

**EXHIBIT NO. ___(JAP-6T)
DOCKET NO. UE-161123
SCHEDULE 451 FILING
WITNESS: JON A. PILIARIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

Docket No. UE-161123

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NON-CONFIDENTIAL) OF
JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY**

DECEMBER 15, 2016

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PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NON-CONFIDENTIAL) OF
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I. INTRODUCTION

Q. Are you the same Jon A. Piliaris who provided prefiled testimony and supporting exhibits on behalf of Puget Sound Energy, Inc. (“PSE”) in these proceedings?

A. Yes. I filed prefiled direct testimony, Exhibit No. ___(JAP-1T), and supporting exhibits, Exhibit No. ___(JAP-2) through Exhibit No. ___(JAP-5C), on October 7, 2016.

Q. Why are you filing this prefiled supplemental direct testimony?

A. This prefiled supplemental direct filing is being made in response to requests made by parties in this case to elaborate on certain issues related to PSE’s original filing in this proceeding. It reflects the discussions that occurred at the issues conference held by the parties at the offices of the Washington Utilities and Transportation Commission (the “Commission”) in Olympia, Washington on December 2, 2016.

Q. What issues will you address in your prefiled supplemental direct testimony?

A. This prefiled supplemental direct testimony provides additional clarification regarding: (1) PSE’s proposed eligibility standards for service under the proposed

1 Schedule 451 and (2) the impacts that proposed Schedule 451 may have on PSE's
2 low-income and conservation programs.

3 **II. CLARIFICATION OF ELIGIBILITY STANDARDS**

4 **Q. Please summarize the eligibility requirements for initiating service under**
5 **PSE's proposed Schedule 451.**

6 A. As explained in the advice letter and proposed tariff sheets accompanying this
7 filing, the proposed Schedule 451 is available to customers who have maintained
8 a minimum of 10 average megawatts ("aMW") at one or more customer sites
9 served under Schedule 40 over the entire test year of the most recent general rate
10 case. The total amount of electricity to be provided by power suppliers and
11 delivered to all customers under Schedule 451 may not exceed 100 megawatts
12 ("MW") at any one time. Schedule 451 would only apply to customers taking
13 service on Schedule 40. Customer electing service under Schedule 451 must take
14 such service for all loads at their locations served under Schedule 40. New or
15 newly acquired facilities and new separately metered loads owned or operated by
16 Schedule 451 customers or their affiliates may become locations at which the
17 Schedule 451 customers must take service under Schedule 451.

18 **Q. Please explain the basis for the 10 aMW requirement for service under**
19 **Schedule 451.**

20 A. In the development of Schedule 451, the original basis for the 10 aMW
21 requirement was the New Large Single Load definition provided in section 3(13)
22 of the Pacific Northwest Electric Power Planning and Conservation Act,

1 16 U.S.C. § 839a(13), which is a long-standing indicator of what would be
2 considered a “large load” in the region. However, there are at least two additional
3 supporting reasons for setting this threshold at this level.

4 First, customers taking service under this schedule are committing to non-core
5 status at these locations, relieving PSE of any obligation to supply (or any plan to
6 supply) these locations with power from its power portfolio dedicated to serving
7 its core customers. These customers will also be required to plan for, obtain and
8 fulfill the associated obligations for their own unbundled transmission service to
9 supply energy to their locations, as well as the associated ancillary services. It is
10 likely that potential participating Schedule 451 customers may experience
11 challenges in obtaining transmission service to meet their loads and may be
12 required to provide necessary upgrades associated with such transmission service.
13 This is a substantial commitment from any potential customer served under
14 Schedule 451 that requires a commensurate level of technical sophistication and
15 financial wherewithal to take on these responsibilities. While there is clearly no
16 bright line, a 10 aMW load is more likely to fit this standard than loads much
17 smaller in size.

18 Second, and from a more practical perspective, this load will need to be of
19 sufficient size to efficiently transact in what is primarily a bilateral power market
20 and schedule power across the regional transmission systems at a scale designed
21 primarily for wholesale power transactions. For example, the minimum
22 transmission schedule to a point of receipt on PSE’s transmission system is
23 2 MW, with any deviations subject to imbalance charges. The larger the load

1 served at any point of receipt and the more sophisticated the customer, the more
2 likely the potential customer would be to predict and align its schedules to its
3 expected load and thereby minimizing ancillary service charges associated with
4 the service.

5 Finally, it is worth noting that PSE's existing Schedule 449, under which several
6 of its customers currently receive retail wheeling services, has 5 aMW and
7 7.5 aMW requirements for additional load or transferred service under
8 Schedule 449. Although the average capacity requirements for Schedule 449 are
9 somewhat lower than 10 aMW, these average capacity requirements are
10 supportive of the average capacity requirements proposed for Schedule 451.

11 **Q. Please explain how PSE derived the 100 MW service limit.**

12 A. As explained in PSE's Response to Walmart Data Request No. 004, the decision
13 to limit availability of service under the proposed Schedule 451 to the first
14 100 MW was a business decision of PSE's senior management. Please see the
15 First Exhibit to the Prefiled Supplemental Direct Testimony of Jon A. Piliaris,
16 Exhibit No. ___(JAP-7), for a copy of PSE's Response to Walmart Data Request
17 No. 004. The 100 MW limit is an amount sufficient to (i) allow all of Microsoft's
18 load currently served under Schedule 40 to take service under the proposed
19 Schedule 451 and (ii) provide additional headroom for a limited number of
20 eligible customers to also take service under Schedule 451.

1 **Q. Please explain why the service should be limited to 100 MW.**

2 A. The reasons for the service limit of 100 MW for Schedule 451 are three-fold.
3 First, there is no existing statewide policy regarding retail wheeling service in
4 Washington. Second, Schedule 449 is a voluntary and limited offering being
5 made by PSE, and the PSE is unwilling to consider any higher amount. Finally,
6 and related to the first two reasons, it is unlikely that potential participating
7 customers would be able to obtain the needed transmission service to wheel
8 power to their locations under this proposal where the serving utility is unwilling
9 to provide this service and no statewide retail access law exists.

10 **Q. Why is the voluntary nature of Schedule 451 an important consideration?**

11 A. In 1996, the Federal Energy Regulatory Commission (“FERC”) issued its
12 Order 888,¹ which, in pertinent part, addressed FERC’s wheeling authority. In
13 Order 888, FERC claimed authority over the rates, terms, and conditions of
14 unbundled transmission service in interstate commerce.² FERC asserted
15 jurisdiction over the transmission component of retail wheeling transactions but
16 recognized that it had no authority to order retail wheeling under the Energy
17 Policy Act of 1992.³

¹ *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. (CCH) ¶31,036 at 31,770, 61 Fed. Reg. 21,540 (1996) (codified at 18 C.F.R. §§ 35, 38) (“Order 888”)

² *See generally id.* Unbundled transmission service means transmission service that is separated from the supply of electricity and the distribution of electricity. Thus, the transmission charge only includes charges for the transmission function, not the electric generation or distribution functions.

³ *See id.* at 31,780-81.

1 FERC did state, however, that “if unbundled retail transmission in interstate
2 commerce by a public utility occurs voluntarily or as a result of a state retail
3 access program, [FERC] has exclusive jurisdiction. . . .”⁴ Thus, FERC lacks the
4 authority to order PSE to provide retail wheeling service to a direct customer
5 absent a state retail access program or a voluntary agreement by PSE to provide
6 retail wheeling services.

7 Washington does not have a state retail access program, so retail wheeling service
8 is permissible only through a voluntary program. Schedule 451—like
9 Schedule 449 before it—is a voluntary program of PSE to allow certain qualified
10 customers to obtain retail wheeling service pursuant to FERC jurisdiction.

11 **Q. Is this limited tariff schedule filing the place to have a discussion regarding a**
12 **state retail access program?**

13 A. No. First and foremost, Washington—unlike some states, such as Pennsylvania or
14 Texas—does not have a state retail access program established pursuant to
15 legislation, and the Commission has a long-standing practice of not legislating
16 from the bench.⁵ Rather, the Commission has thoughtfully and appropriately
17 taken its cues from the executive or legislative branches of state government for
18 general policy direction, particularly in matters as important, far-reaching and
19 complicated as a state retail access program would be.

⁴ *Id.* at 31,781.

⁵ *See, e.g., WUTC v. Northwest Natural Gas Co.*, Dockets UG-080519 & UG-080530 (consolidated), Order 04 (Initial Order Rejecting Tariff and Accounting Petition) at ¶ 17 (Oct. 14, 2008) (recognizing that “the Commission’s power in this regard, as in any other, is defined by and limited to the authority and responsibility delegated to it by law. When, as here, the Commission is asked to place its legal imprimatur upon a program by authorizing it as a tariff service of an investor-owned utility, it may do so only if the Legislature has empowered it to do so.”).

1 Second, in states that have developed and implemented statewide policies around
2 retail wheeling services, these have often been the product of lengthy and
3 contentious processes that have included a wide range of stakeholders with
4 divergent interests. It is reasonable to assume that there are far more interested
5 parties impacted by a statewide retail access program than the parties currently
6 participating in this case. Therefore, it is PSE's position that the Commission
7 should act solely with respect to the tariff submitted for approval by PSE (i.e.,
8 Schedule 451) in this proceeding and not address the wide-ranging policy
9 considerations that could affect investor-owned utilities other than PSE.

10 **Q. Please explain why Schedule 451 is limited to customers that would otherwise**
11 **qualify for service under Schedule 40.**

12 A. A necessary predicate to offering retail wheeling service is the unbundling of
13 retail rates into three constituent parts (i.e., generation, transmission, and
14 distribution) to allow for the transparent displacement of the embedded power
15 costs of the serving utility by the customer's power supply of choice. Schedule 40
16 is the only PSE rate schedule that currently has unbundled distribution service
17 within its rate structure. As a result, Schedule 451 is far simpler to implement for
18 customers currently served under Schedule 40 than for those that are currently
19 served under schedules with bundled rates (i.e., rates that include generation,
20 transmission, and distribution services in a single rate).

1 **Q. Would it be impossible to provide Schedule 451 service to customers**
2 **receiving under a bundled rate?**

3 A. No. It is possible to unbundle the rates of other bundled service customers.
4 Certainly, other utilities and jurisdictions have proven this is possible. Rather,
5 extending the eligibility for Schedule 451 to, for example, Schedule 26 would
6 require a far greater level of discussion around the proper way to implement this
7 unbundling.

8 **Q. Why would it be so difficult to unbundle a rate schedule like Schedule 26?**

9 A. The Commission has consistently eschewed a mechanical application of PSE's
10 cost of service analysis to its rate design, where the unbundled cost of service
11 results would otherwise be used to derive the cost-based unbundled rate design.
12 Rather, the Commission has long employed its broad discretion to take the cost of
13 service information into consideration, but not necessarily apply it directly to rate
14 design. In so doing, the Commission has consistently driven a wedge between the
15 cost-based results presented by PSE—or any other stakeholder for that matter—
16 and the rates charged to each rate class.

17 The net effect is that, even in the aggregate, rate revenues have not aligned
18 perfectly with the calculated costs. As a result, this lays bare the question of what
19 to do with the difference between identified costs and revenues when attempting
20 to subsequently unbundle rates. Should they be attributed to the cost of providing
21 power supply, transmission service, distribution service or customer service, or
22 some combination of these services? Does this necessitate a movement to strictly

1 cost-based rates? While certainly worthy questions in and of themselves,
2 attempting to answer these questions here would complicate this filing far beyond
3 its current scope. This is one example of the type of discussion that is more
4 appropriate for a broader policy discussion of a state retail access program than a
5 proceeding such as this one with a much more narrow scope.

6 **Q. Why must customers take service under Schedule 451 for all loads at their**
7 **locations served under Schedule 40?**

8 A. There are conceptual and practical reasons for requiring customers to take service
9 under Schedule 451 for all loads at their locations served under Schedule 40.

10 Regarding the conceptual reasons, customers served under Schedule 40 are being
11 provided what some may consider “virtual high-voltage” service. This means that
12 Schedule 40 customers are being treated like high-voltage customers for
13 ratemaking purposes (including paying power and transmission rates that are tied
14 to PSE’s high-voltage bundled service schedules) even though they are not
15 actually being served at high-voltage. In essence, each Schedule 40 “campus” is
16 being treated as if it were a single high-voltage load. So, to allow different
17 locations of each campus to take different service under Schedule 451 would be
18 antithetical to the underlying rationale for service under the pre-requisite
19 Schedule 40 (i.e., that they should be treated as a single-load for ratemaking
20 purposes).

21 As for the practical reasons, service under the pre-requisite Schedule 40 requires
22 all locations served on the same non-dedicated feeder to be served together. PSE
23 does not propose to deviate from that standard for service that is moved from

1 Schedule 40 to Schedule 451. Even if allowances were made to deviate from that
2 practice for purposes of service under Schedule 451, it is administratively simpler
3 and more straight-forward to treat all loads within a campus (i.e., loads served off
4 the same feeder) in the same manner, rather than having to manage their
5 individual services distinctly. Specifically, it would be administratively more
6 complicated to treat them as a single-load for delivery service, presumably under
7 Schedule 40, but as disaggregated load for purposes of power supply and
8 transmission service, presumably under some combination of Schedule 40 and
9 Schedule 451. If approved, Schedule 451 would be challenging enough to
10 administer as proposed. Allowing even more optionality within this existing
11 framework would only add to PSE's administrative burden associated with this
12 new rate schedule.

13 **Q. Why can new or newly acquired facilities and new separately metered loads**
14 **owned or operated by the Schedule 451 customer or its affiliates become**
15 **locations at which the Schedule 451 customer must take service under**
16 **Schedule 451?**

17 A. This is simply an extension of the requirement that customers must take service
18 under Schedule 451 for all loads at its locations served under Schedule 40. As
19 new loads appear at the "campuses" being served under Schedule 451, they will
20 automatically take service under the same schedule.

1 **Q. Please describe the process by which the new or newly acquired facilities and**
2 **new separately metered loads owned or operated by the Schedule 451**
3 **customer or its affiliates become locations served under Schedule 451?**

4 A. As is current practice under Schedule 40, when a new or newly acquired facility
5 and new separately metered load owned or operated by the Schedule 40 customer
6 or its affiliate begins to take service from PSE within the same “campus” under
7 which it already receives Schedule 40 service, this new load automatically takes
8 service under that schedule as part of its existing campus. PSE’s proposal would
9 simply extend that existing practice under Schedule 40 to the load of customers
10 that are served under Schedule 451.

11 **III. SCHEDULE 451 IMPACT ON LOW-INCOME AND**
12 **CONSERVATION PROGRAMS**

13 **Q. Will customers served under Schedule 451 continue to contribute to PSE’s**
14 **low-income and conservation programs?**

15 A. Yes. As stated in the Prefiled Direct Testimony of Jon A. Piliaris, Exhibit
16 No. ___(JAP-1CT), customers served under Schedule 451 will continue to
17 contribute to (i) PSE’s conservation program for electric customers through rates
18 charged under Schedule 120 and (ii) PSE’s low-income program for electric
19 customers through rates charged under Schedule 129.

1 **Q. Will customers served under Schedule 451 contribute the same amount into**
2 **these programs as they would have under Schedule 40?**

3 A. No. As stated in the prefiled direct testimony, PSE's proposal in this proceeding is
4 that Schedule 451 customers will pay a rate within Schedule 120 tied to the rate
5 paid by customers currently served under Schedule 449 (Retail Wheeling
6 Service). The rate currently paid by Schedule 449 customers under Schedule 120
7 is \$0.001082 per kWh, versus the \$0.004220 per kWh paid by customers served at
8 distribution voltage under Schedule 40.

9 Also, as stated in earlier testimony, PSE's proposal in this proceeding is that the
10 rate paid under Schedule 129 by Schedule 451 customers will ultimately flow
11 directly from the current methodology approved for this schedule. Thus, the
12 overall program costs allocated to PSE's electric customers will be allocated to
13 Schedule 451 customers on the basis of their relative contribution to total base
14 electric revenue. In the interim, Schedule 451 customers would continue to pay a
15 rate under Schedule 129 that is tied to service under Schedule 40. PSE expects
16 that the Schedule 129 rate paid by Schedule 451 customers will subsequently
17 decline once their rate reflects the removal of the power cost revenue embedded
18 in the Schedule 40 rates. At this time, it is too early to tell the magnitude of the
19 resulting rate reduction to Schedule 451 customers, but PSE expects the rate to be
20 lower.

1 **Q. Will the overall funding for these programs be affected due to the smaller**
2 **amount of funding from customers switching their service to Schedule 451?**

3 A. No, the overall funding for these programs should not be directly affected due to
4 the smaller amount of funding from customers switching their service to
5 Schedule 451. PSE is still required to acquire the amount of conservation that the
6 Commission approves as the Biennial Conservation Target and will continue to be
7 bound by its existing commitments to fund its low-income program. Less funding
8 from Schedule 451 customers simply means that other customers will pay slightly
9 more of these program costs as a result.

10 **Q. Will customers other than Schedule 451 customers then be paying more for**
11 **service?**

12 A. Not necessarily. In the context of conservation, lower funding by Schedule 451
13 customers may also be accompanied by lower program participation by these
14 customers. In other words, other customers would likely be participating more. It
15 is not unreasonable to expect that customers that participate more heavily in these
16 programs should pay more for that participation.

17 Insofar as the low-income program is concerned, the appropriate level of relative
18 funding contribution is primarily a policy choice. By definition, Schedule 451
19 customers are large and sophisticated customers and do not and will not directly
20 participate in PSE's low-income program. Moreover, PSE's proposal does not
21 treat Schedule 451 customers any different than the similarly situated
22 Schedule 449 customers with respect to the low-income program. Future

1 Schedule 451 customers, like current Schedule 449 customers, will contribute into
2 the low-income program on the basis of their revenue paid to PSE, which
3 excludes power supply. It would seem reasonable to assume that if it is
4 appropriate for Schedule 449 customers to contribute to the low-income program
5 in proportion to their non-power related revenue, it would be appropriate for
6 customers served under Schedule 451 to do the same.

7 **IV. CONCLUSION**

8 **Q. Does this conclude your prefiled supplemental direct testimony?**

9 **A. Yes it does.**