the revenue produced by additional customers is a
16 constituent of “found margin,” meaning that it would offset reductions due to
17 conservation, weather, or economic downturn.^{34/} If additional customers are simply
18 added to the revenue requirement, as would occur under the PSE proposal, then the
19 revenue they produce cannot offset reductions related to conservation. It is also worth
20 noting that the decoupling proposal is not weather adjusted.^{35/}

^{31/} See Attachment A to Amended Petition at 2.

^{32/} Id. at 4.

^{33/} Policy Statement ¶ 28.

^{34/} Id. ¶ 11.

^{35/} Re PSE and NWEAC, Docket Nos. UE-121697 and UG-121705, Exhibit No. ___ (JAP-8T) at 5:21-22.

1 Additionally, the Commission expected that customer use by class could deviate
2 either above or below the established rate in a GRC.^{36/} Accordingly, the Commission
3 allowed for true-ups between GRCs, thereby facilitating more fair treatment—for both
4 utilities and customers—in the allocation of gains or losses as a result of found or lost
5 margin. If the proposed use of per-customer decoupling is employed, however, new
6 customers entering the class can never be accounted for as “found margin.”^{37/} That is,
7 the likelihood of underperformance by the class, as a whole, would increase because the
8 revenue requirement would grow with each new customer.

9 **Q. DO YOU HAVE ANYTHING FURTHER TO ADD ON THIS POINT?**

10 **A.** Yes. While the Commission did recognize that found margin “associated with new
11 customers is offset by the costs to serve those customers,”^{38/} it also noted that when those
12 costs and revenues are not in reasonable balance, the WUTC would consider excluding
13 some or all of the new customer revenue from the true-up mechanism.^{39/} In this
14 decoupling proposal, PSE has not demonstrated that costs and revenues related to found
15 margin are unreasonably balanced; notwithstanding, PSE still proposes to include new
16 customers in the revenue requirement. This distorts the balance of fairness between the
17 utilities and customers, because it ensures the utility has a continually growing revenue
18 requirement, effectively allowing the utility to potentially recover more than its
19 authorized ROR—all without accounting for found margin.

^{36/} Policy Statement ¶ 28.

^{37/} See id. ¶ 11.

^{38/} Id. at n. 44.

^{39/} Id.

1 **Q. HOW DOES THE K-FACTOR RELATE TO THE PER-CUSTOMER**
2 **DECOUPLING PROPOSAL?**

3 **A.** The K-Factor further ensures that the decoupling proposal will result in a one-way ratchet
4 up for rates, without incentivizing PSE to implement additional conservation measures.
5 A “K-factor is an adjustment used to increase or decrease overall growth in revenues
6 between rate cases.”^{40/} PSE’s decoupling proposal uses a K-factor of 1.03; in other
7 words, an annual 3% attrition multiplier that will be multiplied by the allowed delivery
8 rate per customer (“ADRPC”). Using an annual growth rate for the K-factor “runs the
9 risk of being disassociated from, and therefore out of sync with, measureable drivers of a
10 utility’s cost of service.”^{41/}

11 The cumulative effect of the K-factor-adjusted ADRPC and per-customer
12 decoupling is that revenue requirement will continue to grow at a steady pace, but will
13 not be offset by any found margin in the form of new customers. The effect of these two
14 policies ensures that the decoupling mechanism is a one-way ratchet to increase rates. If
15 accepted, the proposed mechanism would allow PSE to continually increase its revenue
16 requirement while also increasing its ADRPC by three percent annually. These policies
17 effectively insulate PSE from losses as result of conservation and improperly shift the
18 risk of loss from conservation measures to ratepayers.

19 **Q. HAVE ANY PARTIES MADE STATEMENTS SUPPORTING YOUR**
20 **TESTIMONY ON THE ATTRITION FOCUS OF THE PROPOSAL?**

21 **A.** Yes. As just explained, PSE’s decoupling mechanism and K-factor proposals would
22 operate as attrition revenue recovery devices, increasing rates between GRCs while

^{40/} Exh. No. __ (MCD-5) at 2 (REGULATORY ASSISTANCE PROJECT, REVENUE REGULATION AND DECOUPLING: A GUIDE TO THEORY AND APPLICATION 19 (2011) (“RAP”)).

^{41/} Id. at 3 (RAP at 20).

1 failing to incentivize conservation; however, express statements made in these dockets
2 also indicate that the proposal has been designed to address attrition rather than
3 decoupling.

4 **Q. HAVE YOU REVIEWED THE DEPOSITION TRANSCRIPT OF STAFF**
5 **WITNESS DEBORAH J. REYNOLDS?**

6 **A.** Yes. Later, I discuss the surprising reversal of Ms. Reynold’s positioning on these
7 matters. Ms. Reynolds articulated some cogent arguments in Staff testimony in the PSE
8 2011 GRC defending the Policy Statement.^{42/} She now supports PSE’s decoupling
9 proposal and has submitted testimony in these dockets reversing her position.

10 In Ms. Reynolds’ deposition taken on April 2, 2013, she describes herself as an
11 expert on decoupling, but not an expert on attrition.^{43/} I point this out because, in
12 reference to the PSE decoupling proposal, Ms. Reynolds candidly stated: “With all due
13 respect, this mechanism is not a conservation impact mechanism It addresses all
14 change in load from the economy . . . from weather. All changes in load from the
15 economy. From weather. All of them.”^{44/} According to Staff, therefore, PSE’s
16 decoupling proposal seems to concern everything except the true impacts from
17 conservation. Ms. Reynolds explained that the proposal “can effectively act as an
18 attrition adjustment.”^{45/}

19 Staff’s decoupling expert, who is not an expert on attrition (in fact, Ms. Reynolds
20 could not identify anyone on Staff as an expert on attrition)^{46/} seems to be supporting a
21 mechanism functioning as an attrition adjustment and having very little to do with

^{42/} See Docket Nos. UE-111048/UG-111049, Exh. No. __ (DJR-3T).

^{43/} Exh. No. __ (MCD-3) at 17, 32 (Deposition of Deborah J. Reynolds at 51:15-17, 77:21-25).

^{44/} Id. at 7-8 (Deposition of Deborah J. Reynolds at 30:22-31:5).

^{45/} Id. at 2 (Deposition of Deborah J. Reynolds at 25:13).

^{46/} Id. at 32 (Deposition of Deborah J. Reynolds at 77:21-25).

1 conservation and decoupling. As Ms. Reynolds is unaware of any conservation
2 opportunities that even exist beyond what PSE is currently doing,^{47/} consideration of the
3 proposal as a true decoupling mechanism is problematic, to say the least.

4 **Q. THE POLICY STATEMENT REQUIRES CONDITIONING A DECOUPLING**
5 **MECHANISM RECOVERY ON CONSERVATION TARGET ACHIEVEMENT—**
6 **IS THIS REQUIREMENT MET BY THE PROPOSAL?**

7 **A.** No. Even Staff, which supports the decoupling proposal, admits that PSE’s decoupling
8 revenue recovery is not conditioned upon conservation target achievement.^{48/} Rather,
9 PSE has alternatively agreed to submit to financial penalties for failing to reach a certain
10 level in excess of its biennial conservation target.^{49/}

11 **Q. DO YOU HAVE ANY RESERVATIONS CONCERNING PSE’S ALTERNATIVE**
12 **PROPOSAL AS A SUBSTITUTE FOR THE POLICY REQUIREMENT?**

13 **A.** Yes, I have serious reservations. Under the Policy Statement, decoupling mechanism
14 revenue recovery “will be conditioned upon a utility’s level of achievement with respect
15 to its conservation target.”^{50/} Conversely, and as explained in some detail above, PSE’s
16 decoupling proposal assures rate increases will continue at a steady pace, independent of
17 conservation achievement. Conservation achievement under the Policy Statement should
18 be an absolute prerequisite for any decoupling recovery, addressing the concern that “the
19 utility could lose some of its incentive to manage the company in a manner that
20 constantly looks to reduce costs.”^{51/} To assuage such “lingering concerns,” the Policy

^{47/} Id. at 9 (Deposition of Deborah J. Reynolds at 32:12-14).

^{48/} Exh. No. __ (DJR-1T) at 11:19-21.

^{49/} Amended Petition ¶ 31.

^{50/} Policy Statement ¶ 28.

^{51/} Id. ¶ 26.

1 Statement “require[s] evidence” concerning “possible reduced incentives for companies
2 to manage in an efficient manner.”^{52/}

3 PSE’s pledge to “submit itself to penalties equivalent to those outlined in RCW
4 19.285”^{53/} is little evidence that the Company will remain incentivized to manage
5 efficiently once decoupling revenues are assured. PSE does not cite to any cost analyses
6 showing Energy Independence Act (“EIA”) penalties as being commensurate with
7 proposed decoupling revenue increases. For its part, Staff simply “accepts the
8 application of EIA penalties” as a substitute for the Policy Statement conservation
9 achievement requirement.^{54/} Nevertheless, in keeping with the evidentiary showing
10 mandated in the Policy Statement, PSE should be required to positively demonstrate that
11 possible EIA penalties will be of sufficient consequence to assure that the Company will
12 continue to be incentivized to manage its conservation programs efficiently and on a cost-
13 effective basis.

14 **Q. DO YOU HAVE ANY FURTHER CONCERNS REGARDING PSE’S**
15 **ALTERNATIVE PROPOSAL?**

16 **A.** Yes. Under the Policy Statement, electric utilities that demonstrate achievement above
17 their EIA target must show why the additional conservation was not part of their initial
18 EIA forecast before they can be eligible for incentives.^{55/} Thus, PSE’s offer to exceed
19 conservation targets raises an issue as to the appropriateness of those initial targets.
20 Recognizing the potential for utilities to understate conservation targets in order to easily
21 exceed them, the Commission has pledged to examine proposals offering to exceed

^{52/} Id.
^{53/} Exh. No. __ (JAP-1T) at 36:16-17.
^{54/} Exh. No. __ (DJR-1T) at 12:4-5.
^{55/} Policy Statement ¶ 33.

1 conservation targets “thoroughly.”^{56/} At a minimum, therefore, PSE should be required
2 to supply far more detail on its alternative to the conservation achievement test required
3 by the Policy Statement. PSE has simply not presented enough evidence for a thorough
4 Commission evaluation.

5 The Commission’s stance on this issue cannot be taken lightly. Washington law
6 requires a utility to acquire all feasible, reliable conservation that is cost-effective.^{57/}
7 Thus, a utility’s conservation target is set to include all cost-effective conservation. The
8 implication is that any additional conservation is not cost-effective. The Commission has
9 stated that it is not permitted “to provide incentives to acquire conservation that is not
10 cost-effective.”^{58/} To that end, a utility can propose an incentive program that captures
11 only that limited amount of new conservation that becomes cost-effective because of
12 external events, such as the development of new technology or the appearance of newly
13 available federal or other matching funds. But, in this case, PSE has done nothing to
14 establish that exceeding its conservation targets would be cost-effective. Consequently,
15 its alternative proposal to the achievement test of the Policy Statement should not be
16 accepted.

17 **Q. DOES THE PROPOSED TRUE-UP MECHANISM COMPLY WITH**
18 **COMMISSION STANDARDS?**

19 **A.** No. As discussed above, the true-up should be per-class, not per-customer. By allocating
20 gains or losses as a result of found or lost margin, true-ups are designed to facilitate fair
21 treatment between a utility and its customers. But PSE’s proposed use of per-customer

^{56/} Id. ¶ 32, n.53.
^{57/} RCW § 19.285.040(1).
^{58/} Policy Statement ¶ 32.

1 decoupling means new customers entering a class can never be accounted for as “found
2 margin”—thereby nullifying the effectiveness of the entire true-up mechanism.

3 **Q. IS THERE A PROPOSED EARNINGS TEST TO APPLY AT TRUE-UP?**

4 **A.** Yes, but the test is set too high, meaning that the Company could recover from customers
5 under the mechanism even if its earnings before the true-up surpassed its allowed ROR.^{59/}

6 I recommend that the true-up be capped at the allowable ROR, not 25 basis points above
7 the ROR. Similarly, PSE should not be permitted to withhold 50% of its excess earnings
8 from customers, whatever the cap level.

9 **Q. WHY IS A CAP 25 BASIS POINTS ABOVE THE COMPANY’S AUTHORIZED**
10 **ROR INAPPROPRIATE?**

11 **A.** Decoupling is meant to enable a utility to recover its costs and have the opportunity to
12 earn the ROR that the Commission finds appropriate based in part on cost-based
13 evidence. The Commission notes lost margin is only “one decrease in revenue among
14 many decreases and increases in revenues and expenses.”^{60/} Thus, if a utility is able to
15 meet the ROR set by the Commission, the matching principle is functioning properly and
16 increases in revenue are offsetting decreases. To allow a true-up beyond the ROR would
17 function purely as a transfer of wealth from ratepayers to shareholders. If a utility
18 believes that it is unable to earn a fair ROR, the proper way to address this is by filing a
19 GRC. A utility should be required to prevail in a full rate case to receive a higher ROR,
20 rather than be allowed to increase its ROR by 25 basis points through an automatic
21 mechanism intended to promote conservation. The same rationale applies to PSE’s
22 proposal to withhold 50% of excess earnings. Given the unique nature of this

^{59/} Exh. No. __ (JAP-8T) at 19:10-13.
^{60/} Policy Statement ¶ 9.

1 decoupling/K-Factor/ Rate Plan proposal that assuredly will increase rates, it is
2 particularly egregious to ratepayers to allow PSE to retain any excess earnings.

3 **Q. IS A 25 BASIS POINT REVENUE BAND NECESSARY TO INCENTIVIZE**
4 **GOOD MANAGEMENT BY UTILITY EXECUTIVES?**

5 **A.** No. Decoupling has the potential to lessen a utility’s incentive to carefully manage costs.
6 Nonetheless, Commission supervision functions more effectively to incentivize good
7 management than allowing true-ups that exceed allowable ROR. Also, IOU shareholders
8 are sophisticated and understand that decoupling is intended to eliminate throughput as a
9 profit driver, leaving cost management as the main way to improve earnings.

10 **Q. DOES THE PROPOSED MECHANISM ACCOUNT FOR OFF-SYSTEM SALES**
11 **AND AVOIDED COSTS?**

12 **A.** No. PSE and NWECA believe such accounting is unnecessary, contrary to the Policy
13 Statement. Ironically, Staff recommended the rejection of a decoupling proposal last year
14 based, in part, upon a failure to account for off-system sales and avoided costs.^{61/}

15 **Q. WHAT IS YOUR POSITION ON THIS ISSUE?**

16 **A.** I continue to support Staff’s original position as evidence based and consistent with
17 Commission policy. For instance, Staff pointed out that as a result of conservation a
18 “utility incurs lower costs due to the wholesale sales, such as reduced line losses, reduced
19 uncollectible expense, and avoidance of the Public Utility Tax.”^{62/} Since specified levels
20 of utility recovery are thereby guaranteed, decoupling mechanisms should recognize the
21 benefits of enhanced wholesale sales.

^{61/} Docket Nos. UE-111048/UG-111049, Exh. No. __ (DJR-3T) at 13:12-16:21.

^{62/} Id. at 14:23-25.

1 Surprisingly, Staff has deviated from this position, testifying in these proceedings
2 that it is appropriate to implement decoupling without first addressing off-system sales.^{63/}
3 Staff’s logic for this reversal is bizarre—essentially reasoning that the Policy Statement
4 has been overruled in PSE’s 2011 GRC, at least to the extent that decoupling should
5 account for power cost adjustment (“PCA”) mechanisms.^{64/}

6 As to PSE’s rationale, it too is problematic. Citing the Policy Statement on PCAs,
7 PSE claims there would be only small deviations “at most” from conservation amounts
8 previously projected. Even if this were supported by some empirical means, PSE does
9 not seemingly factor its own proposal to exceed conservation targets—presumably
10 resulting in more significant deviations. PSE also states that attempts at such accounting
11 may lead to “unforeseen and unintended consequences” during interactions with its PCA.
12 Such vague and speculative doubts are not persuasive, however, in overturning the
13 considered guidelines of the Policy Statement.

14 **Q. DOES THE PROPOSED DECOUPLING MECHANISM APPLY TO ALL**
15 **CUSTOMER CLASSES?**

16 **A.** The Policy Statement holds that decoupling proposals should, generally, apply to all
17 customer classes, but exceptions are explicitly provided for when the public interest may
18 be advanced without discrimination or preferment.^{65/} In this light, the decoupling
19 mechanism will not affect certain customers lacking volumetric rates. Notwithstanding,
20 the proposal does include a discriminatory and unsupported rate increase unrelated to
21 conservation that is tied to the K-factor. I discuss that issue later in this testimony.

^{63/} Exh. No. __ (DJR-1T) at 14:16-17:12.

^{64/} Id. at 16:4-11.

^{65/} Policy Statement ¶ 28.

1 NWEC previously testified that all large customers should be excluded from
2 decoupling. I agree with that position because including them would produce unfair,
3 discriminatory rates. As NWEC recognized, large industrial customers should be
4 exempted “because they have so few members . . . and account for a relatively small
5 fraction of PSE’s projected revenues from energy charges (about 4 percent, although
6 these Schedules account for almost 14 percent of retail electricity sales).”^{66/} It is very
7 easy to quantify any losses associated with large industrial customer conservation efforts.
8 Lumping these large customers in with commercial customers will likely result in an
9 unfair subsidization by large customers.

10 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE PROPOSED**
11 **APPLICATION TO CUSTOMER CLASSES?**

12 **A.** Yes. The use of two “classes” in the proposal is inappropriate. This regime is artificial
13 and may result in a great deal of cross-subsidization between actual rate classes, a result
14 the Commission seeks to avoid.^{67/}

15 In fact, “rate classes” are specifically identified as the “classes” generically
16 referenced in the Policy Statement.^{68/} Thus, it is apparent that the Commission means
17 actual, tariff “rate class” when stating that a “reasonable [decoupling] mechanism would
18 balance conservation program achievement by class with revenue recovery expected from
19 that class under the mechanism,”^{69/} This proper understanding of the term “classes”
20 exposes the lack of appropriate customer class distinction in PSE’s proposal—and leads

^{66/} Docket Nos. UE-111048/UG-111049, Exhibit No. __ (RCC-1T) at 13:12-15.

^{67/} Policy Statement at n. 46.

^{68/} Id.

^{69/} Id.

1 me to determine that a well-designed decoupling proposal should recover from individual
2 rate classes commensurate with individual class conservation achievements.

3 **Q. DOES THE PROPOSAL INCLUDE A WEATHER ADJUSTMENT**
4 **MECHANISM?**

5 **A.** PSE has declined to adjust its decoupling mechanism for the effects of weather. While
6 the Commission “generally would support including the effects of weather in a full
7 decoupling proposal,” the Policy Statement does not require a weather adjustment
8 mechanism.^{70/} Ironically, as discussed above, Staff witness Ms. Reynolds seems to
9 believe that the decoupling mechanism does address weather effects, while during her
10 deposition, answered that she did not know.^{71/}

11 **Q. HAS PSE INCLUDED INCREMENTAL CONSERVATION IN ITS**
12 **DECOUPLING PROPOSAL?**

13 **A.** Since PSE offers to exceed its biennial conservation targets by 5%, the Company states
14 that it is offering no further test of conservation achievement with its decoupling
15 proposal.^{72/} Such an arrangement is not incremental to the conservation already
16 identified in the Company’s 10-year plan; however, because this plan would implement
17 accelerated acquisition, it will be incremental in that it will be in place longer—thereby
18 saving incremental kilowatt hours. In any event, there are several issues raised by the
19 “excess” conservation plan that require thorough investigation and consideration, as
20 discussed above.

^{70/} Id. ¶ 28.

^{71/} Exh. No. __ (MCD-3) at 7 (Deposition of Deborah J. Reynolds at 30:13-20).

^{72/} Exh. No. __ (JAP-1T) at 37:7-11.

1 **Q. HAS PSE COMPLIED WITH THE PROGRAM DURATION REQUIREMENTS**
2 **IN THE POLICY STATEMENT?**

3 **A.** Probably not, since the burden to demonstrate “continued need” for a decoupling
4 mechanism should be upon the utility. If continued need must be demonstrated
5 throughout the approval period, PSE has made no provisions to meet that burden. But,
6 even if the burden to demonstrate continued need only rises upon renewal attempts, there
7 is still cause for concern. In its amended petition, PSE contemplates that its decoupling
8 mechanisms will continue to operate beyond the next GRC, following a PSE request and
9 Commission approval.^{73/} PSE may properly anticipate bearing the burden to demonstrate
10 the need for continuation; however, on its face, Company testimony seems to indicate
11 that PSE anticipates renewal could be pro forma.

12 **Q. HAVE POLICY STATEMENT REPORTING REQUIREMENTS BEEN**
13 **SATISFIED BY PSE?**

14 **A.** It appears so. The Commission only states that it “may” require periodic reports in order
15 to evaluate a decoupling program. PSE states that third-party evaluation will be
16 provided, no later than four years after decoupling deferrals begin, and may be filed
17 within a GRC or a stand-alone case. To be sure, more frequent reporting on PSE’s
18 initiative would be preferable, but the bare minimum as envisioned by the Commission
19 seems to be satisfied.

^{73/} Exh. No. __ (JAP-8T) at 18:16-20.

K-FACTOR RATE PLAN

1
2 **Q. HAVE YOU ANALYZED THE K-FACTOR RATE PLAN INCLUDED IN THE**
3 **PROPOSAL?**

4 **A.** Yes. As I noted above, the Policy Statement is directed at conservation-related
5 mechanisms. The K-Factor Rate Plan, on the other hand, does not promote conservation,
6 but, rather, has been proposed because PSE asserts it is dealing with earnings attrition.^{74/}

7 **Q. IS EARNINGS ATTRITION, IF PRESENT, A PROBLEM?**

8 **A.** If it exists, earnings attrition is neither good nor bad. It is simply one of a multitude of
9 increases and decreases in costs and revenues that a prudent utility must manage. In fact,
10 the presence of some attrition leads to more efficient management as the Company has a
11 greater incentive to cut costs to offset such pressures. If all risk is shifted to ratepayers,
12 utilities should earn a much lower ROE as a matter of principle.

13 **Q. WHAT IS THE COMMISSION'S STATED POSITION ON EXTRAORDINARY**
14 **EARNINGS ATTRITION?**

15 **A.** First, neither in this case, nor in its previous rate cases, has PSE provided evidence of *any*
16 attrition, let alone extraordinary earnings attrition. However, the Commission stated in
17 UE-111048, Order 08 that attrition can be remedied through pro-forma adjustments of
18 test year data to reflect known and measurable changes, the use of year end rate base
19 rather than test-year average, inclusion of Construction Work in Progress, or attrition
20 allowances.^{75/} An attrition allowance must be based on demonstrable evidence of
21 attrition, including proof that the historic attrition will continue to be present in the rate
22 year or years.^{76/}

^{74/} Exh. No. __ (KJB-T) at 2:7-10.

^{75/} Order 8 ¶ 491.

^{76/} Id. ¶ 673.

1 In this case, without demonstrating any earnings attrition, PSE wants to use an all-
2 of-the-above approach to recover attrition it allegedly suffers from. The Commission
3 already employs pro-forma test year adjustments and the Company has asked to use year-
4 end data in the accompanying ERF docket, which I discuss above. Now, in this docket
5 PSE has asked for a yearly attrition adjustment on top of these other tools.

6 **Q. DOES PSE'S ALLEGED FAILURE TO ACHIEVE ITS ALLOWABLE RATE OF**
7 **RETURN JUSTIFY THE K-FACTOR RATE PLAN?**

8 **A.** No. The Commission has made clear that it would require “precise” cost based evidence
9 to justify an attrition adjustment, even for a single year, let alone for parts of four to five
10 years.^{77/} Failure to achieve a certain rate of return is not precise, cost-based evidence.
11 An allowable ROR is not a guaranteed return; rather, it is the reasonable level of return
12 that the Company should have the *opportunity* to earn. The Commission does not
13 guarantee any level of recovery to regulated utilities, and if a Company fails to meet its
14 allowable ROR, there is no indication that its rates are incorrect. There are many factors
15 that could lead to failure to earn the allowed ROR.

16 **Q. DO FREQUENT RATE CASES DEMONSTRATE UNDER-EARNING DUE TO**
17 **ATTRITION?**

18 **A.** No. The Commission has never accepted frequency of rate case filings or granted rate
19 increases as proof of earnings attrition. In PSE’s case, its recent filings are, in fact,
20 positive evidence that it does not need an attrition adjustment. In PSE’s last rate case, it
21 requested an 8.1% rate increase, but was granted only a 3.2% rate increase. A great
22 majority of this 3% rate increase was attributable to PSE’s inclusion of its Lower Snake

^{77/} Docket No.UE-120436, Order No. 9 ¶ 72.

1 River (“LSR”) generating facilities in rate base.^{78/} If the addition of LSR to rate base is
2 removed, PSE’s rate increase in UE-111048 would have been negligible. This means
3 that any cost pressures that PSE might allegedly have experienced due to attrition during
4 its test year were effectively balanced by other increases.

5 **Q. ARE THERE OTHER PROBLEMS WITH THE COMPANY’S K-FACTOR?**

6 **A.** Yes. PSE’s flat three percent K-Factor means that PSE will get repeated attrition
7 adjustments based on a figure that may or may not be representative of cost growth in the
8 future. Further, none of the increases in revenue that PSE may see between the present
9 and 2016 or 2017 will be used to offset this increase to customers. Also, as stated above,
10 failure to deal with the sale of a portion of its service territory is problematic.^{79/}

11 **Q. HAS THE COMMISSION PROVIDED GUIDANCE REGARDING SIMILAR**
12 **MECHANISMS?**

13 **A.** Yes. The Commission rejected the similarly one-sided Conservation Savings Adjustment
14 Mechanism (“CSA”) in PSE’s last rate case. Like the K-Factor Rate Plan, the CSA
15 would have resulted in annual, automatic rate increases. The Commission stated: “[w]e
16 adhere to the principles we expressed in our Decoupling Policy Statement that such a
17 mechanism should work both ways-taking into account lost revenues as well as new
18 revenues.”^{80/} Like the CSA, the K-Factor Rate Plan is a one-way mechanism that will
19 not take into account new revenues the Company may receive. This was clearly
20 demonstrated by the second “backcast” study performed by PSE at the Commission’s

^{78/} Based on the final allowed net rate base for Lower Snake of \$670 million and authorized ROR of 7.8% from Docket No. UE-111048, Order No. 08, the revenue requirement impact was over \$52 million.

^{79/} Exh. No. __ (MCD-7) at 6.

^{80/} Order 08 at ¶ 472.

1 request.^{81/} In that study, even when the K-Factor was set at two-thirds the level now
2 requested, the overall result was a significant and progressively higher yearly rate
3 increase.^{82/} This effect will be exacerbated by the new K-Factor, which is always a
4 positive adjustment, set higher than any of the K-Factor adjustments used in the backcast
5 studies.

6 **Q. ARE PSE'S "RATE PLAN" RATE INCREASES FOR DIRECT ACCESS OR**
7 **SCHEDULE 449 CUSTOMERS SUPPORTED?**

8 **A.** No. PSE offers no empirical support for applying the K-factor to retail wheeling or
9 schedule 449 customers. Instead, PSE proposes a "rate plan" that increases rates to
10 "ensure that all of PSE's customers are treated fairly, in light of the general rate case
11 stay-out period."^{83/} PSE further justifies this proposal by noting the rate plan will "ensure
12 that these customers also contribute to PSE's growing costs over the proposed general
13 rate case stay-out period."^{84/} PSE offers no evidence or support for how much, if at all, it
14 expects rate plan customers to contribute to PSE's growing costs over the GRC stay-out
15 period.

16 **Q. ISN'T IT "FAIR" TO SUBJECT CUSTOMERS OUTSIDE THE DECOUPLING**
17 **MECHANISM TO A THREE PERCENT ANNUAL INCREASE?**

18 **A.** It is not. These customers are differently situated from customers that take bundled
19 service from PSE. Schedule 449 Direct Access customers pay for the majority of their
20 contribution to PSE's costs through PSE's Open Access Transmission Tariff ("OATT").

^{81/} WUTC v. PSE, Docket Nos. UE-121697/UG-121705, Response to Informal Bench Request No. 002 (Feb. 7, 2013) ("Response to Informal Bench Request").

^{82/} Response to Informal Bench Request, Attachment A.

^{83/} Amended Petition at 15.

^{84/} Id. at 16.

