EXH. JAP-46CT
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-170033** **Docket UG-170034**

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF

JON A. PILIARIS

ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

AUGUST 9, 2017

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Are you the same Jon A. Piliaris who submitted prefiled direct testimony on January 13, 2017, and prefiled supplemental direct testimony on April 3, 2017, on behalf of Puget Sound Energy ("PSE") in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to testimony from the following witnesses opposing some or all of PSE's decoupling proposal:

1. Ms. Jing Liu, witness for the Staff of the Washington Utilities and Transportation Commission ("Staff");
2. Ms. Amanda Levin, witness for the NW Energy Coalition ("NWEC"), Renewable Northwest ("RNP") and the Natural Resources Defense Council ("NRDC") (collectively, "Coalition");
3. Mr. Michael Gorman, witness for the Industrial Customers of Northwest Utilities ("ICNU");
4. Mr. Kevin Higgins, witness for the Kroger Company ("Kroger");
5. Mr. Ali Al-Jabir, witness for the Federal Executive Agencies ("FEA");
6. Mr. Shawn Collins, witness for The Energy Project ("TEP"); and

7. Mr. Michael Brosch, witness for the Public Counsel section of the Washington State Attorney General's Office ("Public Counsel").

My rebuttal testimony also responds to testimony from the above witnesses for the Coalition, ICNU, Kroger, FEA, TEP, and Public Counsel, as well as the following witnesses related to various electric or natural gas, test year revenue, cost of service, rate spread or rate design issues:

1. Mr. Jason Ball, witness for Staff;
2. Mr. David Gomez, witness for Staff;
3. Ms. Melissa Cheesman, witness for Staff;
4. Mr. Chris Hancock, witness for Staff;
5. Mr. Glenn Watkins, witness for Public Counsel;
6. Mr. Brad Mullins, witness for ICNU; and
7. Mr. Brian Collins, witness for the Northwest Industrial Gas Users ("NWIGU").

II. RESPONSE TO ISSUES RAISED REGARDING DECOUPLING MECHANISMS

A. Continuation of Decoupling

Q. Please summarize the various parties' proposals for the continuation of PSE's decoupling mechanisms.

A. Staff witness Jing Liu recommends that the Commission only authorize PSE's decoupling mechanisms for another four years, at which time PSE would file with the Commission to determine whether the mechanisms should continue or be modified.[1] ICNU witness Michael Gorman and FEA witness Ali Al-Jabir recommend that the Commission reject PSE's electric decoupling mechanism in its entirety.[2] Coalition witness Amanda Levin explicitly supports the continuation of PSE's decoupling mechanisms,[3] while Kroger witness Kevin Higgins, TEP witness Shawn Collins and Public Counsel witness Michael Brosch provide implicit support,[4] all with proposed changes that will be discussed later in this testimony.

[1] Liu, Exh. JL-1CT at 61:13-18.
[2] Gorman, Exh. MPG-1T at 29:19-21. Al-Jabir, Exh. AZA-1T at 2:8-14.
[3] Levin, Exh. AML-1T at 15:20-22.
[4] Higgins, Exh. KCH-1T at 4:5-8. Collins, Exh. SMC-1T at 27. Brosch, Exh. MLB-1T at 35:11-17.

Q. Why do ICNU and FEA recommend that PSE's electric decoupling mechanism be discontinued?

A. Mr. Gorman, for ICNU, argues that decoupling is a departure from traditional ratemaking and shifts risk from shareholders to ratepayers.[5] Mr. Al-Jabir argues further that decoupling frustrates customers' voluntary efforts to conserve, reduces a utility's motivation to be responsive to the needs of its customers and creates unnecessary rate volatility and uncertainty.

Q. Are these new or compelling arguments?

A. No. These are unsupported assertions that this Commission has already heard in the docket where PSE's decoupling mechanisms were approved. Indeed, the Commission has already made clear that decoupling is warranted in the face of the State of Washington's larger energy policy, particularly its promotion of energy efficiency, and PSE's proposal adheres to the Commission's policy guidance for decoupling mechanisms. Mr. Al-Jabir appears to be particularly out of step with the Commission's clear preference for eliminating the throughput incentive for its jurisdictional gas and electric utilities, where he argues that this incentive is actually desirable to provide "strong economic incentives" for utilities.[6] Both ICNU and FEA also appear to ignore the findings of the independent third party study of PSE's decoupling mechanisms conducted by Gil Peach and Associates ("Gil Peach Report"), provided as Exh, JAP-29, which

[5] Gorman, Exh. MPG-1T at 29:1-9.
[6] Al-Jabir, Exh. AZA-1T at 6:17-22.

concludes that there is no evidence that the decoupling mechanism created a disincentive for PSE's customers to conserve, that it does not have an impact on PSE's service quality and only leads to minor rate adjustments, particularly excluding the effects of the associated "K-factor" increases.[7] Given the weight of the evidence against them, the Commission should reject Mr. Gorman's and Mr. Al-Jabir's recommendation to discontinue PSE's electric decoupling mechanism.

Q. How do you respond to Staff's proposal for a filing within four years to renew PSE's decoupling mechanisms?

A. Staff's position is not that dissimilar to PSE's, only to the degree one would consider any rate, rate design or rate mechanism "permanent." PSE certainly agrees with Staff that the utility has the burden of proof in its rate filings before this Commission, including the continuation of PSE's decoupling mechanism. Where Staff and PSE differ is on the expectations regarding the nature of such a filing. Staff appears to prefer to have the Commission hear the same arguments litigated over and over again, perhaps in hopes of increasing chances for its preferred rate design alternatives. PSE considers this a wasteful use of scarce time and resources, which could otherwise be devoted to more productive efforts that advance the State's energy policy. To be clear, at a minimum, PSE intends to submit evidence in future rate case filings showing that its proposed decoupling mechanisms conform with the Commission's policy guidance.

[7] Piliaris, Exh. JAP-29 at 120, Tables VII.5 and VII.6.

Q. Do parties have other forums within which they can petition the Commission for changes to PSE's decoupling mechanisms?

A. Yes. Staff and other parties will continue to have the opportunity to be heard on PSE's decoupling mechanism in its annual Schedule 142 decoupling true-up filings. If circumstances are changing or the mechanism appears not to be working as intended, parties can raise their concerns in these filings.

Q. What is PSE's recommendation to the Commission regarding the continuation of decoupling?

A. PSE recommends the Commission make a more definitive statement that decoupling is its preferred policy direction, at least for the time being, so that parties can focus their attention on the many other important and complicated issues facing the utility industry in this state.

B. Inclusion of Fixed Production Costs in Electric Decoupling Mechanism

Q. Please summarize the various parties' responses to PSE's proposed inclusion of fixed production costs in its electric decoupling mechanism.

A. Staff witness Jing Liu agrees with PSE's proposal to include fixed production costs, but proposes that allowed fixed production costs be set at a fixed level rather than tied to the number of customers.[8] Public Counsel witness Michael Brosch takes this a step further and recommends that all costs within PSE's

[8] Liu, Exh. JL-1CT at 49:1-8.

decoupling mechanisms, including fixed production costs, be set at a fixed level rather than being tied to the number of customers.[9] Coalition witness Amanda Levin has concerns with the inclusion of fixed production costs within PSE's electric decoupling mechanism, but outlines two alternatives that would allay those concerns: (1) return the recovery of fixed production costs to PSE's Power Cost Adjustment ("PCA") mechanism or (2) recalculate the allowed fixed production costs per customers annually to reflect the expected average customer count and any cost changes for the applicable year.[10] Kroger witness Kevin Higgins and FEA witness Ali Al-Jabir recommend against including fixed production costs in PSE's electric decoupling mechanism.[11]

Q. How do you respond to Staff and Public Counsel's calls for fixed production costs to be recovered at fixed levels in PSE's electric decoupling mechanism?

A. PSE would first note that the Commission has already approved the recovery of fixed production costs for Avista, through its Schedule 75, and PacifiCorp, through Schedule 93, on a per customer basis. So it would seem appropriate to do the same for PSE in the absence of evidence suggesting the appropriateness of treatment to the contrary.

Nevertheless, while it is not ideal from PSE's perspective, nor what it envisioned when it entered into the settlement to move its fixed production costs into its electric decoupling mechanism, if the Commission accepts Staff's and Public

[9] Brosch, Exh. MLB-1T at 35:11-17.
[10] Levin, Exh. AML-1T at 22:8-23:8.
[11] Higgins, Exh. KCH-1T at 15:1-5. Al-Jabir, Exh. AZA-1T at 15:21-16:5.

Counsel's arguments that PSE's recovery of fixed production costs should be fixed, then such a decision should be paired with Staff's proposal to simultaneously eliminate the production factoring of these costs in the determination of allowed revenue. PSE's filed proposal pairs the production factoring of fixed production costs[12] with allowing cost recovery to grow with customer growth. Therefore, the production factoring of these costs must be removed, if the linkage between fixed production cost recovery and customer growth is also removed.

Q. Has Staff or Public Counsel produced any exhibits showing exactly how their alternative decoupling proposal would work in practice?

A. No. Their proposals are conceptual in nature and do not have sufficient detail to be implemented directly from the evidence in the record.

Q. Has PSE attempted to address this gap in the record?

A. Yes. Based on our understanding of the parties' proposals in this regard, PSE has developed exhibits and workpapers showing how the fixed production costs would be shaped across the months and the per-kWh rates that would be used to track deviations between allowed and actual rate revenue. This is provided in Exhibit JAP-47. To facilitate comparisons to PSE's filed proposal, Exhibit JAP-

[12] Fixed production costs were production factored to test year levels based on the difference between actual customer counts in the test year and projected customer counts in the rate year. If the projection of customer counts prove accurate, the allowed fixed production costs will grow into the rate year levels approved by the Commission.

47 is based on the fixed production costs filed in PSE's supplemental filing[13] and would need to be updated again at compliance to reflect the final approved fixed production costs.[14] This exhibit shows the fixed production costs being spread based on a classification of production costs that is 75 percent energy and 25 percent demand,[15] shaped across the year based on pro forma test year energy sales[16] and divided by the pro forma test year annual energy sales to derive the volumetric rate upon which "actual" revenue will be determined for the decoupling deferral calculation.

Q. How do you respond to the Coalition's alternative proposals for fixed production cost recovery?

A. PSE is opposed to the return of these costs to its PCA mechanism. PSE, Public Counsel and Staff entered into a Settlement Agreement, approved by the Commission, which, among other things, moved fixed costs out of the PCA. The removal of the fixed costs from the PCA mechanism occurred on January 1, 2017. Litigating anew whether or not fixed production costs should be included in PSE's decoupling mechanism is likely to have a chilling effect on parties' interest

[13] Exh. JAP-41.

[14] This is also true for any decoupling proposal and exhibits that are ultimately approved by the Commission.

[15] The classification of PSE's power costs is discussed in more depth later in this testimony.

[16] In the development of this exhibit, PSE noticed that allowed fixed production costs were shaped across months for rate groups that include Schedules 26 and 31, based on demand charge revenue. In retrospect, it is more appropriate to shape these costs for these customers based on energy usage, as reflected in this exhibit, since these costs will be collected in retail rates through kWh energy charges rather than kW demand charges.

in settlement in the future if it is understood that any outside party could subsequently topple such an agreement in a future proceeding.

While the Coalition's alternative proposal to effectively recalculate the allowed fixed production costs per customer on an annual basis so as to only recover current costs is appealing in theory, PSE is concerned this would be complicated to implement in practice, particularly within the existing annual true-up process. Moreover, the Coalition has not provided enough detail in its proposal to make it actionable in this proceeding.

For the foregoing reasons, PSE recommends that the Commission reject the Coalition's alternative proposals regarding PSE's fixed production cost recovery at this time.

Q. How do you respond to Kroger's and FEA's recommendation to exclude fixed production costs from PSE's electric decoupling mechanism?

A. PSE echoes the remarks made in response to the Coalition's proposal to move the recovery of these cost back to PSE's PCA mechanism. As stated earlier, to allow outside parties to overturn an approved settlement agreement could dampen the prospects for future settlement agreements, which is contrary to everyone's interests. PSE further reiterates that both Kroger's and FEA's proposals are contrary to the Commission's broader policy objective, particularly the elimination of throughput incentives for its regulated gas and electric utilities. As such, the Commission should reject their proposal to exclude fixed production costs from PSE's electric decoupling mechanism.

Q. Are there additional reasons the Commission should approve the inclusion of fixed production costs in PSE's decoupling mechanism?

A. Yes. As noted earlier, the Commission has already approved the inclusion of fixed production costs in Avista's and PacifiCorp's decoupling mechanisms. Therefore, from the standpoint of regulatory efficiency and consistency, it is appropriate to also include them for PSE's mechanism. This would substantially align the recovery of all production costs across the Commission's three jurisdictional electric utilities, where each utility would recover fixed production costs through their decoupling mechanisms and each would recover variable production costs through their PCA-like mechanisms.

C. Rate Test

Q. Please summarize the various parties' responses to PSE's proposal for the rate test in the decoupling mechanisms.

A. Staff witness Jing Liu supports increasing the rate cap to five percent for all customers subject to the decoupling mechanisms.[17] This includes non-residential gas customers for which PSE had recommended retaining the three percent cap. Public Counsel witness Michael Brosch, Kroger witness Kevin Higgins and FEA witness Ali Al-Jabir recommend retaining the existing rate cap of three percent.[18] FEA's witness goes one step further by recommending that the soft cap be

[17] Liu, Exh. JL-1CT at 64:1-4.

[18] Brosch, Exh. MLB-1T at 46:7-8. Higgins, Exh. KCH-1T at 17:11-15. Al-Jabir, Exh. AZA-1T at 16:12-18.

replaced with a hard cap.[19] Coalition witness Amanda Levin supports a five percent rate cap for gas residential customers for this case until PSE's next rate filing, when improvement to weather forecasting can be implemented,[20] but rejects the increase for residential electric customers.[21] TEP witness Shawn Collins similarly expresses concerns about PSE's proposed increases to the rate caps.[22]

Q. How do you respond generally to calls for a change to PSE's proposed rate cap levels?

A. PSE's proposal to increase the rate caps was largely in response to its understanding of the concerns shared by the Commission regarding growing, or the potential for growing, decoupling deferral balances. While PSE believes that a higher cap is warranted for certain customer groups, there is no clear cut answer for this issue. Certainly, at current rate cap levels, it will take some time to fully amortize the substantial deferred decoupling balances that have been accrued for PSE's gas residential customers.[23] And, had fixed production costs been included in the electric decoupling mechanisms, the three percent cap would have been exceeded for PSE's electric residential customers as well.

[19] Al-Jabir, Exh. AZA-1T at 17:6-15.
[20] Levin, Exh. AML-1T at 24:17-21.
[21] *Id.* at 25:21-26:2.
[22] Collins, Exh. SMC-1T at 27.
[23] For the period ending June 30, 2017, the deferred balance for residential gas customers is $43.2 million.

Q. Have you attempted to estimate the extent to which the rate test would have triggered for electric customers under PSE's existing proposal?

A. Yes. PSE performed a backcast of its electric results, removing the K-factor impacts and increasing the allowed revenue to reflect the inclusion of fixed production costs. The results are summarized in the table below. These results show that a 5.0 percent rate cap is on the upper bounds of the impacts that would have been experienced over the past several years. However, it would also mean that customers for whom the costs were incurred are more likely to be the ones that pay for those costs. The potential need for increasing caps for PSE's non-residential customers is less clear.

Electric Decoupling Groups	2014 Filing	2015 Filing	2016 Filing	2017 Filing
Residential	-3.24%	4.90%	0.54%	0.66%
Non-Residential	-0.28%	2.74%	-1.19%	2.43%
Schedules 12 & 26	-0.28%	2.24%	-1.77%	-1.41%
Schedules 10 & 31	-0.29%	4.79%	-5.11%	0.63%

Note: all filings have rates effective May 1 of that year.

Q. What rate cap level do you recommend the Commission approve?

A. At a minimum, PSE recommends that the Commission adopt five percent caps for both the gas and electric residential customers. To the extent that it has any concerns about the potential for higher deferrals for the non-residential customers that may present cost shifting between current and future customers, the Commission may also want to raise the rate caps for these customers as well. This

would be in line with the decoupling mechanism recently approved for PacifiCorp and, as Staff suggests, would simplify the tariff.[24]

Q. How do you respond to FEA's proposal for a hard cap in place of the soft cap?

A. FEA's proposal to replace PSE's soft rate caps with hard caps would materially dilute the efficacy of PSE's decoupling mechanisms, effectively reinstating a throughput incentive if or when the cap is reached. FEA's proposed hard cap would seriously undermine the concept of "allowed revenue" as the utility would not clearly understand what revenue it would be allowed to recognize for reporting purposes until the end of the year. This has negative implications for the utility's ability to budget, plan and operate efficiently, as the revenue stability afforded by the decoupling mechanism is weakened. Given its negative consequences, PSE recommends that the Commission reject FEA's rate cap proposal.

Q. How do you respond to the Coalition's recommendation to preserve the existing rate cap levels until PSE improves its weather forecasting?

A. PSE fails to understand the relevance of weather forecasting in the context of its decoupling mechanism, or ratemaking generally, as it does not rely on any forecasting of weather in these calculations. PSE's proposed electric decoupling mechanisms defer the difference between allowed revenue, which is based on

[24] Liu, Exh. JL-1CT at 64:3-4.

actual customer counts and allowed revenue per customer determined on historic test year information, to actual revenue, which is based on actual load and rates developed using historic test year information. The deferred amounts are surcharged or credited to customers in the year, or years, that follow. Nowhere in PSE's proposed mechanisms is a forecast of weather required.

Q. Could it be that the Coalition actually meant temperature normalization of loads when referencing weather forecasting?

A. Possibly. However, even so, the Coalition has failed to (i) provide any evidence that PSE's existing methodology for the normalization of loads for the effects of temperature is flawed, (ii) recommend any actionable "improvements" and (iii) show that any such improved calculations would make any meaningful difference on the appropriate rate cap level. While PSE still believes its temperature normalization adjustment should be accepted, Staff's proposed changes to PSE's gas temperature normalization in this case amounted to only 1.8 million therm difference in results,[25] which is less than 0.2 percent of the roughly 1.06 billion therms of actual usage in the test year.[26] Such a small difference would be immaterial in the context of setting the appropriate level of the rate caps. Particularly in light of the fact that setting the level of the rate cap is more of a policy consideration than one tied directly to any particular quantitative analysis, PSE recommends that the Commission reject the Coalition's vague and

[25] Liu, Exh. JL-1T at 20:9-13.
[26] Piliaris, Exh. JAP-4 at 1:14.

unsupported recommendation to order PSE to "review and revise" its temperature normalization methodology (assuming this is what was intended).

Q. Do you have any final thoughts regarding the parties' general concerns regarding increases to the rate cap?

A. Yes. Lost in their concerns is the fact that the rate cap only triggers when loads were lower than anticipated. Of course, lower load also means lower bills. The subsequent rate increase, while it offsets part of these lower bills, does not do so completely. Therefore, overall, the customer groups subject to decoupling-related rate increases are still better off than had their loads been equivalent to the test year levels used to set their rates.

D. Decoupling Rate Groups

Q. Please summarize the various parties' proposals for the rate groups in PSE's decoupling mechanisms.

A. Staff witness Jing Liu recommends that PSE's electric decoupling mechanism only have three rate groups: one for residential, one for small commercial (Schedules 8 and 24) and one for medium commercial (Schedules 7A, 11 and 25).[27] She recommends that all other electric rate schedules be excluded from PSE's decoupling mechanism.[28] Similarly, for natural gas, she proposes three rate groups: one for residential, one for small volume firm customers (Schedule 31

[27] Liu, Exh. JL-1CT at 30:16-20. Staff subsequently confirmed in response to PSE's Data Request No. 006 to Staff that its proposal also included the corresponding transportation schedules.

[28] *Id.* at 31:3-6.

and 31T) and one for large volume firm customers (Schedule 41 and 41T).[29] She recommends excluding Schedules 86 and 86T from PSE's gas decoupling mechanism.[30] ICNU witness Michael Gorman recommends that Schedules 40, 46 and 49 be excluded from PSE's electric decoupling mechanism.[31] Similarly, FEA witness Ali Al-Jabir suggests it is inappropriate to include PSE's "large customers" in its electric decoupling mechanism.[32]

Q. Do you have any general reactions to the parties' proposals to exclude certain customers from PSE's electric decoupling mechanism?

A. Yes. Doing so would fundamentally alter the terms of the settlement agreement approved by the Commission in Order No. 11 of Docket UE-130617, where parties agreed to move fixed production costs into PSE's electric decoupling mechanism should it continue.[33] PSE's expectation in entering into this agreement was that all fixed production costs would be moved into the decoupling mechanism. By excluding customer groups from PSE's electric decoupling mechanism, the parties' proposals have the effect of moving the recovery of their share of those fixed production costs out of the decoupling mechanism. Here again is an example of terms of a settlement agreement that are under attack in a subsequent rate proceeding. This alone should call into question any recommendation to move electric customers out of the decoupling mechanism.

[29] *Id.* at 31:11-14.
[30] *Id.* at 31:14-17.
[31] Gorman, Exh. MPG-1T at 31:8-10.
[32] Al-Jabir, Exh. AZA-1T at 12:6-7.
[33] It is noteworthy that Staff, who was a party to the approved settlement, is among those proposing to exclude customers from PSE's electric decoupling mechanism.

Q. Do you have more general reactions to recommendations to remove non-residential customers from PSE's decoupling mechanisms?

A. Yes. There appears to be little concern about the reintroduction of a throughput incentive in serving the customers that are proposed to be excluded from PSE's decoupling mechanism. This is one of the principal beneficial features of any decoupling mechanism, and a feature that is of great importance to the Commission.[34] Indeed, this may have influenced the Commission's expectation in its recent Policy Statement on decoupling that all customers be included in a utility's decoupling mechanism.[35]

Q. Have parties attempted to address this throughput concern as part of their proposal?

A. Only Staff has attempted to address this concern. Through Staff witness Jason Ball, it proposes to increase the demand charges of customers served under Schedules 46 and 49, reasoning that recovering demand-related costs through demand charges sufficiently addresses this concern.[36]

Q. Does recovering demand-related costs through demand charges necessarily address the throughput incentive?

A. No. Staff is confusing the recovery of demand-related costs with the recovery of fixed costs. These are different concepts. Demand-related costs have to do with

[34] Dockets UE-121697/UG-121705 (consolidated), Order 07, Synopsis at page ii.
[35] *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets*, Docket UE-100522 at 18.
[36] Liu, Exh. JL-1T at 42:1-11. Ball, Exh. JLB-1T at 54:3-10.

costs related to meeting peaking needs, and fixed costs have to do with how much these costs are likely to change over a period of time. It is the recovery of fixed costs through charges that are directly or indirectly tied to energy consumption that drive a utility's throughput incentive.

Q. Can you illustrate the differences between demand-related costs and fixed costs?

A. Yes. This is most easily illustrated by comparing production and transmission costs that are demand-related versus those that are fixed in nature. As discussed in my prefiled direct testimony, PSE employs the use of the "peak credit" methodology to differentiate between costs that are demand-related versus those that are energy-related.[37] Based on a Commission-approved settlement in Docket UE-141368, this analysis concludes that 75 percent of PSE's production costs are energy-related and 25 percent are demand-related.[38] By contrast, production costs thought to be "fixed" in nature are isolated from those that are "variable" in PSE's PCA mechanism. In PSE's supplemental filing in this case, approximately $544 million of the total production costs of $1.26 billion (roughly 43 percent) were shown to be "fixed".[39] Therefore, even if demand-related charges are set to recover 100 percent of demand-related costs, approximately 42 percent of the

[37] Piliaris, Exh. JAP-1T at 26:6-14.

[38] Using more current information, only 18 percent of costs are shown to be demand related. See Exh. JAP-1T at 28:18-29:5.

[39] Barnard, Exh. KJB-15 at 1:27.

production costs considered to be fixed in PSE's PCA mechanism would be subject to a throughput incentive.[40]

This problem is even more acute for transmission-related costs, where substantially all of the costs are fixed in nature, but are treated for rate purposes as having the same proportion of demand-related costs as production. Therefore, upwards of 75 percent of fixed transmission costs would be subject to a throughput incentive, even if all demand-related transmission costs were recovered through demand charges.

Q. Do you have any specific responses to the proposals made by Mr. Gorman and Mr. Al-Jabir to remove larger customers from PSE's electric decoupling mechanism?

A. Yes. Table 13 in my prefiled direct testimony[41] clearly shows that the customers Messrs. Gorman and Al-Jabir wish to exclude from PSE's decoupling mechanism have among the largest declines in use per customer. Decoupling is specifically designed to address the throughput incentives created by declining use per customer. Therefore, removing these customers from PSE's decoupling mechanism would only amplify PSE's throughput incentive, contrary to Commission and state energy policy.

[40] Calculated by subtracting 25 percent from 43 percent and dividing the difference by 43 percent.

[41] Piliaris, Exh. JAP-1T at 119:1-3.

Q. Do you have any other concerns with parties' proposals to remove customers from PSE's decoupling mechanisms?

A. Yes. Their proposals lack actionable detail on how any remaining deferral balance would be handled, once the customers are removed from the mechanisms. This leaves PSE, and the Commission for that matter, in an unreasonable position of having to "fill in the gaps" to implement the parties' proposals. The Commission should require more concrete details from parties before accepting proposals that are not fully developed. To do otherwise heightens the risk for continued disagreement in how to implement these proposals and adds an unnecessary and inefficient regulatory burden to all involved.

E. Alternatives to Decoupling

1. Rate Design Alternatives

Q. Please summarize Staff's proposals for rate design alternatives to PSE's decoupling mechanisms for non-residential customers.

A. Staff witness Jing Liu recommends exploring rate design solutions in lieu of decoupling for "large industrial and farm irrigation customers" and points to her colleague Jason Ball for his proposed changes to electric Schedule 46 and 49.[42] For his part, Mr. Ball recommends the elimination of Schedule 40[43] and to increase demand charges for Schedule 46 and 49 by 48 percent.[44]

[42] Liu, Exh. JL-1CT at 41:18-42:11.
[43] Ball, Exh. JLB-1T at 46:1-9.
[44] *Id.* at 54:1-10.

Q. Does PSE oppose Staff's proposal to increase the demand charges for Schedules 46 and 49 to recover all demand-related costs?

A. No. PSE agrees that it is appropriate to attempt to recover substantially all demand-related costs through demand charges. However, for the reasons articulated earlier in this testimony, PSE recommends that the Commission reject the notion that the increasing of these demand charges is sufficient to address the throughput incentives for recovering fixed costs from these customers.

Q. Are there other reasons why increases to the demand charge are an insufficient substitute for decoupling?

A. Yes. While it is true that demand charges are more stable than energy charges, they still generally fluctuate with energy use. As such, the utility still has a throughput incentive insofar as it has an ability to influence customer usage at peak times, for example by not fully encouraging measures that would aid customers in reducing their peak loads. Therefore, while demand charges likely mitigate a utility's throughput incentive, it is unlikely to completely eliminate it.

2. <u>Other Forms of Decoupling</u>

Q. Please summarize the various parties' proposals for alternative forms of decoupling for PSE.

A. Public Counsel witness Michael Brosch recommends that PSE's revenue-per-customer form of decoupling be discontinued and replaced with a "complete" form of decoupling where the company is only assured of recovering the amounts

of electric and gas revenues that were explicitly approved by the Commission.[45] FEA witness Al-Jabir goes in a different direction and proposes that, if the Commission approves a decoupling mechanism for PSE, it only recover revenues that are lost due to PSE's mandated energy efficiency programs.[46]

Q. How do you respond to Public Counsel's proposal to replace PSE's revenue-per-customer decoupling with "complete" decoupling?

A. As discussed earlier, so long as the production factor for fixed production costs is also eliminated, PSE would reluctantly accept a "complete" form of decoupling for these costs. However, Public Counsel's proposal for fixed delivery costs is contrary to the clear evidence in this case that shows PSE's delivery costs have not only been increasing, but increasing faster than customer growth. This is clearly shown in the Prefiled Direct Testimony of Katherine J. Barnard, where delivery costs per customer were shown to grow by 1.2 percent per year (i.e., cost growth exceeded customer growth by 1.2 percent).[47]

In fact, the only example provided by Public Counsel in support of its proposal actually supports PSE's proposal. While Public Counsel proposes that PSE's allowed delivery revenue remain constant between rate cases, the utilities that it cites as examples actually have an associated Revenue Adjustment Mechanism ("RAM"), which acts much like PSE's "K-factor."[48] While Public Counsel's cited

[45] Brosch, Exh. MLB-1T at 35:11-17.
[46] Al-Jabir, Exh. AZA-1T at 5:9-11.
[47] Barnard, Exh. KJB-1T at 6:10-11.
[48] Brosch, Exh. MLB-1T at 36:7-11.

examples provide for increasing cost recovery, its proposal for PSE unfairly does not, even in the face of evidence noted earlier that PSE's delivery costs have been increasing faster than customer growth.

Moreover, a recent survey shows that the vast majority of utilities with decoupling either have allowed revenue tied to customers, particularly for gas utilities, or, as in the case of the Hawaiian utilities cited by Public Counsel, tied to an attrition factor.[49] In fact, only three of the 88 utilities in the survey allow no change in revenue between rate cases.

For all of the foregoing reasons, PSE recommends that the Commission reject Public Counsel's proposal to only allow a fixed level of delivery cost recovery.

Q. How do you respond to FEA's alternative decoupling proposal?

A. FEA's proposal appears to be the same one proposed by PSE, which was ultimately rejected by the Commission, in its 2011 general rate case ("GRC"). PSE's proposal was called the Conservation Savings Adjustment ("CSA") Mechanism and was intended to compensate the utility only for the lost margin associated with PSE's energy efficiency program. Ultimately, among other things, the Commission found PSE's CSA proposal unacceptable for relying on "engineering estimates of conservation savings that are ill-suited to development

[49] *A Decade of Decoupling for US Energy Utilities: Rate Impacts, Designs, and Observations*, available at http://www.raponline.org/wp-content/uploads/2016/05/gracefulsystems-morgan-decouplingreport-2012-dec.pdf.

of a revenue requirement."[50] With no new supporting evidence, it stands to reason that the Commission should draw the same conclusion for FEA's proposal.

Q. Are there other reasons FEA's proposal would be unacceptable to the Commission?

A. Yes. FEA's proposal is fundamentally at odds with the Commission's Policy Statement on decoupling. In the context of the Policy Statement, FEA's proposal is considered to be a "limited decoupling" mechanism.[51] The Policy Statement expressly reserves limited decoupling for gas utilities, not electric, as FEA is proposing here.[52] Instead, electric utilities were expected to use full decoupling, which PSE has proposed in this case. Limited decoupling is not acceptable for electric utilities, as the Commission expects the mechanism for electric utilities to work in both directions, taking into account both lost and found margins.[53]

F. Additional Low-Income Weatherization Funding

Q. Please summarize The Energy Project's proposal for low-income weatherization assistance in connection with PSE's decoupling mechanisms.

A. TEP witness Shawn Collins proposes that funding for PSE's low-income energy efficiency programs be increased by $250,000 per year above current levels,[54]

[50] Order 08, Dockets UE-111048/UG-111049 (consolidated) at p. ii.
[51] Policy Statement at 8, ¶ 12.
[52] *Id.* at 13, ¶ 19.
[53] *Id.* at 16, ¶ 27.
[54] Collins, Exh. SMC-1T at 11:13-17.

including the retention of the additional $500,000 proposed in my direct testimony.[55]

Q. How do you respond The Energy Project's proposal?

A. PSE does not oppose allocating an additional $250,000 of Schedule 120 revenue to funding low-income energy efficiency programs. In response to a data request, The Energy Project clarified that its proposed increase would remain at a constant level of $250,000, rather than accumulate by that amount each year. The Energy Project's response to PSE is provided as Exhibit JAP-48 to this testimony.

G. Uncontested Elements of PSE's Decoupling Proposal

Q. Are there any areas of agreement among parties regarding PSE's decoupling proposal?

A. Yes. First, and foremost, the parties did not dispute the need for PSE's contingent decoupling calculations for Microsoft eventually taking service under its recently approved Special Contract.[56] Second, the parties did not dispute, and in some case supported outright,[57] the proposed methodology for conducting the rate test within PSE's annual decoupling true-up filings.[58] Third, parties did not dispute PSE's proposal to use allowed revenue instead of volumetric revenue to allocate potential earnings sharing to decoupling rate groups. Fourth, parties did not object

[55] Piliaris, Exh. JAP-1T at 146:4-5.
[56] PSE intends to update these calculations in its final compliance filing to reflect the fixed production costs approved by the Commission.
[57] Liu, Exh. JL-1CT at 63:1-4.
[58] Piliaris, Exh. JAP-1T at 134:1-7.

to PSE's proposed change to the methodology for calculating "actual revenue" for gas non-residential customers. Finally, no parties objected to PSE's proposed incremental electric and gas conservation commitments in connection with its decoupling mechanisms.

III. RESPONSE TO ISSUES RAISED REGARDING ELECTRIC COST OF SERVICE ANALYSIS

A. Classification and Allocation of Power Costs

Q. Please summarize the various parties' proposals for the classification of PSE's power costs.

A. Staff witness Jason Ball accepts that PSE's electric cost of service study was conducted in accordance with the 2014 Electric Cost of Service and Rate Design Collaborative Settlement in Docket UE-141368 ("Rate Design Settlement") and further supports the updating of the information used to classify and allocate power costs to reflect more recent information.[59]

After providing a lengthy and comprehensive overview of generally-accepted methods for classifying and allocating production costs, as well as the results of their application to PSE in this case, Public Counsel witness Glenn Watkins accepts PSE's peak credit methodology as producing results within the range of reasonableness and as providing a fair and equitable allocation to all classes.[60] That being said, he appears to depart from the terms of the Rate Design

[59] Ball, Exh. JLB-1T at 7:13-8:7.

[60] Watkins, Exh. GAW-1T at 33:8-21. Note also that Mr. Watkins references a range of results in his rate spread discussion using both the originally calculated peak credit results, as well as those using updated data.

Settlement by carving out fuel costs for different treatment, specifically proposing that these be treated as 100 percent energy-related costs.[61]

While he believes PSE's use of the peak credit methodology over allocates production and transmission costs to higher load factor classes, ICNU witness Michael Gorman accepts that PSE's cost of service study is consistent with the Rate Design Settlement.[62]

While he does not agree with a number of its individual components, Kroger witness Kevin Higgins accepts the Rate Design Settlement result that classifies power costs 75 percent energy and 25 percent demand as a compromise package.[63]

FEA witness Ali Al-Jabir explicitly rejects the updated peak credit results presented by PSE as deviating from sound, cost-based ratemaking principles and believes it reasonable to rely directly on the results in the Rate Design Settlement to assign class revenue responsibility for purposes of this case.[64]

Q. How do you respond to Mr. Watkins' proposal to carve out fuel expense as being 100 percent energy related?

A. While it is difficult to dispute the fact that, on a stand-alone basis, fuel is almost exclusively energy-related, I have two fundamental issues with Mr. Watkins' proposal.

[61] *Id.* at 20:12-21:9.
[62] Gorman, Exh. MPG-1T at 26:21-27:3.
[63] Higgins, Exh. KCH-1T at 8:5-9:7.
[64] Al-Jabir, Exh. AZA-1T at 25:7-26:12.

First, and foremost, this would appear to be a violation of the terms of the Rate Design Settlement, where the parties, including Public Counsel, agreed to use the peak credit methodology to allocate PSE's power costs in this case. Given PSE's long history of including fuel costs among the overall power costs subject to the peak credit allocation factors, it would seem relatively clear that the terms of the agreement would be inclusive of those costs.

Secondarily, carving out one component of power costs for distinct and separate treatment is contrary to the theory behind, and application of, the peak credit methodology. Recall that the peak credit methodology compares the levelized cost of a peaking unit to that of a baseload unit to derive a relationship that is meant to be reflective of the proportion of overall production costs that should be considered demand-related. The levelized costs of the generic units compared include fuel expense. Therefore, fuel costs should be included among those to which the peak credit results would apply and separating these costs for unique treatment is inconsistent with the application of the methodology.

All of that said, I would recommend that the Commission reject this part of Public Counsel's proposal to allocate PSE's power costs.

Q. Putting the issue of fuel costs aside, are there any other things the Commission should take into consideration regarding the appropriate allocation of power costs?

A. Yes. First, the Commission should take into consideration the impact that its decision regarding the allocation of power costs will have on PSE's adjusting

price schedules. The subsequent allocation of costs (or rebates) within PSE's Schedule 95 (Power Cost Adjustment Clause), Schedule 95A (Federal Incentive Tracker), Schedule 120 (Electric Conservation Service Rider) and, indirectly, Schedule 140 (Property Tax Tracker)[65] will all likely be impacted by the decision made in this case, as the allocation of costs (or rebates) in each of these adjusting price schedules are traditionally tied directly to the results of the peak credit methodology from the last GRC. In the case of these adjusting price schedules, the allocation is formulaic (i.e., relying directly on the peak credit results), rather than being subject to rate spread deadband traditionally used in PSE's rate cases.

Second, the Commission should take into consideration the potential implications the peak credit results will have on downstream decisions for rate design. Specifically, the demand/energy split for power costs may influence decisions about how much revenue to recover from PSE's customers through energy and demand charges.

Q. Do any of the response testimonies change PSE's position on the appropriate peak credit results to use in this case?

A. No. PSE continues to believe that the updated peak credit results are more in line with the spirit of the Rate Design Settlement. As stated in my direct testimony, the updated peak credit results would classify 18 percent of production cost as demand and would classify 82 percent as energy. However, PSE continues to be

[65] Property taxes are technically allocated on plant. However, the production and transmission plant is allocated on peak credit.

willing to stand by the original peak credit results outlined in the Rate Design Settlement, which classified 25 percent of production costs as demand and 75 percent as energy.

Q. Do any other witnesses in this case opine on PSE's classification or allocation of production-related costs?

A. Yes, although he does not state this directly, Staff witness Christopher Hancock appears to suggest that customers are currently allocated the benefits of PSE's production tax credits ("PTCs") through its Schedule 95A on an energy basis, but that PSE's proposed use of PTCs to offset certain costs related to Colstrip Units 1 and 2 would "confer benefits" largely on a demand basis.[66]

Q. Is this accurate?

A. No. While it is true that the rates designed to flow the benefits of PTCs through PSE's Schedule 95A are energy-based, it is not the case that PSE's rate classes are allocated these benefits purely on energy. All supply-side and demand-side resource costs or related tax benefits, including PTCs and Treasury Grants, are allocated using the peak credit methodology that has both an energy and demand component. As a result, PSE's proposed alternative use of PTCs in this case will not change the method by which these benefits are allocated to its customers.

[66] Hancock, Exh. CSH-1T at 15:5-20.

B. Allocation of Income Taxes, State Excise Taxes and WUTC Fees

Q. Please summarize Public Counsel's proposals for the allocation of PSE's income taxes, state excise taxes and WUTC fees costs.

A. Public Counsel witness Glenn Watkins believes that these costs are a direct function of revenue at current rates and, therefore, should be allocated accordingly.[67] However, he also concedes that, given the relatively good alignment of revenues and underlying costs, this issue has little practical implication in the assignment of costs.[68]

Q. How do you respond?

A. While seemingly immaterial, PSE's position is that a cost of service study should allocate revenue-dependent costs on a cost-basis. To do otherwise, as Mr. Watkins proposes, i.e., to tie these revenue-dependent costs to actual revenue, creates a problem of circularity, where rates that are set based on actual rate revenue produces revenue-dependent costs. For example, if rates were set to collect revenue below costs, then there would be lower revenue-dependent costs (e.g., revenue-based taxes) as a result, which would suggest the need for still lower rates, which would then result in still lower revenue-dependent costs. And so it would continue. The way to avoid this circularity is to allocate revenue-dependent expenses on a cost of service basis and then independently decide from that point

[67] Watkins, Exh. GAW-1T at 19:10-20:11 and 21:10-17.
[68] *Id*.

how much (and in which direction) to potentially deviate rates from this cost-basis.

C. Allocation of Certain Transmission-Related Expenses

Q. Please summarize Public Counsel's issues with the allocation of PSE's transmission expenses.

A. Public Counsel witness Glenn Watkins identifies what he believes to be "one small mathematical error" in the allocation of the following transmission costs: Intangible Transmission Plant, Miscellaneous Deferred Debits – Transmission, Accumulated Deferred Income Taxes – Transmission, Customer Deposits – Transmission, Acquisition Adjustment – Transmission, Amortization of the Acquisition Adjustment – Transmission and Asset Retirement Obligations ("ARO") – Transmission. Specifically, he believes that the Retail Wheeling class should receive a portion of these costs since they use PSE's transmission system.[69]

[69] Watkins, Exh. GAW-1T at 18:18-19:9.

Q. How does PSE allocate transmission rate base to customer classes in its cost of service analysis?

A. Transmission costs are classified by either a direct assignment of transmission substation costs (related to the Schedule 62 substation lease tariff) or two variations of the peak credit methodology in the electric cost of service model. One peak credit allocation factor ("PC3") includes the Retail Wheeling class in the allocation calculation and the other ("PC4") excludes the Retail Wheeling class.

Q. Did PSE properly allocate the transmission rate base identified by Public Counsel that used the PC4 allocation factor?

A. For the most part. PSE properly allocated certain transmission costs associated with integrating generation (i.e., "generation integration") using the PC4 allocation factor. However, as discussed below, there are a few other transmission costs that should have been allocated as Public Counsel suggests.

Q. Why do you conclude that generation integration costs should be allocated using the PC4 allocation factor?

A. Retail Wheeling customers do not use generation integration facilities to wheel power to their points of delivery. Therefore, costs related to generation integration are properly allocated using the PC4 allocation factor in PSE's cost of service model. This is consistent with PSE's Open Access Transmission Tariff ("OATT", which is the Federal Energy Regulatory Commission ("FERC") tariff under which

the Retail Wheeling customers are charged for their transmission service), which similarly excludes these costs from tariffed rates. As such, the following transmission rate base items identified by Public Counsel, which are associated with generation integration, were properly allocated in PSE's electric cost of service model: Miscellaneous Deferred Debits (BPA Transmission Hopkins Ridge and Goldendale) and the Acquisition Adjustment and related Amortization (Milwaukee Railroad). Additionally, Customer Deposits – Transmission are not deposits made by Retail Wheeling customers on PSE's system, and should also be allocated on the PC4 basis.

Q. Which transmission costs did Public Counsel properly identify as being allocable to Retail Wheeling customers?

A. The Retail Wheeling class should have been allocated transmission costs related to the Energy Imbalance Market ("EIM") found in Intangible Transmission Plant and Accumulated Deferred Income Taxes. Additionally, there is no way to differentiate the ARO Transmission Wood Poles, so it seems reasonable to also allocate a portion of these costs to the Retail Wheeling class using the PC3 allocation factor.

Q. Does the reallocation of these transmission costs affect PSE's proposed rates for Schedule 449?

A. No. There is no impact to the rates for Schedule 449, since transmission costs are recovered from these customers under PSE's OATT. The only costs subject to Commission jurisdiction that are recovered from these customers are customer-

related (recovered through their basic charge) and a small amount of distribution costs recovered through PSE's Schedule 62 (Substation Leases). So, while PSE could have been more careful in the allocation of the above noted costs (and will endeavor to do so in future filings), the issue is moot for purposes of this rate proceeding.

IV. RESPONSE TO ISSUES RAISED REGARDING ELECTRIC RATE SPREAD AND RATE DESIGN

A. Rate Spread

Q. Please summarize the various parties' proposals for PSE's electric rate spread.

A. Staff witness Jason Ball agrees with PSE's proposed method to address disparities between rate schedules and accepts PSE's proposed rate spread methodology.[70]

Public Counsel witness Glenn Watkins advocates for a parity ratio band of plus-or-minus 10 percent, which gives classes other than Schedules 35 and 449 an adjusted equal percentage increase. He recommends that Schedules 35 and 449, which are outside this band, should receive an increase of 150 percent of the average increase.[71]

[70] Ball, Exh. JLB-1T at 14:8-12.
[71] Watkins, Exh. GAW-1T at 36:19-38:2.

ICNU witness Michael Gorman recommends no increase for Schedules 46 and 49 (and the resulting production/transmission portion of Schedule 40). He makes no recommendation for the other rate schedules.[72]

Kroger witness Kevin Higgins recommends that rate schedules needing a rate decrease to achieve parity (Secondary and High Voltage) should receive no more than 35 percent of the adjusted average increase. He also recommends that General Service - Primary Voltage customers should receive 65 percent of the average increase.[73]

FEA witness Ali Al-Jabir recommends that there be no increase for Secondary and High Voltage Customers (and related production/transmission linkage to Schedule 40). He accepts the rest of PSE's electric rate spread proposal.[74]

Q. How do you respond to Mr. Watkins' rate spread proposals?

A. As I generally do not agree with his proposed changes to the cost of service, my frame of reference is my own cost of service and, importantly, parity results. Based on that, I believe the larger deadband is reasonable so long as it is also recognized that adopting Mr. Watkins' larger deadbands somewhat dilutes the importance of cost of service results overall. This may be appropriate given the lack of recent Commission direction on its views as to the appropriate methods for allocating costs in these studies. Based on Mr. Watkins' proposed deadbands and PSE's electric cost of service results, most rate groups would get an average

[72] Gorman, Exh. MPG-1T at 28:1-22.
[73] Higgins, Exh. KCH-1T at 11:5-12:3.
[74] Al-Jabir, Exh. AZA-1T at 29:7-14.

increase. I also have no disagreement with his proposal to give Schedule 35 a rate increase that is 150 percent of the average, as my own study shows that this rate schedule has a parity ratio well below 1.0. However, I disagree with Mr. Watkins' proposal to also give customers served under Schedule 449 a rate increase equal to 150 percent of the average.

Q. Why do you disagree with Mr. Watkins' proposal to increase Schedule 449 rates by 150 percent of the average?

A. His proposal fundamentally misunderstands the nature of service received under this schedule. As alluded to earlier, the vast majority of the revenues recovered from these customers are not subject to the jurisdiction of the Commission. Rather they are subject to the jurisdiction of the FERC, specifically pursuant to PSE's OATT. The only Commission-jurisdictional costs are customer-related (e.g., billing, metering, meter reading, customer service, etc.).[75] PSE has proposed basic charges for Schedule 449 in line with these costs. All other differences between the revenues collected from these customers and the allocated costs is reflective of the differences between how rates are set and revenues are recovered through PSE's OATT and how costs are generally allocated for purposes of setting Commission-jurisdictional rates. Doing what Mr. Watkins' proposes would have the practical effect of collecting the difference in ratemaking treatment between the Commission and FERC for Schedule 449 for transmission-related costs

[75] Along with a small amount of distribution costs recovered through Schedule 62.

through their basic charge, effectively subjecting an otherwise FERC-jurisdictional customer to Commission-based rates.

Q. How do you respond to Mr. Gorman's rate spread proposal?

A. I believe Mr. Gorman's proposal puts too much weight on the results of PSE's cost of service analysis. While cost is certainly an important consideration, there are clearly many other factors to consider when setting rates for electric service in the public interest. Moreover, the uncertainty related to the "true" cost of service should be considered. Indeed, this may explain, in part, why the Commission has generally not set rates purely on the results of any one cost study. Mr. Gorman's proposal instead appears to be focused narrowly on only one factor, cost and cost alone, and recommends a pace of change in rates that is far less gradual than recent Commission precedent in this state. For the foregoing reasons, the Commission should reject Mr. Gorman's rate spread proposal.

Q. How do you respond to Mr. Higgins' rate spread proposal?

A. My response here echoes the one I had to Mr. Gorman's proposal. It appears to be too dependent on the result of one cost of service analysis and may not adequately consider the range of potential outcomes that would result under other reasonable alternatives. To his credit, Mr. Higgins appears to at least acknowledge the need to move more gradually towards cost of service. However, his recommended pace of change toward rates that reflect parity appears out of step with precedent in this state and lacking any analytical or policy support. While the Commission should retain a certain degree of flexibility relative to its precedents, the justification for

proposals to move away from that precedent should be better supported. As a result, I would recommend that the Commission reject Mr. Higgins' rate spread proposal. Perhaps, when the Commission has been able to weigh in more definitively on its preferred methods for determining jurisdictional class cost of service, then it would be more timely to quicken the pace of moving rate classes towards parity subject, of course, to other relevant public interest considerations.

Q. How do you respond to Mr. Al-Jabir's rate spread proposal?

A. My response is the same given to Mr. Gorman's proposal. Mr. Al-Jabir puts too much weight on one cost of service study as the basis for his recommendations. Additionally, his pace of change is far less gradual than traditional Commission practice, without adequate support. For the same reasons, I recommend that the Commission reject Mr. Al-Jabir's rate spread proposal.

B. <u>Residential Rate</u>

Q. Please summarize the elements of residential rate design where parties proposed changes.

A. Several parties to this case proposed changes to the way PSE calculates residential electric basic charges. In addition, Staff proposed to introduce a new minimum charge and proposed to re-introduce seasonal rates for PSE's residential electric customers. Finally, the Coalition made proposals related to the calculation and application of a possible third-block energy rate.

1. Basic and Minimum Charge

Q. Please summarize the various parties' proposals for the calculation of PSE's basic charge for residential electric customers.

A. Staff witness Jason Ball recommends retaining the existing $7.87 basic charge, but adding a minimum charge of $3.01 to recover all customer costs (including transformers).[76]

Coalition witness Amanda Levin recommends that there be no increase to PSE's basic charge. She further recommends the Commission direct PSE to study the difference in residential cost of service between rural, suburban and multi-family customers, including an in-depth examination of low-income customers, including low and high usage households. Ms. Levin recommends that this study should be submitted to the Commission within a year of the conclusion of this proceeding so it can guide future rate changes.[77]

TEP witness Shawn Collins makes no specific rate recommendation for the basic charge other than to urge the Commission to continue to adhere to its principle that basic charges reflect only "direct customer costs."[78]

Public Counsel witness Glenn Watkins recommends reducing PSE's electric residential basic charge to $7.50.[79]

[76] Ball, Exh. JLB-1T at 20:1-2 and 29:3-18.
[77] Levin, Exh. AML-1T at 10:20-11:15.
[78] Collins, Exh. SMC-1T at 21:1-17.
[79] Watkins, Exh. GAW-1T at 51:13-19.

Q. How do you respond to Mr. Ball's residential basic charge proposal?

A. While I am encouraged to see Mr. Ball recommending that the Commission treat transformers as customer-related costs, I am not convinced that his minimum bill proposal actually serves to recover enough additional cost to outweigh other practical considerations. PSE generally agrees with Mr. Ball's interest in reducing residential customer cross-subsidization[80] and had entertained the possibility of proposing a minimum bill in the original filing of this case. However, PSE ultimately decided that the negative practical considerations of a minimum bill outweighed the potentially positive ratemaking considerations and PSE elected not to make such a proposal in this case.

Q. What practical considerations dissuaded PSE from making a minimum bill proposal?

A. The primary consideration was the impact such a proposal might have on customer satisfaction and call volumes. PSE has for several years had a goal of being ranked first in customer satisfaction in its relevant JD Powers categories. One important criteria in that ranking is the ability for customers to understand their bill. Introducing a new billing component, particularly without a significant educational campaign, is likely to put downward pressure on this metric. The potential success in mitigating this issue through a significant customer educational campaign is unclear, but it would undoubtedly result in added costs against which the benefits of a minimum bill should be weighed.

[80] Ball, Exh. JLB-1T at 29:20-30:8.

Similarly, PSE is currently making significant efforts to drive down call volumes, particularly through its "get to zero" initiative, as customers increase the use of other customer-preferred pathways to connect with PSE. Introducing a new, and potentially confusing (or contentious), rate component to customer bills heightens the potential for increased customer calls.

Q. Were there other practical considerations that dissuaded PSE from proposing a minimum bill?

A. Yes. While introducing a minimum bill component into PSE's residential rate structure is certainly possible, making a change like this to PSE's billing system comes with a certain degree of risk and cost. Bear in mind that this new bill component would need to be integrated into PSE's already sophisticated billing logic, and would apply to over 900,000 residential customers. Any errors or oversights in programming this logic could potentially impact the bills of all residential customers, not just those for which the charge was intended. Therefore, a significant amount of time, effort and testing would be required to ensure that this bill component worked correctly, under any possible scenario.

Q. Are there any other reasons PSE is not supportive of Staff's minimum bill proposal?

A. Yes. When PSE explored the possibility of proposing a minimum bill, the figure contemplated was much higher than the one proposed by Staff. This would have had a more material impact on the way costs were recovered across the residential class. Staff's proposal is far more modest by comparison. Given all of the

potential negative customer consequences and billing issues associated with introducing a minimum bill, the positive aspects of Staff's proposal, which is estimated to only apply to 1.15 percent of customer bills[81] and generate a little over $300,000 in minimum bill revenue,[82] does not appear to outweigh the negative customer or cost considerations. In short, the very modest economic impact of Staff's proposal does not appear to outweigh the potential negative customer impacts, billing risks and implementation costs that would be required.

Q. How do you respond to Ms. Levin's basic charge recommendations?

A. I believe Ms. Levin misconstrues PSE's allocation of transformers costs and basic charge proposal, misunderstands PSE's construction standards, is too binary in her treatment of transformer costs and actually provides examples that support the inclusion of at least a portion of transformer costs in the basic charge.

Q. How does Ms. Levin misconstrue PSE's allocation of line transformer costs?

A. Based on my understanding of Ms. Levin's testimony and data responses, she believes that the choice of how to classify line transformer costs makes a difference in how they are allocated in PSE's cost of service study. This is incorrect. In very simple terms, customers are assigned to specific line transformers. In most cases, these transformers are not shared by customers taking service under different rate schedules. Therefore, the cost of these transformers is

[81] Ball, Exh. JLB-1T at 29:7-9.

[82] This is revenue over and above what PSE would have recovered from the same customers without a minimum bill (through volumetric rates).

generally assigned to the various classes. This contrasts with the more traditional approach to allocating transformer costs, where the full pool of transformer costs are allocated among the various schedules based on some blanket method, typically based on the number of customers served, the amount of peak load or some combination of the two (e.g., using some form of "minimum system" or "minimum intercept" method). It is under this latter, more traditional approach, that the classification of transformer costs matters for purposes of allocation.[83] If some or all of the costs are deemed customer-related, then they would be allocated based on some measure of customers. Conversely, if they are deemed demand-related, then they would be allocated based on demand. PSE's approach relies on neither. For the most part, they are simply assigned and the classification of these costs as being customer-related or demand-related is irrelevant to their subsequent allocation.

Q. How does Ms. Levin misconstrue PSE's treatment of transformer costs in its basic charge proposal?

A. While it is not one hundred percent clear, Ms. Levin appears to suggest that since transformer costs are classified as customer-related, PSE's proposal is to recover all of their costs through the basic charge. This is only partly true. PSE has only proposed to recover $9 per month of the full $11.24 per month of the customer-

[83] This may be, in part, why this issue was so contested in Ms. Levin's cited cases. At that time, PSE used a more traditional method for allocating transformer costs, as opposed to its current approach that assigns these costs more directly to individual customers. It is worth noting that PSE also now assigns feeder and substation costs to individual customers, rather than the traditional approach used to allocate these costs in the cited cases.

related costs identified in its electric cost of service study. Ms. Levin notes that removing transformer costs from those considered customer-related reduces those costs to $8.07 per month.[84] So, it stands to reason that PSE is only proposing that approximately $1 per month of the approximately $3 per month in transformer costs be recovered in PSE's basic charge.

Q. How does Ms. Levin misunderstand PSE's construction standards?

A. In several places in her testimony, Ms. Levin presents hypotheticals or makes assertions that contradict PSE's construction standards. For instance, Ms. Levin presents an example where a single dwelling has more than one meter but only one service line, suggesting that the only incremental cost associated with serving the second location is the additional meter.[85] This is not possible under PSE's construction standards, where each meter is connected with its associated transformer through a dedicated service line.

She further suggests that a basic service charge should only recover incremental costs imposed by the presence of a new customer and, further, that transformer costs are not necessarily incremental as the utility does not typically need an additional transformer to serve that customer. This, of course, ignores the reality that the utility contemplates whether additional capacity will be needed to serve additional customers in the nearby area when sizing the installation of new transformers. Were the utility to simply size and install transformers to meet only

[84] Levin, Exh. AML-1T at 7:18-20.
[85] Levin, Exh. AML-1T at 8:1-7.

the needs of each customer as it connects to the utility's system, each new customer would indeed impose incremental costs, requiring an incrementally larger transformer. Of course, operating in this manner would also be highly inefficient and costly. That being said, one should not assume that incremental costs to serve new customers do not exist simply because the capacity necessary to serve them was installed in advance of their commencement of service.

Q. Please elaborate on Ms. Levin's treatment of transformer costs.

A. Ms. Levin is binary in her thinking about the treatment of transformer costs. She appears to believe that transformer costs must either be considered customer-related or not. There appears to be no middle ground. However, it is commonly understood that many utility costs are caused by multiple factors. Generation costs are a classic example, where a portion is considered to be driven by the need to meet a peak load requirement and a portion is related to the need to provide energy supply. Transformer costs are no different, except that their costs are commonly considered to be driven in part to serve customers and in part to meet a peak load requirement. In fact, Ms. Levin's testimony supports that at least a portion of transformer costs are customer-related.

Q. How does Ms. Levin support that at least a portion of transformer costs are customer-related?

A. She notes that it is often not practical to serve multiple customers through a single transformer and that utilities take into account the spacing between homes in

choosing where to install transformers.[86] Therefore, at least a portion of the costs are driven by the presence of the customer, not necessarily the size of the peak load.[87] Further, she supports including the cost of service lines in the basic charge.[88] However, much like transformers, service lines are driven in part by the presence of the customer and in part by the amount of load being served. Yet she is willing to treat these service lines as being one hundred percent customer-related and, importantly, part of the basic charge calculation.

Q. Are there additional considerations for why transformer costs should be included in the calculation of residential basic charges?

A. Yes. As noted, and as is commonly the case, Ms. Levin included service lines in her recommended basic charge calculation, but excludes transformer costs. And yet, there appear to be many commonalities between the two, particularly relative to residential service. Both are used to serve a very limited number of customers, both have a predefined range of sizes (i.e., load carrying capacity) with a relatively narrow range of costs, and both are typically sized initially and not resized for changes in loads. In fact, in certain respects, the costs associated with service lines are more variable than that of transformers. Utilities must take into consideration the length of conductor required, among other considerations that may be unique to the particular residence when determining the overall service

[86] *Id*. at 6:3-8.

[87] It should be intuitively obvious that it is far less costly to install one transformer capable of serving 1 megawatt in load than 100 individual transformers serving an equivalent amount of peak load, particularly if the transformers are spread out over many miles. Clearly, the presence of many dispersed customers, not their aggregate load, is causing the higher costs.

[88] *Id*. at 10:17-19.

line costs for any given customer. Certainly, service line costs are not "one-size-fits-all." And, so, it would be incongruent to treat service lines as customer-related costs, but not the associated transformers.

Q. How do you respond to Ms. Levin's proposal for a study of differences in residential cost of service?

A. Ms. Levin's recommended study of cost differences for residential customers lacks clarity as to its purpose in the context of determining residential basic charges and appears to extend beyond that stated purpose. Indeed, in response to a data request from PSE, Ms. Levin suggests the need for power supply and transmission cost data, which would have no apparent value in determining a residential basic charge. Moreover, if one were to perform the requested study, it would take far longer than the year given to perform it. The analysis would first need to be properly framed for scope, only then could data begin to be collected. This data collection would apparently require load profile data that does not yet exist at the level required for the recommended study, and would take at least a year to collect. And, of course, there would be the considerable time required for the actual analysis and development of a report. Therefore, PSE recommends that the Commission reject this vaguely defined and justified proposal. If it were convinced of its need, a minimum of two years would be required for its completion.

Q. How does Mr. Watkins support his recommendation for a $7.50 monthly basic charge for residential customers?

A. He begins by calculating a monthly basic charge that includes return, depreciation and income taxes on meter and service line plant,[89] as well as a limited subset of operation and maintenance expense.[90] Absent from Mr. Watkins' basic charge calculations are capital and operating expenses associated with line transformers, as well as any share of overhead administrative costs.[91] His calculations result in a range of basic charges from $4.05 to $5.61 per month. However, to maintain continuity with existing rates, Mr. Watkins proposes a rate of $7.50.[92]

Q. How do you respond to Mr. Watkin's justification for his basic charge recommendation?

A. I disagree both with the exclusion of transformer and overhead administrative costs. I already addressed the rationale for including transformer costs in my response to Ms. Levin's testimony and will not repeat it here. With regard to Mr. Watkins' exclusion of overhead administrative costs, it is very likely the case that these costs are more customer-related than not. Take PSE's tax accounting department as a simple example. It stands to reason that if PSE served one 2,500

[89] At 46:16-47:22 of his testimony, Exh. GAW-1T, Mr. Watkins goes on a curious tangent arguing that PSE already recovers the cost of its meters and service lines from new customers and, therefore, including such costs in the calculation of the basic charge constitutes a double count to new customers. However, he fails to address why the costs then exist on PSE's books and from whom they should be recovered. Despite his arguments, he then proceeds to include these costs in his basic charge calculation.

[90] Watkins, Exh. GAW-11.

[91] *Id*.

[92] Watkins, Exh. GAW-1T at 51:13-19.

aMW load in one location (i.e., one customer), the workload required to administer municipal and county taxes by the tax accounting department would be significantly reduced. Instead of dealing with taxing authorities in 8 counties and 97 municipalities, the department would only need to deal with a relative few.[93] At a macro level, serving one very large customer at one location rather than over one million smaller customers over a wide geographically dispersed area would require far fewer employees to provide customer service, conservation services, transmission and distribution construction and maintenance, and the like. With few employees needed in these areas, there would be fewer employees needed to support them in areas such as human resources, legal, payroll, etc. All of that being said, it is apparent that the presence of customers is a significant contributor to PSE's overhead costs and, therefore, a share of these costs are appropriately included among those recovered through the basic charge.

2. <u>Seasonal Energy Rates</u>

Q. Please summarize Staff's proposal for seasonal energy rates for PSE's basic residential electric customers.

A. Staff witness Jason Ball proposes seasonal energy rates for winter (November to April) and summer (May through October) for the second energy block (601 kWh

[93] For purposes of this example, the focus is primarily on administering municipal taxes associated with the sales of electricity within the boundaries of the taxing authority.

and above), differentiated by the average dollar per megawatt-hour cost between seasons.[94]

Q. Do you support Staff's seasonal rate proposal?

A. PSE generally supports the concept of reflecting cost causation, and Staff's seasonal rate proposal, like their minimum bill proposal, attempts to do this. However, the specific proposal put forth by Staff does not appear to be worth the challenges that it would create. Much like the Staff's minimum bill proposal, there will be similar challenges with implementing and communicating this structural change to customers' bills. And, as with the minimum bill proposal, there does not appear to be a meaningful enough change in the bill structure to illicit a large enough change in overall customer usage patterns to outweigh the expected implementation costs, risk and customer perception challenges.

Q. Can you expand on why you do not believe Staff's proposal will make a large change in overall customer usage patterns?

A. Yes. It is well understood that consumers generally change their consumption patterns in response to price signals. As prices rise, consumption generally falls. The term used by economists to such an effect is "price elasticity." For electricity, the rule of thumb for price elasticity is that for every 10 percent increase in rates (or bills) there is about a one percent reduction in usage (and vice versa). As it turns out, the price differential that Staff proposes between summer and winter

[94] Ball, Exh. JLB-1T at 32:8-22.

rates in the tail block of the electric residential rate structure is about 10 percent ($0.100917 per kWh in summer versus $0.109528 per kWh in winter).[95] It is important to note here that by moving from a single year-around rate to a seasonal rate, the winter rate is now slightly higher and the summer rate is slightly lower. As a result, the slightly lower usage in winter due to price elasticity would largely be offset by the slightly higher usage in summer. While residential usage for PSE tends to be higher in the winter than in the summer, there may be a slight overall net decrease in usage as a result of Staff's proposal. But, this impact is likely to be too small to be considered material.

Q. Do you have any other observations regarding Staff's seasonal rate proposal?

A. Yes. I have at least two to offer. First, it is generally thought that low-income customers tend to rely disproportionally on electric heating. As a result, Staff's proposal may tend to disproportionally impact low-income customers. While there may be ways to address this concern (e.g., with a higher level of bill assistance funding), there should be further consideration of this issue before approving a seasonal rate.[96]

Second, the timing of Staff's proposal may not be ideal. As PSE and state policy accelerate further towards decarbonization, proposals that make electricity generally more expensive to those that use it for space and water heating may

[95] *Id.* at 20:1-2.

[96] It is perhaps also noteworthy that the beneficiaries of Staff's proposal are likely to be the relatively more affluent customers that can afford air conditioning that is used, of course, in the summer months when rates would be lowered.

provide a greater incentive for these customers to move to natural gas (or other sources) for these heating needs. Presently, there is limited ability to decarbonize natural gas service and once customers make the investments necessary to convert to natural gas for space and water heating, they may be more reluctant to switch back to less carbon-intensive sources of energy for these needs, particularly in the near term. To put this simply, proposing seasonal rates at this time may be counterproductive to the growing interest in decarbonizing the energy sector.[97]

Q. What do you recommend regarding Staff's seasonal rate proposal?

A. While again being supportive of Staff's primary motivations for this proposal, PSE recommends that the Commission reject Staff's proposal at this time. If the Commission nevertheless elects to accept Staff's proposal, PSE respectfully suggests that the definitions of the summer and winter seasons align with those currently used for other PSE rate schedules that have seasonal rates.[98]

[97] This presents an interesting conundrum. While a greater rate differential is likely to elicit a stronger consumptive response, to the extent that this response results in fuel switching, this may not be a desirable response from a broader societal perspective. Indeed, in areas without natural gas service, this could result in switching to wood for fuel, which may create a separate set of issues for the local air quality.

[98] For PSE's other schedules, summer is defined as the period from April 1 through September 30 and winter is defined as the period from October 1 through March 31.

3. Third-Block Rates

Q. Please summarize the Coalition's proposal for the calculation and application of a possible third-block rate for PSE's residential electric customers.

A. Coalition witness Amanda Levin first proposes that PSE recalculate its third-block residential rate, accounting for the expected cost of carbon emissions. Second, she proposes that PSE consider ways to better reflect the relative load factors of usage in each block.[99]

Q. How do you respond to the Coalition's third-block proposal?

A. I have multiple concerns with the Coalition's proposal. First, much like the discussions surrounding Staff's minimum bill and seasonal rates, there will be billing and customer perception considerations that the Coalition has not addressed. Second, the Coalition's third-block proposal (assuming that it resulted in a higher tail block rate) suffers from the same issues I raised for Staff's seasonal rate proposal related to the unclear impact on customer usage, potential fuel switching, the potential conflict with goals to decarbonize energy use in the state and low-income impacts. Third, it is unclear why the Coalition could not achieve its objective with a two-block rate structure with a greater rate differential. The Coalition does not make clear the purpose under its proposal of the second of the three rate blocks. Fourth, the Coalition's proposal would appear to rely on speculative forecasts of carbon costs in the future. As noted earlier, the

[99] Levin, Exh. AML-1T at 13:10-15:13.

Commission rejected PSE's proposed CSA mechanism, in part, for its use of "engineering estimates" that were unsuitable for ratemaking. The high (and now considerably dated) carbon price projections that the Coalition would have PSE (and the Commission) rely upon for determining the third-block rate are no more suitable for ratemaking. Fifth, adding another block to PSE's residential rate design is "doubling down" on rate designs of the past, rather than looking to the more dynamic and tailored ratemaking of the future.

Q. How do you respond to the Coalition's proposal for incorporating load factor considerations into the calculation of PSE's tail block rate?

A. This may have some conceptual merit. However, much like its proposal related to PSE's residential basic charge, the Coalition offers very vague guidance and points to a study conducted over 40 years ago that no one appears to be able to locate.[100] Moreover, the data and analysis that is likely required is not readily available, would take time to develop and therefore could not be implemented as part of this case. Here again, even if such a study were conducted, there are many other issues and considerations, like those outlined above, that should be addressed first. In light of those issues, if the Commission believes that this work would be helpful for the furtherance of better rate design for PSE's residential customers, it should be conducted with a clearer purpose and direction.

[100] In response to a data request, the Coalition did not have this study. Likewise, PSE has yet to locate it.

Q. Do the parties to the original agreement that gave rise to PSE's third-block rate proposal in this case still support this proposal?

A. No. On June 29, 2017, four of the original signatories to this settlement agreement ("the Moving Parties")[101] jointly requested the Commission to withdraw their support for a third-block rate for PSE's residential electric customers. This joint motion is provided as Exhibit JAP-49. In paragraph 5 of that motion, the Moving Parties noted that "mandating adoption of the three-tiered block rate structure at this time does not achieve the parties' intended goals and the proposed rate does not send the anticipated price signals to customers." Other signatories to the original agreement did not object to this change to the agreement.[102]

Q. Given the foregoing, what should the Commission do with the Coalition's third-block rate proposal?

A. PSE recommends that the Commission agree with the Moving Parties and determine that a third-block rate for PSE's residential electric customers is not appropriate at this time.

C. <u>Non-Residential Rate Design</u>

Q. Please summarize the various parties' proposals for the design of PSE's non-residential electric customer rates.

A. Aside from his proposal for Schedule 40, which I will discussed later, Staff witness Jason Ball accepts PSE's proposed lighting rates. Mr. Ball further

[101] The Moving Parties included PSE, Staff, Public Counsel and TEP.
[102] These other signatories included ICNU, FEA, Kroger and Wal-Mart.

proposed to increase demand rates for Schedules 46 and 49 by 48 percent to reflect cost of service.[103]

Public Counsel witness Glenn Watkins proposes to remove the linkage between Schedule 40's demand and energy rates and those of Schedule 49 and that they be dependent upon his proposed rate spread.[104]

Kroger witness Kevin Higgins proposes to keep the tail-block energy rate of Schedule 25 at its current level, increasing the basic charge as proposed by PSE and raising demand rates (and a portion of the first block energy rates) to recover the remainder of the revenue requirement spread to this schedule.[105]

Q. How do you respond to Staff's proposed increases to the demand charges for customers served under electric Schedules 46 and 49?

A. As mentioned earlier in the context of Staff's decoupling proposals, PSE is supportive of aligning demand charges with demand-related costs. PSE has some concerns with such a dramatic change in rates, as some customers with lower load factors will be disproportionally impacted. However, on balance, PSE is supportive of Staff's proposal for these schedules.

[103] Ball, Exh. JLB-1T at 53:12-54:10.
[104] Watkins, Exh. GAW-1T at 38:7-40:22.
[105] Higgins, Exh. KCH-1T at 19:19-20:5.

Q. Do you support Public Counsel's proposal to remove the linkage between the rates of Schedules 40 and 49?

A. I do in concept, but the implementation of this proposal will be more challenging than suggested by Public Counsel. As the Commission is aware, the distribution portion of Schedule 40 rates is set individually for each campus served under this schedule. However, PSE's cost of service study, from which the parity ratios are calculated, allocates distribution costs to Schedule 40 customers using factors more generically developed to allocate costs to all customers. Therefore, there is a certain disconnect between these two results, specifically for the assignment of distribution costs. Relying on the parity ratios of the cost of service study as they are currently calculated would ignore this reality. Therefore, to implement this correctly, a more tailored parity ratio would be needed for Schedule 40, where the parity ratio excludes the customer-specific distribution costs.

Q. Have you attempted to create such a modified parity ratio for Schedule 40?

A. Yes. This is presented in Exhibit JAP-50 to my testimony. The results in Exhibit JAP-50 show a small but meaningful difference in the parity ratios between the results presented for non-distribution-related costs and overall costs. The more refined parity calculations show about a 3 percent increase to Schedule 40's parity ratio, which could easily be the difference between receiving an average rate increase and one that is above average.

Q. What do you recommend regarding Public Counsel's proposal to break the linkage between the rates of Schedule 40 and 49?

A. PSE is supportive of this general proposal but recommends that the Commission reject Public Counsel's approach for implementing this proposal in favor of PSE's more refined approach for determining the parity ratios for Schedule 40. Decisions regarding rate spread could then follow from these adjusted results.

Q. Do you support Kroger's proposed changes to the design of Schedule 25 rates?

A. Yes. As with Staff's proposal for Schedules 46 and 49, PSE supports aligning the demand-related charges of Schedule 25 to more fully recover their allocated demand-related costs. As with Staff's proposal, PSE has some discomfort with the potential impacts these changes may have on customers with low load factors. But, on balance, PSE is supportive of Kroger's proposal.

D. Schedule 40

1. Substation Costs

Q. Please summarize ICNU's proposal for the allocation of substation costs to PSE's customers served under Schedules 40.

A. ICNU witness Bradley Mullins recommends that PSE revise its allocation percentages in rebuttal testimony to fully account for the reliability benefits

customers served from other regional substations received as a consequence of the Ardmore substation.[106]

Q. How do you respond?

A. I have multiple concerns with ICNU's proposal. First, it is unclear how such an analysis would even be conducted. Mr. Mullins offers no guidance on the quantitative analysis that he envisions to allocate costs on "reliability benefits." Second, Mr. Mullins does not address why such an analysis should be limited to the Ardmore substation and not all substations serving Schedule 40 customers. It would seem arbitrary, capricious and probably discriminatory to hold out special treatment for one substation for one customer, while not also applying the same standard to all substations and all customers served under the same schedule. Third, I disagree with Mr. Mullins' recommendation that the percentage of Ardmore substation costs allocated to one customer should not exceed the percentage that was allocated to this customer for the Interlaken substation. His comparison is inapt. These are completely different time periods, with different customer mixes and different loads. Current costs should be allocated on current load, they should not be artificially limited by results from a rate case that concluded five years ago. Finally, [redacted]

[106] Mullins, Exh. BGM-1CT at 56:3-5.

[redacted].

Q. What do you recommend regarding ICNU's proposed changes to the allocation of Ardmore substation costs?

A. For the foregoing reasons, PSE recommends that the Commission reject ICNU's proposed changes to the allocation of Ardmore substation costs to customers served under Schedule 40.

2. Continuation of Schedule 40

Q. Please summarize the Staff's proposal for elimination of Schedules 40.

A. Staff witness Jason Ball proposes to close Schedule 40 to new customers and, over a 12 month period, return existing customers to an otherwise applicable rate schedule or a special contract. Once all customers are removed from Schedule 40, PSE would be required to file to eliminate this schedule.[107]

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[107] Ball, Exh. JLB-1T at 46:1-9.

Q. What is the basis for Staff's recommendation?

A. Staff considers this schedule too complicated, as not appropriately reflecting the cost of providing service under the schedule, and believes that similar service could be received through other schedules, namely Schedules 26 and 31.[108]

Q. Do you share Staff's concerns regarding Schedule 40?

A. Not to the extent experienced by Staff. PSE readily admits that this is a challenging schedule to administer. It is more complicated than many of PSE's other rate schedules. PSE also acknowledges that certain components of the schedule's rate design, specifically those that currently tie to other rate schedules, could be more tailored for Schedule 40. However, PSE continues to believe that the nature of the service provided under this schedule is unique enough to justify its continuation.

Q. How is service under Schedule 40 different from other schedules?

A. Schedule 40 was specifically developed to serve customers that have loads in close proximity to one another, close enough that they could loosely be considered a single load, particularly in terms of the power and transmission services provided. These large, concentrated load centers do not quite fit the mold of a large single-site served under Schedule 49. They also do not fit the mold of a large corporation, for example, that may have many smaller loads (that are large

[108] *Id.* at 46:11-47:24.

in aggregate) spread throughout the utilities service area, which may be served under PSE's Schedule 26. Service under Schedule 40 really is unique.

Q. Is this unique nature of the service under Schedule 40 reflected in the design of its rates?

A. Yes. The design of Schedule 40 rates mirrors the nature of the service provided, where customers served under this schedule are treated as a single load from the perspective of power and transmission service, as a "campus" from the perspective of distribution service and as individual locations from the perspective of customer-related services (e.g., metering, billing, etc.). Not surprisingly, this makes for a more complicated rate structure.

Q. Does having a complicated rate structure justify its termination?

A. I do not believe so. While I am sympathetic to Staff's frustration with the complexity of this schedule, it would seem an injustice, particularly to the customers currently served under this schedule, to terminate it simply for this fact. As I noted earlier, there really is no schedule under which comparable service could be taken. Moreover, I am concerned with the significant rate impacts of Staff's proposal to the affected customers.[109] As such, I would recommend that the Commission reject Staff's proposal to terminate this schedule.

[109] *Id.* at 50:1-2.

Q. Is PSE open to alternatives to Staff's proposal regarding Schedule 40?

A. Yes. I believe there is room for improvement in the design and implementation of Schedule 40 that could address many of Staff's concerns. For example, as a first step, PSE could work to develop basic and reactive charges that are unique to Schedule 40, rather than continuing the existing practice of tying these rates to other schedules. As discussed earlier in connection with Public Counsel's proposal, PSE is already receptive to breaking the linkage in the power and transmission rates of Schedule 40 from Schedule 49, if properly done. Finally, PSE is open to streamlining the calculations used to develop each campus's distribution charges. One option could simply be to replace the highly customized campus-specific distribution charges with a more traditional allocation of distribution costs to each campus or the schedule as a whole. There may be other options that PSE would be willing to consider, although all of this would likely require time and analysis that extend well beyond the current case.

If the Commission were receptive to Staff's proposal to close Schedule 40, PSE would reluctantly accept closing this schedule to new customers. While this would deprive other customers from potentially taking service under this schedule, at least it would not harm customers that are currently taking service under this schedule.

Q. Do you have any other concerns with Staff's proposal regarding Schedule 40?

A. Yes. PSE is unwilling to entertain special contracts in lieu of service under Schedule 40. The process for negotiating and gaining approval of special contracts is much too cumbersome and would be an unnecessary drain on the resources of all involved.

E. Electric Cost Recovery Mechanism Rate Design

Q. Please summarize Kroger's proposal for the design of PSE's Electric Cost Recovery Mechanism ("ECRM") rates for its non-residential electric customers.

A. Kroger witness Kevin Higgins proposes to reject PSE's ECRM proposal. However, if approved, he proposes that it be designed as a demand charge for demand-billed rate schedules.[110]

Q. Do you support Kroger's proposed rate design for PSE's ECRM?

A. Yes, Kroger presents a reasonable alternative for the design of this rate for schedules that include a demand charge.[111]

[110] Higgins, Exh. KCH-1T at 22:20-23:2.

[111] In response to a data request, Kroger clarified that for Schedule 25, a portion of the ECRM costs should be recovered in its demand charge and another portion in the first block energy rate, based on the level of first block rates that are in excess of the tail block rate. PSE supports this clarification as well.

F. Electric Net Metering

Q. Please summarize Staff's proposal related to PSE's net metering customers.

A. Staff witness Jason Ball recommends that PSE prioritize its net metering customers for rollout of advanced metering infrastructure ("AMI") or, if that is not possible, perform a demand study for these customers. Based on the information collected, he recommends that PSE propose a separate tariff schedule for net metering customer in its next GRC.[112]

Q. Do you support Staff's recommendations?

A. Not entirely. PSE is unwilling to prioritize its AMI rollout for net metering customers. Reprioritizing PSE's AMI roll out, which will occur over several years and in a very deliberate manner, for net metering customers would add to PSE's cost of implementation, delay the rollout and likely not produce the desired results due to the nature of the AMI technology.[113] However, PSE would be willing to perform the demand study suggested by Staff. Indeed, PSE has already begun designing a program for collecting the information for net metering customers that Staff is seeking. PSE intends to begin the actual data collection later this year.

In response to Staff's recommendation for a separate rate schedule for net metering customers, PSE believes this recommendation is premature, without further data, analysis and reasoned consideration. However, PSE is willing to

[112] Ball, Exh. JLB-1T at 51:6-13.

[113] AMI technology relies on a "mesh network" where meters can relay information for one another if their signal is unable to get to the more centralized aggregators. Without other AMI enabled meters in close proximity, these meters will not perform much better than PSE's existing AMR technology.

commit to having the necessary interval load data available and to respond more generally to Staff's proposal to develop a separate tariff schedule for net metering customers in the next GRC.[114]

G. Electric Bill Presentation

Q. Please summarize Public Counsel's proposal related to PSE's electric bill presentation.

A. Public Counsel witness Glenn Watkins recommends that the Commission order PSE to provide a summary sheet within its tariff that provides the all in price of electricity (including the all in price by volumetric usage block).[115]

Q. Is the development of the proposed summary sheet necessary?

A. No. The information requested by Mr. Watkins is already available to customers on their bill, which provides a simplified presentation of the block rates inclusive of all the associated riders and trackers. In addition, a more generic summary is available to customers (and other interested parties) on PSE's website. A sample residential customer bill, which is also available on PSE's website,[116] is provided as Exhibit JAP-51 and a copy of the most recent summary sheet for residential customers available on PSE's website is provided as Exhibit JAP-52.[117]

[114] This may or may not result in a proposal by PSE for a separate rate schedule for net metering customers.

[115] Watkins, Exh. GAW-1T at 63:23-64:2.

[116] This document can be found at the following link: https://pse.com/accountsandservices/YourAccount/Pages/Understand-Your-Bill.aspx.

[117] This document can be found at the following link: https://pse.com/aboutpse/Rates/Documents/summ_elec_prices_2017_05_01.pdf .

H. Recovery of Colstrip Costs from Microsoft

Q. Please summarize ICNU's proposal related to the recovery of Colstrip costs from Microsoft.

A. ICNU witness Bradley Mullins notes that the transition fee calculated for Microsoft in Docket UE-161123 did not extend beyond 2022, when its loss of load would have allowed PSE to avoid incremental costs to serve other customers and, therefore, would have led to a lower transition fee. As such, Mr. Mullins recommends that Microsoft should likewise be excused from contributing to the recovery of future costs for Colstrip Units 1 and 2 beyond 2022.[118]

Q. Is new information available since the time ICNU made its proposal related to this issue?

A. Yes, the Commission issued its order in Docket UE-161123. In that order the Commission made clear that Microsoft will be responsible for its share of Colstrip-related costs and that the transition fee that will be paid by Microsoft does not cover its share of Colstrip-related costs. In relevant part, the Commission stated:

> ICNU's testimony notwithstanding, the record is clear: the Transition Fee does not include, and therefore should not be argued to cover, any part of any decommissioning and remediation costs for which Microsoft may be found responsible in a future proceeding. Determinations in PSE's pending general rate case in Dockets UE-170033 and UG-170034, and in future cases, will resolve how and from whom PSE will recover its Colstrip decommissioning and remediation costs. We find here, on the basis

[118] Mullins, Exh. BGM-1T at 22:15-24:11.

> of the record in this proceeding, that parties in any such pending or future proceedings will not be able to credibly argue that the Transition Fee Microsoft has agreed to pay in this docket absolves it from any cost responsibility for Colstrip decommissioning and remediation costs if the Commission finds further contributions are required.[119]

Q. In light of this new information, how does PSE respond to ICNU's proposal?

A. The Commission's order is clear that Microsoft must pay its share of Colstrip-related costs. Therefore, the issue of whether Microsoft should pay and how much, if any, was already reflected in the calculated Transition Fee, has already been resolved.

Q. Are there any issues outstanding for determining Microsoft's Colstrip-related obligations?

A. Yes. First, the overall level of required Colstrip-related funding must be determined, both for depreciation and decommissioning/remediation. Second, the means by which funding will be recovered must be decided. Finally, Microsoft's share of the funding requirement must be determined. The first two issues for portions of the longer term recovery of Colstrip costs, primarily for Units No. 1 and No. 2, are currently being addressed in this case. However, the issue of how to allocate the recovery of these costs has yet to be raised.

[119] Docket UE-161123, Order 06, ¶ 86.

Q. Does the Commission need to address the issue of Microsoft's share of these costs at this time?

A. No. This would likely only serve to further complicate an already complicated set of issues in this case, particularly when PSE did not address this issue in its initial filing. In the alternative, PSE recommends that the Commission defer the determination of Microsoft's share of Colstrip-related costs until after the first two issues (i.e., overall determination of cost and approach to cost recovery) are resolved. If the Commission accepts something similar to the amounts and funding mechanisms proposed in this case, PSE envisions a subsequent filing or potentially a series of filings, for different costs to be recovered[120] that determines how to allocate a portion of these costs to Microsoft so that their contributions could flow back to remaining customers in much the same way as its transition fee (i.e., as a dollar for dollar credit implemented through PSE's Schedule 95). It is difficult to address the issue at this time without a clearer picture of how the upstream issues of cost and cost recovery will be resolved.

I. Contingent Power Cost Calculations for Microsoft

Q. Did PSE provide another set of contingent power costs calculations as part of its rebuttal filing for the loss Microsoft load?

A. No. There is little additional insight to be gained by providing an update to the contingent calculations previously provided in Exhibit JAP-38 and Exhibit JAP-

[120] In other words, Colstrip Units No. 1 and No. 2 may be handled in this case. The other units may be addressed in a later case or cases, if the issue of the recovery of undepreciated plant is separate from the issue of the recovery of decommissioning and remediation costs.

43C, based on power costs submitted in this rebuttal filing. The primary issue is whether or not the Commission should approve contingent rate calculations at this time. If the Commission agrees to approve the contingent rates as part of this case, PSE will update its contingent rate calculations as part of its final update to power costs in its compliance filing.

V. RESPONSE TO ISSUES RAISED REGARDING NATURAL GAS COST OF SERVICE ANALYSIS

A. Mains Allocation

Q. What do parties propose related to PSE's allocation of gas mains?

A. The parties' proposals can generally be broken down into two categories, the method for classifying costs between demand and energy and the method for allocating demand-related costs.

1. Peak and Average Methodology

Q. Please summarize the parties' proposals related to PSE's use of the "peak and average" method for classifying gas mains.

A. NWIGU witness Brian Collins argues that the peak and average methodology used by PSE to allocate mains does not best reflect cost of service and "double counts" the average component of the peak and average allocator, resulting in an over-allocation of costs to larger customers with high load factors.[121] He recommends instead that PSE allocate distribution mains entirely on coincident

[121] Collins, Exh. BCC-1T at 3:5-11.

demand.[122] Staff witness Jason Ball states that the main allocation methodology presented by PSE is acceptable for purposes of this case.[123] While he does not agree with many aspects of PSE's methodology, Public Counsel witness Glenn Watkins acknowledges that the results of PSE's gas study are not inherently biased against any customer.[124]

Q. How do you respond to NWIGU's conclusion that the peak and average allocator double counts the average component of usage in the allocation of peak-related costs?

A. I would merely point out that the same could likely be said of nearly every allocation factor that is built on peak loads. Indeed, even NWIGU's proposed alternative includes average load as a subcomponent of the overall coincident peak load. In reality, NWIGU's issue is that a large portion of distribution mains costs are currently being allocated on volumetric sales (including interruptible volumes) under the peak and average approach, which leads to their proposal to allocate mains cost entirely on coincident demand.

Q. How do you respond to NWIGU's recommendation to allocate distribution mains entirely on coincident demand?

A. NWIGU's proposal appears inconsistent with prior guidance from the Commission. In past cases, the Commission has stated its preference for

[122] *Id.* at 18:1-9.
[123] Ball, Exh. JLB-1T at 12:18-22.
[124] Watkins, Exh. GAW-1T at 66:11-18.

allocating gas main costs in a manner that reflects both the way these costs are incurred, as well as the way the system is used.[125] While Mr. Collins reasonably portrays the manner in which PSE's costs are incurred, NWIGU's proposal appears to ignore the Commission's guidance to also reflect the manner in which the system is used.

Q. Why is it important to reflect both cost causation and system usage in the allocation of gas distribution mains?

A. To do otherwise may invite a free rider problem, particularly for customers with interruptible loads. This issue was summarized well by Janet Phelps in PSE's 2007 GRC, where she noted

> [W]hile the system is not sized to serve large interruptible loads, those interruptible customers do use the system and therefore should pay a portion of the costs. The fact that their interruptible loads would be curtailed in the event of a design day peak should not exempt interruptible customers from contributing to capacity costs, since the system is used to deliver gas to them, including on many days during the peak season, and they benefit from the system. Simply put, these customers would not be able to receive any interruptible service if the pipes had not been built to serve firm customers; they should not be able to use the mains for free.[126]

Q. Has PSE's approach to allocating distribution mains been validated by any other independent third party?

A. Yes, as part of the settlement of PSE's filing in Docket UG-151663, PSE's cost allocation methods, including for allocating distribution mains to retail customers,

[125] *See, e.g.*, Docket UG-940034, Fifth Supplemental Order, at 4-5 and 12.
[126] Docket UG-072301, Exh. JKP-17T at 4:13-21.

was extensively reviewed by Brown, Williams, Moorehead & Quinn ("BWMQ") on behalf of the mediating parties to that case. In its final report, it concluded:

> BWMQ believes that PSE's filed case generally reflects traditional regulatory rate making concepts. BWMQ further believes that the cost classification, cost allocation and rate making principles used by PSE are within the normal definitions of just and reasonable rate making standards and in accord with the Washington Utilities and Transportation Commission's (Washington Commission) approved rate making methodology for PSE. PSE's witnesses Free and Piliaris follow the cost and rate making principles that have been previously accepted by the Washington Commission.[127]

Q. Are there any other implications of NWIGU's proposal to allocate all distribution mains costs on the basis of coincident peak demand?

A. Yes, there may be rate design implications. Currently, these costs are split between energy and demand under the peak and average methodology. Under NWIGU's proposal, these costs would be considered entirely demand-related. As Mr. Collins notes, prices should follow costs.[128] Therefore, demand charges would need to be set far higher to recover these costs. Currently, PSE charges approximately $1.14 per therm of peak or contract demand. Cost-based demand charges for interruptible customers under NWIGU's proposal, using their analysis, would range from $2.89 per therm for Schedule 85 and 85T to $3.74 per therm for Schedules 86 and 86T. Despite NWIGU's support for sending accurate price signals, they failed to propose that the price signals from their proposal actually be reflected in the design of gas rates.

[127] Docket UG-151663, Exh. JCW-2C at 16.
[128] Collins, Exh. BCC-1T at 14:19-17:22.

2. Design Day Peak

Q. Please summarize Staff's position related to PSE's use of design day peak for the allocation of gas mains costs.

A. Staff witness Jason Ball rejects PSE's use of design day peak for the allocation of gas mains costs and instead proposes using the average class use in the highest five-day period for each of the last three years.[129]

Q. Does NWIGU support the use of actual peak loads for the allocation of gas mains costs?

A. Yes, NWIGU appears to support this, recommending the use of a "coincident demand" allocator to allocate PSE's distribution main capacity related costs.[130]

Q. Is the use of actual peak loads appropriate in light of the Commission's historic preference to balance the allocation of distribution costs between cost causation and actual use of the system?

A. No. Using actual peak loads, rather than design day loads, to allocate peak demand costs would tip the scales strongly in favor of allocating substantially all of PSE's distribution mains costs solely on the way the system is currently being used, rather than on the basis of how the cost were incurred in the first place (i.e., based on design day planning criteria). One only has to note that actual peak demands have recently been approximately one-third lower than design day peak levels to realize that PSE is not planning, nor investing, on these historically low

[129] Ball, Exh. JLB-1T at 10:20-12:8.
[130] Collins, Exh. BCC-1T at 18:4-5.

actual levels. Moreover, a substantial portion of distribution main costs are already being allocated on test year volumes, which again are a measure of actual usage rather than planned peaking needs.

Q. What further guidance do you offer the Commission in relation to the various proposals to change the way in which PSE allocated gas distribution mains?

A. PSE would recommend focusing on the big picture and end results to produce a fair, just, reasonable and balanced result. Too often, cost allocation and rate design proposals are made in a vacuum, without due consideration to other related factors. Note that the methodology proposed by PSE reflects a splitting of what could arguably be considered entirely demand-related cost, between demand and energy. PSE's methodology further allocates a portion of costs on the basis of cost causation (i.e., design day peak) and a portion on how the system is used (i.e., volumetric usage). Costs deemed to be energy-related are further split between main sizes to provide a more refined allocation between the rate classes. In short, PSE's proposal already instills many checks and balances, which Staff's and NWIGU's proposals would otherwise remove or at least tilt strongly in one direction or another. Staff's proposal would allocate substantially all mains costs on some measure of actual use, whereas PSE's proposal balances actual and planned use. Likewise, NWIGU's proposal would allocate all mains costs on demand alone, whereas PSE's proposal treats mains costs as being partly due to demand and partly due to energy. That being said, due to its superior balancing of

interests, PSE recommends that the Commission accept its proposal for the allocation of gas distribution mains over Staff's and NWIGU's.

VI. RESPONSE TO ISSUES RAISED REGARDING NATURAL GAS RATE SPREAD AND RATE DESIGN

A. Rate Spread

Q. Please summarize the various parties' proposals for PSE's gas rate spread.

A. As with electric, Staff witness Jason Ball accepts PSE's proposed methodology for rate spread.[131] Likewise, Public Counsel witness Glenn Watkins finds PSE's gas rate spread acceptable.[132] NWIGU witness Brian Collins, on the other hand, proposes to move classes receiving decreases under his proposed cost of service study to "25 percent of their cost of service."[133]

Q. How do you respond to NWIGU's proposal?

A. NWIGU's proposal is extreme. Like the proposals made by its electric counterparts, NWIGU proposes to spread rates in a manner inconsistent with recent prior practice for PSE. However, NWIGU takes it to another level by proposing absolute increases in rates of 19.38 percent to customers on Schedules 41 and 41T and a stunning 25.73 percent to customers on Schedules 31 and 31T.[134] At the same time, NWIGU proposes absolute decreases in rates as high as

[131] Ball, Exh. JLB-1T at 15:3-7.
[132] Watkins, Exh. GAW-1T at 68:1-8.
[133] Collins, Exh. BCC-1T at 18:11-25.
[134] *Id.*, Exh. BCC-4 at 1.

14.89 percent to customers served under Schedules 87 and 87T.[135] These dramatic changes in proposed rates are largely owing to the significantly different cost of service results proposed by NWIGU. Nevertheless, even if one were to accept NWIGU's cost of service results, this proposal completely throws the concept of gradualism out the window and should therefore be rejected by the Commission.

B. Residential Rate Design

Q. Please summarize the various parties' proposals regarding PSE's rate design for residential gas customers.

A. Staff witness Jason Ball proposes a higher basic charge than PSE. He proposes a basic charge of $12.04.[136] Public Counsel witness Glenn Watkins accepts PSE's proposed charge of $11 per month as reasonable for residential customers receiving natural case service.[137]

Q. How do you respond?

A. While I am pleased to see Public Counsel's support for PSE's basic charge proposal for its gas residential customers, PSE would welcome the greater alignment of customer costs and customer-related revenue that is presented in Staff's proposal.

[135] *Id.*
[136] Ball, Exh. JLB-1T at 22:1-2.
[137] Watkins, Exh. GAW-1T at 69:18-23.

C. Non-Residential Rate Design

Q. Please summarize Staff's proposal regarding PSE's rate design for non-residential gas customers.

A. Staff witness Jason Ball was the only other witness to testify on natural gas rate design and appears to accept PSE's approach to moving non-residential demand charges 25 percent towards their calculated cost of service.[138]

Q. How do you respond?

A. PSE shares Staff's perspective on the long overdue need to differentiate demand charges among the Company's non-residential gas customers. Given the lack of controversy over this issue, PSE recommends that the Commission approve this proposal.

VII. RESPONSE TO PARTIES' CALCULATION OF TEST YEAR REVENUE

A. Adjusting Price Schedules

Q. Please summarize Staff's calculation of PSE's adjusting price schedule revenue.

A. Staff witness Melissa Cheesman's revenue impact presentation in Exhibit MCC-12 appears to mirror the results from my Exhibit JAP-44 for Schedule 95 (PCORC), Schedule 141 (ERF) and Schedule 142 (Decoupling). Similarly, Ms. Cheesman's revenue impact presentation in Exhibit MCC-13 appears to mirror

[138] Ball, Exh. JLB-1T at 55:1-56:6.

the results from my Exhibit JAP-45 for Schedule 141 (ERF) and Schedule 142 (Decoupling).[139]

Q. Do you agree with the numbers used by Ms. Cheesman in Exhibit MCC-12 and Exhibit MCC-13?

A. I do, insofar as they align with PSE's filed estimates. However, to the extent that the Commission accepts Staff's proposed changes to PSE's electric and gas temperature normalization of loads, as presented by Ms. Jing Liu, it would be appropriate to reflect those changes in load in updated results comparable to those that Ms. Cheesman references in my testimony, Exhibit JAP-44 and Exhibit JAP-45.

Q. Will these changes have any bearing on the rates charged by PSE?

A. No. This is more of a presentation issue as to the level of revenue changes associated with the difference between current and approved rates. If the load is changed based on Ms. Liu's proposal, then the associated revenues presented should reflect those changes as well.

B. <u>"Imputed" Rental Revenue</u>

Q. Please summarize Staff's proposal to "impute" revenue from PSE's gas Rental customers.

A. Staff, through its witness Elizabeth O'Connell, is proposing to close PSE's gas water heater rental program.[140] To anticipate its end, and so that the apparent

[139] Cheesman, Exh. MCC-12.

cross-subsidization of other customers by Rental customers does not influence the cost of service results, Staff witness Jason Ball proposes to "impute" the Rental revenue at a cost-based level so that this cross-subsidization is eliminated in Staff's gas cost of service model.[141]

Q. Does Staff's imputed revenue have any practical implications?

A. Not as originally proposed. As presented in the workpapers of Mr. Ball, Rental revenues were simply set equal to their allocated costs in his cost of service study. However, the lost revenue was not reallocated to other customers in his cost of service or rate spread analysis, nor did Mr. Ball propose to change Rental rates.

Subsequently, in Staff's Response to PSE Data Request No. 024, it recognized this issue and indicated its support for setting Rental rates equal to their cost of service and reallocating the loss in revenue to other customers through the rate spread process. Staff's Response to PSE Data Request No. 024 is provided as Exhibit JAP-53.

Q. Do you support Staff's updated position on this issue?

A. While PSE continues to believe Staff's overall proposal related to the program should be rejected, if the Commission agrees with Staff that the program should be terminated, then PSE would join Staff in supporting the setting of Rental rates at their cost of service in this proceeding and reflecting the difference in revenue in the spread of the gas revenue requirement to other customers.

[140] O'Connell, Exh. ECO-1CT at 26:1-12.
[141] Ball, Exh. JLB-1T at 13:9-22.

Q. Would Staff's original proposal to eliminate PSE's water heater rental program have real revenue implications?

A. Absolutely. Staff's proposal is to remove customers from the rental program as soon as their rented equipment is fully depreciated.[142] Citing a PSE data response, Staff notes that over 18,000 of PSE's customers in the program already have fully depreciated equipment and therefore should be removed from the program.[143] With approximately 33,000 Rental customers in total, under Staff's proposal, PSE stands to lose a significant amount of revenue shortly after rates go into effect, net of the cost of service, which is not reflected in Staff's overall proposed revenue deficiency calculation. In other words, under Staff's original proposal, PSE would suffer an inevitable drag in its earning as customers are forced out of the rental program shortly after rates from this case go into effect.

C. <u>Terminology ("Pro Forma Revenue)</u>

Q. Please summarize Staff's concerns related to PSE's use of the term "pro forma revenue"?

A. Staff witness Melissa Cheesman disagrees with the Company's use of the term "pro forma revenue" in its presentation of results, instead suggesting that the results presented actually represent PSE's "actual revenue."[144]

[142] O'Connell, Exh. ECO-1CT at 26:1-12.
[143] O'Connell, Exh. ECO-18.
[144] Cheesman, Exh. MCC-1T at 27:18-28:12.

Q. Do you agree with Staff's characterization of PSE's presentation of revenue?

A. No. I disagree with Staff's conclusion that what I reference in testimony as "pro forma revenue" is in fact "actual revenue." The loads used to generate what I term "pro forma revenue" have been (1) restated to reflect the rates in effect at the end of the test year, (2) normalized for the effects of abnormal temperature, (3) corrected for any billing or metering errors, and (4) pro formed for anticipated schedule switching by customers when new rates go into effect.[145] None of this represents "actual revenue." Actual revenue is what PSE booked at the time it was recognized, based on actual loads, actual rates, actual bills and the schedules under which service was actually taken during the test year. In reality, actual revenue is simply the starting point for determining the pro formed amount of revenue upon which a utility determines the electric and gas revenue deficiencies in its case.

Moreover, I find Staff's confusion on this issue very curious, as PSE has consistently been using the term "pro forma revenue" in exhibits and work papers filed in its GRCs for decades, certainly as long as the most tenured employees in PSE's Rates Department can recall. PSE is further perplexed as to why Staff is now confused by this terminology, particularly when what was meant by that

[145] In this case, there are a number of customers moving to and from electric Schedule 40 and from gas Schedule 41 to gas Schedule 85. As there are revenue implications from moving customers between schedules, these are taken into account in the derivation of "pro forma" revenue.

terminology was plainly outlined in the testimony referenced by Ms. Cheesman.[146]

Q. Have others used this "pro forma revenue" terminology as well?

A. Yes. Although not a topic often discussed at length in rate cases, this terminology has been used in the past by Staff,[147] in settlements of issues in past PSE rate cases,[148] as well as by the Commission in PSE's last GRC.[149] In fact, this terminology was used by witnesses for Cascade Natural Gas, including one of Staff's former accounting witnesses, in its just-filed GRC.[150]

Q. What do you recommend to address this issue?

A. Rather than have the Commission apply a rigid set of guidelines, PSE recommends that this issue is better addressed directly and collaboratively between parties, particularly between PSE and Staff. PSE agrees that confusion in terminology is counterproductive and that a common use and understanding of terms is helpful. So, it commits to work with Staff to satisfactorily address this issue for future rate proceedings.

[146] It may be noteworthy that no other party in the case shared Staff's confusion on this issue.

[147] Staff Response to PSE Data Request No. 5 in Dockets UE-040640/ UG-040641 (consolidated).

[148] Dockets UE-072300/UG-072301 (consolidated), Order 12, page 31.

[149] Dockets UE-111048/UG-111049 (consolidated), Order 08, at ¶ 474.

[150] Docket UG-170855, Exh. MPP-1T at 10:10-14 and Exh. MCR-3 at 4:22-5:14.

VIII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes.